INVESTIGATING THE ETHICAL CONSIDERATIONS FACED BY SMALL BUSINESS ENTREPRENEURS IN THE INFORMAL SECTOR: ZANDSPRUIT TOWNSHIP, JOHANNESBURG

H. J. Botha
Association of Business Executives, United Kingdom and South Africa
P.O. Box 5532, Cresta, 2118 South Africa, hendrikb@abesa.co.za
083 267 1567

ABSTRACT
Zandspruit Township, in the outlying northern urban areas of the Johannesburg Metropolitan Municipality, in the centre of the informal economy, was found to be an ideal place for investigating the ethical considerations faced by small business entrepreneurs in the informal sector. Empirical evidence indicates the degree to which small business entrepreneurs in the informal sector agree with the meaning of the five categories of ethical considerations they face: bribery, coercion, deception, theft and unfair discrimination, and determined the personal experience and practices of these owner-managers of micro-businesses in relation hereto. The research findings show the extent to which the informal sector represents a viable solution to meet the growth needs of South Africa’s population and in particular provides an understanding of the ethical challenges and the level of acceptance of societal norms by small business entrepreneurs to support the standing of informal entrepreneurs and their integration into the formal economy. Descriptive statistics serve as the basis for the study and a follow-up article will provide further insight into and discussion by way of information generated from cross-tabulations.

Keywords: micro - small businesses, entrepreneurship, informal sector, ethical behaviour, ethical challenges
1. INTRODUCTION

Over the past two decades there has been renewed interest in entrepreneurs and their actions. Serious research attention has been devoted to studying the attitudes to the ethical behaviour of students, managers and entrepreneurs in the formal sector of the economy. An approach that is limited to the formal sector does not, however, allow researchers to gain an appreciation of the challenges faced by small business entrepreneurs in the informal sector despite the fact that they receive attention globally from policy-makers as a solution to the stimulation of economic and employment growth.

Entrepreneurship involves multiple relationships among multiple stakeholders and entrepreneurs often encounter uniquely challenging ethical problems (Hannafey, 2003). The modern entrepreneur must take cognizance of all stakeholders and is required not to focus exclusively on the profit motive. This is starker in the case of small businesses where sustaining positive cash flows is sometimes their biggest daily test. The multicultural environments and unique challenges that entrepreneurs in the informal economy must deal with have resulted in an increasingly intricate set of relationships to navigate and challenges for the modern small business entrepreneur to overcome (Venter, 2009).

These stressful business environments proliferate when stakeholders have conflicting claims, which is more often than not the case, and entrepreneurs often struggle to allocate time for ethical reflection. For example, the question of whether to continue operations by not paying the electricity supplier or worse, resorting to an illegal hook-up, may need to be balanced against having to pay for new stock when affordable credit is not even a consideration. Such a situation involves numerous stakeholders. The owner wants cash flow and to retain his/her job/economic opportunity, while suppliers want to limit their exposure to slow or bad debtors and protect their income bases. Regardless of the decision a small business entrepreneur makes, some stakeholders will gain at others’ expense.

The media are filled with stories of insider trading, bribery, fraudulent accounting and blatantly corrupt officials. Although large companies, entrepreneurs and public officials make the headlines, it is argued that small business entrepreneurs have an even tougher time with ethical problems because of the simple seduction of easy money. Small business
entrepreneurs are faced with ethical challenges every day as they make decisions that will affect their personal and business reputations (Barbee, 2005:42).

The general understanding among formal sector participants is that informal sector businesses are characterised by, among others, a level of unethical behaviour or conduct, i.e. bribery, deception, untrustworthiness, theft and coercion. A shortcoming in current literature is that no empirical evidence exists of the ethical considerations faced by small business entrepreneurs in the informal sector.

2. PURPOSE

The following three objectives have been identified as important in the achievement of the aims of this study.

- To establish the degree to which small business entrepreneurs in the informal sector accept the five categories of ethical considerations they face and consequent ethical behaviour required of entrepreneurs in the formal sector as indicated in current literature (Botha in Urban, 2010).
- To determine the personal experience and practices of small business entrepreneurs in the informal sector in relation to the five categories of ethical consideration.
- To serve as a reference to advance the standing of small businesses in the informal sector among businesses in the formal sector to establish greater acceptance of the former to advance their success, integration, cooperation and trade.

3. LITERATURE

The study of entrepreneurship and ethical behaviour is part of an academic discipline in Business Ethics, which applies the study of ethics to economic behaviour and practice. Within this broad area of economic behaviour and practice three distinct areas or levels of inquiry can be distinguished, namely the macro-economic, the meso-economic and the micro-economic level. The emphasis of this study is on moral issues that small business entrepreneurs in the informal sector face. Thus the third level of inquiry, also referred to as the intra-organisational dimension, which deals with moral issues that occur within business enterprises and the decisions by its individual members, is of relevance. The inquiry on this
third level is mostly dominated by problems that require decision-making within the confines of a specific economic enterprise. Typical issues that are being dealt with on this level include the entrepreneur’s approach to bribery, coercive threats and discrimination (Rossouw, 2006:2-3).

Ethics is about morality, about right and honourable conduct. It is argued by some, for example the Association of Business Executives in the United Kingdom, that ethics is significantly broader than the common concept of choosing right from wrong and that what is considered ethical will vary from country to country. In a general sense it takes on the medical profession’s dictum, *primum non nocere*, which means ‘above all, do no harm’. While this definition might be considered limited in business where there is, for example, an element of competition between organisations, there must then be rules for ethical competition. In the competitive labour market, for example, it is generally acceptable to draw staff from other employers, but it would not be acceptable to draw them in with promises that the new employer is then not willing to keep.

Ethics, also, is concerned with personal interaction. More specifically, it is concerned with a specific quality of interaction, i.e. the kind of interaction that ensures that the interests of those involved are not prejudiced. Or, to put it more positively, ethics is concerned with respecting and/or promoting the interests of all involved in a personal interaction. Ethics aims therefore to ensure that in the interaction between two or more parties the interests of all parties involved are not prejudiced but are, rather, enhanced. To put it simply: ethics aims to ensure that the interaction between two parties is good for both of them. Thus, the three main concepts around which ethics revolves are the “self”, the “other” and the “good”. It is important that each of these three concepts retains its rightful place in any discussion of ethical behaviour. Neglecting or ignoring any of the terms would distort one’s understanding of ethics (Rossouw, 2006:3).

Ethical values assume higher standards than those that are required by law and thus legal standards and ethics are not to be equated with each other. Ethical standards are thus the generally accepted rules of conduct that govern society and are both standards and expectations for behaviour that cover all aspects of life. Ethics, or ethical values, consist of those values that have developed into the unwritten rules that govern our interactions with each other. These unwritten rules are used to steer us when we are sharing resources,
honouring contracts or developing relationships. Ethics is therefore more than just the common or normative standards of behaviour. Entrepreneurship and ethical behaviour are about honesty, fairness, justice, responsibility, respect for others and their values and reputation. The principles of ethics, when honoured, ensure that the playing field is level, that we win by using our own work and ideas, and that we are honest and fair in our interactions with each other, whether personally or in our entrepreneurial endeavours (Jennings, 2009:4-5).

Sound ethical behaviour helps entrepreneurs to develop reputations that are above reproach during the start-up and growth phases of their ventures and thus obtain the support of suppliers, employees and other stakeholders. A reputation for meeting one’s commitments also assists entrepreneurs to win customers. While an entrepreneur may or may not abide by ethical standards, a poor reputation for ethical behaviour is like poison for an entrepreneur trying to establish a new business or like a disease that undermines long-term sustainability and the functioning of the economy (Botha in Urban, 2010).

3.1 The importance of ethics for entrepreneurs

Ethical behaviour and integrity are essential for long-term entrepreneurial success, whether from the macro-, meso- or micro-perspective. Unethical behaviour distorts the mechanics of the market system, which leads to an inefficient allocation of resources. Both ethics and profits are important for the survival, growth and long-term success of a company and unethical behaviour gives companies and industries a bad reputation and harms their results and prospects (Minkes, Small & Chatterjee, 1999).

Constraints in the form of bribery, coercion, deception, and unfair discrimination limit the freedom to act and produce inaccurate or deceptive information, resulting in suboptimal shifts in the cost and purchase of goods and services. Theft may lead to the actual breakdown of the market and, at best, result in artificially high prices. Purchase choices may be made that do not reflect the free choice of buyer and sellers. These choices lead to a misallocation of the country’s resources. Constraints on freedom, misinformation, and theft are associated with unethical behaviour. Thus, considering all three perspectives, ethical behaviour is a prerequisite for the market system to function effectively. The following is a more detailed discussion of the main forms of constraints.
**Bribery**

A bribe is used to manipulate people by buying influence. Bribery can be defined as the offering, giving, receiving, or soliciting of something of value for the purpose of influencing the action of an official in the discharge of his or her public or legal duties. The item of value may be direct payments of money or property. It may also be in the form of a ‘kickback’ after a deal has been completed (Fritzsche 1997:11). A commercial bribe is described as a consideration given to an employee by a person outside the company with the understanding that when the employee transacts business for his or her own company, the employee will deal favourably with that person or with that person’s company (Velasquez, 2006).

Bribes create a conflict of interest between the person receiving the bribe and his or her company and go against the fiduciary responsibility the person receiving them has to his or her company. Bribery is most often used to gain sales, to enter new markets, or to change or avoid public policy. Bribery reduces freedom of choice by altering the conditions under which a decision is made. A bribe is used to make one choice more attractive to a decision-maker. The greater appeal is created by enhancing the personal gain associated with the choice by the addition of an unearned income payment. While the decision-maker gains by selecting the alternative with the bribe, the choice itself is unusually less attractive and generally provides less total satisfaction. The bribe thus results in allocating more resources to a less desirable alternative. Often, the overall cost of the alternative proves to be more expensive because the cost of the bribe has to be recovered (Fritzsche, 1997:20).

**Coercion**

Coercion controls people by force or threat. Coercion is defined as compulsion, constraint, compelling by force or arms or threat and may be actual, direct or positive, as where physical force is used to compel action against one’s will. Coercion may also be implied, legal or constructive, as where one is constrained by subjugation to another to do what his free will would refuse (Garner, 2009).

The use of force is often the threat of blocking a promotion, the loss of a contract, or the so-called blackballing of an individual in business dealings. It may be forcing a person to act in a
manner that is against his/her personal beliefs or to compel an individual to act in a way that is against his or her will. Coercion may also be used against companies, for example forcing a retailer to handle specific products in order to obtain other, desired products (Fritzsche, 1997:12).

Extortion is also a form of coercion. Extortion occurs when an employee demands consideration from persons outside the company as a condition for dealing favourably with those persons when the employee transacts business for his or her company (Velasquez, 2006).

Extortion may involve some type of threat that is bought off via a payment. Intentional threats are most often used to ensure continued operation in a market, to stave off threatening competition, or to prevent some type of other harm befalling the company (Fritzsche, 1997:12).

Coercive acts, in the form of threats or force that prevents a seller from dealing with certain customers, buyers from purchasing from certain sellers, or buyers from buying certain products or services, decrease effective competition. This usually results in higher prices being paid and, possibly, poorer products and services being provided than would occur if more competition had been present. The higher prices decrease the demand for the goods and services below that which would occur at competitive prices. Thus fewer resources would be allocated to producing the goods and services than would be the case if the competition had not been constrained by coercion. Buyer satisfaction with the products and/or services is also likely to be lower owing to inferior performance (Fritzsche, 1997:20).

**Deception**

Deception involves manipulating people and companies by misleading them (Garner, 2009). Deception may be described as the act of deceiving; intentional misleading by falsehood, whether spoken or acted or knowingly and willingly making a false statement or representation, expressed or implied, pertaining to a present or past existing fact.

Dishonest behaviour is one of the most common ethical transgressions and includes the acts of distorting or falsifying research or accounting data, creating misleading advertising and
misrepresenting a product or service deliverable (Fritzsche, 1997:12). Deception is also involved in fake expense reports, misrepresented data and fudged cash receipts.

Deceptive information creates false impressions and leads buyers to select goods and services that provide less satisfaction than those which would have been purchased using accurate information. Deceptive information may also lead to deliveries at times other than promised, which can create costly disruptions in production runs, resulting in higher cost output. Buyers must pay more and thus buy less than would be purchased if deliveries had been on time. False delivery promises to consumers can also increase the cost of using products or services. Delivering products and services that differ from those promised will also distort the (market) system; resources will be allocated to the delivered items and not to those wanted (Fritzsche 1997:21).

**Theft**

Theft is the taking of something that does not belong to you, the act of stealing, the taking of property without the owner’s consent (Garner, 2009) and encompasses a wide variety of ethical transgressions, especially as property may be physical or even conceptual. Theft occurs in inside trading (with shares) when one uses privileged information as one’s own, in counterfeit products, in the use of copyrighted material without permission, or in price gouging and collusion. Cheating or overselling customers likewise are all acts that take something of value without the owner’s consent (Jennings, 2009).

Theft significantly increases the cost of providing products or services. Losses due to theft of any type must be made up via larger profit margins, which increase prices. The artificially increased prices due to theft will lower demand and thus result in a misallocation of resources. In extreme cases, theft can result in a product or service exiting the market (Fritzsche, 1997:21).

**Unfair discrimination**

Unfair discrimination is defined as unfair treatment or denial of normal privileges to persons because of their race, age, sex, nationality or religion (or personal beliefs or political
affiliation; it is failure to treat all persons equally when no reasonable distinction can be found between those favoured and those not favoured (Garner, 2009).

Unfair discrimination occurs when an individual is denied a job, promotion, or other benefit based upon the individual’s race, sex, or religion (or personal beliefs or political affiliation).

Unfair discrimination often results in the purchase of services from less capable people or the sale of goods and services to people who value them less than those discriminated against. It is also the misallocation of resources (Fritzsche, 1997:14 & 21).

From the perspective of the company, ethics is closely associated with trust. The author’s previous research provides evidence that to develop trust, behaviour must be ethical; the entrepreneur should espouse the characteristics of honesty, integrity, credibility and responsibility (Botha, 2004). Trust based on experience that the other person, group or company will honour the duty to protect rights and interests, mitigates perceived risk (Fritzsche, 1997:22). Therefore making ethical decisions and maintaining a reputation for integrity are not only vital to supplier, customer and employee relations, but also to the success and sense of personal accomplishment of the entrepreneur. The following is a discussion of the role trust plays in supplier, customer and employee relations.

**Trust in supplier relations**

Suppliers provide companies with the products and services required to conduct business, which include items such as raw materials, products, ICT support, consulting and financial services. Trust develops between the parties over an extended period of time as both prove themselves honourable, dependable and predictable in their transactions. Mutual trust promotes further cooperation and increases efficiency. This type of relationship provides a buyer with a dependable source of supply that meets with quality standards and on-time deliveries. Time spent on frequent checks can be more productively focused elsewhere. During periods of shortage the relationship will increase the possibility of needed items being obtained.
A supplier’s trust is lost when buyers engage in questionable practices, such as playing off one against another and lying and cheating. This type of behaviour could lead to the development of a reputation that precedes the buyer in the market, making it difficult to deal with other parties and find opportunities (Fritzsche, 1997:23).

**Trust in customer relations**

Contact with customers occurs mostly through sales or support staff. A sales person or support staff members earns a customer’s trust by being honest, dependable, competent, customer-orientated and friendly. Customers rely on their orders being delivered as contracted. Early deliveries may cost extra in terms of storage and insurance and may be unusable if required at a later stage. Late deliveries may halt production, with severe cost and penalty implications.

**Trust in employee relations**

Trust applies equally to relationships with peers, superiors and subordinates. A culture of trust provides improved communications; greater predictability, dependability and confidence among employees, which in turn mitigates staff turnover. Trust also supports openness and willingness to listen and accept criticism in a non-defensive manner and reduces conflict among staff (Fritzsche, 1997:24).

**3.2 Informal sector**

According to the International Labour Organisation (1984), the informal sector typically refers to economic activities not recorded in the national accounts, and not subject to formal rules of contract, licensing, labour inspection, reporting and taxation. Furthermore, these activities can be characterised in terms of ease of market entry, reliance on indigenous resources, small scale of operation, labour intensity, skills acquired from outside the formal education system, and markets that are unregulated and competitive. In spite of this, the informal sector is considered quite efficient at generating job opportunities and satisfying the population’s basic needs at very low cost (Morris & Pitt, 1995:78-79).
South African society is undergoing change due to the process of internal transformation of its economy and the knock-on effects of the global recession. However, the informal sector remains widely acknowledged as an important source of stimulation for South Africa’s economic growth and prosperity potential (Rwigema & Venter, 2006:393). According to Ligthelm (2006) of the Bureau of Market Research, the informal sector creates 2.1 million employment opportunities (approximately 20% of total employment) and contributes approximately 5 per cent to the gross domestic product, making it an important area for policy and research attention to realise its full potential.

South African literature seems to support the notion that employment in the informal sector offers a second best alternative to formal sector employment. Individuals, Africans in most cases, unable to secure employment in the formal sector, are forced to resort to informal means of employment in order to survive in one of a range of low-income marginal informal sector activities. Informal employment in South Africa, as well as in the rest of the world, comprises diverse activities. These include street trading and hawking, the provision of ‘street services’ such as shoe repair and hairdressing, the provision of transport services such as taxis, as well as productive activities such as manufacturing (Muller in Blaauw, 2005).

The picture emerging from the research depicts a continuum of informal retailers ranging from fairly developed businesses to enterprises purely established for household survival purposes. This wide array of informal retailers creates an excellent foundation for advancing entrepreneurship and allowing some of the businesses to upgrade gradually to more formal business structures. At the same time, it should be noted that a large percentage of informal businesses were established in a non-lucrative business environment and are therefore operating at a bare survival level (Ligthelm, 2006).

The empirical research of Urban and Venter (2009), Venter (2009), Neethling (2009) and, Charman and Peterson (2009), advances the current understanding that the informal sector is indeed a viable space for entrepreneurial opportunity by showing that small-scale or micro-entrepreneurs can be clearly distinguished from the self-employed when considering informal sector activity, thus making it an important area of continued research and policy intervention.
Traditional black African ‘townships’ (informal settlements) are at the heart of the informal economy. They border on every major city and most have experienced uncontrolled growth in population. Informal sector activities are pervasive in townships. The Zandspruit area is a case in point. Its current population estimate is 26 273. The Zandspruit Informal Settlement (hereafter Zandspruit) is located within the City of Johannesburg Metropolitan Municipality (2008), on the northwestern boundary of Johannesburg, directly north of Roodepoort and south of the Cosmo City development. It is surrounded by the following types of land uses:

- The rural residential (agricultural holdings) areas of Chartwell, Muldersdrift, Ruimsig and North Riding.
- The residential areas of Randburg, Roodepoort and Ruimsig, which are located to its east, south and southwest.
- Three business districts, which are situated in the vicinity, namely Fourways, the Randburg Central Business District (CBD) and the Roodepoort CBD.
- Commercial/industrial areas located near the area, including Strijdompark, Kya Sands and Laser Park.

Most of the housing consists of wood, cardboard, corrugated iron, plastic and scrap metals. There is limited water, sewerage and electricity supply. Some infrastructure spending is under way but is currently limited to road works. The region is, however, targeted for major public investment under the Zandspruit Urban Development Framework 2020 of the City of Johannesburg Metropolitan Municipality (2008), which is aimed at integrating the informal settlement into the greater region.

The primary concern of this study is the extent to which the informal sector represents a viable solution to meet the growth needs of South Africa’s urban population, and in particular, to understand the ethical challenges and level of acceptance of societal norms by small business entrepreneurs to support the standing of informal entrepreneurs and their integration within the formal economy.

4. METHODOLOGY

To support the attainment of the objectives of this study, a cross-sectional survey was conducted in the township of Zandpruit. Owner-managers of 24 informal sector businesses
were personally interviewed at their place of business. Because the research interest focuses on ethical behaviour, a convenience sample was employed, addressing businesses that fell within the definition provided by the National Small Business Act (102/1996) of micro-enterprises. The definition is: having five or fewer employees, with less than R100 000 in fixed assets, and less than R150 000 annual turnover. The sample covered eight of the 16 sectors identified by the act: manufacturing; electricity, gas and water; retail and motor trade and repair services; wholesale trade; catering; transport; communications; and social and personal services.

A questionnaire was designed consisting of 40 closed-ended items covering the following four areas: Section A: biographical information (four items); Section B: description of ethical issues faced by entrepreneurs (10 items); Section C: experience of ethical behaviour by others towards them (15 items); Section D: perception of their own ethical behaviour (15 items).

Section B consisted of two questions each, covering each of the definitions and meanings of bribery, coercion, deception, theft and unfair discrimination. Responses were recorded on a five-point Likert scale: strongly disagree, disagree, not sure, agree, strongly agree.

Sections C and D each consisted of five main questions requiring the respondents to attest to their experience, within the ambit of their business affairs and during the prior six-month period only, of bribery, coercion, deception, theft and unfair discrimination, requiring only a simple ‘Yes’ or ‘No’ response. In each case where a ‘Yes’ response was entered, answers to two follow-up questions were required, which addressed the source and frequency thereof. Under the heading Source; five further options were provided, namely customer, supplier, landlord, government official, other. Under the heading Frequency: the following further options were given: once; twice; three or more times.

The questions were worded and the layout was designed to emphasise simplicity and clarity. In spite of this, some interpretation problems were encountered and certain terms had to be translated back and forth a number of times. Section B, which covered the definitions and meanings, required examples in certain cases to elucidate the questions further.

Interviews were conducted by two trained individuals who were former residents of the township, accompanied by the author. The surveys were conducted in English or the native
language of the respondents, depending on their preferences. Each interview lasted between 40 and 60 minutes. The project was explained as a study being conducted by a local business school and participation was voluntary. In spite of this, and because of the highly personal and sensitive nature of the questions, the respondents were initially very hesitant and suspicious of our intentions. In this regard, respondents were uncomfortable with our lingering presence during peak business hours because the attention caused a disruption to trade. After the times of visits were changed, respondents proved to be very cooperative.

5. DESCRIPTIVE FINDINGS

5.1 Biographical

Most of the respondents were males, (67%) while females constituted only 33 per cent, a statistic contrary to earlier notions that described informal businesses as mostly being female-headed while males moved back and forth looking for formal sector jobs, and rather supporting the findings of Morris and Pitt (1995).

The main types of businesses from which the respondents were drawn were social and personal services (25%); retail and motor trade and repair services (21%); catering (17%); manufacturing (13%); transport (8%); communications (8%); wholesale and trade (4%); and electricity, gas and water (4%). These findings are different to those of a major study of the informal sector in the 1980s as reported by Raine, (1989) in Morris and Pitt (1995) that identified only four general categories: trading and hawking (55%); production and construction (23%); services (16%) and illicit activities (6%). The difference between the two surveys could be attributed to various causes, including a lack of clear guidelines to report purposefully on the various activities that had been addressed by the National Small Business Act (102/1996) since 1996, and, an expansion of the scope of informal business activity in meeting the demands of local communities that are growing in sophistication. This is evident, considering the findings of businesses in communications (now 8%) which previously did not exist. For the purpose of this study, businesses grouped under communications comprised ventures devoted to selling, supporting and/or providing access to cellular handsets and airtime.
Over half of the respondents (57%) reported that they had been trading for more than four years, 29 per cent fell in the period ranging between one and three years, and 14 per cent reported having been in business for less than one year. This supports the reliability of the information collected, because the respondents have been in business for a reasonable amount of time and may thus be considered experienced small business entrepreneurs in the informal sector. The total number of respondents with a reported length of trading longer than four years (57%) reflects findings from other studies, such as those of Urban and Venter (2009) and Charman and Petersen (2009), in which respondents reported that they had to start up the ventures owing to necessity, but because of their relative success as small business entrepreneurs, they would be very reluctant to consider giving up their businesses if offered a stable job with an established company in the formal sector. Thus they prefer being entrepreneurs to being employees.

In terms of performance, three-fifths (79%) of the entrepreneurs have created employment opportunities for between three and five employees, with 21% reporting having between no and two employees. This finding corroborates economic reports and theory propagated by policymakers, which state that small or micro-businesses, especially those in the informal sector, should be supported because they contribute positively to growth in jobs.

The findings for Sections B, C and D are discussed holistically to support an integrated understanding of the responses received for the description and understanding of ethical concepts, experience of ethical behaviour by others towards them, and experience of ethical behaviour as conducted by themselves, under the headings addressed in this study: Bribery, Coercion, Deception, Theft, and Unfair Discrimination.

5.2 Bribery

Seventyone (71) per cent of the respondents strongly agreed with the statement that bribery is used to manipulate people by buying favour with money or goods, (13%) agreed and (12%) disagreed. For the second statement, (63) percent of the respondents strongly agreed that bribery is most often used to gain sales, to enter new markets/areas or to avoid laws or public regulations, while (29%) agreed and (8%) strongly disagreed. These results show that the majority of respondents (84%) are in agreement about the meaning of bribery and (92%) agree with the description of how bribery is used in business.
Fifty (50) per cent stated that they had been asked to pay a bribe in conducting their business within the last six months. When asked by whom, 58 per cent stated ‘government official’, 17 per cent ‘customer’, 8 per cent ‘landlord’ and 17 per cent a party ‘other’ than those listed. In addition to the high level of bribery solicited by government officials, which is a very troubling figure, it is worth noting that the figure for suppliers was 0 per cent. When asked how frequently this had happened, 42 per cent indicated once; 33 per cent, twice; and 32 per cent, three times or more.

When asked the question, “In conducting your business in the last six months, have you ever offered to pay a bribe?” 58 per cent responded ‘No’ and 42 per cent ‘Yes’. In the follow-up question to establish the party targeted, 70 per cent stated ‘government official’ and the remaining 30 per cent, ‘supplier’. Regarding the frequency hereof during the last six months, 40 per cent stated ‘twice’; 30 per cent indicated ‘three times or more’, and 30 per cent noted ‘once’.

5.3 Coercion

Seventy-three (73) per cent of the respondents agreed with the statement that physical force or threats are used to control or influence trading decisions; 18 per cent disagreed with this statement. On the other hand, just over half (59%) of the respondents agreed that intentional threats are used to ensure continued business in a market/area or to stop or slow down competition, or to prevent some type of other harm from befalling the company, and 29 per cent disagreed with this. These results indicate that respondents understood the meaning of coercion and its impact upon trading/business decisions.

When asked, “In conducting your business in the last six months, has someone forced or threatened you to act in a manner that is against your will or preference?” 62 per cent responded ‘No’ and 38 per cent ‘Yes’. In the follow-up question to determine the source, 34 per cent indicated ‘customer’, 32 per cent ‘supplier’, 11 per cent ‘landlord’, 11 per cent ‘government official’ and 11 per cent ‘other’ parties. Fifty-six (56) per cent indicated that this happened once, 33%) twice and 11 per cent three times or more during the previous six-month period. It is significant to consider that coercive acts such as physical threats rather than bribery seem to be more readily used by customers, landlords and suppliers and the
inverse seems to be true in the case of government officials. This could be attributed to the physical nature of the evidence and the relatively slow arm of the justice system. A government official who is seen beating up a member of the public is quite overwhelming evidence for the relevant government department to act quickly, while for a citizen it will take a long time to move such a case through the courts. Furthermore, the punishment could be relatively less for the citizen, considering the government official could lose his or her job and limit his or her career prospects, whereas a citizen might not face prison time if this is a first conviction. A case of bribery against a government official is difficult to prove, as the evidentiary burden is high. On the other hand, it might seem to a stakeholder that if he or she could get what he/she wants through a threat of force, there is no reason to offer a monetary incentive or pay a bribe.

Seventy-five (75) per cent responded ‘No’ and 25 per cent ‘Yes’ to having made use of force or physical threats in conducting their business in the previous six months. When asked who this was directed at, 34 per cent stated ‘customer’, 33 per cent ‘landlord’, and 33 per cent ‘other’ party. To determine the frequency of this occurrence, 34 per cent of the respondents stated ‘once’, (33 per cent ‘twice’, and 33 per cent ‘three times or more’.

The level of intensity of responses for ‘Yes’ and ‘No’ seems to be in agreement and attest to the level of truthfulness in reporting: 62 per cent responded ‘No’ and (38 per cent ‘Yes’ when asked. “Has someone forced or threatened you?” versus 75 per cent responding ‘No’ and 25 per cent having made use of force or physical threats. It is also noteworthy to highlight the parties with the highest percentages of involvement in these instances: 34 per cent indicated ‘customer’, 32 per cent ‘supplier’ using force or threats against respondents and 34 per cent stating ‘customer’ and 33 per cent ‘landlord’ as the intended targets of force or threats.

5.4 Deception

Eighty-four (84) per cent of the respondents agreed with the statement that deception involves the misrepresentation of a person, product or information in order to obtain an advantage, and 8 per cent disagreed. Furthermore, 88 per cent agreed that deception involves the manipulation of people to mislead companies, while 8 per cent disagreed. These results indicate that the respondents have a very clear understanding of the meaning of deception as it relates to the business environment.
Fifty-four (54) percent responded ‘No’ and 46 per cent ‘Yes’ to the question whether they had been deceived by someone in conducting their business in the previous six months. When probed for the source, 55 per cent stated ‘supplier’, 18 per cent ‘customer’, 9 per cent ‘landlord’, 9 per cent ‘government official’ and 9 per cent ‘other’ party. Under the How Frequently segment 46 per cent responded ‘twice’, 36 per cent ‘once’, and 18 per cent ‘three times or more’. It is noteworthy that less than 50 per cent of respondents have experience of this; however the source of such incidents is disconcerting - overwhelmingly ‘suppliers’ (55%).

Seventy-nine (79) per cent of respondents indicated ‘No’ and 21 per cent of the respondents indicated ‘Yes’ when asked if they had misrepresented themselves, a product, price or business information. Sixty (60) per cent responded that they had deceived a ‘customer’, 20 per cent a ‘supplier’, and 20 per cent ‘other’ parties. One hundred (100) per cent of the respondents said they had misrepresented themselves, a product, price or business information once only during the last six months in conducting their business. Interestingly, the respondents stated no (0%) attempts at deceiving government officials and/or landlords.

5.5 Theft

All the respondents (100%) agreed with the statement that theft is the taking of something that does not belong to you without the owner’s knowledge or consent. Eighty-four (84) per cent of the respondents agreed with the further statement that theft also occurs when products are counterfeited or customers are overcharged and 16 per cent disagreed. The variance in responses between these two statements, albeit small (only 16%), shows that a meaningful difference exists between how the concept of theft is understood in general terms and how it is understood in business terms. A very good example of this is the relatively high level of acceptance among the general public relating to downloading music, films and games without paying the copyright holders and not displaying shame by accepting guilt in respect of a lapse in ethical judgement in the conduct of a transgression that carries both criminal and civil liabilities.

In conducting their business in the previous six months, 58 per cent of the respondents indicated that someone had stolen from them. When asked the suspected source, the
responses were as follows: 43 per cent ‘customer’, 22 per cent ‘supplier’, 21 per cent ‘government official’ and 14 per cent ‘landlord’. Under Frequency of the Occurrence of suspected theft, 50 per cent of the respondents stated three time or more, 29 per cent twice and 21 per cent once.

When asked, “Have you cheated someone?” 79 per cent responded ‘No’ and 21 per cent ‘Yes’. When asked who, 60 per cent stated ‘customer’, 20 per cent ‘supplier’ and 20 per cent ‘other’ party. Under Frequency of Occurrence, 40 per cent responded ‘three times or more’, 40% ) ‘once’, and 20 per cent ‘twice’. Interestingly, the respondents declared no (0%) attempts at theft/stealing from government officials and/or landlords. This could be owing to the nature of the contractual relationships or transactions the respondents have with these two parties, which are not in terms of goods or stock.

5.6 Unfair discrimination

A very significant number of the respondents (96%) agreed with the statement that unfair discrimination is the denial of normal privileges to persons because of their race or age or sex or nationality or religion or personal beliefs or political affiliation. It is noteworthy that 4 per cent did disagree with this general statement, which could imply that one or more of the terms: race or age or sex or nationality or religion or personal beliefs or political affiliation are considered to be mutually exclusive when it comes to matters of unfair discrimination. All the respondents agreed with the second statement that unfair discrimination is the failure to treat all persons equally when there is no good reason to treat them differently.

Sixty-seven (67) per cent responded ‘Yes’ to the question whether they had been discriminated against in conducting their business in the previous six months because of race or age or sex or nationality or religion or personal beliefs or political affiliation. Only 33 per cent stated ‘No’. When asked the source of this, 31 per cent cited ‘other’ parties, 25 per cent ‘supplier’, 25 per cent ‘government official’, 13 per cent ‘supplier’ and 6 per cent ‘landlord’. Under the frequency of this occurrence, 50 per cent responded ‘three times or more’, 25 per cent ‘twice’ and 25 per cent ‘once’.

The majority of respondents (75%) indicated that they had not discriminated against someone because of their race or age or sex or nationality or religion or personal beliefs or political affiliation while conducting their business; 25 per cent of respondents indicated that they had.
When asked, “Who did you discriminate against?” 33 per cent stated ‘customer’, 33 per cent ‘other’ party, 17 per cent ‘supplier’ and 17 per cent ‘government official’. When followed up for frequency during the previous months, 50 per cent said ‘once’, 33 per cent ‘three times or more’, and 17 per cent ‘twice’.

Considering the high levels of reported experiences of unfair discrimination, the legacies of colonialism, discrimination at all levels of society owing to apartheid, and the recent violent xenophobic attacks on immigrants from Africa seem to suggest that unfair discrimination remains endemic in South African society and requires serious attention by leaders of all spheres in the public and private sectors and civil society (Maharaj, 2009).

6. CONCLUSION

Ethics plays a very important role in entrepreneurship, as it provides guidance as to which personal and business practices are socially and morally acceptable and which are not. In cases where there are no rules as to the right and wrong ways of conducting ourselves or our business, ethics fills the void and provides much needed direction.

It is through awareness and appreciation of ethics that entrepreneurs desist from engaging in personal and business practices that lead to violation of human rights or degradation of the environment or bringing about gain at the unfair expense of others. Morally acceptable conduct benefits society at large, as it strives to direct entrepreneurs and their businesses to be open and honest with all stakeholders about their dealings and their products or services.

In this particular study specific attention is focused on entrepreneurship and ethical behaviour among owner-managers of micro-enterprises. A great deal has been written on the topic of business ethics, and the ethics of social responsibility and good governance of large businesses and the formal sector. Hence, this study explored ethics, values and moral challenges to enhance understanding of experiences in this regard in the informal sector.

The research reported in this paper makes four specific contributions to emerging research focusing on ethical considerations faced by small business entrepreneurs in the informal economy. Firstly, it makes a unique contribution in establishing a more detailed
understanding of the realities faced by informal sector businesses/entrepreneurs. Secondly, the findings of the empirical part of this study constitute one of the first attempts to examine ethical practices among small business entrepreneurs in the informal sector. Thirdly, it is clear that the five categories of ethical considerations are accepted by small business entrepreneurs in the informal sector who are thus in line with societal norms, which validates the use of current literature to provide the theoretical underpinning of the present study. Finally, the study serves as a reference for policy-makers and economic stakeholders to advance the functioning and standing of informal sector businesses in support of integration of the informal and formal sectors, and realising increased economic and employment growth.

7. LIMITATIONS AND FURTHER RESEARCH

The study should be replicated to provide for a greater sample, include more informal settlements and cover the eight remaining business sectors as identified in the National Small Business Act, (102/1996), to refine the instrument and improve the generalisations of the findings. Opportunities for further research exist in reporting the cross-tabulations from existing data and duplicating the study among small business entrepreneurs in the formal sector to establish data for comparative purposes.

A report on the cross-tabulations in the research findings of the investigation of Zandspruit micro-businesses is currently being prepared for publication.
REFERENCES

Barbee, B. ‘Relationships are critical and integrity is essential to success’, Baylor Business Review, Spring, 42-44.


Maharaj, M. 2009. Personal interview on 3rd Degree. ETV News Channel, [broadcast date: 7 November 2009].


APPENDIX:

Experience of ethical issues faced by entrepreneur’s questionnaire (EEIFEQ) ©
HJ Botha

A. BIOGRAPHICAL

<table>
<thead>
<tr>
<th></th>
<th>Male</th>
<th>Female</th>
</tr>
</thead>
<tbody>
<tr>
<td>Type of business</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Years of trading</td>
<td>Less than 1 year</td>
<td>1 to 3 years</td>
</tr>
<tr>
<td>Number of employees</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

B. DESCRIPTION OF ETHICAL ISSUES

Reflect on the following statements about the ethical issues faced by entrepreneurs. Indicate your position regarding each statement by inserting an “X” in the box which is closest to your view.

A bribe is used to manipulate people by buying favours with money or goods.

- Strongly disagree
- Disagree
- Not sure
- Agree
- Strongly agree

Bribery is most often used to gain sales, to enter new markets/areas, or to or avoid laws or public regulations.

- Strongly disagree
- Disagree
- Not sure
- Agree
- Strongly agree

Physical force or threats are used to control or influence trading decisions.

- Strongly disagree
- Disagree
- Not sure
- Agree
- Strongly agree

Intentional threats are used to ensure continued business in a market/area, to stop or slow down competition, or to prevent some or other type of harm from befalling the company.

- Strongly disagree
- Disagree
- Not sure
- Agree
- Strongly agree

Deception involves misrepresentation of a person, product or information in order to obtain an advantage.

- Strongly disagree
- Disagree
- Not sure
- Agree
- Strongly agree

Deception manipulates people and thus companies by misleading them.

- Strongly disagree
- Disagree
- Not sure
- Agree
- Strongly agree

Theft is the taking of something that does not belong to you without the owner’s knowledge or consent.

- Strongly disagree
- Disagree
- Not sure
- Agree
- Strongly agree

Theft occurs when products are counterfeited or customers are overcharged.

- Strongly disagree
- Disagree
- Not sure
- Agree
- Strongly agree
Unfair discrimination is the denial of normal privileges to persons because of their race, age, sex, nationality, religion, personal beliefs or political affiliation.

<table>
<thead>
<tr>
<th>Strongly disagree</th>
<th>Disagree</th>
<th>Not sure</th>
<th>Agree</th>
<th>Strongly agree</th>
</tr>
</thead>
</table>

Unfair discrimination is the failure to treat all persons equally when there is no good reason to treat them differently.

<table>
<thead>
<tr>
<th>Strongly disagree</th>
<th>Disagree</th>
<th>Not sure</th>
<th>Agree</th>
<th>Strongly agree</th>
</tr>
</thead>
</table>

C. EXPERIENCE OF ETHICAL ISSUES

The following questions gather information about your perception of the behaviour by others towards yourself.

In conducting your business in the last six months:
1. have you been asked to pay a bribe?  
   | Yes | No |

   If yes, by whom
   | customer | supplier | landlord | government official | other |

   How frequently?
   | once | twice | 3 times or more |

In conducting your business in the last six months:
2. has someone forced or threatened to force you to act in manner that is against your will or preference?  
   | Yes | No |

   If yes, by whom
   | customer | supplier | landlord | government official | other |

   How frequently?
   | once | twice | 3 times or more |

In conducting your business in the last six months:
3. have you been deceived by someone?  
   | Yes | No |

   If yes, by whom
   | customer | supplier | landlord | government official | other |

   How frequently?
   | once | twice | 3 times or more |

In conducting your business in the last six months:
4. has someone stolen from you?  
   | Yes | No |

   If yes, who
   | customer | supplier | landlord | government official | other |

   How
   | once | twice | 3 times or more |
In conducting your business in the last six months:  
5 have you been unfairly discriminated against because of your race / age / gender / nationality / religion / politics?  

| Yes | No |

If yes, by whom:  
customer supplier landlord government official other

| customer | supplier | landlord | government official | other |

How frequently?  
once twice 3 times or more

| once | twice | 3 times or more |

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**D. EXPERIENCE OF ETHICAL ISSUES**

*The following questions gather information about your perception of your own behaviour towards others.*

In conducting your business in the last six months:  
1 have you offered to pay a bribe?  

| Yes | No |

If yes, to whom:  
customer supplier landlord government official other

| customer | supplier | landlord | government official | other |

How frequently?  
once twice 3 times or more

| once | twice | 3 times or more |

In conducting your business in the last six months:  
2 have you forced or threatened someone to act in a manner that is against his or her will or preference?  

| Yes | No |

If yes, who:  
customer supplier landlord government official other

| customer | supplier | landlord | government official | other |

How frequently?  
once twice 3 times or more

| once | twice | 3 times or more |

In conducting your business in the last six months:  
3 have you misrepresented yourself, a product, price or any business information?  

| Yes | No |

If yes, to whom:  
customer supplier landlord government official other

| customer | supplier | landlord | government official | other |

How frequently?  
once twice 3 times or more

| once | twice | 3 times or more |

In conducting your business in the last six months:  
4 have you cheated someone?  

| Yes | No |
In conducting your business in the last six months:

5 have you unfairly discriminated against someone because of their race / age / gender / nationality / religion / politics?

<table>
<thead>
<tr>
<th>Yes</th>
<th>No</th>
</tr>
</thead>
</table>

If yes, who

| customer | supplier | landlord | government official | other |

How frequently?

| once | twice | 3 times or more |

+