

DOES SIZE MATTER? ETHICS APPLIED TO SMALL BUSINESSES COMPARED TO LARGE BUSINESSES

Kevin Cooksey & Dolores Kuchina-Musina, Christopher Newport University

Abstract

Considering the normative statement that both large and small businesses should follow the same ethical and moral standards, this paper analyzes the perceptions of individuals based on the relative ethical behavior of small business as compared to large business. The study of ethics focuses on the differences between what is right and what is wrong in society which affects both small business and large business due to their obligation to the public and their stakeholders. Both entities are guided by the same standards and both are expected to meet all legal regulations and ethical standards.

The analysis employs surveys to gauge the public's perceptions of the ethical decision making by management in both small business and large business. The survey also analyzes the role of those ethical decisions within scenarios and their impact on the individuals' patron behavior in small business as compared to large business. Statistical analysis has been utilized to test the authors' overall hypothesis that the public is generally less concerned about ethical decision making of small business relative to large business. The implications of these findings for both large and small businesses are provided with the analysis and suggestions to correct the disparity between both entities.

Introduction

During the past decades it has been evident that ethics has become the hot topic in business. However, much of the talk is not comprised of all types of business it involves primarily the large corporations. Large corporations such as Enron have caused much grief to those around them and everyone that they employed. Due to this reason regulations such as the Sarbanes-Oxley Act have been enforced to hold large businesses accountable. While these regulations have focused solely on large corporations, efforts to regulate small businesses have been small. It is estimated that small businesses make up over 80% of all business in the United States of America. That is a huge sector which is unregulated due to its size. While the adverse actions of each entity do not do great harm to the economy; the cumulative damage of all components of the group could have devastating impacts on the general economy.

Literature Review

Businesses today are completely different than the businesses of years past. Today, business ethics has become an area of great concern in both corporate culture and academia. Companies such as WorldCom and Enron have caused people to reevaluate philosophy and business. Ethics can be defined by the morals that people and companies hold. Although internal and external forces influence businesses, there are three issues that affect issues in business. These three issues are systematic, corporate, and individual.

To truly understand each factor one has to understand how each of these issues differs and how they influence the business itself. Systematic issues analyze ethical values in economic, political, legal, and other social systems in which the business operates (Velasquez, 2006). An example of this would be a question of morality about the current laws pertaining to accounting systems. Laws influence the actions of people because they stem through consequences with the local or federal government. People tend to be scared of a higher authority more than self punishment.

The second factor is corporate issues which are issues of morality of internal activities such as policies, practices, and organizational structure (Velasquez, 2006). Corporate issues are based on corporate cultures. If a company treasures capital gains more than human capital the company would then lay off employees to save money. On the other hand, a company that treasures its employees is more likely to take a cut and keep their employees. To say that one company is more ethical because of their decision lays in a company's moral standards.

The idea of moral standards stems from the third type of issue which is the individual issues. Individual issues are issues that are based on individuals within a company along with their behaviors and decisions (Velasquez, 2006). This includes the moral standards of individuals. Moral standards are standards that are set by the individuals themselves and by no other governing body. Hence, each individual has a right to stand for what they believe in.

It may be simple to take these three factors and state that this is common sense information; however, it is just as complicated to say that there can be one rule that can apply to every situation that is similar. In cases where individual morals differ from those of corporate or systematic, it is easy to assume that one would no longer pay attention to their place of business or the entity that is different. However, humans are prone to being victims of society and need to supply for their family. Knowing that something unethical is occurring at a place of business does not mean that the person will just walk away whether they have worked in small or large firms.

Decisions of a business affect all tiers of the organizational structure which in turn affect the lives of all stakeholders of the company. Therefore, ethical standards have risen due to the current corruption in many large businesses. News reports of Nike and Merck have grabbed the attention for case studies and have become the top selling stories. The news ran the stories that exposed the fragile nature of the corporate worked to their affect on the country's economy.

Due to the global impact of large corporations the public's eye is primarily on large businesses; however, ethical issues arise in small businesses as well. Lisa Miller states that small businesses "were overlooked when Wall Street's mega-scams and scandal came to light (Miller, 2003). For people that analyze and teach ethics "business ethics have almost invariably concerned the doing, indeed generally the misdoings, of large companies (Quinn, 1997)." Quinn noted that in the late 20th century there has been an increase in the economic activity of small businesses (Quinn, 1997). He states that not only do the managers have to be observed so do the employees. The employees have want approval of their peers which is also accepted by the manager/owner (Quinn, 1997).

In large businesses it seems easier to separate you personal ethics from businesses ethics. In small businesses the relationship with one's coworkers becomes a sub-family relationship making it that much harder to make "ethical" decision. The overall factors that influence business ethics derive from personal ethics and how those ethics affect others. Miller points out that it is an assumption that small businesses do not need a code of ethics however, they have a bigger temptation to b involved in "dubious business practices (Miller, 2003).

In Mark Schwartz essay *A Code of Ethics for Corporate Code of Ethics*, Schwartz finds that over ninety percent of large corporations have a code of ethics (Schwartz, 2002). He concluded that there are six universal moral standards in four different sources. The moral standards that he looked at included trustworthiness, respect, responsibility, fairness, caring, and citizenship (Schwartz, 2002). Due to these criteria Schwartz states that a code of ethics should be constructed on factors that could be audited. His study provides a normative foundation for evaluating a corporation's code of ethics.

In a 1981 article by Brown and King analyzed the influences and perceptions of small business ethics. In their foundational work Brown and King realized the disparity in public awareness between small business ethics and large business ethics. Brown and King surveyed a small group of individuals consisting of "small business" respondents and "other" respondents who were mostly employed by large corporations. Brown and King's research sought to answer three questions. First, the research asked "How high are the ethics of small business people perceived to be?" Second, "Compared to others, what causes the behavior of people in small business to be more or less ethical?" Finally, "What are the prevailing small business attitudes concerning ethical issues?" (Brown and King, 1981).

Brown and King found that there was a surprisingly small difference in the responses between the two subgroups of respondents. The research conducted by Brown and King examined the perspectives of those in the various sized business. The research left a gap in the general public's perceptions of the ethical actions between large and small business.

The Center for Business Ethics surveyed Fortune 1000 industrial and service companies to see how they have instilled their ethical values to compare their results from the study they performed in the mid 1980s. Their survey showed some progress but, not enough (Center for Business Ethics, 1992). Ethical standards fall in line with legal regulations. Sandra Malach, et al. believe that incorporating legal planning into business planning to avoid legal issues and to protect the businesses most important assets (Malach, Sandra et al, 2006). While legal action is important it is important to focus on consequences in a workplace outside of the any punishments.

To further analyze ethical dilemmas it is important to observe the consequences at a workplace. One consequence that business can apply is a zero tolerance policy in a workplace. This ethical dilemma is especially interesting when applied in a small business setting, and contrasted with techniques applied in large corporations. The ethical compass of the theory for the zero tolerance policy is Kant's Categorical Imperative. Kant's Categorical Imperative is defined by the rule that people should "Act in such a way that you treat humanity, whether in your own person or in the person of any other, always at the same time as an end and never merely as a means to an end (Stanford, n.d.)." Kant's Categorical Imperative is a very restrictive rule to live by and cannot practically be applied to everyday life. However, when discussing ethical dilemmas in the workplace, the Categorical Imperative should not be overlooked.

The *Zero Tolerance Policy* embodies the Categorical Imperative in the sense that everyone must ask himself/herself whether they would be willing to have the same behavior applied to them if the roles were reversed. In the business setting the Categorical Imperative has a special value; it helps mitigate moral hazard.

Moral hazard was once described as “a situation in which a party is insulated from the consequences of its actions...Thus protected, it has no incentive to behave differently (Ahrens,2008).” In the business setting, moral hazard can be devastating to the culture of the company and can eat away at the profit margin.

Consider an employee who is discovered to be “moonlighting” or working an untaxed second job during hours in which the employee should be giving full attention to their actual job. This behavior may seem harmless and may only warrant a verbal warning, but when the other employees discover how easy it is to get by with unethical behavior they are incentivized to act unethically. This slippery slope scenario results only in the necessary termination of the unethical employee. When an employer establishes that unethical behavior will not be tolerated the result is the strengthening of the corporate culture and the avoidance moral hazard. However, this scenario might work differently in a small business.

In a small business the cost of a zero tolerance policy can be devastating. The costs associated with replacing an employee in a large corporation is easily spread across the entire entity as a fixed cost of doing business; this is not the case in the small business. The employer-employee relationship in the small business, by nature, is more flexible and more personal. This flexibility can allow for a more informal agreement, between management and employees, to be made. Finding a “win-win” solution allows for Kant’s Categorical Imperative to be upheld and moral hazard can be avoided.

In a large publically traded company this kind of arrangement cannot be made because not all of those who are residual claimants (owners) can be spoken for. In the large publically owned company the zero tolerance policy should be followed, but in a small privately owned company a modified zero tolerance policy can be applied.

Kant’s Categorical Imperative can be a useful tool when designing corporate policy in publically traded companies. The zero tolerance policy should be applied in publically traded companies. In addition, Kant’s Categorical Imperative should still be applied to design a modified zero tolerance policy in small private companies.

To solve the issue of what the zero tolerance policy entails, the company needs to implement a code of ethics in their organization. Eberhard Schnebel and Margo A. Bienert state that a code of ethics strengthens an organizations success therefore improving the overall value of the company (Schnebel & Bienrt, 2004). The value that is added is the public’s perception that the business is there to benefit the community.

L. Spence studied a similar phenomenon as this essay explores. In a 1999 study L. Spence found that there is a lack of information on any correlation between small businesses and their ethical standards. The reason for this is because small firms receive little attention by the media which makes them a quick oversight (Spence, 1999). Four years later L. Spence wrote an editorial with R. Rutherford to explore the sociological perspective in the field of ethics (Spence & Rutherford, 2003). Due to these two studies we have been motivated to explore the issue further and gain insight on why there is a lack of information on the issue.

Hypotheses

As discussed earlier, the objective of this pilot study was to examine the differences in respondents' perceptions of ethical dilemmas and ethical standards in small business as compared to large business. In order to facilitate the primary research objective the following working hypotheses were formed:

- H1: The size of the business will have no impact on consumers' shopping decisions when ethical dilemmas are present.
- H2: The size of the business will have no impact on the actions of employees when ethical dilemmas are present.
- H3: The size of the business will have no impact on the respondents' perception of the incentives associated with acting ethically.
- H4: In general, respondents believe that small businesses should be held to the same ethical standards as large corporations.

These hypotheses are based on the supposition that individuals will be more lenient or forgiving of the shortcomings of small businesses relative to their large counterparts.

Methodology

The study was initiated with the creation of a preliminary (alpha) survey. The alpha survey resulted in fourteen respondents and was conducted by means of convenience sampling. The alpha survey was a paper based survey consisting of thirteen questions. The survey included demographic questions as well as analysis questions. There were mixed results on the alpha survey mostly due to the confusing survey design associated with strict time constraints. While the alpha survey did not provide sufficient data, it was useful as a tool in the creation of a secondary (beta) survey.

The beta survey instrument consisted of two separate surveys. One survey was specific to small business while the other was specific to large business. The surveys were created and distributed electronically using Survey Monkey. The goal for the beta survey was a total of 100 respondents for each survey resulting in an overall total of 200 respondents. The small business survey yielded 105 useable returns, a 94.6 percent return rate. The large business survey yielded 107 useable returns, an 84.3 percent return rate. Each survey included five common demographic questions, two common questions pertaining to ethics, and eight questions relating specifically to either small business or large business.

The survey was distributed broadly across various social networking sites and throughout the Christopher Newport University community. Due to time and budgetary constraints the beta survey consisted mostly of opportunity sampling and snowball sampling. The authors recognize the drawback of an opportunity sample; however, the research question in this pilot study can be adequately answered using this technique.

The analysis questions on both the small business and large business surveys consisted entirely of binomial data. The respondents were limited to either "Yes or No" or "I agree or I disagree." For the purpose of testing the hypotheses (H1, H2, and H3) statistical analysis will be used to measure the difference between the proportions of the two samples. For the final hypothesis (H4) the analysis will simply state the overall proportion of respondents in both surveys who answered favorably and interpret the results. Hypotheses H1, H2, and H3 will be tested at $\alpha=.10$, $\alpha=.05$, and $\alpha=.01$ levels of significance.

Findings

The small and large business beta surveys consisted of 64.0 percent and 44.1 percent female respondents respectively. Both surveys were characterized by a mixture of respondents' self-reported race. The racial composition of the small business survey respondents can be seen in Figure 1, while the racial composition of the large business survey respondents can be seen in Figure 2. Variety was also evident in the age of respondents in both surveys. Both surveys returned an age range from "younger than 18" to over sixty. The actual breakdown of respondents' age can be seen in Figure 3 [Appendix D]. The largest group of respondents were in the 21 -23 years old demographic. This is largely due to the sampling method and is representative of the campus.

Small Business Respondents	
Race/Ethnicity	Response Percent
Caucasian	68.5%
African American	10.8%
Hispanic/Latino	3.6%
Asian	15.3%
Other	1.8%
Figure 1	

Large Business Respondents	
Race/Ethnicity	Response Percent
Caucasian	70.9%
African American	8.7%
Hispanic/Latino	9.4%
Asian	8.7%
Other	2.4%
Figure 2	

Education of the respondents in both surveys varied from some high school to graduate school. Both the small business respondents' and the large business respondents' education can be seen in Figure 4 and Figure 5 respectively. Of all respondents, roughly 64 percent identified that they had formally studied ethics while roughly 35 percent identified that they had not formally studied ethics. Roughly 87 percent of the respondents for both surveys had at least some college.

Small Business Respondents	
Educational Attainment	Response Percent
Some High School	3%
High School Grad	11%
Some College	59%
College Graduate	18%
Graduate School	10%
Figure 4	

Large Business Respondents	
Educational Attainment	Response Percent
Some High School	1%
High School Grad	9%
Some College	65%
College Graduate	20%
Graduate School	5%
Figure 5	

After the collection of helpful demographic information the survey then began to collect data relevant to the research question. First the survey presented both groups of respondents with three common business scenarios relevant to either a small or large business. First both surveys asked if the respondent would report a coworker for stealing in their respective businesses size. When the scenario took place in a small business 58 percent of respondents reported that they would not report a coworker for stealing. When the scenario took place in a large business only 21 percent of respondents said that they would not report a coworker for stealing.

The scenario then shifted to ask if a respondent would report a supervisor to the authorities for falsifying documents. In the small business 37 percent of respondents would report their boss to the authorities for falsifying documents while an overwhelming 84 percent of respondents would report their boss given the same scenario in a large business. The final scenario asked respondents if they would turn their “friend” in if they saw him stealing. In the small business only 33 percent of respondents would turn their friend in for stealing; conversely 50 percent of respondents would turn their friend in given the same scenario in a large business.

The next series of questions in the survey were designed to evaluate the respondent’s shopping decision when presented with ethical dilemmas in both small and large business. Both groups generally favored boycotting business for acting unethically. First both groups were asked whether they would boycott a business for hiring illegal aliens and paying them “under the table”. When applying the ethical dilemma to a small business 54 percent of respondents reported that they would boycott the business while a similar 56 percent would boycott a large business for the same action.

The respondents were then asked whether they would boycott a business for polluting the environment. When considering small business patronage 65 percent of respondents would boycott the business while 72 percent would boycott a large business for the same act. Finally the respondents were asked if the ethical behavior of a business influenced their shopping decision. Only 63 percent of respondents said the ethical behavior of small businesses influenced their shopping decision while 81 percent reported that the ethical behavior of large businesses influenced their shopping behavior.

The next question presented to the respondents was the same for both groups. Both groups were asked “Should small businesses be held to the same ethical standards as large corporations?” The responses proportion for both surveys was similar with roughly 76 percent of respondents suggesting that small businesses should be held to the same standards as their large counterparts. Both surveys then made the following statement; “In general, small businesses act more ethically than large corporations.” An agreeable response rate of roughly 70 percent implies that majority of respondents identified with this statement.

The survey concluded by soliciting respondents for their opinion on the existence of a “Zero Tolerance Policy” and by asking if their respective business had an “Incentive” to act ethically. Overall, roughly 62 percent of respondents believe that small businesses should implement a zero tolerance policy; conversely, roughly 64 percent of respondents believed that large businesses should incorporate a zero tolerance policy. Finally, 80 percent of respondents believe that small businesses have an incentive to act ethically while only 57 percent of respondents believe that large businesses have an incentive to act ethically.

Analysis

After collecting and analyzing the survey responses the hypotheses can be tested. In regard to H1, significance was found between the size of a business and the role its ethical decisions played in a consumers shopping decision. The population proportions test showed that the null hypothesis can be rejected at the $\alpha=.01$ with a p-value=.004. In regard to H2, there was statistical significance to reject the null hypothesis that the size of the business will have no impact on the actions of employees when ethical dilemmas are present. The analysis showed that the null hypothesis can be rejected at the $\alpha=.05$ level of significance with a p-value = .0124.

In regard to H3, there was statistical significance to reject the null hypothesis that the size of the business will have no impact on the respondents' perception of the incentives associated with acting ethically. The analysis then showed that the null hypothesis can be rejected at the $\alpha=.01$ level of significance with a p-value = .0048. Finally, when considering the composition of responses on the part of the respondents, an overwhelming 77 percent suggested that small businesses should be held to the same ethical standards as large corporations. Thus, the analysis fails to reject the null hypothesis that in general, respondents believe that small businesses should be held to the same ethical standards as large corporations. Table 1 offers a display of the multiple hypotheses and their statistical levels of significance.

By rejecting three of the hypotheses the analysis is suggesting that there is a skewed perception when criticizing businesses for ethical and unethical actions. According to the analysis people are more likely to base their shopping decision on ethical actions when the store under consideration is a large business. The analysis also implies that individuals are likely to report unethical behavior at a lower rate in small businesses when compared to large businesses. The analysis then suggests that people believe that small businesses have a greater incentive to act ethically. When combining hypotheses H1 and H2 the analysis implies that large businesses, in fact, have more incentive to act ethically. This is in disagreement with respondents perceptions of incentives associated with ethical behavior. Finally, the analysis suggests that individuals believe that small businesses and large businesses should be held to equal standards when considering ethical dilemmas; however, the same respondents favored small businesses in the survey.

Table 1. Statistical Analysis

Hypothesis	Reject or Fail to Reject	Level of Significance	P-Value
H1: Shopping Decision	Reject	$\alpha=.01$.004
H2: Business Scenarios	Reject	$\alpha=.05$.0124
H3: Incentives for Ethical Behavior	Reject	$\alpha=.01$.0048
H4: Equal Standards	Fail to Reject	N/A	N/A

Conclusion

The overall finding of the analysis is that people do generally favor small businesses when ethical situations and dilemmas are present. Tying back to Kant's Categorical Imperative, people should hold both large and small businesses to the same ethical standards. The analysis implies that people understand the normative condition that both large and small businesses should be on equal standing. The analysis also suggests that there may be a dissonance between what people believe and what they practice.

Replication in future research is suggested. This analysis is merely a pilot study due to time and budget constraints. The findings of a more sophisticated analysis would be beneficial to the understanding of the individual's perception of ethical behavior of small business as compared to large business.

References

- Ahrens, F. (2008, March 19). 'Moral hazard': Why risk is good – washingtonpost.com. *Washington Post*. Retrieved September 10, 2009, from <http://www.washingtonpost.com>.
- Brown, Daniel J. & King, Jonathan B. (1982). Small business ethics: influences and perceptions. *Journal of Small Business Management*, 20(1): 11-8.
- Instilling ethical values in large corporations. (1992, November). *Journal of Business Ethics*, Retrieved September 8, 2009, from Business Source Complete database
- Kant's moral philosophy (Stanford Encyclopedia of Philosophy). (n.d). Retrieved September 10, 2009, from <http://plato.stanford.edu/entries/kant-moral/>.
- Malach, Snadra; Robinson, Peter; Radcliffe, Tannis (2006). Differentiating legal issues by business type. *The Journal of Small Business Management*, 44(4): 563-576.
- Miller, Lisa (2003). "Ethics: It isn't just the big guys." *Business Week Online*.
- Quinn, J. (1997, February). Personal ethics and business ethics: The ethical attitudes of owner/managers of small business. *Journal of Business Ethics*, 16(2), 119-127. Retrieved September 8, 2009, doi:10.1023/A:1017901032728.
- Schnebel, Eberhard & Bienert, Margo (2004). Implementing ethics in business organizations. *Journal of Business Ethics*, 53: 203-211.
- Schwartz, M. (2002, November 15). A code of ethics for corporate code of ethics. *Journal of Business Ethics*, 41(1/2), 27-43. Retrieved September 8, 2009, from Business Source Complete database.
- Spence, L. (1999, July). Does size matter? The state of the art in small business ethics. *Business Ethics: A European Review*, 8(3), 163-174. Retrieved September 8, 2009, from Business Source Complete database.
- Spence, L., & Rutherford, R. (2003, September 30). Small business and empirical perspectives in business ethics: Editorial. *Journal of Business Ethics*, pp. 1-5. <http://search.ebscohost.com>
- Velasquez, Manuel. *Business ethics: concepts and cases*. Prentice Hall: New Jersey, 2006.