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## Perceived role of owner's ethical values to Social Responsibility: Case of KZN SMEs

Bobo Chazireni

*Bycidi Consultancy Pretoria, South Africa*

### ABSTRACT

KZN province in South Africa was founded on strong cultural background which drives behaviour in the society and Small and Medium Enterprise (SME) businesses that emerge from the region. An argument could be the depth and strength of business ethics practices which may vary by families, villages across the region. However, social responsibility (SR) behaviour and actions of SME business in KZN over the years proved to be intertwined to the owner's ethical values rather than professional driven. Therefore, the study aimed at exploring perceived role of SME business owner's ethical values on the practice of SR by SMEs in KZN. Results were attained through assessing attitude levels of SMEs towards SR; assessing impact of ethical values on SR by SMEs; exploring barriers undermining SR by SMEs. A mixed approach was adopted where data was obtained using self-administered questionnaires and face to face interviews. Results showed that majority of the respondents had an adverse view of personal values towards SR. SME business owners' personal values undermine the practice of SR. SMEs believe their ethical values were key to the practice and implementation of SR in their business. As new knowledge, a model framework driven by the Stakeholder Theory entitled, "Social Responsibility: Owner's legacy" was proposed to motivate and ethically guide owners into positively embracing SR in their businesses. The study recommended chamber of commerce, local municipalities and business leaders must proactively support SMEs to practice SR through awareness workshops to train and share the SR strategy alignment with personal values.

**KEY WORDS:** Ethics, Social Responsibility, Small and Medium Enterprises and Sustainable Growth

### I. INTRODUCTION

There is a general consensus about SME businesses being key to the growth of most economies in Africa and the world in general. SME have been branded as fecund drivers of economic growth and sustainable development in South Africa and the world at large. The existence of SMEs in any economy is of paramount importance despite them experiencing a high failure rate. There is growing recognition of the important role SMEs play in economic development. They are often described as efficient and prolific job creators, the seeds of big businesses and the fuel of national economic engines with much hype on their ability to create employment. Nevertheless, for a multiplicity of reasons, SMEs lag behind practice of modern brand growth strategies such as SR. Despite their vital contribution to economic growth, SMEs in KZN region still face numerous challenges that inhibit growth. The frustrating growth rate has been predominantly contributed by SMEs failing to embrace growth strategies such as SR. SME lament cost linked to adoption, implementation and practice of SR. However, apart from SME funding and access to finance (which is a major reason for high failure rate), the Global Entrepreneurship Monitor (GEM) Reports of 2001-2010 explained that South African SMEs suffer from poor marketing, expertise which proceed from inadequate training and education. Furthermore, SME business owners' ethics play a prohibitive role in the adoption of SR as a strategy to build brand loyalty and other benefits realised through successful practice of SR. To date, very little research has been conducted in KZN on the perceived role of the owner's ethical values which directly or indirectly impact on the business' adoption, practice or implementation of SR. Research on SR in SMEs is limited, especially in developing KZN. While playing such a significant role in the economy, to address this, the study will investigate perceived role of SME business owner's ethics to SR as a stimulant of growth for SMEs in KZN.

South Africa experiences abundant socio-economic challenges, and the challenges are however to a large extent linked to high levels of unemployment. Hall (2009) pointed out that the official unemployment rate is approximately 25 per cent; however, if one were to include those between the ages of 16 to 60 and discouraged work seekers, then the unemployment rate is approximately 36 per cent. Olawale and Garwe (2010) revealed that

growth failure rate of SMEs in South Africa is around 75 per cent, one of the highest in the world which conveniently contribute to vast unemployment in the country. Nevertheless, according to the Stakeholder Theory, by involving all SR stakeholders in the business activities, SMEs improve their relationship with customers, work in an accommodative business environment, engage motivated workforce, willing community and increased brand loyalty which results in potential growth of the business (Freeman, 2010); (Urban and Naidoo, 2012). Therefore, the motive and drive of the study were to establish clearly whether SME business owner's ethical values has a role to play in SME businesses in KZN.

## II. LITERATURE REVIEW

**What are the business values of SMEs in KZN and how are they oriented?** According to Arnold and Valentin (2013), society intermingle with business, lending its legitimacy and prestige and thus a firm becomes responsible for its activities within society in its long-term economic operations and its creation of value. Thus, SR is an obligation of the company towards its society. On the other hand, some authors (Glavas and Godwin 2013; and Ormiston and Wong 2013) argue that SMEs have never thought about SR as they do not acknowledge their social and environmental impacts. However, according to Attig(2013), literature shows that many SMEs are already socially sensitive and active, but not at the SR level.

A number of researchers who used different methodologies concluded that socially responsible activities and owner's values collide on the effect that SR activities are perceived as costs that result in competitive disadvantage. Simultaneously the smaller size of SMEs provides little space to hide mistakes and therefore the moral proximity with the community and customers is more valued and this shapes the SR behaviour of SMEs. Garriga and Melé's (2013) qualitative results shared the same sentiments in that they believe business must make appropriate decisions when confronted by a choice between financial returns and morality. The key therefore lies in finding the balance between entrepreneurship and ethical practice. Also in agreement with these researchers Wang and Tuttle (2014) noted that companies integrating social responsibility into their overall strategy may not experience such expenses as an 'add-on' and therefore do not view them as an extra cost. Porter and Kramer (2006) conclude that many companies think and implement social responsibility issues in a standardised way instead of aligning SR with their strategic objectives.

**The owner-manager's personal values driving the sustainable growth of the business:** The suggestion is that commercial gain is not the only driver of SR practise in SMEs, but the formal adoption of the concept can be associated with the variability changes in the personal values of the owner. In most cases these values are expressed through the right to discretion arising from decision making structure where the owner-manager has the sole power to make decisions for the business on matters that concerns finance, SR and investors. The personal values of the SME owner-manager are also a reflection of how the business is viewed externally by Stakeholders according to the Stakeholder Theory. In line with this notion, Mohd (2015) believe that values guide the selection or evaluation of actions, policies, people and events. People decide what is good or bad; justified or illegitimate; worth doing or avoiding based on possible the consequences for their cherished values. However, the impact of values in everyday decisions is rarely conscious. Values create awareness when the actions or judgments one is considering have conflicting implications for the different values one cherishes.

In the same context, Hofstede, Hofstede and Minkov (2015) took the opportunity to define a value as a broad tendency to prefer certain states of affairs to others. Rokeach (1973) also defined values as an enduring belief that a specific mode of conduct or end-state of existence is preferable to the alternatives. According to Rokeach (1973), therefore, values are simply a specific and enduring belief, which in most cases arise from what one previously learned, was taught or generally from a person's socialisation. However, Wang (2015) argued that personal values of the owner-manager have a greater impact on the SME business's success than any other factor that can be attributed to entrepreneurial success. Rokeach (1968) stated that personal values influence all behaviour. The statement was emphasized by Kamakura and Mazzon (1991) who posited that personal values involve self-awareness and consciously influence choices and behaviour as they standards against which evaluations and judgments are made. Personal values are the core of the personality and influence all other characteristics, such as attitudes, evaluations, judgments, decisions and commitments. Personal values have an impact on determining the behaviour of the owner-manager within an organization. Furthermore, according to Kilby (1992), values are instrumental in advancing a constructive understanding of human behaviour and consequent change. Thus, it would appear that personal values should have important implications not only for the decision to pursue entrepreneurship, but for the way in which the entrepreneur/owner-manager manages a business. In this case, successful owner-managers have been identified with a personal value type referred to as 'entrepreneurial'. Entrepreneurs tend to place high value on desire, accomplishment, dependability,

accountability, hard work, competence, confidence, innovation, assertiveness, morality, creativity, social recognition and growth (Mohd 2015). Nonetheless, the failure rate of SMEs is very high in KZN region. Studies by researchers Kamakura and Mazzon (1991) presented results that suggest that SME owners should incorporate values and improve management skills. However, it is worth noting that SMEs that are motivated by opportunity have a better chance of survival. Given Africa's rich cultural background, KZN SMEs grounded in Zululand have a strong value system which emanates from a strong cultural orientation and progressively, this cultural system manifests in their business operations. According to a marketing research company in South Africa GFK, at least 13 percent of wholesale SMEs and 24 percent of manufacturing SMEs have attracted investors thus far because they managed to align the owner-managers values with the vision and strategy of the business (Cooper, Blackman & Keller, 2015). Furthermore, Alam (2015) agreed that owner-managers' personal values and enterprise performance are parentally related and are key in attracting investors into the business. Past studies have shown that owner-managers who put much value on their personal values are likely to achieve high performance levels. It is also suggested that owner/managers' personal values influence the strategies they adopt in operating their businesses and, ultimately, sustainable growth and the performance of their businesses.

### III. METHODOLOGY

It is against the gaps in the literature caused by different research methods that this study is anchored by Stakeholder theory, which directly feeds into the Research Paradigms, i.e. **Interpretivist** (aligned to a qualitative perspective): promotes self-reflection of Stakeholders and considers that there are multiple realities since all knowledge is relative to the knower. Interpretivist aims to work alongside others as they make sense of, draw meaning from and create their **realities** to understand their viewpoint. While **Positivist** is aligned to a quantitative perspective. Considering stakeholders, the positivist position presumes the social world exists objectively and externally, and that knowledge is valid only if it is based on observations and consideration of this external reality. The two paradigms build up to a **post-positivist perspective** which is aligned to a Mixed Approach which generates complementary results to this study (Moriarty, 2014). Therefore, the philosophical paradigm that guided the research was post-positivist, which subsequently recommends a mixed method approach (qualitative and quantitative). The problem under study required the participants' experiences (qualitative) and their quantitative opinions, which justifies a mixed method approach. Qualitative research can be defined as any research that produces findings not arrived at by employing statistical procedures or other means of quantification (Creswell, 2012). Quantitative research aims to test the predictive and cause-effect hypotheses about social reality, and it encompasses surveys which are often used for descriptive and explanatory resolutions (Bechhofer and Paterson, 2012).

As mentioned above, the research was descriptive which also reinforced the selection of a Case Study research design as a framework for collecting data to answer the research questions. As well, since SMEs in KZN region are made up of different Stakeholders which is in line with the Stakeholder theory a case study allowed the researcher to use multiple methods (interviews, questionnaires) to collect data. The researcher applied the case study approach as the main technique for this explanatory research to answer questions such as: what is the perception of SMEs business towards SR; to what extent do SME businesses practice of SR; What are the business values of SMEs in KZN and how are they oriented; what could be the owner's values driving sustainable growth of the business. The case study addresses the research problem within the post-positivist paradigm rather than the positivist or interpretive paradigms. Hence, the study adopted the post-positivist stance because it suits the research problem.

### IV. RESULTS AND DISCUSSION

**Do SME business owner's values matter in the operations of the business:** Personal values are the core of the personality and influence all other characteristics, such as attitudes, evaluations, judgments, decisions and commitments. Personal values have an impact on determining the behaviour of the owner-manager within an organization. Values are instrumental in advancing a constructive understanding of human behaviour and consequent change. Thus, it would appear that personal values should have important implications not only for the decision to pursue entrepreneurship, but for the way in which the entrepreneur/owner-manager manages a business. In this case, successful owner-managers have been identified with a personal value type referred to as 'entrepreneurial'. Entrepreneurs tend to place high value on desire, accomplishment, dependability, accountability, hard work, competence, confidence, innovation, assertiveness, morality, creativity, social recognition and growth. Nonetheless, the failure rate of SMEs is very high in KZN. It is worth noting that SMEs that are motivated by opportunity have a better chance of survival. Given Africa's rich cultural background, KZN region's SMEs grounded in Zululand have a strong value system which emanates from a strong cultural orientation and progressively, this cultural system manifests in their practise or non-practise of SR in their

business. Results show that SME business owners' personal values and enterprise performance are parentally related and are key in attracting investors into the business. In support of this finding, through research, it has shown that past studies have shown that owner-managers who put much value on their personal values are likely to achieve high performance levels. It is also suggested that owner/managers' personal values influence the strategies they adopt in operating their businesses and, ultimately, sustainable growth and the performance of their businesses (Alam 2015).

**The importance of values in practising SR:** The researcher found out that a value system plays an important role, whether strong or weak. In simpler terms, individuals make decision in line with the value system they espouse. In other words, in most African societies, values and attitudes are important because they shape behaviour and behaviour influences people, which in turn impacts positively on the growth of the SME business. It is important to consider personal values of the owner-manager when looking at the practise of SR by an SME business, since values normally translate to vision and finally strategies. Values will affect not only the perceptions of appropriate ends, but also the perceptions of the appropriate means to those ends. From the concept and development of organizations strategies, structures and processes, to the use of particular leadership styles and the evaluation of SR activities the SME business, value systems will be persuasive. Fiedler's (1967) leadership theory is based upon the argument that managers cannot be expected to adopt a particular leadership style if it is contrary to their value orientations. Values builds one's views on the operations of the business and therefore determines how the SME owner adopt and implement some business strategies. SME business confirmed that investors are concerned with the values of the organisation as a whole. Results show that SME businesses reflect the personal values of the owner and since decisions are centred around the owner in an SME business setup, there are chances that investors will be attracted not only by the financial performance of the business but also by the values which the business exhibits in SR operations.

**Values, Social Responsibility and Investment opportunities in South Africa:** The research found out that owner-manager's values influence the adoption, practice and participation of the business in CSR activities. Furthermore, the outcomes of CSR activities can help to improve the survival rate of SMEs, and may offer great opportunities for business competitiveness, locally and globally. CSR is one of the important ways in which a business can distinguish itself from its competitors and attract investors. Businesses have to give back to employees, society and the environment within which they operate. A useful strategic tool like CSR not only boosts the brand image and reputation of the firm for investment opportunities, but also leads to improvement in sales, customer loyalty, and an increased ability to attract and retain employees (Ngary, 2014).

Wankhade (2014) in support of Turyakira, Venter and Smith (2012) contended that being socially responsible creates goodwill and a positive image for the brand. Trust and a good reputation are some of a company's most valuable assets. Investors consider such assets when they are carrying out investor feasibility studies and without these assets, one would not even have a business. You can nurture these important assets by being socially responsible.

It is however crucial that one devises the right socially responsible programme for one's business, otherwise it will be a waste of time and capital. When used properly, SR will open up a myriad of new relationships and opportunities. Not only will one's success grow, but so will the company's culture. It will become a culture which the owner, staff and the wider community genuinely believe in (Reginald and Millicent 2014). Considering the literature from researchers above, author Sousa Filho (2010) who chose to use mixed research methodology summarised their results noting that owner-managers' values and CSR speaks on behalf of the business. Since wholesale and retail SMEs have nothing much to show off to investors in the form of capital outlay and physical assets, investors and financiers are attracted to companies who are socially responsible. These decision-makers know this reflects good management and a positive reputation. Do not underestimate this influence as it can be just as important as one's company's financial performance. In fact, it may be the deciding factor in choosing to support the company. However, Nandonde (2013) criticised the results as he believes policies and CSR scores are key bedrocks to CSR. The adoption and implementation of CSR policies, as well as the availability of CSR scores, has in fact generated a growing interest by financial markets and investment analysts in particular. Accordingly, given the pivotal role that financial markets play in the allocation of scarce capital resources and in the derivation of a company's market value, understanding whether and in what ways these markets assess a firm's CSR scores is critical.

**Owners' values key to the success of an SME business:** SMEs in KZN are deterred from practising SR due to the costs incurred in meeting the requirements and expenses of SR. Therefore, most of these SMEs businesses

expect finance-based assistance to further engage in SR. Some of the SMEs are not interested in assistance in the form of advice or guidance on SR as they always perceive a costly outcome. That is the reason why most SMEs generally fail in effectively practising and implementing SR as a sustainable growth strategy since the 'know how' is non-critical to them. SME business owners in KZN believe that there is slim or no chance of investment opportunities coming their way even if their values as owners are highly maintained. The concern was based on the reason that, because of the nature of their industry which naturally operates in a volatile market with unpredictable clientele tastes, profit margins and competition levels, investors fear that their efforts may go down the drain. Therefore, it never mattered whether to uphold personal values in practising SR because it brought no revenue other than just principled staff. In simpler terms Stakeholder Theory does not apply to their businesses since the values enshrined in responsible business do not bring any investment to their businesses.

Results show that there was no balance between entrepreneurship and ethical practice which led to SME business regarding SR as not necessarily reflective of their personal values and that SR had no bearing to the business making profit. Entrepreneurs tend to place high value on desire and accomplishment rather than on business-driven principles. Furthermore, the research found out that SME business values were being undermined by the perceived cost of SR. Values not only affect perceptions of the appropriate ends but also perceptions of the appropriate means to those ends. In addition, the research also discovered that investors are attracted not only by the financial performance of the business but also the values which the owner-manager exhibits for them to invest in the business' SR initiatives. KZN region is grounded in traceable rich cultural background and its people celebrate their involvement which has seen the region maintaining a cultural fibre. Personal values that evolved from this cultural fibre reflect in most businesses. However, results have shown that SME business owners have a parallel view on the role ethical values play in the drive to practise SR. SME business owners who acknowledged the importance of upholding personal values as critical to the practise proved through results that they were putting much value on their personal values. Conclusively the research adopted the assumption that those SME businesses that put value in their personal values as the driver for SR are likely to achieve high performance. However, the success of the business will depend entirely on which personal values the business owner is more inclined to promote.

## **V. CONCLUSION AND RECOMMENDATIONS**

**The importance of values in practising SR:** Regrettably, the South African government considers the sustainable growth of SMEs as a critically vital strategy to alleviate and fight the soaring levels of unemployment by progressively empowering previously disadvantaged citizens of the country simultaneously forgetting to enforce mandatory policies for SMEs to commit and engage in SR fully. Likewise, since the governing authorities in South Africa at all levels are generally shallow-resourced, incapable and inept when it comes to policy enforcement, SMEs are not a priority even if the impact of their operations is more significant. The proof is, in developed countries such as Australia, Japan, Germany, their cultures taught them to be responsible organisations no matter the size, the industry is highly socially responsible, and evidently, unemployment rates are relatively low with crime levels at insignificant levels. Morals and cultural beliefs in any country is easily nurtured from childhood hence the need for the South African government to consider SR to be incorporated in the Education system especially aligned to business subjects to make SR part of SME businesses owners' values.

**Owners' values key to the success of SME business :** Researchers fail to establish whether there is a significant link between values and SR. Literature has reflected different stand points on the same topic, however for the purpose of this study, the researcher concludes as:

- **Balance between entrepreneurship and ethical practice**  
There is need for the South African education system to incorporate SR as part of the subjects in the business courses. It is also important for the system to align SR with personal values that leads to a successful business. Research also found that SME business owners were not aware of which personal value among all other values that can be sustain and drive their business strategies such as brand loyalty through practising SR.
- **Entrepreneurs placing high value on desire and accomplishment rather than on business-driven principles.**  
South Africa has gone through some socio-economic challenges in the past years and has seen majority of SME businesses folding up because of financial related problems. The economy led to SME businesses failing to exercise their social obligations especially SR initiatives which generally has been regarded as a cost. SME business owners are aware of the need to promote their personal values through practising SR, however the

economy is not supportive enough for the business to branch from their core business to promote SR activities. There is need for business and local authorities to come together and compliment each other synergies so that business can have the room to practise SR without much cost.

- Investors are attracted not only by the financial performance of the business but also the values which the owner-manager exhibits for them to invest in the business' SR initiatives. As local authorities like the Durban Chamber of Commerce should run business workshops that are targeted on SME business owners to appreciate key areas that investors consider when they looking for business to invest in. It is of paramount importance for the workshop content to highlight to SME business owners that investors consider other non-business factors that builds up to a successful business such as a history of achieved SR initiatives

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