

Are Ethics and Virtue Beneficial to Small Businesses: A Three Country Comparison

Samanthala Hettihewa (Federation University Australia),
Lori S. Kopp (University of Lethbridge, Canada), and
Christopher S. Wright (The Institute of International Studies, Australia).

Australian Conference of Economists 2018 Canberra
12 July 2018

Introduction

- ✓ This study examines how the ethics of Australian, Canadian, and Sri Lankan regional small businesses (Regional-SBs) flow into their view of duty to: society, customers, employees and the environment.
- ✓ Previous research mostly focused on large firms and single country or region.
- ✓ This study contributes to ethics/virtues research by applying virtues framework developed by Petersen and Seligman (2004) and Chun (2005) to a Regional-SB setting and by contributing to work in international business ethics (e.g. Donaldson, 1989; Werhane, 2015).

Research questions:

- *Do good ethics/virtues enhance the financial performance and/or increase the longevity/survivorship of Regional-SBs and do these relationships differ between emerging and developing countries?*
- What are the key consequences and drivers of virtues, ethics and social responsibility perceptions in small businesses (e.g. culture, firm attributes, and owner/operator attributes)?

INTRODUCTION (Cont'd)

Why the target countries were selected:

- ✓ **Australia's** well-developed market operates within a relatively-small open economy, and has relatively high level of business standards, practices, and regulations, and well respected ethical norms by legislations.
- ✓ **Canada** also has a well-developed market with a very close proximity to one of the largest market (US) and comprises with high level of business standards, practices, and regulations similar to Australia.
- ✓ **Sri Lanka** is an emerging economy that has witnessed considerable economic progress after the conclusion of the civil war in 2009.

Literature Review

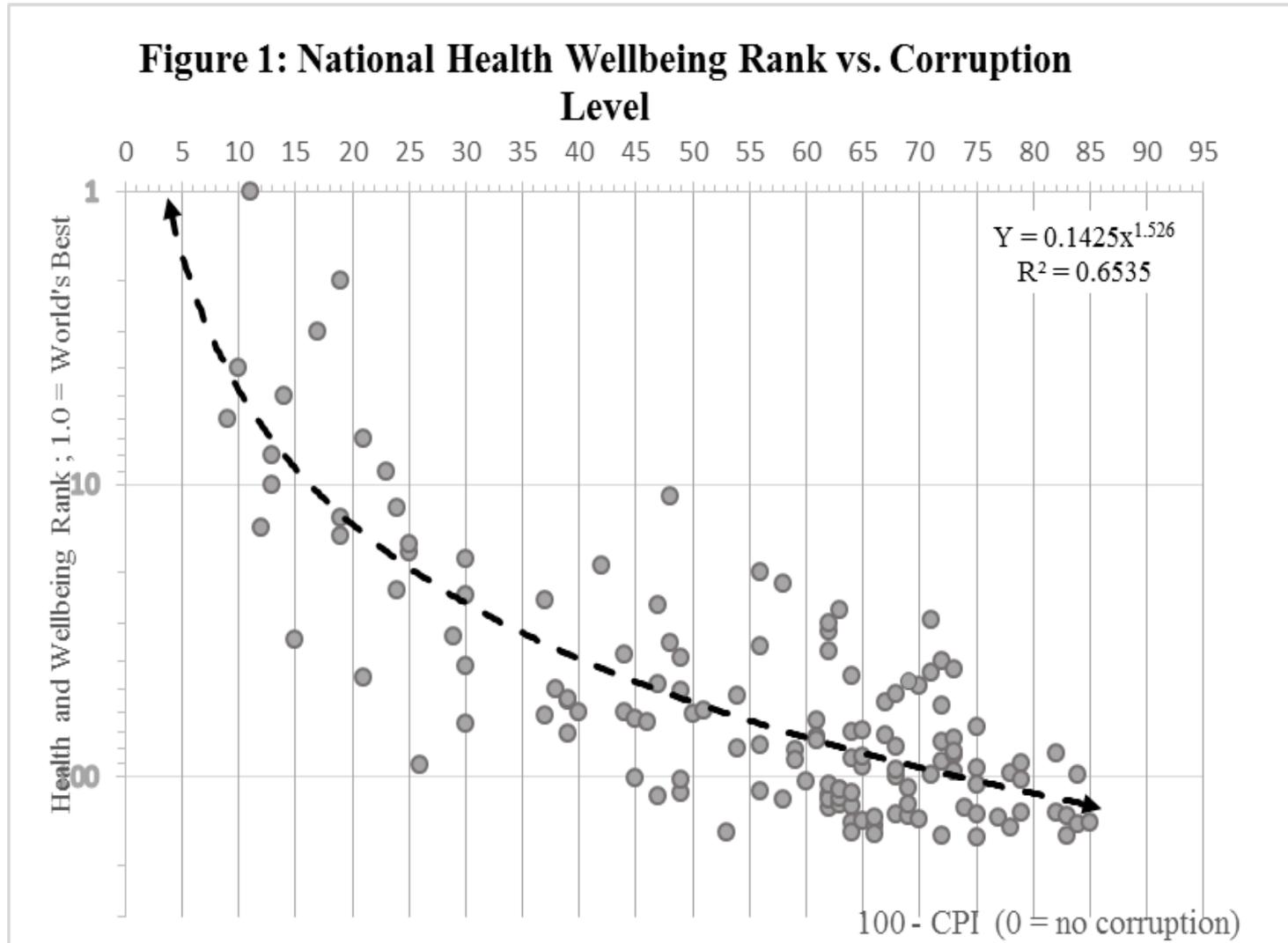
Why SB ethics are important

- ✓ SBs are numerically the vast majority of businesses.
- ✓ While SBs are neither *value-adding* nor *foreign-currency-creation* powerhouses, they are major providers of employment.
- ✓ Regional-SBs provide insight into the ongoing population exodus driven by urbanization.

Why businesses should behave ethically:

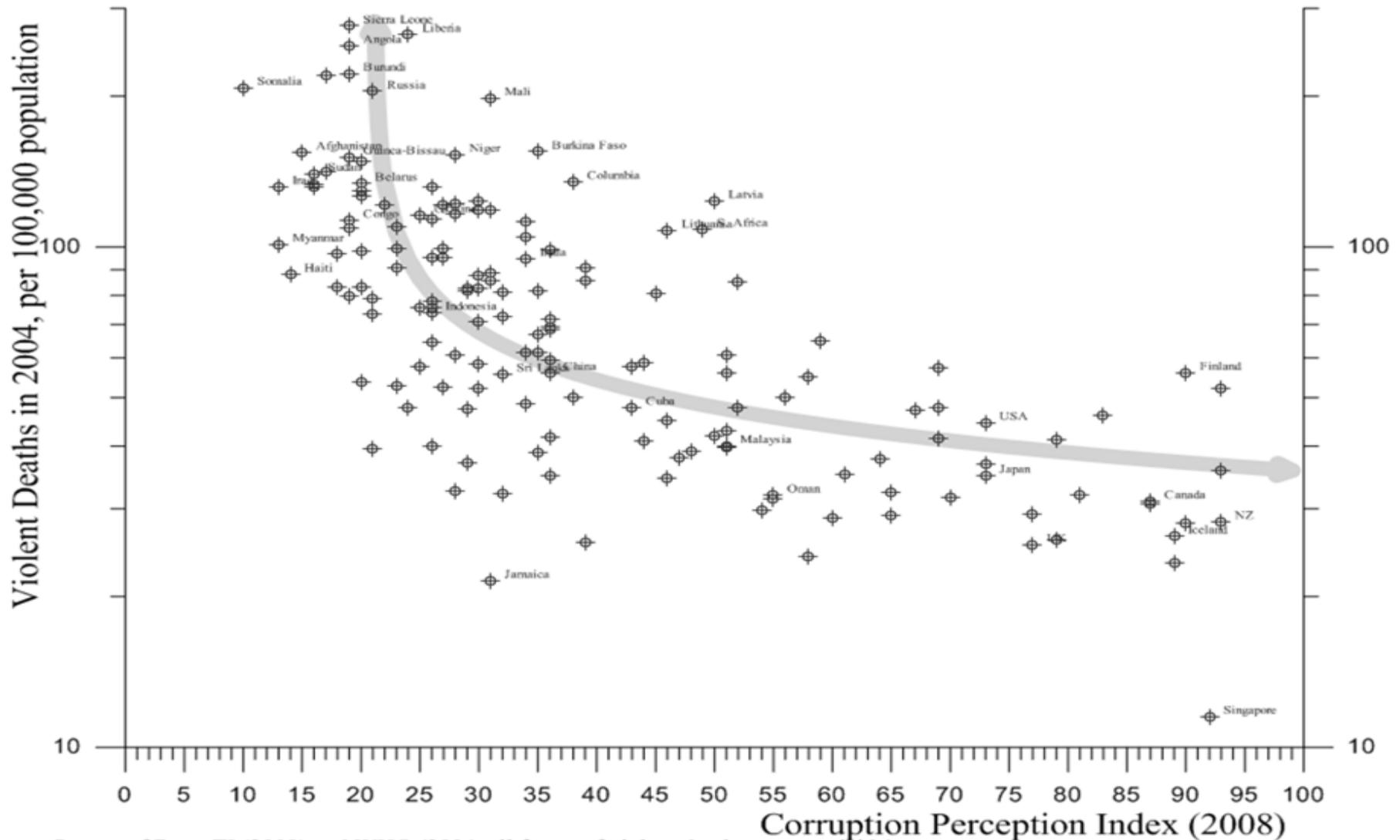
- Socio-economic reason - enlightened self-interest
- *Commons Effect* (see: Hardin, 1968)
- *Small-community Effect*.

Literature Review (Cont.)



Literature Review (Cont.)

Figure 2: Violent-death Rate as a Function of the Corruption Perceptions Index (100 = no corrupt. and 0 = totally corrupt)



Source of Data: TI (2008) and WHO (2004; all forms of violent death, except suicide)

Literature Review (Cont.)

Difficulties of identification Ethics/virtue framework

- ✓ It can be difficult to tie business ethics hypotheses/assertions to extant theory in a way that is consistent, rational, and unbiased.
- ✓ Debate among philosophers and ethicists over issues in ethical theory has been sharply divisive.
- ✓ These are further confused by evolving legal and social debate and differences.

Literature Review (Cont.)

Why is important to define ethics?

- ✓ Biblical, “...Be careful how you think; your life is shaped by your thoughts...” (Good News Translation Bible, Proverbs 4:23, 2001)
- ✓ Cetana and sankhara are, respectively, Buddhist and Hindu terms for the intention/volition driving an action, (New Buddhist, 2013; Tashi Tsering, 2006).
- ✓ Jung (1953) - all humans present persona (masks) in public and group situations so as to hide the actor underneath.
- ✓ A confused question/definition can cause erroneous conclusions (e.g. BART project, California, USA),

Literature Review (Cont.)

- ✓ Chun's (2005) six organisational virtue dimensions are: integrity, empathy, warmth, courage, conscientiousness and zeal.
- ✓ Peterson and Seligman (2004) - list six core virtues.
- ✓ (Payne, Brigham, Moss and Short, 2011), focused on: ethical, fair, honest, socially-responsible and trustworthy
- ✓ Virtue framework consists of the following virtues (strengths): Wisdom (creativity, curiosity, open-mindedness, love of learning, perspective), Courage, (bravery, persistence, integrity, zest), Humanity (love, kindness, social intelligence), Justice (citizenship, fairness, leadership), Temperance (forgiveness, humility, prudence, self-regulation), and Transcendence (appreciation, gratitude, hope, humour, spirituality).

Hypotheses

A) The Veracity

- ❖ A1 H_0 : Regional-SBs with a high revealed ethics have written codes of ethics which are: enforced, periodically reviewed, and have consequences for those who breach them.
- ❖ A2) H_0 : The revealed level of ethics of a Regional-SB are consistent with the stated level of responsibility/ethics.

B) The consequences part of this overarching research question is split into three null hypotheses

- B1) H_0 : Financial concerns expressed on a Regional-SB are not influenced by the ethics attitudes revealed by that firm.
- B2) H_0 : The survivorship of a Regional-SB is not revealed by the ethics attitudes expressed by its owner/operator.
- B3) H_0 : The gender of the owner/operator of a Regional-SB is not revealed by the ethics attitudes expressed by that firm.

C) The drivers of ethics/virtue and social responsibility perceptions

C1) H_0 : The revealed ethics of a SB are not influenced by its location, age, size, or other attributes of it or its owner/operator (e.g. gender, age, education, and experience).

Research Method and Design

A quantitative approach using 447 questionnaire responses:

Respondents:

- 155 (Australia,)
- 159 (Canada), and
- 133 (Sri Lanka), Used structured random samples.

Ethics are difficult to test due to distractions from: Game playing, public mask vs. private face, fear, self-deception, and lies.

Further, impression management can lead individuals to not communicate information accurately (basing answers on what is socially desirable rather than truth).

Research Method and Design

The questionnaire asked respondents to:

1. Rank choices (via a Likert scale) and, in so doing, to reveal their preferences (see Richter, 2008; Samuelson, 1938; Stigler, 1966).
2. Answer interlocked *yes/no* questions that reveal vital inconsistencies in their answers,
3. Respond to applied questions that involve ethical environmental issues and/or ethical responses to environmental problems, and
4. Answer questions about key attributes of the Regional-SB and themselves, so as to allow those attributes to be correlated with their ethics responses.

Research Method and Design (Cont.)

A log-normal distribution - response to civic duties:

$$\tau = (\prod u_i)^{(1/4)} \quad \text{Eqn(1)}$$

Where: τ = level of civic ethics/virtues

Π = Product of a sequence

u_i = responses to questions 1-3 and 11
in part A4, Appendix A

A log-normal distribution for responses to duties to customers.

$$\zeta = (\prod u_j)^{(1/5)} \quad \text{Eqn(2)}$$

ζ = level of duty to customers

u_j = responses to questions 4-6 and 9-10
in part A4, Appendix A

A log-normal distribution response to duties to workers:

$$\omega = (\prod u_k)^{(1/2)} \quad \text{Eqn(3)}$$

Where: ω = level of duty to employees

u_k = responses to questions 7-8 in
part A4, Appendix A

A log-normal distribution response to environmental duties:

$$\psi = (\prod u_m)^{(1/2)} \quad \text{Eqn(4)}$$

Where: ψ = level of environmental duty

u_m = responses to questions 12-13 in
part A4, Appendix A

Research Method and Design (Cont.)

Equation (5) combines the above four values into a total ethics/virtues measure for a responding Regional-SBs

$$\Omega = [(\tau)(\zeta)(\omega)(\psi)]^{(1/4)} \quad \text{Eqn(5)}$$

Where: Ω = level of total ethics/virtues

Equations 6, 6a, & 7 contrast a respondent's stated value of ethics/virtues (i.e. response to a direct question on ethics) with their ethics/virtues preference revealed by indirect questions:

$$A1 = f(\tau, \zeta, \omega, \psi) \quad \text{Eqn(6)}$$

$$A1 = f(\Omega) \quad \text{Eqn(6a)}$$

And with the procedures to establish and enforce ethics in their firm:

$$A1 = f(A2A, A2B, A3) \quad \text{Eqn(7)}$$

Research Method and Design (Cont.)



Where: Variables are defined in Tables 1-4,
FC = Agree (1) or Disagree (2),
 ε = error term

Research Method and Design (Cont.)

Equation 9 is used to measure the effect of ethics/virtues on the survivorship of Regional-SBs. Several variables were added to the equation to highlight the direct effects of ethics/virtues.

$$\begin{aligned} \blacksquare FAge = & \beta_{10} + \beta_{11} Emp + \beta_{110} KapTC + \beta_{112} KapBM + \lambda_{16} \\ & RWExp + \delta_{12} CFR + \delta_{14} SR + \phi_{11} \tau + \phi_{12} \zeta + \phi_{13} \omega + \\ & \phi_{14} \psi + \varepsilon \quad \text{Eqn(9)} \end{aligned}$$

Equation 10 examines the power of firm attributes and ethics to predict the gender of the firm entrepreneur:

The analysis in this section does not impute the arrow of causality, it is about whether or not the firm-structure, education, experience, and ethics choices of a firm's entrepreneur form patterns that can be used to predict their gender.

$$\begin{aligned} RGen = & \beta_{10} + \beta_{11} Emp + \beta_{110} KapTC + \beta_{112} KapBM + \lambda_{13} \\ & RAge + \lambda_{16} RWExp \\ & + \delta_{12} CFR + \delta_{14} SR + \phi_{11} \tau + \phi_{12} \zeta + \phi_{13} \omega + \phi_{14} \\ & \text{Eqn(10)} \end{aligned}$$

Results

The results indicate that.

Regional-SBs in Australia, Canada, and Sri Lanka appear to have a strong and relatively consistent understanding of civic duties (τ) and duties to their customers (ζ), but their understanding of duty to employees (ω) and of environmental duty (ψ) appear to be poor and uneven.

The effect of firm ethics on:

Perceived financial concerns and firm age are isolated from the effects of firm location, size, the national culture, and the gender of the firm proprietor. Most of the independent variables are statistically significant in all three countries, especially in predicting firm age

Perceived financial concern is not statistically significant in Australia but, in Canada and Sri Lanka, it is statistically significant for one or more of our ethics measures.

Results (CONT'D.)

- ✓ Perceived financial concern is not statistically significant in Australia but, in Canada and Sri Lanka, it is statistically significant for one or more of our ethics measures.
- ✓ Specifically, financial concerns are reduced by a stronger duty of care to customers in Canada and a stronger duty of care to society in Sri Lanka; but negatively affected by a stronger duty of care to employees in Sri Lanka and a stronger duty of care to the environment in both Canada and Sri Lanka. This result suggests the presence of a perceived real cost to ethical treatment of employees and the environment.
- ✓ In Canada, the established relatively strong presence of well enforced laws, customs, and institutions protecting the safety and rights of employees likely makes unethical treatment of employees potentially very costly.

Results (Cont'd.)

- ✓ Firm age is statistically significant in all three countries.
- ✓ A stronger duty to society appears to be significantly positively correlated with older firms in Australia and Canada.
- ✓ A strong duty of care to customers appears to be significantly positively correlated with older firms in Canada
- ✓ A strong duty of care to employees appear to be statistically negatively correlated with firm age in Sri Lanka
- ✓ A strong duty of care to the environment appears to be negatively correlated with firm age in Canada.
- ✓ The model seeking to predict the gender of the Regional-SB entrepreneur did not generate any statistically significant results in any of the three countries—suggesting that morals do not vary significantly by gender.

Conclusion and Future Research

- ✓ The effect of ethics/virtue on the long-term well-being of Regional SBs is evaluated in this study by looking at the effect of expressed firm ethics/virtues on the perceived financial concerns and the age of Regional-SBs. Variables are added to separate the ethics effects from the effects of location, firm size, national culture, and the gender of the firm proprietor.
- ✓ While the theory strongly suggests that the effect of a firm's ethics on its long-term wellbeing should be robust and consistent, the developed vs. emerging countries' comparisons in this study suggests a relatively weak effect, that is inconsistent across cultures and varies across nations within the western culture.

Conclusion and Future Research(Cont.)

In both developed and emerging countries:

- *Duty to society* and *duty to customers* tend to have a positive effect on a firm's finance and on its age, but
- *Duty to employees* and *environmental duty* tend to have a negative effect on a firm's finance and on its age,
- In counterpoint, the negative correlation between duty to employees and duty to the environment with firm age may reflect, at least in part, a reverse arrow of causality.
- Younger firms may have younger entrepreneurs whose understanding of their firm's duty to employees and environmental duty differs from that of older more experienced entrepreneurs. Future research should examine how the age of Regional-SB entrepreneurs influences their ethical views and actions.

Conclusion and Future Research(Cont.)

The failure of the model seeking to predict the gender of the Regional-SB entrepreneur to generate statistically significant results in any of the three countries is highly significant. It suggests that the attributes of the Regional-SBs and the non-gender attributes of the entrepreneurs are more influenced by factors other than the entrepreneur's gender.

Given that differences in ethics do not appear to drive the improved durability of Regional-SBs, future research should continue looking for the source of that durability. One possibility is that the entrepreneurs of Regional-SB may have lower opportunity costs than their urban counterparts.

Thank you