Ethical Practices towards Employees in Small Enterprises: A Quantitative Index

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ABSTRACT
With the expanding role of small and medium businesses in the globalised era, an ethical approach towards business is becoming an imperative for them. The unique opportunities and challenges which these SMEs encounter often induce them to diverge from ethical practices when interacting with their stakeholders, especially the employees. This research utilises the stakeholder theory as a conceptual basis to scrutinise the extent to which SMEs attach significance to ethical practices towards their employees. An ethical index has been constructed to identify the extent of ethical behaviour in the firms’ interactions with their employees. This index was tested with the use of empirical data, collected from small firms in West Bengal, India. This study attempted to identify the qualitative and quantitative parameters, which significantly explain the small firms’ commitment to ethical practices towards employees.

Key Words: Small firms, ethical index, employees, qualitative and quantitative parameters.

1. INTRODUCTION
Today's business environment is characterized by increased scrutiny regarding ethical practices. The infamous collapses of large corporations like ENRON, Tyco, World com have compelled enterprises worldwide, to reckon with the ethical dimension of business on a much more stringent basis. Irrespective of their size, business enterprises can no longer afford to ignore business ethics. It is noteworthy that the small and medium sized businesses which have been playing a dominant role in the business domain since the last few decades, have remained outside the floodlights of review as regards the issues of business ethics and corporate social responsibility (Quinn, 1997; Spence, 1999; Werner and Spence, 2004; Brio and Junquera 2003). Ethical studies on business are gradually broadening their scope to extend beyond large enterprises, to encompass the small entrepreneurs. The real challenge for many
smaller enterprises in the new millennium is to navigate their businesses within the complexities of an increasingly globalised marketplace in an ethical manner so as to ensure their sustainable existence. In order to establish one’s competitive advantage in the global arena, it is becoming imperative for these small businesses to imbibe ethical practices in their work processes and accept responsibility for their impact on their various stakeholders especially the employees.

Ethics in small firms is an important area of study because of the small firms’ incredible contribution to a nation’s economy. Their inherent capacity of employment generation per unit of capital invested, ability to nurture the spirit of technological innovation and their locational flexibilities truly give them the status of ‘engines of economic growth’. Employees are the internal stakeholders of these firms and ethical practices towards them are of primary concern if the long term sustainability is to be aimed at. It is an universal truth that a satisfied and motivated work force is the primary step towards long term success in business. It is our contention that ethical practices towards the employees can warrant job satisfaction and enhanced motivation levels which will eventually lead to better profitability.

However, since a large number of small firms are global start-ups, the real challenge arises because their actions towards employees are scrutinized in the same light as that of the large. The researchers often overlook the fact that the small has nuances and constraints that cannot be addressed in the same way through legislation as in case of large. The small firms therefore call for a separate field of study as far as their interactions with employees are concerned. This paper therefore argues that a unique ethical framework for small business, separate from the large organization, be adopted.

2. SURVEY OF LITERATURE

Scholars such as Payne and Duhon (1990), Carr (2003), Sorrell (1998) and Spence and Rutherford (2003) criticize the limited attention that the ethical challenges of small business entrepreneurs receive in the ethics literature. It has also been argued that there is a genuine need not to utilize ethics towards employees in large multi-national firms as a benchmark for the small businesses (Spence and Rutherford, 2003) since business ethics as practiced in larger organizations have limited applicability in small firms (Spence, 1999). In this hyper-competitive world, with increasing vulnerability to pressures of global competition and probability of high mortality, Enderle (2004) examines the appropriateness regarding the importance of ethical conduct.

In recent years scholars have utilized the stakeholder theory as a basis for measuring the ethical dimension of businesses. Freeman (1984) introduced the concept of stakeholder management in the strategic management literature. Making a normative prescription, Clarkson (1995) had noted that a
corporation’s survival and continuing success depends upon the ability of its management to create
sufficient wealth, value, or satisfaction for all primary stakeholder groups. Castka et al. (2003) categorised
these stakeholders according to the internal and external dimension of business. The employees who are
internal stakeholders constitute a very important stakeholder category. Thompson and Smith (1991) and
Jenkins (2004) discuss the importance of employee issues as one of the key areas of ethical involvement
of small businesses. Employment issues include providing for health and safety at work (Longo et al.,
2005), facilitating employee motivation (Castka et al., 2003), providing for employee development (Besser
and Miller, 2001; Enderle, 2004). The employer’s responsibilities to employees include payment of fair
wages and avoidance of discrimination on the basis of criteria such as gender, race, colour, religion,
national origin or disability. Sexual harassment in the workplace and whistle blowing are also additional
employee-related issues which call for ethical action by employers (Weiss 2003).

Academicians however have given limited focus to how small and medium enterprises can adopt
responsible behaviour for ensuring overall stakeholder welfare, especially that of employees. Maignan,
Ferrell, and Ferrell (2005), claim that stakeholders’ needs are interlinked, and thus emphasizes on the
need for SMEs to develop different strategies towards each group of stakeholders.

Literature review has revealed that scholars have been formulating and utilising scales for measuring the
extent of ethical compliance and conduct. Singhapakdi, Vitell, Rallapalli and Kraft, (1996) developed an
instrument for the measurement of the perceived role of ethics and social responsibility (PRESOR) in
achieving organizational effectiveness. Other researchers (Vitell and Ho,1997; Khatib, Vitell, and
Rawwas,1997) have designed scales for measuring the effectiveness of the decision making process in
ethical situations. Yet there was not much evidence of the usage of such ethical scales in small firms.

Survey of literature has thus confirmed that there are very limited numbers of studies which have
focussed on constructing scales for measuring the level of ethical conduct by small business
owner/managers towards their employees. This has helped us to identify a lacuna in the arena of small
business ethics and has prompted us to examine this issue in detail. The focus of this study dwells on the
nature of a small firm’s interactions with its organisational stakeholders, i.e the employees.

3. RESEARCH ISSUE

The objective of this paper is to explore the employee centric ethical issues from the perspective of the
small businesses. The basic premise, which is open for scrutiny and discussion in this research, is the
extent to which small businesses attach significance to ethical practices directed towards their
employees, as measured via an ethical index. It has been argued that study of organizations from a long
term perspective, necessitates examination of how firms undertake ethical/unethical strategies to deal with their work force.

Ethical hiring practices, the existence and implementation of a rational performance appraisal system, a formal procedure for employee replacement, a proactive approach towards handling employee grievances, workplace safety and voluntary investments for employee welfare are all instrumental towards creating an ethical work climate. Encouraging of employee participation in decision, attending to the training and development needs of employees without discrimination and presence of a formal code of ethics in the firm are also issues which indicate ethical HR practices. In this research these are the issues that have been examined under the ethical lens. We have examined the extent to which the variance in the ethical perception of the entrepreneur towards employees is explained by the nature of the firm’s profile variables. The aim of the study is to identify a set of parameters which can influence the ethical profile of the small firm towards its employees.

4. RESEARCH METHODOLOGY: CONSTRUCTING THE INDEX

This study has focused on the employees, one of the primary stakeholder groups of small units. Since ethical practices is a sensitive issue and a direct and honest response is unlikely, indirect ways of soliciting real views of the entrepreneurs have been adopted in this survey. Perceptions of the entrepreneurs about ethical issues concerning the employees have been solicited, utilising a 1-5 Likert-type scale. The entrepreneur’s ethical orientation for employees consists of 11 Likert type statements. A typical statement of this index rates responses on a 1-5 (1=very insignificant; 5= very insignificant) scale whether the business assigns importance towards maintaining safety in the workplace.

The ethical score of a respondent firm reflecting perception about 11 employee-related issues, addressed in the questionnaire is calculated on the Ethical Index (Employees) as given below:

\[
EI_j = \frac{\sum_{i=1}^{n_1} E_i}{n_1}
\]

where \(E_i\) denotes the response of the \(j^{th}\) respondent on the Likert type scale to the \(i^{th}\) statement dealing with employees and \(n_1\) equals 11 employee related issues.

This ethical index has been used to measure the ethical behaviour of 200 small firms in West Bengal, India. The ethical score on the index indicates the extent to which the entrepreneur assigns significance towards maintaining ethical practices, when interacting with the employees. The score on the index
indicates the ethical approach at the firm level. This exercise has enabled us to identify the firms which demonstrate higher levels of ethical orientation towards employees in general. In addition, the mean score and standard deviation of the responses of all the sampled units for the ethical index has been calculated. This mean score is indicative of the entire sample’s ethical perception as far as dealings with employees are concerned.

The sample of small firms, whose ethical behavior has been tested using the index designed for this study, has been selected from a population of small businesses (which have filed Entrepreneurship Memorandum II with District Industries Centre as per the MSMED Act, 2006 during 2006-07) in the urban and suburban areas of three districts in West Bengal, India. The choice of the region is justified by the highest concentration of small and micro enterprises in proportion to their population in the state. The total population for the study comprises of 2900 small and micro enterprises in these three districts. A sample consisting of 200 small businesses has been selected from this population using the stratified random sampling technique. The strata consist of the two business activities, namely manufacturing and service. The sample size was chosen keeping in mind the limitation of resources. Out of 200 selected units, complete data from 183 of the responses were cleaned and used for analysis.

The Cronbach’s standardized alpha score for the ethical index indicates its degree of reliability. The alpha score is 0.9256. This high alpha score reflects very high reliability for the ethical index.

5. TESTING THE INDEX: DATA ANALYSIS AND INFERENCE

5.1 Profile of the Sampled Units

A sample of small firms which were evaluated from the perspective of their ethical behavior with the help of indices discussed in Section 4, have been described in this section. In the sample, sole proprietorship and partnership concerns are the prominent forms of ownership, comprising 73 per cent of the 183 firms surveyed, while only 27 per cent firms are incorporated as private limited companies (Refer to Fig.1). The firms are concentrated in the manufacturing segment i.e 82 per cent of the firms in the sample are engaged in manufacturing activity (Refer to Fig.2). Figure 3 shows that the sample is skewed towards units with a turnover of less than Rs. 5 million (i.e 64 percent). It is also observed that, of the firms with revenue less than equal to Rs. 0.1 million, 95 percent are proprietorship firms, reflecting their limited investment capacity. 54 percent of the total 183 firms have reported investments below Rs. 1million (Refer to Fig.4) and 82 percent of the sole proprietorship concerns fall in this bracket. This corroborates their smaller revenues. In the sample, 137 out of the 183 firms surveyed (approx. 75 per cent), have less
than 20 employees (Refer to Fig.5). Amongst the proprietary concerns, low employee strength is more pronounced since 97 out of 103 (94 per cent) of them employ less than 20 persons. In contrast, amongst the small corporations, 20 of 50 firms (40 per cent) have more than 50 employees. It is the larger scale of operations in limited corporations as contrasted against proprietary and partnership firms that account for more number of employees in the small corporations. Thus the sample can be said to have a concentration of proprietorship firms with low capital investment and low level of employment earning lower revenues, a typical representative prototype of small units in India.

![Form of Ownership](image1)

![Nature of Activity](image2)

![Revenue for 2007-08 in Rs. million](image3)

![Investment in Rs. million](image4)
5.2 Score on the Ethical Index

After canvassing the questionnaire amongst the 183 sampled firms and collecting their responses it is found that the mean scores on the ethical index for employees is 2.32 with a coefficient of variation of 21.29 percent. This mean score of the ethical index for employees is generated by averaging individual ethical scores for employees across all 183 responses. It indicates the perception of the sample about ethics towards employees. Considering the value of 3 on the Likert type scale to denote a neutral stand the mean score of 2.32 indicates that, on an average, the surveyed firms do not attach importance towards paying attention to ethical practices concerning hiring, replacement, training, etc. of employees. From this we can infer that the small businesses in the sample are more prone towards non-conformance of ethical standards in their interactions with this primary stakeholder group. The coefficient of variation indicates the uniformity amongst the sampled units, as far as ethical attitude towards employees are concerned. This reveals that this stakeholder is prone to unethical behaviour in the small business sector. An organized and merit based hiring and retaining practice is unheard of and “hire and fire” seems to be the most common phenomenon.

5.3 Variation in Ethical Conduct of Small Firms towards Employees- The Causal Factors

We proceed to analyse the causal factors that may explain the variation in their ethical behaviour towards employees. An econometric model, is run, in which the level of ethical score on the ethical index for employees is taken as the explained variable; the explanatory variables being such factors as the form of ownership, nature of activity, location of the unit, educational profile of the entrepreneur, gender of the entrepreneur, current volume of investment per employee, number of employees, firm age, level of capacity utilisation, market characteristics and ISO certification. In other words, the model considers the ethical issues relating to the employees of a typical small firm and investigates the profile variables, which
might influence this ethical orientation. The question that this model tries to answer is, which type of small business is more inclined towards a low or moderate or high ethical stance towards employees. Thus, the model attempts to indicate the characteristics of small firms that would lead to a better ethical work climate in the small sector. It was expected that the outcome of the empirical research based on this model, would highlight the important socioeconomic and business-environment related factors that might contribute to the small firm in its journey towards achieving excellence through responsible business practices when transacting with employees. The score of the firm on the ethical index \((E_{ij})\) is the explained quantitative variable, whereas the explanatory variables are both qualitative and quantitative in nature. The qualitative variables have been appropriately converted into dummy variables.

The multiple regression analysis utilising the above mentioned variables, was conducted using the SPSS 11.0 package by opting for the ‘Step-wise’ criterion to enter the variables into the regression equation. The advantage of this method is that the problem of multicollinearity is reduced. The overview of the step-wise process indicates that ten (both quantitative and dummy) out of the eleven variables are the predictors included in the final model. Market characteristic of the firm is the variable which has been dropped from the Model. This seems logical as it is a variable which is not germane to employee ethics. From the model summary of the results given in Table 1, it is seen that the value of \(R\) in the final model is 0.852. This denotes the high correlation between the observed comprehensive ethical score and the values of ethics score predicted by the model. Value of \(R^2\) is 0.726. Thus one may suggest that the predictor variables of this model explain approximately 73 percent of the variation in the ethical behaviour of the firm towards employees, which in this case is the dependent variable. The Adjusted \(R^2\) is 0.710 which reflects that the model fits the population well.

The Anova table in the SPSS output displays the significance of the overall regression, conducted by using an F statistic. For the final model, the F value is large (45.631), confirming that the independent variables help to explain the variation in the dependent variable. The F statistic is highly significant at .001 level, indicating that the simultaneous test that each of the beta coefficients is zero, is rejected.

The significance of each of the predictor variables is displayed in Table 2. It depicts that the data set found all the profile variables except the variable of market characteristics to be significant. This implies that the independent variables considered in this regression model, have a significant bearing on the ethical perception of the small firm owners. Nature of activity, percentage of capacity utilization and employee strength reported a \(p\) value of .000. Form of ownership, location of the business, firm age, size of investment and gender of the entrepreneur were significant at .01 level. Finally, the remaining variables like ISO Certification and level of education had a significance level of .05.
Table 1: Summary Table on the Robustness of Model I

<table>
<thead>
<tr>
<th>Model</th>
<th>R</th>
<th>R Square</th>
<th>Adjusted R Square</th>
<th>Std. Error of the Estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>.639</td>
<td>.408</td>
<td>.405</td>
<td>.65381</td>
</tr>
<tr>
<td>2</td>
<td>.732</td>
<td>.535</td>
<td>.530</td>
<td>.58102</td>
</tr>
<tr>
<td>3</td>
<td>.774</td>
<td>.599</td>
<td>.592</td>
<td>.54108</td>
</tr>
<tr>
<td>4</td>
<td>.806</td>
<td>.649</td>
<td>.641</td>
<td>.50783</td>
</tr>
<tr>
<td>5</td>
<td>.818</td>
<td>.669</td>
<td>.660</td>
<td>.49446</td>
</tr>
<tr>
<td>6</td>
<td>.826</td>
<td>.682</td>
<td>.671</td>
<td>.48615</td>
</tr>
<tr>
<td>7</td>
<td>.834</td>
<td>.696</td>
<td>.684</td>
<td>.47639</td>
</tr>
<tr>
<td>8</td>
<td>.841</td>
<td>.708</td>
<td>.694</td>
<td>.46877</td>
</tr>
<tr>
<td>9</td>
<td>.848</td>
<td>.718</td>
<td>.704</td>
<td>.46143</td>
</tr>
<tr>
<td>10</td>
<td>.852</td>
<td>.726</td>
<td>.710</td>
<td>.45615</td>
</tr>
</tbody>
</table>

a. Predictors: (Constant), Form
b. Predictors: (Constant), Form, Location
c. Predictors: (Constant), Form, Location, Employees
d. Predictors: (Constant), Form, Location, Employees, Capacity
e. Predictors: (Constant), Form, Location, Employees, Capacity, Age
f. Predictors: (Constant), Form, Location, Employees, Capacity, Age, Activity
g. Predictors: (Constant), Form, Location, Employees, Capacity, Age, Activity, Investment
h. Predictors: (Constant), Form, Location, Employees, Capacity, Age, Activity, Investment, Gender
i. Predictors: (Constant), Form, Location, Employees, Capacity, Age, Activity, Investment, Gender, Education
j. Predictors: (Constant), Form, Location, Employees, Capacity, Age, Activity, Investment, Gender, Education, ISO

Table 2: Summary Table on Significance of the Partial Regression Coefficients of Model IIA

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients B</th>
<th>Std. Error</th>
<th>Standardized Coefficients Beta</th>
<th>t</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>10</td>
<td>(Constant)</td>
<td>1.024</td>
<td>.158</td>
<td>6.462</td>
<td>.000</td>
</tr>
<tr>
<td></td>
<td>Form</td>
<td>.372</td>
<td>.105</td>
<td>.196</td>
<td>.359</td>
</tr>
<tr>
<td></td>
<td>Location</td>
<td>.314</td>
<td>.097</td>
<td>.186</td>
<td>3.221 .002</td>
</tr>
<tr>
<td></td>
<td>Employees</td>
<td>4.124E-03</td>
<td>.001</td>
<td>.287</td>
<td>5.933 .000</td>
</tr>
<tr>
<td></td>
<td>Capacity</td>
<td>9.232E-03</td>
<td>.002</td>
<td>.215</td>
<td>5.141 .000</td>
</tr>
<tr>
<td></td>
<td>Age</td>
<td>1.542E-02</td>
<td>.005</td>
<td>.133</td>
<td>2.910 .004</td>
</tr>
<tr>
<td></td>
<td>Activity</td>
<td>.332</td>
<td>.093</td>
<td>.151</td>
<td>3.583 .000</td>
</tr>
<tr>
<td></td>
<td>Investment</td>
<td>2.518E-07</td>
<td>.000</td>
<td>.126</td>
<td>2.753 .007</td>
</tr>
<tr>
<td></td>
<td>Gender</td>
<td>-.278</td>
<td>.094</td>
<td>-.122</td>
<td>-2.968 .003</td>
</tr>
<tr>
<td></td>
<td>Education</td>
<td>.222</td>
<td>.093</td>
<td>.131</td>
<td>2.384 .018</td>
</tr>
<tr>
<td></td>
<td>ISO</td>
<td>.235</td>
<td>.105</td>
<td>.113</td>
<td>2.241 .026</td>
</tr>
</tbody>
</table>

a. Dependent Variable: ETHICS SCORE (EMPLOYEES)

We now discuss the estimated partial regression coefficients of the model. The results indicate that the b value corresponding to the variable, level of investment per employee (given in Rupees) is positive in sign. This implies that an increase in the organisation size, denoted by the level of investment per employee, shall have a positive impact on the ethical score the firm. It is rationally assumed that
organisational size influences failure rates. Comparatively larger businesses are expected to be less vulnerable to the risk of failure (Hannan and Freeman, 1984). The propensity of smaller firms to fail is more, as a result of the liabilities of smallness, which include problems of raising capital, recruiting and training a workforce, meeting higher interest payments, and handling the administrative costs of compliance with government regulations (Aldrich and Auster, 1986). These problems can have an adverse effect on the ethical practices of small-sized firms. In this study we conclude that as the firm grows in size and increases its stake by investing more funds in plant and machinery and other capital resources, it is expected to be more vigilant towards conforming to ethical norms concerning employees.

The positive coefficient of firm age (denoted by the number of years of operation, since inception of the business) as given in Table 2, signals that ethical behaviour towards employees become more pronounced with increase in the age of the business. Literature gives ample evidence of the inability of the newer firms to tackle the difficulties posed by their operating environment (Baum and Amburgey, 2002). According to the ‘liability of newness’ view of Stinchcombe (1965), young organizations have higher propensity of failure rates. New organizations are more vulnerable because they have to learn new roles and create organizational processes and routines at a time when their organizational resources are stretched to the limit. The years of experience in providing particular products or services confer legitimacy on older organizations, which the newer firms lack. In our model the burden of evidence is in favor of the argument that, maturity of the firm has a positive impact on the ethical score of a firm. Moreover, older organizations demonstrate more reliability and accountability since these attributes are expected to increase as organizations age (Baum and Shipilov, 2004). Through the years, the small organizations realize the importance of instituting an ethical system, which gets reinforced with every passing year and adds credit to the firm’s reputation.

This trend of a positive significant effect of the quantitative variables on the ethical behaviour of the small firm is also evident in the case of number of employees and percentage of capacity utilised. The results confirm our notion that firm growth, as reflected by the growing number of employees, induce small business owner/managers to become more conscious of employee rights. Moreover, the laws of the country stipulating protection of employee interests bind the firms legally and may be a reason for their more ethical consciousness. Capacity utilization, which can be deemed as a proxy measure of economic

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1 The Indian Factories Act 1948 is applicable to all factories using power and employing 10 or more workers, and if not using power, employing 20 or more workers on any day of the preceding 12 months. This Act regulates working condition in such factories and ensures that basic minimum requirements for promoting safety, health and welfare of all workers is maintained. As a result, the 137 units in the sample (employing less than 20) do not fall under the mandatory regulations laid down by the said Act. The workers are therefore often subject to exploitative HR practices which is revealed in a micro manner in such studies.
efficiency, induces firms to be more ethical. Determination of capacity and its utilization is a measure of productive efficiency for each plant. Barnes (2008) discusses that high rate of capacity utilization helps firms to achieve economies of scale. Higher levels of installed capacity utilization, enable firms to lower their per unit fixed overhead costs and thus enhance their profit margins in comparison to others, who report larger unutilized installed capacity. It can be inferred that higher capacity utilization would have a positive impact on the employees’ satisfaction (Amin and Banerjee, 2006). A saving in costs may be directed towards employee welfare schemes, provided that is within the purview of the priority agenda of the business.

We now consider the impact of the qualitative variables on the ethical score of small firms. There are 7 qualitative variables from which 7 indicator variables have been generated. We find that 6 indicator variables have been retained in the final model (Table 2).

With respect to form of ownership, the value of the partial regression coefficient, b, validates that the small firms with corporate form of ownership tend to be more sensitive towards ethical practices, in comparison to sole proprietary and partnership firms (the referral category). We argue that the ethical climate is superior in private limited companies as compared to the sole proprietary or partnership firms because the private limited companies maintain a structured organisational form, which is better suited for pursuing ethical efficiency. Their functionally differentiated form of management is the probable reason. Also applicable is the agency theory, whereby managers are custodians of shareholder wealth and hence more prudent in terms of ethical practices. Moreover, the stringent regulatory framework applicable for these private limited units in India is conducive for more ethical behavior towards employees.

It is noted that the variable, nature of activity, also has a positive relationship with the score on the ethical index for employees EIj as shown by the value in the b column. The results indicate that units in the service sector, engaged in activities like software development, consultancy, testing, cleaning etc., report higher ethical scores in comparison to the units engaged in manufacturing activities, which is deemed as the reference category. The prevalence of better skilled personnel, with higher levels of education, in these service-oriented small businesses, probably causes these firms to be more conscious of ethical norms, in comparison to the manufacturing units. Here again it must be comprehended that, a considerable section of the 33 service sector firms in the sample, operate in software development and consultancy, with national and international linkages, which probably prompt them to demonstrate higher ethical standards. This may be because the international clients of these firms require them to be ethically compliant as a pre-requisite for business linkages.
Taking into consideration the locational issue of the firms included in this model, the results show that the b coefficient of the urban businesses is 0.314. This indicates that the possibility of being more ethical towards employees increases, when the firm is situated in the urban areas, in contrast to those located in the rural areas (the reference class in this case). To us this appears to be quite rational. In the Indian urban segment, the owner/managers of small firms are more informed and more aware of their ethical obligations towards their employees, than their rural counterparts. They are more exposed to and aware of the legal norms and regulations, which induces higher level of compliance amongst them. The modern mindset of entrepreneurs in the urban setting encourages better ethics than those based in the rural background. Another aspect, governing this practice, is probably the higher level of enforcement of regulatory measures in urban areas in comparison to rural settings. Given the limited administrative machinery in a developing nation like India, the government authorities may find it more cost effective to concentrate on urban small firms, when monitoring implementation of employee-centric rules and regulations, than on small businesses in rural locations. Moreover, amongst this category of small businesses, the urban ones usually work on a much larger scale than their rural counterparts. This acts as compelling force on urban enterprises to imitate legally correct mechanisms. This is evident in our sample where 77.8 percent of rural firms have a small stake in business (below Rupees 1 million). The high level of awareness and consciousness of the urban employee, with an expectation of an ethical treatment from the firm, probably acts as a driver of ethics in these small firms.

Ethical scores of firms managed by entrepreneurs having atleast graduation degrees, have been compared with the reference category of firms in which the entrepreneurs have no such educational qualifications. It is seen that firms in the former category have a positive b coefficient of 0.222. This implies that the expected ethical score of this category of firms, where the entrepreneur has undergone atleast college education, will exceed that of the reference category by 0.222. This is substantiated by literature on business ethics perceptions linked with level of education. Fraedrich (1993) had suggested that ethical decision-making derives from values and conduct, which is the result of a learning process. Quazi (2003) indicated that, managerial commitment to CSR is linked with the acquired qualities (education and training) rather than their inherent physical maturity (age). The results of our regression analysis signal that the educational background of the entrepreneur is a significant factor in explaining the small firms’ level of ethical performance towards employees. Our analysis confirms that higher and formal education creates a realisation about the economic sense of business ethics. The long-term vision of the entrepreneurs, which can be attributed to their educational background, educe an ethical conduct from them. We argue that formal training enables the owners/managers to appreciate that, sustainability of business is enhanced when ethical standards are conformed to. Of course, our argument rests on the rational belief that college level education can be considered a viable benchmark for higher education.
Does ISO certification enhance the ethical performance of small firms towards employees? The answer as we get from this empirical exercise is positive. Here we consider the non-ISO firms as the reference category. It is observed that compared to them, the ISO certified firms which have systematically reorganized their systems and processes, in order to produce quality products/services, are abiding by higher ethical practices, as denoted by their ethical score. The certification by an autonomous recognized agency compels firms to follow practices, which are legal and universally accepted thus bettering the ethical scenario towards employees. The significant positive b coefficient of 0.235 attached to these ISO certified firms bears sufficient proof of this.

With respect to the gender of the entrepreneur, our analysis shows that the ethical practices of female entrepreneurs are lower than the referral category of male entrepreneurs, to the extent of 0.278. This is an interesting finding as it contradicts conventional wisdom. Yet, survey of available literature reports conflicting results as to whether or not men and women differ with regards to business ethics. According to Beltramini, Peterson, and Kozmetsky (1984) and Ruegger and King (1992), women were found to be more concerned about ethical issues in business, than men. However, there are studies which suggest that there are no differences between males and females from an ethical perspective (Davis and Welton, 1991; McNichols and Zimmerer, 1985; Roxas and Stoneback, 2004; Sikula and Costa, 1994). With respect to small business owners/managers Marta, Singhapakdi, and Kraft (2008) and Amin and Banerjee (2006) found support for female entrepreneurs to be more ethically oriented than the male ones. In our case, the results can be attributed to the fact that majority of the sampled firms owned by female entrepreneurs were micro in size, employing very small number of workers and thereby falling beyond the purview of mandatory regulations which attempt to ensure an ethical treatment of employees. Moreover, most of these women entrepreneurs did not undergo any formal business training, and were thus lacking awareness and knowledge of ethical practices towards their employees. During the field survey it was evident that there was a lack of professionalism in their style of operations as compared to their male counterparts. These female entrepreneurs mostly employed those belonging to their social networks and made no attempts at professional recruitments. In contrast to the male entrepreneurs, the female entrepreneurs in this sample were mainly pre-occupied with short term survival and profitability and the long term vision for growth was predominantly absent amongst them. This could be a plausible reason for a lower level of ethics towards the workforce.
6. SUMMARY & CONCLUSION

This study has given us a valuable glimpse of the reality, which suggests a predominantly unethical behaviour on the part of our sampled firms. This research has revealed that on an overall basis as deliberated by the ethics score for employee of 2.32, majority of the small enterprises in the sample (64 per cent) report ethical scores below 3.00. It implies that across the 183 firms in the sample, the surveyed units attach low level of significance towards treating employees ethically. A large percentage of firms (64 per cent) in the sample are micro units and have a turnover below Rs. 5 million. These firms are therefore, pre-occupied with ‘boot-strapping’ and other strategies for fighting off high mortality. This has caused them to pay less heed to the ethical requirements of business towards employees. The complexities, which characterize the typical small business environment, have created compelling forces that have induced the small firms to refrain from ethically correct behaviour with respect to their employees.

The econometric model, Model I was run, to investigate the causal factors that explain the variation in their ethical behavior towards employees. The level of ethical score on the employee index is significantly explained by explanatory variables such as the form of ownership, nature of activity, location of the unit, educational profile of entrepreneur, gender of entrepreneur, ISO certification, level of investment, number of employees, firm age, and percentage of capacity utilised. The results indicate that the ethical issues relating to the work force of a typical small firm are positively influenced by greater investments in plant and machinery, larger employee strength, greater number of years in business operations and higher percentage of capacity utilization. The urban location of the small firm, private limited form of business, operations in the service sector, ISO certification and higher educational levels of the entrepreneur are characteristics which enhance the ethical orientation towards employees amongst the small firms in the sample. Moreover the male entrepreneurs in this sample exhibit better ethical standards towards employees in comparison to their female counterparts.

Most of the components of ethical and unethical issues, explored in this research, are applicable in other countries and cultures and thus these commonalities can become the basis of comparative perspectives. While the work of International bodies, such as Transparency International (TI) provides a macro basis of Comparative Corruption Perception Index, there is a need for ethnographic studies such as this one. Such studies have the potential to generate in-depth understanding of the small firms’ ethical realities involved in transactions with employees. The study highlights the ethical challenges of small businesses in general and in relation to culturally determined specifics of ethical infractions.
As with any research, this study has its limitations, which are primarily caused by resource constraints. The most important inadequacy of the study is that the sample size is small, spanning only 183 units and is selected over a geographically undispersed area. As a result the profile shows skewness towards micro units in West Bengal employing less than 20 employees. This, we submit, is a major limitation. The sample size may be increased to improve the reliability of the results. Since this is a preliminary inquiry over a certain group of firms, this study gives us an indication of what may be expected from a larger sample.

On the basis of such studies, interested scholars can attempt to conceptualise a framework to promote ethical and socially responsible behaviour amongst the small entrepreneurs. This will probably go a long way in drawing up a policy prescription for the small business sector in the lines of corporate social responsibility.

REFERENCES


