

# **Ethical Practices In Small And Medium Enterprises In India: An Analytical Study**

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## **Ethical Practices In Small And Medium Enterprises In India: An Analytical Study**

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### **ABSTRACT**

With the growing importance of Small and Medium Enterprises businesses in the development of the country's economy, it was critical to comprehend their views on business ethics. The purpose of this study is to assess the ethical issues and challenges faced by SMEs and to propose solutions to address ethical dilemmas in these organizations. The goal of this literature review is to determine the level of Business ethics incorporated in the SMEs of India.

**Keywords:** Business Ethics, ethics, Small and Medium Enterprises, SME, India

### **INTRODUCTION**

Ethics is the substance of comprehensive business practice. It is always preferred that all professional dealings should mandatorily be devoid of any duplicitous processes. Business ethics can thus be understood as the study of the ethical dimensions of productive organizations and commercial activities. The importance of ethics for an organization and how it affects business has always been a topic of debate. Business Ethics has assumed greater relevance in recent years as a result of the organization's dubious ethical practices. Companies that are hesitant to provide a clear leadership that considers creating an ethical atmosphere for the smooth operation of commercial transactions are known to profit from corporate wrongdoings. This frequently leads to inconsistency and conflict. The failure of large corporations has proved time and time again that a business without ethics will inevitably fail. (Sharma, 2013). It was also noted that, in recent years, the debate of ethics has been mostly dominated by large firms, with ethical practices in smaller organizations receiving comparably less attention. (Moore & Spence, 2006). Small and Medium Enterprises are thought to have distinct characteristics that distinguish them from their larger counterparts, as a result of which the kind, nature, and degree of ethical practices differs. (Jenkins, 2006)

The aim of this research paper is to understand the ethical practices of Small and Medium Enterprises of the Indian subcontinent and for this purpose the studies concerning the same were explored in detail. It was revealed that in India, small and medium businesses are seen as a critical element in the country's economic growth. It provides the necessary versatility to weather global economic upheavals ( Sonia Mukherjee, 2018). This study would provide information to the entrepreneurs of small and medium enterprises regarding the ethical practices and environment with regards to India. In addition, the article will also contribute to the recent research on the ethical conduct and practices of Small and Medium Enterprises in a developing country like India.

### **Conceptual Background**

Ethics is not a new concept. Philosophers have evolved various approaches to ethics over the years in their fight with human behavior, each leading to different conclusions, if not competing laws of behavior. Ethics is described as a portion of ideology that clarifies the most acceptable behavior of individuals and an absolutely right way of living, according to studies on business ethics. It has been interpreted in a variety of ways by past thinkers. Aristotle believed that ideal behavior was the path that led people to eudemonia, which he defined as a state of absolute happiness. Furthermore, Immanuel Kant believed that ethical action must be one in which people are aware of their moral obligations. His ethical principles were centered on the thought of goodwill (Rich, 2013). The business system according to Gantt must recognize its ethical objectives and focus on service, or the society will want to take it over and run it for its own benefits. (Gantt,1919). According to Baumhart (1961) the managers who are associated with any kind of ethical group abide in a greater way to the ethical practices. Business ethics, according to Elbert and Griffin (2003), focuses on ethical or unethical behavior by a management or employee of an organization, and it differs according to individuals, scenarios and culture of the organization. According to Rossouw (2004), business ethics centers on developing and executing rules of behavior that ensure that a company's stakeholders' interests are not harmed. Businesses must behave themselves in such a way that they may be viewed as ethical in order to be prosperous today. Ethics must be more than just a guide; they must be proactive in nature, determining the best course of action for individuals and organizations. They must both teach and act as a benchmark for quality. (Bishop, 2013)

Ethics should primarily be viewed through the lens of experiences. (Chung-Ying Cheng, 2013). In the world of business, ethics is the most important factor. In order to enjoy long-term benefits, it is critical to plan an ethical way of conducting company. Furthermore, for many firms, the opportunity to progress commercially while also giving back to society has become a viable alternative. As a result, businessmen with moral principles and ethics are true assets to an organization, influencing its success and well-being. (Vaiman, 2012) Ethics is described as a portion of ideology that clarifies the most acceptable behavior of individuals and an absolutely right way of living, according to studies on business ethics. (Bucholz, 2003) views ethics as guiding values, principles and standards that help people determine how things ought to be done. Business ethics is a subset of the larger field of ethics that deals with the morals of conducting

# **Ethical Practices In Small And Medium Enterprises In India: An Analytical Study**

business. By way of decision-making, it considers the numerous issues that pertain to the organization. It's important to strike a balance between the business's needs and the desire to make money. (Dahlsrud, 2008). The truth that organizations are now operating on a worldwide scale has increased the necessity of ethical behavior. The changing and volatile character of today's business environment presents a difficult condition for owners/managers to come up with distinct moral answers. (Monga, 2005) Even if some unethical business activities are evident or true for businesses all around the world, they nonetheless happen. It is more difficult to evaluate if behaviors are ethical or not if they occur in a hazy region where the distinctions between ethical and unethical might get obscured. Ethics has traditionally been recognized as a wise business investment since it fosters components such as trust and faith, both of which are advantageous in the long run. (Berrone, 2005).

## **Ethics and SMEs: A Twisted Relationship**

After China, India has the world's largest MSMEs (Micro, Small, and Medium Enterprises). The industry provides a diverse range of services and manufactures approximately 6,000 products, varying from conventional to high-tech. As per the official estimates, there are about 63.05 million micro industries, 0.33 million small, and about 5,000 medium enterprises in the country. Given the country's diverse geography and significant reliance on agriculture, small and medium-sized businesses are critical to the country's long-term economy. (Srinivasan, 2014) About 20% of India's Small and Medium Enterprises are located in rural areas, providing employment to over 40% of the country's workforce. (Mukherjee, 2018) Small and medium businesses many times lack the financial means to implement an adequate ethical code of conduct. It has been observed that Small and Medium Enterprises have always struggled with the conflict between making a profit and acting ethically. There has been a rising demand on businesses to be ethical as well as manage their operations in the most cost-effective, efficient, and effective way possible in order to improve performance (Khomba & Vermaak 2012). It is important to understand that in context of medium and small firms, the entrepreneur is usually in charge. Furthermore, because the number of people employed there are limited, ethical behaviors are governed informally among the owner, management, employees, and society. (Mousiolis et al. 2015). It was also discovered that any small or medium enterprise's ethical convictions were inextricably linked to the belief system of its owners or managers. Consequently, several businesses have experienced significant losses as a result of their top executives' unethical behavior. In developing countries, this is a more widespread practice. Businesses have realized that unethical behavior may be extremely costly, not only to the company but also to society at large. (Abiodun & Oyeniyi, 2014). Clients of the SMEs are also becoming more aware of the reputation of the businesses they frequent. Because they lack the funding, strategic intelligence, and essential partnerships to implement ethical practices, small and medium-sized firms (SMEs) find it all the more difficult. What is considered acceptable or incorrect depends on a variety of circumstances, including the type of employees and their cultural backgrounds, and will differ from one company to the next. (Wiid, Cant & Van Niekerk 2013)

### **Ethical Conundrum in SME**

This research paper attempts to study the ethical practices prevalent in small and medium enterprises of India. A detailed Literature Analysis of journals revealed the ethical practices and dilemmas at small and medium enterprises. There are constant business fiascoes due to the unethical practices particularly of employees (Sraboni & Sharmistha, 2011). As a result, in highly challenging corporate climate, studying business ethics has become essential. In addition, most SMEs are extremely uncompetitive due to a lack of knowledge, financing, and economies of scale, quality, and reputation (Tarus & Nganga, 2013).

It was observed that SMEs are aware of the widespread use of unethical techniques in major corporations and government agencies, which they regard as ordinary or acceptable behavior. As a result, their behavior and perceptions may be influenced, and they may be more susceptible to dishonesty (Wiid et al. 2013). In some cases, SMEs consider immoral behavior to be crucial for survival. Because of their size, they have fewer resources and capacities to combat commercial corruption and fraud. As a result, many people, especially in underdeveloped nations, regard corruption and fraud as normal, acceptable behaviors and use them to get things done faster, even though they know it's wrong. (Rune, 2011) Companies' entry strategies in terms of moral standards are affected by ethical difficulties such as bribery and corruption, and it can be a challenge for markets that are regarded as unstable. (Eriksson, Hilda 2018) Business enterprises, irrespective of its size, cannot overlook business ethics.(Sraboni & Sharmistha, 2011) It would be fair to say that SMEs, which have played a key role in the economic world over the previous decades, have largely escaped scrutiny when it comes to business ethics. (Werner & Spence 2004).

### **Ways to Respond To the Ethical Challenges**

It has long been a tradition in ethics to ask difficult questions about society and business. There has been a long-running rivalry between organizations over issues and concerns that one of them believes have been dismissed too lightly. The most significant impact of ethical reasoning on humanity is the demand for answers to these questions. (Greenwood, 2017) It must be noted that Small and medium enterprises have been chosen for this study due to its prominent role in Indian economy. A background literature review on ethical behaviors in SMEs in developing countries was undertaken on numerous journal papers in this article. After a detailed analysis it was understood that ethics is based on human values like truthfulness, integrity, trust, respect, teamwork, accountability and leadership. It must be ensured by the owners/managers to exhibit strong ethical practices in the organization. This must be supported by adequate training programs (Putnam, 2016). The importance of Business Ethics must be recognized by SMEs' promoters and management. (Turyakira, 2018) Furthermore, organizations must reorganize and apply their business practices in order to align with an ethical approach to doing business. Small and Medium Enterprises should strategically move towards building a long-term vision rather than short-term goals, and how the two are intertwined for business growth as well as community benefit (Mahmood, 2008). Ethical policies need to be drafted and implemented with greater clarity and

# **Ethical Practices In Small And Medium Enterprises In India: An Analytical Study**

emphasis. It may also be reasonably argued that small and medium businesses should approach ethical codes of conduct and written ethical policies with more professionalism. Steps need to be taken to change the orientation of owners/managers and employees of the SMEs that ethics may easily be compromised for profit making. The practice of rewarding the ethical employees needs to be encouraged. For enterprises, organizations, and individuals alike, ethics is a primary focus. Organizational leaders, in particular, must be completely aware of the consequences of certain decisions and organizational dynamics, and ensure alignment with impact on the community by behaving in a way that adds value without inappropriate conduct or negative consequences for any other group or individual.

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