

# An Investigation into the Attitudes toward Business Ethics and Corporate Social Responsibility by Local and Immigrant SME Owners in South Africa

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**KEYWORDS** Business Ethics. Corporate Social Responsibility. Entrepreneurs. Local. Immigrants

**ABSTRACT** The study investigates and compares the attitudes toward business ethics and corporate (business) social responsibility by local and immigrant SME owners in East London in the Eastern Cape province of South Africa. The study employed the Attitude towards Business Ethics Questionnaire (ATBEQ) and Attitudes towards Corporate Social Responsibility Questionnaire (ATCSRQ) for data collection in a survey. The results suggest that both local and immigrant SME owners have a good attitude towards business ethics and corporate social responsibility. In addition, the results reveal that there are no significant differences in the attitudes of local and immigrant SME owners toward business ethics and corporate social responsibility. Recommendations to improve business ethics and corporate social responsibility by SME owners are suggested.

## 1. INTRODUCTION

The South African government is currently facing a major challenge in the provision of sustainable jobs and alleviation of poverty in the country. This is clearly evidenced by a high unemployment rate estimated to be 23.9 percent (Statistics South Africa 2012). Monks (2010) points out that the development of small and medium enterprises (SMEs) is an essential strategy for curbing such a high unemployment rate in the country's economy. According to the Parliament of the Republic of South Africa (2005), the government of South Africa identifies SMEs as a key to poverty alleviation, income equality, employment and sustainable economic growth.

The SME sector in South Africa comprises of the local and the immigrant entrepreneurs. Since the attainment of independence of South Africa in 1994, South Africa has experienced an influx of immigrants from various Southern African Development Community (SADC) countries and other parts of the world (Kalitanyi and Visser 2010). The upsurge in immigration is mainly attributed to globalisation, economic crisis, on going wars and political instability facing a number of African countries (Maharaj 2004). Immigrants come to South Africa with the intention of improving the chance of survival and possi-

bly finding job opportunities as compared to their countries of origin (Lubbe 2008). With South Africa having a high unemployment rate of 23.9 percent, immigrants face severe challenges in getting into the labour market. In addition, immigrants are in most cases severely exploited by employers. Therefore, immigrants often have to engage in entrepreneurship and start small business for survival (Salaff 2002). The formation of SMEs by immigrants also helps to prevent ethnic discrimination, unemployment and also creates job opportunities for other immigrants and native South Africans (Scheers 2010; Kalitanyi and Visser 2010).

According to Van Eeden et al. (2003), the failure rate of SMEs in South Africa is approximately between 70% and 80%. Failure of SMEs is mainly attributed to poor management skills, improper financing and lack of credit facilities (Longenecker et al. 2006). Lack of managerial skills such as financial management, marketing and human managerial skills is also acknowledged as constraining the growth of immigrant entrepreneurship in South Africa (Tengeh et al. 2011). Mahmood (2008) agrees that immigrant entrepreneurs' face financial as well as other non-financial problems such as insufficient technical skills, poor access to market, lack of information and erratic infrastructure.

Other challenges and impediments which impact on the performance of SMEs in South Africa include failure to keep to contract terms (ethics) (Rogerson 2008). Developing entrepreneurial culture and ethical business environment are important challenges for SMEs (Mahmood 2008). The Institute of Business Ethics (2007) points out that business ethics and corporate social responsibility are very important to the success of SMEs. There is the need for SMEs to maintain good, trusting relationships with customers, employees, suppliers and the community. Also, due to requirements in the supply chains, small firms are increasingly asked about their social and environmental credentials during tendering processes with large corporations. Erondu et al. (2004) agree that business ethics and corporate governance positively impacts on firm performance.

According to Spence and Rutherford (2001), the major thrust of business ethics and corporate social responsibility research has been on large organisations. There is little information on SMEs. Academic work on business ethics and corporate social responsibility in small firms is limited. Theoretical developments that start from a small firm point of view are practically non-existent. Spence and Rutherford (2001) add that "Business ethicists have treated the ethics of entrepreneurship with benign neglect." While it is true that business ethics as a discipline emerged at a time when the large firm was seen as the main focus of business study, today, SMEs remains the dominant form of business organization in both developed and developing countries. Failure to address small firm business ethics is totally inappropriate and a fundamental flaw in current business ethics research.

Spence and Lozano (2000) indicate that there are certain differences between a large firm and an SME. Unlike large firms, SMEs are likely to be owner-managed. This provides greater scope for individual beliefs and moral decision making to affect the practice of the business as a whole. As such, researchers examining business ethics may not generalize their findings to SMEs. Jenkins (2009) explores the question of whether ethics differs in the settings of large firms and SMEs and provides the answer as "Yes" and "No". No because the same principles apply. Yes because there are differences between the two types of business organizations. SMEs are

primarily driven by the personal beliefs and values of their owners. SMEs are also owner managed and highly personalized. According to Hopkins (2005), SMEs face significant resource pressure. This may lead SMEs towards more individualist ethical postures such as non-repayment of credit.

In addition, Worthington et al. (2006) note that within the limited, but growing, literature on small business ethics almost no attention has been paid to the issue of social responsibility within ethnic minority businesses or immigrant entrepreneurs. Kalitanyi and Vissers (2010) agree that crime, especially xenophobia is on the rise in South Africa. Xenophobia is not only directed at foreigners looking for work but also foreigners who have formed their own businesses. This can impact on the attitude of immigrant entrepreneurs towards corporate social responsibility because of lack of "sense of belonging". Beckun et al. (2003) also point out that culture affects how a person perceives ethical issues, alternatives and consequences. Immigrants and native SME owners come from different backgrounds and this can impact on how an individual SME owner perceives business ethics and corporate social responsibility.

The ethical behaviour of firms has become exceptionally fashionable since the recent corporate accounting scandals involving corporate giants such as Enron and WorldCom. This has made business ethics and corporate social responsibility an engaging area in business research. International studies such as Beckun et al. (2003), Hurst (2004), Longnecker et al. (2006), Fassin et al. (2011) focused on business ethics and SMEs. In the South African context, Robinson (2004) conducted a study on how entrepreneurs experience and deal with ethical dilemmas in South Africa and concluded that ethics is facing challenges in the context of diversity. However, no study has attempted to investigate and compare the attitudes toward business ethics and corporate (business) social responsibility by local and immigrant SME owners in South Africa.

### **The Objectives of the Study**

The objectives of the study are:

- ♦ To investigate the attitudes of local and immigrant SME owners toward business ethics and corporate social responsibility

- ♦ To investigate if there are significant differences in the attitudes toward business ethics and corporate social responsibility by local and immigrant SME owners.

## 2. LITERATURE REVIEW

### 2.1 Business Ethics

Hellriegel et al. (2008) describe ethics as the code of moral principles and values that direct the behaviour of an individual or a group in terms of what is right or wrong. Smit et al. (2007) note that ethics affects both individuals and business organisations. At individual level, ethical questions arise when people face issues involving individual responsibility, such as being honest, accepting a bribe or using organizational resources for personal purposes. At business level, ethics relates to the principles of conduct within organizations that guide decision making and behaviour. Business ethics are the standards used to judge the rightness or wrongness of a business' relations to others. Hellriegel et al. (2008) furthermore notes that business ethics involves how a company integrates core values such as honesty, trust, respect and fairness into its policies, practices, and decision making. Rossouw (2004) points out that business ethics is about identifying and implementing standards of conduct that will ensure that, at a minimal level, business does not detrimentally affect the interests of its stakeholders. Business ethics therefore involves people participating in economic transactions and at the same time serving their own as well as others' interests.

Kohlberg (1969) developed the Cognitive Moral Development (CMD) and the theory is widely used on the perceptions on business ethics. Basically when conducting business activities, firms are faced with various ethical dilemmas which Kohlberg classified into three main categories. The categories are the pre-conventional level, the conventional and the post-conventional level. The pre-conventional level states that an individual is receptive to the culture's rules and labels of right and wrong, but construes these labels in terms of physical consequences to the individual or in terms of the physical power of those who enforce the rules. At the conventional level, the individual mainly focuses on maintaining the expectations of family, group, or culture, regardless of the

consequences to be faced. Under the post-conventional level, an individual is engaged in an effort to define moral values that are valid apart from the authority of groups.

The Hofstede typology (1984) theory on business ethics states that diverse cultures stress different values in conducting business activities. These values shape the roles which firms assume within societies and what the society expects from the firms. Hofstede (1984) developed a study of various national cultures in an attempt to find where cultures stood on several dimensions. The dimensions which Hofstede identified are: *Individualism vs. collectivism*: This dimension describes the relationship between the individual and the collectivity that prevails in a given society (Hofstede 1991). "Individualistic culture relates to societies in which the ties between individuals are loose: everyone is expected to look after himself or herself and his or her immediate family" (Hofstede 1991). In collectivist cultures, the interests of the group prevail over the interests of the individual; harmony with the social environment is a key virtue. *Large or small power distance*: According to Hofstede (1984), power distance is the extent to which the less powerful individuals in a society accept inequality in power and consider it as normal. Although inequality exists within every culture, the degree to which it is accepted varies from culture to culture. *Strong or weak uncertainty avoidance*: Cultures with strong uncertainty avoidance are active, aggressive, emotional, security-seeking, and intolerant. On the other hand, cultures with weak uncertainty avoidance are contemplative, less aggressive, unemotional, accepting of personal risk, and relatively tolerant. *Masculinity vs. femininity*: Masculine cultures value material success and assertiveness while feminine cultures value qualities such as interpersonal relationships and concern for the weak.

Christie et al. (2003) employed the Hofstede theory and conducted a study on cross cultural comparison of ethical attitudes of business managers in between India, Korea and the United States. The results indicated that culture has a strong influence on the ethical attitudes of business managers. The implication is that as societies differ with regards to these cultural dimensions so will the various components of their ethical decision-making differ. Scholtens and

Dam (2007) carried out a research on cultural values and international differences in business ethics. The study finds that there are significant differences among ethical policies of firms headquartered in different countries.

Sims and Gegez (2004) observe that while common values may exist in different cultures, they may differ markedly in their application to a specific issue. This can result in differences in ethics across cultures where national values appear to be similar. Ahmed et al. (2003) confirm that cultural differences have an impact on the perceptions and attitudes of people towards business ethics. Peterson et al. (2010) agree that the reason for differences in business ethics across nations may be well related to differences in culture since culture affects moral orientations such as idealism and relativism. In contrast, a study by Chatelier (2011) reveals no significant difference in perceptions of business ethics in relation to culture. In the study three groups representing eleven different nationalities, reflected homogeneity in their perceptions.

## 2.2 Corporate Social Responsibility

The European Commission (2011) defines the concept corporate social responsibility as a concept whereby companies integrate social and environmental concerns in their business operations in their interaction with their stakeholders on a voluntary basis. Hopkins (2005) argues that corporate social responsibility is concerned with treating the stakeholders of the firm ethically or in responsible manner. Stakeholders exist both within a firm and outside. The wider aim of social responsibility is to create higher and higher standards of living, while preserving the profitability of the corporation, for people both within and outside the corporation. In the South African context, the most accepted definition was provided in the King Report (2009) which defines corporate social responsibility as “a well-managed company that is aware of and respond to social issues, placing a high priority on ethical standards.

The stakeholder theory of corporate social responsibility by Freeman (1984) views the corporation as a set of interrelated, explicit or implicit connections between individuals and or groups of individuals. Basically a stakeholder includes anyone who can affect or is affected by the actions of the firm. The approach pro-

poses that firms are responsible for addressing the interests of the different stakeholders and not only focus on the owners' interests. The stakeholder approach takes into account all the stakeholders who may affect or be affected by the firm's decisions and also holds that making profits for the firm and its shareholders, as well as fulfilling other duties to other groups associated with the firm are the essence for which a firm exists (Freeman 2004).

Carroll (1991) designed a pyramid of corporate social responsibility which identifies a spectrum of obligations that companies have towards the society in which business operations are conducted. Basically the Carroll's pyramid of corporate social responsibility identifies the major obligations which business firms have towards the society in which it conducts its business activities. The framework consists of four steps. The four steps are the economic, legal, ethical and philanthropic behaviour. The main emphasis of the framework rests on the economic aspect of the organization but also argues on other aspects such as legal, ethical and philanthropic behaviour. The economic behaviour is mainly concerned with the fact that firms should be profitable to survive in the industry. The legal aspects focus on the firms' ability to work within the boundaries of laws and national policies. Ethical responsibilities demand that the firm act fairly, justly and operate morally. Philanthropic responsibility obliges companies to contribute financial and other resources of the welfare and betterment of society and community.

In order to be successful in the business environment, SMEs have to engage corporate social responsibility in their strategic decisions (Mankelov and Quazi 2007). The problem becomes more evident when SME owners from different cultural backgrounds have to make decisions on corporate social responsibility. Cultural background plays a crucial role in shaping the SME owners' attitudes corporate social responsibility. In addition issues such as xenophobia and other crimes against foreigners still exist in the South African business environment. This may impact on the attitudes toward corporate social responsibility by foreigners. However, no study has empirically investigated and compared the attitudes of local and immigrant SME owners toward corporate social responsibility in South Africa. This is the rationale for the study.

### 3. RESEARCH METHODOLOGY

The empirical approach consists of data collection through the use of self-questionnaires in a survey. The study employed the quantitative research method. The study was conducted in East London in the Eastern Cape province of South Africa. The study covered SMEs in the retail/wholesale, and service sectors. Most immigrant and local SMEs are concentrated in these sectors and contribute significantly to the economy of the province (Eastern Cape Socio-Economic Consultative Council 2005). 140 local SMEs were selected from the Yellow Pages Telephone Directory. The number of employees was used as a proxy to measure an SME in line with the National Small Business Act. In addition, the names and addresses of immigrant SME owners were obtained from their Ethnic Associations and 119 immigrant SMEs were identified bringing the total number of SMEs to 259.

The questionnaire employed in the study consists of three sections. Part A of the questionnaire comprises of personal information, part B comprises of the attitudes towards business ethics whilst part C consists of attitudes towards corporate social responsibility. The attitudes to business ethics were collected by a questionnaire adapted from the Attitudes Toward Business Ethics Questionnaire (ATBEQ) developed by Newmann and Reichel (1987) and cited in Preble and Reichel (1988). The attitudes toward corporate social responsibility were collected using a questionnaire adapted from the Attitudes Towards Corporate Social Responsibility Questionnaire developed by Abdul and Ibrahim (2002). The five-point Likert scale was used to evaluate the attitudes as follows: *1=strongly disagree*, *2=disagree*, *3=not sure*, *4=agree* and *5=strongly agree*. The section on personal information used the dichotomous questions. 20 questionnaires on local and immigrant SME owners were pretested on a pilot study in East London. Some of the problems observed on the pre-tested questionnaire were attributed to content, phrasing, sequence, layout and instructions of the questions. The identified problems in the pilot study were corrected before conducting the actual survey.

Data analysis was done by means of descriptive statistics and T-tests. T-tests were used to test the differences between immigrant and local owners' attitudes. The Cronbach's alpha was

used to measure reliability. The Cronbach's alpha is a test for a survey's internal consistency. It is also called the scale reliability test. The alpha coefficient ranges in value from 0 to 1. The higher the score, the more reliable the generated scale is. Cooper and Schindler (2006) submit that a score of 0.7 is the acceptable reliability coefficient.

### 4. RESULTS

140 questionnaires were distributed to local SME owners. In addition, 119 questionnaires were distributed to immigrant SME owners. 58 questionnaires were returned by local SME owners and 61 by immigrant SME owners. The response rates were 42% for local SMEs and 51% for immigrant SMEs. The Cronbach's alpha was used as a reliability test for the Attitude Toward Business Ethics Questionnaire and the Attitudes toward Corporate Social Responsibility Questionnaire. The questionnaire focusing on the attitudes toward business ethics comprised of eleven variables and has an alpha of 0.803. The questionnaire focusing on the attitudes toward corporate social responsibility has twelve items and recorded an alpha of 0.875.

78% of the respondents of local SME owners were males while 22% were females. For immigrant SME owners, 87% were males while 13% were females. SME owners in both groups in the study area are predominantly within the age bracket of 31-40. The majority of SME owners have been exposed to formal education with diplomas and degrees. The results show that 52 of local SMEs are small and 6 fall under the medium category, whilst 59 of immigrants SMEs are small and 2 immigrant SMEs fall in the medium category. The results indicate that 4 local SMEs employ immigrants whilst 32 immigrants SMEs employ South African citizens. This suggests that immigrant entrepreneurship can help to reduce the high unemployment rate in South Africa. Most SMEs operate in the retail/wholesale. Most of the SMEs for immigrant and local SMEs are young with approximately 55% of them operating below ten years.

#### Attitudes Towards Business Ethics

Tables 1 and 2 present the results of the attitudes toward business ethics. The Tables present both the means and the results of the T-test.

**Table 1: Attitudes towards business ethics**

<i>Variables</i>	<i>Local SME owners mean</i>	<i>Immigrant SME owner mean</i>	<i>T</i>	<i>Sig (p-value)</i>
Business executives' main concerns are to make a profit and ethics is secondary	2.90	2.97	1.8206	0.6971
Act according to the law, and you can't go wrong ethically	4.69	4.73	1.6671	0.9783
Ethical values are irrelevant to the business model	1.92	2.02	1.9505	0.5221
"Business ethics" is a concept for public relations only	1.54	1.77	0.5127	0.6104
A person who is doing well in business does not have to worry about moral problems	2.05	2.08	0.1667	0.8520
Moral values are irrelevant to the business world	1.08	1.21	1.8552	0.6393
Business decisions involve a realistic economic attitude and not only a moral philosophy	4.05	4.11	0.5662	0.5759
A good business person is a successful business person	3.92	4.01	0.6147	0.5364
Sounds ethics is good business in the long run	4.40	4.25	0.5703	0.5784
In the business world it is difficult to make ethically sound decisions because of the high degree of competitive pressure	4.65	4.39	0.5745	0.6021
The average business executive has two ethical standards: one for their personal life, and another for their professional life	1.80	1.47	1.9051	0.5231

\*p&lt;.05

**Table 2: Business ethics t-test for equality of variances**

	<i>t-test for equality of means</i>		
	<i>T</i>	<i>Sig. (2-tailed).</i>	<i>Mean difference</i>
Business ethics	1.538	.093	0.79

\*p&lt;.05

The means (on a five point Likert scale) suggest that both local and immigrant SME owners have a good attitude toward business ethics. Both sets of respondents agree that whilst it is good for a firm to make a profit, business ethics is also very important to the success of business organisations. In addition, the T-test indicates that there are no significance differences

**Table 3: Attitudes toward corporate social responsibility**

	<i>Local SME owners mean</i>	<i>Immigrant SME owner mean</i>	<i>T</i>	<i>Sig (p-value)</i>
Involvement by business in improving its community's quality of life will also improve long run profitability	3.55	3.67	0.7279	0.07491
A business that wishes to capture a favourable public image will have to show that it is socially responsible	3.98	3.95	0.7491	0.07593
Socially responsible corporate behaviour can be in the best interest of the stakeholders	3.16	3.19	0.7654	0.8457
The idea of socially responsibility is needed to balance company's power and discourage irresponsible behavior	3.96	3.89	0.7548	0.8731
Firms are social institutions and as such much live up to society's standards	3.81	4.11	0.6312	0.5812
Efficient production of goods and services is no longer the only thing society expects from businesses	3.72	3.89	0.6235	0.5386
If business is more socially responsible, it will discourage additional regulation of the economic system by the government	1.28	1.31	1.8756	0.5681
A company that ignores corporate social responsibility can obtain competitive advantage than a company that does not	1.35	1.28	1.9047	0.5013
It is unwise to allow business to participate in social activities where there is no direct way to hold it accountable for its actions	1.82	1.78	1.9051	0.5100
Consumers and generally public will bear the costs of social involvement because the business will pass these costs along through their pricing strategies	3.33	3.24	0.6138	0.5381

p&lt;.05

in the attitudes of local and immigrant entrepreneurs toward business ethics. Measuring business ethics as one variable (Table 2), the results suggest that no significant differences exist at  $p < .05$ , in the attitudes toward business ethics among local and immigrant SME owners.

**Table 4: Corporate social responsibility t-test for equality of variances**

	<i>t-test for equality of means</i>		
	<i>T</i>	<i>Sig.(2-tailed).</i>	<i>Mean difference</i>
Corporate social responsibility	.891	.367	0.63

$p < .05$

The results as indicated by Table 3 indicate that both local and immigrant SME owners have a good attitude towards corporate social responsibility. Both sets of respondents agree that social corporate responsibility will improve profitability in the long-run. In addition, Tables 3 and 4 indicate that there are no significant differences in the attitudes of local and immigrant entrepreneurs toward corporate social responsibility. Measuring corporate social responsibility as one variable (Table 4), the results suggest that no significant differences exist at  $p < .05$ , in the attitudes toward corporate social responsibility between local and immigrant SME owners.

## 5. DISCUSSION

The results indicate that both immigrant and local SME owners recognize the importance of business ethics and corporate social responsibility. For business ethics both sets of respondents agree that even if you act according to the law, ethical and moral values are relevant to the success of their firms and not just for public relations. However, the respondents also recognise that competitive pressures can impact on sound ethical decisions. The results of the T-test indicate that there is no significant difference in the attitudes toward business ethics by both local and immigrant SME owners. For corporate social responsibility the results indicate that improving the community's quality of life will also improve the long-run profitability of SMEs and socially responsible behaviour is in the best interest of all stakeholders. In addition, corporate social responsibility is important for

SMEs to gain a competitive edge. The T-test indicates that there is no significant difference in the attitudes of immigrant and local SME owners toward corporate social responsibility. The results are consistent with other empirical studies on attitudes toward business ethics and corporate social responsibility by SMEs such as Papavisileiou (2006), Torres (2006) and Ahmad and Seet (2009). However, Hannafey (2003) find that small firm face significant resource pressure and this may lead them towards individualist ethical behaviour in the real business world.

## 6. CONCLUSION

The results mainly indicate a good attitude towards business ethics and corporate social responsibility by both local and immigrant SME owners. In addition, the results do not indicate any significant differences in the attitudes toward business ethics and corporate social responsibility by local and immigrant SME owners. However, there are areas of improvement as indicated by the results. Not all SME owners appreciate the importance of business ethics and corporate social responsibility as indicated by the means. Attitudes often predict actual behaviour. Therefore, there is the need to reinforce and also improve the attitudes toward business ethics and corporate social responsibility by SMEs.

## 7. RECOMMENDATIONS

Therefore, to improve the concepts of business ethics and corporate social responsibility among SME owners, it is recommended that: SME owners should design a code of ethics as a main tool for implementing business ethics in their firms. The code of ethics translates core values into specific commitments and expected behaviours in relation to the organisation's stakeholders. The code of ethics will also clearly show how the firm will address environmental responsibility and how the firm will relate to competitors. Firms should establish measurable objectives and, where appropriate, targets for improved corporate social responsibility, including periodically reviewing the continuing relevance of these objectives. These are so general that it would be hard to show that any firm was not abiding by them.

Government agencies should promote and encourage SMEs to participate in CSR activities. Government agencies responsible for SMEs such as the National Small Business Development Agency should organise training for SMEs about the importance of business ethics and corporate social responsibility and how SMEs can introduce the two concepts in their structures. Literature revealed that both local and immigrant SMEs contribute significantly to the economy, however they have limited resources; hence government should design strategies of imparting ethical skills for both local and immigrant SME owners. In addition, since some SMEs deal with government officials, unethical business practices by such officials must be reduced or eliminated.

The legal system has to be made more efficient through quick court judgments. Research has shown a positive relationship between the efficiency of the legal system and good ethical behavior. There is need for a campaign by the government to change the minds of the people that unethical practices are bad. Business ethics should be introduced as a major module in the universities and colleges in South Africa to educate likely entrepreneurs about the importance of ethics. SME owners should be trained on the importance of business ethics. The concept of Ubuntu focuses on the “togetherness” or “Unity”. Such concepts need to be taught to children from a very tender age and be encouraged. African values play a very significant role in the way business interacts with its customers. Such concepts need to be fused into corporate social responsibility literature.

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