

## THE ETHICAL ORIENTATION OF U.S. SMALL BUSINESS DECISION MAKERS: A PRELIMINARY STUDY

By: D.H.B. Welsh and N.J. Birch

Welsh, D.H.B., & Birch, N.J. (1997). The ethical orientation of U.S. small business decision makers: A preliminary study. *Journal of Small Business Strategy*, 8(2), 41-51.

**\*\*\*Note: Figures may be missing from this format of the document**

### INTRODUCTION

The airwaves are being permeated with heated discussions of family values. Values are being equated, in part, with ethics. Almost every discipline has examined ethics. Indeed, ethical considerations affect all forms of human activity, including business organizations. In 1978, Katz and Kahn determined that individual and organization values are important in determining behavior. Since then, a number of authors have expounded on the importance of ethical considerations in business decision making (Andrews, 1989; Berenbeim, 1987; Beversluis, 1987; Evans, 1991; Frederick, 1988; Goddard, 1988; Hector, 1989; Henderson, 1982; Longenecker, McKinney, & Moore, 1988; Payne & Duhon, 1990; Shostack, 1990; Stead, Worrell, & Stead 1990; Von der Embse & Wagley, 1988; and Werner, 1992). The Kellogg Foundation published a working paper series examining ethics and leadership (1996). Recently, proposed frameworks or models of ethical decision making in business have been introduced (Gatewood & Carol, 1991; Payne & Giacalone, 1990; and Jones, 1991). Likewise, unethical behavior has been studied in terms of the cost of employee dishonesty (Clark & Hollinger, 1983; Walls, 1988); in addition to its causes and solutions (Bauman, 1988; Bernstein, 1985; Buckley, 1986; and Carter, 1987). In 1992, Dees and Starr reviewed the existing articles on ethics and small business and concluded that there were few studies that explicitly examined this issue.

The vast majority of businesses in the United States are classified as small businesses. The number of companies with fewer than one hundred employees has increased nearly fifty

percent since the early 1980s. According to the Small Business Administration, there are 20 million small businesses that account for more than half of all U.S. employment and contribute more than a third to the gross domestic product (Dugan, 1996). The reasons for the monumental growth of small business include the downsizing of corporations, disenchantment of college-age students with long term career development, greater desire for independence and self-determination, increased outsourcing, an increased population starting their second career after retirement or to supplement their income, and an increased population of protected group members desiring economic stability. Concerning the last point, women entrepreneurs are forming small businesses at twice the rate of men. One in ten workers is now employed by a woman-owned company (Zellner, King, Byrd, DeGeorge, & Birnbaum, 1994). The Bureau of the Census reports that in 1992, 6.4 million women-owned firms were counted ("Highlights," 1996). As of 1996, women-owned firms is estimated to be 8 million ("Through a Glass," 1996).

There have been a comparatively few number of studies that have examined the ethics of small business owners and decision makers. Most of these studies have focused on the differences in ethical considerations and attitudes between large and small business decision-makers (Brown & King, 1982; Chrisman & Fry, 1982; Hills & Narayana, 1989; Longenecker, McKinney, & Moore, 1988, 1989a, 1989b; Timmons & Stevenson, 1983; Ward, 1987 and Wilson, 1980; among others). A much larger body of research has focused on large businesses and executives exclusively (Andrews, 1989; Barnett & Karson, 1987; Cadbury, 1987; Enz, Dollinger & Daily, 1990; Gellerman, 1989; Giacalone & Ashworth, 1988; Goddard, 1988; Kirrane, 1990; Reilly & Kyj, 1990; and Thompson & Smith, 1991). There have been a few noteworthy exceptions of studies focusing only on small business. Smith and Oakley (1994) compared small business owners in urban and non-urban areas in one state. They found that non-urban small business owners deemed ethical behavior more important than their urban counterparts. They also found that ethical values were negatively correlated with formal education. In other words, the higher the education level, the lower the ethical values. Other

studies have compared the ethics of small business owners and decision makers to the ethics of their customers. Humphreys, Robin, Reidenbach, and Moak (1993) used four scenarios of ethical business dilemmas and concluded that as long as the manager is telling the truth, it is the customer's responsibility to determine what is the meaning behind the communication.

However, there has yet to be a comprehensive examination of the ethical orientation of small business decision-makers and workplace climate. The importance of a supportive climate is well documented, beginning with Schneider (1973, 1975). Victor and Cullen (1988) called for such additional research concerning specific types of organizations. In particular, is there a difference between individual attitudes of small business decision-makers toward the use of power and individual ethics, and perceptions of ethical climate and behavior in the work place? This article reports the results of a preliminary national survey of small business decision-makers using three measures of ethical orientation. Implications for further research are discussed.

## METHODOLOGY

The data for this study involved a nationwide survey of small business owners. Two hundred small businesses were randomly selected from *Dun's Electronic Business Directory* of small businesses. This sample consisted of various types of businesses, all classified as small according to Dun's criteria, from all fifty states. In addition to sending postcard reminders, two follow-up mailings of the survey were used to increase response rate. Several questionnaires were returned because the small businesses no longer existed. As reported in the literature, this group is particularly difficult to sample because of their low response rate (Thompson and Smith, 1991). Mobility, failure rate, and the owner's limited time are some of the factors that contribute to this problem. Additionally, the length of this survey may have contributed to a lower response rate.

### Sample

The subjects of this study were 26 owners and/or managers of small businesses in the United States. Twenty-one, or 81 percent, were owners. Seventy-three percent of the respondents were male, 77 percent were married, and 85 percent had completed a college degree. The respondents had been involved in their company for an average of 5.2 years with a standard deviation of 5.3 years. Thirty-five percent of the companies had been in existence for five years or less; 65 percent for six or more years.

The subjects were asked to complete a series of instruments and a demographic section. Three specific instruments of interest for this study were: the Mach V Attitude Inventory, the Ethical Position Questionnaire (EPQ), and the Ethical Climate Questionnaire (ECQ).

#### Mach V Attitude Inventory

The Mach V Attitude Inventory consists of 20 items involving a choice among three responses. Respondents rank order the three items by indicating the item they most and least agree with. The instrument measures individual attitudes towards power and the use/abuse of power--particularly in the Machiavellian tradition of "the ends justify the means." The instrument is validated (Christie and Geis, 1970). Scores range from a low of 40 (low Machiavellianism) to a high of 160 (high Machiavellianism). Using the Mach V Attitude Inventory score key, each question is given a score of either 1, 3, 5, or 7. The scores are then summed.

### Ethical Position Questionnaire

The Ethical Position Questionnaire (Forsyth, 1980) measures individual ethical perspectives along two dimensions. One-- relativism--indicates the extent to which the respondent engages in situational-based evaluations of ethical behavior. The other--idealism--measures an individual's belief in the existence of universal principles prescribing moral behavior. The instrument presents 20 statements (10 each scale) to which respondents rate their agreement on a 9-point Likert-type scale. The idealism score is obtained by finding the mean of the ten questions relating to idealism. The relativism score is found by computing the mean of the other ten questions.

The ethical perspective, relativism is the extent to which the individual rejects universal moral rules in favor of relativism. Some individuals reject the possibility of formulating or relying on universal moral rules when drawing conclusion about moral questions, whereas others believe in and make use of moral absolutes when making judgments. The other ethical perspective focuses on idealism in one's moral attitudes. Some individuals idealistically assume that desirable consequences can, with the "right" action, always be obtained. Those with a less idealistic orientation, on the other hand, admit that undesirable consequences will often be mixed in with desired ones.

### Ethical Climate Questionnaire

The Ethical Climate Questionnaire was developed by Victor and Cullen (1987, 1988) to measure perceptions of the ethical climate, and resulting behavior, within an individual's organization. The instrument presents 26 items measuring 5 dimensions of ethical climate. Respondents rank their agreement with these items on a 6-point Likert-type scale. The five dimensions are: professionalism, caring, rules, instrumentality, and independence.

### Comparison Groups

As an initial step it is appropriate to compare this sample of small business owners to the general population before conducting sub-group comparisons. Therefore, the normative statistics generated through the original development activities of each instrument were used. The comparison group for the Mach V is the original sample used in the scale development and validation procedures. This comparison group consists of responses from 764 male and 832 female respondents (Christie & Geis, 1970). The comparison group for the EPQ are the 241 subjects used to validate the instrument (Forsyth, 1980). The comparison group for the ECQ are the 75 MBA students used in the original validation study (Victor & Cullen, 1987).

## RESULTS

Descriptive statistics for the U.S. sample were presented in the Methods section. Table 1 presents the correlation matrix for the Mach V and ethical position variables. Table 2 presents the intercorrelations for the ethical climate variables.

### **TABLE 1 CAN BE FOUND AT THE END OF THE ARTICLE**

No significant correlations were found between Mach V, idealism, relativism and the following demographic variables: age of respondent, number of employees, number of years in current position, and company age. That is there is no relationship between the use and abuse of power or between ethical position and age of respondent, size of the organization, experience of respondent or company age. No significant differences were found in the Mach V, relativism, and idealism scores between males and females. In addition, there were no significant differences in the Mach V, idealism, and relativism scores by company age (5 years or less versus more than 5 years).

### **TABLE 2 CAN BE FOUND AT THE END OF THE ARTICLE**

For the ethical climate scale, a moderate positive correlation between caring and professionalism was found. Weak positive correlations were detected for independence and professionalism, and independence and caring. Instrumental and professionalism, and instrumental and independence produced weak negative correlations.

Table 3 provides the results of the t-tests investigating the differences in ethical orientation between small business owners and the norms.

**TABLE 3 CAN BE FOUND AT THE END OF THE ARTICLE**

Mach V Attitude Inventory

A score of 100 is the center-point on the scale and represents a neutral perspective on the philosophy that the use of power can be justified by the objective for which it is used. Our analysis included a comparison by gender as reported in the original research. There was no significant difference between male and female levels of Machiavellian orientation. That is, there is no difference in how male and female small business owners use or abuse power. However, both male and female small business owners/managers had significantly lower orientation toward the use and abuse of power (mean for males = 76.18,  $t = 2.71$ ,  $p < .01$ , mean for females = 81.71,  $t = 3.81$ ,  $p < .01$ ) than the U.S. norms. This means that the self-perception among these small business owners is that they do not use or abuse power to obtain personal or organizational objectives.

Ethical Position Questionnaire

No significant differences were found between small business owners and the U.S. norms for the level of idealism they held regarding ethical behavior ( $t = -0.49$ ,  $p > .60$ ). In fact, small business owners expressed a slightly higher adherence to behavioral standards that protected the well-being and dignity of their employees. The difference in relativism scores was significant ( $t = -6.39$ ,  $p < .01$ ). These results reflect a perspective in which ethical values are

considered to be somewhat universal in their relevance, and rigid in their application. No significant differences in relativism or idealism scores were found between male and female small business owners.

### Ethical Climate Questionnaire

The final results illustrate the perception that these small business owners have concerning the climate in which they work. In general, these respondents perceive a low level of moral independence and instrumental (self-serving) behavior. That is, the ability to determine right from wrong and to develop a personal code seems to be stifled. At the same time, there is a strong perception that their organizations place a high emphasis on professionalism, caring, and rules.

When compared to U.S. norms, there are significant (or marginally significant) differences in 3 of the 5 ECQ dimensions. Both small business owners and U.S. norms reported low perceived levels of instrumentalism. That is, small business owners are not any more likely than the general U.S. population to place their own interests above the organizations'. Small business owners and U.S. norms are not significantly different in their perception of professionalism in their organizations. That is, there is no difference in legal, professional, or customer based expectations or regulations in guiding behavior.

In terms of differences, small business owners perceived higher levels of caring, independence, and rules. Specifically, small business respondents reported a greater sense of employee concern among organizational members. These respondents reported a greater sense of independence. That is, definitions of right and wrong were not totally explicated by the organization. Finally, small business owners reported a greater emphasis on the extent to which behavior was dictated by company rules, and other formal specifications of individual activities.

## CONCLUSION



This study's purpose was to explore potential differences in ethical orientation between small business owners and general U.S. responses as reflected in the norms used for validating each instrument. In general, small business decision makers perceived themselves as less likely to engage in exploitative power behavior in order to meet personal or organizational objectives. This, however, may be attributed to the fact that, because of their size and their relatively weak bargaining power, they may not be capable of exercising exploitative power, therefore they may perceive this as proof of their ethical behavior compared to their larger business counterparts. Small business owners, in addition, perceived their organizations as fostering a more collectively and procedurally oriented climate that might be interpreted as attempting to institutionalize morality.

We found it interesting that higher Mach V scores corresponded with lower idealism and relativism scores. One who is numbed in terms of their belief in a "just and fair society" may be more likely to view the use of power as a way to adjust personal injustices, or to protect oneself from potential exploitation.

In conclusion, this study provides a preliminary view of the ethical orientation of a sample of small business owners. An obvious limitation of this study was its limited sample size, thus the results should not be generalized to the entire population of small business owners in the United States. As the environment in which small businesses operate changes, both demographically and technologically, future research should consider longitudinal studies on ethics and possible changes in ethical orientation. Further research should also include comparisons of small business owners to other distinct groups such as mid-size and large business owners or managers, home-based business owners, franchisees and franchisors and family business owners. With increased access to the Internet and webpages, these populations should be easier to reach.

## REFERENCES

- Andrews, K. R. (1989). Ethics in practice. *Harvard Business Review*, 99-104.
- Badaracco, J. L., Jr., & Webb, A. P. (1995, Winter). Business ethics: A view from the trenches. *California Management Review*, 37(2), 8-28.
- Barnett, J. H., & Karson, M. J. (1987). Personal values and business decisions: An exploratory investigation. *Journal of Business*, 6(5), 317-382.
- Bauman, R. (1988). It isn't stealing - is it? *Supervision*, 49(1), 6-8.
- Berenbeim, R. E. (1987). The corporate ethics test. *Business and Society Review*, 63, 22-25.
- Bernstein, P. (1985). Cheating - the new national pastime? *Business*, 35(4), 24-33.
- Beverluis, E. H. (1987). Is there no such thing as business ethics? *Journal of Business Ethics*, 6(2), 81-88.
- Brown, D. J., & King, J. B. (1982). Small business ethics: Influences and perceptions. *Journal of Small Business Management*, 20(1), 11-18.
- Buckley, J. P. (1986). Honesty, it's the truth. *Security Management*, 30(6), 87-92.
- Cadbury, S. A. (1987). Ethical managers make their own rules. *Harvard Business Review*, 65(5), 69-73.
- Carter, R. (1987). Employee theft often appears legitimate. *Accountancy*, 100 (1127), 75-78.
- Chrisman, J. J., & Fry, F. L. (1982). Public versus business expectations: Two views on social responsibility for small business. *Journal of Small Business Management*, 20(1), 19-26.
- Christie, R. & Geis, F. L. (1970). *Studies in Machiavellianism*. New York: Academic Press.
- Clark, J. P., & Hollinger, R. C. (1983). *Theft by employees in work organizations*. Rockville, MD: National Institute of Justice.
- Dees, J. G., & Starr, J. A. (1992). Entrepreneurship through an ethical lens: Dilemmas and issues for research and practice. In D. L. Sexton, & J. D. Kasarda (Eds.), *The state of the art of entrepreneurship* (pp. 89-116). Boston, Mass.: Kent Publishing.
- Enz, C. A., Dollinger, M. J., & Daily, C. M. (1990, Fall). The value orientations of minority and non-minority small business owners. *Entrepreneurship Theory and Practice*, 15(1), 23-25.
- Evans, R., & Sedgwick, P. (1991). Business ethics and changes in society. *Journal of Business Ethics*, 10(11), 871-879.
- Frederick, W. C. (1988). An ethics roundtable: The culprit is the culture. *Management Review*, 77(8), 48-50.

- Forsyth, D. R. (1980). A taxonomy of ethical ideologies. *Journal of Personality and Social Psychology*, 39(1), 175-184.
- Gatewood, R. D. & Carroll, A. B. (1991). Assessment of ethical performance of organization members: A conceptual framework. *Academy of Management Review*, 16(4), 667-690.
- Gellerman, S. W. (1989, Winter). Managing ethics from the top down. *Sloan Management Review*, 30(2), 73-79.
- Giacalone, R. A., & Ashworth, D. N. (1988, Summer). From lip service to community service: How to foster an ethical atmosphere in the workplace. *Business and Society Review*, 66, 31-33.
- Goddard, R. W. (1988). Are you an ethical manager? *Personnel Journal*, 67(3), 38-47.
- Hector, G. (1989, April 24). Cute tricks on the bottom line. *Fortune*, 193-200.
- Henderson, V. E. (1982). The ethical side of enterprises. *Sloan Management Review*, 23(3), 38-46.
- Highlights of the 1992 economic census: Women-owned businesses. (1996, Spring). *The partnership*. Washington, DC: Interagency Committee on Women's Business Enterprise.
- Hills, G. E., & Narayana, C. L. (1992). Profile characteristics, success factors, and marketing in highly successful firms. In R. H. Brockhaus, Sr., et al. (Ed.), *Frontiers of Entrepreneurship Research*. Wellesley, Mass.: Babson College Center for Entrepreneurship Studies.
- Hornsby, J. S., Kuratko, D. F., Naffziger, D. W., LaFollette, W. R., & Hodgetts, R. M. (1994, October). The ethical perceptions of small business owners: A factor analytic study. *Journal of Small Business Management*, 32(4), 9-16.
- Humphreys, N., Robin, D. P., Reidenbach, R. E., & Moak, D. L. (1993, July). The ethical decision making process of small business owner/managers and their customers. *Journal of Small Business Management*, 31(3), 9-22.
- Jones, T. M. (1991). Ethical decision making by individuals in organizations: An issue-contingent model. *Academy of Management Review*, 16(2), 366-395.
- Katz, D., & Kahn, R. (1978). *The social psychology of organizations*. New York, NY: Wiley.
- Kellogg Leadership Studies Project. (1996, October). *Ethics and leadership*. College Park, MD: University of Maryland.
- Kirrane, D. E. (1990). Managing Values: A systematic approach to business ethics. *Training and Development Journal*, 44(11), 52-60.
- Longenecker, J. G., McKinney, J. A., & Moore, C. W. (1988, Winter). Egoism and independence: Entrepreneurial ethics. *Organizational Dynamics*, 16(3), 64-72.

- Longenecker, J. G., McKinney, J. A., & Moore, C. W. (1989a, Fall). Do smaller firms have higher ethics? *Business & Society Review*, 71, 19-21.
- Longenecker, J. G., McKinney, J. A., & Moore, C. W. (1989b). Ethics in small business. *Journal of Small Business Management*, 27(1), 27-31.
- Mayo, M. A. (1991, April). Ethical problems encountered by U.S. small business in international marketing. *Journal of Small Business Management*, 29(2), 51-59.
- Payne, S. L., & Duhon, D. (1990). Hard time ethics and the small business entrepreneur. *Business Insights*, 9(2), 29-32.
- Payne, S. L., & Giacalone, R. A. (1990). Social psychological approaches to the perception of ethical dilemmas. *Human Relations*, 43(7), 649-665.
- Reilly, B. J., & Kyj, M. J. (1990). Ethical business and the ethical person. *Business Horizons*, 33(6), 23-27.
- Shostack, G. L. (1990). Stand up for ethics. *Journal of Business Strategy*, 11(3), 48-50.
- Schneider, B. (1973). The perception of organizational climate: The customer's view. *Journal of Applied Psychology*, 57, 248-256.
- Schneider, B. (1975). Organizational climates: An essay. *Personnel Psychology*, 28, 447-479.
- Stead, W. E., Worrell, D. L., & Stead, J. G. (1990). An integrative model for understanding and managing ethical behavior in business organizations. *Journal of Business Ethics*, 9(3), 233-242.
- Smith, P. L., & Oakley, E. F., III. (1994). A study of the ethical values of metropolitan and non-metropolitan small business owners. *Journal of Small Business Management*, 32(4), 17-27.
- Thompson, J. K., & Smith, H. L. (1991). Social responsibility and small business: Suggestions for research. *Journal of Small Business Management*, 29(1), 30-44.
- Timmons, J. A., & Stevenson, H. S. (1983). Entrepreneurship education in the 1980s: what entrepreneurs say. In J. Kao, & H. H. Stevenson (Eds.), *Entrepreneurship: What It Is and How to Teach It*. Boston, MA: Harvard Business School.
- Victor, B., & Cullen, J. (1987). A theory and measure of ethical climate in organizations. In L. Preston (Ed.), *Research in Corporate Social Performance and Policy* (pp. 51-71). Greenwich, CT: JAI Press.
- Victor, B., & Cullen, J. (1988). The organizational bases of ethical work climates. *Administrative Science Quarterly*, 33(1), 101-125.
- Von der Embse, T. J., & Wagley, R. A. (1988, Winter). Managerial ethics: Hard decisions on soft criteria. *Advanced Management Journal*, 53(1), 4-9.
- Walls, J. D., Jr. (1988). Putting a premium on honesty. *Security Management*, 32(9), 81-84.

Ward, W. A. (1987, June). *Some ethical considerations for small business*. Paper presented at the 1987 World Conference of the International Council for Small Business, Vancouver, B. C., Canada.

Werner, S. B. (1992). The movement for reforming American business ethics: A twenty-year perspective. *Journal of Business Ethics*, 11(1), 61-70.

Wilson, E. (1980). Social responsibility of business: What are the small business perspectives? *Journal of Small Business Management*, 18(3), 17-24.

Zellner, W., King, R. W., Byrd, V. N., DeGeorge, G., & Birnbaum, J. (1994, April 18). Women entrepreneurs. *Business Week*, no. 3367, pp. 104-107.

Table 1

*Correlations for Small Business Sample: Mach V and Ethical Position*

Item	Mach V	Idealism	Relativism
Mach V	1.000		
Idealism	-0.146	1.000	
Relativism	-0.151	0.054	1.000

Table 2

*Correlations for Small Business Sample: Ethical Climate*

Item	Professionalism	Caring	Rules	Instrumental	Independence
Professionalism	1.000				
Caring	0.618	1.000			
Rules	0.140	0.093	1.000		
Instrumental	-0.465	-0.265	0.251	1.000	
Independence	0.450	0.415	-0.231	-0.429	1.000

Table 3

*Analysis of Differences in Sample Means for U.S. Small Business Owner/Managers versus U.S. Norms*

	Small Bus. Owners	U.S. norms	t	p-value
<u>Mach V Attitude Inventory</u>				
male	76.18 (16.04)	99.27 (11.17)	2.71	0.0000**
female	81.71 (6.87)	95.60 (10.09)	3.81	0.0003**
<u>Ethical Position Questionnaire</u>				
relativism	4.74 (1.50)	6.18 (1.13)	-6.39	0.0000**
idealism	6.24 (1.08)	6.35 (1.17)	-0.49	0.63
<u>Ethical Climate Questionnaire</u>				
professionalism	3.66 (0.84)	3.60 (0.86)	0.32	0.7500
caring	3.27 (0.62)	2.40 (0.89)	4.76	0.0000**
rules	3.35 (0.83)	3.00 (0.93)	1.87	0.062*
instrumental	2.09 (0.71)	2.00 (1.03)	0.42	0.67
independence	2.75 (1.18)	2.10 (0.99)	3.22	0.0013**

\*\*significant at the .01 level

\*significant at the .10 level