

**THE EFFECT OF CORRUPTION ON SMALL AND MEDIUM ENTERPRISES:  
PERSPECTIVE FROM A DEVELOPING COUNTRY**

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**ABSTRACT:** *This paper investigates the effect of corruption on Small and Medium Enterprises (SMEs). Specifically it looks at the relationship between corruption and SMEs performance including price, profit, growth, productivity, wages and employment. Researches on the effect of corruption on SMEs in developing countries are scarce. Therefore, there is a value in investigating the effect of corruption on SMEs. As a result, this paper filled a research gap in the study of SMEs. In order to achieve the purpose of the study, qualitative and quantitative research methods were employed. The qualitative research was carried out using semi-structured interviews. Alternatively, the quantitative method was conducted using questionnaires as the principal survey instrument complemented by personal interviews. The data for the study was collected using mainly 340 questionnaires. The sampling design for the survey was based on stratified random sampling. The stratification was by region and business sector. The results from this study indicated that corruption is positively related with price. As predicted, corruption is negatively associated with growth, productivity and employment. But it shows no significant statistical relationship with wages and profit. In addition, the descriptive survey analysis reveals that corruption reduced SMEs owner/managers access to finance. Another interesting finding was that a large number of the respondents perceived corruption as a practice that leads to extortion by government officials. This study contributes to knowledge by providing insights on the effect of corruption on SMEs performance in Sierra Leone. To the best of the authors' knowledge, the study is one of the few studies ever done in a developing country context.*

**KEYWORDS**– Corruption, Small and Medium Enterprises (SMEs), Sierra Leone.

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## **INTRODUCTION**

The private sector in Africa, Sierra Leone in particular is made up of more of small informal business activities than can be found in any other part of the world (Tybout, 2000). These enterprises are mostly survivalist by nature and create a subsistence economy (Naude, 1995). Small and medium sized enterprises (SMEs hereafter) are the driving forces of economic development in many countries especially developing countries (Olawale & David, 2010), principally in the areas of employment creation, innovation, income generation and poverty reduction (Sandy, 2003; Liedholm & Mead, 1999; Ayyagari, Demirguc-Kunt, & Maksimovic, 2011; Urban & Naidoo, 2012). However, they face tremendous challenges to access finance. In Sierra Leone, SMEs contribute over 95% of employment, 54.8% of the gross domestic product as well as knowledge enrichment (Liedholm & Chuta, 1976; IslamicDevelopmentBank, 1994). Also significant is the fact that SMEs enhance competition and entrepreneurship in the developing countries' economies (Beck, Demirguc-Kunt, & Leine, 2005). In that regard, it is believed that competition may lead to innovation and subsequently, development and entrepreneurship leads to the creation of skills and success in business. It is further suggested that SMEs are more productive

and create additional jobs than their larger counterparts (Beck, Demirguc-Kunt, & Leine, 2005). This view is shared by a number of writers including Kayanula and Quartey (2000) who quoting Daniels (1994) stated that SMEs employ 22% of the adult population in developing countries. Nonetheless, notwithstanding the importance of SMEs to economic development, there has been limited research into the impact of corruption on their development (UNIDO & UNODC, 2007).

As argued by Carlsson (1996) in Biggs (2003), SMEs can add dynamism and flexibility to business activities, which will in turn result in improved economic performance. The flexibility of small businesses' structures gives them the opportunity to make provision for people interested in the SME sector (Amin, 2004). Flexibility provides benefits such as working at home, which helps save transport costs to and from workplaces, hence saving time and preventing delays (Floyd & McManus, 2005). For that reason, resources that could otherwise be wasted are made use of in small businesses (Marsden, 1981) in Amin (2004). Flexibility is enhanced through SMEs ability to substitute factors of production and by means of their faster and lesser costly adjustment to economic shocks (Acs and Audretsch, 1993) in Biggs (2003). Sharing the same view, Aragón-Sánchez and Sánchez-Marín (2005) stated that SMEs are flexible because of the simplicity of their internal organisation that helps them to adopt and respond to changes rapidly. They create dynamism by way of forming new firms and innovation (Biggs, 2003).

This paper shows the empirical evidence of the effect of corruption on the performance of SMEs. The rest of the paper is structured as follows: Section one introduces the study. Section two reviews literature on the definitions of corruption and SMEs. Also, it examines the empirical evidence of corruption and its impact on SMEs. Section three looks at the conceptual framework and derivation of the hypothesis. The following section concentrates on the methodology used within the study. Section five discusses the empirical findings. Section six examines the analysis and discussion of the research findings. The remaining sections look at the discussion, conclusion, contributions to knowledge, policy implications, limitations and suggestions for further research.

### **Objective of the study**

The objective of this study is to investigate the effect of corruption on Small and Medium Enterprises performance in Sierra Leone.

### **Research Question**

The study sought to answer one key question.

To what extent does corruption affects SMEs performance in Sierra Leone?

## **LITERATURE REVIEW**

### **Definition of Terms**

#### **Definitions of Corruption**

Corruption is a concept that is difficult to define, for what is referred to as corruption in one society, might not be called corruption in another society. In this view, Wraag et al. (2009, p. 5), defined corruption as “the abuse of entrusted power for private gain”, “an inducement to show favour”, “the perversion of destruction of integrity in the discharge of public duties by bribery of favour”

and “the use or existence of corrupt practices especially in a state or public corporation”. These authors further defined bribery as “the payment in money or in kind that is given or taken in a corrupt relationship” (p.5). However, World Bank (2000) defines corruption as the abuse of public office for private gain.

### **Definitions of SMEs**

Researchers and policy makers are by no means able to come to a consensus regarding a simple and single definition of SMEs. Different countries have different definitions for SMEs. This is also true in Sierra Leone where there is no provincial or general agreement on the definition of SMEs (Sandy, 2003). The term SMEs is employed to define a variety of businesses and the manner they are being managed. The implication is that SMEs have distinct characteristics and management issues that differentiate them from their larger counterparts (Stokes & Wilson, 2010). A typical definition is premised on the staff headcount, gross revenue or balance sheet (European Commission, 2009). In Sierra Leone, SMEs are defined as businesses with less than 50 workers (Liedholm & Chuta, 1976). Statistics Sierra Leone defines SMEs as micro enterprise having 1-4 employees, small enterprise having 5-19 employees and medium enterprise having 20-49 (AfricaYoungVoices, 2013).

### **Empirical Evidence of Corruption and its Impact on SMEs**

Corruption is an enemy that attacks all countries and its harmful impact is clearly evident. It affects markets and competition, causes mistrust amongst the citizenry of a country, erodes the rule of law, destroys government legality and compromise the integrity of SMEs (Burger & Holland, 2006). Corruption is a disease similar to cancer which impedes cultural, economic and political development of any country and destroys the functioning of several organs of the governments (Wei, 1999; Mohammed, 2013; Odi, 2014). Corruption among SMEs has received heighten attention in the recent past. This is because a number of limited studies have been focused on determining, if corruption negatively or positively affects SMEs by either throwing sand or greasing the wheels of commerce (Mendoza, Lim, & Lopez, 2013).

SMEs are a priority in Sierra Leone; nonetheless, the national government is still not paying the needed attention to fight corruption, one of the challenges faced by SMEs. Although SMEs in Sierra Leone are expected to revamp economic growth after the total eradication of the Ebola disease, it is believed that they are incapacitated and severely constrained by corruption. In the country, corruption is not only very severe, but it has been in existence for decades and became more deep-rooted as good democratic governance was gnarled subsequent to independence. The country is ranked 119 out of 175 countries in the corruption perceptions index (TransparencyInternational, 2014). According to the International Monetary Fund (2005), Sierra Leone can be distinguished for the past thirty years by excessive centralised system of administration, an overloaded, ineffective judicial system, weak and inefficient public and local government institutions fuelling corruption, mismanagement, inappropriate fiscal and ill-conceived economic policies. Corruption in Sierra Leone can be seen at all levels of the society, from the national government, police, military, judiciary, schools, private sector and other services. Its impact on the population of the country is alarming with the poor people suffering the most.

In Sierra Leone, corruption among SMEs is persistently evident in the forms of bribery, misappropriation of money by enterprises' employees, extortion, fraud, kickbacks, cronyism and nepotism. The escalating volume of corruption and inflation, among other things, were also some of the threats posed in the absence of strong financial systems to the development of SMEs in Sierra Leone (Kallon, 2003; UNIDO & UNODC, 2007). The consequences of corruption are weighty in a poverty stricken country like Sierra Leone, where for instance, a \$1000 bribe may lead to the loss of hundreds of thousands of dollars, due to the deformed competition and the execution of careless projects (Wenhao & Aiman, 2011). As maintained by UNIDO and UNODC (2007), Szabó and Petrosyan (2006) and Aterido et al. (2009) corruption is seen as one of the principal obstacles affecting SMEs development especially in developing countries due to the liability of size, short-term vision and perspective, restricted financial resources, failure to exercise a strong influence on government officials and institutions, capital structure and the inability to shun it. That being said, SMEs rely on corrupt practices with a view to exploit the recognized shortfalls of a country's laws and processes, courts, police, financial institutions et al (UNIDO & UNODC, 2007; Habib & Zurawicki, 2002). As a result of this, corruption is seen as a way of life among SMEs. For example, in Nigeria the federal government developed a special policy measure and programmes which included favourable laws and regulations on contracts, leasing and corporate tax, and fiscal and export incentives to facilitate the development of SMEs. However, corruption in Nigeria contributed to the diversion of the support programmes from the proposed target group (Alabladejo & Schmitz, 2006). Further to this, corruption negatively affects the volume of investment and raises a firm's investment costs (Kallon, 2003; Jain, 2001).

One of the most destructive practises of corruption aimed at SMEs is governmental corruption which exclusively concerns the public sector. Subsequently, the impact of corruption on SMEs, regardless of the sector they belong rest on the degree on which the government involves in the individual sector (UNIDO & UNODC, 2007). As stated by Friedman et al.(2000), corruption causes the overwhelming majority of SMEs to operate in the shadow economy. The informality of these enterprises makes them to be less productive than their larger counterparts (Dabla-Norris, Gradstein, & Inchauste, 2008). De Rosa et al. (2010), find a significant negative relationship between corruption and firm's productivity. It has also been argued that corruption acts as a monetary limitation on SMEs (Daniel & Alma, 2012) and increases the cost of doing business.

In addition, corruption brings down private investment and consequently hampering economic growth (Acs, Morck, Shaver, & Yeung, 1997; Mauro, 1995). In this respect, corruption reduces the efficiency of industries and leads to unlawful business operations, especially in a situation where an individual or family may have the authority to issue permits, receive subsidies, or grants contracts and overlook violations of the law (StandardTimes, 2009). In a like manner, corruption negatively impacts product and services quality, productivity, weakens economic investment prospects and destabilises business integrities (UNODC & UNIDO, 2006; Fisman & Svensson, 2002). Aterido et al. (2007), in their study reveal that corruption impedes SMEs potential to provide employment. Moreover, corruption impacts firms including SMEs by hindering the distribution of permits and licenses, taxation, court cases and public procurement (UNIDO & UNODC, 2007), thus affecting the technology in new equipment or new processes (Nguyen & Van Dijk, 2012). Citing Sierra Leone as a case study, Kallon (2003) maintained that the increase in a firm's investment costs due to corruption has a devastating effect on small firms when

compared to large firms. He supported his argument by giving two reasons. Firstly, large firms in Sierra Leone have the potential to pass part of the corruption costs to their customers. Secondly, by buying inputs from large enterprises small firms pay corruption costs.

According to several authors (UNIDO & UNODC, 2007; Beck & Demirguc-Kunt, 2006; Beck, Demirguc-Kunt, & Maksimovic, 2005c; UNIDO & UNODC, 2012; Govori, 2013), corruption has a major impact on the development of SMEs. For instance, Association of Chartered Certified Accountants (2007) pointed out that corruption and bribery have a major impact on UK SMEs. This is in agreement with Transparency International (2008), who stated that SMEs seem to be powerless in the face of demands for bribes and do not have the financial and human capability to resist corruption when compared to their larger counterparts. Arguably, corruption impacts SMEs owner/managers decision to establish, expand, closed down or to reinvest in their enterprises, to recruit and select, to sack and train employees, to upgrade quality, to fund research and development or to relocate (UNIDO & UNODC, 2007).

However, in spite of the negative impacts of corruption on SMEs, it may possibly improve efficiency and growth particularly in the case of complicated laws and regulations in developing countries with Sierra Leone no exception (Nguyen & Van Dijk, 2012). These authors further stated that corruption raises economic growth through “speed money” which enables people to circumvent bureaucratic delays and at the same time government officials who are receiving bribes have the motivation to work harder and resourcefully. Along the same line of thought, UNIDO and UNODC(2007), stated that corruption is beneficial to SMEs if the bribe given to a public official is aimed at winning a business contract. Also corruption triggers credit growth. This is because bribes paid by SMEs owner/managers to bank officials enhance the likelihood of securing loans (Ahmad F. , 2013).

## **CONCEPTUAL FRAMEWORK AND DERIVATION OF HYPOTHESIS**

By definition, a conceptual framework depicts “the conceptual status of the things being” investigated and their association with another (Punch, 2000, p. 54).

In order to determine the effect of corruption on SMEs performance, a conceptual framework is put forth. This framework permits the researcher to test the effect of the independent variables on the dependent variables, which will put a break on the forces that are believed to promote economic growth (Jain, 2001). The review of literature suggests that SMEs are responsible for several countries’ economic development particularly developing countries (Olawale & David, 2010). The proposed conceptual framework (Fig. 1) elucidates the impact of corruption on the performance of SMEs as a result of corrupt government officials, corrupt SMEs owner/managers and employees. Performance in this context is being measured by price, profit, growth, productivity, wages and employment. These performance measures were chosen based on previous studies done by Lerner and Almor (2002) and other researchers. Although the mechanism of the framework is still inferential, it is believed that the potentials of SMEs to create productive employments, accrued profit, promote growth, raise productivity, increase or decrease prices and wages depends on efficient anti-corruption measures. The variables proposed in the framework have been selected on the evidence of theoretical and empirical importance. This discussion produces the

undermentioned hypothesis to provide an understanding of the impact of corruption on SMEs performance.

❖ Corruption within and outside the SME landscape has a significant negative effect on SMEs performance.

**Independent variables**

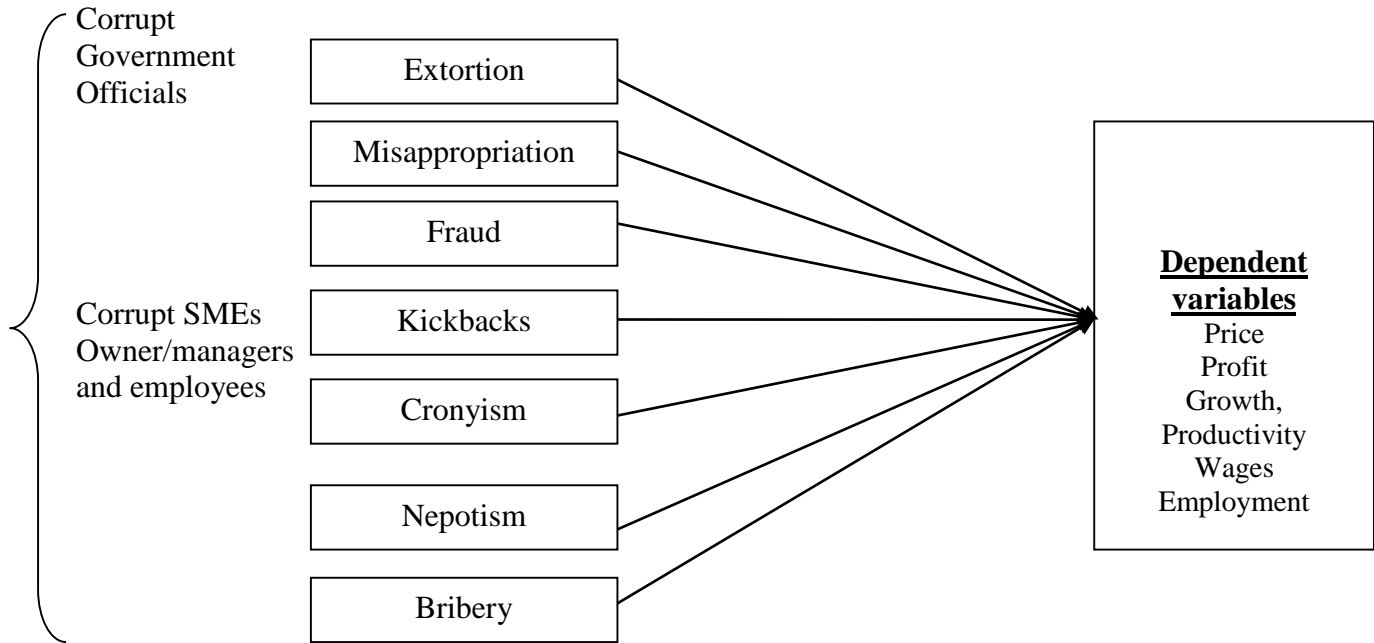


Figure 1 Conceptual Framework

Source: Author’s construct

**METHODOLOGY**

The study employed a cross-sectional data collection process to look at the effect of corruption on the performance of SMEs in the four provisional headquarters of Sierra Leone. With reference to the research question, the study employed mixed research methods, which according to Johnson and Onwuegbuzie (2004) and Creswell (2003) is an approach that permits researchers to combine both qualitative and quantitative methods in order to capitalize on the strengths and reduce the weakness of each method. The overwhelming majority of the data was collected by means of primary and secondary data. One comprehensive set of questionnaire was designed to collect primary data from the sampled SMEs owner/managers. This enabled the researcher to competently collect significant amount of information (Graveter & Forzano, 2006). A five point interval scale has been adopted in this research to specify the extent to which corruption impacts SMEs performance were 1=disagree, 2=strongly disagree, 3=indifferent, 4=agree and 5=strongly agree. This study employed probability sampling techniques including random sampling, systematic sampling, stratified sampling. These sampling techniques were complemented with snowball and purposive or judgemental sampling methods. The sample size (n) of registered and non-registered

SMEs obtained for the survey was 570. Nevertheless, 340 questionnaires were completed. This resulted to a response rate of 60%. The quantitative data collection method was complemented by interviewing 40 SMEs owner/managers face to face. Descriptive statistics and hypothesis testing using bivariate correlations were the two main methods used for analysing the data. The study was concerned with the impact of the independent variables measured on a five point numerical scale on the dependent variables. To be able to test the hypothesis, a new construct was created using different approaches and steps. Firstly, the items in the corruption construct were identified. Secondly, the items were aggregated using the reliability approach which resulted in a Cronbach's alpha coefficient of 0.769, demonstrating the standard internal consistency of the construct used in this research. Following Creswell's (2007) qualitative data analysis strategy, the semi-structured interview data for this study comprises quotations extracted from the respondents' statements.

## **EMPIRICAL FINDINGS**

### **Descriptive Statistics**

The study sought to investigate the effect of corruption on SMEs performance. In Table 1, the results presented reveal that 80.5% of the respondents stated that government officials illegally take money from them. This result supports those of Sajo (2003) who maintained that corruption leads to extortion. Asking the respondents an open-ended question to give an example of a recent corrupt practice by a government official(s), the following responses were given:

#### **Respondent 1**

*"Freetown City Council official asked me to pay Le120, 000 (\$27.60) for my business license. I paid the said amount, but I received a receipt of Le 90, 000 (\$20.70) as a proof of payment. The meaning is that I was exorted Le30, 000 (\$6.90). Although these are minor issues, but to be honest this is corruption".*

On the balance of the above analysis, although the Le30, 000 (\$6.90) exorted from the respondent was a minor issue from their point of view, but when the researcher looks at several transactions of this nature on a daily basis, the country is being denied of a huge economic benefit that must have been directed to other sectors like education, health, transport, agriculture to name but a few.

#### **Respondent 2**

*"I am a motor cycle business man in Kenema, Eastern Province. I was arrested by police officers because I did not have a crash helmet. The officers in question requested a bribe of Le50, 000(\$11.50) or risk being taken to the police station. I was out of the city before the police intensified their raids, but I was forced to pay an amount of Le 50,000 (\$11.50) before I was released. Even though I explained my situation, the officers requested Le50, 000 (\$11.50) if not I could be taken to the police station and afterward charged to court. More than 30 motor cycle riders (Okada riders) were arrested and charged to court because they refused to respect the bribe request of the police officers. And all of those charged to court were convicted and fined a sum of Le150, 000 (\$34.50) each".*

With reference to response above, the compromising attitude of the respondent disregarded the importance of health and safety.

**Respondent 3**

*“I greased the palms of a government official at National Revenue Authority to get my management and guest house licenses”.*

**Respondent 4**

*“In spite of the fact that I had to bribe the officials at the Sierra Leone Roads Authority (SLRA) in order to win a Le20, 000000 (\$4556.40) contract to construct a culvert, I paid Le11, 000000(\$2506.02) kickbacks to the same officials”.*

The findings that 85.6% of the respondents attributed the misappropriation of enterprise’s money by employees to corruption and its impact on the development of their enterprises are in agreement with those of UNIDO & UNODC (2007) that corruption among SMEs is due to embezzlement by employees. On the analysis concerning fraud as being unavoidable and having a negative impact on SMEs, 87.8% of the respondents agreed with the statement. This finding is in line with the findings of Shanmugam (2012) that SMEs are vulnerable to fraud. With respect to kickbacks having a direct effect on SMEs, 89.5% of the respondents agreed with the statement.

Neptotism was also considered for its negative impact on SMEs performance. Generally, 69.9% of the respondents indicated that nepotism hampers and causes their enterprises to die out. This finding is incongruous to Nangoli et al. (2013) findings who found that nepotism does not cause business failure among SMEs. With reference to cronyism, 67.7% of the owner/managers shared the opinion that it hinders the development of their enterprises. Indicatively, 92.7% of the respondents maintained that bribery impacts the development of their enterprises. This is confirmed in a semi-structured interview where one respondent stated as follows: *Because of the fear of giving bribes to bank officials, I do not apply for bank loans. This reduces my access to finance and negatively impact the growth of my enterprise.* The foregoing find corroborates studies undertaken by UNIDO & UNODC (2007), Sherazi et al. (2013) and Nyamwanza et al. (2014) that bribery is not the only established and renowned form of corruption affecting SMEs, but the practice encourages owner/managers to evade tax compliance. Nevertheless, the finding is not consistent with the findings of Ahmad (2013) who found that bribes paid by owner/managers to bank officials increase their chances of getting loans.

In order to determine the forms of corruption that have more devastating impact on SMEs performance, One-Sample T Test was used. The means of all the seven independent variables were ranked in order to determine if the respondents agreed or disagreed with the statements. From the ranking results, bribery emerged to have the most devastating effect on SMEs performance ( $x=3.895$ ;  $s.d.=2.103$ ). The second most devastating forms of corruption are kickbacks ( $x=3.752$ ;  $s.d.=1.245$ ). These statements are ranked significantly higher than the remaining five variables. This was achieved using the Paired-Sample T-Test. For instance, bribery which is the highest ranked variable was ranked significantly higher than the lowest two ranked variables (nepotism with  $x=2.135$ ;  $s.d.=1.278$  and cronyism with  $x=2.111$ ;  $s.d.=1.193$ ) [ $t(13.317)=339$ ;  $p\leq 0.000$ ;  $t(10.101)=339$ ;  $p\leq 0.000$ ]. In a similar argument, the second most ranked variable (kickbacks) is significantly higher than the two lowest ranked variables [ $t(9.712)=339$ ;  $p\leq 0.000$ ;  $t(7.859)=339$ ;



$p \leq 0.000$ ]. In sum, the respondents viewed bribery as the top most damaging form of corruption affecting the performance of their enterprises.

**Table 1: The effect of corruption on SMEs**

Independent Variable	Mean	Standard Deviation	Disagree	Strongly disagree	Indifferent	Agree	Strongly agree
Government officials illegally take money from me( extortion)	3.324	1.394	15.6%	1.3%	2.6%	48.4%	32.1%
As owner/manager I realize that the misappropriation of enterprise money by my employees impacts the development of my enterprise	3.370	1.553	5.9%	3.3%	5.2%	42.4%	43.2%
Fraud is unavoidable and have a negative impact on my enterprise	3.546	1.108	8.5%	1.7%	2.0%	52.9%	34.9%
Kickbacks have a direct effect on my enterprise	3.752	1.246	3.0%	5.0%	2.5%	23.2%	66.3%
Nepotism impedes my enterprise and causes it to fail	2.135	1.278	18.4%	1.2%	10.5%	25.8%	44.1%
Cronyism hinders the development of my enterprise	2.111	1.193	10.9%	12.4%	9.1%	24.5	43.1%
Bribery is principal obstacle affecting development of my enterprise	3.895	2.103	4.7%	2.6%	0%	32.0%	60.7%

N=340

## ANALYSIS AND DISCUSSION OF THE RESEARCH FINDINGS

Corruption is one of the factors hindering the development of SMEs not only in Sierra Leone, but the world over. According to UNIDO and UNODC (2007), corruption hurts SMEs the most and that they are the first to suffer in a market where it exists. It lowers SMEs profit margins thereby putting their survival in peril. It is against this backdrop that the researcher anticipated in the hypothesis that corruption could be negatively related to SMEs performance (price, profit, growth, productivity, wages and employment). The correlation analysis in Table 2 shows interesting results. For example, there is a significant positive relationship between corruption and price with  $r=0.028$ ,  $p<0.05$ . Further, the table shows a significant negative correlation between corruption and growth with  $r= -0.438$ ,  $p<0.05$ . This finding complements the findings of Athanasouli et al. (2012), that corruption is negatively related to growth. Nevertheless, the finding is inconsistent with those of Aterido et al. (2007), who maintained that corruption especially bribes, increase the growth of SMEs with less than ten employees.

Additionally, the table revealed a significant negative association between corruption and productivity with  $r= -0.284$ ,  $p<0.05$ . This finding is in tandem with the findings of De Rosa et al. (2010), that corruption negatively impact firm-level productivity. On the contrary, the finding do not follow those of Denis and Bako (2015) that bribery increases SMEs productivity. Also, the table shows a negative correlation between corruption and employment with  $r= -0.194$ ,  $p<0.01$ . This result supports Aterido et al. (2007); Gaviria (2002) that corruption impedes employment growth in SMEs. However, the correlation coefficients between corruption and SMEs performance (wages and profit) were not statistically significant. The non-statistical relationship between corruption and profit is in contradiction to the findings of Daniel (2012) that the payment of bribes by SMEs owner/managers to government officials resulted to profit losses as a result of unaccomplished business dealings.

## DISCUSSION

The analysis revealed a significant positive relationship between corruption and price. This could suggest that corruption has a significant influence on price. The implication is that corruption increases operational and other costs and eventually forces corrupt SMEs to increase prices. The findings disclosed a significant negative relationship between corruption and growth which makes it difficult for SMEs in Sierra Leone to develop at a faster pace. This means that corruption in the country and within the SME sector reduces enterprise growth, efficiency and economic development (Odi, 2014; Beck, Demirguc-Kunt, & Leine, 2005) despite the giant effort of the national Government and development partners to promote the private sector development. The negative relationship further indicates that, SMEs operating in the shadow economy as a result of corruption fail to enjoy the benefits of accessing finance when compared to their counterparts that operate formally. The findings further revealed that corruption is negatively correlated to productivity. This establishes the fact that persistent corruption reduces productivity within the SME sector. Over and above, the study indicates that corruption negatively affects employment. This finding is not strange in a country well known for corruption (TransparencyInternational, 2014).

Most importantly, the analysis revealed a non-statistical relationship between corruption and SMEs performance (profits and wages). This could imply that corruption has no significant influence on profit and wages. The absence of a significant statistical relationship between corruption and SMEs performance (profits and wages) might be linked to a decline in corruption within the enterprises which, if it persists within the SMEs landscape, may not only impact the sector, but the economic development of the country as well (Habib & Zurawicki, 2002). The non-statistical relationship between corruption and wages could mean that corruption is less likely to influence owner/managers decisions on wages. This is due to the fact that the bribes paid by owner/managers to government and bank officials to secure licences, loans, business contracts et al do not in any way warrant them to reduce wages in order to recoup money being paid as bribes. A plausible explanation is that owner/managers may perhaps include the bribery costs in the prices of goods and services sold to customers. Another explanation may well be that employing the services of an external accountant to probe into the books of the enterprise may possibly reduce the risk of theft by employees thereby reducing corruption and increasing revenue. This is because there is the possibility of uncovering the fraudulent activities of criminal employees. This will serve as a preventive measure against the dishonest employees (Kallon, 1990).

**Table 2 Pearson product-moment correlation Analysis**

Independent Variable	Dependent Variables					
Corruption	Price	Profits	Growth	Productivity	Wages	Employment
	R=0.028 * P=0.001	R=0.051 P=0.353	R=-0.438* P=0.008	R=-0.284* P=0.000	R= 0.072 P=0.491	R=- 0.194** P=0.000

\* Correlation is significant at the 0.05 level (2-tailed).

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

## CONCLUSION

Based on the analysis, the undermentioned conclusions are put forth.

The findings from this study are believed to give an insight into the effect of corruption on SMEs performance in Sierra Leone. Within this study, it is recognized that 80.5% of the respondents stated that government officials illegitimately take money from them. This seems to confirm the results of a study by Oyelola et al.(2013) who found that SMEs owner/managers regularly encountered harassment from the government officials that extorted monies from them. Similarly, owner/managers agreed that the misappropriation of enterprise money by employees impacts the development of their enterprises. The study also indicated that fraud is inevitable and negatively impacts SMEs in Sierra Leone. Kickbacks and bribery appear to be the most devastating corruptible practices affecting SMEs performance. In general, a number of studies have shown

that nepotism and cronyism are common corruptible practices among SMEs (UNIDO & UNODC, 2007; Sherazi, Iqbal, Asif, Kashif-ur-Rehman, & Shah, 2013; Nyamwanza, Mavhiki, Mapetere, & Nyamwanza, 2014). This corresponds with the research findings.

The correlation analysis shows a significant positive relationship between corruption and price but a significant negative association with growth, productivity and employment. This is consistent with Ahmad (2013); UNODC & UNIDO (2006); Aterido et al. (2009); Gaviria (2002) studies. The findings indicate that the greater the negative association between corruption and SMEs performance (growth, productivity and employment), the more corruption influence undesired changes on these variables. On the other hand, it was interesting to know that corruption shows non-statistical relationships with SMEs performance (profits and wages).

### **CONTRIBUTIONS TO KNOWLEDGE**

This is one of the few researches ever done in Sierra Leone. Hence it fills a research gap concerning the effect of corruption on SMEs performance. The study maybe of significance to developing countries that see SMEs as a vibrant tool in promoting economic development. The research employed a mixed method approach hardly seen in several SMEs researches. In addition, the study contributes to knowledge of research on the effect of corruption on SMEs performance which can be considered as a representative for African countries.

### **POLICY IMPLICATIONS**

The findings have some policy implications in that it shows that corruption impact the development of SMEs in Sierra Leone. Therefore, it is suggested that the national Government takes a giant step to curb corruption within the SME sector so that these enterprises can contribute meaningfully to the economic development of the country.

### **LIMITATIONS AND SUGGESTION FOR FURTHER RESEARCH**

The study sample did not represent all the SMEs in the country. It particularly focused on the SMEs located in the provisional headquarters of the country. Therefore, future research has to investigate SMEs located in the fourteen districts of the country. An additional limitation of the research is that the study only looked at seven independent and six dependent variables. Future research might use more of dependent and independent variables so as to complement the findings of this study. Above and beyond, the data collection process was cross sectional. For that reason, it will be useful for future research to employ longitudinal data collection process. Within this research, more of a quantitative method of data collection was employed. It is, therefore, desirable for future research to focus more on semi-structured interviews in order to get a better understanding of the effect of corruption on SMEs performance. At the same time, further research should be done using more sampling frames in order to increase the degree of representation of the sampled SMEs.

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