

DURBAN UNIVERSITY OF TECHNOLOGY

**THE IMPACT OF ETHICAL VALUES OF SME OWNER-MANAGERS ON
PERFORMANCE OF ENTERPRISES: DURBAN SOUTH, SOUTH AFRICA**

By

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ABSTRACT

The primary purpose of this study was to investigate impact of ethical values of SME owner-managers on performance of enterprises: Durban South, eThekweni Municipality, KwaZulu-Natal Province thereof. Previous studies pointed out the significant role played by ethical values towards the performance of SMEs. However, very little research has been conducted in South Africa on the impact of ethical values of SME owner-managers on the performance of their enterprises, especially in the Durban South area. In order to achieve the purpose, a conceptual framework was developed to explain the relationships between ethical values, ethical practices, leadership style, organisational policies and performance of SMEs.

Substantive hypotheses were formulated in order to determine the validity of the propositions made in the literature review, with the objective of testing the proposed the conceptual model. The researcher employed questionnaires to gather field data from a selected sample of 217 which was drawn from a target population of 500 SMEs in the Durban South area. The field data was analysed using the Statistical Package for Social Sciences (SPSS), Version 26. Statistical tools that include frequency tables, pie-charts and graphs were utilised in analysing data in chapter five. The Correlation matrix, chi-square test and linear regression analysis were also utilised to further analyse the strength of association between the variables.

The findings from the study indicated that there was statistically significant association between business ethics and performance; that there was a significant positive relationship between corporate governance success of the businesses, and that there was no significant relationship between the personal values and ethical practices, and there was no significant association between business ethics and ethical practices. One of the recommendations of the study was that the Pe model should be operationalised to reduce unethical conduct of employees and owner- managers of SMEs. The study further recommended that there should be creation of SBCF at municipal level. Additionally, it was recommended that BE education should be introduced.

Key words: ethical values, business ethics, ethical practices, corporate governance and performance

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DEDICATION

I dedicate this work and give special thanks to my wife, Blessing Sungai, my wonderful daughters, Samantha, Ashley and Tanaka and my cousin brother, Ephraim Wede, for their patience, understanding, and unwavering support and encouragement throughout my study.

I also wish to pay a special gratitude to my late father, Peter Mahohoma, whose words of encouragement led me to enrol for this study.

DECLARATION

I, the undersigned, Tinaye Mahohoma declare that the work exhibited in this thesis is based on my research and that I have not submitted this thesis to any other institution of higher education to obtain an academic qualification.

20-11-2020

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Tinaye Mahohoma

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Date

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LIST OF ACRONYMS AND ABBREVIATIONS

ASGISA	Accelerated and Shared Growth Initiative for South Africa
BE	Business Ethics
BEI	Business Ethics Index
BEP	Business Ethics Practitioner
CBD	Central Business District
CBK	Central Bank of Kenya
CBS	Central Bureau of Statistics
DCCI	Durban Chamber of Commerce and Industry
DSBD	Department of Small Business Development
DTI	Department of Trade and Industry
DV	Dependent Variable
Edu	Education of owner-managers, increased manager professionalism and education
EP	Ethical Practice
EU	European Union
FNB	First National Bank
FSD	Financial Sector Deepening
GDP	Gross Domestic Product
GEM	Global Entrepreneurship Monitor
ICGE	International Centre for Economic Growth
IDC	Industrial Development Corporation
IV	Independent Variable

KIPs	Key Performance Indicators
KMO	Kaiser-Meyer Olkin Measure of Sampling Adequacy
KREP	Kenya Rural Enterprise Programme
LED	Local Economic Development
LS	Leadership Style
NEF	National Empowerment Fund
NPC	Non-Profit Companies
OECD	Organisation for Economic Co-operation and Development
OP	Organisational Policies
PCA	Principal Component Analysis
Pe	Performance
PIP	Political Integrity Pledge
PR	Public disclosure, publicity, media coverage, and better communication
RBZ	Reserve Bank of Zimbabwe
ROA	Return on Assets
ROCE	Return on Capital Employed
SBCF	Small Business Community Forum
SBCF	Small Business Community Forum
Seda	Small Enterprise Development Agency
SEFA	Small Enterprise Funding Agency
SIDO	Small Industries Development Organisation
SME	Small and Medium Enterprise

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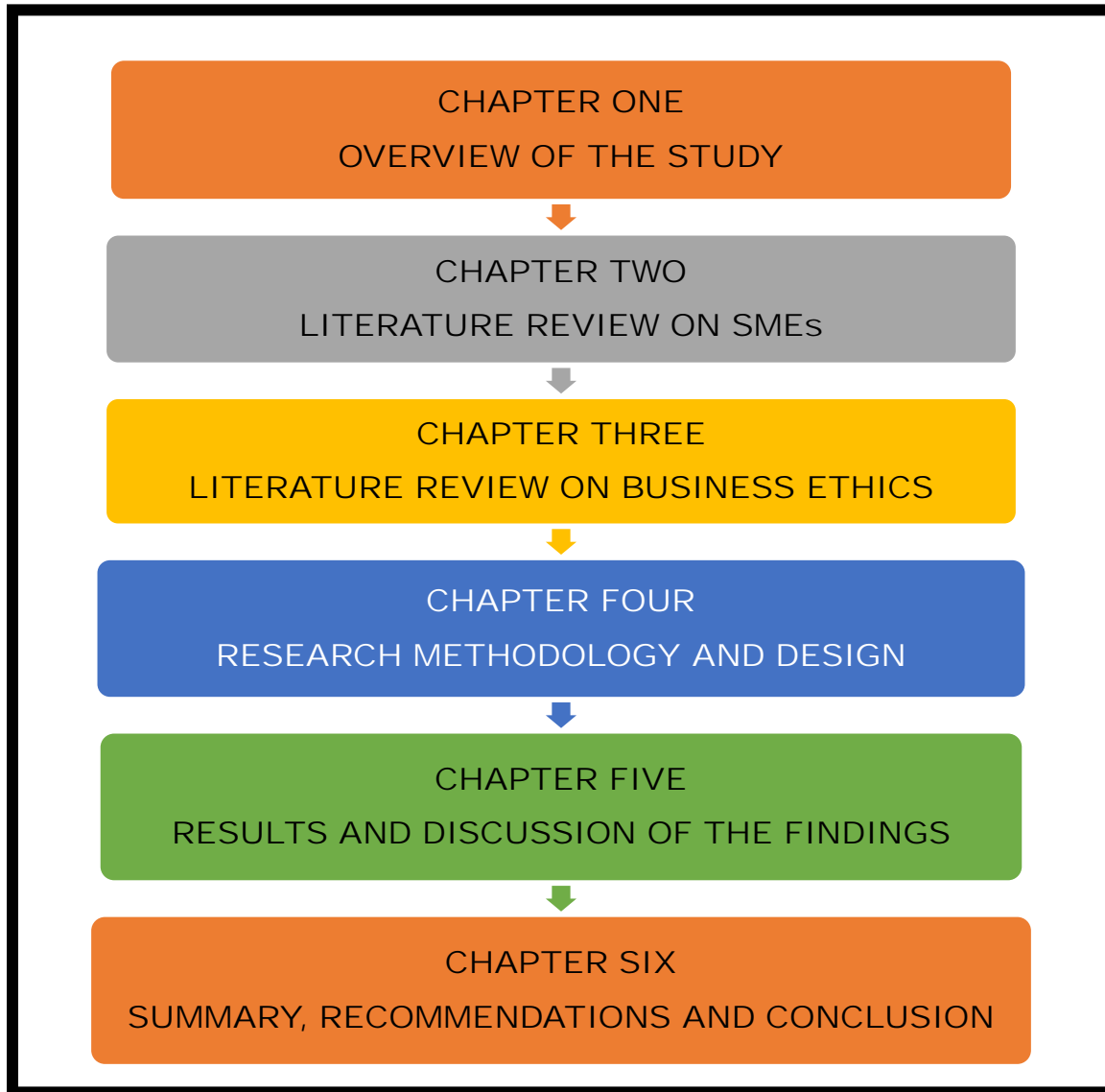
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THE OUTLINE OF THE THESIS



The figure above provides insight on the outline of the thesis. The thesis consists of six chapters beginning with an overview of the study (Chapter one), and ending with the summary, recommendations and conclusion (Chapter six).

CHAPTER ONE

OVERVIEW OF THE STUDY

1.1 INTRODUCTION

This chapter serves as an overview of the study; *inter alia*, the background to this study is broadly discussed, the research problem is identified, and the aim and objectives of the study are stated. Thereafter, the research methodology and research design adopted for this study, as well as the structure of the thesis, are briefly outlined.

1.2 BACKGROUND TO THE STUDY

The growth of Small and Medium Enterprises (SMEs) is an indicator of a revitalised economy and is therefore cannot be ignored (Katua, 2014; South African Reserve Bank, 2016). According to Pooe, Mafini and Loury-Okoumba (2015), “SMEs are not just small forms of big business as they contribute positively to the country's economic growth”. As a result of such positive ideas, there is an emerging and rapidly evolving field of academic work, with a strong focus on a commitment to the ethical standards of managers in the SME sector (Badenhorst-Weiss & Cilliers, 2014). The development of SMEs offers many job opportunities, which can help reduce unemployment and address the demographic challenges posed by growing populations (Malefane, 2013). In addition, the development of the SME sector could help increase competition and productivity; therefore, it promotes income growth, both overall and per capita (Hove, Sibanda & Pooe, 2014)

SMEs are recognised as the main vehicle for economic growth in developed and developing countries (Pushpakumari, 2009). In South Africa, SMEs account for 61% of private sector employment and an estimated 52% to 57% of the country's Gross Domestic Product (GDP) (Fatoki, 2015). In addition, SMEs are recognised as productive drivers of comprehensive economic growth and development in the Durban South region (Moyo, 2019). Given the importance of the socio-economic role of SMEs in terms of job creation and economic growth, it is worth examining the impact of the ethical values of SME owner-managers on the performance of their enterprises in the Durban South area of the eThekweni Municipality in KwaZulu-Natal. SMEs have realised that ethical misconduct

can be very costly not only for the organisation but also to society as a whole (Abiodun & Oyeniya 2014). Furthermore, today's customers have become increasingly mindful of the reputation of the businesses they patronise. Consequently, small and medium-sized enterprises (SMEs) have become the worst affected since they lack the funds, strategic information and relevant alliances (Ononogbo, Joel & Edeja 2016) to implement ethical practices.

While some studies (Dalberg, 2011; Seda, 2016) have identified access to finance as a key success factor, studies conducted in other countries also highlighted the important role of entrepreneurs' ethical values in the success of SMEs (McFarlane, 2013; Khomba & Vermaak, 2012). However, there is no record of any studies undertaken in examining the impact of the ethical values of SME owner-managers on the performance of their enterprises in the Durban South area of the eThekweni Municipality in KwaZulu-Natal, South Africa. Hence, this had resulted in researchers failing to grasp the magnitude of the challenges faced by SMEs, despite the fact that they receive attention from governments in most developing and developed economies as a solution to the stimulation of economic and employment growth.

According to Hasnah, Ishak and Sobei (2015), the ethical problems faced by SMEs are due to a multitude of relationships among various stakeholders and entrepreneurs. Making ethical decisions and maintaining a reputation for integrity are not only vital to supplier, customer and employee relations, but also to the success and sense of personal accomplishment of the entrepreneur (Kalyar, Rafi & Kalyar, 2013). Ethics is closely associated with trust; therefore, the modern business world requires owner-managers to value the importance of stakeholders and to realise that the focus is not solely on the profit motive (Johnson, 2019). This is more evident in the case of small businesses where sustaining positive cash flow is sometimes a major challenge. According to Khomba and Vermaak (2012), the multicultural environment and unique challenges that entrepreneurs in the informal economy must deal with have resulted in an increasingly intricate set of relationships to navigate and challenges for the modern small business entrepreneur to overcome.

Hence, this study will contribute to the literature on the factors that influence the impact of the ethical values of SME owner-managers on the performance of their enterprises in the Durban South area of the eThekweni Municipality in KwaZulu-Natal.

1.3 STATEMENT OF PURPOSE

South Africa faces immense socio-economic challenges, and many of these challenges are related to the high level of unemployment and other social ills. For example, whereas the country experienced a growing unemployment trend since 2014 and SMEs have been found to play an important role in curbing this problem (Moyo, 2019), the survival and sustainable growth rate of SMEs is poor, and declining (Maye, 2014). Hence, the capacity of SMEs in reducing unemployment is reduced (Abor & Quartey, 2010; Pooe, Mafini & Loury-Okoumba, 2015; Malefane, 2013). In addition, the official unemployment rate is approximately 27%; however, if one were to include those between the ages of 16 and 60 who have given up looking for employment, then the rate is approximately 40% (Statistics South Africa, 2017). In the rest of the world, SMEs play an important role in reducing unemployment and poverty, but in South Africa, their survival rate is poor (Pedersen & Gwozdz, 2014).

Moreover, SMEs in South Africa are in an appalling position with regard to corruption, fraud, and other unethical practices (Vivier, 2013). According to De Arruda and Levrini (2015), SMEs compromise their ethical principles when they see economic potential. In their quest to explore economic potential, owner-managers tend to operate smaller enterprises in terms of size; it faces obstacles to the development of these organisations (Hove *et al.*, 2014). It is imperative that SMEs are aware of unethical conduct by large organisations and the government, as unethical activities are considered standard practice in countries like South Africa and Zimbabwe (Gartner & Brush, 2014; McFarlane, 2015). This situation could affect owner-managers' conduct and perceptions and make them more open to unethical conduct. On many occasions, these unethical activities are viewed as a need to survive, while the same actions, if committed by large organisations, are viewed as greed. The size of SMEs restricts their capacity to acquire assets, as well as to strengthen their capacity to maintain a strategic stance against corruption and fraud

in the business environment. Therefore, the owner-managers of SMEs acknowledge corruption and fraud as typical practices and use them as methods of obtaining quicker returns in terms of profit, despite knowing that they are unlawful and unethical (Gartner & Brush, 2014).

Given the various challenges discussed above, it is worth conducting a study to determine the influence of ethical values on SME owner-managers' performance in the Durban South area of the eThekweni Municipality in KwaZulu-Natal Province.

1.4 AIM AND OBJECTIVES OF THE STUDY

The aim of this study was to investigate the impact of the ethical values of SME owner-managers on the performance of these enterprises in the Durban South area of the eThekweni Municipality in KwaZulu-Natal Province. The objectives of the study were as follows:

- To explore factors that influence the ethical values of SME owner-managers.
- To determine to what extent the ethical values of owner-managers influence the performance of SMEs;
- To ascertain the link (if any) between the ethical values of SME owner-managers and the principles of corporate governance, and
- To propose a conceptual framework that could assist in creating awareness of SME's ethical values; thus, assisting SMEs to develop ethical values, which can positively influence their performance.

1.5 RESEARCH QUESTIONS

The main research question, based on the topic of this study was posed as follows:

- What is the impact of the ethical values of SME owner-managers on the performance of these enterprises in the Durban South area, South Africa?

Arising from the objectives of the study, the following research questions were posed:

- What are the factors that influence the ethical values of SME owner-managers?
- To what extent do the ethical values of the owner-managers influence the performance of SMEs?
- What is the link between the ethical values of SME owner-managers and good principles of corporate governance?
- Can a conceptual framework on ethical values be developed that can positively influence the performance of SMEs?

1.6 HYPOTHESIS

Hypothesis is defined by Cooper and Schindler (2014) as a tentative answer to a research problem, which is scientifically tested. The researcher should identify one character, variable or descriptor of a sampling unit that causes, affects, or has an influence on another character, variable or descriptor of the same or other sampling units in developing a hypothesis (Brannen, 2017). The character, variable or descriptor that affects other variables or sampling units is called an independent variable (Wegner, 2016), which is ethical values. The character, variable or descriptor, which is affected by an independent variable, is called a dependent variable or response variable which in this performance (Kumar, 2019).

Listed below are the null (H0) and alternative (HA) hypotheses tested in the study:

H01: There is no statistically significant relationship between *factor 1, factor 2, and factor 3* and business ethics (BE).

HA1: There is no statistically significant relationship between *factor 1, factor 2, and factor 3* and business ethics (BE).

H01a: There is no statistically significant relationship between the education of owner-managers, increased manager professionalism and education (Edu), and BE.

HA1a: There is statistically significant relationship between the education of owner-managers, increased manager professionalism and education (Edu), and BE

H01b: There is no statistically significant relationship between the new social expectation for the role SMEs are to play in society, young adults' attitudes, and consumerism (Socex), and BE.

HA1b: There is statistically significant relationship between the new social expectation for the role SMEs are to play in society, young adults' attitudes and consumerism (Socex), and BE

H01c: There is no statistically significant relationship between competition, pace of life, stress to succeed, current economic conditions, the cost of doing business and more businesses competing for less (competition), and BE.

HA1c: There is statistically significant relationship between competition, pace of life, stress to succeed, current economic conditions, the cost of doing business and more businesses competing for less (competition), and BE

H01d: There is no statistically significant relationship between political corruption, loss of confidence in the government, politics, political ethics and business climate (corruption), and BE.

HA1d: There is statistically significant relationship between political corruption, loss of confidence in the government, politics, political ethics and business climate (corruption), and BE

H01e: There is no statistically significant relationship between public disclosure, publicity, media coverage and better communication (PR), and BE.

HA1e: There is statistically significant relationship between public disclosure, publicity, media coverage and better communication (PR), and BE

H02: There is no statistically significant relationship between the ethical values (BE) of owner-managers and the performance (Pe) of SMEs.

HA2: There is statistically significant relationship between the ethical values (BE) of owner-managers and the performance (Pe) of SMEs

H2a: There is no statistically significant association between the EP (ethical practices) of owner-managers and the Pe of SMEs.

H2a: There is statistically significant association between the EP (ethical practices) of owner-managers and the Pe of SMEs.

H03: There is no statistically significant association between BE and corporate governance.

HA3: There is statistically significant association between BE and corporate governance

H03a: There is no statistically significant association between BE and the leadership style (LS) of owner-managers.

HA3a: There is statistically significant association between BE and the leadership style (LS) of owner-managers

H03b: There is no statistically significant association between the BE of owner-managers and the organisational policies (OPs) of SMEs.

HA3b: There is statistically significant association between the BE of owner-managers and the OPs of SMEs.

H03c: There is no statistically significant relationship between the BE and EP of owner-managers.

HA3c: There is statistically significant relationship between the BE and EP of owner-managers

H04: There is no statistically significant association between corporate governance and Pe.

HA4: There is statistically significant association between corporate governance and Pe

H04a: There is no statistically significant association between the LS of owner-managers and the Pe of SMEs.

HA4a: There is statistically significant association between the LS of owner-managers and the Pe of SMEs

H04b: There is no statistically significant association between the OPs and the Pe of SMEs.

HA4b: There is no statistically significant association between the OPs and the Pe of SMEs.

1.7 PRELIMINARY LITERATURE REVIEW

The main difference between business ethics and personal ethics is that in most businesses more than one individual is involved. The role of ethical standards as according to Russel (2018), is to build and maintain an organisational culture that influences the ethical values of employees, builds a better public image, attracts customers' trust and derives other business benefits from customers and suppliers' partnership. When one argues that ethics should not be the primary focus of business managers, it is wrong. Trust means choosing an enterprise as a partner with another entity that enhances the retention of customers to business brand as this will have a resultant effect of attracting new customer base to consume the goods and services provided by the enterprise (Halbusi & Tehseen, 2018). In addition, Sarfaraz, Fagih & Majd (2014) mention that entities that have well-established ethical values tend to benefit more from the stakeholders' trust and be loyalty.

An ethical business, as explained by Russell (2018) has competitive advantage over other competing industry players. Law violations and criticism from stakeholders are faced by entities that violate ethical standards. An unethical activity, in legal terms, can be defined as an action that has not yet been proven in the court and cannot be defined as a criminal act as defined by Sarfaraz, Fagih & Majd (2014). Storsletten & Jakobsen, (2015) highlight that unethical activities take the form of lying (to some extent) about the product benefits

and animal testing (depending on the country involved). The business ethics violations exist in different forms that include:

- bribery;
- sexual harassment;
- patent or copyright infringement;
- lying and deceit about product performance and safety;
- deliberate use of harmful substances;
- intentional environmental pollution;
- discrimination;
- dangerous working conditions, and
- violations of promises (Storsletten & Jakobsen, 2015).

In the field of governance, definition of ethical conduct accommodates the aspect of organisational stakeholders and is viewed as a means of attempting to conduct collective action for the benefit of the majority (Schwepker, 2019). Therefore, Niemeyer and Cavazotte (2016) reflect that ethical conduct result in the avoidance of malicious behaviour (such as fraud, personal enrichment, insider trading, corruption, deceitful and suspicious behaviour) and a proper governance structure in place assists the entity to clearly outlines the powers and responsibilities of directors and management of organisations. A study on 2000 MBA students that was conducted by Halbert and Inguli (2003) found that there is a strong statistical difference between wealth maximisation and organisational ethical values. The study further indicated that majority of the MBA students believe in maximising wealth for shareholders. In another study on the assessment of the impact of accounting ethical standards on the quality of banks' financial reporting in Nigeria, Ogbona and Abimoboui (2012) concluded that the quality of banks' financial statements was being affected by ethical accounting standards.

According to Zheng, Luo and Wang (2014) performance is the ability of an organisation to fulfil the demands of the investors by assessing the company's achievements. In this study performance is measured in terms of market share growth, sales, profitability, return on assets, employment growth, customer satisfaction and employee satisfaction. Collins (2017) found that ethics positively influence workers to take responsibility of their work which results in improved firm performance Saeed, Shakeel and Lodhi (2013) found perceived ethics to be positively associated with SMEs' performances.

1.8 RESEARCH METHODOLOGY

1.8.1 Research design and descriptors

According to Bryman and Harley (2018), a research design is defined as “a plan, structure and strategy of investigation so conceived as to obtain answers to research questions or research problem. The main function of a research design is to enable the researcher to plan an appropriate research process that maximises the validity of the results. This study utilised quantitative research methods, as the relationship between variables was examined. In this study, the independent variables were ethical values, ethical practices, and corporate governance; and the dependent variable was the performance of SMEs. The variables were measured so that numbered data could be analysed using statistical procedures (Walliman, 2017).

Moreover, the research was descriptive and cross sectional in nature. The study was conducted within a fixed time by examining organisations. Additionally, Fink (2013) defines cross-sectional study as a study that take place at a single point in time, and the participants included in the sample are regarded as representative of the population. According to Healey (2017), a cross-sectional study involves the collection of data from any given sample of population elements only once.

The quantitative approach was used to quantify the responses through generating numerical data on ethical values and performance measurements between the DV and the IV. The researcher identified software, namely the Statistical Packages for Social

Sciences software (SPSS), Version 26, for Windows, which was used to analyse and store the data, and to quantify attitudes, opinions, behaviours, and other defined variables (Wegner, 2016). The quantitative research further involved gathering data using a structured questionnaire (Cooper & Schindler, 2014; Sekaran & Bougie, 2014), which was electronically mailed to the chosen sample.

1.8.2 Target population

The observations, elements, or participants of a group under research study is defined as the target population and Creswell (2013) contends that the target population usually has different characteristics. Population, according to Rasinger (2014), is defined as the entire elements or groups that the researcher is interested in and can be used for the research study. For any study, elements can mean people, products or organisations, and are grouped based on the shared common characteristics, which are informed by the research problem (Branne, 2017). As Wegner (2016) suggests that the target population is the aggregate of all elements from which a sample is selected. The total target population for this study consisted of 500 owner-managers of SMEs in the Durban South area of KwaZulu-Natal, South Africa (Durban Chamber of Commerce and Industry, 2020).

In terms of the definition adopted for this study, an SME is an entity with at least twenty full time workers and at most two hundred full time employees; micro-enterprises are defined as those enterprises that employ less than twenty full time employees. Moreover, large organisations or corporations are defined as entities that have at least 200 full time employees.

There are several business sectors in the South African market. According to Castells and Himanen (2014, cited in Simon, 2015), they are Agriculture – 2.76 percent; Mining and Quarrying – 0.05 percent; Manufacturing – 9.43 percent; Electricity, gas and water supply – 0.06 percent; Construction – 13.83 percent; Wholesale and retail trade – 45.61 percent; Transport and storage – 6.01 percent; Financial institution – 10.22 percent; Community, social and personal – 11.32 percent; and other activities -0.70 percent.

1.8.3 Sampling procedures

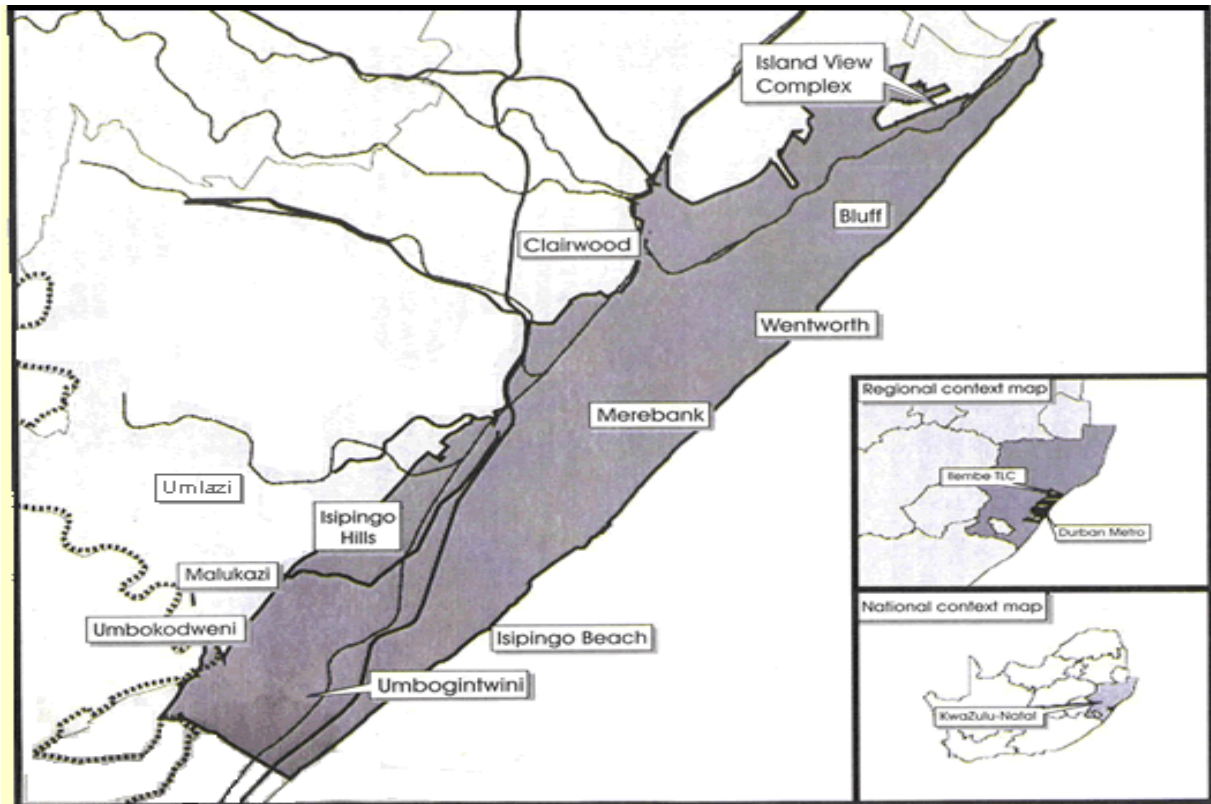
A sample is described as the part or fraction of the target population, according to Bechhofer and Paterson (2012). However, not all the elements of the population would form the sample and by studying the sample (Wegner, 2016). According to the sample size table developed by Sekaran and Bougie (2014), research chose a sample size of 217 that was drawn for a target population of 500 SME owners-managers, at a level of confidence of 95%. Sekaran and Bougie's (2014)'s table provides the optimal sample size, certain standard error at a desired confidence interval.

The Creswell's (2012) study shows that probability-sampling techniques are commonly applied when using a sampling frame. In this study, a simple random sampling was used to select 217 SMEs, as this is a reasonable way to select a sample without bias. According to Bristowe, Selman, and Murtagh (2015), the general random sample provides the researcher with a sample that is included in the population under research, which assuming exhaustive list of a larger population is available. Merriam (2014) stated that the general random sample allows the population to be generalised from the sample because selected observations are selected using random number tables and random number generator software. Therefore, it is advantageous because such generalizations are likely to be considered as external validity.

1.8.4 The establishment of the Durban South area

The Durban South area is the industrial hub of Durban, situated in the province of KwaZulu-Natal (eThekweni Municipality, 2016). It stretches from the Port of Durban in the north to eZimkokodweni in the south and is home to two large petrochemical refineries, a large paper mill, motor manufacturers, and at least 5000 businesses (South Durban Community Environmental Alliance, 2017). It includes the residential areas of Bluff, Clairwood, Wentworth, Merebank, Isipingo and Lamontville, and the Industrial areas of Jacobs and Prospecton. The Durban South area includes the Central Business District (CBD) and Port of Durban and extends south from the Durban CBD for 24 kilometres to Umbogintwini, as shown in Figure 1.2 below:

Figure 1.2: Durban South, eThekweni Municipality, KwaZulu-Natal Province



Source: South Durban Community Environmental Alliance (2017)

1.9 SIGNIFICANCE OF THE STUDY

According to Jamali, Lund-Thomson and Jepsen (2015), in a global business environment, firms are generally under great pressure as societies and governments have different and gradually higher expectations. Research shows that there is plenty of literature discussing business ethics in large organisations. Despite the growing interest in SMEs, little research has been done on the stipulations and outcomes of business ethics in several forms of organisations and contexts, and specifically in the SME sector in the Durban South area of KwaZulu-Natal, South Africa. For academics and researchers, this study adds theoretical knowledge and practical experience to decision-makers in entrepreneurship. This study also provides insights for SME research. In addition, it offers academics with areas to study further. Through this study, entrepreneurship practitioners will improve their understanding of the impact of SME

owners-managers' ethical values on the performance of their organisations in the Durban South area of the eThekweni Municipality in KwaZulu-Natal.

The results of this study prompt a campaign to promote business ethics in SMEs. More specifically, the managers of SMEs could understand business ethics as a tool to enhance their public image. In addition, the results and recommendations of this study may inform policy design in organisations, including public and private organisations as they will learn how to improve entrepreneurship practice in businesses. The benefits that companies gain by promoting business ethics could have a positive impact on the South African economy.

1.10 SCOPE AND DELIMITATIONS OF THE STUDY

Due to time and cost considerations, the study was restricted to SMEs located within the Durban South area in the eThekweni municipal region, which is located in KwaZulu-Natal, South Africa.

1.11 DEFINITION OF TERMS

An SME is defined as a Small and Medium Enterprise, and it differs from a large corporation, among other aspects, in its size. An SME is further defined as a formal enterprise with more than 20 employees but fewer than 200 employees; a business with fewer than 20 employees is classified as a micro-enterprise. Those businesses employing more than 200 employees are classified as large corporations/businesses.

Organisational ethics is defined in this study as the behaviour in an organisational context, which is in line with the principles, norms and standards of business practices, as approved by the community. Ethics refers to a set of rules that define right and wrong conduct and that helps individuals distinguish between fact and belief, decide how such issues are defined, and what moral principles apply to a situation.

Business ethics is defined as the focus on what is good and right in a particular economic activity, during the engagement in a moral analysis and assessment of such economic activities and practices by the entity as a whole. Business ethics would

embrace all theoretical perspectives regarding the ethicality of competing economic and social systems.

Ethical leadership is defined as the illustration of standard applicable behaviour through individual actions and interpersonal associations, and the advancement of such conduct to company employees through two-way communication, reinforcement and decision-making.

Corporate governance refers to the set of systems, principles and processes by which a business is governed. Corporate governance is the system by which business corporations are directed and controlled. The corporate governance structure specifies the distribution of rights and responsibilities among different participants in the corporation, such as the board, managers, shareholders and other stakeholders, and spells out the rules and procedures for making decisions in corporate affairs.

1.12 STRUCTURE OF THE THESIS

The thesis is divided into six chapters:

Chapter 1: Overview of the study

Chapter one provides an overview of the study in terms of the background to the study; the research problem; the aim and objectives of the study; the significance and scope of the study; the research methodology and design; and the structure of the thesis.

Chapter 2: Literature review on SMEs

This chapter provides an overview of previous research on SMEs; a discussion of the characteristics of SMEs; the major differences between SMEs and large organisations; the importance of SMEs in the economy; the challenges faced by SMEs; the role of the state in the development and promotion of SMEs; and the measures of performance of SMEs.

Chapter 3: Literature review on Ethical Values and Corporate Governance

This chapter provides a critical literature overview, aiming to examining the literature from different sources for and against ethical values as a concept and practice by SMEs in general. The discussion focused on the existence, adoption, implementation and practice of ethical decision making outside the borders and inside the boundaries of South Africa. The chapter also examines the interface between ethical values and the success of a business, and corporate governance. Moreover, the literature that falls under the research objectives of this study were scrutinised.

Chapter 4: Research Methodology and Design

In this chapter the following aspects, *inter alia*, are discussed: the research methodology and research design; the sampling technique; the questionnaire design; and the data analysis techniques used for the empirical study.

Chapter 5: Presentation, Analysis and Discussion of Results

In this chapter, the results of the empirical study are presented, analysed and discussed. The results are presented using descriptive statistics in the form of graphs, tables and charts for the quantitative data collected via the responses from the questionnaire. A variety of appropriate statistical tests, used to analyse and interpret the data collected from the completed questionnaires, is outlined, with a view to identifying important patterns and relationships.

Chapter 6: Summary, Conclusion and Recommendations

This chapter includes a summary of the study and the recommendations. It also incorporates the conclusions on the findings of the study. Recommendations to improve the performance of SMEs are discussed in this chapter and the limitations of the study are outlined. Thereafter, suggestions for future areas of research are presented.

1.13 CONCLUSION

This chapter highlights the pivotal role of the SME sector in the South African economy; it also briefly touches on the background of SMEs. Most importantly, the impact of the ethical values of SME owner-managers on the performance of these enterprises forms the basis of the problem statement.

The limitations of the study are highlighted, which is important so that the reader can evaluate the validity of the research. The rationale for the study is also stipulated, including its key objectives. These objectives concentrate on the impact of the ethical values of the SME owner-managers on the performance of these enterprises.

In the next chapter, the literature pertaining to entrepreneurial competencies and the performance of SMEs is analysed and discussed.

CHAPTER 2

SMALL AND MEDIUM ENTERPRISES

2.1 Introduction

In this chapter, the relevant literature pertaining to small and medium enterprises (SMEs) is discussed. The literature review covers, *inter alia*, a definition of SMEs; a discussion of the importance of SMEs in the economy; the characteristics of SMEs; and the challenges faced by SMEs. The role of the state in the development and promotion of SMEs and the performance measures used by SMEs are also examined.

2.2 International Definitions of SMEs

Olise, Anigbogu, Edoko & Okoli (2014) highlight that there are various criteria of defining an SME through the use of number employees, value of assets and annual turnover. An SME, according to Ayyagari, Beck & Demirguc-Kunt (2003) is defined as legal entity that has a total labour force of 250 employees. According to Quatey (2001), in a developing nation (majority of African countries) an entity that employs between 5 and 9 full time employees is categorised as small enterprise, while an entity that employs between 20 and 90 full time workers is categorised as medium enterprise. United States of America's Small Business Administration (2004) described an SME as an entity that meets the accounting concept of legal entity principle since there is separation between ownership and management, and enjoys small market share as compared to large corporations. In defining an SME, a firm that has total labour force of less than 50 workers are defined by European Union (2004) as small enterprise, while an entity that employs between 50 and 250 full time workers is termed as medium enterprise.

In Australia, when management decisions of an entity are vested in one or two people in critical areas (Wiltshire Committee, 1971) like finance and accounting, human resources, supply chain management, marketing, product development and specific knowledge in only one or two functional areas such enterprise is defined as small business (Subramanian & Moslehi 2013). In Thailand, according to Chittithaworn (2011), the asset value and the total labour force of an enterprise form the core basis of defining an

enterprise as an SME. However, the Australian Bureau of Statistics (ABS) (2002) provided a quantitative definition that was more accepted and utilised in which an enterprise that has a total labour force of fewer than 20 full time workers are regarded as small business, and medium business is an entity that employs at most 200 full time workers (Kuruppu, Mukheibir & Murta, 2014).

The Statistical Centre of Iran classified enterprises into four groups, namely enterprises with one to nine workers; enterprises with ten to 49 workers; enterprises with 50 to 99 workers; and enterprises with more than 100 workers. The Statistical Centre of Iran considers only enterprises with a workforce of less than 50 as SMEs (Azimzadeh, Pitts, Ehsani and Kordnaeij, 2013). In Kenya, according to Ng and Kee (2012), firms that have a total labour force between 11 to 100 full time workers is recognised as an SME

2.3 The nature of SMEs in other African countries

In Africa, according to Mahembe (2013), SMEs' definitions are commonly categorised into economic and statistical description. Looking at the economic definition, the following criteria are used to define small business: a relatively small market share; there is no separation between the ownership and management, and the entity does not form a consortium of a large corporation.

On the other hand, the statistical definition of small business depends on three following factors: small business sector quantification and its contribution to the GDP, employment and exports; comparing the extent to which the small firm sector's economic contribution has changed over time; and, comparing the small firm's economic contribution across the country (Baumgartner, Gelbmann & Rauter, 2013). The definitions of SMEs in a number of African countries are discussed below.

2.3.1 Kenya

According to Kiveu and Ofafa (2013), the number of employees is the main measure used in the classification of enterprises in Kenya. The 1999 baseline survey of national Micro and Small Enterprises define SMEs as a sector, formal or informal, with between five and 99 employees who work fulltime (Charles, Jeppesen, Kamau, and Kragelund, 2017).

SMEs provide socio-economic benefits, such as employment, income sources, tax revenue to the government, and societal development in the form of poverty alleviation. SMEs constitute 99% of all businesses in Kenya. According to Okadapau (2016), at least 30% of the population is employed in this sector; subsequently it accounts for 18.4% of the GDP of the country. In addition, the sector provides 28-billion shillings in total capital (Hoti, 2015). Hence, SMEs in Kenya contribute significantly to the GDP and job creation.

Limited equity and borrowed capital, barriers to market entry, dilapidated infrastructure, lack of technical skills and knowledge management and rapid technological changes are viewed as common challenges that hinders the growth, expansion and survival of SME sector in Kenya (Hoti, 2015; Central Bank of Kenya, 2018). However, Deloitte Kenya Economic Look (2016) viewed private and public corruption and environmental degradation as the major challenges. In order to promote the growth of SMEs, the Kenyan government enacted national laws that encourages black empowerment and indigenisation on government projects and developed '*buy Kenya, build Kenya*' philosophy in government supply chain management (Central Bank of Kenya, 2018). Moreover, the Kenyan government created Uwezo funding and offers research and product development subsidy. The Uwezo Fund expands access to finance and promotes women, youth and persons living with a disability. The Kenyan government also promotes small and medium scale manufacturing firms and plans to develop SME parks (Government of Kenya, 2018)

Comparing Kenya with other sub-Saharan African countries, the banking system of Kenya has improved and is involved in financially supporting SMEs, but this financial support is not enough, and financial access is regarded as key challenge in Kenya (CBK, 2019). In trying to address this key challenge the Kenyan government created a programme named Kenya's Financial Sector Deepening (FSD), with aim of lowering costs of accessing finance to lower and middle-income households and SME sector. (CBK, 2019). The main funders of FSD are Kenyan government, the UK Department for International Development, the Swedish International Development Agency, and the Bill and Melinda Gates Foundation and in order for the FSD to be better equipped about the SMEs' capital market it is currently conducting researches. In order for FSD to improve SME financing

they should be reduction in finance costs through implementing more efficient collateral registration processes, and the provision of lease and factor option as short and long-term sources of finance. Most SMEs belong to the agriculture sector, which forms the backbone of the Kenyan economy, there is a need to increase capital injection. Although the agriculture sector provides a livelihood and employment for the majority of Kenyans, contributing 30% to the GDP and accounting for 80% of national employment, its percentage of SME financing is small. Overall, there is the need for changes to laws, fiscal policies, financial institutions' strategies, and the management of SME financing (Government of Kenya, 2018).

2.3.2 Namibia

In Namibia, SMEs are defined based on their annual turnover and the number of people they employ. According to the Namibia Institute of Public Policy Research (2016) SME is defined as a business sector composed of two categories, namely a small enterprise with full-time employees ranging between 11 and 30, and a medium enterprise with full-time employees ranging between 31 and 100. Phenomenal growth has been recorded in Namibia in terms of the number of business start-ups over the past two decades following the country's independence. In fact, almost 40 000 SMEs are registered in Namibia (Bank of Namibia, 2019).

According to Gieling (2018), SMEs in Namibia contributed 12% to the GDP, employed 20% of the workforce between 2014 and 2019, and were assisting in realising the Namibian government's 2030 Vision. Moreover, Namibian SMEs play a key role in the mobilisation of resources. Hasheela and Mufet (2016), argue that main drivers behind the interrelated flow of trade, investment and technology are SMEs. The priority of Namibia was on the SME sector and in 1997 an SME policy was adopted so as to reduce the socio-economic effects of unemployment and underemployment, as well as poverty. The contribution that the SME sector makes to the Namibian economy is a clear illustration of the potential benefits that such enterprises can provide for the overall development of a country. SME sector development generates many jobs for semi-skilled and unskilled

workers. Hence, the development of SME sector can be seen as a critical component of pro-poor growth strategies (Geoffrey & Maria, 2017).

The SME sector is regarded as a source of income and employment in an era in which employment is dwindling and in which the option of making a living out of subsistence farming is limited (Mutingi & Chakraborty, 2018). The current situation in Namibia has shown that the SME sector is a major source of employment and income for the country. The sector provides some form of employment and income to close on 160 000 people, which accounts for almost one-third of the nation's workforce, of which 60 000 are employed full-time, ranking it alongside the government as the country's principal employer (Geoffrey and Maria, 2017). The SME sector typically generates a significant numbers of jobs and introduces local, national and international innovative business ideas, products and business methods that can push economic growth and a competitive market.

The SME sector is seen as a source of income and employment in a time in which there is low rate of job creation and subsistence agriculture is at its lowest (Mutingi & Chakraborty, 2018). The current situation indicates that the SME sector is the main source of job creation and income generation in Namibia (Bank of Namibia, 2019). The sector generates jobs and income to one hundred and sixty thousand employees, which represents 33% of the total labour force in Namibia, of which sixty thousand are full time workers and this sector is ranked as main employer alongside the government (Geoffrey & Maria, 2017). The SME sector is associated with introduction of local, national and international innovative business ideas, products and business methods that result in the significant job creation, economic growth and a competitive market (Bank of Namibia, 2019).The current trend is that job creation in the SME sector is higher than large firms do, which applies in particular in the case of recently established firms (Saramba, 2017). Several studies (Mutingi & Chakraborty, 2018; Charamba, 2017) have found that both in developed and developing countries SMEs create a lot of jobs because they are labour intensive. During recession or financial crisis, Bank of is Namibia (2019) notes that SMEs also tend to lose the job creation opportunities as compared to large corporations. In the small towns, besides rapid increase in urbanisation and recent economic slumps having

had a serious impact on the socio-economic conditions of many people, the retrenchment of workers is at lowest in the SME sector as their business method (labour intensive) greatly differ to those applied by large firms (capital intensive) (Geoffrey & Maria, 2017). A decline in living standards and growing unemployment due to economic crises worldwide have become hurdles facing many poor people in developing countries.

The situation has worsened as many workers have been laid off and the formal economy continues to cut jobs. Thus, thousands of new job seekers, most of whom came from the ranks of young people, have increased the number of unemployed in Namibia (Reference). It has been recognized that despite the economic crisis around the world, the growth and development of the SME sector plays a key role in supporting economic growth, which aims to sustain their employees (Geoffrey & Maria, 2017).

In line with the implementation of the LED strategy, the SME sector has become a machine for local economic development (LED) in various business sectors affiliated with local authorities (Shangadi, 2017). Local authorities have involved the SME sector in economic development activities to ensure sustainable economic performance, which is determined by the diversification of the SME sector (Saramba, 2017). At the local level, SMEs are involved in a number of formal or informal business activities. They are also seen as a key mechanism for achieving equal wealth creation and job creation to increase the revenue of local authorities. Having local knowledge and understanding, the demands of the domestic consumer, they provide the basis for sustainable long-term growth and the opportunity to expand that capability in the future, so they are driven to make the best use of existing local potential (Bank of Namibia, 2019). The start-up of an SME is cheap as it requires a small amount of investment, which can reach Namibia, and it will enable it to gain full ownership of the business (Shangadi, 2017)

2.3.3 Zimbabwe

In Zimbabwe, the Small and Medium Enterprises Act (Chapter 24:12) contains an SME definition. An entity that is legally registered and employs maximum of fifty workers, in Zimbabwe is defined as a small enterprise, while, an entity that has total work force ranging between 50 to 100 is regarded as medium enterprises (Nyoni & Bonga, 2018). In

terms of economic contribution, the SME sector absorbs a total of sixty percent of total labour force employed, 21% to the GDP and main taxpayer (RBZ, 2017). The Zimbabwe government supports SME and in the 1980s, Small Enterprises Development Corporation was created (RBZ, 2017). Furthermore, the RBZ (2017) points out despite various policy mechanisms in supporting SMEs, this sector is still being faced by many challenges.

In Zimbabwe, SMEs play an important role in the socioeconomic. Both in the formal and informal sector of Zimbabwean economy, according to Chingwaru (2014), SMEs are regarded as the main vehicles of economic growth, development and wealth distribution to the locals. The SMEs' contribution towards the national economy is very significant, especially on job creation, wealth creation and income generation, and their strategic linkages with large companies across the economic clusters (RBZ, 2017). The key driver of Zimbabwe Agenda for Sustainable Socio-Economic Transformation is the SME sector (RBZ, 2017). As part of government strategy of achieving developmental goals like employment creation, poverty alleviation, indigenisation, and women empowerment, Tinarwo (2016) view the development and survival of the SME sector as vital.

Tinarwo (2016) agree with Chingwaru and Jakata (2015) by highlighting that in Zimbabwe the creation of job opportunities, improved standards of living and black empowerment and nationalization, the SME sector should be key actor on developmental goals. The Zimbabwean economy has experienced reduction in employment in the formal sector due to economic decline that resulted in business closures and retrenchments (Sanderson, 2014). According to Karedza and Govender (2017), investment levels in the economy have not been sufficient to create employment for over 300 000 annual graduates from the country's training institutions.

The SME sector has become the primary source of employment and livelihood for millions of people (Sibanda, Hove-Sibanda and Shava, 2018). According to the 2018 Finscope SME survey, the SME sector employs 2.9 million people in the country (RBZ, 2017). The sheer size of the sector, which has about 2.8 million owners, is a very significant To government in terms of setting aside resources to support this sector so as to reduce closures. The jobs that emerge from this sector generate disposable income for

Zimbabwean citizens and increase local demand for goods and services. Therefore, SMEs are becoming increasingly important as a livelihood source for many Zimbabwean people. According to the Finscope SME Survey (2018), SMEs play an important role in poverty alleviation for entrepreneurs and their employees (RBZ, 2017). By providing employment and business opportunities, SMEs provide disposable income to workers and entrepreneurs, which improves their quality of life and alleviates poverty

2.3.4 Zambia

According to Choongo (2018), in Zambia, small businesses are registered with a Companies' registrar and are entities employing between 11 and 50 employees. A medium-sized business is an enterprise that is larger than a small business registered with a Companies' Registrar with between 51 and 100 employees.

In 1981, the Zambian government realised that the economy had to be sustained by other means, and the focus shifted to the SME sector as a potential alternative (Choongo). Beyani (2016) says that the government has established various revitalisation policies to support the development of the sector. Therefore, the government has tapped the contribution of the SME sector through the Small Industrial Development Organisation (SIDO) Act into the national economy (MCTI, 2017).

This government initiative was later incorporated into the Fourth National Development Plan (1988-1993). This initiative did not achieve as much as it took place in a socialist environment focused on collective enterprises rather than private ownership. The era of reforms after 1991 provided an opportunity to rethink the approach taken to foster a vibrant small and medium-sized sector, and in 1994 Industrial, Commerce and Trade Policy was released. After that, SIDO Act of 1981 there was an enactment of the Small Business Development Act of 1996 (MCTI, 2017). For foreign investors, there was trade liberalisation that opened the economy in order to intensify competition in all sectors, including the SME sector. This means that poorly prepared Zambian entrepreneurs could be pushed out of the market due to competition from foreign entrepreneurs for high-quality and low-cost products.

Hence, the Zambian government has begun to come up with new policies that will make it more inclusive to grow the SME sector and accommodate local players (Beyani, 2016). Despite their success in terms of implementing policies and legislation to improve the SME sector, small entrepreneurs continue to face many challenges (MCTI, 2017). Access to finance is the most prominent, but it is not the main or the only one. Issues related to the lack of relevant skills, limited markets, and government support are still rampant, but complaints about unfair competition have been raised recently due to the presence of foreign players in certain sectors of the economy that were traditionally considered protected areas in Zambia (Choongo, 2018)

2.3. 5 South Africa

In South Africa, SMEs are regarded as an important catalyst for economic growth (Seda, 2016). In terms of statistics, there is a total of approximately two million and eight hundred SMEs across the country which provide 60% of employed labour force (Reference). It is also estimated that by 2030, according to Groepe (2015), the SMEs will create more than 90% of new jobs in the country. Neneh and Van (2017) noted that the definitions that make up SMEs vary, hence, number of employees and financial turnover are two aspects used to define SMEs.

An SME is an entity with workers ranging between 21 to 200, and in terms of rand value a small business has at most R50 million in terms of annual turnover while, while the medium business receives less than R100 million in annual gross sales (Davis Tax Committee, 2014). The salient aspects discussed above are summarised in Table 2.1 on the following page.

Table 2.1: Summary of classification thresholds for SMEs

Type of entity	Number of employees	Annual turnover
Small	21-50	Maximum R50 million
Medium	51-200	Maximum R100 million

Source: Seda (2016)

The National Small Business Act of South Africa of 1996 (as amended in 2004) described SMEs as follows:

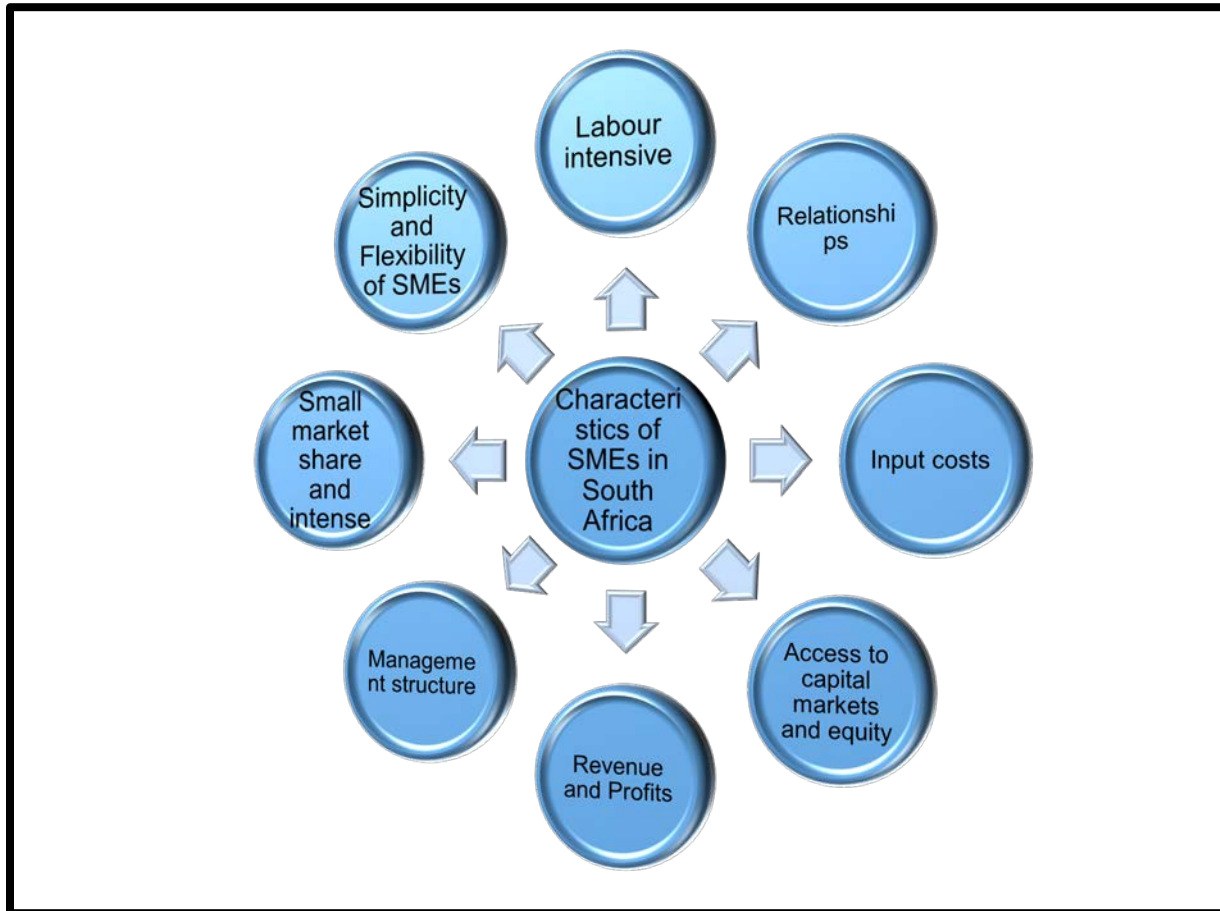
...separate distinct entities, including cooperative enterprises and non-governmental organisations managed by one owner or more, including branches or subsidiaries if any is predominately carried out in any sector or sub-sector of the economy mentioned in the schedule of size standards and that can be classified as an SME by satisfying the criteria mentioned in the schedule of size standards (Olawale & Garwe, 2010).

In summary, it can be said that there is no clear definition of SME. Different authors and researchers provide subjective definitions as concepts vary from country to country and from sector to sector. Therefore, the definition of SME cannot be specific to a specific field or transaction. It is important to point out that the SME sector includes a wide variety of companies. Having reviewed the literature above, in this study SME was defined as an entity that employed 21 to 200 workers .

2.4 Overview of SMEs characteristics

Over the years, SMEs have been described as including a multitude of characteristics, in stark contrast with mega organisations (Olawale and Garwe, 2010). The characteristics of SMEs, which will be discussed in the following page and are diagrammatically reflected in Figure 2.1.

Figure 2.1: Salient characteristics of SMEs



Source: Author's own Illustration

2.4.1 Labour intensive

In the SME sector, entrepreneurs are confronted with inadequate time and financial resources and this results in this being highly labour-intensive rather than being capital-intensive. As Gerba and Viswanadham (2016) explain that SMEs absorb more less skilled and unskilled people than larger organisations hence they become labour intensive. To support this claim Islam and Hossain (2018) noted, the employment opportunities created by SME, as a result of every unit of capital invested is higher than in a large corporation. To support this claim, According to Olawale and Garwe (2010), because of the labour intensiveness of small and medium-sized businesses, they promote a more equitable distribution of income than larger organisations.

2.4.2 Relationships

SMEs experience a centralised management since there is no separation between ownership and management resulting to weakened delegation and departmentalisation system. As result the SMEs end up having limited focus and specialising in small variety of products and services (Fatoki, 2014). In stabilising their businesses, SME owner-managers rely more on relationships established with employees, manufactures, distributors and customers. SMEs have a more direct relationship with the community thereby attracting substantial number of loyal customers who prefer to support local businesses rather than national and international organisations because they are community-based, employ local citizens, and pay taxes in local markets (Biekpe, 2011). Moreover, these enterprises are based in a single city or region and become well established entities in that area. In this regard, Fong (2011) reveals that SMEs seem to be one step ahead of large corporations in that they have to return to their local communities to meet their obligations.

2.4.3 Simplicity and flexibility of SMEs

An SME is viewed as an entity that could simply have the setup of the owner-operator or an owner-manager-employee, whereas, in other cases the large SMEs are observed that employees a maximum of 200 workers. There is a general improvement of communication among employees at each level or in different stores in a chain due to small flatter organisational structure. Ogbokor (2012) stated that SMEs easily adapt to turbulent market conditions due to their flexibility. The flexibility of employees in adapting their competencies and skills to different tasks in their daily task is necessitated by simple, rather than complex organisational structure of SMEs (Seda, 2016). In large companies, employees have a specific job description, but small businesses have fewer people to do all the work, so employees often have to help with different tasks. Owner-managers can organise employee training programs and manage their time with comfortable working hours. Due to its simple structure, SMEs are likely to respond in a timely manner to external threats, but do not prevent specialization or barriers to higher economies (Sánchez, Ramírez-Herrera & Di Pietro, 2013).

2.4.4 Revenue and profitability

In order for SMEs to gain competitive advantage, Can't, Erdis and Sephapo (2014) assert that fixed overheads and variable expenses of doing business must be kept at lowest in order to achieve business efficiency. The ownership of non-current and current resources like factory, equipment, vehicles and inventory by well established SMEs, results in lower costs curve than highly geared enterprises. The main source of finance in the majority of SMEs is owner's equity in which owner-managers rely on their personal resources to finance the short- and long-term operations of the entity. Income generated in the SMEs is generally less than that generated by large organisations, as Edmiston (2013) argues that less income business experiences higher profitability through costs saving mechanisms.

2.4.5 Small market share and intense competition

The success of SMEs is the result of special focus placed on their customers and clients. Accordingly, these small businesses thrive to supply their special customers with customised goods. The owners-managers adopt the market led approach in order to solve customer problems and improve products to meet customer needs (Sánchez *et al.*, 2013). In comparison to large corporates, according to Piacentini and Fortanier (2015), SMEs have less presence and participation in the international market. This serves as a constraint for SMEs as the European Commission (2018) argued that they might miss the growth opportunities that foreign markets provide.

Market proximity is regarded as one of the key factors that enables SMEs to react quickly to any changes in the needs, wants and taste preferences of their customers (Moyo, 2019). Majority of the SMEs always produce unique goods and services by creating their own. This uniqueness is an important competitive advantage, and one which many SMEs work hard to sustain, adapting and innovating their products or services as their competitors catch up with them (Neneh & Van, 2014). SMEs' area of operations is generally local as they have less capital and less marketing resources at their disposal. Moreover, because many SMEs compete for business opportunities in the same market, competition often results in product/service innovation and differentiation (Ismaila, 2011).

2.4.6 Limited number of suppliers

SMEs generally do not have a large network of suppliers compared to large enterprises. Pooe *et al.* (2015) argue that this promotes the ability of SMEs to build trust and mutual goals with their limited key suppliers. However, Kleindienst and Ramsauer (2016) argue that SMEs have limited bargaining power during purchasing inputs from suppliers, as the quantity of goods produced by SMEs is smaller compared to larger organisations. Therefore, they receive lower volume discounts and trade discounts than large organisations.

2.4.7 Management structure

According to Leboea (2017), in contrast to larger enterprises, in SMEs, the owner is part of the management team, and is often responsible for many different tasks and important decisions. For example, unlike in large organisations, where the human resources management and financial management functions are handled by specialists in their respective fields, these functions may also be handled by the SME owner/manager, due to a lack of financial resources (Olfert, 2012). Poor management is another characteristic of SMEs, due to lack of financial resources that allow owner-managers to attend the management courses offered by various academic institutions.

2.4.8 Access to financial markets

In terms of capital market and equity, the capital structure mix between owners' equity and debt finance is another key difference between large and small businesses. Due to strict and red tape financial regulations in South Africa, small businesses do not have access to stock or capital markets unlike large corporations. As explained by Smit and Watkins (2012), the main reason for this is that SMEs do not publish their audited financial statements and annual reports and this may result in less transparency and accountability, as compared to larger enterprises. Furthermore, the main sources of SMEs' financing are personal and family savings the possibility of acquiring equity capital is limited, resulting in a much lower share of equity capital for small and medium-sized businesses than for large companies.

Mahembe (2013) argues that in acquiring debt finance, SMEs are viewed as high risk by financial institutions due to lack complete, credible and sufficient information. This high-risk assumption is because, unlike large companies, SMEs do not diversify their risk by engaging in other business activities.

2.4.9 Cost of inputs

Unlike large companies, the offering of a narrow and specialised product or services line is associated with SMEs. According to Ramawickrama (2011), SMEs are labour intensive which to them requiring small quantities of other factors of production like capital, and technology this imply that there are no benefits or economies of scale accrue to SMEs as they experience a higher per unit cost. Moreover, small businesses do not have an edge over their suppliers because of their size. This leads to small businesses having less bargaining power with suppliers than large companies. In addition to the afore-mentioned, Frion and Yzquierdo-Hombrecher (2009) provide the following differences between SMEs and large organisations:

- Small business executives often lack expertise;
- Management inefficiencies are common in small businesses, and
- SME founders tend to be action-oriented and less analytical than professional managers

In discussing the characteristics of SMEs, some differences between SMEs and large organisations emerged. Table 2.2 in the next page shows the main differences between SMEs and large organisations.

Table 2.2 Differences between SMEs and large organisations

Characteristics	SMEs	Large organisations	Sources
Organogram	<ul style="list-style-type: none"> • Flat with few management layers • Flexible structure and information flow 	<ul style="list-style-type: none"> • Hierarchical with multiple layers of management • Strict structure and information flow 	Amponsah-Tawaih and Adu (2016); Ehret and Wirtz (2017); Van den Berg and Van Marrewijk (2017)
Management	<ul style="list-style-type: none"> • Unlimited visibility of top management • Top management is close to the workstation. • There is no separation between ownership and management is not separated 	<ul style="list-style-type: none"> • Limited visibility of top management. • Senior management is far from the workstation. • Separation of ownership and management 	World Bank (2016); Wiseman and Popov (2015); Kraus, Mitter, Eggers and Stieg (2017)

Innovation	SMEs experience high degrees of innovation.	A low degree of innovation is associated with large companies.	Saebi and Foss (2015); West and Bogers (2014)
Decision making	<ul style="list-style-type: none"> • SMEs rapidly respond to environmental changes. • SMEs have a significant competitive advantage when making necessary, organisational changes to be able to adapt to new environments. 	Large organisations are associated with slow responses to environmental changes.	Burlea-Schiopoiu and Mihai (2019)
Formality	<ul style="list-style-type: none"> • SMEs have a low degree of formalities. • SMEs are simplified and are not formalised. 	<ul style="list-style-type: none"> • In large organisations there are a high degree of formalities. • They are complex and strongly formalised. 	AL-Bulushi and Anderson (2017); Al-Mataani (2017)

Human and financial resources	They have limited access to human and financial resources.	They have good access to human and financial resources.	Aksoy and Cengiz (2016)
Creativity	Individual creativity is encouraged; hence, entrepreneurship	Individual creativity is stifled; hence, intrapreneurship	Yoshino and Taghizadeh-Hesary (2016)
Area of Specialisation	Broad scope, varied duties	Narrow scope, specialised duties	Wang (2016)
Area of Autonomy	High level of independence from other entities	Limited level of independence of other entities	Nardi (2018)
Sources of Financing	Own, internal	Third party, external	Talegeta (2014)
Market coverage	Local/regional and market niche	National/international and broad competitive arena	Al-Barwani, Jahwari, Saidi and Al Mahrouqi (2014); Ennis (2015)

The main differences that exist between SMEs and large organisations are in terms of their organisational structure, policy-making procedures, and resource utilisation. In the next section, the study examines the factors that are conducive to the development of SMEs.

2.5 FACTORS CONDUCTIVE TO THE DEVELOPMENT OF SMEs

The South African government has identified the important role of the SME sector in reducing poverty and unemployment and contributing to economic growth. However, several external factors influence the growth and development of SMEs, and in the discussion below, some of the more important factors are discussed.

2.5.1 Macro-economic stability

Chittithaworn, Islam, Keawchana and Yusuf (2011) assert that successful economic development generally requires macro-economic stability as this sustains SME development. An economy characterised by a high level of predictability, particularly with regard to price movements (inflation), interest rates and the availability of credit facilities leads to better business planning, and superior risk management (OECD, 2013). Start-up businesses and SMEs in the expansion phase both require a high degree of predictability on the cost and the revenue side of their operations. As stated by Cant *et al.* (2014), the single most critical factor determining the risk premium attached to a small firm is the predictability of its revenue and expenses.

2.5.2 Supportive legal framework

Gillwald, Moyo and Stork (2012) point that the basic elements of a favourable legal framework for business promotion are: firm property rights (legal tenure); efficient business registration process; simple and transparent rules for operation; supportive tax policy; effective and cost-effective contract execution, and amplified arbitration and dispute resolution system as indicated by the global surveys of SME development

The above-mentioned factors are critical for the viability and sustainability of SMEs. These factors reduce the start-up expenses, as well as the transactional and operational costs of business enterprises which encourages the creation of SMEs in South Africa (Seda, 2016). However, Tesfayohannes, Tessem and Tewolde (2015) observed that in many developing countries and emerging economies, little attention is paid to the basic elements of a favourable legal framework. In addition to operational inefficiencies, other factors that could form a wedge between the formal and the actual legal system include

corruption within the administration of justice; political interference in the legal system; and discrepancies between the formal and the traditional notions of legal tenure (property rights) (Luiz & Mariota, 2011).

2.5.3 Favourable human resource environment

According to Smit and Watkins (2012), the role of human resources, labour markets, and competencies are the most important human resource factors that influence the growth and competitive edge of SMEs. The well establishment of a robust and effective SMEs depends on entrepreneurship and high levels of business/economic literacy. In this regard, the encouraging factor towards SMEs creation and growth is the existence of human-resource development framework. According to Olawale and Garwe (2010), society's approach to leadership and achievement also plays an important role in defining the environment in which human potential is realised in addition to the value of formal and informal education and training systems. Improving the quality of human resources is highly needed, especially in the field of human resource competencies such as knowledge, skill, ability and attitude to entrepreneurship. Human resources development is fruitful not only for SMEs business owner but also for improving the livelihood of workers (Du Toit, Erasmus & Strydom, 2010). Entrepreneurship and productivity must be supported with the development of technology in order to strengthen the quality of human resource. On the other hand, the use of technology is increasingly important since 60 percent of the production process (Fatoki, 2016).

An aspect related to the human-resource framework is the ease with which immigration legislation enhances the skills base of the South African business environment. The accessibility of relevant skills, at a reasonable price, is more often than not the critical factor in the success of small businesses, particularly in their expansion phase (United Nations Economic Commission for Africa, 2017). Gillwald *et al.* (2012) state that SME development in a digital age needs a somewhat different education and training framework than in the agrarian or industrialisation eras. Contemporary human resources need to embody far more flexibility and adaptability towards business activities and skills acquisition. Following the demise of apartheid in 1994, post-apartheid South Africa has

witnessed an unprecedented influx of immigrants, particularly from other African countries (Seda, 2016). For many, the pull factors include, but are not limited to, a better quality of life, favourable climatic conditions, and the existence of business opportunities. The influx of new entrepreneurial talent has great potential for boosting the South African economy. According to Mahembe (2013) African immigrant entrepreneurs have the potential to improve the general levels of entrepreneurship and also to help with the creation of employment, which will make a positive contribution to the economic growth of their host countries

2.5.4 Appropriate and efficient infrastructure

According to African Economic Outlook (2012), in South Africa there are two classes of supportive infrastructure that promotes SMEs. Firstly, transportation, communication and business amenities are regarded as the hard infrastructure. Lastly, the availability of relevant and reliable statistics and suitable business associations form the soft infrastructure. The presence of suitable infrastructure reduces transaction costs, improves trade reliability, and encourages networking and connectivity of existing businesses in the industry (Azimzadeh *et al.*, 2013). The quality of infrastructure can affect the growth prospects of new SMEs especially in developing countries such as South Africa. South Africa enjoys better state of basic infrastructure like transportation, telecommunication and electricity (Olawale & Garwe, 2010). SEFA assists the development of SMEs by providing appropriate infrastructure in the form of industrial parks (SEFA, 2015).

2.5.5 Access to finance

The growth, survival and development of SMEs depend, crucially on their sources of long-term capital (Stein, Ardic & Hommes, 2013). Supporting this statement, Azimzadeh *et al.* (2013) postulate that SMEs worldwide initially rely on self-financing by entrepreneurs. Subsequently, they go to debt financing and/or venture capital because they do not generate enough revenue to expand their operations. Similarly, Govori (2013) states that the private credit market is an important factor in the development of SMEs as they provide unsecured loans. Recognising the importance of SMEs to the economy, the

South African government has provided credit guarantees to commercial banks wishing to lend to SMEs and facilitated access to SME financing through direct lending by specialised SME financial institutions (FNB, 2017). According to Finfind (2018), there are an estimated 148 finance providers with an estimated 328 different finance products on offer. These finance providers are divided between the private and public sector (government funders) with different operating and business models and different strategic objectives. The objectives of the government funders are to stimulate economic growth, especially in current environments of low or negative economic growth. As such, these sources of funding are limited to specific industries and have developmental objectives (FNB, 2017)

From the discussion above, it is clear that macro-economic stability, a supportive legal framework, a favourable human resource environment, appropriate and efficient infrastructure, and access to finance are some of the factors that positively influence the growth and development of SMEs. In the next section, the importance of the SME sector in the economy will be discussed.

2.6 THE ECONOMIC STANDING OF SMEs

The importance of the SME sector in both developed and developing economies is widely acknowledged and promoted, and the contribution of this sector to employment creation, economic growth and innovation, is discussed below.

2.6.1 SMEs create employment opportunities

SMEs are vital vehicle to address the challenges of unemployment, economic growth and poverty levels in any economy. In developing countries, since SMEs are regarded as more labour intensive than large organisations, policy makers recognise their role on job creation for unskilled and less-skilled workers (Du Toit, Erasmus & Strydom, 2010). According to the eThekweni Municipality (2013), in order to alleviate poverty, create jobs in marginalised areas, emancipate and empower women and increasing the domestic capital investment in the economy, the government should support the creation and growth of SMEs. SMEs create about 80% of all new job opportunities and more than 70%

of the South African workforce is employed in this sector (Seda, 2016). Due to a meaningful and substantial contribution to job creation of SMEs, policy makers and stakeholders have shifted the focus to the growth and survival of the sector in order to address high level of unemployment, especially with the youth in South Africa. According to the Quarterly Labour Force Survey (2020), South Africa is experiencing high unemployment rate of approximately 30.1% and this is regarded as a main social challenge. In this regard, the SME sector serves as an absorber of retrenched people from both the private and public sectors, hence, this sector is seen as an employment creator (Smit & Watkins, 2012).

According to Abor and Quartey (2010), in terms of climate changes in most developing economies, SMEs in most developing and emerging economies are more flexible and responsive as compared to large organisations. They require relatively less capital; thus, they have the potential to create a significant level of sustainable employment for both a skilled and semi-skilled workforce. Globally, SME offers about 60% of jobs in the European Union and this is an increasing rate as SMEs take advantage of opportunities related to globalisation and e-commerce. Kongolo (2010) states that in the last decade, while large companies have downsized, retrenched personnel and reduced employment, SMEs were seen as the main creators of new jobs. However, Malefane (2013) argues that the role of the SME is overestimated because the role of the SME in providing jobs is temporary as most new SMEs do not survive for a period of more than 5 years.

2.6.2 Contributions of the SME sector to creativity and innovation

An economy of knowledge and ideas, where innovative ideas and technologies are fully integrated in services, is defined by the South African Reserve Bank (2019) as the new global economy. Innovation and the new discoveries lead to entrepreneurship that lead to new job creation. SMEs are turning increasingly to innovation as a source of competitive advantage in order to protect their home markets as well as to participate in expanding foreign markets (Zindiye, 2018). The unique, active and vital role played by SMEs adds value to the GDP through their ability to invent the new technology and to improve high technology information networks like encouraging customers to put online

orders. Small businesses can build regional networks more easily than large businesses as Robu and Savlovschi (2011) indicate that due to the small number of components, the dimension of low tangible assets, the complexity of small activities, and the flexible structure make it easier to situate in the foreground the preoccupations, decisions and actions of the knowledge resource. In addition, the creativity of SMEs is the driving force of entrepreneurship and economic growth.

In order to match the needs of local communities, SMEs often develop innovative products through the attraction, retention and training of new talent by offering financial rewards to employees (Masarira & Msweli, 2014). In addition, the SME sector has a unique position to invest more time and attention in implementing new solutions and improving existing ideas (Lesakova, 2012). Fast decision-making is encouraged, research programs tend to be focused, and reward structures generally reward the best performers. Naidoo (2020) asserts three main reasons for SMEs to be highly innovative than larger firms are lack of entrenched bureaucracy, more competitive markets, and stronger incentives (such as personal rewards) lead to the. SMEs are deemed technological leaders as they are generally more market- and less research-driven, quicker to respond to new opportunities and more oriented to small incremental advances; they are crucial innovators in the globalised economy, and they are the technological leaders of many industries (Berg & Fuchs, 2013). Masarira and Msweli (2014) argue that SMEs are the basis for entrepreneurship development, innovation and risk-taking behaviour and provide a foundation for long-term growth and development into large corporations. Katua (2014) says that SMEs are valuable for their role in providing competition to existing businesses, improving product quality, lowering prices, and introducing new products and services through innovation and technological advancement.

2.6.3 Contribution of the SME sector to economic growth and development

According to Litau (2018), the employment opportunities created by SMEs can lead to economic growth because people can earn income and consequently the demand for goods and services can increase. Taiwo, Falohun, and Agwu (2016) highlight how the

SME sector in Africa plays an important role in raising the standard of living in rural communities.

The nature, character and diversity of business exploitation of SMEs make them a vehicle for economic growth and development (SARB, 2019). Small and medium-sized enterprises are considered a link between micro and large enterprises, meaning that if they fail, they have a major impact on the economy as they play a role of middleman between factor markets and large firms. Grech (2018) argues that SMEs play an important role in the operation of large corporations because they create backward integration with micro-businesses and forward integration with large enterprises, making them the driving force of the economy.

According to Masood and Sonntag (2020), other potential benefits of the SME sector are to mobilise and stimulate enormous potential for entrepreneurship, promote the creation of a broad economic base and wealth, increase the country's wealth by making the most of the country's full human resource capabilities, develop a self-reliant economic structure through high-level sector linkage, and increased indigenous ownership of investments in the economy are other potential benefits derived from the SME sector

Leboea (2017) asserts that the absorption of a significant portion of the unemployed workforce is done by successful SMEs and this results in the reduction of crime and government spending on protection and legal. According to Mavimbela and Dube (2016), the SME sector is an important driver for low-income households to lower poverty levels. The competition for formal sector jobs to people without the skills and needing training is very high, and SME sector is only target for these people to find employment opportunities, as business owners and employees.

Small and medium-sized enterprises are increasingly recognised as playing an important role in the economies of many countries. Therefore, governments around the world focus on the development of the SME sector. However, despite its economic importance, SMEs face many challenges. These will be discussed on the next page.

2.7 CHALLENGES FACED BY SMEs

Despite the important contribution of SMEs to the economy, there are constraints associated with their establishment, growth and development. Masocha and Fatoki (2018) point out that SMEs' growth and development in Africa might be hindered by, *inter alia*, the following factors: lack of financial resources; lack of managerial skills; inadequate equipment and technology; legal/regulatory issues, and poor/limited access to markets (as indicated in Table 2.3 below).

Table 2.3: Challenges faced by SMEs in Africa

Challenge	Description	Source(s)
Finance	<ul style="list-style-type: none"> • Limited access to finance, which becomes the greatest barrier to growth; • SMEs fail to access loans as the amounts requested are too large for micro-finance agencies and too small for commercial banks; • The process of applying for business loans is lengthy; • SME owner-managers do not understand the financial requirements and obligations of a business, including aspects such as tax obligations, financial costing, pricing strategies, financial control and VAT; • Collateral security and compliance requirements; 	Lekhanya and Mason (2014); Muriithi (2017); Molefe, Meyer and De Jongh (2018); Fatoki (2018)

	<ul style="list-style-type: none"> • A regulated and limited capital market forces owner-managers to rely on self-financing or borrowing from friends or relatives; • Lack of access to long-term credit for small enterprises forces them to rely on high cost short-term finance; • Cash flow uncertainty; • High transactional costs and poor business planning skills; and • SME owner-managers misuse government funding or donations. 	
<p>Crime</p>	<ul style="list-style-type: none"> • South Africa is ranked among the world’s top five countries in terms of crime; • Crime and theft are ranked as the third highest obstacle to growth for SMEs in South Africa; • Increasing crime rates erode investor confidence in the South African economy; • Direct losses and security costs that reduce profits and waste funds, which could be invested in business infrastructure; 	<p>Beck and Cull (2014); Ramukumba (2017); Akinyemi and Adejumo (2017); Shumba, Zindiye and Donga (2017)</p>

	<ul style="list-style-type: none"> • The erosion of human capital by encouraging the emigration of employees; • Keeping workers out of the labour market by shortening operating hours ; • An increase in the health costs of employees, due to injuries or stress; • Decreased foreign direct investment ; • Majority of SMEs cannot afford proper protection or insurance against losses. 	
<p>Managerial skills</p>	<ul style="list-style-type: none"> • The majority SME owner-managers have no formal qualifications in management and leadership; this influences their perceptions on how their enterprises should operate in the industry; • Lack of entrepreneurial education; • Poor management of the available scarce resources; • Lack of entrepreneurial zeal, capacity, and know-how; • Lack of prioritising results in the crowding out of resources; 	<p>Dzomonda, Fatoki and Oni (2017); Muriithi (2017); Moos and Sambo (2018); Neneh and Van (2017)</p>

	<ul style="list-style-type: none"> • Lack of managerial skills among SME owners is linked to the high failure rate among SMEs; • SME owners do not go for training to improve their managerial skills; • SME owners are reluctant to hire qualified and skilled or independent managers this affects the survival and growth of SMEs; and • Lack of managerial competencies affects the survival and growth of new SMEs. 	
<p>Labour</p>	<ul style="list-style-type: none"> • An inefficient labour market; • South Africa’s relatively high minimum wages impacts negatively on SMEs, particularly during their start-up phase; • Hiring unskilled and semi-skilled workers is costly and hinders the growth of small businesses; • An insufficient supply of skilled workers can limit specialisation opportunities, raise costs, and reduce flexibility in managing operations; • The labour laws are rigid and it becomes difficult to retrench workers who are redundant or unproductive; and 	<p>Musara and Nieuwenhuizen (2020); Schenk (2017); Radebe (2019); Ngibe, Lekhanya and Garbharran (2019)</p>

<p>Bureaucracy</p>	<ul style="list-style-type: none"> • Time-consuming regulations in terms of registering a business; • Rules and policies that impede the growth and development of the SME sector; • The heavy and punitive cost of compliance due to the SME's size, and • A lack of policy coherence and business support. 	<p>Appiah, Possumah, Ahmat and Sanusi (2018); Worku (2020); Nyarku and Oduro (2017)</p>
<p>Marketing</p>	<ul style="list-style-type: none"> • Inadequate marketing skills of owners create marketing problems in the small business sector. • Restricted advertising impacts potential customers' knowledge of SME's products or services. • High initial investment costs for Internet adoption. • Improper access and understanding of Internet technologies related to web presence, marketing and sales channels; • Inefficient Internet-related sales skills; • Limited Internet market research; • Reputation for small but high-quality products; • Difficulty joining international supply chain networks; 	<p>Kallier (2017); Donaldson and Pauceanu (2017); Sithole, Sithole and Chirimuta (2018); Sibiya and Kele (2019)</p>

	<ul style="list-style-type: none"> • SME strives to ensure that the right product is available in the right quantity at the operational level. • Small and medium-sized outlets are often sold out, affecting the small and medium-sized business' consumer brand image and appearing to increase sales loss. • Lack of knowledge of foreign markets, business practices and competitive strategies; • Lack of strategy for sales management; and • Lack of knowledge of marketing trends. 	
Energy and electricity costs	<ul style="list-style-type: none"> • Limited availability of inexpensive primary energy sources; • Lack of a consistent electricity supply (load shedding) can affect many aspects of business operations; • Increasing construction costs of new power plants put pressure on electricity prices; • Lack of competition in the power supply business; • High cost and time to get electricity, and • High cost of providing backup energy. 	<p>Atiase, Mahmood, Wang and Botchie (2018);</p> <p>Ramachandran, Shah and Moss (2018); Farja, Gimmon and Greenberg (2017)</p>
Ethical values	<ul style="list-style-type: none"> • The lack of ethical values among SME owners negatively affects the growth opportunities of enterprises by negatively impacting on customer loyalty and brand 	<p>Pillay (2019); Jamali, Lund-Thomsen and Jeppesen (2017);</p>

	<p>building, and deterring investment partners;</p> <ul style="list-style-type: none"> • Lack of business ethics among owner-managers affects their ability to compete with larger organisation and to obtain development finances; • SMEs lack formal structures and policies to cope with shareholders, suppliers and employees and those associated with how they respond to customer complaints when compared with large businesses; • Unethical business practices, which seriously compromise the sustainability of the enterprise; • SMEs are more vulnerable with regard to corruption, fraud and other unethical practices; • A lack of awareness and understanding of the importance of business ethics and its advantages; • Due to a lack of financial resources to build a formal ethical culture, SMEs embrace unethical practices in order to remain afloat; and • SMEs engage in unethical schemes to access low-quality goods at lower prices 	<p>Turyakira (2018); Maziriri and Madinga (2016)</p>
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	and evade taxation so that they have the upper hand over their competitors.	
Technology	<ul style="list-style-type: none"> • SMEs are struggling to have access to appropriate technology and information on the available technologies, which limits innovation and competitiveness of SMEs. • Other constraints on capital and labour and the uncertainty surrounding new technologies limit incentives for innovation. and • Adoption of new technologies is hampered by initial and installation costs. 	Kabanda, Tanner and Kent (2018); Otchere, Senbet and Simbanegavi (2017)
Production	<ul style="list-style-type: none"> • SMEs face problems of the availability of production inputs; • Better quality raw materials are generally imported or are available only to larger firms and their suppliers tend to be oligopolies; • Inadequate infrastructure; and • The weak provision of basic services such as transportation, energy, urban planning and production sites represent particular impediments for SMEs. 	Makhitha (2017); Grube, Malik and Bilberg (2017); Misati, Walumbwa, Lahiri and Kundu (2017)

The challenges listed above are the primary reasons why the failure rate among SMEs in South Africa is so high. In this regard, one needs to examine the role of the state in promoting the growth and development of SMEs in South Africa, and, in doing so, assisting SMEs to overcome the challenges confronting the sector.

2.8 THE ROLE OF THE STATE IN PROMOTING THE DEVELOPMENT OF SMEs IN SOUTH AFRICA

There have been ongoing discussions on small business growth in South Africa since 1994 (Mikhaylov, 2018). Despite the country's ongoing efforts in this regard, small businesses continue to struggle (Mahambehala, 2019). In 1996, the Parliament passed the National Small Business Act. The Act allowed the establishment of the National Small Business Council, with its stated purpose being to represent and promote the interests of small businesses, and to advise the national, provincial, and local spheres of government on social and economic policy that promotes the development of small businesses (Maye, 2014).

The ensuing discussion examines the major policies and strategies that the state introduced to enhance the establishment and development of SMEs in South Africa.

2.8.1 Accelerated and Shared Growth Initiative for South Africa (ASGISA)

In February 2006, the Accelerated and Shared Growth Initiative for South Africa (ASGISA) was formally launched with the aim of reducing unemployment by 50% by 2014. In order to achieve the above-mentioned target an economic growth rate of 6% per annum was targeted by the South African government through support projects and mechanisms that encourage the growth of small businesses. According to Mikhaylov (2018), through ASGISA government focused on the contribution of small business to the growth and development of the economy thereby creating new jobs and lead to wider distribution of income, and thus, reduces poverty. The village co-operatives were formed with aim of speeding the distribution and allocation of funds towards small businesses in pursue of the above commitments. The government expected ASGISA to attracts new job opportunities through its expenditure on large infrastructural projects like road and

technological infrastructure. ASGISA in fact opined the view that, 'the mediocre performance of the small, medium and micro business sector in terms of contribution to GDP and employment partly arises from the sub-optimal regulatory environment (SARB, 2016). ASGISA was meant to assist SMEs on protecting them from global competition and import parity pricing; capacity for trade negotiations; a more co-ordinated Africa development strategy, and better incentives for private R&D investment (Seda, 2016). and However, the goal of ASGISA to reduce unemployment by 50% by 2014 was not achieved. The reason being ASGISA focused more on providing assistance to large organisation rather than the SMEs (Maye, 2014).

2.8.2 Small Enterprise Development Agency (Seda)

Seda through the enactment of National Small Business Development Act in December 2004. The creation of five million new jobs by SMEs by 2020 was the specific objective of it (Seda, 2016). It was set up as an agency of the Department of Trade and Industry (DTI), and it was part of the government's strategy of ensuring integrated small enterprise development. According to Mahambehlala (2019), Seda's mission is to design and implement a networking system that serves to support and promote cooperatives, especially those found in rural areas. The work of Seda is carried out in line with the DTI's Integrated Small Enterprise Development Strategy, which aims to provide customers with information and advice on business planning and development (Seda, 2016). Seda assists in the enterprise registration, technology access, business incubation and market access (Seda, 2016). Seda's work is done through a network of other organisations that support SMEs in expanding market share by starting, building and growing their business. Seda also focuses on the basic needs of business owners, especially during the challenging start-up phase. Initiate a national entrepreneurship drive and expand education and training for existing enterprises to business owner in order to improve business literacy and work with financial institutions to conduct a funding opportunities workshop for SMEs are the major interventions from Seda (Seda, 2016).

According to Maye (2014), Seda was tasked with the integration of small enterprise that are government financed by creation of national wide network that was supposed to reach all regions of the country. Regarding business infrastructure facilities, Local Economic

Development (LED) was tasked with the integration strategy by working closely with district and local municipalities. Seda's goals have yet to be achieved. The Seda provided help mainly on SMEs located in urban areas with business development and support services such as advice, business planning, entrepreneurship promotion, training, franchise awareness, access to local and international markets, access to finance and access to technology (Fatoki, 2016). According to Seda (2016), many small and medium-sized businesses are struggling to provide the quality or quantity of products or services they need to enter the market.

2.8.3 Khula Enterprise Finance Limited (Khula)

Khula is an agency of the DTI, which was established to facilitate access to credit by SMEs. Khula served as the government financial institution to cater for funding to small businesses and it was established in 1996 (Rambe & Mpiti, 2017). As a wholesale financial institution, Khula was operating in the public and private sectors through a network of channels to fund small businesses. Khula operates through a national network of financial intermediaries (Mahembe, 2017). The channels include major commercial banks in South Africa, retail financial institutions, specialized funds, and joint ventures involving Khula itself. Its main goal is to close the "finance gap" in the SME market, which is not covered by commercial financial institutions (Seda, 2016).

According to Oseifuah (2017), Khula provides mentoring to entrepreneurs in various aspects of business management. Economic interventions to increase competitiveness by fighting monopoly practices and ensuring financial availability of the private financial sector are two bridges of government strategy. The third bridge is to provide affordable government funding at low interest. Khula provides guarantees to registered commercial banks and other private sector financial institutions that fund entrepreneurs in the SME sector. These guarantees serve as collateral for entrepreneurs and are based on risk-sharing agreements, with Khula taking part of the risks associated with lending to the SME sector (Rambe & Mpiti, 2017).

Tim (2011) states that Khula Enterprise Finance is a key institution in furthering the development of the SME sector through providing low cost finance. However, Khula did

not achieve the stated goal as it only created eighty nine thousand SMEs that created seven hundred and eight seven thousand new jobs. Khula, therefore, provides the government's PCG scheme to SMEs. (Oseifuah, 2017). However, there are concerns that this scheme has not been working effectively. Volumes of new indemnities (both in value and volume) have dwindled and are now very low. What is more, banks did not increase their usage of the scheme during the downturn, at a time when government support would have been most important (Maye, 2014) Banks noted that the Khula scheme can be complicated to administer and excludes potential borrowers based on unnecessarily stringent conditions. Moreover, although the guarantee provides banks with a high level of cover (50 percent–90 percent, but typically at the higher levels), its economic attractiveness is eroded by long recovery processes (Mahembe, 2013). Therefore, it merged with the SA Microfinance Apex Fund and IDC's small business activities to form the Small Business Funding Agency (SEFA) in April 2012 (Oseifuah, 2017).

2.8.4 Small Enterprise Funding Agency (SEFA)

The Small Enterprise Funding Agency (SEFA) was formally established in April 2012 as subsidiary of Industrial Development Corporation (IDC) with the aim of supporting small-scale manufacturing; agro-processing; infrastructure development; mining services; the green economy; and tourism (SEFA, 2017). In providing financial support to small businesses SEFA used wholesale and direct loans as channels. Before the period of merging of SAMAF and Khula, a time when Khula was still in operation, SEFA's use of intermediaries such as Micro Financial Institutions continued as matter of principle (SEFA, 2017). SEFA's primary aim is to bridge the "funding gap" in the SME market, which is not addressed by commercial financial institutions. The four components targeted by SEFA's lending, according to Kwebo (2013) are: financing retail financial institutions; credit guarantee scheme; equity capital, and financing for public and private sector funds targeting small businesses in specific sectors.

Most of the objectives of SEFA were not achieved, as they provide business training to small businesses after providing them with finance (SEFA, 2017). SMEs did not get much assistance as SEFA experienced challenge that were unrealistic requirements and time consuming documentation; stringent application processes; lack of clarity and knowledge

about business sectors; o proper feedback and or no feedback at all on declination of applications; poor turnaround times; high interest rates; high administration fees; inadequate repayment period; insufficient funds available to clients; profit-driven and not customer-driven and too much red tape (SARB, 2019)

2.8.5 National Empowerment Fund (NEF)

The National Empowerment Fund (NEF) was established by the National Empowerment Fund Act of 1998 to promote and facilitate income equality and transformation. The NEF is a funding agency whose objectives include fostering of and supporting business ventures pioneered and run by black enterprises, and contributing to the creation of employment opportunities. Through its various business units, the NEF provides sector-focused financing products ranging from R1-million upwards for a period of twenty years, with designated finance products focused on small business development and black economic empowerment. An important development is the collaboration in product design among the development financial institutions to close the critical financing gaps for small businesses. The NEF's mandate and funding are in line with national growth and industrial objectives, which aim to increase South Africa's competitiveness and support for co-operatives and small businesses (NEF, 2018).

2.8.6 National Youth Development Agency (NYDA)

The institution was established as a single unitary structure to address youth development issues at the national, provincial and local government levels. National Youth Development Agency's presence should be in the broad context of South Africa's development dynamics. Like many developing countries, South Africa has a large youth population, with ages 14-35 making up 42% of the total population (NEF, 2018). Given the youthful nature of South Africa's population, many of the socio-economic problems the country faces, namely poverty, inequality and unemployment, and poor health are borne by youth. The greatness of the challenges facing South Africa requires a multi-faceted effort to prioritize policy development that promotes the development of sustainable livelihoods, reduces poverty and inequality, and creates an environment for youth development (NEF, 2018). The NYDA is the only institution that provides start-ups

with stimulus funding through a non-repayable grant programme and also offers an incentive of giving young entrepreneurs access to development finance. Although their funding is limited to R100 000, young entrepreneurs can benefit out of the institution's partnership with other developmental institutions such as the SEFA and IDC. The funding is also opened to existing youth enterprise (FNB, 2017).

2.8.7 Department of Small Business Development (DSBD)

The aim of the Department of Small Business Development (DSBD) is to provide extensive support to small businesses and cooperatives; increase support through public agencies; develop entrepreneurship; and provide mentorship, incubation and support programmes (DSBD, 2018). The Department also aims to create social accords to bring small businesses and cooperatives into the supply chain of large companies and the public sector (DSBD, 2018). Moreover, the DSBD aims to implement an aggressive entrepreneurship drive and create an enabling environment that will make it easy for South Africans, particularly the youth, women and people with disabilities, to start and sustain their businesses. The aim of this intervention is to attempt to unlock economic opportunities, and thus achieve inclusive economic growth and sustainable employment (DSBD, 2018).

The DSBD strives to accomplish the afore-mentioned objectives through the following ways:

- Offering procurement initiatives for young entrepreneurs to ensure that young entrepreneurs have the opportunity to grow and advance their businesses;
- When possible, reducing barriers to doing business and increase access to economic opportunities for historically excluded and vulnerable groups;
- Providing a wide range of support for small and medium-sized businesses and cooperatives, including increasing support through integrated public agencies, corporate coaching, mentoring, incubation and focused support programs, and
- Creating a regulatory and tax environment for SMEs where SMEs can pay taxes to the government through analysis of cash receipts (DSBD, 2018).

The Department of Small Business Development (DSBD) managed to promote and grow one million six hundred SMEs through providing funding, technical assistance and providing export incentives (SEDA, 2018).

From the above information, it can be concluded that the country recognises the importance of the SME sector by creating various structures and institutions to promote the growth and development of SMEs in South Africa. However, the inefficiencies, incompetence and corrupt practices of some institutions reduce their ability to do business successfully.

In the next section, the methods used by SMEs to measure their performance are outlined.

2.9 MEASURING THE PERFORMANCE OF SMEs

The term 'performance' is used in the scientific and academic literature to describe the results of an organisation's business activities. According to Ikelenboom and Jong (2019), measurements of business performance include indicators represented by economic and non-financial measures. Cicea (2019) defines the performance of an organisation as the ratio of input to output. The output consists of the company's products and the inputs include production factors such as labour, capital and technology. Because the majority of SMEs are controlled and managed by owners, they are against providing detailed accounting data on the firms' performance because this information is regarded as confidential, and/or, at times, there are no proper records of such information (Fatoki, 2014). Kengne (2016) defined firm performance as referring to a firm's success in the market, whereas Afriyie (2019) defined performance as an SME's ability to achieve a set of acceptable outcomes and actions.

According to Fatoki (2014), measuring performance in SMEs could require the use of return on assets, return on sales, return on employees, growth rate of assets, and growth in the number of employees. Sarwoko, Surachman and Hadiwidjojo (2013) state that a firm's performance may be viewed from the level of sales, profit level, rate of return on capital, turnover, and percentage market share. According to Yazdanfar, Abbasian and Hellgren (2014), qualitative techniques, when used to evaluate performance, utilise

ranked or scaled variables (based on individual perceptions), such as knowledge and business experience, the ability to offer quality products and services, the capacity to develop new products and processes, the ability to manage and work in groups, labour productivity, and corporate responsibility to the environment.

In the context of performance measurement, Roach, Ryman and Makani (2016) state that a key performance measure is defined as data collection that is used in the assessment of the enterprise's performance or success. Nyantakyi (2016) defines Key Performance Indicators (KPIs) as the crucial in measuring the success of an SME. In the study both financial and non-financial measures were used and in the questionnaire a five-point Likert scale was utilised. It is important to identify KPIs, as most SMEs have limited resources and human capital to define and measure their KPIs.

An effective performance measurement system should not simply list KPIs, it should show the relationship between KPIs and how KPIs affect the success of a company (Rompho, 2018). Some studies argue that KPIs should provide feedforward information, which may help managers proactively react and take corrective action before adverse consequences occur (Martins & Ensslin, 2020; Hoque, Bhandari & Iyer, 2013). Authors that support KPIs that provide feedforward information point out that these indicators are useful because measures that provide feedback tend to look backwards. These measurements are focused on past performance and therefore will not affect future performance. A good example is a measure of financial performance such as profit (Al-Matari *et al.*, 2014; Hegazy & Hegazy, 2012; Hristov & Reynolds, 2015). However, it can be argued that the KPI providing feedback is as important as the KPI providing feed forward information. Feedback information based on past actual performance can be reliable and objective. This backwards information can be used to predict future performance using techniques such as trend analysis (Hegazy & Hegazy, 2012). Table 2.4 on the following page summarises some of the key SME performance indicators, both financial and non-financial.

Table 2.4: Key indicators of SMEs' performance

Category	Variables	Key Performance Indicator measures	Source (s)
Financial performance measures	Retained profits	Percentage of finance from retained earnings	Buli (2017)
	Revenue/ Sales	<ul style="list-style-type: none"> • Percentage increase in sales; and • Percentage increase in selling price. 	Farrington, Venter and Richardson (2018)
	Profitability	<ul style="list-style-type: none"> • Profit margin; • Return on Assets; • Return on Equity; • Return on Capital employed; • Gross margin; • Operating margin, and • Interest cover ratio. 	Ngek (2016); Agyei (2018)
	Gearing/ leverage	Percentage of finance contributed by the owner	Ncube and Chimucheka (2019); Chimucheka, Nicole and Chinyamurindi (2018)
	Business growth	<ul style="list-style-type: none"> • Level of profit from business; • Market share; • Increase in sales volume per product per given period; and • Number of new customers per given period. 	Ogunyomi and Bruning (2016)

	New unique products and services	Number of new products introduced into the market per given period.	Buli (2017)
Non-Financial performance measures	Customer satisfaction	<ul style="list-style-type: none"> • Level of suggestions from customers; • Number of customer complaints per given period; • Number of customers referred to the company by other customers or potential customers at any given time; and • Number of years a customer has been buying from the company. 	Njinyah (2018); Mjongwana and Kamala (2018); Gerba and Viswanadham (2016)
	Employees' loyalty	<ul style="list-style-type: none"> • Level of absenteeism from work; • Level of willingness to go the extra mile; • Level of staff turnover; • Level of staff morale; • Level of staff motivation; and • Willingness to have unpaid overtime. 	Yazdanfar <i>et al.</i> (2014); Muriithi (2017)

Hutahayan (2019) argues that a combination of financial and non-financial indicators for performance measurement should be used because the availability of financial data is limited or treated as confidential information. Also, entrepreneurs do not report accurate

financial data to minimize their tax obligations (Mjongwana and Kamala, 2018). Sitharam and Hoque (2016) say that an entrepreneur's personal motivations, goals, and aspirations are non-financial measures used to determine the success of a small business. In addition, Hasan, Almubarak and Ahmed (2016) pointed out that non-financial measures are preferred by SMEs as financial measures fail to respond to advances in the technological and competitive environment, so internal accounting information is often inaccurate and misleading.

From the discussion above, one can conclude that SMEs use both financial and non-financial measures to evaluate their performance.

2.10 Conclusion

Looking at the relevant literature, it can be said that economic growth can be achieved through the establishment of successful SMEs because employment opportunities created by SMEs generate income and thus lead to increased demand in goods and services. The South African government has identified an important role for the SME sector in reducing poverty and unemployment and contributing to economic growth. The growth and development of SMEs can be hampered, in particular, by factors such as: lack of management skills; improper equipment and technology; legal or regulatory issues, and poor or limited access to the market (see table 2.3).

Small and medium-sized businesses are appreciated for their role in providing competition to existing businesses, improving product quality, lowering prices, and introducing new products and services through innovation and technological advancement. The nature, character and diversity of business exploitation of SMEs make SMEs a vehicle for economic growth and development. Despite the important role and contribution of SMEs to the economy, there are limitations associated with establishment, growth and development.

In the next chapter, the literature pertaining to ethical values and corporate governance will be analysed and discussed.

CHAPTER 3

CONCEPTUALISING ETHICS VALUES AND CORPORATE GOVERNANCE

3.1 INTRODUCTION

In addition to the provision that companies must perform their tasks in the most economical, efficient and effective way to improve performance, today, companies are emphasizing the need for ethics (Well, 2017). Within the business framework, there is a clear relationship between corporate operations and other shareholders inside and outside the organisation (Khan, 2017).

In corporate relationships, it is reasonable to expect operating companies to serve different stakeholders in an ethical manner. An organisation should engage with its internal and external stakeholders to determine its current ethical reputation, as well as to know what its ethical expectations are (Van Ziele, 2015). Therefore, in accordance with the requirements of corporate governance, an organisation should be responsible for its ethical performance and submit its relevant report to the relevant shareholders (Khan, 2017). In this chapter, the last part of the literature review deals with the relationship between professional ethics and performance.

This chapter further provides background on business ethics, corporate governance and corporate conscience dimensions. Several theories covering business ethics are reviewed by focusing largely on contemporary business issues. Furthermore, literature on the concept of stakeholder perspectives is reviewed.

3.2 DEFINING ORGANISATIONAL ETHICS

According to McDonald (2010), morality can be defined as a critical, structured test of how individuals should behave when our actions affect others and how people should resist for their own benefit. Ethics means providing adequate justification for our choice and behaviour when influencing others and justifying our praise or criticism of the behaviour of others (Hamington, 2017). Morality and ethics are part of a way of life and

cannot be separated from all other aspects of life experiences (Sison & Ferrero, 2015). Ethics is the branch of philosophy which tries to probe the reasoning behind our moral life. The critical examination and analysis through the concepts and principles of ethics help to justify our moral choices and actions (West, 2017)

Organisational ethics, according to Weller (2017), contains the right and wrong principles governing the behaviour of employees. These principles are necessary to successfully manage ethics of employees in the workplace (Buckley, 2015). In support of Schwartz (2016), Munro and Thenam (2018) called organisational ethics the study of behaviour within the organisational context that conforms to the principles, rules, and standards of business practices because it is an approved community. Organisational ethics focus on the productive direction (Buckley, 2015), guiding through a more participatory value systems on channel, shape, and direct employee behaviour. Organisational ethics is also closely related to both the ethical values and ethical duties of employees and employer-managers (Jones, 2017). As Kahan (2017) points out, moral values are fundamental ideals that are considered necessary or valuable for human interaction, but moral actions are clear expressions and applications of those underlying values. Institutional ethics are called into question if they are inconsistent with the ethical values of the organisation or the generally accepted standards of the organisation (Jones, 2017). While it is obvious that organisational ethics are intended to guide and influence employee behaviour (in dealing with ethical dilemma and avoiding unethical situations), it is not obvious what relationship exists between organisational ethics and employee attitudes (West, 2017). In a study, Josephson and Lee (2015) found that three measures of organisational ethics (namely, top management support for ethical behaviour, the organisation's ethical climate, and the association between ethical behaviour and career success) are associated with job satisfaction.

Ethical context in organisations creates an appropriate environment for employees and SME owner-managers to demonstrate ethical behaviour (Buckley, 2015). Organisational ethics has a major impact on the behaviour and actions of employees and SME owner-managers. Organisational ethics has a major impact on the behaviour and action of

employees and SME owner-managers, and in the next section, the salient aspects of business ethics are discussed.

3.3 CONCEPTUALISING BUSINESS ETHICS

Ahmed and Hamdan (2015) assert that within a business environment, business ethics play a critical role in examining and governing the decisions, actions and behaviour of business functions. It studies the corporation's actions to judge if an act is morally right or wrong; it also prohibits immoral actions. Some authors (Cumming, Hou, Lee & Wu, 2014; Hasnah, Ishak & Sobei, 2015) argue that while personal ethics exist, a corporation or a business does not have ethics as it is not a human being; the responsibility of an entity is to abide by the laws and earn profits. West (2018) argued that the term Business ethics is the behaviour that corporations must adhere to in carrying out its day-to-day operations within the environment where it operates and probably sometimes outside the community. The author added that the ethics of a particular company could be diverse. Some companies adopt ethics to not only how the firm relates with the world in general, but also to their one-on-one interaction with individual customers.

Strauss (2016) reported that some companies have gained a bad reputation just by being in business. Whereas some organizations, businesses are interested in making money, and that is the bottom line. Such companies that are mainly interested in making money alone at the beginning in business could be referred to as capitalist in its purest form. Collins (2010) suggested that making money in business is not wrong in itself, but it is the manner in which some corporations conduct their activities that brings up the question of ethical behavior. Josephson (2015) concluded that it may be up to the public to make sure that a business corporation operating within an environment adheres to correct business ethics. The researchers also mentioned that for a business realising huge amount of money through unethical misconduct may not wish to pay too close attention to their ethical behavior. However, other authors disagree with this stance as Trevins (2006) contradicted earlier authors and argued that there are many business organizations who pride themselves in their correct business ethics, though the numbers are quickly dwindling as a result of activities of cut-throat competition.

According to Enofe, Ogbeide and Julius (2015), because enterprises carry on economic activity, they source their factors of production from the environment to produce goods and services using internal business processes through unethical in order to maximise profits. Sison and Ferrero (2015) state that entities later exchange the final products with customers who come from the macro environment. In any economic transaction, it is expected that enterprises emphasise ethical values during their interactions with different stakeholders (El-Kassar, Messarra & Elgammal, 2018). Proper business ethics ensure that all economic transactions should be beneficial to the stakeholders in terms of the quality of goods and services, as well as achieving common good for the organisation (El-Kassar *et al.*, 2018).

Abiodun and Oyeniya (2014) defined business ethics in terms of the ethical dimensions of an enterprise such as commercial activity on the systematic, organisational and intra-organisational levels. Additionally, Hasnah, Ishak and Sobei (2015) state that the critical dimensions of business ethics include a focus on what is good and right in a particular economic activity, and during the engagement in a moral analysis and assessment of such an economic activity and practice by the entity as whole. In agreement, Meier, Favero and Zhu (2015) explained that ethics could be referred to as the set of rules that outline right and wrong conduct and that help people to distinguish between fact and belief, decide how such issues are defined, and what moral principles apply to the situation. The impartial general rules of behaviour, which are of great importance to a society, along with the values of the society, are best described by the moral principles, which are fundamental to ethics. Hamington (2017) asserted that unselfish attributes, which balance what is good for an enterprise with what is good for the stakeholders, are the main characteristics of ethical behaviour. Thus, business ethics includes all the theoretical perspectives regarding the ethicality of competing economic and social systems. The study of business ethics is continuous and evolving, just as conceptions concerning the role and status of organisations are changing over time (West, 2017). Moral analysis and the assessments of economic practices and activities at the economic system (macro-economic) level, the organisational (meso-economic) level, and the intra-organisational (micro-economic) level are deployed in the study of business ethics (Freeman & Greenwood, 2017). According to Freeman and Greenwood (2018), the first

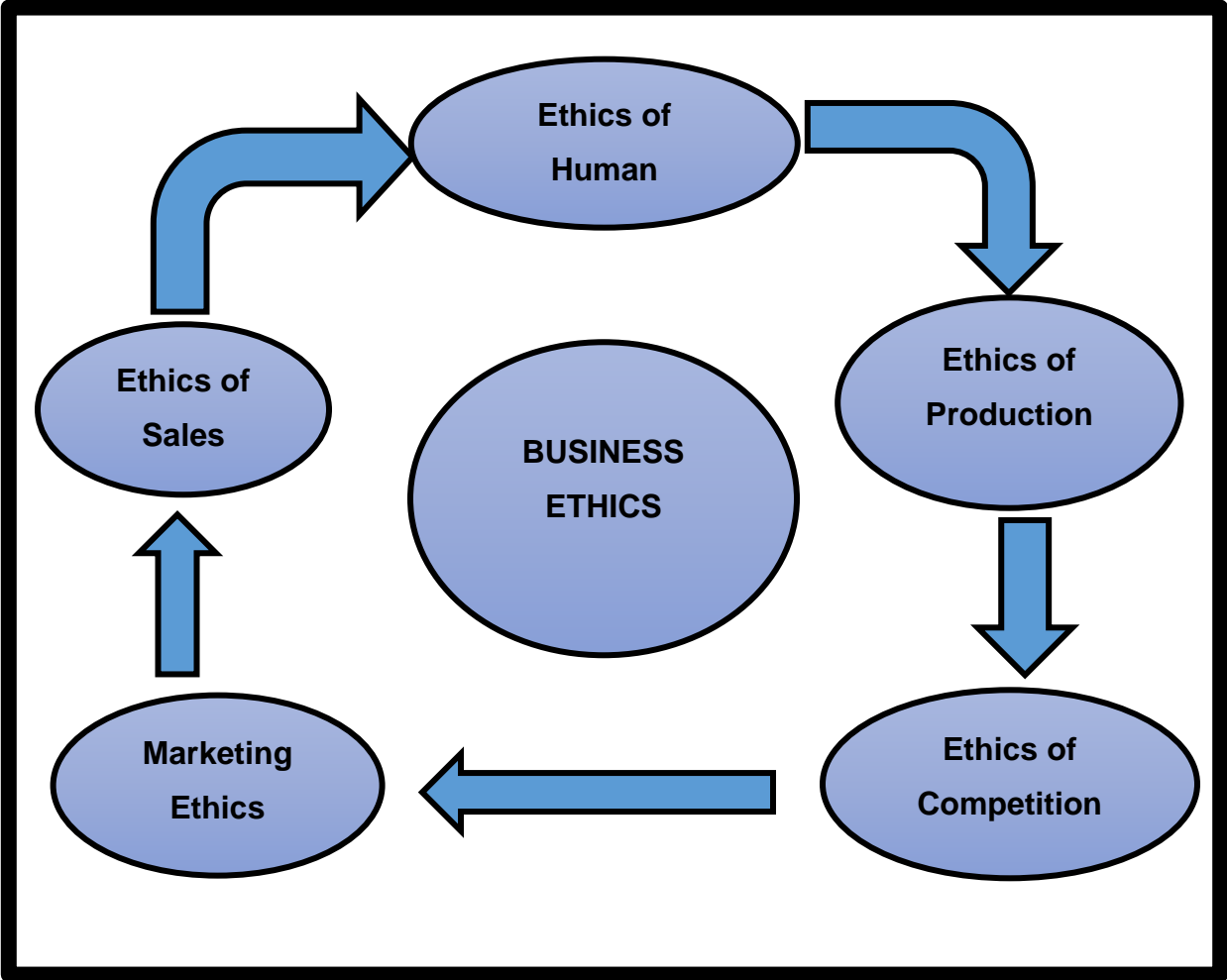
level is the macro-economic level, where business transactions occur within national or international frameworks. Hamington (2017) asserts that other business transactions occur at the meso-economic level, where an organisation interacts with other stakeholders, including society. Within the framework of societal interactions, business activities have an impact on different stakeholders, which include suppliers, customers, the community, and the natural environment (Josephson & Lee, 2015). Finally, it is possible to apply business ethics at a micro-economic level, where the main thrust is on the moral dimensions of business practices, organisational policies, and behaviours and decisions executed by the enterprise. Hence, business organisations and managers need to behave ethically and protect their own business interests (Abiodun & Oyeniya 2014). If they are to survive and remain competitive. Issues regarding employees' welfare in terms of their work environment, health and protection, and remuneration, according to Strauss (2016), are regarded as internal ethical dimensions.

The main difference between business ethics and personal ethics is that in business there is more than one person involved. Regardless of the size of the business, a group of people joins hands to run the company and create revenue. The shareholders, stockholders and even the society where the business operates can be affected by the success or failure of an enterprise. Ethical standards are associated with the formulation of a company's culture that influences employees' working spirit, shows a good image to the public, developing trust with customers, and benefits potential customers and/or potential business partners. Strauss (2016) opines that it is wrong to conclude that ethics should not be the primary focus for the management of SMEs because ethical practices towards the employees can warrant job satisfaction and enhanced motivation levels of employees, which eventually leads to better business profitability. Du Plessis, Hargovan and Harris (2018) assert that there is need for a company to be trusted; this normally leads other companies to select the company as a trading partner; it keeps customers loyal to a brand, and attracts potential customers. Undoubtedly, people would be more willing to trust a company that is known for its ethical culture.

Enterprises that focus more on ethical decision-making enjoy more benefits as compared to their counterparts. The consequences of businesses that violate ethical reasoning and

standards might end up facing the judgment of the law, and/or the criticism of the public. Legally, an act is not a criminal act until proven guilty; many businesses abide by the law; however, their actions would not be called ethical. This includes lying (to an extent) about a product's ability, and animal testing (this depends on the country of operating). Business ethics can be divided into several major parts (Josephson, 2015). Figure 3.1 below summarises the major components of business ethics.

Figure 3.1: Main components of business ethics



Source: Author's own illustration

3.3.1 Ethics of Human Resources

Unethical human resources could take the form of discrimination in a workplace, based on race, gender, age, or religion (Velentzas, Broni & Papapanagos, 2017). A business should treat all employees equally. The effects of owner-managers practicing discrimination towards employees are bad publicity, decline in turnover, employees resigning, and lawsuits. Businesses that tend to treat their employees well become more productive and efficient because the employees will be more loyal to the business, feel encouraged, and eventually become more productive and efficient. Companies that are known to treat their employees well are also more attractive to people who are searching for a job.

3.3.2 Ethics of Sales

Arguedas-Ramírez (2020) in many businesses, the nature of the product being sold could be sensitive and perceived to be unethical by the community. In analysing the tobacco industry, society often portrays the industry in a negative light for causing health problems for smokers. There is a general belief that cancer in its various forms is caused by smoking. However, the tobacco industry creates significant employment in most developing and developed economies, as it is labour intensive. Tobacco companies are also one of the most generous donors for universities and research laboratories besides producing harmful products that result in health problems to smokers. However, creating a partnership with a business, which is known for being unethical, also makes the other business unethical.

3.3.3 Ethics of Marketing

Velentzas and Broni (2017) state that the main role of marketing is to inform and persuade customers about the products and services that an enterprise is selling. The aims of marketing are to attract potential customers, maintain the relationship with current customers, and compete with rivals. The power and quality of a product can be distorted within the marketing process because of misleading and incorrect information being provided to customers (Heise, 2017). By targeting a younger audience in lower income

countries, such as most African countries, the tobacco industry has been criticised for not following global treaty agreements that discourage young people below the age not to smoke (Brodwin, 2018). Pharmaceutical companies have also been accused of using more than half of their revenue to invest in marketing, rather than to develop new medicines (Swanson, 2015).

3.3.4 Ethics of Production

It is the duty of any enterprise to ensure that ethically produced products generate high operating profits from the production process. This means that the result of the production process should not be harmful or contain toxic substances. Many animal rights activists have also raised the point that products made for human usage should not be tested on animal (Swanson, 2015). The use of child labour and sweatshops is also prohibited. Pressure groups, in the form of Non-Profit Companies (NPC) and governments, monitor private enterprises to reduce child labour and sweatshops, and high levels of pollution (Brodwin, 2018).

3.3.5 Ethics of Competition (insider trading)

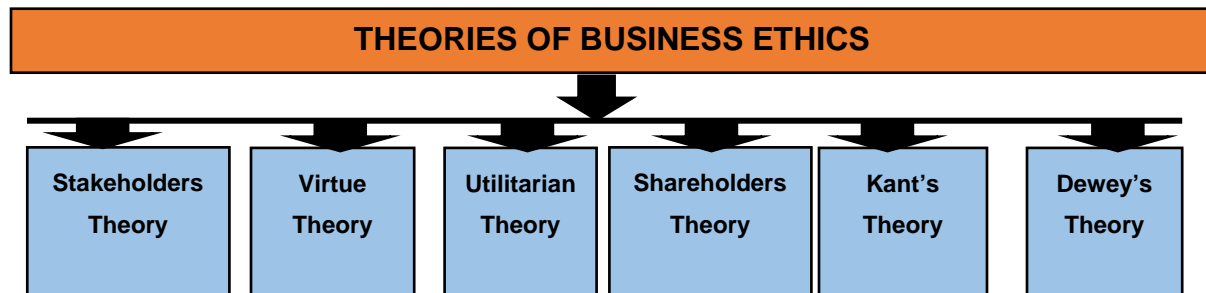
Competition in business is unavoidable – using the metaphor method of Heise (2017), it could be compared to sport. The competition between businesses is a challenging game where the ultimate goal cannot be achieved by all parties. It has to follow the rules; the one with most outstanding merit will win the prize of their interest, which in most cases is profit.

According to Chen, Velasquez Tuliao, Cullen and Chang (2016), pricing fixing, price discrimination and retail price maintenance are a few common unethical practices. Insider trading can be either illegal or legal, depending on the time when the act happened. When the information of stock or bond is not accessible to the public, the act of tipping information for an outsider to make a buying decision is illegal and can be seen as unfair in competition.

3.4 THEORIES OF BUSINESS ETHICS

This section provides literature related to business ethics and the application of the theories on SMEs. The importance of the existing literature on business ethics worldwide is widely acknowledged and promoted, and the contribution of business ethics to corporate governance and business success is highly recognised (Heise, 2017). For more clarity, Figure 3.2 below depicts different theories of business ethics.

Figure 3.2: Theories of Business Ethics



Source: Author's own illustration

3.4.1 Shareholder Theory

The main proposition of the Shareholder Theory is wealth generation and profit maximisation for the owners (shareholders) of the enterprises in a profit-making organisation (Okyere, 2016). To avoid the principal-agent problem, the managers, who are agents for the owners, have the distinct obligation to conduct their business in a fiscally responsible manner as to achieve profit maximisation in fulfillment of their obligation (Queen, 2015).

According to Kershner (2017), the Shareholder Theory refers to the moral position where owners have moral rights to the net assets of a business, while managers have a moral right to protect the net assets of the business. Moreover, wealth creation for shareholders is the primary focus, while there is little emphasis on social responsibility or other relationships that are core components to ongoing business operations. The Shareholder Theory is limited to the view that managers are obligated primarily or exclusively to protect the interests of the owners of the business (Queen, 2015). As such,

the principal-agent relationship directs them to focus and use the assets of the owner based on the owner's desires (Nichols-Jackson, 2016). Managers receive the directives from the owners with the main aim of achieving profit-maximisation. In their role, managers are given the responsibility to use the available resources in a way that will enhance the shareholders' wealth and managers are not allowed to use company resources in ways that will lead to the reduction of the shareholders' interest in the form of share equity or net assets (Okyere, 2016). In this regard, the Shareholder Theory differs greatly from the Stakeholder Theory, which has a broader perspective and focuses not only on wealth creation, but also on relationships with constituent groups including, depending on how wide or narrow the specific Stakeholder Theory is, employees, customers, suppliers, the community, and society as a whole. The Shareholder Theory shares similarities and consistencies with some historic economic concepts, which were promoted by the Scottish philosopher and economist, Adam Smith. The economic concepts focused on profit maximisation and wealth creation as the main functions of enterprises by embracing three of Smith's key tenets: the importance of "free" markets; the "invisible hand of self-regulation", and the importance of "enlightened self-interest" (Harrison, Thurgood, Boivie & Pfarrer, 2020).

Through the "invisible hand" mechanism, there is no role for government intervention in economic growth and it is only in the free market economic system that resources are efficiently allocated to the benefit of society as a whole. In the free market economy, supply will be equal to demand, and no excess or shortage of goods will be experienced. As there will be no regulation, competition will improve the quality of goods and innovations will compete with one another for profit, driving the prices for goods and services to equilibrium.

Milton Friedman, an exemplar of the modern-day Shareholder Theory, remained resolute in his view that social programmes and public policy should remain the responsibility of the public sector (the government) and the sole responsibility of firms is to be involved in economic activities that generate profit and asset accumulation. Friedman (1962) argues that the main function of a firm's management is how to achieve its goals using the available resources. Public administration is not part of the task that should be assigned

to managers, as this will be viewed as requiring the executive to work outside their rightful domain, leading to the misallocation of resources, which will ultimately affect society negatively. “Corporate philanthropy and other activities not directly related to generating shareholder wealth are both a waste of shareholders’ money and, potentially, immoral because they amount to stealing from owners” (Harrison, Thurgood, Boivie & Pfarrer, 2020).

Friedman clearly advocated the application of ethical business practices with the resultant effect of a firm maximising profits and shareholder wealth. A firm should maximise profits as long as it is done within the moral, ethical, and legal boundaries of society. Friedman also outlined the duty of governments and citizens as being responsible for creating laws and regulations that guide how businesses operate. While employees, managers and shareholders all have an interest in the success of a business, each group has its own individual interests as well, which can conflict with the common interest (Cohen and Peterson, 2019). Shareholder theory challenges owners-managers to rethink their usual approaches to management. It advocates owner-managers shifting the primary focus of their businesses away from short-term profits through legal, nondeceptive means and toward long-term success (Backer, 2018).

3.4.2 The Utilitarian Perspective

Utilitarian ethics may be defined as a philosophy that places greater importance on what is most beneficial for the greater population and/or masses (Dore, 2017). Utilitarianism is often considered and/or identified as teleology. Fok, Payne and Corey (2016) agree that under the Utilitarian Theory managers should apply ethical reasoning by taking into account the decision alternative that produces the greatest good for the greatest number of people. Decisions are deemed unethical, according to Queen (2015), when managers create personal gain at the expense of the greater good, or when the decisions result in the failure to achieve the stated goals of the organisation.

Boone (2017) asserts that utilitarianism advocates a teleological view, which is goal oriented and cost/benefit calculating as the basis for desired actions. The original idea of the Utilitarian Theory was to maximise the accrued benefits to all the people, but it was

later found that in trying to maximise the benefits for some groups of people, conflicts of interests emerged, and only the economic dominant groups got their way (Grant, Arjoon & McGhee, 2017; Dore, 2017). This idea approaches another ethical stance, egoism, which aims to benefit one's self at the expense of others.

Egoism as a special case of utilitarianism needs to be examined further. According to Logman (2016), there are certain questions that need to be asked pertaining to utilitarianism, such as, "is it practical" and/or "is it efficient". Ryu, Han and Soocheong (2010) concluded that the concept of utilitarian utilisation (consumption) is goal-oriented consumption, which is mainly driven by the desire to fill a basic need or to accomplish a functional task. The consumption is seen as being needs based and necessary. Egoism is a selfish way to make ethical decisions, but some philosophers argue it truly is in everyone's best interest for everyone to act in one-self-interest (Longman, 2016). To some degree everyone must act in her own self-interest. Rational egoism holds that one always has decisive reason to do what is best for oneself.

Hogan (1970) argues that utilitarian ethics can be equated to the ethics of social responsibility, while Storeng and Palmer (2019) state that the Utilitarian Theory is evaluated based upon only the efficacy of the consequences or the appropriateness or inappropriateness of the act. For Baron (2017), the Utilitarian Theory is "content dependent rather than content independent". Dent and Parnell (2018) suggest that the maximisation of happiness, because happiness is desirable and respectable, is a key aspect of the Utilitarian Theory. Social responsibility practices allow a firm to gain operational efficiency through increasing the current employees' productivity and saving costs for recruitment and training new employees (Frank & Obloj, 2014). Internal social responsibility practices and related diversity and governance management also create a positive and ethical corporate culture (Dent & Parnell, 2018). An evaluation, based on the degree of social good and focusing on the objective, defines the utilitarian perspective as a form of teleology (Backer, 2018). According to Scalet (2018), egalitarianism and teleology are two perspectives described in the Utilitarian Theory. In analysing rules-based utilitarianism, rules must be followed, therefore resulting in the most constructive and affirmative results for the largest population (Scalet, 2018). Backer (2018) asserts

that when the analysis begins with evaluating the results and the consequences, this is action-based utilitarianism. The rules-based perspective, according to Gare and Neesham (2018), is considered the essential component of the code of ethics signed by employees. In support of this argument, Beach (2015) believes that in order to deter unethical behaviour, a code of ethics should be designed and used within businesses.

Conscious goal-orientation toward a defined aim can best describe the concept of teleology (Lacziniak & Murphy, 2019). Gjuraj and Gjuraj (2018) point out that the best approach to teleological ethics is to evaluate actions morally by looking at their effects, and right actions being right because they tend to have good consequences, and wrong actions being wrong because they tend to have bad consequences. This is consistent with Singer (2018), who stated that the teleological perspective placed great emphasis on the fact that required action should be based on what would be most beneficial for the majority of people concerned. Spinello (2019) asserts that moral reasoning is the basis for this teleological model and this perspective widely used in the business and government sector. According to Singer (2018), while there are differing perspectives, there is still common ground of the “moral or political end”, along with being performed to promote utility. SME owner-managers decides whether a decision is right or wrong depends on the consequences or outcomes of that decision.

Moral rights theorists (Lim, 2018; Singer, 2018; Spinello, 2019) believe that the individual's moral rights take precedence over the rights of the business. According to Lim (2018), 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 (Valentinov, 2019).

Similarly, Ryu, Han and Soocheong (2017) 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 (Spinello, 2019). 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). 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 (Lim, 2018). According to Singer (2018), 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

The moral rights principle provides a basis for ethical decision-making that differs completely from utilitarian reasoning (Queen, 2015). 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 (Boone, 2017). 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 (Logman, 2016). 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 (Dore, 2017)

3.4.3 The Virtue Theory

Codes of conduct and integrity programmes to promote business ethics are designed based on the principles of virtue ethics by focusing on desirable behaviours, which are representative of individual virtues. Previous research suggests virtue ethics is a key consideration in the management of organisations (Nalukenge, Nkundabanyanga & Ntayi, 2018; Overall & Gedeon, 2019; Papouli, 2018). McElreath (2018) argues that under virtue ethics, people can acquire virtue much as they do any skill such as carpentry, cooking or playing an instrument by practicing and performing these actions. A virtue is a

state of character, a necessary condition for being happy. A virtuous person derives pleasure from acting virtuously. A person is virtuous when acting correctly has become a habit. In typically human behaviour, two levels can be distinguished: a lower level of activity that obeys reason, and a higher level of activity that possesses reason and exercises it (Scharding, 2018). Parallel to these two levels of human activity, virtues can also be divided into two groups: intellectual virtues (such as wisdom) and moral virtues (such as moderation and generosity). The characteristic of intellectual virtues is that they grow through training, while moral virtues arise and develop through habit or custom. Papouli (2018) asserts that virtue is a certain condition that renders good that of which it is a virtue. What is common from the above authors of virtue theory is that that virtues such as justice, courage and truthfulness are needed if practices are not to be corrupted, and the right ordering and balance between the pursuit of internal and external goods is to be maintained (Scalet, 2018).

SME owner-managers should pursue ethical option that produces the best balance of benefits over harm for the most stakeholders (Papouli, 2018). Outcomes may be quantified in such terms as contentment and suffering, the relative value of individual preferences, monetary gain or loss, or the short-term and long-term effects of an action. In a business context, this approach might rely on a statistical analysis of probable outcomes, a classic costs/benefits assessment, and/or a consideration of the marginal utility of a consequence for various stakeholders in the group (Scalet, 2018).

3.4.4 Kant's Ethical Concept

In analysing Kant's ethical theorem, Scharding (2018) says that morals, duty, consciousness of law of action, freedom, and will are the key aspects of ethics. In business ethics, the question of "What ought I to do?" is the main thrust brought forward by Kantian moral philosophy (Azadegan, 2018). Werhane (2018) argues that the use of ethical decision-making processes in tackling issues that are difficult to define is normally favoured by people who apply Kantian philosophy as a practical philosophy. Leaders and managers would manifest good in their decision-making for the sake of duty if principal-agent problem did not exist according to this theorem.

Kant offered three propositions regarding duty and the fulfillment of duty (Spinello, 2018). The first proposition is this: an action from duty is an action from respect for the moral law. MacArthur (2019) states that Kant believed that if people used a sense of duty as motivation to act in an ethical manner, rather than self-interest, their actions could be described as morally good; thus, “Duty for the sake of duty and not sympathy or any other inclination is morally good” (Backer, 2018). Leaders who perform their duty toward others, even in the face of difficulties, are morally good (Kant, 1785). Managers and leaders should, therefore, be conscious of and examine the personal motives for their individual actions.

Kant’s second proposition was, “An action done from duty has its moral worth, not from the results it attains or desires to attain, but from a formal principle or maxim – the principle of doing one’s duty whatever that duty may be”. As stated by Werhane (2018), Kant argued that in order to gauge the moral worth of actions, the maxim or principle involved should be accepted by universal law. A good person accepts or rejects a maxim or any actions depending on whether that action or maxim is in harmony or conflict (respectively) with dutiful actions perceived as morally good (Azadegan, 2018). The only resolution is that this “rationality” requires SMEs to have generally accepted ethical standards for acquiring the relevant knowledge and establishing the associated decision criteria as related to business, standards that are stable across generations

Kant’s third proposition, according to Scalet (2018), is “Duty is the necessity to act out of reverence for the law”. This proposition suggests that the maxim of acting reasonable to a law is always independent of the next person’s particular desires. In similar vein, Azadegan (2018) states that even though the majority of people do not like the introduction of a new law, compliance should be enforced (Spinello, 2018). Kant’s ultimate rule is that in all actions that affect an individual, he/she should conduct him/herself in such a manner that every exercise of power the individual makes is compatible with the fullest service of an ethical person (Spinello, 2018).

Kant would judge a business act to be ethical if it benefitted others at the same time, it benefitted owner-managers, and employees of SME sector if it did not place their interests above those of other stakeholders (Gordeon, 2016). If loyalty to a coworker conflicted

with loyalty to an owner-manager or the entity, for instance, then acts resulting from such loyalty might not meet the conditions of deontology. Either the owner-manager or the enterprise would be treated as a means rather than an end (Welchman, 2018).

3.4.5 Dewey's Ethical Concept

According to Gordon (2016), Dewey pointed out that there are similarities between ethics and morals in the following key aspects: common conduct, attitude, and behaviour. Regarding Dewey's approach, McElreath (2018) states that it is wrong to assume that processing ethics and morals is based on the values a person possesses or creates. According to Welchman (2018), the argument is that the ethical stance of Dewey's theory is based on the individual in the real world. The concept of consciousness in Dewey's approach is contributed to the consciousness of the world's principles in terms of providing awareness to individuals regarding their morality and the world's principles (Werhane, 2018). For Dewey, judgments and decisions of value, conduct and behaviour are major components that define morality. Some scholars (McElreath, 2018; Edel, 2018; Welchman, 2018) are of the view that Dewey's approach is similar to Aristotle's Nicomachean Ethics. Dewey argued that deliberate ethical reflection is born of the need to act with patience and courage amid the inevitable ambiguity and doubt that daily arises when owner-managers are "confronted with situations in which different desires promise opposed goods and in which incompatible courses of action seem to be morally justified (Backer, 2018).

According to Gordon (2016), "One should look upon ethics as a process of deliberation or a conscious way of living". Painter, Hibbert and Cooper (2018) assert that Dewey believed that the use of reflective intelligence was a modification to an individual's judgment, in which the individual takes into account the consequences of acting on judgments. Dewey further believed that value judgments are tools SME owner-managers can use for the enablement of satisfactory redirection of their conduct when habit is no longer adequate (Zakhem & Palmer, 2017). Dewey's ethics replaces the goal of identifying an ultimate end or supreme ethical principle with the goal of identifying a method for improving our value judgments (Gordon, 2016). Dewey argued that ethical inquiry should be conducted by owner-managers to revise our judgments in light of the

consequences of acting on them (Zakhem & Palmer, 2017). Value judgments are tools for satisfactorily redirecting conduct when habits fail as the tools, they can be evaluated instrumentally (Baron, 2017).

3.4.6 Stakeholder Theory

According to Andriof, Waddock, Husted and Rahman (2017), fairness and justice are core issues in the Stakeholder Theory. The Theory holds that a stakeholder's inclination to cooperate or sanction a firm is a function of his/her perception of the fairness or unfairness of the treatment he/she received from the firm (Hayibor, 2017). Practitioners and researchers have observed that fairness or justice may be distributive, procedural or intersectional (Lin, Ho, Ng & Lee, 2019). Ethical challenges can, therefore, arise in the actions or inactions of distribution of outcomes, in the process of the distribution, or/and in the interpersonal relations between authority figures and the people (Lahdesmaki, Siltaoja & Spence, 2017).

According to Windsor (2017), employees contribute to operations by providing the requisite skills and labour to conduct the business of a company. An implied contract exists between the employee and the company; both parties having specific requirements and expectations of the other (Hicks, 2018). As such, employees have a stake in the company because they rely on it for their livelihood, security, benefits and job in exchange for their labour (Alzola, 2017).

Kagan (2018) states that, according to the Stakeholder Theory, customers are deemed vital to the successful existence of a company, and they constitute the "lifeblood" of the business because they form the revenue base. The customer's interest in the company is not limited to the goods or services that he/she purchases, but it includes the ensuing business relationship that guarantees a reliable source of goods to meet future requirements. Similarly, the company is dependent on all the stakeholder groups to ensure its viability, and the stakeholders in return have specific expectations of the company.

Greenwood and Freeman (2018) emphasise that it is a requirement for firms to systematically manage the interests of the various stakeholder groups and prioritise

competing interests, as these are the tenets of the Stakeholder Theory. This view is supported by the work of Hwang and Chung (2018), who argue that the Stakeholder Theory gives supremacy to all stakeholders, although there will be times “one group will benefit at the expense of others”. Furthermore, Crane *et al.* (2019) state that firms derive benefits by understanding which stakeholders count most under what particular circumstances, as well as how this “hierarchy of salience” can change depending on the relative power of stakeholders, the legitimacy of their claims, and the urgency of their claims on the company. According to Jones, Harrison and Felps (2018), the necessary process that serves to inform the firm’s decision to favour one group’s interests over another in a particular circumstance is defined as grouping by salience. For example, over the past few decades large retailers have come under fire for patronising “sweatshop” factories that violate human rights and disregard established codes of conduct (Visser, 2019). Some businesses, according to Jahn and Bruhl (2018), invested capital to increase the frequency of auditing and monitoring mechanisms of their business activities and terminated relationships with factories guilty of committing injustices; this was done in response to legitimate claims. In this instance, the allegations against the firms were of high salience and thus deemed a priority for resolution despite any associated costs (Visser, 2019). Kaler (2003) and Harangozó and Zilahy (2015) expressed that the Stakeholder concept can be seen as referring to a communitarian perspective, with the Stakeholder thereby helping to define the contours of a group to which actors can belong on a non-exclusionary basis.

3.5 Justification of using the Stakeholder Theory as the basis of business ethics in this study

By analysing the above-mentioned theories on business ethics, it is possible to state that business ethics is studied at three different levels: the level of individuals, the level of organisations, and the level of society (Dore, 2017; Hill, 2017;; Jahn & Bruhl, 2018; Visser, 2019). The Stakeholder Theory can be considered as a business ethics theory that belongs to the third group – at the level of society (Kagan, 2018).

Fundamentally, the Stakeholder Theory emphasises how a business can work at its best, how value can be created, and how a business can be managed effectively (McElreath,

2018). In simpler terms, according to the Theory, any business has different classes of stakeholders who can be divided into two groups, the primary stakeholders (customers, shareholders and suppliers) and secondary stakeholders (the government, the media and consumer advocacy groups) (Visser, 2019). Dore (2017) argues that the Stakeholder Theory holds that primary and secondary stakeholders' needs should be fulfilled not equally but satisfactorily. Moreover, Kagan (2018) states that the stakeholder approach to business is about creating as much value as possible for stakeholders, without resorting to trade-offs. According to Moriarty (2019), the Stakeholder Theory could solve the Separation Fallacy between business and ethics. Separation Fallacy means that if (x) is about business, then it does not have anything to do with ethics, and vice versa (Pinto, 2019). However, based on the arguments of the Stakeholder Theory it is possible to think that ethics are at the core of business (Grant, Arjoon & McGhee, 2017).

Stakeholder theory tries to deal with an increasingly complex business environment that SMEs operate and has the potential to offer alternative ways of looking at SMEs, on the other hand it seeks to satisfy the interests of a multitude of constituencies instead of merely helping managers to turn out a profit (Pinto, 2019) Related theories, such as corporate social responsibility or corporate citizenship, are seen to carry too many deficiencies to qualify as an enabling factor of good business ethics (Moriarty, 2019), The transition from personal ethics to ethical or unethical organisational behaviour and the important role of individual and situational influences in this process will help in the development of the conceptual model.

3.6 ETHICAL LEADERSHIP

Tu and Lu (2016) describe leadership as a significant component of an organisation's ethical culture. Leaders characteristically establish the principles for organisational objectives and behaviour in the workplace and then construct mechanisms that affect employee outcomes (Ahmad & Gao, 2018). Ethical leadership is evident in individual actions and interpersonal associations, and by encouraging proper ethical conduct among company employees through two-way communication, reinforcing and decision-making (Xu, Loi & Ngo, 2016). As stated by Kalshoven, Van Dijk and Boon (2016), ethical leadership has been effective in decreasing employee misbehaviour, abnormal

behaviour, and organisational maltreatment in the workplace (Kaptein, 2019). Honesty, integrity, fairness, ethical cognisance, thoughtfulness and courtesy are all exhibited by ethical leaders (Pasricha, Singh & Verma, 2018). Ethical leaders exemplify positive personal attributes and strive to inspire their employees by vigorously managing ethical conduct. Ethical leadership, is an expression of regulated behaviour as personal relationships in the organisation, can strengthen and enhance employees' ethical behaviour (Halbusi & Tehseen, 2018). Ethical leaders moreover focus on ethics by frequently making the ethics message salient.

Valentine, Hanson and Fleischman (2018) assert that organisational leaders should perform at a high level, solving problems and making quality decisions, while maintaining ethical standards (Bavik, Tang, Shao & lam, 2018). According to Mo and Shi (2017), communities often force organisational leaders to focus on social responsibility, sustainable productivity, and profitability. Moreover, an ethical leader should be viewed as a credible and genuine role model who engages in normatively proper behaviour and makes the ethics message visible in order to influence employees' outcomes (Ahn, Lee & Yun, 2018). In order to heighten positive awareness in both internal and external investors, as well as lead to more effectiveness and efficiency, Wang, Feng and Lawton (2017) suggest that the business leader and the organisation must hold a set of values that improves its public image and reputation in the eyes of its stakeholders.

According to Dhar (2016), transparency, ethical optimisation, relationship issues, power and political issues, Illegal actions, role conflict, and underperforming governance structures are key ethical issues that leaders should focus on. The importance of transparency relates to stimulating ethical awareness through information sharing, which ultimately ensures accountability for the performance of individuals and their organisations (Wang & Sung, 2016). Relationship issues arise from the dilemma of sacrificing personal relationships for the sake of the organisation (Dhar, 2016). Power and politics issues emerge from the use of power or politics to enforce decisions or changes in projects, while illegal actions include fraud, corruption, blackmailing, and bribery are deemed to be common for a business to enhance profit. Role conflict arises from differences in cultural, religious, legal, or career values. Lastly, underperforming

governance structures result from low or non-involvement of governance institutions like Auditor General, Public protector and Financial Services Conduct Authority, when their role is crucial for a project's progress (Niemeyer & Cavazotte, 2016).

Ethics scholars are critical of the claim that entities that are owned by shareholders should maximise their wealth; in general, they call for businesses to aim to serve all their stakeholders, or society as a whole (Moylan & Walker, 2012). The trust that builds between managers and the governance structure can influence the trust the managers and other stakeholders have in business and in their employees. An organisation's leadership structure should emphasise a stakeholder orientation. The structure should trust managers to address ethical issues appropriately to increase trust among and between the participants in the organisation (Müller *et al.*, 2014).

Furthermore, leaders in organisations involved in international operations should take note of the fact that those in the driver's seat could be ignoring, disregarding, or taking for granted power imbalances (Enderle, 2015). Those affected, who usually feel the impact, may have no say in changing the situation. Hence, in international operations, corporations should respect the human rights of their stakeholders. Secondly, they should ensure their counterparts or vendors follow the same practices, and do not violate human rights. Finally, they should not do business in countries where human rights violations are the norm (Enderle, 2015). These actions conform to the view that business solves societal challenges to ensure the survival and development of humanity. They also conform to the view that economic profits are just a performance measure and not an end in themselves.

Ethical owner-managers must understand that positive relationships with all organisational stakeholders are the gold standard for all organisational efforts. Good quality relationships built on respect and trust are the most important determinants of SME success. Ethical owner-managers should understand that these kinds of relationships germinate and grow in the deep rich soil of fundamental principles such as trust, respect, integrity, honesty, fairness, equity, justice and compassion.

3.7 THE CONCEPT OF CORPORATE GOVERNANCE

Du Plessis, Hargovan and Harris (2018) explain that corporate governance refers to the set of systems, principles and processes by which a business is governed. Abdoush (2017) defines corporate governance as the answer to three questions, namely, Who exercises control over corporate activities? What do they do with their power? Who benefits from the way they exercise their power? As such, corporate governance is influenced by a number of legal, economic, societal, political and historical factors. Hence, the quest for good practice is complex (Aguilera, Judge & Terjesen, 2018).

As mentioned above, corporate governance is the system by which business corporations are directed and controlled. The corporate governance structure specifies the distribution of rights and responsibilities among different participants in the corporation, such as the board, managers, shareholders and other stakeholders, and it spells out the rules and procedures for making decisions in corporate affairs. By doing this, it also provides the structure through which the company's objectives are set and the means of attaining those objectives and monitoring performance (Muswaka, 2017). From the foregoing, it is evident that corporate governance principles stress the importance of the relationship of a company to its various shareholders and stakeholders. This relationship is strengthened by the promotion of transparency, fairness and accountability in the actions of the decision-making body of an SME, to ensure that all decisions taken are consistent with the broader interests of not only key stakeholder groups, but also minority groups (Ibrahim, 2019). This emphasis on accountability requires SMEs and their operating bodies to be aligned with ethical obedience in the interest of all their stakeholders.

3.8 THE LINK BETWEEN BUSINESS ETHICS AND CORPORATE GOVERNANCE

In the field of corporate governance, awareness of ethical issues ensures that managers avoid abusing their power (Newton, 2015). From this point of view, sharing power among the different actors who make up a company's structure and environment becomes a crucial issue in corporate governance (Ibrahim, 2019). In this way, the relationship between ethics and corporate governance humanises the exercise of power and renders it more transparent and credible, not only to the shareholders, but to stakeholders in

general (employees, clients, suppliers, trade unions, NGOs, and public opinion). According to Su (2014), an ever-increasing number of retail and institutional investors are looking to incorporate social and environmental criteria in their investment decisions. Simply making money is not enough for social or ethical investors, because they want to do good while doing well.

Ethical behaviour in governance is defined as the way in which a company's stakeholders manage their collective actions from the perspective and in the interest of the majority; thus, avoiding damaging behaviour (such as fraud, personal enrichment, insider trading, corruption, deviancy, and dubious behaviour) through controlling the power and responsibilities of the company's managers. In the area of governance, ethics aims to raise awareness of others' rights and common needs. From this point of view, ethical governance must be seen as a system of shared and transparent governance, which seeks to establish the general frameworks and guidelines for owner-managers of SMEs, by enforcing the values of transparency, responsibility and professionalism (McMurrian & Matulich, 2016).

For this reason, a stronger link between ethics and governance could contribute to a company's stakeholders behaving in a way, which is acceptable and reasonable, and conforms to the company's values (Wang, Xu & Liu, 2018). Defining these values should determine what is good in terms of respecting and improving the conditions of the different stakeholders who work with the company, or the institution. It is thus necessary to translate these values into moral rules, laws, regulations, rules of behaviour, or company charters (Eisenbeiss, Van Knippenberg & Fahrbach, 2015). This involves knowing how to exercise one's responsibilities, knowing what the essential values are, knowing which ones should be protected and defended, and knowing which rights and responsibilities should be shared. It also involves knowing, when needed, what the best practices are and knowing which sanctions to have in place in the event of non-compliance. Such questions should open the way to power sharing, that is, to a way of working together in which stakeholders feel responsible not only for their work, but also for the sound functioning of the organisation. In this way, they can estimate and monitor whether the objectives of the organisation are being pursued.

However, this ethical orientation is not spontaneous and requires stakeholders to transform not only their mindsets, but also their behaviour and actions. In this regard, Jun, Kim, Song and Enriquez (2018) identifies four main ethical challenges as a result of conflicts of interest is vital. A conflict of interest within the framework of corporate governance occurs when an officer or other controlling member of a corporation has other financial interests that directly conflict with the objectives of the corporation. which result in negative linkage between business ethics and corporate governance (Backer, 2018) . The first is the ethics of conviction, which entails the courage of affirming and defending one's own opinions and principles. Secondly, the ethics of responsibility emphasises autonomy and free will, and asks individuals to reflect on the context and consequences of their decisions or actions. This kind of ethics could bring tension between organisational and personal responsibilities because of egoism. Thirdly, Kim *et al.* (2018) identifies the ethics of discussion, based on sharing information and on defining interests around the issue of reciprocity. Finally, the ethics of purposefulness is focused on the goals of an action, for which ethical decisions based on values, mission statement and vision. (Kim *et al.*, 2018). Specific to this last form of ethics is its attempt to integrate the three others and thus change their principles to make them more compatible.

For the ethical challenges to be minimised owner-managers should reflect on the ethical challenges and transform them into operational guidelines the formalisation of an ethical approach to corporate governance based on organisational values, and which matches professionalism with citizenship, and principles of action (guidelines of behaviour) with rules of conduct (application of values and principles). This ethical formalisation appears to respond to a dual need: it allows the company to react to external pressures and it is a tool to establish internal rules (Yuhertiana, Priono, Setyaningrum & Hastuti, 2017). For this reason, different monitoring and controlling systems should be established. These systems should ensure that declared commitments are respected, and they should aim at establishing relationships of trust, as well as constructive transactions between shareholders, managers and other stakeholders (reinforcement of legitimacy). However, the creation of codes of conduct or of ethical charters is just one aspect of the process of ethical institutionalisation within companies. Companies would also need other, additional procedures and institutions such as an internal ethics committee at the board level, the

appointment of personnel in charge of ethics, the organisation of periodical ethic audits, the elaboration of corporate social responsibility practices/sustainable development reports (or evaluations), as well as the establishment of training seminars focused on ethics.

Nevertheless, notwithstanding these positive actions, it should be stressed that a company forms part of the business world, and as such has to create value and generate profits. The economic objectives of a company should not be criticised in themselves, insofar as these objectives are what distinguish a company from a not-for-profit organisation. A company should thus carefully select the social and environmental issues it wants to address and select those more likely to bring about benefits to both society and itself (Vazquez, 2018). Indeed, it would be improper to think that a company has to commit itself to sustainable development only to comply with the law or because it is under pressure. Other reasons should be highlighted, such as the capacity to generate value for the client and all other stakeholders in an equitable and responsible way, thanks to a better and continuous adaptation of its products and services to new needs and market expectations. In the areas of sustainable development and social responsibility, ethical needs also have to support the growth of a company's capacity to innovate through the anticipation of foreseeable situations and a more rigorous and global management of the risks, especially environmental and social risks. Respecting ethical principles is also at the core of a company's efforts to preserve its reputation and valuation, especially with respect to its image vis-à-vis public opinion and its clients.

According to Nyilasy, Gangadharbatla and Paladino (2014), ethical corporate governance deals with ensuring accountability, fiduciary duty and mechanisms of auditing and control, together with ethical compliance, without subsidising the primary aim of creating products and services to generate profit, but to keep the intention balanced with controls that ensure a company pursues profit without crossing into the realm of unethical behaviour. Maintaining these balances require trade-offs, but this on the positive integrity side. Corporate ethics and shareholder desires for profitability are not always aligned, and it is the responsibility of executive management to ensure ethics supersede profitability.

Leipziger (2017) asserts that managers are the primary decision makers, and therefore they must hold themselves accountable for the way in which a business operates and affects stakeholders, shareholders, employees, and the community at large. Incidents in which the confidence of investors was breached forced them to start looking for companies that rate high on compliance. Ethical investors want to ensure that corporations are being honest and transparent, and that management is not looking out for its own interests to the detriment of others (Fung, 2014). With growing competition, many companies recognise that to encourage positive behaviours and repeat business with their customers; they ought to undertake their business in the “right way”. Companies therefore draw up their values, embed them with their employees, and monitor that they comply. The values espoused include integrity, honesty and openness in terms of decisions taken by the board, when entering a particular segment of the market, which favours one decision over the other. This not only limited to board decisions, but also filters down to the employees (Arora & Sharma, 2016). This calls for an enlightened investing community and strict regulatory regimes to protect the rights of investors and companies to improve productivity and profitability without recourse to any means that would offend the moral, ethical and regulatory framework of business (Fung, 2014).

Global economic integration has been a driving force behind the rapid progress of developing and disseminating good corporate governance practices and standards. Investors, regulators, shareholders, directors, executives and the media have all played important roles in this process, especially within the context of emerging market (Ahmed & Uddin, 2018). In implementing corporate governance, one important consideration is the value creation in SMEs. The competitive edge of SMEs lies in the creativity and innovation. It would be disastrous should corporate governance undermine value creation efforts, which in the instance of firms that have gone past the survival and development phases of growth would take the form of entrepreneurship.

3.9 THE LINK BETWEEN BUSINESS ETHICS AND THE PERFORMANCE OF SMES

When a company is able to gain the trust of consumers through social, environmental and politically responsible practices, it is better poised to succeed in the long term. Trust

in corporations has been steadily decreasing for at least 40 years due to continual scandals that are covered by the media and spread throughout the internet (Weiss, 2014). Today, when a company makes an ethical misstep, everyone knows about it. Thus, a company that acts with integrity and remains consistent will gain the trust of consumers and will stand out.

A study conducted by Zheng, Luo and Wang (2014) examined long-lived corporations. Their study found that organisations with longevity were mainly family controlled and shared fundamental values: the owners were good stewards of the environment and of the communities where they did business; the companies were run by Millennials, who are fast becoming the largest generation in the workforce, as well the largest subset of consumers; and the companies demanded ethical treatment from their employers and from the companies they conducted business with. In addition to outperforming unethical corporations and gaining the trust of consumers, the benefits of an ethical company according to Collins (2017) include:

- Attracting and retaining higher quality employees, customers, suppliers, and investors;
- Earning goodwill with community members and government officials;
- Achieving higher product quality; and
- Requiring less employee supervision.

From this, it is easy to draw a correlation between ethics and success in business. There is evidence that ethical business practices are not a passing fad – consumers are becoming more conscious and aware of the companies that they buy their products from. Operating with integrity leads to a stronger workforce, who will build an enduring company, and loyal customers. It is imperative to the success of companies that owner-managers adopt an ethical mindset, both as individuals and as a company (Collins, 2017).

Moreover, the growth of a business relies on its sound ethical code of conduct set to guide both its management and employees in their daily activities (Alfaro, 2018). The logic supporting ethics as a good practice is that ethical contexts will create the proper climate, which will aid in driving the development of ethical human resource practices (Klotz & Neubaum, 2016). The result is a shared value system that channels, shapes, and directs

behaviour at work. The advantages of ethical behaviour in business include the following (Mitchell, Agle, Chrisman & Spence, 2011):

- It builds customer loyalty: a loyal customer base is one of the keys to long-term business success. If consumers or customers believe they have been treated unfairly, such as being overcharged, they will not become repeat customers. In addition, a company's reputation for ethical behaviour can help it create a more positive image in the marketplace, which can bring in new customers through word-of-mouth referrals. Conversely, a reputation for unethical dealings hurts the company's chances to obtain new customers. Dissatisfied customers can quickly disseminate information about their negative experiences with the company;
- It retains good employees: talented individuals at all levels of an organisation want to be compensated fairly for their work and dedication. Companies who are fair and open in their dealings with employees have a better chance of retaining the most talented people;
- It creates a positive work environment: employees have a responsibility to be ethical. They must be honest about their capabilities and experience. Ethical employees are perceived as team players, rather than as individuals. They develop positive relationships with co-workers, and their supervisors trust them with confidential information;
- It avoids legal problems: it can be tempting for a company's management to cut corners in pursuit of profit, such as not fully complying with environmental regulations or labour laws, ignoring worker safety hazards, or using sub-standard materials in their products. The penalties if caught can be severe, including legal fees and fines or sanctions by government agencies. The resulting negative publicity can cause long-term damage to the company's reputation, which can be more costly than the legal fees or fines.

Classical economists like Adam Smith and Milton Friedman, however, proposed the separatist view. They were of the opinion that businesses, in order to flourish, should concentrate on their goal-profit maximisation. Morality and ethics, they argued, had no role in business. Milton was of the opinion that business should concentrate on the

production and distribution of goods and services (Weller, 2017). Social problems had to be tackled by governments and concerned individuals, but not by businesses. In short, the only aim of business was to generate profits. According to Adam Smith, business was a distinct entity and did not include ethics and morality. If ethics were introduced in business, it would lead to an imbalance in market dynamics. This view emphasised business concerns, such as reducing production costs and optimising labour (West, 2017).

Many intellectuals today still believe that if ethics and morality are given an opportunity to enter the business arena, there is the danger of social values dominating business values. In addition, this could ruin the efficiency of the business. These intellectuals also believe that a business should concentrate on profits, and managers should manage or concentrate on the interests of the shareholders. Shareholders should also be given the opportunity to decide about the effective utilisation of resources (West, 2017). In other words, business should focus on achieving its economic objectives. Parsons (1956) proposed a view called the integration view. He was of the opinion that ethical behaviour and business should be integrated or combined in a new area called 'Business Ethics'. He argued that a business, being an economic entity, has the right to make profits, but at the same time it should discharge its social obligation. According to this view, business and morality are inter-related and are guided by external factors like the government, the market system, laws, and society. The government and market system are related to business as the rules laid down by the government directly or indirectly affect business, and could thus affect the market system. Similarly, laws will guide business, and decide what is right or wrong in business.

Whether or not business ethics has a positive influence on financial performance it is still an open research question. Some authors (Friedman, 1970; Jensen, 2001; Schwab, 1996) assert that the only social function of a business is to maximise the shareholder value while complying with the rules of the market. This line of research argues that ethical investments are in conflict with the primary profit-oriented strategies of a company. These authors (ibid.) further argued that if investors cared enough about ethical behaviour, under the enactment to punish bad performance, companies would have a market-based

incentive to behave ethically. By contrast, other authors have argued that proactive ethical initiatives have a positive impact on financial performance because ethical behaviours derive from the creation of intangible assets, which are vital to long-term business success (Jones, 1995; Jones & Wicks, 1999). Intangibles like good reputation, trust, and commitment are generated through a strong ethical stance (Fombrun, Gardberg & Barnett, 2000; Hosmer, 1994).

In their study involving 2000 MBA students, Halbert and Ingulli (2003) found that there is a fundamental disparity between wealth maximisation and business ethics. They also found that the students believed in wealth maximising value for shareholders. Ogbonna and Ebimobowei (2012) evaluated the effect of ethical accounting standards on the quality of the financial reports of Nigerian banks. They established that ethical accounting standards affected the quality of the banks' financial reports.

Saeed, Shakeel and Lodhi (2013) in their study on the impact of ethical behaviour on employee performance, using SPSS regression, found that ethical guidance and ethical value have a positive impact on employee performance, which directly impacts on an organisation's growth. According to Saeidi, Saeidi and Bidi (2012), ethics contribute to the performance of a business. It does not only bring profitability but also increases customer loyalty, helps to retain customers, creates goodwill for a company, and utilises resources at their maximum level. Onyeaghala-Obioma and Anele (2014), in their study on adherence to ethics and the performance of business organisations, also used Spearman's Rank Order Correlation and t-Statistic. They found a relationship between the adherence to ethics and the performance of business organisations; this relationship was further found to be significant.

Ethics is sometimes considered as a restriction to profitability. Jamal and Bowie (1995, as cited in McMurrain & Matulich, 2006) found that ethics and profits are inversely related. However, McMurrain and Matulich (2006) concluded that there is positive correlation between an organisation's ethical behaviour and activities and the organisation's bottom line results. Donaldson (2003, as cited in McMurrain & Matulich, 2006) summarised 52 studies, which examined the correlation between ethics and profit. He found that 33 studies indicated a positive correlation between corporate ethics and profitability, 14

studies reported no effect, while five indicated a negative relationship. Tyler and Blader (2005) found that the primary factor shaping an employee's behaviour is the procedural justice that an employee experiences in his/her workplace. His results suggested that the roots of employee policy and rule adherence lie in the procedural justice of the organisation. Although the work was not empirically tested, other studies also found that there is a significant positive relationship between corporate ethical values and organisational commitment (Hunt, Wood & Chonko, 1989).

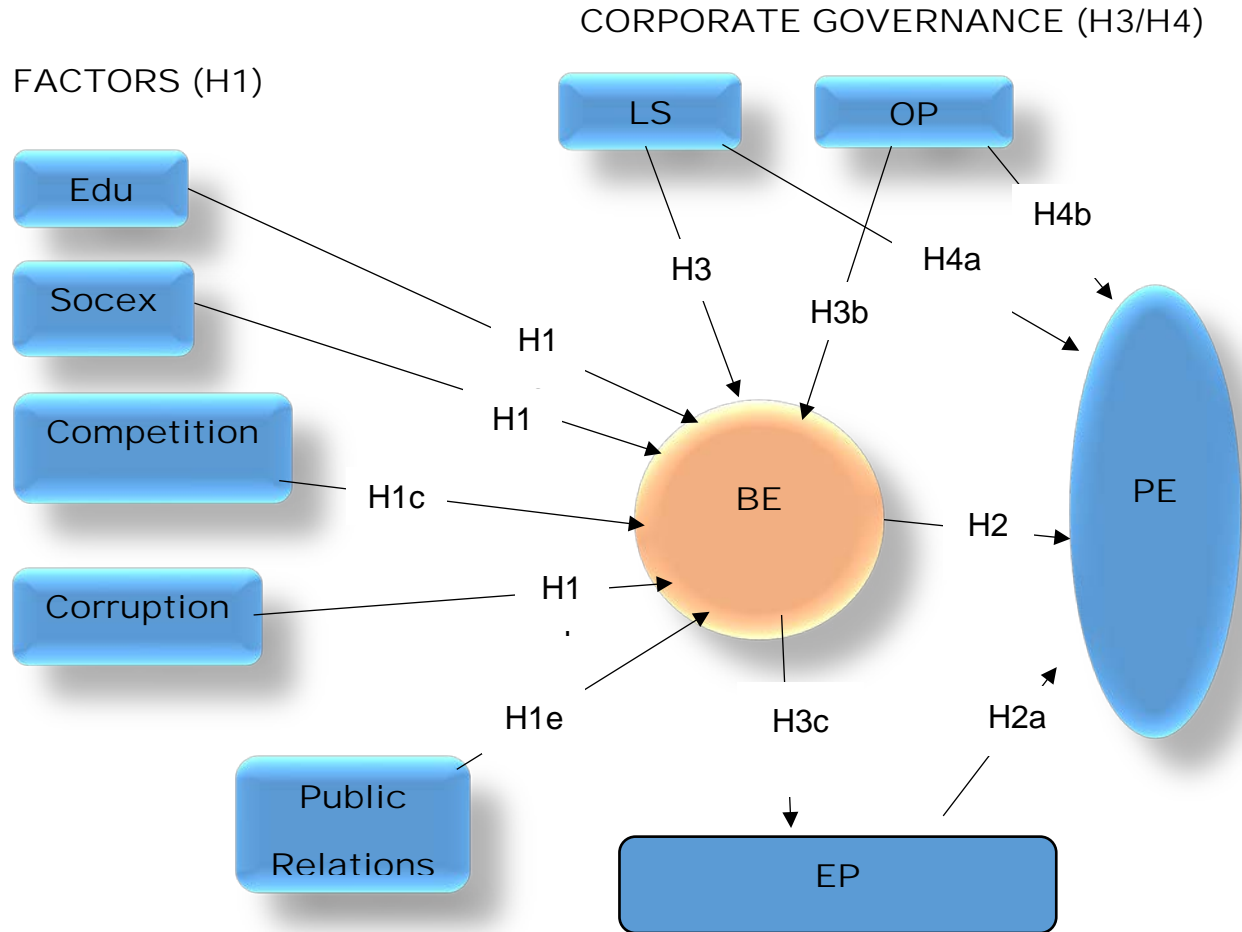
Provided in Figure 3.3 on the following page is the proposed model based on the performance and business ethics theories for SMEs. The model was developed as a guideline for SMEs to adopt and implement in their quest to achieve superior performance.

3.10 THE CONCEPTUAL FRAMEWORK

Proceeding from the literature reviewed and the theoretical foundations discussed in the previous sections, the study developed a conceptual framework that explains the significant roles that Business Ethics (BE) and corporate governance play in the success of SMEs. The independent variables that are used as the building blocks for the conceptual framework are BE, LS (leadership style) and OP (organisational policies). These variables were found to have either a strong and/or significant relationship with performance (Pe) in several entrepreneurship studies; hence, their inclusion in this study's framework (Bingham, 2009; Miller & LeBreton-Miller, 2015).

This study attempts to explain the magnitude of the effect of BE, LS and OP on Pe. The objective of this framework is to use the interactions, overlaps, and relationships within and between BE, LS and OP. Figure 3.3 shows the relationships between independent variables (IVs) and dependent variables (DVs). The relationships in this model are complicated because one variable can affect another variable, which is also affected by the same variable (Wiklund & shepherd, 2003); this is usually called a feedback loop. In this study, the conceptual framework was proposed, as shown in Figure 3.3, which links the following variables: ethical/business values (BE); factors affecting BE; ethical practice (EP); leadership style (LS); organisational policies (OP); and organisational policies (Pe)

Figure 3.3: The conceptual model



3.11 HYPOTHESES OF THE STUDY

Based on the systematic literature review of SMEs, ethical values and corporate governance, 13 statistical, non-directional hypotheses were developed to describe the causal link between factors, business ethics, corporate governance and performance. It is worthwhile to mention that the present study uses the term ‘hypothesis’ rather than the term ‘proposition’ because many business research authors state that a hypothesis is a testable proposition (Kumar, 2019). Null hypothesis testing is a formal approach to deciding between two interpretations of a statistical relationship in a sample (Kumar, 2019). One interpretation is called the null hypothesis (often symbolised by H_0 and read as ‘H-naught’). This is the idea that there is no relationship in the population and that the

relationship in the sample reflects only sampling error. According to Patten and Newhart (2017), null hypothesis is that the sample relationship “occurred by chance”. The other interpretation is called the alternative hypothesis (often symbolised as HA). This is the idea that there is a relationship in the population and that the relationship in the sample reflects this relationship in the population. The character, variable or descriptor that affects other variables or sampling units is called independent variables (IVs). The character, variable or descriptor, which is affected by the independent variable, is called the dependent variable (DV) or response variable (Kumar, 2019). Table 3.1 shows the null statistical non-directional hypotheses (H0) that were formulated:

Table 3.1: The null (H0) and alternative (HA) hypotheses of the study

Research Hypotheses
H01: There is no statistically significant relationship between <i>factor 1, factor 2, and factor 3</i> and business ethics (BE).
HA1: There is no statistically significant relationship between <i>factor 1, factor 2, and factor 3</i> and business ethics (BE).
H01a: There is no statistically significant relationship between the education of owner-managers, increased manager professionalism and education (Edu), and BE.
HA1a: There is statistically significant relationship between the education of owner-managers, increased manager professionalism and education (Edu), and BE
H01b: There is no statistically significant relationship between the new social expectation for the role SMEs are to play in society, young adults’ attitudes and consumerism (Socex), and BE.
HA1b: There is statistically significant relationship between the new social expectation for the role SMEs are to play in society, young adults’ attitudes and consumerism (Socex), and BE

H01c: There is no statistically significant relationship between competition, pace of life, stress to succeed, current economic conditions, the cost of doing business and more businesses competing for less (competition), and BE.

HA1c: There is statistically significant relationship between competition, pace of life, stress to succeed, current economic conditions, the cost of doing business and more businesses competing for less (competition), and BE

H01d: There is no statistically significant relationship between political corruption, loss of confidence in the government, politics, political ethics and business climate (corruption), and BE.

HA1d: There is statistically significant relationship between political corruption, loss of confidence in the government, politics, political ethics and business climate (corruption), and BE

H01e: There is no statistically significant relationship between public disclosure, publicity, media coverage and better communication (PR), and BE.

HA1e: There is statistically significant relationship between public disclosure, publicity, media coverage and better communication (PR), and BE.

H02: There is no statistically significant relationship between the ethical values (BE) of owner-managers and the performance (Pe) of SMEs.

HA2: There is statistically significant relationship between the ethical values (BE) of owner-managers and the performance (Pe) of SMEs

H02a: There is no statistically significant association between the EP (ethical practices) of owner-managers and the Pe of SMEs.

HA2a: There is statistically significant association between the EP (ethical practices) of owner-managers and the Pe of SMEs.

H03: There is no statistically significant association between BE and corporate governance.

HA3: There is statistically significant association between BE and corporate governance

H03a: There is no statistically significant association between BE and the leadership style (LS) of owner-managers.

HA3a: There is statistically significant association between BE and the leadership style (LS) of owner-managers

H03b: There is no statistically significant association between the BE of owner-managers and the organisational policies (OPs) of SMEs.

HA3b: There is statistically significant association between the BE of owner-managers and the OPs of SMEs.

H03c: There is no statistically significant relationship between the BE and EP of owner-managers.

HA3c: There is statistically significant relationship between the BE and EP of owner-managers.

H04: There is no statistically significant association between corporate governance and Pe.

HA4: There is statistically significant association between corporate governance and Pe

H4a: There is no statistically significant association between the LS of owner-managers and the Pe of SMEs.

H4a: There is statistically significant association between the LS of owner-managers and the Pe of SMEs

H04b: There is no statistically significant association between the OPs and the Pe of SMEs.

HA4b: There is no statistically significant association between the OPs and the Pe of SMEs.

3.12 SUMMARY

This chapter reviewed the literature on the general theories of ethics. They are Aristotle's Virtue Theory, which proposes that the integrity of an individual's character determines ethical behaviour, Kant's Deontological Theory, which states that there are objective ethical standards of behaviour that everyone should respect, hence the development of ethical codes, and John Stuart Mill's Utilitarian Theory, which focuses on the practical consequences of an action in order to determine whether it was right or wrong, depending on the result experienced.

Moreover, the review revealed that there is a correlation between ethics and success in business. In the field of corporate governance, an awareness of ethical issues ensures that managers avoid abusing their power or taking improper actions that could result in questionable behaviours and practices within organisations.

Business Ethics is studied at three different levels: the level of individuals, the level of organisations, and the level of society. Dewey pointed out that there are similarities between ethics and morals in the following key aspects: common conduct, attitude, and behaviour. In Dewey's approach, it is wrong to assume that processing ethics and morals is based on the values a person possesses or creates. The ethical dimensions of an enterprise in terms of commercial activity on the systematic, organisational and intra-organisational levels are included in the study of business ethics. Moral assessments of economic practices and activities at the economic system (macro-economic) level, the

organisational (meso-economic) level, and the intra-organisational (micro-economic) level are conducted in the study of business ethics.

Ethical corporate governance deals with ensuring accountability, fiduciary duty and the mechanisms of auditing and control with ethical compliance, without subsidising the primary objective of creating products and services to generate profit, but to keep the intention more balanced with controls that ensure a company pursues profit without crossing the line into the realms of unethical behaviour.

Organisational ethics are deeply involved with both the ethical values and the moral actions of employees and owner-managers. Proactive ethical initiatives have a positive impact on financial performance because ethical behaviours derive from the creation of intangible assets, which are vital to long-term business success. Ethical standards are associated with the formulation of a company's culture; they influence employees' working spirit, portray a good image to the public, develop trusts from customers, and hold benefits from potential customers and/or potential business partners.

Ethical behaviour in governance is defined as the way in which a company's stakeholders attempt to manage collective action from the perspective and in the interest of the majority, thus avoiding damaging behaviour (such as fraud, personal enrichment, insider trading, corruption, deviancy and dubious behaviour) through better control of the power and responsibilities of the company's managers. Ethical leadership is an illustration of standard applicable behaviour through individual actions and interpersonal associations and advancing such conduct among company employees through two-way communication, reinforcement and decision-making. It is important to note that ethical values and corporate governance influences the performance of SMEs.

The next chapter details the research design and the research methodology utilised during the primary data collection and data analysis processes of the study.

CHAPTER 4

RESEARCH METHODOLOGY AND DESIGN

4.1 INTRODUCTION

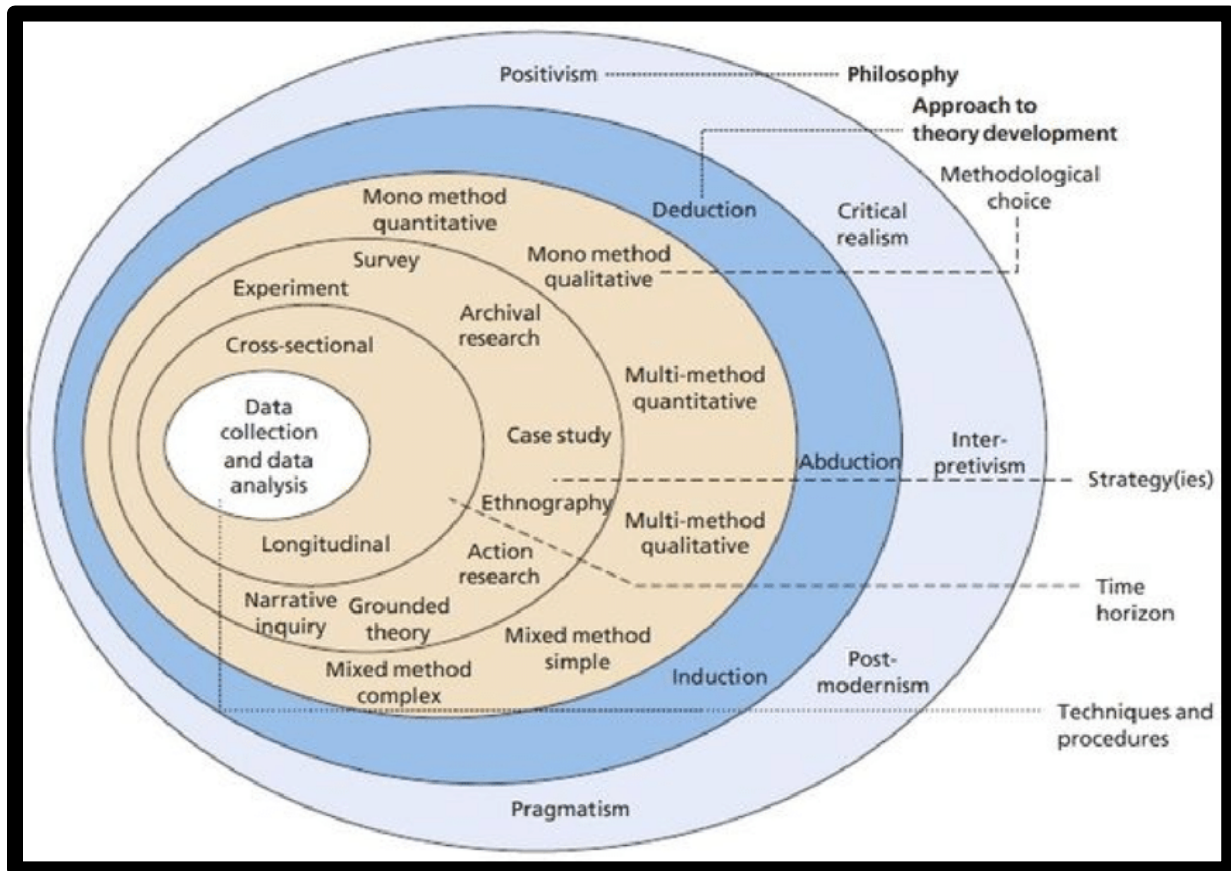
In this chapter, the choice of methodology is presented and motivated, and the researcher explains how the research was conducted. The researcher also describes the choice of theoretical framework and discusses why the particular theories were chosen. Each method used will be justified with examples from the literature. This chapter, also called the research framework, will outline the research methodology applied in the study.

This chapter begins by explaining the specific research approach used in this research; *inter alia*, the research design; the sampling technique; the questionnaire design; and the data collection and analysis techniques.

4.2 RESEARCH PARADIGM/PHILOSOPHY

Merriam (2014) describes a research paradigm/philosophy as fundamental beliefs, which are acknowledged primarily based on religion, and that offer a framework for the research procedure as a whole. The research philosophy of science includes beliefs and assumptions concerning ontology (which refers to the nature of reality), epistemology (which refers to the relationship between the researcher and the research participant), axiology (which relates to what role a researcher's personal values play in the research process), rhetorical structure (the language and presentation of the research study), and methodology (the process and procedures of the research) (Cooper & Schindler, 2014). This research study was approached from the positivistic and post-positivistic paradigm. The research paradigm/philosophy is summarised in Figure 4.1 on the following page.

Figure 4.1: Research paradigm/philosophy



Source: Adapted from Saunders and Lewis (2012)

4.2.1 Research Paradigms

4.2.1.1 Ontology

Ontology originates from the Greek words 'thing' and 'rational account' (Johnson & Christensen, 2014). It pertains to the character of a 'fact'; that is, a fact of an 'objective' nature, and whether or not truth is a product of one's thoughts (Merriam, 2014). In other words, ontology appears as the character of a fact as seen through the lens of the character (Allmark & Machaczek, 2018). It represents what there may be to recognise about the facts of the sector, which is made up of underlying physical and ecological structures and inhabited by individuals whose evaluations are primarily based on their values. The values are tormented by the person's studies, which also causes them to

seek out expertise to achieve their desires (Ernest, Jandrain & Scheen, 2015). There are views that correlate with ontology: objectivism and subjectivism. Objectivists view the sector as being separate or outside the social actors (Parahoo, 2014); they also believe that the world predates people (Ernest *et al.*, 2015).

Objectivism envisages the phenomenon beneath research as tangible and measurable. As the researcher is external to what is being researched, quantitative methodologies are most typically used within the objectivist's worldviews. Quantitative techniques believe that all phenomena can be reduced to empirical signs, which constitute the reality (Merriam, 2014). These quantifiable observations are mostly analytical in nature and lend themselves to statistical evaluation (Kumar, 2019). Subjectivism, on the other hand, relates to the perceptions and consequent movements of social actors. These movements are in a steady state of revision when you consider that they are deemed to be socially built (Allmark & Machaczek, 2018). Subjectivists view fact as being stimulated by using the society wherein phenomena are created (Chakravartty, 2017).

In other words, the sector wherein social actors interact in phenomena is formed through socially constructed occasions. Therefore, from a studies angle, the interpretation of human affairs has fundamental implications for knowledge, actions and effects (Allmark & Machaczek, 2018). This is reiterated by Rahi (2017), who argues that it is impossible to class phenomena because "phenomena are engaged in a manner of non-stop advent".

4.2.1.2 Epistemology

The origins of epistemology lie in the Greek word 'epistēmê' meaning 'knowledge' (Chakravartty, 2017). The question of "how human beings come to acquire knowledge and the beliefs on the way to generate, understand and use knowledge that are deemed to be acceptable and valid" is the philosophy of epistemology (Allmark & Machaczek, 2018). In epistemology, philosophies such as positivism, interpretivism and realism may differ, and sometimes be complementary in the extant literature (Quinlan, Babin, Carr & Griffin, 2019).

Social researchers assume that positivism uses deductive hypothesis (explanations) for the acquisition of knowledge and conducting tests through measuring reality. The

positivist favours the stance of objectively viewing the social world. It is believed that the existence of the social world and social research is exogenously determined; thus, there is the temptation to generalise results (Kumar, 2019).

Interpretivism adopts the approach to acquire knowledge by developing an understanding of phenomena through deep-level investigation and analysis of those phenomena. It does not claim generalisability of outcomes, but rather provides results that are limited to a certain context (Creswell & Poth, 2017). According to the realist stance, scientific theories supply true accounts. However, there may be an additional understanding that people and their behaviours require subjective acknowledgement because subjectivity is inherent to all humans (Creswell & Creswell, 2017).

Epistemology refers to how a researcher's worldview affects understanding (epistêmê) and how it is communicated to other people in a way that could be effortlessly understood and interpreted (Yin, 2017). Accordingly, their assumptions of what constitutes fact determine how they try to garner knowledge about such truth. That is, their view of ontology influences their epistemological underpinnings. Subsequently, their preferred method follows their ontological and epistemological assumptions (Morse, 2016).

4.2.1.3 Research methodology

Research methodology is defined by Bryman and Bell (2015) as a road map, which provides the rules and postulates methods that researchers may use to allow the data to be analysed, criticised, replicated, repeated, and/or adapted, and to choose research methods. In order to apply the methodology in a study, states Hughes and Sharrock (2016), it must stand up to scrutiny and produce credible results (Tobi & Kampen, 2018). Similarly, Walliman (2017) asserts that the research design, methods, approaches and procedures used in a study are the critical components that define the research methodology.

According to Bell, Bryman and Harley (2018), research methodology involves data gathering, participants, research instruments, and data analysis. O'Riordan (2017) summed up the concept of research methodology as a paradigm that articulates the logic and flow of the systematic processes followed in conducting research, to gain knowledge

about a research problem. In research methodology, Healey (2017) states, there should be a discussion and reflection on the assumptions made and the limitations encountered, and how they were mitigated or minimised. Furthermore, research methodology puts great emphasis on how people come to understand the world or acquire knowledge about a part of the social world (Bell *et al.*, 2018). In thinking about the research method for a research proposal, the researcher should ask him/herself a critical question: How shall I go about obtaining the desired data, knowledge and understandings that will permit me to answer my research question and as a result contribute to new knowledge?

Table 4.1 on the next page presents the differences in the paradigms discussed above in terms of how they fit into different research philosophies, which will be discussed in Section 4.2.2.

Table 4.1: Research Philosophies and Paradigms				
Paradigm	Ontology	Epistemology	Methodology	Method
	What is reality?	How can I know reality?	How do you go about finding out?	What techniques do you use to find out?
Positivism	There is a single reality or truth (more realist).	Reality can be measured and hence the focus is on reliable and valid tools to obtain that.	Experimental research Survey research	Usually quantitative, could include sampling measurement and statistical analysis. Involves the use of closed questionnaires.
Interpretive	There is no single reality or truth. Reality is created by individuals in groups (less realist).	Therefore, reality needs to be interpreted. It is used to discover the underlying meaning of events and activities.	Ethnography Grounded Theory Phenomenological research Heuristic Inquiry Action Research Discourse Analysis Feminist Standpoint research	Usually quantitative, could include qualitative interviews; the observation of participants; non-participant case studies; life histories; narrative theme identification.
Post-Positivism	Reality is constantly renegotiated, debated, interpreted	The best method is one that solves problems. Finding out is the means; change is the underlying aim.	Mixed methods Design-based research Action research	A combination of any of the above and more, such as data mining, and expert review.

Source: Manus, Mulhall, Ragab and Arisha (2017)

4.2.2 Research philosophies

4.2.2.1 Positivism

According to Merriam (2014), the testing of hypotheses developed from existing literature, hence, deductive or theory testing, through the measurement of observable social realities derived from natural science, is defined as the positivist position. Morawski (2017) asserts that the positivism approach presumes that the social world exists objectively and externally; for knowledge to be valid it should be based on observations of this external reality; universal or general laws exist; or theoretical models can be developed that are generalisable, can explain cause and effect relationships, and lend themselves to predicting outcomes.

Healey (2017) and Morawski (2017) agree that the approach of positivism is based upon the values of reason, truth and validity, and the use of quantitative methods, such as surveys and experiments and statistical analysis in gathering facts through direct observation and experience. Creswell (2014) relates this to the organisational context by stating that positivists assume that what truly happens in organisations can only be discovered through categorisation and scientific measurement of the behaviour of people and systems, and that language is truly representative of reality.

4.2.2.2 Interpretivist/Constructivist

The interpretive position is viewed by Tracy (2010) as anti-positivist; however, Bryman and Bell (2015) assert that constructivism is post-positivism as there is a fundamental difference between the subject matter of natural and social sciences. Orozco-Vidal (2019) argues that individuals and groups make sense of situations based upon their individual experience, memories and expectations in the social science world. Through experience, according to Heeks and Wall (2018), the interpretivist position is therefore constructed and constantly re-constructed and it results in many differing interpretations that create a social reality in which people act. Moreover, interpretivism is mainly concerned with the discovering and understanding of these meanings and the contextual factors that

influence, determine and affect the interpretations reached by different individuals (Bell *et al.*, 2018).

There is general agreement that with interpretivism there are multiple realities, as all knowledge is relative to the knower (O'Donoghue, 2018). Interpretivism, as stated by Jackson (2018), is working alongside others, drawing meaning from and creating their realities in order to understand their points of view, and interpreting these experiences in the context of the researcher's academic experience. Thus, it is inductive or theory building. Because the focus of the researcher is on understanding the meanings and interpretations of social actors, and on understanding their world from their point of view, it is highly contextual and not widely generalisable (Pulla & Carter, 2018). Tubey, Rotich and Bengat (2015) agree with Abebrese (2013), that it is crucial to understand what people are thinking and feeling, as well as how they communicate, verbally and non-verbally, and given the subjective nature of this paradigm, and the emphasis on language, it is associated with qualitative approaches to data gathering. The researcher also found that the close nature of the researcher and the researched in this paradigm and the risk that any interpretation is framed within the mind of the researcher means that steps must be introduced to avoid bias. Therefore, the use of self-reflection is advised (Creswell, 2014).

4.2.2.3 Post-positivism

According to Tubey *et al.* (2015), post-positivism is a combination of positivist and interpretivist positions. Realism generally states that real structures exist free of human consciousness, but that knowledge is socially created. Saunders and Lewis (2012) assert that our knowledge of reality is the result of social conditioning.

According to Babbie (2015), in common with interpretivist standpoints, realism identifies that social truth is pre-interpreted. Nevertheless, realists, consistent with the positivist position, additionally embody the position that science has to be empirically based. Bristowe, Selman and Murtagh (2015) assert that rationality and objectivity argue that social items can be studied scientifically as social gadgets, not virtually through language and discourse.

While positivists posit that direct causal relationships exist, that those relationships apply universally (leading to prediction), and that the underlying mechanisms can be understood through observation, Doyle (2015) states that realists take the view that the underlying mechanisms are really the powers or dispositions that matter and they should act in a certain way. Hence, the focus is more on expertise and rationalisation than prediction. Even though Blaikie (2000) describes realism as a search for generative mechanisms, he points out that realists recognise that the underlying mechanisms can act independently or out of sync with the observable occasions, and that occasions can occur independently of them being experienced. This is a view that O'Reilly and Parker (2014) consider as a stratified form of fact wherein shallow events are molded through underlying structures and mechanisms; however, what we see is often just a splinter of the image (Gray, 2013). From an organisational viewpoint, Spodek and Saracho (2014) describe the realist researcher as enquiring into the mechanisms and structures that underlie institutional paperwork and practices; how those emerge through the years; how they may empower and constrain social actors; and the way such paperwork may be critiqued and modified.

In addition, O'Reilly and Parker (2014) assert that realists take the view that researching from specific angles and at a couple of stages will contribute to knowledge, considering that facts can exist on more than one level. Hence, realism may be visible as inductive or as idea constructing. Post-positivism specialises in getting to know issues within the context of the stories of the majority of people (Fischer, 1998; Phillips & Burbules, 2000; Wildemuth, 1993). Post-positivism, on the side of quantitative analysis, includes the perspectives of ancient, comparative, philosophical, and phenomenological evaluations (Fischer, 1998). Although post-positivist research scientifically strives to explore the phenomena, it asserts, unlike positivist studies, that absolute truth is nowhere to be found (Guba & Lincoln, 1994; Phillips & Burbules, 2000; Wildemuth, 1993). Post-positivism no longer proposes to disprove the scientific/quantitative elements of positivism within research, rather it emphasises the expertise of the directions and perspectives of any research (Fischer, 1998; Guba, 1990). Furthermore, post-positivism justifies an alternative paradigm after positivism/neo-positivism. It rises up against the limitations of positivism, as positivism associates itself with empiricism and rejects the subjective

perspectives of facts. Moreover, the post-positivistic paradigm promotes the triangulation of qualitative and quantitative research methods, which explores the range of data researchable through different forms of investigations; however, it also respects and values all findings as important components to improve understanding (Clark, 1998; Fischer, 1998).

4.2.3 Differentiating between positivism and post-positivism

While positivism and post-positivism are viewed as the same paradigm, there are some differences in their ontological and epistemological views. Post-positivism as a paradigm displays an epistemological and ontological evolutionary method, highlighting the epistemological stance that research results consist of an estimation of fact instead of absolute reality, as meditated in the positivist stance (Creswell, 2014; Denzin & Lincoln, 2017). Hammersley (2019) highlight a few key assumptions related to this paradigm, reflecting an “epistemological skepticism” that knowledge is conjectural. Thus, the focal point of the research studies is to make claims and reform, abandon or refine those for other extra strongly warranted claims. Ontologically the angle is one that assumes an understanding of truth from the context of reality being a potentially imperfect expertise (Kivunja & Kuyini, 2017).

Furthermore, post-positivism recognises the existence of unobservable entities, in addition to the ability to explain observable phenomena (Creswell, 2014). The methodological recognition within the post-positivist paradigm reflects the use of “a couple of methods” from quantitative and qualitative data resources in the search for truths, which can be found by way of what was once viewed as a dichotomous position (Rolfe, 2006).

There has been criticism of the stance that “holism” is neglected and, in essence, post-positivism is a restrained attempt to address the grievances of the positivist paradigm (Mertens, 2015; Patton, 2014). This point of view is contested, with O'Leary (2014) arguing that post-positivism is intuitive, holistic, inductive and exploratory. However, authors like Guba (1990), and Denzin and Lincoln (2017) hold the view that the positivist and post-positivist paradigm are linked more to quantitative research; this assertion is

supported by Mertens (2015) and Patton (2015). Nonetheless, post-positivism strongly supports the usage of a few qualitative techniques.

4.2.4 Justifying the use of positivism in this study

According to Powell (2014), quantitative research is associated with descriptive statistics (that is the counting and measuring of variables), inferential statistics (in the form of probing the data by performing statistical analysis like hypothesis testing) and numerical data. Certain authors, including Mertens (2015) and Ryan (2018), explain that an objective truth, which exists in the world, can be measured and explained scientifically; this became the main assumption behind the positivist paradigm. Hence, the main argument for using positivism in quantitative research is that the measurement used in the research is reliable, valid, and generalisable in its clear prediction of cause and effect (Ryan, 2018).

Park and Park (2016) postulate that quantitative research is generally deductive and particularistic through the formulation of the research questions and by verifying them empirically on a specific set of data; this is favoured by positivism. Parahoo (2014) supports the view that objectivism is well achieved in positivism as the researcher's own values, biases, and subjective preferences are subdued. Grove, Gray and Burns (2015) conclude that positivism, particularly logical explanation, is recognised as one of the most viable approaches to explain a phenomenon.

4.3 RESEARCH DESIGN

According to Kumar (2019), research design is defined as “a plan, structure and strategy of investigation so conceived as to obtain answers to research questions or problems”. Thus, research design refers to the plans that promote the systematic management of data collection. It could also be defined as a procedural plan that is adopted by the researcher to answer questions validly, objectively, accurately and economically.

Creswell (2014) asserts that the ability of a researcher to plan an appropriate research process, which provides valid eventual results, is viewed as the core function of a research design. According to Johnson and Christensen (2014), there are three basic

types of research design, namely, qualitative design, quantitative design, and mixed method design. The choice of research design to be used in a study depends on the nature of the research and the possible limitations of the research project.

In the next section, three basic types of research designs are outlined.

4.3.1 Quantitative research

Creswell (2014) defines quantitative research as, “The means for testing objective theories by examining the relationship among variables. These variables in turn, can be measured typically, on instruments, so that numbered data can be analysed using statistical procedures.” The quantification of constructs by way of assigning numbers to the perceived qualities of things is believed to be the best manner of measuring constructs (Cooper & Schindler, 2014). Describing and analysing the behaviour of observations and recognising the control for sources of error in the research process are the key roles of variables in quantitative research (Brannen, 2017).

Kumar (2019) highlights that in the quantitative research approach the main purpose is to develop and apply mathematical models, theories and/or hypotheses pertaining to a phenomenon. The research findings are then subjected to inferential statistical analysis in order to generalise the sample data into the total population. According to Patten and Newhart (2017), the generation of models, theories and hypotheses; the development of instruments and methods for measurement; the collection of empirical data; the modelling and analysis of data; and the evaluation of results are the key aspects of the quantitative research approach.

According to Johnson and Christensen (2014), quantitative research:

- looks at cause and effect and makes predictions of variables,
- is based on the precision of measurements by using structured and validated data-collection instruments,
- makes use of a larger and randomly selected sample,

- allows the researcher to test the theory with the empirical data, and
- describes, explains, and predict variables.

4.3.2 Qualitative research

Creswell (2014) defines qualitative research as follows: “A means for exploring and understanding the meaning individuals or groups ascribe to a social or human problem. The process of research involves emerging questions and procedures. Data is typically collected in the participant's setting. Data analysis inductively builds from particulars to general themes and the researcher making interpretations of the meaning of the data.” Dobbie, Reith & McConville (2018) states that qualitative research captures the underlying explanations for human behaviour; it also plays an important role in behavioural sciences. Johnston (2014) illustrated the classification and making connections between the data variables, and that the process followed in qualitative research is more iterative than linear. Moreover, in answering the ‘why’ question of phenomena, the researcher normally uses non-numerical textual or descriptive data, by using tools such as interviews (Brannen, 2017). According to Silverman (2019), qualitative methodology is based on interpretivism/constructivism, which adopts a subjective ontological view of the world, in that reality is socially constructed (Cooper & Schindler, 2014).

Qualitative research is consequently deemed more fluid in nature, viewing the social world from the researcher's point of view (Glesne, 2016). It considers that there are multiple-constructed realities, which cannot be explained absolutely via analysing numerical data (Flick, 2018). It consists of approaches such as grounded theory, ethnography, and action research (Lune & Berg, 2016).

4.3.3 Mixed Method

Creswell and Clark (2017) define the mixed method approach as research, which results from a pragmatist view that integrates the qualitative and quantitative approaches within different stages of the study process. This definition emphasises the paradigm and the

integration of data. From Creswell and Clark's (2017) view, the researcher concludes that this approach combines good qualities of the qualitative and quantitative approaches.

Similarly, Creswell and Creswell (2017) describe the mixed method approach as a method that combines qualitative and quantitative approaches to theory, data collection, data analysis and interpretation. McKim (2017) states that the mixed method approach encapsulates collecting, analysing and integrating qualitative and quantitative information in a single research unit. Unlike Creswell and Creswell (2017), both McKim (2017) and Bulsara (2015) emphasise integration in every stage of the research process. However, all three scholars agree that the mixed method approach makes use of the benefits of both quantitative and qualitative approaches. Flick (2017) adds that the mixed method approach prescribes the application of many approaches in answering research questions, instead of confining the researcher's choices. These scholars emphasise the legitimacy of combining the qualitative and quantitative approaches.

Supporting the definition of the mixed method approach, Walliman (2017) describes the following key characteristics that define this approach:

- it employs post-positivism, realism and pragmatic knowledge stances;
- it uses sequential, concurrent and transformative inquiry models;
- it combines both qualitative and quantitative approaches;
- the data can be collected simultaneously or sequentially, depending upon the research design. Priority can be given to either data type or both approaches could be equally considered;
- it allows scholars to expand and interchange from one approach to another or converge/confirm results;
- the researcher can draw on the breadth of generalisations offered by both the approaches; and
- its designs may or may not be driven by a theoretical perspective.

The researcher's capacity to interpret and deduce meaning from what he/she sees may be critical for understanding social phenomenon; this is also described as the mixed method approach by Leavy (2017). It can be concluded that the mixed method approach

is a hybrid of qualitative and quantitative research. Table 4.2 below highlights the major differences between qualitative and quantitative research.

Table 4.2: Differentiation between qualitative and quantitative research

Qualitative research	Quantitative research
The aim is to complete a detailed description.	The aim is to classify features, count them, and construct statistical models in an attempt to explain what is observed.
The researcher may only know roughly in advance what he/she is looking for.	The researcher knows clearly in advanced what he/she is looking for.
It is recommended during earlier phases of research projects.	It is recommended during later phases of research projects.
The design emerges as the study unfolds.	All accepts of the study are carefully designed before the data is collected.
The researcher is the data-gathering instrument.	The researcher uses tools, such as questionnaires or equipment, to collect numerical data.
Data is in the form of words, pictures or objects.	Data is in the form of numbers and statistics.
It is subjective – an individual’s interpretation of events is important; for example, it uses participant observation and in-depth interviews.	It is objective: it seeks the precise measurement and analysis of target concepts; for example, it uses surveys and questionnaires.
Qualitative data is more ‘rich’, time consuming, and less able to be generalised.	Quantitative data is more efficient, and able to test hypotheses, but may miss contextual detail.

The researcher tends to become subjectively immersed in the subject matter.	The researcher tends to remain objective.
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Source: Adapted from Creswell and Creswell (2017)

4.3.4 The rationale for using quantitative research in this study

This quantitative approach was used in this study to quantify responses through generating numerical data on ethical values and performance measures, among other variables. The researcher identified SPSS, Version 26, software that was used to analyse and store the data and to quantify attitudes, opinions, behaviours, and other defined variables (Patten & Newhart, 2017).

The quantitative research approach involved gathering data using a structured questionnaire (Cooper & Schindler, 2014; Sekaran & Bougie, 2014), which was electronically mailed to the chosen sample. The choice to use a quantitative research design was based on the properties of the design, which allows for data analyses through statistics and hypotheses testing; the results can be generalised to a wider setting. In addition, the results obtained through quantitative research are objective and the design is more scientific, when compared to qualitative research (Dobbie, Reith & McConville, 2018).

The presentation of results begins with descriptive statistics, which describe what the sample is. This can take the form of univariate statistics (such as frequency distributions, means, and standard deviations) or simple graphs (such as pie charts, bar graphs, or histograms). Bivariate results are commonly presented next to show the demographic distributions of key variables of interest. Finally, the results of statistical models in which control variables are included are presented and interpreted. Such models allow researchers to rule out alternative explanations and to specify the conditions under which their hypotheses are upheld (Creswell & Creswell, 2017).

The quantitative approach was useful for addressing specific questions about relatively well-defined phenomena. Quantitative analysis requires high-quality data in which

variables are measured well (meaning the values of the variables must accurately represent differences in the characteristics of interest); this can be challenging when conducting research on complicated or understudied areas that do not lend themselves well to being measured with specific variables. Because it uses deductive logic and is therefore more easily viewed as 'real science', the quantitative approach is often perceived as providing stronger empirical evidence than other research approaches.

In this study, quantitative research design was used to arrive at a valid and convergent conclusion about the link between ethic values and performance. The hypotheses of the study were tested using chi-square test, regression equation, correlation and principal component factor analysis.

4.4 POPULATION, SAMPLE AND SAMPLING

In this section, target population, sample framework and sample size will be discussed.

4.4.1 Population

Target population is defined as the total number of subjects who meet the research criteria and usually have varying characteristics (Creswell & Creswell, 2017). Wegner (2016) suggests that the target population is the aggregate of all elements from which a sample is selected. The target population of this study consisted of SMEs (that is businesses with no fewer than 20 and no more than 200 employees) in Durban South, in the eThekweni Municipality of KwaZulu-Natal. The Durban South area includes the CBD and Port of Durban and extends south from the CBD for 24 kilometres to Umbogintwini, as shown in Figure 1.1.

In respect of the above criteria of defining SMEs, the target population for this study was chosen from the membership list of the Durban Chamber of Commerce and Industry (DCCI), which indicated 700 SMEs in the eThekweni municipal region. However, as there were no records/databases of all the SMEs in the Durban South area, the sampling frame consisted of SMEs in the Durban South area, who were members of the DCCI. In this study, using the actual physical addresses of the SME businesses on the membership

list, the target population was 500 active SMEs businesses in the Durban South area. The SMEs chosen employed between 21 and 200 full-time employees.

4.4.2 Sample size

A sample should be a relatively true representation of the target population in terms of the respondents. Although there are no general rules, generally a sample size larger than 30 and less than 500 are appropriate for most research studies (Dobbie, Reith & McConville, 2018).

According to Wegner (2016), a sample is a subset of the population. However, not all the elements of the population will form the sample and by studying the sample, the researcher may draw conclusions or make inferences that allow generalisations about the target population. According to the Morgan sample size table, developed by Sekaran and Bougie (2014), at the 95% confidence level, for a population consisting of 500 units/elements, a sample size of 217 was used. Krejcie and Morgan's (1970) sample size table suggests the optimal sample size given a population size, a specific margin of error, and a desired confidence interval. According to Creswell and Creswell (2017), probability sampling techniques are normally applied when the study uses a sampling frame.

4.4.3 Sampling procedures

The sampling method includes drawing a representative sample, which includes all the elements of the universe, which may be finite or limitless. Kumar (2019) defines population or universe as the mixture of all the factors, while the survey population is the combination of elements from which the pattern is selected. According to Creswell and Creswell (2017), the target population refers to the group of people or corporations who shape the item of the survey and from which conclusions are drawn. The sampling unit refers back to the entity that is the point of interest of the survey. In order to select sampling devices, a sampling frame is needed. The sampling frame normally is obtained from census lists, phone directories, maps, payrolls, and club lists of organisations. The sampling frame incorporates the complete lists of all of the devices from which the sample is drawn (Kumar, 2019).

For Goertzen (2017), the benefit of sampling is that it involves a lesser range of topics, which is value-powerful and saves time. Sampling is also more accurate than reading an entire population due to greater manipulation over the topics. Moreover, large research can lose findings; eventually, it is far easier to conduct statistical manipulations on smaller data sets, and human error is eliminated when inputting and analysing the data (Nardi, 2018).

Sampling methods in research are divided into two categories. They are probability and non-probability sampling (Goertzen, 2017).

4.4.3.1 Probability sampling

According to Etikan, Alkassim and Abubakar (2016), with probability sampling, the likelihood of any one member (or element) of the population being selected, is known. Probability sampling is based on random selection of respondents and exists within a quantitative paradigm. Cooper and Schindler (2014) state that non-probability sampling is non-random, but arbitrary and subjective. In non-probability sampling, the exact number of observations in the population is unknown, with the result that the likelihood of selecting any one member/element of the population is not known.

According to Bryman and Bell (2015), researchers use simple random sampling because each observation remaining in the population has the same probability of being selected for the sample. Zyphur and Pierides (2017) state that probability sampling includes simple random sampling, stratified random, cluster, and systematic sampling:

- Simple Random Sampling – every member of the population has an even chance and likelihood of being selected;
- Stratified sampling – the populace is split into interest organisations or strata by way of the research team, in keeping with a not unusual feature, after which the research crew conducts a random sample from inside each group;
- Cluster Sampling – this is a variation of stratified sampling and involves two levels; that is, dividing the population into geographic regions and choosing units or people in the selected geographic regions for a random pattern; and

- Systematic Sampling – is a type of probability sampling method in which sample members from a larger population are selected according to a random starting point and a fixed periodic interval (Creswell & Creswell, 2017).

4.4.3.2 Non-probability sampling

A non-probability sampling approach can be used to sample the populace. In non-probability sampling, not every unit of the population is guaranteed to be included in the sample and examples are haphazard/convenience, quota, purposive/judgmental, snowball and maximum variation (Kumar, 2019):

- Convenience sampling is generally known as careless, unsystematic, accidental or opportunistic sampling. The researcher selects certain units convenient to him/her. It requires no pre-planning for the selection of items. In using convenience sampling the researcher only concentrates on readily available respondents (Braun & Clark, 2016);
- Quota sampling combines the features of purposive sampling and stratified sampling. Under quota sampling, field workers include only those units which conform to certain specified parameters in the sample. Each field worker is assigned quotas of number of units to include according to one or more characteristics (Patten & Newhart, 2017);
- Judgement sampling involves the selection of a group from the population on the basis of available information. It can also be the selection of a group by intuition on the basis of criteria deemed to be self-evident (Braun & Clark, 2016); and
- In snowball sampling, members are sampled and then asked to help identify other members to sample and this process continues until enough samples are collected (Wegner, 2016).

4.4.3.3 Application of simple random sampling in this study

For the purposes of this study, the probability sampling method was used, as this sampling method utilises some form of random selection. 500 SMEs, located in the Durban South area, which were registered with the DCCI constituted the target population. The recommended sample size for this study was obtained from the generalised scientific guidelines for sample size decisions, developed by Krejcie and

Morgan (1970, as cited in Sekaran & Bougie, 2014). By applying this model to the target population of 500 members, a sample size of 217 was selected. The 217 SMEs were chosen using a simple random sampling method whereby computer-generated random numbers were used to select the sample. If any numbers were repeated, those numbers were not considered. According to Bristowe, Selman and Murtagh (2015), simple random sampling provides the researcher with a sample that is inclusive of the population under investigation, assuming that there is limited missing data. Moreover, Glaser and Strauss (2017) explain that simple random sampling allows us to make generalisations from the sample to the population, as the observations selected for inclusion in the sample are chosen using probabilistic methods. Thus, this is advantageous because such generalisations are more likely to have external validity.

Simple random sampling required the researcher to develop an accurate sampling frame of SMEs, chooses exact elements from the sampling frame using mathematical calculations to determine the 500 elements required to form part of the research sample.

4.5 INSTRUMENTATION AND DATA COLLECTION PROCESS

The primary data, in respect of the impact of the ethical values of SME owners-managers and the performance of their enterprises in the study area, were collected by means of a self-administered questionnaire (Annexure C). A questionnaire is a written instrument used to obtain information from the sample respondents. According to Creswell and Creswell (2017), a researcher uses the questionnaire for the following reasons:

- Questionnaires ensure that information from different respondents is comparable;
- Questionnaires increase the speed and accuracy of recording responses;
- Questionnaires facilitate data processing;
- Questionnaires are economical in terms of time and money;
- Questionnaires enable the respondents to remain anonymous;
- Self-administered questionnaires, by ensuring the anonymity and privacy of the respondents, encourage more honest responses, and

- Self-administered questionnaires are less expensive than other data gathering methods.

The questionnaire was emailed for the attention of the owner/managers of the sampled enterprises. The questionnaire included closed-ended questions. The questions were informed by the literature review, as well as by previously developed questionnaire used in similar studies.. The questionnaire used in this study was adapted from questionnaire used in studies undertaken by Botha (2012), Fatoki and Chiliya (2012), Gachina (2016) and Turyakira (2018). The questionnaire was divided into the following sections, in line with the objectives of this study:

Section A: Basic personal information (biography) about the respondent and the SME.

Section B: Ethical values of SME owners-managers.

Section C: Factors affecting ethical values.

Section D: Corporate governance and leadership.

Section E: Financial and non-financial measures of performance used by SMEs.

The questionnaire was pre-tested among ten organisations in order to identify and remove any ambiguity and/or superfluous questions, and to ensure that the questionnaire aligned with the aim and objectives of the study. The researcher used closed-ended questions because it was easier to code and analyse the responses. Every response was assigned a number or value to facilitate data capturing. According to Kumar (2019), closed-ended questions are more specific and force respondents to reply according to the dimensions that are of interest to the researcher.

The layout of the questionnaire was kept simple to encourage meaningful participation by the respondents, and the questionnaire consisted of 17 closed-ended questions, which included a mix of dichotomous questions; multiple-choice questions; and rating questions. According to Nardi (2018), a dichotomous question is a question that offers two alternative answers to choose from, whilst a multiple-choice question is a question with more than two alternative answers. Kumar (2019) defines the Likert scale as a summated rating scale, which consists of statements that express either a desirable or undesirable opinion

or attitude of a subject. Given that the study was quantitative in nature, six questions made use of a 5-point Likert scale, while two were dichotomous questions, and the remaining nine questions were multiple-choice questions. The questionnaire was addressed to the owners/managers of the SMEs. The contact details of these owners/managers were obtained from the DCCI's directory for 2018/2019. The self-administered questionnaire was emailed to 217 owners/managers of SMEs located in the Durban South area of KwaZulu-Natal.

4.6 RELIABILITY AND VALIDITY

Salazar, Crosby and DiClemente (2015) define reliability as the degree to which the measure of a construct is consistent or dependable. Reliability implies consistency and not accuracy. Reliability also refers to the extent to which the measurement process is free from random errors. Moreover, reliability refers to the extent to which obtained scores may be generalised to different measuring situations. Reliability would normally be tested by applying the same instrument at different times in order to assess whether or not the same results are achieved. However, this is not practical; hence, Cronbach's alpha was used to test the reliability of the instrument. In order for the measuring instrument to be deemed reliable, an alpha score in excess of 0.50 must be achieved (Kumar, 2019). For this questionnaire, the coefficients of Cronbach's α of the constructs all were higher than 0.70, thereby indicating an acceptable internal consistency of the measurements.

Validity refers to the extent to which the measurement process is free of both systemic and random errors. It also refers to how well the data measure what they are supposed to measure (Creswell & Creswell, 2017). Furthermore, validity refers to the results of the test, and not the test itself. In quantitative research, the ultimate question is whether valid conclusions may be drawn from a study, given the research design and controls employed (Nardi, 2018). According to Bell, Bryman, and Harley (2018), a valid questionnaire should comply with the following aspects:

- Relevant: does the questionnaire obtain the information it was designed to seek?
- Complete: is all desired relevant information obtained?

- Accurate: can reliance be placed upon the responses to the questions?

The face validity of the questionnaire was tested using experts (in the areas of SMEs and ethical values), who analysed and interrogated the questionnaire to establish whether it covered the study's objectives. Their feedback was used to improve the questionnaire. Moreover, to improve the validity of the questionnaire, a pilot study, was conducted among ten randomly selected SMEs within the Durban South area in KwaZulu-Natal. The ten respondents, who were used in the pilot study, were not included in the sample of 217.

4.7 PILOT STUDY

A pilot study is a mini-version of a full-scale study, or a trial run in preparation of the complete study (Farquhar, 2012). It can also be a specific pre-testing of research instruments, including questionnaires or interview schedules. The pilot study followed after the researcher had set out the research topic and objectives, the techniques and methods which were applied in terms of data collection, and what the research schedule would look like. The pilot study was conducted among ten randomly selected respondents within the study area to assist in determining if any of the questions were ambiguous; the average time taken to complete the questionnaire; and to establish if the research instrument was aligned to the research objectives. The results of the pilot study revealed that two questions were ambiguous; these were rephrased. The results also indicated that the average time to complete the questionnaire was 15 minutes, and that the research instrument was aligned to the research objectives. The SMEs with whom the pilot study was conducted were not included in the sample of 217 SMEs.

4.8 ANALYSIS OF DATA

According to Blumberg, Cooper and Schindler (2014), data analysis is used to describe facts, determine patterns, develop explanations, and test hypotheses. In data analysis, the raw data (unprocessed information) is ordered and organised to enable the extraction of useful information from it. In this study, the data from the 175 fully completed questionnaires was captured and coded on Microsoft Excel spreadsheets, and was

processed using the SPSS, Version 26, software, and the results were presented in the form of graphs and tables.

Data analysis for this study was composed of descriptive statistics and inferential statistics. Bell *et al.* (2018) define descriptive statistics as a form of data analysis, which is used to convert raw data into useful and meaningful information, which is easy to understand, interpret, and re-arrange. Descriptive statistics can also be used to summarise information about a population or a sample. In this study, the descriptive statistical tools that were used were frequency distribution tables, histograms and pie charts.

Inferential statistics is simply defined as those statistical methods that are used to draw conclusions and probe characteristics about a population based on the sample data collected (Cooper & Schindler, 2014). According to Kumar (2019), inferential statistics are produced by more complex mathematical calculations, and allow one to infer trends about a larger population, based on a study of a sample taken from it. Inferential statistics is used to examine the relationships between variables within a sample, and then make generalisations or predictions about how those variables will relate within a larger population. Inferential statistics enable the testing of assumptions, questions or theories with the data collected, and provide empirical conclusions based on a certain level of significance, which is usually 5%.

In this study, the technique that was used as part of the inferential statistics in the examination of the relationships between entrepreneurial competencies and performance of SMEs was Pearson's chi-squared test. According to Blumberg *et al.* (2014), the chi-square test measures the "differences between observed distribution of data amongst categories and the expected distribution based on the null hypothesis (Ho)". This null hypothesis (Ho) assumes that two variables are independent of each other, while the alternative hypothesis assumes the existence of a relationship between two variables. The results of Pearson's correlation were established but not discussed, as the nature of this study was to determine the degree of strength of the association between the components of business ethics and the performance of SMEs.

4.9 LETTER OF INFORMATION AND CONSENT

A letter of information, which outlined the purpose of the study, and a consent form (refer to **Annexure A**) accompanied the questionnaire. The letter offered the potential respondents the opportunity to ask questions about the study and decide whether, or not, to participate in the study.

4.10 ETHICAL CONSIDERATIONS

According to Silverman (2019), the goal of ethics in research is to ensure that no one is harmed or suffers adverse consequences from the research activities. Ethical clearance for the survey instrument was obtained from the DCCI (**Annexure E**). The study also adhered to the regulations and principles of the Durban University of Technology's research ethics policy and guidelines. As mentioned above, all the participants and stakeholders in this research were provided with information and a letter of consent prior to their participation in the research (**Annexure B**). The letter of information contained a detailed account of the rights of the participant. Efforts were made to protect the anonymity and confidentiality of the respondents and information used in the research will be disposed of after the study. Furthermore, the respondents were not required to include their names and addresses, or the cellphone numbers of their organisations, thereby ensuring the anonymity of their responses. Concerning the interviews, the researcher, before every interview, assured the respondents of their anonymity and confidentiality by reading the letter of informed consent.

According to Babbie (2013), being formal can greatly assist in ensuring that ethical issues are addressed. The key aspects of ethics are voluntary participation, no harm to the participants, and anonymity and confidentiality. Moreover, no one should be forced to participate in the research.

Against this background it was decided not to offer any form of compensation to the individuals who agreed to participate in the research. Research has shown that money or presents might force people to participate in research against their will. Furthermore, any

form of compensation might have a bearing on the answers provided by the respondents, which could jeopardise the results of the research.

A final critical issue is that of harm. It is of great importance to note that social research should never harm the people being studied, regardless of them volunteering or not (Eaton, 2020). When one looks at the definition of 'harm', it does not only include physical harm, but also psychological harm. This study ensured that the participants were not harmed or exposed to danger because of particular questions that were posed, in both the questionnaire and the interview. Babbie (in Brannen, 2017) critically mentioned that investigation techniques should never ask for information that will embarrass participants or endanger their home life, friendships, or employment. Everything possible was done, to the best of the researcher's experience, to avoid harming or exposing the respondents to danger of any kind, which could arise from the questionnaires and/or interview questions.

4.11 LIMITATIONS OF THE STUDY

Generally, research has limitations. A limitation is defined as an uncontrollable threat to the validity of research. This study also has limitations, some of which are common disadvantages of quantitative research (Berger, 2013). The literature reviewed for the study was limited to the impact of the ethical values of SME owner-managers on the performance of their enterprises. Quantitative research method involved structured questionnaire with close ended questions. It leads to limited outcomes, hence, the results may not had represented the actual occurring, in a generalised form. Also, the respondents had limited options of responses, based on the selection made by the researcher (Kumar, 2019).

Another limitation related to the dependency on key participants to obtain sufficient information to lay the foundation for analysis and discussion (McKenny, 2014). Initially, the aim was for the data collection to be completed sooner. However, it was challenging to get hold of the owner-managers, as they all had very busy schedules. It was also

difficult to obtain information from representatives, as most of them had no idea of the subject at hand.

The research was expensive and required a lot of time to be performed the analysis. A large proportion of respondents is appropriate for the representation of the target population. So, as to achieve in-depth responses on an issue, data collection in quantitative research methodology is often too expensive as against qualitative approach (Kumar, 2019).

Respondent bias refers to viewpoint bias, which averts the response of participants away from providing accurate responses (Vithal & Jansen, 2012). This limitation is common in studies that involve participant self-administered reporting, such as the questionnaire. The questionnaire was directed at owner-managers and, as such, there was the risk of ego-related responses; bias; and question misinterpretation or ignorance.

4.12 CONCLUSION

This chapter discussed the following salient aspects, *inter alia*, the research aim and objectives; the research design; the sampling technique; the questionnaire design; and the data collection and analysis technique. Additionally, the chapter examined the data gathering technique used for the research, in particular the rationale for choosing a self-administered questionnaire, and the need for a cover letter.

There are three basic types of research designs, namely qualitative design, quantitative design, and mixed method design. The mixed method approach is research that results from a pragmatist view, which integrates the qualitative and quantitative approaches within different stages of the study process. Quantitative research is associated with descriptive statistics (that is the counting and measuring of variables), inferential statistics (in the form of probing the data by performing statistical analysis, like hypothesis testing), and numerical data.

Simple random sampling provides the researcher with a sample that is inclusive of the population under investigation, assuming that there is limited missing data. The pilot study was conducted with ten randomly selected respondents within the study area to

determine if any of the questions were ambiguous; to establish the average time taken to complete the questionnaire; and to ascertain whether the research instrument was aligned to the research objectives.

The completed questionnaires were captured and coded on Microsoft Excel spreadsheets, and processed using SPSS, Version 26, software. The results were presented in the form of graphs and tables. Sampling methods in research are divided into two categories, namely probability and non-probability sampling. For the purposes of this study, the probability sampling method was used as this sampling method utilises some form of random selection.

In the next chapter, the results of the study are presented, analysed and discussed.

CHAPTER FIVE

RESULTS AND DISCUSSION

5.1 INTRODUCTION

Chapter four discussed the research design and methodology in order to justify how the data collection was conducted. The chapter also paved the way with regard to how the collected data would be analysed using various steps, as outlined in this section. Utilising the data collected, this section will answer the research objectives and hypotheses formulated in the first chapter.

SPSS Version 26 was used as the main tool to analyse the data, and the results were presented in the form of frequency tables, bar charts, histograms and pie charts in order to enhance their understanding. Because the questions were closed ended, contained binary and 5-point Likert scale questions, the reliability and validity were measured by the means of Cronbach's alpha. A variety of appropriate inferential statistical tools, including correlation matrix, linear regression and a chi-square test, were used to analyse and interpret the data collected from the participants to identify important patterns and relationships. Resulting from this, the research questions were answered.

5.2 PARTICIPANTS' RESPONSE RATE

The researcher distributed 217 questionnaire to SMEs in the study area. 195 respondents fully completed and returned the questionnaire and the response rate was 89.86%. The response rate compared well with those of previous studies conducted among SMEs. Fatoki (2014), in a study on the impact of managerial competencies on the performance of immigrant-owned SMEs in South Africa, achieved an effective response rate of 38.6% while Bigliardi, Colacino and Dormio (2011), in a study on the innovative characteristics of SMEs in Italy, achieved a response rate of 45%. The response rates for both studies cited above were considered adequate to draw meaningful conclusions. Hence, the response rate for this study is regarded as acceptable to proceed with the analysis and interpretation of

the data. Before the discussion of the findings from the empirical research are presented and analysed, Cronbach's alpha test is discussed below.

5.3 RELIABILITY OF RESEARCH INSTRUMENT

For an empirical research to be reliable, it relies primarily on validity, or vice versa. Cronbach's alpha is a measure commonly used in quantitative research to demonstrate that the tests and the research instrument developed during the study are fit for purpose (Plummer & Ozcelik, 2015). In this study, Cronbach's alpha was used to determine the reliability, or the internal consistency, of the instrument or the instrument scale in relation to the population sample for the study. Reliability implies that the scores of an instrument are stable and consistent (Kumar, 2019). The scores should remain the same when the instrument is administered repeatedly at different times, and they should remain consistent. Validity, on the other hand, refers to the individual scores of an instrument which are meaningful and allow the researcher to draw good conclusions from the sample population being studied (Creswell & Creswell, 2017). Reliability can more easily be understood by identifying the testing methods for stability and consistency. To ensure that both issues are satisfied, the pilot test was administered to SMEs, where the respondents were not involved in the actual research. Table 5.1 on the following page indicates the reliability and validity of the statements or questions that were employed during the construction of the questionnaire.

Table 5.1: Cronbach’s alpha scores for questionnaire items

Section	Description	No. of items	Cronbach’s alpha	Comment on the internal consistency
A	Demographic factors	7	0.518	fair
B	Business ethics	33	0.530	fair
C	Factors affecting business ethics	20	0.735	good
D	Corporate governance	10	0.626	fair
E	Financial and non-financial measures of SMEs’ performance	19	0.924	excellent
Average			0.813	very good

From the tabulated information above (Table 5.1), the Cronbach’s alpha scores for items related to demographic factors, business ethics and corporate governance indicated fair internal consistency on the items, as they ranged between the values of 51.8% and 62.6%. A Cronbach’s alpha score of 0.735 was recorded on items relating to the factors affecting business ethics. This indicates a good level (73.5%) of internal consistency based on the questionnaire items under discussions. An excellent Cronbach’s alpha score of 0.924 was recorded for the components stated in Section E of the questionnaire – financial and non-financial measures of the SMEs’ performance – which reflects a very high level of internal consistency regarding the components of this part of the questionnaire. An average Cronbach’s alpha score of 0.813 was recorded on all the statements/questions of the questionnaire. This highlights a good level (81.3%) of internal consistency in the questionnaire regarding all the items of the questionnaire.

5.4 DESCRIPTIVE STATISTICS

According to Heeks and Wall (2018), descriptive statistics is concerned with the descriptions or summaries of empirical data obtained for a group of individual units. Descriptive statistics are the most efficient means of summarising the characteristics of large sets of data (Heeks and Wall, 2018). Moreover, Heeks and Wall (2018) point out that in an analysis of data, the researcher calculates one number or a few numbers that

reveal something about the characteristics of large sets of data. In this section, the results are presented using descriptive statistics in the form of graphs, tables and charts for the quantitative data collected

5.5.1 DEMOGRAPHIC VARIABLES

This section provides a general overview on the sample statistics, to obtain a better understanding of the respondents' demographic and background information.

5.5.1.1 Industry in which SMEs operate in Durban South area

The purpose of the question was to determine the industry in which the SMEs in the sample operated; the results are shown in Table 5.2. The responses displayed in Table 5.2 on the next page reflect the most common industries in which respondents in the study area operated. The largest number of respondents (15.9%) in the study area were found to operate in the catering and accommodation sector, followed by finance and business services (15.4%). Two industries polled the same response rate of 10.8%, namely, agriculture and other. Manufacturing, and community and personal services recorded the same response rate of 6.2%, which represents the smallest number of respondents from the study.

Table 5.2: Industry in which SMEs operate in the Durban South area

Industry	Frequency	Percentage	Cumulative Percentage
Agriculture	21	10.8	10.8
Manufacturing	12	6.2	16.9
Construction	17	8.7	25.6
Retailing, and motor trade and repairs services	18	9.2	34.9
Wholesale commercial agents and allied services	15	7.7	42.6
Catering and accommodation	31	15.9	58.5
Transport, storage and communication	18	9.2	67.7
Finance and business services	30	15.4	83.1
Community and personal services	12	6.2	89.2
Other	21	10.8	100.0
Total	195	100.0	

Source: Own field work

‘Other’ is the industry that usually consists of recruitment, cleaning and administration enterprises.

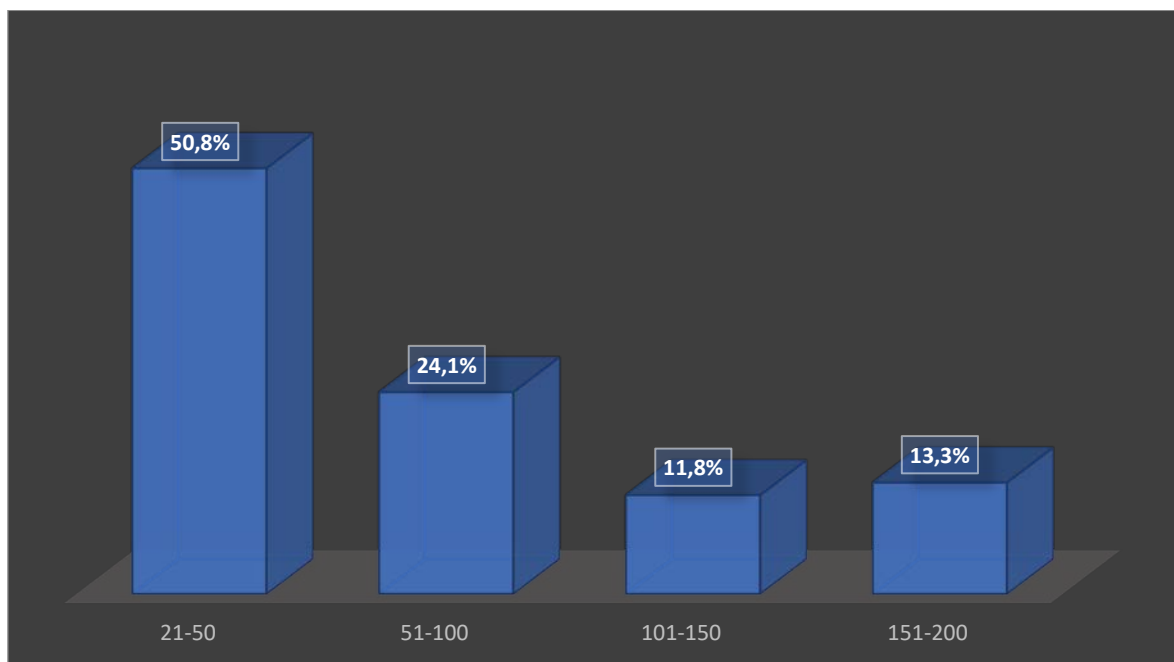
Partnerships were established with financial institution to match funding provided by local government. The sectors that would be targeted included telecommunications, financial services, construction and retail services. The ultimate goal of this was to contribute to economic growth, which would assist help to alleviate the poverty and unemployment problems in South Africa (Seda, 2016). These results may have two implications; that is, there are industries in Durban South that have high barriers to entry and industries that have low barriers to entry; and educational background, training, skills and experience may be key determinants in choosing the industry of choice. Research done by Schøtt, Kew and Cheraghi (2015) indicated that educational background, training, skills and

experience positively influence entrepreneurship, which implies that owner-managers' industrial choice in starting their own business often depends on their level of knowledge.

5.5.1.2 Number of full-time employees

The aim of the question was to determine the categories of SME sectors in terms of size; thus, whether the business is small or medium-sized. The number of full-time employees employed by SMEs in the Durban South area is displayed in Figure 5.1 below:

Figure 5.1: Number of full-time employees



Source: Own field work

Figure 5.1 reflects that the majority (50.8%) of SMEs in Durban South, which were surveyed, comprised small businesses; that is, 50.8% employed between 21 and 50 fulltime employees. Of the remaining SMEs, 24.1% employed between 51 and 100 people. Those employing between 101 and 150 people comprised 11.8%, and finally, 13.3% employed between 151 and 200 workers. These results indicate that the majority of SMEs in the Durban South area are small. Moyo (2019) also concluded that in the

eThekwini region, the majority of SMEs were small in size; hence, the findings of this study are supported.

5.5.1.3 The age distribution

The aim of this question was to establish the age distribution pattern in relation to owner-managers. The goal was to provide clarity on the active age group of SME owner-managers in the Durban South area. In essence, age distribution helps to understand the reason why one age group holds a particular practice, perception and values towards business ethics. Table 5.3 displays the frequency and percentages of responses in respect of the age distribution of the SME owners.

Table 5.3: The age distribution of SME owners

Age group	Frequency	Percentage	Cumulative Percentage
25 years and below	12	6.2	6.2
26-35 years	45	23.1	29.2
36-45 years	52	26.7	55.9
46-55 years	54	27.7	83.6
56-65 years	26	13.3	96.9
66 years and above	6	3.1	100.0
Total	195	100.0	

Source: Own field work

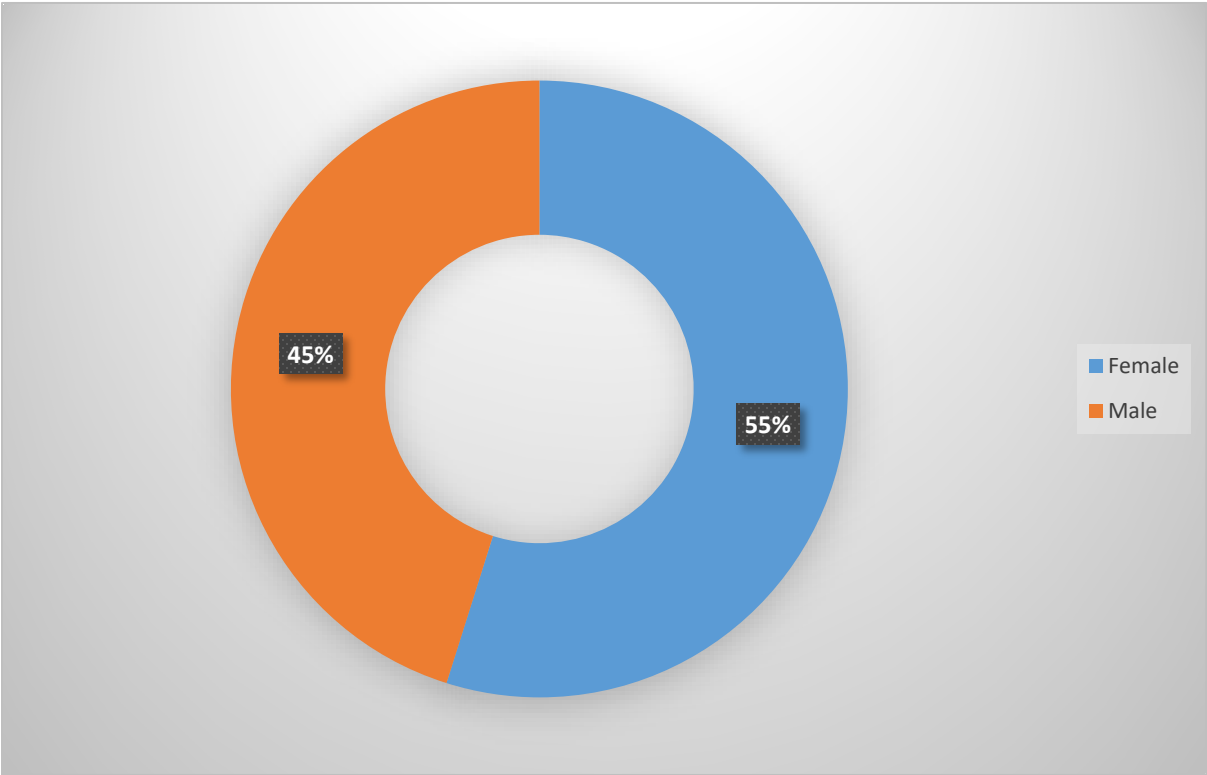
In analysing the results displayed in Table 5.3, the largest group of respondents (27.7%) fell in the age group 46 to 55 years. This was followed by 26.7 percent in the age group 36 to 45 years. Then, 23.1 percent of the respondents were aged between 26 and 35 years; 13.3% were between 56 and 65 years; 6.2% were 25 years old and below; and 3.1% were 66 years and above. The results indicate that the SME sector in the Durban South area is dominated by active entrepreneurs (aged less than 50 years). An ILO (2006) study indicated that young people, aged 18 to 34, were most likely to become active entrepreneurs, as one-third of all successful entrepreneurs originate from this group. Cressy and Storey (1995) suggest that the survival rate of businesses started by older

entrepreneurs is higher than those started by younger entrepreneurs, while a study by Kautonen (2008) indicated that this should not be treated as a marginal issue.

5.5.1.4 The gender distribution

The aim of the question was to establish the gender distribution among owner-managers in the study area. Gender is a critical factor, which has a strong bearing on business ethics (Ugwuozor, 2020).

Figure 5.2: Gender distribution of SME owner-managers



Source: Own field work

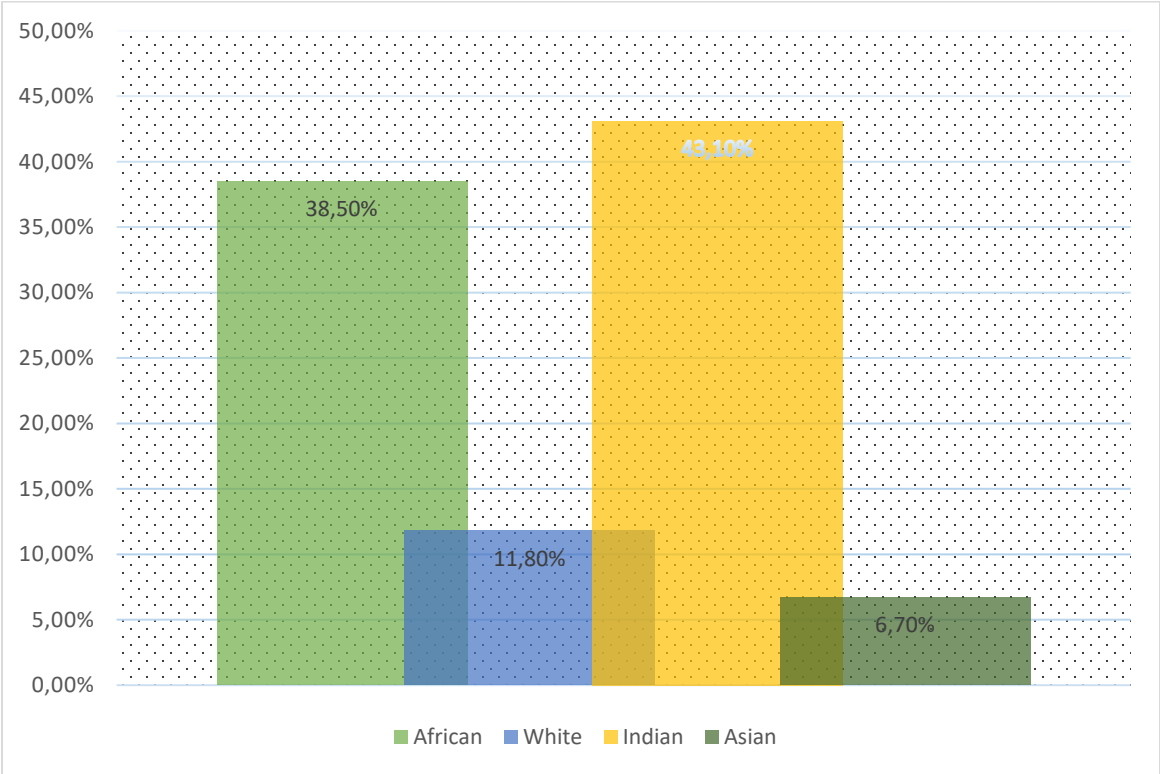
The results showed that 55% of the respondents in the Durban South area were females, with the remaining 45% males, as illustrated in Figure 5.2. This result reflects the South African government’s policy towards women empowerment. Women empowerment encourages females to fill influential posts or to start their own businesses, while male business owners feel the pressure of this support. Zizile and Tendai (2018) highlighted that women entrepreneurs were once an undermined group in most sectors of the

economy, until organisations such as the Businesswomen’s Association of South Africa (BWASA) and South African Women Entrepreneurs advocated for policy reforms in the SME business sector. These results are in contrast to the findings of a study conducted by the KwaZulu-Natal Department of Economic Development and Tourism (2012), which highlighted the exclusion of female entrepreneurs from key and thriving economic sectors, such as mining, energy, transport, logistics, and construction. Although women form the majority of the population, they are the most vulnerable and under-represented group in economic participation.

5.5.1.5 Population group of SMEs owner-managers

The aim of the question was to determine the population group of the owner-managers of SMEs in the Durban South area. The population group of SMEs owner-managers in the study area is reflected in Figure 5.3 below.

Figure 5.3: Population group of SME owner-managers



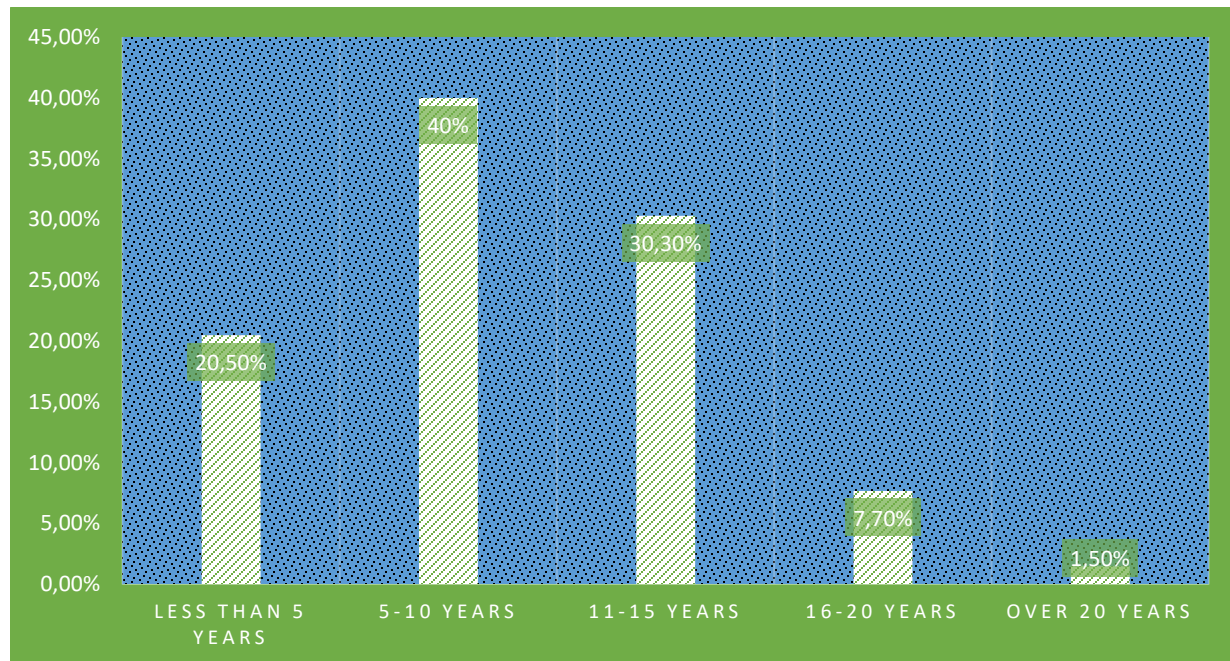
Source: Own field work

Figure 5.3 indicates that of the 195 respondents who participated in the study, 43.1% was Indians, while the smallest percentage (6.7%) was Asians. In addition, 38.5% of the respondents was Africans and 11.8% was whites. The respondents were reflective of South Africa's general demographic data. The respondents were reflective of Durban's general demographic data. These results are supported by the findings of a study conducted by ABSA (2019), which concluded that in KwaZulu-Natal the majority of SMEs are owned by either Africans or Indians. This is no surprise, as Durban South is populated predominantly by Africans and Indians.

5.5.1.6 Period of ownership of existing businesses

The purpose of this question was to determine the length of ownership of SMEs by the owner-managers in the Durban South area. The results are shown in Figure 5.4 below. In order to determine the period of ownership of the SME, the researcher asked a question in this regard.

Figure 5.4: Period of ownership of existing businesses



Source: Own field work

Figure 5.4 indicates that 20.5% of the respondents had been in operation for less than five years; 40% between five and ten years; 30.3% between 11 and 15 years; 30.3% between 16 and 20 years; 7.7% between 16 and 20 years; and the remaining 1.5% of the respondents had been in operation for more than 20 years. From this analysis, it is evident that the SMEs belonging to the majority of the respondents (79.5%) were very well established, as they had been in business for more than five years. Older firms tend to build good network business partners and customers, and have a good relationship with financial institutions. This also applied in the Durban South area, as the survival rate of the SMEs was much higher than the average (25% survival rate for SMEs), which was established in studies conducted by Fatoki (2012) and Mahembe (2014). Loderer and Waelchli (2010) also found that as the business enterprise ages its performance drops; thus, the period of SME ownership period could have a negative effect on performance.

5.5.1.7 Educational qualifications of SME owners

The primary purpose of the question was to determine the highest educational qualifications of the respondents and to determine whether their educational qualification influenced their business ethics and the performance of SMEs. However, it must be stated that education is not always the answer, because some SME owner-managers are not educated, yet they are able to operate successful businesses. Nonetheless, it is important to note that education has the ability to expose individuals to different ways of operating successful businesses. Table 5.4 on the next page shows the participants' academic qualifications from grades, grade 12/Std 10 to D-Tech/ Doctorate.

Table 5.4: Educational qualifications

	Frequency	Valid Percentage	Cumulative Percentage
Up to Grade 12/Std 10	16	8.2	8.2
Diploma/Degree	56	28.7	36.9
B-Tech/Honours degree	73	37.4	74.4
M-Tech/Master's degree/MBA	32	16.4	90.8
D-Tech/Doctorate	18	9.2	100.0
Total	195	100.0	

Source: Own field work

In the Durban South area, the results of the survey indicated that 8.2 percent of the respondents had no tertiary educational qualifications; whilst 28.7% percent possessed either a diploma or a degree. A total of 37.4% of the respondents possessed either a B-Tech or Honours degree, and the remaining 9.2 percent held a D-Tech or PhD, as shown in Table 5.4. Thus, the results revealed that the majority of the respondents was educated; hence, they could operate successful businesses. Moreover, SME owner-managers with higher levels of education and more experience are likely to be more efficient in seeking, gathering and analysing information on the availability of opportunities, which could lead to growth (Peters & Bridjlal, 2011).

While the above section presented and analysed the demographic information of the respondents, in the next section the extent to which respondents agreed or disagreed with statements linked to business ethics are presented, analysed, and discussed.

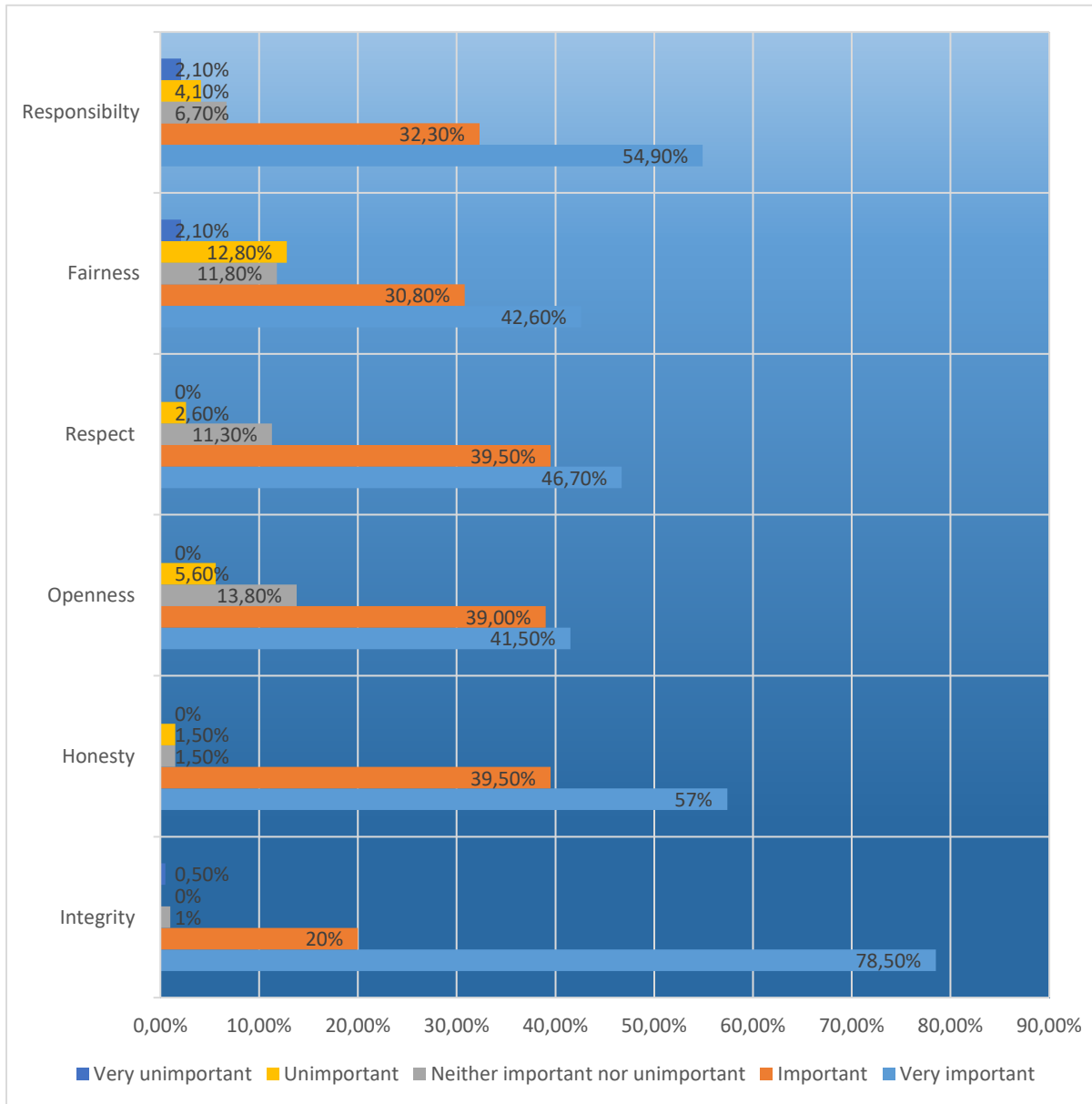
5.5.2 BUSINESS ETHICS

Section two of the questionnaire aimed to gauge the perceptions of the respondents in the Durban South area towards business ethics. Hence, the researcher endeavoured to measure the perceptions, as well as the attitudes, of SME owner-managers relating to business ethics. The empirical data from the respondents are analysed, interpreted and discussed below.

5.5.2.1 The business ethics critical variables

The respondents were expected to rate the perceived degree of importance of integrity; honesty; openness; respect; fairness; and responsibility. The researcher used a 5-point Likert scale, ranging from (1) very important to very unimportant (5), and the results are discussed on the next page.

Figure 5.5: Business ethics variables



Source: Own field work

As shown in Figure 5.5 above, in regard to the importance of responsibility for SME owner-managers, 87.2% of the respondents indicated that it was either very important (54.9%) or important (32.3%); 4.1% of the respondents indicated that it was unimportant; 2.1% of the respondents indicated that it was very unimportant; and 6.7% indicated that it was neither important nor unimportant.

Figure 5.5 further indicates that in terms of fairness, the majority of the respondents (73.3%) indicated that fairness was either very important (42.6%) or important (30.8%) for SME owner-managers; 14.9% indicated that it was either very unimportant (12.8) or unimportant (2.1%); while the remaining 11.8% indicated that it was neither important nor unimportant for owner-managers to exercise fairness. This finding shows that the majority of respondents were aware of the importance of fairness. Supported by the findings of a study conducted by Kalshoven *et al.* (2016), honesty, integrity, fairness, ethical cognisance, thoughtfulness, and being courteous to others are traits exhibited by ethical leaders. Based on the results above, it can be said that the owner-managers of SMEs in the Durban South area are ethical leaders; being ethical implies all decisions taken are consistent with the broader interests of not only key stakeholders, but also minority stakeholders.

Regarding the importance of owner-managers showing respect, an analysis of the responses shows that 86.2% of the respondents indicated that it was very important (46.7%) or important (39.5%); 2.6% of the respondents indicated that it was unimportant; and 11.3% indicated that it was neither important nor unimportant to exercise respect (Figure 5.5). The results indicate that most of the respondents are aware of the importance of respect for the owner-managers of SMEs. Respecting ethical principles is also at the core of companies' efforts to preserve their reputations and valuations, especially with respect to their image vis-à-vis public opinion and their clients (Porter & Kramer, 2016).

Regarding the openness of SME owner-managers, the results in Figure 5.5 indicate that 41.5% of the respondents viewed openness as very important; 39% viewed it as important; 5.6% viewed it as unimportant, and the remaining 13.8% were neutral regarding the issue of openness. Increased openness and transparency are commonly proposed as a policy response to all manner of problems, in accordance with the old chestnut that 'sunlight is the best disinfectant'. Openness is a fundamental character virtue for good organisations and their leaders in all times and places.

Figure 5.5 also reveals the responses gathered on the importance of honesty for SME owner-managers. A total of 96.9% of the respondents indicated that it was very important (57.4%) or important (39.5%) for them to be honest; 1.5% were of view that it was unimportant (2%) for owner-managers to be honest; and 1.5% were neutral in this regard. The results are consistent with the findings of Vaicekauskaite, and Valackiene (2018) from a study on entrepreneurs, in which honesty was identified as a key component, which can build lifetime customer value as it leads to stronger customer relationships; moreover, it is critical for business success.

Figure 5.5 also indicates that in terms of owner-managers' integrity, almost all the respondents (98.5%) indicated that it is either very important (78.5%) or important (20%) to show integrity; 0.5% of the respondents indicated that the integrity of owner-managers is very unimportant, while the remaining 1% indicated that it was neither important nor unimportant. This finding shows that the majority of the respondents are aware of the importance of integrity. According to Hasnah *et al.* (2015), SMEs with a commitment to enhancing integrity are not only profitable but are also more likely to succeed in a commercially competitive world.

5.5.2.2 Ethical practices of owner-managers

The frequency and dispersion of the responses pertaining to the eight statements that described the perceptions of the owner-managers towards the implementation of ethical values in the daily running of their businesses are reflected in Table 5.5 below. An analysis of the responses revealed that the majority of the respondents (65.1%) either agreed (17.4%) or strongly agreed (47.7%) that SME owner-managers' main concern was to make a profit, and ethics was secondary, those who strongly agreed with the statement polled 17.4%, while 10.8% of the respondents neither agreed nor disagreed with the statement. This implies that the owner-managers consider making profit as their primary goal, and business ethics as a secondary goal. These results are consistent with a study conducted by Turyakira (2017). SMEs in developing countries like South Africa may be more profit-oriented and therefore tolerant of unethical practices, as their financial welfare may be at stake.

Table 5.5: Ethical practices of owner-managers

Statements	Strongly Agree	Agree	Neither agree nor disagree	Disagree	Strongly Disagree
SME owner-managers' main concern is to make a profit, and ethics is secondary.	47.7%	17.4%	6.7%	10.8%	17.4%
I act according to the law, and I cannot go wrong ethically.	32.8%	36.9%	6.7%	16.4%	7.2%
I believe that "ethical values" is the concept of public relations only.	14.4%	11.8%	27.7%	26.2%	20%
Ethical values are irrelevant to the business world.	12.8%	16.9%	15.4%	29.2%	25.6%
Business decisions involve a realistic economic attitude and not only an ethical philosophy.	25.1%	17.9%	8.7%	29.7%	18.5%
An ethical businessperson has a successful enterprise.	45.1%	33.3%	11.8%	6.7%	3.1%
Sound ethical values are good for business in the long run.	47.7%	34.9%	9.7%	6.2%	1.5%
In the business world, it is difficult to make ethically sound decisions because of the high degree of competition.	32.8%	25.6%	14.9%	20.5%	6.2%

Source: Own field work

As shown in Table 5.5, in regard to the statement, *“I act according to the law, and I cannot go wrong ethically”*, the majority of the respondents (69.7%) either strongly agreed (32.8%) or agreed (36.9%); 23.6% either disagreed (16.4%) or strongly disagreed (7.2%); and 6.7% neither agreed nor disagreed with the statement. The results may point to the fact that the owner-managers are aware of the rules and laws that guide their businesses. In support of this proposition, Weller (2017) stated that organisational ethics include the principles of right and wrong that govern employees’ behaviour. These principles are essential to the successful management of harmful and unethical behaviour within the work environment.

An analysis of the responses in Table 5.5 further indicated that 26.2% of the respondents agreed or strongly agreed with the statement that ethical values is a concept of public relations only; while the majority of the respondents (53.9%) either strongly disagreed (20%) or disagreed (26.2%); and 27.7% neither agreed nor disagreed. This implies that the majority of the owner-managers view ethical values as important to the long-term performance of SMEs.

Table 5.5 also indicated that 54.8% of the respondents either strongly disagreed (25.6%) or disagreed (29.2%) with the statement that ethical values are irrelevant to the business world. However, 15.4% of the respondents neither agreed nor disagreed with the statement, while 29.7% either strongly agreed (12.8%) or agreed (16.9%) with the statement. This implies that the majority of the owner-managers are aware that ethical values have a significant impact on the performance of SMEs. The above findings are supported by a study conducted by Onyeaghala-Obioma and Anele (2014), which found that a relationship exists between adherence to ethical values and the performance of businesses; this relationship was also found to be significant.

Almost half of the respondents (48.2%) either strongly disagreed (18.5%) or disagreed (29.7%) with the statement, *“Business decisions involve a realistic economic attitude and not only an ethical philosophy”*; 17.9% of the respondents agreed; 25.1% of the respondents strongly agreed; and 8.7% neither agreed nor disagreed. This finding supports the notion that business decisions should incorporate ethical values in order to

achieve greater results. According to Saeidi *et al.* (2012), by incorporating ethical values in decision-making, it not only brings profitability, but also increases customer loyalty, helps to retain customers, creates goodwill for the company, and utilises resources optimally.

Analysing the participants' responses to the statement, that for a SMEs to be successful owner-managers should be ethical, a total of 78.5% of the respondents either agreed (33.3%) or strongly agreed (45.1%); whereas 9.8% either disagreed (6.7%) or strongly disagreed (3.1%); and 11.8% of the respondents neither agreed nor disagreed with the statement. The results indicate that SME owner-managers in Durban South believe that ethical values improve the well-being of businesses.

A further analysis of the responses showed that the majority of the respondents (82.6%) either agreed (34.9%) or strongly agreed (47.7%) that sound ethical values are good for business in the long run; while 6.7% of the respondents either disagreed (6.2%) or strongly disagreed (1.5%); and 9.7% of the respondents neither agreed nor disagreed with this statement. According to these results, sound ethical values help SMEs to gain the trust of consumers through social, environmental and politically responsible practices; the resultant effect for the businesses is long-term success.

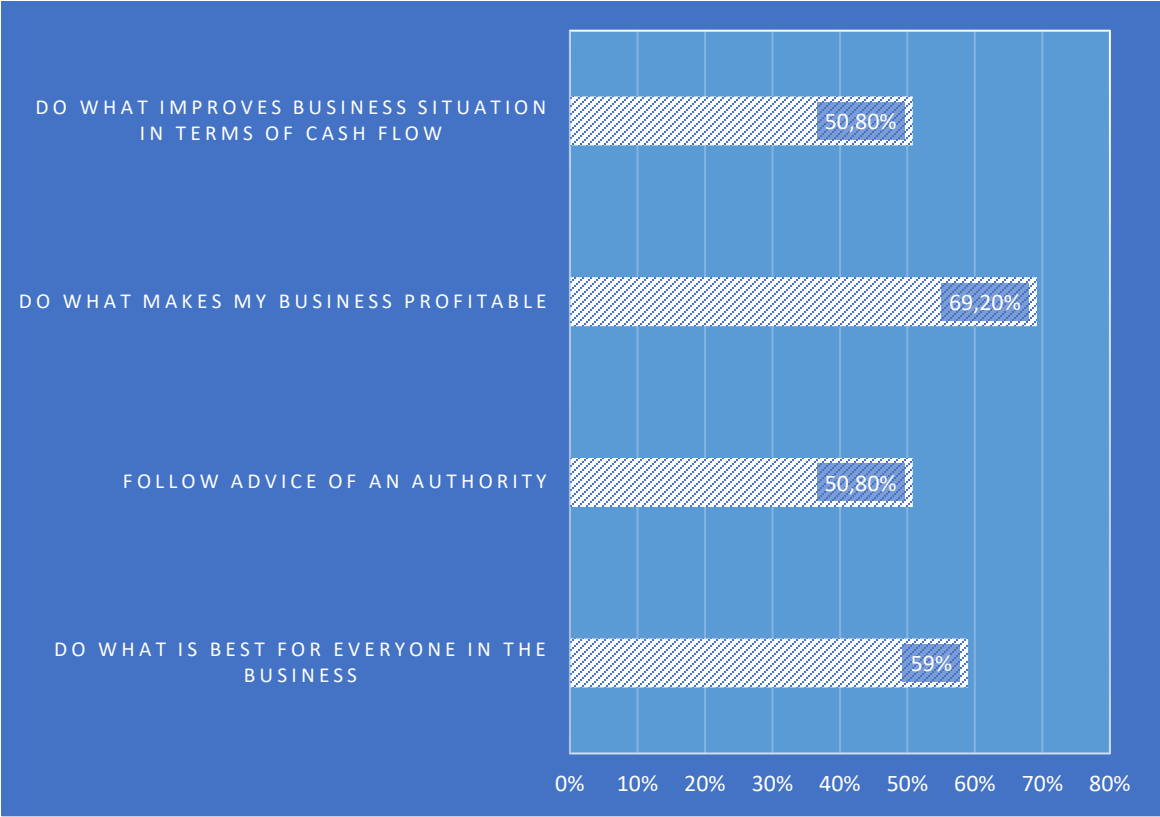
In analysing the responses to the statement that in the business world it is difficult to make ethically sound decisions because of the high degree of competition, 58.5% of the respondents either strongly agreed (32.8%) or agreed (25.6%), while 14.9% of the respondents remained neutral. A total of 26.7% of the respondents either disagreed (20.5%) or strongly disagreed (6.2%) that in the business world it is difficult to make ethically sound decisions because of the high degree of competition. The results indicate that the majority of owner-managers of SMEs in the Durban South area are very aware that the high degree of competition holds a threat to sound ethical decision-making. The competition between the businesses is intense, and the ultimate goal cannot be achieved by all parties.

Based on the results above, it can be concluded that the majority of the SME owner-managers surveyed believe sound ethical practices are necessary to achieve greater success in their businesses.

5.5.2.3 The determinants of what is right or wrong principle

According to the Utilitarian Theory, the practical consequences of an action depend on the principle of what is right or wrong, depending on the results experienced. In regards to this principle, the respondents were tasked to indicate which determinant(s) decide what is right or wrong. The respondents were asked to make a choice on the following determinants: do what is best for everyone in the business; follow advice of an authority; do what makes my business profitable; and do what improves my business situation in terms of cash flow. The responses of the participants are presented in Figure 5.6 below.

Figure 5.6: The determinants of what is right or wrong principle



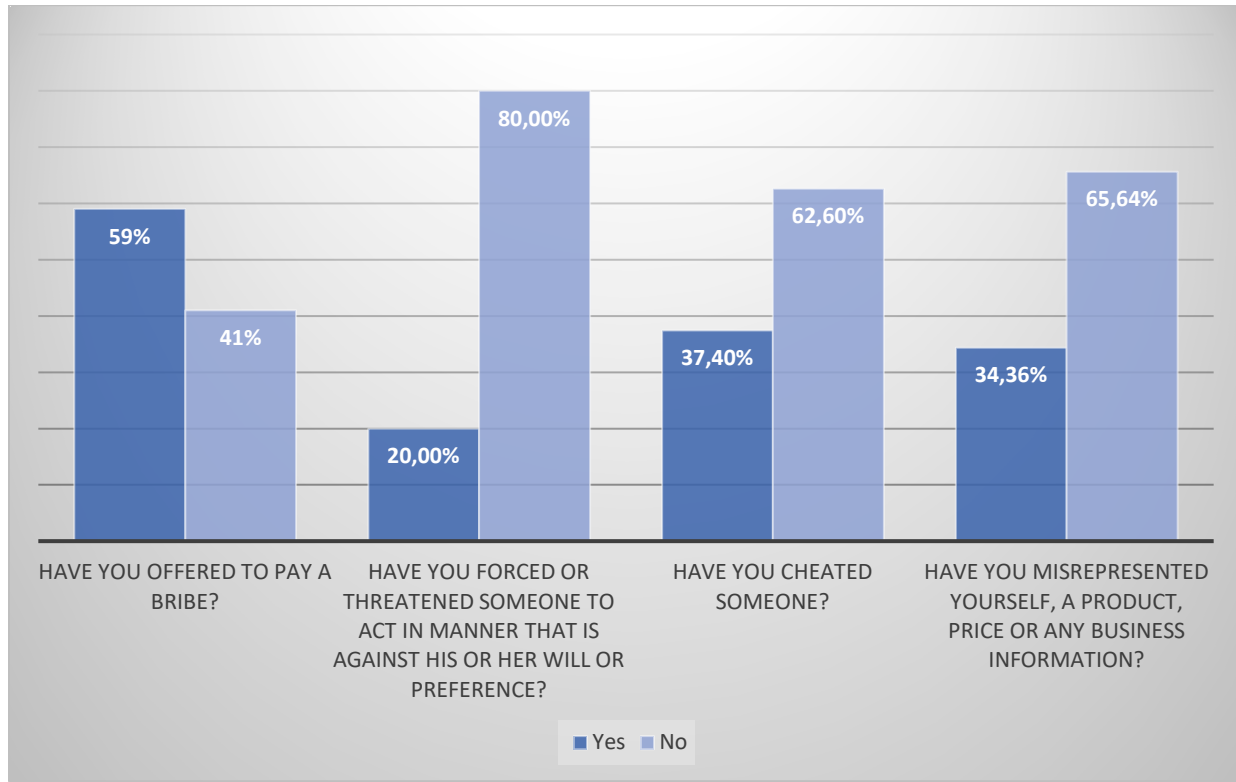
Source: Own field work

As illustrated in Figure 5.6 above, the largest percentage of respondents (69.2%) stated that they consider the statement, *“Do what makes my business profitable”*, in deciding what is right or wrong; 59% of the respondents also indicated that in deciding what is right or wrong they consider the statement, *“Do what is best for everyone in the business”*. Two determinants for deciding what is wrong or right scored the same response rate of 50.8%, namely, *“Follow advice of an authority”*, and *“Do what improves business situation in terms of cash flow”*. These results are encouraging, in the sense that in making business decisions and in the application of the right or wrong principle, the SME owner-managers in the Durban South area consider both ethical values and economic decisions, such as profitability and liquidity. Furthermore, the findings indicate that the owner-managers are ethical; hence, this ensures that they avoid abusing their power or taking improper actions that could result in questionable behaviours and practices within SMEs. This finding agrees with what Meier *et al.* (2015) had to say, namely that the impartial general rules of behaviour that are of great importance to a society, along with the values of a society, best describes the moral principles that are fundamental to ethics.

5.5.2.4 The unethical conduct of SMEs’ owner-managers in the Durban South area in the last 12 months

On many occasions, unethical activities by SMEs are viewed as a need to survive, while the same actions, if they occur in large organisations, are viewed as greed. The rationale of the question was to determine whether the owner-managers were involved in unethical conduct, or not. The owner-managers who participated in the study were presented with two options to choose from, as indicated in Figure 5.7. The frequency and dispersion of the responses to the statements pertaining to the unethical conduct of the SME owner-managers in the Durban South area in the last 12 months are displayed in Figure 5.7 on the next page. An analysis of the results in Figure 5.7 reveals that the majority of the respondents (59%) never offered a bribe to anyone; in addition, 80% of the respondents never forced or threatened someone to act against his/her will or preference.

Figure 5.7: The unethical conduct of SMEs' owner-managers



Source: Own field work

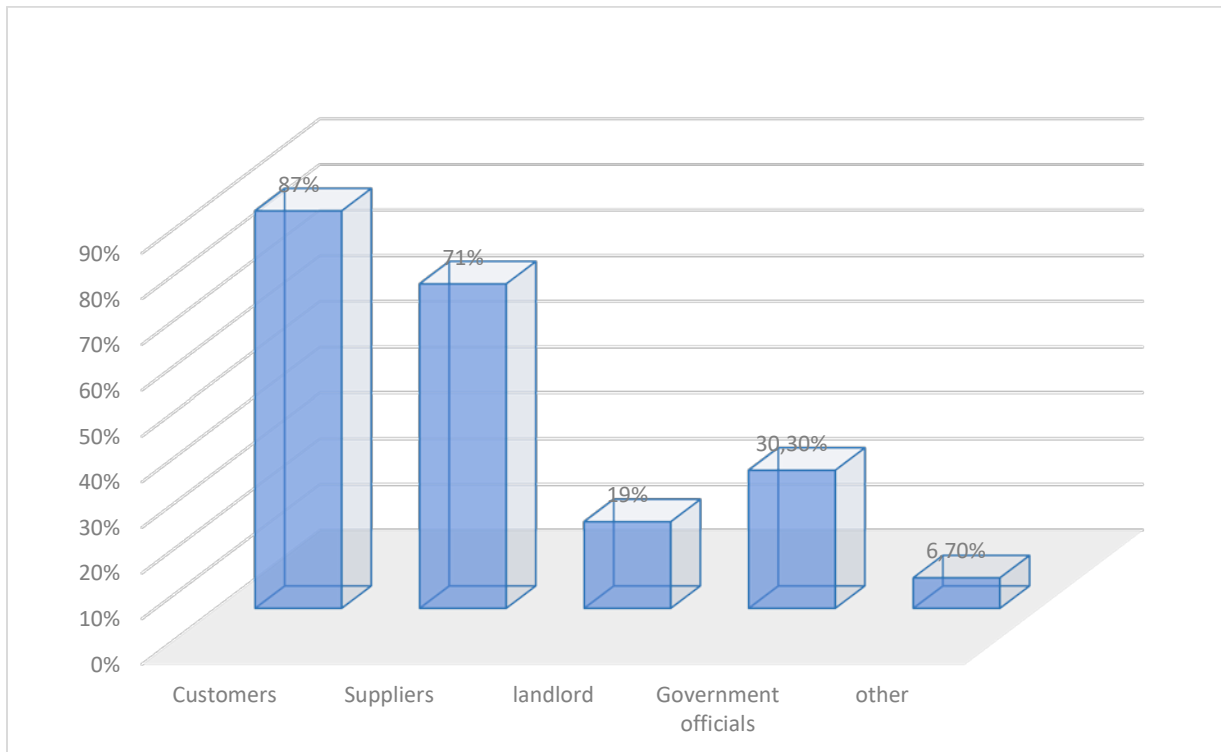
The analysis indicates that the majority of the respondents (62.6%) never cheated anyone during the last 12 months. A significant proportion of the respondents (65.64%) also indicated that they had not misrepresented themselves, a product, a price or any business information. These results imply that the majority of the owner-managers of SMEs in the Durban South area conduct their business in an ethical way, which improves the image of and goodwill towards their entities. These findings are in total contrast to the results of a study conducted by De Arruda and Levrini (2015), which concluded that SME owner-managers compromise ethical principles in order to maximise profits and cash flow.

5.5.2.5 SMEs' owner-managers and their participants in unethical activities in the Durban South area in the last 12 months

The purpose of the question, as stated in the questionnaire (refer to Appendix A), probes which participants were involved in unethical activities with owner-managers. Figure 5.7

above reflects that the minority of the owner-managers were involved in unethical activities. This question aimed to reveal which participants were involved in unethical conduct with owner-managers, as displayed in Figure 5.8.

Figure 5.8: SMEs' owner-managers and their participants in unethical activities



Source: Own field work

As depicted in Figure 5.8 above, 87% of the respondents indicated that they conducted unethical activities with customers; 71% of the respondents conducted unethical activities with suppliers; and 19% of the respondents were involved in unethical conduct with landlords. The respondents who conducted unethical activities with government officials polled 30.3%; and 6.7% of the respondents indicated they were involved in unethical conduct with “others”. From these results, it may be suggested that the owner-managers viewed customers and suppliers as easy targets to conduct unethical behaviour within the Durban South area. SMEs that operate without regard for ethical values are likely to run into problems with the law, customers, employees and business partners. Consequently, their business reputation will suffer and the loss of business from unethical

behaviour could be significant and difficult to rectify. Customers value ethical businesses and once a business has lost trust by being unethical, customers will seek alternatives and much money will be lost to competitors, or in the process of defending themselves against lawsuits (Vaicekauskaite, & Valackiene, 2018).

5.5.2.6 The importance of stakeholders to the success of SMEs in the Durban South area

According to Greenwood and Freeman (2018), owner-managers should systematically manage the interests of the various stakeholder groups and prioritise competing interests. The aim of the question was to establish the level of importance of different stakeholders in as far as business involvement is concerned. The respondents were asked to indicate the level of importance of different stakeholders to their success, and their responses are reflected in Table 5.6 below.

Table 5.6: The importance of stakeholders to the success of SMEs

Stakeholder(s)	Very important	Important	Neither important nor unimportant	Unimportant	Very unimportant
Customers	76,4%	9,7%	12,8%	0,5%	0,5%
Employees	39,0%	46,7%	12,8%	1,0%	0,5%
Suppliers	27,2%	29,7%	32,3%	10,8%	0,0%
landlord	13,8%	25,6%	24,6%	29,7%	6,2%
Government officials	19,5%	27,2%	25,6%	20,5%	7,2%
Local community	51,3%	24,6%	18,5%	2,1%	3,6%

Source: Own field work

The results in Table 5.6 show the perceived importance of customers to SMEs in the Durban South area. A total of 86.1% of the respondents indicated that customers were either very important (76.4%) or important (9.7%); 0.5% of the respondents indicated that customers were unimportant; the respondents who indicated that customers were very

unimportant also totaled 0.5%; and 12.8% of the respondents indicated that customers were neither important nor unimportant to the success of SMEs. This suggests that owner-managers are aware of the importance of customers as key stakeholders to the success and survival of their businesses. These findings are supported by a study conducted by Du Plessis *et al.* (2018), which found that SMEs that attach greater importance to customers, retain their customers' loyalty and attract potential customers.

Table 5.6 further indicates that in terms of the importance of employees, a total of 85.6% of the respondents indicated that employees were either very important (39%) or important (46.7%); a total of 1.5% of the respondents indicated that employees were either very unimportant (0.5%) or unimportant (1%); while the remaining 12.8% indicated that employees were neither important nor unimportant in the success of SMEs. This finding shows that the majority of the respondents are aware of the importance of employees to the success of the business.

Regarding the importance of suppliers, an analysis of the responses indicated that a total of 56.9% of the respondents viewed suppliers as very important (27.2%) or important (29.7%) for business success; while 10.8% of the respondents indicated that suppliers were very unimportant; and the largest number of the respondents (32.3%) indicated that suppliers were neither important nor unimportant to the success of their businesses (Table 5.6). The results indicate that most of the respondents are aware of the importance of good interaction between suppliers and themselves for the success of their businesses.

Regarding the importance of landlords to the success of SMEs, the results in Table 5.6 indicate that the largest number of the respondents (29.7%) viewed landlords as unimportant; 6.2% viewed landlords as very unimportant; 13.8% considered landlords as very important; 25.6% viewed them as important; and the remaining 24.6% were neutral regarding the importance of landlords to business success. This suggests that the owner-managers of SMEs attach less importance to landlords in the success of their enterprises.

Table 5.6 also indicates the responses gathered on the importance of government officials to the success of SMEs. A total of 46.7% of the respondents indicated that government officials were very important (19.5%) or important (27.2%); 27.7% of the

respondents viewed government officials as very unimportant (7.2%) or unimportant (20.5%); and 25.6% of the respondents were neutral on this issue. The results are consistent with the findings of Chisala (2008) on the SME sector in Zambia, which identified a positive relationship between the government sector and SMEs.

Regarding the importance of the local community, an analysis of the responses indicates that a total of 75.9% of the respondents viewed the local community as very important (51.3%) or important (24.6%); while 5.7% of the respondents indicated that the local community was either very unimportant (3.6%) or unimportant (2.1%); and 18.5% indicated that the local community was neither important nor unimportant to the success of their businesses (see Table 5.6). The results indicate that most of the respondents are aware of the importance of good interaction between local communities and SMEs. It is a common belief that a community's loyalty to a business plays a big role in the growth and sustainability of the business and in most cases, communities build well-established SMEs. In relation to the Stakeholder Theory, when one starts a business one should realise that during the infancy stage there is need for mass support from the community and for community involvement.

5.5.3 FACTORS AFFECTING BUSINESS ETHICS

Various factors influence an individual's ethical decision-making processes and ultimately affect his/her ethical intentions. This section focuses on the factors affecting the ethical values of the SME owner-managers in the Durban South area. A 5-point Likert scale, ranging from very important (1) to very unimportant (5), was used to ascertain the level of importance of different factors that could influence the business ethics of the owner-managers and their employees. The cumulative responses of the respondents to each of these statements are reflected in the sub-sections below.

5.5.3.1 The influence of personal values on the ethical values of the SME owner-managers in the Durban South area

The purpose of the question, as stated in the questionnaire (refer to Appendix C), was to establish the influence of personal values on the ethical values of the SME owner-

managers. An analysis of the responses (Table 5.7) to the first statement revealed that 62.6% of the respondents indicated that religious beliefs were either very important (39%) or important (23.6%) in influencing their ethical values; while a total of 35.9% indicated that religious beliefs were either unimportant (33.8%) or very unimportant (2.1) in defining their ethical values; and 1.5% of respondents were neutral in this regard. This finding supports the literature that points out that the religious beliefs of business owners influence their ethical conduct. According to Ahmad (2009), this could be due to the impact of the ethical behaviour of the owner on the image and reputation of his/her organisation.

Table 5.7: The influence of personal values on the ethical values of owner-managers

Statements	Very important	Important	Neither important nor	Unimportant	Very unimportant	Total
Religious beliefs	39,0%	23,6%	1,5%	33,8%	2%	100%
My personal values	32,3%	36,4%	5,1%	14,9%	11%	100%
The outcome/ consequences of my actions on my business	34,4%	49,2%	10,3%	6,2%	0%	100%
The law of right and wrong	49,2%	36,4%	4,6%	8,7%	1%	100%

Source: Own field work

A further analysis of the responses in Table 5.7 reveals that a total of 68.7% of the respondents indicated that the personal values of the owner-managers of SMEs were either very important (32.3%) or important (36.4%) in influencing their ethical values; while an aggregate of 26.2% of the respondents indicated that personal values were either unimportant (14.9%) or very important (11.3%); and the remaining 5.1% were neutral. These results are consistent with the findings of a study conducted by Pushpakumari (2009) in Japan, which concluded that owner-managers' personal values have a significant influence on their business ethical values.

As illustrated in Table 5.7 above, regarding how the consequences of the SME owner-managers' actions on their businesses influence ethical values, the majority of the respondents (83.6%) indicated that it was either very important (34.4%) or important (49.2%); while 6.2% of the respondents indicated it was unimportant; and 10.3% were neutral in this regard. The implication here is that the majority of the owner-managers of SMEs in the Durban South area are of the firm view that the outcomes/consequences of their actions on their businesses greatly influence their ethical values. In other words, the owner-managers of SMEs in Durban South recognise the value of the Utilitarian Theory in their ethical decision-making, which asserts that the consequences of their actions on their businesses greatly influence their ethical values (Storeng & Palmer, 2019).

Table 5.7 also reveals the responses gathered on the importance of the law of right and wrong on influencing the ethical values of the owner-managers of SMEs in the Durban South area. A total of 85.6% of the respondents indicated that it was very important (49.2%) or important (36.4%); 9.7% of the respondents were of view that it was very unimportant (1%) or unimportant (8.7%); and 4.6% of the respondents were neutral. Hence, the majority of the SME owner-managers view the laws that govern right or wrong as a framework to adhere to.

5.5.3.2 The external and internal factors that influence the ethical standards of SMEs

Initially, Principal Component Analysis (PCA) and Principal Axis Factoring (PAF or PFA) were conducted on the data set with the ten items. The items were examined for high and

low factor loadings, and 0.499 was set as the minimum acceptable factor loading (Ramrakhiani, 2017). Ideally, a component should have at least three variables load to the component, with a coefficient value of 0.7, but a coefficient of 0.3 is considered the minimum acceptable (Cole, 2017). The PCA with Varimax Rotation was used to determine the scale construct validity. Two statistical tests were used to evaluate if the sub-scales were suitable for factor analysis. The first was the Bartlett Test of Sphericity, in which it was examined if the subscales of the scale were inter-independent, and the latter was the Kaiser-Meyer Olkin Measure of Sampling Adequacy (KMO), which examined sample sufficiency. As can be seen from Table 5.8 below, KMO=0.658, which is approximately 0.70, indicated that the sample data were suitable for factor analysis (Cole, 2017). The Bartlett's Test ($p < 0.001$) showed that the correlations coefficients were not all zero (Table 5.8). As a result, both assumptions required for factor analysis were satisfied.

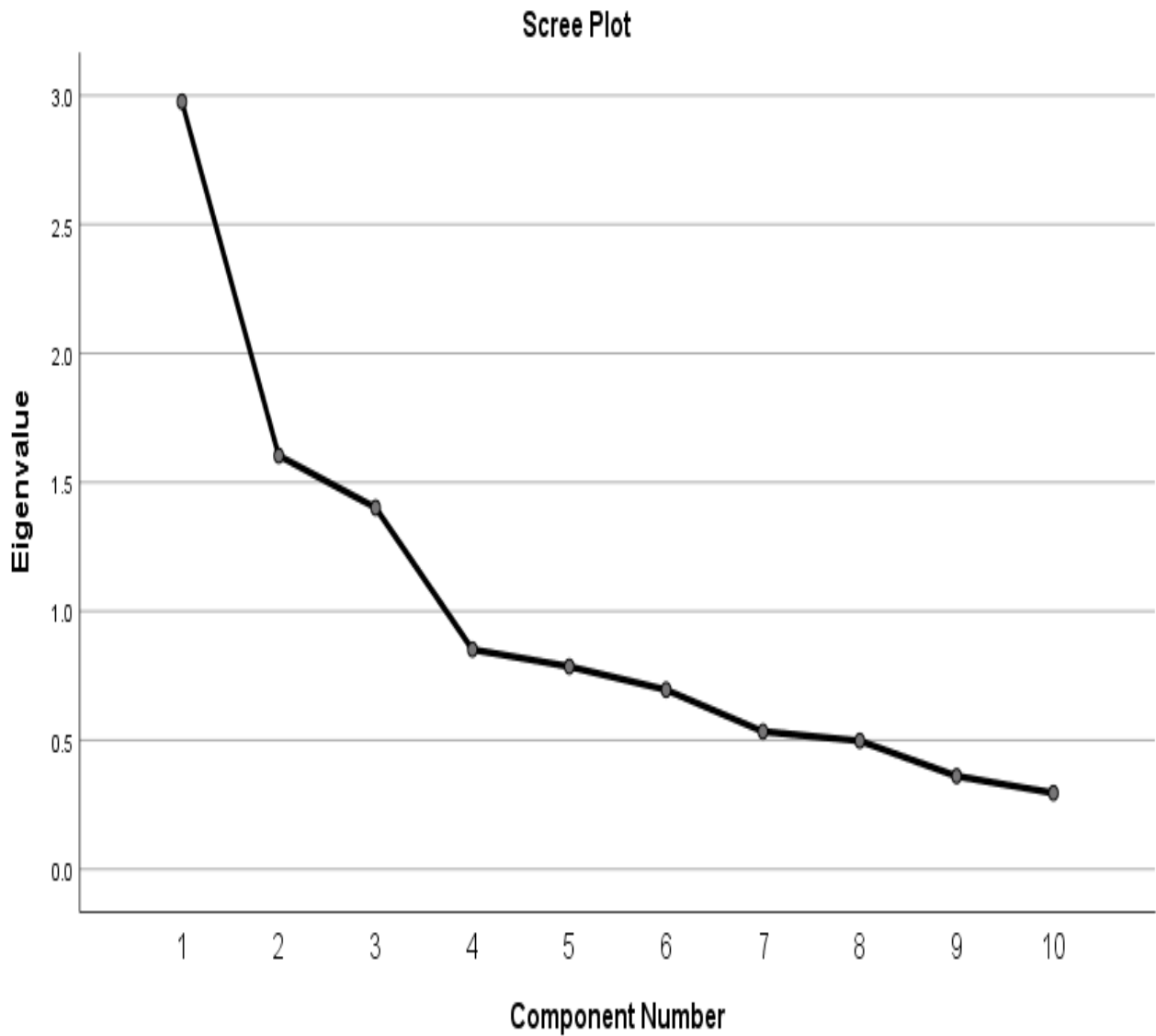
Table 5.8: KMO and Bartlett's Test

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.658
Bartlett's Test of Sphericity	Approx. Chi-Square	454.317
	df	45
	Sig.	.000

Source: Own field work

A scree plot of the factor analysis results demonstrated the high eigenvalue of the first component (2.979), with diminishing values for components 2 through 10, beyond which the eigenvalues dropped below the required 1.0 value. Figure 5.9 on the following page presents the scree plot of eigenvalues.

Figure 5.9: Scree plot of eigenvalues



Source: Own field work

These results show the unrotated factor loadings for all the factors using the principal components method of extraction. The first three factors had variances (eigenvalues) that were greater than 1. The percentage of variability explained by Factor 1 was 0.29759 or 29.759 %; the percentage of variability explained by Factor 2 was 0.16033 or 16.033%; and the percentage of variability explained by Factor 3 was 0.14016 or 14.016%. The scree plot shows that the first three factors accounted for 59.808% as total variability in

data. The remaining factors account for a very small proportion of the variability and were likely unimportant. From this, it can be said that the scale had three factors.

A Principal Component Analysis with Varimax Rotation was used to confirm the scale construct validity. The results of the factor analysis, the factor loadings and the variance explained were given in Table 5.9, as shown above, and three factors with eigenvalues greater than one were identified. Table 5.9 displays the three factors as follows:

Factor 1

- Education of owner-managers, increased manager professionalism, and education
- New social expectation for the role SMEs is to play in society, young adults' attitudes, and consumerism

Factor 2

- Competition, pace of life, stress to succeed, current economic conditions, costs of doing business, more businesses compete for less
- Political corruption, loss of confidence in the government, politics, political ethics and business climate

Factor 3

- Public disclosure, publicity, media coverage, better communication

Table 5.9: Results of PCA

Rotated Component Matrix^a			
	Factor		
	1	2	3
Public disclosure, publicity, media coverage, better communication			.795
Increased public concern, public awareness, consciousness and scrutiny, better informed public, societal pressures			.554
Government regulation, legislation and intervention, courts	.628		
Education of owner-managers, increased manager professionalism and education	.827		
New social expectation for the role SMEs is to play in society, young adults' attitudes, and consumerism	.784		
SME's greater sense of social responsibility and greater awareness of the implications of their actions, business responsiveness, corporate policy changes, the owner-manager emphasis on ethical action	.642		
Competition, pace of life, stress to succeed, current economic conditions, costs of doing business, more businesses compete for less		.836	
Political corruption, loss of confidence in government, politics, political ethics and business climate		.829	
Greed, desire for gain, worship money as measure of success, selfishness of the individual, lack of personal integrity and moral fibre		.672	
Pressure for profits from within the organisation, corporate influences on managers, corporate policies			.689

Source: Own field work

Therefore, in terms of analysing the factors affecting business ethics, only five factors out ten were very important. On these five factors, the 59.808% variation in business ethics was explained by them and the remaining percentage was explained by the other five factors as shown in the scree plot (Figure 5.8).

5.5.3.3 The factors that influence the unethical decisions of employees in SMEs in Durban South

The rationale of the question was to determine the factors that influence the unethical decisions of employees in SMEs. A 5-point Likert scale, ranging from very important (1) to very unimportant (5), was used to ascertain the extent to which the respondents agreed/disagreed with the statements regarding the factors that influence the unethical decisions of employees in SMEs. The results are shown in Table 5.10 below.

Table 5.10: The factors that influence the unethical decisions of employees in SMEs

Statement(s)	Very important	Important	Neither important nor unimportant	Unimportant	Very unimportant	Total
Behaviour of owner-managers	66,7%	30,8%	2,0%	0,5%	0,0%	100,0%
Formal policy, or lack thereof	53,7%	40,7%	3,1%	1,5%	1,0%	100,0%
Government regulations, legislation and intervention, courts	58,5%	25,1%	10,8%	4,1%	1,5%	100,0%
SME sectors' ethical climate	50,8%	43,6%	4,6%	1,0%	0,0%	100,0%
Society's moral climate	41,5%	43,6%	10,8%	3,6%	0,5%	100,0%
Owner-manager's personal financial needs	32,0%	19,5%	19,1%	8,8%	20,6%	100,0%

Source: Own field work

As shown in Table 5.10 on the previous page, regarding the importance of the behaviour of owner-managers, a total of 97.5% of the respondents indicated that it was either very important (66.7%) or important (30.8%); 0.5% of the respondents indicated that it was unimportant; and 2% of the respondents indicated that it was neither important nor unimportant. This implies that organisational ethics have a major impact on the behaviour and actions of employees and SME owner-managers. These findings are supported by Goodpaster (2007), who argues that employees' behaviour is influenced by the behaviour of owner-managers of SMEs.

Table 5.10 also reveals that, in terms on how formal policy or the lack thereof influences the unethical decisions of employees in SMEs, almost all the respondents (94.3%) indicated that it was either very important (53.6%) or important (40.7%); 3.1% of respondents were neutral; 1.5% of the respondents indicated that it was unimportant; while the remaining 1% indicated that it was very unimportant. These findings show that the majority of the respondents are aware of the importance of formal policy, or the lack thereof, in the unethical decisions of employees in SMEs. These results are consistent with the findings of a study done by Tyler (2005), which indicated that the primary factor shaping an employee's behaviour was organisational policies.

Regarding the importance of government regulations, legislation and intervention, and the courts, an analysis of the responses indicated that a total of 83.6% of the respondents considered it as very important (58.5%) or important (25.1%), while 4.6% of the respondents indicated that it was either very unimportant (1.5%) or unimportant (4.1%); and 10.8% indicated that it was neither important nor unimportant (see Table 5.10). The results indicate that most of the respondents are aware of the importance of government regulations, legislation and intervention, and the courts in influencing the ethical behaviour of employees in SMEs.

Regarding the importance of the SME sector's ethical climate in influencing the ethical behaviour of employees, Table 5.10 indicate that 50.8% of the respondents viewed the SME sector's ethical climate as very important; 43.6% of the respondents viewed it as important; 1% of the respondents viewed it as unimportant; and the remaining 16% were

neutral. These results indicate that the majority of the respondents are aware of the importance of the SME sector's ethical climate in influencing the ethical behaviour of employees. Similarly, Johnson and Buckley (2015) pointed out that a sound ethical climate is an enabling factor for the good ethical behaviour of employees in small businesses.

Table 5.10 shows the degree of importance of how society's moral climate influences the ethical behaviour of employees. The analysis reveals that 85.1% percent of the respondents acknowledged that it was either very important (41.5%) or important (43.6%); 4.1% of the respondents indicated that it was either very unimportant (0.5%) or unimportant (3.6%); while the remaining 10.8% were neutral. The results are consistent with the findings of Munro and Thanem (2018) that the ethical behaviour of employees and owner-managers of SMEs are in line with the principles, norms and standards of the business practices, as approved by the community.

Table 5.10 further reveals how the owners-manager's personal financial needs influence the ethical behaviour of employees. The majority of the respondents (51.5%) indicated that it was either very important (32%) or important (19.5%); an aggregate of 29.4% indicated that it was either very unimportant (20.6%) or unimportant (8.8); while the remaining 19.1% indicated that it was neither important nor unimportant. This finding shows that the majority of the respondents are aware of the importance of owners-manager's personal financial needs in influencing the ethical behaviour of employees.

The discussion above focused mainly on the factors that influence the ethical behaviour of the employees and owner-managers of SMEs in Durban South. The following section will describe the responses pertaining to corporate governance.

5.5.4 CORPORATE GOVERNANCE

Previous work by Boatright (2017) shows that corporate governance issues highlight any and all relationships that exist between a firm and its stakeholders. Regarding corporate governance, the respondents were questioned about their leadership styles, and the organisation point. A 5-point Likert scale, ranging from strongly agree (1) to strongly

disagree (5), was used to ascertain the extent to which respondents agreed/disagreed with the statements pertaining to leadership styles, and the organisation point. The cumulative responses of the respondents to each of these statements are discussed below.

5.5.4.1 Leadership style of SMEs' owner-managers in Durban South

The purpose of the questions was to determine the importance of leadership style in regards to business ethics and the performance of SMEs. In this study, a 5-point Likert scale, ranging from strongly agree (1) to strongly disagree (5), was used to ascertain the leadership style of the SMEs' owner/managers and how they agreed/disagreed with the statements. The results are reflected in Table 5.11 below.

Table 5.11: Leadership style of SMEs' owner-managers

Statement(s)	Strongly Agree	Agree	Neither agree nor disagree	Disagree	Strongly Disagree	Total
The leadership style of the owner plays a major role in making sound ethical decisions	79,5%	18,5%	0,5%	1,5%	0,0%	100%
As a leader, I am open with other stakeholders	37,9%	55,4%	5,6%	1,0%	0,0%	100%
As a leader, I listen to other people's views	40,0%	26,2%	29,2%	3,1%	1,5%	100%
As a leader, I fosters team work in the organisation	39,0%	36,4%	13,8%	9,7%	1,0%	100%
As a leader, I delegate responsibly	47,7%	22,1%	7,7%	16,9%	5,6%	100%

Source: Own field work

As shown in Table 5.11 above, regarding the statement "*The leadership style of the owner plays a major role in making sound ethical decisions*", almost all the respondents (97.9%)

either strongly agreed (79.5%) or agreed (18.5%) with the statement; 1.5% of the respondents disagreed; and 0.5 % neither agreed nor disagreed with the statement. The implication of these results is that almost all the SME owner-managers in Durban South are of view that ethical decisions are the product of your leadership style. According to Xu *et al.* (2016), ethical leadership is the illustration of standardness applicable behaviour through individual actions and interpersonal associations, and the advancement of such conduct to company employees through two-way communication, reinforcement and decision making.

An analysis of the responses (Table 5.11) revealed that 93.3 % of the respondents agreed or strongly agreed with the statement that as leaders they are open with other stakeholders, while 1% strongly disagreed, and 5.6% neither agreed nor disagreed with the statement. This implies that the majority of the owner-managers engage with and value other stakeholders, including suppliers, customers, the government, landlords and the community. The responses of the SME owner-managers are supportive, as Moylan and Walker (2012) called for businesses to aim to serve all their stakeholders, or society as a whole.

Table 5.11 further indicates that the majority of the respondents (66.2%) either strongly agreed (40%) or agreed (26.2%) with the statement that they listen to other people's views. However, 4.6% of the respondents neither agreed nor disagreed with the statement, while a significant proportion (29.2%) of the respondents disagreed with this statement. This implies that the majority of the owner-managers consult other stakeholders in order to make informed decisions, which are inclusive and accommodative. According to Müller *et al.* (2014), ethical leaders consult and listen to other stakeholders' views in order to increase the trust and reputation of their organisations.

Thirty-nine percent of the respondents strongly agreed with the statement that leaders foster teamwork within organisations; 36.4% of the respondents agreed; 10.7% of the respondents either strongly disagreed (1%) or disagreed (9.7%), and 13.8% of the respondents neither agreed nor disagreed. This means that the majority of the owner-

managers of SMEs in Durban South support teamwork within their organisations so as to make ethical decisions. The growth of a business relies on teamwork between the management and employees in their daily activities (Enofe *et al.*, 2015).

Analysing the response to the statement “*As a leader, I delegate responsibly*”, a total of 69.7% of the respondents either agreed (22.1%) or strongly agreed (47.7%) that they delegate responsibly; while 22.5% of the respondents either disagreed (16.9%) or strongly disagreed (5.6%); and 4% neither agreed nor disagreed. The results indicate that most SME owner-managers in the Durban South area delegate responsibly to their subordinates. According to Windsor (2017), the delegation of duties to employees contributes to business success by providing the requisite skills and labour.

5.5.4.2 Organisational policies

The aim of this question was to establish whether organisational policies are in place, and their importance in business ethics. The frequency of the responses pertaining to the five statements that described organisational policies is reflected in Table 5.12 below. An analysis of the responses revealed that the majority of the respondents (79.5%) either agreed (12.3%) or strongly agreed (67.2%) that their organisational policies define bribery; 16.4% of the respondents either disagreed (12.8%) or strongly disagreed (3.6%) in this regard; while 4.1% neither agreed nor disagreed. The results indicate that the majority of the owner-managers of SMEs have put in place organisational policies that define bribery.

In analysing the responses to the statement, “*The organisational policies deal with how employees should deal with confidentiality and proprietary information*”, almost all the respondents (91%) either strongly agreed (39%) or agreed (52.3%); 3.6% of the respondents disagreed, while only 5.1% of the respondents remained neutral. These findings show that the majority of the respondents are aware that confidential information may provide a competitive edge over rivals in the SME sector.

Table 5.12 reflects that a total of 69.7% of the respondents either strongly agreed (37.9%) or agreed (31.8%) that their organisational policies were clear on how to deal with political

contributions; 7.2% of the respondents disagreed; 1% of the respondents strongly disagreed while the remaining 22.1% were neutral. These results are encouraging, as the owner-managers know that meddling in politics may results in unethical behaviour such as corruption, embezzlement and graft, which taints the image and reputation of an organisation.

Table 5.12: Organisational policies

Statement(s)	Strongly Agree	Agree	Neither agree nor disagree	Disagree	Strongly Disagree	Total
The organisational policies define bribery well	67,2%	12,3%	4,1%	12,8%	3,6%	100%
The organisational policies deal with how employees should deal with confidentiality and proprietary information	39,0%	52,3%	5,1%	3,6%	0,0%	100%
The organisational policies are very clear as how to deal with political contributions	37,9%	31,8%	22,1%	7,2%	1,0%	100%
There are organisational policies on how to deal with sexual harassment	45,9%	34,5%	10,3%	8,2%	1,0%	100%
Organisational policies that relate to antitrust and competition are well defined	44,1%	23,1%	14,9%	12,8%	5,1%	100%

Source: Own field work

In analysing the responses to the statement regarding the availability of organisational policies in dealing with sexual harassment, a total of 80.4% of the respondents either strongly agreed (45.9%) or agreed (34.5%) with the statement, while 10.3% of the respondents remained neutral in this regard. Almost nine percent of the respondents either strongly disagreed (1%) or disagreed (8.2%) that organisational policies to deal

with sexual harassment are in place. The results indicate that the majority of the owner-managers of SMEs in the Durban South have put policies and mechanisms in place to deal with or avoid cases of sexual harassment.

As shown in Table 5.12 above, regarding the statement “*Organisational policies that relate to antitrust and competition are well defined*”, the majority of the respondents (67.2%) either strongly agreed (44.1%) or agreed (23.1%) with the statement; 17.9% of the respondents either disagreed (12.8%) or strongly disagreed (5.1%); and 14.9% of the respondents neither agreed nor disagreed. The implication of these results is that the owner-managers provide a framework to discourage the leaking of the trade secrets of their entities in order to reduce competition.

It is interesting to note is that the results presented in Table 5.12 are in contradiction with the findings of a study conducted by Viviers (2013), which found that most SMEs are solely run, which results in one person managing the business without any formal written organisational policies. Consequently, SMEs lack organisational policies to deal with shareholders, suppliers, employees and the community, and policies relating to how they should respond to customer complaints, when compared to large businesses (Arruda, 2010; Spence & Perrini, 2010).

The above analysis, interpretation and discussion focused on the corporate governance of the SMEs surveyed. In the next section, the performance of SMEs in the Durban South area will be examined.

5.5.5 MECHANISMS OF MEASURING THE PERFORMANCE OF SMEs

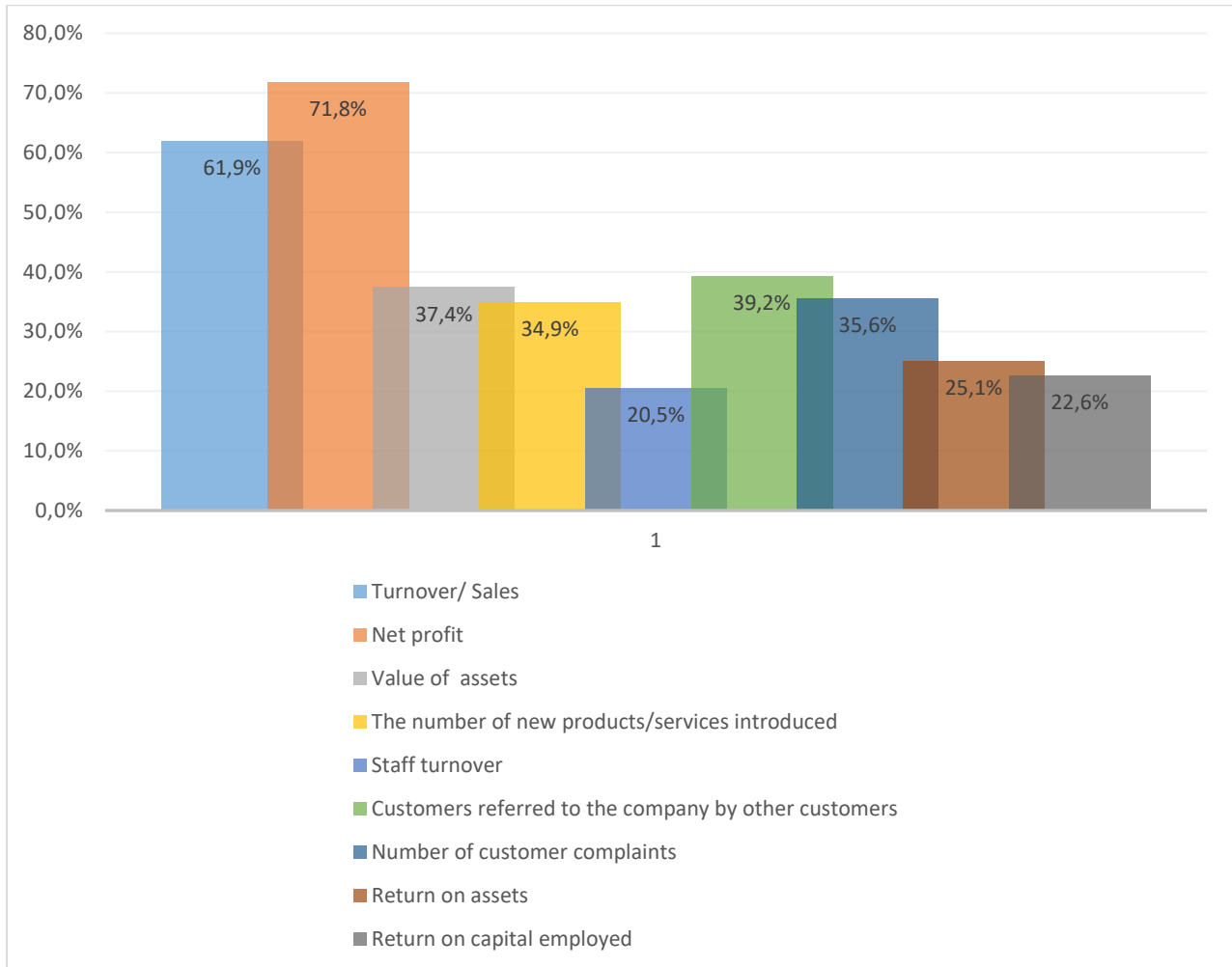
According to Williams and Naumann (2011), a combination of financial and non-financial indicators for performance measurement should be used, as the availability of financial data is limited or is treated as confidential information. A series of questions were posed to the SME owners surveyed to ascertain the criteria they used to measure the performance of their enterprises; the performance of their enterprises over the past five years; and their perceptions regarding the success of their enterprises.

5.5.5.1 Methods of measuring of performance in SMEs

According to Fatoki (2014), measuring performance in SMEs may require the use of return on assets, return on sales, return on employees, growth rate of assets, and growth in the number of employees. Yazdanfar *et al.* (2014) state that qualitative techniques, when used in evaluating performance, use ranked or scaled variables such as knowledge and business experience, the ability to offer quality products and services, the capacity to develop new products and processes, the ability to manage and work in groups, labour productivity, and corporate responsibility to the environment.

The rationale of this question in the questionnaire was to determine the common methods of measuring of performance in SMEs. In this study, the respondents were presented with the following measures to evaluate the success of their businesses: turnover/sales; net profit; value of assets; the number of new products/services introduced; staff turnover; customers referred to the company by other customers; number of customer complaints; return on assets (ROA), and return on capital employed (ROCE). The responses of the participants are presented in Figure 5.10 on the following page.

Figure 5.10: Methods of measuring performance



Source: Own field work

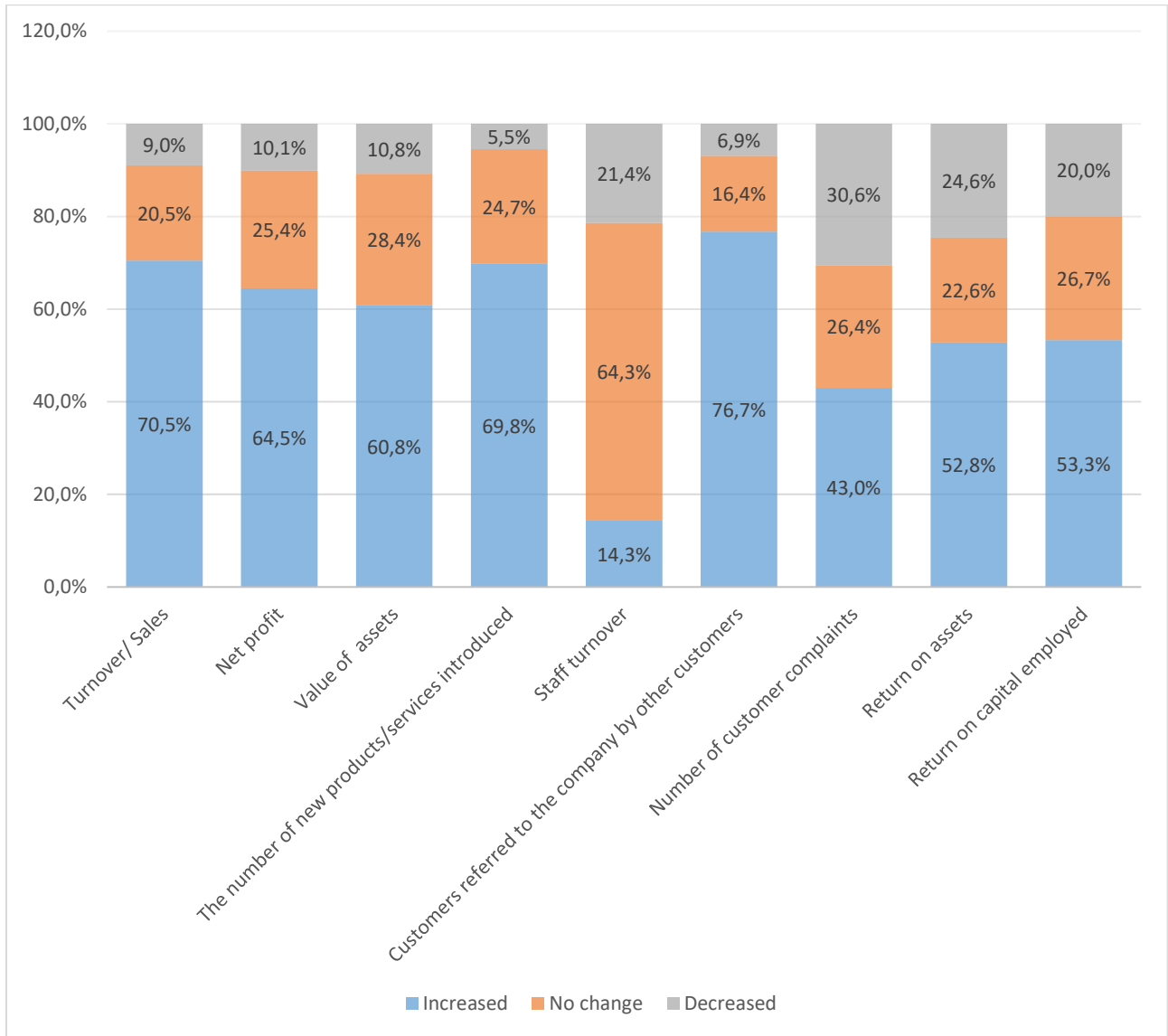
As illustrated in Figure 5.10 above, the largest percentage of the respondents (71.8%) stated that they preferred using net profit as a measure of performance; and 61.9% indicated that they measured performance through the amount of turnover/sales during a given period. Approximately 37% of the respondents indicated that they used value as a measure of performance, while 34.9% used the number of new products/services introduced as a measure of performance. Additionally, Figure 5.10 above indicated that only 20.5% of the respondents preferred using staff turnover as a measure of performance, and 39.2% of the respondents indicated that they measured performance through the number of customers referred to the company by other customers during a

given period. The respondents who indicated that they used the number of customer complaints as a measure of performance polled 35.6%; 25.1% indicated that they measured performance through ROA; and 22.6% used ROCE technique as a measure of performance. These results indicate that the owner-managers favour both absolute financial (turnover/sales, net profit and value of assets) as compared to relative financial techniques (ROCE and ROA) and non-financial (the number of new products/services introduced) techniques of performance. However, these results differ from the findings of a study conducted in Indonesia by Sarwoko, Surachman and Hadiwidjojo (2013), which concluded that SMEs prefer financial measures of performance, like level of sales; profit level; rate of return of capital; turnover; and percentage of market share. Similarly, Parida, Westerburg and Frishammar (2012) concluded that SMEs prefer non-financial measures because financial measures fail to respond to developments in the technological and competitive environment, with the result that internal accounting information is frequently inaccurate and misleading.

5.5.5.2 Measuring the five-year performance of SMEs in the Durban South area

This question was designed to assess the five-year performance of SMEs in the Durban South area. The respondents were required to indicate whether the performance of their organisations improved, deteriorated, or remained unchanged over the last five years, and their responses are reflected in Figure 5.11 on the following page. The majority of the respondents (70.5%) indicated that their turnover/sales had increased over the last five years; with only 20.5% of the respondents indicating that turnover/sales had decreased over the last five years; and 9% indicating that the volume of sales had not changed over the last five years.

Figure 5.11: Measuring the five-year performance of SMEs in Durban South



Source: Own field work

As indicated in Figure 5.11 above, analysing the performance of SMEs in terms of net profit, 64.5% of the respondents indicated that their net profit had increased over the last five years; 10.1% indicated that their net profit had decreased during this period; and 25.4% indicated that there was no change in their net profit over the last five years.

Figure 5.11 also reveals that 60.8% of the respondents indicated that the value of their assets had increased over the last five years; 28.4% of the respondents indicated a

decrease during this period; and the remaining 10.8% indicated that the value of their assets had remained unchanged over the past five years.

In terms of the number of new products//services introduced, 69.8% of the respondents indicated that there was an increase in the number of new products/services they had introduced over the last five years; 5.5% indicated there had been a decrease during this period, and 24.7% revealed that there was no change in the number of new products/services they had introduced over the last five years.

In terms of staff turnover, 14.3% of the respondents indicated that staff turnover had increased over the last five years; with 21.4% of the respondents indicating that staff turnover had decreased over the last five years; and 64.3% indicating that staff turnover had remained the same over the last five years.

Furthermore, Figure 5.11 above also analysed the performance of SMEs in terms of the customers referred to the company by other customers. A total of 76.7% of the respondents indicated that the customers referred to their company by other customers had increased over the last five years; 6.9% indicated that the customers referred to their company by other customers had decreased during this period; and 16.4% indicated that there was no change in the number of customers referred to their company by other customers over the past five years.

According to Figure 5.11, 43% of the respondents indicated that the number of customer complaints had increased over the last five years; 30.6% of the respondents indicated a decrease during this period; and the remaining 26.4% indicated that the number of customer complaints had remained unchanged over the last five years.

In terms of using Return on Assets (ROA) as a performance measure, 52.8% of the respondents indicated that there was an increase in the profitability ratio over the last five years; 24.6% of the respondents indicated there was a decrease during this period; and 22.6% revealed that there was no change in the ratio over the last five years.

Figure 5.11 further indicates that the majority of the respondents (53.3%) indicated that Return on Capital Employed (ROCE) had increased over the last five years; with 20% of

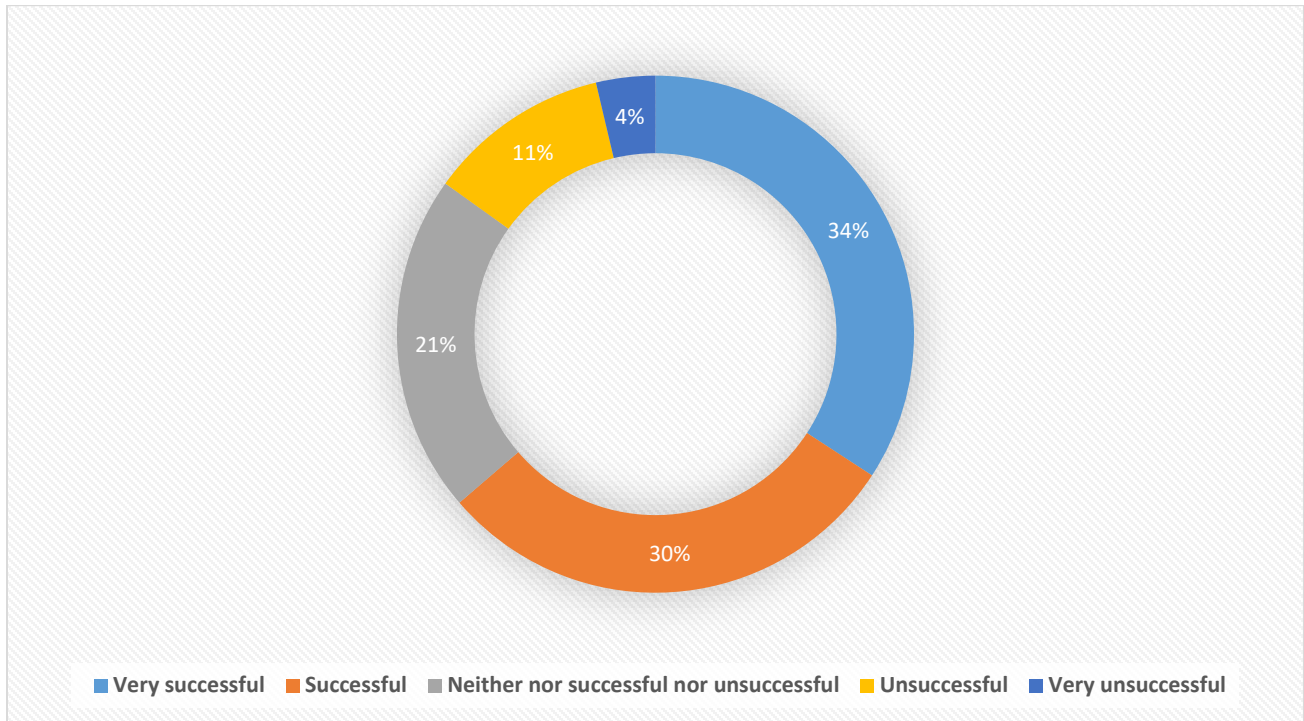
the respondents indicating that ROCE had decreased over the last five years; and 26.7% indicating that staff turnover had remained the same over the last five years.

5.5.5.3 The assessment of SMEs' five-year performance

The purpose of this question was to rate the SMEs' five-year performance as a dependent variable. A 5-point Likert scale, ranging from very successful (1) to very unsuccessful (5), was used to determine the success rate of the SMEs. The ratings are the SME owner-manager's independent evaluation of his/her business. The main reason why this method of evaluation was utilised was that it is a subjective evaluation practice, as business success and financial performance are not the same, even if the companies are in the same industry, are the same size, or have the same product line (Ayob, Ramlee & Rahman, 2015).

As shown in Figure 5.12 on the next page, a total of 64% of the respondents indicated that their businesses were either very successful (34%) or successful (29%); 21% of the respondents indicated that their businesses were neither successful nor unsuccessful; and the remaining 15% indicated that their businesses were either unsuccessful (11%) or very unsuccessful (4%).

Figure 5.12: The assessment of SMEs' five-year performance



Considering the comments of Ayob *et al.* (2015) on the subjective evaluation by SME owner-managers, Ayob, Gudmundsson and Yaacob (2015) agree that entrepreneurs become business owners for different reasons and their views, evaluations or judgements about the success of their businesses could be related to any of these reasons. Concurring, Brenner and Schimke (2015) state that, given the overlapping motives for business ownership, a subjective evaluation of business success by the owner has the advantage of capturing all the dimensions of business that are important to the owner and does not introduce non-response bias into the analysis, as subjective measures are acceptable indicators when other kinds of measures are unavailable, or when there are concerns about the validity of other measures.

Section 5.6 mainly focused on the descriptive statistics in the form of graphs, tables and the Principal Component Analysis (PCA) of the variables contained in the questionnaire. The following section will focus on the analysis of the inferential statistics.

5.6 INFERENCE STATISTICS

Inferential statistics are techniques that allow us to use samples to generalise about the populations from which the samples were drawn (Johnson & Christensen, 2014). It is, therefore, important that the sample accurately represents the target population. Inferential statistics arise from the fact that sampling naturally incurs sampling errors; thus, a sample is not expected to represent the population perfectly (Allmark & Machaczek, 2018). Authors, such as Dako, Wray, Awan and Subramania (2017), Currie, McCraig and Di Prospero (2016), and Collins and Norman (2018), have established that parametric tests can be used to analyse ordinal data. Moreover, the aforementioned authors concluded that parametric tests were generally more robust than nonparametric tests when analysing ordinal data, such as that seen in Likert scales, even when statistical assumptions (such as the normal distribution of data) were violated.

In this study a maximum of four analytical tools were used, including Pearson's correlation matrix, Pearson's Chi-square test, and Pearson's regression equation.

5.6.1 Correlation matrix

According to Wegner (2018), correlation matrix is a statistical method used to evaluate the strength of the relationship between two quantitative variables; one of the variables is dependent and the other is independent. In this analysis, two dependent variables (DVs) were identified, namely the Pe of SMEs and BE. The independent variables (IVs) that were measured against the Pe of the SMEs were BE, EP, LS and OP. Two of the IVs, namely LS and OP, were measured against BE, while BE was an independent variable to EP, as displayed in Table 5.13.

Thus, this section aims to test the null hypotheses (H_0) in order to apply the decision rule, whether to accept or reject the H_0 . Pearson's Correlation Coefficient (r) was used to test the strength of the relationship between the IVs and the DVs. Table 5.13 shows the results of Pearson's Correlation Test in relation to all the variables tested, based on each hypothesis. Each null hypothesis is discussed in detail on the following page.

Table 5.13: Pearson's Correlation (r) Coefficient

IVs	DVs	Coefficient	Sig	Comments
BE	Pe	0.273	0.001	A moderate positive relationship between BE and Pe
EP	Pe	-0.047	0.516	A weak negative relationship between EP and Pe
LS	BE	0.117	0.103	A weak positive relationship between LS and BE
OP	BE	0.192	0.007	A weak positive relationship between OP and BE
BE	EP	0.089	0.215	A weak positive relationship between EP and BE

Source: Own field work

H02: *There is no statistically significant relationship between the ethical values (BE) of owner-managers and the performance (Pe) of SMEs.*

HA2: *There is statistically significant relationship between the ethical values (BE) of owner-managers and the performance (Pe) of SMEs*

The results showed that BE ($r = 0.273$, $p\text{-value} = 0.001$) was significant and there was a moderate positive relationship to the Pe of the SMEs. This is because the coefficient for BE was positive and the p-value was less than 0.05. Thus, the null hypothesis is rejected in favour of the alternative hypothesis. It was therefore concluded that the Pe of the SMEs was higher when BE was highly practiced. It can be deduced that SMEs that valued BE experienced superior performance. Albayrak's (2009) study showed a significant positive relationship between BE and OP; the results of this study confirm Albayrak's findings.

H02a: *There is no statistically significant association between the EP of owner-managers and the Pe of SMEs.*

HA2a: *There is statistically significant association between the EP of owner-managers and the Pe of SMEs.*

The results showed that EP ($r = -0.047$, $p\text{-value} = 0.516$) was significant and there was a weak negative correlation to the Pe of the SMEs in the Durban South area. This is because the coefficient for EP was negative and the p-value was more than 0.05. Thus, the null hypothesis is accepted. In this study, there was no correlation between EP and

Pe. The implication of the result is that even if EP is applied, it yields no positive results in terms of Pe. Demirtas and Akdogan (2015) concluded that EP was a mediator between LS and Pe. EP has a key role to play in developing an ethical climate at work, which also could reduce immoral, disreputable and dishonest practices in an SME (Erben & Güneşer, 2008). A study by Toor and Ofori (2009) further indicated that ethical practices by owner-managers might increase the performance of SMEs. Hence, the ethical practices of owner-managers of SMEs are associated with positive influence performance (Ruiz, Ruiz & Martinez, 2011); this is not supported by the results of this study.

H03: *There is no statistically significant relationship between BE and corporate governance.*

HA3: *There is statistically significant relationship between BE and corporate governance*

The above hypothesis was tested by conducting three sub-hypotheses, H3a, H3b and H3c, and the results are discussed below.

H03a: *There is no statistically significant association between BE and the leadership style (LS) of owner-managers.*

H3a: *There is statistically significant association between BE and the leadership style (LS) of owner-managers.*

The results showed that LS ($r = 0.117$, $p\text{-value} = 0.103$) was insignificant and there was a weak relationship to BE. This is because the coefficient for LS was positive and the p -value (0.103) was more than 0.05. Thus, the null hypothesis is accepted, and it was concluded that LS does not have a significant relationship to BE. Researchers, including Cohen (2013) and Fok *et al.* (2016), concluded that there is no clear relationship between LS and BE; this is supported by the results of this study.

H03b: *There is no statistically significant association between the BE of owner-managers and the organisational policies (OP) of SMEs.*

HA3b: *There is statistically significant association between the BE of owner-managers and the organisational policies (OP) of SMEs.*

The results showed that OP ($r = 0.192$, $p\text{-value} = 0.007$) was significant, and there was a weak positive correlation to BE. This can be ascribed to the fact that the coefficient for OP was positive and the $p\text{-value}$ was less than 0.05. Thus, the null hypothesis is rejected in favour of the alternative hypothesis. Hence, BE is highly influenced by the presence or existence of OP. Theron, Van Aswegen, and Engelbrecht (2005) found that OP is positively correlated to BE; the results of this research were confirmed by Theron *et al.* (2005).

H03c: *There is no statistically significant relationship between the BE and EP of owner-managers.*

HA3c: *There is statistically significant relationship between the BE and EP of owner-managers.*

The results indicated that BE ($r = 0.089$, $p\text{-value} = 0.215$) was insignificant and there is a positive weak relationship with the EP of the owner-managers of the SMEs in the Durban South area. This is because the coefficient for BE was positive, based on the $p\text{-value}$ of 0.215 more than 0.05. In line with the results, the null hypothesis is accepted. Thus, it is concluded that increased BE results in decreased EP by the SMEs' owner-managers. The outcome of this result is contrary to assumptions that EP and BE correlate. It is evident from the above results that BE and EP are not correlated; this is unexpected given the existing literature. The finding is similar to previous research by Mele (2008) and Resick, Martin, Keating, Dickson, Kwan and Peng (2011), which established that BE does not translate into EP, especially in small businesses.

5.6.2 Regression analysis

Regression analysis mathematically describes the relationship between a set of independent variables and a dependent variable (Wegner, 2016). Linear regression analysis finds the straight-line equation representing the relationships between two numeric variables, the independent variables and the dependent variable. The regression analysis was employed in this study to ascertain the correctness of the proposed

conceptual model (see Figure 3.5), as stated below by the researcher. The model consists of key variables, namely BE, LS, OP, EP and Pe. In analysing Table 5.14 below, the independent variables are BE, LS and OP, while the dependent variable is Pe.

Table 5.14: Regression equation

Independent variables	B	Sig.
(Constant)	1.100	.002
BE	0.475	.001
LS	-0.040	.772
OP	0.83	.110

Source: Own field work

The variables are explained as follows:

β_0 represents constant

β_1 denotes the coefficient of BE

β_2 denotes the coefficient of LS

β_3 denotes the coefficient of OP

$$Pe = \beta_0 + \beta_1BE + \beta_2LS + \beta_3OP$$

$$Pe = 1.1 + 0.475BE - 0.04LS + 0.83OP$$

Explanation of the regression equation

H02: *There is no statistically significant relationship between the ethical values (BE) of owner-managers and the Pe of SMEs.*

HA2: *There is statistically significant relationship between the ethical values (BE) of owner-managers and the Pe of SMEs*

The results indicated that BE ($\beta_1 = 0.475$, p-value = 0.002) was significant and positively influenced the Pe of the SMEs – the reason being that the beta coefficient for BE was positive and the p-value was less than 0.05. Thus, the null hypothesis is rejected in favour of the alternative hypothesis. It is therefore concluded that BE improves the Pe of SMEs. Subsequently, one could conclude that the owner-managers of SMEs who attached importance to BE in the Durban South area experience higher performance, when compared to other owner-managers of SMEs. This implies that an increase in one unit of BE results in an increase in Pe by 0.475 units. This finding is supported by the study conducted by Onyeaghala-Obioma and Anele (2014) in their investigation of adherence to BE and the Pe of organisations. They concluded that there was a positive relationship between the adherence to ethics and the Pe of a business.

H04: *There is no statistically significant relationship between corporate governance and the Pe of SMEs.*

HA4: *There is statistically significant relationship between corporate governance and the Pe of SMEs.*

The hypothesis above was tested by conducting two sub-hypotheses, H4a and H4b. The results are discussed below.

H04a: *There is no statistically significant association between the LS of owner-managers and the Pe of SMEs.*

HA4a: *There is statistically significant association between the LS of owner-managers and the Pe of SMEs.*

The results revealed that LS ($\beta_2 = -0.04$, p-value = 0.772) was insignificant and negatively influenced the performance of SMEs. This is ascribed to the fact that the beta coefficient for LS was negative and the p-value was more than 0.05. Thus, the null hypothesis is accepted. Hence, one can conclude that any LS negatively affects the Pe

of SMEs. The LS coefficient is -0.04 , as reflected in Table 5.14. This implies that a negative relationship between LS and Pe. Additionally, if owner-managers change their LS from democratic to autocratic, or vice versa, the Pe decreases by 0.04 units. The possible explanation is that the LS practiced by the owner-managers is autocratic. This finding is not encouraging, as a study by Sofi and Devanadhen (2015) found that an entrepreneur's LS style has a positive significant impact on the Pe of his/her organisation. Therefore, the relationship between the LS of owners-managers and the Pe of SMEs in the Durban South area requires further investigation as the findings of this study seem to contradict the dominant findings in this area in the literature (Xu, Loi & Ngo, 2016).

H04b: *There is no statistically significant association between OP and the Pe of SMEs.*

HA4b: *There is statistically significant association between OP and the Pe of SMEs*

The results revealed that that OP ($\beta_3 = 0.83$, p-value = 0.11) was insignificant and positively influenced the performance of the SMEs. This is because the beta coefficient for OP was positive and the p-value was more than 0.05. Thus, the null hypothesis is accepted. This is the largest beta coefficient in this model, and it implies that SMEs perform better, although it is insignificant, when OP is in place. Furthermore, one-unit increase in OP results in Pe increasing by 0.83. The results of this study support the assertion by Guest (2001) that OP directly influences the performance of SMEs.

The regression equation has a y-intercept of positive 1.1, when there is no influence of exogenous variables (OP, LS and BE). This means that SMEs always experience positive Pe, the reason being that the primary objective of an entrepreneur is profit maximisation. According to Harrison, Thurgood, Boivie and Pfarrer (2017), entrepreneurs focus on profit maximisation and wealth creation.

5.6.2.1 Coefficient of Determination (R^2)

The coefficient of determination is a statistical measurement that examines how differences in one variable can be explained by the difference in a second variable, when predicting the outcome of a given event (Kumar, 2019). In other words, this coefficient, which is more commonly known as R-squared (or R^2), assesses how strong the linear

relationship is between independent and dependent variables. This is shown in Table 5.15 below.

Table 5.15: Coefficient of Determination (R^2)

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.295a	.087	.073	1.098

Source: Own field work

Table 5.15 reflects a R^2 of 0.087; this implies that an 8.7% variation in Pe is explained by OP, LS and BE as exogenous variables. This means that the exogenous variables have less impact on the casual effect relationship with Pe . A close analysis of Table 5.15 suggests that other exogenous variables, like education, age, gender and race, contribute a 91.3% variation in Pe .

5.6.3 Pearson's Chi-square test

The Pearson's Chi-square test statistic is commonly used for testing relationships between categorical variables. The null hypothesis of the Chi-Square test is that no relationship exists on the categorical variables in the population; they are independent (Wegner, 2018). According to Kumar (2019), the p-value is the probability of obtaining a test statistic equal to or more extreme than the result obtained from the sample data, given that the null hypothesis is true. In other words, a p-value less than 5% indicates that there is an association between an entrepreneurial competency and the performance of SMEs. Conversely, a p-value above 5% implies that there is no statistical evidence to indicate that there is an association between an entrepreneurial competency and the performance of SMEs. The p-values of various variable are presented in Table 5.16 on the following page.

Table 5.16: The Chi-square test results

Independent Variable	Dependent Variable	P-Value	Comment(s)
Edu	BE	0.075	BE and Edu are independent.
Socex	BE	0.008	There is dependence between Socex and BE.
Competition	BE	0.001	Leadership style and the performance of SMEs are independent.
Corruption	BE	0.002	There is a relationship between corruption and BE.
PR	BE	0.027	There is a statistically significant association between PR and BE.
BE	Pe	0.021	Business ethics and the performance of SMEs are dependent.
EP	Pe	0.020	There is dependence between ethical practices and the performance of SMEs
LS	BE	0.006	There is a statistically significant association between leadership style and business ethics.
OP	BE	0.005	There is a statistically significant association between organisational policies and business ethics.
EP	BE	0.136	There is no statistically significant association between ethical practices and business ethics.
LS	Pe	0.237	Leadership style and the performance of SMEs are independent.
OP	Pe	0.305	There is no relationship between organisational policies and performance.

Source: Own field work

H01: *There is no statistically significant relationship between factor 1, factor 2 and factor 3 and BE.*

HA1: *There is statistically significant relationship between factor 1, factor 2 and factor 3 and BE.*

The above hypothesis was tested by conducting five sub-hypotheses, from H1a to H1e. The results are discussed below.

H01a: *There is no statistically significant relationship between Edu and BE.*

HA1a: *There is statistically significant relationship between Edu and BE.*

Table 5.16 indicates a p-value of 0.075 between Edu and BE. This implies that Edu is insignificant to the variation in BE. Thus, the null hypothesis is accepted. Hence, the levels of education of the owner-managers increased the managers' professionalism and education had no influence on the good practice of BE. Consequently, the owner-managers of the SMEs did not understand the long-term consequences of unethical behaviour. The results are discouraging, as Muñoz-García and Aviles-Herrera (2014) indicated that people with university qualifications tend to take ethical issues more seriously than their counterparts without non-university qualifications do. Similarly, Dutta and Banerjee (2011) established that people with tertiary qualifications are more sensitive to ethical issues than their counterparts without tertiary qualifications are.

H01b: *There is no statistically significant relationship between Socex and BE.*

HA1b: *There is statistically significant relationship between Socex and BE.*

Another sub-hypothesis ascertained whether there was an association between Socex and BE. An analysis of the Pearson's Chi-Square test result ($p = 0.008$) indicated that statistically there was a significantly positive association between Socex and BE. The implication of the result is that the BE of the owner-managers should include decisions, practices and duties, and they should be validated in accordance with the new social expectation for the role SMEs are to play in society, young adults' attitudes, and consumerism in the economic system. Thus, good practices of BE reflect the values and

emerging standards that society expects from businesses. Consequently, a company's ethical responsibilities are always under scrutiny and subject to public debate because its legitimacy depends on society. This finding is consistent with the results of studies conducted by Maon, Lindgreen and Swaen (2010) and Safwat (2015), which found that a significant positive association exists between the social expectation for the role SMEs are to play in society, young adults' attitudes and consumerism in the economic system, and BE.

H01c: *There is no statistically significant relationship between competition and BE.*

HA1c: *There is statistically significant relationship between competition and BE.*

Davies and Chambers (2018) asserts that intensified competition should encourage SMEs to start recognising that the good practice of BE results in customer retention, brand loyalty and good reputation. The p-value of 0.001 indicates a significant positive association between competition and BE. Thus, the null hypothesis was rejected in favour of the alternative hypothesis. Therefore, it could be concluded that increased competition encourages the owner-managers of SMEs to improve their BE in order to achieve higher levels of Pe in the long term. The existence of competition in industries improves their compliance to ethical standards, which results in fair trade efficiency (Hayes, 2006; Van Rijbergen Elbers, Ruben and Njuguna, 2016).

H01d: *There is no statistically significant relationship between corruption and BE.*

HA1d: *There is statistically significant relationship between corruption and BE.*

Regarding the relationship between political corruption and BE, an analysis of the Pearson's Chi-Square test result ($p = 0.002$) revealed that, statistically, there was a significant association between political corruption and BE. By further analysing the statistics, corruption was seen an example of unethical conduct that negatively affects SMEs in terms of good stakeholder relations. Thus, avoiding damaging behaviour such as political corruption should be a key ingredient of good EP and better performance. The finding suggests that SMEs' owner-managers, who were involved in political corruption, were more prone to unethical conduct. A study by Gorsira, Denkers and Huisman (2016)

showed that political corruption encourages unethical behaviour in owner-managers; this research is confirmed by the findings of Gorsira *et al.* (2016).

H01e: *There is no statistically significant relationship between PR and BE.*

HA1e: *There is statistically significant relationship between PR and BE.*

The Pearson Chi-Square test showed that there was a statistically significant association between PR and BE. This conclusion was reached based on the p value of 0.027. This implies that the owner-managers of SMEs, who engaged in relationship public disclosure, publicity, media coverage, and better communication, are viewed by other stakeholders (for an example, suppliers and customers) as having good BE. According to Ferrell and Hartline (2011), organisations seek to bring their philanthropic activities in line with their marketing and brand image. Moreover, by being involved in benevolent activities, an SME displays its marketing ethics and improves its brand image.

H02: *There is no statistically significant relationship between the BE of owner-managers and the Pe of SMEs.*

HA2: *There is statistically significant relationship between the BE of owner-managers and the Pe of SMEs.*

One of the objectives of this study was to establish the extent to which BE influenced the PE of SMEs. The Pearson Chi-Square test indicated that there was a statistically significant association between BE and the success of SMEs. This conclusion was reached based on the p value of 0.021, which was below 0.05. This finding is consistent with the findings of a study by Svensson and Wood (2011), which established a positive relationship between BE and Pe.

H02a: *There is no statistically significant association between the EP of owner-managers and the Pe of SMEs.*

HA2a: *There is statistically significant association between the EP of owner-managers and the Pe of SMEs.*

The Pearson's Chi-Square test indicated that there was a statistically significant relationship between the EP of the SMEs' owner-managers and business success. This conclusion was reached based on the p value of 0.02. In organisations where ethical practices are the norm, Pe improved due to good stakeholder relationships. Similarly, in a study by Schwepker (2001), it was found that the enforcement of EPs had a positive relationship with organisational performance.

H03: *There is no statistically significant relationship between BE and corporate governance.*

HA3: *There is statistically significant relationship between BE and corporate governance*

The above hypothesis was tested by conducting three sub-hypotheses, H3a, H3b and H3c. The results are discussed below.

H03a: *There is no statistically significant association between BE and the leadership style (LS) of owner-managers.*

HA3a: *There is statistically significant association between BE and the leadership style (LS) of owner-managers*

This hypothesis aimed to determine whether there was an association between BE and the LS of the owner-managers of SMEs. An analysis of the Pearson's Chi-Square test result ($p = 0.006$) revealed that statistically there was a significant positive association between BE and the LS of the owner-managers of SMEs. This finding is consistent with the result of a study conducted by Perton (2018), which found that entrepreneurs' leadership style had a positive impact on the success of their businesses.

H03b: *There is no statistically significant association between the BE of owner-managers and the organisational policies (OP) of SMEs.*

HA3b: *There is statistically significant association between the BE of owner-managers and the organisational policies (OP) of SMEs.*

Regarding the relationship between the BE of the SME's owner-managers and OP, an analysis of the Pearson Chi-Square test result ($p = 0.005$) indicated that, statistically, there was a significant association between the BE of the SME's owner-managers and OP. By further analysing the descriptive statistics pertaining to OP it was established that one of the reasons behind the implementation of BE by the owner-managers could be linked to OP. Owen and Sykes (2009) affirmed the need for proper OPs to improve BE, and these results were confirmed by Owen and Sykes (2009).

***H03c:** There is no statistically significant relationship between the BE and the EP of owner-managers.*

***Ha3c:** There is statistically significant relationship between the BE and the EP of owner-managers*

According to Pushpakumari (2009), there is an association between BE and the ethical practices of owner-managers in the SME sector. However, the results of this research reflect that at a 5% level of significance, there is no statistical association between BE and ethical practices. This finding is unexpected and could be ascribed to the fact that the majority of the respondents agreed that BE is secondary to profit maximisation.

5.7 CONSOLIDATION OF HYPOTHESES TESTS

This empirical study conducted tests on the null hypotheses, as shown in Table 5.17 on the following page. Based on the majority of the outcomes, the researcher decided to identify specific hypotheses, which affected the PE of SMEs. The various instruments that were employed in testing are stated in Table 5.17, showing the decisions of the acceptance or rejection of the hypothesis.

Table 5.17: Summary of tested null hypotheses

Null hypotheses	Analytical Tool(s)	Decision
H01: There is no statistically significant relationship between factor 1, factor 2, and factor 3, and business ethics (BE)		
<i>H01a:</i> There is no statistically significant relationship between Edu and BE.	Chi-square test	Accepted
<i>H1b:</i> There is no statistically significant relationship between Socex and BE.	Chi-square test	Rejected
<i>H01c:</i> There is no statistically significant relationship between competition and BE.	Chi-square test	Rejected
<i>H01d:</i> There is no statistically significant relationship between corruption and BE.	Chi-square test	Rejected
<i>H01e:</i> There is no statistically significant relationship between PR and BE	Chi-square test	Rejected
H02: There is no statistically significant relationship between the BE of owner-managers and the Pe of SMEs	Correlation	Rejected
	Chi-square test	Rejected
	Regression	Rejected
<i>H02a:</i> There is no statistically significant association between the EP of owner-managers and the Pe of SMEs.	Correlation	Rejected
	Chi-square test	Rejected
H03: There is no statistically significant relationship between BE and corporate governance.		
<i>H03a:</i> There is no statistically significant association between BE and the leadership style (LS) of owner-managers.	Correlation	Rejected
	Chi-square test	Rejected
<i>H03b:</i> There is no statistically significant association between the BE of owner-managers and the organisational policies (OP) of SMEs.	Correlation	Rejected
	Chi-square test	Rejected
<i>H03c:</i> There is no statistically significant relationship between the BE and the EP of owner-managers.	Correlation	Accepted
	Chi-square test	Accepted
H04: There is no statistically significant relationship between corporate governance and the Pe of SMEs.		
<i>H04a:</i> There is no statistically significant association between the LS of owner-managers and the Pe of SMEs.	Regression	Rejected
<i>H04b:</i> There is no statistically significant association between the OP and the Pe of SMEs.	Regression	Rejected

Source: Own field work

5.8 CHAPTER SUMMARY

The data collected by means of the questionnaires facilitated the analysis, interpretation and discussion of investigating the impact of the ethical values of the SME's owner-managers on the performance of the enterprises in the Durban South area. The analysis of the data revealed that the majority of the owner-managers possessed business ethics. Overall, it emerged that the ethical practices, organisational policies and leadership style of the SME's owner-managers had a significant effect on the success of their enterprises.

The majority of the owner-managers viewed the ethical value concept as important to their long-term performance. Moreover, it can be stated that the owner-managers of SMEs in the Durban South area were ethical leaders.

However, the study also indicated that they misrepresented themselves, a product, price or business information. On many occasions, the unethical activities of SMEs are viewed as a need to survive, while the same actions, if committed in large organisations, are viewed as greed. From these results, it may be suggested that the owner-managers viewed customers and suppliers as easy targets for unethical behaviour in the Durban South area.

The final chapter highlights the main findings of the study, draws conclusions, and makes recommendations.

CHAPTER 6

SUMMARY, RECOMMENDATIONS AND CONCLUSION

6.1 INTRODUCTION

The aim of this study was to investigate the impact of the ethical values of SME owner-managers on the performance of their enterprises: Durban South, eThekweni Municipality, KwaZulu-Natal Province. The preceding chapter presented the empirical findings of this study. The correlation matrix, Pearson's Chi-square test and regression equation were used to evaluate the relationships between the variables, and to determine the fitness of the conceptual model. This chapter draws conclusions from the study based on the empirical findings and from the literature review. It further provides recommendations for academics, managers, the government and other stakeholders.

This chapter begins with evaluating whether the research objectives were achieved. Secondly, conclusions will be drawn by comparing the empirical findings and the objectives of this study. Thirdly, the recommendations and the contribution of the study will be presented, based on the findings of the study. Lastly, the limitations and suggestions for future research will be discussed.

In the next section, a summary of the major findings from the literature reviewed (in Chapter 2 and Chapter 3) in terms of business ethics and the performance of SMEs are presented.

6.2 SUMMARY OF THE LITERATURE REVIEW

From the relevant literature reviewed, it can be stated that economic growth could be achieved through the establishment of successful SMEs, as the employment opportunities created by SMEs result in people earning incomes, which, in turn, leads to an increase in the demand for goods and services. The South African government has identified the important role of the SME sector in reducing poverty and unemployment and contributing to economic growth. SMEs' growth and development might be hindered by, *inter alia*, the following factors: lack of financial resources; lack of managerial skills;

inadequate equipment and technology; legal/regulatory issues; and poor/limited access to markets.

SMEs are the seedbed for entrepreneurship development, innovation and risk-taking behaviour, and provide the foundation for long-term growth and the progression towards larger enterprises. SMEs are also valued for the role they play in providing competition to existing businesses, improving product quality, reducing prices, and introducing new goods and services through innovation and technology advancement. Due to SMEs' diversity, character and their ability to harness business opportunities, they have become a vehicle for economic growth and development.

Despite the important role and contribution of SMEs to the economy, there are constraints associated with the establishment, growth and development of SMEs. SMEs prefer using non-financial measures; however, these measures fail to respond to developments in the technological and competitive environment, with the result that internal accounting information is frequently inaccurate and misleading. Moreover, it is important for SMEs to identify KPIs, but most SMEs have limited resources and human capital to define and measure their KPIs. In addition, SMEs are viewed as a link between micro-enterprises and large enterprises, implying that their failure could have a major impact on an economy that is characterised by sub-contracting and contracting.

Organisational ethics are deeply involved with both the ethical values and the moral actions of the employees and owner-managers of SMEs. Proactive ethical initiatives have a positive impact on financial performance because ethical behaviours derive from the creation of intangible assets, which are vital to long-term business success. In regard to the link between business ethics and corporate governance, in the field of corporate governance, the awareness of ethical issues ensures that managers avoid abusing their power or taking improper actions that could result in questionable behaviours and practices within organisations.

Similarities exist between ethics and morals in relation to the following key aspects: common conduct; attitude; and behaviour. The ethical dimensions of an enterprise are defined in terms of commercial activity on the systematic, organisational and intra-

organisational levels. Moreover, ethical corporate governance deals with ensuring accountability, fiduciary duty and the mechanisms of auditing and control with ethical compliance, without subsidising the primary objective of creating products and services to generate profits.

Codes of conduct and integrity programmes, which promote business ethics, are designed based on the principles of virtue ethics by focusing on desirable behaviours, which are representative of individual virtues. When a company is able to gain the trust of its consumers through social, environmental and politically responsible practices, it is better poised to succeed in the long term. Authors (Jones, 1995; Jones and Wicks, 1999) have argued that proactive ethical initiatives have a positive impact on financial performance because ethical behaviours derive from the creation of intangible assets, which are vital to long-term business success. Ethical standards are associated with the formulation of a company's culture; it influences employees' work ethos; it reflects a positive image to the public, it develops trusts among customers, and it holds an advantage to potential customers and/or potential business partners.

Ethical behaviour in governance is defined as the way in which a company's stakeholders attempt to manage collective action from the perspective and in the interest of the majority; thus, avoiding damaging behaviour (such as fraud, personal enrichment, insider trading, corruption, deviancy, dubious behaviour) and through better control of the power and responsibilities of the company's managers. Ethical leadership illustrates standard applicable behaviour through individual actions and interpersonal associations, and by promoting such conduct among company employees through two-way communication, reinforcing and decision-making.

In the next section, a summary of the major findings from the empirical results of the study (see Chapter 5) in terms of the research objectives are presented.

6.3. SUMMARY OF THE MAJOR FINDINGS REGARDING THE RESEARCH OBJECTIVES

A number of objectives were formulated in order to address the research problem. Subsequently, a quantitative study was undertaken to achieve the set objectives. The following is a summary of the findings in relation to the objectives of this study.

6.3.1 To explore factors that influence the ethical values of SME owner-managers

The first empirical objective was to explore the factors that influence the ethical values of SME's owner-managers. The findings of the study revealed that of the ten factors that were provided, only five factors were considered important, using the PCA as a descriptive statistics tool. An analytical tool, in the form of Pearson's Chi-square test, was used to test the significance of these five factors in influencing business ethics. The following factors indicated a strong statistical association with business ethics:

- The education of the owner-managers increased manager professionalism and education;
- New social expectation for the role SMEs are to play in society, young adults' attitudes, and consumerism;
- Competition, pace of life, stress to succeed, current economic conditions, costs of doing business, and more businesses compete for less;
- Political corruption, loss of confidence in the government, politics, political ethics and business climate; and
- Public disclosure, publicity, media coverage, and better communication.

Hence, the objective to explore the factors that influence the ethical values of SME owner-managers was achieved.

6.3.2 To determine to what extent the ethical values of owner-managers influence the performance of SMEs

To achieve this objective, Pearson's Chi-square test, correlation matrix and regression equation were used in order to determine if the same conclusion could be reached using different tools. The findings of this study indicate that there was a significant positive relationship between the ethical values (BE) and the Pe of the SMEs. Based on the descriptive statistics, the majority of the respondents were of the view that integrity; honesty; openness; respect; fairness; and responsibility were either very important or important for the Pe of SMEs. Based on the study's findings, it could be concluded that this particular objective was met.

6.3.3 To ascertain the link (if any) between the ethical values of SME owner-managers and corporate governance

According to the Stakeholder Theory, corporate governance plays an important role in the ethical practices of owner-managers of SMEs. Most SME managers in the Durban South area viewed LS and OP as critical components of the good practice of BE. Two inferential analytical tools were used (the chi-square test and correlation matrix), and the empirical findings were encouraging. Thus, LS and OP were positively associated with BE. In this regard, it can be concluded that corporate governance positively influences BE. Based on the study's findings, it could be concluded that this particular objective was met.

6.3.4 To propose a conceptual framework that could assist in developing SME's awareness of ethical values; thereby, assisting SMEs in developing positive ethical values, which could positively influence their performance

To achieve this objective, the study integrated Pe, LS, OP and BE through the regression model. The design was as follows: the DV was Pe, and IVs were LS, OP and BE, as proposed in the conceptual model (refer to Figure 3.5). The regression equation was tested through a rigorous statistical procedure to determine the fitness of the conceptual model. The model showed the links between the variables. Analysing the regression

equation, all the hypothesised relationships among the constructs in the model were significant. Based on the study's findings, it could be concluded that this particular objective was met.

6.4 CONCLUSION

The findings of this study showed that SMEs in the Durban South area considered BE, LS and OP as important ingredients towards Pe. However, the aforementioned variables, without proper EP, would not hold water given the fact that there is severe unemployment in South Africa. SMEs play a critical role in terms of employment, the reduction of poverty, and their contribution to the GDP of the country. SMEs have greater backward linkages to micro-enterprises and forward sub-contracting links to large businesses, making them an important driving force in the economy. Despite their significance and contribution to socio-economic growth, SMEs in South Africa still face numerous challenges that inhibit entrepreneurial growth. Apart from SME funding and access to finance (which is a major reason for the high failure rate in growth), SMEs in the Durban South area failed to adopt, implement and practice strategies of good ethical conduct towards various stakeholders, which was the result of political corruption, competition, and a toxic ethical climate. Consequently, the high rate of failure among SMEs has led to business closures and generally high unemployment rates (Seda, 2016).

Given the above, the findings of the study showed that the SMEs in the Durban South area practiced good ethical practices, which significantly influenced their business success in a positive manner. SMEs are susceptible to all kinds of unethical behaviour, which damage their image, reputation and customers' goodwill, in an effort to enjoy a competitive advantage. The results of this study further indicated that the majority of the owner-managers favoured both absolute financial techniques (turnover/sales, net profit and value of assets) as compared to relative financial techniques (ROCE and ROA), and non-financial techniques of performance (the number of new products/services introduced).

Finally, while the SMEs in Durban South area are a small part of the economy, if they increased their commitment to good EP, this could minimise all types of unethical conduct

by suppliers, employees, the government, landlords and customers. The state may have insufficient resources to address the ever-changing demands of the country. There are a myriad of socio-economic problems (particularly unemployment), but it should be in the interest of every individual and business (large or small) to team up collaboratively with the state in an effort to address the problems associated with unethical business conduct. SMEs in general are essential to the society, employees and the environment, and they need each other to remain viable and sustainable. Hence, the owner-managers of the SMEs in the Durban South area should acknowledge the fact that superior performance and the survival of their businesses are based on BE, EP and good corporate governance.

6.5 RECOMMENDATIONS

This section elaborates on the recommended strategies to improve the Pe and EP of SMEs. The strategies are based on the findings of the study.

6.5.1 Operationalisation of the Pe model

This study recommends the Pe model/framework as a tool that could be used by SMEs to address unethical conduct. The model, as presented in Figure 3.5, shows how Pe is associated with BE and corporate governance (that is, LS and OP). Of particular relevance to the owner-managers of SMEs is that all the variables (BE, LS and OP) were statistically significant to the positive variation in Pe. In view of the findings, as depicted in Pe, the owner-managers of SMEs are encouraged to invest more in good BE and corporate governance in order to achieve superior performance through good EP. It is suggested that BE should be used as a key variable towards business success. In this regard, adequate compensation and providing information on EP are key strategies that could be utilised to achieve good EP among employees. Therefore, it is important for owner-managers to encourage employees to reject any sort of financial reward from customers and/or other employees. In order for SME owner-managers to compensate their employees for good ethical behaviour, a Business Ethics Index (BEI) should be designed, with scores ranging from 0-10. A score of zero is the lowest score, and it indicates that an employee does not practice BE, while a score of ten is the highest score on the scale, and it reflects an excellent display of BE.

6.5.2 Small Business Community Forum

The results of this study indicated that societal expectations for the role SMEs are to play are positively influenced by the BE of the owner-managers. To accommodate the needs and expectations of the various economic players within the community, the researcher recommends the creation of a Small Business Community Forum (SBCF) at municipal level. In this forum, all stakeholders should be included, because their interests differ. The SBCF could include representatives from the youth, the religious fraternity, workers, suppliers, customers, SMEs, the government, pressure groups and women. This forum could help to improve communication between SMEs and communities in terms of good ethical standards. It could also play an important role in being a link between the societal expectations in terms of the provision of goods and services by SMEs and EP. Representatives who serve on the Forum are well placed to ensure that resources are allocated to ensure good EP by SMEs and the community at large. Furthermore, it is recommended that the SBCFs undertake road shows, as well as establish local “*imimbizo*”, which could raise awareness about EP.

6.5.3 BE education

This study further indicated that the educational qualifications of SMEs’ owner-managers negatively influence BE. It is recommended that BE education should be introduced, as it creates good ethical citizens (Tafese & Desta, 2014). BE education promotes ethical values and knowledge, and a disposition to affirm both changes in behaviour and the attitude of employees and owner-managers. As mentioned above, BE education also contributes to the creation of good and ethical behaviour among citizens. Hence, it is strongly recommended that extensive BE education and training should be provided through state-funded organisations, such as the DCCI and Seda. BE education should be structured with a focus on the specific requirements of not only existing owner-managers, but also future entrepreneurs. Moreover, BE training could initiate a dialogue within the SME sector around controversial ethical issues, as BE has a greater impact on employees’ behaviour than OP. BE training could also assist in creating a culture of integrity, honesty, openness, respect and fairness. Lastly, in order to reinforce good EP,

BE training should not only be provided to employees, it should also be provided to owner-managers and government officials.

6.5.4 Business Ethics Practitioner

The results of the study also indicated that BE significantly influence Pe; therefore, it is recommended that SMEs should appoint a specialist or expert in BE as a Business Ethics Practitioner (BEP). According to Brennan (2013), a BEP should act in an ethical manner; should maintain personal and professional honesty; should serve in the best interest of the organisation and clients without malice or personal gain, and that his/her actions are the best judgement of what should be done, based upon the current state of the profession. A BEP needs to be an expert on human behaviour; therefore, it makes sense that he/she must be able to understand and have a substantial influence on organisational ethical behaviour (Bayeh, 2016). It is for this reason that a professional BEP and his/her team members should embrace their ethics management responsibility. The nature and extent of this responsibility should be elucidated and specific ethics management roles within this broader responsibility should be identified and clearly demarcated. In particular, primary, secondary and tertiary education and professional training needs to include business ethics knowledge and an ethics management competency. Thus, SME owner-managers should appoint an employee to this position who is trusted by themselves and employees. The BEP could also act as the spokesperson of the organisation where issues of BE and corporate social responsibility are concerned.

6.5.5 Political Integrity Pledges

The results further indicated that political corruption negatively affects the BE of the owner-managers of SMEs. Hence, it is recommended that the South African government introduce Political Integrity Pledges (PIP) for all politicians. These pledges will commit politicians to take certain actions against corruption or to declare any business interests they have in the private sector. A PIP should include the following: committing to act honestly and openly in all aspects of his/her political life; putting the well-being of the SME sector ahead of his/her personal and party interests; uniting with the government to fight corruption by using all opportunities both in his/her place of work and in his/her private

life; and sensitising the public to the effects of corruption on the development of their country.

Moreover, the government should formulate policies that ensure that parastatals and public bodies comply and abide with ethical values and principles. This will improve the conduct and behaviour of employees who work in the public sector and it will further cultivate a culture of integrity, transparency and accountability.

6.5.6 Other specific recommendations

Given the challenges faced by SMEs, and based on the conclusions drawn, this section makes recommendations to determine how some of the challenges identified throughout the study could be addressed. These recommendations are based on some definite steps to be adopted in order to encourage good EP. The recommendations, which are based mainly on extant literature and empirical studies, are discussed further below:

- The government should offer better remuneration and employee benefits, such as a bonus, fringe benefits and mortgage loans, to motivate its employees to work hard, and provide a favourable work environment where they can comfortably develop and utilise their skills. This will boost their motivation and impact positively on their ethical values, leading to improved accountability and responsibility in their work.
- The government and SMEs should conduct regular audits to ensure that their employees comply with the ethical standards, and to detect any intentions or efforts to violate the rules at an advanced stage. This will ensure that employees comply with their codes of ethics in all their engagements in their work place.
- Public education and communication could assist in reducing public tolerance to unethical conduct and encourage the public to report immoral conduct by government and SMEs officials. In addition, whistle-blowers should be protected for exposing corrupt individuals. If a fraudster is charged, the whistle-blower should be compensated for exposing corruption. This will encourage potential whistle-blowers to report unethical conduct by employees from both the government and SME sector.

6.6 CONTRIBUTIONS TO NEW KNOWLEDGE

This study has contributed to the body of knowledge in different ways. Firstly, this study has developed the first Pe model for SMEs in the Durban South area. This model could serve as a strategic intervention for addressing the poor performance of SMEs. The model links BE, LS and OP with the Pe of SMEs. The quantitative model reflected that any improvement in OP and BE will result in greater performance of SMEs. The model was tested through the p-values, and the variables were statistically significant. In addition, the study provided important factors that influence the BE of SME owner-managers. Therefore, this study underpins the need for SMEs to analyse and attach greater importance to five essential factors. The factors are political corruption, competition, societal expectations, publicity, and the education of owner-managers. The study further contributes to existing literature in the SME sector in general by demonstrating that if owner-managers have good BE, without good EP, the good BE will not enhance the Pe of SMEs. This finding is a wake-up call for owner-managers. It should prompt them to analyse how their employees can improve their EP.

6.7 DIRECTIONS FOR FUTURE RESEARCH

This study focused on investigating the impact of the ethical values of SME owner-managers on the performance of their enterprises in the Durban South area in the eThekweni Municipality of KwaZulu-Natal.

Future research could be undertaken in the following areas:

- A similar study could be conducted among SMEs in specific sectors in the eThekweni municipal region, for example, manufacturing, tourism and engineering;
- A similar study could investigate the influence of corporate governance on the performance of SMEs;
- A similar study could be conducted in other municipal areas in KwaZulu-Natal, and in South Africa, and

- A study could be undertaken to determine the factors influencing the BE of SME owner-managers.

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ANNEXURES

ANNEXURE A: LETTER OF INFORMATION



LETTER OF INFORMATION

Title of the Research Study: The influence of ethical values of SME owner-managers on performance of enterprises: Durban South, eThekweni Municipality, KwaZulu-Natal Province.

Principal Investigator/s/researcher: Mr. Tinaye Mahohoma

Supervisor: Dr. Albert. T. Agbenyegah

Brief Introduction and Purpose of the Study

SMEs are recognised as the prime vehicle for economic development in both developed and developing countries. In South Africa, it is estimated that SMEs are responsible for approximately 56% of private sector employment and contribute approximately 36% to the gross domestic product of the country. Given the important socio-economic role played by SMEs, it is crucial that they succeed. However, the failure rate of SMEs in South Africa is high. Against this background, the purpose of this study is to evaluate the impact of Ethical values of SME owner-managers and performance of their enterprises in the Durban South area. However, due to time and cost constraints, the study will be confined to SMEs in the Durban South area of eThekweni region.

Responsibilities of Participants

Once the owner-managers of SMEs in the eThekweni region have consented to partaking in the survey, they will be requested to complete a self-administered questionnaire, and e-mail same to the researcher. The questionnaire should take approximately 20 minutes to complete.

Risks or Discomforts to the Participant

The participants will not be asked to perform any acts or make statements which might be expected to cause discomfort, compromise them, diminish their self-esteem or cause them to experience embarrassment or regret. There are no foreseeable adverse reactions.

Benefits

The benefits of the research include the following:

- The findings of the study have the potential to benefit SMEs in Durban south area by identifying those ethical values that are positively correlated to business success.
- It is envisaged that the research results will be presented at a local or international conference, and the findings will be published in an accredited journal.

Reason why the Participant May Be Withdrawn from the Study

Participation is voluntary, and participants may withdraw from the study for their own personal reasons, like a lack of time to complete the questionnaire. There will be no adverse consequences for the participants should they choose to withdraw.

Remuneration

The participant will not receive any monetary or other types of remuneration.

Costs of the Study

The participants are not expected to cover any costs towards the study.

Confidentiality

The data collection process will not involve access to confidential personal data. Participants will be assured of anonymity and confidentiality of their responses. The completed questionnaires, which do not contain the name of the participant or his/her enterprise, will be stored for a period of five years, and will, thereafter, be shredded.

Research-related Injury

There is no anticipated injury to the participants as the participants will not perform any physical acts.

Persons to contact in the event of any problems or queries:

Please contact the researcher, or the supervisor, or). Complaints can be reported to the DVC: TIP, on 031 373 2382 or dvctip@dut.ac.za.

ANNEXURE B: LETTER OF INFORMED CONSENT

CONSENT



Statement of Agreement to Participate in the Research Study:

- I hereby confirm that I have been informed by the researcher, about the nature, conduct, benefits and risks of this study - Research Ethics Clearance Number:
- I have also received, read and understood the above written information (Participant Letter of Information) regarding the study.
- I am aware that the results of the study, including personal details regarding my sex, age, date of birth, initials and diagnosis will be anonymously processed into a study report.
- In view of the requirements of research, I agree that the data collected during this study can be processed in a computerised system by the researcher.
- I may, at any stage, without prejudice, withdraw my consent and participation in the study.
- I have had sufficient opportunity to ask questions and (of my own free will) declare myself prepared to participate in the study.
- I understand that significant new findings developed during the course of this research which may relate to my participation will be made available to me.

Full Name of Participant Date Signature

herewith confirm that the above participant has been fully informed about the nature, conduct and risks of the above study.

Full Name of Researcher Date Signature

Full Name of Witness (If applicable) Date Signature

ANNEXURE C: COVERING LETTER ACCOMPANYING QUESTIONNAIRE

Faculty of Management Sciences

Department of Entrepreneurial Studies and Management

Date: 28 June 2018

Dear Participant

I am currently undertaking a 'Doctor of Philosophy in Management Sciences (Business Administration) in the department of Entrepreneurial Studies and Management at the Durban University of Technology. The study aims to evaluate the impact of ethical values of SME owner-managers on performance of enterprises: Durban South, eThekweni Municipality, KwaZulu-Natal Province.

Would you be kind enough to agree to complete a questionnaire for the study? The questionnaire will take approximately 20 minutes to complete. Participation is voluntary, and all information collected will be treated as confidential. Upon your request, the findings of the study will be made available to you once they have been finalised. No personal details will be made available to the public or third party.

Please return the completed questionnaire

Thank you for your anticipated response and cooperation.

ANNEXURE D: RESEARCH QUESTIONNAIRE

TOPIC: THE IMPACT OF ETHICAL VALUES OF SME OWNER-MANAGERS ON PERFORMANCE OF ENTERPRISES: DURBAN SOUTH, ETHEKWINI MUNICIPALITY, KWAZULU-NATAL PROVINCE.

QUESTIONNAIRE

PLEASE INDICATE YOUR ANSWERS BY PLACING A CROSS (X) IN THE APPROPRIATE COLUMN

SECTION A: DEMOGRAPHIC FACTORS

The following questions relate to your biographic profile and also involve questions to do with relationship between yourself and the business

Q. 1. To which sector does your business belong?

1.1	Agriculture		1.6	Catering and Accommodation	
1.2	Manufacturing		1.7	Transport storage and communication	
1.3	Construction		1.8	Finance and business services	
1.4	Retailing, and Motor trade and Repairs services		1.9	Community and Personal services	
1.5	Wholesale commercial agents and allied services		1.10	other	

Q. 2. No. of (full-time) employees

2.1	21 to 50 employees	
2.2	51 to 100 employees	
2.3	101 to 150 employees	
2.4	151 to 200 employees	
2.5	Above 200 employees	

Q3. Please indicate the age group to which you belong in?

3.1	25 years and below	
3.2	26 to 35 years	
3.3	36 to 45 years	
3.4	46 to 55 years	
3.5	56 to 65 years	
3.6	66 years and above	

Q4. Please indicate your gender

4.1	Male	
4.2	Female	

Q.5. Indicate your population group

5.1	African	
5.2	White	
5.3	Indian	
5.4	Asian	
5.5	Other	

Q.6. How long have you owned your current enterprise?

6.1	Less than 5 years	
6.2	Between 5 and 10 years	
6.3	Between 11 and 15 years	
6.4	Between 16 and 20 years	
6.5	Over 20 years	

Q.7. Indicate your highest level of formal education

7.1	Up to Grade 12/ Std 10	
7.2	Diploma/ Degree	
7.3	B-Tech/ Honours	
7.4	M-Tech/Masters/MBA	
7.5	D-Tech/ Doctorate	

SECTION B: BUSINESS ETHICS

Q.8. Please indicate the importance of each of the following variables as integral part of ethics

	Source	Very important	Important	Neither important nor unimportant	Unimportant	Very unimportant
8.1	Integrity	1	2	3	4	5
8.2	Honesty	1	2	3	4	5
8.3	Openness	1	2	3	4	5
8.4	Respect	1	2	3	4	5
8.5	Fairness	1	2	3	4	5
8.6	Responsibility	1	2	3	4	5

Q.9. Please indicate by means of an "X" the extent to which you agree or disagree which the following

Statements:

	Statements	Strongly Agree	Agree	Neither agree nor disagree	Disagree	Strongly Disagree
9.1	SME owners -managers main concerns are to make a profit and ethics is secondary	1	2	3	4	5
9.2	I act according to the law, and I cannot go wrong ethically	1	2	3	4	5

9.3	I believe that "ethical values" is the concept of public relations only	1	2	3	4	5
9.4	Ethical values are irrelevant to the business world	1	2	3	4	5
9.5	Business decisions involve the realistic economic attitude and not only an ethical philosophy	1	2	3	4	5
9.6	An ethical business person has a successful enterprise	1	2	3	4	5
9.7	Sound ethical values are good for business in the long run	1	2	3	4	5
9.8	In the business world it is difficult to make ethically sound decisions because of the high degree of competition	1	2	3	4	5

Q.10.	In making choices, if you were unsure of what was right or wrong in a situation, how would you decide what to do? In relation with the following, answer by placing a tick mark against item(s) applicable:	
10.1	Do what is best for everyone in the business	
10.2	Follow advice of an authority	
10.4	Do what makes my business profitable	
10.5	Do what improves business situation in terms of cash flow	

Q.11	In conducting the business in the last 12 months	Yes	No
11.1	Have you offered to pay a bribe?	1	2
11.2	Have you forced or threatened someone to act in manner that is against his or her will or preference?	1	2
11.3	Have you cheated someone?	1	2
11.4	Have you misrepresented yourself, a product, price or any business information?	1	2

Q.12	If you answered "Yes" to Q. 10 above, please indicate by means of (X) to whom?	
12.1	Customers	
12.2	Suppliers	
12.3	landlord	
12.4	Government officials	
12.5	other	

Q.13. To what extent your organisation has responsibility to the following groups. Please tick the number that represents the level of your importance.

	Statements	Very important	Important	Neither important nor unimportant	Unimportant	Very unimportant
13.1	Customers	1	2	3	4	5
13.2	Employees	1	2	3	4	5
13.3	Suppliers	1	2	3	4	5
13.4	landlord	1	2	3	4	5
13.5	Government officials	1	2	3	4	5

13.6	Local community where the enterprise operates	1	2	3	4	5
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SECTION C: FACTORS AFFECTING BUSINESS ETHICS

Q.14. In your opinion, how important is the following in influencing ethical values among SME owner-managers?

	Statements	Very important	Important	Neither important nor unimportant	Unimportant
14.1	Religious beliefs	1	2	3	4
14.2	My personal values	1	2	3	4
14.3	The outcome/ consequences of my actions on my business	1	2	3	4
14.4	The law of right and wrong	1	2	3	4

Q.15. Listed below are factors that may influence ethical standards in your enterprise. Please indicate the level of importance of each factor.

	Statements	Very important	Important	Neither important nor unimportant	Unimportant	Very unimportant
15.1	Public disclosure, publicity, media coverage, better communication	1	2	3	4	5
15.2	Increased public concern, public awareness, consciousness and scrutiny, better informed public, societal pressures	1	2	3	4	5
15.3	Government regulation, legislation and intervention, courts	1	2	3	4	5
15.4	Education of owner-managers, increased manager professionalism and education	1	2	3	4	5
15.5	New social expectation for the role SMEs is to play in society, young adult attitudes, and consumerism	1	2	3	4	5
15.6	SME's greater sense of social responsibility and greater awareness of the implications of its acts, business responsiveness, corporate policy changes, the owner-manager emphasis on ethical action	1	2	3	4	5
15.7	Competition, pace of life, stress to succeed, current economic conditions, costs of doing business, more businesses compete for less	1	2	3	4	5

15.8	Political corruption, loss of confidence in government, politics, political ethics and business climate	1	2	3	4	5
15.9	Greed, desire for gain, worship the money as measure of success, selfishness of the individual, lack of personal integrity and moral fibre	1	2	3	4	5
15.10	Pressure for profit from within the organisation corporate influences on managers, corporate policies	1	2	3	4	5

**Q.16. What factors you feel are, in general influencing unethical decisions of employees in the organisation?
Please tick the appropriate number.**

	Statements	Very important	Important	Neither important nor unimportant	Unimportant	Very unimportant
16.1	Behaviour of owner-managers	1	2	3	4	5
16.2	Formal policy or lack thereof	1	2	3	4	5
16.3	Government regulation, legislation and intervention, courts	1	2	3	4	5
16.4	SME sector ethical climate	1	2	3	4	5
16.5	Society's moral climate	1	2	3	4	5
16.6	Owner-manager's personal financial needs	1	2	3	4	5

SECTION D: CORPORATE GOVERNANCE

Q.17. Please indicate by means of an "X" the extent to which you agree or disagree which the following statements:

	Statements	Strongly Agree	Agree	Neither agree nor disagree	Disagree	Strongly Disagree
17.1	The leadership style of the owner plays a major role in making sound ethical decisions	1	2	3	4	5
17.2	As a leader, I am open with other stakeholders	1	2	3	4	5
17.3	As a leader, I listen to other people's views	1	2	3	4	5
17.4	As a leader, I fosters team work in the organisation	1	2	3	4	5
17.5	As a leader, I delegate responsibly	1	2	3	4	5

Q.18.	Please indicate to what extent you agree or disagree with the following statements:	Strongly Agree	Agree	Neither agree nor disagree	Disagree	Strongly Disagree
18.1	The organisational polices well define bribery	1	2	3	4	5
18.2	The organisational policies deal how employees should deal with confidentiality and proprietary information	1	2	3	4	5
18.3	The organisation polices are very clear no how to deal with political contributions	1	2	3	4	5
18.4	There are organisational policies on how to deal with sexual harassment	1	2	3	4	5
18.5	Organisational polices that relates to antitrust and competition are well defined	1	2	3	4	5

SECTION E: FINANCIAL AND NON-FINANCIAL MEASURES OF PERFORMANCE OF SMES

Q.19.	Which of the following measures do you use to evaluate the success of your organisation?	
19.1	Turnover/ Sales	
19.2	Net profit	
19.3	Value of assets	
19.4	The number of new products/services introduced	
19.5	Staff turnover	
19.6	Customers referred to the company by other customers	
19.7	Number of customer complaints	
19.8	Return on assets	
19.9	Return on capital employed	

Q.20. Over the past 5 years, what has been the trend in respect of the following?

	Indicators	Increased	No change	Decreased
20.1	Turnover/ Sales			
20.2	Net profit			
20.3	Value of assets			
20.4	The number of new products/services introduced			
20.5	Staff turnover			
20.6	Customers referred to the company by other customers			
20.7	Number of customer complaints			
20.8	Return on assets			
20.9	Return on capital employed			

Q.21. How would you rate the success of your business?

21.1	Very successful	
21.2	Successful	
21.3	Neither successful, nor unsuccessful	
21.4	Unsuccessful	
21.5	Very unsuccessful	

Thank you for taking your time to complete this questionnaire. Rest assured that all of your responses will remain strictly confidential.

If you would you like to receive a report on the main findings of this study, please state your e-mail address or postal address below:

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ANNEXURE E: GATE KEEPER'S LETTER

13 March 2020

Mr. Tinaye Mahohoma
Durban University of Technology
41 M L Sultan Rd, Greyville, Berea,
Durban
4001

Dear Mr. Mahohoma

RE: PERMISSION TO CONDUCT RESEARCH

This letter serves to confirm that the Durban Chamber of Commerce and Industry hereby acknowledges and approves the research to be conducted through the Durban Chamber of Commerce and Industry for the completion of PhD studies in Management Sciences, research topic: **The Impact of Ethical Values of SME Owner-managers on Performance of Enterprises: Durban South, eThekweni Municipality, KwaZulu-Natal Province.**

Please note that the data collected must be treated with due confidentiality and anonymity. This information is also provided by the Durban Chamber of Commerce and Industry on the condition that a copy of the final research output will be given to the Durban Chamber of Commerce and Industry for information purposes.

Yours Sincerely

Mr. Yolán Nagoor
Manager: Policy and Advocacy
Durban Chamber of Commerce and Industry NPC
T: 031 335 1000



ANNEXURE F: EDITORIAL LETTER

MARGARET LINSTRÖM

LANGUAGE PRACTITIONER

Honours degree (Language Practice), Master's degree (Communication Science) (UFS)

linstromme@ufs.ac.za

1 November 2020

CONFIRMATION OF EDITING

I, Margaret Linström, hereby confirm that I language edited the PhD thesis of Tinaye Mahohoma.

The editing was done electronically, using Track Changes, to enable the candidate to accept or reject the suggested changes. Please note that I only edited the body of the thesis, as the Abstract, Table of Contents, and List of References were not included for editing.