

THE ETHICAL PERCEPTIONS OF SMALL BUSINESS OWNERS

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ABSTRACT

This paper reports the findings of an investigation into the ethical perceptions of small business owner/managers. The study has been conducted in Northwest region of Turkey and is the first investigation of ethical perceptions in Turkey. More than 99 percent of the companies in Turkey are small businesses and they play a key role in driving sustainable economic growth and job creation. However, they remain the largely unexplored area of ethics. Most of the findings of this study are mainly in concert with previous studies' findings. Specifically, owner/managers of small size companies have more tolerable view towards unethical personnel practices. Moreover owner/managers of retail businesses have more tolerable views towards unethical marketing and personnel practices.

Keywords: Ethical Perception, Small Business, Owner/manager.

INTRODUCTION

According to Sharplin et al¹, ethics is the discipline that dealing with what is good and bad, with what is right and wrong, or with moral duty and obligation. Business ethics examines business practices in light of human values², provides guidance for right decision making and for the establishment of ethically sound policies within a company, and covers a vast range of problems from affirmative action to toxic wastes, from Third World debt to management styles, and from fixing prices to closing plants³.

Many scholars and business managers emphasize the fundamental importance of ethical management and believe that without the moral legitimacy of

¹ Arthur Sharplin, Shane R. Premeaus, Mary Jo. Binning, and Lawrence F. Worley (1992). 'Business Ethics: A Primer for Managers,' *Journal of Property Management*, 57(5), 42-45.

² Jeffrey Hornsby, and Donald F. Kuratko (1994). 'The Ethical Perceptions of Small Business Owners: A Factor Analytic Study', *Journal of Small Business Management*, 32 (4), 9-17.

³ John Langan (1990). 'The Ethics of Business', *Theological Studies*, 51 (1), 81-101.

entrepreneurship the spheres of commerce and business would turn out to be under a constant moral cloud⁴. However, managers, American public⁵, and most small business professionals believe that ethical standards are in decline⁶. As in the USA, ethics is in sharp decline at least for the last two decades in Turkey⁷. Small businesses that have many ethical problems such as employee theft⁸, fraud⁹, ethical conflicts with employees¹⁰ and other stakeholders¹¹ are responsible as far as large businesses from the ethical decline¹².

Most managers believe that retarding the decline of business ethics the most important factor is ethical behavior of managers/leaders¹³, because, leaders play a role, either as founders or promoters of values in organizations. Leaders influence the organization through his or her words and actions. Values of leaders shape the values of the company when they are paired with policies and actions that breathe life into them¹⁴. Therefore, leaders must establish an ethics triumvirate of tone, environment and individual responsibility¹⁵.

Besides the leadership, teaching ethics, developing and enforcing codes of ethical conduct, establishing better monitoring and reporting mechanisms, hiring ethical managers¹⁶, having certain work characteristics, organizational characteristics, and

⁴ Thomas J. Von der Embse, and Robert A. Wagley (1988). 'Managerial Ethics: Hard Decisions on Soft Criteria,' *SAM Advanced Management Journal*, 53 (1), 4-9; Tibor R. Machan (1999). 'Entrepreneurship and Ethics,' *International Journal of Social Economics*, 26 (5), 596-608; Ian I. Mitroff (1998). 'On The Fundamental Importance of Ethical Management', *Journal of Management Inquiry*, 7 (1), 68-80.

⁵ William P. Cordeiro (2003). 'The Only Solution to the Decline in Business Ethics: Ethical Managers,' *Teaching Business Ethics*, 7 (3), 265-277.

⁶ Scott J. Vitell, Erin Baca Diskerson, and Troy A. Festervand (2000). 'Ethical Problems, Conflicts and Beliefs of Small Business Professionals,' *Journal of Business Ethics*, 28 (1), 15-24.

⁷ M.G. Serap Ekin, and S. Hande Tezolmez (1999). 'Business Ethics in Turkey: An Empirical Investigation with Special Emphasis on Gender,' *Journal of Business Ethics*, 18 (1), 17-34; Zeyno Baran (2000). 'Corruption: The Turkish Challenge,' *Journal of International Affairs*, 54 (1), 127-146; Metin Munir (2001). 'Turkey's Banks, and Its Economy, Stand on the Brink,' *Eurconomy*, Sep2001, Issue 389, 260-268; N.A. (2003). 'Turkey's Parliamentary Committee Charge Two Ex-PMs with Corruption,' *Xinhua* (China), July 23.

⁸ Doris A. Christopher (2003). 'Small Business Pilfering: The 'Trusted' Employee(s),' *Business Ethics: A European Review*, 12 (3), 284-297.

⁹ Gary G. Johnson, and Charryl L. Rudesill (2001). 'An Investigation into Fraud Prevention and Detection of Small Businesses in the United States: Responsibilities of Auditors, Managers, and Business Owners,' *Accounting Forum*, 25 (1), 56-78.

¹⁰ Vitell, 'Ethical Problems, Conflicts and Beliefs ... pp. 15-24; Stuart Dawson, John Breen, and Lata Satyen (2002). 'The Ethical Outlook of Micro Business Operators,' *Journal of Small Business Management*, 40 (4), 302-313.

¹¹ Shailendra Vyakarnam, Andy Bailey, Andrew Myers, and Donna Burnett (1997). 'Towards an Understanding of Ethical Behavior in Small Firms,' *Journal of Business Ethics*, 16 (15), 1625-1636.

¹² Lisa Miller, (2003). 'Ethics: It Isn't Just the Big Guys,' *Business Week Online*, 7/28/2003.

¹³ Cordeiro, "The Only Solution to the Decline ... pp. 265-277.

¹⁴ Joanne B. Ciulla (1999). 'The Importance of Leadership in Shaping Business Values,' *Long Range Planning*, 32 (2), 166-172; Hornsby, 'The Ethical Perceptions of Small Business Owners ...' pp.9-17.

¹⁵ Karen Wiltsie (2003). 'OTHER VOICES: Concern for Ethics Needs to Start at Top,' *Crain's Detroit Business*, 12/1/2003, 19 (48), 9-10; Vitell, "Ethical Problems, Conflicts and Beliefs ... pp. 15-24; Larry Sanders (2003). 'The Ethics Imperative,' *Modern Healthcare*, 3/17/2003, 33 (11), 46-47; Roberta Maynard (1997). 'Leading by Example May Promote Worker Honesty,' *Nation's Business*, 85 (9), 16.

¹⁶ Cordeiro, 'The Only Solution to the Decline ...', pp. 265-277.

individual characteristics¹⁷, organizational culture¹⁸, situational factors, quality of relationships with stakeholders, reputation and economic considerations¹⁹, company's survival problems²⁰, managers' moral imagination for ethical decision making²¹, norms and pressures from community and peer groups, anticipation of rewards, higher moral or religious principles, upholding the law and fear of punishment are also factors affecting small business ethics²². Some researchers believe that ethics code support ethical business conducts²³, but some others find it insufficient.²⁴ In another way, its effects depend on the leader's support²⁵.

In summary, in small businesses ethical tone of companies are generally determined by the owner/managers' ethical beliefs and practices²⁶. Therefore, it is very important to understand the behaviors of small business owner/managers.

1. Ethical Perception Of Managers: A Literature Review

In the business ethics literature, ethical perception of managers are analyzed from different perspectives, such as; types of business practices, decision making processes of managers, demographic characteristics of managers (age, sex, education etc.), sectors of businesses, locations of businesses (urban and nonurban etc.), nationality of managers, the internationalization's level of the businesses. Some of these researches are summarized as followed:

Small business respondents are more demanding than their big business counterparts in their views on faulty investment advice, favoritism in promotion, acquiescing in dangerous design flaw, misleading financial reporting, misleading advertising, and defending healthfulness of cigarette smoking. Nevertheless, small business respondents viewed padded expense account, tax evasion, collusion in bidding,

¹⁷ Lewis Long-fung Chau, and Wai-sum Siu (2000). 'Ethical Decision-Making in Corporate Entrepreneurial Organizations,' *Journal of Business Ethics*, 23 (4), pp. 365-375.

¹⁸ Al Y. S. Chen, Roby B. Sawyers, and Paul F. Williams (1997). 'Reinforcing Ethical Decision Making Through Corporate Culture,' *Journal of Business Ethics*, 16 (8), pp. 855-865.

¹⁹ Vyakarnam, 'Towards an Understanding of Ethical ...' pp. 1625-1636.

²⁰ Grantham Couch, James J. Hoffman, and Bruce Lamont (1995). 'The Effect of Firm Survival Situations on Managerial Ethics,' *Journal of Employment Counseling*, 32 (2), pp. 79-88.

²¹ Patricia H. Werhane (1998). 'Moral Imagination and the Search for Ethical Decision-Making in Management,' *Business Ethics Quarterly*, (1), pp. 75-98.

²² Daniel J. Brown, and Jonathan B. King (1982). 'Small Business Ethics: Influences and Perceptions,' *Journal of Small Business Management*, 20 (1), pp. 11-18.

²³ Curtis C. Verschoor (1999). 'Corporate Performance Is Closely Linked to a Strong Ethical Commitment,' *Business and Society Review*, 104 (4), 407-415; Jack D. Cichy (1995). 'Good Business Ethics Key For All Companies,' *Grand Rapids Business Journal*, 12/4/95, 13 (49), pp. 19-20.

²⁴ Michael R. Hyman, Robert Skipper, and Richard Tansey (1990). 'Ethical Codes Are Not Enough,' *Business Horizons*, 33 (2), 15-22; Steven Bavaria (1991). 'Corporate Ethics Should Start in the Boardroom,' *Business Horizons*, 34 (1), pp. 9-12.

²⁵ Miller, 'Ethics: It Isn't Just the Big Guys,' ... 7/28/2003.

²⁶ John J. Quinn (1997). 'Personal Ethics and Business Ethics: The Ethical Attitudes of Owner/Managers of Small Business,' *Journal of Business Ethics*, 16 (2), pp. 119-127.

insider trading, discrimination against women, and copying computer software with greater tolerance²⁷.

Small business owners/managers and their customers use the same ethical evaluative structure as do other business people²⁸. Law, individualism and egoism play important roles in the decision making process of managers²⁹. There is also a link between personal ethics and business ethics³⁰.

Older employees of small businesses display more conservative ethical tendencies³¹. Older business owners were less accepting of ethically questionable behaviors³². Older managers perceived giving gifts/favors in exchange for preferential treatment, divulging confidential information, concealing one's error, fabricating reports, and calling in sick to take a day off significantly more unethical than younger managers³³. However, Ede and his colleagues' findings³⁴ ran counter the usual relationship of age being positively related to ethical attitudes. Younger respondents, 40 years old or less, were statistically more ethical in their perceptions than older people were. Ethical perceptions for males and females are similar when considering most types of business ethics questions. However, females are significantly more likely to view the hiring of a male over a female or the promoting of a friend over a more competent employee as very unethical³⁵. Female managers perceived the acceptance of gifts and favors in exchange for preferential treatment significantly more unethical than male managers did³⁶. Male managers who see money as omnipotent, and who have a high degree of egoism tend to be more unethical at work than their counterparts are³⁷. The practice of padding expense accounts by over 10 percent was reported to be significantly more unethical by managers with a graduate degree³⁸.

²⁷ Justin G. Longenecker, Joseph A. McKinney, and Carlos W. Moore (1989). "Ethics in Small Business", *Journal of Small Business Management*, 27 (1), pp. 27-31.

²⁸ Neil Humphreys, Donald P. Robin, R. Eric Reidenbach, and Donald L. Moak (1993). "The Ethical Decision Making Process of Small Business Owner/Managers and Their Customers," *Journal of Small Business Management*, 31 (3), pp. 9-23.

²⁹ John A. Wood, Justin G. Longenecker, Joseph A. McKinney, and Carlos W. Moore (1988). "Ethical Attitudes of Students and Business Professionals: A Study of Moral Reasoning," *Journal of Business Ethics*, 7 (4), pp. 249-257.

³⁰ Quinn, "Personal Ethics and Business Ethics: ... pp.119-127.

³¹ Paul J. Serwinek (1992). "Demographic & Related Differences in Ethical Views Among Small Businesses," *Journal of Business Ethics*, 11 (7), pp. 555-566.

³² Patricia L. Smith, and Ellwood F. Oakley III (1994). "A Study of the Ethical Values of Metropolitan and Nonmetropolitan Small Business Owners", *Journal of Small Business Management*, 32 (4), pp. 17-27.

³³ Satish P. Deshpande (1997). "Managers' Perception of Proper Ethical Conduct: The effect of Sex, Age, and Level of Education," *Journal of Business Ethics*, 16(1), pp. 79-85.

³⁴ Fred O. Ede, Bhagaban Panigrahi, Jon Stuart, and Stephen Calcich (2000). "Ethics in Small Minority Businesses", *Journal of Business Ethics*, 26 (2), pp. 133-146.

³⁵ Serwinek, "Demographic & Related Differences ... pp. 555-566.

³⁶ Deshpande, "Managers' Perception of Proper ... pp. 79-85.

³⁷ Au, Alan K.M., and Alan C.B. Tse (2001). "Marketing Ethics and Behavioral Predisposition of Chinese Managers of SMEs in Hong Kong," *Journal of Small Business Management*, 39 (3), pp. 272-278.

³⁸ Deshpande, "Managers' Perception of Proper ... pp. 79-85.

Managers in consumer goods manufacturing sector are ethically the most sensitive managers. Managers in transportation/communications sectors are the least sensitive ethically³⁹.

Small business owners in nonurban areas hold ethical values in higher regard than their urban counterparts⁴⁰. There is not any difference between the ethical orientations of Russian and USA owner/managers in Machiavellian orientation in general⁴¹.

Small businesses encounter bribery, political issues and/or government intervention, customs clearance, questionable transfer of funds, and cultural and/or business practice differences in international markets⁴². However, they encounter ethical problems such as bribery, criticizing competition, lying, divulging confidential information, inflating expense account in domestic markets⁴³.

2. Methodology

2. a. Purpose of the Study

The purpose of this study is to expose how Turkish small business owner/managers perceive ethically questionable situations and compare the results with other studies' findings.

2. b. Sample

The sample for this study consisted of 209 small business owners mostly from the Northwest region of Turkey. Owners were interviewed by students in management and organization courses, from one University, following a structured format that resulted in a questionnaire being returned by each company. Owners had been informed that this was part of ongoing a University efforts to study ethical perceptions of small business owners about some problematic issues on business operations. Owners were advised that participation in the survey was voluntary and would be kept confidential.

2. c. Survey Instrument

The ethical perceptions instrument of Longenecker, McKinney, and Moore⁴⁴ was utilized. The instrument consists of 16 statements that describe a specific event that has some kind of ethical choice connotation. This instrument has been translated to Turkish, and checked for readability, clarity and understandability by the undergraduate business students. Business owners responded to each statement on a seven point Likert scale (1 = "never acceptable" to 7 = "always acceptable") indicating their belief about that particular situation.

³⁹ Ede, "Ethics in Small Minority Businesses", ... pp. 133-146.

⁴⁰ Smith, "A Study of the Ethical Values ... pp. 17-27.

⁴¹ Sommer, Steven M., Dianne H.B. Welsh, and Boris L. Gubman (2000). "The Ethical Orientation of Russian Entrepreneurs," *Applied Psychology: An International Review*, 49 (4), pp. 688-708.

⁴² Mayo, Michael A. (1991). "Ethical Problems Encountered by U.S. Small Businesses in International Marketing," *Journal of Small Business Management*, 29 (2), pp. 51-59.

⁴³ Sharplin, "Business Ethics: A Primer for Managers," ... pp. 42-45.

⁴⁴ Longenecker, "Ethics in Small Business", ... pp. 27-31.

In addition, the respondents were asked to provide various demographic and operational data pertaining to themselves and their businesses.

2. d. Analyses

Three sets of statistical analyses were conducted. The first involved calculating frequencies on demographic variables such as type of business, length of time in the business, age of the owner, and number of employees. The second analysis involved a principal components factor analysis of the 16-item instrument. The third analysis assessed the internal consistency of the factor structure.

3. Results

3. a. Sample Demographics

The sample represented small businesses in a broad range of industries. The largest number of participants came from manufacturing, retail, and service sectors. In addition, nearly 60 percent indicated sales below \$350,000, about 95 percent reported an employee level of fewer than 100, and 23 percent of the owners had been in business 21 years or more with the remainder dispersed in categories below 21 years. The ages of owners ranged from 19 to older than 70 with more than 70 percent between 31 and 60. More than 36 percent of them hold high school degree and 30 percent hold college degree, about 90 percent of owners are male, and more 75 percent of them are married. A complete demographic description of the participating companies can be found in Table 1.

3. b. Factor Analysis

The results of the principal components factor analysis, based on a Varimax rotation, suggested a four-factor solution to the Longenecker, McKinney, and Moore (1989) ethical perceptions instrument. Table 2 presents the factor analysis results. Examination of the content of the items loading on each factor resulted in the following names being applied to the various factors:

1. Production and administrative practices,
2. Financial practices,
3. Marketing practices,
4. Personnel practices.

3. c. Internal Consistency

The reliabilities of the 16-vignette ethics scale and the four factors (subscales) were determined by computing their Cronbach alphas. The 16-vignette scale produced Cronbach alpha of 0.8538.

The item analysis of the four scales suggested in the factor analysis revealed that the first three scales were reliable. The last scale had a low level of reliability. The resulting coefficient alpha reliabilities were 0.8198, 0.7061, 0.6677, and 0.4643; respectively.

Factor of age gives complex results that 31-40 years old owner/managers seem more tolerable to the unethical behaviors (Factor 1) than other age groups ($F= 2,233$, $P= 0,052$). Mean score of this group is 2,6528 for the factor 1. 31-40 years old

owner/managers seem more tolerable to the unethical behaviors (Factor 2) than other age groups ($F= 2,501$, $P= 0,032$). Mean score of this group is 3,9291. However, there is no linear relationship between age groups and their perception of unethical behaviors.

Owner/managers at retail businesses are more tolerable towards unethical behaviors at factor 3 and factor 4. Respectively, $F= 3,964$, $P= 0,020$; $F= 3,028$, $P= 0,051$. Means scores are 2,9035 (factor 3) and 2,9035 (factor 4).

Ethical behaviors of owner/managers do not change according to the sex, education; experience, marital status of owner/managers and sales volume of the companies.

Owner/managers of the companies that hire personnel between 1-14 and 15-49 have more tolerable view toward unethical behaviors at factor 4 (mean score respectively is 3,3540 and 3,6837 ($F= 2,340$, $P= 0,56$). Here there is linear relationship between personnel amount of the companies and ethical view of their owner/managers. In another word, when companies get bigger ethical views toward unethical behaviors get tougher (mean scores of other companies that have between 50-99 personnel, between 100-149 personnel and more than 250 personnel are respectively, 2,9231, 2,5000, and 1,6667).

Discussion

The factor analysis results of this study indicated that there are four reliable dimensions of ethics measured by the Longenecker, McKinney, and Moore instrument. Nevertheless, the last dimension has a low level of reliability. These results are in concert with findings of studies of Hornsby et al.⁴⁵, Humphreys et al.⁴⁶, and Ede et al.⁴⁷. Hornsby et al.⁴⁸ suggested a four-factor solution to the Longenecker, McKinney, and Moore ethical perceptions instrument. Only three of the four factors are found reliable. Humphreys et al.⁴⁹ found a three-factor solution. Ede et al.⁵⁰ purified the 16-vignette ethics scale of Longenecker et al. via content analysis, reduced it 12-vignette ethics scale, and found higher reliability coefficients.

Following conclusions can be made from the findings of this study: This study's results in terms of age are in concert with the findings of studies' of Serwinek⁵¹, Smith, and Oakley⁵², Deshpande⁵³. Younger owner/managers' tendency toward unethical behaviors (factor one, and two) might be interpreted as that at these ages, owner/managers try to earn as much money as they can and therefore, they might ignore the importance of business ethics or do not pay much attention of it.

⁴⁵ Hornsby, "The Ethical Perceptions of Small Business Owners ... pp. 9-17.

⁴⁶ Humphreys, "The Ethical Decision Making Process ... pp.9-23.

⁴⁷ Ede, "Ethics in Small Minority Businesses", ... pp.133-146.

⁴⁸ Hornsby, "The Ethical Perceptions of Small Business Owners ... pp. 9-17.

⁴⁹ Humphreys, "The Ethical Decision Making Process ... pp. 9-23.

⁵⁰ Ede, "Ethics in Small Minority Businesses", ... pp. 133-146.

⁵¹ Serwinek, "Demographic & Related Differences ... pp. 555-566.

⁵² Smith, "A Study of the Ethical Values ... pp. 17-27.

⁵³ Deshpande, "Managers' Perception of Proper... pp. 79-85.

Owner/managers at retail businesses are more tolerable towards unethical behaviors at factor three and factor four. These results might be explained as that the main concern of the owner/managers at this sector is to sell as much as possible. Therefore, they might be much tolerable towards the questionable marketing practices.

Owner/managers of small size companies (1-49 personnel) have more tolerable view toward unethical behaviors at factor 4. When companies get bigger, ethical views toward unethical behaviors get tougher. This result might be interpreted as personnel problems (factor 4) are dealt in an informal and friendly manner in the small businesses. Therefore, small businesses' owner/managers do not consider this kind of issues as important as bigger businesses' owner/managers do.

The study may also have some implications for small business owners in establishing an ethical environment in and around their companies. Younger owner/managers must take ethical aspects of businesses into account and adopt long-range business perspectives. Owner/managers of retail businesses should also adopt long-range business perspectives and concentrate on the satisfaction of company employees and customers. In addition, micro and small business owner/managers should pay attention on ethical issues about personnel and help them to be prepared for the much more ethical business environment.

A number of directions for future research might be suggested. First, additional study must cover larger sample of Turkish small business owners. Moreover, values of Turkish small business owners and their impacts on managerial behaviors might be analyzed. Finally, impact of EU integration process on ethical perspectives of Turkish small business owners might be investigated.

Table 1:
Demographic Results

Sex	Frequency	%
Female	23	11,0
Male	186	89,0
Total	209	100,0

Owner Age	Frequency	%
21-30	51	24,4
31-40	79	37,8
41-50	59	28,2
51-60	14	6,7
61-70	4	1,9
71+	2	1,0
Total	209	100,0

Education	Frequency	%
Primary School	29	13,9
High School	77	36,8
Professional College	25	12,0
University	64	30,6
Master	10	4,8
Others	4	1,9
Total	209	100,0

Experience	Frequency	%
Between 0-3 years	13	6,2
Between 4-7 years	43	20,6
Between 8-12 years	48	23,0
Between 13-20 years	57	27,3
21 years and more	48	23,0
Total	209	100,0

Marital Status	Frequency	%
Single	36	17,2
Married	164	78,5
Others	9	4,3
Total	209	100,0

Sector	Frequency	%
Manufacturing	82	39,2
Construction	12	5,7
Mining	2	1,0
Retail	57	27,3
Service	46	22,0
Finance/Insurance	4	1,9
Transportation	6	2,9
Total	209	100,0

Personnel	Frequency	%
Between 1-14	137	65,6
15-49	49	23,4
50-99	13	6,2
100-149	7	3,3
250 and more	3	1,4
Total	209	100,0

Sales (\$)	Frequency	%
70,000	55	26,3
71,000 – 210,000	48	23,0
211,000 – 350,000	23	11,0
351,000 – 490,000	17	8,1
491,000 – 630,000	9	4,3
631,000 – 700,000	7	3,3
701,000 +	50	23,9
Total	209	100,0

Table 2:
Principal Components Factor Analysis of Ethics in Small Business Survey

ITEMS	FACTORS			
	1	2	3	4
Q1	,758			
Q2	,747			
Q3	,573			
Q4	,641			
Q10	,477			
Q11	,518			
Q16	,519			
Q5		,565		
Q6		,727		
Q7		,587		
Q9		,608		
Q12		,535		
Q14			,764	
Q15			,756	
Q8				,698
Q13				,701
Eigenvalue	5,226	1,485	1,328	1,092
Percent variance explained	32,663	9,283	8,298	6,826
Cumulative Variance	32,663	41,946	50,243	57,069
<i>Extraction Method : Principal Component Analysis. Rotation Method : Varimax with Kaiser Normalization. a. Rotation Converged in 12 iterations.</i>				

