

Effects of Business Ethics on Small Business Sustainability: A study of selected SMEs in Rivers-State.

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Abstract: this paper examined the effect of business ethics on small and medium scale enterprises sustainability. The study took a survey approach and data collected from a sample of 219 employees from nine SMEs across the three zones of Rivers state. The major instrument for data collection was a five point likert scale questionnaire and the data gathered was analyzed with the Non-Parametric Kruskalwallis (H) test using the 20.0 version of the statistical package for social sciences (SPSS). The major finding revealed that ethical business practice has significant effect on SMEs sustainability. The three hypotheses showed that a positive relationship existed between the three business ethics and sustainability factors under study; hence their p-values; 0.001, 0.001, and 0.000 respectively were all lesser than the 0.05 level of significance. It is therefore encouraged that SMEs should develop internal capacity to entrench ethical practices in their operations, though this may receive resistance from employees, it is a desirable path to business sustainability.

keywords: Business, Eco-friendly, Economic, Ethics, Social, Sustainability

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INTRODUCTION

Over the years, there has been noticeable changes and restructuring of the world economy, brought about mainly by the spread of the free-market economy as well as the globalization of businesses owing to the emergence of information and communication technology. However, across the globe, corporate failure has become constant news; this may have resulted from boardroom crisis of confidence orchestrated by the neglect of global ethical best practices. While government regulation and policy interventions may have sought to minimize this problem, the sudden realization of the effect of unethical practices on their businesses has engendered a fresh consciousness in business managers. Many global businesses like Enron inc., Parmalat, Nortel e.tc has fallen on the premise of unethical practices. In Nigeria today, it is believed that business fold-up at an alarming rate, though this may be associated partly with harsh business climate, unethical practices has also shown to be a factor. To enhance the sustainability and viability of SMEs in Nigeria may therefore call for the re-examination of ethical conduct by Nigerian SMEs. Faced with an increased globalization, Drucker (2007) believes that the management of business must maintain its wealth producing resource intact by making adequate profits to offset the risk of economic activity, and ensuring a continued increase in wealth-creating and wealth-producing capacity of these resources. However, this responsibility demands a careful consideration of the costs of meeting these responsibilities and the benefits to be derived. Regrettably, organizations and businesses have been operating based on the traditionally held belief that the primary aim of business is the protection of interest(s) of stakeholders. While this view is accurate, it is to be noted that in a liberalized economy, stakeholders extend beyond the superficial immediate owners of the business.

According to Newell (2012), virtually every week there is at least one business scandal in which a corporation appears to have violated the rules or standards of behavior generally accepted by society. Company finances have been manipulated in order to show a better balance sheet than actually exists, bribes have been paid to secure a business deal, child labour has been used to assemble a product, discriminatory practices have prevented the employment or promotion of members of a particular group. When

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Businesses behave unethically; they act in ways that have a harmful effect on others and in ways that are morally unacceptable to the larger community. Sullivan (2009) posits that in this 21st century, the ethical issues in business have become more complicated because of the global and diversified nature of many large corporations and because of the complexity of economic, social, global, natural, political, and legal and government regulations and environment. Hence, it is left for companies to decide whether to adhere to constant ethical principles or to adjust to domestic standards and culture. Given the financial scandals and the resulting new mandates on business, firms find themselves pressed to develop strong codes of ethics to guide the behaviour of board members, managers and employees. Although the concern with ethics has always been a part of doing business, business leaders today are beginning to think about ethics as a set of principles and guides of behaviour rather than a set of rules. In this sense, business ethics is not only an attempt to set a standard by which all the employees of a firm can know what is expected, but it also an attempt to encourage employees, managers, and board members to think about and make decisions through the prism of a shared set of values (Sullivan and Shkolnikov 2006). In this paper, the researchers focused on three dimensions of business sustainability which include; economic, environmental and social sustainability.

Objectives of the Study

The general objective of this study is to examine effects of business ethics on small business sustainability. The following specific objectives shall be investigated;

- i. examine the effects of customers responsiveness on the economic sustainability of SMEs
- ii. examine the effects of compliance to eco-friendly laws on the environmental sustainability of SMEs
- iii. examine the effects of community responsiveness on the social sustainability of SMEs

Hypotheses

The following hypotheses served as a guide to this study.

H₀₁: Customers' responsiveness does not have significant effect on the economic sustainability of SMEs

H₀₂: Compliance to eco-friendly laws does not have significant effect on the environmental sustainability of SMEs

H₀₃: Community responsiveness does not have effect on the social sustainability of SMEs

Review of Related Literature

In this section, the researcher review the contribution of different authorities in this field

Business Ethics

Ethics (ethos in Greek) is the discipline that examines your moral standards or the moral standards of the society (Velasquez 2011). Ethics (or moral philosophy) deals with individual character and the moral rules that govern and limit our conduct. It investigates questions of right and wrong, duty and obligation, and moral responsibility (Shaw & Barry 2010). Business ethics (BE) is a specialized study

area which constitutes of moral right and wrong, good or bad, that focuses on business institutions, organizations and activities. Business ethics is seen as something which concentrates on the moral standards as well as the moral and ethical problems which may arise in business environment (Boat right). Such moral standards apply in the business policies, institutions as well as in behaviour. This means that business ethics is a form of applied ethics or professional ethics. Business ethics can also be defined as written or unwritten codes of principles and values that have been decided within a company. In most basic terms, business ethics is seen as knowing the difference between right and wrong, good and bad and finally choosing the one which is right and good to do in business life.

Often business ethics is divided into three different kinds of issues; society or systemic, corporate as well as the individual issues. Society issues are seen in business ethics as issues which are ethical questions on for example, economic, political, and legal or in other social systems in which the organizations work. Such questions could be for ex-ample, whether environmental legislation has been arranged so that the environment responsibly in respect of other companies have a better chance to succeed, or whether environmental obligations under ignoring success of your business is more profitable? Corporate issues in business ethics, ethical questions are raised especially about the company itself, such as conservation of the environment, treatment of the staff, work safety and so on. For example in American business world, many companies have adopted codes of ethics to guide their activities and decision-making, whereas Finnish companies have defined it as 'corporate values'. The individual issues in business ethics

Ethical Performance Evaluation (EPE)

Svensson and Wood (2009) introduce a model for evaluation of ethics. They distinguish five different functions of ethics that should be considered in order to rightfully evaluate if ethics have been acceptable or not. The following illustrates the five different functions of ethics that is highlighted in the managerial framework of EPE;

Time: Time is a parameter that underpins all of the other categories. The impact is continuous and has a changing nature connected to it. It is difficult to predict how practices of today will be evaluated tomorrow. Ethical values and principles of the moment are often used when evaluating past practices. In order to more rightfully judge whether an action is ethically acceptable or not history needs to be considered. The historical values of the dominating society where the organization is situated should be taken into account.

Context: Context is dependent on timing. Svensson and Wood (2009) argue that the context in which actions take place affects what is seen as acceptable from an ethical perspective. For example: In times of war it is acceptable to use deadly force in a way that is not acceptable in a society in peace. Different contexts are normal when acting on different markets. If organizations are working in different environments it has to be taken into consideration that values, ethics and social responsibilities interact within the organization (Holme, 2008).

Gap: A way of promoting preferable ethical values can be to support these particular values by leaders of the

organization. If there is a difference between how internal and external forces perceive the organization a gap will occur. Having a gap between what is considered as internal and external ethical 'rightness' presents a risk because actual ethical practice can then be considered to be negative externally, while being conceived positive internally. Having a long-term focus on ethics is thus a major reason for not having a negative gap between internal and external groups (Power, 2009)

Outcome: The outcome parameter is in the same sense as gap depending on the earlier parameters. The outcome of ethical performance is dependent on how the gap between internal and external perception of business practice is being handled. There are two different ways of handling and affecting the perception of the outcome. They are proactive or reactive performance. Proactive means that the company is trying to stay ahead of the market and society in terms of ethical performance whilst reactive represent a conduct which follows demands (pushing vs. following ethical standards). Both reactive and proactive practices are taking place in an interaction with society. The choice between them is dependent on how they interact with each other under certain circumstances. If companies are not following norms, values and beliefs situations can become very troublesome. The outcome of internal ethical weaknesses can lead to threats and expose the company to risks when integrated with external groups. Internal strength can on the other hand lead to external opportunity. An organization can plan ethical contingency and try to affect the outcome of ethical performance. By evaluating the ethical context, the internal perception of business performance and external perceptions, a company has the choice to react either proactive or reactive. Since proactive and reactive work is taking place simultaneously in an interaction with society it is often hard to determine if a reaction is proactive or reactive. On one hand an organization can react proactive to improve ethical standards. On the other hand it is possible to argue that an organization always act reactive due to the fact that problems always exist. The problems are triggers to respond and therefore every action can be seen as reactive. In this thesis, the main argument for calling an action proactive is when an organization search and finds problems on forehand and tries to solve them, instead of dealing with the result after the problem has occurred. Therefore a proactive way of working implies actively working with ethics continuously. A reactive way of working can thus be perceived as passively standing by until a situation has occurred.

Consequence: Consequence as the last parameter explains the importance of understanding how action will affect organizational ethical performance. By internally performing well on ethics a company can gain long-term business credibility consequently, poor internal ethical performance can lead to risk. A reactive ethical approach is stronger correlated to high risk than a proactive performance. Internal actions prevent risks from external environment. Internal analysis of ethical behaviour can together with external analysis be used to better understand opportunities and threats and how to act upon these. A consequence of being transparent and working in line with ethics internally can result in better understanding, less misinterpretation and improved collaboration (Connor, 2006). Business ethics can be applied successfully in the marketplace for the betterment of all stakeholders but on the downside the misapplication of can

be applied successfully in the marketplace for the betterment of all stakeholders but on the downside the misapplication of business ethics principles can lead to disaster. The classification in the EPE-model is judged by evaluating strength weaknesses opportunities and threats. The situation can also be judged as ambiguous.

Business Sustainability

Business sustainability has become recently an important concept of the business world. According to Hofstra (2008), sustainability is a precondition for future growth. In the bibliography it is often associated with ethical business practices in the sense that: "Ethical responsibility...involves more than leading a decent, honest, truthful life, as important as such lives certainly remain...it involves something much more than making wise choices when such choices suddenly, unexpectedly present themselves. According to Gillman (2008), Sustainability is equity over time. As a value, it refers to giving equal weight in your decisions to the future as well as the present. Christensen (2007) adds that a sustainable business is able to contribute to an equitable and environmental sustainable economy. In this concept, sustainable businesses must create products and services that can accomplish society's needs, contributing to the well-being of the whole earth's inhabitants.

Dimensions of Business Sustainability

Georgia-Pacific believes sustainability has three dimensions – social, environmental and economic. In making business decisions, we try to find the right balance among these dimensions and achieve the following outcomes:

Social Dimension

- Make products that improve people's lives.
- Support the communities in which we live and work.
- Maintain quality work environments.
- Source materials responsibly.

Environmental Dimension

- Use resources wisely.
- Comply with laws.
- Minimize our facilities' impact by operating safely, responsibly and efficiently.
- Reduce the adverse impact of our products in use.

Economic Dimension

- Be profitable.
- Manage the costs to customers and consumers to use our products.
- Make products that people want.
- Support our communities by buying local goods and services, paying taxes and participating in local activities.

Methodology

The study took a survey approach and data collected from a sample of 219 employees from nine SMEs across the three zones of Rivers state. The major instrument for data collection was a five point likert scale questionnaire titled business ethics and SMEs sustainability questionnaire (BE&SMESQ). Since ethics is an issue of attitude, the Non-Parametric Kruskalwallis (H) test using the 20.0 version of the statistical package for social sciences (SPSS) was used to analyze the data gathered. kruskawalis

test may be described thus: $T = H = \frac{12}{N(N+1)} \sum_{i=1}^k \frac{R_i^2}{n_i} - 3(N+1)$. The decision rule is to reject the null hypothesis if $H \geq \chi^2_{(k-1)}$, where k is the degrees of freedom.

Results

The SPSS output of the data used was presented and interpreted in this section

Keys: CR=customer’s responsiveness, ES=economic sustainability, CEF=compliance to eco-friendly laws, ES=environmental sustainability, CR=community responsiveness, SS=social sustainability

NPAR TESTS

/K-W=CRandES CEFandES CRandSS BY VAR00001(1 5)
 /STATISTICS DESCRIPTIVES
 /MISSING ANALYSIS.

Descriptive Statistics					
	N	Mean	Std. Deviation	Minimum	Maximum
CRandES	25	43.8000	16.79534	12.00	68.00
CEFandES	25	43.8000	15.57241	20.00	67.00
CRandSS	25	44.8000	19.89556	13.00	81.00
VAR00001	25	3.0000	1.44338	1.00	5.00

Kruskal-Wallis Test			
Ranks			
	VAR00001	N	Mean Rank
CRandES	1.00	5	6.90
	2.00	5	20.60
	3.00	5	19.40
	4.00	5	13.90
	5.00	5	4.20
	Total	25	
CEFandES	1.00	5	5.70
	2.00	5	20.30
	3.00	5	17.30
	4.00	5	16.40
	5.00	5	5.30
	Total	25	
CRandSS	1.00	5	6.20
	2.00	5	18.50
	3.00	5	21.60
	4.00	5	13.90
	5.00	5	4.80
	Total	25	

Test Statistics ^{a,b}			
	CRandES	CEFandES	CRandSS
Chi-Square	19.786	18.099	20.193
df	4	4	4
Asymp. Sig.	.001	.001	.000

a. Kruskal Wallis Test

b. Grouping Variable: VAR00001

Discussion of Findings

In this study, the major finding revealed that ethical business practice has significant effect on SMEs sustainability. The result of the study shows that there is a stronger tie between community relations and social sustainability than the other two ethics variables and sustainability tested in hypotheses one and two. However, the three hypotheses showed a positive relationship existed between the three business ethics and sustainability factors under consideration; hence their p-values; 0.001, 0.001, and 0.000 respectively were all lesser than the 0.05 level of significance.

Conclusion and Recommendations

From the findings made, the researchers believe that ethical business practice can significantly enhance the sustainability of SMEs. It is therefore encouraged that SMEs should develop internal capacity to entrench ethical practices in their operations, though this may receive resistance from employees, it is a desirable path to business sustainability. We therefore recommend that-

- 1) As part of image boosting strategy, Nigerian SMEs should adopt community relations and responsiveness as a strategy.
- 2) SMEs should emphasize ethical training and retraining especially at the point of employees' orientation. This will surely strengthen the moral fiber of the business and ensure that employees serve customers with all fairness and commitment to the rules.
- 3) Rewarding ethical conduct will help deepen business ethical practice in SMEs.

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