

**Ethical Attitudes in Small Businesses and Large Corporations:
Theory and Empirical Findings from a Tracking Study
Spanning Three Decades**

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Abstract

The current paper offers a theoretical framework of ethical behavior and a comparative analysis of ethical perceptions of managers of large, mostly publicly-traded corporations (those with 1,000 or more employees) and the owners and managers of smaller companies (those with fewer than 100 employees) across 17 years. The primary research provides basic data on the changing standards of ethics and as perceived by leaders of large and small businesses, where the cultures frequently fall into sharp contrast.

Our findings reveal the extent to which the message of business integrity is gaining or losing ground within large and small companies. It does this by means of respondents' judgments of acceptable responses to 16 scenarios profiling common business situations with questionable ethical dimensions. Respondents were surveyed by mail and represented each state in the United States. They were also asked questions about themselves and their businesses, as well as the ethical climate within their companies.

Based on responses from over 5,000 managers and employees (from firms of all sizes) to our scenarios at three points in time (1985, 1993, 2001), we found evidence of trends in expected ethical behavior. We test two research questions by creating an Ethics Index. RQ1: For firms of all sizes, have business ethics improved or declined between the

years 1985 and 2001? RQ2: Comparing responses of large and small firm executives across the 1985-2001 time frame, is there a discernible difference in their ethical standards? Our results suggest business leaders are making somewhat more ethical decisions in recent years.

Introduction

In the wake of recent, well-publicized ethical failures, public attention and the concern of leaders in business and government have focused on the moral climate of corporate America. This awareness and concern is raising expectations for ethical behavior, including those codified into law (for example, Sarbanes Oxley legislation), and creating societal pressures for reform. Business leaders need to understand the nature and scope of the problem.

The media's focus on business ethics has related primarily to large, publicly-traded corporations. However, the issue of ethical behavior and indiscretion in business is a concern for all companies, regardless of size. Indeed, the rising importance of entrepreneurial firms to economic growth and development around the world has prompted some to criticize the limited attention small business receives in the ethics literature (for example, Carr 2003; Sorrell 1998; Spence and Rutherford 2003). It is our intent to shed light on ethical realities in firms of all sizes, with a special emphasis on small companies.

After unfolding a framework reflecting common streams of business ethics theory, especially as they apply to firms of different sizes, we establish a baseline for ethical perceptions of American business professionals over a 17-year period. Our findings reveal the extent to

which the issue of business integrity has varied in importance within large and small companies. The results are based on respondents' judgments of acceptable responses to 16 scenarios profiling common business situations with questionable ethical dimensions. Specifically, we track responses to an extensive questionnaire mailed to firms of various sizes at three points in time over an extended period. The study then offers a comparative analysis of ethical perceptions of managers of large, mostly publicly-traded corporations (those with 1,000 or more employees) and the owners and managers of smaller companies (those with fewer than 100 employees) across the same time frame. The research provides basic data on the changing standards of ethics as perceived by leaders of large and small businesses, where the cultures and circumstances may be in sharp contrast. It also provides information concerning pressures to act in ways that may be harmful to the public good.

The current study is unique in several ways. First, the findings are based on one of the largest samples used in any study on business ethics, with over 5,000 respondents included in the analysis. Second, the survey was administered at three points in time (1985, 1993, and 2001), collecting data that spans three decades. This allows us to look for general trends as well as for the impact of events and scandals in specific time periods. Third, the questionnaire has changed little over this time frame and has been handled by the same research team, thus ensuring consistency and comparability of data. Finally, the data are arranged to allow specific tests of differences between large and small firms, which is the focus of the study. These features, among others, set the current study apart from other tests of ethical standards conducted to date.

Ethical Perceptions in Corporate America

Each decade presents its own high-profile scandals. The Watergate break-in and subsequent hearings in the 1970s, followed by insider trading and a rash of corporate raiding in the 1980s; the Lewinski affair and impeachment proceedings in the 1990s; and the meltdown of corporate giants such as Enron, Arthur Anderson, WorldCom, Tyco, and Adelphia (to name only a few) just after the start of the current century. Bruce Nussbaum of *Business Week* described the latest round of corporate debacles as being "...so vast and so penetrating that they profoundly shock our most deeply held beliefs about the honesty and integrity of our corporate culture" (Nussbaum 2002).

The foregoing events have spawned common perceptions of ethical behavior in the U.S. that are strikingly negative. A number of empirical studies support these perceptions. For instance, Vitell, Dickerson, and Festervand (2000) asked 153 business professionals how ethical standards compare with those of the past. They found that 50.3 percent of the respondents said ethics were currently lower than they were 10 years earlier, compared to only 14.3 percent who said they were higher. Even more profound, 65.2 percent said ethical behavior had declined over the past 20 years, versus a mere 12.5 percent who thought ethical standards had risen. These findings provide evidence of perceived degradation in ethical standards over time.

Baumhart (1961) found that most business executives believe they are more ethical than their peers. In a subsequent study, Brenner and Molander (1977) replicated Baumhart's study and concluded that ethical standards had declined during the time that had passed (though they surmised that the decrease may have been an artifact of higher legal standards and increased

government enforcement). Over the 1980s, Zinkhan, Bisesi, and Saxton (1989) studied the responses of 561 MBA students to marketing dilemmas and found erosion in ethical attitudes and responses. For the most part, participants were more willing to use deceptive advertising, be dishonest in marketing research, and employ questionable intelligence gathering methods.

The findings above are certainly consistent with the prevailing perceptions of ethical decline over time. However, other research initiatives seem to lean in the opposite direction. In 1987, Vitell and Festervand (1987) replicated the 1977 study by Bremer and Molander and found that ethical standards seemed to be higher than in the past, exactly the reverse of the previous extension. And they are not alone. The pattern repeats in other replications of similar studies. Though the results have not been completely uniform across all issues and situations, empirical evidence of improvement in ethical standards exists. Clark (1966) used responses to 11 vignettes to assess the “personal ethics” (that is, commitment to honesty and integrity, even if it reduced personal gain) of 103 business executives. Using the same vignettes to permit valid comparisons, Harich and Curren (1995) surveyed 76 executives after a 30-year lag and found statistically significant improvements in ethical commitment.

While the research reviewed above revealed both positive and negative trends, other studies have failed to find significant intertemporal changes. For example, neither Arlow and Ulrich (1988) nor Stevens (1984) found statistically significant differences in responses after substantial time lags.

Taken together, the described studies seem to represent a mixed bag of findings, at best. Given that no definite pattern or cogent theoretical position has emerged, we re-examine the issue of changing ethical standards by drawing on a very large sample of business managers and professionals. We set up our test around the following research question:

RQ1: For firms of all sizes, have business ethics improved or declined between the years 1985 and 2001?

A Framework for Ethical Responses in Large and Small Firms

Factors that influence ethical perceptions and behavior are multidimensional; that is, they are rooted in differences between individuals, variations in their organizational settings, and the interplay between the two. This orientation finds a firm foundation in recent psychological theory, as expressed by Kendrick, Maner, Butner, Li, Becker, and Schaller (2002: 347).

Rather than focusing exclusively on factors inside the person or in the environment, psychology is an increasingly interactionist discipline. Psychologists now envision internal predispositions interacting with environmental inputs to affect ongoing thoughts and feelings in a continual and dynamic manner.

Succinctly stated, ethical behavior does not emerge from the value sets of individuals in isolation from external influences, which is the upshot of established models in the ethics literature.

Trevino's (1986) "person-situation interactionist" model is one form of an ethical decision-making model that incorporates this perspective. She avers that these choices arise from personal variables (for example, cognitive moral development, ego strength, locus of control), situational factors (for example, the organization's normative structure, reward systems, and accountability emphases), and reflexivity between the two. Indeed, this general formulation is found in other frameworks in the ethics literature (Weaver and Agle 2002). Though some suggest organizational influences overpower personal values in ethical decision making (for

example, Jackall 1988), other researchers argue for the critical role of individual factors and their interaction with situational circumstances. We offer below some of the highlights of this research to inform our discussion of the differences between entrepreneurs or small business managers and their large firm counterparts. The major factors described below are presented in Figure 1 and are discussed in the following two sectors.

Insert Figure 1 here

Personal Factors

As reflected in Figure 1, there are a number of personal factors that may have an impact on an entrepreneur's ethical values and behavior. We consider each in turn below.

The Entrepreneurial Act. Entrepreneurs are clearly unique individuals. And at the heart of the entrepreneurial act is the identification of opportunities that have not been tapped, often because of obstacles that stand in the way of their exploitation. However, overcoming these impediments can require the entrepreneur to walk a fine line between creative practice and maintaining the boundaries established by social convention—or even staying within the law. Nonetheless, entrepreneurs are often celebrated because of their creative solutions and “rule bending” efforts, many of which are effective precisely because the entrepreneur is willing to enter regions of opportunity that can be accessed only by passing through behavioral gates that most people would hesitate to open (Morris, Schindehutte, Walton, and Allen 2002).

Bhide and Stevenson (1990) mention the deceptive practices employed by Philippe Kahn, founder of Borland International, a startup launched to develop and market programming

languages and software applications for personal computers. At a critical juncture in its history, the company probably would not have survived if it had not placed a full-page ad in the November 1993 issue of *BYTE* magazine to reach a critical market and drive demand for its product. However, there was no way the company could afford the ad, and the venture was so high-risk that the magazine would not have extended credit terms—that is, if they had known the true condition of the business. Kahn describes, with apparent relish, how he solved the problem.

...before the ad salesman came in—we existed in two small rooms, but I had hired extra people so we would look like a busy, venture-backed company—we prepared a chart with what we pretended was our media plan for the computer magazines. On the chart we had *BYTE* crossed out. When the salesman arrived, we made sure the phones were ringing and the extras were scurrying around. Here was this chart he thought he wasn't supposed to see, so I pushed it out of the way. He said, "Hold on, can we get you in *BYTE*?" I said, "We don't really want to be in your book, it's not the right audience for us." "You've got to try," he pleaded. I said, "Frankly, our media plan is done, and we can't afford it." So he offered good terms, if only we'd let him run it just once. We expected we'd sell maybe \$20,000 worth of software and at least pay for the ad. We sold \$150,000 worth (Bhide and Stevenson 1990).

This story illustrates how the entrepreneurial act, at its core, can sometimes spawn its own ethical dilemmas, and long-time or serial entrepreneurs may find it difficult to separate the entrepreneurial from that which is arguably unethical. These issues are less likely to arise in large corporations.

Cognitive Moral Development. Lawrence Kohlberg's (1969) theory of cognitive moral development (CMD) is often mentioned in discussions of ethical decision making. This theory posits that each person, as a result of life experiences, develops cognitive skills that guide decision making related to moral issues. It follows that individuals make different moral judgments about an issue depending on their level of CMD. Those who are at the preconventional level (stages one and two) make decisions based on concrete personal

consequences (that is, anticipated rewards and punishments). The conventional level (stages three and four) emphasizes conformity mostly to societal expectations. The principled level (stages five and six) is the highest, and at this point the focus shifts to broad ethical principles. In accord with Kohlberg's theory, Trevino and Youngblood (1990) used an in-basket experiment to show that higher CMD participants made more ethical decisions, and research by Stratton, Flynn, and Johnson (1981) found that students who rejected an expense-padding practice used higher levels of CMD to support their decisions.

Expanding the application of this framework, Teal and Carroll (1999) assessed the CMD level of a sample of entrepreneurs and compared their scores to a baseline established by previous research (Rest 1986). They found that 30.77 percent of the owner/managers in their sample had *P*-scores (a common measure of CMD) above 50. Because Rest reports that *P*-scores above 50 are relatively rare, Teal and Carroll concluded from the performance of their sample that entrepreneurs may operate at a higher level of CMD than others and thus are likely to maintain higher ethical standards (Solymossy and Masters 2002).

Locus of Control. Research also has shown that entrepreneurs tend to have a strong internal locus of control (Shaver and Scott 1991); that is, they believe their destiny or experienced outcomes are a function of the effort they expend, rather than the result of life factors that are beyond their power (an external locus of control). This may have ramifications for ethical behavior. According to interactionist logic, the influence of environment can be substantial; however, because entrepreneurs tend to have a stronger internal locus of control, it follows that they are more likely to make decisions based on their personal ethical standards,

rather than rationalizing their behavior by attributing it to external factors (Hegarty and Sims 1978). However, research on the issue is mixed. Zahra (1989) and McCuddy and Peery (1996) found that external locus decision makers are less sensitive to problems with unethical behavior, but Hegarty and Sims (1978, 1979) did not find support for such a linkage with ethical standards. Implications for ethics in small versus large firms thus appear to be equivocal.

Need for Achievement. Entrepreneurs often have a high need for achievement (Begley and Boyd 1987; McClelland 1961; Miller 1983; Solymossy 1998), which may have ramifications for ethical decision making. Need for achievement may negatively impact ethics by the influence it has on business priorities. If entrepreneurs are focused on achievement, then they may be inclined to sacrifice other concerns, including their personal ethics. Offsetting this line of reasoning, research has indicated a positive link between need for achievement and moral development (for example, Glover, Bumpus, Logan, and Ciesla 1997; McClelland 1961), where the latter is associated with higher ethical standards. Thus, the connection between achievement need and ethics is unclear.

Machiavellianism. Another personal factor hypothesized to play a role in ethical perceptions and decision making is machiavellianism, which relates to a willingness to influence others for the sake of personal achievement. Entrepreneurship is often associated with machiavellian tendencies that can lead to the bald exploitation of others and ethical compromise. King and Roberts (1992) caution that entrepreneurs can be master manipulators who are quick to take advantage of others unless they are restrained by adequate accountability. The profile suggests that entrepreneurs are less likely to be guided by high ethical standards than others who

are less imbued with machiavellianistic inclinations (Morris et al. 2002). This is consistent with Longenecker, McKinney, and Moore's (1988) speculation that entrepreneurs are more inclined toward egoism (that is, viewing an act as moral if it promotes the individual's best long-term interests) and are thus less ethical in their behavior.

Social/Reputational Costs. Some researchers focus on the social dimension of small business as a factor that differentiates the ethical practices of entrepreneurs from those of their large firm counterparts. They emphasize that small companies have unique needs and circumstances, and studies show that they are very sensitive to some ethical issues and much less so to others (Longenecker et al. 1989; Vitell et al., 2000). Furthermore, small firms are likely to be owner-managed, which sets up very different dynamics from those found in large corporations, where ownership and management are separated for the sake of gains from specialization. As a result, the ethical values and inclinations of the small business owner have a far more direct effect on the practices of the business as a whole (Spence and Ruthrefoord, 2003).

It is also true that the business relationships and personal networks of small company owner-managers often overlap substantially, which increases the social cost of unethical decisions. Brass, Butterfield, and Skaggs (1998) refer to this as "multiplexity" (that is, the degree to which individuals share more than one relationship, such as those who have business dealings but also are close friends, neighbors, or members of the same church) and describe how this tends to constrain business behavior. If multiplexity is present, then maintaining high ethical standards in the marketplace can reduce the probability of strained relationships in other

contexts, which discourages unscrupulous behavior. In addition, an owner/manager's sense of personal identity tends to be tightly coupled with the enterprise, so reputation is highly prized and carefully guarded. In fact, Mayo (1991) reports that entrepreneurs are often more concerned about the impact of their business conduct on their reputations than on the performance of their ventures. And given the crucial role of trust in building relationships with suppliers, customers, creditors, and others, reputation can be an essential platform for enterprise growth (Aldrich and Fiol 1994). Based on these arguments, it follows that the social dimensions of entrepreneurship play an important role in promoting ethical behavior in small companies.

Situational Factors

As indicated by Trevino's (1986) person-situation interactionist model, there are also situational factors, as well as personal factors (some of which are outlined above), that impact the ethics of organizational decision makers. Some of these relate to the environment of entrepreneurial firms, broadly defined, while others are institutional in orientation or relate to the agency relationships that are established in organizations. We will discuss each of these in turn.

Environmental Factors. Morris et al. (2002) outline a number of "environmental forces" to which entrepreneurial firms are uniquely subject, including cash reserve limitations, dependence on a narrow range of product or service offerings, and limited market presence, which leaves the firm vulnerable to disabling fluctuations in demand, competitive attacks, and supplier or distributor neglect. Added to this list of contextual factors is the liability of smallness and the liability of newness, which recognize, respectively, that entrepreneurial firms often lack scale advantages and are prone to make mistakes as a result of inexperience (Aldrich and Auster

1986; Morris and Zahra 2000). Morris et al. (2002) explain that these factors are relevant to ethics in entrepreneurial firms because

... [they] often result in conditions that encourage or justify ethical compromises. These conditions include time pressures, cash shortfalls, the fact that making compromises can mean the difference between venture survival and failure, the power position of the entrepreneur, the lack of reference points for acceptable and unacceptable behaviors, and the reduced public visibility of the firm. Further, and contrary to arguments made by both ethicists and economists, there may be no payoff for ethical behavior.

Indeed, the circumstances faced by entrepreneurs are often so hostile and challenging that the incentive to compromise ethically may seem impossible to overcome, especially when slack resources are limited and the margin for error is squeezed. And these pressures are only intensified by the fast-paced environment of the Internet age.

Institutional Factors. There is no question that large firms have had more time to develop the institutional infrastructure necessary to guide decision making. In fact, this can work against the organization when it engenders inertia that moves the corporation along a stable vector that precludes adjustment to changing trends and emerging conditions. However, when it comes to ethical standards and actions, at least “institutional scaffolding” can be set up to support and engender responsible decisions.

Ethical decision making enhancement can either be formal or informal in nature. Formal systems often emerge as ethics policies or an established code of ethics to guide and normalize decision making, but research indicates that these are far more prevalent in large corporations than in small businesses. Robertson (1991) found that 60 percent of the large firms in her study had a written code of ethics and 38 percent had ethics training programs. This finding stands in

stark contrast to small firms in her sample, where only 33 percent had a written code and a mere seven percent had organized for ethics training. This difference suggests that decision making in large firms is more likely to be constrained by an established ethics framework, and thus its managers should be more ethical, and consistently so, than those of small companies.

In contrast, informal systems evolve naturally and are not so much a product of deliberate design. As a venture grows and develops, the founder gains managerial experience and additional managers are hired to join the enterprise. Decision making then becomes a group effort, and the focus shifts from a solo entrepreneur to a management team that may be less likely to compromise its ethical standards to create gains that will flow toward someone else (in this case, the founder/owner). Also, with growth comes public accountability, organizational norms, and reward systems, all of which tend to shape decision making to be more consistent and more ethical. Taken together, these factors suggest that established (larger) firms will have a more developed sense of ethical standards, and the formal and informal systems to promote these standards.

Agency Factors. One of the distinctive features of small business is that there usually is no separation between ownership and management. When the firm grows and develops to the point where an agency relationship becomes necessary—that is, the owner(s) decide to delegate decision-making authority to professional management—the dynamics of decision making inevitably shift (Jensen and Meckling 1976). According to agency theory, this new arrangement opens the door to managerial opportunism, which is the risk that managers will make decisions that serve their own interests, often at the sacrifice of those of the owner(s). The misalignment

of incentives (managers working to maximize their compensation and other personal benefits while owners seek greater returns on their investment) can lead to a variety of problems (Jacobides and Croson 2001).

The implications of agency problems for ethical standards in decision making are not readily apparent. On the one hand, the separation of ownership and management (especially if the firm goes public) may encourage the lowering of ethical standards. If a manager's sense of personal identification with the firm is not as great as a founder's, the incentive to compromise for the sake of increased compensation increases. But on the other hand, Morris et al. (2002) point out that as the founder develops as a manager and hires others to join the business, the focus often shifts from self-interest to ethical correctness, which may mitigate against the ethical downside of managerial opportunism. In any case, evidence exists to suggest that agency effects impact ethical perceptions. In a study of the ethical perceptions of respondents from both large and small firms, Longenecker, McKinney, and Moore (1989) found that agent/managers and owner/managers differed in their responses to 12 of the 16 scenarios in the researchers' questionnaire. Specifically, support for differences in ethical sensitivity was split between the two groups—owner/managers indicated higher ethical standards on six scenarios and lower standards on the remainder. As these findings illustrate, the impact of agency effects is not monolithic.

Summary of Ethical Theory

Taken together, the personal and situational factors outlined above present a mixed picture of the influence firm size should have on ethical standards and practice. While features

of the entrepreneurial act itself and the tendency of entrepreneurs to lean toward machiavellianism suggest that small firms' decision making is likely to be *less* ethical, evidence of higher levels of cognitive moral development among entrepreneurs and the reputational and social capital they have at risk in their enterprises should lead them to act *more* ethically. The remaining factors (locus of control and need for achievement) seem to fall somewhere in between. Situational factors (environmental, institutional, and agency) argue more for lower ethical standards in small businesses, but the evidence is still quite equivocal. Overall, we see no overwhelming argument for or against higher ethical standards in small companies vis-à-vis their large firm counterparts, and therefore we intend to test the following research question:

RQ2: Comparing responses of large and small firm executives across the 1985-2001 time frame, is there a discernible difference in their ethical standards?

Methodology for Baseline Studies

Source of Primary Data

Attitudes concerning ethical issues were probed in three nationwide mail surveys of managers and professionals in both large and small firms. The database used for analysis of our two research questions was based on surveys conducted in 1985, 1993, and 2001. In all three surveys, identical methodology was used. Each year a questionnaire was sent to ten thousand individuals identified as business professionals by publishers of major business periodicals. A systematic sampling procedure was used by the mailing list vendor to generate the mailing list, excluding from the sampling frame anyone identified as a student subscriber.

Measurement of Ethics

The six-page questionnaire developed for our ethics research contained sixteen vignettes, each involving a business decision having ethical overtones (see Appendix 1 for a list of the vignettes used in the 1985 survey). The dollar amounts included in Vignette A were adjusted upward in the 1993 and 2001 questionnaire to reflect inflation; otherwise, the wording of all vignettes were identical from survey to survey. Respondents were asked to indicate the degree to which they found each action compatible with their own ethical views. They recorded their opinions by circling a seven-point scale ranging from 1 (never acceptable) to 7 (always acceptable). The midpoint on the scale, 4, was labeled “sometimes acceptable”; points 2, 3, 5, and 6, which were not labeled, represented intermediate positions between those defined.

The vignettes dealt with a wide variety of business situations and were designed to address ethical issues in different functional areas of business. Some are clearly illegal, whether recognized as such by respondents or not, while others involve questionable or debatable ethical characteristics.

The use of scenarios or vignettes, according to Fritzsche and Becker (1982), permits one to inject more background information and detail into an ethically questionable issue. A questionnaire incorporating vignettes into its design, therefore, is thought to elicit a higher quality of data in this type of research than is possible from simple questions (Alexander and Becker 1978). The potential for systematic bias was minimized by having knowledgeable individuals assess the content or face validity of the vignettes prior to their inclusion in the

questionnaire. An overall Ethics Index was computed for each individual by summing their responses to the sixteen vignettes and computing an arithmetic mean.

Additional questions classified respondents according to age, size of firm, employment level, and other customary survey classification variables. Then, all responses were accumulated, edited, and entered into a database,

Analysis and Results

Responses to Surveys

As can be seen in Table 1, the response rates to the three surveys ranged from a high of 22.7 percent in 1985 to a low of 12.3 percent in 2001. We recognize the ever present possibility of non-response bias in databases when response rates are not near 100 percent. Unfortunately, project constraints precluded the additional mailings that researchers sometimes use to build higher overall response rates. We would note, however, that response rates in and of themselves do not indicate whether the respondents are representative of the original sample (Malhotra 1999). Furthermore, all analyses in this paper focus on differences in the sample. While a higher response rate would certainly have been desirable, we were encouraged that respondents came from every state in the United States and represented a wide range of management levels, professions, ages, and business sizes, and that we do have large absolute numbers for all our analyses.

Insert Table 1 here

A brief profile of the three samples is shown in Table 2. Notice that some characteristics, such as gender, were not identified in the 1985 survey. Size of the firm, which is one major focus in this paper, was measured in each survey.

Insert Table 2 here

Analytical Techniques

SPSS was used to analyze the data and to generate frequencies and other descriptive statistics. The ANOVA routine in SPSS for Windows was used to determine statistically significant differences between the Ethics Index measures.

Evaluation of Research Question 1

In an earlier section we discussed the issue of overall change in the attitudes of business regarding ethics. We proposed the following research question:

RQ1: For firms of all sizes, have business ethics improved or declined between the years 1985 and 2001?

Table 3 displays data representing the Ethics Index for all respondents by survey date, regardless of firm size. As you can see, the Ethics Index for 2001 is mathematically lower than the Index for 1993 and the 1993 Index is mathematically lower than the one for 1985. An ANOVA *F*-test reveals that these differences are also significantly different ($p < .001$). Given that a lower Ethics Index value carries the meaning of a more ethical stance, our database shows a trend toward improved ethical standards over the 17 year period examined.

Insert Table 3 here

Evaluation of Research Question 2

Our second interest was whether we might see a difference in ethical changes when we compared large firms to small firms. The research question, stated again, is as follows:

RQ2: Comparing responses of large and small firm executives across the 1985-2001 time frame, is there a discernible difference in their ethical standards?

To address this question we compared the Ethics Index of large firm respondents (1,000 or more employees) with small firm respondents (100 or fewer employees). Table 4 displays the Ethics Index scores for this comparison. Although there are slight mathematical differences in the 1985 and the 2001 surveys, they are far from statistically significant. However, in the 1993 survey the Ethics Index for large firms (2.42) is statistically different from the small firm Ethics Index (2.56), which reveals higher ethical standards among the large firms.

Insert Table 4 here

Discussion and Implications

On the question of whether business ethics have improved or declined over the time frame of the analysis, our results suggest that business owners and managers are making more ethical decisions in recent years, and these improvements are statistically significant. Respondents show increasingly positive selections in their responses to the 16 vignettes across the time frame examined, as reflected in an Ethics Index. This is consistent with what some have written about the flow of American history over the past few decades. In his book, *Faith and Fortune*, Marc Gunter (2004) observes that the impetus of the movement toward higher ethical standards “can be traced back to the politics and culture of the 1960s—the era of civil rights, feminism, environmental activism and doing your own thing” (p.35). As a variation on what we

said earlier, Americans waged war against the military-industrial complex in the 1960s, witnessed the degradation of government during the Watergate era, saw Ivan Boesky go to prison for insider trading in the 1980s, observed the excesses of the Internet craze in the 1990s, and then watched the reputational collapse of respected firms like Enron, Arthur Anderson, and WorldCom just after the current century opened. Compounding over time, these developments have released a rising tide of governmental and societal pressures that now compel corporations to take the ethical high ground or face serious consequences. This timeline certainly parallels the trend reflected in our data, which indicates a gradual shift toward higher ethical standards, just as Gunter and others suggest.

Our second research question asked whether a discernible difference exists in the ethical standards of executives from large firms compared to those of small business owners and managers. The results, in this case, are somewhat more difficult to interpret. When responding to our vignettes in 1993, small business respondents showed a propensity to be *less* ethical, and the difference is statistically significant. However, we found differences between small and large firms to be immaterial and insignificant in 1985 and 2001; indeed, the indices are nearly identical in both cases. While the results for 1993 are somewhat out of step with the broad trend, this inconsistency may be explained by our findings on “pressure” as described in the next section.

The fact that small, often owner-managed firms are very different from large corporations, where ownership and management are separated, does not appear to result in different perceptions about ethical behavior. While the ethical values and inclinations of the

small business owner should have far more direct consequences for the practices of the business as a whole, they do not seem to be fundamentally different from their larger counterparts. Moreover, the findings suggest that the overlap of business relationships and personal networks of small company owners/managers do not lead to material differences in ethical behavior compared to managers in larger firms. In the final analysis, from our mixed results we cannot draw strong conclusions regarding the question of whether owners and managers of smaller firms are more or less ethical than executives in larger companies.

Additional Analysis

We report above the ethical standards of respondents in our study, but the linkage between these perceptions and actual behavior in the marketplace is likely to be moderated by the presence of pressure to act unethically. This pressure may derive from a corporate culture that pushes for profits over principle, a customer who demands some form of unethical “favor” in exchange for his or her business, intense and disproportionate regulatory monitoring, and other factors. To capture this effect, we asked respondents the following question: “How much pressure do you feel personally within your organization to engage in what you perceive to be unethical behavior?” Their responses are reported in Tables 5 and 6 .

Insert Tables 5 and 6 here

Our findings indicate that small business owners/managers tend to face greater pressure to act unethically. This is especially true in earlier years (1985, 1993), though our sample reported markedly elevated pressure in 1993, for firms of all sizes. By 2001, the disparity had diminished; in fact, large firm executives actually felt *slightly* more pressure than small business

owners/managers. However, a greater percentage of small firm respondents faced “extreme pressure” in all three years, which says something about the challenges present in the small firm setting. Longenecker, McKinney, and Moore (1988: 71) offered one possible explanation for this.

Clearly, many entrepreneurs find themselves in situations that pose ethical problems—ethical pressures that push them in directions they do not wish to go. By contrast with the faceless bureaucrats that fill many large organizations, entrepreneurs are highly visible, facing directly the competitive challenges of a business world that is very real and very much a part of their lives.

Regardless of what the root cause(s) may be, it seems likely that the gap between the ethical standards and actual marketplace behaviors of small business owners/managers may be greater, owing to the moderating effects of pressure to act unethically. The fact that the difference with large firms has narrowed more recently (at least when “slight pressure” and “extreme pressure” are combined) may reflect the increasingly competitive environment that is evolving from globalization, the power of new technologies (e.g., the expanded use of the Internet), changing geopolitical conditions, and other trends—factors that impact firms of all sizes.

Study Limitations and Future Research

As with any research, our study has its limitations. For example, we know that the standards of ethical behavior can vary across various contexts—e.g., country setting, regional venue, industry sector, and historical era (Carr, 2003)—but some of these are not represented in our database. The effects of country dynamics can be especially influential (Spence & Rutherford, 2003). For example, in their study of the ethical standards of 708 business people from four countries (Russia, Slovenia, Turkey, and the United States), Hisrich, Bucar, and Oztark (2003) found that Russians are much more open to deception (e.g., guaranteeing

undeliverable shipments) than Americans, a finding that is consistent with differences in the social systems that prevail in each country. Our study included only American respondents, so the issue of country effects did not distort the findings; however, we caution that the downside of this design is that our conclusions may not generalize to other national settings.

Further complicating this stream of research, clear ethical standards are difficult to discern in some cases. To illustrate, Zinkhan, Bisesi, and Saxton (1989) point out that business students and practicing managers seem to be increasingly willing to condone questionable competitive intelligence gathering methods, and written guides on the subject are often ambiguous in the distinctions they draw between what is ethical and unethical. Is air surveillance to monitor a rival's plants and facilities proper? Is the practice of "dumpster diving" appropriate when used to recover sensitive documents that a competitor has discarded? If an employee acts like a prospective customer (though making no such declaration) and calls a competing firm to request pricing information, is this ethical? People can have strong opinions about these matters, and the courts have handed down decisions that help to clarify what should and should not be done, but a great deal of confusion persists, and upright individuals sometimes differ in the positions they take. Of course, issues like tax evasion, embezzlement, and bid rigging are much easier to settle.

We did not look at *interactions* between various ethical dilemmas (vignettes) as these impact ethical perceptions, and we did not factor analyze the data to see whether ethical dimensions exist (cf. Hornsby, Kuratko, Naffzinger, LaFollette, and Hodgetts, 1994). Sorting out factors would help to further establish the stability and usefulness of the instrument and may

reveal relationships that are not apparent in our more sweeping analysis. We also did not control for a number of demographic variables, which research has shown to impact ethical judgments (see Borkowski & Ugras [1998] for a meta-analysis that makes this point) . For example, Lund (2000) found that the age, gender, and educational level of marketing professionals influenced their ethical behavior, to a degree. Specifically, older individuals tended to be more ethical than younger respondents, women were more likely to reject unethical behavior than men, and highly educated professionals were significantly more intolerant of conflict of interest issues. (Other personal factors such as marital status, annual household income, and organizational rank had no significant linkage with ethical behavior.) Though we did not see evidence to suggest these variables had substantive impact in our study, we also did not test or control for their influence.

Finally, the focus of our study is on differences between large firm executives and small business owners/managers, which represent fairly broad categories. We did not attempt to tease apart the sample any further, but it would be interesting to know whether within-group differences exist. For example, would we find significant differences in the ethical standards of owners/managers of gazelles when compared to “lifestyle entrepreneurs”? Would the strength of an entrepreneur’s social capital play a role in his or her marketplace decisions? Does it matter whether the firm is private or publicly held? These questions, and others, will have to await testing in future research.

Despite study limitations, we did uncover results that shed light on prevailing trends in ethical decision making and related differences between large and small firms. It is encouraging to see that ethical standards are rising over time, for firms of all sizes, and it is interesting to note

that small company owners/managers seem to be following the same trend. It is reassuring to know that the spectacular ethical failures of high-profile corporations in recent years may not represent the norm for corporate America. This is, indeed, good news.

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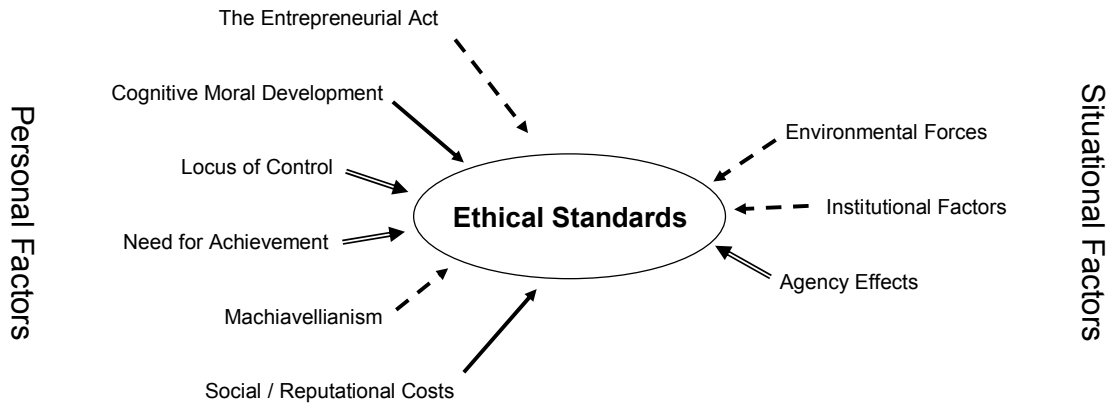
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Figure 1
Personal and Situational Factors Impacting Ethical Standards



Note: Arrows represent the nature of the impact for small firms. A negative linkage (dashed arrows) indicates that the factor has an unfavorable influence on ethics for small firms compared to large firms, while a positive linkage (solid arrows) shows a favorable impact for the same. Inconclusive effects are represented with double-lined arrows.

Table 1
Frequencies and Response Rates to the Three Ethics Surveys

Survey Year	Number of Respondents	Response Rate
2001	1,234	12.3%
1993	1,875	18.8%
1985	2,267	22.7%

Table 2
Sample Profile

Age Group	Percentage of Respondents^a		
	2001(%)	1993(%)	1985(%)
21-30	3.4	10.5	9.5
31-40	14.1	30.1	29.8
41-50	34.6	35.4	29.2
51-60	34.5	18.5	22.8
61-70	13.4	5.5	8.7
Industry			
Manufacturing	13.5	23.3	43.5
Construction	18.1	8.9	6.3
Retail/Wholesale	5.3	5.5	4.6
Services	16.7	15.5	8.7
Finance/Insurance	5.2	8.6	5.2
Government	5.3	6.7	3.4
Transportation/Communication/ Public Utilities	11.7	13.1	11.6
Other	24.2	18.4	16.7
Size of Firm (number of employees)			
Under 20	35.4	24.4	19.4
20-99	18.6	13.3	16.7
100-249	9.1	8.9	10.6
250-999	13.3	12.9	14.1
1,000-10,000	14.3	20.9	21.0
Over 10,000	9.3	17.6	18.2
Current Employment Status			
Top Management	53.3	32.9	27.0
Middle Management	29.4	35.4	24.5
Lower Management	7.0	17.1	*
Non-Management	10.3	14.6	*
Other	-	-	48.6
Gender			
Female	16.4	14.7	*
Male	83.6	85.3	*

^a Percentage were computed based on absolute frequencies in categories shown.

* These variable were not measured in the 1985 survey.

Table 3
Ethics Index for Respondents: 1985, 1993, and 2001 Surveys

Survey Year	Mean Scores ^a	Sample Size(<i>n</i>)
2001	2.40	1,227
1993	2.49	1,870
1985	2.69	2,267

^a The mean is computed as the summed average of responses to 16 vignettes on an interval scale.

Table 4
Comparison of Ethics Index for Respondents Associated with Large or Small Firms: 1985, 1993, and 2001 Surveys

Survey Year	Ethics Index Scores		Sample Size (<i>n</i>)	
	Large Firm Respondents (1,000 or > employees)	Small Firm Respondents (100 or less employees)	Large	Small
2001	2.36	2.42	342	634
1993*	2.42	2.56	784	711
1985	2.67	2.68	960	763

* $p < .001$ for test of difference in the two means

Table 5
Respondents from Firms with 1,000 or More Employees:
Pressure to Engage In Unethical Behavior

Percentage Responding			
Survey Year	No Pressure	Slight Pressure	Extreme Pressure
2001	71.2	26.3	2.6
1993	70.5	25.6	3.9
1985	78.9	18.7	2.4

n=1764

Chi-square significance (.002)

Table 6
Respondents from Firms with 100 or Fewer Employees:
Pressure to Engage In Unethical Behavior

Percentage Responding			
Survey Year	No Pressure	Slight Pressure	Extreme Pressure
2001	73.0	23.1	3.9
1993	67.2	28.1	4.8
1985	71.0	23.4	5.6

n=2052

Chi-square significance (.092)

Appendix 1

Ethical Vignettes Used in Survey

- A. An executive earning \$50,000 a year padded his expense account by about \$1,500 a year.
- B. In order to increase profits, a general manager used a production process which exceeded legal limits for environmental pollution.
- C. Because of pressure from his brokerage firm, a stockbroker recommended a type of bond which he did not consider a good investment.
- D. A small business received one-fourth of its gross revenue in the form of cash. The owner reported only one-half of the cash receipts for income tax purposes.
- E. A company paid a \$350,000 “consulting” fee to an official of a foreign country. In return, the official promised assistance in obtaining a contract which should produce \$10 million profit for the contracting company.
- F. A company president found that a competitor had made an important scientific discovery, which would sharply reduce the profits of his own company. He then hired a key employee of the competitor in an attempt to learn the details of the discovery.
- G. A highway building contractor deplored the chaotic bidding situation and cutthroat competition. He, therefore, reached an understanding with other major contractors to permit bidding which would provide a reasonable profit.
- H. A company president recognized that sending expensive Christmas gifts to purchasing agents might compromise their positions. However, he continued the policy since it was common practice and changing it might result in loss of business.
- I. A corporate director learned that his company intended to announce a stock split and increase its dividend. On the basis of this information, he bought additional shares and sold them at a gain following the announcement.
- J. A corporate executive promoted a loyal friend and competent manager to the position of divisional vice president in preference to a better qualified manager with whom he had no close ties.
- K. An engineer discovered what he perceived to be a product design flaw which constituted a safety hazard. His company declined to correct the flaw. The engineer decided to keep quiet, rather than taking his complaint outside the company.
- L. A controller selected a legal method of financial reporting which concealed some embarrassing financial facts, which would otherwise become public knowledge.

- M. An employer received applications for a supervisor's position from two equally qualified applicants but hired the male applicant because he thought that some employees might resent being supervised by a female.
 - N. As part of the marketing strategy for a product, the producer changed its color and marketed it as "new and improved," even though its other characteristics were unchanged.
 - O. A cigarette manufacturer launched a publicity campaign challenging new evidence from the Surgeon General's office that cigarette smoking is harmful to the smoker's health.
 - P. An owner of a small firm obtained a free copy of a copyrighted computer software program from a business friend rather than spending \$500 to obtain his own program from the software dealer.
-