

SOUTH AFRICAN SMMES

AND THEIR ETHICAL ECOSYSTEM

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Why did we do this study?



South Africa's future depends on the sustainable success of small, medium and micro enterprises (SMMEs). SMMEs are key drivers of economic growth, innovation, and job creation. Given that many SMMEs are black-owned, a flourishing SMME sector is critical for transformation and the correction of historical wrongs. The sustainable success of SMMEs is, in turn, dependent on an ecosystem – a network of honest, fair, and responsible relationships with stakeholders, including investors, employees, customers, suppliers, and broader society. Such an ecosystem supports the interaction, resource exchange, and institutional involvement that is essential for SMMEs to thrive. Therefore, the ethical health of this system is fundamental to its effective functioning.

In South Africa, there is a growing focus on the issues and challenges that beset the entrepreneurial ecosystem. In December 2020, the government drafted the National Small Enterprises Amendment Bill to address the unethical treatment of small businesses and help level the playing field with big businesses. In November 2020, the SA SME Fund, Business Leadership South Africa, and Business for

South Africa launched the #PayIn30 campaign with the aim of institutionalising a culture of paying within 30 days¹. To date, around 60 leading companies have signed up. These are important developments, but much more work is required to develop a more ethical ecosystem for the SMME sector.

Consequently, the purpose of this study was to better understand the opportunities, issues, and challenges facing the entrepreneurial ecosystem from an ethical perspective. The study reports on the perception of SMME founders, who are at the heart of such an ethical system. While we may not agree with everything these founders say, their perceptions about the honesty and fairness of the interactions in the ecosystem drive their thinking and behaviour. In this way, perceptions influence the current functioning and future development of this critical sector. Not only does the Gordon Institute of Business Science (GIBS) Ethics SMME Barometer aim to produce findings and insights about the current ethical ecosystem, it aims to generate and disseminate effective ethical solutions, thereby contributing to the success of the SMME sector and, indeed, broader business and society.

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References

¹ <https://sasmefund.co.za/payin30/>

What does prior research tell us about ethics in entrepreneurial ecosystems?



Previous scholarly work on ethics and entrepreneurship has explored the individual, organisational, and societal aspects of ethical questions facing entrepreneurs (Vallaster et al., 2019). In addition, there is a newer, but robust body of knowledge relating to the nature and functioning of entrepreneurial ecosystems.

At the individual level, there has been a focus on ethical differences between entrepreneurs and managers (Harris et al., 2009). Some scholars have found entrepreneurs to be more sensitive to ethics because their own capital is at stake, thus they face higher risks (Bucar & Hisrich, 2001). Other scholars have found that a bias towards action (Hannafey, 2003) and the drive to succeed may cause entrepreneurs to override ethical considerations, and that entrepreneurs are more likely to break rules (Harris et al., 2009). Considerable heterogeneity has been found in how entrepreneurs make ethical decisions, and it may be that there are more differences between individual entrepreneurs than between entrepreneurs and the general population (Harris et al., 2009). Moreover, relationships can often be a potent source of ethical conflict, especially if entrepreneurs behave in ways that could be interpreted by others as transactional or instrumental (Hannafey, 2003). What is unclear is how individual entrepreneurs see themselves in relation to the ethical ecosystems in which they operate, especially in the developing country context.

On the organisational level, research has focused on how ethical structures are built in emerging firms (in contrast to established organisations) and how these structures evolve with time as the organisation evolves. Start-ups may also have characteristics, such as limited cash flow, that might influence entrepreneurs' ethical decisions (Hannafey, 2003). Literature has yet to investigate the nature of the relationships between entrepreneurial organisations and the ecosystems in which they operate from an ethical perspective.

Other studies focus on ethical considerations that arise from the environment of entrepreneurship. These contributions tend to approach the topic from a broad, macro-level perspective, considering the influence of ethics and entrepreneurship on society and economic development (Vallaster et al., 2019). This approach also considers the impact of rapidly changing variables in the external environment on ethical decision-making for entrepreneurs and their ventures. Several papers in this domain are based on the concept of stakeholder theory (Vallaster et al., 2019), but do not specifically focus on the ecosystem of analysis.

Entrepreneurs in developing countries may face unique ethical dilemmas that arise from the nature of the business environment (Sackey et al., 2013). Studies in emerging economies have found that practical moral norms are fluid and contextual to sectors and locations, requiring a pragmatic, flexible approach by entrepreneurs (Hannafey, 2003). What is not known is how entrepreneurs view the ethics of the ecosystems in which they operate.

Entrepreneurial ecosystems, defined as “a community of multiple co-evolving stakeholders that provides a supportive environment for new venture creations within a region” (Cao & Shi, 2021, p. 75) have been demonstrated to play an important role in entrepreneurial development. In general, entrepreneurial ecosystems are defined by three key characteristics or types of logic: the support logic, which relates to how stakeholders in the ecosystem interact with each; the resource logic, which considers how entrepreneurs curate and exchange resources in pursuit of entrepreneurial activity; and the design logic, which considers how ecosystems can be designed and managed (Cao & Shi, 2021). In considering how to nurture entrepreneurial ecosystems, we argue that ethics underpins the way stakeholders interact, the way resources are allocated, and the way that governance is enacted, and therefore underpins the viability of the whole.



Research design and methodology

The study adopted a cross-sectional self-completion survey research design. The population for the study documented in this report comprises over 30 000 SMMEs from various privately held databases accessed by the research team. Each potential participant received an email with a link to the survey. The survey was accessed by 587 individuals, resulting in 312 usable responses.

A limitation of the study is that voluntary sampling is susceptible to bias, since those interested in responding to an ethics survey may have different views to those who do not. Furthermore, responses to ethics surveys may be vulnerable to “social desirability bias”, whereby respondents answer according to what they believe to be the “right” answer. This tendency is reduced because the survey is online and anonymous, rather than the data being collected face to face. Moreover, we contend that even understanding these potentially skewed perceptions can provide useful insight into how entrepreneurs are thinking about the ethics of stakeholders in their ecosystem.



Survey instrument

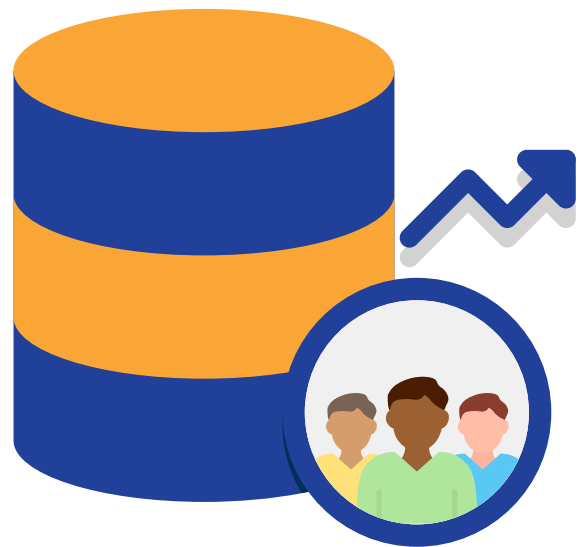
The GIBS Ethics Barometer survey instrument, as described in Appendix B, was adapted to consider the circumstances faced by SMME founders in the South African context. This involved scanning academic peer-reviewed literature relating to entrepreneurial ethics and the popular media to ensure that all relevant issues were incorporated into the instrument. We used the GIBS Ethics Barometer survey for two reasons. First, the instrument is based on a global benchmark developed by Harvard Business School, which describes widely endorsed standards for ethical business conduct. Second, over time, the instrument will allow us to compare SMME perspectives to those of corporates in South Africa, thereby providing a holistic picture of the ecosystem.

The survey instrument was organised into two main sections, namely SMME-specific practices and overall perceptions of the ethical behaviour of SMME stakeholders. The responses to these questions provided the quantitative data analysed for this report. In addition, for each of the main sections, participants were given the opportunity to provide open-ended comments, resulting in 614 meaningful verbatim comments, which make up the qualitative data analysed for this report. The self-completion surveys were distributed electronically.

Quantitative and qualitative data analysis

The completed questionnaires were captured, cleaned, and checked before being coded and analysed. A full set of descriptive statistics was prepared by the research team. This data and analysis form the basis of this formal report and the conclusions drawn.

To protect the identity of the respondents, the qualitative data was analysed separately from the quantitative data. The qualitative data was analysed using Atlas.ti, a qualitative data analysis software program. The researchers conducted a preliminary coding and sorting of the data to ensure that it aligned with the key constructs, which formed the foundation of the Ethics Barometer study, where relevant. At this point, an initial set of “exemplary” verbatim quotations was identified. These quotations were selected to highlight and illustrate key findings from the quantitative study.



Ethical considerations

The respondents were protected from harm throughout the research process by adhering to the principles of good ethical conduct, as defined by the University of Pretoria’s guidelines and approved by the GIBS Ethics Committee. All respondents in this study were anonymous – no names were requested in the survey questionnaire. Any references made in the qualitative data that could identify individuals or organisations were

deleted or anonymised. As part of the questionnaire, the study purpose and how the information was to be used were explained to the participants. The principle of voluntary participation based on informed consent was applied in the case of each questionnaire completed. No incentives were offered for participation in the survey.

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WHO PARTICIPATED IN THE SURVEY?

Link sent to 30 000+ SMME listed on various databases	587 SMME founders or owners accessed the survey	312 complete responses were collected and formed the quantitative data	614 verbatim comments from open-ended questions formed the qualitative data
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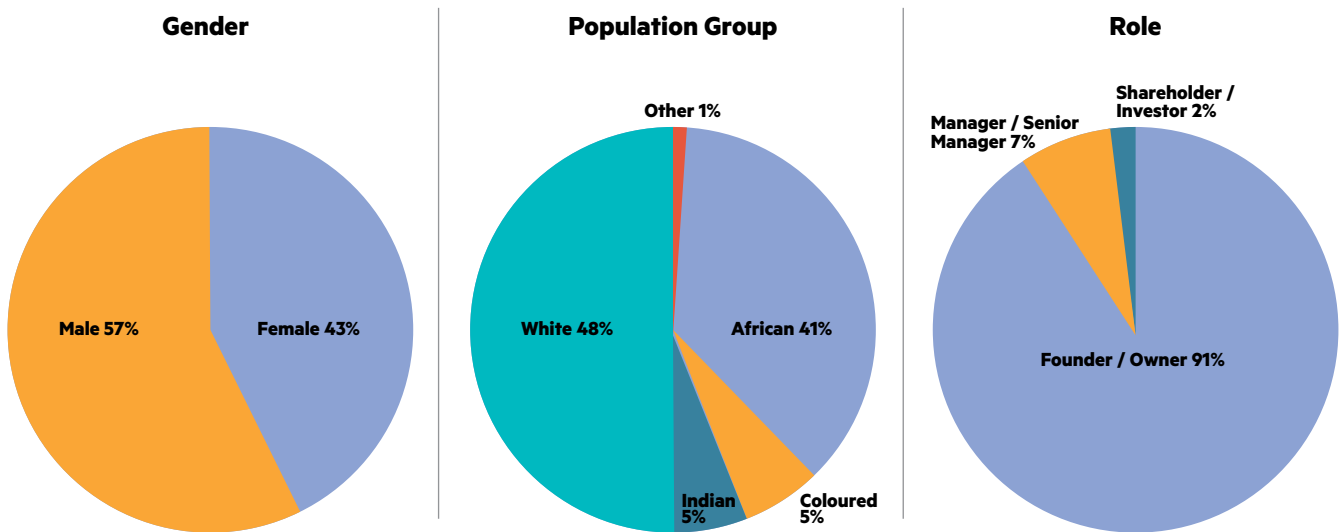


Figure 1: Personal demographics of respondents

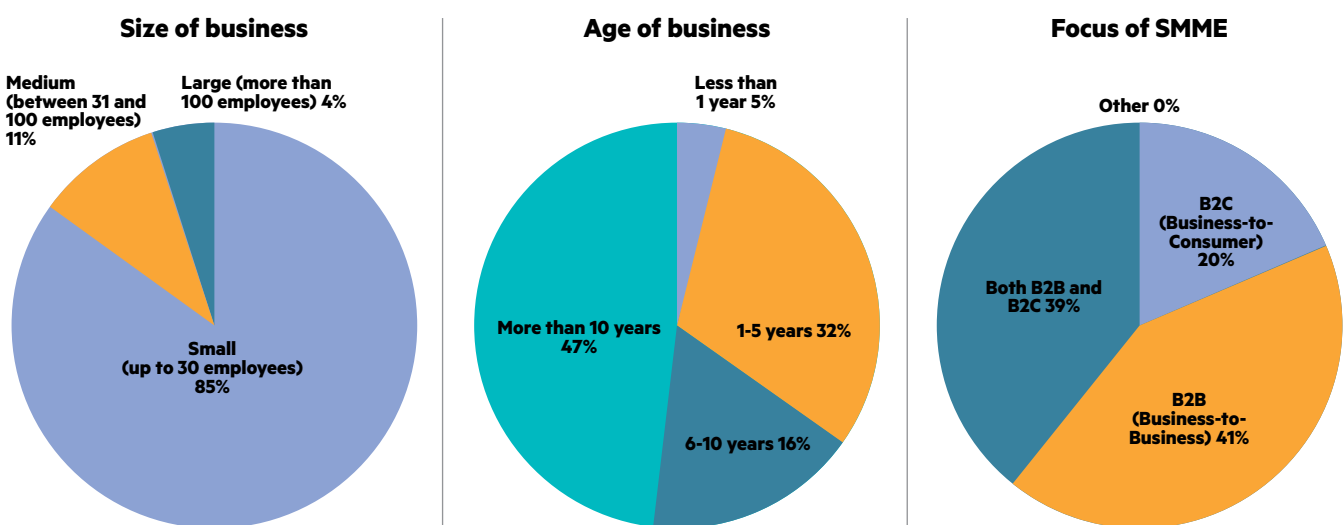


Figure 2: Business demographics of the sample

Insight #1:

SMME founders set the ethical tone, but may sometimes be forced to act in contravention of personal values



Prior research (Hammann et al., 2009) has shown how founders' personal values influence the culture and operations of entrepreneurial businesses, which impact the ethical norms and practices of all employees. The ranking of the study's participants' particular personal values (Rokeach, 1979) revealed that "ambitious" was ranked highest by respondents, followed by capable, which is suggestive of the level of self-efficacy that

is usually associated with established entrepreneurial founders (Newman et al., 2019). The values of "honest" and "responsible" are well aligned with ethical behaviour, while "broad-minded" is indicative of the cognitive flexibility associated with entrepreneurial success (Haynie & Shepherd, 2009). The full list of 20 values, as ranked by the respondents, is outlined in Table 1.

Value	Overall Rank
Ambitious (i.e., hard-working, aspiring)	1
Capable (i.e., competent, effective)	2
Honest (i.e., sincere, truthful)	3
Responsible (i.e., dependable, reliable)	4
Broad-minded (i.e., open minded)	5
Courageous (i.e., standing up for your believes)	6
Independent (i.e., self-reliant, self-sufficient)	7
Logical (i.e., consistent, rational)	8
Helpful (i.e., working for the welfare of others)	9
Self-controlled (i.e., restraint, self-disciplined)	10
Intellectual (i.e., intelligent, reflective)	11
Imaginative (i.e., daring, creative)	12
Clean (i.e., neat, tidy)	13
Cheerful (i.e., light-hearted, joyful)	14
Polite (i.e., courteous, well mannered)	15
Forgiving (i.e., willing to pardon others)	16
Obedient (i.e., dutiful, respectful)	17
Loving (i.e., affectionate, tender)	18

Table 1: Personal values ranked by importance to SMME leaders

Personal values clearly play a role in the thinking and behaviours of entrepreneurs in this study, as illustrated by the following qualitative comments:

I'm witty, ambitious and honest in my dealings. I'm able to make something out of nothing. I'm not afraid to express my feelings when my rights are trampled. I'm brave to talk to senior CEOs in big companies to get what I want. It's difficult but doable.

In my work, I'm trying to be honest in everything, because I know what is wrong and what is right. So, I want the best in my business.

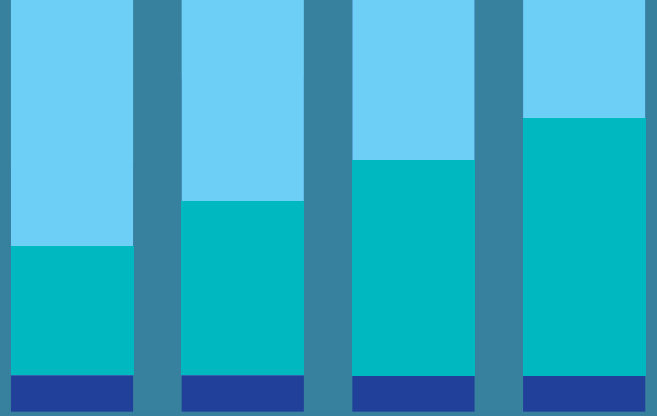
In this study, although majority of respondents (59%) felt that there is a tension between personal values and the decisions sometimes required for a business to survive, the respondents confirmed that the founder or leaders of the SMME set the ethical tone for the behaviour of the organisational members. Qualitative comments from respondents demonstrate the role of the leader in modelling desired ethical behaviours:

Ethical behaviour starts with the owner of a small business. If they are unethical, the business will inevitably fail because they will be uncovered eventually.

Leadership that promotes team safety creates an enabling and powerful environment for team members. Challenges develops members, whilst maintaining discipline, fairness, and ethical conduct and accountability (including on the part of the owners/senior leadership).

The moral compass of any business/business unit is set by the head. Corruption is not taught! Our 20 years in business has clearly shown that true moral consideration might "cost" you in the short term, but if that is one of the pillars of the business, you have to maintain this transparent honesty to all, all the time, even in these difficult times where the business has to reduce, retrench, and change working contracts with long-standing loyal staff.

Founders' personal values are formed by the challenges of start-ups and their influence on the development of the capabilities required for success, as evidenced by prior research. In addition, it is clear from literature that the founders' personal values are recognised as central to the ethical behaviour of the individual leaders and, by extension, of the organisations. Consistent with prior research, this study suggests that the personal values held by individual entrepreneurs are supportive of ethical cultures and behaviour in South African SMMEs. However, respondents reported that sometimes it might be necessary or desirable to act against their personal values when the survival of the enterprise is at stake.



Insight #2:

SMMEs may be more demanding places to work, but good employees are nurtured

In this study, 70% of respondents agreed that, as a rule, small business is fair in its dealings with employees. This is reflected in the mixed views of respondents relating to the statement that “Small businesses are often unreasonably demanding of their employees”. While only a third of participants agreed with the statement and 40% disagreed, a further 29% reported ambivalence about the issue, as illustrated in Figure 3.

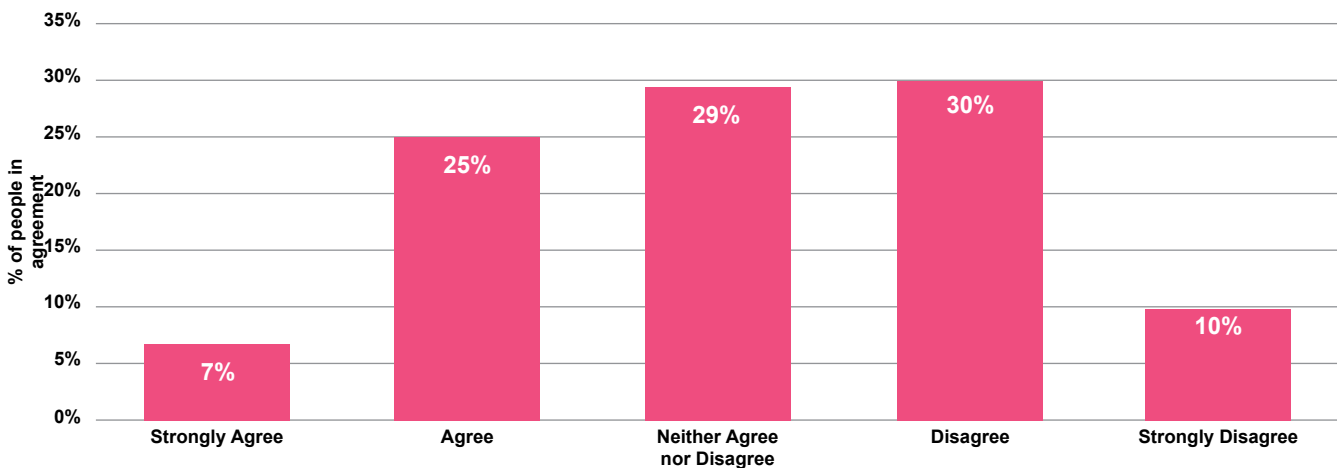
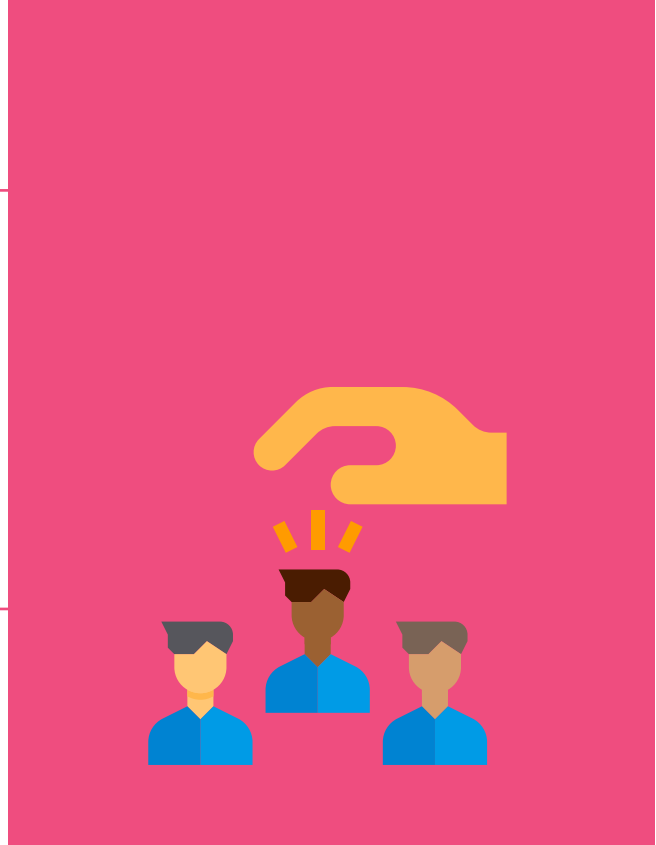


Figure 3: Agreement with the statement “Small businesses are often unreasonably demanding of their employees”

However, SMMEs generally agreed (55%) that “small business owners expect their employees to work as hard as if they own the company, even when they don’t”. Moreover, the majority (62%) agreed that small business owners “prioritise the needs of customers, even when this is at the expense of employees”. SMME leaders clearly expect a lot from their employees, a view which is supported by the following qualitative comments:

I expect only the best from my staff and pay above market rates plus a profit bonus to sustain it. It’s important to respect them as much as you expect them to respect you.

Although we don’t necessarily expect employees to work as if they own the company (even if they don’t), we do expect them to work harder and take more ownership of their responsibilities than their corporate counterparts, because the margins are so low in a small business. The chances of them losing their jobs or the company closing down altogether are much higher in a small business.

Nevertheless, SMME founders see themselves as more caring than large employers and feel a personal responsibility for their welfare. This is evident in how employees were treated during the COVID-19 pandemic.

Staff at the lower end of the scale were unaffected. We did this to avoid retrenching anyone and believe that the decision was justified. Most staff subsequently earned the same or more than they would have in 2020. Our rapid response and cost-cutting measures together with an obsession to deliver good service stood us in good stead and will hopefully continue in future.

SMME founders in this study believe they treat employees fairly, even though they expect them to work hard. Despite this, it is thought that employees are treated with a greater degree of care and concern, even when times are tough. This concern relates to both a sense of personal responsibility for their well-being, but also stems from the founders’ awareness of the businesses’ dependence on key employees. Furthermore, it may be the case that employees are physically closer and may develop stronger bonds.

Insight #3:

Ethics are essential for SMME survival, but sometimes a luxury

The results reveal that ethical standards and behaviours are important to SMMEs in terms of their dealings with all stakeholders, especially external stakeholders. Moreover, respondents strongly believe that small business is fair in its dealings with these stakeholders, with majority agreeing or strongly agreeing that SMMEs are fair to customers (82%) and suppliers (82%).

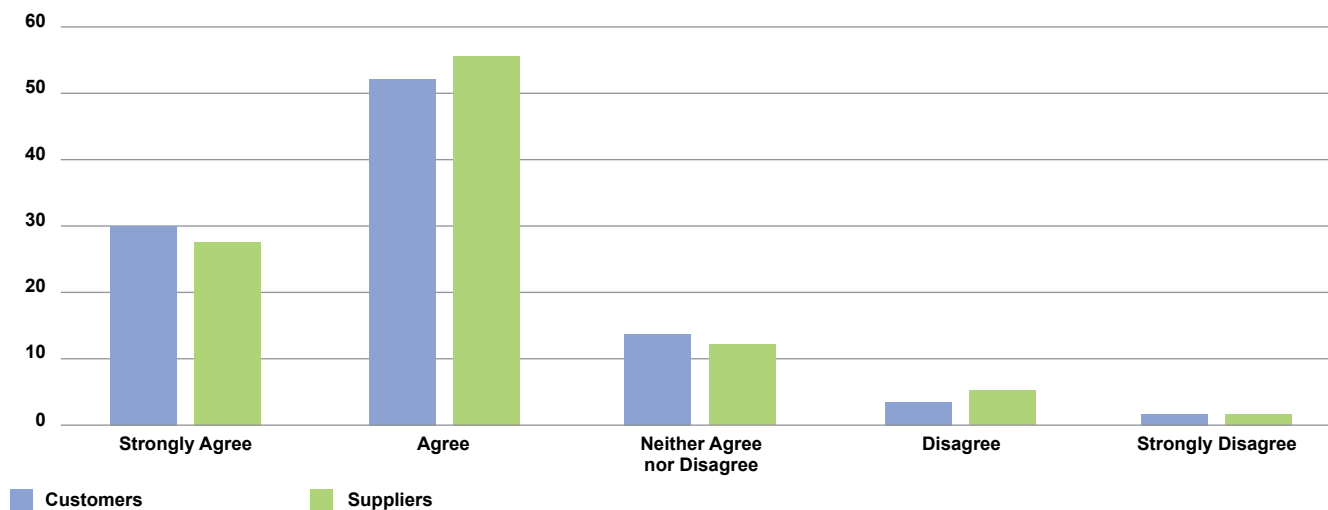
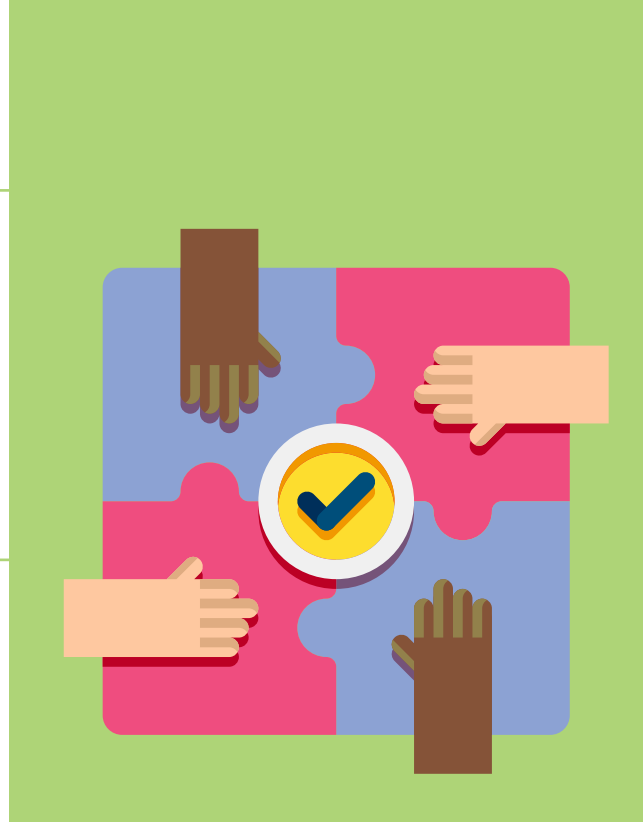


Figure 4: Agreement with the statement “Small business is fair in its dealings with customers and suppliers”

Respondents also commented on the importance of ethical behaviour in maintaining sound relationships with customers and suppliers. These relationships represent the lifeblood of the business, and must be built on mutual trust and respect.

However, most small businesses is very reliant on trusted suppliers, customers, and staff, and put far more effort into providing good service and keeping good relationships.

In a small business, trust relationships with suppliers are more important than [the] lowest cost, as are customer relationships.

Small businesses are generally more intricately involved with their customers who have a large “voice” through social media. As a result, unethical behaviour is likely to catch up and less likely to happen.

Many respondents asserted that ethical behaviour is a way of life for them and critical for the long-term sustainability and success of the business:

[I] can’t speak for others – we have a simple ethic of “fair exchange” that applies to every relationship internally or externally. Integrity, transparency, excellence and respect are non-negotiable.

I can only relate to my personal experience – successful business heavily depends on integrity.

Additionally, there was a strong sentiment among the study's participants' that small businesses cannot afford to be unethical, either because they do not have the cash or because the consequences of dishonesty are too significant to be survived. Only 30% of the participants agreed with the statement that "Sometimes making ethical decisions is a luxury that small businesses cannot afford":

As a small company – you have to do things 100% ethically – you cannot afford to do anything unethical.

Small businesses can rarely, if ever, afford to “buy” work, even though this is expected by potential clients. Unethical undercutting of rates and projects in order to secure work – particularly prevalent with naive clients as this leads to cost overruns and potential project failure – affects current competitors and future client success.

Small business [is held] to a higher standard than large corporates as we have to have all sorts of documentation, which also includes tax clearance and if you don't pay your VAT on time or do anything relating to SARS on time, you will not get tax clearance and for any of the larger corporate to deal with you, you need tax clearance.

Almost two thirds (65%) of respondents disagreed that “The practice of giving expensive gifts to customers and receiving them from suppliers is a normal part of doing business.” However, several respondents noted that there was sometimes a cost associated with ethical behaviour in terms of lost opportunities, especially those involving large-scale contracts, where it is apparently relatively common to be asked to pay bribes to win the business.

In 40 years, I always walked away from business where a bribe was expected. [I] probably “lost” a lot but sleep very well at night. In 2014, I resigned from a company that I helped to establish 20 years earlier, sacrificing a part-time income of R20 000pm because I could no longer associate myself with the direction it was taking.

I speak from experience when I say I lost a 100 million contract over not paying for 2 million school fees ... at the time, I felt sure of my ethical decision, now as I struggle to keep my head above water I question what was R2 million in the bigger scheme of things.... Financial pressure makes you rethink your ethics as you struggle to pay salaries and your own kids' school fees.

I have lost very large contracts because I was unwilling to “play the unspoken game”. Nearly all clients expect something in return unless they have very strict procurement and gifting policies. But the line is very grey. It entirely depends on the person you are dealing with.

“You have stupid honest and then honest companies. Being stupid honest when most corporates lack ethics is just plain stupid.”

As a result, some respondents felt that balancing ethical ideals with the realities of doing business was a more pragmatic approach for SMMEs in the current context, where the odds of survival seem to be stacked against entrepreneurial firms:

You have stupid honest and then honest companies. Being stupid honest when most corporates lack ethics is just plain stupid.

These questions are biased towards the behaviour rather than the requirements to be a small business. It is almost true to say that a small business has to ignore regulations and morality to survive.

Small business has been forced into survival mode recently and complying with onerous regulations and business practices will actually damage one's business.

Interestingly, for SMMEs in this sample, ethical business was considered to be more than simply representing good business practice – many considered ethical behaviour essential to their survival and future growth. As a result, founders claimed that they took particular care in matters of compliance, as well as ensuring that dealings with external stakeholders were scrupulously fair and honest. This formed a foundation of trust and respect that ensured the maintenance of good relationships with customers and suppliers. Nevertheless, respondents also noted that ethical behaviour could result in lost businesses, with some advocating a more pragmatic approach.

Insight #4:

SMMEs perceive that they are treated unethically by corporate customers



Since most respondents in the sample reported a business-to-business focus, either wholly (41%) or partly (39%), and there is much anecdotal evidence of the misuse of corporate power in the media, it is not surprising that the relationship between corporates and SMMEs is under the spotlight in this study.

The respondents stated that the mistreatment of SMMEs by large corporates is rife. Particularly problematic areas reported as being experienced “often” or “sometimes” by SMMEs included: onerous entry requirements making it difficult to be listed as a supplier (80%); late payments (77%); unfair compliance requirements (75%); abuse of power (73%); and unfair supplier selection (71%). These quantitative findings are illustrated in Table 2.

	Behaviour	Description	% of SMMEs that have experienced this	
			Sometimes + often	Often
1	Onerous supplier requirements	Potential corporate customers having overly onerous requirements, which make it difficult to be listed as a supplier	79%	41%
2	Paying late (> 30 days)	Our corporate customers paying us later than 30 days from the date of invoice	77%	39%
3	Unfair compliance requirements	Our corporate customers applying unfair compliance requirements that exclude us from certain opportunities	76%	37%
4	Abuse power	Our corporate customers abusing their power over us as small businesses	72%	31%
5	Unfair supplier selection	Our corporate customers selecting their suppliers in an unfair or irresponsible way	71%	32%
6	Breaking promises	Our corporate customers breaking their promises to us	69%	28%
7	Ambiguous contracts	Our corporate customer contracts worded ambiguously to favour their interests	67%	31%
8	Preventing market access	Our corporate customers signing long-term exclusive agreements with our competitors, which means we are prevented from entering a particular market	64%	29%
9	Forced contracts to get business	Being forced to enter into contracts that we know are unfair, just to get the business	61%	24%
10	Failing to disclose important information	Our corporate customers failing to disclose important information that could negatively affect our business	53%	18%
11	Retrospective changes to contracts	Our corporate customers making retrospective changes to contract terms that negatively impact our business	52%	22%
12	Misusing confidential information	Our corporate customers misusing confidential information that we provide them with	41%	15%

Table 2: Experience of mistreatment by corporate customers

Qualitative comments reveal that SMME founders believe that corporates restrict access to their markets by making supplier entry requirements overly onerous, often without a return on the investment in time and money required:

The cost of achieving and maintaining these certifications is never recovered as jobs are not guaranteed even as an approved vendor. We've in instances spent hundreds of thousands of rand, employed optimally skilled expensive experts, obtained the requisite vendor status and still not received any orders....

Big suppliers asking for financial instruments that are exorbitant and wanting trade references that are impossible to have as new entrants. My company has been new since I started in 2006. I have to work with big suppliers in joint ventures, yet they take the credit because of their financial muscle. It's like an SME becomes an employee indirectly. SMEs are blocked....

In many cases, corruption in corporates is not public. In some cases, corporates intentionally frustrate procurement processes to prevent small business. Anti-bribery and corruption policies are not effectively implemented in corporates.



The problems do not end with access. Majority of SMME respondents reported experiencing late payments from clients, with “many corporates insisting on 90–180-day payments, which is entirely unethical”. Often, this causes severe cash-flow challenges:

Our business closed as a result of corporates taking more than six months before paying us. Then again, the contract terms favour them since they are not prepared to pay [a] minimum deposit upfront. Customers suddenly change terms and break their promises.

In the past year, we had to survive without corporate business. Most corporate companies did not pay us; to date, we are still trying to get paid for work done [in] January and February 2020. We spend much time and money in trying to get paid for services already rendered. It is really frustrating....

My argument has always been, once the work is done, I must pay my employees for work done on a monthly basis. Why should I subsidise multimillion- if not multibillion-rand company with my little resources? Most companies are a listed company that does not need to withhold small change from SMMEs, yet it happens day in and day out and under the watch of those in positions of influence. What a shame!

Our issue is payment on 60 days (like going to a restaurant and only paying 60 days later for the meal and service). Very unfair.

Even when payment terms are made explicit and agreed, negotiations are one-sided and delaying tactics are inevitably encountered, requiring more effort to resolve and causing ripple effects for SMME suppliers:

They make a minefield of documentation to get payment and they justify this, by spring, each document missing then goes on to the next month. If you get them all right and the VAT is one month old, they reject and you have to phone for hours to find out why they rejected your payment.

I agree to terms on a daily basis with corporates that affect my business. Two large clients pay up to 90 days, which means I have to have terms with my suppliers at 90 days, which affects cash flow severely and makes planning impossible. I constantly pay out for large corporates on their behalf, yet my own smaller suppliers I pay on receipt of invoice as that is fair practice.

Remuneration agreements are very one-sided. Penalty clauses [are] hugely unfair, but we are at large companies' mercy. They want 30% added to them for kickbacks. We now only work on cash in the bank before delivery. For example, [XYZ] took nine months to pay. This nearly killed us because someone had put “not regular important supplier”, so they had nine months to pay

Ever-increasing delays in paying invoices is a huge problem for small businesses. We have got good cash reserves, but have seen seven-day accounts with large corporates stretch to three or four months. Truly unethical! So, we are okay, but many others are truly struggling.

As a result, 72% of respondents reported suffering from abuse of corporate power. Some participants referred to bullying and intimidation by large corporates, especially concerning unfair contract negotiations, giving SMMEs “little or no choice but to comply”:

If these payment terms and other terms are not acceptable, I am told there are 400 other companies willing. Further, even after winning a contract, I am told I have to constantly pitch for existing work and supply strategic work for their consideration without compensation. Once again, if raised as an issue, I am told there are other agencies lining up.

Big bully tactics and practices that have historically been accepted by SMEs need to be challenged. The practices, if tested, will be mostly found to be incorrect.

Large South African companies apply patently unfair negotiation techniques with suppliers. Their market dominance allows them to force discounts and lopsided contracts. They are bullies.

The results of the study demonstrate that SMME founders in this survey believe they are treated unfairly by corporate customers. They cited onerous requirements for accessing supplier databases, which may be difficult to meet, especially for newer, smaller businesses. In the light of recent campaigns to correct the problem, the fact that late payments continue to be endemic in SMME-corporate transactions is particularly telling. Delaying tactics and bullying behaviour exacerbate an already difficult economic climate.

Insight #5:

Relationships with corporates are difficult, but can be productive



There are clear ethical tensions between SMMEs and their corporate customers and suppliers. This is evident in the finding that SMMEs have mixed views of whether large corporates deal fairly with small businesses. Only 34% of respondents agreed that large corporates treat small businesses fairly, while 37% disagreed.

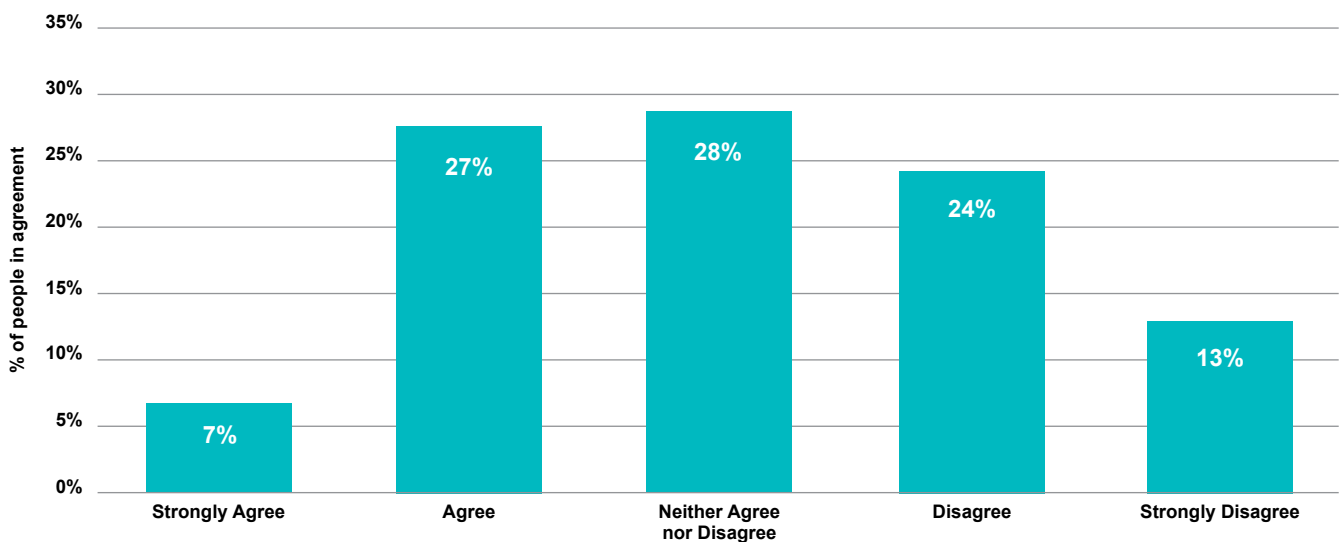


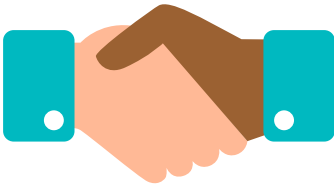
Figure 5: Agreement with the statement “Most large businesses generally try to deal with small businesses in a fair way”

Corporates mention a lot about localisation of supply, but very little actually happens on the ground with them rather importing than running the risk of localising. Large corporates have a PR face and an actual face – they usually do not walk the talk.

SMME respondents believe that many corporates display a complete lack of understanding of the realities of running a small business. This lack of common ground makes it difficult for SMMEs to manage relationships with corporates:

Clients are also under pressure from a static economy, however (especially corp. clients) pass this pressure down the line to an excessive extent. There is a complete lack of understanding that SMEs do not have deep resource pools and contracts are frequently abused. Scope creepage, reports, research etc. all squeezing margins.

We ... have experienced a lot of unfair/unjust practices from certain corporates, which a lot of the time has put us in a very difficult position and a great disadvantage. The said company cancelled a three-year contract in 14 months. We lost over 3.5 million in revenue due to that. It was [a] huge loss for our company.



“I wish the clients can be honest transparent when it comes to signing of contracts on how we will work ... sometimes it feels they will be turning against you.”

Corporates are difficult to deal with, even when they are regular clients. The respondents’ comments, some of which are outlined below, suggest that SMMEs also detect a lack of openness and transparency in their dealings with corporate clients:

The situation is so fragmented and not particularly transparent, so we don’t know where we are.

I wish the clients can be honest transparent when it comes to signing of contracts on how we will work ... sometimes it feels they will be turning against you.

Personal experience with corporates – as an SME, the first approach is to request the process to provide services. In most cases, the supply chain department is controlled by a single person who is not willing to provide process. In cases where the information is not provided, online access is limited by one person.

It is important to note that, in spite of an abundance of enterprise and supplier development programmes on offer from corporates around the country, very little mention was made of these. Corporates are not given credit for the support they do offer. As a result, several SMME founders reported that, on principle, they avoid doing business with corporates because of the complexities involved:

In my network of SME owners, there are many who complain about negative practices by corporate clients. Sadly, it seems to be more of a rule than exception. For me personally, it has meant that I actively avoid doing business with corporates if I am able. While corporate clients allow for a scale and cost of project not comparable to other SMEs, my experience is that the stress, politics, delays, and challenges often negate the perceived benefits of working with a large organisation.

Some of the feedback obtained from the questionnaires singled out corporates for failing to live up to public pronouncements about supporting small businesses, accusing corporates of being “all talk and no action”, especially during the COVID-19 pandemic:

Corporates mention a lot about localisation of supply, but very little actually happens on the ground with them rather importing than running the risk of localising. Large corporates have a PR face and an actual face – they usually do not walk the talk.

[There is] no support for start-up, funding requirements are not for start-up or previously disadvantaged. All talk shop; no action to support small business. None.

Didn’t see any help from any corporates to help SMEs fill out forms, provide office space, boardrooms, Wi-Fi, [or] any administrative assistance to help stabilise after COVID. Neither any financial advice like, “Do this now” or “Don’t do that”. Example: help with branding marketing, finding other markets or stuff to concentrate on.

Even in this context – and possibly because 47% of the sample comprised long-established businesses presumably with a long history of relationships with clients – some SMMEs indicated sound, productive relationships with corporates:

Most our business is based on personal relationships, which are quite difficult to nurture under lockdown, but it is easier with existing long-standing clients than new clients.

I have never experienced negative experience from corporates that I work with. I’m usually paid on time once service has been rendered. [The] only ill treatment I find is small business to small business.

It is clear that, at least from the perspective of founders responding to this study, relationships between corporate customers and SMMEs are fraught with difficulty. What is perceived as a lack of understanding and transparency creates a cynicism and lack of trust, to the extent that some respondents reported avoiding dealing with corporates altogether. Nevertheless, even in the midst of this difficulty, some SMMEs reported productive and long-standing relationships that appear to benefit both parties, suggesting that although resolving this situation might be difficult, it is not impossible.

Insight #6:

SMMEs are treated relatively fairly by their suppliers

The respondents rated their suppliers relatively well for ethical behaviour across the board. Two thirds (66%) of the respondents said their suppliers “have clear terms and conditions”. Slightly fewer (65%) participants felt that the price of the products and services supplied to them fairly reflects their quality and suppliers keep their promises. Slightly fewer claimed that suppliers treat them fairly (64%) and that their complaints are taken seriously (58%), as illustrated in Figure 6.

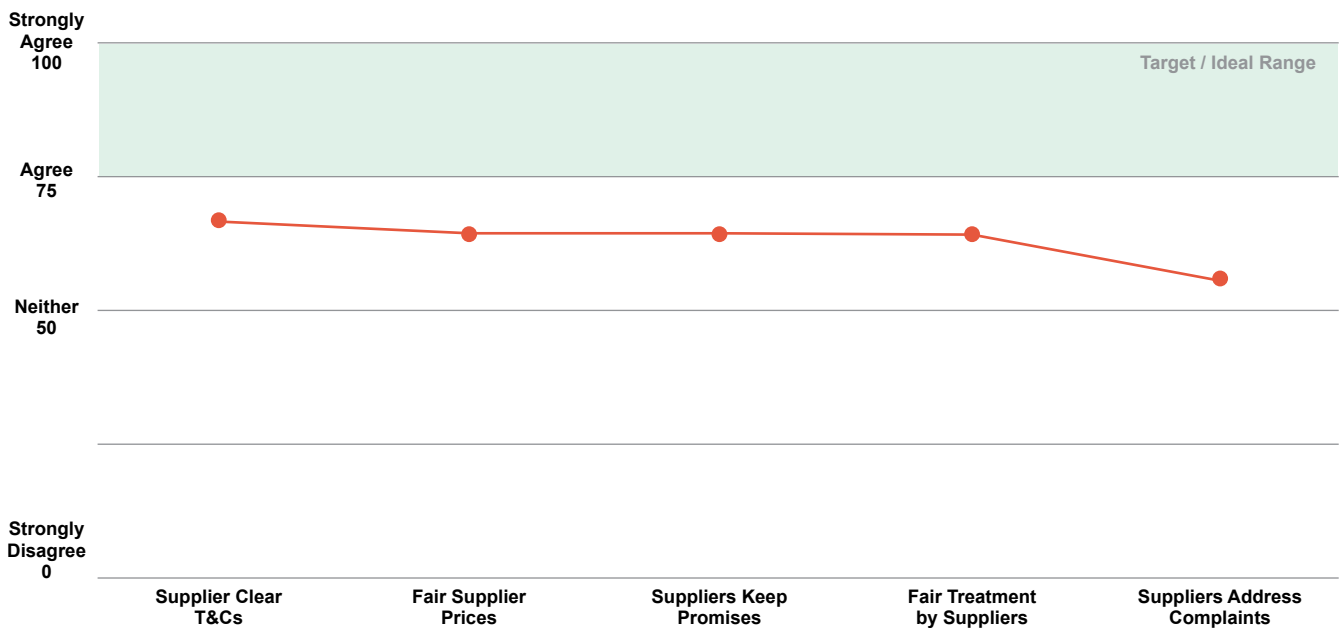
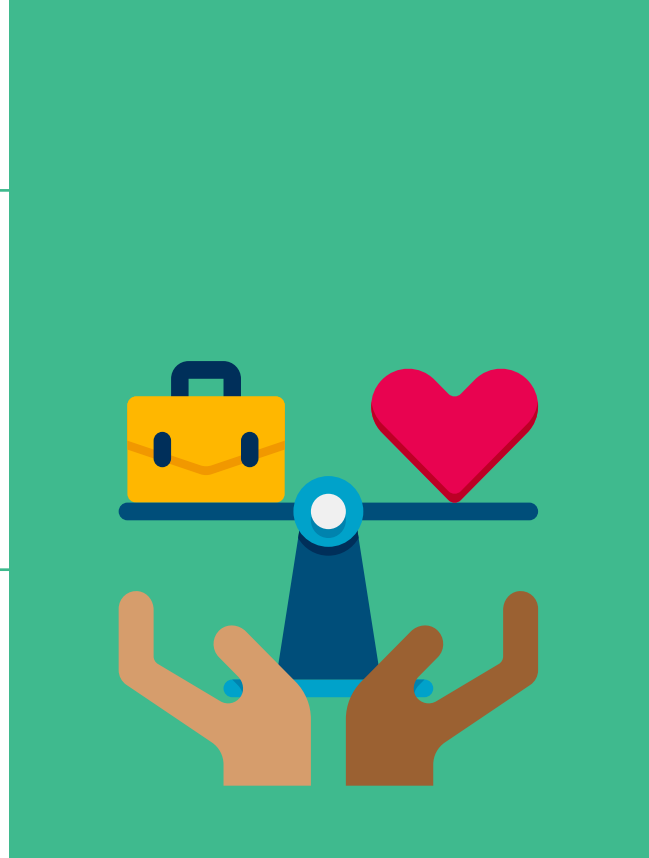


Figure 6: Ethical treatment of SMMEs by their suppliers

The qualitative comments support the notion that small businesses tend to have good relationships with suppliers, or that their suppliers at least sympathised with their struggles, even when larger customer needs are prioritised. These good relationships were particularly evident during the early stages of the COVID-19 pandemic:

COVID showed us which suppliers were sympathetic to our financial situation and who were patient in allowing us to repay debt over a longer period. We now go back and support those suppliers.

Many of our suppliers suffered great economic losses over lockdown – together we came up with innovative solutions and out-of-the-box ideas to keep one another afloat. We depend on our suppliers as much as they do on our patronage to survive and maintain success.

I believe that the day-to-day support from suppliers are fair. In times of crisis that we in SA regularly experience, larger customers are most definitely favoured. Price breaks also favour volume with delivery costs for small orders being higher.

“SMEs are more flexible, and keen to go [the] extra mile.”

However, an overwhelming majority (74%) of small businesses believe that their suppliers treat large corporates better than SMMEs. Many of this survey’s SMME founders noted that the favourable pricing and terms ordinarily offered to larger corporate customers were unfair and put them at a significant disadvantage relative to larger competitors.

Our suppliers have a tier system – the higher up the tier you are, the less you pay, so you become more competitive. This gives an unfair advantage to the already large businesses. Large corporates get many undisclosed discount/rebates not offered to SMME businesses.

Immediately after you say you have a tender, suppliers increase their prices and make it impossible for us to make enough profit.

With COVID-19, suppliers are overcharging us, they also no longer consider discounts and also make it impossible for SME to offer good prices. Banks are also refusing to lend money to purchase goods ... people who literally takes all our profits and turn us into extended administrators of their institutions.



In addition to unfair pricing, respondents noted that suppliers’ payment terms had become onerous, especially since the start of the pandemic.

Because we have to pay cash and we don’t get 30 days ... this is a problem when the banks are not giving you money and the suppliers demand cash and the customers want to pay [in] 30 days.

SMEs certainly don’t get the best price or terms, however they are expected to pay cash for goods.

The week COVID was announced, all our suppliers and landlord demanded our accounts be paid upfront, despite the fact that our accounts are up to date. Most suppliers put us on cash upfront before delivery – I wonder how many corporates got the same treatment.

Other respondents were more critical of supplier behaviour, suggesting that they were indifferent and inflexible, difficult to deal with, and favoured threats of litigation over consideration of long-term relationships.

Large suppliers prefer doing business with large companies, making our lives more difficult. While their T&Cs are clear, they do not always abide by them. If/when we complain, it often results in our business being negatively affected in future. Ethics and principles are espoused but are easily forgotten.

We find our suppliers have lost sight of loyalty and will sacrifice a good long-term relationship for a quick profit. Large suppliers are very inflexible. With their abundance of resources, they favour the threat of litigation.

They are like hungry wolves; will sell anything to anybody to survive or make a quick buck. They do not care about [us] and the support from such is just not there. We suffer because of that.

Considering the poor pricing and terms offered by large suppliers, some small businesses felt it was better to support other SMMEs wherever possible. Around two thirds of the sample (63%) believed that SMMEs sometimes “awarded contracts to suppliers they had a personal relationship with, rather than going with the best deal”. Other respondents noted that supporting other SMMEs was a matter of principle:

We as [a] small business deal with other small business[es] and we are important in their operation and therefore we get excellent service and prices, because they are in the same situation that we are as [a] small business.

I can only comment on my 40 years’ experience of being in my own business and supporting wherever possible other small businesses, irrespective of race or culture.

SMEs are more flexible, and keen to go [the] extra mile.

While some respondents reported good relationships with their suppliers, even during the challenges created by the pandemic, others were less complimentary. Similar to the relationships with corporate customers, SMME founders reported incidences of unfair pricing and strict payment terms, which made it difficult to sustain productive relationships. As a result, some founders affirmed that they made it a priority to do business only with other SMMEs, which were seen as more flexible and service-orientated.

Insight #7:

Ethics also apply to funding, but funders are “fair game”



As is all too often the case with research in the small business sector in South Africa, many respondents spontaneously mentioned their challenges in relation to accessing the funding they need to grow and, increasingly in recent times, even to survive. Several comments were made about the difficulties in accessing funding, whether from the traditional banking sector or even from government agencies with a specific mandate to support SMMEs. Consequently, respondents also reported being treated unfairly by these institutions:

The thing I struggle with the most is trying to obtain financial backing from banking institutes. It’s horrendous. You can’t compare a [corporate’s] financial standing to a small enterprise that is still busy building itself. I think that the requirements of an overdraft facility or loan needs to be different.... For all my years of being an owner, not once have I heard from a bank manager, and not once was I offered a credit facility in any form to assist my business. I think banking institutes cater mainly for big corporates — but as long as they can subtract their banking charges, they are OK.

As [a] small business, we do not get the help from banks. The application process is long and the amount of documentation is [too] much. It’s as if they don’t want to loan you any money.

The banks could do more for customers by extending their overdrafts by three years at 1% more interest to allow one to get back on the mill.

If the corporate sector can make funding available, we were going to be very far by now. I have been applying with no response for five years: [e.g.] DSBBD, SEDA, IDC, NEForp and SEFA – all went to the deaf ears.

An overwhelming majority (95%) of SMMEs expressed that it is important for small businesses to be completely open and honest with their investors. This was the most definitive quantitative result in the survey. Yet more than half (59%) stated that small business owners exaggerate their successes when they are looking for funding because investors look for impressive businesses to invest in. Moreover, 51% agreed that when small business owners are estimating the funding they need to scale, they usually inflate their needs, just to be safe.

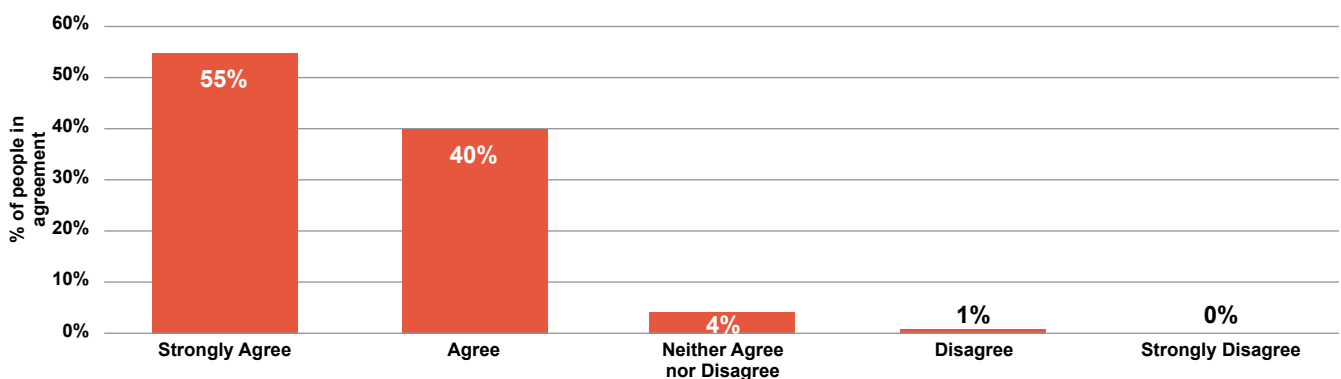


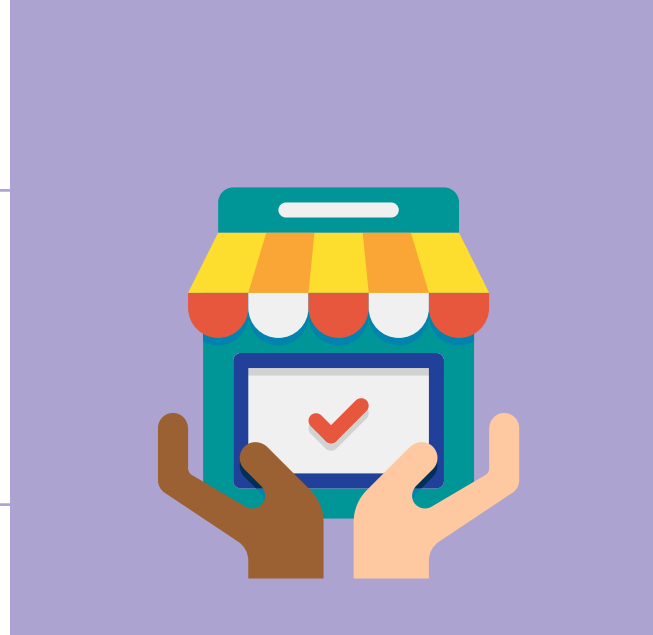
Figure 7: Agreement with the statement “It is important for small businesses to be completely open and honest with their investors”

“The banks could do more for customers by extending their overdrafts by three years at 1% more interest to allow one to get back on the mill.”

When it comes to funding and ethics, an interesting dichotomy is observed in the results of this study. On the one hand, SMME founders report significant difficulty in accessing funding. On the other hand, SMMEs who are sufficiently evolved to have access funding seem to display a disconnect between the need for transparency and the actual practices of business owners in presenting their financials. It appears that investors are “fair game” — it is acceptable to exaggerate and embellish, possibly because investors are believed to expect it.

Insight #8:

SMMEs do all they can for broader society



Perceptions among SMMEs of how ethically small businesses engage with broader society are below the ideal range for most behaviours – except for “creating employment” (77% of respondents strongly agreed or agreed), “active in developing South African society” (76%), and “complying with regulations” (75%). The lowest scores were for “would report corruption” (58%) and “protects natural environment” (63%).

This contrasts with employees in large corporates, who perceive their organisations to engage with broader society far more positively than those running small businesses do (except for their role in creating employment, where the perceptions are roughly the same). The largest gaps in perception between small businesses and corporates of their own ethical engagement with broader society are whether they “would report corruption” (22% higher score for corporates), “supports regulations” (17%), and “pays taxes responsibly” (16%).

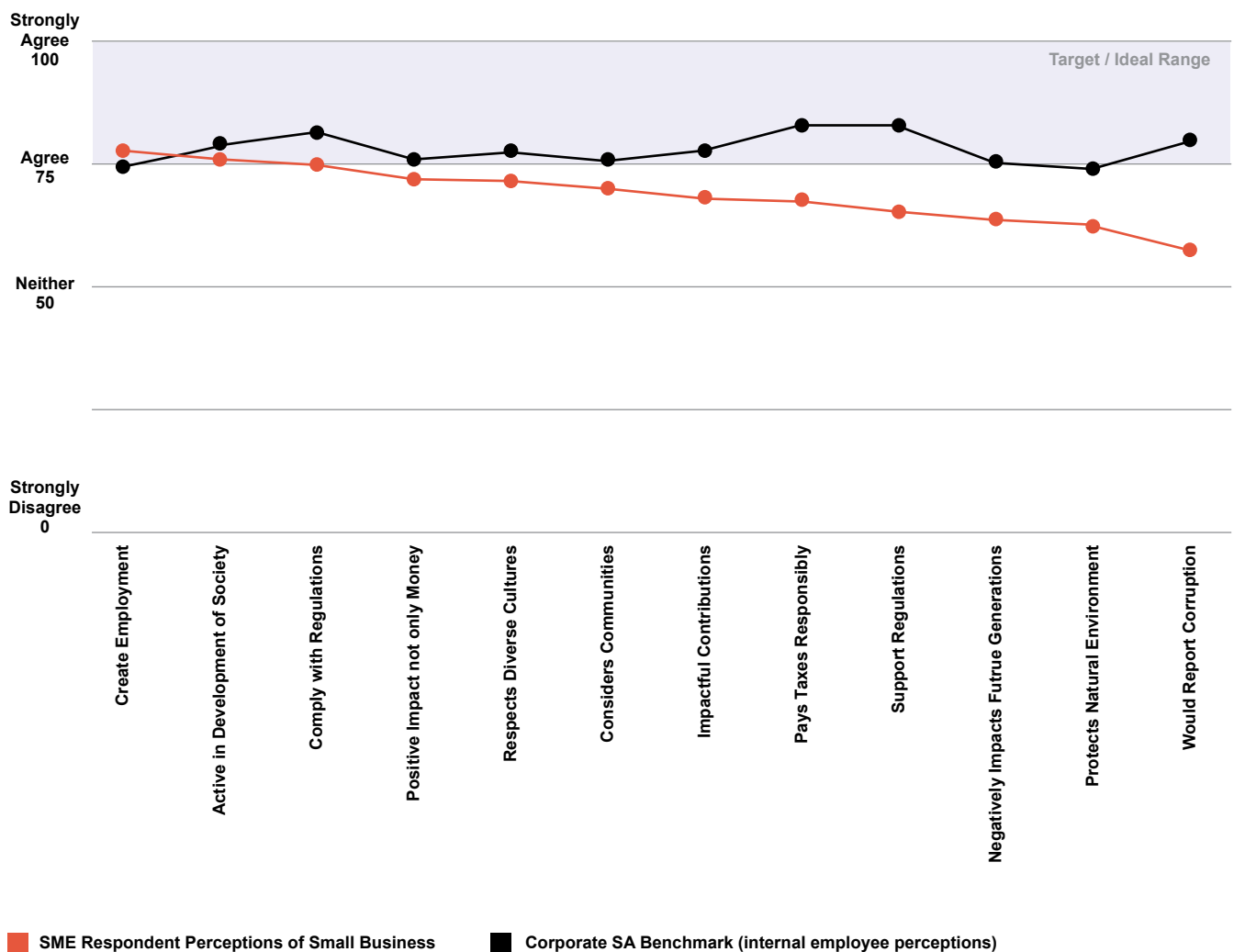


Figure 8: Extent to which small businesses engage with broader society

The qualitative comments provide insight into these quantitative results. The participants emphasised that, by their very nature, SMMEs are more sensitive to external stakeholders because they are so dependent on them for their long-term survival and growth. This makes engagement with broader society integral to day-to-day activity:

However, most small businesses [are] very reliant on trusted suppliers, customers, and staff, and put far more effort into providing good service and keeping good relationships. Many need tax clearances for contracts, so taxes are priority even though cash flow may be lagging....

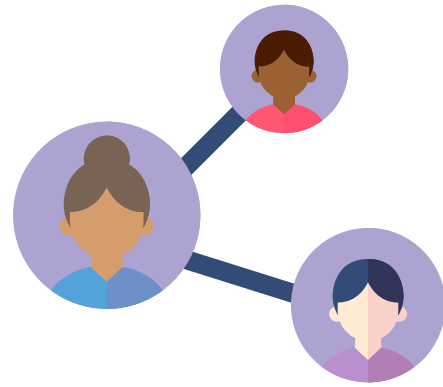
In addition to creating value, a majority of small business owners and employees understand the pivotal role their business plays in society, especially their immediate communities, as well as business's responsibility w.r.t. [with reference to] matters of ethics, good governance, protection of the environment, etc.

This engagement with external stakeholders also underscores the notion that, in the developing country context, entrepreneurs often start businesses with the goal of positively impacting society and making a profit. As a result, some respondents make the effort to actively develop the communities in which they operate:

As a small business, you understand your customers, society, communities, and other people at hand. You work for the good of all.

We started in 1997, having considered moving abroad, but decided to stay and try and make difference. We employ 50 people and have some satisfaction that we have achieved what we set out to do, but wish we could do more.

As a general principle, my business, up until the end of 2019, provided 15 paid internships annually, CSI [corporate social investment] of 15% of profits and ongoing additional payments to regular social causes. Paid for tuition for three previously disadvantaged children etc. etc. This made zero difference to the corporates we were working with and made no difference to gaining a contract or not.... The work we push forward always has a social aspect as a means to make a difference and money. This has never been considered and they do not appreciate the efforts. Can only speak for own business: we pay our tax, don't tolerate corruption, donate much more than required for B-BBEE or anything else. People before profit. Keep promises, regardless of the cost.



Despite this, other respondents felt that engagement with broader society was a resource-intensive “luxury that small business can't afford”, especially in relation to the need to navigate a host of “red tape”, a poor economy, and the devastating impact of COVID-19:

Small business has been forced into survival mode recently and complying with onerous regulations and business practices will actually damage one's business

Many small businesses are just trying to survive, I don't think they have the luxury of worrying about creating jobs and impacting other good causes

Small business does not have the resources to be too involved, they need to focus on survival. Government should be doing the charity bit from our taxes

These questions are biased towards the behaviour, rather than the requirements to be a small business.

It is almost true to say that a small business has to ignore regulations and morality to survive.

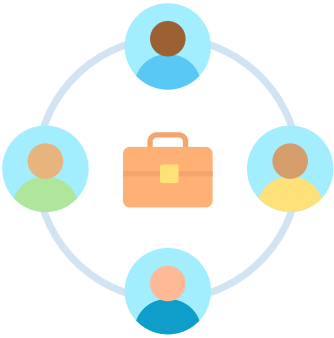
The extent to which business engages with the problems of broader society is an important dimension of the expectations that the public holds concerning the ethical behaviour of business. While some SMMEs view this as integral to their ability to thrive in the societies in which they operate, others argue that engagement with broader society requires effort and resources beyond what they can afford. The lack of available resources is generally regarded as the reason why SMMEs score lower than corporates on this dimension of ethical behaviour.

These questions are biased towards the behaviour, rather than the requirements to be a small business. It is almost true to say that a small business has to ignore regulations and morality to survive.



Insight #9:

SMMEs are vulnerable to unfairness, ethical misconduct by others



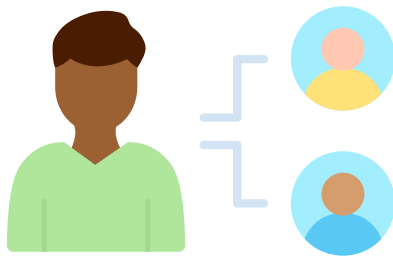
Regarding ethical behaviour more generally, SMMEs seem to be particularly vulnerable, with the study's respondents reporting that they observe unethical conduct or are victims of it in various spheres. Several survey participants believe that unethical behaviour is pervasive and fast becoming the norm in South African business, in corporate, government, and SME sectors:

Corruption is rife everywhere. From the smallest [business] to government contracts. To get business, one has to have patents, or they just take your prices and give it to the competition for a cut. The big tenders are often designed for only one company and then the costs are over 30% higher. Complain and you may get the crumbs of the next project. The designers, buyers, and clients are all in it together, and the SME is caught if he does not agree.

As a result, the SMMEs tend to be fiercely critical of what they see as a generalised increase in corrupt practices in corporate and government business in South Africa. This is considered to be partly due to a lack of ethical awareness and understanding. Perhaps more tellingly, unethical behaviour in one individual or business is seen as “infecting” the values and behaviour of others:

We are surrounded by decision-makers in government and in business who are devoid of ethical principles – which makes it difficult not to fall into the trap of abandoning one's principles.

I believe that many top corporate officials do not understand ethics. *Many do not practice ethical behaviour as a lifestyle choice.* I believe that training in ethical behaviour is urgently needed. What is currently happening in America is the result of a culture that does not believe in ethical behaviour, this has infected the rest of the so-called free world with what [is] openly called, “deniable culpability”.

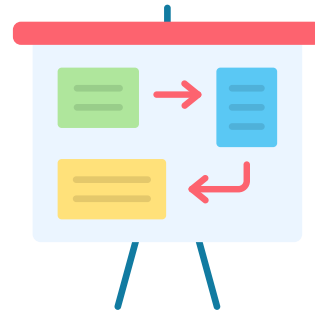


Some respondents believe that unethical behaviour is the result of a lack of structure and process required to police and punish unethical behaviour. They highlighted the lack of channels for reporting unethical behaviour, protection for whistle-blowers, and prosecution in high profile-corruption cases as examples:

In many cases, corruption in corporates is not public. In some cases, corporates intentionally frustrate procurement processes to prevent small business. Anti-bribery and corruption policies are not effectively implemented in corporates.

Corruption is worse than ever – it is always the whistle-blower that gets punished, while corrupt associations flourish. There is almost no one that can be trusted in a country with more dishonest than honest people. You cannot go to company security or executives to expose corruption – good businesses are pushed out and corruption prospers.

Detail the types of corruption from client wanting something, to the design engineers, to the tender process. The points card. Quality workmanship project not to spec. What the punishments should be? Ideas: e.g., PPE should carry manslaughter for all the medical staff who died due to the virus due to faulty equipment.... This is costing the state billions and has in the past by our three Indian friends, who were second-hand shoe salesmen from the back of car at Durban Market, to Dubai’s most expensive mansions.



SMME participants particularly complained of tender irregularities and corrupt practices in corporate supply chains. This includes the “unfair” practice of using the specifications from one supplier’s product or service to develop a tender:

To participate in tenders is time-consuming and expensive, and organisations sometimes cancel tenders after all the effort or award a tender and then you never hear from them again despite efforts to start the work or they negotiate regarding the price for a long time and then the tender period runs out and must be published again.

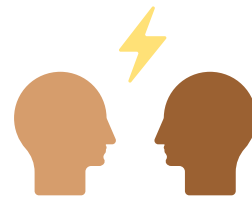
Probably our biggest complaint is that all companies, corporations, and government (local and national) departments will get specialist service and/or product suppliers to come in and propose a solution to solve a problem or quote on a project. The potential customer will then use that IP [intellectual property] to formulate a RFQ [request for quotation] that is distributed to all and sundry, and always ends up with someone with no knowledge or expertise in the particular field getting an order.... These “big” corporations have no conscience that they are stealing a person’s time, his company’s resources and IP....



The expectation that bribes will be paid for the SMME to win businesses appears to be a widespread practice in many different industries that forces SMMEs to choose between payment and losing the business:

I’m in the ... industry, many accounts have been awarded by the handing over a brown envelope. I have had many corporate buyers looking for personal benefits.

Long-term contracts seem to be entered into with possibly corrupt suppliers. In a time when suppliers are competing for work, to my mind, customers should not be entering into contracts, but seeking better value for money (not always the same as price).



Some small business owners feel actively discriminated against because of their size, particularly in terms of being required to comply with the same rules as those applied to corporates. This means they are overburdened by “red tape” to the extent that their survival is threatened:

Small business is required to follow the same rules as any large business or corporate – this places strain on a small business, as costs increase due to additional employees or outsourced functions (e.g., legal, tax affairs).

Small business is *not* treated well in SA and it is so hard with the million and one regulations that are imposed on the SME by law. SMEs are the future for job creation in SA, yet there is *far* too much *red tape*. No wonder they are closing down left, right, and centre! The government started some years back that they would make it easier and less expensive to open and run a business – yet it has just gotten harder and harder by the day.



Some of the study’s respondents shared that the lack of support for start-ups is effectively discriminating against youth-owned small businesses, while others complained that women-owned SMMEs are discriminated against regarding access to opportunity and funding applications.

[I wish] that they open bigger and better opportunity for us as the youth of South Africa, and that they can get us investors that can help the poor that cannot get up they business from start, and help them. That is the big problem that we us the South African children can get help [with] – we want to see our businesses, but there is no start-up funds for us to see the growth. Not all of us come out of a rich family or that gets work or money to make things happen....

Being an SME, particularly a women SME, 90% of the time we are unfairly treated, opportunities are often closed off to men and, if opportunities are there, you have to be politically connected or bribe to get work. It’s really difficult.

Consistent with other research conducted by the GIBS CfBE, respondents in this study also complained about racial discrimination. It would appear that both black-owned and white-owned SMMEs feel they have been discriminated against on the basis of their racial status. This too is consistent with prior research conducted by GIBS:

We [are] struggling to get funding as [a] black-own[ed] company here in South Africa and also get the jobs you need.... White SMEs are preferred than black SMEs.

Racism, it is electing all of us, not just one part of the cultural sector, because I am white do[es] not mean I had an easy childhood or schooling etc. I left home when I was 12, I educated myself, studied at Unisa, and nobody paid for it. Entitlement is a big *no go* in our spectrum and respect and honesty goes a long way.

Being a family-owned business (white), we have no support from the government or other institutions because we are not BEE-compliant.

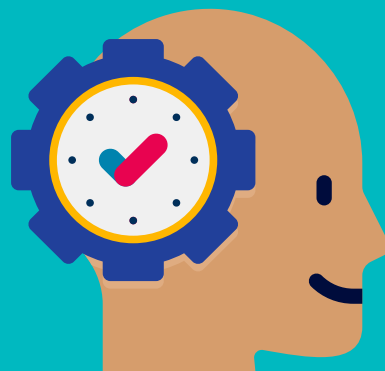
Given the range and magnitude of the unethical practices observed and experienced by SMME founders and reported in this study, it is hardly surprising that they feel underappreciated and helpless, with “nowhere to turn to when times are tough”:

Township business[es] are just kept forever informal, but large suppliers [keep growing]. Zero means to assist to formalise these township businesses [that are] long, long-standing customers of big suppliers.... No help from government and banks has made being a small business extremely difficult to survive.

Everybody wants SMEs to thrive to create employment and build the economy, but there is still the perception that corporate is better than “mom-and-pop” businesses. This view ranges from quality of product or service, ethics, ability to generate funding and how businesses are run. There is a negative attitude toward small business worldwide and a very clear misunderstanding of the energy, effort, risk and stress that it takes to start, run and manage a small business.

On the basis of comments from respondents to this study, it appears that SMME owners feel they and their businesses are particularly vulnerable to the ethical misconduct and unfair practices of others. Not only do they observe this misconduct (and feel unable or unwilling to report it), but the data provides vivid experiences of undesirable, unethical behaviours, including corruption, bribery, and discrimination. The respondents were quick to point out that this situation occurs even when the small business sector is lauded for its contributions to wealth and much-needed job creation. This finding points to the true cost of unethical behaviour in the entrepreneurial ecosystem.

Conclusions and implications



There is much ongoing debate about the strength or entrepreneurial ecosystem in South Africa. Even after long years of effort in both the public and private sectors, the entrepreneurial sector struggles to grow. The need for entrepreneurs to flourish has never been more acute, although start-up rates remain low and failure rates high, especially in comparison to other developing countries. The reasons for this are complex, but certainly the health of the ecosystem is a key factor in entrepreneurial success. The ecosystem is more likely to function effectively when stakeholders in the ecosystem are willing and able to build productive relationships founded on mutual understanding and trust. Therefore, ethical perceptions and behaviour are foundational to strong ecosystem development.



The SMME Ethics Barometer revealed several positive trends in the perceptions of SMME leaders of the ethical climate in the ecosystem. Some of these trends include:

- **Many entrepreneurial founders have values aligned to ethical behaviour:** Clearly, the personal values of the founder significantly influence the behaviour of the SMME organisation as a whole. In this study, SMME founders demonstrated a preference for values relating to hard work, competence, honesty, and responsibility.
- **SMME founders are demanding of their employees, but are caring and concerned:** Not only do SMME founders feel personally responsible for their employees' welfare, but they are also aware of how important employees are to the success of the business as a whole.

- **Founders believe that ethical behaviour is good business practice** and essential for survival and future growth. As a result, founders claimed that they took particular care in matters of compliance, as well as ensuring that dealings with external stakeholders were scrupulously fair and honest. Nevertheless, respondents noted that ethical behaviour could result in lost business, with some advocating a more pragmatic approach.



However, numerous areas seem to raise “red flags” that could signal problems with the ethical fitness of the entrepreneurial ecosystem:

- **Corporate customers treat SMMEs unfairly**, including imposing onerous requirements for accessing supplier databases that may be difficult to meet and endemic late payments. Delaying tactics and bullying behaviour exacerbate an already difficult economic climate.
- **Corporates lack understanding and do not behave transparently**, which creates a cynicism and lack of trust – to the extent that some respondents reported avoiding dealing with corporates altogether. However, even in the midst of this difficulty, some SMMEs reported productive and long-standing relationships that appear to benefit both parties, suggesting that although resolving this situation might be difficult, it is not impossible.

References

- **SMME founders reported incidences of unfair pricing and overly strict payment terms**, which made it difficult to sustain productive relationships with suppliers. As a result, some founders reported that they made it a priority to do business only with other SMMEs, which were seen as more flexible and service-orientated.
- **When it comes to funding, it appears that investors are considered fair game:** On the one hand, SMME founders reported significant difficulty in accessing funding from financial institutions. On the other hand, SMMEs that do have the opportunity to access funding seem little inclined to practice transparency in presenting their financials to funders. This anomaly would appear to warrant further research.
- **SMME owners feel particularly vulnerable to the ethical misconduct of others:** Not only do SMME owners observe this misconduct, but the data provides vivid experiences of it, including corruption, bribery, and discrimination. SMMEs feel neglected by the ecosystem and are unwilling or are, in effect, powerless to report the ethical misconduct they experience.

The positive findings about founders' values, attitudes, and behaviour are encouraging. This is the bedrock of the SMME ethical ecosystem. The findings about the perceived mistreatment of SMMEs by large corporates is alarming. These issues and challenges clearly undermine the ethical fitness of the ecosystem, and it is vital that they are addressed. Yet, it is important that we also understand the perceptions and perspectives of large corporates in relation to their SMME suppliers, especially around the management of risk, and this should be the subject of future research.

Drawing on the Ethics Barometer's insights, our plan is to continue to engage with SMMEs, large corporates, and other stakeholders in the ecosystem, and co-create ethical solutions. For these solutions to be viable and effective, they must consider the different and at times even conflicting needs of the ecosystem's stakeholders.

We envisage sharing these solutions as widely as possible through media articles and interviews, executive development programmes, corporate presentations, public forums, and private dialogues. Our aim is to influence attitudes and behaviours, contributing to the sustainable success of South African business and society.

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Appendix A

The Gordon Institute of Business Science's Centre for Business Ethics

The purpose of the Gordon Institute of Business Science's (GIBS's) Centre for Business Ethics (CfBE) is to explore and influence how South African business can respond more ethically to the country's challenges, facilitating open conversations that build trust and helping to secure a more successful, sustainable future for the business community and the country. The CfBE connects academia, business, and society – locally and internationally – to co-create ethical solutions, while inspiring and enabling leaders to think, feel, and act in the interests of our shared future.

At the heart of the CfBE's approach is the belief that business can and should be a force for good. This is accompanied by the view that ethics must not be seen merely as an “add-on” to organisational activities, but rather belong at the very heart. There is a need to help move ethics from the periphery to the centre of organisational decision-making.

The CfBE operates at the intersection of scholarship and organisational practice, aiming to develop rigorous thought leadership that has impact and influence. The GIBS Ethics Barometer is the CfBE's flagship project.

E Squared Investments

E Squared Investments (Pty) Ltd (E²) is an impact investor that believes in the transformative potential of outstanding South African entrepreneurs and, through its mandate, aims to catalyse and amplify the power of responsible, high-impact entrepreneurship. E² was established in 2007 by the late Dr Allan W. B. Gray, whose desire was to attack poverty, unemployment, and inequality in South Africa in a responsible, sustainable, and impactful way. Operationally, E² has been running since 2015.

Its specific mandate, which complements the work of the Allan Gray Orbis Foundation (also founded in 2007), focuses on providing investment funding and business growth support to members of its fellow community who have chosen entrepreneurship as a means to achieving the founder's vision; and more recently, to non-Allan Gray fellow-founded high-growth commercial enterprises. Moreover, E² provides strategic funding to public benefit organisations with scalable models focused on youth entrepreneurship, specifically targeted at providing disenfranchised youth from disadvantaged backgrounds with economic access to opportunities.

Emphasis is placed on what is termed “responsible, high-impact entrepreneurship”. The aim is to fund and support investees who establish and operate enterprises that are not only financially viable and can generate good shareholder returns, but are also socially responsible, ethical, and impactful.

GIBS/E Squared partnership

In response to the ethical challenges described above, GIBS and E² have partnered to apply the Ethics Barometer to the South African SMME sector. This enables us to interrogate and appreciate the lived reality of South Africa's small business sector in terms of ethics in day-to-day business operations. The data from these studies will be used to inform and invigorate efforts to improve the ethical reality of the SMME sector and its standing in the business community and broader society.

Appendix B

Background to the GIBS Ethics Barometer

The GIBS Ethics Barometer is positioned at the intersection of academia and action. It is a commitment to independent, rigorous research with a clear focus on achieving impact and making a practical contribution. Building on GIBS's reputation as the “business school of business”, the Ethics Barometer aims to deliver benefits on both a micro and macro level to individual companies as well as to the broader business community.

Underlying this initiative is the recognition of a problematic paradox. Many individuals and corporations may well appreciate, on a conceptual level, the importance of ethics. However, in the absence of a clear metric, conversations about ethics run the risk of becoming vague, amorphous, and fuzzy. It is this “soft underbelly” that the Ethics Barometer addresses. Through a combination of quantitative and qualitative data-driven insights, the Ethics Barometer opens the door to a more meaningful assessment of the ethical performance of South African corporations. Since the conversations the instrument enables are rooted in empirical evidence, they have more credibility and hence the potential for greater influence and impact.

The Ethics Barometer sets out to empower leaders to more effectively measure and thereby manage ethical performance. It does so on the basis that ethical behaviour builds trust and is critical for the success of both organisations and society.

To date, the Ethics Barometer has surveyed over 25 000 employees of 30 leading South African companies. The companies are from diverse sectors, including banking, insurance, financial services, mining, property, retail, leisure and professional services. The instrument assesses employee perceptions about a wide range of behaviours in their organisations. Company-specific data is aggregated and anonymised into the general data, allowing for the establishment of a national benchmark. This enables organisations to compare their ethical performance to that of their peers.

Instrument Development

USING A GLOBAL RESEARCH TOOL

The Ethics Barometer has been built on a rigorous and comprehensive assessment tool developed by three Harvard Business School (HBS) academics: Professors Lynn Paine, Rohit Deshpande and Joshua Margolis. The tool tests whether organisations adhere to global norms and standards around business conduct.

In 2005, as a first step, the HBS academics systematically analysed 23 codes of corporate conduct. These codes were drawn from 14 of the world's largest corporations as well from leading international institutions such as the United Nations, the OECD and the Global Reporting Initiative. Their analysis identified 62 widely endorsed standards of business conduct, and this was used to establish the Global Business Standards (GBS) Codex. These standards were in turn analysed and it was found that they were underpinned by 30 concepts and eight principles.²



8 PRINCIPLES OF THE GBS CODEX

FIDUCIARY PRINCIPLE

Act as a fiduciary for the company and its investors. Carry out the company's business in a diligent and loyal manner, with the degree of candour expected of a trustee.

PROPERTY PRINCIPLE

Respect for property and the rights of those who own it, refrain from theft and misappropriation, avoid waste, and safeguard the property entrusted to you.

RELIABILITY PRINCIPLE

Honour commitments. Be faithful to your word and follow through on promises, agreements and other voluntary undertakings, whether or not embodied in legally enforceable contracts.

TRANSPARENCY PRINCIPLE

Conduct business in a truthful and open manner. Refrain from deceptive acts and practices, keep accurate records, and make timely disclosures of material information while respecting obligations of confidentiality and privacy.

DIGNITY PRINCIPLE

Respect the dignity of all people. Protect the health, safety, privacy and human rights of others; refrain from coercion; adopt practices that enhance human development in the workplace, the marketplace and the community

FAIRNESS PRINCIPLE

Engage in free and fair competition, deal with all parties fairly and equitably, and practice non-discrimination in employment and contracting.

CITIZENSHIP PRINCIPLE

Act as responsible citizens of the community. Respect the law, protect public goods, cooperate with public authorities, avoid improper involvement in politics and government, and contribute to community betterment.

RESPONSIVENESS PRINCIPLE

Engage with parties who may have legitimate claims and concerns relating to the company's activities, and be responsive to public needs while recognising the government's role and jurisdiction in protecting the public interest.

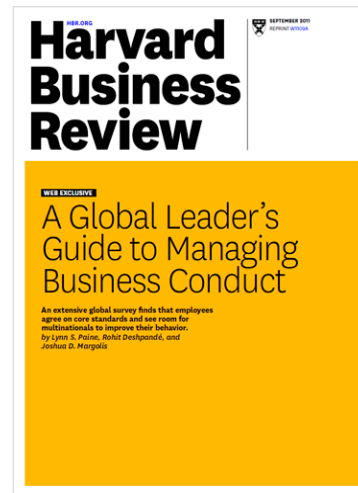
References

² Paine, L. S., Deshpande, R., Margolis, J. D. & Bettcher, K. E. (2005). Up to code: Does your company's conduct meet world-class standards? *Harvard Business Review*, 83(12), 122-133

In 2011, Paine, Deshpande and Margolis conducted a further study to test whether employees thought that their companies should - and actually did - adhere to the GBS Codex's standards. They surveyed 6,200 employees working for four multinational corporations in 23 countries as well as 820 executives studying at HBS.³



Figure 9



LOCALISING THE TOOL

The GBS Codex forms the foundation of the GIBS Ethics Barometer. The Barometer draws on the widely endorsed norms and standards which make up the GBS Codex. However, using focus groups made up of subject matter experts, the GIBS Ethics and Governance Think Tank contextualised and localised the HBS tool, ensuring that it also addresses specific South African issues and challenges - especially with regard to transformation and correction of historical wrongs. The aim was to develop an instrument that is locally relevant while remaining aligned with the global framework.

The GIBS Ethics Barometer measured 68 behaviours and six constructs, cutting across key stakeholder relationships. Before being roll-out to the 15 participating organisations, it was piloted at GIBS - all of whose employees were invited to participate.

68 BEHAVIOURS MEASURED

Treatment of Customers	5	
Treatment of Suppliers	3	
Treatment of Employees	12	
Organisational Culture & Practices	16	
Engagement with Broader Society	12	
Avoidance of Misconduct	20	

Figure 10

References

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