

1 Perceived Enforcement of Informal Buyer-Supplier Contractual  
2 Arrangements in Ugandan Small and Medium Enterprises  
3 (SMES)

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7 **Abstract**

8 SME buyers tend to avoid formal binding contractual arrangements with suppliers of  
9 resources, a situation which creates operational and technical difficulties and increases  
10 transactional costs. Ntayi et al., 2010a using data from Ugandan SMEs have revealed that  
11 majority of buyers (83.4  
12

13 **1 Background**

14 Small and Medium Enterprises (SME's) continue to be constrained by resources despite consensus from  
15 organization theory that resources are of critical importance to the survival and competitiveness of firms (Lee  
16 et al., 1999). Resource constraints could be attributed to size; a concentration of power in the owner and the  
17 informal nature of doing business that to their nature and size, SMEs use social interactions of human capital to  
18 acquire needed resources from supplying firms. Additionally, conditions of competition and the quest for survival  
19 and growth, have forced SMEs to seek for resources embedded in their social relations. These social relations  
20 with both internal and external stakeholders provide buyer and supplier information related to their credibility,  
21 reliability, honesty and integrity. It is against this background that SMEs base their judgments and decisions  
22 to obtain supplies and other resources which are required in providing value to their customers. They establish  
23 relationships purposefully and employ them to generate intangible and tangible benefits in short or long terms.  
24 At the firm's level, the effectiveness of socialization process depends on the firm's social capital.

25 contractual arrangements with suppliers of resources, a situation which creates operational and technical  
26 difficulties and increases transactional costs. Ntayi et al., 2010a using data from Ugandan SMEs have revealed  
27 that majority of buyers (83.4%) use oral agreements in their business transactions with suppliers. Only a few  
28 (16.6%) were observed to have used written contracts. Whereas informal and oral contracts are enforceable in  
29 the Uganda's commercial court, the process of assembling evidence is tedious and takes long (Kiryabwire, 2010).  
30 In such circumstances parties privy to the contract end up losing genuine cases unfairly. Even where they are  
31 successful, the assessment of damages to be awarded to the victor is a nightmare as business records are non-  
32 existent to properly establish the impact of the breach of contract on the business ??Kiryabwire, 2010). This  
33 happens in SME business relationships which are meant to generate intangible and tangible benefits in short or  
34 long terms through the firm's social capital. The purpose of this study is to examine the effects of social capital,  
35 organizational amnesia, and moral reasoning on the enforcement behaviors of informal contracts in Ugandan  
36 SMEs. This study adopts a triangulation approach and collects data from a sample of 2,228 SMEs.

37 Results reveal that social capital and organizational amnesia have a significant negative effect on the  
38 enforcement behavior of Ugandan buyer-supplier informal contracts. However, the interactive effects of: social  
39 capital and moral reasoning; and organizational amnesia and moral reasoning has a positive effect on the  
40 enforcement behavior of Ugandan buyer-supplier informal contracts. This has policy and managerial implications  
41 which we present and discuss in our paper.

## 2 CONCEPTUALIZATION

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45 characterize SMEs in Uganda ??Ntayi et al., 2011a). Due and density cognitive aspects (Jansen et al., 2005).  
46 more easily developed in workplaces (Coleman, 1990).

47 suggesting that the absence of proper contract records, proper book keeping and financial records in SMEs,  
48 despite their strategic importance in decision making process is partially calculated. These findings point towards  
49 a possible link between social capital and moral reasoning. The moral reasoning associated with this premeditated  
50 behaviour is that of insulating the resource constrained SME from loosing resources, thereby facilitating business  
51 survival. Additionally, there is a general feeling that the self interests and aspirations of the owner managers must  
52 be protected. We suspect that the SME moral reasoning is based on conformity to social norms and expectations  
53 that exist in the workplace, although there is paucity of research to confirm this view.

54 Anecdotal evidence from the Ugandan SMEs reveals that, generally, there is low recognition of the ethical  
55 issues involved in a buyer-supplier informal contractual arrangement. This may be attributed to the fear of  
56 the aggressive tax collection methodology employed by the Uganda Revenue Authority (URA) and the current  
57 litigious environment creating an economic incentive for "organizational amnesia". Organizational amnesia refers  
58 to the systematic destruction of all unneeded personal notes and documents at regular intervals. The thinking  
59 behind this policy is that, in the event of litigation or criminal prosecution, no document should exist in writing  
60 that could be used against the SME buyers and/or sellers (Conklin, 2001). This is a tricky state of affairs for  
61 Ugandan SMEs, since a stream organizational learning process (Smith and King, 2006). Contracts are both  
62 inputs to learning processes and outcomes of learning. As inputs, contracts may assist organizations and courts  
63 of law in developing incremental changes in their structure. As outcomes, contracts are routines that are learned  
64 through experience with relational contracting and that contribute to organizational inertia ??Smith and King,  
65 2006, p. 33). Absence of relevant information on business transactions affects the quality of buyer-supplier  
66 contracts developed and may affect contract enforcement.

67 SME buyers tend to avoid formal binding contractual arrangements with suppliers of resources, a situation  
68 which creates operational and technical difficulties and increases transactional costs. Ntayi et al., (2010b) using  
69 data from Ugandan SMEs have revealed that majority of buyers (83.4%) use oral agreements in their business  
70 transactions with suppliers. Only a few (16.6%) use written contracts. Whereas informal and oral contracts  
71 are enforceable in the Ugandan commercial court, the process of assembling evidence is tedious and takes long  
72 (Kiryabwire, 2010). In such circumstances parties privy to the contract end up losing genuine cases unfairly.  
73 Even where they are successful, the assessment of damages to be awarded to the victor is a nightmare as business  
74 records are nonexistent to properly establish the impact of the breach of contract on the business (Kiryabwire,  
75 2010). Othman and Hashim (2004) have revealed that research specifically examining the relationship between  
76 social capital and organizational amnesia is nonexistent. They aver that the creation of social capital will be an  
77 important element in overcoming organizational amnesia. The purpose of this study is to examine the levels of  
78 social capital, organizational amnesia, and moral reasoning of SMEs in Uganda. Additionally we examine the  
79 relative effect of these variables on the enforcement behaviors of informal contracts in Ugandan SMEs. This  
80 study adopts a conceptualization presented in figure 1.

81 procurement related transactions, where research on social capital is sparse, the concept of social capital has  
82 been observed to facilitate inter-unit and inter-firm resource exchange (Hansen, 1998) and strengthen buyer-  
83 supplier relations (Baker, 1990;Gerlach, 1992;Uzzi, 1997). Findings in social capital research concerning "closed  
84 networks," reveal that norms and social relations conducive to getting work done are activity ??Coleman,  
85 1988b, p 101;White, 2002). The creation of social capital in SMEs can be particularly beneficial in creating  
86 organizational knowledge and attitudes. Extant literature has revealed that social capital has both positive and  
87 negative consequences. It facilitates or inhibits innovative and risk-taking behavior, shapes relational business  
88 behaviour, provides networks, supplier information, supplier assessments and other resources that are of value  
89 to cooperate members (Westlund and Bolton, 2003). Indeed Othman and Hashim (2004) have noted that  
90 social capital resources are mobilized in purposive actions. In of organization theory research on contracts  
91 from organizational learning literature posits that the design, development, implementation, monitoring and  
92 enforcement of contractual provisions are a result of an could have a negative effect on the social capital of the  
93 2002; Arregle et al., 2007;Leana and Van Buren, 1999). Some scholars argue that in an effort to maintain family  
94 ties, family members could reduce their ability of II.

## 95 2 CONCEPTUALIZATION

96 Since most SMEs are family businesses, scholars suggest that high levels of family influence This idea is similar to  
97 Ntayi et al., (2010a)'s findings firm, and in turn on its performance (Adler and Kwon, maintaining strong social  
98 ties outside the family (Barney et al., 2003), and that high firm social capital could lead to the problems associated  
99 with lack of innovation as individuals get rooted in time honored practices, thereby overlooking potential sources  
100 of useful information (Leana et al., 1999). This situation is potentially Social capital is a multidimensional  
101 construct composed of structural, relational and cognitive aspects which allow the exchange of resources among  
102 individuals (Nahapiet and Ghoshal, 1998). The structural dimension of social capital, concerns the existence  
103 of connections among individuals and the structure of the social network in which relationships are embedded.  
104 Relationships occur between collaborating partners like buyers and suppliers. The relational dimension of social  
105 capital refers to the quality of those connections. It addresses the levels of mutual trust and reciprocity that exist  
106 among relationships. The cognitive dimension of social capital is related to attributes that facilitate the common

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107 understanding of the social context and reflects the levels of shared understanding and goals. A review of extant  
108 literature reveals that there is a connection between social capital and moral reasoning. sensitivity to a situation  
109 (interpretation of the situation, being aware of how various actions would affect parties concerned, imagining  
110 cause-effect relationships, and being aware of a moral problem) and having moral judgment to a situation (judging  
111 which action would be most justifiable in a moral sense) (Rest et al., (1999), page 101). Kohlberg (1981) argued  
112 that moral reasoning is a function of a person's level of moral development, which is an enduring component of  
113 a person's cognitive makeup which may influence attitudes and behaviors. Piaget (1973) revealed that behavior  
114 reflects a conscious state of mind and thinking through a dilemma or a problem. Moral reasoning forms the  
115 basis for ethical behavior and decision making (Candee and Kohlberg, 1987;Kohlberg, 1987). From the ongoing  
116 we hypothesize that, H1: Social capital and moral reasoning are significantly positively correlated; H2: Moral  
117 reasoning affects SME buyer-supplier informal contract enforcement behaviors positively; H3: Social capital  
118 affects SME buyer-supplier informal contract enforcement behavior; H4: Social capital interacts with moral  
119 reasoning to affect SME buyersupplier informal contract enforcement behavior.

## 120 **3 Enforcement Behaviors of Informal Contracts**

## 121 **4 SME Social Capital**

122 Organizational amnesia Time-based OA Space-based OA

## 123 **5 Moral Reasoning**

124 Moral reasoning is the cognitive process of having moral along a pre-conventional to a post-conventional level of  
125 thinking. At the pre-conventional level of thinking, SME employees and employers would ordinarily obey and  
126 Moral reasoning refers to the reasoning process by which human behaviors, institutions, or policies are judged to  
127 be in accordance with or in violation of moral standards. Moral reasoning is characterized by moving respect rules  
128 and norms for a solution. Individuals, who are dominated by the post-conventional thinking, tend to dangerous  
129 for moral reasoning, organizational learning, organizational memory and organizational amnesia. Contract  
130 enforcement-managers with moral values would tend to apply reason and fulfill their contractual obligations.  
131 This suggests that in the event of any contractual disagreements, use of formal dispute resolution mechanism  
132 will be pursued. The purpose of this study is to examine the levels and interrelationships of social capital,  
133 organizational amnesia, and moral reasoning and enforcement behaviors of informal contracts in Ugandan SMEs.  
134 This study adopts a conceptualization presented in figure 1. consequences. It also emphasizes concern for others  
135 with which the person has a close relationship. The maintaining norms schema, usually emerging in adolescence,  
136 is characterized by perception of a need for a society-wide system of cooperation and the uniform application of  
137 laws and social norms, as well as a duty-based, authoritarian orientation. The post conventional schema, which  
138 is the most complex of the three schemas, is characterized by the core belief that moral obligations are to be  
139 based on shared ideals, which are reciprocal and are open to debate and tests of logical consistency, and on the  
140 experience of the community (Endicotta, Bockb and Narvaez, 2003, p.406)”. Ntayi et al., (2010b) have revealed  
141 signs of personal interest schema commonly displayed by buyers and suppliers in Uganda. For example in almost  
142 all transactions, payments to suppliers were delayed by the buyers for selfish or egoistic reasons. This resulted in  
143 the most frequent illegal actions of cutting corners on quality control, cover ups, inflated costs, outright deceit,  
144 dishonesty, cheating, shirking contractual obligations and violating an unwritten understanding with a supplier.  
145 Excessive pressure to deliver results without any down or timely payments from buyers was significantly correlated  
146 with willingness to compromise ethics to cushion SMEs from financial shocks. This was surprising in situations  
147 where parties to the contract have the duty to comply, duty to disclose, duty not to misrepresent and duty not  
148 to coerce. contracts have to be entered into freely, the seller, has the duty to refrain from exploiting emotional  
149 states that may induce the buyer to act irrationally against his or her own best interests. For similar reasons  
150 the seller also has the duty not to take advantage of the gullibility, immaturity, ignorance, or any other factors  
151 that reduce or eliminate the buyers ability to make free rational choices. It can be averred that the principles  
152 of buyersupplier ethics as enshrined in the PPDA Act (2003) are interrelated to moral reasoning and guide in  
153 decision making (Beauchamp and Childress, 1989;Beauchamp, 2003). Moral reasoning of SME managers when  
154 confronted with moral dilemma has not been studied extensively in a developing world context. SME owner  
155 managers make decisions that can develop the economy. When confronted with ethical and unethical decisions,  
156 a moral dilemma arises. Several unethical events and failure to fulfill contractual obligations across the country  
157 have put business development in Uganda at a risk and jeopardize the investment climate. Research in moral  
158 reasoning of SME managers in Uganda is needed to understand and solve the growing problem of ethics. Extant  
159 literature has shown that the relationship between a business firm and its customers is essentially a contractual  
160 relationship and the firm's moral duties to the customer are those created by this contractual relationship. From  
161 the above discussion we hypothesize that, H5: Moral reasoning of SME buyers and suppliers is characterized by  
162 the personal interest schema.

163 **6 b) Social capital, organizational amnesia and enforcement**  
164 **behavior of buyer-seller informal contracts**

165 Literature has demonstrated that social interactions within an organization, provide a platform for passing on  
166 explicit (objectified) and tacit (collective) organizational knowledge (Spender, 1996). Organizational knowledge is  
167 embedded in the forms of social tacit experiences and collective (relation specific) institutional practices (Brown  
168 and Duguid, 1991). As articulated by Spender and Grant (1996, p. 8) "...knowledge which is embodied in  
169 individual and organizational practices cannot be readily articulated. Because of its uniqueness, tacit knowledge  
170 is created and shared through interactive conversation, shared experience, learning by doing, training or exercising  
171 (Herrgard, 2000). It is indigenous wisdom that could be transferred from our minds to other holders through  
172 social capital-continuous interactions and weigh and consider abstract principles and also take more perspectives  
173 into consideration. As noted by Rest et al., (1999) the development of moral reasoning is a shifting distribution in  
174 which more primitive ways of thinking are gradually replaced by more complex ways of thinking. This primitive  
175 or complex form of thinking has been conceptualized by Rest et al., (1999) as moral schemas. These schemas or  
176 frameworks are a result of accumulated socio-moral experiences. Drawing from the works of Kohlberg (1967),  
177 we identify three moral schemas of personal interest schema, the maintaining norms schema, and the post-  
178 conventional schema that forms a developmental hierarchy. "The personal interest schema relies on an egocentric  
179 and interpersonal perspective in which the individual focuses on the personal stakes that the actor has in the  
180 dilemma and its

181 Literature has revealed that sometimes parties to the contract act irrationally when under the influence of fear  
182 or emotional stress. When a seller takes advantage of the buyer's fear or emotional stress to extract consent to an  
183 agreement that the buyer would not make if the buyer were thinking rationally, the seller is using duress or undue  
184 influence to coerce, because relationships'. Ghobadian and Gallear (1997) and Wong and Aspinwall (2004) have  
185 noted that SMEs employ individuals who are connected to networks and share common beliefs, norms, and values.  
186 Their thinking is not expected to vary from the thinking of owner managers. Should there be a variation in the  
187 philosophical mindset of the SME owner managers and employees, the SME employee is forced to exit leaving  
188 behind no retrievable records. SME employees, and buyers and suppliers. For example establishing working  
189 relations with new suppliers or vendors may be facilitated if they are met through after-hours connections. This  
190 minimizes high transaction costs associated with managing business transactions in a less developed country like  
191 Uganda and solve difficulties of enforcing informal contracts. Based on the above discussion we hypothesize that;  
192 informal contract enforcement behavior. H7: Social capital interacts with organizational amnesia to affect SME  
193 buyer-supplier informal contract enforcement behavior.

194 IV.

195 **7 Methodology a) Research design, sampling and data collec-**  
196 **tion methods**

197 This study adopted descriptive, quantitative and qualitative research designs. The qualitative research design  
198 was associated with interpretative approaches, from the informants' emic point of view, rather than relying on  
199 only etically measured discrete, observable and Sharp, 1997). This was deemed necessary in order to obtain  
200 explanations for enforcement behavior of informal buyer-seller contracts better. The corresponding results of  
201 the subjective inquiry are presented as vignettes, cases and causal networks point of view (Patton, 1982;Patton,  
202 1990;Patton, 1997;Patton, 1999) by describing experiences and relating them to enforcement behavior of informal  
203 contracts. We selected a sample of 2,228 out of the total population of 45,832 SMEs using the average sample size  
204 of similar proportionately distributed under small manufacturing, trade and agro-processing. A sampling frame  
205 of SMEs was obtained from Uganda Small Scale Industries Association (USSIA) and Uganda Manufacturers  
206 Association (UMA). The respondent firms were selected using stratified and simple random sampling methods.  
207 Stratified sampling was used because SMEs are categorized according to industrial grouping and we believe  
208 that there could be significant differences in the contractual practices in these three categories. From each  
209 stratum a sample representing the population was chosen using simple random sampling. Data was collected  
210 using an interviewer administered questionnaire which was made up of both closed and open ended questions to  
211 allow deeper understanding of the subject matter. This questionnaire was initially developed and pilot tested  
212 to ensure validity and reliability of the measurement scales. Results of the pilot test using a sample of 50  
213 respondents drawn from buyers and suppliers engaged in formal contracts Respondents for the main study were  
214 only managers and/or individuals working with SMEs who participate in either buying goods and services for  
215 the organization or selling goods and services to other organizations and/or trade on a contractual arrangement.  
216 Due to the sensitivity of the subject matter under investigation, the researchers assured the respondents of their  
217 confidentiality and anonymity. A copy of an executive report was given to them during a dissemination workshop  
218 that was organized by the researchers.

219 **8 b) Measurements**

220 All item scales for the variables were derived from previous studies where they had been tested for validity and  
221 reliability.

222 Moral Reasoning -Moral reasoning construct was measured using a self-administered questionnaire developed  
223 using ideas from Rest's (1986) Defining Issues Test (DIT). This is one of the most well-known measures of moral  
224 reasoning in the field of moral psychology (Modgil and Modgil, 1988) which has been social capital represents the  
225 resources embedded in the social network between SME employees, managers and As revealed by Moran (1999),  
226 staff in SMEs need appropriate and up to date knowledge, need to know what their colleagues know and need  
227 ways of remembering what they know. In SMEs, this is partially done using social capital and/or other informal  
228 networks. It is on the basis of these informal networks that SMEs base their informal dealings and contracts. The  
229 construct of social capital has gained wide popularity and acceptance among researchers in organization studies  
230 due to its ability to explain individual network interactions within (Burt, 1992) and outside the organizations  
231 (Fukuyama, 1995;Putnam, 1995). These network interactions are inevitable in a competitive industry where firm's  
232 success depends on how well business transactions with stakeholders are managed. The creation of social capital  
233 in SMEs can result in social, psychological, emotional and used was that quantitative methods measure human  
234 behaviour "from outside", without accessing the meanings that individuals give to their measurable behaviour.  
235 This is what the qualitative inquiry attempted to solve (Mishler, 1986;Punch, 1998;Sekaran, 1992). A qualitative  
236 research design allowed these used to explain and discuss the statistics obtained in the quantitative results section  
237 of this paper. The argument understandings to be investigated from the informants' individual's moral reasoning  
238 abilities based on dilemmas derived from social issues and is an accurate measure of moral reasoning dealing  
239 with personal issues (Fraedrich et al., 1994). Unfortunately, when used utilized in many published studies. The  
240 DIT provides a useful contribution to the understanding of an in its original format the DIT does not accurately  
241 reflect economical benefits (Lin 1986;. Socially, H6: Organizational amnesia affects SME buyer-supplier behaviour  
242 (Maykut and Morehouse, 1994;Frechting, studies in Uganda (Ntayi et al., 2010b). This sample was revealed a  
243 Cronbach Alpha coefficient of 0.6 and above which was considered satisfactory for this study.

244 create involvement in the respondent. The DIT consisted of moral dilemmas relating to main moral duties  
245 of buyers and sellers. In general, these included complying with the terms of the contract and the secondary  
246 duties of disclosure, avoiding misrepresentation and avoiding use of duress and undue influence. This instrument  
247 comprised of twelve business and buyer-supplier contractual dilemmas at the pretest level, which were reduced  
248 to six which were adopted for the main study. These were:

249 (i) The "compliance" dilemma considers whether an SME manager of a buying firm should accept a liability  
250 for failure to live up to the promises made by his/her staff (the seller)to the buyer when the manager knows  
251 very well that the seller cannot deliver goods that conforms to the affirmation or promise made. The manager  
252 also knows that when he/she accepts, the penalty to the company is heavy and this may result into crippling  
253 the company that has not lived up to the express claims made about products. (ii) SME manager should keep  
254 records and performance of all transactions with the contracting party and keep such records in the proximity  
255 of regulatory bodies with a view of disclosing such information to regulatory bodies if need arises. But the SME  
256 manager is also aware that the company has not complied with any of the tax statutory requirements.

257 thinking something about the product that the seller knows is false. (iv) manager would approve a contract  
258 entered into by his/her staff who has taken advantage of a buyers ignorance, fear or emotional stress to extract  
259 consent to an agreement that the buyer would not make if the buyer were thinking rationally. Unscrupulous  
260 sales people may skillfully induce guilt-ridden and grief-stricken or unsuspecting buyers to buy a product  
261 expensively which they would otherwise have not bought. (v) manager should accept to take responsibility  
262 over a manufacturers product which he/she sold to a customer and the customer experienced a terrible incident  
263 with it. E.g a customer used a product he/she bought from your stores and while in use all of a sudden the user  
264 heard a terrible loud cracking noise. The product burnt producing a terrible smoke and fire that burnt the room  
265 where it had been installed. (vi) The "social costs" dilemma considers whether an SME manager (buyer/supplier)  
266 would extend his duties beyond those imposed by contractual relationships and beyond those imposed by the  
267 duty to exercise due care in preventing injury or harm (vii) The "faulty products" dilemma considers whether  
268 an SME manager -supplier should deliver expired products, knowing that he is delivering goods which are not fit  
269 for purpose and contrary to the terms and conditions of the contract; (viii) The "payments" dilemma considers  
270 whether an SME manager should approve a claim by his colleague to pay a supplier, knowing that the claim has  
271 been exaggerated, all the paperwork has been properly written and passed and no deliveries were made. (ix)  
272 finance officer should approve an expense reimbursement claim by his superior, knowing that the claim has been  
273 exaggerated; (x) The "power" dilemma considers whether a buying or supplying party which has more power than  
274 the other should dictate the terms of the agreement knowing the rights of each contracting party (xi) The "product  
275 adulteration" dilemma considers whether a supplier should go ahead and supply a product whose attributes has  
276 been tampered with (e.g label, package, trademark, weight etc) knowing an individual's moral reasoning in  
277 a professional buyersupplier contractual setting. This is because the DIT does not contain dilemmas which  
278 fairly represent business or professional environments (Ponemon, 1990(Ponemon, , 1993;;Weber, 1990;Trevino,  
279 1992;Elm and Nichols, 1993;Elm and Weber, 1994;Welton et al., 1994). The dilemmas contained in the DIT  
280 comprise broad life moral issues, ranging from stealing a drug to saving the life of one's spouse to discontinuing  
281 a newspaper for its disturbing social influence. This prompted the researchers to develop a context-specific  
282 instrument to help tap and understand better an individual's moral reasoning in professional buyer-supplier  
283 settings (Welton et al., 1994). Consistent with Welton et al., (1994) this study applied a self-designed test which  
284 parallels the DIT in design, to tap issues related to moral reasoning levels of SMEs in Uganda. Realistic case

## 8 B) MEASUREMENTS

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285 dilemmas were preferred because of their ability to elicit representative reasoning processes. Fredrickson (1986)  
286 has observed that case dilemmas generate interest and

287 (iii) The "misrepresentation" dilemma considers whether the SME manager should approve an act by  
288 his/her senior sales staff who has described a product as new or fit for consumption and has also displayed  
289 old/used/expired products with several new products with an intention to deceive the buyer into that this  
290 product alteration would lead to serious consequences for the company (xii) 'The acceptance' dilemma considers  
291 whether a manager of a supplying company should accept a

292 The "disclosure" dilemma considers whether an

293 The "coercive" dilemma considers whether an SME

294 The "due care" dilemma considers whether an SME

295 The 'reimbursement' dilemma considers whether a SME social capital-There are several measures for social  
296 capital and obtaining a single, true measure is probably not possible. Woolcock and Narayan (2000) have  
297 attributed this difficulty to the multidimensional nature of social capital and the different levels of analysis.  
298 Further, the forms of social capital change over time shifting between formal and informal organizations. despite  
299 this challenge, common measures in the studies have been identified as the membership in informal and formal  
300 associations and networks and the trust, norms, values that facilitate exchanges and lower transaction Krishna  
301 and Schrader, 2002). This study adopted the definition given by Leana and Van Buren (1999) who define social  
302 capital at the organizational scale as "a resource reflecting the character of social relations within the organization,  
303 realized through members' level of collective goal orientation and shared trust." Organizational social capital  
304 was conceptualized as a multidimensional construct composed of Structural capital (shared goals among actors)  
305 (Nahapiet and Ghoshal, 1998). Structural social capital pertains to the opportunities for organizational members  
306 to gain access to relevant peers with desired sets of knowledge or expertise. Consistent with Andrews (2007, p.15),  
307 the enforcement". Informants were asked whether "there is a high level of trust between top-management and  
308 staff" and if "there is a high level of trust between topmanagement and employees" in order to assess the relational  
309 dimension of social capital (p.16). Finally, the cognitive dimension was evaluated by enquiring about the extent to  
310 which the SME's "mission, values and objectives are clearly and widely owned and understood by all staff". Item  
311 scales for the trust, dimension of cognitive social capital were derived from the works of ??unene and Isingoma  
312 (1994). These item scales were further adapted and broadly related to trust, reciprocity, mutual help, etc. we  
313 preferred to adapt these trust item scales because they have been previously applied to Ugandan organizations  
314 yielding an acceptable validity and reliability levels Zhang et al., 2006. All item scales were anchored on a 5  
315 point likert-type scale with "1=strongly disagree to 5=strongly agree". All score items for structural capital,  
316 relational capital and cognitive capital were aggregated to form the social measures the internal consistency of a  
317 scale based on the average inter-item correlation was 0.838 and was considered adequate construct were derived  
318 from a well documented body of knowledge on knowledge management and organizational memory. There are no  
319 standard universal measurement scales for organizational amnesia (OA). This may be attributed to conceptual  
320 differences. In this study, we attempt to contextualize previously developed item scale measures by relating  
321 them to SME buyersupplier contractual arrangements. This study drew heavily from the works of Othman  
322 and Hashim (2004, p. 276) who have conceptualized organizational amnesia as a multidimensional construct  
323 composed of "timebased OA" that relates to the inability to benefit from past experience and "space-based OA"  
324 related to the inability to move or diffuse lessons learned at one point in the organization to other points in the  
325 organization. This preference was based on the ability of the Othman and Hashim's conceptualization to capture  
326 OA in its broad sense. Scholars like Kransdorff (1998) and Tiwana (2000) have tended to lean towards "time  
327 based OA" while Hughes-Wilson (1994), ??nyder and Cummings (1998) and Robertson and Hammersley (2000)  
328 lean more towards "space-based OA". Despite these inclinations, this study captures both aspects of OA. All item  
329 scales were anchored on a 5 point Likerttype scale with "1= strongly disagree" to "5 = Strongly agree". Sample  
330 item scales adopted in this study included: "In this organization, we keep two sets of books of accounts one for  
331 management's use and the other for use by government regulatory bodies; In this from the study. Other reliability  
332 checks like consistency, missing ratings, missing rankings, non-differentiationto eliminate respondents who have  
333 taken insufficient care in completing the test were applied. This scale yielded a Cronbach alpha coefficient of  
334 0.774. qualified opinion report from the staff of the supplying company pointing out weaknesses in the client's  
335 products in the production process supplied by the same firm.

336 The DIT was composed of a series of moral dilemma vignettes and follow-up questions; after deciding what the  
337 character in the vignette should do, the participants were asked to identify which issues they felt were important  
338 in making a decision about the moral dilemma. Each DIT moral dilemmas had 12 follow-up questions, which  
339 resulted in a total of 72 items. These items were rated on a five-point Likert scale with 5=great importance to  
340 1 = no importance. We checked for internal consistency of reliability using the "meaningless" score. The issue  
341 statements after each vignette have statements that sound meaningful and important, but do not match up with  
342 any stage of moral reasoning.

343 Therefore, they are considered "meaningless" items (Rest, 1986). Participants who endorsed a large number of  
344 meaningless items were considered to have invalid protocols and were excluded about the extent to which "cross-  
345 departmental and cross-cutting working" was "important in driving contract structural dimension was gauged by  
346 asking informants contracts with our business partners®; In this ??2003). Sample Items covered the efficiency of  
347 the judicial system on the enforcement of commercial contracts using: The number of procedures mandated by

348 law or court regulation that demands interaction between the parties or between them and the judge or court  
349 officer, an estimate -in calendar days -of the duration of the dispute resolution, the cost-including court costs and  
350 attorney fees, as well as payments to other professionals like accountants and bailiffs. We compared these items  
351 against the ones developed by Ntayi et al., (2010b). All item scales were anchored on a seven point Likert type  
352 response scale ranging from "1= strongly disagree to 7=strongly agree". Item scales yielded a Cronbach Alpha  
353 Coefficients of 0.824.

## 354 **9 c) Data analysis**

355 To test our hypotheses, we conducted correlation, regression and interaction analyses. In order to test  
356 the hypotheses rigorously, we conducted hierarchical multiple regression analyses following the procedures  
357 recommended by Aiken and West (1991); Cohen et al., ??2003). In the first step of the regression, we entered  
358 SME social capital variable. In the second and third step, we entered the organizational amnesia and moral  
359 reasoning variables respectively. In order to test the enforcement behaviors of informal contracts in Ugandan  
360 buyer-supplier contractual arrangements (1991) have described the use of multiple regressions as a method for  
361 investigating interactions between continuous variables. Consistent with Aiken and West, (1991), the first thing  
362 we did was to center the independent variables by subtracting the mean from each value to prevent the interaction  
363 effect from causing unacceptable levels of collinearity.

364 V.

## 365 **10 Results And Discussion**

366 Response rate was 36%, which was slightly lower than the average 39% obtained from similar studies conducted in  
367 Uganda. This could be attributed to the sensitivity of the research topic. The trade sector had the highest number  
368 of respondents (38.4%), followed by agro-processing (34.1) and manufacturing sectors (27.5%) respectively. 56.7%  
369 of the respondent firms were small, employing between 5-49 people, while the remaining 43.3% were medium  
370 sized enterprises with 50-99 employees. Majority of the respondent firms (46%) had operated for 10 years and  
371 over. This was followed by firms that had been in business for a period between 5-9 years making up 30.2%  
372 of the surveyed firms. 23.8% of the remaining firms had been in operation for less than 5 years. The business  
373 relationship between buyers and suppliers had on average lasted for a period of 4 years.

374 Figure ?? displays the means, standard deviations and bivariate correlations among the study variables. Zero  
375 order correlations were all significant and moderate, ranging between 0.309 and 0.558. Variance inflation factors  
376 were below the 10.0 threshold ??Hair et al., 1998) and the corresponding tolerance levels ranged from 1.00 to  
377 1.12 (figure ??). This indicates that multicollinearity was not a major problem in the database. According to  
378 Rovny (2009, p.3), "multicollinearity exists when a predictor is a perfect linear combination of one or more of the  
379 remaining predictors". This situation creates high correlations which results in large standard error which leads  
380 to rejection of relationships which may be true. Specifically, figure 1 reveals that organizational social capital  
381 is significantly positively correlated with organizational amnesia ( $r=0.309$ ,  $P<0.01$ ), significantly negatively  
382 correlated with moral reasoning ( $r=-0.364$ ,  $P<0.01$ ) and enforcement behavior of informal buyersupplier contracts  
383 ( $r=-0.422$ ,  $P<0.01$ ) supporting H1. Organizational amnesia was significantly and negatively correlated with  
384 moral reasoning ( $r=-0.526$ ,  $P<0.01$ ), and enforcement behavior of informal contracts ( $r=-0.558$ ,  $P<0.01$ ). The  
385 relationship between moral reasoning of procurement managers and enforcement behavior of informal buyer-  
386 supplier contracts was positive and statistically significant ( $r=0.531$ ,  $p<0.01$ ).

387 In this organization, we deliberately do not keep information that can easily be picked and used by detractors  
388 against us in future®; In this organization, we fear legal liability that could be traced back to the company "paper  
389 trails"; in this organization; In this organization, people who have the knowledge often leave and no retrievable  
390 record remains; Item measures for organizational amnesia yielded a cronbach alpha coefficient of 0.793.

391 Measures for contract enforcement behaviors were derived from the work of Fafchamps (1996) who developed  
392 a measurement scale which was used to collect data from case studies of manufacturing and trading firms in  
393 Ghana. The scales used in his paper document how commercial contracts are enforced in Ghana. Sample  
394 questions covered dimensions of compliance with contractual obligations, the desire to preserve personalized  
395 relationships based on mutual trust, harassment, court action, reputation effects, use of illegitimate force, contract  
396 renegotiation and reputation mechanism. Other items included: time elapsed since last case, in days, percentage  
397 of cases with full delivery, containing the moderation and interaction effects, we used the procedure recommended  
398 by ??iken Consistent with H5, descriptive statistics and results from qualitative interviews using the absolute  
399 P% values of moral reasoning scale, reveals that 93% of the respondents scored a dismal 25 or below, scores  
400 commonly associated with pre-conventional stage. This study further revealed that when SMEs procurement  
401 managers are faced with ethical dilemmas they more often than not exaggerate their offer, lie about certain  
402 things in order to protect their self-interests, alter facts, promise to do certain things and fail to do them. This  
403 finding is partially supported by the following representative case, V1 "?we have experienced many disappointing  
404 situations from our business partners which include but not limited to outright theft, cheating, breach of the  
405 gentleman's agreement, distorting data, purposefully confusing procurement related transactions, making false  
406 threats and promises, cutting corners, cover ups, deceiving and misrepresenting, inflating costs, dishonesty,  
407 shirking contractual obligations and violating unwritten understanding with buyers and suppliers" (see figure ??

408 for details). Additionally, late delivery, and deliveries of wrong quantities and poor quality items are a common  
409 feature among SME business partners. This self-interest could be attributed to the increased pressure on the  
410 SME resources and the demands of the buying or supplying organizations.

411 For example, buyers testified that suppliers of agricultural produce typically supply goods which are high in  
412 moisture content, shriveled, diseased and discolored, insect damaged, mouldy and on several occasions foreign  
413 matter like sand, earth, dust, weeds, stones constitute a sizeable part of the supplies. These findings are consistent  
414 with observations of Kiryabwire (2010) who contends that increased business disputes in Uganda are associated  
415 with delivery of goods not fit for the purpose or not according to specifications or description; non delivery of  
416 goods and services paid for, nonpayment for goods and services given and failure to interpret terms and conditions  
417 of the contract. The following case displays a typical encounter between a buyer and supplier. "?In our daily  
418 transactions, we aim at developing a long term business relationships. When a supplier fails to supply as per the  
419 contractual obligations, we expect a genuine reason for non-compliance." Unfortunately, our business partners are  
420 shrewd. Sometimes they display total ignorance of the contractual terms or completely deny their contractual  
421 obligations. We usually take it simple, because this seems to be the order of the day in Uganda." Surprisingly  
422 this study reveals that many SME managers try to weigh the physical consequences of an act before engaging in  
423 any manipulative trick. This is possible because most of the contracts entered into are informal and paperless.  
424 The SME procurement managers are interested in promoting self-interest and only consider others to the extent  
425 that they can help get what they want. This partially confirms H3 and also offers an explanation to the existence  
426 of negative social capital which leads to the practice of avoiding partners who are expected to be a hindrance  
427 to achieving procurement manager's self-interests. This depends on the perceived impact they would have on  
428 goal achievement and the level of guilt felt. Guilt is a cognitive or an emotional experience that occurs when a  
429 person realizes or believes-accurately or not-that he or she has violated a moral standard, and bears significant  
430 responsibility for that violation ??Strickland, 2001;2007). Guilt is a result of how close our social setting is  
431 closely knit to the SME business establishments and one's ability and desire to achieve goals as shown in figure  
432 ???. Unfortunately, this study finds that some buyers and suppliers lack any true sense of guilt or remorse for  
433 harm caused to others. Instead, buyers/suppliers rationalize their behavior, blame someone else, or deny it  
434 outright ??Morten, Millon, Erik and Davis, 2002;Hare and Neumann, 2005). This can be seen as lack of moral  
435 reasoning and an inability to evaluate situations in a moral framework. reasoning for this category of respondents  
436 in the SME sample was at the "conventional" level. Consistent with Kohlberg's model, SME managers are very  
437 conscious with what people around them would think about a decision taken on an ethical dilemma. As a result  
438 SMEs try to gain acceptance in filling social roles by seeking approval from other people as it reflects society's  
439 accordance with the perceived role. This forces them to informally collaborate with external members like Uganda  
440 Revenue Authority (URA) staff, area Local Councils (LC's), district planners and development offices, to try and  
441 offer protection to the SME. What is interesting here is that morality of an action by the SME manager is judged  
442 in terms of a person's relationships with the immediate and distant members of the social system. The moral  
443 and social relationships forms a basis for a moral order on which SMEs in Uganda are built. The intentions of  
444 actions play a more significant role in moral reasoning at this stage. Social influences in Uganda discourage the  
445 use of a legal system and contract law.

446 Social relations within SMEs undermine moral judgment and connect organizational members through negative  
447 interactions. These organizational members end up complying with unwritten rules within SMEs due to excessive  
448 pressure originating from peers and/or managers or collective social behaviors of both internal and external  
449 organizational members. This social influence has been responsible for the low level moral development among  
450 SME buyers and suppliers and thus conditioning SME employees to be morally mute. SME Employees have  
451 decided to keep quiet and not to speak out on moral behaviors of their buying or supplying organizations  
452 which act contrarily to the buyersupplier contractual obligations. Social cohesion offers punishment to enforce  
453 contractual obligations by refusing to deal with a trading partner in the future and/or driving the partner out of a  
454 business network. This behavior can be referred to as social exclusion. Exclusion from business associational life  
455 is based on pressure to gain transactions that SMEs badly need in order to acquire resources that enable survival  
456 possible. This practice offers incentives to SMEs to comply with industry organizational amnesia practice of not  
457 filing tax returns, failing to keep and destroying business records, a practice that reinforces or perpetuates low  
458 moral reasoning.

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460 May learning that result from continuous peer interactions among SME employees creates social identity which  
461 is related to moral behavior. In this study we demonstrate that employees in Ugandan SMEs worry more about  
462 social identity than professional identity. Respondents did not feel shy to defend and/or associate with SMEs  
463 that were known to be morally insensitive to their clients. Results from interviews revealed that many SMEs  
464 participated in some or a combination of these morally questionable actions : add sand to the grain at the time  
465 of sale to increase the weight, add stones to bulk the commodity, mix good quality with poor product, mix wet  
466 product with dry product, refuse to pay after delivery of goods and supplies, sell their produce to one buyer  
467 after having agreed on a price with another buyer, accept advance payment from one buyer and then sell the  
468 product to another buyer, adulterate the products of manufacturers and/or farmers. This finding is surprising  
469 and at variance with what transactional problems that contracts are meant to resolve. Under ideal situations,

470 the buyer-supplier contracts provide assurance to the contracting parties that they do what they contract to do.  
471 It is only if they have such assurance will businesses feel able to trust each other's word and, on that basis, to  
472 secure the benefits of the institution of contracts. Despite this contradiction, the study supports the works of  
473 Newell (2004), Edelman (2004) and Edelman et al., (2004) who reveal that social capital can be detrimental  
474 to value driven transactions. This paper has proved that social capital in SMEs has drawbacks and that these  
475 negative aspects of social capital result into opportunistic tendencies which the contract is supposed to address.  
476 Social capital has implications for decisions made when faced with ethical dilemmas since moral reasoning and  
477 social capital constructs were significantly correlated.

478 Furthermore as recommended, regression analysis was undertaken hierarchically to test for significant  
479 interaction effects over and above the main effects of the independent variables and the results are reported  
480 in figure ?? below. The control variables of organization age, ownership, and sales turnover were entered first  
481 to examine their simple additive effects on the enforcement behaviors of informal contracts in Ugandan buyer-  
482 supplier contractual arrangements. Model 1 revealed SME ownership to have a significant negative main effect  
483 on the enforcement behaviors of informal contracts in Ugandan buyer-supplier contractual arrangements ( $R^2 = 0.015$ ,  $p < 0.01$ ). The main effects of social capital, organizational amnesia and moral reasoning were entered  
484 second, third, fourth respectively and the interaction terms were entered in the fifth, sixth and seventh model.  
485 Consistent with Flannery and May, (2000); May and Pauli (2002) and Singhapadki, Vitell, and Kraft, (1996),  
486 this study finds support for the relationship between work place social consensus and moral action in situations  
487 of ethical dilemmas. For example, social

488 The results of model 2, shows a statistically significant and negative effect of social capital on the enforcement  
489 behaviors ( $\beta = -0.423$ ,  $P < 0.01$ ) with  $R^2 = 0.191$  and  $\hat{R}^2 = 0.176$ . This finding supports H3 which states that  
490 social capital affects SME buyer-supplier informal contract enforcement behavior. The negative sign indicates  
491 that higher levels of social capital within the buying and supplying SMEs are associated with greater levels of  
492 non-enforcing behaviors of informal contracts. Model 3, reveals that SME organizational amnesia significantly  
493 and negatively predicted enforcement behaviors of informal contracts ( $\beta = -0.467$ ,  $P < 0.01$ ) with  $R^2 = 0.387$   
494 and  $\hat{R}^2 = 0.196$ . This finding supported H6. This result demonstrates that higher levels of organizational  
495 amnesia are associated with SME non-compliant contract enforcement behavior. Model 4 contained a simple  
496 additive effect of moral reasoning on enforcement behaviors of informal contracts which resulted in a statistically  
497 significant positive effect ( $\beta = 0.261$ ,  $P < 0.01$ ) and had a  $\hat{R}^2 = 0.046$  supporting H2. The statistically  
498 significant and positive effect demonstrates that increased levels of moral reasoning are associated with increased  
499 levels of enforcement behaviors of informal contracts in Ugandan buyer-supplier contractual arrangements.

500 Model 5, reveals that the interactive term of social capital and organizational amnesia of SME Managers nega-  
501 tively predicted enforcement behaviors of informal contracts in Ugandan buyer-supplier contractual arrangements  
502 ( $\beta = -0.410$ ,  $P < 0.01$ ) with R Square change statistic of 0.011). This finding support H7: social capital interacts  
503 with organizational amnesia to affect SME buyer-supplier informal contract enforcement behavior. Similarly,  
504 consistent with H4, model 6 reveals that the interactive term of social capital and moral reasoning significantly  
505 and negatively predicted enforcement behaviors of informal contracts in Ugandan buyer-supplier contractual  
506 arrangements ( $\beta = -0.323$ ,  $P < 0.01$ ) with R Square change statistic of 0.006). The negative sign of the interactive  
507 term means that higher levels of moral reasoning are associated with lower slope of enforcement behavior of  
508 informal contracts on social capital. In other words moral reasoning significantly moderates the social capital to  
509 enforcement behaviour relationship. The social capital to enforcement behaviour is strongest in the case of low  
510 moral reasoning and weakest in the case of high moral reasoning. Consistent with H6, model 7, demonstrate that  
511 the interactive term between organizational amnesia and moral reasoning is significant and negative ( $\beta = -0.290$ ,  
512  $P < 0.01$ ) with R Square statistic of 0.453,  $P < 0.01$ ) and  $\hat{R}^2 = 0.003$ . The negative sign reveals that higher  
513 levels of moral reasoning are associated with lower slope of enforcement behavior on organizational amnesia.

## 515 12 VI.

## 516 13 Policy, Managerial And Research Implications

517 Taken together our results offer strong support for the main and interaction effects of social capital, organizational  
518 amnesia and moral reasoning on the enforcement behaviors of informal contracts in Ugandan buyer-supplier  
519 business arrangements supporting H2, H3 and H6. A consistent body of research has tested and found a positive  
520 main effect of social capital on performance outcomes and behavior (e.g Munene, literature. As social cohesion  
521 increases, social capital is made available to SME managers who use it to breach contractual obligations or  
522 defraud buyers/suppliers. The study has established that organizational social capital can be a liability to SME  
523 contracting partners. SMEs use social capital to engage in behaviors that compromise and/or frustrate the  
524 performance of informal buyersupplier contracts. This finding lends credence to the The findings of this study  
525 have policy, theoretical and research implications. First, a vast body of research emphasizing the positive effects  
526 of social capital has continued to dominate literature, largely ignoring its negative effects in business transactions.  
527 This has tended to create an impression that social capital is generally associated with positive effects. This study  
528 attempts to use data from SMEs in Uganda to demonstrate that social capital produces negative outcomes too.  
529 Further, the study points to the fact that there exists a form of negative social capital which operates to facilitate  
530 unethical business behavior associated with performance of contractual obligations. Despite this finding, the

## 14 VII. CONCLUSION, LIMITATIONS OF THE STUDY

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531 authors acknowledge that, there is inadequate conceptualization and empirical works under which social capital  
532 increases unethical business ??010d) who revealed a significant positive effect of work place social cohesion on  
533 unethical procurement behavior. This is supplemented by additional information from interviews which revealed  
534 that employees of the SME supplying firms collude to supply goods of questionable quality, delivery schedules  
535 are intentionally not adhered to, continuous and smooth supply from suppliers are almost non-existent. This  
536 business practice which result from the SME social capital has led to distrust among business partners. It is  
537 not uncommon today to hear terms like "kiwani" and "belegesi" among the Ugandan business community, which  
538 literally means "a consistent lying culture" and "delivering fake products" respectively. The above coined words  
539 are reflective of the Ugandan SME ethical environment. outcomes. One possible starting point would involve using  
540 theories from criminology literature to explain how social capital is generated and utilized in fostering unethical  
541 behavior in business transactions. This is supported by the Ugandan integrity survey reports which have revealed  
542 presence of widespread organized white collar crime. Secondly, the study reveals that as social capital increases,  
543 the effects of organizational amnesia and moral reasoning on enforcement of contracts is increasingly negative.  
544 This state of affairs increases transactional costs of SMEs as enforcement of informal contracts becomes a night  
545 mare. Another major implication of this study is that SME managers need to develop an ethical workplace  
546 culture and ethical rights which protect employees, buyers and suppliers from breach of contractual obligations  
547 ??Barnard, 1950; ??rucker, 1993). This is likely to promote productive social capital. Additionally, government  
548 through ministry of finance, planning and economic development, small business unit can design a strategy of  
549 developing small businesses through training and offering incentives to companies that keep records. Offering  
550 tax holidays to all new companies for a period of say five years may promote positive social capital, increase  
551 moral reasoning and reduce organizational amnesia. These initiatives can easily be interpreted as respecting  
552 SME owner managers, eventually resulting into improved and productive moral managers. A negative relation  
553 between URA and SMEs is a source of frustration, negative social capital and decreased moral reasoning of the  
554 SME managers. Respondents revealed that Uganda government does not offer any visible support to new SMEs.  
555 Government's selfish interest is to collect taxes from the resource constrained SMEs.

556 SMEs owner managers revealed that most of their businesses are established and financed using hard earned  
557 savings. This therefore means that, subjecting SMEs to taxation while in their infancy renders them operationally  
558 weak and unable to survive in the long run. This study establishes a link between government actions and the  
559 low moral development of SME buyers and suppliers. Government actions and/or policies are responsible for  
560 shaping an SME work environment that undermines moral development and judgment. The observed negative  
561 social capital, behavior. Therefore, there is need to conduct more empirical studies to confirm the type of social  
562 capital and the conditions under which it promotes negative increased organizational amnesia and low moral  
563 reasoning, is a response mechanism by SMEs to balance government pressure directed at resource suffering SMEs  
564 to conform to statutory requirements. Over 89% of the respondents retorted that "it is unreasonable to expect  
565 government to reap and/or harvest from a newly started business". The government's requirement for all SMEs  
566 to register and pay their taxes electronically, comply with pay as you earn regulations, and pay the compulsory  
567 SME worker contribution of 10% to national social security fund is unreasonable. This attitude explains the  
568 absence of business records in SMEs which has been previously attributed to a competence gap. Such a business  
569 culture burdens the process of assembling evidence, tedious and time consuming during contract enforcement  
570 process by courts of law. The inability to recall memory by SMEs is a characteristic of their history.

571 The study further revealed a dismal 25 or below, scores commonly associated with Kolberg's preconventional  
572 stage of moral reasoning characterized by a view that right behavior means acting in one's own best interests.  
573 This self-interest promotes noncompliance because of the belief that procurement officers will be much happier  
574 if they save their relatives/friends, even if they will have to serve a prison sentence. Results further revealed  
575 that 7% belonged to the third stage of conformity which encourages stealing/cheating and being engaged in all  
576 sorts of unethical conduct, because our friends/relatives expect it; if we want to be good to friends and relatives.  
577 This study has implications for SME managers and owners that want to develop their businesses through value  
578 driven interaction with suppliers. Those SMEs that want to avoid potential ethical problems may select those  
579 employees who are high in moral reasoning, as they are just as likely to be successful without compromising  
580 moral values. We need to improve the moral reasoning of SME employees. Secondly in order to achieve this goal,  
581 SME managers may want to use measures of moral reasoning as pre-screening criteria in situations regarding  
582 the hiring of new employees. And finally, managers and firm owners may want to investigate employing ethical  
583 training interventions designed to improve the ethical reasoning of their existing employees.

## 584 14 VII. Conclusion, Limitations Of The Study

585 And Directions For Future Research

586 An important conclusion for this research is that SME social capital highlights negative aspects of social  
587 relations at work. Such behavior is consistent with ??artel and Saavedra (2000) and Godard (2001) who found  
588 social capital to be associated with abuse of managerial power. Results from critical incident analysis revealed  
589 that moral reasoning can be lost in the event of repeated resource constraints, social interactions and social  
590 learning. Intentional acts that harm or disadvantage one or more others like cheating are a reflection of low  
591 moral reasoning. Organizational socialization and acts of dishonesty, and discouragement which do not favour  
592 contract enforcement behaviours are linked to reduced moral reasoning. Similarly some pro-social behaviour of

593 helping an SME business to successfully evade taxes, not to follow business rules and regulations and encouraging  
594 are linked to low moral reasoning of SMEs.

595 This study has weaknesses that severely limit interpretation of results. The cross-sectional nature of the data  
596 limits inferring causal linkages between social capital, organizational amnesia, moral reasoning and enforcements  
597 of contracts. Additionally, this study concentrated on organizational social capital, ignoring buyer-supplier  
598 social capital which needs to be studied to get a balanced view of how the study constructs affect contractual  
arrangements. <sup>1 2 3</sup>



Figure 1: Figure 1 :

599

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<sup>2</sup>Global Journal of Management and Business Research Volume XII Issue VIII Version I © 2012 Global Journals Inc. (US) Perceived Enforcement of Informal Buyer-Supplier Contractual Arrangements in Ugandan Small and Medium Enterprises (SMES)

<sup>3</sup>© 2012 Global Journals Inc. (US) Perceived Enforcement of Informal Buyer-Supplier Contractual Arrangements in Ugandan Small and Medium Enterprises (SMES)

## 14 VII. CONCLUSION, LIMITATIONS OF THE STUDY

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	Std.			2	3	4
	Mean	Deviation				
SME Social Capital (1)	3.26	1.74	1.00			
Organizational Amnesia (2)	4.30	1.76	.309 **	1.00		
Moral reasoning of procurement managers (DIT P%-score) (3)	0.25	2.27	-.364 **	-.526 **	1.00	
Enforcement Behavior of Informal buyer supplier Contracts (4)	4.41	1.71	-.422 **	-.558 **	.531 **	1.00

\*\*Correlation is significant at 0.01 level of significance, \*Correlation is significant at 0.05 level of significance, n=802

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Figure 2:

Variables	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6	Model 7	Co linearity statistics	Tolerance VIF
(Constant)	4.63**	3.13**	1.65**	1.29**	.527	.224	-.124	na	Na
Org. Age	0.067	.023	.009	.013	.007	.015	.013	.970	1.03
Ownership	-	-	-.063*	-.046	-.048	-.049	-.047	.998	1.00
	0.098**	.087**							
Sales turnover	0.028	.069*	.049	.031	.030	.024	.023	.969	1.03
Social Capital within SMEs	-	-	-	-	-	-	-	.982	1.02
	.423**								
			.279**	.219**	.514**	.634**	.552**		
Organizational amnesia (SMEs)	-	-	-	-	-	-	-	.890	1.12
Moral Reasoning of SME procurement Managers			.467**	.349**	.538**	.461**	.563**		
SOCXOA				.261**	.260**	.413**	.580**	.899	1.11
					-	-.264*	-.175	na	Na
SOCXMR						-	.294**	na	Na
						.323**			
OAXMR							.290**	na	Na
R	.122	.437	.622	.657	.666	.670	.673	na	Na
R square	.015	.191	.387	.432	.444	.449	.453	na	Na
Adjusted R square	.011	.187	.383	.428	.439	.444	.447	na	Na
F -statistics	158.47	216.97	147.83	133.64	117.77	104.57	90.20	na	Na
Sig.	.007	.000	.000	.000	.000	.000	.000	na	Na
R Square Change	.015	.176	.196	.046	.011	.006	.003	na	Na
F change-statistics	4.04	173.46	253.94	63.87	16.39	8.06	5.04	na	Na
Sig F Change	.007	.000	.000	.000	.000	.005	.025	na	Na

Note:

Figure 3:

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