

Business environment factors influencing ethical business conduct of small and medium-size businesses in Uganda

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Abstract

The inability of some small and medium-size enterprises to operate in an ethical manner may influence their potential to grow. The business environment plays a role in the ethical behaviour of businesses.

This study explores how the business environment affects the ethical business conduct of SMEs in Uganda. Primary data was collected through a newly developed self-administered questionnaire. The sample comprised of 384 SMEs utilising convenience sampling. Exploratory factor analysis was conducted to extract the valid factors. Multiple regression analysis was conducted to determine the influence of the business environment factors on the ethical business conduct of SMEs.

The empirical findings show that the business environment significantly influences SMEs' ethical business conduct in Uganda. Three statistically significant relationships exist between legal business operation requirements, industry norms, media power and ethical business conduct. It is suggested that SME management should strictly comply with business operation requirements and adhere to industry norms to show they are serious about their ethical business conduct. They should also utilise the media to inform employees of the implications of unethical business behaviour to further encourage the adoption of ethical business values.

Key phrases

business environment, business ethics, industry norms, legal business operation requirements, media power, small- and medium size enterprises

1. INTRODUCTION

The importance of the small and medium-size enterprises (SMEs) is recognised in the global economy, irrespective of the economy's developmental stage (Mahembe 2011:13). As in many other developed and developing countries, Uganda has continued to recognise SMEs as a major economic entity, and an opportunity for accelerating the country's sustainable economic growth. In Uganda, SMEs are a prime source of employment and playing a crucial role in income generation and poverty eradication (Uganda Investment Authority 2011:21).

However, despite the large number of SMEs in Uganda and their contribution to the economy, their performance and growth have been poor, with the worst overall performance within the Ugandan manufacturing sector (Ishengoma & Kappel 2008:9).

It is acknowledged that SMEs' survival and success depend on how easily they can adapt to the complex, multi-focus and dynamic business environment (Eruemegbe 2015:478). White (2005:1) confirms the increased importance of the business environment in small enterprise development. However, the environments in which SMEs in developing countries operate vary greatly from that of the developed world. SMEs in most developing countries operate in a constrained business environment (Essien 2014:69).

The business environment factors that affect business operations are competition, consumer behaviour, supplier behaviour, macroeconomic dynamics, government policy and global dynamics (Alkali 2012:627). These factors influence the manner in which SMEs operate and manage their business operations. Beck and Demircuc-Kunt (2006:2933) warn that a poor business environment affects the performance of the SMEs because restrictions and market imperfections decrease competition and decelerate business growth.

The ability of SMEs to behave in an ethical manner depends on how management goes about the impact of the business environment on their business operations. Machuki and Aosa (2011:207) caution that the way this business environment impact is managed determines the extent to which a business can be successful and grow. Thus behaving ethically in business in spite of the business environment constraints can enable SMEs to remain in business and even grow their businesses.

2. PROBLEM STATEMENT

Although SMEs significant contributions to economic development are generally acknowledged, they have remained informal due to several performance- and survival rate barriers, in Uganda, as well as globally. For example, in South Africa, on average, 50% of SME start-ups fail within the first two years of operation (BizConnect 2014:Internet), while in Kenya, past statistics indicate that three out of five SMEs fail within the first few months of operation (Bowen, Morara & Mureithi 2009:16).

In Nigeria, 30 percent SMEs go out of business within their first five years of existence; a smaller percentage goes into extinction between the sixth and tenth year, while only about five to ten percent of young businesses survive, thrive and grow towards maturity (Ayanda & Laraba 2011:201). Although 10 percent of Ugandans started in 2016 a business, about one-fifth of the businesses owned by entrepreneurs aged between 18 and 24 years businesses did not survive for more than a year (Patton 2016:1).

The high failure rate can be attributed to inter alia the business environment in which SMEs operate, such as excessive regulation and red-tape, and the high cost of licensing and registration requirements for start-up businesses (Boateng 2012:20). This has resulted in unethical behaviour exhibited by Ugandan businesses such as remaining unregistered to avoid paying business tax (Wagona 2007:131).

Meeting the stringent product quality certification procedures and public environmental standards often lead to officials expecting bribes in exchange for favourable treatment or to expedite the approval thereof (Business Anti-Corruption Portal 2013:10; Ministry of Finance, Planning and Economic Development 2011:13). There is also corruption and lack of transparency in public procurement processes (Business Anti-Corruption Portal 2013:2). Such an unethical business environment may affect the ethical business conduct of the SMEs.

This research was undertaken in recognition of the importance of having a business environment to promote ethical business conduct in SMEs that is conducive. Although it is acknowledged that many factors other than the business environment can influence ethical business behaviour, this article will focus only on business environmental factors as a key

determinant in influencing SMEs' ethical business conduct. According to Kushnir, Mirmulstein and Ramalho (2010:1), the most common definitional basis to classify business size is in terms of the number of employees. In this article, small and medium-size enterprises are considered those businesses that employ more than five but less than 200 employees (Uganda Investment Authority 2011:34).

Ethical business conduct is when a business demonstrates high ethical standards in all business practices to maintain its ethical reputation (McMurrian & Matulich 2011:11). In practice, this means that a business has an ethical reputation by meeting all legal business requirements, has sound business practices and ensures their employees have the personal integrity to guide their ethical business behaviour.

3. STUDY OBJECTIVES

The primary objective of the study is thus to determine the business environment factors that influence the ethical business conduct of Ugandan SMEs. To address the primary objective, the following secondary objectives have been formulated:

- to undertake a theoretical investigation into the role that the business environment plays in behaving ethically, especially within the SME context;
- to empirically determine the business environment factors that influence the ethical business conduct of SMEs in Uganda; and
- to provide conclusions and recommendations on how to utilise the business environment constraints that influence ethical business conduct to the benefit of SMEs in Uganda.

4. LITERATURE REVIEW

An overview of the Ugandan business environment is first provided, followed by a discussion on the determinants of ethical business behaviour. In the last subsection the benefits of having an ethical business reputation and what can be considered acceptable ethical business conduct, are highlighted.

4.1 Overview of the Ugandan business environment

Uganda is a landlocked country in the Eastern part of the African Continent (Nakabugo, Byamugisha & Bithaghalire 2008:55) and has a young and fast-growing population, with the highest youth unemployment rate in Sub-Saharan Africa (International Labour Organisation 2016:Internet). Fifty-three percent of Uganda's labour force is self-employed (Uganda Bureau of Statistics 2016:Internet).

In Uganda, business start-ups and general business operations are affected by: the lack of access to reliable and affordable electricity supply, costly and time-consuming procedures for obtaining construction permits, high cost of access to credit, costly procedures for resolving commercial disputes in courts of law, poor road- and rail infrastructure, and administrative burdens related to the tax regulation process and trading across borders (Doing Business 2017:Internet). In spite of the airspace liberation between the five East African Community (EAC) member countries, airfreight charges are still very high, thereby contributing to the high cost of doing business (Karuhanga 2017:Internet). SMEs access to and the use of appropriate technology is limited in Uganda (Uganda Micro, Small and Medium Enterprise Policy 2015:Internet). Furthermore, there are no compliance programmes to detect and prevent bribery or to guide Ugandan businesses conduct (United States Department of State 2016).

Chouaib and Zaddem (2013:16) contribute the lack of longevity among SMEs to their increasingly unethical conduct of deception and opportunism. Many businesses are assessing the external environmental factors that can influence employees to behave in an unethical manner (Lluka 2010:13). Imposed and externally dictated standards and procedures are contrary to the needs of SMEs and can lead to engaging in unethical business practices (Lahdesmak 2005:57). In the following section, an overview of the business environmental factors influencing the ethical business behaviour of employees is provided.

4.2 Determinants of ethical business behaviour

According to various researchers (Boshoff & Van Zyl 2011:291; Yves 2005:270), business environmental factors such as economic, political, social conditions, competitive and

stakeholders' pressures influence the ethical business conduct of any business. It is acknowledged that there are other business environment constraints (Painter-Morland & Dobie 2009:17; Rambe & Ndofirepi 2017:3) that may influence the ethical business conduct of any businesses, and more so of SMEs and their employees.

However, this study explores four specific business environmental factors influencing the ethical business conduct of SMEs, namely legal operation requirements, stakeholders' expectations, industry norms and media power. The rationale for including only these four factors are that SMEs have some measure of control over these four factors as compared to the other business environment factors (economic, political, social conditions and competition) which SMEs seldom have control over.

4.2.1 Legal operation requirements

Legal requirements are defined as legal and judicial business rules and regulations that businesses must adhere to (Ogundele, Hasan, Idris & Aliu 2013:6). Governments legislate regulations to provide guidelines for business behaviour that are acceptable within society and monitor it through a supervisory body to ensure that businesses are operating within the intent of the legislation (Svensson & Wood 2008:307). Unfortunately, regulatory issues like; the cost of starting-up, licensing and registration requirements, obtaining credit, trading across borders, enforcing contracts and closing a business can impose excessively and an unnecessary financial burden on SMEs (Abor & Quartey 2010:224). This seems to imply that ethical issues especially arise when businesses must comply with multiple and conflicting legal- or cultural standards (Lluka 2010:12).

Bribery to bypass regulations is common in all countries and regulations are not always transparent or consistently applied, resulting in corruption (United States Department of State 2011:6). Other violations of business laws relate to the use of child labour, ignoring employee safety standards requirements, exceeding maximum working hours allowed, paying less than the required minimum wages, engaging in employee discrimination and non-adherence to environmental protection regulations (Velentzas & Broni 2010:802). Businesses are often tempted to "bend the law" in pursuit of profit, by complying only

partially with either environmental regulations and/or labour laws, or by using some substandard materials in their products (Hill 2013:1).

Unlike larger businesses, SME management gives environmental regulatory issues less priority due to a poor understanding of it or the belief that their business activities have little impact on the environment (Frost 2011:2). SMEs regard cost, complexity, and ambiguity of the regulations as barriers to regulation compliance (Ayatakshi 2012:41). It is thus important for SMEs to adhere to business legislation, as it shows employees and society that they value ethical business behaviour that in turn can contribute to their business success.

4.2.2 Stakeholders' expectations

Stakeholders are those individuals or groups with an interest in, right to, or ownership of a business and its activities (Lluka 2010:11). Hellriegel, Slocum, Jackson, Amos, Klopper, Louw, Louw, Oosthuizen, Perks, Staude & Zindiwe (2012:159) indicate that businesses have to meet the expectations of customers, government, shareholders, employees, suppliers and the society, although these groups may have somewhat different expectations.

Governments should provide the right support and conditions for SMEs' success. Sarpong (2012:18) notes that some governments provide SMEs with soft loans, managerial training, fiscal incentives, grants, bilateral and multilateral agencies support, all geared towards improving the SMEs due to the crucial role it plays in the economy. However, many of government's structural reforms and policies are found to be ineffective, with some regulations so rigid that it creates severe challenges for SMEs development (Boateng 2012:20).

Shareholders constitute the governance framework of business. According to Wang and Yang (2013:281), SMEs usually have few shareholders that mostly consist of relatives, friends and other outsiders. These SME shareholders generally have a high participation in the business. The SME shareholders' comprehensive ownership strategy normally reflects their interest in the business. This SME ownership strategy stipulates the business responsibility towards customers, owners, employees and society, the management structure, corporate vision, expected results and growth aspirations (Binder, Manser, Dubs, Mülle, Hilb & Spielmann 2009:3). Employees are responsible for coordinating business

resources, ensuring the achievement of business goals, and are attracted to the business by high wages, sound working conditions and job security (Yves 2005:270). Singh and Twalo (2015:516) cautioned that lack of job security can provoke employees to engage in an unethical behaviour because they do not feel connected or even committed to the business. Society has an interest in the performance of a business because employment and the economic well-being of a community are strongly affected by businesses activities (Hellriegel *et al.* 2012:159). Yves (2005:270) notes that such demands made by stakeholders may change the entrepreneur's perception of business ethics.

Customers are the most critical and largest stakeholder group and are concerned about business decisions regarding the quality, safety, and availability of goods and services (Hellriegel *et al.* 2012:159). SMEs regard customers as an important source of income (Khan 2009:189), as they can develop personal customer relationships, unlike large businesses (Dietsche 2009:36).

Suppliers are also vital for business success. According to Mettler and Rohner (2009:59), a good supplier relationship reduces business costs and enhances service delivery. Suppliers expect to be paid fairly and promptly for their inputs, while distributors expect to receive quality products at agreed upon prices (Jones, Felps & Bigley 2007:147). However, although SMEs expect suppliers to supply on time, they often do not give any down payment or request the stock within a reasonable order time (Ntayi, Eyaa, Zeija & Rooks 2011:18). It is thus important for SMEs to take into consideration the different expectations of their stakeholders and to meet it as it can influence the longevity of the business.

4.2.3 Industry norms

Industry norms include generally accepted business operations standards or criteria that members of an industry follow (Kölle, Markarian & Tartar 2011:134). According to Málovics (2009:224), industry norms can influence ethical business behaviour. SME research in the Czech Republic established a link between industry norms and ethical business behaviour (Šípková & Tae-Hee 2015:120). According to Singh (2009:11), ethical industry norms and values also include industrial espionage, pollution reduction, and ethical leadership. It is, therefore, necessary to articulate a set of norms that consider the peculiarities of each

industry and force businesses to minimise their environmental impact (Cambra-Fierro, Hart & Polo-Redondo 2008:654). This is crucial because the environmental influence of one industry is different from another; some businesses are environmentally unfriendly due to the harmful substances used and the waste generated, while others have organic waste which is biodegradable (Cambra-Fierro *et al.* 2008:651).

Industry norms play a central role in the self-perception of SMEs regarding their ethical behaviour (Málovics 2009:235). Although SMEs' marketing activities are mostly unplanned and informal, they are built upon and match those utilised in their industry (Ghanavati 2014:414). They may deviate from ethical principles because of strict industry norms and values, for example, when accounts are manipulated to show a higher business performance (Sinha & Mishra 2011:139). In addition, some SMEs business managers' lack of understanding the ethical industry code may unintentionally lead to immoral business behaviour (Graham 2013:319). It is, therefore, important for SMEs to follow ethical industry policies and standards that reinforce their business values and philosophies and to communicate these to both internal- and external stakeholders.

4.2.4 Media power

Media has increased the interest towards ethical reasoning through regular coverage of unethical business behaviour (Khalid 2012:9). Media exposes and reports on a manager's ethical decisions and behaviours and then allows the public to judge whether it is acceptable business behaviour (Hellriegel *et al.* 2012:146). The media thus fulfils a self-appointed social conscience role within society by creating ethical business expectations (Svensson & Wood 2008:310). In doing so, media has played a big role in increasing businesses transparency on how they operate.

Using media to advertise business values is a strategy that can help a business to make their customers understand their ethical business stance (Broughton, Higgins, Hicks & Cox 2009:27), in particular on the provision of ethical business products and services (Meinema 2013:18). Media thus plays a significant role in shaping people's values and value orientation in contemporary society, and media content may articulate a value, demonstrate

its applications, and foster a cultural environment for its adoption as a preferred standard for social comparison (Paek & Pan 2004:495).

SMEs in Kenya develop products and services that suit customers' needs based on feedback from the media and communicate these product developments to customers (Jagongo & Kinyua 2013:225). Thus media represents a new way for SMEs to communicate with consumers and develop a reputation for business (Nobre & Silva 2014:140). This, in turn, increases the expectations for socially responsible employee behaviour (Servaes & Tamayo 2013:1047). In addition, sharing information about employees in the media may affect how employees behave in the workplace (Broughton *et al.* 2009:1). For this reason, unethical practices should thus be widely publicised and openly condemned so that businesses and people are discouraged to consider such behaviour (Cicek 2012:252). It is thus important for businesses to pay attention to media reports and utilise the media to their favour, and to use these media reports to show employees the consequences of unethical business behaviour.

4.3 Ethical business conduct

Abor and Quartey (2010:224) find that SMEs that operate in an ethical manner adhere to business laws and regulations and pay their taxes. Muffatto and Giacon (2012:592) note that ethical businesses display good corporate citizenship behaviour in all their operations, as they are transparent, responsible, fair and accountable. Managers expect employees to be ethical and employees expect managers to be ethical (Phatshwane 2013:47). Being ethical enables businesses to attract more skilled employees (Larkin & Pierce 2015:6). These skilled employees also put more effort into their work and thereby increase productivity. According to Lee and Ha-Brookshire (2017:4), an ethical working environment results in employees that are committed to business goals. This, in turn, provides an incentive for employees to remain employed in the business and reduces costly employee turnover (Sapovadia & Patel 2013:6).

Conducting business in an ethical manner has increasingly become a source of competitive advantage for SMEs (Dutta & Banerjee 2011:206). Leiva, Ferrero and Calderón (2014:29) note that businesses that act in an ethical business manner build a good business

reputation. Their good reputation results in a high level of customer satisfaction and loyalty that translates into a higher profit, since customers are more inclined to buy from an ethical business (Wiid, Cant & Niekerk 2013:1088). Customers are confident of receiving quality products at agreed upon prices if buying from ethical businesses (Cambra-Fierro *et al.* 2008:652). Being ethical reduces the transaction costs of generating new customers (Zhang 2009:33). Ethical businesses pay suppliers promptly (Jones *et al.* 2007:147), preserve the environment and improve the community's well-being (Sarkis & Daou 2013:61).

5. RESEARCH HYPOTHESES AND OPERATIONAL DEFINITIONS

Based on the preceding literature review on the four selected business environment factors influencing ethical business conduct, the following hypotheses were formulated:

- H₁: *Legal business requirements* influence the *ethical business conduct of SMEs*.
H₂: *Stakeholders' expectations* influence the *ethical business conduct of SMEs*.
H₃: *Industry norms* influence the *ethical business conduct of SMEs*.
H₄: The *power of the media* to guide business behaviour influences *ethical business conduct of SMEs*.

Cohen, Manion and Morrison (2007:81) indicate that operationalisation is needed in order to conduct good research. Operational definitions of the dependent and independent variables are depicted in Table 1.

TABLE 1: Operationalisation of the dependent and independent variables

Variables description	Number of items tested	Sources
<i>Legal business requirements</i> refer to business requirements necessary to legalise the business to operate as a formal business entity	5	Ogundele <i>et al.</i> (2013:6); Svensson & Wood (2008:307)

Variables description	Number of items tested	Sources
<i>Stakeholders' expectations</i> refer to expectations by all parties that have an interest in the business such as the customers, suppliers, employees, and society	5	Hellriegel <i>et al.</i> (2012:159); Lluka (2010:11)
<i>Industry norms</i> refer to generally accepted requirements and standards followed by a business related to market and environment conditions and reflected in their business values	5	Cambra-Fierro <i>et al.</i> (2008:651); Kölle <i>et al.</i> (2011:134)
<i>Power of the media</i> refers to how the media can be used as a powerful business tool to publically express business values and guide employee or competitor behaviour	5	Broughton <i>et al.</i> (2009:27); Cicek (2012:252); Hellriegel <i>et al.</i> (2012:146); Paek & Pan (2004:495)
<i>Ethical business conduct</i> refers to a business complying with business laws and regulations while taking into consideration the outcome of their actions on the environment and the community	10	Michael (2006:8); Sarkis & Daou (2013:61); Smart, Barman & Gunasekera (2010:2)

The following section elaborates on the research design and methodology followed in the study.

6. RESEARCH DESIGN AND METHODOLOGY

The study utilised the quantitative research methodology as a form of conclusive research, as a large representative sample and structured data collection procedures were used (Nwokah, Kiabel & Briggs 2009:436). Exploratory research was utilised, as limited extant literature is available on ethical business conduct within the SME context, and none within

the Ugandan context. The business environment factors influencing the ethical business conduct of SMEs in Uganda were described (a descriptive research approach).

A non-probability convenience sample of 384 SMEs was obtained, based on accessibility and availability, as no complete database of SMEs exists in Uganda. The criteria for inclusion in the sample were that the SMEs must be registered and employ a workforce of between five and 200 employees. Three trained fieldworkers were briefed on the sample criteria and the questionnaire completion requirements prior to data collection.

Data was collected by means of a survey using a newly developed questionnaire as no existing scales could be found within the SME context. The questionnaire was self-administered since it is cost-effective and can increase respondents' willingness to disclose what may be regarded as sensitive information (Koponen, Mäki-Opas & Tolonen 2011:5).

The structured questionnaire consisted of two sections. Section A requested information regarding the perceptions of SME management on the business environment factors influencing their ethical business conduct using a psychometric five-point interval Likert-type scale ranging from strongly disagree (1) to strongly agree (5). The same section solicited information on the ethical business conduct of Ugandan SMEs using a five-point Likert-type scale ranging from strongly disagree (1) to strongly agree (5).

According to Zikmund, Babin, Carr and Griffen (2012:315), a Likert scale provides respondents with a wide range of choices and is suitable to measure the attitude towards an issue. Section B of the questionnaire surveyed business information of the SMEs and their management using nominal scales.

Data were analysed using a statistical computer package, STATISTICA version 10. Prior to conducting the Exploratory Factor analysis (EFA), the assumption for conducting an EFA was met: a sample size of more than 200 respondents, the sample being homogeneous, and only correlations between variables of higher than 0.4 were considered, as well as all outliers removed. Data normality was established by conducting the Kolmogorov-Smirnov test.

With all the assumptions met, a principal component EFA (varimax rotation) was carried out to extract the constructs, and assess the validity of the constructs in the measuring instrument. Variables with an Eigenvalue of more than 1.0 were retained (Costello &

Osborne 2005:5). Only item factor loadings above 0.4 were regarded as significant (Hair, Black, Babin, Anderson & Tatham 2006:113). Cronbach's alpha coefficients were calculated for the full sample to verify the consistency of the inter-item reliability of the research instrument with 0.6 being regarded as an acceptable level of reliability for constructs (Suhr & Shay 2009:2). Constructs with less than three items were regarded as weak and unstable (Costello & Osborne 2005:3) and were disregarded. Descriptive and inferential statistics were calculated, with statistical significance measured at the 5% confidence levels.

7. SAMPLE DESCRIPTION

Table 2 depicts the business information of the SMEs, as well as the position of the respondents surveyed.

TABLE 2: Biographical data of sample surveyed

Demographic categories	Frequency	Percentage
Position in the business		
Owner	161	42
CEO	13	3
Middle management	127	33
Supervisor	83	22
Years in business		
Less than 3 years	59	15
3 - 5 years	99	26
6 - 10 years	129	34
More than 10 years	97	25

Demographic categories	Frequency	Percentage
Industry		
Manufacturing and processing	48	13
Business services	97	25
Trade (retailing/wholesaling)	65	17
Hotels and restaurants	52	14
Agriculture and forestry	20	5
Education	69	18
Insurance	9	2
Health and social works	24	6
Business size		
Very small (5-20 employees)	310	81
Small (21-49 employees)	48	12
Medium (50-200 employees)	26	7

From Table 2, most respondents surveyed were business owners (42%), followed by middle-level managers (33%), supervisors (22%) and CEO's (3%). Most of the SMEs (34%) had been in existence between six and 10 years, 26% had been in existence between three and five years, 25% had been in existence for more than 10 years, while only 15% have been in existence for less than three years. Most SMEs were service businesses (25%), in education (18%), the trade (17%), hotel and restaurants (14%), as well as manufacturing and processing (13%) sectors.

A few SMEs were in the health and social works (6%), agriculture and forestry (5%) and insurance (2%) business sectors. The vast majority (81%) of businesses were very small

employing between five and 20 employees, with 13% being small businesses employing between 21 and 49 employees. Few businesses (7%) had more than 50 full-time employees (medium-size businesses).

8. EMPIRICAL RESULTS

8.1 Validity and reliability of the measuring instrument

Table 3 depicts the principal component factor matrix for the variables measured in the study. A total of four independent variables (*business operation requirements, stakeholders' expectations, industry norms and media power*) and one dependent variable (*ethical business conduct*) were extracted from the EFA. Only those items with factor loadings above 0.4 are indicated in the matrix.

TABLE 3: Principal component factor matrix for the five variables

Items	Business operation requirements	Stakeholders expectations	Industry norms	Media power	Ethical business conduct
LR1	0.583				
LR2	0.693				
LR3	0.678				
LR4		0.537			
LR5	0.550	0.412			
SE6		0.406			
SE7		0.513			
SE8	0.448				
SE9	0.616				

Items	Business operation requirements	Stakeholders expectations	Industry norms	Media power	Ethical business conduct
SE10	0.582				
IN11		0.752			
IN12			0.693		
IN13			0.730		
IN14			0.690		
MP16				0.471	
MP17				0.765	
MP18				0.798	
MP19				0.742	
MP20				0.713	
EBC21					0.598
EBC25					0.624
EBC26					0.576
EBC27					0.674
EBC28					0.723
EBC29					0.689

Key: LR= Legal business requirements; SE = Stakeholders expectations; IN = Industry norms; MP = Media power; EBC = Ethical business conduct

As can be seen in Table 3, of the retained variables, some items were regrouped, and some variables required renaming, as the retained items did not fit into the variable description.

Item LR5 with cross-loadings were disregarded from further analysis (Hair *et al.* 2006:741) to ensure discriminant validity.

Three of the five items intended to measure *legal business requirements* were retained with factor loadings above 0.4, while three items intended to measure stakeholders expectations also loaded onto the construct. Based on the EFA this construct was renamed to *business operation requirements*.

The Cronbach alpha value of the six retained items in the business operation requirements construct is 0.711, indicating sufficient evidence of the reliability of the scale. This construct explained 24.82% of the variance in the data. Only two of the five items loaded as expected onto the *stakeholders' expectations* construct, together with one of the industry norm items and one of the business operation requirements items. This construct did not require renaming as both items fit into the construct description. The Cronbach alpha value of the four retained items in the stakeholders' expectations construct is 0.559, thereby providing insufficient evidence of the reliability of the scale (< 0.6 the cut-off point for this study) and was thus eliminated from further analysis.

Three items of the five items intended to measure *industry norms* had factor loadings above 0.4. This construct explained 42.70% of the variance in the data. The Cronbach alpha value of the construct is 0.618 indicating sufficient evidence of the reliability of the scale. All items intended to measure *media power* loaded onto the construct with factor loadings above 0.4.

This construct explained 36.03% of the variance in the data and reported a Cronbach alpha value of 0.776 that is sufficient evidence of the reliability of the scale. Only six of the ten items that measure *ethical business conduct* had factor loadings above the cut-off point of 0.4. *Ethical business conduct* explains 27.84% of the variance in the data.

The Cronbach's alpha coefficient for *ethical business conduct* is 0.749, suggesting that the items used to measure this construct are deemed an indication of the reliability of the scale.

8.2 Results of the descriptive statistics

Table 4 shows the results of the descriptive statistics of the retained constructs.

TABLE 4: Descriptive statistics of the retained constructs

Variables	Mean	Standard deviation
Business operation requirements	4.38	0.55
Media power	3.12	0.90
Industry norms	3.70	0.78
Ethical business conduct	4.21	0.57

As depicted in Table 4, SME management seems to adhere to business operation requirements and industry norms (means of 4.38 and 3.70 respectively). These findings are in congruence with literature, where several authors (e.g. Cambra-Fierro *et al.* 2008:653; Hill 2013:1; Velentzas & Broni 2010:802) indicate that business operation requirements and industry norms play an important role in behaving ethically in business. SME management was neutral regarding using the media to guide ethical business behaviour.

All the standard deviations were relatively low (varying from 0. 558 to 0. 90) which indicates low response variances.

8.3 Results of the Pearson product moment correlation

Table 5 depicts the Pearson moment correlation matrix for the dependent variable, *ethical business conduct*, and the independent variables.

According to Cohen (1988:77), the strength and the direction of a linear relationship are measured by the correlation coefficient r . A correlation coefficient of $r = 0.10$ represents a positive weak or small association; a correlation coefficient of $r = 0.30$ is considered a positive moderate correlation; and a correlation coefficient of $r = 0.50$ or larger represents a positive strong or large correlation.

TABLE 5: Pearson product moment correlation matrix

Factors	EBC	BOR	IN	MP
Ethical business conduct (EBC)	1.000			
Business operation requirements (BOR)	0.504	1.000		
Industry norms (IN)	0.364	0.311	1.000	
Media power (MP)	0.383	0.292	0.324	1.000

Note: $p < 0.05$

The Pearson product moment correlation shows that *business operation requirements* ($r = 0.504$) reported a positive strong correlation, while *industry norms* ($r = 0.364$) and *media power* ($r = 0.383$) reported positive moderately correlations with *ethical business conduct*. A survey amongst Zimbabwean SMEs found that ethical issues can arise when businesses must comply with multiple *legal requirements* (Nyamwanza, Mavhiki, Mapetere & Nyamwanza 2014:3).

Business operation requirements also reported moderate associations with *industry norms* ($r = 0.364$) and *media power* ($r = 0.383$). *Industry norms* also reported moderate associations with *business operations requirements* (0.311) and *media power* ($r=0.324$).

Based on the moderate associations, it may mean that the SME management may at times regard *business operation requirements* as driven by *industry norms* or that the *media* may play a role in setting *industry norms* for ethical business conduct. Business operation requirements reported a weak association with media power ($r=0.292$).

8.4 Results of the multiple regression analysis

It is necessary to establish whether the data is free from multi-collinearity prior to multiple regression analysis testing. Nimon, Henson and Gates (2010:707) regard proper multi-

collinearity diagnostics important since extremely correlated predictor variables usually measure the same theoretical concepts, thereby complicating results. A tolerance value of less than 0.1 indicates a serious collinearity problem during multi-collinearity diagnostics analysis. In addition, when the Variance Inflated Factor (VIF) values are greater than 10, there is cause for concern. Table 6 indicates the results of the multi-collinearity diagnostics analysis test performed for business environment variables.

TABLE 6: Results of the multi-collinearity diagnostics test for business environment variables

Business environment variables	Multi-collinearity statistics	
	Tolerance value	VIF
Business operation requirements	0.745	1.340
Industry norms	0.867	1.152
Media power	0.853	1.171

The tolerance values depicted in Table 6 for the external factors vary from 0.745 to 0.867 (all higher than the minimum limit of 0.1). The VIF values for all the variables are less than 10, indicating that there are not high correlations between the external environment variables; hence the data set is free from multi-collinearity problems and enabling multiple regression analysis.

Table 7 shows the results of the regression analysis and testing of significant relationships between the selected valid and reliable independent variables (business environment) and the dependent variable (ethical business conduct). According to Lee (2014:504), R^2 statistics of less than 0.10 would usually not be seen to respectively show either fit a linear model or report strong linear relationships, when interpreting regression results.

TABLE 7: Multiple regression analysis and testing of significant relationships

Dependent variable: ethical business conduct			R ² =	Hypotheses	Hypotheses outcome
0.340					
Independent variables	Beta	T-value	Sig. (p)		
Business operation requirements	0.046	8.643	0.000*	H ₁	Accepted
Industry norms	0.032	3.848	0.000*	H ₂	Accepted
Media power	0.028	4.733	0.000*	H ₄	Accepted

Note: * p < 0.001

The results of the multiple regression analysis show that the independent variables (*business operation requirements, industry norms, media power*) explain 34% ($R^2 = 0.34$) of the variance in SMEs' *ethical business conduct*, thus adequate for prediction purposes (Lee 2014:504). These results indicate there are statistically significant relationships ($p < 0.001$) between these independent variables and the dependent variable SME *ethical business conduct*, and thus all three hypotheses are accepted.

The findings show that SMEs regard adherence to business operation requirements as complying with business laws and regulations such as being environmentally responsible and considering the impact of their activities as essential ethical business behaviour. SMEs further regard adherence to industry norms by meeting industry standards, communicating their business values to external stakeholders and only engaging in industrial espionage to remain competitive, as important to be considered an ethical business.

These empirical findings are in congruence with literature findings (Chun, Shin, Choi & Kim 2013:858; Miller & Cross 2012:155) that adhering to business operation requirements and industry norms promote an ethical business climate. It seems that the SME management in this study also utilise the media to advertise their business values regarding the selling of

quality products and services and their commitment to improving the lives of their local community by not just focusing on short-term gain but on the outcome of their actions. SMEs also appear to utilise the media to expose unethical employee- or competitor behaviour to show their commitment to behaving in an ethical manner.

They further use the media to inform customers about what may affect them negatively to strengthen their ethical business reputation. This empirical finding is in congruence with Choi and Sipkova's (2009:14) observation that publicising unethical behaviour in the media promotes an ethical business environment for SMEs, as well as large businesses.

9. MANAGERIAL IMPLICATIONS

The importance of the three business environment factors (*business operation requirements, industry norms, and media power*) as influential to SMEs *ethical business conduct* in Uganda has been confirmed. For this reason, SMEs in Uganda, or probably in any developing country, should ensure they meet all business operation requirements by ensuring they register their business with the authorities and obtain a trading license to conduct a lawful business. The business should further be committed to paying their taxes and adhering to generally accepted accounting principles.

Mohd Ghazali and Ismail (2013:285) confirmed that strict adherence to business regulations is essential in promoting an ethical business climate. SME management should adhere to labour laws and not use child labour, and ensure employees work in a safe environment and have job security. By operating in an ethical business manner may increase employee commitment to the business, reduce employee turnover and motivate them to meet their performance targets.

It is also important for SMEs to carefully select their suppliers to provide safe products and those easy to recycle and reuse, as it shows that the business is committed to ethical environmental business standards. Doing so can assist SMEs to build an ethical business reputation, as customers will view the business as having sound ethical business principles geared towards environmental preservation. The customer base can increase if attracting more environmentally conscious customers.

In addition to adhering to business operation requirements, SMEs should ensure their businesses strictly adhere to industry standards as established by national legislation with regard to raw materials usage, performance and weight of products, and the required health and safety procedures prescribed. Adherence to these industry standards can instil customer confidence in that the business offers safe and reliable products. Their ethical business values should be communicated to stakeholders by displaying them in their SME workplace. Employees, suppliers, and customers will be able to see the SME's commitment to follow moral and ethical business conduct principles. SME management should also familiarise themselves with their competitors' plans and strategies. They could engage in "industrial espionage" through ghost shopping to ensure they remain competitive. Gangone (2011:192) regarded it as an acceptable business practice, especially for a transnational business wanting to remain ahead of their competitors.

SMEs should utilise the media to instil ethical values and thinking in employees. From the empirical results, it was clear that Ugandan SMEs regard the media as a tool to expose unethical business behaviour. The SMEs could advertise their business values in media to increase their business reputation and customer base.

Timbäck, Faber and Olsson (2010:35) point out that publishing business values in media can enable stakeholders to make a decision whether they wish to be associated with the business. SME management could inform customers via media reports about products that could be harmful or issues that may affect them negatively. This will show customers they can be trusted in their business dealings. SMEs should utilise media to expose irresponsible behaviours of both employees and competitors. This can help to guide their employees' behaviour on what is acceptable behaviour, or not, and prevent competitors from behaving unethically. Fulgoni and Morn (2009:136) reiterate the importance of media in bringing forth information on what is acceptable ethical behaviour.

10. LIMITATIONS AND FUTURE RESEARCH

The findings in this study pose some limitations, which however can serve as the basis for future research. If surveying the perceptions of employees, the results might differ as they may perceive the business environment factors influencing ethical business conduct and the

ethical business conduct within their place of employment, not the same as management. In addition, the development of the research instrument may have included generic variables applicable to business in general and not just specific to SMEs as not much information is available on SME ethical business behaviour. Notwithstanding the limitations highlighted, this study contributes to the limited body of knowledge of the ethical business behaviour of SMEs. It is anticipated that this study could serve as a basis for comparison in future studies in other developing countries or even be compared to those in developed countries.

11. CONCLUSION

SMEs like any business regardless of size should be cognisant of the influence of the business environment on their ethical business conduct. This study identifies three specific business environment factors (adherence to business operation requirements and industry norms as well as using media power) to promote ethical business behaviour or expose unethical business behaviour, as influential factors for driving ethical SMEs business conduct within Uganda, a developing country. SMEs should ensure their businesses meet all legal operational requirements and adhere to prevailing industry norms. This will send a strong message to suppliers and customers alike that the business is serious about behaving ethically. They could in addition voice their ethical values in the media to further confirm their ethically business behaviour stance.

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