

Juergen-Matthias Seeler

**Business Ethics and Stakeholder
Management: Developing a Structured
Approach for Small Business'
Owner-Managers**

Doctoral Thesis / Dissertation

YOUR KNOWLEDGE HAS VALUE



- We will publish your bachelor's and master's thesis, essays and papers
- Your own eBook and book - sold worldwide in all relevant shops
- Earn money with each sale

Upload your text at www.GRIN.com
and publish for free



Bibliographic information published by the German National Library:

The German National Library lists this publication in the National Bibliography; detailed bibliographic data are available on the Internet at <http://dnb.dnb.de> .

This book is copyright material and must not be copied, reproduced, transferred, distributed, leased, licensed or publicly performed or used in any way except as specifically permitted in writing by the publishers, as allowed under the terms and conditions under which it was purchased or as strictly permitted by applicable copyright law. Any unauthorized distribution or use of this text may be a direct infringement of the author s and publisher s rights and those responsible may be liable in law accordingly.

Imprint:

Copyright © 2011 GRIN Verlag
ISBN: 9783656111351

This book at GRIN:

<https://www.grin.com/document/187428>

Juergen-Matthias Seeler

Business Ethics and Stakeholder Management: Developing a Structured Approach for Small Business' Owner-Managers

GRIN - Your knowledge has value

Since its foundation in 1998, GRIN has specialized in publishing academic texts by students, college teachers and other academics as e-book and printed book. The website www.grin.com is an ideal platform for presenting term papers, final papers, scientific essays, dissertations and specialist books.

Visit us on the internet:

<http://www.grin.com/>

<http://www.facebook.com/grincom>

http://www.twitter.com/grin_com



Faculty of Commerce

**Business Ethics and Stakeholder-Management:
Developing a Structured Approach for
Small Business' Owner-Managers**

Submitted by Juergen-Matthias Seeler

(Diplom-Kaufmann, Diplom-Wirtschaftspädagoge)

(Equivalent to Master in General Management, Master in Vocational Education)

In partial fulfilment for the degree of 'Doctor of Business Administration'.

17.03.2011

CONTENT

| | |
|---|-----------|
| Abstract..... | 8 |
| Acknowledgements..... | 10 |
| | |
| List of Figures: | 11 |
| List of Tables: | 12 |
| 1. Introduction | 13 |
| 1.1 The Business Ethics Problem | 16 |
| 1.2 Research Questions | 18 |
| 1.3 Basic Definitions | 19 |
| 1.4 Basic Ethical Presumptions | 21 |
| 1.5 Justification of the Focus on Small Firm Owner-Managers | 25 |
| 2. Contextual Setting | 32 |
| 2.1 History and Perspectives of Philosophy | 33 |
| 2.1.1 Teleology | 33 |
| 2.1.2 Social Contract Theory | 36 |
| 2.1.3 Deontology | 37 |
| 2.1.4 Concluding Comments on History and Perspectives of Philosophy | 39 |
| 2.1.5 Contribution of this Section to the Research Topic | 42 |
| 2.2 Economic Framework of Business Ethics in Western Societies | 43 |
| 2.2.1 Capitalism and State Welfare Capitalism | 44 |
| 2.2.2 Justice and Equality | 45 |
| 2.2.3 The Existence of Companies | 46 |
| 2.2.4 Characteristics of Small Firms | 46 |
| 2.2.5 Laws and Legal Constraints | 48 |
| 2.2.6 Professions and Professional Practice | 48 |
| 2.2.7 Concluding Comments on the Economic Framework of Western Societies | 53 |
| 2.2.8 Contribution of this Section to the Research Topic | 54 |
| 2.3 Moral Problems Inside and Outside of Corporations | 54 |
| 2.3.1 General Dimensions of Moral Problems | 55 |
| 2.3.2 Particular Ethical Issues in Business | 55 |

| | |
|--|-----|
| 2.3.3 Conclusions on Moral Problems Inside and Outside of Corporations .. | 58 |
| 2.3.4 Contribution of this Section to the Research Topic | 59 |
| 2.4 Concepts of Ethics in Business | 59 |
| 2.4.1 Corporate Social Responsibility | 60 |
| 2.4.2 Stakeholder Theory | 63 |
| 2.4.2.1 Introduction | 64 |
| 2.4.2.2 Justifications of Stakeholder Theory | 67 |
| 2.4.2.3 Criticism of Stakeholder Theory | 68 |
| 2.4.2.4 Different Understandings of Stakeholder Theory | 70 |
| 2.4.3 Concluding Comments on Concepts of Ethics in Business | 74 |
| 2.4.4 Contribution of this Section to the Research Topic | 75 |
| 2.5 Summary of the Contextual Setting | 75 |
| 3. Literature Review | 77 |
| 3.1 Studies Related to Ethical Motivations and Underlying Philosophical Understandings | 87 |
| 3.2 Studies Focused on Instruments to Enforce Moral Concern | 91 |
| 3.3 Studies Related to Perceptions of Ethical Issues and Moral Behaviours in Businesses | 96 |
| 3.4 Studies Related to Environmental Concern | 99 |
| 3.5 Contribution of this Section to the Research Topic | 101 |
| 3.6 Summary of the Literature Review | 102 |
| 4. Methodology | 104 |
| 4.1 General Methodological Aspects | 104 |
| 4.1.1 General Characteristics of Different Research Approaches | 105 |
| 4.1.2 General Characteristics of Different Research Methods | 106 |
| 4.2 Description of the Research Design | 108 |
| 4.2.1 Research Paradigms | 108 |
| 4.2.2 Methodology | 109 |
| 4.2.3 Sample Design | 111 |
| 4.2.4 Data Collection | 115 |
| 4.2.5 Justification of the Aspects Addressed in the Interview Guideline | 120 |
| 4.2.6 Data Analysis | 124 |
| 4.2.7 Research Quality | 130 |
| 4.2.8 Considerations on Research Ethics | 135 |

| | |
|--|-----|
| 4.2.9 Limitations of this Research Approach..... | 136 |
| 4.3 Summary of Methodology | 139 |
| 5. Results | 142 |
| 5.1 Interview Guideline Question 1: ‘Which three stakeholders are the most important to your company?’ | 143 |
| 5.1.1 Findings on Question 1 | 143 |
| 5.1.2 Deviant Participants’ Statements on Question 1..... | 147 |
| 5.2 Interview Guideline Question 2: ‘What are the main conflicts of interest which occur in relationships between your company and the stakeholders mentioned?’ | 148 |
| 5.2.1 Findings on Interview Question 2..... | 148 |
| 5.2.2 Deviant Participants’ Statements on Question 2..... | 160 |
| 5.3 Interview Guideline Questions 3 and 4: (3): ‘Can you recall a recent conflict that has been arisen between your company and one of these stakeholders and describe the process that you followed to address the conflict?’ (4): ‘Can you now identify a different conflict and describe how you addressed that situation?’ | 161 |
| 5.3.1 Findings on Interview Questions 3 and 4..... | 161 |
| 5.3.2 Deviant Participants’ Statements on Questions 3 and 4..... | 181 |
| 5.4 Interview Guideline Question 5: ‘What would you do respectively what did you do in ethical dilemma situations (not described above), such as: corruption / bribery, deception / withholding information towards customers, environmental problems, fulfilment of contracts (delayed payments of suppliers), tax evasion?’ | 183 |
| 5.4.1 Findings on Interview Question 5..... | 183 |
| 5.4.2 Deviant Participants’ Statements on Question 5..... | 203 |
| 5.5 Interview Guideline Question 6: ‘Which means do you think would be appropriate in order to deal with these conflicts?’ | 206 |
| 5.5.1 Findings on Interview Question 6..... | 206 |
| 5.5.2 Deviant Participants’ Statements on Question 6..... | 210 |
| 5.6 Interview Guideline Question 7: ‘What role do you believe ethics should play in business generally?’ | 210 |
| 5.6.1 Findings on Interview Question 7 | 210 |
| 5.6.2 Deviant Participants’ Statements on Question 7..... | 214 |

| | |
|--|-----|
| 5.7 Interview Guideline Question 8: ‘Do you consciously apply ethical means in your day-to-day business? Can you please give an example?’ | 214 |
| 5.7.1 Findings on Interview Question 8..... | 214 |
| 5.7.2 Deviant Participants’ Statements on Question 8..... | 219 |
| 5.8 Interview Guideline Question 9: ‘Do you or your company apply a code of ethics or similar self constraint? Would it be possible for me to have copy of this document?’ | 219 |
| 5.8.1 Findings on Interview Question 9 | 220 |
| 5.8.2 Deviant Participants’ Statements on Question 9..... | 223 |
| 5.9 Summary of the Results..... | 224 |
| 6. Answering the Research Questions | 228 |
| 6.1 Answering Research Sub-Question 1 | 231 |
| 6.1.1 Findings on Research Sub-Question 1 | 231 |
| 6.1.2 Implications of the Findings on SQ-1 on the Ethics Integration Guideline | 234 |
| 6.2 Answering Research Sub-Question 2 | 235 |
| 6.2.1 Findings on Research Sub-Question 2 | 235 |
| 6.2.2 Implications of the Findings on SQ-2 on the Ethics Integration Guideline | 237 |
| 6.3 Answering Research Sub-Question 3 | 239 |
| 6.3.1 Findings on Research Sub-Question 3 | 239 |
| 6.3.2 Implications of the Findings on SQ-3 on the Ethics Integration Guideline | 241 |
| 6.4 Answering Research Sub-Question 4 | 242 |
| 6.4.1 Findings on Research Sub-Question 4 | 243 |
| 6.4.2 Implications of the Findings on SQ-4 on the Ethics Integration Guideline | 245 |
| 6.5 Answering Research Sub-Question 5 | 247 |
| 6.5.1 Findings on Research Sub-Question 5 | 248 |
| 6.5.2 Implications of the Findings on SQ-5 on the Ethics Integration Guideline | 252 |
| 6.6 A Normative Response to Research Findings: Answering the Main Research Question..... | 254 |
| 6.6.1 Ethics Integration Guideline Part 1: Diagnostic Questions | 256 |

| | |
|---|------------|
| 6.6.2 Ethics Integration Guideline Part 2: Behavioural Instructions..... | 261 |
| 6.7 Comparison of the Guideline to Large Companies' Ethics..... | 266 |
| 6.8 Summary of Answers to the Research Questions | 269 |
| 7. Conclusions and Hints for Future Research..... | 270 |
| 8. References | 275 |
| 9. Appendix..... | 292 |
| 9.1 Consent Form | 293 |
| 9.2 Information Sheet | 297 |
| 9.3 Data Analysis Sheet (on CD attached) | 303 |
| 9.4 Ethics Integration Guideline (full Table with references, on CD attached)..... | 303 |

Abstract

Business ethics is a matter of increasing importance and public awareness. Recent scandals and the financial crisis have suggested that the standard of business ethics is not high and that corporate behaviour should not solely be oriented to profit goals. Rather, a firm's ethical conduct should be part of its focus. While discussions of ethical questions in a market economy are mainly related to large firms, this thesis specifically aims at revealing potential problem issues and solutions for small firms. These firms are often ignored when moral concerns in business are addressed. This is in contrast to their importance for the economy and society of almost every country of the OECD, as they constitute the majority of all companies, and provide a major share of jobs.

The majority of the studies examining business ethics are focused on large corporations, using quantitative strategies. Few studies related to small business have been undertaken. The question of how these firms and their owner-managers could systematically engage in business ethics and ethical stakeholder management remain unanswered. The thesis develops a tool which explicitly addresses this topic: the Ethics Integration Guideline. On the basis of a research paradigm of constructivism, a study was designed which was intended to elicit, and then to guide, small business owner-managers' ethical attitudes, perceptions and experiences. It aimed to develop a structured guideline which can help small firm owners to integrate ethical considerations into their business activities. Taking owner-managers' perspectives into account assures a high level of acceptability of the approach by its target group. It also provides insight into the small firms' context. Thus, practical applicability of the guideline is provided.

The results of the research suggested the framework for an ‘Ethics Integration Guideline’, developing the instrument in two parts and four components, with various sub-components. Part one of the Guideline consists of diagnostic questions, while part two contains behavioural instructions. The components in both parts are (1) an ethical guidance instrument for the firm, (2) an ethics enforcement system, (3) a stakeholder management system, and (4) an ethical dilemma management system. These component headings were devised to organize the results of the interview data into a useful instrument. The questions and imperatives are derived from the interview statements gained in the research for this thesis. It turns out that the approach differs considerably from approaches applied in large firms. The Ethics Integration Guideline developed in this research provides a unique tool which connects research results with user’s individual perspectives and experiences in his firm. The guideline is flexible, applicable and adaptable to the needs of the firm in question. It bridges the gap between ethics theory and business conduct. Thus, it contributes to professional practice in small firms – a sector which is commonly underestimated in its crucial importance to the welfare of a society.

Acknowledgements

Developing and conducting this research and writing this thesis I received considerable support and guidance!

Firstly, I would like to thank my Principal Supervisor, Dr. David Ardagh. His guidance, efforts, feedback, comments and constructive criticism helped me to develop this project. This is even more remarkable as supervision for a research student from overseas is more demanding and more time consuming. I also would like to thank Dr. Pamela Mathews who, as a Co-Supervisor, gave valuable advice in the final stage of writing up the thesis.

I would like to acknowledge Dr. Paul Amman (Berne University of Applied Science) and Professor Denise Jarrat (Charles Sturt University) and the staff at Berne University of Applied Science for their passion and enthusiasm in organizing the doctoral workshops twice a year. The information gained was extremely valuable for critically reflecting on the progress of the thesis.

I would like to thank Claudia for the discussions, the criticism and the helpful comments throughout this project. Finally, I thank my children Anne-Katrin and Jan-Peter for their patience during the years of this project. The thesis is dedicated to them.

List of Figures:

| | |
|--|------------|
| Figure 1: The structure of chapter 1 – Introduction | 14 |
| Figure 2: Structure of this thesis..... | 16 |
| Figure 3: The structure of chapter 2 – Contextual setting..... | 32 |
| Figure 4: Types of ethical problems according to Geva (2006, p. 135) | 55 |
| Figure 5: Range of public policy and corporate discretion according to Windsor (2006, p. 107.)..... | 62 |
| Figure 6: The structure of chapter 3 – Literature review | 77 |
| Figure 7: The structure of chapter 4 - Methodology | 104 |
| Figure 8: Steps of research process | 141 |
| Figure 9: The structure of chapter 5 - Results | 142 |
| Figure 10: The structure of chapter 6 – Answering the research questions (SQ)..... | 228 |
| Figure 11: The four components of the Ethics Integration Guideline | 248 |

List of Tables:

| | |
|--|------------|
| Table 1: Ownership structures in public and private companies according to Tricker (1994, p. 517)..... | 27 |
| Table 2: Overview on ethical issues according to Shaw and Barry (2006)..... | 56 |
| Table 3: Stakeholder orientation framework (O’Higgins 2009)..... | 64 |
| Table 4: Different stakeholder cultures, adopted from Jones, Felps and Bigley (2007) | 66 |
| Table 5: Summary of studies included in this literature review..... | 86 |
| Table 6: “Basic Beliefs (Metaphysics) of Alternative Inquiry Paradigms” adopted from Guba and Lincoln (1994, p. 109). | 106 |
| Table 7: Brief description of participants included in the study | 115 |
| Table 8: Interview questions and related research questions | 123 |
| Table 9: Headings of data analysis sheet used for data analysis steps 1, 2 and 3 | 128 |
| Table 10: Check of findings against deviant participants statements..... | 227 |
| Table 11: Sub-components of the proposed Ethics Integration Guideline | 250 |
| Table 12: Diagnostic Questions for the four components of the Ethics Integration Guideline..... | 261 |
| Table 13: Behavioural Instructions for the four components of the Ethics Integration Guideline..... | 266 |
| Table 14: Check of the Ethics Integration Guideline against main characteristics of ethics in large firms (described by deviant participant A. B.)..... | 268 |

1. Introduction

“Ethics should play a major role and in my opinion in our small firms ethics is an important topic. Big companies are mainly driven by numbers and hard facts. In small business many things are dependent on personal contacts. I know my business partners and most of them even on a private basis. Without moral behaviour you would threaten your business relationships. Therefore, you can’t go without ethics in small firms.” (Cited from interview statement of participant S.N. on interview question no. 7)

This thesis focuses on small firms and their ethical behaviour. Small firms differ considerably from large corporations. The influence of various stakeholders on corporate decision making is a key factor in differentiating small and large firms’ behaviour. Stakeholders such as employees, shareholders and institutional investors, lenders, non-executive directors, and managers play a part in the determination of ethical standards of big companies. This is in sharp contrast to small firms which are mainly led and controlled by owner-managers (Ryan & Schneider 2002).

Large corporations are marked by agency problems which result from separation of ownership and management. The profit expectations of shareholders have led to a short term focus of managers. Large scandals such as the Enron case have been, to some extent, caused by this phenomenon (Arnold & de Lange 2004). In small firms ownership and management are in the hand of the owner-manager (Ryan & Schneider 2002). This makes the situation completely different from that of managers in large firms. Revealing the implications of this distinguishing mark on small business ethics is the core aim of the investigation in this thesis.

The results of this research have enabled the development of an Ethics Integration Guideline for implementing ethical behaviour in small business. The research methodology selected is based on previous research and writings on business ethics, and on an investigation into small firm owner – managers' ethical attitudes, perceptions and experiences. The objective of the guideline, derived from this research, is to provide a practical approach to systematically integrating moral concern into small business activities.

The introduction will explain and justify the underlying business problem, then establish the research question and related sub-questions. Basic definitions and ethical presumptions will be provided. Finally, the primary focus on the ethics of owners and managers of small firms will be justified. The structure of the introduction is displayed in Figure 1:

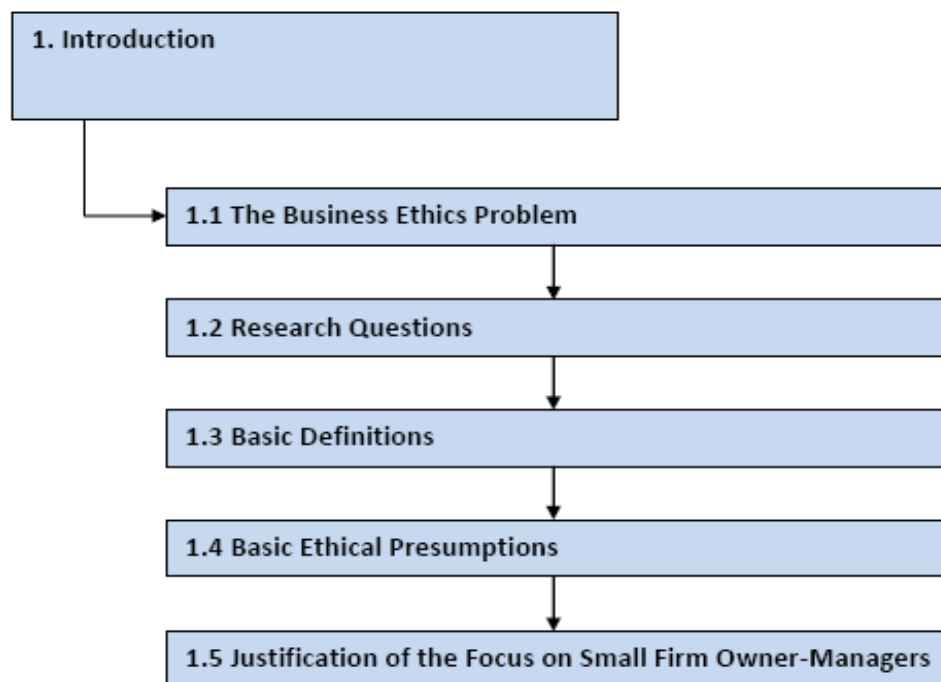


Figure 1: The structure of chapter 1 – Introduction

The thesis will then continue with section 2 which will describe the contextual framework in which the research is set. This part will move from the general to the particular. It begins with general aspects of philosophy, describes the context of ethical decision making in Western societies, and then explains moral issues inside and outside the corporation. Lastly, it explains different theoretical approaches for integrating unassailable ethics in business. The following literature review – section 3 – reflects a range of scholarly studies which deal with issues similar to those in this thesis. Thus, recent findings in business ethics research are displayed and existing gaps in scholarly research are identified.

The outcome of the literature review is the basis for the research approach developed in section 4 on methodology. Underlying research paradigms are explained, methodological aspects are considered, and the research strategy is described in detail. Aspects of research quality as well as limitations and boundaries of this approach are also discussed. The investigation is conducted according to this research strategy, and the procedures of data collection and data analysis are described in section 5. The findings of this investigation are used to answer the research questions and to develop a systematic approach of implementing high moral standards in small firm business activities: the Ethics Integration Guideline. It will be explained and described in section 6. Finally, section 7 summarizes the findings in this thesis and describes potential areas of future research.

The overall structure of this thesis is displayed in the Figure 2:

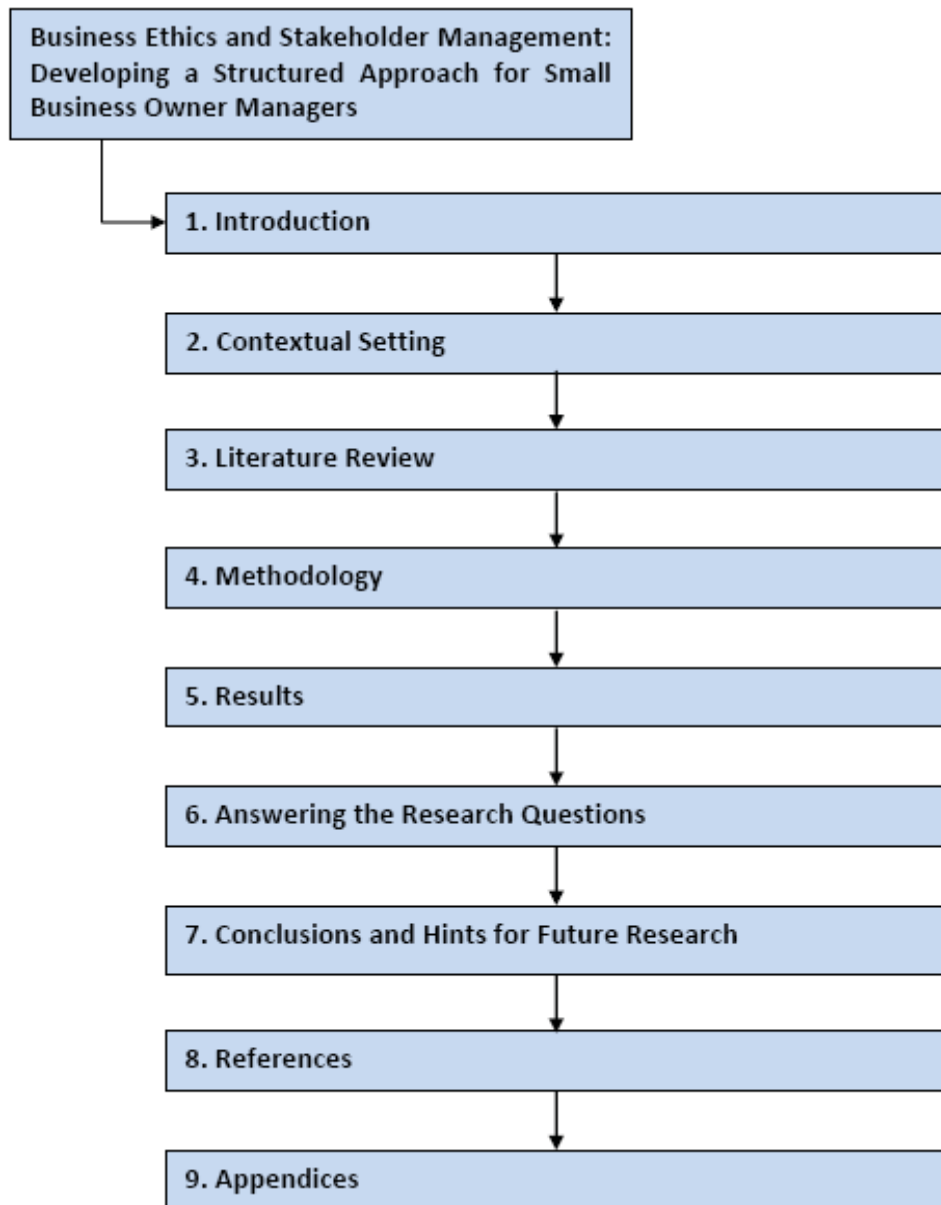


Figure 2: Structure of this thesis

1.1 The Business Ethics Problem

The role of ethics in business conduct is widely discussed today. The question of how, and to what degree, a business should behave responsibly is not easy to answer as there are many different facets to consider. In many industrialized countries, organizations now have to justify their behaviour in ethical terms while engaged in market competition and in their efforts to boost profits. Examples such as the BP oil

spill in the Gulf of Mexico, the corruption cases of Siemens and Daimler-Benz, and the Deutsche Bank layoffs in years of record profits have resulted in distrust by the public in the moral intentions of business leaders.

While public awareness is mainly focused on big businesses, small firms appear to have been forgotten. This is despite the importance of the small business for economic and social development. Small businesses constitute the majority of organizations in industrialized countries and contribute a major share of jobs.

Large, international firms frequently try to implement corporate social responsibility by providing codes of conduct, training and implementing other standards of moral behaviour such as environmental or fair trade labels (Webley & Werner 2008). This is in sharp contrast to small firms, which lack a structured approach to ethical business practices. They seem to behave differently when it comes to moral questions and at the same time they don't strategically employ corporate communication of their moral standards (Nielsen & Thomsen 2009). These firms frequently have little power in interactions with their stakeholders. Small businesses are socially embedded in and are pillars of local communities; therefore, a planned methodology for ethical business practice is required.

Recent corporate scandals clearly demonstrate a lack of application of moral standards in large corporate business. Changes to several aspects of corporate policy have been recommended in order to improve firms' behaviour (Boogle 2005). Some hold that executives should be held accountable for corporate misconduct and stock option programmes should be replaced with company financial performance. Focus

and execution of long-term strategic objectives coupled with more transparent accounting practices also support a higher moral business standard. Furthermore, cooperation within the board of directors should be improved. These recommendations are doubtlessly related to big companies. However, it is obvious that small firms – by their very nature – inherently embody some of these characteristics. They can be regarded as a stabilizing element for the economic sector of a country. Consequently, an investigation into small firms' ethical approaches in business might illuminate strengths and weaknesses of this type of company; thus providing valuable information for business and society in general.

The objective of this investigation of small firm owners and managers is to improve understanding of their business practices and attitudes with respect to moral concern in daily business activities. From these findings a guideline for small business owners and managers will be derived, which will enable them to consciously structure and reform their behaviour towards stakeholders. To date, perspectives of small business practitioners have not been sufficiently reflected in research (Fassin 2008). This thesis aims to fill in this gap. Therefore, the target audience of this report is small firm owner-managers.

1.2 Research Questions

Based on the business ethics problem as described above and the narrowing focus to small business, the main question (MQ) to be answered by the investigation is as follows:

MQ: How can small business' owner-managers consciously organize their ethical behaviour towards their companies' stakeholders?

From this main research question the following sub-questions (SQ) are derived:

SQ-1: How do owner-managers perceive business ethics practice in general?

SQ-2: How do owner-managers experience ethical dilemma situations?

SQ-3: How do owner-managers identify and rank different stakeholders?

SQ-4: How do owner-managers try to cope with stakeholders' interests?

SQ-5: In what ways can a structured approach to ethical behaviour be derived from these findings?

These research questions will be directly addressed by this thesis.

1.3 Basic Definitions

In order to ground this paper on a similar basic understanding, two terms will be defined and discussed in advance. The dissertation deals with questions of 'business' and 'ethics'. It aims at investigating ethical attitudes, perceptions and experiences of small firm owners and managers. Consequently, the terms 'ethics' and 'business ethics' will be given working definitions in this introductory chapter, and the obstacles in ethical decision making will be briefly discussed.

Briefly expressed, in this context a person's "ethics" can be defined as their idea of what is right or wrong in dealing with other persons (Remenyi, Williams, Money, & Swartz 1998, p. 282). Ethics as an abstract discipline – moral philosophy – is the study of answers to the question of how to live one's own life with others. The

answer to this question leads directly to explaining the distinction between behaving in a morally right manner and behaving in a wrong manner. Individuals have to decide whether or not to obey moral rules, duties and obligations, and how to behave responsibly (Shaw & Barry 2006, pp. 4). Consequently business ethics can be described as dealing with good or bad human conduct in business. In this respect the thesis must take a position on how moral standards are established and maintained in this context. A special problem of ethical concern in business is that individual moral convictions might be violated by a company's organizational structure and norms, or by informal group commitments. In such cases maintaining personal integrity appears to be problematic (Shaw & Barry 2006). Business ethics can provide guidance for good ethical behaviour in situations in which economic and moral goals of persons contradict each other (De Cremer, Mayer, & Schminke 2010).

For a moral philosopher, ethical rules must be grounded on solid arguments. It is also important to distinguish ethics from etiquette, law and professional codes (Shaw & Barry 2006). Particular ethical standards are frequently, but not necessarily, derived from religion. Ethical judgements ultimately depend on the individual's perspective, but encapsulate an objective view of 'the human good' at some level of abstraction (Poller 2005).

The question of how to judge an action to be morally good or bad, or right or wrong has never been easy. The various answers are dependent on time and circumstances in which reflection took place. Moral Philosophy suggests that there is a common human nature at an abstract level. Moral concern can never be solely regarded as particular, idiosyncratic or circumstantial. Also, some general concepts, principles,

rules, and interdependencies between philosophy, religion, as well as type and order of state and business, have to be taken into account. The content of ethics is to some degree universal and objective. There is abstractly a common human nature which leads to convictions which are shared among cultures and throughout the centuries (e.g. ‘killing others’ is generally seen as bad behaviour). But the circumstances alter cases. These considerations show how difficult it is to arrive at final judgements on ethical questions. It illuminates the problems of ethical decision making.

1.4 Basic Ethical Presumptions

Ethics has been subject to intensive reflections and discussions throughout more than 2,500 years. Some different approaches to moral considerations will now be outlined briefly in order to illuminate the diversity of ethical reflections. This is important because the research approach in this thesis is based on several assumptions regarding the way ethical judgements are made.

Absolutism and Relativism

Frequently ethical absolutism and ethical relativism are distinguished (Frederick 2006). There is a longstanding academic debate dealing with these concepts which will not be rehearsed here. Ethical Absolutism assumes some moral beliefs to be universally true (Frederick 2006). Ethical relativism emphasizes relativity to some individual, group, or context. Grace and Cohen (2010, p.24) state that “Moral relativism is a view according to which moral values are relative to a particular environment”. Moral diversity disallows universally true ethical principles. As a consequence, a meaningful discussion of moral claims would be impossible (Rossouw 2010).

More specifically, one could ask whether moral judgements represent a “subsumption of particular cases under general rules” (Velasquez 2002, p. 114) or whether they should be carried out without reference to general rules. The former procedure requires that behaviour has to follow one or various explicit rules while the latter demands moral considerations without following general principles (Velasquez 2002).

My position presupposes neither of these accounts is acceptable. I take for granted: some role for common human wants, needs and values; general principles of morality; like act justly and reasonably; some precepts/rules governing truth-telling, theft, and murder; associated virtues of honesty, fair dealing, and non-violence, all of which can be outweighed in exceptional circumstances (are “defeasible”); and the process of ‘reflective equilibrium’ (Rawls 1970) or some parallel account involving casuistry. The latter procedures guide us when rules/precepts conflict in real cases and the rules themselves cannot settle the issues at hand.

Consequentialism and Nonconsequentialism

Another broad classification of schools of ethics distinguishes between consequentialism and nonconsequentialism (Shaw & Barry 2006). Consequentialism is grounded on the idea that the answer to the question whether an action is right or wrong depends on the good or bad result and consequences of this type of action. In contrast to this, nonconsequentialism takes aspects like motive, intent and the act itself into account (Shaw & Barry 2006).

Again my position is neither completely consequentialist nor nonconsequentialist. Immediate results of actions clearly always matter in ethics, and form the nucleus of rules and precepts, as killing is a nucleus in murder. But probable/foreseeable, foreseen, intended, desired, and very long –term consequences of the nuclear act sometimes do not. Moral rules can be in conflict and then further circumstances also sometimes come into play, including sometimes some kind of consequences.

These aspects are closely related to the question of moral reasoning (Velasquez 2002, Grace & Cohen 2010). Grace & Cohen (2010) describe what ethical reasoning generally entails. They state key characteristics would be impartiality, universality, justifiability, overridingness, and action-guidance. Ethical judgements and opinions have to go beyond self-interest (impartiality), they should apply to everyone in similar circumstances (universality), they must be defensible in a reasoned way (justifiability), they are non-negotiable in that they are not determined by support of a majority (overridingness), and they aim at guiding people's behaviour (action-guidance).

Similarly, Grace and Cohen (2010) distinguish between top-down and bottom-up approaches in moral reasoning. Top-down means that overarching principles (e.g. don't lie) need to be applied in a particular situation. In other words, a general moral principle or precept needs to be adapted to a specific situation. Bottom-up means that an individual is guided by intuitions or feelings when making moral decisions but might develop more general moral principles based on the experiences made in specific situations. These approaches are quite one-sided; consequently, "a third approach regards neither particular judgements nor general principles as first

principles” (Grace & Cohen 2010, p. 12). Grace and Cohen (2010) adopt the ‘reflective equilibrium’ from Rawls’ (1970) who used the term with regards to justice. Applied to moral reasoning ‘reflective equilibrium’ means that general moral principles and particular moral judgements of a person are in harmony. Unlike the top-down and the bottom-up approaches which describe processes, the ‘reflective equilibrium’ aims at an end state to be achieved in a dialectical process (Grace & Cohen 2010).

Which of the general ethical perspectives would be preferable as between defeasible ‘rule-deontology’ of Ross’s prima facie duties or standard ‘rule utilitarianism’ will not be discussed, but the relevance and importance of rules and case judgements made via ethical decision procedures like reflective equilibrium are taken for granted.

The deeper academic discourse is clearly beyond the scope of this report. However, what is important for this thesis is that there are moral rules, but there are also rule conflicts in certain circumstances, and there is not one general principle or perspective which would automatically lead to the ‘right’ ethical judgement in particular situations. Rather, for the purpose of the research undertaken it is necessary to acknowledge that there is a relation between some general accepted moral principles and precepts on the one hand and moral judgements in particular situations on the other. In other words, making ethical decisions requires dealing with different levels of abstraction – from more general principles to very specific characteristics of a situation. One also needs to accept that ethical decisions are subject to rational discourse (Habermas 1993). Given these multi-faceted influences

on the way decisions are made, the difficulties to judge an act to be morally right or wrong are not insurmountable.

1.5 Justification of the Focus on Small Firm Owner-Managers

Small firms will be defined and described in detail in a later section. As a working definition, small firms have no more than 19 employees and are not exceeding an annual turnover of 10 million Euro (Mugler, 1998; Australian Bureau of Statistics 2001). The importance of small businesses for both a country's economic welfare and its societal stability can't be overemphasized. Small firms constitute a share of approximately 96 % of the total number of companies in Australia and are contributing almost 49 % to the total numbers of jobs provided by private Australian firms (ABS 2007). Other countries of the OECD are marked by similar statistics. In Germany, for example, approximately 98 % of all companies are small-sized, offering a share of nearly 42 % of the total number of jobs (Institut fuer Mittelstandsstatistik 2007). The research in this thesis is deliberately related to this important sector.

In sharp contrast to the importance of small firms, the sector is widely ignored. Even the United Nations is no exception in this respect. They propose 'UN Global Compact' (2008) – a set of ten principles of good behaviour in business. These principles deal with questions of human rights, labour standards, environmental issues, and avoidance of corruption and bribery. Businesses are encouraged to participate in a network of listed organizations, which should support these standards in day to day work. However, micro businesses with less than 10 employees are excluded from joining this community. In other words: knowledge and experiences

from one of the most important parts of the private business sector is kept out of global reflections. This suggests that even a powerful organization like the UN is obviously not aware of the great importance of small firms.

Another example might illustrate how underestimated small firms are in business ethics research. Clark and dela Rama edited an impressive work on 'Fundamentals in Corporate Governance' (2008) comprised of 70 articles mainly from scholarly journals. Only one of these papers is distinctly related to family owned small firms. Few of the other articles deal with issues which can be directly referred to small firm preconditions and procedures as the majority of papers are focused on context and circumstances of big companies.

Focus on small firms as a distinct research approach might cause some doubts about whether it is justifiable to exclude firms which deviate only to a small degree from the definition of small firms. Obviously there is negligible difference between a business with 21 employees or with an annual turnover of 11 million Euro compared to firms completely fulfilling the 'small business' definition requirements. Nevertheless, the strict definition makes sense in the way that it is reasonable to assume owner-managers are the primary decision makers in these firms. With so few employees, situations of shared responsibilities are uncommon, and the decision making process is largely confined to one individual.

The ownership structure in the different organizations is an important aspect as well. It can be seen as a 'sociological and organizational variable' (Kang & Sorensen 1999, p. 144) which contributes considerably to financial and ethical firm performance.

Table 1 illustrates the differences between public and private companies and allocates small firms to the private sector:

| |
|---|
| <p><u>Public Companies:</u></p> <ul style="list-style-type: none"> - Shares held widely by financial institutions and individual investors, no dominant holding. - A majority of the shares with financial institutions and individual investors; one or more institutional or individual investor dominant. - A majority of the shares with financial institutions and individual investors; but with another company holding sufficient voting equity to dominate. The company is treated as an associate of that group. - A minority of the shares with the public; the dominant interest in the hand of one or more institutions or individual investors. - A minority of the shares with the public; the dominant interest in the hand of another company, who treats the company as a subsidiary. <p><u>Private and Proprietary Companies:</u></p> <ul style="list-style-type: none"> - Wholly or partly owned by government or a quasi-governmental body, which exercises corporate governance. - Wholly or partly owned by another company, which treats it as a subsidiary. - Joint venture owned by a number of companies. - Private company with shareholders not involved in management. - Owner-dominated company but with some shares in the hand of shareholders not involved in management. - Owner-directed and –managed (family firm, mainly small firms) <p style="text-align: center;">=</p> <p style="text-align: center;"><i>Focus of the research underlying this thesis</i></p> |
|---|

Table 1: Ownership structures in public and private companies according to Tricker (1994, p. 517)

The study of the different kinds of firms in Table 1 shows that only the last mentioned owner-directed and -managed companies are owned and responsibly led by the same person. These firms – and their owner-managers in particular – are the focus of this research. It must be considered that today, owner-managers aren't

regarded only positively by the public, despite their image as a ‘winner’. They are frequently perceived as ‘aggressors’, ‘outsiders’ and ‘victims’ (Anderson, Dodd, & Jack 2009). This emphasizes the claim that small firms have to justify their behaviour towards stakeholders.

The research is limited to small firms because it is assumed that an increasing size of the organization is accompanied by a higher level of shared responsibilities. The investigation is focused on those firms, in which decision making primarily depends on one person. Again, it should be emphasized that out of the range of different types of public and private companies, the owner directed and managed firms constitute a considerable share of all companies. All other kinds of firms mentioned are – to different degrees – based on separation of ownership from management. Experiences from business practice indicate that ownership structure and the level to which the firm is socially embedded, lead to conditions in decision making processes which differentiate small firms from big companies (Seeler 2007). To date, research on business ethics has been mainly related to large firms. Consequently, an approach distinctly focused on small firms’ owner-managers appears to be necessary and important.

The reflection of ownership characteristics is supported by Moore and Spence (2006). They suggest considering owner-managers rather than regarding small- and medium-sized firms. On the one hand, owner-managers are fully responsible for their business’ activities. On the other hand, they have to deal with a high level of complexity in their day to day business. A major problem in research is that responsible practices of small firms are frequently not visible from outside the firm;

however, ethical behaviour of these organizations exists, and it is seen to be particularly typical for businesses which have close relationships with their local communities. But in contrast to large companies, many small firms do not codify their moral standards, making it even more difficult to identify their ethical activities.

Frequently a moral attitude is evolved from the firm's real network. This is due to the fact that the business is socially embedded. This can be seen as an advantage of small firms, but at the same time, it should be stated that a more systematic approach to all stakeholder-groups might be more suitable and desirable for a moral understanding. Provided the focus is on small firms, there are different aspects which have an impact on social responsibility of small business (Lepoutre & Heene 2006). Four major factors should be mentioned:

- a) Situational issues and characteristics of the matter
 - Possible extent of consequences
 - Closeness to those who are affected by an action
 - Expected level of social agreement with respect to an action
- b) Personal attitudes on the basis of personal values and competencies
 - Entrepreneurial attitude of owner-managers
 - Lack of time in day to day business
 - Knowledge and skills with respect to complexity of owner-managers tasks
- c) Characteristics of the organization's structure and resources
 - Lack of resources like time, knowledge and financial means
 - Limited power in negotiations due to lack of resources

d) Aspects of contextual influences

- Higher level of dependence on external stakeholder influences
- Socio-economic influences
- Environmental influences

This structure of ethical factors highlights the framework within which decision making takes place. If one aims at developing a systematic approach of integrating ethics in small business, obviously b) and c) should be focused on. Situational and contextual influences can hardly be affected by the firm. In contrast, personal attitudes of owner-managers and their employees as well as organizational structures and resources can and should be targets for improvement, if it is intended to sustain moral standards in business conduct.

As the author experienced in his day-to-day business activities as a small firm owner-manager, firms of this sector normally do not systematically engage in reflections on ethical questions. They lack the time and resources needed to establish a structured approach to moral concern. For example, there is hardly any small firm that applies ethical codes, codes of conduct or other self constraints. The investigation on ethical attitudes, perceptions and experiences in this research aims to clarify how to consciously apply these in the small firm context. If one were to consider this kind of firm as the ‘nucleus’ of the market economy, conclusions might be even transferable to the big companies’ sector.

Given the range of prior research on ethics in business, one might ask why only a relatively small number of investigations were distinctly related to small business

owner-managers. One answer might be that getting access to small firms' owner-managers and their business ethics practices may be difficult for University scholars. The author, who has been an owner-manager for over 16 years, understandably has an advantage in this respect, as obtaining a sample of small firm owner-managers is rather easy given that contact with the target group is daily business routine.

While moral concern is abstractly 'what ought to be', at the same time, it is seemingly necessary to uncover what decision makers perceive to be realistic in ethical dilemma situations given business needs. The intended research is placed exactly in this context to fill the gap between theory and practice. Therefore, the research aims to extend business ethics theory to the small firms sector. The objective is also to contribute to the professional practice of managers by providing a guideline on how to systematically engage small firms' moral concerns.

2. Contextual Setting

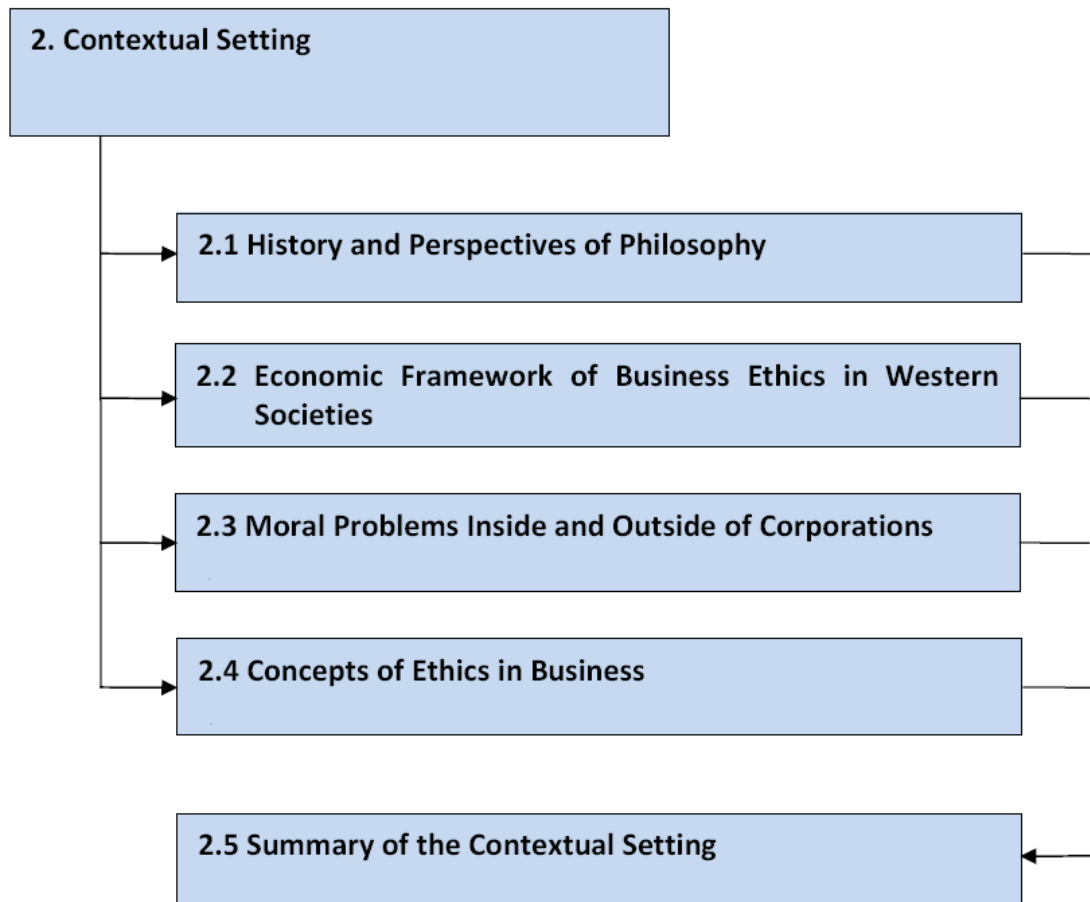


Figure 3: The structure of chapter 2 – Contextual setting

This section aims to establish the context of the research topic. It is intended to ground the research approach in a framework constituted by the key topics related to the research question. The contextual setting will also prepare for the following literature review as it explains the background for the studies discussed in the review. Moving from the general to more particular aspects, the report initially describes fundamental philosophical understandings and historical developments and perspectives of ethical reflection. After this, it reflects the economic framework of business ethics in Western societies and discusses the contexts in which ethical questions in business occur. Ethical issues are later outlined in order to illustrate some of the moral concerns or questions with which business is confronted. In

addition, two main concepts of business ethics are described. In reflecting the contextual setting, the basis for the more explorative literature will be established.

2.1 History and Perspectives of Philosophy

Ethics has been subject to intensive reflections and discussions throughout the history of humanity. Out of the uncountable versions of ethical understandings three key concepts will be outlined here. They have been developed over the centuries:

- Teleology
- Social Contract Theory
- Deontology

Each of these concepts consists of different versions which were developed by various authors and over time. Therefore, the understandings were influenced by the individuals as well as by the social and societal context in which they were developed.

2.1.1 Teleology

The *teleological* approach to ethics generally assumes that man's life is guided by a certain goal for which to aim; therefore, human wellbeing or happiness is seen to be the key concept of this understanding. Teleology assumes the existence of a final goal in human nature. Consequently, individual behaviour is judged according to its contribution to the achievement of this aim (Reiman 1990; Der Brockhaus Philosophie 2004).

The teleological understandings of Plato and Aristotle mainly focused on the individual character (Der Brockhaus Philosophie 2004; Solomon 2006). A fulfilled life can be achieved if a person behaves according to moral virtues. These virtues are character traits (e.g. honesty). But a person who always behaves honestly might in fact act unethical in certain instances. Therefore, if one aims at leading a morally meritorious life, one needs what is called practical wisdom to help a virtuous individual developing to ethical perfection. Practical wisdom requires experience in life and the capacity to weight situational aspects and to identify the most important ones. In other words, practical wisdom is necessary to appreciate characteristics of a situation (Hursthouse 2010). The relationship between ethics and virtue must be reflected in business (Solomon 2006). Virtue ethics focuses on the person who performs an act. Even non-relative virtues such as courage, honesty, generosity, trustworthiness, cooperation, and congeniality have to be weighted individually. Actions might be ethically good or bad dependent on the context of their occurrence (Solomon 2006).

In the medieval period, teleology focused on religious virtues (Der Brockhaus Philosophie 2004). Augustine and Thomas Aquinas are two philosophers representing this approach, where God and the church are seen as a guide to a worthwhile life. Consequently, some virtues are theological in nature. Happiness cannot only be achieved in life, but in eternity as well. Living one's own life by being pleasing in the sight of God is seen to be the most virtuous behaviour of all. This perspective assumes that the judgement of an action to be right or wrong is dependent not only on reason and intellect, but on supernatural rules as well. Limitations of sensory perceptions of human beings are regarded to be evidence for

the existence of a supernatural institution (Poller 2005). In other words, this perspective concludes that there must be a divine law because individuals are not able to come to valid judgements in all instances.

It must be acknowledged that there are many different versions of Utilitarianism, and I will not claim to have the definitive account. I will rely on that of Snoeyenbos and Humber (2006). In the 18th and 19th centuries, there developed *Utilitarianism* as a teleological understanding. It is based on works by Jeremy Bentham and John Stuart Mill, among others. It takes no position in theology; rather it emphasizes utility of an act (Der Brockhaus Philosophie 2004). In this view, “we should merely calculate which of our alternatives for action would result in the greatest amount of happiness for the greatest number of people” (Rossouw & van Vuuren 2010, p. 76). Mill’s theory clearly demands social arrangements to assure interests of all members of a society to be taken into account (Mill 1965). Utilitarianism can be seen as a consequentialistic perspective (Snoeyenbos & Humber 2006). The question whether an action is judged right or wrong depends on its consequences for happiness (Snoeyenbos & Humber 2006). Utilitarianism in its original version doesn’t aim for maximization of benefit, but for equitable distribution of long-term utility for all relevant parties (Rossouw & van Vuuren 2010). This means the outcome for the society is a key determinant for ethically right behaviour. However, in the field of business utilitarianism has been interpreted as aiming for total benefit maximization because decisions are usually made upon cost-benefit analysis (Rossouw & van Vuuren 2010).

A key challenge of Mill's theory is how to measure utility, distribute benefit equality and how to deal with immoral preferences (Snoeyenbos & Humber 2006). A proposed procedure to overcome these challenges is to firstly determine which rule maximizes utility, and to secondly establish more specific codes or regulations in order to determine what should be done in specific circumstances (Snoeyenbos & Humber 2006).

2.1.2 Social Contract Theory

The second philosophical key concept is called *Social Contract Theory*. This approach generally assumes that ethics relies on implicitly agreed social norms within a political society. In broad terms the understandings of Thomas Hobbes and John Rawls can be distinguished (Der Brockhaus Philosophie 2004) as examples. They propose that people would agree on a societal contract to minimize or avoid negative consequences of violent acts among each other. A society establishes distinct social norms which are enforced by the state. The question whether an act is judged to be right or wrong is determined by its compliance with these social norms enforced by a strong central government or state (Hampton 1988).

The understanding of Hobbes (1588 – 1679) is based on a pessimistic view of the character of man, who is seen to be egoistic by nature. Individuals don't have innate ethical convictions but a natural wish to gain power and might. A necessity of basic moral beliefs is only perceived to avoid constant war acts among human beings (Poller 2005). Hobbes' negative perspective is no surprise, given the fact that he lived in times of ongoing wars.

Rawls (1971) provides a contemporary understanding of contractualism which is different from Hobbes and also from utilitarianism. He proposes that it would be ethical to provide maximum liberty to individuals as long as it is not limiting freedom of others. Social mobility and equal opportunity are seen to be essential preconditions. Every individual should be provided with a basic set of liberties. At the same time, social justice requires that in distribution of benefits, the least advantaged should benefit from any just regime, and every individual should have the same chances to suffer or benefit from inequalities. The guiding principle to achieving societal justice is fairness (Poller 2005).

Authors such as Donaldson and Dunfee (2000) base their understanding of business ethics on contractualism. In their view a framework of hierarchically structured norms - microsocial norms, authentic norms and hypernorms – is existent. Hypernorms are fundamental principles which everyone would agree to. Authentic norms are mainly represented by laws. Microsocial norms are rules of local communities. Donaldson and Dunfee (2000) believe that the rightness of behaviour depends on the norms affected and is therefore dependent on the social context.

2.1.3 Deontology

The third philosophical concept is *deontology*. Deontological understandings generally deny the goodness of an act would be dependent on its consequences. Rather, deontology argues for the existence of generally right moral principles which must never or rarely be violated (Gaus 2001; Der Brockhaus Philosophie 2004).

The most influential writer on deontology was Immanuel Kant. He proposed the 'categorical imperative' (1993) which assumes an action to be good under the provision that the underlying principle of the action or 'maxim' can be capable of 'universalisation' in practice without informal, pragmatic inconsistency. This includes the question whether one would still perform an act, if everyone would behave in the same way in like circumstances. Deontology demands individuals to morally weigh their behaviour by following the categorical imperative; therefore, consequences for well-being of an action alone should not be judged as definite. Rather, intentions and motives must be considered, and the rational self-consistency of the principle.

To take an example in business ethics, companies have moral obligations to contribute to the benefit of a society because society provides the infrastructure for business conduct. Employees should be seen as self-motivated and keen on taking responsibility (Bowie 2006). As a consequence, a company shouldn't solely comply with regulations and constraints. Rather, it has an obligation to develop employees' expertise and personal skills it relies on to survive. The conflict between economic success and ethically good behaviour must be accepted and corporate structures to deal with this conflict must be rethought. Profits of a company can be regarded as a contingent consequence of ethically good business practice (Bowie 2006); however, this raises the question why some firms benefited over decades from moral misconduct (Warren 2002).

A different deontological perspective is represented by William David Ross (2002). He denies the existence of one master rule to be followed, but lists a specific set of

prima facie duties. In ethical dilemma situations, individuals frequently must take these different ethical duties into account. Every action has a certain moral quality on its first appearance. For example, killing is generally regarded to be wrong; however, there might be circumstances in which such an action can be justified. This is the case, if in the particular circumstances (e.g. war) a morally bad action can help to avoid a comparatively greater evil. It is the individual who has to ethically weigh the alternatives in order to rate each one right or wrong (Timmons 2003).

2.1.4 Concluding Comments on History and Perspectives of Philosophy

This section discussed different philosophical approaches. The question whether an action should be judged based on its outcome alone or according to the underlying maxim, including the motives of the individual, arises because the two procedures lead to completely different results. Consequently the basic philosophical understanding of a person determines the valuation of behaviour.

The Ethics Integration Guideline proposed at the end of this report will be based on the application of a virtue-ethics teleology understanding of the Aristotelian type, which focuses on the individual's character and on moral virtues. This does not mean that religious virtues should be excluded, nor should their influences be underestimated. However, Western societies are – more or less – marked by separation of state and religion. These countries base governmental and legal structures on secular values. Although this secular perspective is adopted in this report, it has to be emphasized that every individual applies a mix of the different approaches; and the main emphasis varies.

The Neo-Aristotelian virtue-ethics position adopted here strikes to balance between two different perspectives. On the one hand, it reflects the need to recognise generality in ethics, as shown in principles and rules or precepts reflecting and preserving common human values like life, property, and truth; such as precepts against murder (life), theft (property) and deceit (truth). On the other hand, it considers the need to recognise the fact that people are individuals, in individual circumstances, which when added to the description of these types of action, can sometimes ‘outweigh’ the badness of the type of action when reference is made to individual intent, knowledge, and other circumstances in the particular case.

It is not a ‘consequentialist’ version of teleology like utilitarianism in its common ‘Act Utilitarianism’ form, because it takes consequences to be dependent entities, consequences of acts or feelings. These types of entity have some inherent tendencies to advance or retard human well being, which cannot be ignored. Even when they are ‘outweighed’ by particular circumstances, they continue to have an inherent weight apart from their freeable, foreseen, desired or long-term consequences. In Ross’ terms, they have ‘prima facie’ moral import.

Also, the idea of compounding an act-type with its known, foreseeable, or foreseen, desired, intended, probable consequences raises too many questions, and opens up the danger that one will mistakenly describe what one is doing here and now as merely doing something, X, to effect a future possible or probable good, when X is in fact evil. All the questions about ‘double effect’ being abused come in here. I may say I am only intending future good which I foresee as probable but in fact what I am doing – perhaps even unknowingly – is present evil.

Much depends on what we mean by 'circumstance'. If 'circumstance' includes long-term de facto probable consequences, it makes moral judgement very uncertain, as the long-term consequences of an act-type are difficult or impossible to know at the time an act is performed. The badness of the nuclear act of killing in 'knowingly and deliberately killing an innocent person' is badness now with respect to human wellbeing, in this case death. But the rule, murder is wrong, is not necessarily the sole definitive consideration in all cases, allowing a conducive and irreversible judgement in all cases. This is partly so because : 1. 'killing', 'person', and 'innocent' are not completely unambiguous terms, e.g. some hold that human embryos are not persons, that 'innocence' can be compromised by inaction or omission to step in and oppose evils done in a collective manner; and 2. further circumstances can be added to the description of the circumstances, such as in the case of euthanasia of a person who asks one to kill them for a limited range of reasons e.g. terminally injured war 'buddy' or painful terminal health conditions. In complying with the request, I deliberately kill an innocent person which is murder but I do not necessarily do a morally wrong action.

My purpose here is not to solve these problems, but indicate that I hold a position on the large ethics question which is not a standard 'off the shelf' character, but an amalgam or eclectic Neo-Aristotelian virtue-ethics' one, open to the possibility of theological addenda, agreeing with some elements of later rule-utilitarian and Ross's deontology, and Rawls' social contract approach, but basically teleological, secular, and socio-political.