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SMALL BUSINESS ETHICS

Small business ethics refers to social responsibility and ethics in small and medium-sized privately owned businesses. Despite the fact that by most measures 99% of private business organizations are in this category, probably 99% of research on business ethics and society is on large firms and multinationals, giving us a very limited understanding of the relevant issues for small firms. In terms of ethics and social responsibility, the most important perspective is the differing character, structure, and dynamics of smaller business organizations compared with their larger counterparts. The most pertinent perspectives are outlined in this entry.

The Owner-Manager as Both Principal and Agent

In most small firms, the person with ultimate responsibility for running the organization is also the primary owner, that is, he or she is an owner-manager. There may be other shareholders, perhaps family members or business partners, but unlike in publically listed companies, there is convergence of ownership. The implication of this is that the owner-manager can legitimately make the choice to divert firm resources to social responsibility and ethical issues rather than the pecuniary requirement to maximize returns to shareholders. This gives owner-managers freedom of choice in the way they run their business.

Motivation

Most owner-managers are not seeking profit maximization, but are motivated by factors such as the independence of running their own firm, personal challenge, and providing a decent standard of living for themselves and their families. Acting as profit satisficers rather than maximizers may enable more ethical behavior, although there is no clear causal effect, or indeed inverse effect, between ethical activity and profit. In addition, it is clear from empirical research that where small firms prioritize business ethics, they are not usually doing so for instrumental or strategic reasons, but for intrinsic motivators relating to how to run their business and their lives.

Key Stakeholders: Community, Employees, Competitors

The very size of the smaller firms influences the salience of their stakeholders. Depending on the nature of the business, they can often be reliant on the local community as a source of employees and customers and as neighbors. The growth of social media has enabled some businesses to broaden their community relationships without being restricted in a geographical sense. Small firm owner-managers often cite employees as their most important stakeholders. Imagine the risk for a small firm when losing one worker could equate to losing a significant proportion of their workforce and knowledge. Informality and a lack of bureaucracy is usual, with familiarity with the home circumstances of employees the norm. Accordingly, owner-managers personally feel the burden of maintaining employees' livelihoods. There is no guarantee that this results in ethical behavior, but genuine commitment to employees is very high on the agenda of small businesses, not least because the costs of replacing someone is proportionately substantial. A further perhaps surprising salient stakeholder for the small firm is often other small competing businesses. When capacity is restricted, businesses may subcontract to each other, lend personnel and machinery when resources are stretched, and generally support the local industry by supporting each other.

Reputation and Relationships

Since small firms can rarely undercut their larger competitors on price due to scale disadvantages, they have to find other ways to win and keep business. Flexibility and a personal service are often factors through which small businesses can differentiate themselves. The importance of relationships to the small business perhaps explains the growth in research in this area since the 2000s, which looks to the ethic of care as a useful theory to explain small business ethics in practice. Indeed the maintenance of good personal relationships externally and internally is one of the key characteristics of this type of organization because (a) it is possible due to the small number of people involved; (b) the business *is* personal; (c) since owner-managers are usually "alone" in their business, with no real peers, they often seek companionship with external business partners; and (d) cooperation with others through social capital networks is a means of accessing additional resources. These personal relationships are sustained by the good reputation of the owner-manager personally and the business more generally, the two being closely linked and indistinguishable in many instances. This also leads to owner-managers beginning to take a longer-term view of their business, keeping their own legacy in mind rather than taking a short-term view of financial success.

Rejection of Externally Imposed Procedures and Standards

Given the desire for independence, the reliance on informal processes, and the sheer difficulty of maintaining a stable small business, it is unsurprising that efforts to impose externally validated standards and procedures are rarely welcomed in small businesses. This includes management systems such as those pertaining to environmental, social, ethical, or human rights standards. The proximity of stakeholders makes standards, mission statements, and codes of conduct potentially redundant. Affiliating with external ethical initiatives (such as the Global Reporting Initiative, GRI) also makes little financial sense and is in contrast to the intrinsic nature of ethics and social responsibility. Hence "measuring" ethics by counting up what standards the organization is signed up to is misleading at best in the case of small businesses.

Influencing Smaller Businesses

The one external group to which small and medium-sized enterprises are most likely to be affiliated is their sector or trade organization. Owner-managers are notorious for disliking receiving advice from any external organization with which they don't have a personal relationship, but if they accept it from any one institution it would normally be their trade association. Another relatively welcome, trusted advisor tends to be the small businesses' accountant. While small businesses may be relatively invisible in the media and the public eye, in many cases they will not be so in their sector, where trademarks and quality standards are most likely to have meaning and, again, reputation is key. One area of development in this respect is the influence that large customers in the supply chain can have on their smaller suppliers. Increasingly, the pressure that large companies are put under to be seen to be ethical is passed back up the supply chain. Suppliers being found to breech ethics standards is seen as a reputational risk for the large customer, as fashion retailers found in the case of the Rana Plaza garment factory collapse. Done sensitively and in collaboration and support with supplier businesses, ethical supply chain initiatives can be beneficial, but too often they are done with little awareness of the unsuitability of standards and the differences in small firms.

Character of the Owner-Manager

There are some who argue that entrepreneurs [have a more highly developed cognitive moral development than other business managers. Leaving aside the confusion around the fact that not all owner-managers are entrepreneurial and pursuing business growth, and that entrepreneurs need not run small firms, there is some degree of convincing argument that those running their own business often possess a high level of integrity. It may be that the factors mentioned above, in particular being intrinsically motivated, concern for reputation, legacy, and relationships, and ultimately the responsibility of running your own business, could be inter-related with high levels of integrity.

The above is very much a generalized list of the most important issues relating to ethics and society pertinent in smaller firms compared to their larger counterparts. There are a number of factors that would influence this list. These include the life-cycle stage of the business (some suggest that business start-up is a time when trust and integrity are compromised); the character and presence or otherwise of the founder; whether the business is a family business (in which case a whole host of additional personal responsibilities and obligations come into play diminishing the independence of the owner-manager, although enhancing the support available to them); sector differences; the regulatory environment; and national, regional, religious, and ethnic community culture. While the picture painted is rather positive about the ethics of small businesses and their owner-managers, it should be viewed against a backdrop of the enormous pressure that they are under to simply survive. Small businesses are a heterogeneous group, and further research is needed to distinguish between them and understand the implications for small business ethics.

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See also **Codes of Conduct, Ethical and Professional; Cognitive Moral Development; Ethics of Care; Integrity; Small Business Administration (SBA); Social Entrepreneurship; Stakeholder Theory; Supply Chain, Sustainable**

FURTHER READINGS

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