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INSTITUTE of
Business Ethics

Business Ethics for SMEs

This briefing explores what business ethics means for small to medium-sized business enterprises and how they can introduce and support high standards of business practice.

Why think about business ethics?

Few directors of small and medium sized enterprises (SMEs) will deny the importance of good, trusting relationships with customers, employees, suppliers and the community. The success of their company depends on it.

Also, due to requirements higher up supply chains, smaller firms are increasingly asked about their social and environmental credentials during tendering processes with large corporations.

SME owners and managers will also recognise the importance of trust and ethics in business when on the 'receiving end' of unethical business practice; for example, when suppliers deliberately do not meet agreed terms and conditions.

Owners and managers can often encounter ethical challenges. Examples include:

- *Do I meet a deadline with my customer and ship out products even though I know there is a possibility they might be faulty, or do I openly discuss my difficulties with the customer?*
- *How do I ensure that my employees do their work properly and do the right thing?*
- *How do I deal with my employees' desire to balance their work obligations with their personal ones?*
- *How do I respond when securing an important contract seems to require the payment of a kickback?*
- *Do I delay payment to suppliers and the Inland Revenue when my cash-flow is currently limited?*

The desire to build trusting internal and external relationships, as well as growing pressures from wider society, should lead SME owners and managers to consider to what extent ethical values and principles guide their business behaviour (see Fig 1). What does 'doing the right thing' mean?

Box 1
Some benefits of making ethical values explicit

- Increased employee loyalty, higher commitment and morale as well as lower staff turnover
- Attraction of 'high-quality' staff
- Reputational benefits (customers and suppliers)
- More open and innovative culture
- Decreased cost of borrowing and insurance
- Generation of good-will in the communities in which the business operates

Ethical Values in SMEs

SMEs are characterised by informal understandings and shared expectations among the workforce of how business is done. Any values and ethical principles will usually be implicit rather than formally expressed through ethics policies, codes and programmes that are familiar in large companies. The ethics of a small organisation is typically influenced by the owner-manager or managing director. Through their very visible presence, their personal attitudes and behaviours will set the tone of the business and have the potential to signal to employees how seriously ethical behaviour is to be taken in the organisation. SMEs are not typically able to devote as many resources to building an ethical workplace culture as larger organisations.

However, there are advantages to having a somewhat more formal ethics policy in place. Firstly, it reinforces and makes explicit the values and principles that are part of the organisational culture, so allowing them to be communicated to stakeholders. Secondly, a policy will provide guidance and support to employees on how they are expected to conduct their business. Box 1 sets out some benefits of an explicit ethics policy.

A policy will provide a context and the vocabulary for employees to raise any concerns they have with their supervisors or the directors. It will form a framework for management and staff to decide what is the "right thing to do".

How to develop and implement an ethics policy

1. Identify and define core values of the business
An effective ethics policy will be based on a set of values. Values may be thought of as agreed standards of behaviour, expressing beliefs about the 'good' and the 'right' in the context of the organisation; they are commonly derived from wider cultural and societal value systems. When identifying the organisation's core values, it may help to think of some values as business values and others as ethical values, although the distinction can be blurred and business and ethical values are often interrelated. Some commonly found values are shown in Figure 1.

In SMEs, these values will inevitably be influenced by the personal and professional values and principles of the owner-managers. However, it is considered good

practice to consult employees about this, asking them what they think the values of the organisation are. Employee involvement can increase the effectiveness of an ethics policy; it is the first stage in embedding values in the culture.

Figure 1

Business values may include:	*Ethical values* may include:
• Customer service	• Integrity
• Quality	• Honesty
• Innovation	• Openness
• Reliability	• Respect
• Efficiency	• Fairness
• Value for money	• Responsibility

2. Draw up a code of ethics
A code of ethics is the main tool for implementing an ethics policy. It translates core values into specific commitments and expected behaviours in relation to the organisation's key stakeholder groups (i.e. customers, employees, suppliers and contractors, providers of finance and community). A code will also be a good place to address environmental responsibilities and to state how the company seeks to relate to its competitors. When drawing up a code it is also helpful to ask employees about ethical issues that concern them and on which they would like guidance.

The code may be titled *"The way we work"* or *"Our values and principles".* Its purpose is two-fold:
a.   To make a public statement
b.   To provide guidance to staff
A code of ethics cannot cover every situation but should make clear the 'spirit' in which business should be done.

3. Embedding the Code
The code needs to be communicated throughout the company. All employees should be made aware of the code, the commitments the organisation has made and the ethical behaviours that are expected of them as members of the organisation and how they can get support. It will be good practice if owner-managers themselves introduce the code to new employees and remind existing staff of the importance of responsible behaviour on a regular basis, e.g. in staff meetings. Reminder communications could include examples of 'right action', consequences of 'wrong' actions, and dilemmas.

Employees should be encouraged to speak to their line-managers or the directors if they are unsure about the 'right' response in specific situations or if they have concerns over certain decisions and behaviours. Appointing a designated 'ethics champion' should also be considered. This may be the board secretary or HR manager or, depending on the size and set-up of the business, a non-executive director or even a person outside the organisation. Such person may discuss ethical issues and concerns with the directors, be a contact if an employee wishes to raise concerns or seek guidance outside the line, and monitor the effectiveness of the ethics policy.

Owners or senior managers need to be aware that their behaviour sets an example to their employees. For a policy to be effective, it is important that they are regarded as people of integrity, adhering to high ethical standards. The same applies for supervisors and line managers, who should be reminded on a regular basis of this responsibility.

External standards and guidelines
External codes and standards will complement and strengthen the ethics policy and culture of an SME. Informal and formal professional codes of practice may inform business practice and greatly enhance the business's reputation.

Some business sectors have launched initiatives that seek to target specific ethical issues endemic in that industry. For instance, in the construction sector, a range of business associations and professional institutions have – in collaboration with civil society organisations - launched an Anti-Corruption Forum to combat bribery and corruption.

Finally, there is an array of external ethics standards and guidelines available to companies, which can help identify their ethical commitments, and against which they can measure their ethical performance and make themselves accountable. Most of these are primarily designed for large corporations, but some can be easily adjusted to fit the needs of smaller business organisations. An example is the GoodCorporation Standard, which sets out a corporate responsibility framework using a stakeholder approach.

Further reading and websites
- Webley, S. *Developing a code of ethics*, IBE, London, 2003.
- Spence, L. *Priorities, Practice and Ethics in Small Firms,* IBE, London, 2000.
- **Small Business Journey**
  http://www.smallbusinessjourney.com/page1.asp
  Contains a section on 'policy' (business principles, purpose etc)
- **Better Business Journey** - Helping small and medium sized businesses to increase their profitability and responsibility
  http://www.smallbusinessjourney.com/files/pdf/BITC%20SME_final%20low%20res.pdf
  Focuses on social, environmental and community responsibilities
- **Anti-Corruption Portal for SMEs**
  www.business-anti-corruption.com
- **European Commission 'Enterprise and Industry': Corporate Social Responsibility for SMEs Toolkit**
  http://ec.europa.eu/enterprise/policies/sustainable-business/files/csr/documents/ree_report_en.pdf
  includes: Awareness Raising Questionnaire
  http://ec.europa.eu/enterprise/policies/sustainable-business/files/csr/campaign/documentation/download/questionaire_en.pdf
- **GoodCorporation Standard**
  http://www.goodcorporation.com/
- **Global Reporting Initiative**
  http://www.globalreporting.org/WhoAreYou/SME/