

Achieving Maximum Performance through the Practice of Entrepreneurial Ethics: Evidence from SMEs in Nigeria

S. B. Tende, H. L. Abubakar

Abstract—It is acknowledged that small and medium enterprises (SMEs) may encounter different ethical issues and pressures that could affect the way in which they strategize or make decisions concerning the outcome of their business. Therefore, this research aimed at assessing entrepreneurial ethics in the business of SMEs in Nigeria. Secondary data were adopted as source of corpus for the analysis. The findings conclude that a sound entrepreneurial ethics system has a significant effect on the level of performance of SMEs in Nigeria. The Nigerian Government needs to provide both guiding and physical structures; as well as learning systems that could inculcate these entrepreneurial ethics.

Keywords—Entrepreneurial ethics, culture, performance, SME.

I. INTRODUCTION

IN the past, the significant and growing scholarly interest in entrepreneurship, innovation and new venture creation has resulted in the shaping of entrepreneurship as an academic field of study. This includes the field of business ethics – including the study of both entrepreneurs' ethical behaviour and SMEs performance in a developing country like Nigeria.

The big question is that what is the relationship between entrepreneurial ethics and optimal performance of SME's? Does the Nigerian SME's face specific and unique ethical challenges? If so, how might are they effectively understood and addressed? These questions arise from a growing literature that lies at the intersection of entrepreneurship research and business ethics literature. It highlights the relevance of entrepreneurial ethics and how, if applied by SMEs in Nigeria, can result in the achievement of maximum performance.

II. THEORETICAL FRAMEWORK

Numerous researches have been carried out on business/entrepreneurial ethics and organizational performance. These researches have contributed to the development of entrepreneurship and its relevance in corporate performance. Identifying 'entrepreneurial' ethical standards that an individual or an organization needs to adapt for effective performance are of essence. The past researches look into business ethics and how it affects organizational performance.

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Analysis was made of the population of study; methodologies adopted; and findings and recommendations made by the researchers. We look at the works of [1], [2].

A research was conducted by [1] on the relationship between business ethics, practices and organizational performance in human resource management. 489 private companies were attained from 'Fortune 500 Turkey' magazine, 2008; which consisted of manufacturing, trade, services, and construction organizations.

Past researches on business ethics and its relationship with organizational performance was analyzed. Questionnaires were distributed to the 489 companies. The measurement of performance was analyzed using the four BSC perspectives [3]. Correlation analysis was further adopted to determine the relationship between the variables. The dependent variable considered organizational performance, and the independent variables considered the level of business ethics in four sub-scales (personnel selection and placement; training and development; performance evaluation and compensation management). The final analysis of the research indicated that a strong relationship between business ethics practices and organizational performance.

Reference [2] explored entrepreneurship performance and business ethics. 260 staffs from various Nigerian universities were randomly selected. Both primary and secondary data were adopted; primary data source comprised questionnaires, while the secondary data were adopted journals, textbooks, internet, magazines and previous researches. The variables include entrepreneurial performance (which encompasses sales volume, market share, profit margin, and profit). While business ethics, (ethical standards, moral standards, integrity, and fairness). The Cronbach's alpha was applied due to its effectiveness in calculating the reliability [4] of the variables identified. The relationship between the variables was analyzed using Pearson's correlation coefficient. The finding of this study was that there is a significant relationship between ethical practices of organizations and their corporate performance. It resolved that organizations needed to set clearly defined ethics within the organization, which will in turn improve performance. Finally, it was concluded that future researches could broaden the scope of the study by focusing on the dynamics of organizational environment and how it relates to business ethics.

Both researches attempted to study business ethics and how it affects organizational performance. The limitations of both studies, is the fact that they look into larger organization or

organizations which by characteristics cannot be considered a small or medium sized organization or business. The researchers are within a five-year time frame, which gives room for consideration of recent ethical behaviors or acts that are being adapted by recent scholars, researchers, organizations and businesses all around the world. What both researches have been able to conclude is that once positive ethical values, attitudes and beliefs are imbibed and adapted by staff/organizations, there will be a considerably positive effect on the performance of an organization. A strong limitation of both researches is the fact that [1] gives emphasis on human resource tools that aid towards 'conforming to positive ethical behaviour' (personnel selection and placement; training and development; performance evaluation and compensation management); while [2] gives focus to individual ethical values which encompass ethical standards, moral standards, integrity, and fairness. Therefore, we can see how ethics can be seen in various vantage points, but what is universal about ethics is the notion of knowing, moral judgments and right and wrong conduct [5], [6]. Common methodologies being adopted in both researches include questionnaires and literature review. Emphasis was also made by [2] on the restrictiveness of their research in which they did not consider organizational/business 'environment' in the course of their research. Finally, for optimal business performance, corporations need to set up conforming structures and guidelines of ethical standards. Therefore, from the analysis and comparison of both researches it can be seen that business/entrepreneurial ethics has a significant effect on organizational performance. It is only through proper structuring and organizing of SMEs, can there be a promising chance for positive business/ entrepreneurial ethical values to exist; and in turn this will aid towards the achievement of the organization or business objectives.

III. LITERATURE REVIEW

A. Concept of Entrepreneurship

The concept of entrepreneurship varies from various fields of management and social science fields. Due to the numerous definitions, it gives 'entrepreneurship' a multi-dimensional perspective. According to [7], entrepreneurship is the process of searching out opportunities in the marketplace and arranging resources required to exploit these opportunities for long term gains. Reference [8] noted that entrepreneurial function implies the discovery, assessment, and exploitation of opportunities, new strategies and organizational forms of markets for products and inputs that did not previously exist. These definitions emphasize that for an entrepreneur to be successful and pursue certain economic objectives, an individual has to have certain traits, characteristics or values that will give them the necessary ability to succeed. There are three factors that give insight into the entrepreneurial activity; firstly, the entrepreneurial action, such as the willingness to face uncertainties; secondly, the environmental factors that motivate and enable entrepreneurial activities, such as the dimension of the markets; and lastly, the functioning of the

institutions, culture and societal values towards entrepreneurship [9]. Thus, we can see how these three variables (entrepreneurial action, entrepreneurial environment, and entrepreneurial social vices) are molded into entrepreneurial ethical behavior.

B. Measuring Organizational Performance of SMEs

Measuring organizational performance is an imperative component of empirical research in today's research development [10]. Performance is a quality of any organization, achieved by valuable outcome such as higher returns and customer satisfaction [11]. In literature, we failed to find a single over reaching model to measure the performance of small scale enterprises perhaps due to multi-dimensional aspects of performance. Consequently, depending upon the objectives that SMEs pursue, performance can be measured using various tools [12]. Typical categories of performance measurement or indicators include process measures (inputs, outputs), customer satisfaction and outcome measures (immediate, intermediate, long term) [12], [13]. More specifically, modern SMEs have adopted a hybrid approach of using both the financial and non-financial measures as better indicators of firm performance as it is strong enough to capture various performance approaches than single approach [14]. These measures serve as precursors for course of actions. The Performance Measurement System (PMS) consists of principles and practices, in the organization, geared to ensure the organization (SME) consistently meets or exceeds customer requirements in most competitive ways [12]. The Business Performance Measurement (BPM) System looks at the quality that affects a company's business performance [15]. It can be concluded that the performance measurements of SMEs differ from larger business organizations; this is very likely due to the variance in the dynamics of a larger and smaller organization, which in turn will affect the way in which an organization will i.e. communicate, allocate resources, staff size, structuring, marketing etc. Subjective measures are often encouraged to be applied to evaluate business performance [16], [17], due to its efficacy in examining business performance of SME's. Therefore, for the purpose of this research the performance measuring variables to be considered for SME's performance will be in subjective measures.

C. Understanding 'Entrepreneurial Ethics'

Ethics is a discipline of critical analysis of the meaning and justification of moral beliefs; it also looks into the human character and motivation of individuals [18]. The way in which an entrepreneur behaves has been shown to influence the accuracy of information about a company's product or service; the ability of customers to make more profitable choices; and the degree of customer loyalty [19]. Therefore, it is evident that through the right and ideal ethical behaviours there is a greater chance for the business to succeed. The qualities required for a successful entrepreneurship includes; imagination, creativity, novelty, sensibility, which are essential to ethical decision making [20], [21].

From our assessment, we see how ethical behaviour tends to play a dominant role in a small or medium enterprise compared to large corporations; this is due to various factors like the organizational structure, communication structure, employee size etc. The extent in size or intensity of these factors tends to affect the transfer or adoption of ethical values to the business.

Therefore, we can conclude that the 'Entrepreneurial Ethics' can be seen as the necessary behavioural qualities, individual characteristics, and moral values, that should be adopted by an entrepreneur, so as to achieve entrepreneurial objectives.

D. SMEs in Nigeria

SMEs in Nigeria are heterogeneous in nature. In Nigeria, SMEs provide 70% of industrial employment and 60% of agricultural employment [22], [23]. The owner may be poor or rich. The firms may operate in very different markets (rural, urban, local, national, and international). The business may embody different levels of skills, capital, sophistication, growth orientation, and may be formal or informal sector [24].

In recognition of the role of SMEs in the promotion of economic growth and development, the Nigerian government, for example, has put in place various measures and schemes to assist the SMEs. Which include programs like; Family Economic Advancement Programme (FEAP), introduction of specialized schemes including World Bank SME I and SME II loan programmes, National Economic Reconstruction Fund (NERFUND) and Nigerian Industrial Development Bank (NIDB), setting up of Small and Medium Development Agency of Nigeria (SMEDAN) as an umbrella agency to coordinate the development of the sub-sector, mandatory minimum credit allocation to SMEs by banks and financial institutions, National Credit Scheme for SMEs to facilitate access to credit without stringent collateral requirements mandatory 10% banks pre-tax profit for equity participation in SMEs, establishment of the development of new industrial estates nationwide, and reviewing Entrepreneurship Development Program/Working For Yourself in government agencies and educational institutions, merger of all poverty alleviation agencies comprising the Nigerian Bank for Commerce and Industry (NBCI) [23]-[26]. National Economic Empowerment Development Strategy (NEEDS) asides the SMEs possessing the potential for stimulating human resources to produce goods necessary to satisfy the economic needs of the community (industrial growth, which are mainly poverty reduction, employment generation, wealth creation and value orientation) [27]. A closer examination of the policy statements and initiatives leading to the establishment of the foregoing agencies and programmes point to the strategic role of SMEs in industrial and economic development, analysts have argued that the assumed strategic benefits of SMEs may be a 'myth' rather than a 'reality' [23]-[31].

E. Research Design

The core assumption established in the research design is that the business practices; ethical attitude (something that is

pertaining to morality or right and wrong in conduct), ethical issues (a problem or issue that requires a person or organization to choose between alternatives that must be evaluated between right or wrong), ethical decision making (refers to the process of evaluating and choosing among alternatives in a manner consistent with ethical principles), ethical climate (refers to the moral atmosphere of the work environment reflecting organizational policies, procedures and ethics practiced within a company), which are elements of entrepreneurship ethics, positively influences the 'level of entrepreneurial activity', which in retrospect affects the 'level performance' of SMEs [32], [33]. Moreover, positively applying a combination of the ethical practices enhances the performance of an SME, thus enabling the SMEs to achieve optimal business performance. This is illustrated in Fig. 1.

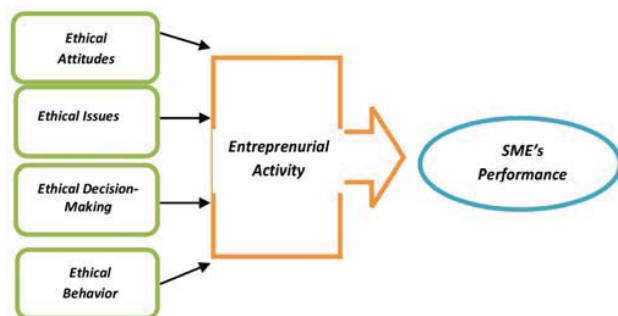


Fig. 1 Entrepreneurship Ethics and SME Performance Chart

IV. CONCLUSION & RECOMMENDATIONS

There is no doubt that ethics has an influence on the performance of SME's. More so, that entrepreneurship ethics has a significant effect, especially when utilized, it can bring about optimal performance of SMEs in Nigeria. The study is able to show that the smaller the business or organisation, the tendency is that 'entrepreneurship ethics' tends to have a stronger influence on the performance of the business or organisation (SME's) in Nigeria.

The ethical values to be considered for a high yield in entrepreneurial activity include the right attitude, issues, right decision, and a positive behaviour.

It is recommended that SME owners should be enlightened on the importance and necessity of entrepreneurship ethics, and how, if positively practiced, can bring about improvement in performance and image of the business. This enlightenment could be through government programmes; elementary stage of the Nigerian educational system; or it could be part of the curriculum during 'skills acquisition programmes across Nigeria.

Finally, for firms or businesses to ensure maximum performance they need to implement strong guidelines, communication lines, structures, policies and procedures that will guide individual workers towards conforming to what are right and acceptable ethical values in the organization.

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