

Ethics and sustainability within SMEs¹ in sub-Saharan Africa: Enabling, constraining and contaminating relationships

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ABSTRACT. In this paper, we explore the role ethics plays in African SMEs. We looked specifically at the role that relationships between SMEs and their stakeholders play in enabling or foreclosing the possibility of ethical business practices. We argue that certain relationships, such as those between SMEs, suppliers, employees and local communities, can be described as enabling. Other relationships, such as those with corrupt governments, are contaminating. What seems to be needed is to expand on and strengthen certain constraining relationships, such as those that exist between peers within a certain industry, professional associations, and civil society.

Key words: ethics, SMEs, Africa, networks, business relationships

Introduction

Small and medium sized enterprises (SMEs) have been described as the engine of many economies in the developing world. In fact, one can even say that they are crucial in sustaining economies worldwide. Fox (2005) reports that on average, SMEs represent over 90% of enterprises and account for 50–60% of employment at a national level. Some of the respondents in this study put this figure closer to 80% or even 90% in some African countries. Kenya's Economic Recovery Strategy, for example, is based on the assumption that 88% of

new jobs would be created by SMEs (Tarus et al, 2007). The Industrial Development Corporation estimates that 80% of new job opportunities in South Africa are in SMEs (IDC, 2003).

It is clear that these businesses that emerge in response to community needs, and in an attempt to secure the livelihood of their owners, are the lifeblood of many in Africa. To use a metaphor central to the African context, the flow of goods and services seem to be life-giving water that in many respects brings relief to a parched land. However, without proper care and constraint this water could also end up being a carrier of disease, detrimental to the health of those who consume it. The flow could equally easily become a quick flood with few short-term gains but many long-term costs. Or even worse, it could remain a few trickles that dissipate in the parched land long before it could have much positive effect.

SMEs are facing many ethical challenges that seriously compromise the contributions they could make to the long-term economic well-being of their communities. This paper is an exploratory study aimed at getting a better understanding of ethical issues and practices in African SMEs and the impacts of these on the SMEs, their stakeholders, and their sustainability. We looked specifically at the role that relationships between SMEs and their stakeholders play in enabling or foreclosing the possibility of ethical business practices.

We gathered our data primarily through a series of qualitative interviews with intermediaries dealing with SMEs. From our analysis of these interviews we highlight certain themes and assess them from a perspective focusing on relationships with various role-players and stakeholders. Finally we proceed to relate our findings to available literature on ethics within the context of African SMEs in order to see if there is support for some of our theoretical propositions.

Methodology

The qualitative empirical part of the study sought responses to a series of open-ended questions from respondents dealing with, or representing SMEs in sub-Saharan African countries. Since focusing solely on SMEs would inevitably lead to a small sample in proportion to the total population we decided to widen

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the representation of our study by focusing our attention predominantly on intermediary organisations who deal extensively with SMEs through development or support projects. The thinking was that these organisations would be aware of the realities in a number of SMEs and would have concern for their sustainability. The final representation of respondents ended up being reflective of the distribution and availability of these organisations. (See Appendix A for information on respondent distribution.)

The data was gathered by means of telephonic interviews and electronic surveys. Twenty one (21) respondents were from intermediary organisations, while five respondents were themselves owners or operators of SMEs. The intermediary organisations included chambers of commerce and other business associations, microfinance or development NGOs, as well as private enterprises that focus on SME development by providing finance and technical support. Even though the majority of respondents were from intermediary organisations, we were still conscious of the need to get an African perspective. Of all the respondents only one was non-African.

Although we recognise that sub-Saharan Africa is by no means a homogenous region, we do not have enough data to view each country in isolation. It was clear from the interviews that some economies are more developed than others and therefore have different issues. However, we reflect on the issues that emerge strongly from all our data by focusing on the similarities rather than the differences.

Our interest was in how respondents viewed ethics within the SME environment, how they talked about the causal factors of unethical/ethical business practices, and what they believed is necessary in terms of building more sustainable SMEs (see attached questionnaires – Appendices B and C).

We took an inductive approach in the data analysis by identifying recurrent concerns, or insights, which allowed us to see certain concepts/themes emerge as salient. The recurring themes/concepts were labelled and then placed within categories that could bring us towards a theoretical framework.

The researchers were not experts in the field of SMEs, but rather ethicists whose academic background and practical experience were in Business Ethics and Corruption Prevention. What should however not be denied, is that as authors of this paper, we approached the data from our own background, philosophical predispositions and experience as ethics practitioners. We were certainly not ‘blank slates’.

In this sense we made use of what Bowden (2006) refers to as ‘sensitizing concepts’. These are broad concepts which inform or guide the empirical research (Bowden 2006:2–3). Sensitising concepts ‘give the user a general sense of reference and guidance in approaching empirical instances. Whereas definitive concepts provide

prescriptions of what to see, sensitising concepts merely suggest directions along which to look.’ (Bowden 2006:3) We have used ‘relationships’ as a sensitising concept for our study.

Ethics is always concerned with the good, the self and the other (Rossouw, 2002), and as such, it has relationships between individuals, groups, and organisations as its basis. The development of stakeholder theory 25 years ago formalised the relational dynamic that lies at the heart of business ethics theory (Freeman, 1984). Since then, much has been written on the nature of these stakeholder relationships (Dunham, Freeman, Liedtka, 2006). Research into the relational dynamics within business however go beyond stakeholder theory, extending to descriptions of organisations as complex adaptive systems within which multiple agents engage in intricate, multi-linear relationships (Painter-Morland, 2007). Actions of these agents in organisations are explained and analysed by means of actor network theory (Pouloudi, Gandeche, Atkinson & Papazafeiropoulou, 2004; Usher, 2006), or in other cases, described as the functioning of ‘social capital’ (Helg, 2007). Some other authors describe the relational dynamics in reference to philosophical approaches such as Communitarianism (MacIntyre, 1988) or gender discourses that invoke the importance of an ethics of care (Koehn, 1998). The emphasis on relationship in the business ethics literature clearly influenced the way in which we saw themes emerging through the data. We have therefore opted to view the data through a relational lens.

We found that relationships could enable sustainable business practices, constrain unethical behaviour, or in other cases, contaminate the business environment to such an extent that ethical behaviour becomes impossible. Enabling, constraining and contaminating relationships are part and parcel of normal business practice, while conditioning relationships can be seen as interventions, which could be part of normal business relationships, but could also exist in the social realm.

These emergent themes and theories should therefore not be interpreted as ‘facts’ about SMEs, but should rather be seen as indicative of the kind of theoretical proposals that could emerge in a conversation between ethicists and practitioners operating in the SME environment. Although the sample size is insufficient to make conclusive findings, we believe that – for our exploratory purposes – the themes which emerged are indicative of SMEs’ experiences.

Patterns emerging from the data

The following gives an overview of the responses to our study.

When asked to define ‘ethics’, respondents’ answers ranged from individual and societal expectations around proper behaviour, to the more formalised notions of

conformance to rules and proper accounting practices. Respondents defined ethics as a concern for the values operative in society, rules of behaviour that aim at sustenance/sustainability of the business, or codes of conduct towards various stakeholders. Values, or virtues mentioned were: honesty, consistency, commitment, care, fairness, openness and transparency. Some of the participants specifically identify the building of linkages to the community, the environment and employees as central to what ethics means. A particularly lucid definition offered by one participant is that ethics: 'is a stance of responsibility and responsiveness in doing business to worthy causes in the areas of humanity (including workers, clients), community, environment and government ...'. This definition perfectly captures the relational dynamic in the SME environment that we will elaborate on in the next section. From the above we distilled '*being true*' to both societal values and to formal rules of practice as a central category.

When asked about the impact of SMEs in society nearly all respondents' answers focused on the positive impact, predominantly in job creation. Many also perceive SMEs to be the 'engine of the economy'. SMEs play a role in meeting the needs of their country, community, and closer circle of family and dependents. This includes creating jobs, distributing goods and services to areas or people that would otherwise not have access to them, creating a market for small suppliers, decreasing the dependence on imported goods and working against monopolisation. SMEs also create significant income for the government and incentivise further entrepreneurship. One participant even attributed the 'overall economic and social improvement of society' to SMEs.

One could say that SMEs emerge as a response to personal or community need in the absence of other opportunities of formal employment, or other access to goods and services. Since adversity is the mother of invention, those in need of a livelihood find ways to sustain life. In more theoretical terms, this brings us to recognise that sustainability could be positioned at the very heart of SME activity. It is a response to the *desire to sustain* lives, families, communities and countries. In this sense, sustainability concerns go far beyond the sustainability rhetoric employed by some larger corporations in the first world. Building a sustainable business model can be viewed as an integral part of all SME activity in Africa, not some add-on standard that should be imposed to constrain 'business as usual'.

This closeness to community need is also reflected in the answers relating to SMEs' social responsibility projects. Some SMEs are involved in activities that play an important role in supporting their immediate communities. This ranges from supporting schools and the aged, or even providing community infrastructure such as water wells. These activities are mostly undertaken by individual businesses (un-co-ordinated) and are not as 'hyped' as corporate CSR projects. African SMEs are in a

much closer relationship with their communities, and the reciprocal sustainability impacts are more pronounced than might be the case in their first world counterparts.

However, the dark flipside of this responsiveness to need is the fact that many SMEs might be operating according to what Rossouw (2002:41) has described as 'survival morality', which by definition is concerned with 'bread first, morals later'. The argument is that many SMEs, or at least those in early stages of development, are so concerned with surviving that ethics will be compromised if there is any business advantage to be had. This is reflected in the responses. Business pressure, and sometimes pressure from an unethical environment, leads companies to 'cut corners', reduce product quality, and over-promise or over-commit, which eventually impacts negatively on the sustainability of these operations.

When asked about their understanding of the notion of 'ethics in SMEs', the theme that emerged most strongly related to 'honesty', 'straight dealing' and 'not cheating'. This was often strongly linked to the second most prominent theme, which referred to governance issues such as proper accounting, auditing and honest tax paying. After these, labour issues were most salient as many references were made to 'how they treat their staff'. Another strong theme was the issue of fairness in how SMEs treat the community and clients.

These themes were repeated when respondents were asked about 'important ethical problems or issues for SMEs'. Responses related to administrative dishonesty and to labour issues. Under *administrative dishonesty* we have grouped issues such as corruption, tax avoidance, misrepresentation in audits, and ignoring licensing procedures. These issues relate predominantly to relationships with government institutions, although investors increasingly have an interest in administrative honesty. The *labour* issues centred predominantly on fair wages and the treatment of staff. The latter includes disrespect for staff, as well as poor working conditions. Other labour issues included employing under-aged workers, not allowing freedom of association, not providing proper benefits or job security, and indulging in tribalism. A third, less prominent theme around ethical concerns related to the quality of goods and services. These include: over-pricing, misrepresentation in terms of product quality, and selling pirated goods. These are typical issues in survival mode, short-term focused businesses.²

When asked about factors that make ethics difficult many of the responses indicated that unethical behaviour is often the reaction to an environment in which unethical business practices are widespread. The existence of systemic corruption in the broader environment in which SMEs operate was consistently highlighted as one of the most serious challenges they face. The most prominent factor that was mentioned was corruption in interactions with government. SMEs

necessarily have to interact with government agents (especially for licensing and taxation) and due to the inequality in power and resources, they have little or no bargaining power, or voice, in these relationships. Businesses that are not operated with administrative honesty are even more vulnerable to such extortion. In many countries this includes a large proportion of unregistered small businesses that operate outside of the formal economy. Competing with unethical competitors was also mentioned as a central concern. This led us to conclude that many SMEs operate within a context of *contaminating relationships*, where the pressures to go along with unethical practices are very strong and positive peer-pressure is rare. Many respondents indicated a dire need for more awareness around ethics issues in business in general, but among SMEs in particular. Of specific concern is the shortage of positive stories and role-models.

The lack of quality controls, delays, and inconsistency in pricing are inevitable side-effects of SMEs emerging in such an environment. Respondents indicated that there are very few laws, local or otherwise, that constrain activities in the SME arena. Where there are basic standards, these standards cannot be enforced. In most cases, the owners of SMEs are not aware of these ethical standards, or they lack the basic business skills to implement them properly. The need to develop standards and monitoring systems is mentioned by some respondents, but others mention that burdensome government regulation tends to undermine ethics, rather than aid the promoting thereof. This desire for guidance and legal parameters, coupled with an aversion towards an overregulated environment, presents us with the paradox of the SME environment. Where the business environment is over-regulated, SMEs cannot afford the compliance measures that need to be put in place and therefore cannot survive. Multiple taxation was also raised as an issue that puts SMEs under the kind of competitive pressure that fosters dishonesty.

Respondents indicated that many of the ethical problems have a direct impact on the sustainability of businesses. They indicated that the following factors hinder long-term business relationships: poor quality products, short-term thinking (survival mode), lack of business experience or management skills, and inconsistent delivery from suppliers (sometimes related to infrastructural difficulties). On the positive side, honesty, reliability and professionalism amongst small business owners were identified as factors that facilitate long-term business relationships. All of these factors mentioned impact on the ability of SMEs to be *trusted* business partners. They include ethical and non-ethical issues. In relation to the most prominent ethical issues there is a definite correlation between sustainability and 'being straight in business'. The non-ethical issues relate particularly to management and other technical skills, as well as inconsistencies from suppliers.

The background and character of the business owner or manager, and their commitment to integrity and sound business practices, were repeatedly singled out as the crucial determinant of an SME's approach to ethical business practices. Education and a broader exposure to business practices (in larger centres or other countries) were some of the main determinants mentioned, followed by religion, socio-economic and family background. The power of a single individual to set the tone from the top could however have negative consequences when there is a lack of such ethical leadership. When organisational control is centralised within a single individual (CEO), a single family, or a few powerful politicians, it tends to breed ethical problems like conflicts of interest, nepotism and favouritism, and also undermines the crucial checks and balances on which organisational fairness normally relies.

The factors that participants identified as central in establishing a culture of ethics include: encouraging competition, developing strong reputations and nurturing long-term relationships with clients, encouraging freedom of association of employees, and less political interference. Participants indicated the need for protection against unethical individuals, unethical competitors and corrupt politicians. All of these factors have to do with the relational dynamics within which SMEs operate. What makes business relationships *enabling*, seems to be the way in which it facilitates and sustains *long-term* business relations. Participants identify reputation, trust, loyalty, consistency and punctuality, which in itself could signal fairness and respect. Both trust and respect are central to sustainability. Respondents made multiple references to the relationships between ethics (specifically *being straight in business*), a concern for *long-term relationships* and sustainable business practices.

It is clear that these more long-term concerns do not seem to figure as strongly as they should in the relational dynamics in which SMEs find themselves. It seems that SMEs find themselves in *contaminating* or *debilitating* relationships, which often overshadow the *enabling* relationships with stakeholders that could support the propensity towards ethical responsiveness amongst SMEs. Also, there seems to be a great need for strengthening certain constraints that could guide the relationship between SMEs and their stakeholders and develop the conditions of trust and respect that are central sustainability imperatives.

Theoretical propositions

Enabling relationships

The most positive contributions that SMEs make to their communities is described in terms of their ability to create jobs, opportunities, and to stimulate growth in areas where there would otherwise not be much economic

activity. SMEs provide markets for local products, and bring products and services to areas without easy access to these. The most enabling relationship that SMEs therefore have is with the communities in which they operate. However, SMEs can only sustain these relationships if they can sustain their businesses. We shall see (below) that these relationships could potentially also operate as conditioning constraints, but for the purpose of this section, we will focus on the way in which building long-term relationships with immediate stakeholders in the community could potentially assist SMEs in weathering the storms of a turbulent business environment and building ethical, sustainable businesses.

The most important ethical relationships in terms of business sustainability are with customers and suppliers. These relationships have to do with trust and predictability. It is as important to *be* a trusted business partner as it is to *have* trusted business partners. Respondents seem to believe that building such a trusted enterprise is inextricably linked to also being administratively honest. Truly sustainable enterprises cannot only be honest in trade relationships, they also have to be honest in the internal administration, or governance of their enterprises. There is also an indication that being a trusted business partner is intricately linked with good management skills. One of the easiest ways that SMEs break down their trust relationships is by over-committing where they don't have either the skills or the resources to deliver. As one respondent put it: 'SMEs tend to see the money first, then their capacities ...'.

Creating feedback loops from customers, local suppliers, and local community organisations, can alert SME owners to new customer needs. Feedback loops can make SME owners aware of factors that may impact on customer buying power and concerns that customers and community members may have about the products, services or externalities of an SME's business activity. Responsiveness to various stakeholders seems to be one of the most important aspects of sustaining those enabling relationships that make the difference between business success and failure. It is the concern for nurturing long-term relationships with these various stakeholders that provides the most important impetus for consistent ethical business behaviour within SMEs.

SMEs contribute significantly to employment. Labour is however in most cases readily available due to large numbers of unemployed people in developing countries. In some instances SMEs are seen to provide employment for people who cannot be employed by government or large corporates. SMEs therefore often view employees as a dispensable and replaceable resource. However, staff turnover costs, such as the loss of skills and the time and productivity lost in retraining new staff, must be brought to the attention of SME owners. Furthermore, positive workplace conditions enhance motivation and productivity and minimise

sick days and other occupational health and safety concerns. Labour unions play an insignificant role in SME employment relationships, and there is significant scope for strengthening these. It should also be obvious that a better educated workforce will have more options and will be more aware of their rights.

Constraining/conditioning relationships

The question of how unethical behaviour can be constrained, or in more positive terms, how ethical behaviour can be conditioned, remains one of the most important dilemmas in the SME environment. There is clearly a need for standard setting, quality control and the development of sound governance processes. However, respondents describe over regulation within the SME environment as counter productive. Alternatives that may be explored relate to constraints which could emerge out of the interactions that SMEs have with each other as well as their concern for long-term relationships with customers, employees, supply chains, government and the local community.

The question that emerges is whether it is possible to enhance the mechanisms and support structures for self-regulation within the SME environment. Such self-regulation most often takes place in formal business networks. The approach here is to argue for reciprocal relational constraints amongst the players within the SME environment. For example, the Association of Ghana Industries has played a major role in the development of the Ghana Business Code. Through this initiative SMEs voluntarily hold themselves and each other to certain standards. Besides raising awareness of the need for sound governance and ethical practices, it also provides SMEs with a stronger power-base when interacting with possible corrupting government players. One respondent indicated that the Nigerian National Association for Small and Medium Enterprises intervenes on behalf of businesses when corrupt officials are persistent. Such initiatives can only transpire where there are opportunities for SMEs to meet and discuss their most urgent needs and communicate their respective expectations of one another. It also requires significant moral will, and resources to capacitate the network to play an independent role. A number of examples of such networks exist throughout Africa.

Another important aspect of this peer-to-peer interaction is the sharing of those success stories where a commitment to ethics shows long-term positive results. The challenge is for SMEs to find the time and resources for these events. Furthermore, it is unlikely that SMEs in developing countries could do this on their own. Institutions are needed that could seek funding, organise, and facilitate these events. Civil society and especially research and training institutions have a role to play in this. The more challenging aspect of such a proposal is that competitors within a

certain industry will have the responsibility to provide checks and balances on each other and to report unethical behaviour when it occurs. Subsequently the need for whistle-blowing resources or other avenues for complaints arise. Professional associations could play a very important role in providing access to whistle-blowing resources, or setting standards for their members and providing some resources for monitoring compliance. The problem however is that many of the professional associations are often understaffed and have little control over their membership.

Customers could also play a crucial role in placing certain constraints on business practices within SMEs. There are however two important factors that need to be in place if customers are to have any material effect. These are choice amongst competitors and access to information. If the customer has no *choice* of suppliers of certain goods or services, unethical business practices cannot be punished by withholding repeat business. Furthermore, if customers don't have access to *information* about sub-standard goods, unfair pricing, or the environmental effects of unethical business practices, they cannot withhold their support on ethical grounds. Both of these factors are currently poorly developed in many African economies – hence customer pressure does not play a big role in conditioning SME behaviour. The promotion of a sound competitive environment is therefore crucial. Civil society institutions and standard-setting bodies will need to play a stronger role in gathering information and educating consumers. They can also contribute by gathering complaints and directing these to the relevant authority.

Supply chain relationships have a potential role in constraining SME behaviours. Government and large businesses can raise the bar on ethical business practices by raising the standard of ethical expectations from SMEs in their supply chain. This could relate to sound governance practices, employment practices, anti-corruption measures and quality standards for products and services. In many cases however, these players aren't committed to these standards themselves and they actually have a contaminating influence. Even when well intentioned they could develop standards that make compliance too expensive for SMEs. What seems to be crucial is that the standards set by large business enterprises and government must simultaneously raise the bar on ethical behaviour *and* be responsive to SME needs. We will further reflect on this challenge in the last section of this paper.

Employees within the SME environment are often the most disempowered party in terms of having a voice against the unfair treatment they receive. Since many SMEs discourage or undermine workplace democracy, it is very important that employees have access to some bodies where they can make their voices heard. Many industries do have strong workers' unions which may be less organised within the SME environment. These

unions should actively seek to support employees in the SME environment by recruiting members within SMEs, advising them on their rights and seeking avenues for recourse in the case of unethical treatment.

Contaminating/debilitating relationships

Debilitating relationships that SMEs have to deal with include relationships with their own national governments as well as with unethical businesses in their environment. The contaminating effect of SMEs' engagement with government was repeatedly mentioned by many of the respondents. Especially bribery seems to be a recurring example of unethical behaviour affecting SMEs in most of the countries we studied.³ SMEs clearly seem to believe that they have no recourse to bodies or support structures that could assist them in maintaining their integrity in the face of extortive demands for bribes.

Such pressures on ethical conduct are exacerbated in an environment where positive role-models are in short supply. When the general business culture seems to be accepting of low ethical standards it impacts on businesses that might be struggling for survival. It is in these situations where positive peer networks are needed most.

Within the macro-economic contexts, globalisation poses threats to local markets and tends to create the kind of environments in which it is very difficult for SMEs to survive. Much research has been done on the constraints that the World Bank, IMF, international aid organisations and other international bodies place upon developing countries (See in this regard Patrick Bond's *Against Global Apartheid*, 2004). The types of preconditions placed on organisations wanting to gain access to funds or contracts serve to undermine, rather than protect SME sustainability. Ironically, some of these preconditions may be intended to raise the bar in terms of ethical standards and to provide checks and balances, but the truth is that they are not responsive to the needs of local SMEs. Instead of enhancing ethical behaviour, these constraints force SMEs to engage in deceptive practices, thereby further undermining integrity and transparency in the SME environment.

The interaction between enabling, conditioning and contaminating relationships

What makes the patterns emerging from this research particularly interesting is that it allows us to see the relationships between the fields of business ethics, CSR and corruption prevention much more clearly than many theoretical studies of these disciplines allow for. Within SMEs, it becomes clear that sustainability is totally reliant on the way in which ethical relationships with various internal and external stakeholders can be fostered over time. The practical implications of

the notion of 'Integrated Sustainability' mentioned in the King II Report (IoD, 2002) becomes clear when one takes into consideration that the ethical challenges SMEs face have everything to do with the fact that they operate within enabling, conditioning and contaminating relationships.

No relationship is however intrinsically good or bad. Peer networks can as easily be contaminating as constraining. Labourers and customers can be exploited or treated fairly. Clearly some form of ethical intent is necessary to build sustainable relationships. This could grow with more deliberate awareness raising and education in all forums. Intent also needs to translate into structural changes in the business landscape. Relationships with customers, the local community and employees can be enabling only insofar as there is a real stakeholder engagement model operative that gives voice to a variety of internal and external stakeholders. Constraints exist only if there is stakeholder and peer pressure and insofar as civil society organisations and networks are doing research and sharing information. Peers, competitors and professional organisations also have to be engaged in order to build in reciprocal constraints. What these relational constraints could enable, is the sharing of best practices, peer-to-peer interactions, relational checks and balances, storytelling, networking, and skills transfer opportunities. Meaningful skills transfer can only occur if networks are built across the boundaries that seem to exist between the private sector (big business *and* SMEs), government and civil society. If relationships with governments and international bodies remain contaminating and debilitating, not much will come of all the other positive initiatives.

Ethics comes down to building sustainable relations across sectors and within communities and organisations. This requires co-ordinated efforts between initiatives aimed at promoting business ethics, instilling good governance, preventing corruption, and the pursuit of broader social and economic goals in society.

Supporting research trends from the literature review

In this section, we relate the results of our research study to important trends in the literature in order to answer some of the questions originally posed in view of the ISBEE conference. How are SMEs defined? How do SMEs view ethics? How do they view their role in society? And what is the relationship between all these ethical concerns and the sustainability of SMEs?

It seemed clear from our research that there are many different definitions operative within the SME environment in Africa. Some definitions are clearly taken over from the developed world, considering organisations with fewer than 250 employees to be SMEs.⁴ Many formal

definitions were mentioned in the survey, which place African SMEs at much smaller sizes. The most prominent response was that an SME is an organisation with fewer than 100 employees and a working capital of less than \$100 000. Some respondents did however mention that even these scales were not reflective of what is on the ground. The varied definitions make it rather difficult to interpret the relevance of some of the responses we received and to test the theoretical propositions we make. For instance, though many SMEs function outside of the formal economy, there are others that, as a result of their supply chain relationships or government contracts, have to function within the compliance environment operative in the formal economy. The fact that many SMEs can get away with operating outside of these 'formal rules' changes their relationship to ethics. For them, ethics may have more to do with building the kind of trust that enables sustained business relationships without necessarily reverting to legal compliance mechanisms. For those in the formal economy ethics is more closely linked to the application of and conformance to the rules and regulations. The differences that exist amongst SMEs have lead researchers to argue that more detailed and targeted initiatives will be necessary to meet the specific needs of specific kinds of SMEs in different contexts. These initiatives must be tailored according to the priorities and objectives that SMEs and their countries have. If the focus is economic development, a different approach will be required from when the focus is social development, equity and poverty reduction (Jeppesen, 2005:472).

The differing definitions and objectives are also expressed in how SMEs view their role in society, or how terms like 'social responsibility' are understood. Helg (2007) made the important point that Western philanthropy equals business necessity in Africa. Many SMEs respond to the immediate concerns of their families and communities without formalising it as 'CSR projects' or framing it in these terms. Their role in society is described as creating jobs, bringing goods and services to those who need it etc. This brings us to the realisation that the academic distinctions used to make sense of SME activity, cannot so easily be 'read back' into their actual operations. A further mistake that is too often made is to assume that the private sector is similar all over the world. This causes Northern governments and donor agencies to apply their advice, interventions, and policy prescriptions uniformly to situations that differ significantly. It also discounts the fact that SME owners have different motivations and ambitions in starting and running their businesses. Some may be interested in growth and expansion, but others merely want to provide an economic safety net for their families at certain times of the year (Jeppesen, 2005:464–465). The dangers of using corporate models of developed countries as a benchmark to judge SMEs have been pointed out by many others (Spence & Rutherford, 2003). Rethinking the way in which ethics and CSR are understood in the

SME environment seems to be an urgent priority.

Perrini (2006), for instance argues that research into larger firms' CSR practices typically focuses on how effectively corporations manage stakeholder demands. In the case of these large firms, stakeholder legitimacy is required for triple bottom-line success: economic prosperity, social cohesion and environmental protection. Perrini argues that these terms do not translate well to the reality of SME environments and that research on CSR in SMEs should rather be focused on social capital. Social capital focuses on the connections between individuals and depends on the existence of social networks and the norms of reciprocity and trustworthiness that arise from them (Perrini, 2006:308–309). From Helg's (2007) study into CSR in Nigeria it seems that this holds true, but also extends to larger enterprises. The lack of pressure from consumers and civil society means that stakeholder legitimacy is not a driver of CSR in Africa (Helg, 2007:10). It would seem that what becomes an important driver is the need to give back to society in an attempt to reverse or overcome 'failures of social capital' (Helg, 2007:36). The drivers for CSR are not pressure from stakeholders, but rather aspirations to increased social capital. Spence et al. (2003) also stress the importance of social capital in the functioning of SMEs in the UK and Germany. Perrini (2006:308) cites Putnam in arguing that social networks improve the efficiency of society by facilitating co-ordinated action, and generating the norms, virtuous circles, trust, reciprocity, co-operation and collective well-being that conditions ethical behaviour. The conclusions that we drew with regard to enabling and conditioning relationships that are built on trust, underscore this perspective. Perrini provides further support for our contention that local engagement through social and civic activity can be linked to sustainability because it enables and nurtures the trust relationships upon which SME activity strongly relies.

Spence et al. (2008) argue mainstream approaches that describe entrepreneurial activity as exclusively aimed at economic benefit need to be revisited. They also point out that alternative approaches (such as counter-cultural/critical approaches, which largely reject the profit-maximising motives of entrepreneurs, and reformist approaches which tend to argue for forms of social entrepreneurship) do not take us far enough. The conclusion that Spence et al. come to, is that entrepreneurship should not be described in bipolar terms, i.e. as either economically motivated or socially motivated as the reality is far more complex. SMEs respond to needs, i.e. their own needs, and those of others, and the focus of their activity may shift over time according to a multitude of factors and dynamics. The needs of entrepreneurs and those they interact with and depend on go far beyond the merely financial. The success and sustainability of these businesses depend on how well these diverse needs are met over time.

What we would like to argue is that the variety of needs

that SMEs typically fulfil embeds social activity within all business activity, instead of making CSR and ethical standards additional, add-on constraints to 'business-as-usual'. UNIDO's (2002:iv) research made it quite clear that CSR must be integrated into the core business strategy of organisations if it is to survive global recession or insecurity. UNIDO argues that 'CSR as a philanthropic add-on is vulnerable to cost-cutting'. The study uses the case example of Richards Bay Minerals in South Africa to argue that business-community interaction works best if it takes the form of partnerships rather than benevolence. These partnerships are aimed at skills transfer, ownership and self-sufficiency, and are planned and executed at the pace dictated by the community (UNIDO, 2002:44). This also seems to support our position that CSR practices and general business ethics and good governance initiatives are all engaged in the pursuit of sustainable business practices and should essentially be seen as part of the same process. The relational dynamic enables and conditions ethical business practices and fosters the kind of trust required for sustainability. Insofar as SMEs are responsive to social needs, they will also be able to operate within certain ethical constraints and build the kind of long-term relationships that make sustainable businesses possible.

The importance of sustaining and furthering meaningful relationships within a business environment has been a topic of debate in business ethics for the last quarter century. In this sense, our findings continue this work by underscoring the importance of relationships between SMEs and stakeholders with 'names and faces'. In their research, Dunham, Freeman and Liedtka (2004) make a strong argument that it is the facelessness of stakeholder theory that has been its main impediment in earlier years. Particular stakeholders in a specific context have to be brought into business thinking in order for real ethical imperatives to emerge. We see proof of this in the way that SMEs enter into specific relationships with stakeholders that are central to their own sustainability. We also see that these relationships have the potential to act as ethical constraints in the absence of other regulatory mechanisms.

Actor network theory is another perspective that literature presents for making sense of our findings. Actor network theory describes the complex negotiations and trade-offs between various actors in a business context (Usher, 2006:137). These negotiations and trade-offs act as constraints that prevent unethical behaviour, but can also positively influence ethical behaviour because of the fact it creates certain tacit expectations and could allow an ethical business culture to emerge over time.

Within the business ethics literature, Aristotelian virtue ethics and Communitarianism have always provided us with a staple diet of meaningful normative approaches. It presented a way to think about how certain norms and values are created in and through everyday practices. And how certain virtues and character

traits are cultivated over time. However, there has been much discussion on whether business organisations function *like* communities or *are* in fact communities (Parker, 1998:79). Though no clear consensus seems to exist, it is clear that there are many aspects in which organisations resemble community, and fulfil the function of community in the lives of those involved in it. As such, positive relationships have to be sustained, nurtured, and in some cases, contaminating relationships have to be abandoned if they have a negative effect. It is also important to state that the relationships that are operative within business environments are too complex to be described in terms of the functioning of a homogeneous community. A business should rather be seen as interacting with multiple sets of relationships in various contexts. Within these relational dynamics, a certain *ethos* emerges, but not the kind of *ethos* that could easily be explained from a Communitarian perspective. This is why it might be more sensible to understand the business environment as a complex adaptive system where multiple interactions over time could lead to a certain emergent pattern of ethical orientations (Painter-Morland, 2007).

Another question posed in view of the ISBEE conference is how ethics and sustainability may be related in the SME environment in Africa. Our research indicated that there is a very strong relationship, but that this relationship may play out in a different way than in developed economies. Much of the research on ethics and sustainability within developed economies focuses on the relationship between ethics and financial performance.⁵ The terms that these studies employ do not translate so easily to the SME environment. As indicated above, 'social' and 'ethical' performance is not viewed in exactly the same terms as what is understood by 'corporate social responsibility' and 'compliance' in developed countries. Therefore studying the relationship between 'compliance' dynamics and financial success will not make sense in the same way as it does in developing countries, at least not for those SMEs operating on the fringes of the formal economy. What is clear is that trust needs to be built to sustain business relationships, and that for different SMEs, this may mean somewhat different things. In Africa, this trust may be procured in ways that are slightly different from those in other parts of the world.

Fafchamps (1999) argues that market exchange (i.e. trade) is the most prominent form of resource allocation in Africa. However, small transaction sizes and the fact that legal enforcement of contracts is unlikely mean that businesses have to find ways of sourcing trusted business partners to enter into such exchange relationships. This is mostly done through long-term trade relationships and business networks where information of other trusted business partners is shared. Instead of contract-based reciprocity, African markets involve individuals who form relationships and networks to deal with

transaction costs. Fafchamps quotes Granoveter who says: '... markets are embedded in webs of social relationships that help shape them.'⁶ Referral systems play an important role in this system. It is not necessary to know a person to do business with them, as information is typically shared by a common acquaintance who provides a recommendation. Socialisation at weddings, funerals, sports events, religious activities and business conferences are also indicated as an integral part of business (Fafchamps, 1999:7). Networks are central and because of this, the more connected entrepreneurs are more likely to succeed and promote their own network of associates.

Welter and Kautonen (2005) argue that networks build on personal trust, as is described by Fafchamps, have their limitations. While personal networks play a large role during the start-up of a business, it could inhibit growth if the required resources or skills are not available within the network. To overcome this constraint, the presence of collective and institutional trust is necessary. Collective trust (trusting people whom you do not know through your network) might partially be provided through referrals in the expanded business network. Institutional trust, which is strongly linked to trust in legal and regulatory environment in a region or country, would mean that one could more easily engage in business dealings with people who are unknown and un-referred. Fafchamps argues that because institutional trust is low in Africa, SMEs are more reliant on networks of personal trust.

The downside is, however, that such networks often go hand in hand with cronyism and tribalism. Small groups of business owners tend to capitalise on this advantage instead of creating broad-based opportunity. Fafchamps (1999:9) however warns against stigmatising this form of networking and highlights the advantages, such as better exchange of information within the group, easier monitoring of compliance with obligations, extra sanctions for deviant behaviour etc.

In her book *It's our turn to eat: The story of a Kenyan Whistleblower*, Michela Wrong (2009) sketches a picture of the negative consequences of tribal networks. She illustrates how the protectionism resulting from tribal networks easily spills over into large-scale corruption in government. She even links this internal protectionism to the violence which erupted in Kenya after their disputed 2007 election results.

Further research is required to determine how to deal with the negative effects of cronyism and tribalism, such as the way in which it undermines equal opportunity, whilst maintaining some of the benefits of network trust. A possible research project can be a comparison between the extent of nepotism in formal networks (with explicit ethical codes) as opposed to informal networks.

The question of how the ethical bar can be raised through other forms of business interaction is an area that a number of researchers have covered in more

depth. As such, it provides support for our contention that checks-and-balances can be created within the supply-chain relationships that are part of the normal course of business, although one has to remain aware of the downsides of these kinds of mechanisms. Fox (2005) indicates the importance of maintaining sustainable supply chain relationships as a mechanism in improving ethical business practices within the SME environment. The establishment of a variety of 'business linkages' that facilitate the transfer of assets and skills is also indicated as crucial in the success of SMEs. Raynard et al. (2002) acknowledge the role that Trans-National Corporations (TNCs) can play in developing CSR in developing countries' SMEs through their supply chain relationships. At the same time they warn that expensive certification and monitoring required by TNCs can provide barriers for SMEs attempting to enter developed markets. In fact, the rhetoric of seeking the 'moral high-ground' in terms of labour standards may in some cases be a convenient ruse that TNCs employ to pass on the costs for monitoring and auditing CSR standards to their supply chain, who can often not afford this additional burden. This in fact increases poverty instead of advancing sustainable development. The problem with these standards also include the fact that they typically reflect the prevailing technologies and best practices of the countries in which they were developed and are not suited to the SME context in developing countries (UNIDO, 2002:49).

Before one even gets to the trade barriers that can be imposed by TNC through expensive certification processes, there are other more tangible trade barriers that are not artificially imposed, but relate simply to the ability of African SMEs to be trusted suppliers. International companies will have the same problems in identifying trusted business partners as local African businesses do. 't Hooft (2006) discusses a case where a large European retailer entered into a development project with suppliers in Ghana. The major difficulties identified by the retailer in sourcing business partners reflect those issues raised by participants in our study. This related predominantly to getting continuity in terms of the timely delivery of quality products, in other words, those ingredients necessary for trusted trade relationships. The retailer had the resources to develop the capacity of Ghanaian enterprises to achieve higher standards. African SMEs will need to focus on these issues internally, not only to enter international markets, but also to sustain local relationships. TNCs can (as part of their international CSR outreach) assist enterprises in achieving these standards, thereby strengthening positive role-modelling in developing countries. This more constructive (enabling and conditioning) relationship between TNCs and African SMEs points to a possible alternative – CSR by trade rather than CSR by exclusion. Some standards and best practices will always be a part of such relationships, but it is important that these be developed with sensitivity to the constraints that SMEs face.

A debilitating relationship that needs to be addressed is the one with government institutions. Macculloch (2001:10) mentions that in 1996 'a firm in Tanzania could expect to submit 89 filings per year compared to 21 in Ghana, 29 in Namibia and 48 in Uganda.' While some respondents (particularly those from Tanzania) indicated that the situation has improved significantly it is worth reflecting on both the number of opportunities for rent seeking (bribery), as well as the administrative burden that SMEs face in such an environment. Macculloch argues that such a regulatory system creates a disincentive for SMEs to grow and join the formal economy. The more formalised they are, the higher their regulatory burden. Many of the debilitating relationship issues that were indicated by respondents have their origin in these issues.

Conclusions and further research questions

Our research has brought us to recognise the role that enabling, conditioning and contaminating relationships play in the functioning of SMEs. These relationships influence how these SMEs view and respond to ethical challenges and live out their social responsibility. Many of the relationships that could potentially be very enabling, as well as conditioning, are currently in their infancy. The need for peer-to-peer sharing of success stories, skills transfer and mutual support structures seems to underscore the importance of strengthening more formal business networks. However, more informal social and civic networks are equally important in creating the social capital and trust environments that SMEs need to be sustainable. Our literature review provided further support for the development of a unique approach to ethics in SMEs within Africa. We argued for the need of relational constraints and multi-stakeholder checks and balances that condition ethical behaviour. We have also found that certain relationships are distinctly contaminating, especially with regards to corruption. A stronger relational bulwark against this kind of contamination is necessary.

Many questions however still remain that will require further research. It has become clear that there are many differences amongst SMEs and that understanding their social role and ethical behaviour depends very strongly on how they view their purpose, what their specific needs are, and what they can afford. For instance, it will be important to distinguish between SMEs of a slightly larger size, operating in the formal economy and the multitude of micro enterprises that function outside of it. A one-size-fits-all approach will certainly not work.

This also raises the question as to how TNCs should approach CSR standards and best practices in their interaction with SMEs. Though TNCs can play a role in raising the bar on ethical practices in SMEs, there is

a need to be responsive to the constraints SMEs face. Developing an inclusive process by which standard approaches, models and best practices can be rethought in co-operation and consultation with SMEs in various contexts is long overdue.

Acknowledging the important differences between and within SMEs in Africa also allows us to view CSR and ethical business practices in a different way. SMEs can be socially responsive in ways that do not conform to typical CSR models, and show a concern for 'straight-dealing' that cannot be measured in terms of typical compliance mechanisms. In fact, SMEs may be equally concerned with internal and external trust relationships, hence rendering the dichotomy between CSR and everyday ethical business practices void. To what extent this happens in practice, however requires further research.

Another interesting area of research is to determine how the positive peer-to-peer interactions and networking practices that we have been arguing for are to be distinguished from unbridled nepotism that undermines equal opportunity and leads to discrimination against new entrants. Relational dynamics can certainly also become problematic if it undermines fairness and sound fiscal discipline. It seems as if various sets of relational counter-balances will be needed to counteract nepotistic impulses. Exactly how this would work is also a question for further research.

What seems clear though, is that the development of trust relationships is crucial in SME sustainability and that the relational dynamics that could either foster or destroy this trust are always already in operation. It is crucial to recognise this fact in order to strengthen the relationships that have a positive impact on sustainability and to curtail those that don't.

Notes:

¹ The majority of African SMEs seem to fall in the smaller end of the spectrum, which includes businesses with fewer than ten employees. These are often referred to as 'Micro enterprises', but form a definite part of this study.

² Environmental issues might be conspicuous in their absence. Although they were referred to, environmental issues received a low mention in comparison with the other issues.

³ There were however a few respondents who mentioned that they did not believe corruption is a problem for SMEs in their countries.

⁴ Jeppesen (2005:467) reports that in South Africa, for instance, SMEs are defined as firms with fewer than 200 employees and assets of a certain size. However, distinctions are also made between survivalist firms (90% non-white owned), micro firms (60% non-white owned), and small firms (80% white owned). The vast majority of SMEs in South Africa are informal enterprises operating in the tertiary and service sectors. These differences

in size, ownership and business purpose, make it very difficult to make general statements about SMEs .

⁵ See in this regard:

- Verschoor, C. 1999. Corporate performance is closely linked to a strong ethical commitment. *Business and Society Review*, 104: 407–415.
- Verschoor, C. 2004. Does superior governance still lead to better financial performance? *Strategic Finance*, 86: 13–14.
- Verschoor, C. 2005. Is there financial value in corporate values? *Strategic Finance*, 87: 17–18.
- Margolis, J. & Walsh, J. 2006. Building the business case for ethics. Bridge paper by the Business Roundtable Institute for Corporate Ethics. Charlottesville.
- UNIDO, 2002. Implications for small and medium enterprises in developing countries. *Corporate Responsibility*, Vienna. p. 8.

⁶ Originally, African market exchanges employed the form of reciprocity that operated within gift-exchange, which requires some co-ordination and concern for the common good, but few explicit obligations (Fafchamps, 1999:1). There was some expectation of reciprocity, but such returns were often in the distant future, did not need to be equal, and were affected in terms of community benefit, not individual profit. Though this reciprocity seems troubling to the Western mind, it is built on a kind of trust and care for the communal fabric of society that merits contemplation.

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Appendix A: Country representation

Country	Intermediary	SME	Total
South Africa	1	2	3
Nigeria	2	1	3
Ethiopia	1		1
Ghana	2		2
Uganda	5		5
Kenya	2		2
Cameroon	1		1
Tanzania	2		2
Democratic Republic of Congo	2		2
Mauritius		1	1
Zambia	1	1	2
Across countries	2		2
	21	5	26

Appendix B: SME owners/managers telephonic questionnaire

Ethics in small and medium enterprises on the African continent

For all of the questions that we will be asking, could you please refer to your own experiences within your company as well as your wider knowledge of other SMEs in your country.

I will be referring to small and medium enterprises as SMEs throughout the interview.

(Ask all of Questions 1–4.)

1. How do you define SMEs / What are SMEs?
2. Please tell me a bit about your company – what does it do, how many employees do you have?
3. What is your position in your company and how long have you been there?
4. What do you understand under the concept of ethics?
(If they are totally off the mark or don't know at all, clarify briefly that we are talking about right and wrong conduct.)
5. If I speak of ethics in SMEs, what comes to mind?
(From here on, use discretion in asking questions to probe further/get information on areas not covered by the respondent.)

6. What would you say is the impact of SMEs in society (both positive and negative)?
 - a. Do you think other SME owners/managers see it the same way?
 - b. Do you know of any social responsibility projects that your own organisation or other SMEs are involved in?
7. What are the most important ethical problems/issues for SMEs?
8. Why are some SMEs ethical and others not?
 - a. What are the most important factors in establishing a culture of ethics in SMEs? (Skip if already covered.)
 - b. What could make it difficult for an SME to be ethical? What factors either within the organisation or outside the organisation?
9. What factors facilitate or hinder long-term business relationships for SMEs, for example with suppliers or clients?
10. What background or resources do SME owners and managers have on ethics?
11. Do you have anything further you would like to say about ethics in SMEs in the country/area in which you operate?
(If nothing is mentioned on corruption ask:)
12. Is corruption a problem for SMEs in your country?

Appendix C: Intermediary organisations – telephonic questionnaire

Ethics in small and medium enterprises on the African continent

Which African Country's SMEs would you say you have the most experience with?

For all of the questions that we will be asking, could you please focus your answers to your experiences of the SMEs in that country.

(Ask all of Questions 1–4.)

1. How do you define SMEs / What are SMEs?
2. What is your involvement with SMEs?
3. What do you understand under the concept of ethics?
(If they are totally off the mark or don't know at all, clarify briefly that we are talking about right and wrong conduct.)
4. If I speak of ethics in SMEs, what comes to mind?
(From here on, use discretion in asking questions to probe further/get information on areas not covered by the respondent.)
5. In (country X), what would you say is the impact of SMEs in society (both positive and negative)?

- a. Do you know of any social responsibility projects that SMEs in your country are involved in?
6. What are the most important ethical problems/issues for SMEs?
7. Why are some SMEs ethical and others not?
 - a. What are the most important factors in establishing a culture of ethics in SMEs? (Skip if already covered.)
 - b. What could make it difficult for an SME to be ethical? What factors either within the organisation or outside the organisation?
8. What factors facilitate or hinder long term business relationships for SMEs, for example with suppliers or clients?
9. What background or resources do SME owners and managers have on ethics?
10. Do you have anything further you would like to say about ethics in SMEs in the country/area in which you operate?
(If nothing mentioned on corruption ask:)
11. Is corruption a problem for SMEs in your country?