

# Chapter 7

## Entrepreneurial Business Ethics and Good Governance

**Jayrusha Ramasamy Gurayah**  
*University of KwaZulu-Natal, South Africa*

**Jayrusha Ramasamy Gurayah**  
*University of KwaZulu-Natal, South Africa*

### ABSTRACT

*Small medium enterprises (SMEs) have proven and are known to be one of the biggest contributors to the economy of developing countries. Evidence shows that SMEs provide a number of job opportunities, which results in unemployment reduction, poverty eradication, and a bigger boost towards other economic activities. However, most SME entrepreneurs face an array of problems such as access to funding, building up international connections, getting appropriate knowledge and access to adequate technology. These issues are then further intensified by the lack of proper governance and the avoidance of business ethics by most SME entrepreneurs. Over the past years, the number of SMEs has grown drastically in developing countries (Nigeria, Algeria, Brazil, and Vietnam), which has also resulted in an increase in competition within the sector. This has given rise to the need to install the strategies of corporate governance with the aim of strengthening the competitiveness of SMEs.*

### INTRODUCTION

In South Africa and in developing nations alike, small, micro and medium business enterprises (SMMEs) have been collectively commended for nurturing and developing economic growth in their country's economies (Aren & Sibindhi, 2015, p.579). In

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the pursuit of becoming economically sustainable and up-and-coming, entrepreneurs spend a lot of their effort and time in the process of '*making money*' in sustaining their business within the larger economic sector of a country. In doing this some entrepreneurs begin to slowly lose sight of the significance and relevance of '*doing the right thing*' and '*making money*' through the correct ways using correct processes and practices.

A study completed by Khomba and Vermaak (2012) found that there is accumulative stress placed on SMMEs to be ethical in their business practices in addition to them making sure their businesses are run efficiently, effectively and economically sound towards achieving and increasing their business performance. In strategic planning, entrepreneurs will find that business ethics and ethical practices will benefit them and their business in the end. Unethical behaviour poses many coercions and risks to entrepreneurs operating in the 21<sup>st</sup> century and has become very prevalent in terms of their operational survival (Medlin & Green, 2003, p.5).

In South Africa, many corporate governance structures do not immediately apply to SMMEs but as SMMEs move into small medium enterprises (SMEs) over periods of progression, they do then grow and practice of cooperate governance has to be adhered to. Foreign institutional investors regard listed South African companies a green light to begin doing business with. Therefore, it is important and essential that SMMEs and SMEs begin the practice of using corporate governance structures and applications in their organisations at an early stage for long-term benefits. Corporate governance assists organisations at all levels to become focused and controlled in terms of integrity and efficiency in the way in which things are being done (Bhorat, Asmal, Lilenstein & Van der Zee, 2018, p.3).

## **DEFINITION OF A SMALL AND MEDIUM ENTERPRISE (SME) AND SMALL MEDIUM AND MICRO ENTERPRISE (SMME)**

Defining a SME is not a direct and easy directive as it differs from country to country. No single uniform definition exists, and in a broader and holistic understanding, an SME is a business venture that upholds revenue, assets and a limited number of employees below a specific level laid out by a country's economic structure. (International Leadership Development Programme – ILDP, 2014, p..6). In South Africa, an SME is defined as a formalised business that generates revenue less than R200 000 annually and employs between two to five employees (SME Landscape Report, year?). SMEs are seen as operative and industrious promoters of economic development and growth in South Africa and on an international passage as well. Research has shown that SMEs help South Africa make up close on 91% of formalised businesses, effectively promote and provide employment by up to

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