



The Role of Business Ethics in the Performance of Small Scale Businesses, A case study of small scale traders in Kisii Town

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ABSTRACT

The study was carried out to establish The role of business ethics in the performance of small scale business, A case of small scale traders in Kisii town, This is because there have been shortcomings as far as service delivery to customers is concerned, The traders mishandle the customers, hike prices at any time, sell fake products to customers in guise that they are original and genuine, package and repackage some products and hood some essential products in anticipation of higher prices which has been a major problem. On the case of employees working in the small businesses there is lateness when reporting to work, leaves work earlier than the schedule time, The aim of this study is to find out the role of ethical issues in the operations of small scale Businesses in Kenya and their effects on customer and service delivery. The findings of the study will provide a more flexible and improved systems of management styles to meet the needs of the customers, promote customer loyalty to some products and specific traders, to create customer friendly environment to conduct business and provide high order services to customers. A cross-sectional survey was used, with the sampling frame comprising 200 small scale and 100 customers. Sets of both pre-tested structured and unstructured questionnaires were used to interview a random sample (300) derived using the formula of Israel (1992) of known target population, N . The data was analyzed with the aid of the SPSS (Version 11.5) computer software and presented in form of descriptive tabular summaries. Generally, ethics contribute positively to the business performance and general employee performance and increased customer loyalty to certain products and traders. Ethics should, therefore, be maintained and strengthened. The findings of this study would be useful as reference material for future research.

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Introduction

According to Bevan, D (2008) The ethical values are of prime important for an organization to run successful, as the company stands strong on its moral grounds and support from its employees it calls for great contribution and give a great reputation to the business. Some people believe that business ethics stand no value in their organization as they are happy with their rules and style of working. But more than money making it is significant that all employees follow some ethics based rule, which will bring harmony amongst employees. An ethical business will always attract attention for bringing in more jobs in a company or to get in more investors for the company.

Business ethics is a relative term, and can be looked at from various angles, all equally rational and valid. There are many economists, sociologists and philosophizers who have defined these ethics in their own way and from different perspectives. Well, one of the simplest ways to explain business ethics is that business ethics are a code of ethical conduct. Adherence to which is expected out of organizations that function in a particular society, so as to not harm the members of that society or the society itself, in any manner. Earlier, the sole motive of all organizations was profit maximization. (Bevan, D. 2008)

Watson et al (2003) observed that In every business, there comes a time when profit maximization and social issues meet at a common junction, the social issues are compromised on, and there is a breaking of ethical code. To make this simpler, If a

person, for his personal benefit, decides not to abide by the norms of society or does not deliver as promised, he is guilty of his actions.

According to economist Milton Friedman (1970), corporate executives' responsibility generally will be to make as much money as possible, while conforming to their basic rules of the society, both those embodied in law and those embodied in ethical custom". Today business ethics are much more defined than they were before, and that too from different perspectives. Today, financial policies are made keeping in mind the ethics rather than only the law. The finances have to be maintained ethically and the usage of these, again, has to be made correctly. Human resource is another sector that is directly related to business ethics. The business should in no manner hamper the interest of the workers, and policies have to be formed keeping in mind the say of the trade unions. Recruitment, selection and promotions have to be done keeping in mind only the work of the individual. Marketing of a particular product or service has to be done keeping in mind the society where these businesses function. Business firms should not market or advertise or promise anything that they can't deliver. Every society has different set of rules and regulations which a business needs to understand to function efficiently and ethically. Chomsky (1989) observed Business ethics in pharmaceutical industries involve the medicines, that have to be effective and deliver results as per promised. Second, they should not have

any short or long term effects. Third, they should not be very expensive as the common man is the customers have to answer in the end a service instead of a product. From time to time, there are offers that companies come up with for the benefit of the customers. One such commonly seen offer is the free delivery of certain food items, if not delivered in time. Some academics argue that business ethics is nothing but the want of drawing equilibrium between relativism and idealism. Business ethics also gave rise to corporate social responsibility that deals with the social responsibility of corporate towards communities and the welfare of society at large.

Business ethics are the prime elements to inspire any number of people working in an organization. To grow the business, it is important to realize the business ethics importance that will directly impact on the productivity of the company. Some people think that business ethics is a relative term and perhaps they may be right, as Business ethics are a lot of subjective topic. Ethics create greater value for an organization and bring in discipline in all the areas of a business community. Employees need to understand the business ethics importance so to ensure that everything is working well within an organization (Chomsky, 1989)

Inter-company dealings and negotiations. Often rivalries in business can turn ugly due to the amount of money and ego riding on them. Hostile takeovers and business espionage are some of the examples of unethical behaviour within the business world. If discovered, these deeds can be punishable by law or simply public opinion. To allow for fair play and keeping the best interests of the consumers in mind, the government regulates a great deal of what goes on in company dealings. Fundamental business practices of a company. Underhanded dealings, the use of substandard products, spreading misinformation about the product, hiring illegal workers at lower than minimum wage, etc. prove that a business is run in an unethical way and that it is not a high quality work place or service provider. .

Huavel, (2009) said, "People of the same trade seldom meet together, even for merriment and diversion, but the conversation ends in a conspiracy against the public, or in some contrivance to raise prices. Governments use laws and regulations to point business behaviour in what they perceive to be beneficial directions. Ethics implicitly regulates areas and details of behaviour that lie beyond governmental control. The importance of business ethics in the workplace and in society is a crucial study for everyone who owns a business, or believes in being a thoughtful and informed customer.

Every business needs to have a code of ethics pertaining to criminal behaviour and legal issues. The employees in a business need to be trained sufficiently regarding legalities of the business and the consequences their actions would have upon them and the business. Human values and personal behaviour every business needs to have an ethical framework or policy for human values and behaviour. Employees should be given training on how to interact with different people, be it customer, suppliers or competitors. They need to be aware of how they are expected to behave with people at different levels and that inappropriate behaviour will have consequences.

Problem statement

It is very important to understand that each person has his or her own impression of ethics. What may be wrong for one person may be right for another and vice versa. People are individuals and their views and ethics cannot be changed

overnight or even with a fortnight. Each person has grown up with a particular cultural background and their own understanding of right and wrong. From a businessman's point of view, it is important to gauge a person's understanding of ethics before hiring that person to work for you.

Most unethical businesses are unethical because they over-charge for their products, and thus fleece their customers pitifully. Such businesses may be able to make a quick buck at the outset due to advertising and hype, but once the novelty value of the business is done with, it will go down into the pits. What's a better point to note is that, business that hikes their prices obscenely at the outset cannot reduce them later. Even if they see that they are not getting the kinds of sales they had hoped for, they cannot downsize their prices without losing out on their credibility.

Markham, (2006) found out that All this is fine as long as the consumer is kept at the center of the whole thing. The consumer is more important than the middlemen, and all businesses must realize the valuable business ethics of propitiating the consumer more than the distributor. If the consumer is not happy with the product, there will be no sales. And if there are no sales, there will be no distributors buying the products. The trick lies in making the consumer happy by giving them the exact kind of product they want never mind the little higher manufacturing cost and creates the demand for the product that way. The distributors will automatically come craving for it. It must be emphasized, that business ethics always promote healthy competition in the market, and monopoly is actually ethically looked down upon.

The business will also have some rivals, and it is best for one to be diplomatic with them. Ethically, one must respect what rivals do. In fact, in the eyes of the consumers, one is sharing an invisible fraternity since one is providing similar products. It is quite ethical and profitable for one to follow this fraternal bond with your competitors. Even if one is trying to overthrow the competitors, one must do that graciously and with improving the business. Sabotaging one's competitors' businesses in any way is sacrilege in the business ethics world. This formed the basis of the study the role of business ethics in the workplace and in society since this is a crucial study for everyone who owns a business, or believes in being a thoughtful and informed customer.

Theoretical Review

Business Ethics

Charles, Wisman (1993) observed that Business ethics reflects the philosophy of business, one of whose aims is to determine the fundamental purposes of a company. If a company's purpose is to maximize shareholder returns, then sacrificing profits to other concerns is a violation of its fiduciary responsibility. Ethical issues include the rights and duties between a company and its employees, suppliers, customers and neighbors, its fiduciary responsibility to its shareholders. Issues concerning relations between different companies include hostile take-over and industrial espionage.

Human resource management ethics

Human resource management occupies the sphere of activity of recruitment selection, orientation, performance appraisal, training and development, industrial relations and health and safety issues. Business Ethicists differ in their orientation towards labour ethics. Some assess human resource policies according to whether they support an egalitarian workplace and the dignity of labour. Issues

including employment itself, privacy, compensation in accord with comparable worth, collective bargaining and/or its opposite can be seen either as inalienable rights or as negotiable. Discrimination by age preferring the young or the old, gender/sexual harass small scale traders, race, religion, disability, weight and attractiveness. A common approach to remedying discrimination is affirmative. Potential employees have ethical obligations to employers, involving intellectual property protection and blowing. Employers must consider workplace safety, which may involve modifying the workplace, or providing appropriate training or hazard disclosure. (Dembiski, P. 2006)

Sales and marketing ethics

Marketing Ethics came of age only as late as 1990s. Marketing ethics was approached from ethical perspectives of virtue or virtue ethics, deontology, consequentialism, pragmatism and relativism (Valdez, 1997). Ethics in marketing deals with the principles, values and/or ideals by which marketers (and marketing institutions) ought to act. Marketing ethics is also contested terrain, beyond the previously described issue of potential conflicts between profitability and other concerns. Ethical marketing issues include marketing redundant or dangerous products/services transparency about environmental risks, transparency about product ingredients such as genetically modified organisms possible health risks, financial risks, security risks, etc., respect for consumer privacy and autonomy, advertising truthfulness and fairness in pricing & distribution.

According to Cetina, K. & Preda (2005), marketing can influence individuals' perceptions of and interactions with other people, implying an ethical responsibility to avoid distorting those perceptions and interactions. Marketing ethics involves pricing practices, including illegal actions such as price fixing and legal actions including price discrimination and price.

Law and ethics

Business is not bound by any ethics other than abiding by the law. (Milton Friedman, 1984). corporations have the obligation to make a profit within the framework of the legal system, nothing more. Friedman made it explicit that the duty of the business leaders is, "to make as much money as possible while conforming to the basic rules of the society, both those embodied in the law and those embodied in ethical custom". Ethics for Friedman is nothing more than abiding by 'customs' and 'laws'. The reduction of ethics to abidance to laws and customs however has drawn serious criticisms.

As part of more comprehensive compliance and ethics programs, many companies have formulated internal policies pertaining to the ethical conduct of employees. These policies can be simple exhortations in broad, highly generalized language or they can be more detailed policies, containing specific behavioural requirements. They are generally meant to identify the company's expectations of workers and to offer guidance on handling some of the more common ethical problems that might arise in the course of doing business. It is hoped that having such a policy will lead to greater ethical awareness, consistency in application, and the avoidance of ethical disasters (Milton Friedman, 1984)

The importance of ethics in business can be understood by the fact that ethical businesses tend to make much more profits than the others. The reason for this is that customers of businesses which follow ethics are loyal and satisfied with the

services and product offerings of such businesses, it will be very truthful and honest in its communication with the probable customers. It will tell correctly about the kind of ingredients it has used while manufacturing the small scale traders It will not lie or exaggerate about the benefits or uses of its products either. So the customers, who buy its small scale traders, know precisely what they are buying and how useful that product is going to be for them. This way, the product will meet their expectations and thus, satisfy the customers. When customers are satisfied, they will become loyal to the company and come back again for re-purchasing. This will surely increase the profits of the organization.

Research strategy

This study was about The role of business ethics in the performance of small scale business, A case study of small scale traders in Kisii town. The research partly involved a complete survey of the entire small scale traders in Kisii Town.

The respondents to participate in the research were selected using the random sampling procedure. Small scale traders picked randomly in Kisii town were 200 and 100 respondents from the customers .This consequently ended up with 300 respondents selected.

A questionnaire was used to collect data from the respondents in Kisii town. The questionnaires were filled as the researcher waited to reduce non-response rates. They presented copies of the questionnaires to the owners of small businesses to fill.

The study incorporated data analysis tools, which included descriptive and inferential statistics to analyze the data collected. Likert scale was used to identify the degree of importance of each factor. Chi- square test was used to establish the relationship between the business ethics and small scale trader's business performance.

Data analysis, Presentation and Interpretation

Presentations of findings

Most of the small scale traders indicated that they started business within the last two years 0-2 years this was marked by 64% of the respondents and the least 10% indicating they have operated the business for the last six years and above also 16% revealed that most they started operating businesses in the last 2-3 years.

The above table shows that, the majority of traders are not able to reveal ethical behaviours that are practiced in their place of work indicated by 70%. The few who revealed gave us an assurance by 30% that the unethical behaviours are found in the work place, since majority of the respondents are afraid of revealing their weakness in business. Among the respondents who indicated that there is unethical behaviour arising from competition, they indicated that hiking the prices and repackaging the products is the most unethical vice they commit. In that a customer can be served with products at higher prices and poor quality and quantity.

Challenges faced when handling unethical behaviours.

Among the small scale traders there are others who strive to handle cases of unethical behaviours and they face some challenges. The respondents indicated by 40% of them say they face rudeness and negligence and 60% are unable to get support competitors.

It shows therefore that the poor response and support from other traders to deal with unethical behaviours that arises most of the time

Possible solutions to unethical behaviours that arises

The study findings showed that most of the small scale traders have the answers themselves to solve the problem themselves; traders and their employees behave unethically suggested that the local chamber of commerce need to organize a motivational training to the traders and their employees and improve on encouraging teamwork. This is to reduce the work load hence foster positive competition and practice business ethics.

The above table shows that, 62% of the traders and their employees need motivational training so that their business performance improves. 20% of them suggest better employee remuneration by getting a better pay. 13% of them shows that the traders needs to encourage and motivate their staff to enhance the spirit of teamwork among traders. Out of 5% of the total population was of the idea that if deserves punishment like compulsory leave for a particular period of time.

Mean and standard deviation of the role of business ethics of the Small Scale Traders

The respondents were asked to rate on a 5-point Likert scale, the extent to which the role of business ethics affects small scale business performance. The responses were collapsed and a composite value was obtained to represent the Small scale performance. The mean and standard deviation were computed and the results presented in table 5 below.

From the table above, the mean value of the role of business ethics on small scale business performance was 15.3505. This mean is below average value of 18 implying that most small scale Business improve its performance.

Associative Analysis of the Study

The last objective of this study was to establish the relationship between business ethics and business performance. Pearson's correlation coefficients were used to determine the direction and strength of the relationship and simple linear regression analysis was used to deduce a model that could be used to explain business performance.

The correlation matrix shows that the Business performance has a very strong significant positive relationship with better business ethics applied in business with Pearson's correlation coefficient of 0.944.

Linear Regression Analysis

Before regression analysis was done, to investigate The Role of Business Ethics in the Performance of Small Scale Businesses, the model used for the linear regression analysis was expressed in the general form $F = a_0 + a_1B$. In interpreting the results of linear regression analysis, the coefficient of determination, the F-statistic and the regression coefficient were considered and their values are shown in the tables below.

Table 8 above, shows the value of coefficient of determination (R^2) = 0.890 which implies that 89% of the variation in Business performance could be explained by the changes in application of business ethics. 11% remains unexplained.

Table 9 above shows the summary ANOVA (analysis of variance) and F statistic which reveals the value of F (772.276) significant at 0.05 confidence level. According to Geller (2009), analysis of variance (ANOVA) is used to test the significance of variation in the dependent variable that can be attributed to the regression of one or more independent variables. Employment of this statistical procedure produces a calculated F value that is compared to a critical F value for a particular level of statistical probability. Obtaining a significant F value indicates that the

results of the regression are indeed true and not the consequence of chance. Therefore, the F value 772.276 at 0.05 confidence level indicates that the independent variable (business ethics) greatly contributes to the variation in business performance.

From the above table, since the t-test values for the regression coefficients are significant at 95% confidence level ($t_{(1, 95)} = 27.790$, $p < 0.05$), it implies that the predictor variable (role of business ethics) makes a significant contribution to the business performance of Small Scale Traders. Therefore, the unstandardized linear regression model is $F = 1.998 + 0.740B$. The standardized beta coefficient indicates that a unit change in the business ethics causes a 94.4% increase in business performance.

Summary of findings

From the study most of the small traders indicated that they started business within the last two years 0-2 years with 64% and the least 10% indicating they have operated the business for the last six years and above and 16% revealed that most traders started operating businesses in the last 2-3 years.

The study further revealed that majority of traders is not able to reveal ethical behaviours that are practiced. The few who revealed gave us an assurance that, the vice is practiced, since majority of them are afraid of revealing their weakness in business. Among the respondents who indicated that there is unethical behaviour arising from competition, they indicated that hiking the prices and repackaging the products is the most unethical vice they commit. In that a customer can be served with products at higher prices and poor quality and quantity.

Among the small scale traders there are others who strive to handle cases of unethical behaviours faces some challenges. The respondents indicated by 40% of them say they face rudeness and negligence and 60% are unable to get support competitors. therefore that the poor response and support from other traders to deal with unethical behaviours that arises most of the time

The study findings showed that most of the small scale traders have the answers themselves to solve the problem themselves; traders and their employees behave unethically suggested that the local chamber of commerce need to organize a motivational training to the traders and their employees and improve on encouraging teamwork. This is to reduce the work load hence foster positive competition and practice business ethics.

The research indicated that, 62% of the traders and their employees need motivational training so that their business performance improves. 20% of them suggest better employee remuneration by getting a better pay. 13% of them shows that the traders needs to encourage and motivate their staff to enhance the spirit of teamwork among traders. Out of 5% of the total population was of the idea that if deserves punishment like compulsory leave for a particular period of time.

The relationship between business ethics and business performance of small and medium scale traders in Kisii town. In reference to the correlation analysis table 4.3, the correlation matrix shows that the business performance has a very strong positive relationship with effective use of business ethics with Pearson's correlation coefficient of 0.944. By use of the regression analysis the study found that the coefficient of determination (R^2) = 0.890 which implies that 89% of the variation in business performance could be explained by the changes in business ethics. Also the study used the analysis of variance to test the significance of variation in the dependent variable that can be attributed to the regression of the

independent variables. The study found an F of 772.276 at 0.05 confidence level indicating that the independent variable (business ethics) greatly contributes to the variation in business performance. Further, the study used the regression coefficients that show that the t-test values for the regression coefficients are significant at 95% confidence level. This implies that the predictor variable (business ethics) makes a significant contribution to the business performance of Small scale traders. Therefore, the unstandardized linear regression model is $F=1.998+0.740B$ and thus, the model is applicable.

Conclusion

The modern world, organization and institution concentrate in the issues of increased production and have forgotten the people who drive their goals and objectives and how they drive their objective. There is need to improve ethical issues and concentrate on solutions to address unethical behaviours that may arise due to issues which the organization does not address. Employees should be viewed as important professionals who deliver essential services to customers their personal character can influence unethical issues to arise. The reward given to them should be worth the work they perform. An effective communication mechanism should be established to iron out issues pertaining to their professional welfare in order to end up having a well rewarded code of professionalism. Adding skills and knowledge by effective motivational training are necessary to them so that high standards of performance and quality service delivery can be obtained.

Recommendation

Basing on the facts collected, there is a need to address ethical issues in the daily operations of the small scale business since un ethical practices affects service delivery to customer and the business performance.

- The Small Scale traders should encourage teamwork and try to effectively adapt to the rule of cooperation among employees, organizations at large and other traders.
- The Small Scale traders should take part in motivational training sessions and encourage their employees to gain much on motivation.
- The government should try to introduce monetary reward for high performers and certificate insurance to best performing small scale business traders and employee who inculcate ethics in their daily operations for this would create atmosphere of competitive amongst workers after realizing there is a gift given out as a sign of recognition and appreciation

Suggestions for further studies

The issues about Ethics in small scale trading sector are many and cannot be exhausted in one study. The future researchers should study the following areas.

- The need to study the impacts of ethical considerations and behaviours on the performance of large businesses.

There is also need to make a comparative study on how the ethics affect performance of small scale traders especially in the rural areas

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Table 1

Years that the traders have operated business	Frequency	Percentage
0 – 2 yrs	192.0	64%
3 – 5 yrs	48.0	16%
6 – 10 yrs	30.0	10 %
Over 10 yrs	30.0	10 %
Total	300.0	100%

Source: Field study (2011)

Table 2

Ethical Behaviour	Frequency	Percentage
Yes	90.0	30.0
No	210.0	70.0
Total	300.0	100.0

Source: Field study (2011)

Table 3

Response Challenges	Frequency	Percentage
Rudeness and negligence	120.0	40%
Lack of support from other traders	150.0	60%
Others	30.0	10%
Total	300.0	100%

Source: Field study (2011)

Table 4

Response	Frequency	Percentage
Encouraging team work	39.0	13.0
Motivational training	186.0	62.0
Better pay	60.0	20.0
Punishment	15.0	5.0
Total	300.0	100.0

Source: Field study (2011)

Table 5: Mean and standard deviation of The Role of Business Ethics in the Performance of Small Scale Businesses

	N	Minimum	Maximum	Mean	Std. Deviation
The role of business ethics on small scale business performance	300	7.00	29.00	15.3505	6.4275
Valid N (list wise)	300				

Source: Survey data, 2011

Table 7: Correlation matrix of The Role of Business Ethics in the Performance of Small Scale Businesses

		Role of Business Ethics	business performance index
Role of Business ethics	Pearson Correlation	1.000	.944
	Sig. (2-tailed)	.	.000
	N	300	300
Business performance index	Pearson Correlation	.944	1.000
	Sig. (2-tailed)	.000	.
	N	300	300

** Correlation is significant at the 0.01 level (2-tailed).

Table 8: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.944	.890	.889	1.6774

Predictors: (Constant), the role of business ethics

B Dependent Variable: Business performance index

Source: Survey data, 2011

Table 9. Analysis of Variance (ANOVA)

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	2173.057	1	2173.057	772.276	.000
	Residual	267.314	95	2.814		
	Total	2440.371	96			

a Predictors: (Constant), Role of Business ethics

b Dependent Variable: Business performance index

Source: Survey data, 2011

Table 10. Regression coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.998	.443		4.511	.000
	The role of business ethics	.740	.027	.944	27.790	.000

a Dependent Variable: business performance index
Source: Survey data, 2011