GLOBALISATION AND ETHICAL DECISION-MAKING IN SMALL AND MEDIUM ENTERPRISES – AN AUSTRALIAN STUDY

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Abstract

This thesis is a study of ethical decision-making processes used by Australian Small and Medium Enterprises (SMEs) in general and in the context of the effects of globalisation on SMEs, and suggests methodologies a SME manager can utilise when confronted with ethical issues.

Research in business ethics has been predominantly for large businesses and SMEs have received less attention in this area. Research papers on SMEs and social responsibilities indicate that there is very little comment on appropriate methodological approaches to business ethics and the application of ethical theory to small business practices is very limited.

An on-line survey received 91 responses from a wide range of industry sectors. Respondents identified the business areas of competition, pricing and bidding, outsourcing, accounts and finance, intellectual property, and quality of work-life where there could be ethical issues due to globalisation. In addition, corporate governance and production safety were identified as business areas with ethical issues not due to globalisation. SME managers also acknowledged that measuring, monitoring and managing ethical issues is beneficial to their organisations.

The survey was followed by interviews with 20 SME managers to identify their ethical decision-making processes and explore the extent to which these processes conformed with Rest's four-component ethical decision-making model. It was found that when confronted with an ethical issue, SMEs utilise a variety of techniques such as ratiocinative, intuition, heuristics, exemplars, reflections, and organisational factors, to respond; that all four components of Rest's model were observed in 72 per cent of incidents; that SMEs compromise their moral judgements due to survival pressures; that SMEs use external norms and codes for ethical decision-making; and that the Balanced Scorecard might be adapted for monitoring and managing ethical issues in SMEs. The thesis suggests using these findings in the training and development programs of SME managers.

Declaration

I declare that:

- this thesis presents work carried out by myself and does not incorporate without acknowledgement any material previously submitted for a degree or diploma in any university;
- to the best of my knowledge it does not contain any materials previously published or written by another person except where due reference is made in the text; and all substantive contributions by others to the work presented, including jointly authored publications, is clearly acknowledged.

Signed

Sunil G Savur
Jan 2014

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Publications

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Chapter 1: Introduction

> *The most practical ethics for the twenty-first century will have little to do with the political tug-of-war and academic tiffs over absolutism, liberalism, family values, outcome-based education, and dozens of hot-button words surrounding the ethics debate…..The twenty-first century's choices are simply too tough……We'll survive by a morality of mindfulness. We'll survive where reason moderates the clash of values and intuition schools our decision-making. There's no better way for good people to make tough choices (Kidder).*

1.1 Introduction to the topic

The term 'globalisation' is commonly used to describe the spread and connectedness of goods, services, communication, technologies, and people across the world. In the latter half of the twentieth century, international trade expanded significantly, resulting in the prolific growth of large transnational firms. The effect of international business activity has prompted efforts to make these businesses socially responsible and accountable.

Small and Medium Enterprises (SMEs) play a key role in economic progress in many countries and are also affected by globalisation. Although all organisations face ethical issues and many have been affected by globalisation, the impact of globalisation on business ethics in SMEs has received little attention (Enright & Ffowcs-Williams 2000; Enderle 2004). There is evidence of a need for further research, using appropriate methodological approaches, regarding business ethics in SMEs (Spence & Lozano 2000; Graafland, J., van de Ven & Stoffele 2003; Spence, Schmidpeter & Habisch 2003; Moore & Spence 2006; Perrini, Russo & Tencati 2007; Spence & Painter-Morland 2010, p.v).

Ethical issues are more likely to arise in some areas of business activity than in others. Based on the areas identified by a range of writers on business ethics, this study, by conducting a survey-based quantitative analysis, seeks to determine for Australian SMEs which areas have been affected by globalisation and examines the perceptions of SME managers on measuring, monitoring and managing the ethical aspects of these business areas.

Further, in recent years, ethical decision-making in organisations has received considerable attention. Enquiries about its process have been pursued in every area of management in organisations. How does the manager know how to make decisions when faced with an ethical issue or dilemma? Would the process involve rules, a 'gut' decision, seeking advice

from peers, using heuristics or some combinations of these (Hansen 1992)? Is the process linear and continuous or intermittent and varying? Specifically, how do SME managers engage in the ethical decision-making process? Researchers have noted that managers in SMEs use a wide variety of decision-making methods, such as rationalising, intuition, and heuristics (Rice Jr 1983; Olson 1985, 1986; Alpander, Carter & Forsgren 1990; Carson, D 1993; Busenitz & Barney 1997; Brigham, DeCastro & Shepherd 2007). Over the years several models have been postulated. Some have specific emphasis on certain criteria that impact ethical decision-making. There are others which are more general in nature. This study seeks to critically examine various ethical decision-making models and use them to arrive at five propositions with the aim of testing these propositions in the Australian SME sector by conducting personal interview-based qualitative analysis.

Finally, based on both the survey-based quantitative analysis and the interview-based qualitative analysis, the ensuing discussions will provide theoretical considerations and recommendations towards methods that SME owners and managers could adopt when faced with business ethical issues.

1.2 Aim and significance of this study

This research has two aims – first, to evaluate the effect of globalisation on business ethics in SMEs in Australia – specifically, to identify the business areas where SMEs experience ethical issues due to globalisation and to understand their perception on measuring and managing ethical issues. Subsequent to the above analysis, the second aim of this research is to develop theoretical considerations and implications, and suggest methods to manage business ethics in SMEs. In addition, the suggestions and conclusions of this research could be further used to develop a useful tool for managers involved in ethical decision-making.

The significance of this study is twofold – first, that it has the potential to further develop theoretical aspects in ethical decision-making in SMEs and second, it can be used to develop a practical tool for practising managers and a standard or guidelines for managing ethical issues in a SME. This is valuable because SMEs are a big part of the economy and existing tools and literature concentrate on large companies.

1.3 Research questions

This research addresses the following questions:

(1) What are the effects of globalisation on business ethics in SMEs?

(2) What methodologies can a SME use to recognise, measure, and effectively manage ethical issues arising from these effects?

The research will collect and analyse data from owners and managers of SMEs in Australia, provide theoretical considerations, and develop a framework which can be used for ethical decision-making by SMEs when faced with ethical issues.

1.4 Structure of the dissertation

This chapter introduces the topic, and explains the rationale, objectives and significance of this study. The thesis consists of nine further chapters – see Figure 1 for the structure of this thesis.

This thesis commences with two chapters on literature review. In 'Chapter 2 Literature review – ethics, globalisation, and Small and Medium Enterprises', I begin by exploring the concept of ethics and morality, discuss the elements of and arguments for and against three ethical theories – teleological, deontological, and virtue. I then outline the history of business ethics in management practice and in academia, and discuss the business case for business ethics.

Thereafter, further in chapter 2, I explore and discuss the phenomenon of globalisation, the role of multinational corporations (MNCs) in globalisation and discuss the ethical challenges faced by businesses due to globalisation. This is followed by an introduction to SMEs and their importance in the global and Australian business environments. A discussion on the unique characteristics and limitations of SMEs and ethical challenges faced by SME owners and managers leads on to a discussion on the decision-making tools that are used by SME owners and managers.

The final two sections of chapter 2 identify from the literature twelve business areas where SMEs could experience ethical issues due to globalisation, and reviews literature on measuring, monitoring and managing business ethics – specifically the Balanced Scorecard (BSC). Discussions in these sections will result in research Question1 for this study.

Chapter 3 provides literature review on the decision-making process. Sections in this chapter will firstly discuss the ratiocinative decision-making process, ethical decision-making models, and the four-component ethical decision-making model postulated by James Rest. This will be followed by alternate methods of decision-making and factors that can affect ethical decision-making. These discussions will identify gaps in the literature which will finally result in the research Question 2 for this research study.

'Chapter 4 Research Methodology' has five sections. After the research questions and the introduction in the first section, the second section uses a literature review to introduce the framework of the methodology used in this study and explains the suitability of using quantitative and qualitative methods for this study. The next section in that chapter develops a design using a three-step process. The next two sections will discuss detailed design, delivery, implementation and analysis techniques for the quantitative and qualitative methods, and social desirability bias.

In 'Chapter 5 Results and summary of survey data', the key results from the on-line survey have been tabulated and discussed – which include demographical metrics, perceived importance of business areas in their organisations, business areas most affected by globalisation and ethical issues, perceived benefits to their organisations if ethical issues were monitored, and respondents' perceptions on the useability of the BSC. The final section of this chapter displays the demographic details of those respondents who consented to a face-to-face semi-structured interview to identify decision-making techniques used by SME managers when faced with ethical dilemmas in their business activities.

'Chapter 6 Analysis: the ethical decision-making process and Rest's model' analyses the key results from the transcripts of the interview data with respect to Proposition 1. Here, the analysis aims to identify the decision-making process used by the respondents to resolve ethical issues. The analysis leads to observations and discussions to ascertain whether the decision-making process conforms to Rest's four-component model (FCM).

'Chapter 7 Analysis: the ethical decision-making process and other factors' has six sections. The first two sections analyses and discusses the transcripts of the interview data with respect to Propositions 2 and 3, to ascertain whether the respondents have used intuition, heuristics, exemplars, and reflection in ethical decision-making. The third section aims to explore whether ethical decision-making is influenced by organisational factors in SMEs (Proposition

4). The fourth section analyses the transcripts with respect to Proposition 5 which seeks to ascertain whether SMEs can use the BSC to manage ethical issues. The final section provides a summary of the various ethical decision-making processes discussed in this chapter.

Chapter 8 analyses the interview transcripts to ascertain the effects of globalisation on the respondents' businesses, and the decision-making processes used by the respondents to resolve ethical issues arising from globalisation.

In the final chapter, the first section summarises the findings of this research, followed by conclusions, implications, and limitations of this research. Implications of this research will include theoretical considerations that are derived from the findings and conclusions, and suggestions on the practical use of the theoretical considerations. The final section will discuss directions for future research and recommendations.

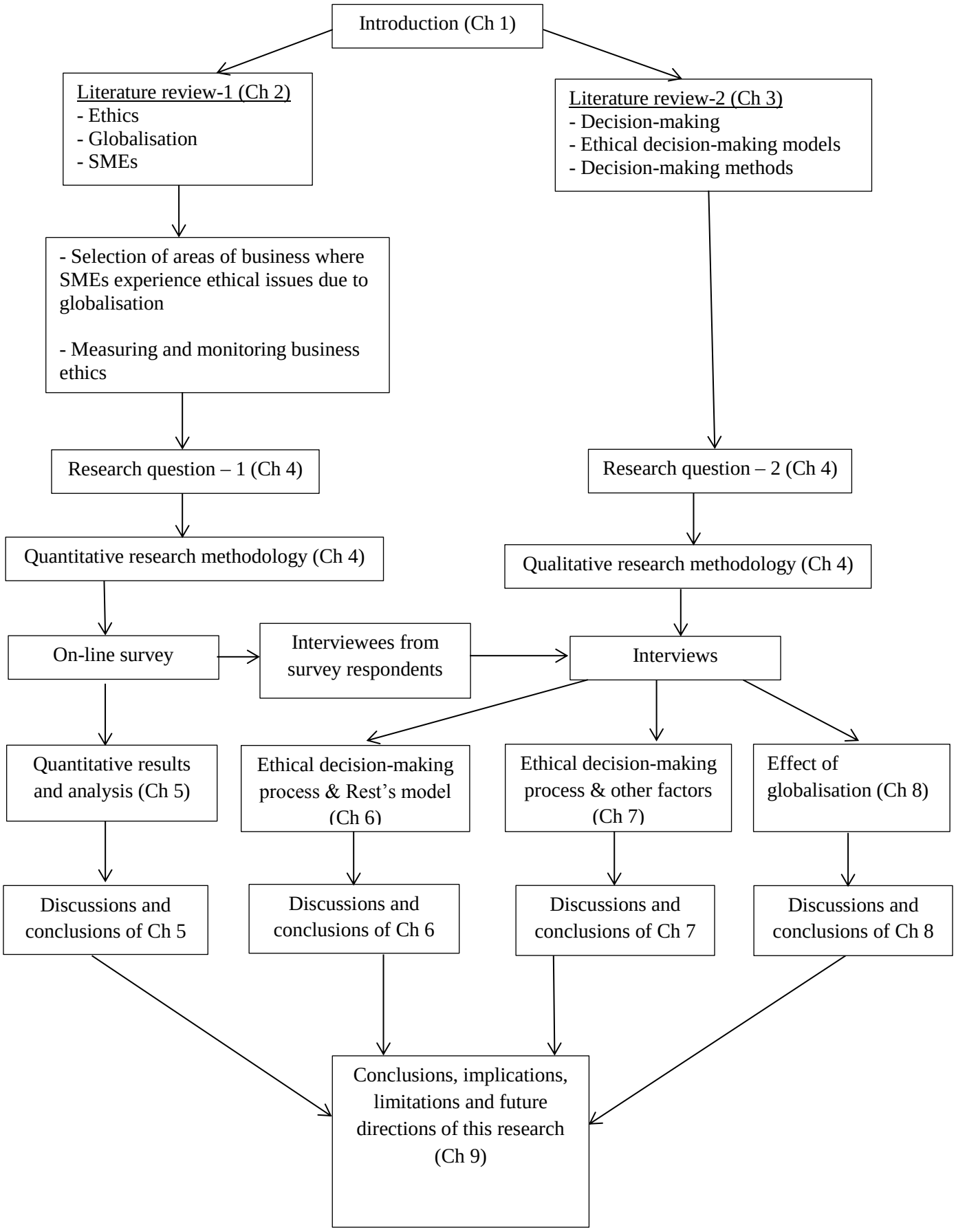


Figure-1 – Structure of this thesis

Chapter 2: Literature review – ethics, globalisation, and Small and Medium Enterprises

2.1 Introduction

As mentioned in chapter 1, the literature review for this thesis comprises of two chapters. Chapter 2 reviews literature on ethics, globalisation, and SMEs, and chapter 3 reviews the literature on the decision-making process.

This chapter begins with an overview of ethics in general, which includes the place of ethics and morality, and ethical theories, followed by a literature review of business ethics, its history, the business case for business ethics and the relationship between business ethics and corporate social responsibility (CSR).

Thereafter, the review moves on to globalisation, the role of MNCs in globalisation, and the roles of business ethics and CSR in the ethical challenges due to globalisation. This is followed by the definition and importance of SMEs – globally and in Australia, leading to a literature review on the effect of globalisation on business ethics in SMEs – globally and in Australia. A discussion on the unique characteristics and limitations of SMEs, as compared to larger organisations, is followed by ethical challenges faced by SME owners and managers, and a literature review on the decision-making tools used by SMEs. This is followed by a review of measuring and monitoring business ethics with a special focus on the BSC. A summary is then provided of ethics, business ethics, globalisation, SMEs and monitoring business ethics.

2.2 Ethics

Introduction

Efforts to improve the ethical quality of business decisions have intensified over the past several years (Ferrell, Gresham & Fraedrich 1989; Goodpaster 2010; Ciulla 2011; Voegtlin, Patzer & Scherer 2012). Loss of public trust in businesses resulting from scandals such as bribes, unsafe products, financial misconduct, environmental degradation, and child labour has focused managers' inclination to improve ethical decision-making in business. Researchers have noted that lack of understanding, guidance, and application of ethical principles and moral philosophies (Trevino 1986; Ferrell, Gresham & Fraedrich 1989) could lead to ineffective ethical decision-making by business managers. The traditional philosophical roots of business ethics are the principle-based ethics of deontological ethics, best exemplified by Kant's formalism, where moral judgements are defined with reference to maxims or norms, and teleological ethics, best exemplified by John Stuart Mill's utilitarianism, where moral judgements are grounded in assessments of the consequences of actions (Horvath 1995; Joseph & Haidt 2007). However, referring to MacIntyre's (MacIntyre 1985, pp.29,50) assertion that formalism and utilitarian systems have failed to provide a meaningful definition of 'good', Horvath (1995, p.499) contends that 'business managers have no internal standards by which they can morally evaluate their roles or acts'. In this regard, MacIntyre (2007), Joseph and Haidt (2007), Harris, Wijesinghe and McKenzie (2013), among others, support the Aristotelian notion of virtue-ethics 'which depends on an interrelationship of the community, one's role in that community, and the virtues one needs to perform that role well' (Horvath 1995, p.499).

This section contains descriptions and discussions to appreciate the usefulness and potential applications of the various ethical principles and moral philosophies. It has three subsections. The first subsection defines and discusses ethics in general, and reviews three ethical theories – teleological, deontological, and virtue ethical theories. This is followed by a review of business ethics and a discussion on the business case for business ethics.

2.2.1 Ethics in general

Moral dilemmas, in small and big ways, confront us all from time to time. We find ourselves faced with choices in which we need to decide a course of action, the consequences of which could be doing something that seems wrong to achieve good or doing the right thing to produce a bad outcome. Classical examples include the Heinz dilemma where an impoverished Mr Heinz, in a bid to save his wife's life and not having enough money to buy the medicine, steals the life-saving drug from a chemist's shop, after the chemist raised the price of the drug due to supply shortages (Rest & Narvaez 1994, p.4). Further examples would be telling a lie to save the life of a fugitive hiding in your house; a pilot asked to bomb his hometown, in which his family lives, which has been occupied by the enemy – someone else will do it if the pilot refuses; and deciding who to carry in the only lifeboat of a sinking ship.

Some questions that arise from the above examples are: (a) which is more important: doing the right thing or having a good result, (b) can the ends justify the means, and (c) should we always do the right thing, regardless of the consequences? These questions hold relevance for individuals and communities in society, and also for businesses. In some situations, the relevant factors could be clear-cut enough to decide on a course of action. However, there are many more situations where the relevant factors will not be clear and these create ethical or moral dilemmas.

The words 'ethics' and 'morality' are used in a variety of ways – 'sometimes ethics is synonymous with morality'; for example, a morally right action could also be called an ethical action and codes of moral conduct are also known as ethical codes (De George 2010b, p.13). Ethics and morality have been defined as follows:

- Ethics is a systematic attempt to make sense of our individual and social moral experience, in such a way as to determine the rules that ought to govern human conduct (De George 2010b, p.13). It involves judgements on good and bad, right and wrong, and what ought to be. Philosopher Epicurus defines ethics as dealing 'with things to be sought and things to be avoided, with ways of life and with the telos, the chief aim or end in life' (Hartman, LP 1998, p.2).

- Morality is the term used to cover those practices and activities that are considered importantly right and wrong; the rules that govern those activities; and the values that are embedded, fostered, or pursued by those activities and practices (De George 2010b, p.12).

The role of ethics is to study morality through observations and analysis, and if necessary remedy any unjustifiable norms. Examples would be the emancipation of slaves and the right to vote for women. Ethical theories have been classified into general ethics and special ethics. General ethics includes three related phases of ethical study, commonly known as descriptive, prescriptive, and metaethics (De George 2010b, p.13). The study and description of the morality of people, culture, or society is known as 'descriptive ethics', and the building and justification of a moral system based on the outcomes of descriptive ethics is known as 'normative ethics' – also sometimes known as 'prescriptive ethics'. *This will be discussed further in section 3.4.2 (forms of ethical decision-making in business).* The third part of general ethics, known as metaethics or analytical ethics, studies both descriptive and normative ethics by analysing the meaning of moral terms, studying the logic of moral reasoning, and analysing presuppositions of moral activities. Ethical theories emanate from normative ethics due to their attempt to explain and justify the morality of society in general (Boatright 2003, p.23; De George 2010b, p.14).

Special ethics involves the application of general ethics to solve particular problems in specialised fields such as business, medicine, engineering, accountancy, law, and information technology. It follows that business ethics deals with business, which includes all 'economic transactions between individuals, between individuals and profit-making organisations, and between profit-making organisations and other organisations', and is involved in business activities such as producing, selling, and buying goods and services for profit (De George 2010b, pp.15-16). It encompasses geographical boundaries to include national, international and global business. *Section 2.3 will discuss globalisation and its effects on business ethics.*

Boatright (2003, p.ix) postulates that ethical theory is essential for a full understanding of the positions and arguments offered in business ethics. Most managers think of themselves as ethical persons and that there is no need to have specialised knowledge or skills in ethics. However, more than two decades of research confirms that, in reality most managers fall

short of their self-perceptions of ethics. Research suggests that managers are prone to 'unintentional unethical decision-making' based on 'unconscious bias' (Banaji, Bazerman & Chugh 2003, p.56). The sources of this unconscious bias have been identified as (a) implicit prejudice – bias that emerges from unconscious beliefs such as 'racism and sexism', (b) in-group favouritism – bias that favours one's own group such as a friend, or a relative, or a colleague, (c) over-claiming self-credit – bias that favours oneself such as overrating one's own contribution leading to unfairly judging others, and (d) conflict of interest – bias that favours those who can benefit themselves such as when physicians accept payment for referring patients to clinical trials (Banaji, Bazerman & Chugh 2003, pp.58-61).

Ethical situations can arise in businesses that are not easily addressed by general ethical rules. This is because decision-making in business involves integration of three points of view: the economic, the legal, and the moral (Boatright 2003, p.7). The obligations of a role can appear to be in conflict with the obligations of ordinary morality such as a senior manager who is required to downsize the workforce of the organisation by deciding to outsource certain business activities. This role-act may not appear to be ethical to stakeholders such as employees, but may be perfectly legal and a good economic decision for the good of the organisation. Thus, here the moral dilemma is 'should private, profit seeking organisations behave in a socially responsible and moral way, beyond the requirement of law, because it's the right thing to do or because it pays them to do so?' (Fisher, C & Lovell 2009, p.9). In other words, why should a business or persons employed within the business behave ethically or be motivated to behave ethically beyond the legal requirement or beyond the profit-making goals of the business?

The next section will discuss the place of ethics and morality, and analyse the business case for business ethics. The section will also discuss three ethical theories that form the basis for moral obligations, rights, and justice. Although these theories are considered to be tools for ethical thinking that can be used for analysing ethical issues, they do not provide easy resolution mainly because it may not be obvious which should be applied to any particular circumstance. Also, due to its generality, its application and interpretation may not always be clear (Boatright 2003, p.23; Fisher, C & Lovell 2009, p.101).

The place of ethics and morality

Individuals can have ‘a number of legitimate concerns that may not be compatible with moral choice and lapses of ethical behaviour in business can be attributed to the low priority placed on the moral, even when the moral choice is very well understood’ (Bebeau & Thoma 1999, p.345). What, then, is it that motivates moral behaviour and prioritises moral values over other concerns that people may have? Walker (2002) and Bebeau and Thoma (1999) contend that this is linked to the question of ‘why be moral?’ and *relates to one of the components of Rest’s ethical decision-making model (specifically, Component 3 – establishing a moral intent – of Rest’s FCM, more fully discussed in sections 3.4.3 to 3.4.5).*

The place of ethics and morality is in one way related to the consideration of consequences of what is considered as good. Why should one feel bothered about consequences to others? This is because if I do not like a certain thing happening to me, I should also see that it does not happen to others. If I do not like other people telling me lies or murdering me, I should not do so to others. Suppose there is a society in which there was no prohibition on murder – that is, people are free to kill other people at will. In such a society, no one will feel secure and everyone would have to be constantly on guard. Society would collapse as people wanting to survive would have to avoid other people as much as possible (Rachels 1993, p.26). This is the basis of the Golden Rule found in the ancient scriptures of the major religions of the world – Christianity, Judaism, Islam, Jainism, Hinduism, Confucianism, Buddhism, and Yoruba (Shaw & Barry 2010, p.12). Manikutty (2012) contends that the Indian epic, Mahabharata, suggests that ethics is what makes life meaningful, at the individual, group, and the societal level.

Although classical economists assume that all human behaviour is motivated by self-interest factors such as cost/benefit analysis, evidence, such as helping strangers in distress, donating blood, and mailing back lost wallets to strangers, indicate that people also act for altruistic or moral purpose. People are thus motivated by both economic and moral concerns (Trevino & Nelson 2004b, p.23). Similarly, organisations may be motivated to act ethically out of self-interest, for example avoiding criminal activities or gaining bad reputation, or because it is the right thing to do. Martin (1998) suggests that there are four reasons that might persuade a business to act ethically: (1) legal – to avoid the risks of prosecution, (2) public image – to

protect reputation and profitability, (3) pragmatic – the need for integrity in business transactions to maintain profitability, and (4) moral – to perform ethical actions simply because they are ethical. Reputation in particular, as mentioned by both Martin (1998) and Kaler (2000), has become an important motivation. Unethical behaviour by organisations can result in consumers boycotting their products and markets. As illustrated by Anderson (2005), damaged reputation can in turn lead to diminished sales, profits, employee retention, and ability to attract ethically-motivated workers and customers. There are several incidents and examples to show that industries, senior executives, managers, employees, individuals, and society care about ethics for their own self-interests and for reasons mentioned above (Trevino & Nelson 2004b). *Perceived benefits to organisations from being ethical forms the basis for one of the questions in the survey conducted for this research.*

If, however, there are good and sufficient reasons for individuals, groups, and businesses to behave ethically, finding and following the moral course is not always easy for individuals and may be particularly more difficult for people in business. Although the overall guide for good behaviour in business is the various laws concerning businesses, there are no clear moral guidelines when faced with a difficult decision such as downsizing and outsourcing, or adapting someone else's ideas as their own.

So, are there any moral principles or schemas that can be used to resolve conflicts and are there any means of showing that the rules of our morality are the right ones? What concepts do people in business use to make moral judgements?

Researchers of moral judgement have proposed three levels of moral judgement processing: (1) abstract or general principles, (2) intermediate-level moral concepts, and (3) concrete rules or codes of ethics (Bebeau & Thoma 1999; Bebeau 2002; Thoma 2002; Walker 2002). Abstract or general principles include general ethical theories described by philosophers and includes principles such as 'greater good', 'utility', 'justice', 'beneficence', 'duty', 'moral rules', 'religious rules', 'the golden rule', and their related principles such as 'equals must be treated equally' (Bebeau 2002; Walker 2002). Some of these general ethical theories are more fully discussed in the following section titled 'Ethical theories'.

Intermediate-level moral concepts include professional codes or policies developed for specific professionals in law, medicine, engineering, accountancy and finance, and insurance among others. Examples are 'professional autonomy', 'competence', 'informed consent', 'confidentiality', 'due process', 'rule of law', 'whistleblowing', and 'intellectual property' (Bebeau & Thoma 1999, p.348). Intermediate concepts thus apply to a range or class of situations and individuals are required to interpret and apply them in context (Thoma 2002).

In contrast, the concrete level includes codes of ethics and conduct at the organisational level and serves to direct individual behaviour in very clearly defined situations. These are essentially lists of specific prescriptions and prohibitions designed to serve as action guides in particular circumstances and seldom provide a rationale or explanation from moral theory (Bebeau & Thoma 1999; Walker 2002). Walker (2002) further notes that codes at the concrete level derive their coherence from the intermediate-level concepts and in turn, the intermediate concepts may derive coherence from the more abstract and general principles such as justice or utility. Bebeau and Thoma's (1999, p.348) research indicates that the intermediate concept that reflects the content of professional ethics is a better guide to action than more abstract notions of morality. *These aspects are addressed in and relates to one of the components of an ethical decision-making model (specifically, Component 2 – making a moral judgement – of Rest's FCM, more fully discussed in sections 3.4.3 to 3.4.5). This will be examined in this research as part of the analysis addressing the research Question 2: What methodologies can a SME manager use to recognise, measure and effectively manage ethical issues?*

The general or abstract level principles that can help guide individuals and businesses through ethical issues are generally known as ethical theories. Because these theories are general in nature, it is not obvious which theory should be applied to any particular circumstance, and do not provide easy resolution (Fisher, C & Lovell 2009, p.101). They are useful because they (a) can explain why actions are right or wrong, (b) provide a decision procedure for resolving difficult situations, (c) make it possible for individuals who make moral decisions to explain and justify them to others, and (d) can be used to evaluate conventional morality – for example, the conventional morality of not telling a lie can be evaluated by a teleological theory that the end justifies the means, where telling a lie can save a life (De George 2010b, pp.28-39). In the following section, three ethical theories –

teleological, deontological and virtue ethics are reviewed and discussed in relation to their importance in business ethical issues.

Ethical theories

Most ethical theories that have been and are still used to guide human and business behaviours and that form the basis of ethical decision-making tools date from the ancient eras of Socrates (470-399 BCE)/Plato (428-348 BCE)/Aristotle (384-322 BCE) to the Enlightenment era of Hobbes (1588-1679)/J Locke (1632-1704)/I Kant (1724-1804)/J Bentham (1748-1832)/JS Mill (1806-1873) – and in the modern eras of J Rawls (1921-2002) and others - see (Hartman, LP 1998; Boatright 2003; Fisher, C & Lovell 2009; De George 2010b). The contribution of some of these philosophers towards ethical theories will be discussed later in this section. These theories may never change, but are required to be flexible, adaptable, and inventive because the moral landscape of the twentieth and twenty-first centuries has changed. These changes constitute (a) entirely new ethical issues – such as computer hacking, software protection from copying, protecting sea life for commercial reasons, dumping used electronic goods on underdeveloped countries, storing nuclear wastes in underground wastelands, human cloning, abortion, euthanasia, and so on; and (b) increasing moral intensity – the increasing number of ethical issues that are pressing upon us for attention through the various forms of media and communication – which can cause 'compassion fatigue', when the ability to care gets numbed (Kidder 1995).

The three ethical theories discussed here are – (a) teleological ethical theory: which argues on the basis of ends, it measures the rightness of an act according to whether it brings us closer to a desired end; (b) deontological ethical theory: which judges the morality of an action based on rules, duty, and obligation; and (c) virtue ethics: which emphasises the importance of character. Given the size of the extant literature on ethical theories, I have restricted this review to four academic textbooks: (Hartman, LP 1998; Boatright 2003; Fisher, C & Lovell 2009; De George 2010b). What follows is a summary of the standard account of ethical theories. The relevance of these three ethical theories in business ethics is also discussed in this section.

Teleological – the word is derived from the Greek 'teleos' meaning end, goal or result. This ethical theory states that the rightness of an action can be judged only by its consequences (Hartman, LP 1998, pp.28-31; Boatright 2003, pp.31-33; Fisher, C & Lovell 2009, pp.125-130; De George 2010b, pp.44-47). Thus, this theory is also known as consequentialism. Since it relates to the production of good consequences and avoidance of bad consequences, the concept of goodness or utility becomes the fundamental feature of this theory. The development of utilitarianism is attributed to Jeremy Bentham (1748-1832), although the word utilitarianism was coined by John Stuart Mill (1806-1873), and holds that an action is right if it produces, or tends to produce, the greatest amount of good, such as welfare and happiness, for the greatest number of people affected by that action. The most basic form of utilitarian analysis is the cost-benefit analysis, where the costs and benefits of a proposed action is compared and a decision that provides the greatest overall gain is taken. This utility approach is widely used in all areas of business and in moral reasoning as well – but often with a difference. In business, the cost-benefit utility approach is often used to compare and weigh the good and bad consequences of a proposed action in purely monetary terms – for example, in analysing the purchase of a computer, the cost of buying the computer would be weighed against the income that could be generated from the use of the computer and if the net income is positive or substantial, then a decision could be made to purchase the computer. Whereas in an ethical analysis, the comparison of the good and bad results of an action is on everyone affected by it – for example, when considering outsourcing of a business area such as manufacturing, the benefit of the outsourcing, which could be lower operational costs and the benefits to the local community at the new location, would be weighed against the loss of employment at the original manufacturing plant and the potential unhappiness in the local community as well as potential damage to the organisation's reputation.

Teleological ethics in business

Utilitarianism is viewed as a strong theory because it suggests that business managers can carry out numerical analysis with considerable certainty about its end results. It is also attractive because it is easy to apply and is able to describe much of the decision-making process and therefore widely used in business and economics. For example, it may allow systematic and organised decision-making for practising managers by assisting them in accounting for their actions. However, it has some inherent weaknesses. One problem is how to evaluate the good or harm that may be done by an action. For example, what value to put

on human life when evaluating a cost-benefit analysis – as shown in the Ford Pinto case (Gioia 1992; De George 2010b, pp.298-299). Similarly, how does one consider the value of the environment including animals and flora in the calculations (Singer 1990)? A second weakness is that in the utilitarian approach, while agreeing on what to count as good or bad, it says nothing about how the benefits and burdens ought to be distributed. Since the rights of everyone are not taken into account, certain individuals may suffer greater harm than others. In the above outsourcing example, certain employee rights, such as the right to be treated fairly and the right to receive fair compensation due to loss of employment, may not be considered while conducting the cost-benefit analysis. A third weakness of utilitarianism is that the greatest number need not cover all people. Even if a majority may be covered, a minority may be left behind. One solution for this is John Rawls' distributive justice approach. It holds that ethical acts or decisions are those that lead to an equitable distribution of goods and services.

Deontological – the word is derived from the Greek 'deon' meaning obligation or duty. This ethical theory states that the morality of action is not based on consequences but on the motive, of doing one's duty, of doing what is right and for the right reason (Hartman, LP 1998, pp.15-19; Boatright 2003, pp.33-34, 51-55; Fisher, C & Lovell 2009, pp.109-111; De George 2010b, pp.62-70). The deontological approach suggests that ethical judgement should be based on what acts are like in themselves, by their intrinsic nature, rather than on their results. They do not depend on the production or failure to produce good. One's duty is to do what is morally right and to avoid the morally wrong, regardless of the consequences of doing so (De George 2010b, pp.77-78). Thus, from a deontological point of view, bribery, even if its consequences can bring the greatest happiness to the greatest number of people – for example, bribing to acquire a large contract to help sustain a business that employs a large number of people – is wrong, by its very nature, regardless of its consequences. The deontological approach has historical traditions dating back to the Ten Commandments and the Golden Rule ('do unto others as you would have them do unto you') and was formalised by the Enlightenment era philosopher Immanuel Kant (1724-1804). Kant bases his approach on the notion that human beings are rational and should follow and obey moral laws. Kant called the statement of the moral law, the *Categorical Imperative*. According to this view, for an action to be morally right, it must be made consistently universal and must respect rational beings as ends in themselves. An action is moral if it is carried out as a duty, not in

expectation of a reward. Carrying out one's business honestly, for example, is praiseworthy, but what makes it moral is if the motive in doing so is for the sake of honesty as an end in itself, rather than merely because it is the best policy to attract and stay in business and make more profits in the long run.

Deontological ethics in business

One of the main strengths of deontological theory is that it makes sense of cases in which consequences don't seem to determine an ethical approach. For example – a manufacturer has an obligation to honour a warranty on a defective product even if the cost of doing so exceeds the benefit of satisfying the customer. Another strength is in evaluating motives of an action – for example, two motives of giving charity could be genuine concern and impressing friends or tax benefits. There are, however, several difficulties in applying the moral law of Categorical Imperative. The first one is that of generality. How do we determine the level of generality of the rule on which we are acting? For example, should a rule about bribing be 'bribe' or 'do not bribe' or 'bribe, if it is acceptable in another society or country', or 'bribe, only when necessary to sustain your business'? It is not always easy to categorically and accurately state the rule of an action, which may lead to a situation where we are tempted to fabricate a rule that will allow us to do what we wish, rather than stating the principle on which we want to act. A second difficulty in applying the moral law of Categorical Imperative is when two moral laws, when needed to be applied to a proposed action, clash with each other. For example, should we keep a promise or tell the truth when doing so will harm someone? Here, there are two moral laws – telling a truth and not harming anyone. If we tell the truth, it will harm someone – violating one moral law. If we do not tell the truth, it will save someone – violating the other moral law.

Virtue ethics can trace its origins to the ancient Greeks through Aristotle (382-322 BCE) - see (Aristotle 350 BCE/1998), the Chinese through Confucius (551-479 BCE) (see (Yu 1998), and the ancient Indians through the Bhagavad Gita (circa fifth century BCE) - see (Gupta 2006). Virtue ethics claims that the key to good ethics lies not in consequences or rules, rights, and responsibilities, but in the character of the person involved in the action (Hartman, LP 1998, pp.7-8; Boatright 2003, pp.61-66; Fisher, C & Lovell 2009, pp.102-106; De George 2010b, pp.82-86). Both teleological and deontological ethics address the question, what

actions are right? Virtue ethics asks: what kind of a person should we be and what character traits should we possess and exhibit? MacIntyre (2007, p.44) contends that while we consider Kant's moral philosophy that the rules of morality are binding on all rational beings and what is important is their will to carry them out, 'virtuous plain men and women did not have to wait for philosophy to tell them in what a good will consisted'.

The role of ethics, according to Aristotle is to enable us to lead a 'good life', which is possible only for virtuous persons, that is persons in possession of virtues. He described virtue as a character trait that manifests itself in habitual action. Thus, courage as a virtue does not mean that it could be exhibited only once or twice – it should rather be a trait of a person who exhibits courage at all times. Plato, Aristotle's teacher, had originally identified four virtues – wisdom, courage, self-control and justice. Aristotle's concept of virtue was reflected in behaviours that represented a balance or a mean of the personal quality being considered. Thus, courage is considered a virtue because it is the mean or the balance between cowardice, as the deficiency in behaviour towards danger and rashness, as the excess in the behaviour. Other virtues are benevolence, compassion, courtesy, friendliness, honesty, loyalty, moderation, and tolerance (Hartman, LP 1998, p.7; Fisher, C & Lovell 2009, pp.104-109; De George 2010b, pp.107-108). Virtue ethics postulates that a virtuous person in possession of virtues such as those above is motivated to do the right thing and cultivates the motivation in daily conduct. The theory further states that the virtuous person would know the right thing by exercising judgement, rather than by applying a universal set of rules, and are more generally reliable than those who simply follow the rules (Hartman, LP 1998, p.8).

Virtue ethics in business

By extending the notion that the virtues of a good businessperson should be the same as the virtues of a good person, and considering that business is part of life and of the society that we live in, it is possible to suggest that virtue ethics could also be applied to businesses. Some researchers have proposed that virtue ethics has the potential for leaders and managers 'to create and sustain "good" organisations and institutions' (Harris, Wijesinghe & McKenzie 2013, p.1). Since people spend most of their adult lives in business organisations, if they are to achieve happiness, they should be able to do so at work as well as in other spheres of their lives. However, considering that situations in business may be different from ordinary daily life, virtues of everyday life may not be applicable to business. Thus, the personal virtues of

caring and honesty can be used in business, but their application in business could depend on the situation. Employees may be cared for, but caring cannot be extended too much when downsizing the number of employees. Similarly, complete honesty may not go far enough in certain aspects of business such as advertising, marketing and negotiations. Regardless of the above discussion, it is important to determine character traits for businesspersons. De George (2010b, p.512) reiterates that 'we must have moral persons if we are to have moral businesses'. While the issue of the morality of management is 'problematic', Moore (2013, pp.28-30) has 're-imagined' the role of management to include good purpose, getting the right balance in the pursuit of external goods, character of the organisation, and to produce an environment within which organisational virtue can flourish.

The main strengths of virtue ethics is based on the argument that although utilitarianism and Kantian ethics provide moral principles that can be applied to specific cases, people generally take decisions based on what they feel most comfortable with or what a person they admire would do. *This is the notion of exemplars, which is discussed further in section 3.4.9 as one of the factors that can influence ethical decision-making and also forms the basis for one of the propositions which will be tested to address the research Question 2: What methodologies can a SME manager use to recognise, measure, and effectively manage ethical issues?* Characteristics, such as integrity and courage, of a professional may be a more effective guide than principles and rules. Harris (2013, p.68) contends that 'courage could be the most suitable exemplar for the wider consideration of the relevance of virtues in effective management'. On the other hand, a virtuous character can have limitations when dealing with some ethical dilemmas such as limits of rules and conflicts between rules. For example – will accepting a box of chocolates from a supplier be acceptable when compared to a holiday trip paid by a supplier, and whether it is acceptable to bribe an official to secure a contract in order to prevent closure of one's business. This issue is addressed in the virtue ethics tradition by highlighting the need for *phronesis* which can be translated as *practical wisdom (Aristotle 350 BCE/2000) . These aspects are addressed in and relates to one of the components of an ethical decision-making model (specifically, Component 4 – engaging in moral behaviour and action – of Rest's FCM, more fully discussed in sections 3.4.3 to 3.4.5).*

Summary of this section on ethics

This section defined morality and ethics, discussed the place of ethics and morality in business, and discussed the concepts, strengths and weaknesses of three ethical theories – teleological which includes utilitarianism, deontological which includes Kantian thoughts, and virtue ethics which includes Aristotle's and MacIntyre's theories.

Ethics, as discussed in the above sections, concerns itself with observing, studying, analysing, and suggesting corrections to, if necessary, normative moral laws. Considering that as rational beings, we are responsible for our actions and accountable to others as a result of the consequences of our actions, and considering that there are several theories and concepts that are available for application, the questions then need to be asked are: how do we recognise moral issues and how do we, or which method do we apply to obtain an ethical result? More so, considering that ethical issues in business are specific, how do we apply the ethical theories and concepts in business? *These questions form the basis for further discussion leading to the research Question 2: What methodologies can a SME use to recognise, measure, and effectively manage ethical issues?*

2.2.2 Business ethics

Business ethics, as discussed in the above section, involves application of general ethics to solve particular problems in business, where business includes all 'economic transactions between individuals, between individuals and profit-making organisations, and between profit-making organisations and other organisations'. It is involved in business activities such as producing, selling, and buying goods and services for profit, and encompasses geographical boundaries to include national, international and global business (De George 2010b, pp.15-16).

The section will outline the history of ethics in business and the development of business ethics as a field of study, research and application. It will then discuss the business case for business ethics – 'should businesses behave in a socially responsible and moral way, beyond the requirement of law, because it is the right thing to do or because it pays for them to do

so?' (Fisher, C & Lovell 2009, p.9), and outline the relationship between business ethics and CSR.

History of ethics in business and the development of business ethics

As discussed in section 2.2.1 (ethics in general), since business activity is human activity, it follows that the general ethical theories applicable to human beings in society should also be applicable to them when engaged in business. De George (2010b, p.7) contends that although people in business act immorally as they do in other societal activities, there is 'no proof that people are more immoral in their business lives than in their private lives'. The history of business ethics goes back to the origin of commercial exchanges and economic systems. Throughout history, ethics in business has been discussed and theories applied by Aristotle, Kant, Locke, Bentham, Mill and others as described in the previous section.

Business ethics, as an academic field, originated in the mid-1970s and its 'founders' were philosophers trained in ethical and political philosophy. Since the first academic business ethics conference held in 1974 at the University of Kansas and the first book on the subject in 1978–79, the field of business ethics has evolved into an interdisciplinary area of research and scholarship – drawing from the strengths of both philosophy, social sciences and from business itself (Arnold, DG, Audi & Zwolinski 2010).

With the advent of the industrial revolution and the exponential growth in innovation, production, labour, and population, Marx claimed that capitalism was built on the exploitation of labour and that the surplus between the value produced by the workers and the wages that they get paid, amounts to the profit for the employer (Potts 2011). This criticism has been 'adapted by many contemporary critics who claim that multinational corporations derive their profits from the exploitation of workers in less developed countries' (De George 2010a). In the twentieth century, when communications and media technology and access to it grew exponentially, the idea of ethics in business continued and increased in the minds of people. Examples of unethical or immoral activities by individuals and by businesses increased the criticism of multinational and domestic corporations that would engage in activities such as procuring manufactured items from sweat shops – e.g. Nike (Sethi 2006), securing contracts using kickbacks – e.g. Australian Wheat Board (Bartos 2006), product

safety issues – e.g. Ford Pinto (Gioia 1992; De George 2010b, pp.298-299), corporate governance – e.g. Enron (Carson, TL 2003; Kulik 2005), conflict of interest – e.g. Arthur Andersen (Duska 2005), and industrial accidents and failure of dispute resolution systems – e.g. the Bhopal gas tragedy (Trotter, Day & Love 1989). In the minds of the general public, stories such as these and others emphasise the need for ethics in business.

When unethical activities such as the ones mentioned above were made public by media and activists, diverse organisations such as Greenpeace (established 1971), Rainforest Action Network (established 1985) and others demanded change in business attitudes. This resulted in the development of the concept of social responsibility, more commonly known as CSR (Boatright 2003, p.372; Fisher, C & Lovell 2009, pp.296-298; De George 2010a; Bolton, Kim & O'Gorman 2011) – discussed further in section 2.2.4. The business courses on social responsibility that followed were slow to incorporate ethical theories and were primarily based on law and social issues (De George 2010a). Raymond Baumhart in 1961, indicated that 'executives wanted to improve the ethical business behaviour of business people' (Baumhart 1961; Ciulla 2011). Fifteen years later in 1976, Brenner and Molander conducted a similar study to compare the findings from 1961, and reported increased public awareness and concern over business ethics and even higher 'concern among those in business over their own values, norms, and conduct' (Brenner & Molander 1977). However, a public opinion poll conducted by the Marist College Institute of Public Opinion in 2009 found a wide gap between how the public views business's ethics (very low) and how business executives perceive their own ethics (high).

Teaching and research in business ethics initially used the two basic techniques of ethical analysis and arguments: (1) Mill's utilitarianism – that an action is right if it produces the greatest amount of good for the greatest number of people; and (2) Kant's deontological – that duty, justice and rights are more important considerations compared to utility (Arnold, DG, Audi & Zwolinski 2010; De George 2010a; Ciulla 2011). Both these techniques are based on the belief that rational people will choose to follow these techniques. A survey of early business ethics textbooks (Richardson 1989; Velasquez 1992; Beauchamp & Bowie 1993; De George 1995; Trevino & Nelson 1995; Shaw 1996; Costa 1998; Dienhart & Curnutt 1998; Grace & Cohen 1998; Hartman, LP 1998; Walton & Duska 1998; Bowie 1999) reveals that business ethicists in that era predominantly follow the same lines of reasoning. However,

using numerous examples of business wrongdoings, Horvath (1995) contends that 'if the courses and writings in business ethics appear ineffective, this may be due in part to theoretical problems' – namely, Mill's utilitarianism and Kant's deontology. Horvath contends that reliance on these two techniques has created four problems: (1) lack of ethical motivation – the question 'why should I be good or do right?' is not answered, (2) lack of predictable decisions to specific situations, (3) lack of mutual compatibility between the two approaches – how can both be right when claiming the other is not?, and (4) lack of effectiveness – the predominantly end-justifies-the-means logic does not provide room for managers to think of alternatives to outcomes.

At this stage, business ethics needed an alternative or a third approach and technique to address the problems associated with the application of utilitarianism and deontological approaches. Alasdair MacIntyre in his book *After Virtue* (1985, 2007), criticises the two approaches of utilitarianism and deontology by providing a rationale to explain why a business ethic based on these two approaches will fail to alter behaviour. He claims that Western civilisation has lost its ethical heritage and offers virtue ethics, which focuses on community, roles, and virtues as the third approach to business ethics (Horvath 1995).

During the 1990s, business ethics was well established as an academic field with numerous text books, case studies, peer-reviewed journal articles and journals dedicated to business ethics issues such as the *Business Ethics Quarterly, Journal of Business Ethics, Business Ethics: A European Review,* and *Australian Journal of Professional and Applied Ethics*. The awareness and application of business ethics also spawned several pieces of legislations in the US, such as Civil Rights Act, Occupational Health and Safety Act, Foreign Corrupt Practices Act, and the Sarbanes-Oxley Act – which requires chief executives to certify the fairness and accuracy of corporate financial statements along with code of ethics for senior financial officers. Other countries have developed similar legislation and the United Nations developed the Global Compact which focuses on human rights, labour standards, and the protection of the environment (De George 2010a).

So, with the historical evidence of the growth of business ethics as an academic field, the question to be asked is: is business ethics getting better? The answer does not seem to be straightforward. Brenner and Molander's (1977) study suggests that compared to 1961, in

some areas of business it was better and in other areas it remained the same. Maitland (2010) proposed an ethical business cycle which is interconnected with the economic cycle of business – so, during an economic crisis or downturn, unethical behaviour decreases and vice versa. The Ethics Resource Centre's 2011 National Business Ethics Survey (NBES 2012) found that on the one hand 'misconduct has reached an historic low and observers of wrongdoing are more willing to report' but on the other hand, 'ethical cultures are eroding, employees' perceptions of their leaders' ethics are slipping, and pressure from employers to compromise standards is at an all-time high and retaliation has reached an alarming rate'. The report continues to show that companies behave differently during economic difficulties. Historical data has shown that as the economy grows misconduct will rise and reporting will drop, and during a recession employees adopt a higher standard of conduct (NBES 2012). Carroll (2010), reviewing 20 years of the *Business Ethics Quarterly* journal, notes that top level executive ethics has eroded in the 2000s, evidenced by two business ethics eras – the Enron era and the Wall Street financial scandal era and that 'the ethical problems seem to be systemic to the business system and the devastating financial impact has been worldwide' (p.717).

Thus, although business ethics and its various manifestations has become firmly entrenched, 'the concern for ethics in business continues' (De George 2010a). There may be two ways to make ethics in business more effective. One way is to study the past – as suggested by Joanne Ciulla (2011). The need to understand business history is because 'the loss of history has resulted in the spread of influential theories based on ill-informed understandings of the past' (Jones, GG 2008). By incorporating the history of business and ethics into the study of business ethics, Ciulla (2011) contends that 'it will compel us to think about the big questions concerning business and life', 'gain a richer insight into the values and motivations that shape the behaviour of people in business', and inculcate better leadership qualities in managers. The second way is to look to the future. De George (2010a) contends that since globalisation and the Information Age have changed the way business is being conducted and have also changed the ethical issues that businesses face, 'business ethics must change its focus accordingly'. One way of increasing the focus on ethics in business is to make a business case for business ethics.

2.2.3 The business case for business ethics

In order to consider whether companies and organisations should act ethically and responsibly, we could ask: whose interests should companies and organisations exist to serve? Should they serve the interests of particular groups within the company or society in general (Fisher, C & Lovell 2009, p.19)? There are two points of view that need to be discussed – the shareholder and stakeholder concepts. The first view, called the shareholder concept, is based on the notion that corporations provide jobs and produce goods and services as means to the end of increasing shareholder wealth. It considers the perceived shareholders' role of being speculative with no real interest in the long-term future of the company. According to this view, the task of a manager is to do their best to serve the interests of shareholders over and above all other interests (De George 2010b, p.190). However, Milton Friedman's (1970, pp.120-122) well-known version of the shareholder theory gives a somewhat different concept:

> In a free-enterprise, private-property system, a corporate executive is an employee of the owners of the business. He has direct responsibility to his employers. That responsibility is to conduct the business in accordance with their desires, which generally will be to make as much money as possible while conforming to the basic rules of the society, both those embodied in law and those embodied in ethical custom.
>
> In such a society [a free society], there is one and only one social responsibility of business – to use its resources and engage in activities designed to increase its profits so long as it stays within the rules of the game, which is to say, engages in open and free competition without deception or fraud.

Friedman thus endorses Adam Smith's theory that the invisible-hand of market forces and self-interest of business owners will promote general welfare, but thinks that 'self-interested actions tend to promote the general welfare only when appropriate laws are in place' and when businesses engage in competition without deception and fraud (Carson, TL 2003, p.392).

The second view, called the stakeholder concept, is based on the notion that 'as different people may be affected differently by the same action then it is important to take these

various impacts into account' (Fisher, C & Lovell 2009, p.17). The concept replaces the notion that managers have duties only to shareholders with the concept that managers bear a fiduciary relationship with stakeholder groups who are (1) vital to the survival and success of the business such as employees, suppliers, shareholders, customers, the local community, and the management (Freeman, ER 2005); and (2) who can affect or is affected by the business and includes entities such as competitors, media, governments, activists, the wider community, and even the natural environment and terrorists (Phillips 2003). Although the 'stakeholder theory is a theory of organisational management and ethics', it is distinct from other management theories because 'it addresses morals and values explicitly as a central feature of managing organisations' (Phillips, Freeman & Wicks 2003, p.481). It is based on the principles of fairness and the subsequent obligations to the stakeholders. The principle of stakeholder fairness states (Phillips 1997, p.57; 2003):

> Whenever persons or groups of persons voluntarily accept the benefits of a mutually beneficial scheme of co-operation requiring sacrifice or contribution on the parts of the participants and there exists the possibility of free-riding, obligations of fairness are created among the participants in the co-operative scheme in proportion to the benefits accepted.

Thus, the stakeholder approach requires a business to consider all of the obligations involved towards all entities that are vital to the business and those that are affected by the decisions and activities of the business – for instance, in the event of downsizing a business, where a substantial part of the workforce are required to be made redundant for reasons as varied as market downturn, financial crisis, and plant relocation, instead of looking at the issue only from the profitability point of view, the stakeholder approach will require the business to assess and address the effect of downsizing on stakeholders such as employees, suppliers, consumers, the local community and others. A further example would be product safety – should a company assess the safety of a product based on its effect on all stakeholders or should it rely only on a cost-benefit analysis and justify the consequences? For example, Ford in the marketing of Pinto placed 'profit over human lives (by not making an inexpensive modification), for being fully aware (based on crash tests and a cost-benefit analysis) that the defectively designed rear-end would take a toll in human suffering, and for working all the while to delay and obstruct the National Highway Traffic Safety Administration (NHTSA) from developing and implementing safe standards' (Danley 2005, p.206).

If, however, the task of a manager is twofold – to serve the interests of the shareholders and also be fair to the other stakeholders, the question then is: do companies have to address the needs of all stakeholders? From an ethical perspective, while it may conceptually be beneficial and desirable to balance the needs of multiple stakeholders, it is possible that 'doing so may compromise the ability to meet any stakeholder's needs by trying to meet all stakeholder needs at once' (Lepak & Colakoglu 2006, p.37). Stakeholders' needs are often diverse and diverge considerably, for example, employees' interests would be to secure better wages and working conditions which may increase the cost and price of goods and services, and this may not align with the interests of customers. One of the salient features, therefore, of the stakeholder theory is to understand and establish the relationships between the management of a company and stakeholders whose interests diverge from those of the firm and from each other (Jones, TM, Felps & Bigley 2007). Since the relationships between management and shareholders, and between management and stakeholders are different (Goodpaster 1991), central to understanding these relationships is Donaldson and Preston's (1995) three aspects of the stakeholder theory – (1) descriptive aspect (describing what the company is and how it relates to its stakeholders), (2) instrumental aspect (framework for examining the connections between stakeholder management practices and the achievement of corporate goals), and (3) normative aspect (how should the company relate to its stakeholders?). Donaldson and Preston suggest that the normative aspect 'serves as the critical underpinning for the theory in all its forms' (1995, p.66) and involves the acceptance of the ideas that stakeholders are identified by their interests in the company and that each group of stakeholders merits consideration for its own sake.

However, decision-making with respect to stakeholder relationships – which include trade-offs between company and stakeholder interests and involve allocation of benefits and burdens among the groups – involve moral questions such as how to act (Jones, TM, Felps & Bigley 2007). In this respect, it is argued that managers face two sets of conflicting prescriptions about how to act: (1) traditional morality – Mill's utilitarian, Kant's obligation and duty, virtue ethics' honesty, fairness, respect and equity; and (2) market morality – self-interest (Hendry 2004, p.2&22). Jones, TM, Felps and Bigley suggest that these two sets of prescriptions on how to act can be converged by developing 'stakeholder culture' in which

beliefs, values, and practices are applied for solving stakeholder-related problems and manage relationships with stakeholders (2007, p.142).

Whether an organisation is required to act based on traditional morality or market morality or converge both methods, managers will tend to accept the argument about the need for an ethical orientation only if ethics will not erode into profitability and competitiveness, and would want ethics to achieve a return on investment (Costa 1998, p.175). Early recognition of return on investment in ethics was postulated by Pattan (1984) suggesting that, by indicating commitment to ethics and excellence, managers can influence employees to perform to their full potential and excellence which would increase productivity and quality.

There is a dispute about whether good ethics is good for business. Cohen (1996, 1999) points out that the significance of the stakeholder theory is not the relationships per se but the importance, strength and demands of the moral relationship, and that "good ethics is good business" implies that ethical behaviour is of instrumental value only. However, some descriptive and empirical research on the link between ethics and return on investment (ROI) are available. A 1996 study on the perceptions of 892 students of business ethics indicated that ethical practices improve profit, return on investment, the corporate culture, and public perception of the organisation (Stewart, Felicetti & Kuehn 1996). Two opposing views were presented at the 2010 Ethics and Compliance Officers Association (ECOA) conference and reported on-line by i-Sight (2010), on the question of whether the return on investment of an ethics and compliance program can be measured through numbers. One group emphasised that the Return on Investment (ROI) for ethics is problematic for business because it is difficult to justify that a company that acts ethically performs better than a company that does not. There is no empirical evidence to support that ethics pays, and because of the perception that ethics means that companies must always do the right thing, even if it is difficult, and costly, it's hard to prove it brings a profit to the business. On the other hand, the second group emphasised that ROI for ethics has real value because ethics has an effect on expenses such as reduced expenses due to costs associated with unethical conduct, averting conduct, law suit costs, legal fees, insurance policies against loss, accidents, and fines incurred by acting unethically. It can have a positive impact on revenue from better business performance and reduced managerial misconduct. A graph produced by Ethisphere (2012) below shows a comparison between the returns of 'World's Most Ethical' companies against the S&P 500.

The categories used by Ethisphere in their methodology to rank the World's Most Ethical companies include – existence and effectiveness of ethical and compliance programs (weighting 25 per cent); strength of reputation, leadership and innovation (20 per cent); availability and quality of governance (10 per cent); performance of corporate citizenship and responsibility in areas such as environment, community, philanthropy (25 per cent); and acceptance and adoption of a value-based culture of ethics (20 per cent).

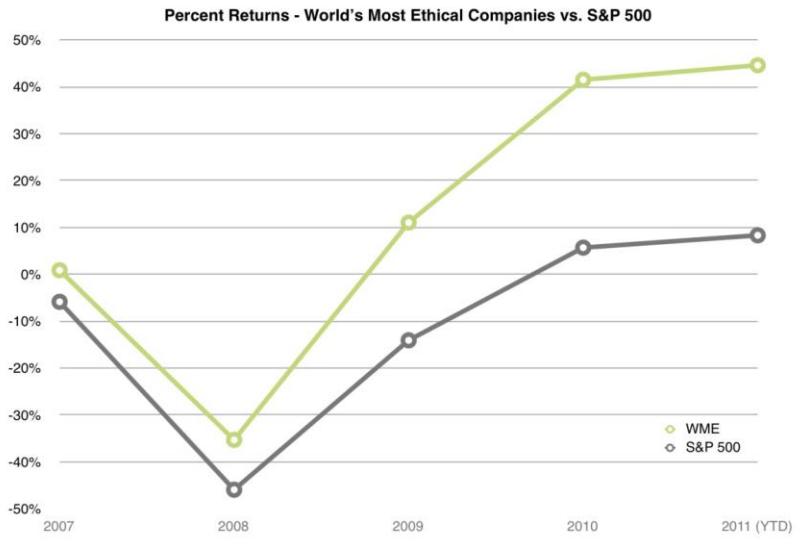


Figure 2: Per cent returns – world's most ethical companies vs. S&P 500. *Source: (Ethisphere 2012)*

Figure 2 provides an indication that the bottom lines of companies are increasingly based not on revenue-producing assets but on the value of human and intellectual assets. Costa (1998, p.177) contends that 'this new form of equity is based on the return on relationships such as management of customers, employees, suppliers, strategic partners and global brand reputation'. One indication of such relationships is customer satisfaction. Although several external metrics such as return on investment, net profit, and earnings per share, are used to track the performance of a business, the measurement and tracking of customer satisfaction is

essential to ensure customer retention and the business that completely satisfies its customers can expect to retain its customers (Best 2005, p.8). In markets where competition is intense, there 'is a tremendous difference between loyalty of merely satisfied and completely satisfied customers' and 'any drop from total satisfaction results in major drop in loyalty' (Jones, TO & Sasser Jr. 1995, p.89). The effect of customer satisfaction and retention can be observed in financial performances such as revenue, net profit and cash flow, which will ultimately affect shareholders in the form of growth in earnings (Best 2005, p.448). An empirical research to study the determinants of customer satisfaction in the financial services sector in 1998, revealed significant relationships between customer satisfaction and factors such as trust, length of relationship between sales personnel and their customers, expertise, and ethics (Bejou, Ennew & Palmer 1998). Best (2005, p.221) lists 'questionable business practices', 'lawsuits and boycotts', and 'environmental problems' as potential liabilities for the performance of a business. The importance of measuring and monitoring customer satisfaction was demonstrated by Kaplan and Norton (1992) in their ground-breaking thesis called the BSC in which managers can measure, monitor and link financial performance to non-financial performance indicators such as internal processes, customer satisfaction, and innovation and learning. The BSC has been discussed further in section 2.6 (Monitoring and managing business ethics – using the BSC) and *forms the basis for one of the propositions which will be tested to address the research Question 2: What methodologies can a SME manager use to recognise, measure, and effectively manage ethical issues?*

In summary, as discussed above, there are several motivations for a business to be ethical – corporate reputation, media focus, effects of boycotts, stakeholders' satisfaction, employee recruitment and retention, and effect of customer satisfaction on financial performance. Such motivations have resulted in businesses, senior executives, managers, employees, individuals and society caring about ethics (Trevino & Nelson 2004a, pp.26-31). One indicator of businesses caring about ethics is the adoption and implementation of business codes which may consist of information such as mission and vision, responsibilities to stakeholders, and standards and rules. The last mentioned specifies the expected behaviours of directors, managers, and employees. A study by KPMG in 2008 revealed that 85 per cent of the Fortune Global 200 of the world's largest corporations have business codes, 70 per cent of which address employee responsibilities towards confidential information, reporting of fraud, and dealing with gifts and entertainment (KPMG 2008). It also showed increases in the number of

companies that adopted such codes – from a handful in 1970 to 14 per cent in 1990 to 100 per cent of American companies in 2008. Increases in the number of companies in possession of a corporate code of ethics between 2001 and 2002, and 2005and 2006 were also observed in the top 500 companies by revenue in Australia and Canada, and the top 100 companies by revenue in Sweden (Svensson et al. 2009).

The corporate and accounting scandals of companies such as Enron, Arthur Andersen, Tyco International and WorldCom in 2000–2002 led to externally generated codes of conduct – such as, prompting government regulators in the US to enact legislations. A prominent legislation is the Sarbanes-Oxley Act of 2002 which contains several governance and ethical initiatives for public companies. The New York Stock Exchange (NYSE) now requires listed companies to adopt a code of conduct and ethics (Verschoor 2002). Similar legislated regulators in Australia include the Australian Competition and Consumer Commission (ACCC), the Australian Securities and Investments Commission (ASIC), the Australian Prudential Regulation Authority (APRA) and the Trade Practices Act (Grant 2005). Then, there are the non-legislated bodies such as the CAUX Round Table, which have principles for business based on the ethical ideals of cooperation for the common good and human dignity (CAUX 2009), and Transparency International, whose mission is to create change 'towards a world free of corruption' (TI 2012). International standards have been developed to provide guidelines and facilitate social, ethical and environmental reporting. These include SA 8000, a standardised code of conduct based on human rights and stakeholder theory (SA8000 2012); the AA 1000, a quality assurance standard for systems that can identify whether a company is acting unethically and suggest remedial actions (AA1000 2012); the Global Reporting Initiative, which proposes guidelines for reporting on the economic, social and environmental implications of business practices (GRI 2012); the United Nations Global Compact, which provides initiative for businesses to apply principles in areas of human rights, labour, environment and anti-corruption (UN 2007); and the Universal Declaration of Human Rights, which sets guidelines for human rights (UN 2012).

The motivations, initiatives and regulations as discussed in the previous paragraphs can be said to have 'served as impetus [for companies] to go beyond the letter of the law and to seek to establish an ethical climate' in their organisations' and to adopt 'policies with respect to what is known as Corporate Social Responsibility' (De George 2010b, p.11). The next

section will define the concept of CSR of business, and discuss its relationship with the concept of business ethics.

2.2.4 CSR and business ethics

The concept of CSR, like business ethics, has existed for some time and has been evolving throughout the twentieth century (Carroll 1999; Fisher, J 2004; Bolton, Kim & O'Gorman 2011). Carroll (1979, 1999) traces the history of the CSR concept from Howard Bowen's 1953 publication of *Social responsibilities of the Businessman* through to 1999 which included contributions to the concept of CSR from a number of researchers and academics. Concepts ranged from Milton Friedman's (1970) concept that 'the social responsibility of business is to increase profits' to concepts that included the stakeholder theory, business ethics theory, corporate social performance, corporate citizenship, and sustainability (Sethi 1975; Carroll 1999; Matten & Crane 2005; Freeman, I & Hasanoui 2011).

There appears to be an abundance of defintions provided by academicians and business people, however, the best known definition is a framework suggested by Carroll (1979, 1999). Carroll defined the social responsibilities of a business to include economic – 'responsibility to produce goods and service that society wants and to sell them at a profit'; legal – 'responsibility to fulfill its economic mission within the framework of legal requirements'; ethical – 'societal expectations society has of business over and above legal requirements'; and discretionary responsibilites – voluntary actions at individuals' discretions. However, Freeman and Hasnaoui (2011, p.419) explored the defintions of CSR as published on the Internet by the governments of United Kingdom (UK), France, the United States (US), and Canada and found that 'both within and among these countries there exists no clear definition of the concept of CSR'. Freeman and Hasnaoui contend this may be because of cultural differences and the understanding and confusion of the term 'CSR'. Enderle (2010) suggests that 'business ethics has important implications for understanding' CSR and contends that there are some who consider CSR as a sub-area of business ethics and there are others who consider business ethics as a sub-area of CSR. Fisher and Lovell (2009, p.42) have divided the field of business ethics into specialised sub-fields such as CSR, coprorate governance, corporate citizenship, sustainability, ethical investment, employment rights and human rights, fair trade, risk management, and reputation management.

Freeman et. al. (2010) indicate that although different concepts and definitions have been established practical techniques have been developed under the umbrella of CSR such as corporate social performance – focusing on the outcomes of CSR, corporate social responsiveness – a strategic and procedural aspect of CSR, coprorate governance, corprorate accountability, sustainability, triple bottom line, and corporate social entrepreneurship: 'these diverse efforts share a common aim in the attempt to broaden the obligations of firms to include more than financial considerations' (p.235).

The main distinction between business ethics as a set of moral requirements on business and corprorate social responsibility is that the former has been used by philosophers and academics for applying ethical theories and analysis in an effort to understand ethical issues in business and the latter has been the main focus from a business perspective (Epstein 1987; Fisher, J 2004). Zenisek (1979) suggested the social responsibility of a business should fit between a business ethic and societal demands and expectations. Others have distinguished between the two concepts by suggesting that while business ethics is about 'doing things ethically' and business behaviour is measured based on standards of right and wrong, rather than solely relying on the principles of management or accounting or law (Hartman, LP 1998, p.2), CSR is how an organisation approaches the social and environmental impacts of its business operations and its voluntary contribution to the wellbeing of the global and local communities in which it operates (ACCSR 2007; Business-Ethics-Institute 2008; Fisher, K et al. 2009). While business ethics is about the application of ethical values, CSR is the 'expression of those values both within core business strategies and as a set of commitments and obligations made to the firm's stakeholders' (Business-Ethics-Institute 2008). However, despite the disctinctions between business ethics and CSR, the close link between the two concepts was underlined in a study of the perceptions of marketing managers towards the roles of ethics and social responsibility. The study showed the importance of the inclusion of both ethics and social responsibility in the strategic planning process in an organisation (Vitell, Paolillo & Thomas 2003). These researchers also concluded that 'the individuals who design and communicate the ethical and social responsibility policies of the organisation must also embrace the ideals of ethical behaviour and social responsibility in both the workplace and their personal lives' (2003, p.79).

In summary, (1) notwithstanding the historical evidence of the growth of business ethics as a acdemic field, ethical cultures are eroding, employees' perceptions of their leaders' ethics are slipping and pressure from employers to compromise standards is at an all time high (NBES 2012), (2) the Enron era scandals and the Wall Street scandals in the first decade of the twenty-first century indicate that ethical problems seem to be sytemic to the business system (Carroll 2010), (3) corporate responsiblity and obligation towards shareholders or owners have been limited by other obligations towards other stakeholders such as employees, customers, suppliers, communities, and environment (Freeman, ER et al. 2010), and (4) there is a need to include ethics and social responsibility in the planning process of an organisation (Vitell, Paolillo & Thomas 2003)

However, as businesses expand their operations and activities internationally and engage in the globalised business environment, 'more complicated issues arise about how best to manage the diversity of interests, norms, laws, and expectations' (Freeman, ER et al. 2010, p.255). The next section will outline the phenomenon of globalisation and discuss the relationships between globalisation, business ethics and CSR and then introduce the influence of these phenomena on SMEs globally and in Australia.

2.3 Globalisation

Commentators and researchers agree that the world did not turn ‘global’ overnight. They delineate four periods of globalisation: (i) Pre-modern globalisation covering the period from the start of history until around the Renaissance, ‘characterised by interregional or inter-civilisation encounters between Europe and Asia’ (Kolstad & Wiig 2005), (ii) Early modern globalisation c.1500-c.1850, which saw demographic flows between Europe, the Americas and Asia and the creation of nation states, (iii) Modern globalisation c.1850-c.1945, which saw the rise of industrialised capitalist economies and the beginning of economic globalisation, and (iv) Contemporary globalisation c.1945-present, ‘when renewed waves of global flows and interconnectedness intensified globalisation to its present state’ (Kirkbride 2001; Osterhammel & Petersson 2003) (see also (Weinstein 2005, p.2).

A general definition of globalisation is the process by which the economic and social systems of nations are connected together so that goods, and services, capital and knowledge move freely between nations (Stiglitz 2003, p.51; Weinstein 2005, p.2; Velasquez 2006, p.126) . This can be further elaborated as connectivity between people around the globe, quicker flow of information and money, goods and services produced in one part of the world being available in others parts, frequent international travel, and communication resulting in transnational interdependence of economic and social activity (Homann, Koslowski & Luetge 2007; Porter 2007, p.ix; Scherer & Palazzo 2008). It encompasses and brings together economic, political, cultural, and technical aspects of diverse countries (Bauer & Schonwalder-Kuntze 2007, p. 58; Fisher, C & Lovell 2009, p.470). While agreeing that international business is not a new phenomenon and that exploration, trade, pilgrimage, and migration have led individuals and societies to move around the world since the beginning of human history, most commentators accept that globalisation has accelerated in the last two decades, fuelled by the formation of the World Trade Organisation (WTO), the World Bank and the International Monetary Fund (IMF) (Wiseman, JR 1998, p.14,16; Suzuki & Dressel 1999, p.186,190; Olssen, Codd & O'Neill 2004, p.6,10; Gibson 2007, p.69; De George 2010b, p.164).

The arguments for and against globalisation are complex and important (Neef 2004), and as the World Commission on the Social Dimension of Globalization (WCSDG 2004, p.x)

suggests, the potential for good from globalisation is immense, however, 'we also see how far short we still are from realizing this potential' – due to unbalanced outcomes in wealth, jobs and the future of children.

On the positive side of globalisation, the World Bank has indicated that in the period between 1980 and 1998, some countries which include Brazil, China, Hungary, India, Uganda, Vietnam and Mexico, strongly increased their foreign trade. Globalisation also brought extensive poverty reduction. In China, the number of rural poor fell from 250 million in 1978 to 34 million in 1999. In Vietnam, surveys of the country's poorest households show 98 per cent of people became better off in the 1990s. In Uganda, poverty fell 40 per cent during the 1990s and school enrolments doubled (Dollar 2008). In the 1980s, through their notable ethical behaviour with the issue of River Blindness, Merck & Co proved that business ethics can be applied by making the cure for river blindness available free of cost to millions of impoverished people. From a utilitarian point of view, the company has been able to continue recruiting some of the best scientists in the world (Vagelos 2001; Velasquez 2006, pp.4-7).

On the problematic aspects of globalisation, the WTO, which came into existence in 1995 and represents the modern beginnings of globalisation, had a goal of developing rules of trade between nations and in turn helping producers to reach out to global markets. But within a short period of time, it became a focus of protests (De George 2010b, p.164). Neyland (2007) identifies the reason for the complaints to 'shifting of power and control from the public to a tiny and un-elected private sector', and global capitalism achieved through 'mass production, communication, and consumption, and the growing dominance of trans-national capitalism'. Stiglitz (2002, p.214) contends that the problem is not with globalisation, but with how it has been managed and suggests that globalisation can be reshaped by defining whose interests are at stake, and the need for better governance, transparency and openness from institutions such as WTO, IMF and World Bank, and from businesses (Stiglitz 2002, pp.215-228).

Globalisation has wide and far reaching effects on every nation in the world today. Most of the impetus and power for globalisation is provided by large private-sector MNCs, who have the capacity to utilise the free market and economic environment by shifting capital and labour around the world. The ascent of private-sector can be corroborated by the fact that in 2011, the combined annual sales values of the top 10 corporations of the world were equivalent to the combined GDP of 127 countries. The powerful private sector maybe tiny in

numbers, but certainly not tiny in size. For instance, Wal Mart's sales turnover is larger than the individual GDPs of South Africa, UAE, Denmark, Thailand, and Greece (CNN-Fortune 2012; IMF 2012). It can be argued that this process of globalisation has led to a 'decrease in the nation states' capability for governance' (Homann 2007, p.4) and 'resulted in a significant shift of power from the nations state to the MNCs' (Hendry 2004, p.85). Due to their enormous financial and logistical influence in countries where they operate in, there will be calls for MNCs to accept their social and moral responsibilities. What then should be the role of the MNCs in the globalisation process?

2.3.1 Role of MNCs in globalisation

MNCs by virtue of their extensive operations in more than one country, may operate between developed countries, between developed and developing countries, or between developing countries. MNCs have attracted both commendation – that they have a positive influence in helping raise wages and improve working conditions, and criticism – that they operate immorally by exploiting workers, natural resources, reaping exorbitant profits, compete unfairly, and cause unrest and deprivation (Hendry 2004, pp.85-86; De George 2010b, pp.166-168). Stiglitz (2009) contends that while accepting the fact that in monetary terms wealth is being created for developing and developed countries, questions arise as to how that wealth in measured, created, and where it is going. Considering that some MNCs are considerably more powerful than the nations that they operate in, and if, as some suggest, their wealth is being created by unfair means (Hendry 2004, p.87), it follows that when confronted with ethical questions that arise within their business operations, MNCs are expected to find convincing answers and include initiatives such as CSR, corporate sustainability, corporate citizenship, corporate philanthropy, and business ethics (Scherer, Palazzo & Baumann 2006). The United Nations (UN), realising that MNCs using their economic power can influence conditions effectively, introduced the UN Global Compact in 1999 at the Davos World Economic Forum by the then UN Secretary General Kofi Anan, and involved businesses to foster the ten fundamental principles in areas of human rights, labour, environments, and business integrity (Williams 2004; Scherer, Palazzo & Baumann 2006).

Although there is a growing consensus that MNCs have moral obligations as corporate citizens to the global community, several businesses have expressed concerns that the obligations are unclear. Several US corporations have not joined the Global Compact citing

lack of adequate accountability structures (Williams 2004), and organisations in the oil, gas, and mining sector have questioned the effectiveness of CSR with 'evidence of a gap between stated intentions of business leaders and their actual behaviour and impact in the real world' (Frynas 2005, p.581). This has created new challenges for businesses in a globalised economic environment.

2.3.2 Ethical challenges faced by businesses due to globalisation

Ethical issues of globalisation are not new. For example, they can be found in the actions of colonial companies such as the Dutch and British East India Companies in the eighteenth and nineteenth centuries (Fisher, C & Lovell 2009, p.471). Some of the issues raised with these colonial companies were impoverishing host countries, exploiting weak institutions in host countries, increasing political tensions in a region, protecting markets by force, and cultural globalisation. This is reflected in a consensus among most authors, commentators and researchers that globalisation affects the economic, social, cultural, environmental and political landscapes.

It has been argued that globalisation is essential for reducing poverty through economic development and for achieving greater solidarity between nations. In pursuance of this argument, it has been contended that ethical challenges faced by businesses, specifically MNCs, are limited to coping with corruption in countries that they operate in and to institutionalise best ethical practice within their organisations (McPhail 2001). However, ethical challenges faced from globalisation could result from the consequences of globalisation such as businesses closing down, increasing unemployment due to relocation and outsourcing, lowering of environmental standards, and flight of capital from nation to nation (Wiseman, JR 1998, p.15; Olssen, Codd & O'Neill 2004, pp.4-8; Velasquez 2006, p.126). Other ethical challenges faced by businesses due to globalisation discussed by various researchers and commentators are (1) searching for solutions in collaboration with interest groups and Non-Governmental Organisations (NGOs) who are empowered by society (Boatright 2000); (2) re-examining the moral authority of dominant ideologies of the most economically powerful organisations, requiring identifying, advocating, and balancing moral standards across borders, and developing moral competence in managers of such organisations (Hartman, EM 2000; McPhail 2001; Michaelson 2010); (3) realising the importance of sustainability in business ethics and establishing a relationship between

business ethics and the three pillars of sustainability – social, economic and environmental such as human rights, treatment of the environment, low cost drugs, and intellectual property issues (Calkins & Berman 2004; DesJardins 2010); (4) understanding the ethics of responsibility (Kung 1997; McPhail 2001) by anticipating ethical issues and dealing 'with them before they produce great harm or are so entrenched as to be difficult to change' (De George 2000) and developing an individual's ability to recognise ethical dilemmas (Rest 1984a; McPhail 2001; French & Wokutch 2005).

Ethical challenges faced by MNCs due to globalisation have been attributed to several causes: (1) the distance between an individual's actions and the consequences of their actions. In other words, 'it may be easier to take an action which has unethical consequences the further one is removed from the consequences of those actions' (McPhail 2001); (2) access given to MNCs by nation states to resources such as minerals and genetic components of plants and animals in poorer countries by corrupt means, trade restrictions such as anti-dumping policies, and sourcing of goods along a supply chain (Collier 2000); (3) divergence between the growth of global business practices and ethical behaviour (Vitell, Paolillo & Thomas 2003); (4) enacting laws seeking to ban sweatshops and child labour without critically examining its causes and consequences of whether it will harm the very people they were intended to help (Arthaud-Day 2005; French & Wokutch 2005); and (5) the inadequate ethical management education (McPhail 2001; Webley 2001).

2.3.3 The role of business ethics and CSR in ethical challenges due to globalisation

As shown in earlier discussions the rise of CSR can be traced directly back to globalisation. However, due to global governance failures, and exposure of corporate behaviours through media and NGO pressure groups, businesses have been 'pressurised to "do something" about the environment, community development or global warming' and engage in social investments (Frynas 2005, p.583). Frynas identified four factors which compel businesses to engage in CSR-related activities: obtaining competitive advantage, maintaining a stable working environment, managing external perceptions, and keeping employees happy (2005, p.583). Since these corporate social initiatives are CSR driven by 'business case' rather than 'genuine' CSR, Frynas categorised such initiatives as public relations exercises, end up as failures and causing harm to the business's reputation.

Three tasks can be identified for businesses to meet the ethical challenges due to globalisation. The first task is for businesses to develop capacities to ensure effective delivery of their investments in CSR-related activities, and to foster genuine social development (Frynas 2005, pp.597-598). The second task faced is related to the stakeholder theory. As shown earlier, stakeholder management is critical to the success of business. However, the idea of addressing the interests, demands and values of entities that affect or are affected by corporate decision-making needs to address the broader aspects of 'environmental and social challenges such as human rights, global warming, or deforestation' (Scherer & Palazzo 2008, p.19), and engage in activities that previously were the responsibilities of governments (Matten & Crane 2005; Scherer, Palazzo & Matten 2009).

The third task is that of incorporating business ethics concepts and approaches into business strategies to address the ethical issues arising out of globalisation. This is developed from the concept of corporate citizenship which has been described as the role of the corporation to administer aspects of citizenship, i.e. social, civil and political rights to stakeholders and other entities (see Matten & Crane (2005)). Administering citizenship to stakeholders is possible by pursuing socially acceptable goals in a socially acceptable manner (Palazzo & Scherer 2006), and by applying the concepts and approaches of business ethics. This is relevant when it is argued that (1) the focus of business ethics should be on MNCs, being key players in the economic globalisation, and that they must be held accountable for their impact in society, and that SMEs have to follow them; (2) for SMEs the basic question is survival, not ethics; and (3) that SMEs in developing countries have limited access to information, education levels of employees and government subsidies – resulting in less relevance of ethics (Enderle 2004). *Ethical challenges faced by SMEs due to the effects of globalisation are further discussed in the subsections of section 2.4.*

Having seen, as above, the ethical challenges faced by large businesses due to globalisation, and the impact that large businesses can have on SMEs, this thesis is interested in the third task of incorporating business ethics concepts and approaches to address ethical issues arising out of globalisation specifically in SMEs. The next section introduces the defintion and importance of SMEs followed by a discussion on business ethics in SMEs with respect to globalisation, and identifying gaps in the research concerning the effects of globalisation on business ethics in SMEs particularly in Australia.

2.4 Small and Medium Enterprises

This section outlines the definition of SMEs, discusses their importance in the global and Australian business environments, reviews literature on the effect of globalisation on SMEs, discusses ethical issues faced by SMEs, reviews literature on research in business ethics and CSR in SMEs, discusses the unique characteristics and limitations of SMEs, and disucsses several decision-making tools used by SME owners and managers.

2.4.1 Definition of SMEs

The definition of SMEs varies between countries and over the past two decades definition of SMEs in some countries have undergone changes. The most common method of defining a SME is by the number of employees in an organisation. In the 1990s, most countries in Europe defined a SME as having less than 500 employees in their organisation (OECD 1997, pp.119-120). However, the European Commission has redefined an a SME as having less than 250 staff and a sales turnover of less than €50 million or a balance sheet figure of less than €43 million (Verheugen 2012, p.14). Defintion of SMEs in the US is businesses having less than 500 employees (USITC 2010, p.1-3).

In Australia, SMEs are defined in terms of 'small' being less than 20 employees and 'medium' between 21 and 199 (ABS 1999, p.4; Ergas & Orr 2007, p.3). This thesis has used the Australian definition of SMEs in its research.

2.4.2 Importance of SMEs in the global and Australian business environments

SMEs, in aggregate, make up the largest segment of the business environment in the global economy and account for more than 90 per cent of all enterprise and provide around 60 per cent of global employment (Jenkins 2004; Fisher, K et al. 2009). In Latin America, 95 per cent of businesses are SMEs contributing 50 per cent of GDP and in the US, 99.7 per cent of all firms are included in the 'small business' category (Vives 2006). In the European Union (EU), 23 million SMEs represent 99 per cent of all companies and employ around 75 million people, and have been recognised as 'the engine of the European economy and are the essential force of jobs, entrepreneurial spirit, and innovation and are crucial for fostering competitiveness and employment' (Verheugen 2012). Between 2002 and 2010, 85 per cent of

net new jobs in the EU were created by SMEs (EU 2012). Ninety per cent of companies in the Latin American region are SMEs (WorldBank 2004). Similarly, Chinese SMEs account for 99.8 per cent of total firms in China, contribute to 60 per cent of the national GDP and employ 70 per cent of the total labour workforce (Huang 2009). In its 2000 report, the International Labour Organisation (ILO) acknowledges that besides generating direct employment, SMEs provide important services to other enterprises by providing repair and maintenance services, supplying parts and components, processing semi-finished products and selling manufactured products to consumers, thus contributing to overall employment (ILO 2000).

Similarly, in Australia, SMEs are extensive, and important contributors to the economy. A Commonwealth of Australia report indicates that SMEs make up 99.7 per cent of all businesses, comprising of 95.6 per cent of businesses employing less than 20 employees and 4.1 per cent of businesses with between 20 and 199 employees (Clark et al. 2011). At the end of June 2010, the SME sector in Australia employed 7.38 million people (70 per cent of total employment) and contributed around 57 per cent of total industry value added (ABS 2012). SMEs in Australia are making a substantial contribution to domestic production in a wide range of industries. For example, SMEs contribute 97.5 per cent of the value of Australia's agriculture, forestry and fishing production, 62 per cent in the services sector, 48 per cent in the manufacturing sector, and 26 per cent in the mining sector (ABS 2012).

2.4.3 Effects of globalisation on SMEs

The 1997 Organisation for Economic Cooperation and Development (OECD) project on the effects of globalisation on SMEs mentions that while it is large firms that provide most of the impetus through cross-border operations undertaken to organise their expansion, production, sourcing, marketing, and financing, globalisation also presents challenges and opportunities for the development of SMEs (OECD 1997, pp.7-9). Eight years on, the OECD in their 2005 report note that SMEs have benefitted from globalisation through activities such as exporting, importing, mergers, acquisitions and strategic alliances (OECD 2005, p.9).

In recent years, the effect of globalisation on SMEs has received increased attention due to significant contributions made by SMEs in developing and developed countries. One recent

study of 4,053 small firms in the US revealed that while globalisation has no significant effect on profits for SMEs, profitability increases with size of the firm, intangible assets and managerial experience of the owners of the firm (Asiedu & Freeman 2006). As shown in earlier sections, large firms provide most of the impetus to globalisation. While there are numerous instances which show negative consequences of their actions, recent research has shown multi-national corporations, MNCs, delivering benefits. These include improving labour markets, becoming employer of choice, respecting human rights and rule of law, maintaining healthy and safe workplaces, fair compensation for workers, and creating satifaction among their own employees which can lead to increased profitability through higher employee productivity and loyalty, customer satisfaction and corporate reputation (Arnold, DG & Hartman 2005). Due to their negative or positive impact on society and environment, the focus of most studies and research have been on MNCs. By contrast, SMEs are only expected to follow them, unable to effectively improve on the globalisation process (Enderle 2004).

In recent years, however, MNCs have contributed to SME effectiveness through the creation of enterprise clusters which 'is an agglomeration of firms in a related line of business' (Enright & Ffowcs-Williams 2000, p.3). Examples of clusters are seen in auto design, electronic design, biotech research, and banking in which MNCs seek out clusters of small firms in one location having related business to deliver products and services. While this has advantages in efficiencies and profitability for the MNCs, the impact of globalisation on clustered SMEs can come in the form of (1) increased pressure of competition between clusters from different countries (such as MNCs seeking lower cost locations for production), (2) increased competition between SMEs within a cluster (such as when SMEs themselves begin to export goods and services), and (3) mergers of SMEs within a cluster (Enright & Ffowcs-Williams 2000). These impacts could cause failures in SMEs due to inadequate education, training, infrastructure, research support, and due to lack of resources to access information. Arnold and Hartman (2005) suggest further research on whether globalisation through the operations of MNCs can exert influence over SMEs or vice versa in areas such as respecting worker rights. It is also not clear which management areas of business (such as governance, finance, intellectual property, human resources, outsourcing, and downsizing) in SMEs would be most affected by the impact of globalisation.

2.4.4 Characteristics and limitations of SMEs

Characteristics of SMEs are very different from larger businesses. SMEs are typically managed by entrepreneurs and could be family-owned or held by small group of shareholders. Moore, Slack and Gibbon (2009, p.182) contend that 'SMEs are not homogenous, are sometimes driven by owner-manager values, and so can be difficult to compare directly both to each other and certainly against larger businesses'. Because the definition of entrepreneurship denotes the creation of some combination that did not previously exist or are those that are seeking growth, entrepreneurial firms are typically newly established ventures, often smaller in size and are often equated with small business ownership and management, and even family businesses (Carland et al. 1984; Janjuha-Jivraj, Martin & Danko 2012).

Carson (1993) summarises the typical characteristics of SME managers in the UK as follows: they take risks, are highly motivated, their decisions are influenced by their culture and background, they tend to be generalists rather than specialist managers, they are task oriented, and they are ambitious, domineering, and inspirational. A traditional assumption among managers has been that small businesses should essentially use the same management principles as big businesses, only on a smaller scale. However, Welsh and White (1981) argue that the very size of small businesses creates a special condition – referred to as resource poverty, which results because of certain unique conditions. Welsh and White have summarised these conditions as: high competition due to clustered industries (such as wholesaling, retailing, services, manufacturing); not enough financial resources to hire additional managerial services such as accounting, book keeping, and planning; impact of external forces such as government regulations, tax laws, labour supply, and interest rates. Moreover, SMEs have a liability of 'newness', especially at the early stages of the venture, when 'entrepreneurs are unfamiliar with their roles and the roles of the firm, and are apt to commit a variety of errors and blunders' (Morris et al. 2002, p.333)

Vives (2006, p.40) contends that because of such unique characteristics, 'SME activities may reflect the values, character, attitudes, education, background of the owner/entrepreneur', which could have a 'direct impact on the firm's corporate responsibility' and business ethics. A typical owner/entrepreneur is usually the primary decision-maker and strategist in such

businesses and therefore decision-making is centralised in most areas of business such as business development, planning, and implementation (Ireland, Hitt & Sirmon 2003; Janjuha-Jivraj, Martin & Danko 2012).

While it has been acknowledged that the performance of SMEs is vital to the national economy, employment and innovation, SMEs' performance varies due to the limitations in their capabilities. Such limitations mean that small businesses can seldom survive mistakes or misjudgements. Enderle (2004) asserts the limitations of SMEs could be a direct result of struggling for survival, lack of time or resources, low employee educational levels, unreliable access to information, and lack of adequte government subisdies. A survey conducted in 2002 by the Industry and Buinsess Association of China found that the average life of a SME was only 4.5 years and one of the problems identifed was managerial decision-making (Huang 2009).

Managerial decision-making, as conventionally described in management texts and as discussed further in section 3.2, is an orderly, sequential and structured process. However, several studies (Gartner, Bird & Starr 1992; Carson, D 1993; Gilmore & Carson 2000) have illustrated that SME managers do not manage their business in a textbook or functional way and rarely take decisions in an orderly, sequential and structured manner. Table 1 shows significant differences identified (Carson, D 1993) in the decision-making characteristics of SME and large firm managers.

Table 1: Decision-making characteristics of SMEs and large firm managers

SMEs	Large firms
Inherently informal	Inherently formal
Haphazard, creative, opportunistic and reactive	Sequential, systems oriented, disciplined and structured
Decision time span is short-term	Can be short-term, medium-term and long-term

Since the small business can only afford limited professional services, the owner-manager of such SMEs need to have the 'broad thinking of a generalist, and able to tolerate disorder, endure switching from role to role, and stick to fundamentals' (Welsh & White 1981, p.12).

This implies that management in SMEs is not simply a downsized version of big business management. From the perspective that management can be regarded as a set of tools to reduce the complexity of operations to a level that a manager can act effectively, Fink and Kraus (2009, p.xix) argue that in smaller enterprises, such management tools or instruments are unnecessary and that a more flexible and easily used set of tools may need to be developed to support the SME manager in making optimal decisions.

2.4.5 Business ethics in SMEs

As discussed earlier in this thesis, business ethics and CSR has so far primarily been the domain of the large corporate sector. Recognition of the growing significance of the SME sector has led to an emphasis on their social and environmental impact. Entrepreneurs and their organisations have often been characterised as 'aggressive, cutthroat competitors motivated by maximising financial gains at all costs' (Neubaum, Mitchell & Schminke 2004, p.343). They also contend that ethical climates in some organisations take longer to develop than others. By inference, Marta, Singhapakdi and Kraft (2008, p.590) suggests that 'small businesses may have less developed ethical systems than larger businesses, because a higher percentage of them are newer'. Schminke (2001, p.382) found respondents who worked in larger organisations exhibited 'much stronger ethical predispositions.' Several authors and researchers have observed that research in business ethics and CSR has been predominant for large businesses and inadequate for SMEs (Spence & Painter-Morland 2010, p.v). Jenkins (2006) contends that CSR has been well researched in large companies, but SMEs have received less attention in this area.

Analysing the CSR strategies of 3,680 SMEs and large firms in Italy, Perrini and colleagues, mention that most of the research to date addresses CSR in large businesses rather than small and medium businesses because it is too often considered a prerogative of large businesses only (Perrini, Russo & Tencati 2007). Investigation of 111 firms in the Netherlands suggested that small firms make less use of CSR instruments than do large firms (Graafland, J., van de Ven & Stoffele 2003). A study in the UK and Netherlands makes a contribution by addressing the lack of research on small firms and the environment (considered here as an ethical issue), as well as offering insights into the influence that cultural, institutional, and political frameworks can have on small firm owner-managers' attitudes to external issues

(Spence, Jeurissen & Rutherfoord 2000). Fuller and Tian's study found that social interaction with stakeholders appears to shape responsible behaviour by SMEs and concludes that when one's business and life are inseparable, as often is the case in an owner-managed business, social relations of SMEs are powerful forces for ethical behaviour (Fuller & Tian 2006). For example, Graafland et al (2003) found that small firms rely more than large firms on dialogues with stakeholders.

Researchers have indicated that current studies are not adequately addressing SME ethics (Spence & Rutherfoord 2003, p.4) and that more high quality empirical research is urgently required (Spence & Lozano 2000; Spence & Schmidpeter 2003; Spence, Schmidpeter & Habisch 2003) . A study of ten research papers on SMEs and social responsibilities indicate that 'there is very little comment on appropriate methodological approaches to business ethics and the application of ethical theory to small business practices is very limited' (Moore & Spence 2006). In a study to judge responsible business practices in SMEs in the UK, Moore, Slack and Gibbon (2009) identified a set of criteria containing 16 practices and found that 14 out of the 16 practices were satisfied in at least one of the sample organisations. The two exceptions were the presence of an ethics committee and ethics training for employees. Summarising a recent collection of essays on ethics in SMEs from several countries, Spence and Painter-Morland (2010, p.337) contend that 'we are barely scratching the surface of what we still have to learn from, and about, ethics in SMEs' and 'we invite researchers from around the world to take up this imporatnt task, and to build on the work presented here without delay'.

In addition to the above and as discussed in an earlier section, SMEs encounter specific difficulties in today's globalised economy. Business ethics in global business is attributed to large companies and SMEs are perceived to be fighting for survival even, if necessary, without ethics. When faced with conditions such as competiiton, outsourcing, downsizing, and the recent global financial crisis, SMEs may 'exclude any possibility of corporate responsibility' (Enderle 2004, p.56). It is also contended that while SMEs may prefer 'satisfactory profits' (as opposed to maximising profits) supplemented by their desire to produce products that are satisfying to the owners or giving something back to the society in which they operate and are closely linked to, due to resource constraints such as time, money and qualified personnel, their CSR activities will 'shift with the economic cycle' within a globalised economy (Vives 2006, p.40).

There is not much evidence of empirical studies on the business ethics of Australian businesses and managers, much less so for Australian SMEs. In one study of CEOs and managing directors of 72 SME enterprises on the challenges and opportunities of Australian SMEs in the high-technology sector, there is no mention of ethical challenges faced by SMEs at all (AEEMA & CSIRO 2004). In a study of 181 CSR-related personnel, the Australian Centre for Corporate Social Responsibility (ACCSR) notes that while there is exponential growth in the number of people working in CSR, the role of a CSR manager has not been well understood suggesting that 'lack of support from other senior managers is the biggest obstacle to the success of CSR managers' (ACCSR 2007, pp.5-6). A study of 136 firms in Australia with sales turnover of over $2 million per annum revealed that 71 per cent did not have a written code of ethics, 37 per cent had a forum for the discussion of ethics, 70 per cent did not believe that firm activities had a negative impact on the environment, and a higher proportion of larger firms have written codes of ethics than smaller firms (Batten, Hettihewa & Mellor 1997).

There is even less evidence in literature with respect to business ethics in Australian SMEs. In a study of 103 small businesses in Australia, Dawson (2001), while noting the limited number of empirical research concerning ethics in small businesses in Australia, observed that personal and non-religious beliefs and principles are important determinants of a small business operator's business ethics. It has also indicated that in a small firm, business decisions cannot be separated from personal moral decisions (Dawson 2001). Clarke (2006) suggests that 'SMEs [in Australia] are the forgotten stakeholders in the fair and efficient management of Australian corporate governance' mainly because corprorate governance is associated with listed and other public companies. There is an assumption that the compliance, rules, norms and best practice will 'trickle down' from the large companies to SMEs, but that rarely happens due to the characteristics and limitations of SMEs (Clarke 2006).

As discussed above, there are gaps in past and current research in the study of business ethics among Australian SMEs. To address these gaps, there are two major areas that require discussion. *The first one is to identify the ethical challenges faced by SME owners and managers and second, what methods or tools do SME managers use to manage those ethical challenges.*

2.4.6 Ethical challenges faced by SME owners and managers

Morris et al. (2002, p.331) suggest that it is 'generally concluded that the entrepreneurial context poses a number of unique ethical challenges'. They mention higher operational and financial stresses, lack of available mechanisms to resolve ethical problems, effect of owner's personal ethics on employees who may have different ethical values, and 'acting in an entreprenuerial way' which can raise ethical questions. Marta et.al. (2008) have identified perceived ethical problems and personal moral philosophies as ethical challenges for SMEs. They hypothesised that managers who perceive an ethical problem were less likely to agree with unethical intentions and that personal moral philosophies such as 'idealism and relativism' do not determine ethical behaviour of small business managers.

SMEs evolve over time from an entrepreneurial start through to growth and development of the organisation leading to more professional management with new employees joining the organisation. This involves changes in the strategic, structural and operational aspects of the organisation. Morris et al. (2002, p.332) contend that 'logically, there should also be an evolution in the nature of the ethical context within which employees find themselves' and that these characteristics, along with those identified in section 2.4.4, often result in conditions that encourage or justify ethical compromises. Conditions listed by Morris et al. include time pressures, cash shortfalls, the fact that making compromises can be the difference between survival and failure, the power position of the entrepreneur, the lack of internal reference points for acceptable and unacceptable behaviours, reduced public visibility, and little penalty for 'bad' behaviour (Bhide & Stevenson 1990).

Other challenges that influence ethical decisions in SMEs include strong commitment to ideas and business leading to self-serving bias or self-justification (Baron 1998); tendency toward egoism (Longenecker, Mckinney & Moore 1989); result of interactions with customers and employees (Vitell, Dickerson & Festervand 2000); and Vyakarnam's (1997) four themes in the ethical dilemmas experienced by small business owners, namely the entrepeneurial activity itself, conflicts of personal values with business needs, social responsibility, and the impact of owner's personality on business ethics.

While there is some evidence from a study of 165 entrepreneurs and 128 managers in larger organisations, to suggest that entrepreneurs may demonstrate higher ethical standards than managers in larger firms due to higher equity stakes and higher risks, the entrepreneur

respondents felt that their personal ethics were sacrificed to the goals of the business (Bucar 2001). On the other hand, survey results from 209 individuals across 11 organisations indicate that 'contrary to expectations, larger , more rigid, mechanistic structures were associated with higher levels of ethical formalism and utilitarianism' (Schminke 2001, p.375). In another study of 572 small businesses and 785 large organisations, Longenecker, Mckinney and Moore (1989) reported that small business respondents on one hand expressed ethical concerns in faulty investment advice, favouritism in promotion, acquiescing in dangerous design flaws, misleading financial reporting and misleading advertising. On the other hand, the respondents demonstrated tolerance on issues such as padding expense accounts, tax evasion, collusion in bidding, insider trading, discrimination against women and copying of computer software. Vitell, Dickerson and Festervand (2000) in a study of 153 small business enterprises found that small business owners believe today's ethical standards are lower than 20 years ago mainly due to lower standards in society, lack of personal integrity, and greed.

The variety of ethical challenges as discussed above suggest that while some challenges are of a general nature, there are several which are unique to SMEs as compared to larger organisations. The question then arises, considering the unique characteristics and limitations of SMEs, and ethical challenges and dilemmas experienced by SMEs: how do the owners and mangers of SMEs resolve the ethical dilemmas, and specifically what procedures and tools do they employ when dealing with ethical issues?

The following section reviews literature on some of the decision-making tools and processes that SME owners and managers employ in managing ethical issues.

2.4.7 Decision-making tools used by SME owners and managers

Small and medium-sized companies differ from large companies in several characteristics besides scale: these include limited resources, a lack of knowledge, informal organisation and others (Rebernik & Barbara 2009). They are also more vulnerable to environmental forces such as limited cash reserves, limited debt capacity, limited product/service line, and reliance on a niche customer base (Morris et al. 2002). Small companies especially, are confronted by scarce resources that could be partially compensated with by using different tools or skills.

Rice (1983) suggests that since small business managers in small firms do have to make strategic decisions, although they do not perform the type of data gathering, sophisticated forecasting and statistical analysis and planning commonly found in big business, perhaps elaborate techniques are not as necessary in the small business as in the large firm. Individuals employ several 'high-order heuristics ….when they approach, frame, and solve problems' (Brigham, DeCastro & Shepherd 2007, p.31) and use different types of 'cognitive styles' (which refers to an individual's preferred and habitual approach to organising, representing, and processing information) depending on the type of problem (Kickul et al. 2009).

In a broad context, Mintzberg and Westley (2001, p.89) contend that 'sometimes decisions defy purely step-by-step logic and to be effective, companies also should embrace intuitive or action-oriented forms of decision-making' and defined three approaches to decision-making (p.93):

- rational or 'thinking-first' approach which works best when the issue is clear, data is reliable, context is structured, thoughts can be pinned down and discipline can be applied, e.g. in an established production process;
- intuitive or 'seeing-first' approach which works best when many elements have to be combined, commitment to those solutions is key, and communication across boundaries is essential, e.g. in new product development;
- action-oriented or 'doing-first' approach which works best when the situation is novel and confusing, complicated specifications would get in the way, and a few simple relationships can help people move forward, e.g. when companies face disruptive technology.

In the specific context of entrepreneurship, Pina e Cunha (2007) has suggested that entrepreneurs make use of three modes of decision-making. Table 2 below shows the distinguishing features of these three modes of decision-making.

Table 2: Features of three modes of decision-making. Adapted from Pina e Cunha (2007, p.4)

	Rational	Intuitive	Improvisational
Logic	Science	Art	Craft
Operation	Thinking first	Seeing first	Doing first
Process	Define Diagnose Design Decide	Preparation Incubation Illumination Verification	Enactment Selection Retention
Material	Facts	Ideas	Experiences
Mental process	Planning and programming	Visioning and imagining	Venturing and learning
Conditions	Clear issue Reliable data Structured world	Combination of ideas Commitment	Time pressures Confusing situations
Temporal perspective	Objective time	Out of time	Subjective time

SME managers use the analytical process, where individuals rely on linear, sequential processing of information that, for example, enables them to evaluate, plan, and implement (Olson 1985). For an individualistic, non-routine situation, specific procedures are required to bring about a response or a decision that did not exist earlier. In such situations (such as developing a marketing plan) where logical, sequential tasks are needed, rational abilities are employed (Olson 1986). Similarly, entrepreneurs have also been portrayed as rational decision-makers (Pina e Cunha 2007). Bird (1988, p.443) proposes that 'a person's rational, analytic, and cause-and-effect-oriented processes structure intention and action. These psychological processes underlie formal business plans, opportunity analysis, resource acquisition, goal setting, and most observable goal-directed behaviour.' In a study of 122 SMEs, managers described their decision process as an action based on significant thought, conscious analysis of the problem, and evaluation of available alternatives – for problems such as finding new customers, obtaining finances, recruiting new employees, product pricing, planning market expansion, handling legal problems, determining product quality, and dealing with government agencies (Alpander, Carter & Forsgren 1990).

On the other hand, as observed by Busenitz et al. (2003, p.302), certain situations such as new opportunities 'rarely if ever emerge in a rational and predictable fashion but rather in the context of much uncertainty and long-term horizons'. Individuals may have 'flashes of superior insights and moments of illumination' (Mintzberg & Westley 2001). This highlights the importance of intuition in decision-making. Intuition has been described as a subconscious process, complex, fast, and central in high speed decision-making (Khatri & Ng 2000), and as 'holistic hunch' and 'automated expertise' (Miller & Ireland 2005).

Creating new ventures, for example, is typically conceptualised in terms of broad stages such as 'searching for opportunities, planning for the new venture, marshalling resources, and implementation' and these stages can be 'nonlinear and iterative' (Kickul et al. 2009). Kickul et al. report the findings from a study that small business entrepreneurs employ both intuitive skills during the identification stage of a new venture creation process and rational analytical skills for planning, resourcing and implantation of the new venture.

Planning, for example, is an important and essential management function of any organisation and requires certain decision-making skills. Given the vulnerability of small firms to poor decision-making (Covin & Slevin 1989), when SMEs face high levels of uncertainty, planning becomes more difficult. As a result, due to their lack of financial resources, time and personnel, SMEs may decrease their level of planning and focus on action instead of rational thinking, 'with action largely based on intuition' (Bhide 1994).

Another example, used by Rebernik and Barbara (2009), is the business area of outsourcing. They contend that the decision-making involved in outsourcing in SMEs differs from that in large organisations because the main actor or the decision-maker is the entrepreneur or the owner-manager of the SME. Such managers have to manage all aspects of outsourcing which requires the manager to play different roles and provide different skills reliant on the manager's knowledge and experience. These include social skills such as communication and teamwork, and operational skills such as selecting, negotiating and evaluating – requiring rational based decision-making.

Carson (1993) notes that effective SME managers' decision-making in the business function of marketing has two characteristics: personal contact networks and management

competencies. For SME managers, the personal contact network is 'essentially an informal and perhaps subconscious network' and is a 'natural phenomenon not a planned process' while the decision-making characteristics attributed to management competencies require 'analytical, judgemental and positive thinking' (Carson, D 1993, p.193). Thus, SME entrepreneurs and managers seem to have the abilities to think both intuitively and rationally, and are employed 'based on the familiarity of the situation' (Olson 1986, p.32). In a familiar situation or one that has been experienced before repeatedly, an individual's decision process will be routine, i.e. 'they follow a pattern or a procedure developed in the past'. In such situations (such as generating new ideas) where little cognitive processing is necessary, intuitive skills are employed (Olson 1986). Other researchers have also noted that many of the issues facing small business managers require 'more than the application of standard operating procedures' (Jankowicz & Hisrich 1987). A study of 20 loan officers concluded that small business managers are likely to utilise 'a feeling, gut reaction or intuition' (Jankowicz & Hisrich 1987, p.45), and that the small businessperson's decision process is based primarily on 'experience, intuition or guesswork' (Rice Jr & Hamilton 1979, p.8). The main reason for this as contended by Rice and Hamilton (1979) is that the sizeable input of information involved in any decision process is too complex for the small business managers and forces them to seek satisficing solutions by relying heavily on 'experience'. Other reasons are: incomplete understanding of the environment affecting the business, vague or inadequately defined goals, and an inability to determine the full range of alternatives available.

Other researchers have indicated that heuristic-based decision-making appears to be the preferred technique in certain situations (Tversky & Kahneman 1974; Wright, M et al. 2000; Alvarez & Busenitz 2001; Rhee & White 2007). Heuristics have been defined and described as probability judgements which are used to estimate likelihood of reaching a decision, may depend on similar examples in individuals' memories (Cioffi 1997), are employed to reduce judgements to simpler ones when faced with difficult tasks (Tversky & Kahneman 1973), and are mental shortcuts that reduce complex tasks to simpler judgemental operations (Dane & Pratt 2007). Some examples of these effort-reducing principles are audience-response-heuristic, availability-heuristic, brand-name-heuristic, country-of-origin-heuristic, do-no-harm-heuristic, equality-heuristic, price-heuristic, and satisficing-heuristic (Shah & Oppenheimer 2008). Researchers have noted that entrepreneurs are more inclined to use

representative-heuristic (Tversky & Kahneman 1974) and that the heuristic-based process appears to explain how entrepreneurs think and make strategic decisions (Wright, M et al. 2000; Alvarez & Busenitz 2001).

Heuristics are utilised in an attempt to manage the dynamics of business complexity (Hodgkinson et al. 1999) which can include conditions such as when there is no time to engage in lengthy analytical processes, when there is information overload, when the issue is considered not very important, when there is little information available for making a decision, and when something about the situation calls to mind a given heuristic thus making it cognitively available (Pech & Cameron 2006). Busenitz and Barney (1997) examined differences between entrepreneurs and large company managers (but not CEOs), taking a behavioural approach that focused on decision-making biases and heuristics. Their work found that entrepreneurs tend to rely on biases and heuristics for decision-making to a greater extent than large company managers.

2.4.8 Summary

From the literature, research in business ethics and ethical decision-making has predominantly been in large organisations and SMEs have been largely neglected in this area. Specifically, ethical challenges faced by Australian SME owners and managers and methods or tools used by SME managers to manage those ethical challenges have not been researched empirically. SME owners and managers have been shown to utilise a variety of decision-making tools such as the rational analytical step-by-step process (discussed further in sections 3.1 to 3.4.5), the intuitive process (discussed further in section 3.4.7), and the heuristics process (discussed further in section 3.4.8). However, while considerable empirical research on the utilisation of these tools in the general management areas of SME businesses have been undertaken, there is a dearth of such research in the management of ethical issues in SMEs.

In addition to the above mentioned decision-making tools, there are other factors which could influence ethical decision-making in SME owners and managers, namely, the role of moral exemplars (discussed in section 3.4.9), reflection (discussed in section 3.4.10), and organisational factors (discussed in section 3.4.11)

The above considerations will thus form the basis for the second research question: what methodologies can a SME manager use to recognise, measure, and effectively monitor ethical issues?

2.5 Areas of business where SMEs experience ethical issues due to globalisation

This section is where the sections on ethics, business ethics, globalisation, and SMEs *converge* to select the areas of business where SMEs could experience ethical issues due to globalisation. The process of selecting these business areas is described below in subsections 2.5.2, 2.5.3, and 2.5.4. The selected business areas were then used in the on-line survey (as described later in section 4.4 Quantitative methodology, and in sections 5.2 and 5.3 Results of survey data) to address the first research question: what are the effects of globalisation on business ethics in SMEs?

2.5.1 Introduction

Sections 2.2 to 2.4 discussed ethics, business ethics, globalisation and SMEs, which are summarised below:

Ethics and business ethics

Ethics concerns itself with observing, studying, analysing, and suggesting corrections, if necessary, to normative moral laws, that as rational beings, we are responsible for our actions and accountable to others as a result of the consequences of our actions, and that there are several theories and concepts that are available for application (see subsection 2.2.1). Business ethics involves application of general ethics to solve particular problems in business where business includes all economic transactions between individuals, between individuals and profit-making organisations, and between profit-making organisations and other organisations. It is involved in business activities such as producing, selling, and buying goods and services for profit, and encompasses geographical boundaries to include national, international and global business (see subsection 2.2.2). The business case for business ethics was based on the argument that motivations, initiatives, and regulations serve as impetus for businesses to go beyond the letter of the law and to seek to establish an ethical climate in their organisation (see subsection 2.2.3).

Globalisation

As businesses expand their operations and activities internationally and engage in the globalised business environment, more complicated issues arise about how best to manage the diversity of interests, norms, laws, and expectations. Globalisation was defined as the process by which the economic and social systems of nations are connected together so that goods, and services, capital and knowledge move freely between nations and brings together economic, political, cultural, and technical aspects of diverse countries. This was followed by a discussion on the role of MNCs in globalisation (see subsection 2.3.1), ethical challenges faced by businesses due to globalisation (see subsection 2.3.2); and the role of business ethics in the ethical challenges due to globalisation (see subsection 2.3.3). This led to the discussion on ethical challenges faced by SMEs due to globalisation.

SMEs

Importance and the role of SMEs were discussed in subsections 2.4.1 and 2.4.2. This was followed by discussions on the effect of globalisation on SMEs (see subsection 2.4.3), the characteristics and limitations of SMEs (subsection 2.4.4); business ethics in SMEs (subsection 2.4.5); and ethical challenges faced by SME owners and managers (subsection 2.4.7). The impact of globalisation on SMEs can come in the form of increased competitive pressure between different countries (such as MNCs seeking lower cost locations for production), increased competition between SMEs (such as when SMEs themselves begin to export goods and services), and mergers of SMEs. It was discussed that it is not clear which management areas of business (such as governance, finance, intellectual property, human resource, outsourcing, and downsizing) in SMEs would be most affected by the impact of globalisation (see subsection 2.4.3).

2.5.2 Business areas affected by ethical issues due to globalisation

As discussed in section 2.3, the impetus for globalisation would stem from the corporate goal of increasing profits through increased growth derived from market expansion. Profit can be increased by increasing efficiencies and reducing cost of production, both of which can be derived from low-cost labour and low-cost raw materials which could be sourced from any part of the world. Similarly, increasing growth from market expansion – to sell goods and services – can only be achieved by creating new products and new market demands in new

territories.

While it can be derived from the above that globalisation is necessary to achieve corporate goals, the factors that need to happen to achieve those goals, i.e. availability, low-cost, and efficient labour, materials, finance, products, and markets; and the business areas that are affected as a consequence of achieving those goals (e.g. corporate takeovers, downsizing, outsourcing, intellectual property), both inside and outside the corporation, are intimately related to the success of the corporate goals.

Identifying the business areas, which could have ethical issues arising in them, could be made from a variety of sources, such as academic business ethics textbooks, appropriate academic journals (for example the Journal of Business Ethics), and industry trade journals and magazines. A survey of these sources revealed that most academic business ethics textbooks have put in the research and effort to compile a list of such business areas – some even have separate chapters for business areas with ethical issues in them. Academic journals have wide range of contributors to aspects of ethical issues in business areas. Industry trade journals have very limited articles on ethical issues in business areas. For the purpose of this research, it was decided to first identify business areas with ethical issues within the academic textbooks and then confirm their importance by doing a content analysis of the identified business areas in one prominent business ethics journal – the Journal of Business Ethics.

Business ethics authors have identified a range of contemporary business areas which have an ethical aspect. Following is a compilation of business areas identified in 12 academic business ethics books (Table 3a to Table 3l):

Table 3a: Trevino & Nelson (1995)

Human resource p.48
Consumers p.174
Environment p.188
Organisational culture p.195
Hiring and terminations p.112, 117
Accounting and finance p.319
Downsizing p.304
Product safety p.58
Downsizing p.185

Table 3b: Hartman (1998)

Corporate strategies p.299
Downsizing p.376
Employee compensation p.444
Privacy rights p.458
Discrimination p.477
Marketing p.492
Advertising p.566
Finance p.577 Accounting p.600
Environment p.685

Table 3c: Kirkbride (2001)

Global labour markets p.67
Global marketing p.197
Outsourcing p.77,083
Marketing issues, pricing strategies p. 211
Intellectual property p.295
HR issues – unemployment p.67
Environment p.58
Accounting p.239
Mergers and acquisitions p.54-63

Table 3d: Boatright (2003)

Trade secrets p.125
Privacy p.155
Discrimination p.187
Unjust dismissal p.249
Marketing issues p.273
Product safety p.293
Health and safety p.311
Finance and accounting p.339
Corporate governance p.381

Table 3e: Grace & Cohen (2005)

Production safety p.64
Product safety p.66
Competition p.70
Marketing and advertising p.86
Employee issues p.108
Accounting p.125
Environment p.141
Whistleblowing p.161
Governance p.176

Table 3f: DesJardins & McCall (2005)

Employee rights, job security p.113-185
Product liability and safety p.284
Marketing ethics p.323
Environment p.386
Accounting p.240
Deceptive advertising and sales p.324
Corporate governance p.471

Table 3g: Donaldson & Werhane (2008)

Employment p.363
Diversity p.409
Marketing p.491
Environment p.513

Table 3h: Fisher & Lovell (2009)

Accounting p.304 Finance p. 562
Corporate governance p.296
Environment p.354
Patent rights p.54
Intellectual property p.157,406
Downsizing p.236 redundancies p.112, 236
Whistleblowing p.218
Employee rights p.288
Competition 90, 550
Pricing and promotion p.549

Table 3i: De George (2010b)

Corporate governance p.214
Accounting p.219
Disclosures p.225
Insider trading p.233
Finance and banking p.247
Banks and world debt p.245
Secrecy and disclosure p.253
Corporate takeovers restructuring and change p.253
Downsizing p.263
Ethical investing p. 265
Safety and acceptable risk p.279
Product safety and corporate liability p.282
Production safety p.286
Environmental harm p.288
Pollution p.290
Whistle blowing p.298
Competition, pricing, bidding p.326-331
Consumer and direct marketing p. 332-333
Advertising p. 336
Workers' rights: employment, wages and unions p. 353
Executive compensation p. 371
Rights in hiring, promotion and firing p.392
Quality of work life p.406
Worker loyalty and obedience p.411
Discrimination, AA, and reverse discrimination p.417
Intellectual property
Industrial espionage, software, data p.451
Computer crime p.480
Flexitime and teleworking p.500
Outsourcing p.501,541

Table 3j: Ferrell, Fraedrich & Ferrell (2011)

Product safety p.36
Accounting p.77,106,240
Advertising p.207
Governance p.41-44
Financial misconduct p.80
Environmental issue p.74
Corporate intelligence p.69
Consumer fraud p.79
Bribery p.68
Intellectual property p.81
Safety p.101

Table 3k: Velasquez (2012)

Marketplace p.220
Environment p.266
Pollution p.287
Consumer protection p.335
Job discrimination p.388
Organisational politics p.484

Table 3l: Jennings (2012)

Workplace safety p.353
Privacy and personal lives p.385
Workplace environment p.405
Advertising content p.425
Product safety p.441
Products and safety issues p.487
Governance p.212
Finance p.272
Purchasing p.280
Downsizing, plant closing p.358
Mergers and acquisitions p.218
Competition p.465

2.5.3 Procedure for selecting business areas for this research

Since the exact wording of the business areas in the above list differ from author to author, for the purposes of this research, three further processes were required. The three processes are (a) identifying a list from one author, which can encompass lists from the other 11 authors and validating them by cross-tabluation (see columns 1 and 2 of Table 6); (b) using a selection criteria to identify those business areas from column 1 which could be considered to have ethical issues due to globalisation for SMEs (see column 3 of Table 6); and (c) consolidating the business areas selected in column 3 (see column 4 of Table 6).

First, to identify one list of business areas which could encompass all business areas identified by the 12 authors listed above: one such list of business areas identified was that from the De George (2010b) book on business ethics. This list has 30 business areas (shown in Table 3i and in column 1 of Table 6) that De George had identifed as areas which could have ethical issues arising in them for all types and sizes of organisations. The business areas from eleven authors in Table 3a to Table 3h and Table 3j to Table 3l were cross-tabulated with the business areas from the De George (2010b) book and is presented in column 2 in Table 6. The number of asterisks in column 2 indicates the number of authors who have identifed the business area in their textbook. One asterisk indicates one author, two asterisk indicates two to five authors and three asterisks indicate more than five authors. Thus, the business area of ‘corporate governance’ was identified by five or more authors.

The second process, from the De George list of 30 business areas, was to identify those business areas which could be considered to have ethical issues due to globalisation faced particularly by SMEs. The method used for this was adopted from the method of ranking risks in the risk matrix utilised in identifying, monitoring and assessing occupational hazards (Bohle & Quinlan 2004, pp.368-370). This was done in three stages. First, an individual scale of low (L), medium (M) and high (H) was utilised to reflect the effect of a business area on SMEs or due to globalisation (see Table 4 below).

Table 4: Individual scale levels for effect of globalisation on business ethics in SMEs

Scale Level	Description
Low (L)	Areas which have low or minimal effect on SMEs or due to globalisation
Medium (M)	Areas which have medium effects on SMEs or due to globalisation, but are those which need a plan for the future.
High (H)	Areas which have high effects on SMEs or due to globalisation and need immediate attention/addressing

Thereafter, a combined scale was created for the various combinations of L-M-H scales for each business area. For example, a combined scale for L-L was designated as L1, for L-H it was M-1, for M-H it was H-1, and for H-H it was H-3. Business areas with the combined scales of H-1, H-2 and H-3 were considered for this research (see Table 5 below):

Table 5: Combined scales levels to determine business areas for this research

SME scale ↓	Combined scales ↓			
High (H)	M-2 Important but not crucial – not considered for this research	H-2 Important and crucial – considered for this research	H-3 Very important and very crucial – considered for this research	
Medium (M)	L-2 Not considered for this research	L-2 Not considered for this research	H-1 Important and crucial – considered for this research	
Low (L)	L-1 Not considered for this research	L-2 Not considered for this research	M-1 Important but not crucial – not considered for this research	
	Low (L)	Medium (M)	High (H)	Globalisation scale ←

All qualitative scaling or ranking systems are highly subjective and depend greatly on the personal experience of the person undertaking the task. However, Bohle and Quinlan (2004, p. 370) note that while individual and initial perceptions of the scales may differ, the value of the exercise is not so much in the exact order and precision of the scaling as in the discussion that has taken place.

The scales shown in Tables 4 and 5 were applied to each of the 30 business areas identified in the De George list. For example, for the business area of corporate governance, the scale applied was high (H) for SMEs and high (H) for globalisation, resulting in a combined scale of H-3. The area of banks and world debt, the scales L for SMEs and H for globalisation,

resulting in a combined scale of M-1. From the original 30 business areas, 24 business areas resulted in a combined scale of either H-1, H-2 or H-3. Annexure 1 shows the full list of business areas with their individual and combined levels, and the reasons and comments for selecting the levels. The combined scales are shown in column 3 of Table 6. The 24 business areas with combined scales of H-1, H-2 or H-3 have been highlighted in Table 6.

The third process involved consolidating the 24 business areas into groups, for example the business areas of accounting, disclosures, insider trading, finance and banking, and banks and world debt were combined into a group called 'Accounting and finance'; consumer and direct marketing, and advertising were combined into a group called 'Competition, pricing and bidding'; industrial espionage and computer crimes into 'Intellectual property'; and worker rights, executive compensation, worker loyalty, discrimination, flexitime and teleworking were consolidated into 'Quality of work-life'. This process resulted in the 12 business areas shown in column 4 of Table 6: corporate governance; accounting and finance; competition, pricing and bidding; intellectual property; corporate takeovers and restructuring; downsizing; outsourcing; quality of work-life which includes hiring, promotions and firing; production safety; product safety; environmental harm; and pollution.

Content analysis of the business areas in the Journal of Business Ethics:

A content analysis was done by entering the key words from the 12 business areas identified above in the database of Business Source Complete for the Journal of Business Ethics. Results are as follows:

Corporate Governance: 439 results; Accounting: 594; Finance: 526; Competition: 242; Pricing: 70; Intellectual property: 45; Takeovers: 32; Restructuring: 50; Downsizing: 39; Outsourcing: 19; Hiring: 44; Firing: 20; Product safety: 14; Production safety: 6; Environmental harm: 15; Pollution: 47.

There is sufficient evidence there the 12 business areas selected from the academic textbooks conform with the number of articles appearing in a prominent bsuiness ethics journal.

Table 6: Selection of the 12 business areas

1	2	3	4
Business areas in De George (2010b)	Validation – no. of authors	Selection – using the selection criteria – refer Tables 5 & 6, and Annexure-1	Consolidation of business areas
Corporate governance	***	H-3	Corporate Governance
Secrecy and disclosure	-	H-3	
Ethical investing	-	M-1	
Whistle blowing	**	L-2	
Executive compensation	-	H-3	
Accounting	***	H-3	Accounting & Finance
Disclosures	-	L-2	
Insider trading	-	L-1	
Finance and banking	***	H-2	
Banks and world debt	-	M-1	
Competition, pricing, bidding	***	H-3	Competition, Pricing & Bidding
Consumer and direct marketing	***	H-1	
Advertising	**	L-1	
Intellectual property	**	H-3	Intellectual Property
Industrial espionage, software, data	-	H-3	
Computer crime	-	H-3	
Corporate takeovers restructuring and change	**	H-3	Corporate Takeovers & Restructuring
Downsizing	**	H-3	Downsizing
Outsourcing	*	H-3	Outsourcing
Rights in hiring, promotion and firing	***	H-3	Quality of Work-life
Quality of work-life	**	H-3	
Workers' rights: employment, wages and unions	***	H-3	
Worker loyalty and obedience	-	H-3	
Discrimination, AA, and reverse discrimination	-	H-3	
Flexitime and teleworking	-	H-3	
Safety and acceptable risk	*	H-3	Product Safety
Product safety and corporate liability	***	H-3	
Production safety	***	H-3	Production Safety
Environmental harm	***	H-3	Environmental Harm
Pollution	**	H-3	Pollution

Legend for no. of authors:

* = 1 author

** = 2 to 5 authors

*** = more than 5 authors

In summary, from the list of business areas from 12 business ethics authors, a list of 30 business areas were selected from the De George list. From this, a process was developed to select business areas which affected SMEs and were due to globalisation and this process identified 24 business areas. These 24 business areas were then consolidated into 12 business areas. Finally, a content analysis of these business areas in the Journal of Business Ethics confirmed that the journal attracts contributions on ethical issues in these business areas. In the on-line survey, respondents were asked to rate the importance of these business areas in their organisations, whether these business areas were affected by globalisation and whether these business areas were affected by ethical issues due to globalisation or not. The 12 business areas have been grouped into three categories: Governance and finance, Restructuring, and Safety and environment, as shown in Table 7.

Table 7: The 12 business areas

Governance and finance
1. Corporate governance
2. Accounting and finance
3. Competition, pricing and bidding
4. Intellectual property
Restructuring
5. Corporate takeovers and restructuring
6. Downsizing
7. Outsourcing
8. Quality of work-life, which include hiring, promotions and firing
Safety and environment
9. Product safety
10. Production safety
11. Environmental harm
12. Pollution

The next section discusses the rationale for selecting the 12 business areas from the literature.

2.5.4 Rationale for selecting the 12 business areas

Governance and finance

To efficiently create new markets and new products, and source low-cost labour and materials on a global scale, an organisation needs effective management in areas such as corporate governance, financial management, marketing and pricing, and intellectual property management (Smith & Doyle 2002). Here, ethical questions relate to corporate behaviour and code of ethics, ethical financial transactions and independence of accountants, prevention of monopolies and price fixing, and unethical methods used in gathering intellectual property and competitor intelligence (see for example De George chapters 8,9,10 and 17).

Corporate governance, and Accounting and finance

Corporate governance is defined as the system by which entities are directed and controlled. It is concerned with improving the performance of companies for the benefit of shareholders, stakeholders and economic growth, and encompasses authority, stewardship, leadership, direction and control exercised in the organisation (Standards-Australia 2003; OECD 2004). Further, it has been noted that successful organisations have an effective corporate governance culture which is based on transparency, integrity, and accountability (Standards-Australia 2006). However, while most businesses have codes of ethics for employees, too little attention is paid to the behaviour and evaluation of top management (De George 2006, p.214). Governance is not about operations but about decision-making and control exercised by those who are in charge of organisations – owners, directors or partners in a business (Armstrong & Francis 2004). In a similar vein, Pound (2000) asserts that corporate governance is not about power, but about ensuring that decisions are made effectively.

Armstrong and Francis (2004) assert that good governance in SMEs can assist in operating more efficiently, increasing the value of the business, lowering the cost of capital, reducing financial risk, meeting regulation requirement, enhancing its reputation to customers, and assisting in the prevention of fraudulent, dishonest, and unethical behaviour. However, research in several countries indicates that systematic corporate governance is largely associated with larger companies and the agency problem where there is a separation between ownership and control of a business. SMEs in Australia are identified as the forgotten stakeholders in the management of Australian corporate governance (Clarke 2006). Clarke

further states that ‘it is assumed that rules, norms and best practices will somehow trickle down to SMEs and that it is only by default that the system of corporate governance takes into account the interests of SMEs. Tan and Tan (2007) have noted that for most SMEs in Singapore, since there is no separation between management and owner, some argue that there is no need for corporate governance guidelines. Tan and Tan, however, reiterate that corporate governance would enhance a firm’s competitiveness and value creation. Steger (2007) contends that while there is widespread neglect of the corporate governance topic with regards to SMEs in Germany, there is a need to have a corporate governance code for SMEs due to an increase in financial difficulties, decrease in public confidence, and increase in criminality in the SME sector. SMEA (1999) suggests that SMEs in Japan should select the best mechanism of corporate governance to suit individual firms that may be of varying sizes and at different stages of growth. The United Nations Economic Commission for Europe (UNECE) has recommended good governance practices for SMEs in ethical aspects of business especially in transition countries where there is a lack of entrepreneurial culture (UNECE 2004).

Competition, pricing and bidding

Competition is part of the free-enterprise system and tends to produce efficiency in the market and benefits to consumer by resulting in a variety of goods at the best prices (De George 2006, p.326). However, for the competitive forces to work, businesses are expected to operate fairly and honestly in the areas of marketing, pricing, and bidding. Virtually all aspects of marketing – from the development of new products to pricing, promotion, labelling and sales – raise ethical questions in practices such as price fixing, price discrimination, stealing corporate secrets and plans from competitors, dumping products on a market, and paying bribes and kickbacks (Boatright 2003, p.340; De George 2006, p. 327). Two major ethical issues have been identified in pricing – overpricing involving a monopolistic position, force, or ignorance on the part of the buyer, and mark-up and mark-down involving setting a price for a product higher than that at which it is ever sold, so that it can always be sold at a discount (De George 2006, p.329). Bidding is used by a seller, in an auction for example, to get the highest price, and by a buyer to get the lowest price. Ethical issues identified in bidding are unfair secret bidding and fraud that involves government contracts such as road building, large construction projects or defence contracts (De George 2006, p.330).

Intellectual property

Intellectual property (IP) constitutes products of the mind or intellect. It is significantly different from other types of property such as tangible (e.g. personal property), real estate (e.g. land and buildings), and intangible (e.g. money and shares). IP is different because it can be shared with others without losing any part of it oneself and includes ideas, inventions and discoveries. There are four ways that IP can be protected legally and ethically – trademarks, trade secrecy, copyrights and patents (De George 2010b, pp.431-432). However, in a global environment, while systematic collection and analysis of competitor intelligence has become an accepted practice, unethical practices concerning the methods used to acquire information can lead to costly litigation, criminal prosecution, and create a climate of mistrust (Boatright 2003, p.340).

The four business areas of corporate governance; accounting and finance; competition, pricing and bidding; and intellectual property, discussed above, have been categorised under 'Governance and finance'.

Restructuring

Creating new markets, sourcing low-cost labour and low-cost materials could result in corporate takeovers, downsizing, hiring and firing, quality of work-life and outsourcing. Here, ethical notions relate to corporate takeovers, assessing ethical behaviour in the supply chain setting of outsourcing where substantial cost savings are involved, and economic circumstances justifying downsizing and the proper process that needs to be followed.

Outsourcing

Most available literature concur that the most widely cited cause of increases in outsourcing levels is globalisation. Outsourcing is one of the highest growing components of international trade (Stehrer 2006, p.141; Mol 2007, p.132). While some companies believe they win at outsourcing because of substantial cost savings, others can incur higher costs through ignorance and loss of valuable in-house skills (Deal & Kennedy 2000, pp.63-68). However, with globalisation has come a growing awareness among customers of how goods and services are produced. People are now considering the social conditions in which goods and services are produced and delivered. The outsourcer must therefore have the responsibility to seek fairness in all activities, ensure that business activities are free from coercion, foster

long-term stability with the supplier, share information with suppliers, pay suppliers on time and seek suppliers whose employment practices respect human dignity (Smart 2006, p.255). The Caux Round Table Principles for dealing with suppliers suggests that the relationship with suppliers and subcontractors must be based on mutual respect (CAUX 2009).

Downsizing and quality of work-life

Employee downsizing can result from many business conditions including the desire to consolidate operations, increased competition and decreased labour costs. The other major condition is economic depression (Trevino & Nelson 1995, p.304). Although conclusive research on the effects of globalisation on downsizing is not available – mainly because of the multitude of business conditions as cited above, the reality of a global trade network has resulted in some jobs being performed elsewhere at a lower cost. Downsizings can be effective if they are broad in scope and undertaken after firms have experienced a decline in their operating performance. By contrast, downsizing efforts focused narrowly on reducing head count in particular areas often fail to meet their goals (Deal & Kennedy 2000, p.63). While downsizing can result in limited economic benefits such as improved process technology, cutting cycle time and costs, and competitive advantages, it can also result in lower employee morale, declining motivation amongst remaining workers, significant severance costs due to layoffs, loss of skills and knowledge, affect labour participation rates, and lower re-employment chances for older laid-off workers (Deal & Kennedy 2000, p.63; DesJardins & McCall 2005, p.114). The issue then is the means used to downsize – fairness, respect, dignity and compassion. While organisations may not have an ethical obligation to keep labour forces at a specific number, they do have an obligation to hire and fire responsibly (Trevino & Nelson 1995, p.305). The issue of layoffs involves questions of reasons (when to fire) and questions of process (how to fire). Morally, we need to ask what economic circumstances would justify terminating the employment of a group of workers and, when a termination is justified, what process ought to be followed (DesJardins & McCall 2005, p.120). This ties in with the issue of hiring, firing and quality of work-life within a SME which, for economic and survival reasons, may be forced to act in an unethical manner when dealing with such issues.

Corporate takeovers and restructuring

The relationship between globalisation and corporate takeovers and the resulting restructuring has been shown in several publications (De George 2010b, p.249). Mergers and acquisitions seem to be a major component of globalisation. Many organisations' growth strategies depend on takeovers, which more often than not result in restructuring of the taken-over company and possibly in the parent company as well. Many takeovers represent flawed decisions by the acquirer and can focus on who is in charge rather than how decisions are made (Pound 2000, p.102). Moral evaluation of takeovers could be complex and so far has not been evaluated. One set of evaluations is based on a utilitarian approach to ethics (whether more benefit is achieved to both the participants and the society), and another set of evaluation is based on justice and freedom (sometimes injustice is done to workers and communities when businesses are closed) (De George 2010b, pp.251-252).

The four business areas categorised under 'Restructuring' are: outsourcing, downsizing, quality of work-life, and corporate takeovers and restructuring.

Safety and Environment

Product safety

Creating new products and selling them in new territories raises issues of product safety, production safety, environment and pollution. Here, the ethical notions are that a major ethical obligation of any organisation is to produce a quality product or service that is not dangerous or poorly produced or of inferior quality (Trevino & Nelson 1995, p.176). Most of the ethical issues surrounding health and safety regulations concern the method used to set standards, ignoring long-term consequences of a decision such as: is the product going to harm someone, can there be a warning against possible harm, ensuring product safety, and protection of the public and consumers.

It is an acknowledged fact a company can be put out of business by offering a product that is considered unsafe or poorly produced or of poor quality. Product safety and corporate liability forces the issue of ethical standards to be used in assessing the marketing of dangerous products – it may be legal to do so, but may not be morally appropriate

(DesJardins & McCall 2005, p.290). For example, it may be argued that it is acceptable to sell products that are dangerous if consumers are adequately warned about those dangers. However, evidence has shown that warnings are not processed by consumers or are not forceful enough (DesJardins & McCall 2005, p.291).

Production safety

As with product safety, hazards in the workplace below a minimum standard are not ethically acceptable. This is especially relevant where dangers can be easily remedied and harm can be prevented (De George 2010b, p.279). Some examples are ventilation, ambient temperature, safeguards for machinery, fire exits, personal protection equipment when handling toxic substances and wastes. While Occupational, Health and Safety Acts and Regulations are in place in most industrially advanced countries, safety regulations may not be stringent in less developed countries and in what is commonly known as 'sweat-shops' (Trevino & Nelson 1995, p.176; De George 2010b, p.280). Thus, most of the ethical issues surrounding health and safety regulations concern the method used to set standards and these standards will differ from state to state and country to country. Regardless of ethical reasoning – Kantian (that persons ought to be treated as ends rather than means) or Utilitarian (that relies on cost-benefit analysis and balancing the cost to industry with savings to the economy as a whole), workers have the right not to be injured or killed on the job (Boatright 2003, p.293). DesJardins and McCall (2005, p.290) contend that rather than using cost benefit strategy, we could use cost effective strategy, wherein safety in production would be the end result and then seeking the least expensive means to achieve those ends.

Environmental and pollution issues

Business interacts with the natural environment at many levels: it extracts resources from the natural environment, processes them into a form that humans can use and disposes the by-products back into the natural environment. Business activities are, therefore, the cause of and liable for most environmental problems. Using natural resources in business is not the ethical issue: what we use and how we use it, is (DesJardins & McCall 2005, p.186). Environmental issues raise large and complicated ethical and technological questions for our business such as extent of environmental damage produced by industrial technology, values that we must give up to halt such damage, determination of whose rights are violated by

pollution and who should be responsible for paying the costs, and obligations firms have to future generations to preserve the environment (Velasquez 2006, pp.208-210) . The ethical obligations generated from these questions are for businesses to think long-term about the health of the planet and its environs (Trevino & Nelson 1995, p.58). However, while businesses are able treat air and water as free goods enabling them to also ignore their impact – pollution – on the environment, pollution also results from the use that consumers make of products (Velasquez 2006, pp.208-210). Thus, from a globalisation point of view, global environmental concerns can be linked to businesses' self-interest especially in the long-term supply of labour, capital, and natural resources necessary for production as well as stable markets for its goods and services (DesJardins 2007, pp.27-30).

The four business areas categorised under 'Safety and environment' are product safety, production safety, environmental harm and pollution

Summary

As discussed in section 2.4.3, since MNCs seek out SMEs to deliver products and services (Enright & Ffowcs-Williams 2000) and many SMEs depend on large corporations for generating business (Enderle 2004), it is reasonable to suggest that due to globalisation, SMEs could face ethical issues in the 12 business areas of corporate governance, accounting, competition, intellectual property, restructuring, downsizing, outsourcing, quality of work-life, product safety, production safety, environmental, and pollution.

These 12 business areas will be used in the on-line survey to address the first research question: what are the effects of globalisation on business ethics in SMEs?

2.6 Measuring, monitoring and managing business ethics – generally and using the BSC

Several models and frameworks for measuring, monitoring and managing ethical issues in business areas have been developed (Ferrell & Gresham 1985; Reidenbach & Robin 1988; Dubinsky & Loken 1989; Gatewood & Carroll 1991; Hansen 1992; Rest 1994; O'Boyle 2002). Noting that 'companies often wish to be capable of integrating environmental and social aspects within one single management system', Bieker and Waxenberger (2002) recommend the use of the BSC, developed by Kaplan and Norton in 1996, as an appropriate tool for management of ethical issues in business. Robert Kaplan and David Norton recognised that companies were in the midst of a revolutionary transformation from the Industrial Age, when financial control systems were enough to sustain and grow businesses, to the Information Age, when new capabilities were required for competitive success. The new operating environment required companies to manage cross-functional skills, develop links to customers and suppliers, create customer segmentation, operate on a global scale, shorten product life cycles, and create and maintain knowledge workers. This recognition by Kaplan and Norton resulted in the BSC (Kaplan & Norton 1992, 1996). It emphasises that financial and non-financial measures must be part of the information system for employees at all levels of the organisation. In addition to the financial measures, the BSC measures and links non-financial perspectives of customers, internal business processes, and learning and growth according to their strategic relevance, as shown in Figure 3 and Figure 4.

The BSC is claimed to be 'balanced' as it tries to balance short-term and long-term goals, internal aspects (such as processes and employee learning) and external aspects (such as customers and shareholders), and future goals (targets) and actual results.

Figure 3 shows the structure of the BSC. Kaplan and Norton developed the BSC as a tool for organisations to manage the demands of stakeholders and to translate strategies into action. They contended that intangible assets such as customer satisfaction, process quality, know-how, and training are vital to stay competitive (Kaplan & Norton 1992, 1996; Bieker & Waxenberger 2002). Each of the four perspectives (finance, customer, internal processes, and learning and growth) consists of relevant goals, key performance indicators (KPI), targets, and measures. Thus, for the customer perspective, a goal could be to be the leader in their market for which the KPI could be market share, target could be a number such as 75 per cent, and measures could be the the actual performance of the company in market share. Each

perspective could have a number of such parameters based on the company's overall vision, mission and objectives. To establish the parameters, Kaplan and Norton suggested a strategic framework to design the BSC.

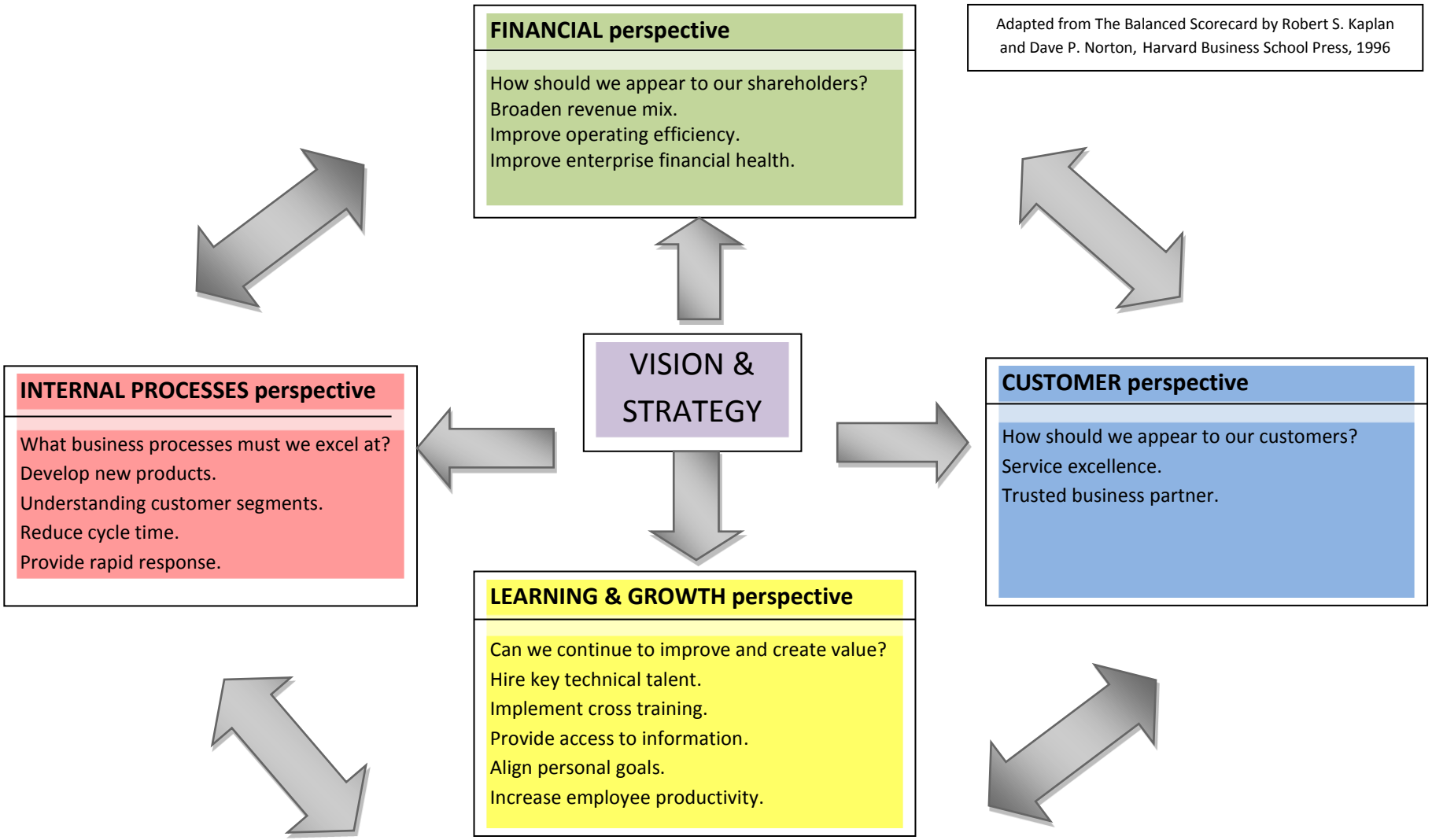


Figure 3: BSC – the basic framework

Figure 4 shows a strategic framework which consists of tasks, beginning with clarifying and translating the vision and strategy of the company. This is followed by communicating and linking the strategies to goals and rewards, which leads to detailed planning and setting targets. The final task is feedback and learning which allows articulating shared vision, feedback, and facilitates reviews and new learning (Kaplan & Norton 1996).

For each identified goal, the BSC enables indentification of causes and effects for each of the four perspectives. By doing so, a hierarchical causal relationship between perspectives is established. Thus, the objectives of learning and growth serve as ‘enablers’ for the achievement of goals of the other perspectives such as customers and finance. Figure 5, adapted from Bieker and Waxenberger (2002) shows the interconnectedness of the four perspectives of BSC.

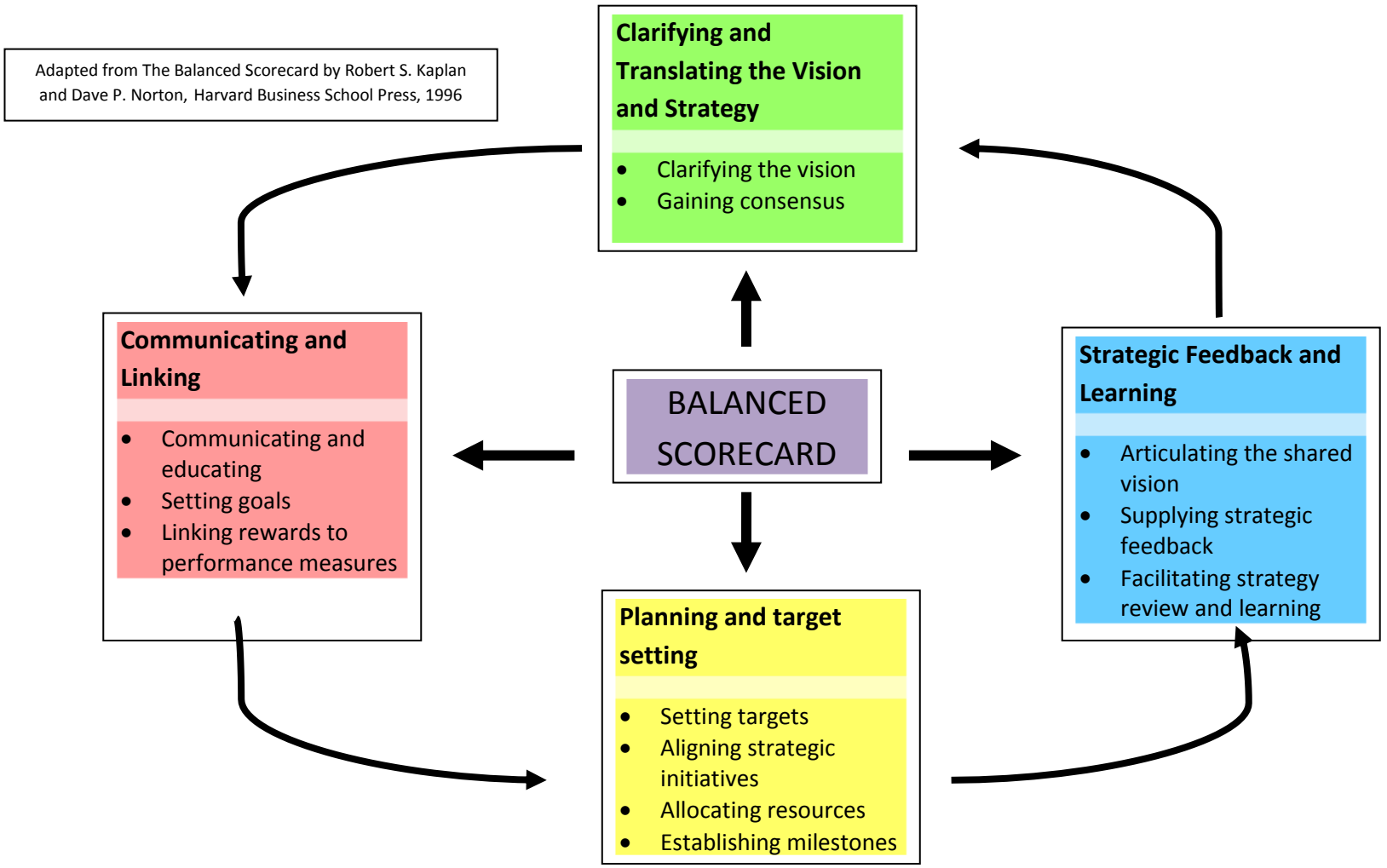


Figure 4: BSC – the strategic framework

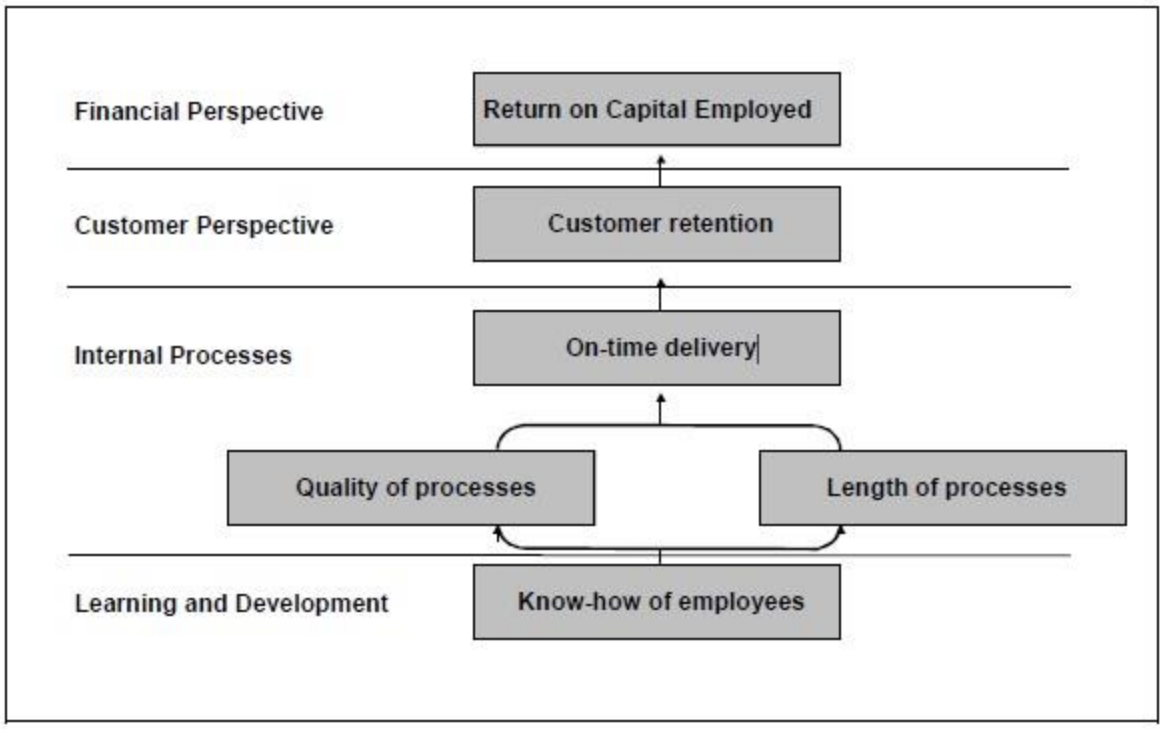


Figure 5: Causal relationships and interconnectedness of BSC's four perspectives

In this illustration, the overall financial goal of achieving the desired Return of Capital Employed (ROCE) is achieved by maximising customer retention, which in turn is achieved through on-time delivery – itself an outcome of other processes. Finally, these internal processes can be achieved through adequate and appropriate knowledge of employees.

Although Kaplan and Norton have not made any direct references to business ethics issues, they have made some important contributions such as undertaking safety audits, tracking customer loyalty, employee satisfaction, environmental performance and measuring corporate learning in understanding how to measure CSR (Walton & Duska 1998). Paul Arveson of The Balanced Scorecard Institute has noted that although the original BSC emphasised the importance of employee learning and growth as the foundation of success, 'education itself is not enough'. He further suggests that 'ethical business behaviour should be included in the "learning and growth" perspective of the balanced scorecard, or that an ethical business culture should be added as a fifth perspective where appropriate' (Arveson 2002b).
Since 2001, the instrument of BSC has been discussed as a possible appropriate conceptual framework for Coporate Social Responsibility and corporate sustainable development. To

integrate the four perspectives of the BSC with CSR, Bieker and Waxenberger developed an Integrity Scorecard for the integration of stakeholders' demands into core management systems. Within this, the attempt was to incorporate ethical issues into the operative levels of companies, specifically into each of the four perspectives of management measurements in BSC: Finance, Customer, Internal Processes and Learning (Bieker & Waxenberger 2002, p.1). A similar adaptation of the BSC has been developed to show the causal relationships between the economic, environmental and social performance of firms by integrating these three pillars of sustainability into a single tool called the Sustainability Scorecard (Figge et al. 2002). The BSC therefore has been enhanced by the incorporation of the Integrity and Sustainability scorecards.

Adapting the BSC's basic framework of cause and effect, and the hierarchical interdependence of the four perspectives (see section 2.6 for details), Gardiner (2002) used the BSC as a tool for integrating performance in the area of ethics with business performance, planning and evaluation. Gardiner mapped an ethics strategy using Kaplan and Norton's strategic mapping framework as shown in Figure 6 below.

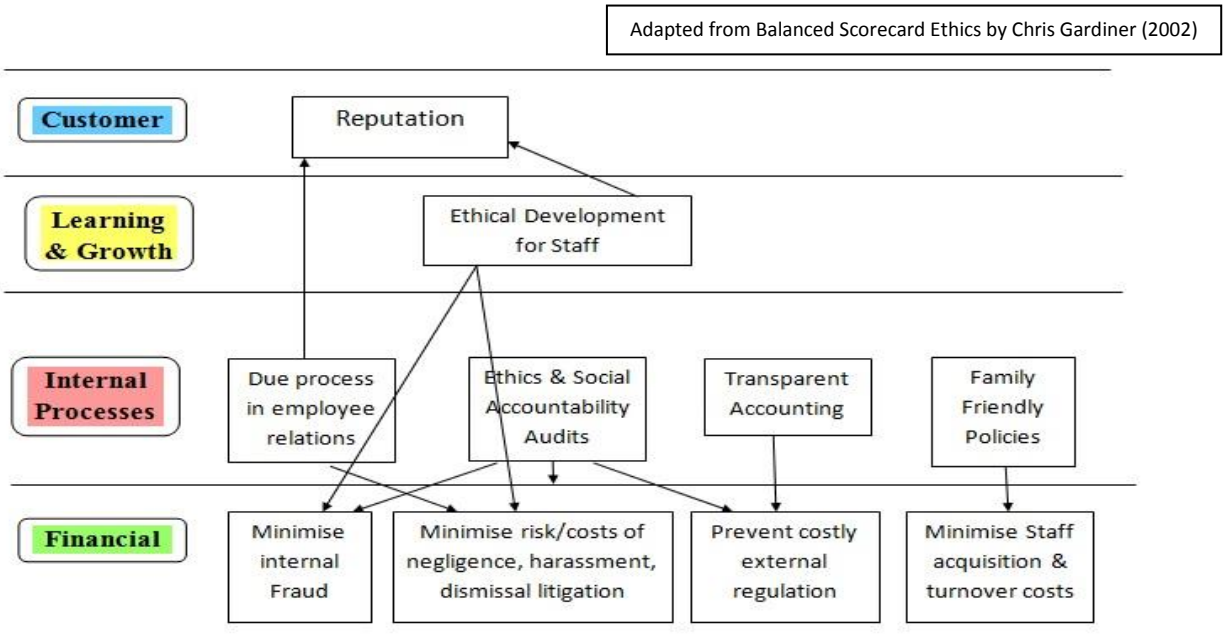


Figure 6: The BSC for ethics

In the above illustration, Gardiner used ‘reputation’ as the key parameter or objective in the customer perspective and developed a cause and effect strategy map for the other three perspectives of learning and growth, internal processes, and financial. Ethical processes and activities shown across the ‘internal processes’ perspectives are drivers for the financial outcomes perspective, which is also dependent on the ethical development of staff (learning and growth perspective).

However, researchers have observed limitations in the BSC which can lead to its failure to be implemented successfully. In a study, Ittner, Larcker and Meyer (2003) evaluated the performance of a BSC in a bonus plan adopted by a major financial services company. The performance measures in this instance fell into six categories: financial, strategy implementation, customer, control, people, and standards. The first three categories applied quantitative indicators such as revenues, expenses, and margins. The last three categories applied qualitative assessments such as teamwork, performance management, training and development, and employee satisfaction. Criteria used for qualitative assessments included business ethics and integrity. The researchers found that superiors reduced the balance between the categories by placing most weight on financial measures. Further, the high level of subjectivity in the qualitative assessment section of the BSC plan ‘led many managers to complain about favouritism in bonus awards’. The researchers report that ultimately the system ‘was abandoned in favour of a formula based bonus plan based solely on revenues’ (Ittner, Larcker & Meyer 2003, p.725).

In another study, the researcher examined the causes of failure in a Thai SME in the electrical appliance business, in its attempt to implement the BSC (Rompho 2011). Two in-depth interviews were conducted – one with the owner-manager and the other with the employee who was responsible for the design and implementation of the BSC in the company. The results revealed that ‘frequent change in strategy was a major factor leading to the failure of the Balanced Scorecard in SMEs’ (Rompho 2011, p.39)

The suitability of the BSC will be examined in the survey to address the first research question (what are the effects of globalisation on business ethics in SMEs?) and also in the interviews as part of the second research question (what methodolgies can a SME manager use to measure and monitor ethical issues?), in one of the propositions in the qualitative

analysis on whether the BSC needs to be modified to incorporate measuring and monitoring ethical issues, and if so to identify the modifications.

2.7 Summary of the sections on business ethics, globalisation and SMEs

The first aim of this thesis, therefore, is to ascertain the effect of globalisation on business ethics in SMEs. This will form the basis of Research Question 1 – What are the effects of globalisation on business ethics in SMEs?, and will include ascertaining areas of business which SMEs consider to be most affected by business ethics due to globalisation (from section 2.5), ethical challenges faced by SME owners and managers (from section 2.4), and the perception of measuring and monitoring ethical issues in SMEs (from section 2.6).

Measuring, monitoring and managing ethical issues in businesses will require managers to have effective ethical decision-making processes. In recent years, ethical decision-making in organisations has received considerable attention. Enquiries about its process have been pursued in every area of management in organisations. How does the manager know how to make decisions when faced with an ethical issue or dilemma? Would the process involve rules, a 'gut' decision, seeking advice from peers, use of heuristics or some combinations of these (Hansen 1992)? Is the process linear and continuous or intermittent and varying? Specifically, how do SME managers engage in ethical decision-making? Over the years several models have been postulated. Some have specific emphasis on certain criteria that affect ethical decision-making. There are others which are more general in nature.

The following sections will first discuss the decision-making process in general, followed by the rational decision-making process, alternate methods of decision-making, ethical decision-making, and a discussion on the various models of ethical decision-making. These discussions will culminate into the appropriateness of using Rest's four-component ethical decision-making model in this thesis.

Chapter 3: Literature review – decision-making processes

3.1 Introduction

The next five sections discuss literature reviews of decision-making in management, followed by ethical decision-making. This leads into a review of ethical decision-making models, linking Rest's four-component ethical decision-making model with other ethical decision-making models, the role of Rest's model in this research, and other factors that could influence ethical decision-making.

What is decision-making and what are the processes employed in organisations? A wide range of approaches can be gleaned from literature from various management areas.

The starting point is the fact that individuals in organisations make decisions. Decisions are made at different levels of the organisation, for example, top managers determine their organisation's goals, what products and services to offer or how best to organise the organisation; middle and lower level managers typically determine production schedules, select new employees and decide how pay rises are to be allocated. Non-managerial employees also make decisions that affect their work and the organisations they work for. Decision-making is thus an important part of the day-to-day activities of most individuals in an organisation.

Considering that decision-making occurs as a reaction to a problem, which exists when there is a discrepancy between the 'current' state of affairs and some 'desired' state requiring consideration of alternative courses of action, every decision requires interpretation and evaluation (Robbins, SP et al. 2001, p.162). Effectiveness of an organisation is dependent on managers being able to make appropriate decisions (Langefield-Smith, Thorns & Hilton 2003, p.878; Horngren et al. 2004, pp.306-307). Some commentators in literature have claimed that decision-making should be a process using a rational model to make rational decisions to make choices that consistently maximise value within the specified constraints (Harrison 1981, pp.53-57, 81-93; Robbins, SP et al. 2001, pp.162-163). Johnson et al (2005) claim that strategic development is built on the principles that managers are rational decision-makers and that they should be making decisions about how to optimise economic performance of their organisations. However, these authors and others also claim that

managers frequently use alternative methods for decision-making such as intuition and heuristics, and are also influenced by things like organisational factors, exemplars, and reflection.

The following sections begin with discussions on the ratiocinative decision-making process. This is followed by a literature review of ethical decision-making models and alternative methods of decision-making.

3.2 The ratiocinative decision-making process

Several authors have noted the widespread use of the rational model of decision-making (Harrison 1981, pp.53-57; Langefield-Smith, Thorns & Hilton 2003, p.880; Johnson, Scholes & Whittington 2005, pp.41-42). A compilation (see Table 8) of the rational model of decision-making techniques used in some areas of management such as quality control, finance, accounting, occupational health and safety (OH&S), human resource management (HRM) and corporate strategy, in an organisation shows a common process.

From Table 8, we can consolidate the process to:

1. defining, identifying, clarifying, establishing or perceiving the problem
2. measuring the decision criteria, risks, issues of courses of action, acquiring insight, and developing foresight
3. assessing, evaluating, comparing, and understanding costs and benefits, solutions, alternatives, possible outcomes, risks, and capabilities
4. implementing, selecting, treating, choosing the decision and course of action, the best alternative method, a core strategy, and making the decision or strategy work.

Table 8: Rational decision-making models

Stage	Quality Control[1]	Finance[2]	Accounting[3]	OH&S[4]	HRM[5]	Corporate strategy[6]
1	Define problem/finding 'mess'	Clarify the problem	Determine the facts	Establish the context	Define the problem	<u>Perceiving</u> Acquiring insight Developing foresight
2	Measure/finding 'fact'	Identify alternative courses of action	Identify the issues	Identify risks	Identify the decision criteria	
3	Analyse/finding 'solution'	Compare the costs and benefits of each possible course	Specify the alternatives Assess possible outcomes	Analyse risks Evaluate risks	Develop alternatives Evaluate the alternatives	<u>Understanding</u> Identifying strategic levers Matching levers with capabilities
4	Control/implementation	Select the course of action and implement	Make the decision	Treat risks	Select the best alternative	<u>Reasoning</u> Choosing a core strategy Making the strategy work

[1] (Evans & Lindsay 2005) [3] (Horngren et al. 2004) [5] (Robbins, SP et al. 2001)

[2] (Langefield-Smith, Thorns & Hilton 2003) [4] (Bohle & Quinlan 2004) [6] (Wells 1998)

There are conflicting views on the effectiveness of the rational decision-making model. A study conducted in Malaysia, involving 550 respondents in 110 manufacturing firms, found that the strategic decision-making processes in large and medium organisations were more rational than smaller sized organisations; managers tend to go through the rational process only if the impact of decisions is likely to be large; and that the quality of decision process output is more likely to be improved if the decision process is more likely to be rational (Nooraie 2008).

However, Harrison (1993) suggests that managerial decision-making is both a product of, and an influence on, the culture in which it exists. This has resulted in a movement away from the traditional approaches to decision-making such as the rational model which has its foundation in the quantitative disciplines of economics, mathematics, and statistics. The rational model is based on the assumption that all the significant variables in a given decision-making situation can be quantified to some degree (Harrison 1993). It presupposes that there is one best outcome. This search for perfection is frequently a factor that actually delays making a decision. It also presupposes that it is possible to consider every option and also to estimate the future consequences of each. These models require a great deal of time and a great deal of information. The model could also negate the role of emotions in decision-making (McDermott 2011). As such, the rational model is of limited use in most real world managerial decisions involving high levels of uncertainty.

A study to understand how and why ‘a group of smart people’ such as a board of directors make terrible decisions and when confronted, remain committed to such decisions, contend that board decisions are made ‘interactively and interpretively as a process and not merely via a structure of inputs’ (Atkinson 2006).

There is also a view that some decision-making happens through conversations that people have, either one-on-one, with teams, or in cross-functional groups. However, decision-making conversations that are not guided by a process can lead to misunderstandings, wasted time, and lack of results (Schwarber 2005).

3.3 Alternative methods of decision-making in management

Langfield-Smith et al (2003, p.880) elaborate on the fact that decisions are often made by managers without necessarily following each step of the process. The full range of possible courses of action may not be considered or data may not be collected and used. Several of the above steps may be completed concurrently, rather than sequentially. Decisions may be dictated by the need to make quick decisions or may reflect the preferred style of decision-making of a certain manager.

It is therefore understandable when Robbins et al (2001, p.168) ask, 'do individuals actually make decisions the way the rational model predicts?'. Many decisions are characterised by complexity, relatively high uncertainty and goals and preferences that are neither clear nor consistent. Managers therefore, frequently use methods alternate to the Rational Model for decision-making. Some of the alternative decision-making processes are (Robbins, SP et al. 2001, pp.168-174; Davidson et al. 2009, pp.256-259):

- the Satisficing model where complex problems are reduced to a level which can be readily understood and the satisficer settles for the first solution that is 'good enough', thus ending the search for further alternatives;
- the Implicit favourable model where early in the decision process, a preferred alternative is selected and the rest of the decision process is essentially a decision confirmation exercise;
- the Intuitive model where unconscious process is created out of experience. The 'experts' experience allows them to recognise a situation and draw upon previously learned information associated with that situation to quickly arrive at a decision choice.
- the Heuristics process which is a 'rule of thumb' based on perceptions, memory, imagination, resemblance or historical event.

A recent Australian study on managers' perceptions strongly suggests the use of intuitive decision-making when developing organisational strategies (Thompson, Donohue & Waters-Marsh 1992).

In the above discussions, the process and effectiveness of various decision-making processes mainly relate to business decisions involving management areas such as finance, accounts, marketing, manufacturing, corporate strategies and safety.

3.4 Ethical decision-making

3.4.1 Introduction

General theories of ethical decision-making include levels of decision-making comprising of the individual, the organisation, and the business system; factors involving ethical decision-making comprising of the economic, legal and moral; and approaches to ethical decision-making such as consequences (teleological theories), duties, obligations and principles (deontological theories), and integrity (virtue ethics theories) (Trevino & Nelson 1995, pp.66-69; Boatright 2003, pp.6-9).

However, Hansen (1992, p.523) asks the questions: 'How does the manager know how to make decisions when faced with ethical dilemmas? Would he make a "gut" decision, seek advice from peers; use a rule of thumb or some combination of these?' Some answers found in studies conducted by Ferrell and Gresham (1985, p.87), contend that 'ethical/unethical decisions are moderated by individual factors, significant others within the organisational setting, and opportunity for action'. Hunt and Vitell (1986) suggest that once an individual confronts a problem they will perceive various possible actions. The individual may use some sort of a broad-based ethical judgement as a screening device and then apply an evaluation process.

Ferrell, Gresham and Fraedrich (1989) suggest that incorporating ethical principles into theories of decision-making has been slow. There could be several reasons for this. One reason may be that few scholars are interested in both ethics and decision-making because most ethical models have emerged from 'psychology-based disciplines, including organisational behaviour and marketing' (Jones, TM 1991, p.367). Other reasons cited by Trevino (1986) are the delicate nature and complexity of this area and that 'managers are not likely to allow their "ethics" to be directly observed or measured', the lack of theory to guide investigation, and the notion that ethics is regarded as a branch of philosophy rather than social science – 'which may lead to the conclusion that business ethics is a "Sunday school" subject not worthy of serious discussion' (Trevino 1986, p.601).

In most situations ethical choices are clear enough for people to be able to decide what to do and people in business to act accordingly (Trevino & Nelson 1995, ch.1; Boatright 2003, p.4). However, ethical decision-making becomes an issue when exceptions occur and there is uncertainty about ethical obligations or when considerations of ethics come into conflict with the practical demands of business where multiple stakeholders, interests, and values are in conflict and laws are unclear (Trevino 1986; Boatright 2003, p.5).

However, as suggested by Trevino 1995 (p. 70), it may be reasonable to accept that all theoretical approaches 'have limitations' and none of them, by themselves, provide perfect guidance in every situation. She has suggested that keeping the theoretical approaches in mind, there could be eight steps while making business ethics decisions. These are: 1) gather the facts, 2) define the ethical facts, 3) identify the affected parties, 4) identify the consequences, 5) identify the obligations, 6) consider your character and integrity, 7) think creatively about potential actions, 8) and check out your gut or intuition (Trevino & Nelson 1995, pp.71-75). Ethical decision-making models and processes suggested by several researchers are discussed in sections 3.4.3 and 3.4.4

In more recent years, several authors and researchers have contended that reason alone may not be sufficient to evoke a decision based on ethics. Rather, it could be dependent on intuition (Isenberg 1984; Haidt 2001; Pizarro & Bloom 2003; Narvaez & Lapsley 2009; Provis 2010), and heuristics (Fisher, C & Lovell 2006, pp.181-207; Davidson et al. 2009, pp.257-8; Hamilton, Knouse & Hill 2009; Hayibor & Wasieleski 2009). . There are others who suggest that individual, organisational and situational factors have significant impact on ethical decision-making. Individual factors may include the nature and personal characteristics of the decision-maker (Beach & Mitchell 1978; Fritzsche 1991; Arnold, ML 2000). Individual factors are important in ethical decision-making. While specific information on individual factors such as age, sex, attitudes, values, education, religion were not collected during the interviews, areas such as the effect of reflection and the use of exemplars formed part of the interview questions. These could be attributed to individual factors. Organisational factors may include the situation at issue (Arnold, ML 2000), type of surrounding environment (Beach & Mitchell 1978), and perceived organisational culture (Sims & Keon 1999; Fritzsche 2000). Situational factors include referent groups, organisational factors and industry factors (Ford & Richardson 1994). Referent groups include studies of peer groups, top management influences and the use of rewards and

sanctions, all of which could be combined together in this research as internal organisational factors. Industry factors are associated with overall industry practices and business competitiveness, all of which could be combined together in this research as external organisational factors. These factors are discussed in further detail in sections 3.4.6 to 3.4.11.

3.4.2 Forms of ethical decision-making in business

Business ethics, on the one hand, can be described by empirical concepts that describe and explain factual states of affairs, such as managerial motivation and ethical behaviour of businesses and decision-makers and can be informed by the 'is' of business affairs. On the other hand, business ethics can be informed by prescriptive statements which guide us to what we 'should' or 'ought to' do (Donaldson & Dunfee 1994). For example, the statement 'Pull the trigger and you will kill Jones' is a descriptive statement, whereas the statement 'You should pull the trigger and kill Jones' qualifies as a prescriptive statement (Donaldson 1994, p.158).

These two approaches to business ethics, the empirical or descriptive, and the normative or prescriptive have influenced research in business ethics. Trevino and Weaver (1994) explain that the empirical or descriptive approach involves an empiricist who studies business ethics with training rooted in management or social sciences. They are concerned with questions of what is rather than what ought to be. The approach describes, explains, and predicts phenomena using methodologies such as historical analysis, observation, interviews, surveys, and experiments (Trevino & Weaver 1994). Behaviour of employers and employees is seen as influenced by policies, procedures, and reward systems. The normative or prescriptive approach to business ethics is rooted in philosophy where the focus is on questions of what to be – how an individual or business ought to behave.

While the two approaches, descriptive and prescriptive, as seen above, follow separate research methods in business ethics, some researchers have suggested an interconnection between the two. Wood (1991) notes that research in business ethics requires both normative and empirical insights. Donaldson and Dunfee (1994) have presented a normative theory, called integrative social contracts theory (ISCT), which incorporates empirical findings as part of a process of making normative judgements. Werhane (1994, p.175) argues that 'there is no purely empirical nor purely normative methodology' and that 'some terms escape the division of the normative and descriptive'.

Behavioural and developmental psychologists involved in areas of work and organisational psychology, and specifically in ethical decision-making, also distinguish two forms of ethics as 'normal' (descriptive) and 'normative' (prescriptive) where a value is descriptive if it is exhibited whenever a relevant situation arises, and is prescriptive if it can be expected to be stated in reference to a relevant situation (Reese & Fremouw 1984; Voskuijl & Evers 2007).

One important body of research of descriptive ethics is the cognitive moral development theory. This research grew out of the work by Lawrence Kohlberg in the late 1950s in his study of moral thinking and development among adolescent boys. Kohlberg's theory describes the developmental processes used by individuals as they grow and develop to resolve moral issues, indicating that individuals having higher levels of moral development are more likely to make ethical choices and behave ethically (Kohlberg 1981). This was further extended by James Rest, who developed a four-component model of ethical decision-making (Rest 1975). Subsequently, other models of ethical decision-making were built on Rest's framework.

This research focuses on the descriptive ethical decision-making model of Rest (1986). Theories of both Kohlberg and Rest, and the various models of ethical decision-making will be discussed further in the next section 3.4.3.

3.4.3 Ethical decision-making models

Theoretical approaches to ethical decision-making have transitioned to decision-making models. Over the last few decades, several ethical decision-making models have been proposed and integrated and 'a number of business ethics researchers have turned to moral psychology for theory, constructs, and measures that could be applied to social scientific research in the business ethics domain' (Trevino 1992, p.445).

As Cottone and Claus (2000) indicate, several authors have made attempts to ground ethical decision-making on some theory or philosophy. While, Kitchener (1984) argued that both 'absolute thinking (dealing with rights and duties) and utilitarian thinking (doing the greatest good for the greatest number)' (p.45) are involved in ethical decision-making, Hare (1981; 1991) believed that the intuitive level is the main locus of everyday moral decisions. However, Hare aligned with Kitchener by contending that utilitarian thinking must be applied in situations where intuitions cannot 'settle the dispute' (p.38). Further, Lawrence Kohlberg in his cognitive moral development (CMD) theory proposed that an 'individual's level of

moral development strongly influences the person's decision regarding right and wrong and the rights, duties and obligations involved in a particular ethical dilemma' (Trevino 1986). Kohlberg's model (Kohlberg 1981) lists six stages of development in moral reasoning and its transformations from childhood to adulthood. The underlying theory in these stages is the reasons an individual uses to justify a moral choice rather than the decision itself (Trevino 1986). At stages one and two, an individual is concerned about consequences, physical and serving one's own interest. At stages three and four, the individual conforms to avoid censure by legitimate authorities and to fulfilling social duties. Stages five and six are based on an individual's awareness of values and rights and defined by the decision of conscience in line with self-chosen ethical principles.

While a number of business ethics researchers have been guided by Kohlberg's CMD theory, Rest (1979) suggested that 'a person's moral judgement reflects an underlying organisation of thinking and that these organisations develop through a definite succession of transformation' (1979, p.17) and proposed a four-component model (hereafter called the FCM) of 'processes involved in the production of moral behaviour' (Rest 1984a, p.19). The model asks the question: what must we suppose happens psychologically in order for moral behaviour to take place? By talking about the different reasons why a person might fail to behave morally, Rest considered what it takes to succeed in performing a moral act (Rest & Narvaez 1994, p.22). The FCM (as shown in Figure 7) consists of Component 1: Recognising moral issues – relating to moral sensitivity and interpreting one's actions relative to the potential impact on others; Component 2: Making moral judgement – judging which action is morally right or wrong and devise a moral course of action that would distinguish the moral ideal; Component 3: Establishing moral intent – relating to moral motivation, prioritising moral values relative to other values and selecting the more moral outcome from the choices generated; and Component 4: Engaging in moral behaviour – relating to character, having courage, persistence, self-control, and so on, implementing skills and acting or implementing one's choice. The components of the FCM are further discussed in section 3.4.5.

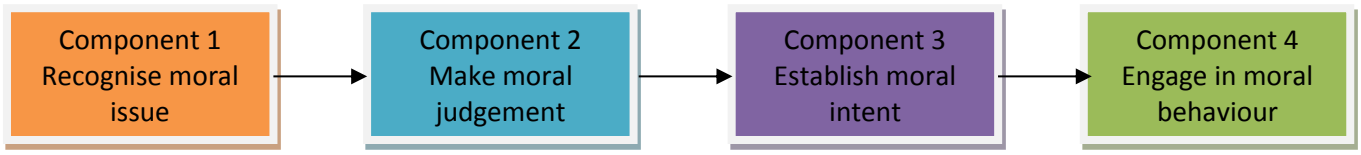


Figure 7: Rest's four-component model (FCM)

Further, Rest and Narvaez (1994, pp.202-205) suggest that the FCM could drive research leading to new instruments to assess morality, devising new tests and establishing links to predicting behaviour.

In the last 20 years, several theoretical models for ethical decision-making have been proposed by researchers from a wide range of disciplines. A summary of some of these models are presented in Table 9.

Table-9: Summary of ethical decision-making models

Researcher	Brief Title	Summary
Ferrell and Gresham (1985)	Framework for understanding ethical decision-making in marketing	Ethical dilemma emerges from social or cultural environment. Contingent factors that affect decision-maker are individual and organisational. Effect of significant others is demonstrated.
Hunt and Vitell (1986)	General theory of marketing ethics	Environmental factors and personal experiences affect perceptions of the existence of ethical problems, which lead to evaluations and judgements which affect intentions and finally behaviour.
Trevino (1986)	A person-situation interactionist model	Combines individual variables (moral development etc.) with situational variables to explain and predict ethical decision-making of individuals in organisations – based on Kohlberg's model. Moral judgements made in cognitive stage are moderated by individual and situational factors such as ego strength, field dependence, and locus of control.
Ferrell, Gresham and Fraedrich (1989)	Synthesis of ethical decision-making models	Combines the components of Kohlberg, Ferrell and Gresham, and Hunt and Vitell into a five stage model: awareness (of ethical issues), cognitions (moral development), determination (intentions), and actions (ethical or unethical behaviour).
Jones, TM (1991)	Ethical decision-making by individuals: an issue-contingent and moral intensity model	Uses Rest's FCM and others to propose an issue-contingent model containing variables called moral intensity which influences every component of moral decision-making and behaviour.
O'Boyle (2002)	Ethical decision-making for computing professionals	A six-stage process that has a feedback process rather than a linear process. A person's fundamental knowledge of the good is a prerequisite for sensing whether a moral problem exists and whether he/she has some personal responsibility in the matter.

Attempting to synthesize these models, Jones (1991) remarked that each of the models, in addition to contributing something to the understanding of ethical decision-making, has its own strengths and weaknesses. Although these six models may not seem to compare exactly with that of Rest's model, each of the models shown above has a process consisting of recognising ethical issues, making judgements on the issues, evaluating the judgements and finally taking some action. The following section in Table 10 links various segments of each model with that of Rest's FCM.

3.4.4 Table10: Linking Rest's model with other ethical decision-making models

Rest (1986)	Ferrell & Gresham (1985)	Hunt & Vitell (1986)	Trevino (1986)	Ferrell, Gresham & Fraedrich (1989)	Jones (1991)	O'Boyle (2002)
Component 1 Recognising moral issues: The person must have been able to make some sort of interpretation of the particular situation in terms of what actions were possible, who would be affected by each course of action, and how the interested parties would regard such effects on their welfare	Due to constantly changing ethical standards that can vary from one situation/organisation to another, individuals can have different perceptions of ethical situations and use different ethical frameworks to make decisions.	The perception of an ethical problem situation triggers the whole process. Subsequent elements of the model do not come into play, if the individual does not perceive some ethical content in a problem situation.	Uses Kohlberg's model of cognitive moral development of stage definitions to explain how managers think about ethical dilemmas in their work.	Begins with identification of an ethical issue evolving from the recognition 'that an unsettled element has created a dilemma'.	The model contends that recognition and decision-making cannot be identical for all moral issues. Moral intensity variations and differences in ethical issues must also be taken into consideration.	First stage is moral perception and personal knowledge of the moral good. This means that an individual must have the ability to recognise that an ethical problem exists and that that individual must have some personal responsibility to respond to that problem.

Rest (1986)	Ferrell & Gresham (1985)	Hunt & Vitell (1986)	Trevino (1986)	Ferrell, Gresham & Fraedrich (1989)	Jones (1991)	O'Boyle (2002)
Component 2 Making moral judgement: the person must have been able to make a judgement about which course of action was morally right (or fair or just), thus labelling one possible line of action as what a person ought to do in that situation.	Making moral judgement of an ethical dilemma is dependent on (a) the individual's cognitive structure – knowledge, values, beliefs, attitudes, and intentions; (b) the influence of top management on individuals; and (c) the opportunity for action – influence of codes of ethics, corporate policies, and rewards and less punishment for unethical behaviour.	This model contends that once the individual perceives the ethical dilemma, two kinds of evaluations will take place – a deontological evaluation and a teleological evaluation.	Since individuals operate within a range of moral development stages, adult moral maturity and educational levels also contribute significantly towards making moral judgements.	Moral development will directly affect how an individual might deal with an ethical issue. Moral evaluations involve selection of moral philosophies – deontological and teleological theories and judgement.	This model argues that moral reasoning is issue dependent and could be intuitive. This could be because moral reasoning takes time and energy e.g. gathering facts, applying moral principles, and making moral judgments, and therefore, 'it is likely that moral agents will economize on efforts devoted to moral reasoning when moral stakes are low'.	This stage is resolution wherein 'the complexities of the stated problem are tackled in order to arrive at an individual position which is personally defensible'. Here, the ability to think analytically is crucial.

Rest (1986)	Ferrell & Gresham (1985)	Hunt & Vitell (1986)	Trevino (1986)	Ferrell, Gresham & Fraedrich (1989)	Jones (1991)	O'Boyle (2002)
Component 3 Establishing moral intent: the person must give priority to moral values above other personal values such that a decision is made to intend to do what is morally right.	The 'individual decision-making' stage in Ferrell and Gresham's model involves both making moral judgements (stage 2 of Rest's model) and intention (stage 3 of Rest's model). It contends that ethical decision-making is linked to individual factors such as knowledge, values, attitudes and intentions.	The model postulates that 'ethical judgements impact on behaviour through the intervening variable of intentions'. At this stage, an individual may perceive a particular alternative as the most ethical alternative and, nevertheless, intend to choose another alternative because of certain preferred consequences.	Intentions become apparent when the situation is ambiguous and where individuals make greater use of external social referents or influence to guide their behaviour.	Contends that a person's intention to perform behaviour is 'determined by the person's salient beliefs, which are formed by moral evaluation of the situation, alternatives, and perceived consequences'.	Jones defines moral intention as the decision to act on a 'morally correct' judgement. Here, the moral agent balances and compares moral factors with other factors such as self-interest, organisational pressures, and greater good.	Intentions are shown in the form of assessment which questions a person's freedom to act in a specific moral situation and presumes some ability to assess freedom. Decision to act is the process of pondering an ethical problem.

Rest (1986)	Ferrell & Gresham (1985)	Hunt & Vitell (1986)	Trevino (1986)	Ferrell, Gresham & Fraedrich (1989)	Jones (1991)	O'Boyle (2002)
Component 4 Engaging in moral behaviour: the person must have sufficient perseverance, ego strength, and implementation skills to be able to follow through on his/her intentions to behave morally.	A combination of Individual and organisational factors can 'push' an individual's moral intention to act to take moral action and exhibit moral behaviour.	Situational constraints may result in behaviours that are inconsistent with intentions and ethical judgements. An evaluation of the actual consequences is recommended for feedback into personal experiences.	Managers will be most susceptible to situational influences on ethical/unethical behaviour. Managers will be more likely to resist, attempt to change, or select themselves out of unethical situations.	Ethical/unethical behaviour exhibited by the individual and its components are organisational culture, and opportunity.	Moral intensity is linked with moral behaviour. It is likely that proximity will positively influence moral behaviour.	At this stage, it is the free will rather than the human intellect which is engaged. The question no is longer , 'What is the good in these circumstances?' but, 'Is one willing to pursue the good in order to make one's actions conform to the good?'. It is asserted that courage is the willingness to make behaviour conform to the good even when it is personally dangerous.

In summary, the components in each of the six ethical decision-making models – Hunt and Vitell (1986), Ferrell and Gresham (1985), Trevino (1986), Ferrell, Gresham and Fraedrich (1989), Jones (1991), and O'Boyle (2002) – have some clear similarities to the ethical decision-making components of Rest's (1984a) decision-making model. Church et al (2005) further confirm that a number of studies have empirical results which confirm Trevino's (1986) person-situational theory and Jones's (1991) moral intensity theory.

Additionally, Rest's model also seems to be consistent with the rational model proposed by management theorists from general business areas – as shown on page 88. A brief comparison between Rest's FCM and the rational model of general management theorists would reveal similarities as shown in Table 11.

Table 11: Comparison of the rational model and Rest's model

Stage	Rational model from general management theorists	Rest's FCM
1	Defining, identifying, clarifying, establishing or perceiving the problem.	Recognise moral issues – relating to moral sensitivity and interpreting one's actions relative to the potential impact on others.
2	Measuring the decision criteria, risks, issues of courses of action, acquiring insight, and developing foresight.	Make moral judgement – judging which action is morally right or wrong and devise a moral course of action that would distinguish the moral ideal.
3	Assessing, evaluating, and understanding costs and benefits, solutions, alternatives, possible outcomes, risks, and capabilities.	Establish moral intent – relating to moral motivation, prioritising moral values relative to other values and selecting the more moral outcome from the choices generated.
4	Implementing, selecting, treating, choosing the decision and the course of action, the best alternative method, a core strategy and making the decision or strategy work.	Engage in moral behaviour – having courage, implementing skills and act or implement one's choice.

While any of these models could be used as a basis for empirical studies of the ethical decision-making process, there is limited effort directed towards theory testing (Randall & Gibson 1990). Cottone and Claus (2000) contend that 'surprisingly' little research has been done on ethical decision-making or models of ethical decision-making and ask the question 'Do ethical decision-making models really work?' (p.281). Trevino (1986) notes that most of the writing on this topic has been non-empirical and Ford and Richardson (1994) have observed that 'the paucity of empirical research grounded theory has substantially impeded the development of the field'.

This research will therefore use an ethical decision-making model to evaluate and understand the decision-making processes of SME managers in Australia. As the above discussions suggest, Rest's model is favourable for the purposes of this research. This evaluation will then be used to discuss and address the second research question: what methodologies can a SME manager use to measure, monitor and manage ethical issues?

The following section discusses salient features of Rest's ethical decision-making model, followed by a discussion of how Rest's model will be used in this research.

3.4.5 Role of Rest's FCM in this research

Rest's model and introduction

As discussed in sections 3.4.1 and 3.4.2, this research focuses on Rest's (1986, pp.3-5) FCM which is based on individual ethical decision-making and behaviour, where a person faced with an ethical issue must (1) recognise the moral issue, (2) make a moral judgement, (3) establish moral intent, and (4) engage in moral behaviour.

While the FCM is depicted as a 'linear' model showing Component 2 following Component 1 and so on, ultimately culminating in Component 4, and seems to assume the decision-making ability of the person taking ethical decisions, Rest (1986) cautions that (1) 'though one process might interact and influence others, the four processes have distinctive functions' (p.4), that is, a person who has capability in one process may not have capabilities in another process (Rest 1984a), (2) the four components do not represent general traits of people, but rather they are useful for analysing 'how a particular course of action was produced in the context of a particular situation' (p.5), and (3) the four components need not follow one

another sequentially – ‘a person’s way of defining what is morally right (Component 2) may affect the person’s interpretation of the situation (Component 1)’ (p.5).

Review of Rest’s four components

Component 1 – recognising the moral issue – involves interpreting the situation with sensitivity and involves imagining what courses of action are possible in a situation and tracing out the consequences of action in terms of how each action would affect each party involved (Rest 1984a, 1986). It occupies a prominent position in this model and has several aspects to it. Individuals can have different perceptions of ethical situations (Ferrell & Gresham 1985). Subsequent elements of the model do not come into play if the individual does not perceive some ethical content in a situation (Hunt & Vitell 1986), a person at a lower stage of moral development (see Kohlberg’s stages in section 2.17) may not see a situation as an ethical issue (Ferrell, Gresham & Fraedrich 1989), and recognition of an ethical issue can vary between persons because of the differences in a person’s knowledge of the moral good (O'Boyle 2002). Recognition of a moral issue can also depend on gender, nationality and culture, ethical experience, personal values and orientation, moral disengagement from the ethical aspects of a decision, situations such as job satisfaction, issue intensity (for example harming 10,000 people is morally more intense than harming 10 people), and organisational ethical climates generated by factors such as formal and informal systems (Tenbrunsel & Smith-Crowe 2008). However, Rest (1986, p.5) suggests that whichever moral norm or principle a person applies to recognise a moral issue, the minimum requirement would be that ‘a person realises that she/he could do something that would affect the interests, welfare, or expectations of other people’. In the business context, Bebeau (2002) contends that recognising ethical issues can be influenced by knowledge of the regulations, codes, norms of one’s profession and recognising when they apply, and focuses on the distinctive expectations of the profession that derive from the norms and codes that govern professional practice. In summary, the moral sensitivity process highlights the idea that moral behaviour can occur only if the individual codes the situation as moral and focuses on the various actions that are available and how each action might affect the self and others (Bebeau & Thoma 1999, p.345).

Component 2 – make a moral judgement – involves determining what course of action would best fulfil a moral ideal, that is, what ought to be done in the situation (Rest 1984a; 1986, p.8). From Component 1, a person is aware of the various possible courses of action and what the consequences would be to all parties involved. In Component 2, a person needs to decide which of these courses of action is morally right, fair, or comes closest to a person's ideals (Rest 1984a). Making moral judgements has been suggested to depend on several aspects – individual's cognitive structure such as knowledge, values, beliefs, and attitudes (Ferrell & Gresham 1985), evaluation methods such as deontological and teleological (Hunt & Vitell 1986), moral developmental stage (Rest 1986, pp.8-11; Trevino 1986), issue-dependent (Jones, TM 1991), and ability to think analytically (O'Boyle 2002). Further, as discussed in section 2.2.1, researchers of moral judgement have proposed three levels of moral judgement processing: (1) abstract or general principles, (2) intermediate-level moral concepts, and (3) concrete rules or codes of ethics (Thoma 2002; Walker 2002) Research on the impact of moral awareness (Component 1) on moral judgement (Component 2) has shown that not all decision-makers who are morally aware make moral decisions and is correlated to individual factors such as gender, culture, emotion, personal values and ethical experience (Tenbrunsel & Smith-Crowe 2008). In summary, the moral judgment process focuses on judging which of the various options are the most ethically justified (Bebeau & Thoma 1999, p.345).

Component 3 – establish moral intent – involves resolving to place moral concerns ahead of other concerns by selecting among competing value outcomes, the one to act upon, and deciding whether or not to fulfil one's moral ideal (Rest 1984a; 1986, p.13). Having decided on a course of action which a person perceives to be morally right and fair by applying one or several of the decision-making processes (Component 2), a person would now evaluate the moral decision with other competing values. Typically, moral values are not the only motives that people have and there is awareness of a number of possible outcomes based on different motives such as certain preferred consequences related to self-interest for example, advancement in careers (Hunt & Vitell 1986; Rest 1986; Jones, TM 1991), organisational pressures, greater good, desire to avoid aversive consequences and internal stimuli such as emotions, feelings and mood (Jones, TM 1991). Establishing moral intent is also dependent on social influence to guide behaviour, ego strength of conviction, locus of control (an individual's perception of how much control they exert over events in their lives), and the person's freedom to act (Trevino 1986; O'Boyle 2002). As Rest (1986, pp.13-14) asks, 'why

then would one ever chose the moral alternative, especially if it involves sacrificing some personal value or suffering some hardship? What motivates the selection of moral values over other values? After reviewing several theories, Moberg and Seabright (2000) contend that people choose the moral alternative because of personal stakes which signify 'who they are and who they appear to be to others'. In summary, the moral intention or motivation process acknowledges that individuals have a number of legitimate concerns that may not be compatible with the moral choice: for instance, career pressure, established relationships, and personal concerns. Bebeau and Thoma (1999, p.345) contend that 'lapses of ethical behaviour in the professions can be attributed to the low priority placed on the moral, even when the moral choice is very well understood'.

Component 4 – engage in moral behaviour – involves executing and implementing a plan of action. It comprises of figuring out a sequence of actions, working around difficulties, overcoming fatigue, resisting distractions, and not losing sight of the eventual goal (Rest 1984a; 1986, p.15). Factors and aspects for engaging in moral behaviour include a combination of individual and organisational factors that can push an individual's moral intention to take moral action and exhibit moral behaviour (Ferrell & Gresham 1985), opportunity to evaluate actual consequences and to provide feedback into personal experiences (Hunt & Vitell 1986), high principles where the individual has reached stage 5 or 6 of Kohlberg's framework (Trevino 1986), organisational culture (Ferrell, Gresham & Fraedrich 1989), tendency of people to hold themselves less accountable for their behaviour than they would hold others in the same situation (Jones, TM 1991), and 'courage to make behaviour conform to the good even when it is personally dangerous' (O'Boyle 2002, p.273). While inner strength, perseverance, resoluteness, and strong character exemplify Component 4 (Rest 1984a), there may be practical realities that undermine the chosen option (Moberg & Seabright 2000). In summary, Component 4 'represents the processes by which one constructs an appropriate course of action, avoids distractions, and maintains the courage to continue' (Bebeau & Thoma 1999, p.345).

Usefulness of Rest's model (and how other researchers have used it)

As discussed in section 3.2 and Table 8 therein, and section 3.4.4 and Table 11 therein, general management decision-making and ethical decision-making have similar processes of decision-making. Since both management and business ethics are 'focussed on the same

individuals in the same organisations making the same decisions' (Martin, K & Parmar 2012), ethical decision-making scholarship in business ethics is based on the rational choice model (Tenbrunsel & Smith-Crowe 2008). Martin and Parmar (2012) contend that the basis for most decision-making research in business ethics relies upon Rest's (1986) FCM.

Rest's model was intended to describe the four psychological processes that contribute to observable behaviour. The model was intended to advocate a broader conception of moral functioning, to provide an analytical tool for handling a range of conceptual problems, and to furnish a framework for the implementation and assessment of moral interventions (Rest et al. 1999a; Walker 2002). Rest claimed that 'if we had information about all four inner processes for a given subject in a given situation, we would be able to predict behaviour' (Rest 1984b, p.28). Thus, moral failure can be a consequence of a deficiency in any component of the model, such as , 'being blind to the moral issues in a situation, being unable to formulate a morally defensible decision, failing to accord priority to moral concerns, or being unable or unwilling to implement action' (Walker 2002, p.355). Further, the FCM suggests a process in which information from one component interacts and is conditioned by the information supplied by other processes (Thoma 2002).

Rest's FCM yielded several research streams. One was the development of a methodology to assess the moral reasoning of individuals. Rest developed a non-interview measurement instrument called the Defining Issues Test (DIT) to assess moral reasoning without relying on the verbal skills of the individual. The DIT collects information about how people construe a dilemma rather than how they justify a course of action (Rest 1979, p.95) and uses a Likert-type scale to give quantitative rankings to six moral dilemmas (Rest 1975; 1979, pp.93-4). Measurement of an individual's moral reasoning level is ascertained by calculating a weighted index of the percentage resulting in a score called a P score that can range between 0 and 95. A high number indicates a high moral judgement development (Rest & Narvaez 1994, pp.11-13). Since the 1970s, the DIT has been extensively used in a variety of researches such as studies undertaken for moral development at different ages and educational levels (Rest & Narvaez 1994, p.14), to determine the person-situation interaction (Church et al. 2005), moral intensity (Leitsch 2004), and levels of moral reasoning and value types (Lan et al. 2010). In 1999, a new version of DIT, called the DIT2, was introduced,

which incorporated updated dilemmas and items, improved the algorithm of indexing, and improved the method of detecting unreliable participants (Rest et al. 1999b).

Second, Rest's model provided opportunities to researchers to work on factors influencing moral awareness and moral judgement – notably the person-situation interactionist model (Trevino 1986) and the issue-contingent model containing variables called moral intensity (Jones, TM 1991). These have been described earlier in sections 3.4.3 and 3.4.4.

Third, Rest's model provided opportunities for empirical research. In a review of empirical ethical decision-making literature from 1996 to 2003, O'Fallon and Butterfield (2005) have noted that although several critical evaluations of Rest's four steps have been conducted and each of the four components of Rest's (1986) model has received research attention – 28 research findings for moral awareness, 185 for moral judgement, 86 for moral intent and 85 for moral behaviour, – 'to date, no empirical study has examined Rest's model in its entirety' (p.400). While, Hayibor and Wasieleski (2009) contend that 'various business disciplines have reacted to ethical scandals by examining aspects of Rest's model' and by studying the influences of Rest's model, managers may be able to 'create conditions under which unethical behaviour is less likely to occur', research on the use of Rest's FCM to examine ethical decision-making processes in business has been limited.

Fourth, researchers in professional ethics education showed interest in the FCM because it had an intuitive appeal as it was not solely focused on moral judgement development and also provided a theoretical structure for a professional curriculum (Thoma 2002). The FCM can offer direction for instructional design such as targeting specific deficiencies in each component, identifying programs, and suggesting which of the evaluating strategies might be most appropriate. For example, Kohlbergian inspired programs can emphasise Component 2 and character development programs can emphasise Component 4 (Bebeau & Thoma 1999). The FCM can also help to relate moral knowledge to effective moral functioning such as teaching traits of character, incorporating practice and habit, and encouraging discussion and exploration (Bebeau, Rest & Narvaez 1999). However, Bebeau, Rest and Narvaez (1999), also acknowledge that presently we do not know if these strategies are effective because we don't have the research to inform us about it.

Several researchers have commented upon the limitations of Rest's (1986) FCM. Thoma (2002) observes that the FCM was not necessarily designed to guide research but to reflect the current state in the field of morality development and as such can only suggest broad relationship between and among the components. Tenbrunsel and Smith-Crowe (2008) have noted that with respect to the definition of moral awareness (Component 1), there is a discrepancy between Rest's interpretation and the empirical studies that have relied on Rest's work. The measurement of moral judgement has also raised some concern. For instance, Walker (2002) contends that if Component 2 is to 'avoid being condemned as unduly rationalistic', it needs conceptual as well as empirical work to 'integrate different models of moral orientation' in addition to the Kolbergian tradition which focuses only on justice and social cooperation (p.358). Bebeau, Rest and Narvaez (1999) have noted that the FCM does not resolve the question of whose or what values should be considered especially in Components 2 and 3. Respectful conduct may vary from culture to culture and responsible conduct may depend on the situational context.

Future directions for the FCM

The so-called Minnesota group's (a group which included James Rest, and includes Darcia Narvaez, Muriel Bebeau, Stephen Thoma, Lawrence Walker, among others) approach to moral development has several suggestions for more effective utilisation of the FCM.

Walker (2002) has suggested empirical attention to the development of reliable and valid assessments of each component, assessment of the interaction between the four components, formulation of moral education programs based on adequate functioning in all four components, and assimilating various theoretical traditions and research programs within the FCM.

Bebeau (2002) recommends that the future study of FCM should be directed at methods and measures for assessing components of morality other than moral judgement. She has identified several promising areas: ethical sensitivity (Component 1) where research has not progressed because it's expensive, requiring transcription of semi-structured interviews and scoring by trained raters, work on understanding of ethical motivation (Component 3), study on the influence of moral climate and culture on professional development, and using

professional-specific measures derived from the FCM to enhance student learning. Similarly, Thoma (2002) suggests that attention is needed to 'develop measurements of the components and then flesh out their structure and importance in moral functioning'.

Based on their findings from the review of empirical ethical decision- making literature, O'Fallon and Butterfield (2005) encourage using Rest's model to ascertain whether the four steps 'capture the essence of the individual decision-making process' and whether there are 'additional steps that precede, follow, or intervene between the other steps'.

3.4.6 Summary of sections 3.4.1 to 3.4.5

This research will use an ethical decision-making model to evaluate and understand the decision-making processes of SME managers in Australia. The above sections discussed several ethical decision-making models and selected Rest's FCM to ascertain ethical decision-making processes of Australian SME managers and will be used for developing Proposition 1. Rest's model will also form the basis for developing thematic codes that will be used in the qualitative analysis. Evaluation of Proposition 1 will then be used to discuss and address the second research question of what methodologies a SME manager can use to monitor and manage ethical issues.

As discussed in sections 2.4.7 (Ethical decision-making tools used by SME owners and managers), 3.3 (Alternative methods of decision-making in management), and 3.4.1 (Introduction to ethical decision-making), for many decisions, particularly the kind that a person hasn't encountered before and for which there are no standardised or programmed rules to provide guidance, managers frequently use alternative methods for decision-making. Particularly for ethical decision-making, rational decision-making alone may not be sufficient (Blasi 1980, 1983, 1990). Rather it could be dependent on other methods and factors such as intuition, heuristics, moral exemplars, reflection, and organisational factors. The following sections define and discuss each of these factors.

3.4.7 Intuition

People sometimes view managers as rational, purposeful, and decisive. They see them as going through a series of stages of analysis before deciding what to do. The doing comes after the thinking. In his study of what senior managers think about and how they think, Daniel Isenberg (1984) found that this is only partly true. Most successful managers do not closely follow the classical rational model of first clarifying goals, assessing the situation, formulating options, estimating likelihoods of success, making their decision, and only then taking action to implement the decision. Nor do top managers select one problem at a time to solve, as the rational model implies. In addition to depending on their ability to analyse, managers also rely heavily on a mix of intuition and disciplined analysis in their decision-making (Isenberg 1984; Zygmond & Boorhem 1989; Reynolds 2006; Haidt 2010; Narvaez 2010a, 2010b).

Inquiries about the nature of intuition have raised questions such as how intuitive judgement can be distinguished from other things like prejudice, whim, or habit, how one acquires the ability to be intuitive, how and why do some people manage to acquire it while others do not, whether all experts or only experts use intuition, and whether intuition can be taught (English 1993; Shapiro & Reiff 1993; Paley 1996). On reviewing seventeen articles from the areas of psychology, philosophy, and management, Dane & Pratt (2007) contend that intuition is a 'non-conscious process involving holistic associations that are produced rapidly and which results in affectively charged judgements'. Several researchers have elaborated this by adding that information processing in human beings involves cognition that occurs automatically, outside of consciousness, and quick evaluation of complex problems (Haidt 2001; Pizarro & Bloom 2003; Lehrer 2009, pp.232-238; Narvaez & Lapsley 2009)

Research has suggested benefits of intuition in decision-making. One preliminary work has suggested a link between intuition and creativity and invention (Dane & Pratt 2007). Interviews with 60 experienced professionals holding significant positions in major organisations across various industries in the US reveal that two-thirds felt that intuition led to better decisions and that benefits associated with intuitive decisions can expedite decisions, improve decision-making outcomes, facilitate personal development, and promote decisions compatible with company culture (Burke & Miller 1999).

In the realm of ethical decision-making and moral psychology, there is an ongoing debate between rationalism and intuitionism. Psychologists have labelled the two modes of thinking as System 1, which operates 'automatically and quickly, with little or no effort and no sense of voluntary control' and System 2, which 'allocates attention to the effortful mental activities that demand it, including complex computations'(Kahneman 2011, pp.20-21). System 1 includes skills such as recognising objects such as a table, orienting attention such as turning to a sound, and learned associations such as knowing the capital of France. System 2 includes the conscious reasoning self that makes choices, decides what to think about, and what to do. It requires attention and is disrupted when attention is drawn away, such as telling someone a phone number, parking in a narrow space, filling out a tax form, and checking the validity of a complex logical argument (Kahneman 2011, pp.21-22). Most researchers contend that both processes are needed. Haidt (2010) contends that the duality can be framed into three models: one, where reasoning is a major partner – based on researchers such as Kohlberg and Rest; two, where reasoning and intuition are equally important – a view expressed by Narvaez; and three, where intuition is a major partner – the view expressed by Haidt and others. As discussed in the following paragraphs, several research papers have elaborated on these three models.

The first model in which reasoning is a major partner in the duality as expressed by Kohlberg and Rest, has been discussed elsewhere in this thesis. Briefly, however, in the early and middle of the last century, judgement was considered moral only if moral criteria were applied through deliberation and over time this process would look like intuition (Narvaez 2010a). The reasoning approach derived its attributes from moral development theory (Kohlberg 1981) and the four component ethical decision-making model based on post-conventional reasoning (Rest 1979, 1984a, 1994; Rest & Narvaez 1994).

The second model where reasoning and intuition are equally important have been explained by several researchers. An early form of the dual approaches of intuition and reasoning was demonstrated in 1984 by K.S. Kitchener's model of ethical justification, wherein the model distinguishes between two levels: the intuitive level and the critical evaluative level, which is further divided into three levels (ethical rules, ethical principles, and ethical theory) (Zygmond & Boorhem 1989). In this model the intuitive level consists of 'ordinary moral

sense' and 'facts of the situation'. From this level, 'as the individual moves to higher tiers, he or she is required to engage in more general and abstract levels of ethical reasoning. Knowledge gained from this level can be used to clarify, modify, or change personal beliefs, perceptions, attitudes, and behaviours' (Zygmond & Boorhem 1989, p.3).

Narvaez (2010a) contends that good intuition and reasoning inform mature moral functioning and while both processes can help in ethical decision-making, there are multiple systems for information processing and their complex interaction is not yet fully understood.
In an attempt to understand this complex interaction, Reynolds (2006) used current knowledge of how the brain functions to present a neurocognitive model of ethical decision-making. This model suggests that ethical decision-making involves two 'interrelated yet functionally distinct cycles, a reflexive pattern matching cycle and a higher order conscious reasoning cycle, and thereby describes not only reasoned analysis, but also the intuitive and retrospective aspects of ethical decision-making' (Reynolds 2006, p.737). The importance of pattern recognition in ethical decision-making has also been highlighted by other researchers (see Provis 2010). An ethical intention and behaviour can result from this process. Thereafter, the model suggests that, complicated reasoning is accomplished in the conscious reasoning system by taking facts of the situation and applying an abstract rule, e.g. utilitarian, deontological or any other principle of conduct, to determine the outcome and course of action (Reynolds 2006).

The third model where intuition is a major partner in the duality has been explained as follows. Haidt (2001, p.814) constructs a social intuitionist model which contends that 'moral reasoning does not cause moral judgment; rather, moral reasoning is usually a post hoc construction, generated after a judgment has been reached'. In other words, 'intuitions come first, strategic reasoning second' (Haidt 2012, p.xiv). The 'social' part of the model emphasises on the importance of social and cultural influences rather than private reasoning done by individuals. The 'intuitionist' part of the model states that moral judgement is the result of quick, automatic evaluations (intuitions). Support for this model has been extended in a paper that investigated the neural substrates of moral intuition and proposed that 'moral intuitions are a part of a larger set of social intuitions that guide us through complex, highly uncertain and rapidly changing social interactions' (Woodward & Allman 2007). Similarly, Provis (2013, p.55) has argued that 'moral judgement involves the exercise of intuition that is

developed by social interaction and feedback'. An empirical research on moral intuition has shown that moral judgement is not well described by the application of rules and principles. Rather, that the adult mind is full of moral intuitions which are linked to the perception of a pattern in the social world and to moral emotion (Joseph & Haidt 2007). However, evidence has also been presented that fast and automatic intuitions are actually shaped and informed by prior reasoning, which limits the claims of the social intuitionist model (Pizarro & Bloom 2003).

3.4.8 Heuristics

Findings by researchers show that heuristics are relied upon in uncertain decision-making situations where no certain answer is immediately obvious. A study of the decision-making processes among nurses reveal that an essential component of clinical judgement to be intuition referred to by some as 'gut feelings' and by others as 'hunches or sixth-sense' (Cioffi 1997, p.203). Further, the study contends that nurses use heuristic strategies to arrive at intuitive judgements.

Heuristics have been defined and described as probability judgements which are used to estimate likelihood of reaching a decision, may depend on similar examples in individuals' memories (Cioffi 1997), are employed to reduce judgements to simpler ones when faced with difficult tasks (Tversky & Kahneman 1973), are mental shortcuts that reduce complex tasks to simpler judgemental operations (Dane & Pratt 2007), and satisfy the constraints of time, knowledge, and computation by fast and frugal reasoning (Gigerenzer & Goldstein 1996).

Shah and Oppenheimer (2008) while reiterating that heuristics serve the purpose of reducing the effort associated with a task, propose that the process is based on effort-reducing principles which underlie those heuristics. Some of these effort-reducing principles are audience-response-heuristic, representativeness-heuristic, availability-heuristic, brand-name-heuristic, country-of-origin-heuristic, do-no-harm-heuristic, equality-heuristic, price-heuristic, and satisficing-heuristic. Briefly, audience-response heuristic states that an enthusiastic audience response such as a hearty applause to a presentation will lead others to positively agree to the messages in the presentation (Axsom, Yates & Chaiken 1987); representativeness heuristic evaluates an event by the degree to which it is similar in essential

properties to its parent population for example using characteristics of stereotypes to determine an outcome (Tversky & Kahneman 1973, 1974; Kahneman 2011, p. 149); availability heuristic is the process of judging by the ease with which instances come to mind, for example, a plane crash that attracts media coverage can temporarily alter our feelings about the safety of flying (Tversky & Kahneman 1973; Kahneman 2003; 2011, pp.129-130); brand name heuristic where people favourably evaluate a product with a popular brand name (Maheswaran & Chaiken 1991); country of origin heuristic where people evaluate a product favourably from positively regarded countries (Chang 2004), satisficing heuristic where the chosen alternative is 'good enough' but its overall utility is not assessed (Simon 1990) and so on.

The tendency to use heuristics seems to be influenced by individuals' limited capacity to process information, the amount of time available to process information concerning an issue (Street et al. 2001), and the limits on the human brain's availability of knowledge, computing speeds and power known as bounded rationality (Simon 1990). Thus heuristics do not try to find the best solution, rather it satisfices, i.e. finds a good-enough solution by 'choosing the first option that exceeds an aspiration level' (Gigerenzer 2008, p.20). As demands on cognitive effort increase, people tend to employ methods that reduce the effort required. To further understand this, a study conducted to explore differences in the decision-making between entrepreneurs and seniors managers in large organisations, revealed that entrepreneurs are more inclined to use heuristics than the senior managers (Busenitz & Barney 1997). Busenitz and Barney also contended that entrepreneurial decisions are made with the use of heuristics due to the narrow window of opportunity that would otherwise be gone by the time all necessary information became available for more extended ratiocinative decision-making.

People use moral heuristics – moral short-cuts or rules of thumb to make moral judgements (Sunstein 2005). Examples as suggested by Sunstein (2005) are: do not knowingly cause a human death (with reference to cost-benefit analysis involving cost of safety precautions and cost of life saved); people should not be permitted to engage in moral wrongdoing for a fee (referring to payment of a fee or a tax to offset environmental harm like pollution); punish and do not reward betrayals of trust (implying that people do not like to be betrayed and a betrayal of trust will produce outrage); do not tamper with natural processes for human

reproduction (referring to human cloning). There has been limited empirical research done in the study of heuristics in ethical decision-making. One such research by Hamilton, Knouse and Hill (2009) to identify methods for ethical decision-making in international contexts contend that despite the availability of theoretical frameworks, many managers have difficulty implementing them in daily practice. Managers in multinational enterprises when confronted with a questionable practice, 'often rely on the moral consensus reflected in home country legal requirements or the laws and practices of the host country. Others apply general rules of thumb such as the 'Smell Test' – what would it smell like if we read about it in the press – or the past experiences of their firm to determine a plan of action. If the manager is lucky, then the ethical conflict is addressed within industry wide norms or voluntary ethical codes, such as the Sullivan Principles, Caux Round Table Principles for Business, or the OECD guidelines (Hamilton, Knouse & Hill 2009). They propose a set of six heuristic questions presented in a decision tree format in which a 'yes' or 'no' answer moves the user down different branches of the tree. In another study, the researchers examined the influence of the availability heuristic on perceptions of moral intensity. The findings reveal that the 'availability of consequences associated with an act was positively related to the perceptions of the magnitude of the act. Similarly, it was found that the availability of others who believe that a particular act is morally acceptable is positively related to perceptions that act is morally acceptable' (Hayibor & Wasieleski 2009).

However, while heuristics are often useful for quickly assessing probabilities and making decisions in uncertain situations, they may also lead to errors. Kahneman and Tversky (1996) argue that judgemental heuristics which are mental operations leading to intuitive predictions and judgements are useful but can sometimes lead to errors and biases. Studies have suggested that individuals often choose to use heuristics even when they know they may deliver questionable outcomes. It has been argued that heuristics may lead to inaccurate intuitive judgements because they tend to be 'simple' (Dane & Pratt 2007), and that although extensive use of heuristics by entrepreneurs may be an advantage during the start-up years, it could lead to errors as the firm matures (Busenitz & Barney 1997). Sunstein (2005) similarly argues that in particular cases, sensible rules of thumb lead to demonstrable errors in factual judgements, morality, politics, and law.

The relationship between heuristics processing and intuition

As discussed in section 3.4.8, the heuristics process is deliberate but reduces effort in decision-making and is employed to reduce judgements to simpler ones when faced with difficult tasks – though there is some argument as to whether heuristics are generally less accurate than complex strategies. Intuition, on the other hand was discussed in section 3.4.7 as automatic, fast, effortless, unconscious, and based on vast amounts of prior experience.

What then is the relationship between heuristic processing and intuitive thinking? Gigerenzer (2008, p.22) noted a study that indicated that people intuitively rely on heuristics. The study, conducted by the 1990 Nobel Prize in Economics winner Harry Markowitz addressed the question: how to invest your money in N assets? It was proved that there is an optimal portfolio that maximises return and minimises risk. However, most people intuitively use the 1/N heuristic: 'allocate your money equally to each of the N funds' and on comparison the 1/N heuristic beat the optimal choice on various financial measures.

However, Kahneman (2011) contends that not all intuitive judgements under uncertainty are produced by heuristics. In particular, Kahneman suggests that intuitions of experts are 'better explained by the effects of prolonged practice than by heuristics and that skill and heuristics are alternative sources of intuitive judgements and choices' (Kahneman 2011, p.11).

While noting that the extent to which heuristics forms a basis for intuitive thinking is an 'open question', Hilbig (2010) proposed a clear difference between intuitive thinking and heuristics and that intuition should actually reduce reliance on heuristics. Hilbig suggests that 'intuition is characterised by speedy integration of multiple pieces of information. Heuristics, by contrast, ignore information' (Hilbig 2010, p.301).

3.4.9 Moral exemplars

In general terms, an exemplar is defined as 'a person or thing to be copied' (Weber, P 2004, p.306). As discussed in the following paragraphs, exemplars can include (a) persons who have their sense of moral commitment as a core part of their sense of self, take a principled personal stand (Huff & Frey 2005), or (b) a role model (Moberg 2000), or (c) an organisation

committed to certain moral standards, or (d) other things such as case studies, anecdotes, and even fables and myths (deVries 1986).

Exemplars play a far more central role in business ethics than do detailed rules. DeVries (1986) proposed four arguments for recognising the essential role of exemplars in business ethics: first, exemplars facilitate impartial agreement where agreement on moral rules eludes us; second, exemplars facilitate training and decision-making; third, use of exemplars cultivates personal judgement – making detailed moral rules only in exceptional cases; and fourth, exemplars provide the flexibility necessary for making moral decisions. Exemplars, according to DeVries, do not replace theory, but are necessary to make theories and principles work. De Vries further contends that the essential role of exemplars in ethical decision-making have been ignored by most ethical theorists.

According to Moberg (2000, p.675), while little is known about role modelling as a process, it is 'widely thought to be a principal vehicle for acquiring virtues'. However, a single role model may be insufficient as a guide to moral decision-making and Moberg (2000) suggests that different models may be used for different parts of the moral decision-making process for example in Rest's FCM of moral recognition, moral judgement, moral intention, and moral behaviour. Among the various role models available, Ortega-Liston (2006), contends that public administrators are also well suited to serve as moral exemplars for other professions and for all citizens.

A study on the characteristics of moral exemplars in the US revealed two primary characteristics: 'first, all the exemplars had their sense of moral commitment as a core part of their sense of self. Second, all were supported in their "moral career" by other individuals who both encouraged and challenged them in their commitments' (Huff & Frey 2005, p.392). This confirmed Blasi's (1980) contention that a fundamental aspect of moral judgement and action is its relationship to the self. Another type of exemplar could be a social group committed to certain moral standards. This aspect was revealed in an empirical study involving 406 rescuers of Jews during WWII. These rescuers who were significantly committed to a social group responded, without taking a principled personal stand or being affected by the suffering of individuals, to events that related to the normative demands of that group (Huff & Frey 2005).

3.4.10 Reflection

The word ‘reflection’ is derived from the Latin word *reflectere*, meaning to bend back. Its ‘raw material’ is an experience and the process ‘involves “bending back” upon oneself to take stock, question, and assess an experience’ (Moberg & Calkins 2001, p.258). The tradition of reflection has shown it as a practice in the cultivation of wisdom and the contentions of ‘know thyself’ and ‘the unexamined life is not worth living’ which supports the suggestion that reflection is an essential process by which wisdom is acquired (Moberg 2007). It is further contended that since it is very difficult to teach intuition, the process of reflective inquiry on practice can lead professionals to insights and ultimately improve on those practices (Shapiro & Reiff 1993). By reflecting on themselves, practitioners strive to become mindful of how they present themselves, what thoughts go on in their minds and what feelings are being evoked and this process of reflection helps integrate a practitioner’s attributes of ‘theory, skills, and values with practice’ (Barsky 2007, p.37).

Importance of reflecting specifically on moral issues within the scope of strategic management has also been shown by Behnam and Rasche (2009) who argue that ethical reflection provides a frame of reference which is an integrative part of strategy-related decision process. In other words, strategy formation can be interpreted as ethical reflection at the corporate level. However, Hartman (2006, p.78) cautions that corporate culture can be very powerful (a la Milgram) and a ‘bad culture can thwart people’s ability to reflect on their values’.

However, in spite of the acknowledgement of the importance of reflection, it has received little attention in business literature (Moberg & Calkins 2001; Moberg 2007). One reason could be that organisational settings are averse to reflection due to paucity of time (Comeau-Kirschner & Wah 2000). Several suggestions to incorporate reflection in organisational decision-making have been offered by researchers. A starting point could be that business ethics courses can help improve students’ ethics by teaching them about character as opposed to mere principles, the application of which creates difficulties. This can be done in particular by helping students to consider their values and realise them in practice by reflective equilibrium called dialectic – a process attributed to Aristotle and Plato (Hartman, EM 2006).

Recognising that a capacity for personal reflection is essential for the development of ethical wisdom, an ethics course taught in the final year of a three-year undergraduate management course at the University of South Australia requires students to acquire an ability to reflect on and discuss ethical issues (Harris 2008). Moberg and Calkins (2001) suggest the use of St. Ignatius' exercises which focus on ends, engage in emotions and imaginations, use role modelling, and require a response and so could be useful as a model for reflection in business.

3.4.11 Organisational factors

Decision-making has been shown by several researchers to be influenced by organisational/environmental factors. A model hypothesising why decision-makers choose different strategies in dealing with different decision problems has shown that the choice of strategy depends on the type of problem, the surrounding environment, and the personal characteristics of the decision-maker (Beach & Mitchell 1978). Similarly, an ethical decision-making model has portrayed the decision-maker with a set of personal values mediated by elements of the organisation's culture. It shows that the combination of personal values and organisational influences yields decisions which may be different from those based upon personal values alone (Fritzsche 2000). In attempting to answers the question of how and when do people exercise moral judgements, two factors have been shown to be worthy of attention: the kind of problem or situation at issue and the nature of the person who chooses to address it (Arnold, ML 2000).

Several empirical studies point to the relationship between organisational environment and ethical decision-making of individuals within an organisation. Findings in a study with a sample size of 245 full-time employees also enrolled in a graduate business program, using a self-administered questionnaire in which variables such as perceived supervisor expectation, formal policies, and informal policies were assessed, indicate that 'the perceived organisational environment is significantly related to the ethical decision of the respondent' (Sims & Keon 1999, p.393). Another study showed a positive relationship existed between salespersons' perceptions of business ethics and their employer's ethics (Pettijohn, Pettijohn & Taylor 2008).

Results from another study in which 285 managers from a well-established high technology firm were surveyed to examine the relationship between the different types of ethical 'climates' that exist in organisations and the ethical dimension of decisions indicate that 58 per cent of the respondents referred to the 'laws and professional codes ethical climate' in which people are expected to comply with the law and professional standards over and above other considerations and everyone is expected to stick by company rules and procedures. Only 12 per cent of the respondents referred to the 'company climate' in which people are expected to do anything to further the company's interests and with no room for one's own personal morals or ethics in the company (Fritzsche 2000). As organisations have codes of ethics to influence ethical behaviour, a study was conducted using 57 interviews at four large Canadian companies to examine employee perceptions regarding their companies' codes of ethics. Code content was found to lack initial sense, examples and clarity. However, employee participation in code creation would increase the probability that the code's content would be relevant and realistic. Implementation of the codes would be effective with a sign-off process and adequate training. Most respondents also believed that doing the right thing is already part of the job and therefore need not be explicitly rewarded (Schwartz 2004).

External environments, such as other organisations and governments, have also been shown to have some effect on individual ethical decision-making. A survey of ethics perceptions of 796 farmers in the US showed that farm ethics have gotten worse due to a division between the 'outside business and political world' and the concerns of farmers. The farmers acknowledged that 'bad examples from Washington [were] causing the worsening farm ethics' (Rappaport & Himschoot 1994, p.798).

Practical implications and suggestions to improve ethical behaviour by strengthening organisational factors have been shown in a number of research papers. Based on the contention that behaving ethically depends on the ability to recognise that ethical issues exist and to see from an ethical point of view, Chen, Sawyers and Williams (1997) propose that this ability to see and respond ethically may be related more to attributes of corporate culture than to the attributes of individual employees. They suggest that total quality (TQ) techniques, which includes continuous improvement, can facilitate the development of a cooperative corporate culture that can promote and encourage ethical behaviour throughout an organisation. Another empirical study of sales employees found that individual

perceptions of corporate ethics appear to be a more direct determinant of organisational commitment than individual moral values and suggest that organisational commitment can be improved by strengthening employees' positive perceptions of corporate ethical policies (Herndon Jr., Fraedrich & Yeh 2001).

3.5 Summary of literature review of sections 3.4.7 to 3.4.11

The above sections discussed alternate decision-making processes such as intuition, heuristics, moral exemplars and reflection, and factors that can influence decision-making, such as organisational factors. The findings and submissions by various researchers and authors on these factors will form the basis for four of the five propositions (Proposition 2, 3 and 4) that will be developed to address Research Question 2 of this thesis: What methodologies can a SME use to recognise, measure, and effectively manage ethical issues arising from these effects? The definitions, findings and discussions of the researchers and authors discussed in sections 3.4.7 to 3.4.11 will also form the basis for developing thematic codes that will be used in the qualitative analysis.

Chapter 4: Research Methodology

Research questions:

Discussions in sections 2.2 to 2.7 considered the areas of business in which SMEs are likely to experience ethical issues due to globalisation, and the measuring , monitoring and managing business ethics issues in SMEs. The first research question of this thesis is articulated as follows:

Research Question 1: What are the effects of globalisation on business ethics in SMEs?

Disucssions in sections 3.1 to 3.5 considered the methodolgies that SME managers can employ (in terms of ethical decision-making, and measuring and monitoring business ethics). These methodologies include Rest's FCM of ethical decision-making, intution, heuristics, moral exemplars, reflection, and organisational factors. The second research question of this thesis is articulated as follows:

Research Question 2: What methodologies can a SME manager use to recognise, measure, and effectively manage ethical issues?

4.1 Introduction

This chapter is structured into five sections. The second section discusses the methodology framework for the research methodology in this thesis. The third section discusses and lays out the step-by-step process to determine the type of research – exploratory or confirmatory; type of data collection – quantitative or qualitative or both; type of data analysis – statistical or qualitative or both; time orientation – whether quantitative will follow qualitative or vice versa, and whether quantitative or qualitative will be the dominant method.

The fourth section will discuss the quantitative method used in this research. This comprises of discussions on the on-line survey method of data collection, the design of the

questionnaire, selection of targets and the emailing process, and the ethics approval for collecting data.

The fifth section will discuss the qualitative method used in this research. This comprises of a literature review of the interview process, the content analysis method that will be used in this research, and the development of codes. Thereafter, the section will develop the code categories and display the list of codes, which will be followed by the development of the five propositions, based on which, the interview questions were be developed. This will be followed by a discussion on the interview process. The final part of this section will discuss validity and reliability of the assigning of codes to the transcript.

4.2 Methodology framework

The suitability of utilising quantitative or qualitative or both methodologies for a specific research has been discussed extensively in literature (Tashakkori & Teddlie 1998, pp.6-10). Qualitative data, such as words, pictures and narrative, can be combined with quantitative data – numerical – allowing the combination to provide a better understanding of research problems than either approach alone. The two approaches, quantitative and qualitative, differ in the basic intent of the research. In the quantitative approach of this research, the intent is to explore and ascertain the demographical details of the respondents, their perceptions of various aspects of ethical issues affecting their organisations, and to obtain their consent for an interview. In the qualitative approach of this research, the intent is to understand the participants' experiences in the methods and tools that they use in managing ethical issues.

4.3 Determining the methodology – quantitative and qualitative

Determination of the methodology has a three step process (Tashakkori & Teddlie 1998, pp.53-58; Creswell & Plano Clark 2007, pp.79-83; Onwuegbuzie & Collins 2007):

- Step 1: Selecting the type of research dimensions, i.e. whether the research will be exploratory and/or confirmatory; whether the type of data collection will be quantitative or qualitative; and whether the type of analysis be statistical or qualitative or both.

- Step 2: Determination of the time orientation of the components of the design, i.e. whether the method will be concurrent/parallel, where both quantitative and qualitative methods are conducted concurrently, or sequential, where one method follows the other method.

- Step 3: Selecting the type of design, e.g. if the time orientation is sequential – whether qualitative method will follow the quantitative method or vice versa; and to determine whether the quantitative or qualitative method is the dominant method.

Step 1: Selecting the research dimensions

Tashakkori and Teddlie (1998, pp.53-58) suggest that the starting point is to first determine the three dimensions of the research – type of investigation, type of data measurement, and analysis method.

Investigation can be of two types - *exploratory investigation* which does not have a prior hypothesis and typically relies on the research questions, and *confirmatory investigation* which has at least one research hypothesis where a prediction is made *a priori*. In this study, the first research question is of the exploratory investigation type without prior hypotheses. It also assists in identifying and securing a specific population of interest that is hard to locate – a large enough sample to interview. The second research question is of the confirmatory investigation type with *a priori* hypotheses.

The second dimension – type of data or measurement – includes *quantitative data collection and operations,* and *qualitative data collection and operations.* It concerns the form of data and distinct research operations (techniques for collecting data, reliability and validity of results, and sampling procedures) accompanying the data collection. For this research, the first research question will be assessed using quantitative data collection and operations technique, and the second research question will use qualitative data collection and operations technique.

The third dimension – analysis methods – includes *statistical analysis and inference* and *qualitative analysis and inference.* For this research, the first research question will be assessed using descriptive statistical analysis and the second research question will use qualitative analysis which will include both content analysis and descriptive statistical

analysis.

Combining the three dimensions, we arrive at the methodologies for the two research questions as follows:

Research Question 1: What is the effect of globalisation on business ethics in SMEs?

Research dimension: Exploratory + quantitative data collection/operations + descriptive statistical analysis/inference

Research Question 2: What methodologies can a SME use to recognise, measure, and effectively manage these effects?

Research dimension: Confirmatory + qualitative data collection/operations + qualitative analysis/inference + descriptive statistical analysis/inference

Step 2: Determination of the time orientation of the components of the design

This step requires selecting whether the method will be concurrent/parallel where both the quantitative and qualitative studies are conducted at the same time, or sequential where the quantitative study is conducted first followed by a qualitative study or vice versa.

The aim of the quantitative data collection for the first research question, in addition to ascertaining demographical details and perceptions of SME managers with respect to ethical issues, is to obtain, identify, and secure a specific population of interest that is hard to locate – a large enough sample to interview. Five propositions will be tested in the qualitative analysis of the interview transcripts.

The time orientation of this research's design is therefore determined to be sequential – quantitative method followed by qualitative method.

Step 3: Selecting the type of design

Having determined the Sequential design for this research, the next step is to determine whether the quantitative or qualitative method is the dominant method. The following guidelines suggested by Hesse-Biber (2010, pp.65-67) have been used:

1. The researcher uses a quantitative study first with the goal of obtaining a representative quantitative sample for the purpose of enhancing their qualitative findings.

2. The researcher uses a quantitative study first to enhance the generalisability of a qualitative study.

3. The qualitative researcher employs a quantitative method first in order to cast a wider net, with the goal of identifying a specific population of interest that may be hard to locate.

4. Using a quantitative study first may help qualitative researchers define a population of interest based on specific research findings gathered from the quantitative study.

5. The researcher conducts a quantitative study first in order to examine its results as a way of generating new research questions that can be addressed in a follow-up qualitative study.

6. Conducting a quantitative study first can provide options for enhancing the validity and reliability of qualitative findings as well as for exploring contradictory results found between the quantitative and qualitative studies.

From the above discussion, and using the guidelines suggested by Hesse-Biber, as shown above, it is ascertained that guidelines nos. 1, 2, 3, and 4 are most suited for this research. This means that the Sequential design for this research will be qualitative method followed by the quantitative method with greater emphasis on the qualitative method.

Summary

The methodology selected for this thesis is summarised in Table 12 below.

Table 12: Research methodology for this thesis

Parameter	**For Research Question 1**	**For Research Question 2**
Type of research	Exploratory	Confirmatory
Type of data collection	Quantitative data collection using on-line survey	Qualitative data collection using interviews
Type of data analysis	Statistical analysis and inference	Content analysis and inference, and statistical analysis and inference
Time orientation	Sequential design	
Type of sequential design	Quantitative followed by qualitative	
Weighting and emphasis	Qualitative method will be dominant	

4.4 *Quantitative methodology*

4.4.1 Overview of the process

As discussed in the previous section, the quantitative methodology has been used to collect and analyse data to address the first research question: what are the effects of globalisation on business ethics in SMEs?

Business areas which can have an ethical aspect in SMEs were selected and discussed in section 2.5 as follows:

Corporate governance
Accounting and finance
Competition, pricing, and bidding
Intellectual property
Corporate takeovers and restructuring
Downsizing
Outsourcing
Quality of work-life
Product safety
Production safety
Environmental harm
Pollution

These 12 business areas will form the basis of the survey. The following sections discusses identification of the on-line survey engine used for this survey, designing the questionnaire, obtaining ethics approval, selection of survey targets, and the process of emailing the survey to respondents.

4.4.2 Selection of on-line survey engine

The Internet has become a rich domain for conducting survey research and people regularly participate in discussions about almost every conceivable issue and interest. Wright (2006) notes several advantages of on-line survey research:

- Ability to provide access to groups and individuals who would be difficult to reach through other channels. For example, it would be difficult to find a large group of people to conduct a face-to-face discussions on topics such as bullying and cyber-stalking.

- It enables communication with people who may be hesitant to meet face-to-face – for example with 'unpopular' issues.

- Saves time by allowing researchers to reach more people in a short amount of time, despite being separated by great geographic distances.

- Software packages provide a variety of templates to create and implement surveys more easily, as well as to export data to statistical software packages.

Although some studies of on-line survey methods have found that response rates in email surveys are equal or better than those for traditional mailed surveys, Wright (2006) notes that generating a sample with relevant and accurate data such as email addresses could present a challenge. Other disadvantages could be participation rates of on-line respondents. On the other hand, Lim (2002) reports that Internet surveys can actually produce higher quality results than traditional paper and pencil surveys for some topics. For example, respondents who completed a survey on drug use through an on-line survey actually reported higher drug use compared with those in the mail questionnaire. Lim argued that electronic media allowed people to have a sense of privacy – thus concluding that for 'socially undesirable behaviours, the electronic media was superior to traditional method of data collection as people were less inhibited in their responses' (Lim 2002, p.682).

For this research, the on-line survey tool chosen was SurveyMonkey (SurveyMonkey 2008), an established on-line survey provider organisation which enables researchers to design, create, publish and collect data efficiently and effectively.

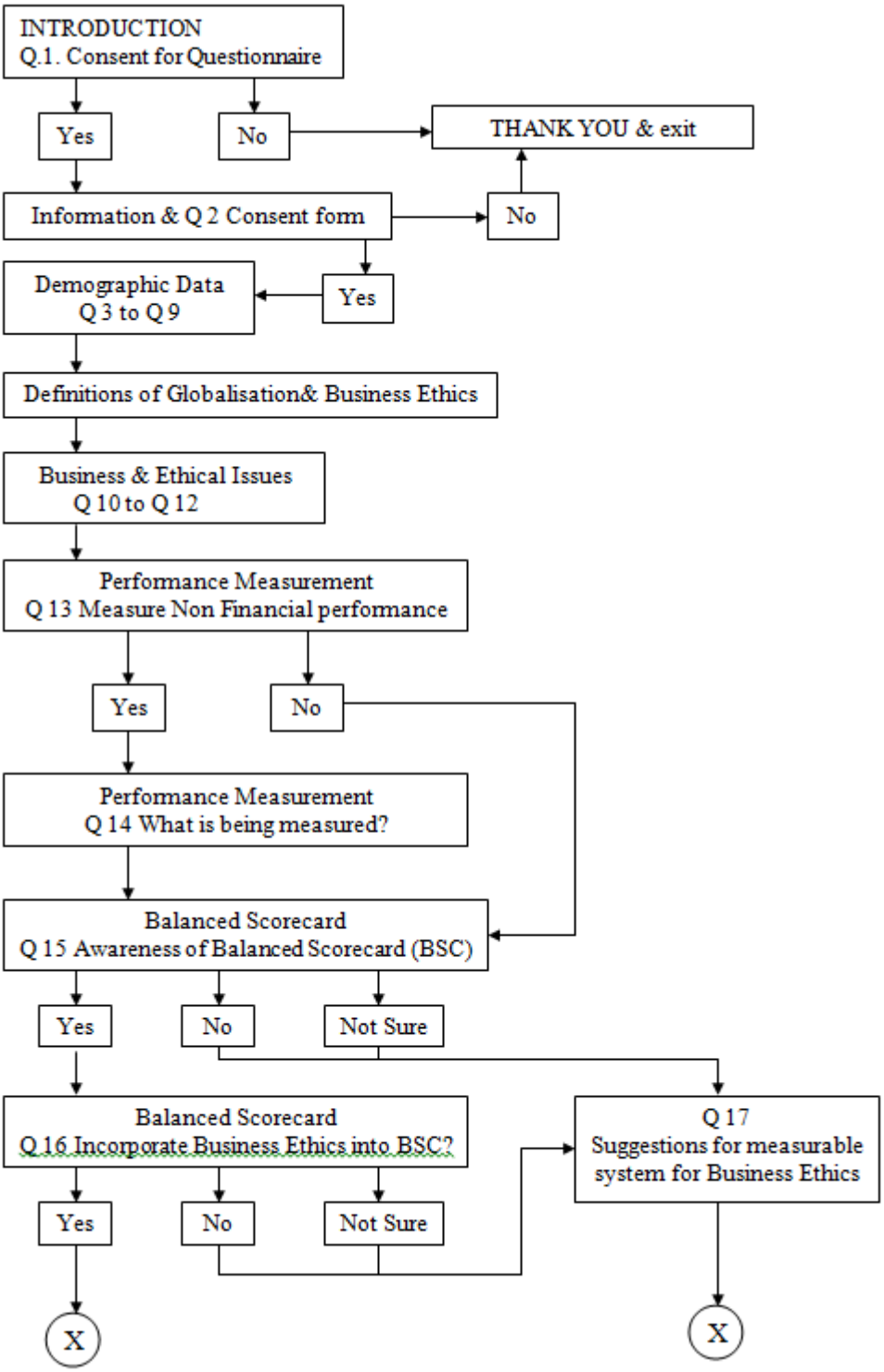
4.4.3 Designing the questionnaire

The questionnaire for this research commenced with an introduction and aims of the survey followed by a consent form, at which stage the respondent can give consent and proceed or exit the survey. This was followed by a series of questions to collect demographic data such

as postcode, industry sector, respondent's level in the organisation, number of years in the current organisation, job title, number of employees, and department where the respondent works. The next three questions were linked to the 12 business areas (as discussed in sections 2.5 and 5.4.1 above) – to rate the importance of each business area in their organisation on a Likert scale of 1=very low to 5=very high; to rate the effect of globalisation on each of the business areas on a Likert scale of 1=not at all to 5=very much; and to indicate if there were any ethical issues faced by their organisations in each of the business areas and if so, whether they were or were not due to globalisation. The traditional five-point Likert scale was considered appropriate for these questions (Clason & Dormody 1994; Vagias 2006; Allen & Seaman 2007). The next four questions were related to performance measurements and the BSC, followed by a question to identify benefits to their organisations if business ethics were monitored. The final two questions asked respondents if they would be willing to participate in an interview and if yes, to provide contact details.

Figure 8 shows a logic-flow diagram of the on-line survey questionnaire and a copy of the questionnaire is available in Annexure 2.

SURVEY QUESTIONNAIRE – LOGIC-FLOW DIAGRAM



SURVEY QUESTIONNAIRE – LOGIC-FLOW DIAGRAM - continued

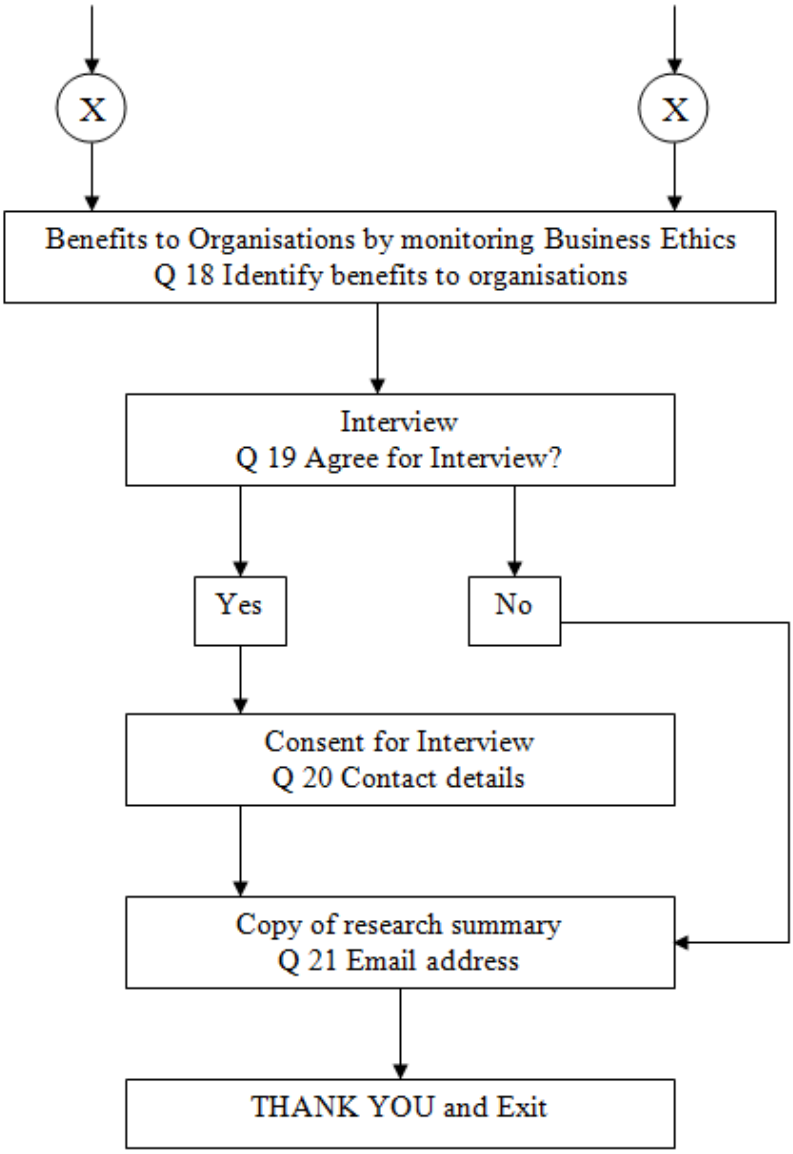


Figure 8: Logic flow diagram of survey questionnaire

4.4.4 Ethics approval

Application was made to the University's Human Research Ethics Committee (HREC) for the ethics approval for the on-line questionnaire and the interview process. A copy of the HREC approval P348/08 is displayed in Annexure 3.

4.4.5 Selection of survey targets and the email process

Survey targets were sent emails with invitations to complete the survey. The on-line survey was emailed to 2,314 SME from Adelaide and surrounding areas, in three groups. The first group consisting of 1,663 businesses was picked from the Adelaide White Pages telephone directory 2009 and the Dun and Bradstreet business database. From the Adelaide White Pages telephone directory, which has a separate section for businesses, survey targets were selected by starting from page 1 (name of businesses beginning with the alphabet 'A') through to page 530 (name of businesses beginning with the alphabet 'Z') by selecting only those businesses whose email addresses were displayed in the White Pages. A spreadsheet was created for each letter to record the name of the organisation, their email address, suburb, phone number, postcode, page number in the White Pages and the date of emailing the on-line survey to that organisation. A section of such a spreadsheet is displayed in Annexure 4. A total of 1,603 survey targets were identified from the White Pages – see Annexure 4 for a breakdown of the targets. A further 60 survey targets were selected from the Dun and Bradstreet business database. The second group consisted of 173 businesses known to the researcher, and the third group consisted of 478 professionals from the Productivity Australia Pty Ltd database. Emails to the survey targets were sent directly from the University of South Australia's emailing system.

4.5 ***Qualitative methodology***

4.5.1 Overview of the process

As discussed in section 5.3, the appropriate method to address the second research question of this thesis – what methodologies can a SME manager use to measure and monitor ethical issues – was determined to be the qualitative method. This involves establishing the propositions required to ascertain the ethical decision-making process of SME managers in Australia, determining the data collection method, and determining the analysis method. The discussions that follow will result in establishing five propositions, establishing face-to-face interviews as the data collection method, and content analysis as the appropriate analysis method.

Several studies in the business ethics area have been published using the qualitative methods as described above. A research to study the role of CSR in consumption decisions of consumers involved eight interviews and were analysed by combining codes and themes to interpret results (Oberseder, Schlegelmilch & Gruber 2011). Similar approaches were taken to study the business ethics experiences of Australian managers in China (Brand & Slater 2003), supply chain integration of the German manufacturing industry (Wolf 2011), and a study of the ethical mindsets in the Australian services sector using an on-line survey of 223 respondents followed by interviews involving 20 participants and using the qualitative analytical software NVivo 8 (Issa & Pick 2010).

4.5.2 Development of Propositions 1, 2, 3, 4, and 5

Proposition 1: *When confronted with business ethical issues, SME managers will tend to use a ratiocinative decision-making process that conforms with Rest's FCM.*

As discussed in sections 3.4.2 to 3.4.5, the FCM of moral reasoning has processes involved in the production of moral behaviour (Rest 1984a). These processes are: recognising a moral issue, forming a moral judgement, establishing moral intent, and taking action by engaging in a moral behaviour (Rest 1986, 1994). It is contended that 'each component must occur in order for ethical behaviour to result. Conversely, a breakdown in ethical conduct can result from a failure in any one of the four processes' (Moberg & Seabright 2000).

Further, literature review suggests that Rest's four components do not depict a linear sequence in real time. Although one component process might influence another component process, the four components have distinct functions and therefore it is possible that a person who has the faculty to recognise ethical issues (Component 1) may not necessarily have the ability to make judgements (Component 2) or have adequate information to prioritise other values (Component 3) and still engage in a moral behaviour (Component 4) (Rest 1984a). Langfield, Thorns and Hilton (2003, pp.879-899) have suggested that a) decisions are often made by managers without necessarily following each step of any decision-making process; b) the full range of possible courses of action may not be considered or data may not be collected and used; and c) several of the steps may be completed concurrently, rather than sequentially.

This research proposes to conduct interview-based qualitative research to ascertain whether SME managers resolve ethical issues using a ratiocinative process that conforms to that of Rest's FCM and whether the ethical decision-making process is continuous and linear or intermittent and varying with respect to Rest's FCM.

Proposition 2: SME managers use intuition to resolve business ethical issues

Particularly for ethical decision-making, reason alone may not be capable of evoking a sense of moral responsibility (Blasi 1980, 1983, 1990). Rather, it could be dependent on intuition.

As discussed in section 2.4.7 (decision-making tools used by SME owners and managers) and section 3.4.7 (intuition), in addition to depending on their ability to use the ratiocinative model of decision-making, managers also rely heavily on a mix of intuition and disciplined analysis in their decision-making (Isenberg 1984; Haidt 2001; Pizarro & Bloom 2003; Narvaez & Lapsley 2009; Provis 2010). Certain situations such as new opportunities 'rarely emerge in a rational and predictable fashion but rather in the context of much uncertainty and long-term horizons' (Busenitz et al. 2003) and in such situations, individuals may have 'flashes of superior insights and moments of illumination' (Mintzberg & Westley 2001). Kickul et al. (2009) report findings from a study that small business entrepreneurs employ both intuitive skills during the identification stage of a new venture creation process and rational analytical skills for planning, resourcing and implementation of the new venture. The process of intuition in decision-making has been used in business functions such as planning

(Covin & Slevin 1989), outsourcing (Rebernik & Barbara 2009), marketing (Carson, D 1993), and finance (Rice Jr & Hamilton 1979).

This research proposes to conduct interview-based qualitative research to ascertain the extent of the use of intuition in ethical decision-making among SME managers in Australia.

Proposition 3: The ethical decision-making process by SME managers can include factors such as heuristics, exemplars, and reflection.

As discussed in section 3.3, managers frequently use alternative methods for decision-making, especially for the kinds of decisions that a person hasn't encountered before and for which there are no standardised or programmed rules to provide guidance.

Heuristics, as discussed in sections 2.4.7 (decision-making tools used by SME owners and managers) and 3.4.8 (heuristics), are relied upon in uncertain decision-making situations where no certain answer is immediately obvious (Fisher, C & Lovell 2006, pp.181-207; Davidson et al. 2009, pp.257-8; Hamilton, Knouse & Hill 2009; Hayibor & Wasieleski 2009). Due to limited resources, a lack of knowledge, informal organisation, limited cash reserves, limited debt capacity, limited product/service line, and reliance on a niche customer base (Morris et al. 2002; Rebernik & Barbara 2009), SMEs do not perform the type of data gathering, sophisticated forecasting and statistical analysis and planning commonly found in big business (Rice Jr 1983). Rather, they employ heuristics to frame and solve problems by reducing judgements to simpler ones (Tversky & Kahneman 1974; Brigham, DeCastro & Shepherd 2007). Further, Busenitz and Barney (Busenitz & Barney 1997) found that entrepreneurs tend to rely on biases and heuristics for decision-making to a greater extent than large company managers.

As discussed in section 3.4.9, exemplars play a far more central role in business ethics than do detailed rules and can be as important as general ethical principles and codes (deVries 1986; Moberg 2000). Studies on the effect that exemplars can have on ethical decision-making include multiple role models, public administrators as effective exemplars, and the characteristics of exemplars (Pritchard 1998; Moberg 2000; Huff & Frey 2005; Ortega-Liston 2006).

The process of reflection, as discussed in section 3.4.10, comprises of taking stock of past activities, questioning the actions taken and assessing the experience of an ethical decision.

Importance of reflection in ethical decision-making has been shown in several studies (Shapiro & Reiff 1993; Comeau-Kirschner & Wah 2000; Barsky 2007; Moberg 2007; Behnam & Rasche 2009).

This research proposes to conduct interview-based qualitative research to ascertain to what extent and in what manner heuristics, exemplars and reflection contribute to ethical decision-making among SME managers in Australia

Proposition 4: The ethical decision-making process by SME managers is influenced by internal and external organisational factors.

As discussed in section 3.4.11, factors contributing to the success of ethical decision-making could be the impact of the environment, which typically includes economic, social, cultural, and organisational factors (Ferrell & Gresham 1985; Hunt & Vitell 1986). Organisational factors may include the situation at issue (Arnold, ML 2000), type of surrounding environment (Beach & Mitchell 1978), and perceived organisational culture such as supervisor expectation, formal policies, and informal policies (Sims & Keon 1999). From a study of 285 managers, Fritzsche (2000) has reported a significant relationship between types of ethical climates that exist in organisations and ethical decision-making of individuals within those organisations. For example, respondents are expected to comply with the law and professional standards over and above other considerations, stick to company rules and procedures, and further the company's interests with 'no room for one's own personal morals or ethics' (Fritzsche 2000, p.133). Chen, Sawyers and Williams (1997) propose that attributes of corporate culture, rather than the attributes of individual employees, contribute to recognising that ethical issues exist and to seeing from an ethical point of view.

This research proposes to conduct interview-based qualitative research to ascertain to what extent and in what manner organisational factors contribute to ethical decision-making.

Proposition 5: The BSC could be an effective instrument for SME managers to measure, monitor and manage business ethical issues

The fifth proposition is based on practical methods that a SME manager could employ to assist in the ethical decision-making process.

As discussed in section 2.6, organisations, today more than ever, are driven by performance managment which in turn is driven by performance measurement. The purpose of performance measurement is to assist performance improvement (Onsman 2004, p.33). While performance measures or indicators have been used in organisations for a long time, key performance indicators (KPIs) were introduced to measure a few indicators which organisations consider to be vital to their success. Robert Kaplan and David Norton in 1996 argued that KPIs are not independent elements but are connected. It was recognised that companies required to manage cross-functional skills, develop links to customers and suppliers, create customer segmentation, operate on a global scale, shorten product life cycles, create and maintain knowledge workers (Savur 2011). This recognition by Kaplan and Norton resulted in the BSC (Kaplan & Norton 1996). In addition to the financial measures, the BSC measures and links non-financial perspectives of customers, internal business processes, and learning and growth according to their strategic relevance (Kaplan & Norton 1996, p.9). The connectivity of all the parts of the scorecard is established by cascading each area upwards to impact on the area 'above' it (Onsman 2004, p.37). For example, training of staff in the 'learning and growth' area of the BSC will make the 'internal processes' area more effective. This in turn could result in higher customer satisfaction in the 'customer perspectives' area of the BSC, finally resulting in a better return on investment in the 'financial performance' area of the BSC.

Several authors have contributed to the development of the BSC to integrate sustainability into the scorecard. An Integrity Scorecard was developed for the integration of stakeholders' demands into the core management systems of companies by incorporating ethical issues into the operative levels of companies (Bieker & Waxenberger 2002). Figge et al.(2002) developed the Sustainability scorecard which integrates sustainability into a single management tool. A Responsive Scorecard was developed to enable companies to score at the triple bottom line areas of profit, people and planet, by integrating stakeholders' demands into internal programs to improve performance (van der Woerd & van den Brink 2004).

Since limited research is available on integrating business ethics into the BSC framework, this research proposes to conduct interview-based qualitative research to ascertain whether SME managers would consider using the BSC as an instrument to monitor and manage business ethical issues and if so, what changes they would prefer to incorporate into the BSC.

4.5.3 An overview of the interview process

The most frequently used data-gathering methods found in literature for assessing ethical performance are: (1) self-report questionnaires, (2) hypothetical ethical dilemmas, (3) recording of actual illegal behaviour, and (4) interviews (Gatewood & Carroll 1991). The self-report questionnaires have been used to measure how managers or other organisational members feel about various ethical issues in business. This method was popularised by Baumhart (1961), Brenner and Molander (1977), and others whose approach was to ask respondents to choose one response from multiple responses. While the second method of using hypothetical ethical dilemmas had the limitation that the data did not represent actual actions or behaviours of respondents, the third method of using actual corporate behaviour is useful because when laws are broken, the definition of right and wrong is easier to understand. The fourth method of interviewing has the advantage of being a 'self-described, actual dilemma perceived by the respondent' (Gatewood & Carroll 1991, p.670). Carter (2000) used surveys and interviews to identify the ethical issues involved in relationships of US purchasing managers and their non-US suppliers.

The personal interview has been recognised as one of the primary methods for research in the social sciences (Liedtka 1992). Researchers prefer to use the 'stronger' technique of personal interviews due to the advantage of persuading respondents of the importance of the research topic (Randall & Gibson 1990) and due to its suitability to understand an individual's decision process and the social context within which the decision occurs. The personal interview methodology is being used extensively to study the ethical decision-making in business organisations (Liedtka 1992).

4.5.4 Selection of the appropriate method for analysis of interview data

For analysing qualitative data, researchers recommend the content analysis process, wherein the contents of data such as interviews are analysed to identify the main themes that emerge from the responses. This is done by applying an objective coding scheme to the notes or data. Commonly called content analysis (Krippendorff 1980; Weber, RP 1990; Patton 2002, p.463; Berg 2004, p.265; Kumar 2005, p.240; Bryman 2008a, p.275), it is the process of analysing documents and text to quantify the content in 'terms of pre-determined categories and in a

systematic and replicable manner' and therefore becomes applicable to unstructured information such as transcripts of semi-structured interviews (Bryman 2008b, p.275).

The meaning and usage of the terms 'content analysis' and 'thematic analysis' are interlinked. Some authors call 'thematic analysis' a version of content analysis and is more usually used for analysis of written materials (Gomm 2008). In a typical thematic analysis, 'the analyst looks for themes which are present in the whole set or sub-set of interviews and creates a framework of these for making comparisons and contrasts between the different respondents' (Gomm 2008, p.244), whereas content analysis begins with a qualitative analysis of data (Gomm 2008, p.297). In this research, since the themes (such as Rest's four components, intuition, heuristics and others) have been established in earlier sections, the analysis methodology will be content analysis which will involve quantitative analysis of the numerical data obtained from the application of predetermined thematic codes to interview transcripts. As recommended by Ryan and Bernard (2000, p.785), after the application of codes, content analysis will reduce the interview transcripts to unit-by-variable matrices and analyse the matrices quantitatively to test the propositions postulated in section 3.5.7.

Several authors and researchers recommend the following steps for qualitative analysis (Miles & Huberman 1994b; Baker 1999; Ryan & Bernard 2000; Patton 2002; Berg 2004; Kumar 2005; Babbie 2007; Bryman 2008b; Gomm 2008):

1. data are collected and made into texts
2. codes are analytically developed and assigned to the main themes
3. codes are transformed into categories, identifying similar phrases, patterns, relationships, and commonalities or disparities
4. sorted materials are examined to isolate meaningful patterns and processes
5. identified patterns are considered in light of previous research and theories, and a small set of generalisation is established.

The first step of data collection is in the form of interviews and the transcripts of the interviews are in the form of texts. At this stage, Berg (2004, p.271) suggests determining the level of analysis (such as words, phrases, sentences, paragraphs, sections, books or similar elements relevant to the text) and units of analysis which are elements in the written text that

can be counted (such as terms, themes, characters, items, concepts, and semantics) (Berg 2004, p.271). For this research, the level of analysis will be sentences in paragraphs and the unit of analysis will be themes.

The second step involves developing themes and codes, deciding on sampling and design issues, and applying the codes to the text (Boyatzis 1998, p.29; Patton 2002, p.463). Codes are tags or labels for 'assigning units of meaning' to the text and are attached to varying sizes of words, phrases, sentences or whole paragraphs and are then organised in a manner which will enable a researcher to cluster them into segments relating to a particular research question (Miles & Huberman 1994a, pp.56-57; Baker 1999, p.345; Ryan & Bernard 2000, p.780; Berg 2004, p.280; Neuman 2006, p.459) using some kind of a retrieval system (Babbie 2007, p.384). The retrieval system used in this research was the computer application software called NVivo 9.

There are three different ways available to develop a thematic code: (a) theory-driven, (b) prior data or prior research-driven, and (c) inductive data-driven (Boyatzis 1998).

In the theory-driven code development method, the elements of the code are derived from the hypotheses or elements of the researcher's theory (Boyatzis 1998, p.33). However, Strauss and Corbin (1998) point out that this type of code is highly dependent on the theoretical sensitivity of the researcher that can make a code difficult to use and has low validity and reliability.

In the prior research-driven code development method, a review of the literature provides insight into the possible development of a thematic code. Findings by other researchers provide 'the most direct help in developing a code from prior data or prior research' (Boyatzis 1998, p.37). This lends itself to the 'open coding' and 'axial coding' concepts whereby the properties of a phenomenon to which a category applies are dimensionalised based on categories developed by others (Strauss 1987; Boyatzis 1998; Corbin & Strauss 2008). With this approach, codes can be developed based on the 'context' of the information in the wordings and syntax used by other researchers. Since the testing of Proposition 1 is based on the theory developed by Rest in his FCM, it would be appropriate to use Rest's Components 1, 2, 3 and 4 as thematic codes to analyse the interview transcripts. Similarly,

thematic codes to analyse the interview transcripts to test Propositions 2, 3, 4, and 5 will be based on the literature review of intuition, heuristics, exemplars, reflection, organisational factors, and the BSC.

In the inductive data-driven code development method, codes are derived from the information and appear within the words and syntax of the raw information such as transcripts of interviews.

In summary, the prior research-driven method will be used for this research.

4.5.5 Development of codes

An extract of the transcript of what one of the respondents – interviewee number A13 – narrated during the interview (as displayed in the next paragraph) will be used to illustrate the rationale and the process of development of codes for this research.

> *Many years we made blinds fittings in thousands – all made as cheaply as possible for market sensitivity – components are zinc plated for corrosion resistance – in the last 15 years environmental laws are tightened – so zinc plated process is now expensive – because it's a nasty procedure – 60s in backyards pouring cyanides into ground etc. – now filtration systems to be used are expensive – disposal is also expensive – consequently its expensive and very restrictive – however, the people who buy these products are being offered similar products from Asia - zinc plated using backyard in bare feet bare hands chemicals – old chemicals poured into ground – so they do it cheaply and economically but detrimentally for the environ – here in Australia on a high horse – but when offered we buy cheap imports – we now produce the same products in Stainless Steel – costs 4-5 times as much – we kissed good bye to the market that buys zinc products from overseas – we sell small quantities in Stainless Steel and make profit and stay in business – this is ethical situation arising from globalisation – 20 years ago we did not face cheap imports from overseas but we have actually embraced in a hypocritical way that our society has demanded that we clean up our own environment and encourage the other countries to do the old way.*
>
> *Is there a way out of this – can we do something? – our only commercial way out of this is to change tack to the market using Stainless Steel – more expensive – but we stay in business – short of government restriction that we cannot import from a country who does not follow the same environ restriction as here and the free trade agreements would be reached by doing that – so if we will not import zinc product from China – it's more of a commercial issue – all*

this talk about carbon trading – it's all very well to introduce restrictions in to our own society – but it's not good if we pressure other countries – for example, used computers being sent to Nigeria for reclaiming – it's a huge ethical issue – that's an example.

The thematic coding method was applied to this kind of material. Using a process used by several social researchers (Giocoechea 2006; Morrow 2006; Rennie 2006; Robbins, B 2006), each interviewee transcript was divided into paragraphs constituting Meaning Units or MUs. A paragraph constitutes a MU when the participant talks about one point or theme and having made it, moves on to something else thereby creating a shift in the theme (Rennie 2006, p.67). Thus, in the above example, the interviewee firstly narrates an incident which has an element of ethical issue in it. Thereafter, the interviewee has moved on to reflecting on the incident and making a judgement of the situation. Thus, it can be seen to be two different MUs and are therefore divided into separate paragraphs. Thereafter, the process involves studying the MU and the meaning that is interpreted from it is represented by a theme. After allocating a code to that theme, we proceed to the next paragraph to allocate a theme and a code and so on. Interview transcripts which were organised in folders named A1, A2, A3 etc., which represented each interviewee and each transcript was sectioned into paragraphs constituting MU, were uploaded into the NVivo software for analysis. The NVivo process is described further in section 7.1 (content analysis).

Developing codes

The first task in developing a code is to define its structure and elements as follows (Strauss 1987, p.64; Boyatzis 1998, p.31):

1. a label (i.e. a name) which should be meaningful to the phenomenon being studied, and be clear and concise communicating the essence of the theme in the fewest possible words
2. a definition of what the theme concerns (i.e. the characteristic or issue constituting the theme)
3. specifying conditions which generate the phenomenon (i.e. indicators on how to 'flag' the theme, e.g. words in the passage which relate to or describe or associate with the theme)

4. examples to eliminate possible confusion when looking for a theme.

4.5.6 Code categories

Developing codes using the prior research-driven code development method:

As mentioned in section 5.5.4, coding in this method will be based on the theory developed by Rest in his FCM using Components 1, 2, 3 and 4 as thematic codes as the basis to analyse the interview transcripts.

Code Label: EDM 1

Relevance to Rest's FCM: Component 1

Definition: Ethical Decision-Making 1:

Recognise moral issues – relating to moral sensitivity and interpreting one's actions relative to the potential impact on others.

Describes or interprets a situation or realises that a person could do something which would affect the interests, welfare or expectations of people or businesses.

Conditions/Flags:

Contains or uses words which relate to or describe or associate with the meaning of the word 'recognise', e.g. interpret, infer, realise, detect, see, cognise, understand, identify, figure out, perceive, reveal, find out, tell, sense, notice, discern, discover, sight, spot, glimpse, observe, think or believe – derived from Roget's International Thesaurus (Chapman 1992).

Examples:

In the following paragraph number A13-1, participant A13, after describing the situation, says '*this is ethical situation arising from globalisation'* which conforms to the code's properties, conditions and qualifications.

> *Many years we made blinds fittings in thousands – all made as cheaply as possible for market sensitivity – components are zinc plated for corrosion resistance – in the last 15 years environmental laws are tightened – so zinc plated process is now expensive – because it's a nasty procedure – 60's in backyards pouring cyanides into ground etc.*

– now filtration systems to be used are expensive – disposal is also expensive – consequently it's expensive and very restrictive – however, the people who buy these products are being offered similar products from Asia - zinc plated using backyard in bare feet bare hands chemicals – old chemicals poured into ground – so they do it cheaply and economically but detrimentally for the environ – here in Australia on a high horse – but when offered we buy cheap imports – we now produce the same products in Stainless Steel – costs 4-5 times as much – we kissed good bye to the market that buys zinc products from overseas – we sell small quantity is Stainless Steel and make profit and stay in business – this is ethical situation arising from globalisation – 20 years ago we did not face cheap imports from overseas but we have actually embraced in a hypocritical way that our society has demanded that we clean up our own environ and encourage the other countries to do the old way.

Interviewee A22 recognised an ethical issue by saying that, 'that's a problem in overseas-they want to sell cheap and would like us to compromise (our quality)':

Other issue is our quality control in stringent – tanks have to be built to standards and quality and in some countries we can't control that – I can't control whether a market uses a tank with a particular standard – could be a standard of that country – that's a problem in overseas they want to sell cheap and would like us to compromise

Code Label: EDM 2

Relevance to Rest's FCM: Component 2

Definition: Ethical Decision-Making 2:

Make moral judgement – to formulate what a moral course of action would be and to identify the moral ideal in a specific situation.

The person must judge which of the alternative lines of action is more just or fair, or morally right, assess the relative strength of competing moral claims of prioritising certain conditions above others, integrating diverse aspects of the case so that a single moral directive for action is determined.

Conditions/Flags:

Contains or uses words which relate to or describe or associate with the meaning of the word 'judgement', e.g. formulate, assess, integrate, classification, categorisation, sorting, grouping, evaluating, resolution, ascertain, verdict, result, solving, interpreting, analysis, conclude, appraise, reflect – derived from Roget's International Thesaurus (Chapman 1992).

Examples:

In the following passage number A9-6, participant A9 identifies the moral ideal of '*Australian standards should change to bring down standard height'* in the specific situation of unsafe frame designs.

> *everybody who works here worry that somebody out there might get injured and die – so sweat every time we make a design change – we know what we do – what works and what doesn't – but it does worry us – we can only go by Australian Standards – these frames are fold down so that go into sheds – Australian Standard frames are high – when they are folded down they don't offer protection – Australian Standards should change to bring down standard height*

In yet another passage, number A10-3, the participant A10 assess the situation and after evaluation, decides on the moral course of action to leave the organisation that he was working for.

> *I was working in their Canadian organisation and chose to leave because of their value system – why – they were manipulating people's bonuses and not fulfilling their contractual obligations because people were too frightened with their jobs and felt threatened - my assessment of these people was accurate and I could have stayed there and get 3000K salary but I chose to leave*

Code Label: EDM 3

Relevance to Rest's FCM: Component 3

Definition: Ethical Decision-Making 3:

Establish moral intent – to select among competing values outcomes of ideals, the one to act upon and decide whether or not to try to fulfil one's moral ideal.

Awareness that other values besides moral goals can be served by alternative courses of action, e.g. one's own personal success or institutional goals may conflict with moral values and choosing to do the moral action instead of doing other actions that serve other values.

Conditions/Flags:

Contains or uses words which relate to or describe or associate with the meaning of the word 'intent', e.g. select, choose, pick, extract, decide, glean, specify, nominate, stipulate, determine, adopt, accept – derived from Roget's International Thesaurus (Chapman 1992).

Examples:

Interviewee A4 in the passage number A4-6&7, describes a conflict between company policies and personal values and after evaluating the situation establishes the moral intent by saying: '*I felt very compromised in my integrity – I had to take a decision – I could not do anything – the fix required large contracts and money - I wanted to leave straightaway'*.

> *Throughout my working life – cement industry – local community – bordering on plant site – times when plant breaks down putting dust in the air – do we stop operation or continue? – solution – water the roads – if the water trucks break down what do we do – 5 per cent failure is that an acceptable failure rate – it's the intent of what we are doing – what's reasonable in my mind should match with that of the community – I have sometimes shut operations down and other times I continued and assess the risk – there is a case for it – licence conditions can be contravened – could be shut down – we have to supply ships – huge pressure – people were turning a blind eye – but with a view to fixing it – but were not – emissions were high and unacceptable – we can do within the licence but morally, I felt very compromised in my integrity – I had to take a decision – I could not do anything – fix required large contracts and money – I wanted to leave straightaway – but could not – fixing could take months – finally I left*

Code Label: EDM 4

Relevance to Rest's FCM: Component 4

Definition: Ethical Decision-Making 4:

Engage in moral behaviour – to execute and implement what one intends to do.

The person must have actually carried through the decision to do the moral action by persisting and not wandering from the goal, being able to implement the intention, involving self-regulation and executive skills to carry out the intention.

Conditions/Flags:

Contains or uses words which relate to or describe or associate with the meaning of the words 'execution and implement', e.g. carry-out, fulfil, put into practice, translate into action, complete, transact, administer, discharge, effect, render, enforce, conduct, manage – derived from Roget's International Thesaurus (Chapman 1992).

Examples:

Interviewee A5 in passage A5-4, implements a decision taken based on 'values that have to be protected':

> *There is a natural reluctance to dismiss staff and it's difficult, but there are times when values have to be protected and it's the way to do and send a clear message to everyone – it need not be the last resort – when it's required it has to be done.*

In the following passage number A22-3, participant number A22, conveys the decision that the company value of high quality will not be compromised:

> *We won't look at compromising on quality – that's a no go zone – if somebody says to take something out to make it cheaper we won't do that – if we do it will cost some more to make it – making different products for different countries – we don't make hoses – it might be cheaper in India or Indonesia – that's ok – but the crux of the product we don't compromise*

Code label: INTU

Definition: Intuition – information processing involving cognition that occurs automatically, outside of consciousness, and quick evaluation of complex problems – see section 3.4.7 for details.

Properties:

- Occurs automatically, outside of consciousness.
- Quick automatic evaluation of complex problems.

- Ordinary moral sense based on facts of situation.
- Pattern recognition.
- Moral reasoning done after judgement.
- Moral intuitions linked to a pattern in the social world.

Code label: HEU

Definition: Heuristics – judgements which are used to estimate likelihood of reaching a decision, may depend on similar examples in individuals' memories, employed to reduce judgements to simpler ones when faced with difficult tasks, and are mental shortcuts that reduce complex tasks to simpler judgemental operations – see section 3.4.8 for details.

Properties:

- Depend on similar examples in memory.
- Employed to reduce judgements to simpler one when faced with difficult tasks.
- Gut feeling/sixth sense.
- Mental shortcuts to reduce complex tasks to simple ones.
- Effort-reducing principles.
- Depends on individual's limited capacity to process information and amount of time available.
- Brain's limitation of knowledge and computing speeds.
- Narrow window of opportunity.

Code label: EXEMPLAR

Definition: Can include (a) persons who have their sense of moral commitment as a core part of their sense of self, and take a principled personal stand, (b) an organisation committed to certain moral standards, or (c) other things such as case studies, anecdotes, and even fables and myths – see section 3.4.9 for details.

Properties:

- Shows sense of moral commitment.
- Supports, encourages, challenges others in their commitment and moral career.

- Facilitates impartial agreement, training and decision-making.
- Cultivates personal judgement.
- Provides flexibility necessary for making moral decisions.

Code label: REFL

Definition: To take stock, question, and assess an experience, the process of reflective inquiry on practice leading to insights and ultimately improving on those practices – see section 3.4.10 for details

Properties:

- Using experience, the process involves taking stock, questioning and assessing an experience.
- Leads to insights and improves practices.
- Helps integrate theory, skills and values with practice.
- Provides frame of reference.
- Strategy formation is an ethical reflection at the corporate level.

Code label: ORGN factors

Definition: Organisational factors encompass organisational environment, ethical climates, codes of ethics, codes of conduct, employee and employer perception of ethics, and organisational commitment – see section 3.4.11 for details.

Properties:

- Perceived organisational environment related to ethical decision.
- Relationship between perception of business ethics and their employer's ethics.
- Ethical climate.
- External environment – e.g. other organisations and government influence.
- Recognition of and responding to ethical issues is related more to corporate culture than to attributes of individual employees.
- Individual perception of corporate ethics leads to organisational commitment.

Code label: GLOB

Definition: A general definition of globalisation is applied here – which is 'the process by which the economic and social systems of nations are connected together so that goods, and services, capital and knowledge move freely between nations' see sections 2.3, 2.4.2 and 2.4.3 for details.

Properties:

- Activities such as imports, exports, outsourcing, downsizing, international pricing which has affected or impacted an ethical decision-making incident.

Code labels: BSC, NO-BSC, YES-BSC, and Yes-modified BSC

Definition: BSC – a system for measuring and monitoring business processes. In addition to measuring and monitoring financial aspects, BSC integrates customer satisfaction, internal processes, and learning and growth – see section 2.6 for details.

Properties:

- A chart showing the BSC process (which monitors and manages financial and non-financial performances – except ethical issues) was shown and explained to the respondents. Subsequently, all 20 respondents were asked whether the BSC could be used to monitor ethical issues.
- The code BSC would be applicable to each respondent, because specific questions were asked in the interview.
- Code NO-BSC would be applicable to sections of transcripts where the respondent has specifically mentioned that the BSC would not be suitable for SME managers to use.
- Code YES-BSC would be applicable to sections of transcripts where the respondent has specifically mentioned that the BSC would be suitable for SME managers to use.
- Code Yes-modified BSC would be applicable to sections of transcripts where the respondent has specifically mentioned that the BSC would be suitable for SME

managers to use only with certain modifications and where respondents have suggested changes or improvements to the BSC.

4.5.7 List of codes

The following codes have been developed for use in the qualitative analysis of the interview data. Examples of each code from interview transcripts are available in Annexure 5.

1. Table 13a: Codes to identify the business area for each incident

Code	Short description	Details
A&F	Accounts and finance	See section 2.5.4 for descriptions of each business area
CG	Corporate governance	
CP&B	Competition, pricing and bidding	
HF&Q	Quality of work-life	
CT&R	Corporate takeovers and restructuring	
OS	Outsourcing	
DS	Downsizing	
EH	Environmental harm	
IP	Intellectual property	
PtS	Product safety	
PnS	Production safety	
PO	Pollution	

2. Table 13b: Codes to identify Rest's FCM

Code	Short description	Details
EDM 1	Recognise moral issues	See section 3.4.5 for descriptions of each component
EDM 2	Make moral judgements	
EDM 3	Establish moral intent	
EDM 4	Engage in moral behaviour	

3. Table 13c: Codes to identify other factors that could influence decision-making

Code	Short description	Details
HEU	Heuristics	See sections 3.4.7 to 3.4.11 for descriptions of each
INTU	Intuition	
EXEMPLAR	Exemplars	

REFL	Reflection	
ORGN factors	Organisational factors	

4. Table 13d: Other codes

Code	Short description	Details
GLOB	Globalisation	See section 2.3
BSC	Balanced Scorecard	See section 2.6
No-BSC	BSC not suitable for SME managers	
Yes-BSC	BSC suitable for SME managers	
Yes-modified BSC	Modified version of BSC suitable for SME managers	
MONITOR	Monitor ethical issues	
FORSEE	Foresee ethical issues	

4.5.8 Validity and reliability of assigning codes to transcripts

The concepts of reliability and validity are central to the qualitative analysis of interview data (Liedtka 1992; Brand & Slater 2003) . The coding scheme devised is required to fairly extract the meaning from the content data. Validity relates to knowing how far to go in 'reading between the lines' and coding for what seems to be implied rather than what is explicitly said by respondents. Reliability relates to whether other people would concur with the way the researcher coded the contents (Gomm 2008, p.298). While acknowledging that even a single coder may have trouble remaining consistent in coding data when the coding plan is complex, Baker (1999, pp.274-277) suggests the researcher should ascertain whether the coding plan devised would lead to similar results if carried out at different times and by different coders. Thus, reliability is the extent to which the coding procedure yields the same results on repeated trials and provides evidence that 'a theme has some external validity and is not just a figment of the researcher's imagination' (Ryan & Bernard 2000, p.785).

The degree to which coders can agree on codes is contested. While some researchers argue that qualitative inquiry should not be judged by criteria such as reliability, others question whether it is possible to generate reliable codings, the common assumption being that generating reliable codings of text is impossible (Hruschka et al. 2004).

A process to check reliability recommended by Miles and Huberman (1994a, p.64) includes the following formula:

> Reliability = Number of agreement divided by (total number of agreements + disagreements) which will yield a number between 0 and 1.

Thus, if the number of agreements between the researcher's coding and a different coder is 20 and the number of disagreements between them is 10, then the reliability would be 20 divided by 30 which equals 0.67.

Based on their extensive coding experience, Hruschka et al (2004) have suggested a procedure for checking reliability in coding and also to use 'fewer than twenty codes, and coding only one question at a time' (p.325). To check the reliability of coding for this research, the following procedure was adopted:

1. The transcripts of the interview with respondent A13 was chosen.
2. An Excel spreadsheet was created to record the codings. The row-headings contained all codes with their individual descriptions and the columns and the column headings contained paragraph numbers 1 to16.
3. The coder was asked to mark with an 'X' the cells where a code was assigned. For example if paragraph number 8 was assigned the code EDM 1, the coder would enter an 'X' in the cell which intersected the paragraph number column and the EDM 1 row, and so on.
4. First, the researcher conducted the process and entered 'X's wherever codes had been assigned.
5. Second, a volunteer was handed an electronic copy of the A13 transcript along with a blank Excel spreadsheet to fill in the 'X's.
6. The volunteer was given a set of instructions as follows:

Instructions:

1. Read through the headings and understand the categories each having a Code and description
2. The transcription given to you is from respondent A13, have numbered paragraphs from 1 to 16 and shown here as paragraphs A13-1 to A13-16.
3. Read through the entire transcription first and do not worry about spellings and grammar.
4. You are required to categorise each paragraph into the categories that you feel it can fit into, by typing in an X in the appropriate cell.
5. A paragraph can have multiple category entries

7. The volunteer was also given meanings and explanations of each code.
8. After completion, the codings of the researcher and the volunteer were matched to ascertain agreements and disagreements of coding.

The volunteer was a tertiary educated senior manager with 20+ years of experience in the training and development department of a large enterprise. This person did not have prior experience in coding, but demonstrated understanding of the concepts and process involved in coding in this research.

A screenshot of the Excel spreadsheet showing the codings of both the researcher and the volunteer is displayed in Annexure 6. The researcher identified 93 codes in the text, whereas the volunteer identified 66 codes. Of these, there was agreement for 50 codes between the researcher and the volunteer.

Calculations, based on Miles and Huberman's procedure (1994a, p.64), indicate that there is a 54 per cent intercoder reliability factor, based on the 93 codes identified by the researcher (50 divided by 93). Determining the appropriate levels of this factor has some variance between researchers. However, most researchers would label this result as 'moderate' or 'fair' and that such levels of reliability are consistent with findings that initial codings of a text can generate such moderate levels, especially for data with high interpretive burden as in this research (Hruschka et al. 2004).

However, based on where the volunteer identified a code, the intercoder reliability factor is 76 per cent (50 divided by 66), which would be classified as 'good' or 'substantial' (Hruschka et al. 2004).

4.5.9 Designing the interview questions

Structuring of the interview questions was based on the suggestions and recommendations of Charmaz (2006). The interview questions were semi-structured, open-ended, and focused in order to elicit responses about specific events, times, and actions, and to keep the interviews from becoming too abstract, theoretical or rambling. The interviews were conducted in an exploratory manner where conversation could be shifted where required and also follow a particular direction if found relevant and useful (Charmaz 2006).

The interview questions were designed to reflect the propositions that this research aimed to address. Thus Propositions 1 would receive information from interview questions where interviewees were asked to narrate incidents of ethical dilemmas which they had faced over the last five or so years. It also required them to explain the decision-making process on the actions taken to address those dilemmas. Proposition 2 would receive information from the interview question about how the ethical issues were resolved. Proposition 3 would receive information from the question on the decision-making process and whether they would do things differently in hindsight. Proposition 4 related to the influence of organisational factors in their decision-making and includes questions on foreseeing ethical dilemmas and incorporating them in business systems. Proposition 5 related to the specific question on the BSC. Table 14 below shows the relationship between the propositions and the interview questions.

Table 14: Development of interview questions from the propositions

Propositions	Interview Questions
1. *When confronted with business ethical issues, SME managers will tend to use a ratiocinative decision-making process that conforms with Rest's FCM.*	Would you mind telling me about any incident (ethical or unethical in your opinion) with regards to any ethical issue faced by you or by your organisation – preferably within the last five to ten years? What happened? When did it happen? How did it happen? Was it resolved, if so, how was it resolved? Do you think ethical dilemmas or issues can be foreseen and do you think ethical issues can be 'nipped in the bud' by incorporating it in a business process?
2. *SME managers use intuition to resolve business ethical issues.*	Was it resolved, if so, how was it resolved?
3. *The ethical decision-making process by SME managers could include factors such as heuristics, exemplars, and reflection.*	Was it resolved, if so, how was it resolved? Can you give me an example of a person or persons you respect and value their values and why? Where do you draw your moral inspiration from? In hindsight would you have liked it to be resolved differently? Do you think ethical dilemmas or issues can be foreseen and do you think ethical issues can be 'nipped in the bud' by incorporating it in a business process?
4. *The ethical decision-making process by SME managers is influenced by internal and external organisational factors.*	Was it resolved, if so, how was it resolved Do you think ethical dilemmas or issues can be foreseen and do you think it can be 'nipped in the bud' by incorporating it in a business process?
5. *The BSC could be an effective instrument for SME managers to*	Have you heard of the Balanced Scorecard? This is what it is used for…(show a

measure, monitor and manage business ethical issues	laminated A4 page with BSC shown diagrammatically). Do you think the BSC can be used to monitor ethical issues? In your organisation, do you have processes to address potential ethical issues in any of your standard operating processes/systems? Would you like to see such processes incorporated in systems?

A copy of the interview questions is enclosed in Annexure 7.

4.5.10 Interviews

All interviews were recorded using a Sony Digital Recorder which enables recording in multiple folders and easy downloading as MP3 audio files in a computer. The software allows slowing down the speed of replay for ease of transcription into a Word file.

Prior to the start of an interview, the respondents were reminded of the survey questionnaire that he/she would have completed. If they had trouble remembering the questions, the respondent would be shown a copy of the same. Thereafter, the interviewee would be informed about the confidentiality of the interview, wherein the data would be stored on a secure University computer. Each respondent was given a code name such as A1, A2 and was referred to by the code name during the interview. This established trust and rapport right at the start of the interview. The respondent was then informed that for ease of transcription, the interview would be recorded with a digital recorder. Only after receiving their consent would the recorder be switched on. All interviews were conducted in the respondents' offices. Total recorded time for all 20 interviews was 838 minutes (13.97 hours). The average interview time was 42 minutes; the longest interview was 69 minutes, and the shortest 20 minutes.

On completion of the interviews, the recordings were downloaded onto a computer in MP3 audio format having file names corresponding to the code number assigned to each interviewee. Thus, an audio recording of an interviewee with code number A1 was stored in a

MP3 file name of A1, and so on. Thereafter, using a headphone, the recordings were transcribed into a single of MS Word document. Since the audio software allowed slowing down the speed of replaying, without audio distortions, transcripts could be typed at a reasonable pace. A heading for each transcript for each interviewee was given the same code name as the interviewee. Transcripts were typed verbatim in the language syntax or sentence construction of the interviewees. Total number of words in the transcript was 29,480.

4.5.11 Social desirability bias

While self-report questionnaires are often used as a data collection technique in business ethics research, empirical studies have noted a high degree of sensitivity on the part of managers to questions about ethics (Randall & Fernandes 1991). Previous research has demonstrated that observed levels of socially desirable responding vary with the level of anonymity. The more anonymity seems assured, the less socially desirability responding is detected (Wiseman, F 1972; Nederhof 1985). However, Randall & Fernandes (1991) contend that social desirability bias may be possible to eliminate through the use of methodologies such as randomised response methods or computer administration. The use of computer administration and specifically the use of Internet in surveys was studied by Joinson (1999) wherein completed measures of self-consciousness, social anxiety, self-esteem, and social desirability, using either the Internet or pen and paper, and were assigned to either an anonymous or a non-anonymous condition. It was found that people reported lower social anxiety and social desirability and higher self-esteem when they were anonymous than when they were non anonymous. Lim (2002) reports a study conducted by Sproull and Kiesler (1991, Connection: New ways of working in the networked organisation, MIT Press, Cambridge, MA) that respondents who completed a survey on drug use through an online survey actually reported higher drug use compared with students in the mail questionnaire, arguing that the electronic media allowed people to have a sense of privacy and were therefore less inhibited in their responses. This research therefore decided to use an on-line electronic questionnaire to ensure that social desirability is kept to a minimum with assured anonymity.

With respect to interviews, Nederhof (1985) reports that social desirability bias in interviews can be minimised using two criteria: first, ensuring a large social distance (a number of studies have shown that ‘the results of an interview are more likely to be biased in a socially

desirable way when subjects are similar to interviewers with respect to social distance' and 'if subject and interviewer belong to similar social groups, the interview is likely to assume the character to a social exchange, where norms of polite interaction get the better of accurate reporting' (p.273) , and second, that interviewers have to be professional, work-oriented persons. The author of this thesis conforms to both these criteria. Most of the respondents were from a culturally different background such as European compared to the author's Indian background. Additionally, the author has a professional background in engineering, manufacturing, and management. Nederhof (1985) further reiterates that social desirability bias is more likely to occur when there is no person-to-person interaction. In a study of comparison of social desirability bias between the techniques of telephone interviews and face-to-face interviews Holbrook, Green & Krosnick (2003) conclude, that socially desirable attitudes were reported more often by telephone respondents than by face-to-face respondents, respondents interviewed by telephone expressed significantly more unease about discussing sensitive topics than did respondents interviewed face to face and the telephone respondents were more likely to express suspicion about the interview process than were the face-to-face respondents.

Chapter 5: Results and summary of survey data

This chapter has four sections. The first section (6.1) provides demographic details of the survey respondents. The second section (6.2) analyses the key areas with respect to Research Question 1, which leads on to the third section (6.3) which discusses and summarises the findings in section 6.2. The final section (6.4) provides demographic details of the survey respondents who consented to a face-to-face semi-structured interview. The results, analysis and discussions of the interview data are laid out in chapters 7 and 8.

5.1 Demographic details of the survey respondents

The 2,314 questionnaires yielded responses from 171 organisations (7 per cent response rate), of which 107 responses (5 per cent response rate) were complete and useful for analysis. Ninety-one of the respondents qualified as a SME where employee numbers were less than 200. This sample size of 91 is considered to be sufficient for a quantitative analysis where the recommended minimum samples size are: for correlation analysis – 64; for casual-comparative analysis – 51; and for experimental analysis – 21 (Collins, Onwuegbuzie & Jiao 2007, pp.271 & 273; Onwuegbuzie & Collins 2007; Hesse-Biber 2010, p.53). That the sample exceeds the minimum needed for statistical analysis is indicative that it might be a satisfactory sample for the descriptive statistical analysis used in this research.

Industry sectors of respondents

Respondents were asked to indicate the industry sector that they operated in. Industry sectors were derived from the Australian and New Zealand Standard Industry Classification codes (ABS 1993). Table 15 shows respondents' representation in each of the industry sectors in Australia.

Table 15: Industry sectors of survey respondents

Industry sector	Respondents	% of total
Accommodation, Cafes and Restaurants	1	1.1
Agriculture, Forestry and Fisheries	2	2.2
Communications	4	4.4
Community Services	3	3.3
Construction	6	6.6
Education	5	5.5
Finance and Property	3	3.3
Manufacturing	45	49.4
Mining	1	1.1
Public Administration and Defence	3	3.3
Transport and Storage	5	5.5
Wholesale and Retail Trade	5	5.5
Other services	8	8.8
TOTAL	91	100.0

Although the survey was conducted among South Australian SMEs, the ABS Count of Businesses 2007 (ABS 2007) suggests that South Australia statistically represents the whole of Australia. Based on the number of employees, South Australia had 99.8 per cent of its businesses in the SME sector compared to a national average of 99.7 per cent. Based on the type of business, South Australia's manufacturing sector had 5.3 per cent of the total number of businesses in the state compared to a national average of 5.5 per cent. Other types of businesses also had similar comparisons.

Levels in organisation

Respondents were asked to indicate the number of levels in their organisation above and below them. The response '0 level' indicates no levels between the respondent and the top

position, which would point to a position such as the owner, the Chief Operating Officer, or the Managing Director. The response '1 level' indicates the presence of one level between the respondent and the top position, pointing to a senior position in the organisation, and so on. As indicated in Table 16, 83 per cent of respondents were either at the highest level or reported directly to it.

Table 16: Levels in organisation of survey respondents

Level	Respondents	% of total
0 level	45	49.4
1 level	31	34.1
2 levels	6	6.6
Greater than 2 levels	9	9.9
TOTAL	91	100.0

Years of service

More than 68 per cent of all respondents had five years or more service in their organisation indicating knowledge and experience within their organisation as shown in Table 17 and Figure 9.

Table 17: Years of service of survey respondents

Years of service	Respondents	% of total
0 - 5	29	31.9
6 - 10	34	37.3
11 - 20	17	18.7
21 - 30	6	6.6
31 - 40	4	4.4
Greater than 40	1	1.1
TOTAL	91	100.0

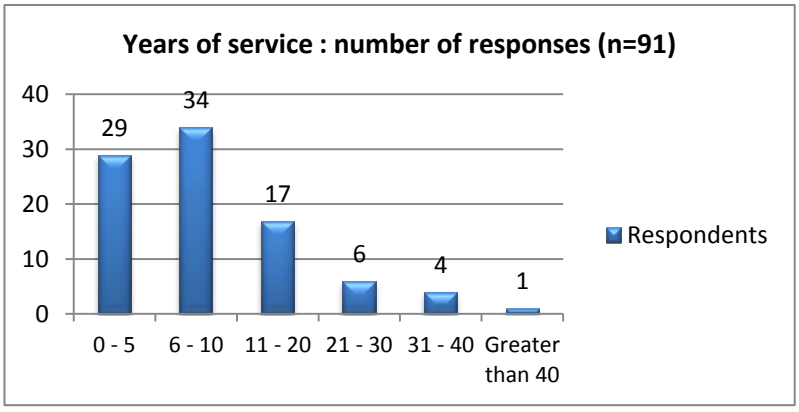


Figure 9: Years of service of survey respondents

5.2 Results of the survey data

Importance of business areas

Respondents rated the importance of each of the 12 business areas in their organisations using the Likert scale of 1=very low to 5=very high. Per cent of respondents for each rating for each business area was calculated. Per cent of respondents who rated High (rating 4) or Very High (rating 5) are shown in Table 18 and Figure 10. Accounts and Finance, followed by competition, pricing and bidding were considered the top two most important business areas by the SME respondents.

Table 18: Importance of business areas – per cent of respondents who rated High or Very High

Business Area	Per cent of respondents who rated High or Very High (N=91)
Accounts and finance	85
Competition, pricing and bidding	74
Product safety	70
Production safety	69
Intellectual property	62
Quality of work-life	57
Corporate governance	55
Pollution	55
Environmental Harm	52
Outsourcing	30
Corporate takeovers and restructuring	14
Downsizing	10

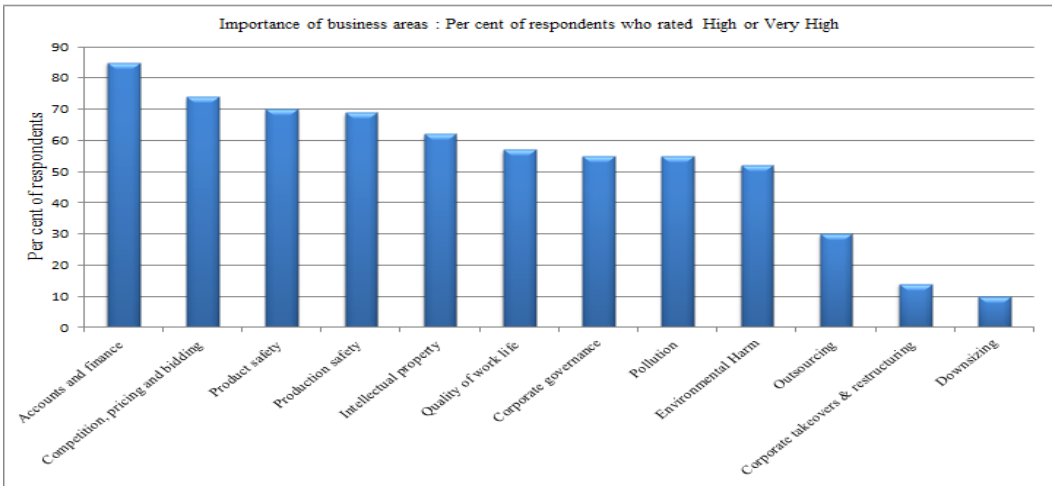


Figure 10: Importance of business areas

Effects of globalisation on business areas

Respondents rated the effect of globalisation on each of the 12 business areas in their organisations using the Likert scale of 1=very low to 5=very high. Per cent of respondents for each rating for each business area was calculated. Per cent of respondents who rated High (rating 4) or Very High (rating 5) are shown in Table 19 and Figure 11. Clearly, competition, pricing and bidding was the most concerning area of business affected by globalisation by a noticeable margin and this will be discussed further in the conclusion section of this paper.

Table 19: Effect of globalisation on business areas – per cent of respondents who rated High or Very High

Business Area	Per cent of respondents who rated High or Very High (N=91)
Competition, pricing and bidding	45
Accounts and finance	23
Quality of work-life	20
Product safety	20
Downsizing	19
Outsourcing	18
Intellectual property	18
Production safety	16
Environmental harm	13
Corporate takeovers and restructuring	13
Pollution	13
Corporate governance	11

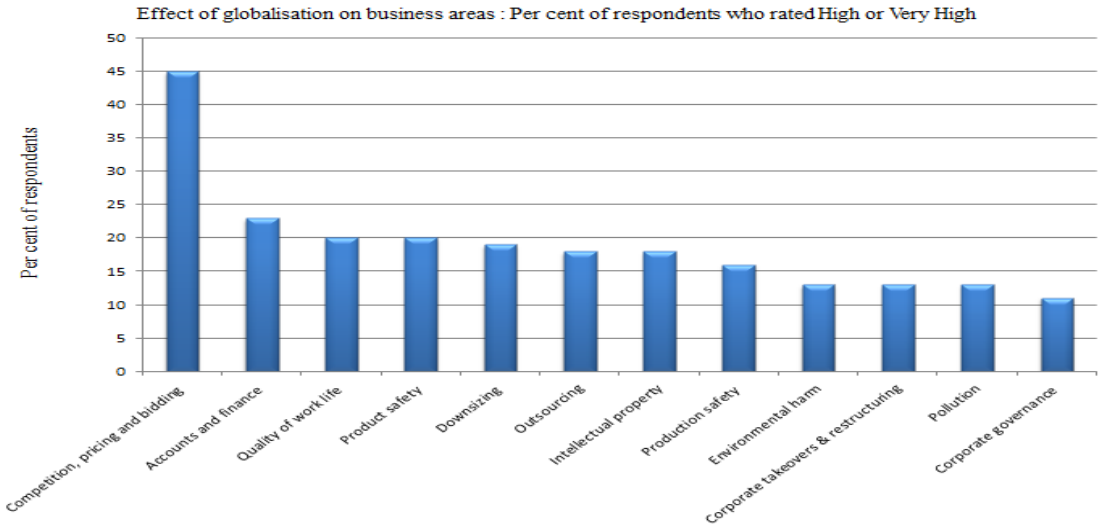


Figure 11: Effect of globalisation on business areas

Business areas in which ethical issues were experienced

Respondents were asked to indicate whether they had experienced an ethical issue in any of the 12 business areas and if so whether they were or were not due to globalisation. Seventy-three per cent of respondents noted at least one ethical issue in any one of the business areas. Tabulated responses are shown in Table 20 and Figure 12.

Table 20: Business areas in which ethical issues were experienced by survey respondents

Business Area	Ethical issues: number of responses (n=91)					
	Overall		Due to Globalisation		Not due to Globalisation	
	n	% of N=91	n	% of N=91	n	% of N=91
Competition, pricing and bidding	53	58.2	30	32.9	23	25.3
Outsourcing	32	35.2	19	28.8	13	14.3
Accounts and finance	28	30.7	14	15.4	14	15.4
Intellectual property	28	30.7	14	15.4	14	15.4
Quality of work-life	28	30.7	12	13.2	16	17.6
Environmental harm	27	29.7	14	14.4	13	14.3
Corporate takeovers and restructuring	26	28.6	12	13.2	14	15.4
Product safety	24	26.4	10	11.0	14	15.4
Pollution	24	26.4	10	11.0	14	15.4
Downsizing	22	24.2	13	14.3	9	9.9
Corporate governance	21	23.1	4	4.4	17	18.7
Production safety	21	23.1	6	6.6	15	16.5

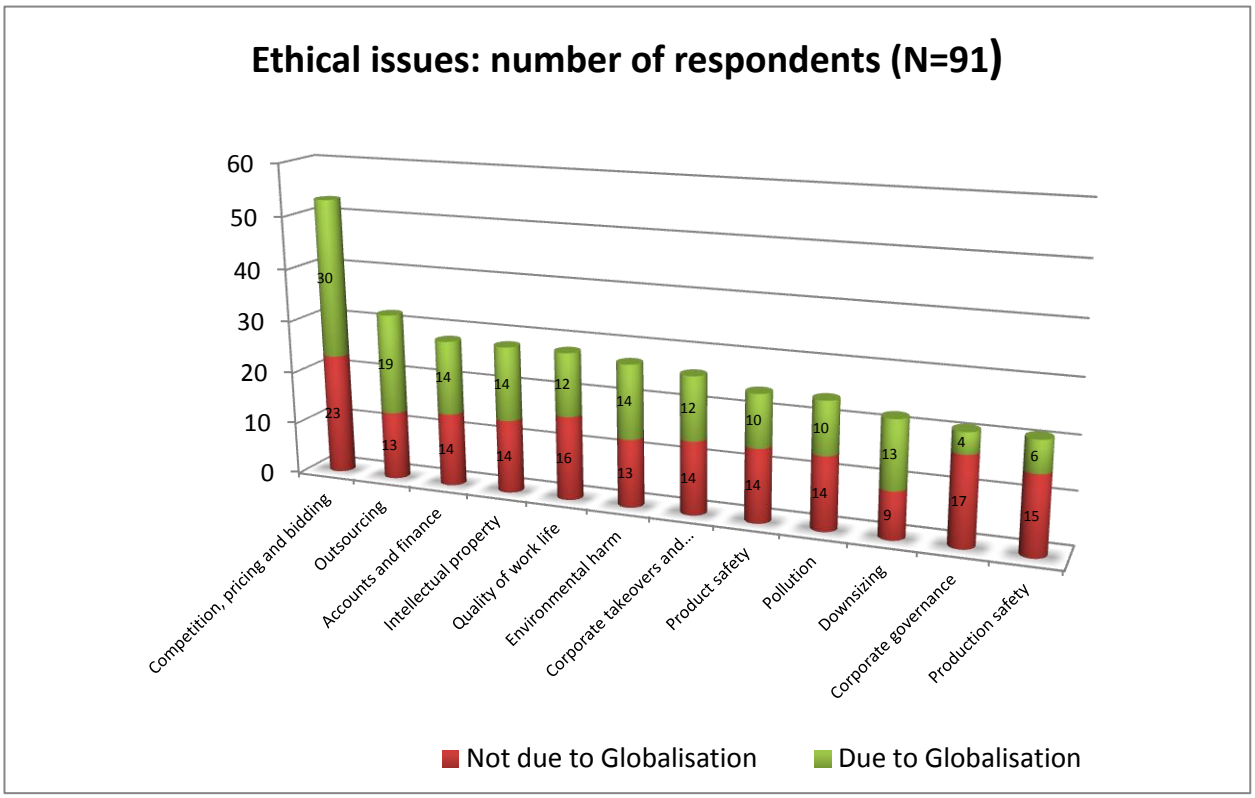


Figure 12: Business areas in which ethical issues were experienced by survey respondents

Overall, the business area in which Australian SMEs have experienced most ethical issues is competition, pricing and bidding. The ethical issues in this area are also top of the list for both due and not due to globalisation. The business area of outsourcing ranks second overall and for ethical issues due to globalisation. The business area of corporate governance ranks last overall and for ethical issues due to globalisation, and ranks second for ethical issues not due to globalisation. All of the other business areas rank in-between and are clustered closely together. These observations are discussed later in the next section of this chapter.

Benefits to organisations if ethical issues were monitored

Businesses can realise specific benefits to their organisations by designing and implementing business ethics programs to address legal, ethical, social responsibility, and environmental issues. These benefits relate to reputation, goodwill, reduced risks, employees, competition, long-term growth, and respect for enterprises (USDC 2004, p.x). A survey conducted by the National Institutes of Health to evaluate the impact of new ethics rules identified several

benefits (NIH 2006, slides 6, 7, 15 and 17). Gilley and colleagues also demonstrated specific benefits to organisations through effective use of a code of ethics (Gilley, Robertson & Mazur 2010). Benefits to organisations used in these studies have been adapted in the survey questions.

Respondents in this research were asked to indicate one or more benefits to their organisation if business ethics were monitored. The list of benefits to organisations is shown in Table 22 and also includes the option of 'no benefits to the organisation'. Eighty-six per cent of the respondents indicated at least one benefit and 14 per cent responded to 'I don't think there will be any benefit to my organisation'. The number of responses were tabulated and ranked as shown in Table 21.

More than 50 per cent of the respondents identified credibility with public, job satisfaction, retention of staff, and legal compliance as benefits to their organisation if ethical issues were monitored. Sixty-five per cent of the respondents indicated credibility with public as most beneficial to their organisations.

Table 21: Benefits to organisation if ethical issues were monitored

Benefits to organisation	Responses n=91	% of total
Credibility with public	59	65.5
Job satisfaction	52	57.8
Retention of staff	48	53.3
Legal compliance	47	51.6
Status as leader in business community	45	49.4
Recruitment of staff	41	45.0
Overall ability to achieve vision and mission	39	42.8
I don't think there will be any benefit to my organisation	13	14.3

Measuring, monitoring, and managing business ethical issues and the use of BSC

Respondents were asked to indicate whether their organisations measured non-financial performances and, if so, to mention, in an open-ended response, what was being measured. Seventy-three per cent of the respondents indicated that their organisations measured non-financial performances such as customer satisfaction, quality, product demand, training, quality control, environmental impact, on-time delivery, and performance of employees. Although 86 per cent of the respondents indicated at least one benefit from measuring and

monitoring ethical issues in business, it is interesting to note that not one of the respondents specifically mentioned measuring ethical issues in any business area.

Fifty per cent of the respondents who measured non-financial performances were aware of the existence of the BSC and 72 per cent of these respondents expressed a belief that business ethical issues could be incorporated into the BSC.

Forty-seven per cent of the total respondents were aware of the BSC, 40 per cent were not aware of it and the rest were not sure. Sixty-seven per cent of the respondents who were aware of the BSC indicated that business ethical issues could be incorporated into the BSC framework.

5.3 Discussions and conclusions of survey data

As indicated at the beginning of this thesis, this research aimed to determine business areas that are affected by globalisation and where ethical issues arise due to globalisation. The on-line survey also sought to examine SMEs' perceptions on measuring, monitoring and managing business ethics issues.

Data from the survey has provided useful indicators in two distinct sets of findings. One relates to the importance of ethical issues arising due to globalisation in certain business areas and the other relates to the aspect of measuring and managing these ethical issues.

Importance of ethical issues arising due to globalisation:

1 Competition, pricing and bidding was the area of business where most businesses experienced ethical issues due to globalisation – see Table 20. This business area was also where most businesses reported the impact of globalisation – see Table 19.

   The effect of globalisation on SMEs worldwide indicates that globalisation due to liberalisation of economies around the world has brought about competitive pressures on enterprises of all sizes (ILO 2000). As an example, the removal of import quotas on several items as a result of trade liberalisation has adversely affected marginal producers and traders in some countries (ILO 2000).

   Issues such as undercutting prices through the creation of monopolies; small groups of

producers colluding to fix prices; overpricing (charging more than the producer knows the product is worth, thus yielding an excessive profit); mark-up (calculating all the mark-ups at which to sell to wholesalers); markdown (when prices are discounted not from the real price, but from the artificially inflated marked up price); and the tendering process (De George 2006, pp.328-329) could be factors why Australian SME respondents have considered competition, pricing and bidding as a key business area affected by globalisation and where they had ethical issues. SMEs' concern for this area could be addressed by examining the availability, training, and use of policies, procedures, guidelines such as a code of ethics and practice, and ethics programs and tools such as the BSC specifically designed for SMEs.

As finance becomes increasingly international, there is concern about the laxity in national and international control of banks, effective audits, bank regulations, and safety of banks (De George 2006, p.249). Events such as the Asian crisis of the 1990s and the more recent Global Financial Crisis could be reasons why respondents rated the business area of accounts and finance as one of the top important business area with ethical issues affected by globalisation for SMEs.

2 The second finding from the survey indicates that the business area of outsourcing is ranked second for ethical issues due to globalisation. The fact that work no longer has to be done in a certain location has led to increased outsourcing by large and medium sized firms. Instead of them maintaining their own manufacturing or accounting departments, or doing their own recruiting, these and many other tasks are performed by other firms specialising in such activities. This results in dislocations, job losses and jobs being outsourced. It raises the ethical issues of exporting industries to low-wage countries and also the harm or benefits of protectionism.

3 Third, corporate governance is ranked the least important business area with respect to the effect of globalisation – (Table 19) and also ranked lowest for ethical issues due to globalisation (Table 20). However, it was also most frequently reported for ethical issues not due to globalisation (Table 20). This could point to the structure and operation of an SME, where up to 86 per cent of respondents' position in their organisations was at the 1 level or 0 level (Table 16) comprising of a single owner or with employees at just one level below the owner-manager, as compared to a large

organisation. A large organisation which has multiple levels of organisational structure will have a structured and rule-driven processes to handle ethical issues that may arise from the effects of globalisation. In contrast, in an SME, ethical issues would be local and in-house, and are likely to be handled directly by the owner-manager using methods which do not have formal structures and processes.

4 Fourthly, the survey results have shown that although production safety rated in the top five business areas which are important to SMEs, it was rated tenth for effect from globalisation, eleventh for ethical issues due to globalisation and fourth for ethical issues not due to globalisation. This indicates that ethical issues in production safety are local and needs to be addressed within the organisation. These include dangers that can be remedied and harm that can be prevented by setting standards to maintain minimal levels of safety.

Measuring and monitoring ethical issues

5 A fifth finding from the survey indicates that SME business managers consider monitoring business ethics will provide some benefit to their organisations. The top five benefits were credibility with public, job satisfaction, retention of staff, legal compliance, and status as a leader in business community. This is consistent with recent studies on the benefits of monitoring business ethics through an effective code of ethics which have indicated benefits to a broad variety of stakeholders (Gilley, Robertson & Mazur 2010), support organisation cultures, positively influence organisational operations (Liddle, Svensson & Wood 2009) and, when well established, an ethics program can deliver more benefits than the costs involved in implementing it (Gagne, Gavin & Tully 2005).

6 And finally, results from the survey also suggest that non-financial performances were being measured, and that business ethical issues could be incorporated in the BSC. Although 86 per cent of respondents indicated at least one benefit to their organisation by measuring and monitoring ethical issues and 73 per cent of the respondents measured non-financial performances, none of the respondents specifically measured ethical issues in any business area. This could be due to a number of reasons such as lack of time, inadequate resources both financial and manpower, lack of training, and size and structure of an SME business. The fact that 67 per cent of the respondents

who were aware of the BSC indicated that business ethical issues could be incorporated into the BSC framework, could suggest that an instrument such as the BSC, which some of the SMEs recognise and are comfortable with, could be adapted to monitor and manage ethical issues in specific business areas. Limited research is available on integrating business ethics into the BSC. One study on the use of the BSC to evaluate the weighting of financial standards and non-financial standards which included criteria such as leadership, business ethics and integrity, customer interaction and focus, and community involvement, indicated that the BSC system was primarily driven by quantitative-based financial considerations with limited emphasis on qualitative-based non-financial considerations (Ittner, Larcker & Meyer 2003).

5.4 Statistically significant differences tests:

Statistical analysis according to organisational size (two independent variables: small – 0 to 19 employees and medium: 20 to 199 employees) and business type (two independent variables: manufacturing and non-manufacturing – all others) were conducted to ascertain significant differences with respect to dependent variables. Tests conducted were:

- MANOVA test: organisation size with importance of business area (dependent variables: the 12 business areas)
- MANOVA test: organisation size with effect of globalisation on business areas (dependent variables: the 12 business areas)
- MANOVA test: business type with importance of business area (dependent variables: the 12 business areas)
- MANOVA test: business type with effect of globalisation on business areas (dependent variables: the 12 business areas)
- Chi-square test: organisation size with business areas where ethical issues were experienced (dependent variables: the 12 business areas)
- Chi-square test: business type with business areas where ethical issues were experienced (dependent variables: the 12 business areas)

- Chi-square tests for organisation size and business type, each with dependent variables of non-financial measurements, awareness of the BSC, incorporating business ethics in the BSC, consent of interviews, and the eight variables with respect to benefits of monitoring business ethics.

Summary test results of the above are available in Annexures 8, 9, and 10.

Only the statistically significant differences are reported here as follows:

Organisation size

Organisation size and importance of business areas:

There was a statistically significant difference in the importance ratings of different business areas based on the size of the organisation, Pillai's trace = 0.26, F (12, 78) = 2.31, $p < 0.05$.

The one-way Anova showed that the importance of Outsourcing (F (1, 89) = 5.43; $p < 0.05$) and Downsizing (F (1, 89) = 4.21; $p < 0.05$) were significantly different between organisations of different sizes. The other ten business areas were not significantly different – see Annexure 11.

Organisation size and business areas where ethical issues were experienced:

There was a statistically significant association between organisation size and the business area of CPB - competition, pricing and bidding (χ^2 (2) = 7.49, p = 0.02). Significantly more number of small enterprises experienced ethical issues in CPB due to globalisation and significantly more number of medium enterprises experienced ethical issues in CPB not due to globalisation. Further, both small and medium enterprises equally experienced ethical issues in the other 11 business areas – see Annexure 11.

Business type:

Business type and importance of business areas:

There was a statistically significant difference in the importance ratings of different business areas based on the type of business, Pillai's trace = 0.40, F (12, 78) = 4.35, $p < 0.05$.

The one-way Anova showed that the importance of Downsizing (F (1, 89) = 4.19; $p < 0.05$), Production Safety (F (1, 89) = 22.43; $p < 0.05$), and Product Safety (F (1, 89) = 11.00; $p <$

0.05) were significantly different between manufacturing and non-manufacturing organisations. The other nine business areas were not significantly different – see Annexure 11.

Business type and effect of globalisation on business areas:

There was a statistically significant difference in the effect of globalisation on business areas based on the type of business, Pillai's trace = 0.29, F (12, 78) = 2.72, $p < 0.05$.

The one-way Anova showed that the effect of globalisation on Accounts & Finance (F (1, 89) = 10.46; $p < 0.05$), Competition, pricing & bidding (F (1, 89) = 14.50; $p < 0.05$), Downsizing (F (1, 89) = 7.41; $p < 0.05$), and Production safety (F (1, 89) = 5.34; $p < 0.05$) were significantly different between manufacturing and non-manufacturing organisations. The other eight business areas were not significantly different – see Annexure 11.

Business type and Business Ethics in BSC:

There is a statistically significant association between business type and agreeing for interviews (χ^2 (1) = 7.34, $p = 0.02$). Manufacturing enterprises have shown to be significantly more agreeable that business ethics can be incorporated into the BSC than non-manufacturing enterprises – see Annexure 11.

Business type and Consent for interviews:

There was a statistically significant association between business type and agreeing for interviews (χ^2 (1) = 6.72, $p = 0.01$). Manufacturing enterprises have shown to be significantly more agreeable for interviews than non-manufacturing enterprises – see Annexure 11.

Business type and monitoring business ethics will benefit ability to achieve credibility with the public:

There was a statistically significant association between business type and the benefit (χ^2 (1) = 5.16, $p = 0.02$). Manufacturing enterprises perceive significantly more than non-manufacturing enterprises that monitoring business ethics will enhance their credibility with the public – see Annexure 11.

In summary, this quantitative study has shown that for a sample of Australian SMEs, globalisation is a major source of ethical issues in the business areas of competition, pricing and bidding; outsourcing; accounting and finance; production safety; and intellectual property. A need to address SMEs' concerns in these areas has been highlighted. SMEs also ranked corporate governance and production safety as significant areas for ethical issues but globalisation is not a major source for ethical issues in these areas. SMEs have also recognised perceived benefits to their organisations by measuring, monitoring and managing ethical issues.

5.5 Demographical details of the interview respondents

Respondents in the questionnaire survey were asked whether they would agree to a 30 to 45 minutes face-to-face interview. Out of 107 respondents, 24 (22 per cent) agreed for an interview and provided their phone and email contact details. Appointments were made over the phone, during which information such as duration of interview, confidentiality and security of information was provided to them. Four respondents chose to opt out of the interview process – three out of these four did not return calls and one refused to be interviewed on the grounds of the sensitivity of the information.

Twenty interviews were conducted in 2009. Seventeen respondents were male, and three female. The businesses that these managers represented were manufacturing, business services, recruitment, wholesale and retail trade, community services, transport and storage, aged care, legal services, occupational health and safety, education, information technology, and public administration. Half of the respondents had 10 years or more experience, the maximum being 40 years. The manager-respondents came from a range of job titles including CEO, General Manager, Managing Director, Owner, Partner, Director, Project Manager, Operations Manager, Purchasing and Projects Manager, Financial Advisor, Manager Business and Economic Development, and Executive Director. Nine of the respondents came from organisations with less than 10 employees. A further nine came from organisations employing between 10 and 100, and two from above 100 employees. Average duration of the interviews was 42 minutes; the maximum was 69 minutes. A total of 838 minutes of interview data was collected and the number of transcript words was 29,400.

This sample size of 20 is considered to be sufficient for a qualitative analysis based on the minimum sample sizes for qualitative analysis recommended by researchers (Collins, Onwuegbuzie & Jiao 2007, pp.271 & 273; Onwuegbuzie & Collins 2007; Hesse-Biber 2010, p.53).

Interviewees' position within their organisations

There were 13 interviewees whose position in their organisation was at the 0 level, the highest level, indicating a position of owner, partner, or managing director. Six interviewees were at 1 level, indicating a senior position such as a general manager in their organisations, and one interviewee was at 2 level, indicating a mid-level position such as a project manager.

Years in service in the same organisation

The average years of service within their organisations were 11.35 years. The longest years of service was 40 years and the shortest, four years.

Industry Sectors of interviewees

Thirty per cent of the interviewees were from the manufacturing sector, 15 per cent from the wholesale and retail sector, and the rest were from eight other industry sectors as shown in Figure 13.

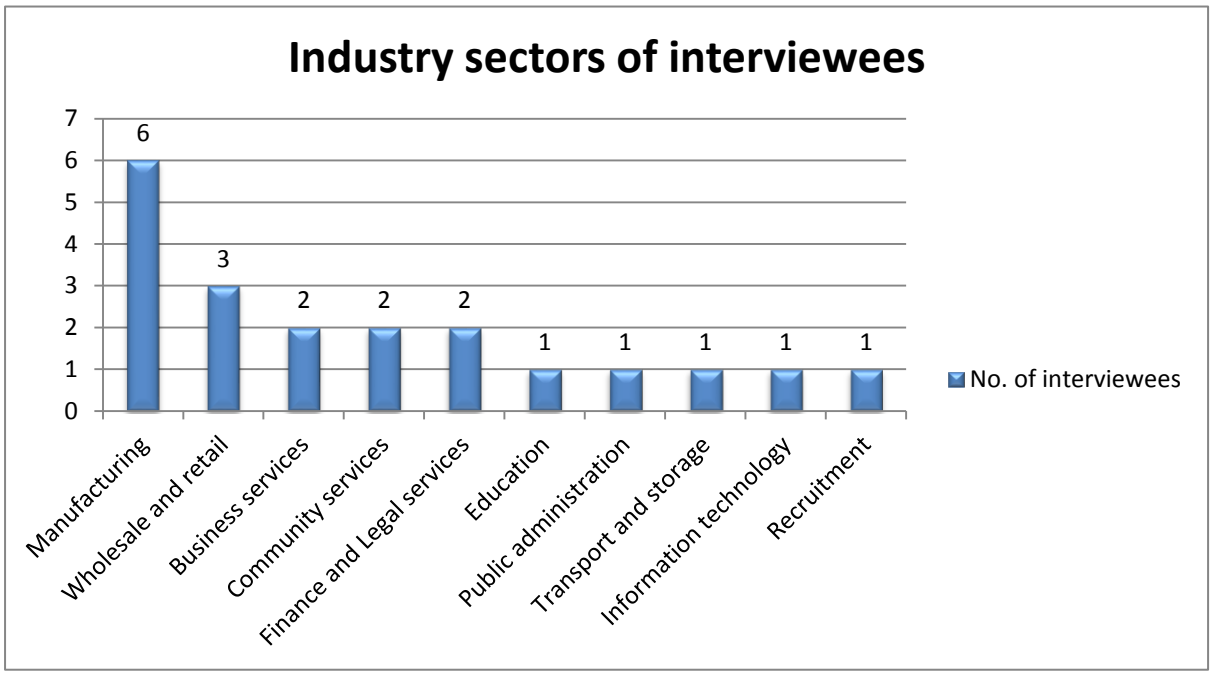


Figure 13: Industry sectors of interviewees

Since the interview respondents are a sub-set of the survey respondents, the spread of the industry sector of the interview respondents was expected to be similar to that of the survey respondents. Thus, the percentage of respondents from the manufacturing sector in the interview respondents was at 30 per cent as compared to 49 per cent in the survey respondents. However, as seen from the statistically significant differences analysis in section 5.4, the effect of the over-representation of the manufacturing sector affected only five of the twelve business areas, incorporation of business ethics in the BSC, and one of the eight perceived benefits of monitoring business ethics in their organisations.

Number of employees in organisation

Forty-five per cent of the interviewees' organisations had fewer than 10 employees, 25 per cent had between 20 and 49 employees, and the rest had employees as shown in Figure 14.

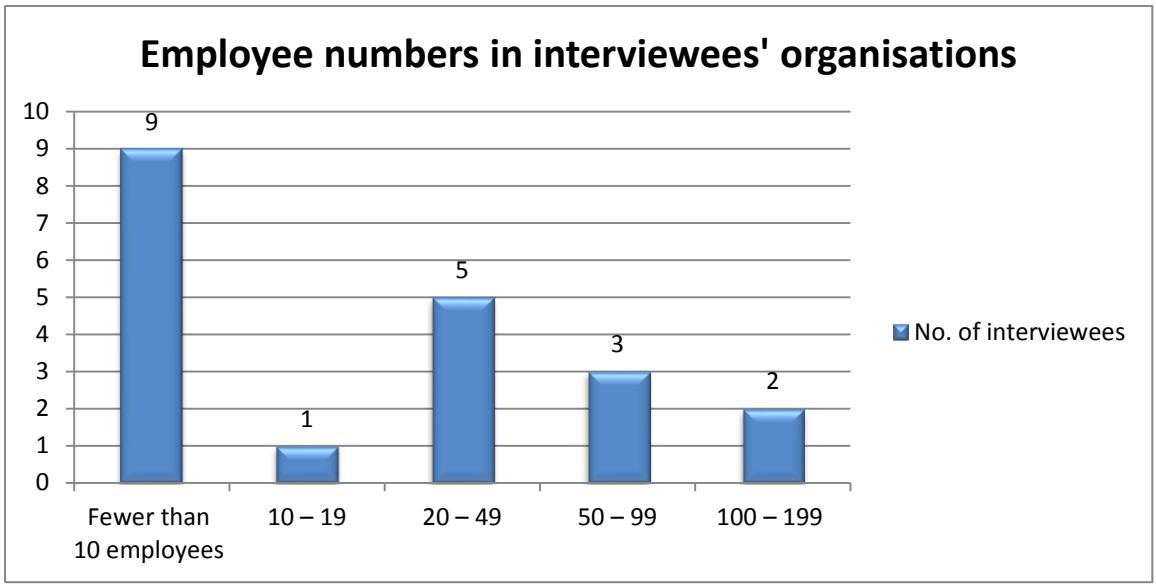


Figure 14: Employee numbers in interviewees' organisations

Chapter 6: Analysis: The ethical decision-making process and Rest's model

6.1 Introduction

Overview, literature review and rationales for content analysis and development of codes were discussed in section 4.5. This section will now lay out the detailed process of the content analysis conducted in this research. It will begin with the process of creating and allocating nodes and codes in NVivo 9, a computerised qualitative data analysis software tool, followed by the process of matrix coding query and analysis.

Nodes and coding

The content/thematic analysis of the interview data was conducted using the NVivo 9 qualitative data analysis (QDA) software which facilitates organising, analysing and visualising qualitative data such as interview transcripts (QSR 2010). The NVivo 9 software has the capacity to transform qualitative coding and matrices developed from qualitative coding into a format that allows statistical analysis (Bazeley 2003).

Interview transcripts were organised into folders named A1, A2, A3 etc. which represented each interviewee. Each transcript was sectioned into paragraphs constituting 'Meaningful Units' (MU) (see section 4.5.5 for details), and were uploaded into the NVivo software. For each narrated incident in each transcript, a node was created by the author to identify the interviewee (A1, A2 etc.), the incident number in the transcript (1, 2, 3 etc.), and the business area that it was related to (CG for Corporate governance, OS for outsourcing etc.). Thus, for interviewee A13, incident number 3, and business area CG, the node would be A13-3-CG. Similarly, node A20-2-A&F would mean interviewee number A20, incident number 2, and business area A&F (Accounts and finance). For each incident node, other coding such as EDM 1, EDM 2, GLOB, HEU, INTU etc. would be referenced. An incident node, therefore, would be a collection of references about a specific component of the ethical decision-making process or a factor that could influence ethical decision-making, or other areas of interest such as globalisation, BSC, and monitoring ethical issues. All coding was done by the author.

A total of 130 incident nodes were created – see Annexure 12 for the list of incident codes. As noted above, four respondents (A12, A14, A18, and A21), who had initially agreed to an

interview, withdrew their offer at a later stage. As a result these respondent numbers do not appear in the incident codes list.

Further, in each transcript, there were MUs which did not relate to any incident, rather, such MUs related to codes such as BSC or EXEMPLAR and other such factors.

After having entered all the incident nodes and codes into the system, the next step was to allocate codes to each incident node in each transcript. Depending on the nature of the incident and the responses from interviewees, each incident code could have multiple codes allocated to it. Some incident nodes could have all four components of the ethical decision-making process along with other codes such as GLOB or HEU or INTU. Other incident nodes could have any combination of the available codes. For example, incident code A13-1-CP&B (which signifies interviewee A13, incident number 1 with business area of CP&B – Competition, pricing and bidding) had five codes allocated to it – EDM 1, EDM 2, EDM 3, EDM 4, and GLOB.

Further, in each transcript, there were paragraphs which did not relate to any incident, rather, such paragraphs related to codes such as BSC or EXEMPLAR and other such factors. For example, paragraph 15 of interviewee A13's transcript related to exemplars and organisational factors, and was therefore allocated the codes EXEMPLAR, and ORGN. Codes allocated to incident nodes and other MUs for interviewee A13 are shown in Annexure 13.

Matrix coding query and analysis process

With all transcript text of interviewees and the incident nodes and coding completed in the NVivo system, the next step was to proceed with the analysis of the data. As mentioned above, each incident node has a number of codes allocated to it. The matrix coding query method was then used to reveal patterns. Using this method, cross-tabulations were created between incident nodes and other codes depending on the requirement of the proposition that was being evaluated. For example, to determine the number of incidents that used all four components of the ethical decision-making model, the cross tabulation matrix would have rows containing the incident nodes and columns containing the four components – EDM 1, EDM 2, EDM 3, and EDM 4. After selecting the required rows and columns, the query was run in the NVivo software. The result is displayed in Annexure 14. Similar method of cross-

tabulation was performed on nodes and codes based on the requirement for each Proposition as shown in Table 22 below:

Table 22: Cross tabulation chart of nodes and codes

Proposition	Cross-tabulation matrix of nodes and codes
Proposition 1 *(ratiocinative process conforming with Rest's model)*	Incident nodes x four-components Incident nodes x Globalisation
Proposition 2 *(using intuition to resolve business ethical issues)*	Incident nodes x Intuition
Proposition 3 *(ethical decision-making could include by heuristics, exemplars and reflection)*	Incident nodes x Heuristics Incident nodes x Exemplars Incident nodes x Reflection
Proposition 4 *(ethical decision-making influenced by organisational factors)*	Incident nodes x organisational factors
Proposition 5 *(BSC as an effective instrument to measure, monitor and manage business ethical issues)*	BSC x Yes-BSC BSC x No-BSC BSc x Yes-modified BSC

6.2 Proposition 1: *When confronted with business ethical issues, SME managers will tend to use a ratiocinative decision-making process that conforms with Rest's FCM.*

The interview questions asked were:

- Would you mind telling me about any incident (ethical or unethical in your opinion) with regards to any ethical issue faced by you or by your organisation – preferably within the last 5 to 10 years?

- What happened, when did it happen, how did it happen. Was it resolved? If so, how was it resolved? Do you think ethical dilemmas or issues can be foreseen and do you think ethical issues can be 'nipped in the bud' by incorporating it in a business process?

Qualitative analysis of the transcripts commenced with the detection of the presence of each of the four components of ethical decision-making in the incidents narrated by interviewees. The process of detection was based on the understanding, discussions, and characteristics of each component. This was followed by analysis of incidents where evidence of the use of all four components in ethical decision-making was observed. As discussed in chapter 3, the four components of the ethical decision-making process is based on individual ethical decision-making and behaviour, where a person faced with an ethical issue must recognise the moral issue (Component 1), make a moral judgement (Component 2), establish moral intent (Component 3), and engage in moral behaviour (Component 4).

6.2.1 Component 1 – recognise moral issues

The main criteria for detecting Component 1 (see section 4.5 for details) in incidents narrated by interviewees was: when a person describes or interprets a situation or realises that she/he could do something that would affect the interests, welfare, or expectations of other people. One of the ways that a person might realise that his/her actions could affect other people would be to realise that one's action might violate a moral norm or principle and could further be influenced by the 'personal construction' of these moral principles such as rights, justice, duty, and social situation . Moral principles that a person could apply to recognise a moral issue are generally derived from the approaches to ethical theories and principles

discussed in section 2.2.1. Further, as discussed in section 3.4.5, recognising ethical issues can be influenced by knowledge of the regulations, codes, norms of one's profession and recognising when they apply, and focuses on the distinctive expectations of the profession that derive from the norms and codes that govern professional practice .

Qualitative analysis of the interview transcripts to detect incidents in which interviewees recognised ethical issues – by assigning the thematic code EDM 1 to the text, was based on the meanings and criteria described in the previous paragraph. Following are a selection of such transcripts:

Extract from transcripts of interviewee A13:

> *Many years we made blinds fittings in thousands – all made as cheaply as possible for market sensitivity – components are zinc plated for corrosion resistance – in the last 15 years* ***environmental laws are tightened – so zinc plated process is now expensive – because it's a nasty procedure – in the 60's in backyards pouring cyanides into ground etc. – now filtration systems to be used are expensive – disposal is also expensive – consequently it's expensive and very restrictive –*** *however, the people who buy these products are being offered similar* ***products from Asia - zinc plated using backyards in bare feet bare hands in chemicals – old chemicals poured into ground – so they do it cheaply and economically but detrimental for the environment*** *– here in Australia on a high horse – but when offered we buy cheap imports.*
>
> ***This is ethical situation arising from globalisation – 20 years ago we did not face cheap imports from overseas but we have actually embraced in a hypocritical way that our society has demanded that we clean up our own environment and encourage the other countries to do the old way***

In the above extract, two situations with ethical issues have been highlighted in bold by the author. The first one is that due to tighter environmental laws this narrator's industry had to necessarily change their processes resulting in higher manufacturing costs – which in itself is acceptable to the narrator. The second situation is that local consumers are being offered '*products from Asia'* where environmental and safety standards are not applied as rigorously. Based on these two situations, the narrator then identifies the ethical issue in the second

paragraph, that '*actually embraced in a hypocritical way that our society has demanded that we clean up our own environ and encourage the other countries to do the old way'*. There are elements of the ethical principles of utilitarianism, justice and fairness in recognition of the ethical issue in this incident.

This narrator then goes on to say that '*the problem is recognising an ethical issue as it arises and being able to realise it applies to you and does need attention – back to zinc plating – 99% of those people do not recognise it as an ethical issue – it's purely commercial issue for them'*, which also points to the utilitarian principle of the end justifying the means.

Further, the narrator has utilised his profession's (a manufacturer of goods) codes and norms (of maintaining environmental standards) to recognise the ethical issue.

Extract from transcript of interviewee A19:

> *We had a situation – a staff member who was not performing due to mental illness issue – it would have been attractive to outsource their role.*

This interviewee had the option of firing the employee and outsourcing their role, but realised that he could do something that could affect the interests, welfare, or expectations of that staff member and thus recognised it as an ethical issue based on the principles of deontology, justice, and fairness.

Extract from transcript of interviewee A19:

> *Some staff members have certain views on certain industries – mining, armaments and our bus touches such a range of organisations – gambling, liquor sales etc. – there is one we had one person who resigned because didn't want do business with a coal mining company – that was their ethic basis.*

In this incident an employee of the narrator decided to resign from the job as it involved working with a business (in this case a coal mining company) that the employee thought was not ethical. The employee recognised the ethical issue based on the personal construction of moral principles.

Extract from transcript of interviewee A2:

> *One incident – joined factory – made me sign a confidentiality agreement – did not understand it. But later left job and started business. Four years later this company came to me and showed me forms to sign and send them back in two weeks, or we will close you down. Very unethical. Written by their lawyers, not to manufacture their products and market.*

This is a situation where a large company asked this SME owner not to manufacture certain products (probably due to market competition) with a 'threat' to close down the narrator's business. Although it is not very clear the circumstances under which this happened, the SME owner recognised the large company's actions as unethical.

Extract from transcript of interviewee A23:

> *Biggest part of my business for a large group in life insurance – church group with 4000 members and review that every three years – it was being reviewed around two years ago–* ***we get paid on a commission basis – percentage of premium –*** *when we put to tender – that* ***company that came to it had a premium considerably lower than previously and fantastic benefits and what I had to suddenly weigh up – this is fantastic – I can save the church $60,000 a year in the premium*** *that were paying for pastors – but the actual commissions –* ***my commission would drop by nearly $100,000 - how could I keep my business?***

The narrator's responsibility is to deliver quality life insurance to church members. In a review of the premiums, a new insurance company offered premiums which would save the church members $60 000, but would reduce the narrator's commission by $100 000 (because the commission is calculated as a percentage of the premiums). The reduction in commissions would result in closure of his business. This was recognised as an ethical issue by the narrator – should he pass on the benefits to the church members, risking his own business or should he not do so thereby keeping his business safe? There is an element of utilitarian consequences (benefits to members against harm to him), an element of deontology (it is his duty to provide the best service to his clients), and an element of fairness (who is it fair to?). Recognition of the ethical issue by this narrator has also been influenced by his knowledge of the regulations,

codes, norms of his profession, and also by the expectations of his professional practice (the insurance industry).

Extract from transcript of interviewee A24:

> *Recently there's been cases where developers want to improve a piece of land or property and I see the benefit of doing it and* ***I would like to help them for the greater good of the local community and processes are in place which also tend to slow down a number of those hurdles to getting things done quickly*** *– so we have* ***the private sector who can act quickly*** *and responsible whereas* ***the public sector is process driven and reason the*** *process are in place are for community consultation and those type of things and a dilemma I face is I am in a position I can help things moving along quickly internally* ***– it's up to me what's proper process – do I bend the rules to achieve the goals for economic development – or I slow those applications and go through the proper process at the risk of the developer putting their in another area – it's a balancing act.***

The narrator is in a position where he needs to decide between processing a developer's proposal fairly quickly (thereby by-passing a few processes) or follow the proper processes (which may delay the approval process) and risk losing the developer to others. The ethical dilemma recognised by the narrator here is whether following proper procedures and processes takes precedence over providing benefits to the community. Recognition of the ethical issue by this narrator has also been influenced by his knowledge of the regulations, codes, and norms of his profession.

There were other incidents where the narrators recognised ethical issues such as

> *A potential supplier applying subtle pressure by giving you gifts and dinner to secure business (A4).*
>
> *Australian standards are written by major players in the industry where the standards are there for their own protection for maintaining market share (A7).*
>
> *A group of staff in a department – working for a number of years – they were used to working things the old way and longer they did it this way the lesser they saw it not being a wrong thing to do and there was a case where someone was accused of*

something and he didn't like that happening – he said what's wrong with this when all these other people are doing this? (A24)

While sensitivities towards recognising ethical issues shown by the interviewees could be attributed to one or more of the general ethical principles and theories (such as utilitarianism, deontology, virtue ethics, justice, and fairness), most of the ethical issues recognised by the interviewees (see extracts of narrative of interviewees A13, A23, A24, A7, and A24 above) were also based on their knowledge and understanding of their profession's regulations, rules, codes and norms, and also on the expectations of their professional practice.

6.2.2 Component 2 – make moral judgements

The main criteria for detecting Component 2 (see section 4.5 for details) in the incidents narrated by the interviewees is when a determination is made about what course of action would best fulfil a moral ideal, that is, what ought to be done in the situation. A person needs to decide which of these courses of action is morally right, fair, or comes closest to a person's ideals. As discussed in sections 2.2.1 and 3.4.5, factors that could influence moral judgements could be from one or more of the three levels of moral judgement processing: the abstract or general principles level (such as the general ethical principles), intermediate-level moral concepts (such as one's professional regulations and codes), and concrete rules or codes of ethics level. Methods that a person could employ to make a moral judgement include the ratiocinative method, intuition, heuristics and reflection and could be influenced by exemplars and organisational factors (see sections 3.4.7 to 3.4.11).

Qualitative analysis of the interview transcripts to detect incidents. in which interviewees made moral judgements – by assigning the thematic code EDM 2 to the text – was based on the meanings and criteria described in the previous paragraph. Following are a selection of such transcripts.

Extract from transcript of interviewee A10:

Canada is similar to Australia – handshake and follow with a contract – but not in US – I would not trust them without a contract – in Australia we have approach to building values – US focus internally in politics on how to better their individual outcomes – why are they different – they are bullies – they think if you have money and power they can do anything – as is being seen in the world today.

The narrator in the above transcript chose to leave his US organisation because of their value system, compares the organisational culture in three countries with respect to trusting an organisation, and makes a judgement by saying '*I will not trust them without a contract'*. This moral judgement was made using the heuristic of bullies who '*think if you have money and power they can do anything*'.

Extract from transcript of interviewee A10:

> *I surround myself with people – who have strengths that exceed my own – that communication is free flowing –* ***enormous autonomy – ensuring that should they make a mistake – it's not a situation they are not under threat – they are allowed to make mistakes – but when that becomes a pattern – I make lots of decisions so there will be mistakes.*** *We always have some staff on contracts and gives flexibility – so I am never been embarrassed – we treat our staff openly and fairly – we are transparent in that way is to make sure people are sufficiently well educated in these things and that people are sufficiently incorporated the values of the community that this is not a viable opportune in their mind.* ***It's a value system which has to be ethical – if you don't build sound value systems – you can make rapid progress in short-term but not long-term – quality companies are only as good as their reputation.***

In the above extract, two situations with ethical issues have been highlighted in bold by the author. In the first section, the narrator mentions good communications and autonomy as precursors of sound management. However, when people make mistakes, the moral judgement made by the narrator is that '*they are not under threat, they are allowed to make mistakes*' – till it becomes '*a pattern'*. In the second section, the narrator proclaims that building sound value systems helps make progress in the long-term which differentiates a quality company based on its reputation. This moral judgement emanates from the heuristic links of an ethical value system to reputation and long-term progress. The narrator has also used the intermediate-level concept of moral judgement which is the application of codes and norms of one's profession.

Extract from transcript of interviewee A13:

> *We look at prices – we open an account with you – what the terms of trade – most people sign – we go through paragraph by paragraph –* ***some things we refuse to accept are the supplier retains ownership till payments are fully settled – that's ok – but then you will keep the material totally separate from other material till you pay up in full*** *– then they retain the right into any propriety to recover their material –* ***because some people hide and sell it off.***

Here, the ratiocinative method has been used to make the moral judgement. The moral issue is that some customers take delivery of products, do not pay for it, hide the material and then sell it off. The narrator's organisation used the ratiocinative method of making sure customers understand the terms of trade, go through and sign the documents.

Extract from transcript of interviewee A15:

> ***Very unethical behaviour in terms of asking us to provide them with information – can happen with other large companies also – large supermarkets also – three quotes are required and they just get ours for window dressing only,*** *but some are very good – very ethical, high integrity – they bend over backwards to be ethical.* ***In the end we justified ourselves we believe in the 10 commandments – we are religious.***

In this narration, large companies ask suppliers to submit a quote for supply of products, but in most instances, they use the quotes only to obtain information. The moral judgement made by this SME was to use their religious beliefs ('*we believe in the 10 commandments'*) to discuss the issue with the customer and justify their quote.

Extract from transcript of interviewee A19:

> *It would have been attractive to outsource their role – but it can send a bad message to everyone – we could have taken an easy path and off shored it – we decided we would actually keep the person and help them resolve their issues. I discuss with people who can get affected – if that not handled correctly – they get de-motivated – so we discuss and get their feedback also.*

The moral issue was whether to outsource the job or not. Moral judgement made by the narrator was that '*it can send a bad message to everyone'* and to '*discuss with people who can get affected and if not handled correctly would get de-motivated'*. In this decision-making, there are elements of ratiocinative decision-making (analysing the overall situation of the company and then taking the decision) and heuristics (people get de-motivated if not handled correctly).

Extract from transcript of interviewee A2:

> *No formula for this. It's about judgement, relationship and working with somebody and character of a man. We trusted one employee with keys but started pinching steel from the back. I helped him by bailing him out, but could not build an ethical character. Now I am careful, recruitment process is important. Hired an Aboriginal man who had lots of problem – I helped him out and trusted him. He was a wonderful employee to me.*

The moral issue here is about trusting employees with responsibilities. Although the narrator trusted one employee and was let down, the narrator was steadfast in his moral judgement of relationship, trust and character of men.

However, one interviewee felt that it is not possible to make moral judgements:

> *If I am faced with something that I think has ethical conflict, I would not get involved in it. The ethical moral balances like Kantian or Golden Rule, there are no right answers as to which are more appropriate (A6).*

Further, based on the discussion and literature review in section 2.2.1, analysis was done to ascertain the level of moral judgement (Bebeau & Thoma 1999; Bebeau 2002; Thoma 2002; Walker 2002) that interviewees applied. Levels of moral judgement, as postulated by Bebeau, Thoma, and Walker are the abstract or general principles level (use of general ethical principles), the intermediate-level (use of professional codes and competence), and the concrete level (use of specific codes of ethics and conduct). Sixteen interviewees used only one of the levels of moral judgement and four interviewees used two levels.

As shown in Table 23, of the 16 interviewees who used only one level of moral judgement, 13 interviewees used the intermediate-level and three used the concrete level. Four

interviewees used both intermediate and concrete levels in separate incidents. None of the interviewees used the abstract or general principles level.

Table 23: Level of moral judgement of interview respondents

Level of moral judgement	No. of interviewees	% of total
Intermediate-level (use of professional codes and competence)	13	65.0
Concrete level (use of specific codes of ethics and conduct)	3	15.0
Both of the above levels	4	20.0
Total	20	100.0

When questioned whether ethical dilemmas can be foreseen, if so, how can it be 'nipped in the bud', and can it be incorporated in a process, interviewees responded in the following manner. Twenty interviewees indicated that most ethical dilemmas can be foreseen and can be incorporated in business processes in different ways (see Table 24).

Table 24: Foreseeing ethical dilemmas

Interviewee	Extracts from narratives	Level of moral judgement
A1	In purchasing process – MRP takes care of it.	Intermediate
A2	It is possible but very difficult. No formula for this. It's about judgement, relationships and working with somebody and character of a man.	Abstract + Intermediate
A3	Depends on who writes the process. Directors might slant a process to help themselves.	Codes
A4	Suppliers can subtly put pressure with gifts and dinner. We have a policy on gifts – what can be declared but you can't document everything. If I want to influence a customer, we have systems and procedures – I cannot offer special price – so systems and processes is one way to ensure things go the right way.	Codes
A5	Depends on the organisation and level of the person. If you look at a firm like ours (legal) we have clear set of values and communicate clearly to employees and there's an expectation to meet the values without being too prescriptive of how to do it.	Intermediate + Codes
A6	Company has rules – but ruled by people within it who are implementing policies and	Codes

	procedures – on average people think through on conflicts – create set of rules – lead by example.	
A7	It is possible. Although we don't have induction, we have one employee who sets standards for others. If we go to a work someplace, and if they don't have a policy then we show them ours and we talk about it upfront.	Intermediate
A8	I guess if importers were most astute and instead of chasing the mighty dollar, they guarantee quality – is a good way to start – we need to be transparent.	Intermediate
A9	Certain areas, yes. Not personal ethics. But in business and community ethics. I stand by my ethics – occasionally I lie in business but whatever I do I can't change attitudes.	Abstract + Intermediate
A10	Build a dynamic process which allows to change directions quickly.	Intermediate
A11	May not be written but could be in a discussion.	Intermediate
A13	We nail down every possible conceivable things that could cause trouble down the track – e.g. we have terms and conditions for suppliers.	Intermediate + Codes
A15	We can put processes in place, but not possible to put everything in writing.	Intermediate + Codes
A16	Larger organisations will be more active and create possibilities – we can use a form of risk analysis but would be a mind-boggling task for SME to do this – too much work without much foreseeable benefit.	Intermediate + Codes
A17	Not possible to foresee all ethical dilemmas – we spend time sorting out what the principles are in general, we have business processes and policies and have managers' meetings talking about successful outcomes and solutions.	Abstract + Intermediate + Codes
A19	You can create processes and create situations where you try to remove the beliefs overriding the facts. We tell stories of what happened in the past and everyone gets to know their experiences.	Intermediate + Codes
A20	We have very good processes, we invest a lot of time, we are process driven, people issues are much harder – what's causing the issue and how to deal with it – could be dealt in different ways. We try to have a culture – we want people to work with initiative – they have the confidence that I will back them if it's OK, we	Intermediate + Codes

	do it very well.	
A22	Always possible. When they set their processes – they moved me from one location to another, job is the same. I can just pick up and run without losing a step. Men in higher positions make these rules – there was very little to move outside of the company guidelines.	Intermediate + Codes
A23	In general it is pretty easy – in most things you can foresee the sort of dilemmas that could arise – we have a chart that can foresee commissions.	Intermediate + Codes
A24	Processes especially with safety and risk are in place but the matrices do not cover enough – past is the best predictor of the future.	Codes

6.2.3 Component 3 – establish moral intent

The main criteria for detecting Component 3 (see section 4.5 for details) in incidents narrated by interviewees is when it involves resolving to place moral concerns ahead of other concerns by selecting among competing outcomes, the one to act upon, and deciding whether or not to fulfil one's moral ideal. As discussed in section 2.2, moral values are not the only motives that people have and there could be a number of possible outcomes based on different motives such as certain preferred consequences related to self-interest for example, advancement in careers, organisational pressures, desire to avoid aversive consequences and internal stimuli (such as emotions, feelings and mood), social influence to guide behaviour, and ego strength of conviction.

Qualitative analysis of the interview transcripts to detect incidents in which interviewees established moral intent – by assigning the thematic code EDM 3 to the text, was based on the meanings and criteria described in the previous paragraph. Following are a selection of such transcripts.

Extract from transcript of interviewee A10:

> *We are proactive in this organisation we sit on committees and board of directors – nationally and locally to influence those changes – in Canberra and Melbourne – we have been very successful in influencing the national value system and perspective – we have chosen that way rather than being deceitful – useful collaborative – sometimes not – some groups I present my view sometimes have to fight hard and*

sometimes not – and I think that comes through trust, experience and time demonstration of values - make sure that the value system that you demonstrate does not move with time

In this incident the decision had been made to be proactive in making changes based on values and not being deceitful about it but had to contend with organisational pressures. The narrator then had to '*fight hard*' to present his views to make sure that '*the value system that you demonstrate does not move with time*'. Moral intent was thus established.

Extract from transcript of interviewee A10:

For example with my accountant – to buy a vehicle using my ABN number – but I am not using it to earn income – that is morally wrong – that's I never faced tax fraud issues – even though I moved country to country with complex issues of shares – but had no problems and in the long-term to my advantage – short-term may be not but not long-term – my father mother and grandparents taught me those values and that has served us very well.

There are two issues in this narrative – buying a vehicle using the ABN number (Australian Business Number) which means that the vehicle has to be used for business purposes, and moving between countries with complex issues of shares – in both issues the narrator made a decision of adhering to the accounting and financial rules. In spite of opportunities for short-term gains, the narrator established the moral intent of working within the rules, based on values '*taught by parents and grandparents'*.

Extract from transcript of interviewee A2:

Operations overseas, I am in debt over there, but have to pay bribe – no choice. Pay something, get the job, and come out of financial problems. People are forced to do things due to circumstances. If it happens again, I will think twice and look for other opportunities. Set examples for staff and others. Transfer your values to staff – how? – If I don't have values and demonstrate through examples. Don't always look at product, price etc. look at people – how we can mutually help each other. For business going next level – have trust in your people.

The narrator in this transcript had to pay bribes overseas to get out of financial problems. The decision was not to bribe again and instead look for other opportunities. The external pressure was that '*people are forced to do things due to circumstances'*. However, moral intent was established through the principle of '*setting examples for staff and others*' and '*not always to look at product, price etc., but at people*'.

Extract from transcript of interviewee A22:

> *Then it is their decision to choose what they want to do – on safety side of things – we have standards in Australia that are quite stringent – in some markets we have built into the product – if they are looking for cheap alternatives regarding pricing policy - if somebody says to take something out to make it cheaper we won't do that – if we do it will cost some more to make it – making different products for different countries – we do not make hoses – it might be cheaper in India or Indonesia – that's ok.*

The issue here is safety being compromised for price. In some overseas market, retailers have asked this SME to '*take some parts out*' thereby sacrifice quality in order to reduce the price. The narrator's decision was not to compromise quality and in spite of '*pressure'* from customers and the benefits of higher sales arising out of it, moral intent was established by adhering to the original principle of retaining high quality products.

Extract from transcript of interviewee A4:

> *Ethical dilemma for self was based on OHS – we have a good HR department – hinged around fitness for duty in spite of having processes. I was well supported by HR department but at the end of the day I had to depend on my judgement. To feel pressurised to compromise safety – there were procedures in place but not followed – management required documented procedure, but the behaviour was different.*

A moral judgement was made regarding an OHS issue. However, there was pressure to compromise safety in order to continue production. Supply and sales were more important for the organisation than safety. Although there were documented procedures in place for OHS, management's behaviour was different. The narrator established his moral intent by depending on his judgement based on safety.

There were other instances of establishing moral intent such as:

If it conflicts with my personal ethics, I will not work for it. If company was to be faced with con for a BHP to justify for ongoing problems – I wouldn't do it. If I was faced with a situation, it would not – in general working with companies (A6).

But it does worry us – we can only go by Australian standards – these frames are fold down so that go into sheds – Australian standards frames are high – when they are folded down they don't offer protection – Australian standards change to bring down standard height – we can't we build frames like ours – these things concern me there's no feedback system – I could not afford to go to these committee meetings – they won't let me in as I am not an engineer and not working for a big company – e.g. Australian and US standards are difference – US standards got into Australian standards and got it accepted although Australian standards are much better – lot of stuff from Europe are substandard (A9).

Analysis on types of motivations or pressures to establish a moral intent is shown in Table 25.

Table 25: Types of motivations/pressures to establish moral intent

Interviewee	Extract from narratives	Motivations/pressures
A1	Not expressed.	Not expressed
A2	But I will provide for them even when I am closing down – like a family. Don't always look at product, price etc. look at people. Sometimes we have to pay bribe – people are forced to do things due to circumstances.	Profit, financial survival
A3	If they had said correct figure from the beginning, he would have considered his options. I am a short-term supplier – try and deliver very quickly. If I know I can't deliver, I tell my customers. Unfortunately Australia is too small, and we have to go back to the same suppliers. In the past, I have gone back to them, even though I tell them I don't like to do business with them. I even tell my customers to get in touch directly with overseas suppliers and give them their contact details. Customers like it. Australian suppliers are slowly learning not to be greedy.	Profit, survival
A4	Ethical dilemma for self was based on OHS – to feel pressurised to compromise safety –	Profit versus safety

	there were procedures in place but not followed – management required documented procedure, but the behaviour was different. If the water trucks break down what do we do? I had to take a decision – I could not do anything – fix required large contracts and money- I wanted to leave straightaway – but could not – fixing could take months.	
A5	Sometimes law does not concern itself with ethics – law does not correct itself with ethic per se – it regulates conduct and sometimes it happens that the regulation of conduct by law does gives rise to ethical issues but I am directed to the ethics – it just happens with law – sometimes law totally disregards ethics.	Ethics versus legal
A6	If it conflicts with my personal ethics, I will not work for it. If company was to be faced with con for a BHP to justify for ongoing problems – I wouldn't do it. If I was faced with a situation, it would not – in general working with companies. Top-down approach (big companies pushing their issues down to smaller co) may happen.	Personal ethics and values External organisational (large company) factor
A7	Australian Standards are difficult to obtain and expensive – we doing a staircase today to a standard – to get them is costly – if we get one-off project – is difficult to get these standards – big industry specialises, small industries are more generic. We can't afford to have systems – we depend on organisations etc. In our industry – we need to tag electric tools every few months – that's difficult – we can't do that with people at different sites.	Profit versus safety costs
A8	We buy through agents – so responsibility is with agents. We have our rules and they have theirs. As a nation we have to import have to make our requirements very specific – especially with dyes, fabric, foodstuffs etc. – we may not know everything.	International quality standards
A9	We can only go by Australian Standards – these frames are fold down so that go into sheds – AS frames are high – when they are folded down they don't offer protection – AS should change to bring down standard height – these things concern me there's no	Profit, quality standards (domestic and international)

	feedback system – I could not afford to go to these committee meetings – they won't let me in as I am not an engineer and not working for a big company – e.g. Australian and US standards are different – US standard got into AS and got it accepted although AS are much better – lot of stuff from Europe are substandard. I don't compromise on quality – I can lose business – that's part of my business ethics. I even give warranty on a four year old machine to Port Pirie – I sent my technician to fix it because it was my design – I would do that – others may not – it's up to them.	
A10	I could have stayed there and get $300 000 salary.	Career, money
A11	We could have walked away completely in a different direction or found different suppliers.	Profit
A13	Our only commercial way out of this is to change tack to the market using stainless steel (instead of galvanised steel) which is more expensive but we need to stay in business.	Profit and environmental issues
A15	We tried to put up our case – because some others might do it.	Short-term gains
A16	Started out as a poor ethical position of an individual and spiralled into a large messy situation.	Poor personal values
A17	This morning he misread some message – he is a black and white man in reasoning.	Rules and standards
A19	In the first 12 months we don't really make any profits – we might make a loss – because they need to come to speed and get up to productive levels.	Short-term profits versus long-term productivity
A20	Society here is multicultural which is fantastic but does create issues as we all know – unfortunately there are a small number of people who make trouble whether it is racist or crime – it's never that easy – you control what you can control. One issue that we don't have an answer to – HP is American and decision are made there and they may not care what happens to us because ours is 1 per cent of their business.	Cultural issues External organisational (large company) factor
A22	It is their decision to choose what they want to do – on safety side of things – we have our standards in Australia that are quite stringent. If somebody says to take	Profit versus product safety

	something out to make it cheaper we won't do that – it might be cheaper in India or Indonesia – that's OK.	
A23	I am practicing Christian – the company came back to me – usually you have to deduct the stamp duty and if paid on monthly basis – they came to me we won't deduct all of those and pay you on the gross amount and made extra commission - I did better by doing that – I had to look after them and also not cut my own throat – I went back to the church and informed them – that I can go broke and can't look after you – this way you save $66k a year – they were very happy about it.	Short-term gains versus long-term relationships
A24	Traditionally my role is to be a conduit between the private sector and the correct department to handle their particular issue – planning approval, building approval, regulatory services and for eight months I have been very particular in attention to detail following all council's policies and procedure – that's where I am finding I am getting the view as being obstructionist to make things happen but I have a charter saying we will attract investment, street lights and it contradicts what we are actually doing because we have all these barriers or long processes.	Community interests versus private sector interests

Pressures that the interviewees experienced while establishing moral intent were: profit for short-term gains (60 per cent of interviewees), organisational factors (37 per cent), safety and environment (20 per cent), stakeholder (such as suppliers) interest (10 per cent), and legal factors (5 per cent).

6.2.4 Component 4 – engage in moral behaviour

The main criteria for detecting Component 4 (see section 4.5 for details) in incidents narrated by interviewees are when it involves executing and implementing a plan of action. As discussed in section 2.2, it comprises of figuring out sequence of actions, working around difficulties, overcoming fatigue, resisting distractions, and not losing sight of the eventual goal. Factors involved in engaging in moral behaviour include individual and organisational

factors, high personal principles, organisational culture, and personal characteristics such as courage, inner strength, perseverance, resoluteness, and strong character.

Qualitative analysis of the interview transcripts to detect incidents in which interviewees engaged in moral behaviour by executing and implementing a plan of action – by assigning the thematic code EDM 4 to the text – was based on the meanings and criteria described in the previous paragraph. Following are a selection of such transcripts.

Extract from transcript of interviewee A10:

> *We had a manager for five years – contract ceased – we had 6 months' notice – we gave her redundancy to support her – that person has gone to an agency with whom we have interaction in a senior role and we manage to move her to a role – great outcome for everybody – took her three months – but we funded her for those 3 months – which is unusual for this industry – open communication. Discussions when funding was in doubt – conversations on weekly basis.*

The employment contract of this employee was terminated and was given a redundancy package in lieu of the six months' notice period. Further, the employee was assisted in gaining employment with another agency which took three months to materialise. However, the narrator's organisation took the decision to support the employee for those three months and implemented it. There is evidence here that this organisation did not lose sight of the eventual goal of achieving a '*great outcome for everybody*' showing an organisational culture based on high principles.

Extract from transcript of interviewee A20:

> *With some clients we like to stay away from – we want to be with likeminded one – it takes less effort to deal with them – if a client is bad from an ethical point of view why should I deal with them and put out organisation into trouble.*

The moral issue in this incident was dealing with an unethical client. Having made that moral judgement, the narrator establishes the moral intent and implements the action of staying away from '*such clients'* because '*it takes less effort to deal with likeminded clients*'.

Extract from transcript of interviewee A24:

> *I stick to policy and processes and that's my guidelines – I refer to relevant office of building and planning and explain things – because forms can only say so much –you need personal influencing skills –* ***I need to be constantly aware of ethical issues and my role as well – we have legit, laws, council rules on one hand – working very hard in last 10 years to make sure there's systems and mechanism in place to ensure those ethical dilemmas aren't put on people and clear and black and white and defined – after that investigation a series of things happened including an education program and changes to procurement policy and educating process based around tendering and procuring and how things have to go*** *– I wasn't involved and knew about it for confidential reason – it's a good case of what you are talking about.*

In the bold section of the above transcript, the narrator mentions that although there are systems and policies in place, there is a need to be constantly aware of ethical issues in that role. The system needs to be such that employees are not exposed to ethical dilemmas. A plan was therefore implemented to educate and train employees in the ethics of tendering and procuring. There are elements of organisational influence and culture in this narration.

Extract from transcript of interviewee A10:

> *Succession – passing on values – every person that I have 10-12 of them we have a succession plan for each one –* ***internally and externally – who they are and what would they need to groom them to skill level succeed in the job – that's a good starting point – I have one to succeed me – that's the first thing to do – to have a plan to do something – the second thing is that if somebody is exiting the organisation you need to get the new person within the organisation and culturise them make sure the process*** *– induction – quite sophisticated – we have a six month mentoring and induction process – series of buddies to work with you for six months – really starts one step earlier – in the recruitment process – get that correct – we get good people – failure rate of 10-15 per cent – very few staff turnover* ***– we gradually reinvigorated our culture that's an evolution not revolution*** *– they are appropriately looked after once they come on board and then assess them – a process win three months' time in probation there's a formal assessment – you would hope that the exit of the person in such a way that you could have a series of communication over time*

*so **that the new person knows what's going on – we don't like surprises – we plan for change – methodology for change process – change is good – gets in fresh ideas** – bit like lake with water flowing in and out – or organisation is same – dynamic system – in five years' time I won't be suitable for this job – I am better at building than at maintaining – I know that – know your strengths and weaknesses and self-awareness is the key.*

The moral issue recognised in this narration was how organisational values would be passed on to the next person in line. The decision was to have a succession plan with the intention of '*invigorating the culture*' and '*culturise*' the new person. The succession plan has been implemented using the induction process consisting of mentoring and '*buddy*' system.

There are other instances in the transcripts which indicate engaging in a moral behaviour by implementing a plan of action such as:

Once that took place, I chose to leave (A1))

I will not buy a car from Ford because…. (A10)

We have to continue with that situation which is not ideal but is also advantageous to us to keep the status quo until we can justify moving on or changing situations (A11)

We have walked away from contracts because we do not accept those types of contracts (A13)

It was intellectual property (IP) – we were incredulous – we declined to deal with them – but you need moral courage (A15).

We decided to actually keep the person and help them resolve their issues (A19).

We decided that it will create a problem and asked him to change it – we listen to this and where possible we tell them they need not be involved with that job (A19).

I had the option to leave – eventually I did – I came and bought this business here – that made that decision easier (A22).

I modified the program – made changes to workplace – I made it clear that's not acceptable (A4).

To protect the firm and its values that employee had to depart – it's that simple (A5).

Interviewees while engaging in moral behaviour and action exhibited both courage and practical wisdom. Some examples:

Courage

Once that took place, I chose to leave the organisation (A10).

We had a manager for five years – contract ceased – we had six months' notice – we gave her redundancy to support her – that person has gone to an agency with whom we have interaction in a senior role and we manage to move her to a role – great outcome for everybody – took her three months – but we funded her for those three months – which is unusual for this industry – open comm. Discussions when funding was in doubt – conversations on weekly basis (A10).

So sometimes it better to buy local in smaller quantity locally rather than importing a lot and ends up sitting on the shelf (A11).

We have walked away from contracts because we do not accept those types of contracts (A13).

We refund them – some had paid twice, we return the money. But you need a lot of moral courage (A15).

Sometimes you need to be strong even if it means you lose your business (A20).

But the crux of the product we don't compromise (A22).

People who deal with us understand that if they step outside boundaries then we don't do business with them (A22).

I said I am sorry I can't help (A23).

In a couple of instance, I declined to supply (A3).

I walked away from them with the decision not to buy – sometimes money was tight – I would try and save money for them (A9).

Practical wisdom

That is helped by the fact that this industry is dominated by women and they are better at collaboration and better at solutions – to get them see a problem and find a solutions (A10).

Succession – passing on values – every person that I have 10-12 of them we have a succession plan for each one – internally and externally - who they are and what would they need to groom them to skill level succeed in the job – that's a good starting point – I have one to succeed me – that's the first thing to do – to have a plan to do something – the second thing is that if somebody is external to the organisation you need to get the new person within the organisation and culturise them make sure the process – induction – quite sophisticated – we have a 6 month mentoring and induction process – series of buddies to work with you for 6 months – really starts one step earlier – in the recruitment process – get that correct – we get good people – failure rate of 10-15 per cent – very few staff turnover – we gradually reinvigorated our culture that's a evolution not revolution –second they are appropriately looked after once they come on board and then assess them – a process win three months' time in probation there's a formal assessment – you would hope that the exit of the person in such a way that you could have a series of communications over time so that the new person knows what's going on – we don't like surprises – we plan for change – methodology for change process – change is good – gets in fresh ideas – bit like lake with water flowing in and out – or organisation is same – dynamic system – in five years' time I won't be suitable for this job – I am better at building than at maintaining – I know that – know your strengths and weaknesses and self-awareness is the key (A10).

In the end the engineers allowed us to use it within certain limitations and the importers paid the engineers – in the end the damage was a few thousand (A13).

Resolution – chairman of my org took a position and after due process resulted in an apology to us (A16).

We decided we would actually keep the person and help them resolve their issues (A17).

Our products have been of highest quality and our electronics is also constructed around the regulations – so our system is built to comply those regulations – when you put it together with the mechanism part of the system – some countries say that we don't need all of this – that's fine but you don't have any option with our system (A22).

I went back to insurance company – we have been charging 10 per cent commission – if we charged 15 per cent commission, we would still have a very low premium lower than what we had before – they did not know what the previous premium were – can they do some calculations – I asked them for 15 per cent and 12.5 per cent commission – we went backwards and forwards a few times and finally negotiated 12.5 per cent commission structure – the original premium was 2.18 per cent of salary and what they were offering was 1.79 per cent - I took from 10 to 12.5 per cent and all that entailed was 1.88 per cent of salary and were still saving 0.3 per cent (A23).

I stick to policy and processes and that's my guidelines – I refer to relevant office of building and planning and explain things – because forms can only say so much – u need personal influencing skills – I need to be constantly aware of ethical issues and my role as well – we have legit, laws, council rules on one hand (A24).

We have systems and procedure – I cannot offer special price – so systems and procedures is one way to ensure things go the right way (A4).

We got to check and fix responsibilities in the supply chain (A8).

6.2.5 Discussion on incidents where all four components of ethical decision-making were observed:

Using the qualitative analysis software tool NVivo, incident nodes (such as A10-10-HF&Q) were cross-tabulated with the thematic codes of the four components to create a matrix, the results of which showed all incidents which contained all four components. To illustrate the process, three such incident nodes are discussed below:

Incident node A13-1-CP&B

This incident refers to interviewee number A13, incident number 1, in the business area Competition, pricing, and bidding (see section 4.5 on coding).

> *Many years we made blinds fittings in thousands – all made as cheaply as possible for market sensitivity – comp are zinc plated for corrosion resistance – in the last 15 years environmental laws are tightened – so zinc plated process is now expensive – because it's a nasty procedure – 60s in backyards pouring cyanides into ground etc. – now filtration systems to be used are expensive – disposal is also expensive – consequently it's expensive and very restrictive – however, the people who buy these products are being offered similar products from Asia – zinc plated using backyard in bare feet bare hands chemicals – old chemicals poured into ground – so they do it cheaply and economically but detrimental for the environ – here in Australia on a high horse – but when offered we buy cheap imports – we now produce the same products in Stainless Steel – costs 4-5 times as much – we kissed good bye to the market that buys zinc products from overseas – we sell small quantity in Stainless Steel and make profit and stay in business – this is ethical situation arising from globalisation – 20 years ago we did not face cheap imports from overseas but we have actually embraced in a hypocritical way that our society has demanded that we clean up our own environ and encourage the other countries to do the old way.*
>
> *Is there a way out of this – can we do something? – our only commercial way out of this is to change tacked to the market using Stainless Steel – more expensive – but we stay in business – short of government restriction that we cannot import from a country who does not follow the same environ restriction as here and the free trade agreements would be reached by doing that – so if we will not import zinc product*

from China – it's more of a commercial issue – all this talk about carbon trading – it's all very well to introduce restrictions in to our own society – but it's not good if we pressure other countries –e.g. used computers being sent to Nigeria for reclaiming – it's a huge ethical issue – that's an example.

The ethical issue has been recognised (EDM 1) as allowing imports of zinc-plated products at a lower cost and having strict environmental controls for the same process in Australia. The moral judgement (EDM 2) made was that they will not import zinc products from China because of the utilitarian reasons of importing cheap products manufactured in unsafe and environmentally unsustainable conditions in order to make higher profits. Moral intent (EDM 3) was established by not '*succumbing*' to the pressure of achieving short-term high profits (by importing cheaper products). Moral behaviour (EDM 4) was achieved by implementing the plan to manufacture stainless steel products at a higher cost but at the same time adhering to the environmental laws of Australia.

The four-component process flow of ethical decision-making for this incident is shown pictorially in Figure 15:

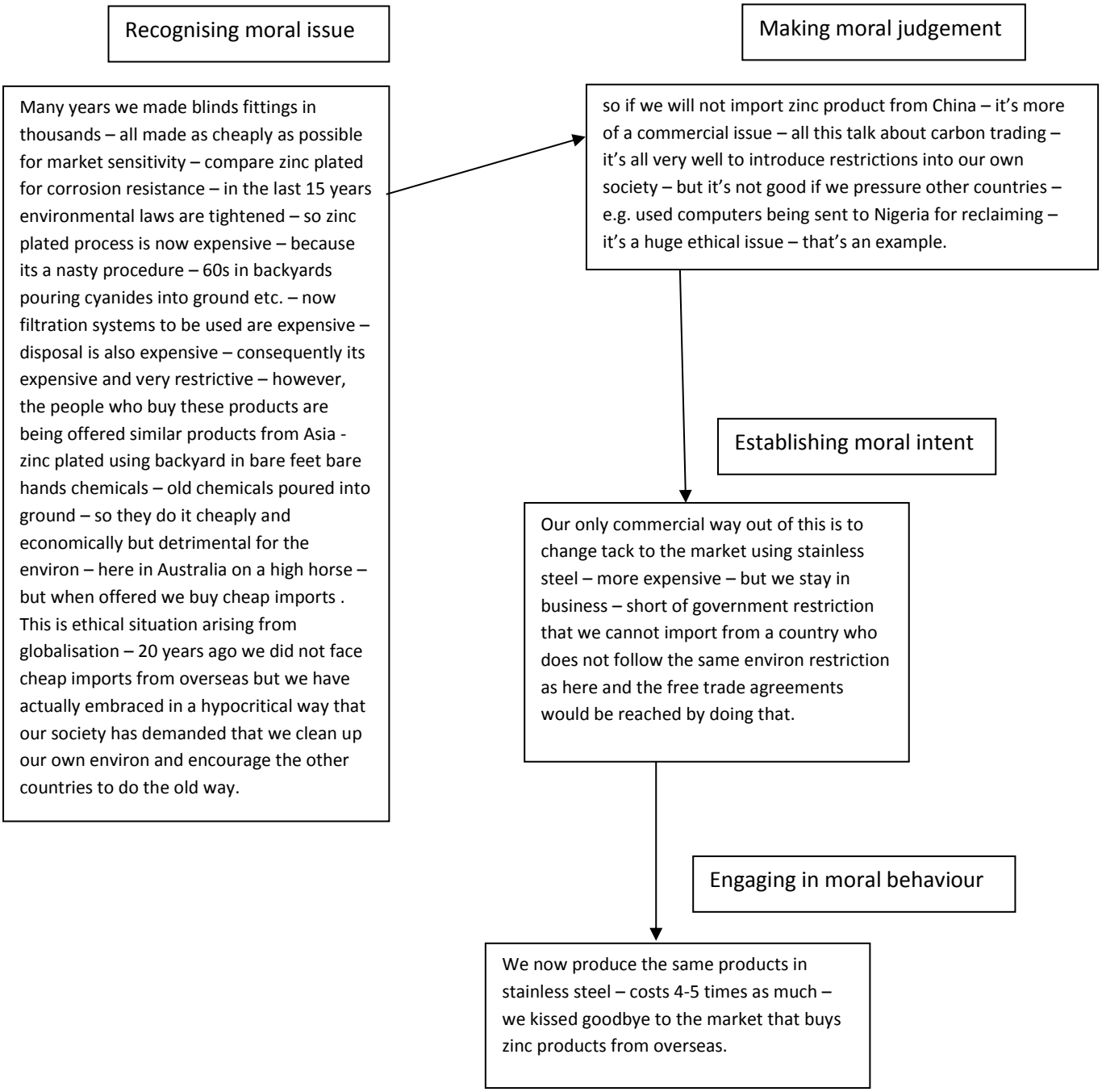


Figure 15: Four component process flow in incident A13-1-CP&B

Incident node A19-1-HF&Q:

This incident refers to interviewee number A19, incident number 1, in the business area Hiring, firing, and quality of work-life (see section 4.5 on coding).

> *I guess there's always a few examples to different degrees – we had a situation – a staff member who was not performing due to mental illness issue – it would have been attractive to outsource their role – but it can send a bad message to everyone – we could have taken an easy path and off shored it – we decided we would actually keep the person and help them resolve their issues – the person had done the right things over a period of time and I feel – we have low staff turnover if we treat them well – we pay them less than market rates – we pay them well – but treating people fairly and ethically and also as they see it not as we see it – that's the difference – staff turnover is low – passionate to see believe succeed – not just clocking 9 to 5.*

The ethical issue has been recognised (EDM 1) as whether to outsource the job role of an employee who was not performing due to a mental illness issue. The moral judgement (EDM 2) made was that since the person had done the right things over a period of time, although it was attractive to outsource their role, the person should be treated fairly and ethically and not doing so would send a bad message to everyone. The decision-making method had elements of the deontological approach, justice, fairness, and the virtues of the decision-maker. Moral intent (EDM 3) was established by resisting the short-term gains that would entail from outsourcing the job and treating employees fairly '*as they see it not as we see it*'. Moral behaviour (EDM 4) was achieved by implementing the plan by retaining the employee and '*help them resolve their issues*'.

The four-component process flow of ethical decision-making for this incident is shown pictorially in Figure 16.

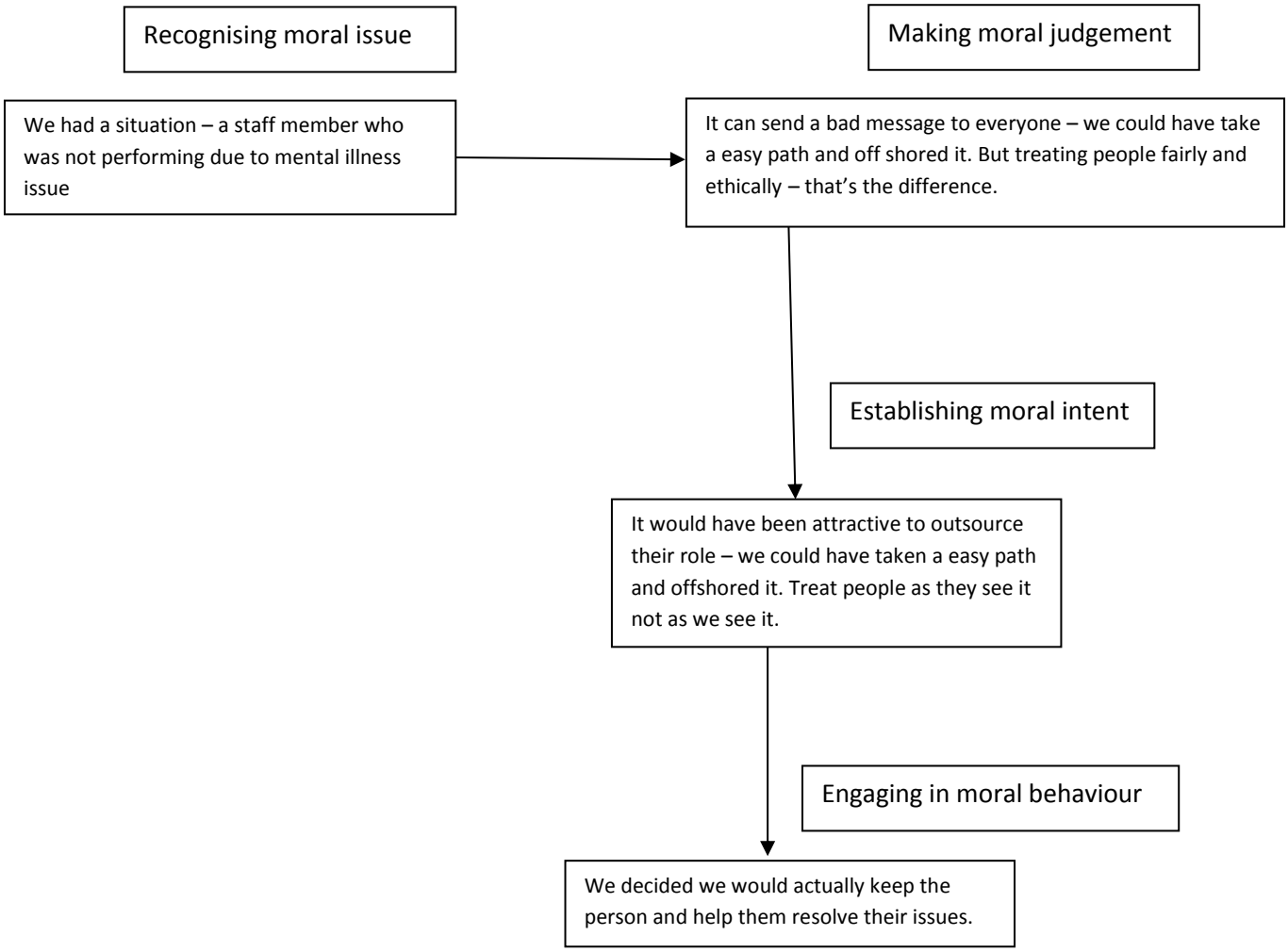


Figure 16: Four-component process flow in incident A19-1-HF&Q

Incident node A23-1-A&F

This incident refers to interviewee number A23, incident number 1, in the business area Accounts and finance (see section 4.5 on coding).

> *Biggest part of my business for a large group in life insurance – church group with 4000 members and review that every three years – it was being reviewed around 2 years ago and takes about 6-8 weeks before finalising – through a new company as of last – we get paid on a commission basis – per cent of premium – when we put to tender – that company that came to it had a premium considerably lower than previously and fantastic benefits and what I had to suddenly weigh up – this is fantastic – I can save the church $60,000 a year in the premium that were paying for pastors – but the actual commissions – my commission would drop by nearly $100,000 – how could I keep my business – big problem for me – I went back to insurance company – we have been charging 10 per cent commission – if we charged 15 per cent commission would we still have a very low premium lower than what we had before – they did not know what the previous premium were – can they do some calculations – I asked them 15 per cent and 12.5 per cent commission – we went backwards and forwards a few times and finally negotiated 12.5 per cent commission structure – the original premium was 2.18 per cent of salary and what they were offering was 1.79 per cent - I took from 10 to 12.5 per cent and all that entailed was 1.88 per cent of salary and were still saving 0.3 per cent - what that meant was I ended up getting the same commission so I could keep running business and save the church $66,000 on their premium and everyone was happy – as it happened afterwards – I am practicing Christian – the company came back to me – usually you have to deduct the stamp duty and if paid on monthly basis and there extra for that – they came to me we won't deduct all of those and pay you on the gross amount and made extra commission – I did better by doing that – does that make sense – I had to look after them and also not cut my own throat – I went back to the church and informed them – that I can go broke and can't look after you – this way you save $66,000 a year – they were very happy about it.*

The interviewee has recognised the ethical issue (EDM 1) as whether to pass on the lower premiums to the church members, from which the church members would have benefitted

greatly and risk closing the business because of the low commission that would be generated as a result. The moral judgement (EDM 2) made was to '*look after the church members and make them happy*' because of the long association with them and their trust in this narrator. Moral intent (EDM 3) was established by resisting the option not to pass on the benefits of lower premiums to the members and thereby retaining a high commission for himself. Moral behaviour (EDM 4) was achieved by implementing the plan to renegotiate with the insurance provider, discussing and presenting the issue to the members and achieving both the goals of reducing the premiums for members and retaining his business with a reasonable and sustainable commission.

The four-component process flow of ethical decision-making for this incident is shown pictorially in Figure 17.

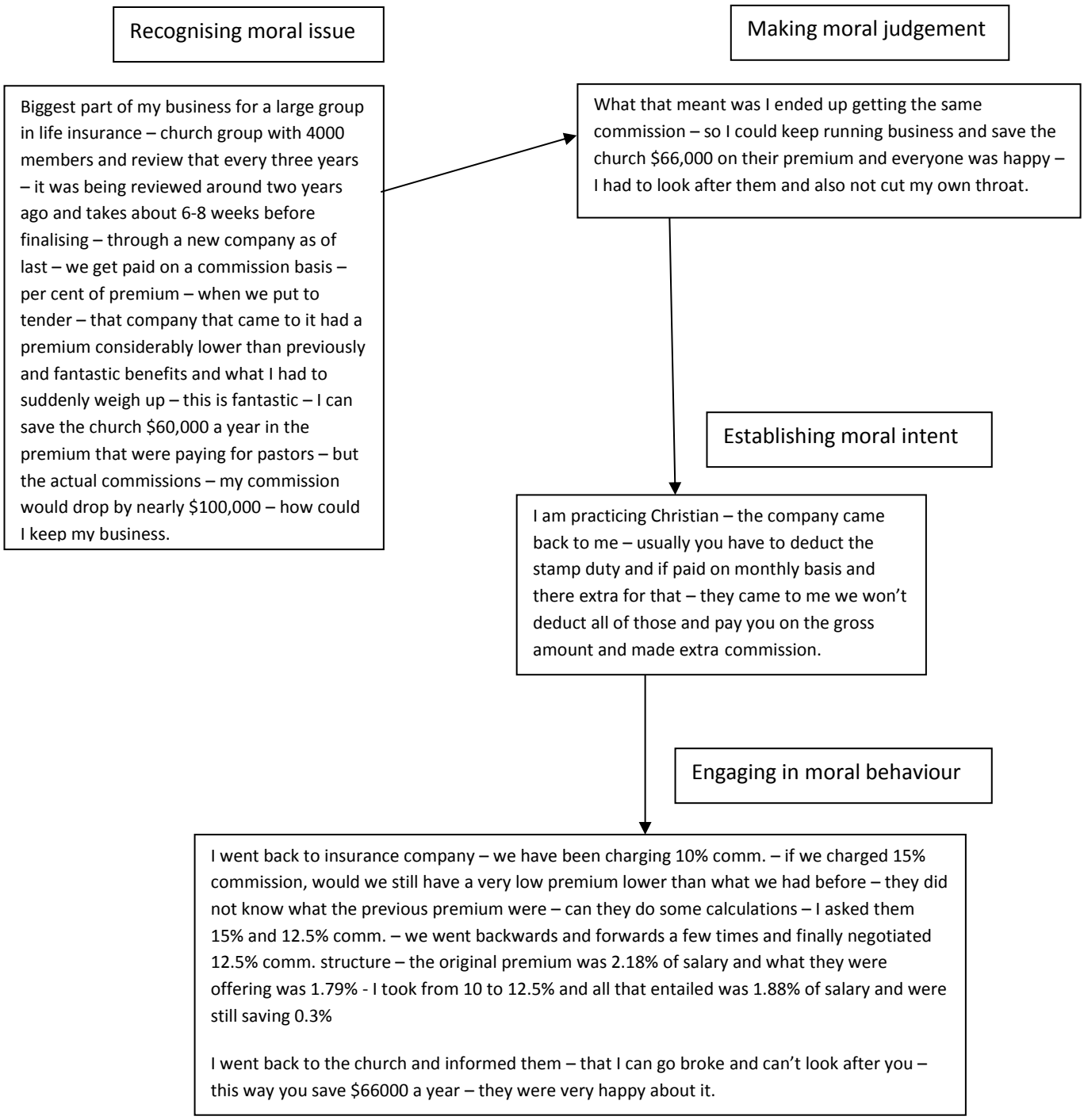


Figure 17: Four-component process flow in incident A23-1-A&F

6.2.6 Discussion on incidents where all four components of ethical decision-making were *not* apparent

In nine incidents, Component 1 (recognising ethical issue) and Component 4 (engaging in moral behaviour) were identified without the presence of either Component 2 or Component 3 or both. Component 3 (establishing moral intent) was absent in all such incidents, whereas Component 2 (making moral judgement) was absent in two of such incidents.

Thus, seven incidents had the configuration of components (1 2 - 4) and two had the configuration of (1 - - 4).

Two examples of configuration (1 2 - 4) are discussed below.

(1) Extract from interviewee A10 – incident node A10-12-CG:

> *It's a value system which has to be ethical – if you don't build sound value systems – you can make rapid progress in short-term but not long-term – quality companies are only as good as their reputation – I will not buy car from Ford because they in 60 they built a car called Pinto – which could explode on impact – they thought it would be cheaper to pay off victims rather than sort the tech problem – they did not learn from it – in 2004 a problem in Ford Explorer – the company Firestone who suppled tyres supplied for 100 years – because Ford's grandchild married Firestones' grandchild – they did not do anything – so their internal value and culture system that in 50 years later has been no change – an organisation that is prepared to put a vehicle on road that is fraud rather than deal with the issue – I will not buy nor will my organisation – it severed a relationship between two families for 100 years.*

The ethical issue has been recognised (EDM 1) by the respondent that Ford did not learn from its Pinto issue in the 1960s and had quality issues in 2004 when the company was prepared to put an unsafe vehicle on the road rather than deal with the issue. The moral judgement (EDM 2) made was that '*It's a value system which has to be ethical – if you don't build sound value systems – you can make rapid progress in short-term but not long-term quality companies are only as good as their reputation*'. Moral behaviour (EDM 4) was achieved by not buying a Ford car for the respondent's organisation. In this narration, the respondent did not evaluate the moral judgement (that companies need to have '*sound moral systems*') with any other motivation (such as pricing, availability, efficiency etc.) to establish

a moral intent (EDM 3). Figure 18 shows the decision flow chart for the above.



Figure 18: Decision flow chart without Component 3 for incident A10-12-CG

(2) Extract from interviewee A9 – incident node A9-2-HF&Q:

> *[My employee] used to take time off – but was knocking off earlier but tracking it was crazy for payment – I suggested next year start late and knock off late – I said why don't we put 7:30 to 4 as standard hours and he was happy – later started to reverse that and started early and going early and was getting less time but I was paying normal thinking it was short-term – then handed his resignation two weeks prior to Anzac days and he gave me 24 hours' notice and didn't warn me and handed in his resignation – I thought that was nasty and unethical so I deducted all those extra hours that I paid earlier so he took me court and I lost it in court – I contacted my lawyer first – he said you can't afford the case and you might lose – he had a lawyer and I didn't and called up witnesses I couldn't.*

The ethical issue has been recognised (EDM 1) by the respondent that the employee misused the flexible working hours that was agreed to between the respondent and the employee. The moral judgement (EDM 2) made by the respondent was that it '*was nasty and unethical*' for the employee to misuse the flexible working hours arrangements. Moral behaviour (EDM 4) was achieved by deducting all those extra hours that the respondent had paid to the employee. In this narration, the respondent did not evaluate the moral judgement (that the employee's behaviour was unethical) with any other values (such as employee rights, fairness, justice etc.) to establish a moral intent (EDM 3). Figure19 shows the decision flow chart for the above.

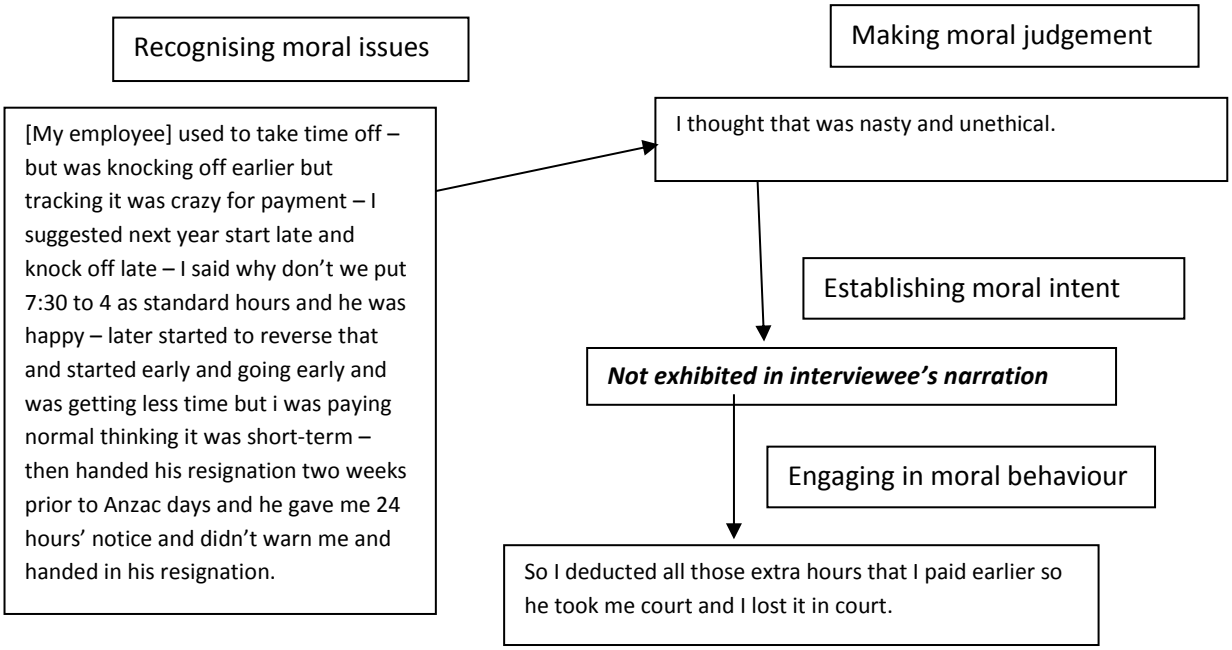


Figure 19: Decision flow chart without Component 3 for incident A9-2-HF&Q

An example of configuration 1 - - 4 is discussed below.

Extract from interviewee A3 – incident node A3-3-CG:

> *Foreseeing ethical dilemma – that depends who writes the process – you can't second guess human behaviour. Depends what position the person holds in the company. Directors might slant a process to help themselves. E.g. GM Holden – procedure for purchasing – 11 pages for an order document – it doesn't really disadvantage, but it could, it covers their butt – but I can be held liable if my supplier closes down. Sign on the dotted line... or else. In a couple of instances, I declined to supply. I can foresee the ethical dilemma can be in processes but depends on the person or company who does it.*

The ethical issue has been recognised (EDM 1) by the respondent that directors of some

companies '*slant*' a process to help themselves – e.g. the purchasing procedures of GM Holden, wherein a supplier is expected to '*sign on the dotted line…or else*'. Action (EDM 4) was achieved by declining to supply by the respondent. In this narration, the respondent did not make a moral judgement (EDM 2) and (therefore) did not evaluate the moral judgement with any other values to establish a moral intent (EDM 3). Figure 20 shows the decision flow chart for the above.

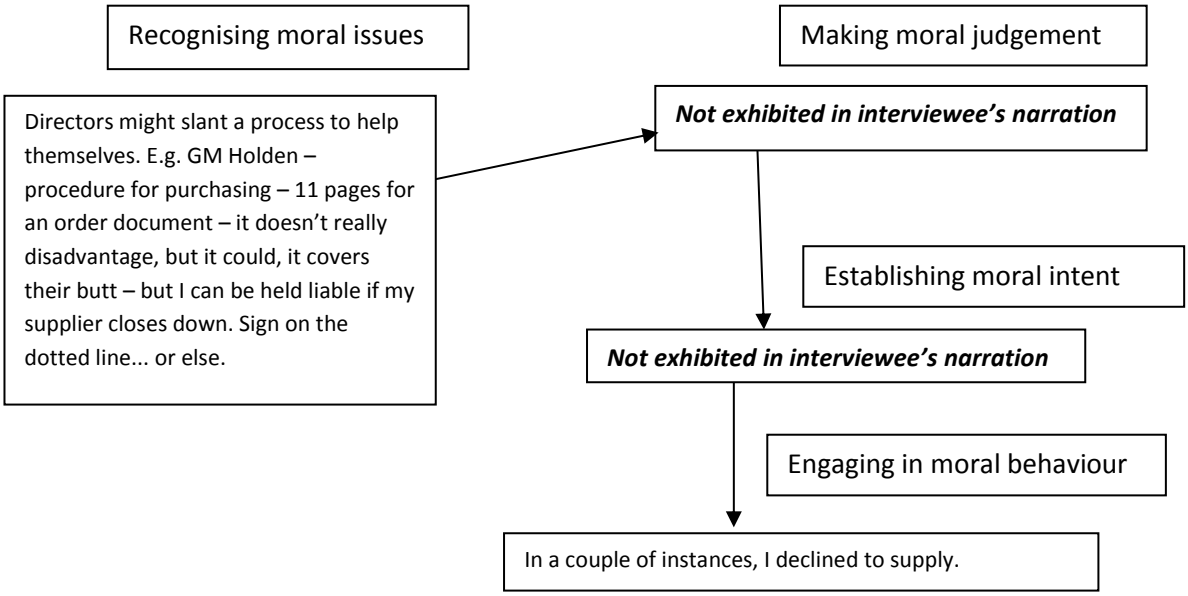


Figure20: Decision flow chart without Components 2 and 3 for incident A3-3-CG

6.2.7 Quantifying the qualitative results

Interviewees narrated a total of 130 incidents (see Annexure 8 for a full list). Ninety-eight of these incidents had evidence of one or more of the four ethical decision-making components. The remaining 32 incidents related to other codes such as effects of globalisation, exemplars, monitoring ethical issues, and the BSC.

The 98 incidents that had evidence of one or more of the four components have been categorised into three types:

Type 1: incidents where there is evidence of all four components e.g. (1-2-3-4)
Type 2: incidents where not all four components were apparent and where both Component 1 and Component 4 were not present together: e.g. (1) or (1-2) or (1-2-3).

Type 3: incidents where both Component 1 and Component 4 were identified along with either Component 2 or Component 3: e.g. (1-2-4) or (1-3-4) or (1-4). This type of configuration has been differentiated from the Type 2 configuration because such incidents begin with recognising an ethical issue (Component 1) and end with engaging in a moral behaviour (Component 4).

A count of the number of incidents for each type of incidents was compiled as follows:

Table 26: Types of incidents

Configuration type	No of incidents	% of total
Type 1 (All four components)	71	72.4
Type 2 (Not all four components but no 1xx4)	18	18.4
Type 3 (with Comp-1 & 4 and either Comp-2 or 3)	9	9.2
Total	98	100.0

a) Seventy-one (72.4 per cent) such incidents resulted in a decision which had evidence of all four components of ethical decision-making (Type 1).

b) Twenty-seven (27.6 per cent) such incidents did not have all four components (Types 2 & 3). Of these 27 incidents, nine (9.2 per cent) incidents had Components 1 (recognising ethical issues) and 4 (engaging in moral action) – Type 3 – as shown in

Table 27. None of these nine incidents had evidence of Component 3 (establishing moral intent).

Table 27: Incidents with evidence of Type-3 configuration of the FCM

Incident node	EDM 1	EDM 2	EDM 3	EDM 4
A10-12-CG	✓	✓	-	✓
A10-13-CG	✓	✓	-	✓
A11-2-CP&B	✓	-	-	✓
A1-1-OS	✓	✓	-	✓
A15-4-A&F	✓	✓	-	✓
A2-2-CP&B	✓	✓	-	✓
A3-3--CG	✓	-	-	✓
A4-2-CP&B	✓	✓	-	✓
A9-2-HF&Q	✓	✓	-	✓

c) The incidents narrated by the interviewees can also be categorised into two types of incidents based on whether the incident is of a general or specific nature, as follows:

(1) General-issues incidents – where interviewees narrated incidents which did not relate to any specific ethical issue concerning their operations or organisation, for example:

Extract from incident-node A10-2-OS:

Everyone getting to be conscious of the carbon footprint – concerning is the large supermarket in UK – they were imported by air - lot of herbs from Kenya and selling in the UK – suddenly everyone is concerned about carbon footprint and it's no longer appropriate to do that – that's a problem – that will be a major economic blow to a fragile economy like Kenya – overnight they destroy the local eco – all because they think it's inappropriate to transport the product – question – how much carbon is utilised in growing herbs in hot houses in UK – problem is the media create these impression – they are largely broad brushed – modern media presents rationalise these things – media is there to present their 10 min of fame.

(2) Specific-issues incidents – where interviewees narrated incidents which related to specific ethical issues concerning their operations or organisation, for example:

extract from incident-node A23-2-CP&B

Sort of issue where I had made it clear to the company that their goals was to get sales and money – my goal is to make enough money to look after my family but I also have to do the right thing to look after my clients and if I lose a sale that's too bad – I made sure I made that clear right from the start – my philosophy – not just the dollar figure – but also look after my clients – they accepted it – fortunately I was doing ok in the sales area – otherwise they would not have been happy – so long as I produced enough to make them happy it was all ok – not aware of any major issues that would have created a big conflict.

The following Table 28 shows the number of general-issues incidents and specific-issues incidents:

Table 28: Number of general-issues and specific-issues incidents

Configuration type	General-issues incidents		Specific-issues incidents		Total incidents
	N_1	% of total	N_2	% of total	$N = N_1 + N_2$
Type 1 (All four components)	13	18%	58	82%	71
Type 2 (Not all four components)	9	50%	9	50%	18
Type 3 (with Comp-1 & 4 and either Comp-2 or 3)	5	56%	4	44%	9

d) Business areas for incidents narrated by interviewees were compiled for the qualitative data as shown below in Table 29.

Table 29: Number of incidents in business areas

Business area	No of incidents
Accounts and finance	10
Corporate governance	28
Competition, pricing and bidding	28
Corporate takeovers and restructuring	0
Downsizing	2
Environmental harm	5
Quality of work-life	16
Intellectual property	0
Outsourcing	3
Production safety	3
Pollution	0
Product safety	3
Total	98

e) Business areas in which the narrators used all four components of ethical decision-making to resolve ethical issues are shown in Table 30.

Table 30: Number of incidents indicating all four components of the FCM

Business area	No of incidents
Accounts and finance	7
Corporate governance	23
Competition, pricing and bidding	19
Corporate takeovers and restructuring	0
Downsizing	1
Environmental harm	4
Quality of work-life	14
Intellectual property	0
Outsourcing	0
Production safety	2
Pollution	0
Product safety	1
Total	71

Corporate governance, Competition, pricing and bidding, Quality of work-life, and Accounts and finance were the predominant business areas where SME managers had experienced ethical issues and resolved them using all four components of ethical decision-making.

6.2.8 Observations and discussions for Proposition 1: *When confronted with business ethical issues, SME managers will tend to use a ratiocinative decision-making process that conforms with Rest's FCM.*

a. SME managers have utilised different methods to recognise ethical issues.

   Analysis of Component 1 (recognising moral issues) in section 6.2.1 has indicated that SME managers use a wide range of ethical principles and professional codes in recognising ethical issues, such as utilitarianism, deontology, justice, fairness, personal construction of moral principles, knowledge and understanding of their profession's regulations, rules, codes and norms, and also on the expectations of their professional practice. This suggests considerable individual variability in moral sensitivity and conforms with Bebeau's (1993) research conducted on dental students.

b. SME managers utilised different methods to make moral judgements.

   Analysis of Component 2 (making moral judgements) in section 6.2.2 has indicated firstly, that SME managers use a wide range of methods to make moral judgements, such as the ratiocinative method, intuition, and heuristics. The use of intuition and heuristics by the interviewees in resolving ethical issues are analysed and discussed in Proposition 2 and 3 in sections 7.1 and 7.2 respectively.

   Secondly, based on the discussion and literature review in section 2.2.1, of the 20 interviewees, 13 (65 per cent) utilised the intermediate-level concepts of moral judgement, 3 (15 per cent) utilised codes of ethics/conduct/practice, and 4 (20 per cent) utilised both intermediate-level concepts and codes of practice in separate incidents – see Table 23 in section 6.2.2.

   Thirdly, interviewees were asked: can you foresee ethical dilemmas and how can it be 'nipped in the bud' and incorporated in a process? Of the 20 interviewees, eight (40 per cent) interviewees indicated a combination of intermediate-level concepts and codes of practice, five (25 per cent) interviewees indicated intermediate-level concepts, four (20 per cent) indicated codes of practice, and three (15 per cent) interviewees indicated other combinations which included the abstract level of moral judgement – see Table 24 in section 6.2.2.

The above indicates that SME managers utilise intermediate-level concepts more often to make moral judgements than abstract-level concepts and the concrete-level of codes of practice. When questioned about what they would like to utilise in the future, SME managers indicated that a combination of intermediate-level concepts and codes of ethics could be incorporated into decision-making processes. The high percentage of interviewees utilising intermediate-level concepts to make moral judgements could be attributed to the limitations of SMEs in terms of resources available to create, monitor and manage specific codes of ethics and conduct within their organisations.

Use of abstract-level concepts in making moral judgements was not apparent in the incidents narrated by the interviewees and only three interviewees used abstract-level concepts in combination with intermediate and codes of practice levels.

c. SME managers have indicated other legitimate concerns which can serve to undermine moral judgements made at the Component 2 stage.

Analysis of Component 3 (establishing moral intent) in section 6.2.3 has indicated that SME managers experience legitimate concerns, pressures and other motivations which can affect the moral judgements made at the Component 2 stage. These are:

Profit/short-term gains – 12 (60 per cent) interviewees
Organisational factors (internal and external) – 7 (37 per cent) interviewees
Competitive pressures – 6 (30 per cent) interviewees
Safety and environment – 4 (20 per cent) interviewees
Stakeholder (supplier) interests – 2 (10 per cent) interviewees
Legal issues – 1 (5 per cent) interviewee

The above suggests that most SME managers, when faced with an ethical issue and dilemma, experience evaluating the pressures of profit/short-term gains presumably for survival, organisational factors both within their organisations (such as expectations to adhere to company rules and procedures), competitive pressures (such as importation of cheap but lower quality products), and external to their

organisations (such as pressures from a larger organisation and international/domestic quality standards), and from pressures to maintain product safety and environmental standards at high costs.

Further, analysis of incidents has shown that in some situations, managers have taken moral action that matched their moral judgement by overriding pressures, and in other situations, moral action did not override pressures and did not match moral judgement. These aspects were discussed in paragraphs 'e' and 'f' below.

d. SME managers have displayed certain virtues which enabled them to engage in moral behaviour.

Virtues such as courage, and practical wisdom to take moral action were identified in the fourth component behaviour of most interviewees. There were instances where managers had the courage and capacity to make behaviour conform to the moral judgements they made at the Component 2 stage in spite of pressures at the Component 3 stage and there were also some instances where the behaviour of managers could not or did not conform to the moral judgements that they had made at the Component 2 stage and yielded to the pressures at the Component 3 stage. Thus, on the one hand, strong character typifies Component 4 (Rest 1984a), while on the other hand, there may be practical realities that undermine the chosen option at the Component 2 stage (Moberg & Seabright 2000). Examples of both types of instances are discussed below in paragraphs 'e' and 'f'.

e. Examples of incidents where moral action matched moral judgement by overriding pressures

Incident A13-1-CP&B:
Issue: Importing low cost zinc-plated products from China when there are strict high-cost environmental controls in Australia and minimal low-cost controls in China.
Judgement: Not to import zinc-plated products from China because they are manufactured in unsafe and environmentally unsustainable conditions that do not

conform to Australian Standards.

Pressure: Achieving short-term profit gains by importing cheaper products.

Action: Manufacture stainless steel products at higher costs, but lower volumes, adhering to Australian safety and environmental standards.

Incident A19-1-HF&Q:

Issue: Whether to outsource a job of an employee not performing due to mental issues.

Judgement: Employee was doing the right things for a long time and should be treated fairly and ethically and not doing so would send a bad message to everyone.

Pressure: Short-term gains from outsourcing the job.

Action: Retained employee and helped them to resolve their issues.

Incident A23-1-A&F:

Issue: Whether to pass on lower premiums to church members and risk closing business because of lower commissions.

Judgement: Look after church members and make them happy because of long association with them and their trust with the narrator.

Pressure: Increase profits by retaining high commission by not passing on benefits of lower premiums.

Action: Renegotiated with insurance provider and achieving both lower premiums and reasonable commission by discussing it with church members who were happy with the process.

f. Examples of incidents where moral action did not match moral judgement and pressures overrode moral judgement

Incident A2-1-A&F:

Issue: Whether to pay bribe in an overseas operation.

Judgement: Think twice and look for other opportunities.

Pressure: No choice, get the job and come out of financial problems.

Action: Paid bribe – people are forced to do things due to circumstances.

Incident A7-2-PnS:

Issue: Safety in production workplace – tagging of electric tools not affordable

Judgement: Need to tag electric tools as per Australian standards for safety in the workplace.

Pressure: High cost and difficult when people work at different sites (due to lack of resources).

Action: Had to move out of 240 volts electric tools (due to high cost of tagging) to battery operated tools.

Incident A9-5-PtS:

Issue: Product safety issue – design change required but cannot test it for safety.

Judgement: We sweat every time we change design to Australian Standards because they are unsafe.

Pressure: To adhere and conform to Australian Standards and survive in business

Action: Manufacture as per Australian Standards and survive in business, as we are not heard in the safety committees.

The above suggests that SME managers can have a number of legitimate concerns which may not be compatible with their moral judgements and that lapses of ethical behaviour in business could be attributed to the low priority placed on the moral, even when the moral choice is very well understood. This conforms with the observations of Walker (2002), Bebeau and Thoma (1999), and Bebeau (2002), as discussed in section 2.2.1. They also contend that this is linked to the question: why be moral?

g. The decision-making process that SME managers go through generally conforms to Rest's FCM

As illustrated and discussed in subsections 6.2.1 to 6.2.4, there is evidence to suggest that when faced with ethical issues, the decision-making process that SME managers go through conforms to Rest's FCM showing some or all components of the model. Subsection 6.2.5 illustrated and discussed several incidents where the decision-making process conforms to all four components of the FCM. Seventy-one incidents

(72 per cent) out of a total of 98 narrated incidents had evidence of all four components in the decision-making process (Type 1 configuration of the FCM). The evidence and analysis suggests the following:

In some instances, moral behaviour conformed to moral judgement (as illustrated in paragraph 'e' above) and in other instances the behaviour did not conform to moral judgement (as illustrated in paragraph 'f' above). In both types of instances, it was the Component 3 (establishing moral intent) that made the difference.

As shown in Table 28 in subsection 6.2.7 (d), 82 per cent of the Type 1 configuration of the FCM was specific-issues incidents and 18 per cent were general-issues incidents. This is further discussed in the following section.

h. Incidents where the decision-making process did not conform to all four components of the FCM.

As indicated in subsections 6.2.6 and 6.2.7 (c), there were 18 incidents with the Type 2 configuration of the FCM. These incidents had configurations of (1 - - -), (1 2 - -), or (1 2 3 -). Nine incidents were of the Type 3 configuration of the FCM, where Component 1 (recognising ethical issue) and Component 4 (engaging in moral behaviour) were identified without the presence of either Component 2 or Component 3 or both. Component 3 (establishing moral intent) was absent in all such incidents, whereas Component 2 (making moral judgement) was absent in two of such incidents. Thus, seven incidents had the configuration of components (1 2 - 4) and two had the configuration of (1 - - 4), where - denotes absence of a component.

Further, with reference to Table 28, for Type 2 configuration, 50 per cent of incidents were related to general-issues and 50 per cent to specific-issues. Incidents of Type 3 configuration were related to 56 per cent general-issues and 44 per cent specific-issues. This suggests that for incidents which are of the general-issue type, more SME managers did not utilise Component 3 of the FCM, presumably because although they could recognise the ethical issues, make moral judgements and take moral action, there was no need for them to evaluate their judgements with any other pressures or motivation, because there were none. In other words, the decision-making process

utilised by SME managers is likely to conform to all four components of the FCM when an ethical issue is specific to their operations and organisation.

A summary of the ethical decision-making process utilised by SME managers is depicted graphically in Figure 21.

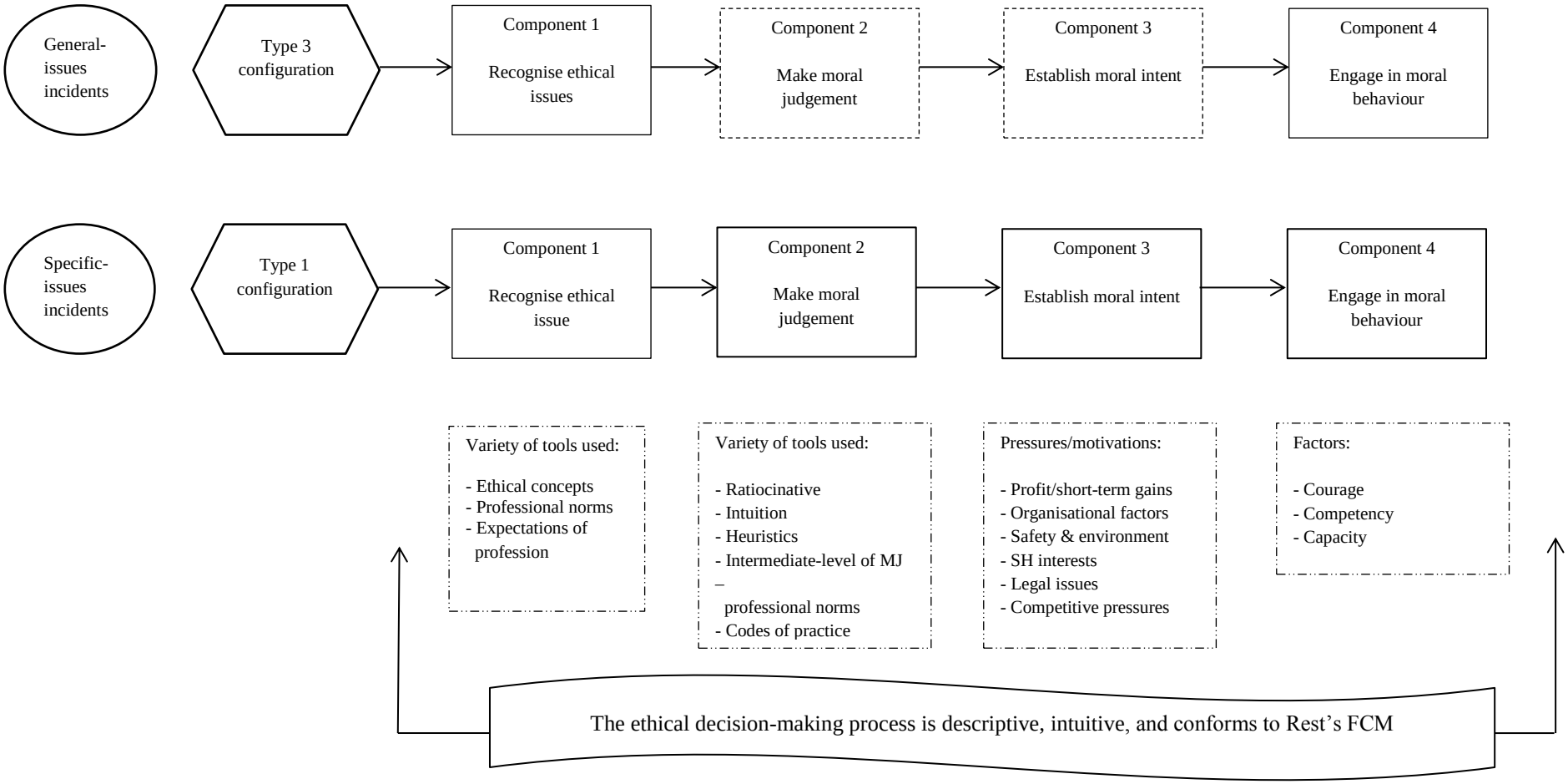


Figure 21: Ethical decision-making process in SMEs – a summary

Chapter 7: Analysis: The ethical decision-making process and other factors

7.1 Proposition 2: *SME managers use intuition to resolve business ethical issues.*

The interview question that was asked was:

- Was it resolved, if so, how was it resolved?

Qualitative analysis - **Intuition**

Qualitative analysis of the interview transcripts to detect the use of intuition in ethical decision-making commenced with assigning the code INTU (for intuition) to the text based on the meanings and definitions of intuition relevant to ethical decision-making. Two categories of data have been used for analysis: data from specific incidents narrated by the respondents and data from general discussions.

As discussed in section 3.4.7, intuition is understood as information processing in human beings involving cognition that occurs automatically, outside of consciousness, and quick evaluation of complex problems (Haidt 2001; Pizarro & Bloom 2003; Lehrer 2009, pp.232-238; Narvaez & Lapsley 2009). Extending this understanding, Woodward and Allman (2007) define moral intuition to mean:

> moral assessments, judgments, or responses to behaviour in actual or hypothetical scenarios, where these responses typically occur quickly or automatically and carry with them a strong feeling of authority or appropriateness but where one need not be (and often is not) aware of any conscious reasoning process that leads to this assessment.

Researchers have different approaches to explaining the role of intuition in decision-making in general and ethical decision-making in particular. Some researchers suggest that decision-making is a 'mix' of intuition and disciplined analysis (Isenberg 1984; Carson, D 1993; Kickul et al. 2009), that intuition and reasoning are 'partners' in ethical decision-making (Narvaez 2010a), that there are two levels of ethical reasoning: intuition and critical evaluation (Zygmond & Boorhem 1989), and that decision-making is a 'combination' of

intuition and analysis (Reynolds 2006). These approaches were evidenced in the following texts of the transcripts of incidents.

Extract from the transcript of interviewee A10:

> *While serving community – some dilemmas – the rules are around the way we deliver services – federal government funds –* ***we are told how to use and what to serve what sort of children in child care – we have sets of rules to abide by – sometimes those rules are restrictive and does not allow us to do certain things*** *– there are two ways of dealing with this – either ignore the rules or change the rules – second option is better – we are proactive in this organisation we sit on committees and board of directors – nationally and locally to influence those changes – in Canberra and Melbourne –* ***we have been very successful in influencing the national value system and perspective – we have chosen that way rather than being deceitful – useful collaborative – sometimes not – some groups I present my view sometimes have to fight hard and sometimes not – that is helped by the fact that this industry is dominated by women and they are better at collaboration and better at solutions – they see a problem and find solutions.***

Two sections of the above text in bold highlight the presence of intuition. In the first section, the respondent mentions the existence of rules and procedures, but says the '*sometimes those rules are restrictive and does not allow us to do certain things*'. In situations such as these, where information may not be adequately available, the respondent's organisation chose to use alternate methods as narrated in the second bold section. In the respondent's childcare facility, it is narrated that employees, especially women, '*see a problem and find solutions*' – perhaps quickly – because '*they are better at collaborations*' and hence '*better at solutions*'. Two aspects of decision-making are seen here – (1) there is evidence of a mix of intuition and rational methods (Isenberg 1984; Zygmond & Boorhem 1989; Narvaez 2010a), and (2) intuition characterises successful managers, confirming an empirical study of managers of high-growth companies by Allinson, Chell and Hayes (2000), which found that successful managers were more intuitive than the general population of managers.

Intuition in combination with the rational method was also evidenced in the following transcripts.

Interviewee A15: *relevant text is in bold*

> *Sometimes values have to be mutually understood – we are asked to quote for a tobacco company –* ***we did agonise a bit of what to do – in the end we justified ourselves that it's okay to do it – because some others might do it. Small business does not need anything additional – managers have fingers on the pulse – they know what's going on*****.**

Interviewee A4: *relevant text is in bold*

> ***Finally I had to make a call – whether to dismiss him or something else – I suspended him. I was well supported by HR department but at the end of the day I had to depend on my judgement***.

Other researchers postulate the social intuitionist model where decision-making has social and culture influences (Haidt 2001; Woodward & Allman 2007). This approach was evidenced in the following texts of the transcripts.

Extract from the transcript of interviewee A20:

> *Ethical behaviour is something you can't really teach – it's instilled in you – engineering or IT you can do a course so you learn – technical skills can be taught – but* ***behaviour type traits we start learning that when you are born with family and network of people – when we are adults it's hard and important to change somebody's ethical behaviour – you know what's right and wrong – you just know those sorts of things.***

In the bold section of the above transcript, intuition is seen in the respondent's narration '*you know what's right and wrong – you just know those sorts of things*' confirming the intuitive decision-making process of automaticity and non-conscious control (Narvaez & Lapsley 2009). Further, the aspects which influenced intuition have been explained by the respondent as '*behaviour type traits we start learning that when you are born with family and network of people – when we are adults it's hard and important to change somebody's ethical behaviour*'. The use of the words '*family and network of people*' implies a link with society

and cultural influences – an aspect which aligns with the social intuitionist model of Haidt (2001) and supported by Woodward and Allman (2007).

Intuition in the social and cultural context was also evidenced in the following transcripts.

Interviewee A23: *relevant text is in bold*

> ***My goal is to make enough money to look after my family but I also have to do the right thing to look after my clients and if I lose a sale that's too bad – I made sure I made that clear right from the start – my philosophy – not just the dollar figure – but also look after my clients – they accepted it. I wish if everybody realise if they all looked after their clients the way they would like to be looked after we will all win in the end — if you look after the people properly instead of just looking after the dollar then the dollar will look after itself.***

Interviewee A20:

> ***I don't mind competing with local company – I am dearer – for the quality we have – I don't compromise on quality – I can lose business – that's part of my business ethics – I want to do right thing by my employees, society, business, family etc.***

There were other narrations in the transcripts which had different aspects of intuition. Firstly, the use of intuition was evident where the situation offers alternatives but is subject to certain constraints. Interviewee A11 narrated an incident where customers would want to return goods claiming that the goods were not used, but in fact had evidence of wear and tear. The constraint is that the company has a return policy. There were several options available to the company, but the decision taken by A11 was narrated as '*they say has not been used – but they are soiled – so we don't take them back – it's an ethical dilemma for us but not for the customer who tries to push this – resolving this is has to be upfront – sometimes we reduce price for them to return – it can be resold again as a second hand – that's the only way we can solve it – we can't take it on the chin – here is the evidence that supports our argument that it's used*'. This confirms an empirical study on school principals who used their intuitions in situations that offer alternatives but are under certain constraints (Khatri & Ng 2000). Similarly, interviewee A8 says that although there are options available, '*ninety per cent of this is common sense knowing what is required and can come only from experience*'.

Secondly, there is a perception that intuition as a mode for ethical decision-making cannot be taught. Interviewee A20 narrates that:

> *problem with business these days – if things are hard things like this gets pushed aside – what you have mapped out there lot of things affect each other – ethical behaviour is something you can't really teach – it's instilled in you – engineering or IT you can do a course so you learn – technical skills can be taught – but behaviour type traits we start learning that when you are born…….*

which suggests that 'it was evident that we cannot *teach* "intuition" or "experience"' (Shapiro & Reiff 1993).

Thirdly, as discussed in section 3.4.8, Kahneman and Tversky (1996) suggested that a link exists between intuitive judgements and errors or biases. They argued that judgemental heuristics which are mental operations leading to intuitive predictions and judgements are useful but can sometimes lead to errors and biases. Their studies have suggested that individuals often choose to use heuristics even when they know it may deliver questionable outcomes. Harteis, Koch and Morgenthaler (2008) have also cited empirical studies which suggest that intuitive estimates could be more erroneous than analytical ones. There is one incident in this study where the respondent chose to use a past incident as a heuristic to arrive at an intuitive judgement in a current situation. Interviewee A9 narrated an incident involving an employee's salary payment subsequent to that employee's sudden resignation giving only 24 hours' notice. A9 thought it was '*nasty'* and '*unethical'* and therefore deducted some payment without discussing it with the employee, who subsequently took A9 to court. A9 lost the court case, but in the interview, admitted that he decided to deduct the payment because of an extra payment that was made to that employee several years before this incident – and was thus, clearly biased.

Fourthly, SME managers have used heuristics to make intuitive judgements. Some examples are: interviewee A11 faced an ethical issue of whether to import cheap and inferior quality products for short-term profit gains or buy higher priced better quality local products. A11 made the judgement intuitively by using the heuristic '*sometimes it is better to buy local in smaller quantity locally rather than importing a lot and end up sitting on the shelf*'. Interviewee A20 narrated that his exemplar (the managing director of the firm that the interviewee works in) makes intuitive judgements based on '*a very simple motto – if you say*

you can do it, do it otherwise don't say it'. Use of heuristics in ethical decision-making is further discussed in section 8.2 (on Proposition 3).

In addition to the evidence of the use of intuition in incidents narrated by the interviewees, reference to the use of intuition was also made by the interviewees during general discussions and conversations with the researcher, as shown in Table 31.

Table 31: Reference to the use of intuition by interview respondents in ethical decision-making

Interviewee	Reference to the use of intuition in ethical decision-making
A4	I was well supported by HR department but at the end of the day I had to depend on my judgement.
A8	Ninety per cent of this is common sense knowing what is required – can come only from experience. If I employ people, they should go outside the square – sadly, one of the cases is the long-term unemployed because they have lost their skills and have to babysit them. This is a buzz of activity and we don't have time for that.
A10	small business does not need anything additional – managers have fingers on the pulse – they know what's going on
A20	if there's an issue today I will not pull out a manual – I will use my common sense – I am in management position and empowered to do things – I have head on my shoulders and know what to do
A23	if I found out fraudulent claim – I will tell them I cannot file a fraudulent claim because it's not legit – I will explain to him that everyone is pooling in resources to help others – so any fraud will drain the company and will increase premium and we will suffer because of his greed – people including myself and himself will suffer

In summary, qualitative analysis of interviewee transcripts has suggested evidence of ethical decision-making by SME managers based on intuition, and a combination of intuition, rational and heuristics based judgements.

7.2 Proposition 3: *The ethical decision-making process by SME managers could include factors such as heuristics, exemplars, and reflection.*

The interview questions that were asked were:

- Was it resolved, if so, how was it resolved?
- Can you give me an example of a person or persons you respect and value their values and why? Where do you draw your moral inspiration from?
- In hindsight would you have liked it to be resolved differently?

Qualitative analysis – Heuristics

Qualitative analysis of the interview transcripts to detect the use of heuristics in ethical decision-making, commenced with assigning the code HEU (for heuristics) to the text based on the meanings and definitions of heuristics relevant to ethical decision-making.

As discussed in section 3.4.8, heuristics has been defined as judgements which are used to estimate likelihood of reaching a decision, may depend on similar examples in individuals' memories' (Cioffi 1997), are employed to reduce judgements to simpler ones when faced with difficult tasks (Tversky & Kahneman 1973), are mental shortcuts that reduce complex tasks to simpler judgemental operations (Dane & Pratt 2007), and are ways to reduce the effort associated with tasks (Shah & Oppenheimer 2008). Scholars have argued that intuition sometimes involves the use of heuristics (Dane & Pratt 2007). This relationship between heuristics and intuitive judgements was highlighted in the results of a study on nurses suggesting that heuristic strategies are used to arrive at intuitive judgements (Cioffi 1997).

Researchers have different approaches to explaining the role of heuristics in decision-making in general and ethical decision-making in particular. Some researchers suggest that when faced with a difficult task of judging, people employ a number of judgemental heuristics which reduce these judgements to simple ones (Tversky & Kahneman 1973) and that judgemental heuristics are products of availability heuristics, where information is easily available, for example recalling past instances, and representative heuristics.

Extract from the transcript of interviewee A10:

> *It's the small decisions made by individuals that actually count –* ***e.g. I will not invest in company that I believe are unethical – I will never invest in a cigarette manufacturing company and a defence company. Very interesting dilemma – because defence is a massive employer in South Australia – is there a difference between defensive and offensive?***

In the bold section of the above extracted transcript, the interviewee is faced with making a decision to invest in a company. The decision to invest depends on whether the company is ethical or unethical in its operations. The interviewee now needs a heuristic to decide, perhaps quickly, whether a company is ethical or not. When several options are presented, there could be limited processing capacity influenced by limited time (Street et al. 2001) within which a decision needs to be made. In such a situation, the interviewee has created a representative heuristic (Kahneman & Tversky 1996), by naming the types of companies – *cigarette manufacturing and defence companies* – in which investment will not be made.

Extract from the transcript of interviewee A22:

> ***Lot is done in a causal type basis instead of sitting down – sometimes we need to do that way*** *– sometimes you can't play around with – in this business we have do things correctly – we can't break the law or short cuts or something done outside the compliance* ***– people who work here are aware of it – there are other things that fall outside of that*** *– more about business or living ethics that are not specific to our industry – but our people have to be aware of acceptable standards* ***– occupational, health and safety, and bullying, sexual harassment we have manuals from Business SA – but I don't expect our people to read all of them – but I expect them to know the consequences – like smoking in the workplace as we are in the gas business – people are going to know with common decency as much as we telling them you can't do this or that – if something happens we can be in trouble we are not specific with our employees –*** *our people are with us for a long time – people we employ we have known them prior – recruiting phase is important – people you are not familiar with are a concern – I go around the office and detect things that should not been happening.*

In the transcript displayed above, the bold text shows evidence of heuristics. In the first few sentences, the interview establishes the notion that although manuals are available for acceptable standards of OHS (occupational health and safety) and harassment issues, the interviewee does not expect employees to read them and therefore expects them to '*know'* what to do through '*common decency*' and simple rules of dos and don'ts. This shows the presence of availability heuristics (Kahneman & Tversky 1996) where information such as dos and don'ts are easily available and the application of heuristics through effort-reduction (Shah & Oppenheimer 2008) which in this narration is the effort reduced from reading all the manuals to simple rules.

Employing a number of judgemental heuristics in which complex judgements are reduced to simple ones was also evidenced in the following transcripts.

Interviewee A24: *relevant text is in bold*

> ***Policies and procedure cover as many dilemmas as possible – like sexual harassment is clearly defined – definition and education process is in place – staff is informed this is right and that is wrong – behaviour amongst your fellow employees – that could be translated across to right and wrong in terms in business – you might be someone working at the swimming centre and someone wants to get a season pass to get into the centre and the employee has the capability to give out the pass and then receive favours because this person do a business and do the paving for them – that type of ethical (poor ethics) has been in the past in the local – employment for boys – nepotism – people employ people they know – people using positions of power –*** *the local government association working very hard in last 10 years to make sure there's systems and mechanism in place to ensure those ethical dilemmas aren't put on people and clear and black and white and defined*

Interviewee A19: *relevant text is in bold*

> *Values between employees and company – does happen – our staff come from rehab – they are not injured – they are long-term unemployed – sudden life change etc. –* ***when they first join the organisation there is their beliefs that don't align with ours – we have to help them understand what our clients expect – what's accepted what's exceptional – to understand how they conduct themselves with other people –***

> ***acceptable types of conversation – how aggressive to be or not to be*** *– because these people may have been isolated in a small network of people – then they are mixing with people – that initial stage we accept certain stance –* ***some people are ok some others are not – we have to pull them up – personal hygiene – their conversation – their proximity to people, harassment, concept of space , body language – inappropriate T-shirts – just isn't acceptable – T-shirt said I look better naked – created a quandary – was it good to see that he has some confidence – we decided that it will create a problem and asked him to change it.***

Other researchers have suggested that heuristics can help managers resolve questions concerning which standard or decision process has priority when business practices conflict (Hamilton, Knouse & Hill 2009) and that heuristics influence moral intensity which in turn will affect how moral issues are recognised and ultimately resolved (Hayibor & Wasieleski 2009). These approaches were evidenced in the following texts of the transcripts.

Extract from the transcript of interviewee A11:

> *A particular company was an exclusive supplier of their goods in South Australia and through either pressure from another company to take their supplies or product on board they have reneged on that arrangement which for me is an ethical problem because if we promote these products and we get the ball rolling and then they haven't opened up and we spend all the work and then it becomes an open ground for anyone to supplies – we have as a company either walked away completely in a different direction or found different suppliers – it irks me that we have an understanding and that's reneged on.*

In the above transcript, the business practices of the supplier – through pressure from another company, the supplier has reneged on the arrangement that they had with the narrator's company – has conflicted with those of the narrator's company which considers such practices as unethical. To resolve this situation, the narrator's company developed a heuristic that when such business practices clash, they will '*either walk away completely in a different direction*' or will find a different supplier.

Extract from the transcript of interviewee A23 (also used in the analysis for intuition in the previous section):

> *Biggest part of my business for a large group in life insurance – church group with 4000 members and review that every 3 years – it was being reviewed around 2 years ago and takes about 6-8 weeks before finalising – through a new company as of last – we get paid on a commission basis- per cent of premium – when we put to tender –* ***that company that came to it had a premium considerably lower than previously and fantastic benefits and what I had to suddenly weigh up – this is fantastic – I can save the church $60,000 a year in the premium that were paying for pastors – but the actual commissions – my commission would drop by nearly $100,000 - how could I keep my business – big problem for me –*** *I went back to insurance company – we have been charging 10 per cent commission – if we charged 15 per cent commission would we still have a very low premium lower than what we had before – they did not know what the previous premiums were – can they do some calculations* ***– I asked them 15 per cent and 12.5 per cent commission – we went backwards and forwards a few times and finally negotiated 12.5 per cent commission structure – the original premium was 2.18 per cent of salary and what they were offering was 1.79 per cent - I took from 10 to 12.5 per cent and all that entailed was 1.88 per cent of salary and were still saving 0.3 per cent - what that meant was I ended up getting the same commission so I could keep running business and save the church $66,000 on their premium and everyone was happy –*** *as it happened afterwards – I am practicing Christian –* ***the company came back to me – usually you have to deduct the stamp duty and if paid on monthly basis and there extra for that – they came to me we won't deduct all of those and pay you on the gross amount and made extra commission - I did better by doing that –*** *does that make sense* ***– I had to look after them and also not cut my own throat – I went back to the church and informed them – that I can go broke and can't look after you – this way you save $66,000 a year – they were very happy about it.***

In the first bold section of the above transcript, the interviewee was initially pleased with the reduced premium that could be charged to the church members, but then realised that it would reduce his commission to the point of losing his business. The moral intensity components in this situation was the magnitude of the ethical issue (losing his business by

helping the customer), the immediacy of the situation (time was of the essence) and the proximity of the dilemma (the narrator knew most church members personally and was himself a member). An availability heuristic based on available information (through the calculations of the insurance company) was used by the interviewee, which influenced the components of the moral intensity (Hayibor & Wasieleski 2009). This heuristic developed is evidenced from the interviewee's resolve to be transparent with the church members by declaring that '*I can go broke and can't look after you, but this way you save $66,000 a year and I retain my business to continue to serve you*'.

In summary, qualitative analysis of interviewee transcripts have shown evidence of ethical decision-making by SME managers based on several aspects of heuristics, including reducing complex judgements to simple ones, use of judgemental heuristics such as availability and representative heuristics, the influence of availability heuristics on moral intensity, effort reduction aspect of heuristics, limited capacity to process influenced by amount of time available, and the possibility of errors in spite of benefits.

<u>Analysis and discussion on the use of the ratiocinative, intuition, and heuristics methods in ethical decision-making by the SME manager-respondents.</u>

Section 6.2 has illustrated, through the narratives of SME managers, that SME managers have used the ratiocinative method (employing the FCM process) and in certain situations utilised intuition and heuristics in making judgements. Most of the respondents, however, have utilised two or more of these three methods at the Component 2 (making moral judgement) stage of the FCM, as shown in Table 32 below:

Table 32: Respondents who used two or more decision-making methods

Decision-making method	Interviewees	N	% of total
Ratiocinative and Heuristics	A5, A7, A13, A15, A17, A19, A23, A24	8	40
Ratiocinative, Intuition, and Heuristics	A2, A3, A4, A22	4	20
Intuition and Heuristics	A6, A8, A10, A11	4	20
Ratiocinative and Intuition	A9, A20	2	10
Ratiocinative	A1, A16	2	10
Total		20	

Eighteen out of the 20 interviewees (90 per cent) have used the ratiocinative, heuristics and intuition methods in their ethical decision-making process. Eighty per cent (16 interviewees) have utilised heuristics (with other methods), 80 per cent have also utilised the ratiocinative method, and 50 per cent (10 interviewees) have utilised intuition (with other methods). Forty per cent (8 interviewees) have utilised intuition and heuristics methods.

Inferences which can be drawn from the above are: (a) use of the three methods of decision-making is widespread among SME managers, (b) most managers use more than one method, and (c) SME managers have relied predominantly on the heuristics and ratiocinative methods.

Out of the ten interviewees who have used intuition, eight of them have also used heuristics. There is an indication here that some SME managers may have intuitively relied on heuristics for decision-making.

Qualitative analysis of **exemplars:**

The interview question asked was:

- Can you give me an example of a person or persons you respect and value their values and why?

Qualitative analysis of the interview transcripts to detect the use of intuition in ethical decision-making commenced with the assigning the code EXEMPLAR (for exemplar) to the text based on the meanings and definitions of exemplars relevant to ethical decision-making.

As discussed in section 3.4.9, exemplars play a far more central role in business ethics than do detailed rules. These include role modelling (Moberg 2000), case studies, anecdotes, parables and fables (deVries 1986), and can be as important as general ethical principles and codes in ethical decision-making. The different approaches that researchers have postulated to explain the role of exemplars in decision-making in general and ethical decision-making in particular, have been used to identify and discuss exemplars in the narratives of interviewees. These approaches include facilitating impartial agreement, facilitating training and decision-making, cultivating personal judgement, and providing flexibility necessary for moral decision (deVries 1986); the use of different exemplars for different parts of moral decision-making (Moberg 2000); the role of public administrators as moral exemplars (Ortega-Liston 2006); the presence of moral commitment in exemplars and the influence of social groups committed to moral standards (Huff & Frey 2005).

Extract from the transcript of interviewee A13:

> *Small company Krestware Industries* ***– they strike me as an ideal supplier because of their ethics – they never promise what they can't deliver – very upfront etc****. – other suppliers will go to extreme lengths to be a supplier but in doing so they are not ideally ethical – they do not tell the truth – they take short cuts to fulfil promises*
>
> *Richard Branson –* ***because he is successful and into different things at different times – knowledge etc. – very interesting – very core people skills he has*** *– Dr Karl who comes on ABC in Western Australia has 16 degrees and 3 doctorates –* ***headful of everything you need to know.***

The above extract is in two sections and in each section text relevant to attributes of an exemplar has highlighted in bold. The first section exhibits the moral commitment (Huff & Frey 2005) of an organisation – '*they never promise what they can't deliver*' – and contrasts it with other suppliers who '*take short cuts*'. The second section mentions two individuals whose virtues have been listed as influential to the interviewee. Evidence of using different exemplars (Moberg 2000) such as organisational factors (for example Krestware Industries) and individual values (for example Richard and Karl) as used by interviewee A13, is also evidenced in nine other narratives from interviewees. Some of them are displayed below.

Extract from the transcript of interviewee A19: *relevant text is in bold*

> *Our consultant told us that it's best to tell stories of what happened in the past – we have photos in remote locations of what our staff have done – they present to all staff over drinks – even if they have gone away on holidays and show photos and everyone gets to know their experience – there are other stories of what those people have done and also some social events where people mix as well – there's bonding from seeing people outside work as human beings and reduces prejudices –* ***stories of past employees who have come and told us of what's happened in their lives while they have worked for us – also inspires other people when they hear other people promoted in the organisation, opportunities given to them – past employees drop in and still talk to the new staff from time to time and feel proud to have been part of it – strong company ethics that clients, staff appreciates –*** *you actually do, we just don't say we have these ethics – and then you do something different – it's better off saying we don't have ethics and don't do anything rather than the other way around*

Evidence of an organisation as an exemplar.

> *Definitely my mother – we all have faults – when I first started business she lent me money to start business –* ***generosity*** *– secondly we won large contract we needed a large pool of people which created two dilemmas – where could we put them, how could we afford them and all the equipment we needed* ***– on my mother's advice contacted the crippled children association – we trained them in computer skills – we partnered with them – they were very constructive and completed the work which was great for their staff and we recruited their people – because of that advise and seeing the experience of my mother of helping people we start to see the***

impact it has on most people lives and their passion to work and help – to be given that chance – then they get it and it puts things in perspective – that influenced to keep those people on and keep those employment policies – which won us a lot of business because clients respect it – also got an award for it a national award which generates publicity – so she also once again done things to help in business ethics – in China working in an orphanage for seriously ill children from age 0-3 – helping them – that ethic of giving and getting a lot back for that – that's our CSR – *we can make money – in Adelaide you don't need a lot of money to live on – certainly there's no correlation between money and happiness – you need money to have choice – as long you have money to look after your health and people who matter to you and have choice then there's other things you really want to do – the ethics of how achieve that income has direct relationship to how happy you are.*

Evidence of individual values as an exemplar.

Extract from the transcript of interviewee A19: *relevant text is in bold*

> *Company managed ethics well – Kennards Hire –* ***give ownership to every branch – I am studied them and learning from them. Each branch is managed independently. Only return of investment is required and each manager manages it like their own. Profit sharing, bonus, birthday families go on holidays.*** *Managers come and work in each branch.*

Evidence of organisational factors as an exemplar.

> It's Bianco. A brick labourer who has made it big – no educational qualifications – a small pad in his pocket – ***inspires me – his values – his skills, management, and product – but one thing I admire his selection right people in right job and keeping them there. Also very ethical – he keeps his word. He knows how to bring people on his side. He makes decision but uses his people's wisdom and knowledge.*** *Vision is the key.*

Evidence of individual values as an exemplar.

Some interviewees in this research, as displayed below, have narrated that exemplars with personal moral commitments have influenced their decision-making processes.

Interviewee A16 – *relevant text is in bold:*

> *I reference myself against a number of people – mostly against my wife – 40 years know her – she is different to me in every respect* ***– there is a deep bond is an underlying respect for her view of the world – her reaction to consequential approach and decision-making approach – I find it useful to calibrate –*** **then my father –** ***I do still find myself thinking what would my dad do in situations – the way he would have reacted even my mother – there were courageous behaviour – physical courage also.***

Interviewee A20 – *relevant text is in bold:*

> Look up to – my father who started this business in '85 – we worked together for a long time – very black and white ***– he taught me and my daughter what's right and wrong – we are close – great person for advice and work through issues – he had that instilled from his parents*** who had left England long time ago and came here with no money – gave three kids a better life and that's filtered down – ***my father saw how hard it was but had family values – instilled in me and will be passed on.***

Both are characteristics of a moral exemplar as cited by Huff and Frey (2005). Moral commitment of the exemplar (the father) in A20's narration is evident from the teaching of what's right and wrong and other values which were passed on to the narrator's exemplar (the father) by the exemplar's parents.

One of de Vries's (1986) arguments for recognising the essential role of exemplars is that exemplars facilitate training and decision-making. This aspect was evidenced in the following transcript.

Extract from transcript of interviewee A7:

> *Draw inspiration from IKEA and ETSA –* ***IKEA is highly organised they have manuals for everything*** *– displaying stock, safety replacing damage to stock etc. – warehousing – walk through their employee staff area –* ***IKEA library – anyone can go in even a contractor – to check up on any issue – while waiting for someone I was reading something up and found something that we can use here. Even in toilets – how to wash hands – hygienically – conducive to making life easy and***

happy – morning meeting 20 min – *all staff at check out – and discuss issues – opportunity days – value adding days when there's not much of work or business – whole process is good – no compromise on safety at all.*

The interviewee has acknowledged the organisational values of IKEA – '*highly organised, having manuals for everything, accessible information from their library*', which would be used by the interviewee to train employees in their own organisation.

Discussion on **exemplars**

Using the qualitative analysis process as shown above, there were 24 narrations of exemplars from the 20 interviewees as follows:

- 11 of the 24 narrations exhibited values attributable solely to a person's individual characteristics.
- 3 of the 24 narrations exhibited values attributable solely to organisational factors.
- 10 of the 24 narrations exhibited values attributable to both individual characteristics and organisational factors

See Annexure 15 for details of the above.

In summary, a qualitative analysis of interviewee transcripts have shown evidence of SME managers acknowledging the role of exemplars in the management of their businesses and in their ethical decision-making processes. Characteristics of exemplars which have been narrated by the interviewees include the use of different exemplars such as individuals and organisations, exemplars' sense of moral commitment and their moral development by other individuals, and the facilitation of training and decision-making.

Qualitative analysis of **reflection**

The interview question asked was:

- In hindsight would you have liked it to be resolved differently?
- Do you think ethical dilemmas or issues can be foreseen and do you think ethical issues can be 'nipped in the bud' by incorporating it in a business process?

Qualitative analysis of the interview transcripts to detect the use of reflection in ethical decision-making commenced with the assigning the code REFL (for reflection) to the text based on the meanings and definitions of reflection relevant to ethical decision-making.

As discussed in section 3.4.10, reflection's '*raw material*' is an experience and the process involves taking stock, question, and assessing an experience (Moberg & Calkins 2001). It is an essential process to acquire wisdom (Moberg 2007) and can lead professionals to insights and improving on their practices (Shapiro & Reiff 1993). Behnam and Rasche (2009) have argued that ethical reflection can provide a reference point in strategy-related decision processes.

These different approaches have been used to identify and discuss reflection in the narratives of interviewees.

Extract from the transcript of interviewee A13:

> *If I look back I should have quarantined it till we got the documents – I have been very wary of that ever since – all new suppliers I am careful now.*

The incident narrated involved a consignment of steel rods received from a supplier by the narrator. Documents to certify the quality did not arrive with the consignment but due to tight delivery schedules, the steel was used in manufacturing. The final product did not pass quality checks due to the poor quality of the steel used. The entire manufactured lot had to be scrapped at a great expense. When the quality certificate from the supplier arrived, it did not meet the required standards. The supplier refused to refund the cost. The narrator, reflecting on the incident took stock of the incident, gained experience from it and modified the system – '*I should have quarantined it till we got the documents*' – to improve their practices (Shapiro & Reiff 1993; Moberg & Calkins 2001).

Extract from transcript of interviewee A17:

> *We spend some time on our approach sorting out what the principles in general are – that's not set forever – it can change – we think about it before we charge in – and it's those discussion which inform people of actions – those discussions right through*

supervisor ranks – we consult ourselves – stuff doesn't get done in a hurry but it does get done well – it decreases opportunities for problems.

In the narration displayed above, reflection is brought about by thinking about '*it before we charge in*' and the reflective activity inform employees of the right actions to take. Reflection, in this case also involves consultations within the group. The objective is to do a job well through the process of reflection, even if it means that '*stuff doesn't get done in a hurry*', resulting in '*decreased opportunities for problems*'. Here, there is perhaps the notion that reflective inquiry, rather than intuition and experience, can lead to improved outcomes (Shapiro & Reiff 1993).

Extract from transcript of interviewee A19 (this extract was also used in the analysis for exemplars):

So she also once again done things to help in business ethics – ***in China working in an orphanage for seriously ill children from age 0-3 – helping them – that ethic of giving and getting a lot back for that – that's our CSR – we can make money*** *– in Adelaide you don't need a lot of money to live on* ***– certainly there's no correlation between money and happiness – you need money to have choice – as long you have money to look after your health and people who matter to you and have choice then there's other things u really want to do – the ethics of how achieve that income has direct relationship to how happy you are.***

The above transcript has two bold sections. The second section describes the process of ethical reflection on the correlation between money and happiness and the outcome of that reflection – '*as long you have money to look after your health and people who matter to you and have choice then there's other things you really want to do – the ethics of how achieve that income has direct relationship to how happy you are*' – leads into the decision of '*giving*' (as part of the company's CSR activity) and '*getting a lot back*' from it to '*make money*' for the business. This aligns with the Behnam and Rasche's (2009) contention that ethical reflection can provide a frame of reference in a strategic decision-making process. In other words, 'strategy formation can be interpreted as ethical reflection at the corporate level' (p.86).

The following transcript from interviewee A20 also highlights the suggestion that ethical reflection can provide the framework for strategic decision-making:

> *We had a contract with a client and it became permanent – the client had to pay out a fee – we spoke to them to find what the package was to work out what the fee will be – the client said if you invoice me you will never do business with us again – client was unethical – we backed down and still today I think we should have stuck our heels in and should have said no what you have done is wrong and we will send you the invoice and if have lose a client, we lose them! We don't deal with them anymore – we know their behaviour traits – I regret this – sometimes you need to be strong even if it means you lose your business.*

The ethical reflection in the above transcript can be located in the text – '*I think we should have stuck our heels in and should have said no what you have done is wrong and we will send you the invoice and if have lose a client, we lose them*' – and the strategic decision that arose from this reflection was not to '*deal with them anymore*' even if it results in losing the business.

In summary, a qualitative analysis of interviewee transcripts have shown evidence of SME managers acknowledging the role of reflection in the management of their businesses and in their ethical decision-making processes. Aspects of reflective activities which have been narrated by the interviewees include taking stock, questioning and assessing past experiences to acquire wisdom needed to improve practices, and using reflective inquiry rather than intuition in certain situations.

7.3 Proposition 4: *The ethical decision-making process by SME managers is influenced by internal and external organisational factors.*

The interview questions that were asked were:

- Was it resolved, if so, how was it resolved?
- Do you think ethical dilemmas or issues can be foreseen and do you think it can be 'nipped in the bud' by incorporating it in a business process?

Qualitative analysis of organisational factors

As discussed in section 3.4.11, decision-making has been shown by several researchers to be influenced by organisational factors.

Several aspects of organisational factors influencing ethical decision-making have been suggested by researchers

- choice of strategy in dealing with different decision problems depends on the surrounding environment (Beach & Mitchell 1978)
- organisational influences in combination with personal values yields decisions which may be different from those based on personal values alone (Fritzsche 2000)
- perceived organisational environment (Sims & Keon 1999)
- positive relationship between employees' perception of business ethics and their employer's ethics (Pettijohn, Pettijohn & Taylor 2008)
- individual's perceptions of corporate ethics (Herndon Jr., Fraedrich & Yeh 2001)
- ability to recognise ethical issues and respond ethically may be related to corporate culture (Chen, Sawyers & Williams 1997)
- external environment such as other organisations and governments have been shown to have some effects on individual ethical decision-making (Rappaport & Himschoot 1994).

Qualitative analysis of the interview transcripts to detect the influence of organisational factors in ethical decision-making commenced with assigning the code ORGN (for

organisational factors) to the text based on the meanings and definitions of organisational factors relevant to ethical decision-making.

Extract from transcripts of interviewee A10:

> *I am CEO and have great influence in the value system and align with my value system very closely. Previous employer – we sold our organisation to a US company – I was working in their Canadian organisation and chose to leave because of their value system – why – they were manipulating people's bonuses and not fulfilling their contractual obligations because people were too frightened with their jobs and felt threatened – three of the principals of the organisation all faced charges and jail terms – my assessment of these people was accurate and I could have stayed there and get 300K salary but I chose to leave.*
>
> *The Americans thought it was reasonable to change rules and for the good of the parent company it was ok not to pay bonuses even though it was my division to meet the requirements – once that took place I chose to leave the organisation – I did not trust them any more.*

In the above transcript, the narrator experienced a corporate culture in which it was reasonable to change rules and therefore did not fulfil contractual obligations, and employees perceived the organisation's environment to be frightening and felt threatened. The choice to leave the organisation therefore depended on the organisation's environment.

Extract from transcripts of interviewee A2:

> *Started with nothing in 1999 with 5K, now turnover 1000K, due to technology and people that we have. Success of business also involves ethics. Ethics should have more priority – goods have to have features etc. What depends in sales is relationship – good product, price and quality is expected. Relationship – build bridges is important – that's how I have prospered. In today's situations, what carrying me forward are ethics and relationships.*

Organisational culture – '*success of business involves ethics*' and '*ethics should have more priority*' – and the environment encouraged the narrator to select the strategy of building

relationships which has resulted in prosperity – '*started with nothing in 1999 with 5K, now turnover 1000K*'.

Similar relationship between organisational culture and environment and choice of strategy in dealing with different decision problems can be seen in the following narratives.

Interviewee A20:

> *Organisational values – dissemination – we have placards with mission statements which are visible – it's part of our induction process – we spend a lot of time with them – sales conferences getting whole company together for three days we spend a lot of time on that – it's a lot of investment – we believe the rewards far outweigh the cost – we don't preach values – we are clear in what we believe and what it should be – there's a stack of different components of our value system – people don't tick every single box – we want people to tick more than less – it does move the business forward.*
>
> *Leadership is in Sydney – CEO, CFO etc. – we have branch managers like me – but our culture we are trying to have – it doesn't matter who you are you have a key part to play in the business and you are only as good as the weakest link – we want people to work with initiative, outside their comfort zone – if I am not here I know my staff can take decisions – they have confidence that I will back them if it's ok – if they stuff up they know that will be a learning experience – they are not to hide anything – we can work our through it – they will know why it has occurred – we do it very well.*

Combination of organisational influence and personal values has also been observed in several narratives as follows.

Extract from transcript of interviewee A10:

> *We are a series of cells which operate semi-autonomously – depends on the quality of leadership – the trick is to have a common value system and goals and at the same time have enough flexibility in individuals which will appeal to a range of people. The two regional manager I have different personality and skills and weaknesses but we operate as a very close unit – I am a very clear leader on views of world – and issues are backed straight away – managers do the same – we train them – we seek to offer*

opportunities in training and experience all across – as a consequence to very clear communication and expectations – we find that people can quite clearly anticipate my view on things.

In the above narration, the narrator discusses the organisational influences – '*the trick is to have a common value system and goals*' and '*issues are backed straight away – managers do the same – we train them – we seek to offer opportunities in training and experience all across – as a consequence to very clear communication and expectations*' – and the individual values – '*flexibility'* and '*personality and skills*' – that contribute to autonomy in decision-making.

Extract from transcript of interviewee A4:

Monitoring and managing ethical issues – there is a case for it – licence conditions can be contravened – could be shut down – we have to supply ships – huge pressure – people were turning a blind eye – but with a view to fixing it – but were not – emissions were high and unacceptable – we can do within the licence but morally, I felt very compromised in my integrity – I had to take a decision – I could not do anything – fix required large contracts and money – I wanted to leave straightaway – but could not – fixing could take months – finally I left.

In this narration, the emissions were high, but within the licence requirement, therefore there was high pressure from the organisation to continue to supply ships. However, the narrator found it morally unacceptable. Clearly, there are issues of organisational values and influences, and individual values and this combination yielded two different decisions – one from the organisation's point of view to continue operations and two, the narrator's decision to leave the organisation.

There is evidence of individuals' perceptions of organisation environment and corporate ethics which affect the ethical decisions and their commitment to the organisations that they work for. One such example is as follows.

Extract from transcripts of interviewee A22 – four bold sections in this transcript have been numbered (1) to (4) by this researcher:

They moved me from one location to another – job is same – I can just pick up and run without losing a step – if promoted there are whole set in guidelines that I pick them up and run – there's no downtime – ***(1) processes keep running and there's back-up – because they have set-up by whoever – the men in higher position make these rules – in those companies there was no doubt where line was drawn in sand even for ethical issues – what's expected of you, how far you can go*** *– I am an accountant by trade – I also managed one of the depot – it was set in concrete –* ***(2) there was very little to move outside of the company's guidelines, polices, ethics – mission statements etc. – that size company, as in every company in the world the same set of parameters work in every country that they work in – even with cheaper labour etc. the company philosophy and set of practice were across the board – in smaller company it changes considerable – my company we have 10 people – we got set of philosophy and parameters under which people work – when they come to work for us it's clear what's their role is etc. but not as rigid as in MNCs***

For example, in the company run by the two ***– (3) their philosophy was about making money – their whole business acumen was to make money – we were employed to make them money –*** *we were paid well – we worked 80 hours a week – all days – on call 24 hours 7 days a week –* ***(4) it was about the return we were giving them – it was a large company in turnover but small in people numbers – their main ethos is that you make them money as much as you could but never cost them a dollar – if there's something happened that they lost money cash if somebody never paid or supplied without cash upfront –you are out of the door – no recourse – in five years two state managers were sacked because of that situation – the guidelines were clear but narrow –*** *not like the MNCs who had a whole myriad of things in place – if you had doubt go back and see a document that will tell you what to do*

The narrator in the above transcript has worked in three different types of organisations – first as a depot manager in a large MNC, second as a sales employee in an SME, and third as an owner of a SME. In section (1), the narrator talks about processes set-up by men in higher positions that keep running, resulting in expectations of ethical behaviour being '*drawn in sand*' and in section (2), there is a perception that in a SME, although they have '*got set of philosophy and parameters*', practices change considerably as compared to a large company,

a '**MNC'** where practices are rigid. In section (3), the perception is that the SME that he had worked for, was '*about making money*' and people were employed solely to make money for the employers and in section (4) an example of such '*philosophies'* was narrated where if the company lost money due to an employee's mistakes, there was no recourse and would end in the sacking of that employee.

The main theme that emerges out of the above transcript is that practices in a smaller company can change frequently, as compared to a larger company where guidelines are rigid but well documented, allowing employees to go back and check the guidelines.

Perceived organisational environment, including its values and the ethical climate (Fritzsche 2000), was evidenced in a narrative as follows.

Extract of transcript from interviewee A24:

> *Last 12 months a group of staff in a department – working for a number of years –* ***they were used to working things the old way and longer they did it this way the lesser they saw it not being a wrong thing to do and there was a case where someone was accused of something and he didn't like that happening – he said "what's wrong with this when all these other people are doing this?" –*** *opened a can of worms and there was a big investigation – few people lost their jobs on this – it was not only unethical it was illegal –* ***it was use of council goods and services for private purposes and gains it was effectively stealing –*** *after that investigation a series of things happened including an education program and changes to procurement policy and educating process based around tendering and procuring and how things have to go – I wasn't involved and knew about it for confidential reason – it's a good case of what you are talking about.*

The incident involved some employees using council goods and services for private purposes and when confronted with it responded with '*what's wrong with this when all these other people are doing this?*'. Employees in this organisation were used to '*working things the old way*' based on the shared perception of their organisation's environment and ethical climate which lead them to believe that '*it was not a wrong thing to do*'. This aligns with the definition of ethical climate suggested by Victor and Cullen (1988) that it is the 'shared perception of what is ethically correct behaviour and how ethical issues should be handled'.

The researchers have also identified three possible sources or locus of moral reasoning that are used in such organisational decisions – (1) local locus which specifies ethical reasoning within the organisation such as a workgroup, (2) cosmopolitan locus which specifies ethical reasoning external to the organisation, such as a professional association, and (3) individual locus which specifies ethical reasoning as an individual such as personal ethics or engaging in self-interested behaviour (Victor & Cullen 1988, p.106). In the above narration, there is evidence of a combination of local locus ('*used to working things the old way*' and '*what's wrong with this when all these other people are doing this?*'), and individual locus ('*use of council goods and services for private purposes and gains*') of moral reasoning.

The influence of other organisations and governments has also been observed in some of the transcripts as follows.

Extract of transcript from interviewee A24:

> *When you look at the small operators – owner operators – changes in legislation puts more restrictions on them – industrial relations, occupational health and safety etc. – they may not have the resources to put them in place – e.g. the health department might say you have to have a hand basin within 50 cm from you are preparing food – to do that for one person business might be overkill – but they have to do it – it's an additional thing – the ETS will bring in a huge burden on businesses – ethics in environment – small business it's not that cheap for environmental issues for placing a high efficiency long life lights are expensive compared to the cheap ones – you have to be extremely environmental minded to do it – for small business it's bottom line focused.*

In this narrative, government legislation has been shown to have an influence on the decision-making process of small operators. Examples given are installation of hand basins within 50 cm from where a person prepares food and changing of electrical fittings to meet new environmental laws. The small business operator is now in an ethical dilemma between its bottom line profits and the expensive changes required from the legislation.

Discussion on **organisational factors**

A count of the number of incidents that indicated the influence of organisational factors in decision-making was compiled in Table 33 below:

Table 33: Number of incidents in business areas influenced by organisational factors

Business area	No of incidents
Accounts and finance	6
Corporate governance	34
Competition, pricing and bidding	4
Corporate takeovers and restructuring	0
Downsizing	0
Environmental harm	1
Quality of work-life	6
Intellectual property	0
Outsourcing	0
Production safety	3
Pollution	0
Product safety	0
Total	54

- Fifty-four incidents from the total of 130 incidents had evidence of organisational factors that influenced ethical decision-making.
- Corporate governance (CG), Competition, pricing and bidding (CP&B), Hiring, firing and quality of life (HF&Q), and Accounts and finance (A&F) were the business areas where organisational factors influenced decision-making.

In summary, organisational factors have been seen in the transcripts to have influence over the ethical decision-making processes in individuals in SMEs. Prominent factors are: choice of strategy for decision-making depends on the surrounding environment, combination of organisational influence and personal values, individual perceptions of organisational environment and corporate ethics, perceived organisational environment including its values and the ethical climate, and influence of external environments such as governments and other organisations.

7.4 Proposition 5: *The BSC could be an effective instrument for SME managers to measure, monitor and manage business ethical issues.*

The interview questions that were asked were:

- Have you heard of the Balanced Scorecard? This is what it is used for… (show a laminated A4 page with BSC shown diagrammatically).
- Do you think the BSC can be used to monitor ethical issues?

Some were aware about the BSC and some were not. A chart showing the BSC process (which monitors and manages financial and non-financial performances – except ethical issues) was shown and explained to the respondents. Subsequently, all 20 respondents were asked whether the BSC could be used to monitor ethical issues.

Qualitative analysis of the **BSC:**

As discussed in section 2.6, the BSC was developed by Kaplan and Norton for managers to keep track of the execution of activities and to monitor the consequences of the actions both financial and non-financial. The BSC has four perspectives: (1) financial (such as return on investment), (2) customers (such as customer satisfaction), (3) internal business processes (such as order processing system), and (4) learning and growth (such as training and development) (Kaplan & Norton 1996, p.10). The Balanced Scorecard Institute suggested that education and training is not enough in the perspective of employee learning and growth, rather ethical business behaviour should be included. A further suggestion was to include ethical business culture as a fifth perspective (Arveson 2002a). An Integrity Scorecard was developed to incorporate stakeholders' demands into the four perspectives of BSC (Bieker & Waxenberger 2002) and a Sustainability Scorecard was developed to integrate the three pillars of sustainability – economic, enviroment and social performance into the four perspectives of BSC (Figge et al. 2002).

Qualitative analysis of the interview transcripts to ascertain the perceptions of SME managers for the use of the BSC in measuring and monitoring ethical issues commenced with the assigning of the four codes: BSC (for all transcripts with BSC), Yes-BSC (for transcripts which accepts BSC as suitable for SMEs to use), No-BSC (for transcripts which does not accept BSC as suitable for SMEs to use), and Yes-modified BSC (for transcripts which

accepts a modified BSC as suitable for SMEs to use), to the text based on the meanings and definitions of the BSC relevant to measuring and monitoring ethical issues. Extract of transcripts have been arranged into three sections: Yes-BSC, No-BSC, and Yes-modified BSC as follows:

Yes-BSC

Extract from transcripts of interviewee A10:

> *BSC – know about it – it depends what you put in it – I actually approve it – it's another ethical development – it's a value system which has to be ethical – if you don't build sound value systems – you can make rapid progress in short-term but not long-term.*

Extract from transcripts of interviewee A15:

> *BSC – I am not familiar with it – KPIs are measured – like customers – but monitoring should be valuable – they will become better because – a bit of a red flag – that things are not quite good – like in a democratic country. What's the benefit in this – high satisfied and committed employees and feel good about the co – productivity and satisfaction – everyone benefits – employer of choice.*

Extract from transcripts of interviewee A2:

> *Monitoring and managing – BSC – can be used, has to be incorporated – BSC bottom line is employees and skills and quality – ethics can be incorporated.*

Extract from transcripts of interviewee A20:

> *BSC – definitely can be used – it's a key block – problem with business these days – if things are hard things like this gets pushed aside – what you have mapped out there lot of things affect each other.*

Extract from transcripts of interviewee A17:

> *BSC can be used for monitoring ethical issues – satisfaction rate of customers – accuracy of budgets, staff turnover, we have family friendly policies – we have ability to vary work timing – we measure the number of applications and take-ups – not to allow internal pressure – some areas it can't happen in residential aged care – it's*

provided in a different way. One of problems with BSC was not all measures were available for our type of industry. We had to make up some measurements.

The transcripts displayed above indicate responses from interviewees who accept that BSC could be used by SME managers for monitoring ethical issues. Key observations by the interviewees were (1) a '*sound'* value system needs to have ethical development incorporated into it, (2) measures such as the satisfaction rate of customers, accuracy of budgets, staff turnover, and family-friendly policies can be incorporated into monitoring ethical issues, (3) measurements need to be customised depending on the type of business, (4) the main use of BSC could be in the areas of employees' skills and quality within which '*ethics can be incorporated*', (5) the problem with businesses these days are that '*hard things like this gets pushed aside*', and (6) monitoring ethical issues should be valuable because it will translate into highly satisfied and committed employees which will improve productivity and satisfaction resulting in being an employer of choice.

No-BSC

Extract from transcripts of interviewee A5:

Monitoring and managing ethical issues – BSC – depends on the business. E.g. if your business is oil wells and you have contracted out the management to an oil company – and you get a cheque every month – you don't need a BSC. On the other hand for us – we measure financial aspects of business – we are interested in ROCE, EBIT etc. – but what is our business – it's not our premises, hardware you can replace them, technology takes time etc. but single critical factor is people – knowledge is theoretically externally available through databases, but people have to interface with others and have to have their own knowledge – we have spent a lot of money on this – we have train them free educational services to seminars, to learn take on higher degrees, train outside their field of expertise and within them also – go on conferences within reason – lifelong learning in-house seminar – we have a particular culture and ethos and we communicate with our people and show leadership from top we expect our partners to live and breathe our ethos. There would be an implicit acknowledgement among partners that without the learning and development culture, setting financial goals is futile. No formal flow chart but it's in our minds

Extract from transcripts of interviewee A7:

> *BSC – I tell my blokes as simple as possible – if you go on site – they tend to stretch out the time – as long as they do their work, I don't care but with good care – some skipping lunch and wants to get home early – for kids extra curricula activities – family friendly policies – we are transparent – they know what's happening in business – I struggle with some and make good money with others – sometimes contract is paid by hours – at others times it's different – various between clients – we do menu pricing – when repairing repetitive – most damages are the same thing – repairs are always the same cost – we do a standard pricing – so we pick up good margins on that.*

The transcripts displayed above indicate responses from interviewees who do not accept that BSC could be used by SME managers for monitoring ethical issues. Key observations by the interviewees were (1) BSC is not required for businesses which have simple transactions like '*getting a cheque every month*' – so, it depends on the type of business, and (2) it can be substituted by keeping policies '*transparent*' and '*as simple as possible*'.

Yes-modified BSC

Extract from transcripts of interviewee A13:

> *Processes and accounting details are thorough and regular – so we don't put people in awkward situation in a risk or pressured situation – so processes should be such – minimise any chance of misconduct – local ethics in purchasing scale.*

Extract from transcripts of interviewee A16:

> *I always encourage to be self-aware and have tools of the right sort – not have a tool that's so deterministic – everything has been tried and failed – things that you are vaguely conscious of can bite you. This model cannot comprehend the GFC for examples – firm believer of measurement – how much an employee has cost them will value them accordingly – I am in the favour of knowing as much as possible – I always caution people not to get dazzled into modelling – you can lose contact with reality – real time live feed will be required – is the ethical development of the person be individual – what's important for a balanced scorecard – ethical development in*

terms of the ethics required to meet the ROCE – you must have a self- aware organisation – organisations have this capacity in self-deceit – only need somebody to turn things over.

Extract from transcripts of interviewee A22:

Monitoring – BSC – anything that can help helps – we should be careful with SMEs – keep it as simple as possible not a manual a foot thick – anything kept simple and easy to understand and people not treated with something that can wind up in a rubbish bin – it should be desirable for incorporating into business – we are all here to get that part right (ROCE or reputation) and if the rest of it can assists to get us there then we should be doing it – people should not get bogged down with processes – I am with it – the benefit of this is it make you think to go back to a process – you should be revisiting certain points – there's something that I would not discount – it's a matter of what format it should be brought into our business

Extract from transcripts of interviewee A23:

BSC – that sounds like a good idea – some of this is probably our industry is doing at the moment – like when a client asks for advise – we need to collect all info and some of the ethical issues also – this is an interesting idea – we look at skills without looking at ethical development – I like that concept – it would depend on whether it's in-depth or fairly light – not a lot of emphasis is put on ethical development of staff.

A full list of transcripts related to interviewees who have indicated that the BSC could be used with certain modifications is displayed in Annexure 16.

<u>Suggestions made by respondents to incorporate ethical issues into the BSC include:</u>

- train, develop and manage employees
- measurements need to be customised depending on the type of business
- incorporate value systems
- measure family-friendly policies
- measure employee skills and quality
- teach business ethics
- flexibility to modify processes

- minimise chances of misconduct
- ethical development of individuals
- not be very deterministic - not get bogged down into processes
- reduce ethical dilemmas by helping people to solve issues themselves
- keep it simple and easy to understand – not a thick manual
- look at skills with ethical development
- ethical development of staff
- not have too many restrictions (or dos and don'ts)
- need people to run the system
- need to have feedback from management about people's ethical judgements
- letting people know whether they are doing ok or not
- processes are important assuming they are quantifiable
- should not be a numerical exercise
- ability to raise a 'red flag' – people should know what's happening in business.

Discussion on the **BSC**

A count of the number of respondents that had commented on the use of BSC for monitoring and managing ethical issues was compiled as follows:

- Six (30 per cent) of the 20 respondents said that the BSC could be used in its existing format.
- Three (15 per cent) of the 20 respondents found the BSC unsuitable for monitoring ethical issues in SMEs.
- Eleven (55 per cent) of the 20 respondents suggested that the BSC could be used with some modifications.

In summary, 85 per cent of the SME managers interviewed for this research indicated the need for a system or a tool such as the BSC to measure and monitor ethical issues within their organisations. While many have cautioned that SME managers may not have the resources such as skills, time and finance to manage the BSC, they have provided a number of suggestions (as listed above) which could make the use of the BSC within SMEs more practical. One such suggestion – that measurements need to be customised depending on the

type of business – could be seen in a study of 13 Portuguese companies where the use of a 'thematic' BSC dealing only with environmental and social issues, and financial aspects thereof, highlighted the usefulness of the BSC to customise and prioritise business areas to ensure that important areas are not neglected (Dias-Sardinha & Reijnders 2005). In this adaptation of the BSC, the researchers modified the first perspective from general financial measures to financial measures concerning the environmental and social aspects of performance, and the second perspective from customers to stakeholders. The third and fourth perspectives, internal processes, and learning and growth respectively, were unchanged. The indicator categories included in the thematic BSC were issues such as 'governance, synergy, compliance and labour practices', which facilitated 'sustainable performance reporting' (Dias-Sardinha & Reijnders 2005). A process design similar to that of Gardiner (2002) could be adapted to integrate aspects of business ethics with business performance (see section 2.6 for details).

Respondents in the interviews have expressed caution while integrating business ethics in the BSC – in terms of keeping the process simple, with minimum of numbers and metrics, and to maintain flexibility with less of 'do's and don'ts'. Recent research by Ittner, Larker & Meyer (2003) and Rompho (2011) indicate that inadequate design and processes could lead to failures in implementing the BSC.

The BSC, therefore, can be adapted to suit or customise the requirements of the company's objectives and if not designed appropriately, can lead to failures. Further conclusions and recommendations will be discussed in chapter 10.

7.6 Summary for the ethical decision-making process and other factors

This section summarises the observations and discussions for Proposition 2 *(using intuition to resolve business ethical issues)*, Proposition 3 *(ethical decision-making influenced by heuristics, exemplars and reflection)*, Proposition 4 *(ethical decision-making influenced by organisational factors)*, Proposition 5 *(using the BSC as an effective instrument to measure, monitor and manage business ethical issues)*, and the effects of globalisation.

1. There is evidence of ethical decision-making by SME managers based on intuition, and a combination of intuition, rational and heuristics based judgements, and that there is an element of bias in intuitional decision-making which could lead to errors in judgement.

2. There is evidence of ethical decision-making by SME managers based on several aspects of heuristics, including reducing complex judgements to simple ones, use of judgemental heuristics such as availability and representative heuristics, the influence of availability heuristics on moral intensity, effort reduction aspect of heuristics, limited capacity to process influenced by amount of time available, and the possibility of errors in spite of benefits.

3. SME managers have predominantly utilised heuristics in combination with the rational and intuition based judgements. There are indications also of SME managers relying on heuristics to make intuitive judgements.

4. There is evidence of SME managers using exemplars in the management of their businesses and in their ethical decision-making processes. SME managers show use of different exemplars such as individuals and organisations. Data suggests the prominence of individual characteristics (21 narrations) over organisational factors (13 narrations) in influencing ethical decision-making.

5. There is evidence of SME managers using reflection in the management of their businesses and in their ethical decision-making processes. Aspects of reflective activities which have been narrated by the interviewees include taking stock,

questioning and assessing past experiences to acquire wisdom needed to improve practices, using reflective inquiry rather than intuition in certain situations, and applying ethical reflection to provide a framework for strategic decision-making.

6. Organisational factors have influence over the ethical decision-making processes of individuals in SMEs. These factors include: choice of strategy for decision-making, combination of organisational influence and personal values, individual perceptions of their organisation's environment and corporate ethics, and influence of external environments such as governments and other organisations.

7. SME managers have indicated the possible benefits of a system or a tool such as the BSC to measure and monitor ethical issues within their organisations. While many have cautioned that SME managers may not have the resources to manage BSC due to lack of resources (such as skills, time and finance), they have provided a number of suggestions which could make the use of BSC within SMEs more practical.

Chapter 8: Analysis: Effect of globalisation on ethical issues in SMEs

The question: Which business areas in SMEs are affected by ethical issues due to globalisation? was addressed by the quantitative analysis of the data collected through the on-line survey. The analysis concluded that: (1) competition, pricing and bidding, outsourcing, accounting and finance, and intellectual property were the business areas where SMEs experienced the most ethical issues due to globalisation; (2) the business area of corporate governance and production safety were identified as significant areas for ethical issues but not due to globalisation; and (3) SME managers considered measuring and monitoring business ethics will provide some benefits to their organisation.

The research Question 2: What methodologies can a SME manager use to recognise, measure, and effectively manage ethical issues? was addressed by the qualitative analysis of the data collected through interviews. In addition to the aim of ascertaining the validity of the five propositions (discussed in chapters 6 and 7), interviews were also used to ascertain the effects of globalisation on the respondents' businesses.

The interview questions that were asked were:

- Has your organisation been affected by globalisation and/or business ethics? (Do you think that there are ethical issues due to globalisation in SMEs in general?)
  (If yes), what do you think they are?
- More specifically, in the last 5 to10 years are you aware of any ethical issues faced by you or by your company?

<u>Qualitative analysis for globalisation</u>

As discussed in section 2.3, the phenomenon of globalisation is defined as a process by which the economic and social systems of nations are connected together so that goods and services, capital and knowledge move freely between nations. This can be further elaborated as connectivity between people around the globe, quicker flow of information and money, goods and services produced in one part of the world being available in others parts, frequent international travel, and communication resulting in transnational interdependence of economic and social activity (Stiglitz 2003; Weinstein 2005; Velasquez 2006; Homann,

Koslowski & Luetge 2007; Scherer & Palazzo 2008). The sections on globalisation discussed the role of MNCs and the growing importance of SMEs in globalisation. It was further noted that research in business ethics and CSR have been predominant for large businesses and inadequate for SMEs (Dawson 2001; Jenkins 2006). Spence and colleagues (2000; 2003; 2003; 2006) have observed that further research is needed on SMEs and business ethics.

Qualitative analysis of the interview transcripts to detect whether the interviewees' SME organisations were affected by globalisation commenced with assigning the thematic code GLOB (for globalisation) to the text, based on the meanings and definitions of globalisation. The thematic code was also applied to sections of transcripts which indicated the interaction between the effect of globalisation and ethical decision-making by the interviewees.

There were seven narratives in the transcripts that indicated the effect of globalisation from the importation of low-cost, low-quality products into Australia which directly affected the operations of the SMEs interviewed.

Extract from transcripts of interviewee A11:

> *Quite often, importing it may be cheaper and quality may not be there but quantity that you have imported may not be possible to return on a container – may not be as good as a local supplier if it is not flat packed – so sometimes it better to buy local in smaller quantity locally rather than importing a lot and ends up sitting on the shelf.*

The interviewee had the experience of importing parts and products from an overseas supplier on the basis of cost and quality. Large quantities needed to be imported to take advantage of economies of scale. However, on receipt of the goods the quality was found to be substandard and the goods could not be returned due to high cost of transportation. Such differences in quality and standards were expressed by a number of respondents as shown below.

Extract from transcript of interviewee A13:

> *Till 10 years ago we bought local steel – then we bought some from importer – we asked for a copy of their documents to back up their specs and standards – they delivered materials but no documents – I let that ride – after two days they said they have some problems – it is the right stuff they said – after a week they said they have*

a problem it's not certified to Australian standards but to British standards which is "better" – now we have a problem – the steel is already cut and under advanced process – there was huge fuss we quarantined all material – we ordered material again – we got UK standards to compare – we asked engineering to certify – finally the suppliers footed the bill for engineering to review the difference – in the end engineering allowed us to use it within certain limitations and the importers paid engineering – in the end the damage was a few thousand – if I look back I should have quarantined it till we got the documents – I have been very wary of that ever since – all new suppliers I am careful now.

Here again the issue is quality and its documentation. Such situations affect SMEs in terms of extra costs and lost time. The narrator in this instance lost some amount of money, lost considerable manufacturing time, but gained experience in understanding such transactions.

Extract from transcript of interviewee A22:

*Situation we have where we have a certain standard which we market our product in Australia – **overseas those same standards may or may not appl**y – just how far do you open up in relation to IP – also the Australia standards with which we have to market in Australia – it's a new product in the world – **ethical issue that I have had in some of these markets that they are not at the same level in auto-gas as ours –** we need to be quite up front with people about the way we do it here , the regulations that control our industry in Australia – it used to be quite easy to be in these markets and sell these products without taking any of these into account – we have been quite conscious that people are aware to what we do here and they can choose to sell or not based on what we have to do here – **they don't have to meet the Australian standards to sell their products** – I find it necessary for them to be aware of this – then it is their decision to choose what they want to do – **on safety side of things – we have standards in Australia that are quite stringent – in some markets we have built into the product – if they are looking for cheap alternatives re pricing policy – our products has been of highest quality and our electronics is also constructed around the regulations – so our system is built to comply those regulations** – when you put it together with the mechanical part of the system – **some countries say that we don't need all of this** – that's fine but you don't have any option with our system.*

This organisation manufactures quality products as per Australian standards and has been exporting them. The process involved the company exporting the main parts from Australia and the retailers would then complete the final assembly in their markets using some locally available parts. The local retailers in these markets opted to use lower quality add-on parts because their regulations allowed them to do so. This could become a safety issue and compromise the Australian manufacturer's reputation and thus created an ethical issue for them.

Extract from transcript of interviewee A7:

> ***Imports have severely impacted my profit margin. Creating more warehousing type operations, lead time has got to be short, so it gets imported.*** *With GFC, companies like Target, Coles, Harris Scarfe they reduce amount of goods on water so they depend on local supplies –* ***one co imports towels from India – has huge stocks – because Harris Scarfe would not buy it – banks wanted to pull the plug.*** *Instead of having 60 on water, they have 20, so have to look local. Bluetick warehouse by third party operators – one office, one fax and telephone number they store goods for several customers – one in Melbourne and a Just-In-Time stock in Adelaide.*

Since lead time to supply local customers is short, this SME had to import large quantities for warehousing. Large customers of SMEs – such as those mentioned above – could create uncertainties by changing their requirements.

Extract from transcript of interviewee A8:

> *I guess if importers were most astute and not chasing the almighty dollar, and they guarantee quality – is a good way to start – we are one in a million – we need to more transparent – as a nation we have to import have to make our requirements very specific – especially with dyes, fabric, foodstuffs etc. – we may not know everything.*

This narrator has identified the problem and suggested a solution for it. By being transparent about the quality standards that are required, the importers should '*guarantee quality*' rather than 'chase the dollar'.

Extract of transcript from interviewee A9:

> *Globalisation – badly affected my business – we can't compete in wages – free trade agreements – I am up against other brands that is made by German co they supply kits – dealer buys these – they are nowhere as good as mine – comfort, air-conditioning etc. dust is no good – they are two-thirds the price* – with kits you can't modify – we can customise – theirs is basic types – *if I build theirs I can compete and they have volume* worldwide – they had a quote for 20 cabs – local branch of theirs got me involved – *in the end they got their kits made in Korea for two-thirds of the price* – free trade agreement made it happen – *Australian made had Australian content clause and there was a factor in the price comparison – with free trade we can't do this anymore – this cost me in the last 5/6 years it cost me half a million dollars to overseas company* – it's irritating – I don't mind competing with local company – I am dearer – for the quality we have – *I don't compromise on quality – I can lose business – that's part of my business ethics – I want to do right thing by my employees, society, business, family etc.*

This narrator had to contend with lower quality imports based on different standards of overseas suppliers. The Australian content clause (to qualify for the Australian Made label) has cost the narrator a substantial amount. The option was to import 'substandard' product from overseas suppliers. However, quality has not been compromised in spite of the threat of losing business because '*that's part of [his] business ethics and [he] wants to do the right thing by his employees, society, business, and family*'.

There are other transcripts in which there are narratives where globalisation had an effect on developmental cost, corruption, safety standards, economies of scale, intellectual property issues, outsourcing and downsizing, overseas mergers of companies affecting local business, and ethical issues due to new technologies. In each of these issues, SME owners and managers could recognise the ethical issues arising from the effect of globalisation; they could make a moral judgement, but were subjected to the Component 3 pressures. A summary of the issues and the decisions taken by the SME managers is displayed in Table 34.

Table 34: Ethical issues due to globalisation and decisions taken by interview respondents

Interviewee	Issues from globalisation	Decisions taken
A1	Competitors importing dyes at lower costs and lower quality standards.	Improve local efficiencies.
A2	When dealing with some overseas suppliers, we have to bribe to get the job done.	Was forced to do it due to economic reasons, but now thinking twice about it.
A3	Forced to buy from overseas suppliers as they are more ethical in their pricing policies than local suppliers.	Informed customers to buy from overseas suppliers.
A7	Cheap imports impact profit margins due to price competition and stocking issues.	Have to adapt to conditions by reducing costs elsewhere such as labour.
A8	Cheap imported products had chemicals in them which caused skin irritation, and had to dispose of it, resulting in bankruptcy.	We cannot do anything – a small company cannot afford to be testing – we have rely and trust people (agents who supply).
A9	Standards are lowered by Australian authorities to allow imports at lower costs – quality suffers.	Will not compromise quality even at the risk of losing business.
A10	Importing large quantities at lower costs but with poor quality.	Buy local in smaller quantity but better quality.
A13	Zinc plating is expensive in Australia due to high safety standards and are therefore imported cheaply from countries where safety standards are non-existent.	Same products are now produced in stainless steel – more cost, better quality and in smaller quantities.
A13	We have to pay every six months to check fire extinguishers, electrical tagging etc. which our international competitors do not. Similarly for council inspections for cooling towers.	No option but to absorb the costs but safety and quality is assured.
A13	Due to different quality standards between Australian and some overseas suppliers, we had to incur huge costs for inspection and documentation.	Manufacturing costs go up but quality is retained.
A19	When a high tech product is distributed overseas, people can mimic your feature and develop a product quickly. Our developmental time is much longer costing us more.	Outsource our development to low-cost countries – resulting in downsizing our organisation.
A20	Our client was EDS, but they merged with HP in the US – because of which there is uncertainty of our future. The merged organisation may have their own preferred suppliers.	Nothing much can be done, except lobby the merged company for business and diversify.
A22	Difference in standards between us and our overseas customers raises ethical issues because of the demands to lower our standards to reduce price.	Did not agree to their demands. Instead negotiated with customers to buy parts locally and assemble with our product to reduce costs.
A24	Environmental sustainability and new technology are developed overseas and Australian SMEs are expected to adopt them at a high cost.	Need to adopt them if legislated.

Quantifying the qualitative results for **globalisation**

A count of the number of incidents with ethical issues due to globalisation was compiled in Table 35.

Table 35: Number of incidents with ethical issues due to globalisation in business areas

Business area	No of incidents
Accounts and finance	1
Corporate governance	1
Competition, pricing and bidding	13
Corporate takeovers and restructuring	0
Downsizing	0
Environmental harm	0
Quality of work-life	2
Intellectual property	0
Outsourcing	2
Production safety	1
Pollution	0
Product Safety	2
Total	22

- Although 19 out of 20 interview-respondents had indicated (in the survey conducted prior to interviews) that globalisation had an effect in some of their business areas (see Table 36), only 12 respondents could recall and narrate incidents with ethical issues due to globalisation during interviews.

- 13 (65 per cent) respondents (out of 20) narrated 22 incidents with ethical issues due to globalisation.

- Competition, pricing and bidding (CP&B) were the predominant business areas where globalisation had an effect on ethical issues among the SMEs in this research.

Table 36: Effect of globalisation in business areas – a comparison between interview respondents and survey respondents

Interviewees	CG	A&F	CP&B	EH	OS	DS	IP	HPF&Q	CT&R	PnS	PtS	Pol
A1					*							
A2		*										
A3			*									
A4												
A5												
A6												
A7			*							*		
A8			* *								*	
A9			*								*	
A10			*		*			*				
A11			* *									
A13			* * *									
A15												
A16												
A17												
A19			*									
A20								*				
A22			*									
A23												
A24	*											

- Shaded cells indicate interviewees' responses from the on-line survey conducted before the interviews.
- Asterisks in cells indicate number of incidents narrated by interviewees during interviews that had ethical issues due to globalisation.
- There is clearly a substantial overlap between the survey results and the interview results. There are some differences. Many asterisks coincide with the shaded cells and some do not. A large number of responses during the interviews 15 (71 per cent) were from the same business areas as in the survey responses. Differences could be attributed to the reflective time that respondents had between the survey and the interviews. It could also be attributed to limited time during the interviews where respondents were asked to narrate only one or two incidents which had ethical issues in them.

- It is also noticeable from the table that CP&B dominates the responses in the interviews – 13 incidents (62 per cent). To a large extent SMEs are engaged in the business area of CP&B. Since respondents were asked to narrate only one or two incidents which had ethical issues in them, it is possible that the respondents narrated incidents which are linked to their day-to-day activities and concern, which includes surviving the pressures of CP&B due to globalisation.

A literature review on the effect of globalisation on SMEs and the ethical challenges faced by SMEs due to globalisation, as discussed in sections 2.4.2 and 2.4.3, indicated several activities and aspects of globalisation with respect to SMEs. These include the role of MNCs, outsourcing, downsizing, corruption, quality of products, environmental impacts, product standards, and production workplace safety. These aspects have been observed in the interview data and are now discussed.

1. Firstly, the major impact of globalisation on business ethics experienced by the SMEs in this study was the issue of the importation and availability of cheaper but lower quality products from overseas manufacturers and suppliers. Managers from six SMEs had experienced the following:

   Interviewee A7 indicated that cheap imports has severely impacted profit margins. To avail of the cheap prices, importers have to purchase in large volumes, which in turn causes additional expenditure in storage costs. Further, in the longer term, the importer may not be able to sell all of the stock, which causes the stock to sit on the shelves and products could be out of ‘fashion’ over a period of time. To overcome this, retailers such as this interviewee resort to selling at high prices.

   Interviewee A8 had problems when a cheap imported product had chemicals in it which caused skin irritation. They were forced to dispose of it, resulting in bankruptcy.

   Interviewees A9, A11, A13, and A22 had similar issues as those narrated above. Enright and Ffowcs-Williams (2000) contend that such issues could be due to increased pressure of competition between firms from different countries or increased

competition between SMEs within a country. Such competitive pressures would seem to operate in Component 3 (establishing moral intent by evaluating pressures and motivations) of the FCM .

2. Secondly, four SME managers indicated that they were impacted by different quality standards of different countries for the same type of product. Two examples are discussed below:

   Interviewee A9 manufactures equipment for tractors and other farm machinery and these require stringent safety standards. Australian and US standards differ in certain aspects. A9 has indicated that certain sections of the US standard was adpoted into the Australian standard although the Australian standards are much better. Although A9 is aware of this, he is required to manufacture the equipment conforming to the revised Australian standard. Further, his submission to the standards committee (to bring the safety issue to their attention) was not looked at because he is not a 'qualified' engineer. Such pressures to act (where it is legal but potentially unethical) are manifest in Component 3 (establishing moral intent by evaluating pressures and motivations) of the FCM.

   Interviewee A22 manufactures machinery for export and to lower the total cost had identified certain components of the machinery which can be sourced and assembled overseas by the overseas retailer. However, the quality standards for such components are lower in the overseas market compared to those available in Australia. The retailer insists that assembling using locally acquired components would be good for business due to lower costs. Further, the overseas retailer does not have to meet Australian standards to be able to sell in that country. Again, here the respondent has been impacted by globalisation – on the one hand business has the potential to be profitable by selling in overseas market, and on the other hand there are pressures as described above which this SME has to evaluate against the moral judegment of knowing the right thing to do.

3. Thirdly, the impact of the activities of MNCs was narrated by SME managers in three incidents as discussed below:

Interviewee A1 indicated that large MNCs in the automotive sector sought to obtain quotes (for press tools in this case) from three suppliers: one from Australia (the interviewee's firm) and two from other countries. The job then went to a supplier in Taiwan (as in this case) because it was lower priced. However, the quality was substandard and the press tool would then be handed over to this interviewee's firm for reworking and bringing it up to the required standard. Reworking, as the interviewee mentioned, is a lot more tedious and complicated work but the compensations are never adequate.

Interviewee A2 indicated that MNCs in Australia import equipment (which is also manufactured by the interviewee's firm) in large volumes at a much cheaper price but with lower quality, which potentially can put the interviewee's firm out of business. A2 feels that it would be ethical for such MNCs to discuss such issues with local businesses such as A2's to find a solution.

Interviewee A20 indicated that the MNC that they were working with merged with a larger MNC overseas and they now expect the new management to change the relationship which could result in potential closure of the interviewee's firm. A20 also gave examples of Motorola and Mitsubishi who closed their operations in Adelaide affecting several SMEs who were their suppliers or service providers.

Thus, while large firms provide most of the impetus through cross-border operations undertaking their expansion, production, sourcing, marketing, and financing, globalisation also presents challenges for SMEs (OECD 1997, pp.7-9). As noted by Enderle (2004), SMEs are only expected to follow them, unable to effectively improve on or contribute to the globalisation process.

4. Fourthly, ethical challenges due to globalisation were demonstrated in the areas of environment and safety by three SME managers. An example is discussed below:

Interviewee A13's firm manufactures thousands of fittings for blinds. These have to be made as cheap as possible due to competition and were therefore zinc plated for

corrosion resistance. As the interviewee mentions, in the 1960s the spent chemicals, mostly cyanide, were poured into the ground. Later, laws were changed making that illegal for environmental and community safety reasons. Filteration and disposal became expensive increasing the cost of the final product. To reduce costs, manufacturers of blinds began importing the same zinc-coated products from Asian based suppliers, where there were no environmental and safety controls. A13's firm was priced out of the market but decided to manufacture the same products made out of stainless steel, which was four to five times more expensive to make and created a niche market for themselves. This firm had been directly impacted by the effects of globalisation on business ethics and was under pressure to change their operations.

5. There were three other individual incidents as follows:

   Interviewee A19 – the firm could not control the intellectual property of their software and overseas suppliers quickly mimicked their design features and developed the product in a short amount of time thereby reducing overall product costs. This resulted in the firm deciding to develop their software overseas and downsize their local employee numbers. The interviewee noted that they were forced to outsource and downsize due to competitive pressures.

   Interviewee A2 has an Adelaide based fabrication workshop. Encountering low local sales and the resulting financial debts, A2 set up a subsidiary business overseas with the aim to secure orders and manufacture the products. However, he had to pay bribes to local authorities to secure orders and manufacturing licences. A2 indicated that he felt pressured to pay the bribes in order to pay off his financial debts and for the survivial of his Australian-based operation.

   Interviewee A10 had an example of an indirect effect of globalisation. During the global financial crisis in 2008, both the bank that funded their operations and the government agency that awarded them with contracts tightened their involvement and operations with A10's firm, resulting in considerable downsizing of their employee numbers. This was a situation beyond their control and, as noted by McPhail (2001), is attributable to the distance between an action (the global financial crisis in this

case) and the consequences of the action (employee downsizing in Australia in this case).

In summary, from the incidents and discussions in points 1 to 5 above, it can be seen that some SMEs have had ethical challenges due to the effect of globalisation on their businesses. Ethical challenges discussed above were pressures or influences from MNCs, importation of cheap products of lower quality, variation in product standards in different countires, environmental and safety issues, intellectual property issues, corruption, and outsourcing and downsizing. Also evident from the above discussions is the limitations that SMEs have in resolving these ethical issues. Here, the pressures of Component 3 of the FCM are most apparent and, in most situations, SMEs have relented to pressures arising from globalisation.

Chapter 9: Conclusions, implications, and recommendations

Introduction

This chapter comprises five sections. The first section summarises the research findings in relation to the two research questions of this study. The second section discusses conclusions from the quantitative analysis from the survey, and the five propositions in the qualitative analysis from the interviews. The third section, implications of the research findings has two subsections. The first subsection discusses the theoretical contributions from this study, and the second subsection has suggestions for the practical use of the theoretical contributions. The fourth section outlines the limitations of this research project and the fifth section provides directions and recommendation for future research of this topic.

9.1 Summary of research

Based on the literature reviews conducted on various topics related to this research – business ethics, globalisation, SMEs in Australia, and the ethical decision-making processes involving them (chapters 2 and 3), this study examined the effects of globalisation on business ethics in SMEs in Australia and the ethical decision-making processes and methods that SMEs use, thereby suggesting methodologies that SME managers can use to measure, monitor and manage ethical issues.

In the introduction, two research questions were posed: (1) what are the effects of globalisation on business ethics in SMEs? and (2) what methodologies can a SME use to recognise, measure, and effectively manage these effects? The first research question was developed after the literature review which established gaps in the literature (see chapter 2), and the second research question was developed after a literature review of ethical decision-making models, Rest's model, and alternate methods of ethical decision-making (see chapter 3).

The research methodology applied to this research was quantitative and qualitative data collection and analysis (section 4.3). Literature review revealed that quantitative method would be suitable for addressing the first research question and the qualitative analysis for the

second research question. An on-line survey was administered to collect data required for quantitative analysis and 20 semi-structured face-to-face interviews were conducted to collect data for qualitative analysis. The process of descriptive statistics was used to analyse and report the findings of quantitative analysis – see section 4.4 for quantitative method. For the qualitative analysis, codings were developed using the prior research-driven code development method for Propositions 1, 2, 3, 4, and 5. The codes were utilised for content analysis and the NVivo application software was used for creating matrices – see section 4.5 for qualitative method.

Major findings from the quantitative analysis of survey data (see sections 5.2 and 5.3) revealed that the effects of globalisation on business ethics in Australian SMEs were predominantly experienced in the business areas of competition, pricing and bidding; outsourcing; accounts and finance; intellectual property; and quality of work-life. In addition, corporate governance, and production safety were identified as business areas with ethical issues not due to globalisation (see Table 20). SME managers acknowledged that monitoring business ethics within their organisations will benefit their organisations in areas of credibility with public, job satisfaction, staff retention, legal compliance, and status as leader in business community (see Table 21). Although some SME managers measured non-financial performances such as customer satisfaction, quality, on-time delivery, and employee performance, they did not monitor ethical issues, and further indicated that business ethics issues could be incorporated into the BSC framework.

Major findings from the qualitative analysis of interview data revealed that when confronted with an ethical issue, SME managers utilise a variety of techniques to respond to them. Globalisation has affected such issues and also the ways SMEs deal with them, especially with respect to the pressures of Component 3 of Rest's FCM.

Further, SMEs use a decision-making process that conforms to that of Rest's FCM of ethical decision-making. Some respondents applied all four components of the FCM. There was evidence that SME managers use heuristics and intuition in their ethical decision-making process. Their decision-making is influenced by moral exemplars (individuals and organisations), reflections on past experiences, and organisational factors such as employee perception of organisational culture and external environments such as governments and other organisations. In the interviews, SME managers suggested a number of ways that the

BSC could be adapted for use as a monitoring and managing instrument in their organisations.

9.2 Conclusions

9.2.1. Conclusions from the survey:

As discussed in section 5.3, conclusions that can be drawn from the survey results are:

1. While the survey indicated that SMEs experience ethical issues due to globalisation in in a number of business areas, competition, pricing and bidding was the predominant business area in the ethical issues narrated by respondents in the interviews (see Table 29). Due to competitive pressures, some interviewees resorted to actions such as importation of cheaper but lower quality and unsafe products (see section 6.2.8). While interviewees could recognise the ethical issues, and could understand and make a moral judgement, their final actions did not override the competitive pressures (see discussions on Rest's FCM in section 6.2.8).
2. SME business managers consider monitoring business ethics will provide benefits. Recent studies (Gagne, Gavin & Tully 2005; Gilley, Robertson & Mazur 2010) have indicated business ethics can be monitored through effective ethics programs and codes of ethics which can yield benefits such as those identified by SME managers in this survey. Narratives in the interviews have indicated that some SME managers use professional codes and codes of ethics in their organisations to make moral judgements.
3. Although SME managers in this survey measured and monitored non-financial performances such as customer satisfaction, quality, product demand, training, quality, environmental impact, on-time delivery, and performance of employees, they did not measure and monitor ethical issues in any of their business areas. In the discussions in section 6.3 it was suggested that they have not been able to do so probably due to lack of time, inadequate financial and manpower resources, and lack of adequate training. These limitations of SMEs (discussed earlier in section 2.4.4) were also identified by interviewees in their narratives regarding measuring and monitoring of ethical issues and specifically with the use of the BSC (see discussions in section 7.4).

9.2.2 Conclusions regarding the ethical decision-making process used by SME managers

Proposition 1: *When confronted with business ethical issues, SME managers will tend to use a ratiocinative decision-making process that conforms with Rest's FCM.*

Data analysis of the incidents narrated by interviewees indicated that most SME managers used an ethical decision-making process that conforms to that of Rest's FCM. At the Component 1 stage of the FCM (recognising ethical issues), the interviewed SME managers utilised a wide range of methods in recognising ethical issues such as general ethical principles (utilitarian, deontological, justice, and fairness), knowledge and understanding of their profession's regulations, codes and norms, and the expectations of their professional practice. At the Component 2 stage of the FCM (making moral judgments), SME managers utilised a wide range of methods such as rationalising, intuition, and heuristics. A higher percentage of interviewees utilised the intermediate level of moral judgement (codes and norms related to their professional practice) compared to the concrete-level (organisational codes of ethics and conduct) and the abstract-level (general moral principles). This could be attributed to the limited resources available to SMEs to develop and administer specific written codes of ethics and conduct. At the Component 3 stage of the FCM (establishing moral intent), SME managers have indicated other legitimate concerns (such as profit/short-term gains, internal and external organisational factors, competitive pressures, safety and environment, stakeholder interests, and legal issues) which can undermine the moral judgments made by them at the Component 2 stage. At the Component 4 stage of the FCM (engaging in moral action or behaviour), SME managers have displayed certain virtues such as courage, competency and capacity.

In some situations, managers have taken moral action that matched their moral judgement and have overridden pressures, and in other situations, moral action did not override pressures and did not match moral judgement. Thus, it is suggested that SME managers can have a number of legitimate concerns which may not be compatible with their moral judgements.

Contrastingly, in some incidents SME managers did not utilise all four components of the decision-making process. Most of such incidents were of the general-issue type (incidents

which do not relate to any specific ethical issues concerning their operations or organisations – see section 6.2.7) and in such incidents, Component 3 was not utilised – probably because there was no need for them to evaluate their judgements with any other pressures or motivation, because there were none. This suggests that SME managers are more likely to utilise all four components of the decision-making process when an ethical issue is specific to their operations and organisation.

This research has shown that the decision-making process that SME managers go through generally conforms to Rest's FCM. In other words, the decision-making process fits the framework of Rest's model. Proposition 1 is supported.

9.2.3 Conclusions regarding processes and tools that SME managers use or can use with respect to ethical decision-making.

Proposition 2: *SME managers use intuition to resolve business ethical issues*

SME managers resolve ethical issues based on intuition in combination with rational and heuristics based judgements. Business areas where intuitive decision-making was predominantly used were governance, competition, and human resource management (such as hiring and firing). Because SME managers seem to have the abilities to think both intuitively and rationally, it is suggested that they use these methods based on the situation. If there is a standard operating procedure available for resolving ethical issues (such as codes of ethics or conduct), they may employ the rational based decision process. Where there are no established processes, they may rely on intuition based decision-making by following a pattern or past experiences (see sections 2.4.7 – Decision-making tools used by SME owners and managers, and section 3.4.7 – Intuition).

SME managers have also displayed bias in intuitional decision-making, resulting in errors. It could indicate that because SME managers are required to play different roles and have to manage such a diverse range of management issues, they may not have the knowledge, experience, and skills required for ethical decision-making. In contrast, most of the skills acquired by SME managers relating to planning, organising, leading, and controlling business operations require rational based step-by-step decision-making.

This research has suggested that Australian SMEs utilise intuition for ethical decision-making, but are subject to errors due to insufficient knowledge, experience and skills required for ethical decision-making. Proposition 2 is supported.

Proposition 3: *The ethical decision-making process by SME managers could include factors such as heuristics, exemplars, and reflection.*

Heuristics

There is evidence of ethical decision-making by SME managers based on the use of heuristics. SME managers have used several aspects of heuristics such as reducing complex judgements to simple ones, and using judgemental heuristics such as availability and representative heuristics. Here, as in the case of intuition, it is suggested that SME managers could be utilising the effort-reducing aspects of heuristics under certain conditions such as when there is no time to engage in lengthy analytical processes or when the issue may not be very important or when there is little information available for making a decision.

Most respondents in this study developed their moral heuristics on general business or moral rules or past experiences, such as '*when business practices clash, we will walk away*', '*I can go broke and can't look after you*', '*people employ people they know*', '*I don't expect our people to read all the manuals, but I expect them to know the consequences*', '*I will not invest in a company that I believe are unethical – I will never invest in a cigarette or a defence company*', and '*sometimes it is better to buy local in smaller quantity than importing a lot that ends up sitting on the shelf*'.

Further, analysis of the interview data has indicated that 18 out of twenty interviewees (90 per cent) have used the ratiocinative, intuition and heuristics methods in their ethical decision-making. While this indicates that the use of these three methods is widespread among SME managers, most of them have relied predominantly on the heuristics and ratiocinative methods rather than intuition.

Exemplars

All interviewee respondents identified their exemplars and described the attributes of these exemplars. Two types of exemplars were identified in the narrations – individual (21 narrations) and organisational (13 narrations), indicating the prominence of characteristics of individual exemplars over organisational characteristics. Respondents also used multiple exemplars in their narrations, suggesting that they would use exemplars based on the circumstances of the situation. Organisational characteristics included moral commitment, business integrity and ethics, CSR activities, family-friendly policies, compliance and cooperation, culture, and use of stories or narratives. Characteristics of individual exemplars included giving advice and working through issues, virtues such as honesty, reliability, integrity, and straightforwardness, leadership and values, knowledge, worldview, emotional and physical courage, personal ethics (keeping word), teaching right and wrong, '*real gentleman*', caring and sharing, family values, earning respect from employees, and good decision-makers. SME managers have acknowledged the role of exemplars in the management of their businesses and in their ethical decision-making processes. Again, probably due to the limited resources such as time, finance and skilled employees, SME managers tend to rely on exemplars to guide their decision-making.

Reflection

SME managers acknowledge the role of reflection in ethical decision-making. Having taken an erroneous ethical decision, one respondent realised the error, reflected on the circumstances, gained experience from it and narrated a corrected process that would be followed in the future, should a similar situation arise. Another respondent's approach to sorting out ethical principles within their organisation was to think about it before '*charging in*', involving stakeholders (such as employees) to consult and discuss issues, which may mean delays in getting things done, but ensures that it decreases opportunities for problems. A third respondent made a decision not to deal with a particular client anymore after reflecting on an unethical outcome of an earlier issue. These narratives indicate that SME managers have used the process of reflecting on past experiences to gain experience for decision-making in the future. Gaining experience through reflection can also assist in developing heuristics which, as discussed above, is also used by SME managers as one of the methods for ethical decision-making.

The above discussions and conclusions suggest that ethical decision-making processes utilised by SME managers are influenced by heuristics, exemplars, and reflection. Proposition 3 is supported.

Proposition 4: *The ethical decision-making process by SME managers is influenced by internal and external organisational factors.*

Data suggests that organisational factors have influenced the ethical decision-making processes of individuals in SMEs. Organisational factors that have been indicated in the narratives of SME managers in this study include individual perception of organisational environment and corporate ethics, perceived ethical climate of their organisations, a combination of organisational influences and personal values of employees, and the influence of external environments such as governments and other organisations. Organisational factors can have both positive and negative influences on ethical decision-making. Positive organisational culture and climate in one respondent's company resulted in employees having the confidence to take decisions knowing that their decisions will be respected by the management. In another organisation, common value systems and goals were combined with clear communications and expectations to achieve autonomy in decision-making.

Negative organisational factors were evident in several instances where respondents chose to leave their organisations due to the organisations' ethical climate. One respondent chose to leave his organisation because the management were manipulating and not fulfilling contractual obligations making employees frightened and feeling threatened. A difference between another narrator's personal values and his organisation's values resulted in an ethical dilemma involving a major environmental issue, forcing the narrator to leave the organisation. Another respondent made the distinction between SMEs and larger organisations by narrating that practices in smaller companies change frequently and ethical guidelines can be unclear and narrow compared to a larger company where such guidelines are rigid but well documented allowing employees to go back and refer to the guidelines. A fourth respondent described the ethical climate in a local council as a shared perception to believe that it was not wrong for employees to use council goods and services for private purposes. External organisational factors such as government legislation have also been shown to have influenced ethical decision-making in one respondent's organisation.

Organisational factors, both internal and external to SMEs have influenced ethical decision-making and the ethical climate within organisations can create positive or negative outcomes. Proposition 4 is supported.

Proposition 5: *The BSC could be an effective instrument for SME managers to measure, monitor and manage business ethical issues*

In the literature review, it was shown that while most key performance indicators used by businesses are related to financial outcomes, the BSC developed by Kaplan and Norton (1996, p.9) recognised that non-financial outcomes such as internal processes, customer satisfaction and employee learning and growth needed to be interconnected in a causal relationship with each other and ultimately with the financial outcomes.

Data from the survey indicated that although SME managers measured non-financial performances and also acknowledged that measuring and monitoring ethical issues could benefit their organisations, none of the respondents specifically measured ethical issues within their organisations. Interview data has shown that this could be due to a number of reasons such as lack of time, inadequate resources both financial and manpower, lack of training, and size and structure of a SME business. Survey results also showed that most respondents who were aware of the BSC indicated that business ethical issues could be incorporated into the BSC framework.

Data from the interviews has confirmed that SME managers would consider using an instrument such as the BSC if it could be adapted to suit the specific requirements of SMEs. However, if not designed appropriately, it can lead to failures. Suggestions by SME managers to adapt the BSC to SME's specific requirements included flexibility to modify processes, training and ethical development for individuals, keeping it simple and easy to understand, not be a numerical exercise due to paucity of time, and develop ability in individuals to resolve ethical dilemmas by themselves. Proposition 5 is supported.

9.3 Implications

Implications of this research are categorised into two areas – empirical findings from the research conclusions, and the practical use that flows from the empirical findings.

9.3.1 Empirical findings from the research conclusions

Several implications can be drawn from the conclusions of this research.

First, the indication that SME managers have used all five decision-making tools that have been considered in this research – the ratiocinative method, the intuitive method, the heuristics method, the use of exemplars, and the use of reflection – suggests that SME managers use these tools intuitively probably because these decision-making tools are not new to them. Here, a distinction can be made between decision-making in SMEs and in larger organisations. Large organisations (where employee numbers are greater than 200), due to an inherently formal environment, the complexity of issues and availability of resources, predominantly use system oriented, disciplined, structured, and sophisticated ratiocinative decision-making methods (see section 2.4.4). As this research shows, SMEs, due to an inherently informal environment, limited resources in terms of skills, knowledge, technology, finance, and with a short span decision time, use a range of decision-making tools as described above.

Second, the pressures of Component 3 of the FCM are most apparent and could point to the suggestion that SMEs are prone to Component 3 pressures. SMEs in the narratives have succumbed to the effects of globalisation on their business ethics and could therefore raise a discussion on ‘why be moral?’ when evaluated against the survival of the business which can potentially save jobs.

Third, the decision-making of most SME managers seem to be affected by organisational factors within their own organisations. The ethical climate and culture of the SME has forced some SME managers in this research to take unethical decisions or leave their organisations due to conflicts between personal and organisational values.

Fourth, most SME managers in this research relied on external norms and codes for ethical decision-making. The reliance on such instruments may be due to the limited resources that SMEs have, prompting SMEs to refer to readily available codes and norms of the professional bodies or associations to whom they belong or are members of.

9.3.2 Suggestions for the practical use of the empirical findings of this research

Based on the theoretical contributions and implications of this research (as discussed in the previous section), suggestions for using them in practice by SME owners and managers are discussed below:

1. The ethical decision-making process that SME managers use could be explained in their training and development programs, such as:

    Incorporating real-life ethical issues, from their own organisations and from others to analyse and discuss the use of the five ethical decision-making tools that SMEs use – ratiocinative, intuition, heuristics, exemplars, and reflection – and the effects of organisational factors on decision-making.

    The FCM framework could be used as a way of developing an ethical decision-making process as part of a broad-based professional curriculum in in-house professional development training programs in SMEs. Because SME managers seem to have intuitively used the FCM framework in making ethical decisions, they could probably accept the FCM framework as a training tool.

    Acceptance of the FCM as a training tool could help develop the FCM as a heuristic framework for ethical decision-making and possibly develop into a prescriptive model in addition to being a descriptive model.

    Use of real-life ethical issues, as compared to general ethical issues, would involve discussions on the effect of Component 3 pressures and motivations (which, as this research shows, SMEs are subjected to). ‘What if’ scenarios with different types of pressures could be utilised to anticipate and foresee

future incidents with ethical issues. SMEs could be made aware of the effects of globalisation on their business ethics, as discussed in this research – particularly to the Component 3 pressures that could result from the effects of globalisation.

Training programs could include highlighting the effect of personal values and virtues at the Component 4 stage of the FCM. In particular, in what ways have SME managers allowed Component 3 pressures to override the Component 2 moral judgements or vice versa?

2. Since SME managers rely on their profession's codes for recognising ethical issues, their professional bodies and associations (such as the Australian Society of Certified Practicing Accountants, Engineers Australia, Australian Medical Association, Australian Federal Police Association, Real Estate Institutes, and others) could consider incorporating aspects of this research's findings and conclusions. A similar process could also be considered for codes and norms in broad-based societal associations such as the Rotary Club, the Lions Club, and golf clubs.

3. A modified version of the BSC – possibly with an additional fifth perspective for ethical issues – could be considered to show the interconnectedness of ethical issues (and the associated decision-making) with the other four perspectives of the BSC – finance, customers, internal processes, and employee learning.

   Training in the use of the four components of ethical decision-making could be incorporated in the employee learning perspective of the BSC. The employee learning perspective of the BSC is the area where employees receive training which can assist them to effectively and efficiently apply the internal processes of their organisations (such as recognising ethical issues and resolving them using appropriate methods), which in turn can satisfy the interests of stakeholders such as customers, suppliers, and their own employees, finally resulting in a sustainable financial outcome.

9.4 Limitations of this research

There were several limitations in this study that should be noted. First, a relatively small sample, although adequate for these research purposes and methods, was taken from SMEs from within and around Adelaide in South Australia. Therefore, the findings should be considered suggestive and although generalisations to the entire population of SMEs in Australia can be made, a larger sample on a national scale involving a wider geographical area and with higher representations from all sectors of business could provide further evidence to the findings. Second, although the topic is based entirely on business ethics, elements of personal ethics can affect the responses in both the survey and the interviews. While it would be easier for respondents to respond to a survey questionnaire due to its anonymity, respondents in the interviews could be influenced by apprehension and anxiety about narrating ethical issues where the outcome was morally unacceptable. This could be the reason why most interviewees narrated incidents which had positive moral outcomes. Third, although there is no reason to doubt the authenticity of the incidents and ethical decision-making process narrated by respondents, future interviews could be structured in a way that could involve more employees in the same organisation.

9.5 Future research and recommendations

Future opportunities for research that arise out of this thesis are as relevant to researchers in other countries as they are to researchers in Australia. There are several opportunities for future research that are suggested from this study. One important direction would be to conduct empirical studies in SMEs to understand the methodology of utilising reflection and the role of exemplars in the ethical decision-making process. Second, future research could also conduct longitudinal studies to expand the findings of the present study, for example, to ascertain the effectiveness of the practical suggestions (as described in the previous section of this research), if utilised by SMEs, over several years. Third, research to examine the effects of organisational ethical climate on ethical decision-making in SMEs could help equip SME managers to understand and take into consideration such effects in their decision-making process.

Fourth, since not a great deal is known about the exact mechanism of ethical decision-making, it will be useful to research on the factors that can ‘push’ an individual from

Component 3 (establishing a moral intent) to Component 4 (engage in moral behaviour) in Rest's model.

One of the findings of this research was that SME managers would engage in measuring, monitoring and managing ethical issues through the application of a practical tool such as the BSC. Future research could use some of the suggestions made by interviewees in this study (see section 8.4) to further explore the adaption of the BSC for ethical issues in SMEs. Findings from this research suggest that SME managers consider the business areas where ethical issues are most experienced were corporate governance; competition, pricing, and bidding; hiring, firing and quality of work-life; and accounts and finance. Design of the BSC could focus on these business areas.

Further, as suggested by Rest and Narvaez (1994, pp.202-205) the FCM could drive further research leading to new instruments to assess morality, devising new tests and establishing links to predicting behaviour. Such research could include empirical studies to establish comprehensive measurements to develop reliable and valid assessments of each component of the FCM (see (Walker 2002) and 'then flesh out their structure and importance in moral functioning' (Thoma 2002). Future research could also include whether the FCM can be utilised in a heuristic framework and as a prescriptive model for ethical decision-making in SMEs.

Conducting empirical research could enhance the understanding of the use of professional codes and norms by SME managers to recognise ethical issues and make moral judgements. This could also answer the question about whether specific codes or policy manuals are more or less effective than codes and norms specific to their professions.

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Annexures

Annexure 1: List of 30 business areas with reasons and comments

BUSINESS ETHICS - ISSUES	Affecting SMEs	Affecting due to Globalisation	Combined Scale	Reasons/Comments
Corporate Governance	H	H	H-3	There is clear evidence of an absence of ethical behaviour on the part of individuals (which is a matter of character and corporate culture) and an absence of procedural restraints and checks {which is a matter of legislation).
Accounting	H	H	H-3	The Chief Financial Officer, responsible for financial statements, could have conflict of interest, as on one hand, they are required to present the financial condition as accurately as possible to the general public and on the other hand, because they are employees of the company, they may be told to present the company's position as favourably as possible. Accounting firms or CPAs are often caught between the requirements of confidentiality with respect to the client and the public's interest
Disclosures	M	L	L-2	What is to be disclosed may vary from group to group e.g. stockholders, employees, government – not much of an effect on SMEs
Insider Trading	L	L	L-1	Insider information is information that someone within the company has but that is not available to those outside the company. Some common examples can be seen in takeovers and mergers and expansion involving property acquisition – more relevant to large corporations.
Finance and Banking	H	M	H-2	Institutions which are involved in taking deposits, making loans, insurance, pension funds, brokerage, financing and investing. Ethical issues arise in the activities of these institutions.
Banks and world	L	H	M-1	Ethical dimensions are related to

debt				banks that acted recklessly, borrowing countries that accepted loans, leaders and entrepreneurs in those countries who misused or misappropriated funds & deposited their own funds safely abroad.
Secrecy and disclosure	H	H	H-3	Banks have moral obligations of confidentiality on the one hand and disclosure on the other. Secret bank accounts are a case in point.
Corporate Takeovers Restructuring and Change	H	H	H-3	Takeovers have often resulted in incidences of plants closing down, large redundancies of jobs and detrimental reorganisation of firms.
Downsizing	H	H	H-3	Restructuring via downsizing was being justified by efficiency improvements. International competition was cited as a threat in addition to the threat from predators. Downsizing involves making do with fewer workers, both at the managerial and lower levels.
Ethical Investing	L	H	M-1	In a family-owned or SME, the owners of the corporation and the principle managers are typically the same people. Hence, the owners as managers have responsibility for what the corporation does.
Safety and Acceptable Risk	H	H	H-3	The major ethical question here is not what is produced, but how it is produced. Goods produced should be safe and not cause preventable foreseeable harm; they should be produced in conditions that do not harm those engaged in the production process and should be produced in such a way as to minimise any harm to the environment
Product safety and corporate liability	H	H	H-3	The level of risk a society wishes to accept in using products can be set informally by the state of the art for the particular type of product or can be set by the government. Knowingly falling below socially accepted and expected standards is morally culpable, but what that standard is can vary from product to product and society to society
Production	H	H	H-3	Whatever the country, basic

Safety				minimal levels of safety must be provided – e.g. sweat shops. Ethics play an important role in resolving them. Ethics come into play while setting the standards and monitoring after the standards have been set.
Environmental Harm	H	H	H-3	Environmental harm must be minimised while maximising the benefits available by increased scientific knowledge and technological advances and while respecting the rights of all those affected. Direct, intentional, preventable harm is morally wrong.
Pollution	H	H	H-3	Because pollution can involve harm to others, it has a moral dimension. A moral audit or a social audit can be constructed to include an evaluation of corporate actions with respect to pollution.
Whistle Blowing	M	M	L-2	The need for moral heroes shows a defective society and defective corporations. It is more important to change the legal and corporate structures that make WB necessary than to convince people to be moral heroes.
Competition, Pricing, Bidding	H	H	H-3	Creating monopolies, undercutting and over inflating prices and unethical bidding are relevant issues.
Consumer and Direct Marketing	M	H	H-1	Includes truth in lending, unit pricing, and labelling and dating.
Advertising	L	L	L-1	Using deception, misleading and coercion can be unethical.
Workers' Rights: Employment, Wages and Unions	H	H	H-3	The right to a just wage also called a living wage is derived from the right to life, the right to employment and the right to respect. For some, a just wage is whatever the market determines, which is morally and ethically debatable.
Executive Compensation	H	H	H-3	What is the proper maximum ratio to minimum wages?
Rights in Hiring, Promotion & Firing	H	H	H-3	Discrimination in and the reasons for hiring, promotions and firing in SMEs per se and due to Globalisation needs scrutiny.
Quality of Work-	H	H	H-3	Four Aspects: conditions of labour,

life				the organisation of the work performed, worker relations with their environment and the attitude of the worker toward work are of concern.
Worker Loyalty and Obedience	H	H	H-3	A firm that takes morality seriously will set a moral tone from loyalty and obedience, and will pay close attention to the moral concerns of its employees.
Discrimination, AA, and Reverse Discrimination	H	H	H-3	Where do quotas and "prejudice" figure while accepting diverse employment environment.
Intellectual Property	H	H	H-3	Questions are: Who owns knowledge and information that have been developed by people in a corporation? Who owns knowledge and information about a corporation? From a moral point of view, what may be kept secret and what must be disclosed
Industrial espionage, software, data, copying programs	H	H	H-3	Global business has resulted in the guarding and stealing of information not only of one firm's competing against another but also of espionage sponsored by national governments.
Computer theft	H	H	H-3	The stealing of funds or assets, company's trade secrets, its corporate data using computers is clearly immoral. Information & electronic privacy violations needs moral thinking and argument.
Flexitime and teleworking	H	H	H-3	Cross border transactions have resulted in 24/7 operations across continents.
Outsourcing	H	H	H-3	This results in dislocations, job losses and jobs being outsourced. A good firm seeks to minimise the harm done to those is lets go; a good society provides a safety net to those in transition between jobs and retraining for those whose skills have become obsolete.

Annexure 2: On-line survey questionnaire

Page 1: Introduction

Effect of Globalisation on Business Ethics in Australian SMEs - 3

1. INTRODUCTION

This survey examines the Effect of Globalisation on Business Ethics in Australian Small and Medium Enterprises (SMEs). The results of this survey will provide critical insights into Globalisation and Business Ethics and the findings are expected to benefit you and others in the SME sector. Thank you for your help.

*** 1. Please indicate (by ticking the appropriate button) if you would like to read the Information and Consent Form or exit this survey.**

◯ Yes, I would like to read the Information and Consent Form ◯ No, I would like to exit this survey

Page 2: Information and consent form

This project has been approved by the University of South Australia's Human Research Ethics Committee (HREC Approval No.: P348/08)

Purpose of survey
You are invited to participate in a survey to analyse the factors which affect business ethics issues due to globalisation. It will also throw light on whether SMEs currently monitor these effects and if not whether they would like to do so in the future. This project is being conducted by Mr Sunil Savur from the School of Management, University of South Australia.

Small and Medium Enterprises (SMEs) play a key role in economic progress in many countries and are similarly affected by globalisation. While business ethics has been well researched, documented and implemented in large businesses, SMEs, especially in Australia, have received little or no attention in this regard. By conducting this survey we hope to addresses the following questions: What is the effect of globalisation on business ethics in Small and Medium Enterprises (SMEs) in Australia? What methodology can a SME use to recognise, measure and effectively manage these effects?

Description of survey
If you decide to participate, please click the "Next" button at the end of this form to indicate that you have read and understood the aims of this project, and that you wish to participate. Otherwise, please click the "Exit this survey" button located on the top right hand corner. This survey should take about 5 minutes to complete. You are able to withdraw from this survey at any stage by clicking the "Exit this survey" button.

Confidentiality
Any information that is obtained in connection with this study and that can be identified with you will remain confidential and will be disclosed only with your permission, except as required by law. The researcher will take every care to remove responses from any identifying material as early as possible. Likewise individuals' responses will be kept confidential by the researcher and not be identified in the reporting of the research. However the researcher cannot guarantee the confidentiality or anonymity of material transferred by email or the internet.

The results of this survey will be published in academic journals and and will be included in a thesis for a PhD.

If you have any queries or concerns about this project at any stage you are welcome to contact Mr Sunil Savur 0402142840 or email: Sunil.Savur@postgrads.unisa.edu.au or Associate Professor Chris Provis on 08 8302 0748 (or email: chris.provis@unisa.edu.au) or Dr Howard Harris on 08 8302 9309 (or email: howard.harris@unisa.edu.au)

In addition, should you have any concerns about the ethical conduct of this research project, you may contact Ms Vicki Allen, Executive Officer, Human Resource Ethics Committee, University of South Australia on 08 8302 3118 (or email: vicki.allen@unisa.edu.au). Any complaint you make will be investigated promptly and you will be informed about the outcome.

Results
We will send all participants who request it a summary of the main findings of this study, once they are available. Interested individuals are welcome to request copies of research articles that are published about this project.

Your consent
Your decision whether or not to participate will not prejudice your future relations with the University of South Australia. If you decide to participate, you are free to withdraw your consent and to discontinue participation at any time without prejudice.

You are invited to retain a copy of this form by printing this page.

*** 2. To consent and proceed to the survey, please click "I Agree" and "Next". To exit this survey, please click "I disagree".**

◯ I agree ◯ I disagree

Page 3: Demographic data

3. Demographic data

In this Questionnaire, the terms "Organisation" and "Company", refer to the business-unit at the site where you are currently employed.

*** 3. Please state the post code where your business is located (if you are outside Australia, please enter 9999)**

*** 4. Please specify the industry / business area your company belongs to:**

- ◯ Manufacturing
- ◯ Mining
- ◯ Construction
- ◯ Communication
- ◯ Finance and Property
- ◯ Electricity, Gas and Water
- ◯ Accomodation, Cafes and Restaurants
- ◯ Agriculture, Forestry and Fisheries
- ◯ Wholesale and Retails Trade
- ◯ Transport and Storage
- ◯ Public Administration and Defence
- ◯ Community Services
- ◯ Recreational, Personal and Other services
- ◯ Education
- ◯ Other (please specify)

*** 5. In your organisational structure, how many levels are 'above' and 'below' you:**

	0 level	1 level	2 levels	More than 2 levels
Above Me	◯	◯	◯	◯
Below Me	◯	◯	◯	◯

*** 6. Number of years in current organisation:**

*** 7. What is your job title:**

*** 8. How many employees does your company currently employ:**

- ◯ Fewer than 10
- ◯ 10 - 19
- ◯ 20 - 49
- ◯ 50 - 99
- ◯ 100 - 199
- ◯ 200 or more

*** 9. Please indicate department where you work in your organisation**

- ◯ General Management
- ◯ Manufacturing/production
- ◯ Material/Purchase
- ◯ Finance
- ◯ Service
- ◯ Marketing/Sales
- ◯ Other (please specify)

Page 4: Business areas and ethics issues

4. Business and Ethics Issues

DEFINITIONS:

Globalisation: A general definition of globalisation is the process by which the economic and social systems of nations are connected together so that goods, and services, capital and knowledge move freely between nations.

Business Ethics: Business ethics could be defined as the application of ethical values to business behaviour. It applies to any and all aspects of business conduct, from boardroom strategies and how companies treat their employees and suppliers to sales techniques and accounting practices.

*** 10. For the following business issues, rate their importance (from 1 to 5) in your organisation, 1 = Very Low Importance and 5 = Very High Importance**

	1=Very Low	2	3	4	5=Very High
Corporate Governance	◯	◯	◯	◯	◯
Accounting and Finance	◯	◯	◯	◯	◯
Competition, Pricing, Bidding	◯	◯	◯	◯	◯
Environmental Harm	◯	◯	◯	◯	◯
Outsourcing	◯	◯	◯	◯	◯
Downsizing	◯	◯	◯	◯	◯
Intellectual Property	◯	◯	◯	◯	◯
Hiring, Promotion, Firing & Quality of Work Life	◯	◯	◯	◯	◯
Corporate Takeovers and Restructuring	◯	◯	◯	◯	◯
Production Safety	◯	◯	◯	◯	◯
Product Safety	◯	◯	◯	◯	◯
Pollution	◯	◯	◯	◯	◯

Others (please specify)

Page 5: Business and ethics issues (continued)

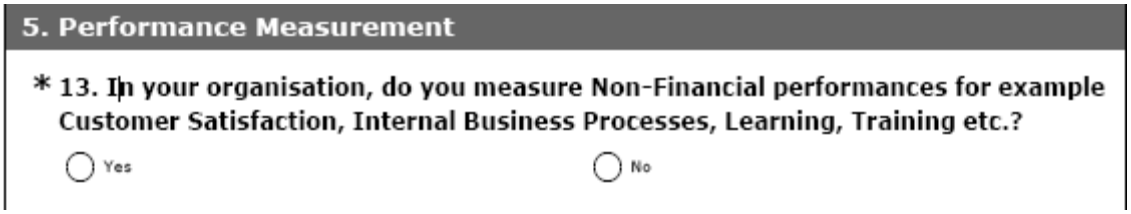
*** 11. Has your company been affected by globalisation in the following areas? Rate from 1 to 5, where 1 = not at all and 5 = very much**

	1=Not at all	2	3	4	5=Very much
Corporate Governance	◯	◯	◯	◯	◯
Accounting & Finance	◯	◯	◯	◯	◯
Competition, Pricing, Bidding	◯	◯	◯	◯	◯
Environmental Harm	◯	◯	◯	◯	◯
Outsourcing	◯	◯	◯	◯	◯
Downsizing	◯	◯	◯	◯	◯
Intellectual Property	◯	◯	◯	◯	◯
Hiring, Promotion & Firing and Quality of Work Life	◯	◯	◯	◯	◯
Corporate Takeovers and Restructuring	◯	◯	◯	◯	◯
Production Safety	◯	◯	◯	◯	◯
Product Safety	◯	◯	◯	◯	◯
Pollution	◯	◯	◯	◯	◯
Others (please specify)					

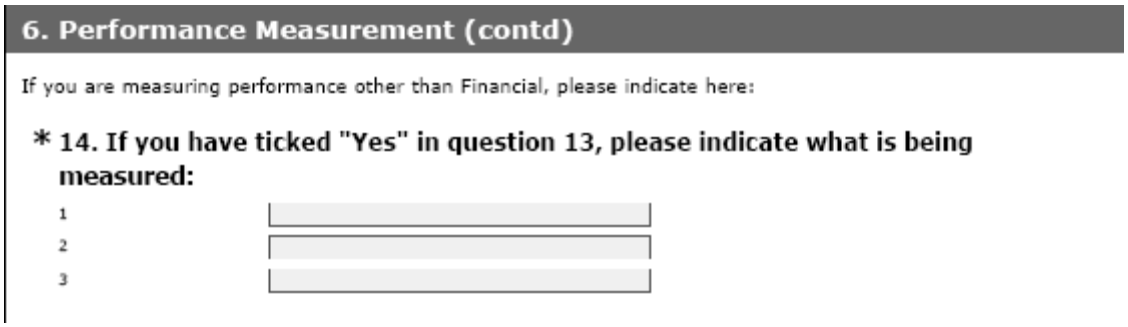
*** 12. Are you aware of any ethical issues faced by your organisation in the following areas**

	Yes, due to Globalisation	Yes, but Not due to Globalisation	NO
Corporate Governance	◯	◯	◯
Accounting & Finance	◯	◯	◯
Competition, Pricing, Bidding	◯	◯	◯
Environmental Harm	◯	◯	◯
Outsourcing	◯	◯	◯
Downsizing	◯	◯	◯
Intellectual Property	◯	◯	◯
Hiring, Promotion, Firing and Quality of Work Life	◯	◯	◯
Corporrate Takeovers and Restructuring	◯	◯	◯
Production Safety	◯	◯	◯
Product Safety	◯	◯	◯
Pollution	◯	◯	◯
Others (please specify)			

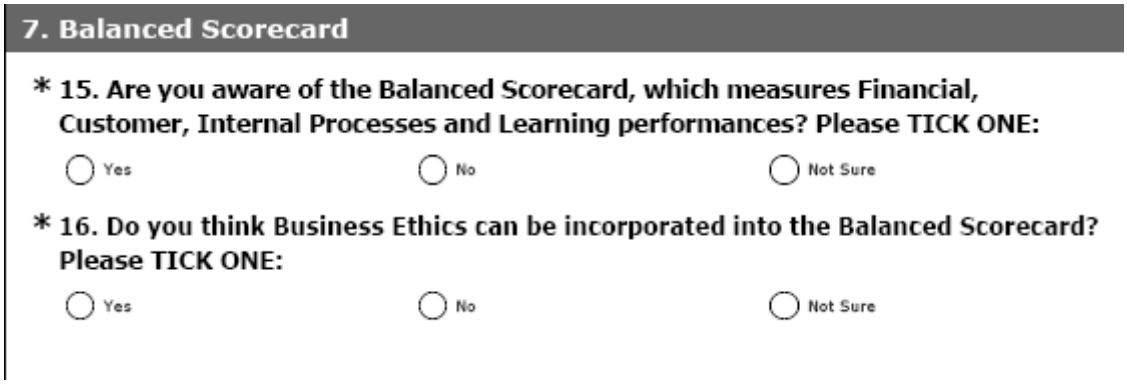
Page 6: Performance measurement



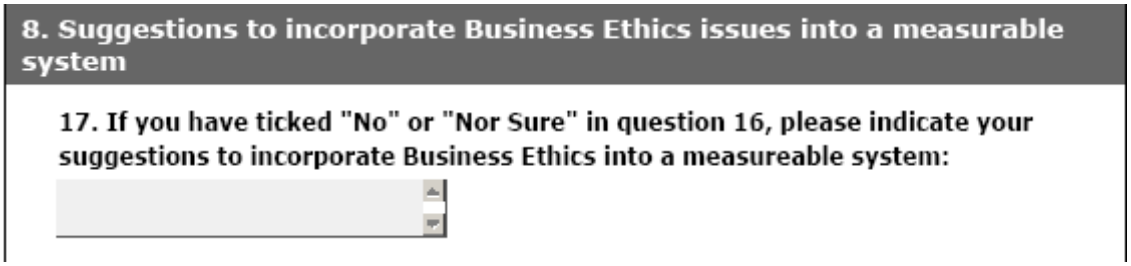
Page 7: Performance measurement (continued)



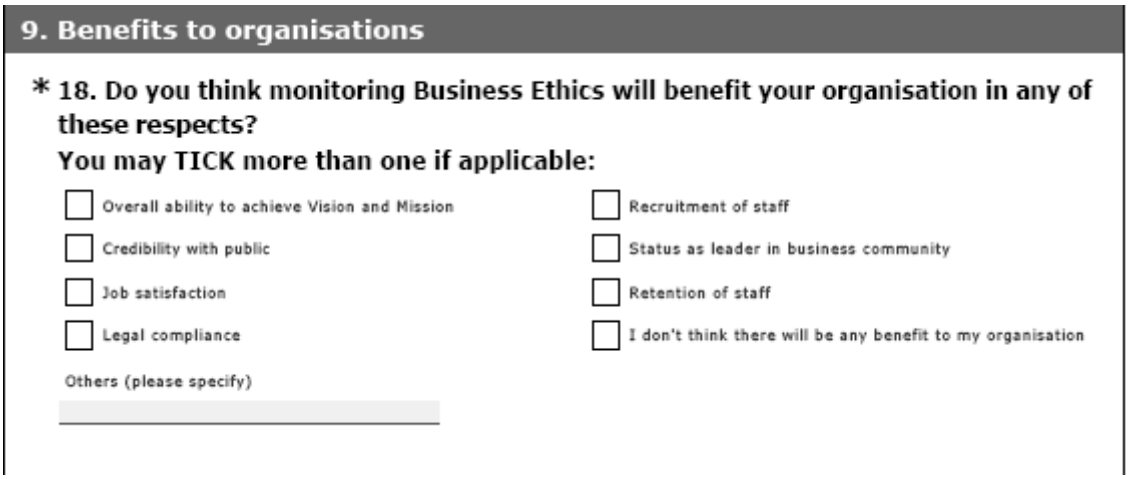
Page 8: Balanced Scorecard



Page 9: Suggestions



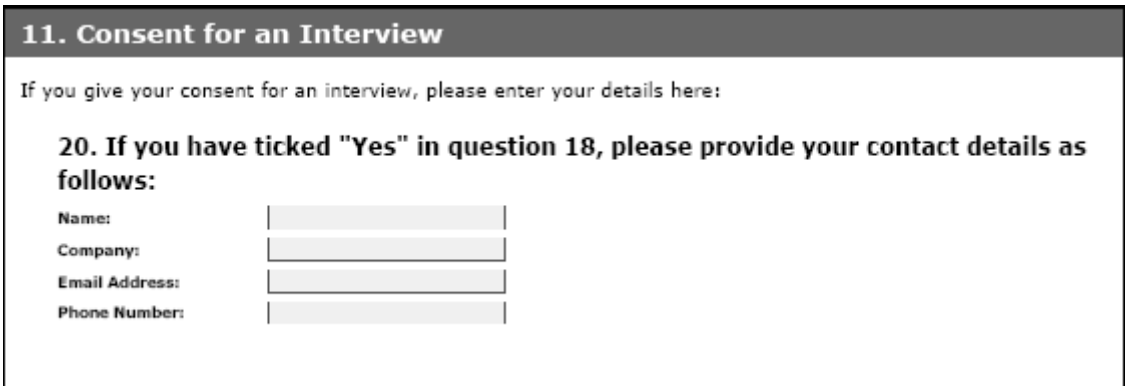
Page 10: Benefits to organisation



Page 11: Interview



Page 12: Consent for interview



Page 13: Copy of summary of research findings



Page 14: Thanking the respondent

13. THANK YOU FOR RESPONDING

Thank you for your assistance.

We are grateful for the time that you have put in, inspite of your busy schedule and we thank you for it. Your participation will definitely be of benefit to the study.

If you have requested for a report or agreed to participate in an interview, you will be contacted in due course.

If you have not responded to this survey, we welcome you to participate at a later date convenient to you.

Annexure 3: Copy of ethics protocol approval

From: Alice Granger [Alice.Granger@unisa.edu.au]
Sent: Monday, 23 March 2009 1:54 PM
To: Savur, Sunil Gangadhar - savsy005
Cc: Chris Provis; Howard Harris
Subject: Ethics Protocol P348/08 "Effect of globalisation on business ethics in SMEs in Australia"

Attachments: Conditions September 2008.doc

Dear Sunil,

Re: **Ethics Protocol P348/08 "Effect of globalisation on business ethics in SMEs in Australia"**

Thank you for submitting the additional information requested by the Chairperson of the University's Human Research Ethics Committee. Your request to vary your original protocol by including an internet survey to be emailed to approximately 2200 SME organisations in South Australia (as detailed in your email dated 17th March 2009) are approved.

Please regard this email as formal notification of approval.

Ethics approval is always made on the basis of a number of conditions detailed in the attachment; it is important that you are familiar with, and abide by, these conditions. It is also essential that you conduct all research according to UniSA guidelines, which can be found at http://www.unisa.edu.au/res/ethics/default.asp

Best wishes for your research.

Kind regards

Alice

Alice Granger
Compliance Officer
Research and Innovation Services
University of South Australia
Mawson Lakes Campus
Tel: 08 8302 3523
email: alice.granger@unisa.edu.au

Annexure-4: Abstract of businesses from the Adelaide White Pages 2009

	A	B	C	D	E	F	G	H
1	**Organisation**	**email**	**Address**	**Suburb**	**Phone**	**Page**	**Postcode**	**Q emailed**
2	A. Haros Demolition	harosdem@msn.com		Ottoway	83411702	50	5013	3/06/2009
3	A1 ChemDry	clean@a1cd.com.au	Unit1, 195 Old South Rd	Reynella	1300302307	50	5161	3/06/2009
4	A1 Computing Solutions	info@a1computing.com.au	63, Unley Rd	Parkside	82723027	50	5063	3/06/2009
5	A1 Property Services	info@a1propertyservices.com.au	10, Queen Road	Thebarton	83543744	50	5031	3/06/2009
6	A1 Sheet Metal Fabrication	wayne.a1sheetmetal@e-access.c	7, Cardiff Court	Dry Creek	83494199	50	5094	3/06/2009
7	A1 Smarter Solutions	bev@southernloans.net	23, Main South Road	O'Halloran Hill	83229639	50	5158	3/06/2009
8	A1 Tour & Charter	a1tc@hotmail.com	16, St Albans Road	Evanston	85222168	50	5116	3/06/2009
9	A1 Truck & Car Pty Ltd	a1truckandcar@hotmail.com	45, Burleigh Avenue	Woodville North	83451000	50	5012	3/06/2009
10	A-Town Elite Security	husam@a-townsecurity.com.au	U2/36 Shearwater Drive	Mawson Lakes	424262292	50	5095	3/06/2009
11	A to Z Conveyancing	atoz@bigpond.net.au	505c Brighton road	Brighton	83772966	50	5048	3/06/2009
12	A2V Home Theatre	denis@a2v.com.au	277 Unley Road	Malvern	83577222	50	5061	3/06/2009
13	AAA Exhaust	bdl@adam.com.au	20-22 Deacon Ave	Richmond	83527777	50	5033	3/06/2009
14	AAMI Stadium	admin@sanfl.com.au	Turner Drive	West Lakes	82682088	50	5021	3/06/2009
15	AAMP Services	aampservices@bigpond.com	PO Box 40	Collinswood	412301861	50	5081	3/06/2009
16	AAP Industries Ltd	aampservices@bigpond.com	U2/49 Naweena Road	Regency Park	83471443	50	5010	3/06/2009
17	Aardvark Pest Control Pty Ltd	service@aardvarkpest.com.au	54 Pier Str	Glenelg	83760599	51	5045	3/06/2009
18	Aarons Mini Bus Hire	aaronminibus@optusnet.com.au	Anderson Walk	Smithfield	402817962	51	5114	3/06/2009
19	Aaron Conveyencing	office.aaron@internode.on.net	74 Park Tce	Salisbury	82814900	51	5108	3/06/2009
20	Aarons Removals	info@aaronsremovals.com.au	U2, 44-46 Francis Rd	Wingfield	82689945	51	5013	3/06/2009
21	A & B Industries Pty Ltd	aaandbin@bigpond.com.au	5 Bremen Drive	Salisbury South	82811211	51	5106	3/06/2009
22	Abbey Appliance Repairs and	afe-drycreek@adam.com.au	15 Rumble Rd	Dry Creek	1800093513	51	5094	3/06/2009
23	Abbey Press Printing Co Pty I	abbeypress@iimetro.com.au	Trimmer Rd	Elizabeth Vale	82556837	51	5112	3/06/2009
24	Abbott Printers and Stationers	reception@abbott22.com	55 Gilbert Str	Adelaide	82311755	51	5000	3/06/2009
25	ABC Learning Centres Pty Ltc	info@childcare.com.au	Level 1, 10-12 Hurtle Pde	Mawson Lakes	81397100	51	5095	3/06/2009
26	ABCO Building Products Pty I	sidr@bigpond.net.au	111a Grand Junction Rd	Rostrevor	84471939	51	5073	3/06/2009
27	ABIGROUP Contractors Pvt L	abisa@abigroup.com.au	Level 1, 422 King William	Adelaide	82021100	52	5000	3/06/2009
28	Able Fencing Ascot Park	maxon@senet.com.au	681 Marion Rd	Ascot Park	82779244	52	5043	3/06/2009
29	Able Linemarking Services	savigemc@bigpond.com.au	PO Box 149	Belair	82782066	52	5052	3/06/2009
30	Abode Property and Rentals F	rentals@abodeproperties.com.au	92a Halifax Street	Adelaide	82322440	52	5000	3/06/2009
31	Aborginal Health Council of S/	ahcsa@ahcsa.org.au	78, Fullarton Rd	Norwood	81326700	52	5067	3/06/2009

Businesses beginning with alphabet	Survey targets N
A	292
B	67
C	178
D	56
E	31
F	48
G	41
H	54
I	79
J	40
K	40
L	40
M	77
N	33
O	15
P	71
Q	12
R	48
S	204
T	70
U	22
V	20
W	46
XYZ	19
Total	1603

Alphabetical breakdown of survey targets

Annexure 5: Examples of Code allocations – extracts from transcripts

EDM 1: extract from interviewee A10

> when economic times get difficult organisations tend to take a pragmatic view of the world and use that excuse to lower the value of their ethical standards – we are seeing in the globe today – should it be reasonable to have free trade between countries – developed countries use this to restrict trade with developing countries – that is an ethical dilemma

EDM 2: extract from interviewee A13

> processes and accounting details are thorough and regular – so we don't put people in awkward situation in a risk or pressured situation – so processes should be such – minimise any chance of misconduct – local ethics in purchasing scale we have interesting situation

EDM 3: extract from interviewee A3

> If they had said correct figure from the beginning, he would have considered his options. I am a short-term supplier – try and deliver very quickly. If I know I can't deliver. I tell my customers. Do you ever go back to suppliers like these? Unfortunately Australai is too small, and we have to go back to the same suppliers. In the past, I have gone back to them, even though I tell them I don't like to do business with them.

EDM 4: extract from interviewee A24

> I stick to policy and processes and that's my guidelines – i refer to relevant office of building and planning and explain things – because forms can only say so much – you need personal influencing skills – I need to be constantly aware of ethical issues and my role as well – we have legislation, laws, council rules on one hand –

HEU – Heuristics: extract from interviewee A10

> Canada is similar to Australia – handshake and follow with a contract – but not in US – I would not trust them without a contract – in Australia we have approach to building values – US focus internally in politics on how to better their individual outcomes – why are they diff – they are bullies – they think if you have money and power they can do anything – as is being seen in the world today

INTU – Intuition: extract from interviewee A23

> we had some mail returned from a client – I found out that that client was in jail – I knew there was claim for a disability – I didn't know whether the client was disabled or if it was a false claim because he was stuck in the jail – I left information with the company and left it to them to decide - it was a combination of the two – he was disabled and in jail – I did feel strongly about it by sitting in the jail and collecting money – unfair to everyone else

EXEMPLAR: extract from interviewee A19

Look up to – definitely my mother – we all have faults – when I first started business she lent me money to start business - generosity – secondly we won large contract we needed a large pool of people which created 2 dilemmas – where could we put them, how could we afford them and all the equipment we needed – my mother's advice contacted the crippled children association – we trained them in computer skills – we partnered with them – they were very constructive and completed the work which was great for their staff and we recruited their people – because of that advise and seeing the experience of my mother of helping people we start to see the impact it has on most people lives and their passion to work and help – to be given that chance – then they get it and it puts things in perspective – that influenced to keep those people on and keep those employment policies – which won us a lot of business because clients respect it – also got an award for it a national award which generates publicity – so she also once again done things to help in business ethics – in china working in an orphanage for seriously ill children from age 0-3 – helping them – that ethic of giving and getting a lot back for that – that's our CSR – we can make money – in Adelaide you don't need a lot of money to live on – certainly there's no correlation between money and happiness – you need money to have choice – as long you have money to look after your health and people who matter to you and have choice then there's other things u really want to do – the ethics of how achieve that income has direct relationship to how happy you are

REFL – Reflection: extract from interviewee A20

we had a contract with a client and it became permanent – the client had to pay out a fee – we spoke to them to find what the package was to work out what the fee will be – the client said if you invoice me you will never do bus with us again – client was unethical – we backed down and still today I think we should have stuck our heels in and should have said no what you have done is wrong and we will send you the invoice and if have lose a client, we lose them! We don't deal with them anymore – we know their behaviour traits – I regret this – sometimes u need to strong even if it means u lose your business

GLOB – Globalisation: extract from interviewee A10

One example is everyone getting to be conscious of the carbon footprint – concerning is the large supermarket in UK – they were imp by air lot of herbs from Kenya and selling in the UK – suddenly everyone is concerned about carbon footprint and its no longer appropriate to do that – that's a problem – that will be a major eco blow to a fragile economy like Kenya – overnight they destroy the local eco – all because they think its inappropriate to transport the product – question – how much carbon is utilised in growing herbs in hot houses in UK – problem is the media create these impression – they are largely broad brushed – modern media presents rationalise these things – media is there to present their 10 min of fame.

NO-BSC – Balanced Scorecard not suitable for SMEs: extract from interviewee A5

Depends on the business e.g. if your business is oil wells and you have contracted out the management to an oil company – and you get a cheque every month – you don't need a BSC. On the other hand for us – we measure financial aspects of business – we are interested in ROCE, EBIT etc – but what is our business – its not our premises, hardware you can replace them, technology takes time etc but single critical factor is people – knowledge is theoretically externally available thru databases, but people have to interface with others and

have to have their own knowledge. We manage our people, train and develop our people even without using BSC, we can't just plan for profit without developing people. If we find we have wrong people, we get rid of them because if we don't like its cancer. No formal flow chart but it's in our minds

YES-BSC – Balanced Scorecard is suitable for SMEs: extract from interviewee A10

It depend what you put in it – I actually approve it – its another ethical development – its a value system which has to be ethical – if you don't build sound value systems – you can make rapid progress in short-term but not long-term – quality companies are only as good as their reputation

Yes-modified BSC – Balanced Scorecard can be modified to suit SMEs: extract from interviewee A22

BSC – anything that can help helps. We shd be careful with SMEs – keep it as simple as possible not a manual a foot thick – anything kept simple and easy to understand and people not treated with something that can wind up in a rubbish bin – it shd be desirable for incorporating into business – we are all here to get that part right (ROCE or reputation) and if the rest of it can assists to get us there then we shd be doing it – people shd not get bogged down with processes – I am with it – the benefit of this is it make you think to go back to a process – u shd be revisiting certain points – there's something that I would not discount – it's a matter of what format it should be brought into our business

MONITOR – Monitor ethical issues: extract from interviewee A13

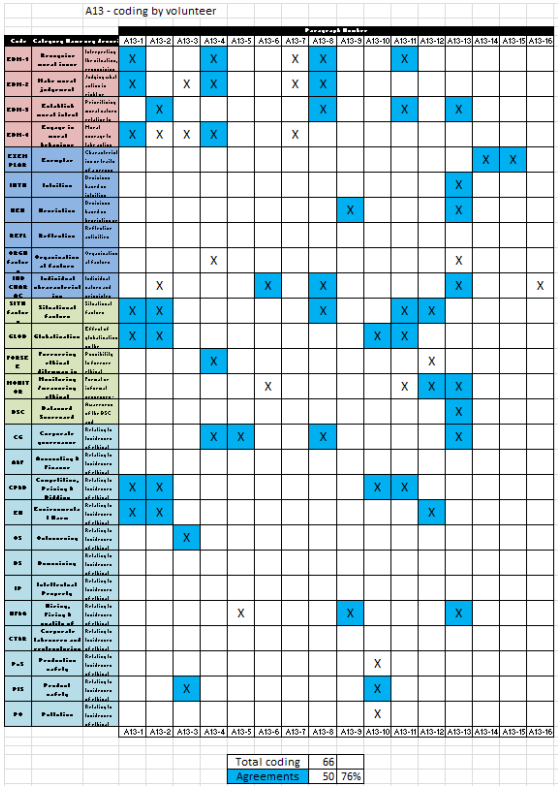
Monitor and manage ethical issues – once you are aware there's an issues its ok – the problem is recognising an ethical issue as it arises and being able to realise it applies to you and does need attention – back to zinc plating – 99 per cent of those people do not recognise it as an ethical issue- it's purely commercial issue for them. I suggest it's beyond the scope of a small or medium size because no resources or contracts – it has to be industry / government /professional organisation who bring these things to the attention to SMEs – I have not seen any one raise environ ethical issues in relation to zinc plating – they only see the end product commercially and a desire to see our environment cleaned up – it's too broad – certainly SMEs can't do anything about it

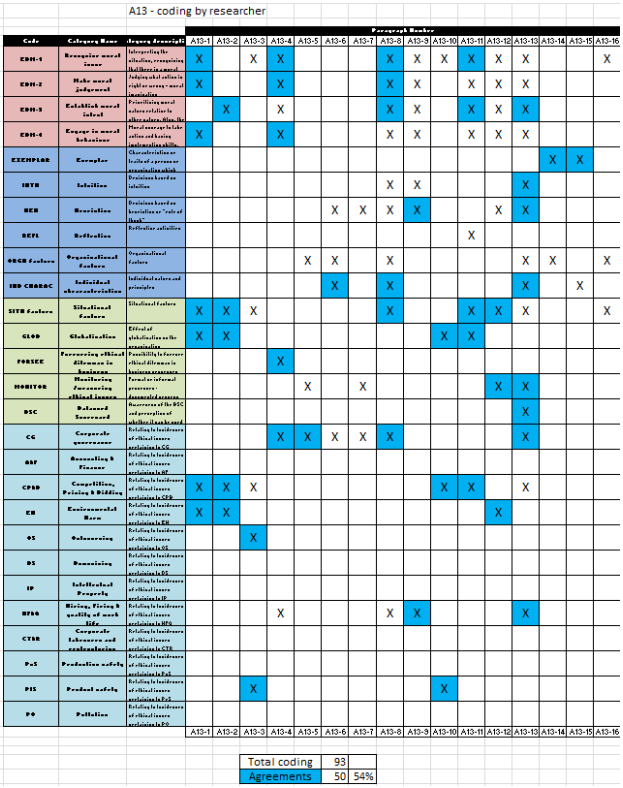
FORSEE – Foreseeing an ethical dilemma: extract from interviewee A22

Nipping in bud – it's always possible – large companies in particular – I have no doubt that in those cases most of this when they set their processes – they moved me from one location to another – job is same – I can just pick up and run without losing a step – if promoted there are whole set in guidelines that I pick them up and run – there's no downtime – processes keep running and there's back-up – because they have set-up by whoever – the men in higher position make these rules – in those co there was no doubt where line was drawn in sand even for ethical issues – what's expected of you, how far you can go – i am an accountant by trade – I also managed one of the depot – it was set in concrete – there was very little to move outside of the co guidelines, polices, ethics – mission statements etc – that size company in every company in the world the same set of parameters work in every country that they work in – even with cheaper labour etc the company philosophy and set of practice were across the

board – in smaller company it changes considerable – my company we have 10 people – we although we got set of philosophy and parameters under which people work – when they come to work for us its clear what's their role is etc but not as rigid as in MNCs

Annexure 6: Reliability of assigning coding charts





A13 – coding by volunteer

Total coding	66	
Agreements	50	76%

A13 – coding by researcher

Total coding	93	
Agreements	50	54%

Annexure 7: Interview format and questions

Thanks for responding the survey and also thank you for agreeing for this interview.

.Information collected by me will remain confidential and stored at a secured location in the Uni. Names, company details, dates etc. will not be revealed at any stage. To maintain confidentiality, I will refer you by code A24. If you agree, you could give your consent when we converse on the phone.

I would prefer if our discussion is recorded using a voice recorder like the one I have here as it's much easier to recall information from this rather than from memory or even from notes. If this is OK with you, let's begin….

(Switch on the recorder)….

Today is the (date..& time...) and I am interviewing respondent A24.

1. You have completed the questionnaire on the web – how did you feel about the topic?

2. Did you find the questionnaire easy to fill? Did you understand the research questions? What's your overall response to the questions? Can you think of anyone else who might be interested in this topic and the questionnaire?

3. Would you mind telling me about any incident (ethical or unethical in your opinion) with regards to any ethical issue faced by you or by your organisation – preferably within the last 5-10 years?

   Has your organisation been affected by globalisation and/or business ethics? (Do you think that there are ethical issues due to globalisation in SMEs in general?)
   (If yes), what do you think they are?
   Do you think there are ethical issues in SMEs per se? (If so), can you name a few?
   More specifically, in the last 5-10 years are you aware of any ethical issues faced by you or by your company?

4. When did it happen
   What happened

How did it happen
Why do you think it happened
Who were involved in it
Was it resolved, if so, how was it resolved
Were you and/or others happy with the resolution
In hindsight would you have liked it to be resolved differently?

5. Can you think of any other issues/incidents?
   Or same type of incident which was resolved successfully?

6. Do you think ethical dilemmas or issues can be foreseen and do you think it can be 'nipped in the bud' by incorporating it in a business process?

7. In your organisation, do you have processes to address potential ethical issues in any of your standard operating processes/systems? Would you like to see such processes incorporated in systems?

8. Do you think monitoring and managing issues such as these can/will help you/your company/SMEs in general?

9. Have you heard of the Balanced Score Card? This is what it is used for…(show a laminated A4 page with BSC shown diagrammatically)

10. Do you think the BSC can be used to monitor ethical issues?

11. Have you seen or are aware of other companies who have managed ethical issues well?

12. Can you give me an example of a person or persons you respect and value their values and why? Where do you draw your moral inspiration from?

We are nearly towards the end of our discussion. Do you have any questions with regards to this interview or the project?

Would you like a copy of the research summary? (If yes), please give your email address.

Thank you very much for your time and for being so patient with me.

If required, will it be OK to contact you if I need further information?

See you soon

Annexure 8 – MANOVA test results – summary for organisation size

Organisation size and importance of business areas		
	F	Sig.
Pillai's trace	**2.31**	**0.01**

Organisation size and effect of globalisation on business areas		
	F	Sig.
Pillai's trace	1.12	0.35

Business area	Tests of between-subjects effects	
	F	Sig.
CG	1.14	0.29
AF	1.44	0.23
CPB	2.89	0.09
EH	0.00	0.98
OS	**5.43**	**0.02**
DS	**4.22**	**0.04**
IP	0.01	0.94
HPFQ	1.20	0.28
CTR	3.49	0.07
PnS	2.07	0.15
PtS	0.29	0.59
Pol	0.49	0.48

Business area	Tests of between-subjects effects	
	F	Sig.
CG	2.39	0.13
AF	7.64	0.01
CPB	1.99	0.16
EH	1.00	0.32
OS	0.05	0.82
DS	5.74	0.02
IP	1.69	0.20
HPFQ	2.42	0.12
CTR	0.74	0.39
PnS	1.67	0.20
PtS	0.07	0.79
Pol	0.33	0.57

Business Areas	
CG	Corporate governance
AF	Accounts & Finance
CPB	Competition, pricing & bidding
EH	Environmental harm
OS	Outsourcing
DS	Downsizing
IP	Intellectual property
HPFQ	Quality of work-life
CTR	Corporate takeovers & restructuring
PnS	Production safety
PtS	Product safety
Pol	Pollution

Annexure 9 – MANOVA test results summary for business type

Business type and importance of business areas		
	F	Sig.
Pillai's trace	**4.35**	**0.00**

Business type and effect of globalisation on business areas		
	F	Sig.
Pillai's trace	**2.72**	**0.00**

Business area	Tests of between-subjects effects	
	F	Sig.
CG	3.49	0.07
AF	1.22	0.27
CPB	3.73	0.06
EH	1.62	0.21
OS	2.23	0.14
DS	**4.19**	**0.04**
IP	3.88	0.05
HPFQ	0.00	0.97
CTR	0.07	0.79
PnS	22.43	0.00
PtS	11.00	0.00
Pol	0.61	0.44

Business area	Tests of between-subjects effects	
	F	Sig.
CG	0.40	0.53
AF	**10.46**	**0.00**
CPB	**14.50**	**0.00**
EH	1.77	0.19
OS	0.04	0.85
DS	**7.41**	**0.01**
IP	0.91	0.34
HPFQ	0.64	0.43
CTR	0.12	0.73
PnS	**5.34**	**0.02**
PtS	1.70	0.20
Pol	0.17	0.68

Business Areas	
CG	Corporate governance
AF	Accounts & Finance
CPB	Competition, pricing & bidding
EH	Environmental harm
OS	Outsourcing
DS	Downsizing
IP	Intellectual property
HPFQ	Quality of work-life
CTR	Corporate takeovers & restructuring
PnS	Production safety
PtS	Product safety
Pol	Pollution

Annexure 10: Chi-square test results summary

Organisation size cross tabulations

Variable	χ^2	Asymp. Sig. (2-sided)
Non-financial measurement	2.94	0.08
Awareness of the BSC	3.76	0.15
Incorporating business ethics in BSC	0.24	0.84
Consent for interview	1.05	0.31
Monitoring business ethics will benefit		
- overall ability to achieve vision & mission	0.23	0.63
- ability to achieve credibility with public	0.04	0.84
- job satisfaction	0.82	0.36
- legal compliance	1.89	0.17
- recruitment of staff	3.10	0.08
- status as leader in business community	1.85	0.17
- retention of staff	1.37	0.24
- no benefit to their organisation	1.43	0.23

Business type cross tabulations

Variable	χ^2	Asymp. Sig. (2-sided)
Non-financial measurement	2.22	0.14
Awareness of the BSC	1.81	0.40
Incorporating business ethics in BSC	**7.34**	**0.03**
Consent for interview	**6.72**	**0.10**
Monitoring business ethics will benefit		
- overall ability to achieve vision & mission	0.02	0.90
- ability to achieve credibility with public	**5.16**	**0.02**
- job satisfaction	0.09	0.76
- legal compliance	0.27	0.60
- recruitment of staff	0.92	0.34
- status as leader in business community	0.01	0.92
- retention of staff	0.28	0.60
- no benefit to their organisation	1.95	0.16

Annexure 11: Statistically significant differences results

M ANOVA test – Organisation size and importance of business areas

Multivariate Tests[a]

Effect		Value	F	Hypothesis df	Error df	Sig.
Intercept	Pillai's Trace	.983	373.138[b]	12.000	78.000	.000
	Wilks' Lambda	.017	373.138[b]	12.000	78.000	.000
	Hotelling's Trace	57.406	373.138[b]	12.000	78.000	.000
	Roy's Largest Root	57.406	373.138[b]	12.000	78.000	.000
Orgn_size	**Pillai's Trace**	**.262**	**2.309[b]**	**12.000**	**78.000**	**.014**
	Wilks' Lambda	.738	2.309[b]	12.000	78.000	.014
	Hotelling's Trace	.355	2.309[b]	12.000	78.000	.014
	Roy's Largest Root	.355	2.309[b]	12.000	78.000	.014

Legend:

Orgn_size = Size of organisarion

0 = Small enterprises employees 0 to 19

1 = Medium enterprises employees 20-199

Business_type = Type of industry classification

0 = Manufacturing industries

1 = All other types of industries

Business Areas

CG	Corporate governance
AF	Accounts & Finance
CPB	Competition, pricing & bidding
EH	Environmental harm
OS	Outsourcing
DS	Downsizing
IP	Intellectual property
HPFQ	Quality of work-life
CTR	Corporate takeovers & restructuring
PnS	Production safety
PtS	Product safety
PoI	Pollution

_I = marker in SPSS to indicate "IMPORTANCE of business areas"

Descriptive statistics					Tests of between-subjects effects	
Business_type		Mean	Std. Deviation	N	F	Sig.
CG_I	.0	3.267	1.3551	45	3.485	.065
	1.0	3.783	1.2809	46		
	Total	3.527	1.3362	91		
AF_I	.0	4.444	.6927	45	1.219	.273
	1.0	4.261	.8803	46		
	Total	4.352	.7941	91		
CPB_I	.0	4.200	.8421	45	3.734	.057
	1.0	3.826	.9956	46		
	Total	4.011	.9368	91		
EH_I	.0	3.733	1.3382	45	1.619	.207
	1.0	3.370	1.3882	46		
	Total	3.549	1.3684	91		
OS_I	.0	2.933	1.1755	45	2.226	.139
	1.0	2.543	1.3116	46		
	Total	2.736	1.2546	91		
DS_I	**.0**	**2.244**	**1.0035**	**45**	**4.192**	**.044**
	1.0	**1.804**	**1.0460**	**46**		
	Total	**2.022**	**1.0433**	**91**		
IP_I	.0	3.467	1.2173	45	3.883	.052
	1.0	3.957	1.1539	46		
	Total	3.714	1.2045	91		
HPFQ_I	.0	3.511	1.1000	45	.002	.967
	1.0	3.522	1.3122	46		
	Total	3.516	1.2052	91		
CTR_I	.0	2.044	1.2052	45	.069	.794
	1.0	1.978	1.2016	46		
	Total	2.011	1.1972	91		
PnS_I	**.0**	**4.444**	**.8409**	**45**	**22.427**	**.000**
	1.0	**3.174**	**1.5959**	**46**		
	Total	**3.802**	**1.4238**	**91**		
PtS_I	**.0**	**4.356**	**1.0035**	**45**	**11.002**	**.001**
	1.0	**3.413**	**1.6272**	**46**		
	Total	**3.879**	**1.4286**	**91**		
PoI_I	.0	3.600	1.4045	45	.606	.439
	1.0	3.370	1.4198	46		
	Total	3.484	1.4092	91		

MANOVA test – Business type and importance of business areas

Multivariate Tests[a]

Effect		Value	F	Hypothesis df	Error df	Sig.
Intercept	Pillai's Trace	.983	383.525[b]	12.000	78.000	.000
	Wilks' Lambda	.017	383.525[b]	12.000	78.000	.000
	Hotelling's Trace	59.004	383.525[b]	12.000	78.000	.000
	Roy's Largest Root	59.004	383.525[b]	12.000	78.000	.000
Business_type	**Pillai's Trace**	**.401**	**4.349[b]**	**12.000**	**78.000**	**.000**
	Wilks' Lambda	.599	4.349[b]	12.000	78.000	.000
	Hotelling's Trace	.669	4.349[b]	12.000	78.000	.000
	Roy's Largest Root	.669	4.349[b]	12.000	78.000	.000

Legend:

Orgn size = Size of organisarion

0 = Small enterprises employees 0 to 19

1 = Medium enterprises employees 20-199

Business type = Type of industry classification

0 = Manufacturing industries

1 = All other types of industries

Business Areas

CG	Corporate governance
AF	Accounts & Finance
CPB	Competition, pricing & bidding
EH	Environmental harm
OS	Outsourcing
DS	Downsizing
IP	Intellectual property
HPFQ	Quality of work-life
CTR	Corporate takeovers & restructuring
PnS	Production safety
PtS	Product safety
Pol	Pollution

_I = marker in SPSS to indicate "IMPORTANCE of business areas"

Descriptive statistics					Tests of between-subjects effects	
Business_type		Mean	Std. Deviation	N	F	Sig.
CG_I	.0	3.267	1.3551	45	3.485	.065
	1.0	3.783	1.2809	46		
	Total	3.527	1.3362	91		
AF_I	.0	4.444	.6927	45	1.219	.273
	1.0	4.261	.8803	46		
	Total	4.352	.7941	91		
CPB_I	.0	4.200	.8421	45	3.734	.057
	1.0	3.826	.9356	46		
	Total	4.011	.9368	91		
EH_I	.0	3.733	1.3382	45	1.619	.207
	1.0	3.370	1.3882	46		
	Total	3.549	1.3684	91		
OS_I	.0	2.933	1.1755	45	2.226	.139
	1.0	2.543	1.3116	46		
	Total	2.736	1.2546	91		
DS_I	**.0**	**2.244**	**1.0035**	**45**	**4.192**	**.044**
	1.0	**1.804**	**1.0460**	**46**		
	Total	**2.022**	**1.0433**	**91**		
IP_I	.0	3.467	1.2173	45	3.883	.052
	1.0	3.957	1.1539	46		
	Total	3.714	1.2045	91		
HPFQ_I	.0	3.511	1.1000	45	.002	.967
	1.0	3.522	1.3122	46		
	Total	3.516	1.2052	91		
CTR_I	.0	2.044	1.2052	45	.069	.794
	1.0	1.978	1.2016	46		
	Total	2.011	1.1972	91		
PnS_I	**.0**	**4.444**	**.8409**	**45**	**22.427**	**.000**
	1.0	**3.174**	**1.5959**	**46**		
	Total	**3.802**	**1.4238**	**91**		
PtS_I	**.0**	**4.356**	**1.0035**	**45**	**11.002**	**.001**
	1.0	**3.413**	**1.6272**	**46**		
	Total	**3.879**	**1.4286**	**91**		
Pol_I	.0	3.600	1.4045	45	.606	.439
	1.0	3.370	1.4198	46		
	Total	3.484	1.4092	91		

MANOVA test – Business type and effect of globalisation on business areas

Multivariate Tests[a]

Effect		Value	F	Hypothesis df	Error df	Sig.
Intercept	Pillai's Trace	.919	73.880[b]	12.000	78.000	.000
	Wilks' Lambda	.081	73.880[b]	12.000	78.000	.000
	Hotelling's Trace	11.366	73.880[b]	12.000	78.000	.000
	Roy's Largest Root	11.366	73.880[b]	12.000	78.000	.000
Business_type	**Pillai's Trace**	**.295**	**2.724[b]**	**12.000**	**78.000**	**.004**
	Wilks' Lambda	.705	2.724[b]	12.000	78.000	.004
	Hotelling's Trace	.419	2.724[b]	12.000	78.000	.004
	Roy's Largest Root	.419	2.724[b]	12.000	78.000	.004

Legend:

Orgn_size = Size of organisarion

0 = Small enterprises employees 0 to 19

1 = Medium enterprises employees 20-199

Business_type = Type of industry classification

0 = Manufacturing industries

1 = All other types of industries

Business Areas

CG	Corporate governance
AF	Accounts & Finance
CPB	Competition, pricing & bidding
EH	Environmental harm
OS	Outsourcing
DS	Downsizing
IP	Intellectual property
HPFQ	Quality of work-life
CTR	Corporate takeovers & restructuring
PnS	Production safety
PtS	Product safety
Pol	Pollution

_G = marker in SPSS to indicate "Effect of GLOBALISATION on bsuiness areas"

Descriptive statistics					Tests of between-subjects effects	
Business_type		Mean	Std. Deviation	N	F	Sig.
CG_G	.0	2.000	1.1481	45	.398	.530
	1.0	1.848	1.1541	46		
	Total	1.923	1.1473	91		
AF_G	**.0**	**2.867**	**1.3246**	**45**	**10.460**	**.002**
	1.0	**2.022**	**1.1641**	**46**		
	Total	**2.440**	**1.3099**	**91**		
CPB_G	**.0**	**3.800**	**1.2173**	**45**	**14.497**	**.000**
	1.0	**2.804**	**1.2757**	**46**		
	Total	**3.297**	**1.3374**	**91**		
EH_G	.0	2.311	1.2760	45	1.771	.187
	1.0	1.978	1.1053	46		
	Total	2.143	1.1979	91		
OS_G	.0	2.289	1.2362	45	.035	.851
	1.0	2.239	1.2856	46		
	Total	2.264	1.2546	91		
DS_G	**.0**	**2.511**	**1.3919**	**45**	**7.406**	**.008**
	1.0	**1.783**	**1.1530**	**46**		
	Total	**2.143**	**1.3214**	**91**		
IP_G	.0	2.289	1.3588	45	.913	.342
	1.0	2.022	1.3079	46		
	Total	2.154	1.3327	91		
HPFQ_G	.0	2.422	1.0764	45	.640	.426
	1.0	2.217	1.3485	46		
	Total	2.319	1.2191	91		
CTR_G	.0	1.933	1.1160	45	.120	.730
	1.0	2.022	1.3079	46		
	Total	1.978	1.2109	91		
PnS_G	**.0**	**2.289**	**1.4242**	**45**	**5.341**	**.023**
	1.0	**1.674**	**1.0965**	**46**		
	Total	**1.978**	**1.2994**	**91**		
PtS_G	.0	2.356	1.4640	45	1.702	.195
	1.0	1.978	1.2908	46		
	Total	2.165	1.3845	91		
Pol_G	.0	2.022	1.2152	45	.172	.680
	1.0	1.913	1.2966	46		
	Total	1.967	1.2512	91		

Chi-square tests – cross tabulations with ethical issues in the 12 business areas

Organisation size cross tabulations

Business area	Value	df	Asymp. Sig. (2-sided)
CG	1.75	2	.42
AF	1.53	2	.47
CPB	**7.49**	**2**	**.02**
EH	1.53	2	.47
OS	0.96	2	.62
DS	2.39	2	.30
IP	2.99	2	.22
HPFQ	1.13	2	.57
CTR	3.65	2	.16
PnS	5.75	2	.06
PtS	5.08	2	.08
Pol	4.17	2	.12

Industry size cross tabulations

Industry type	Value	df	Asymp. Sig. (2-sided)
CG	3.96	2	.14
AF	1.35	2	.51
CPB	3.13	2	.21
EH	0.83	2	.66
OS	0.18	2	.91
DS	1.69	2	.43
IP	0.20	2	.90
HPFQ	2.38	2	.30
CTR	0.57	2	.75
PnS	1.40	2	.50
PtS	0.04	2	.98
Pol	1.06	2	.59

Legend:

Orgn_size = Size of organisarion

0 = Small enterprises employees 0 to 19

1 = Medium enterprises employees 20-199

Business_type = Type of industry classification

0 = Manufacturing industries

1 = All other types of industries

Business Areas

CG	Corporate governance
AF	Accounts & Finance
CPB	Competition, pricing & bidding
EH	Environmental harm
OS	Outsourcing
DS	Downsizing
IP	Intellectual property
HPFQ	Quality of work-life
CTR	Corporate takeovers & restructuring
PnS	Production safety
PtS	Product safety
Pol	Pollution

CPB_E = Ethical issues in business area of CPB

Variables:

0 = No ethical issues

1 = Yes, ethical issues not due to globalisation

2 = Yes, ethical issues due to globalisation

Business_type * CPB_E Crosstabulation

			CPB_E			
			.0	1.0	2.0	Total
Business_type	.0	Count	20	**6**	**19**	45
		Expected Count	18.8	11.4	14.8	45.0
		% within Business_type	44.4%	13.3%	42.2%	100.0%
		% within CPB_E	52.6%	26.1%	63.3%	49.5%
		% of Total	22.0%	6.6%	20.9%	49.5%
	1.0	Count	18	**17**	**11**	46
		Expected Count	19.2	11.6	15.2	46.0
		% within Business_type	39.1%	37.0%	23.9%	100.0%
		% within CPB_E	47.4%	73.9%	36.7%	50.5%
		% of Total	19.8%	18.7%	12.1%	50.5%
Total		Count	38	23	30	91
		Expected Count	38.0	23.0	30.0	91.0
		% within Business_type	41.8%	25.3%	33.0%	100.0%
		% within CPB_E	100.0%	100.0%	100.0%	100.0%
		% of Total	41.8%	25.3%	33.0%	100.0%

Chi-square tests – Business type and incorporating business ethics in BSC

Business_type * BE_in_BSC Crosstabulation							Chi-Square Tests			
Business_type	.0	Count	4	25	16	45	Pearson Chi-Square	7.338	2	0.025
		% within Business_type	8.9%	55.6%	35.6%	100.0%				
		% within Interview	40.0%	67.6%	38.1%	50.6%				
	1.0	Count	6	12	26	44				
		% within Business_type	13.6%	27.3%	59.1%	100.0%				
		% within Interview	60.0%	32.4%	61.9%	49.4%				
Total		Count	10	37	42	89				
		% within Business_type	11.2%	41.6%	47.2%	100.0%				
		% within Interview	100.0%	100.0%	100.0%	100.0%				

Legend:
Orgn_size = Size of organisarion
0 = Small enterprises employees 0 to 19
1 = Medium enterprises employees 20-199

Business_type = Type of industry classification
0 = Manufacturing industries
1 = All other types of industries

BE_in_BSC = Do you think Business Ethics can be incorporated into BSC?
0 = No
1 = Not sure
2= Yes

Chi-square tests – Business type and consent for interviews

Business_type * Interview Crosstabulation						Chi-Square Tests			
Business_type	.0	Count	39	6	45	Pearson Chi-Square	6.721	1	0.010
		% within Business_type	86.7%	13.3%	100.0%				
		% within Interview	57.4%	26.1%	49.5%				
	1.0	Count	29	17	46				
		% within Business_type	63.0%	37.0%	100.0%				
		% within Interview	42.6%	73.9%	50.5%				
Total		Count	68	23	91				
		% within Business_type	74.7%	25.3%	100.0%				
		% within Interview	100.0%	100.0%	100.0%				

Legend:
Orgn_size = Size of organisarion
0 = Small enterprises employees 0 to 19
1 = Medium enterprises employees 20-199

Business_type = Type of industry classification
0 = Manufacturing industries
1 = All other types of industries

Interview = Consent for an INTERVIEW
0 = No
1 = Yes

Chi-square tests – Business type and monitoring business ethics will benefit ability to achieve credibility with the public

Business_type * Credibility Crosstabulation						Chi-Square Tests			
Business_type	.0	Count	21	24	45	Pearson Chi-Square	5.165	1	0.023
		% within Business_type	46.7%	53.3%	100.0%				
		% within Credibility	65.6%	40.7%	49.5%				
	1.0	Count	11	35	46				
		% within Business_type	23.9%	76.1%	100.0%				
		% within Credibility	34.4%	59.3%	50.5%				
Total		Count	32	59	91				
		% within Business_type	35.2%	64.8%	100.0%				
		% within Credibility	100.0%	100.0%	100.0%				

Legend:
Orgn_size = Size of organisarion
0 = Small enterprises employees 0 to 19
1 = Medium enterprises employees 20-199

Business_type = Type of industry classification
0 = Manufacturing industries
1 = All other types of industries

Credibility = Monitoring business ethics will benefit CREDIBILITY with public
0 = No
1 = Yes

Annexure 12: List of incident nodes

Incident node
A1-1-OS
A1-2-PnS
A1-3-DS
A2-1-A&F
A2-2-CP&B
A2-3-HF&Q
A3-1-CP&B
A3-2-CP&B
A3-3-CG
A3-4-DS
A3-5-CG
A3-6-CG
A4-1-HF&Q
A4-2-CP&B
A4-3-PnS
A4-4-EH
A4-5-EH
A5-1-A&F
A5-2-CP&B
A5-3-CG
A5-4-CG
A5-5-HF&Q
A5-6-HF&Q
A6-1-CG
A6-2-CG
A6-3-EH
A6-4-CG
A7-1-OS
A7-2-PnS
A7-3-PnS

Incident node
A8-1-CP&B
A8-2-PtS
A8-3-CP&B
A8-4-CP&B
A9-1-A&F
A9-2-HF&Q
A9-3-HF&Q
A9-4-EH
A9-5-PtS
A9-6-CP&B
A9-7-CP&B
A9-8-CP&B
A9-9-PtS
A10-10-HF&Q
A10-11-A&F
A10-12-CG
A10-13-CG
A10-1-CP&B
A10-2-OS
A10-3-A&F
A10-4-CG
A10-5-CG
A10-6-CG
A10-7-CG
A10-8-CG
A10-9-HF&Q
A11-1-CP&B
A11-2-CP&B
A11-3-CP&B
A11-4-CG
A11-4-CP&B

Incident node
A13-1-CP&B
A13-2-CP&B
A13-3-CG
A13-4-CG
A13-5-HF&Q
A13-6-HF&Q
A13-7-CP&B
A13-8-CP&B
A13-9-EH
A13-10-CG
A15-1-CP&B
A15-2-A&F
A15-2-CP&B
A15-3-A&F
A15-4-A&F
A16-1-CG
A16-2-CG
A16-3-CG
A17-1-CG
A17-2-HF&Q
A17-3-CG
A17-4-CG
A17-5-CG
A19-10-CG
A19-11-HF&Q
A19-1-HF&Q
A19-2-HF&Q
A19-3-HF&Q
A19-4-CP&B
A19-5-CG
A19-6-CG
A19-7-CG
A19-8-CG
A19-9-CG

Incident node
A20-10-HF&Q
A20-11-HF&Q
A20-1-CG
A20-2-A&F
A20-3-HF&Q
A20-4-HF&Q
A20-5-CG
A20-6-CG
A20-7-CG
A20-8-CG
A20-9-CG
A22-1-CP&B
A22-2-CP&B
A22-3-CG
A22-4-CG
A22-5-CG
A22-6-CG
A22-7-CG
A23-1-A&F
A23-2-CP&B
A23-3-CP&B
A23-4-CG
A23-5-CG
A23-6-CG
A23-7-CG
A23-8-CG
A23-9-CG
A24-1-CG
A24-2-CP&B
A24-3-CG
A24-4-CG
A24-5-CG
A24-6-CG
A24-7-CG
A24-8-CG

Annexure 13: Codes allocated to incident nodes for interviewee A13

Incident node	Codes allocated
A13-1CP&B	EDM 1, EDM 2, EDM 3, EDM 4, GLOB
A13-2-CP&B	EDM 1
A13-3-CG	EDM 1, EDM 2, EDM 3, EDM 4, FORSEE, ORGN factors
A13-4-CG	HEU, MONITOR
A13-5-HF&Q	EDM 1, EDM 2, EDM 3, EDM 4, HEU, INTU, ORGN factors
A13-6-HF&Q	EDM 1, EDM 2, EDM 3, EDM 4, HEU
A13-7-CP&B	EDM 1, GLOB
A13-8-CP&B	EDM 1, EDM 2, EDM 3, EDM 4, GLOB, REFL
A13-9-EH	EDM 1, EDM 2, EDM 3, EDM 4, HEU, MONITOR
A13-10-CG	EDM 1, EDM 2, EDM 3, EDM 4, BSC, HEU, INTU, ORGN factors

Codes allocated to other paragraphs for interviewee A13

Paragraph number	Codes allocated
15	EXEMPLAR, ORGN factors
16	ORGN factors

Annexure 14: An extract of cross-tabulation matrix for incident nodes and Rest's four-components

Incident nodes	A : EDM 1	B : EDM 2	C : EDM 3	D : EDM 4
1 : A10-10-HF&Q	1	1	1	1
2 : A10-11-A&F	1	1	1	1
3 : A10-12-CG	1	2	0	2
4 : A10-13-CG	1	1	0	1
5 : A10-1-CP&B	1	0	0	0
6 : A10-2-OS	1	1	0	0
7 : A10-3-A&F	1	4	2	2
8 : A10-4-CG	0	0	0	0
9 : A10-5-CG	1	1	1	1
10 : A10-6-CG	0	0	0	0
11 : A10-7-CG	0	0	0	0
12 : A10-8-CG	1	1	1	1
13 : A10-9-HF&Q	0	0	0	1
14 : A11-1-CP&B	1	1	2	1
15 : A11-2-CP&B	1	0	0	1
16 : A11-3-CP&B	1	1	1	1
17 : A11-4-CG	1	0	0	0
18 : A11-4-CP&B	1	0	0	0
19 : A1-1-OS	1	1	0	2
20 : A1-2-PnS	1	0	0	0
21 : A13-10-CG	1	1	1	1
22 : A13-1-CP&B	2	1	1	1
23 : A13-2-CP&B	1	0	0	0
24 : A13-3-CG	1	1	1	1

Annexure 15: Exemplars – list of names and attributes

Attributed to Individual characteristics:

Interviewee no.	Exemplar name	Values/attributes/reasons
A1	S.C. Bose	Honest, reliable, stable, determined, straightforward, says what he means
A10	Gene Roddenberry through Capt. James/Start Trek	Leadership and values required to lead. Openly talk about value systems and make decisions based on values
A13	Richard Branson	Successful. Does different things at different times. Knowledgeable, interesting, core people skills, head full of everything you need to know
A16	Wife	View of the world, consequential approach to decision-making – can be calibrated against
A16	Father	Emotionally and physically courageous behaviour
A16	Colleague in army	Sheer triumph about human spirit in adverse situations
A19	Mother	Helping people in need. Helping in business ethics. Ethics of direct relationship between means of achieving income and happiness
A2	CEO of Bianco	Values apart from skills, management, product. Selection of right people and retaining them. Very ethical, keeps his word. Uses peoples' knowledge and wisdom to make decisions
A20	Father	Taught me right and wrong. Works through issues
A20	Managing Director	Does what he says he will do. If you say you can do it, do it, otherwise don't say it. Values integrity. Evolves relationships over time. Has good friends who will help when he's in trouble.
A22	Chairman of company	Real gentleman. Always looks at the best of people. Does not think bad of anybody. Person to go to for any decision of an ethical nature. Has knowledge and history. Can look at facts and discuss with you with different picture of where I am going
A24	Wife	Practices what she preaches. Thinks of greater good and does right thing by people. Caring and sharing. Family upbringing values. Very ethical. Makes me think from different perspectives – not just ethically right or wrong.
A3	A customer	Has earned respect from floor and management. Straight shooter. Has picked himself up and come to this position.
A5	SC judge	Giving and receiving honesty. Incredibly honest. Always said exactly how it was.
A6	People in society	Lot of people have done good things in society. Political leaders, philosophers – in intellectual and human development, people who approach classical complex situations
A9	Branch managers	Some branch managers are good decision makers compared to others in the same company

Attributed to organisational factors:

Interviewee no.	Exemplar name	Values/attributes/reasons
A1	ROH	Very ethical in business. Manages multi-cultural staff very well – which helped in output and quality
A13	Krestware industries	Ideal suppler because of their ethics. Never promise what they cannot deliver. Very upfront. Do not take short-cuts.
A15	Own organisation	Sets examples. Very high standards of service delivery and customer satisfaction
A19	Own organisation	Tell stories of what happened in the past. Past employees come and tell us of what's happened in their lives while they worked for the company. About strong company ethics that clients and staff appreciate. We don't just we have ethics – we actually do it.
A19	Own organisation	CSR activities in China
A2	Kennards Hire	Each branch managed independently and each manager manages it like his own. Family-friendly policies.
A23	Own organisation	Compliance is the key. Look after clients the way you would like to be looked after. Look after people properly instead of looking after the dollar then the dollar will look after itself.
A4	Managing Director	Very cooperative. He and people in management positions are ethical

Attributed to situational factors:

Interviewee no.	Exemplar name	Values/attributes/reasons
A10	Prime Directive	Values system of our culture that tells us not to interfere with other cultures – we will be less inclined to destroy parts of New Guinea because it's making us money.
A19	Narratives	Consultant told us its best to tell stories of what happened in the past – we have photos in remote locations of what our staff have done –even if they have gone away on holidays and show photos and everyone gets to know their experience – there are other stories of what those people have done and also some social events where people mix as well – there's bonding from seeing people outside work as human beings and reduces prejudices
A19	Helping hand	generosity – secondly we won large contract we needed a large pool of people which created 2 dilemmas – where could we put them, how could we afford them and all the equipment we needed – my mother's advice contacted the crippled children association – we trained them in computer skills – we partnered with them – they were very constructive and completed the work which was great for their staff and we recruited their people
A20	Hard life	great person for advice and work through issues – he had that instilled from his parents who had left England long

		time ago and came here with no money – gave 3 kids a better life and that's filtered down – my father saw how hard it was but had family values – instilled in me and will be passed on
A3	Business situation	One person in engineering business can be admired but in recent times he has changed around and become unethical and dishonest because of economic climate and been forced to cut corners. To win business over, he had to be like that.

Annexure 16: Comments from interviewees about Balanced Scorecard

Comments from interviewees who have indicated that Balanced Scorecard can be used to monitor ethical issues in SMEs

Interviewee no.	Comments
A1	BSC can be used – it is useful. In many companies, latest machines are available, but no training for employees
A10	It depend what you put in it – I actually approve it – it's another ethical development – it's a value system which has to be ethical – if you don't build sound value systems – you can make rapid progress in short-term but not long-term – quality companies are only as good as their reputation
A15	BSC – I am not familiar with it – KPI are measured – like customers – but monitoring should be valuable – they will become better because – a bit of a red flag – that things are not quite good – like in a democratic country. What's the benefit in this – high satisfied and committed employees and feel good about the co – productivity and satisfaction – everyone benefits – employer of choice
A17	BSC – we did that before we moved into Business excel framework which is better for our type of industry. BSC can be used for monitoring ethical issues – Business excel uses same framework – we measure these things and report – we have management indicative reports and stats are fed into it – satisfaction rate of customers – accuracy of budgets, staff turnover, we have family friendly policies One of problems with BSC was not all measure were available for our type of industry. We had to make up some measurements
A2	BSC – can be used, has to be incorporated – BSC bottom line is employees and skills and quality. Ethics can be incorporated.
A20	BSC – definitely can be used – it's a key block – problem with businesses these days – if things are hard things like this gets pushed aside – what you have mapped out there lot of things affect each other – ethical behaviour is something you can't really teach – its instilled in you – engineering or IT you can do a course so you learn – technical skills can be taught – but behaviour type traits we start learning that when you are born with family and network of people – when we are adults its hard and impossible to change somebody's ethical behaviour – you know what's right and wrong – you just know those sort of things – you kill someone you go to jail - you can teach business ethics – that's more explaining what they are – but it comes down to individuals-they either fit or don't – its situational – it's a key component – in our industry it can make or break us – we don't make computers – we deal with people with needs, wants and motivation.

Comments from interviewees who have indicated that Balanced Scorecard cannot be used to monitor ethical issues in SMEs

Interviewee no.	Comments
A5	Depends on the business. E.g. if your bus is oil wells and u have contracted out the management to an oil co – and you get a cheque every month – you don't need a BSC. On the other hand for us – we measure financial aspects of business – we are interested in ROCE, EBIT etc. – but what is our business – it's not our premises, hardware you can replace them, technology takes time etc. but single critical factor is people – knowledge is theoretically externally available thru databases, but people have to interface with others and have to have their own knowledge. We manage our people, train and develop our people even without using BSC; we can't just plan for profit without developing people. If we find we have wrong people, we get rid of them because if we don't like its cancer. No formal flow chart but it's in our minds.
A7	I tell my blokes as simple as possible – if you go on site – they tend to stretch out the time – as long as they do their work, With good care – some skipping lunch and wants to get home early – for kids extracurricular activities – family friendly policies – we are transparent – they know what's happening in business.
A8	Makes good sense – but in real time – we don't have resources to maintain these – to measure – I am aware of things and I make sure customer satisfaction, and things run smoothly – I don't see the need of it – will need lot of resources and time – I work hard, I know my profit and have dedication – you don't need paper – I can go out there and look at things and say that things are looking fine – but educated people are looking at this and will create jobs – it just becomes a numerical exercise.

Comments from interviewees who have indicated that Balanced Scorecard could be used with changes/modifications to monitor ethical issues in SMEs

Interviewee no.	Comments
A11	BSC – I agree with it – all of those things follow nicely – nowadays – such policies are a given – you are not just employing just a person –you need to be flexible – need friendlier place will eventually ill flow over to your reputation which is a hallmark of the co – it's a good model actually.
A13	Taking them one at a time – some of these things are actively promoted – some time ago I was told I was spending too much time here is there a problem – huge influx of work and I need to work on Sundays – but we can't do that – family balance is recognised – processes and accounting details are thorough and regular – so we don't put people in awkward situation in a risk or pressured situation – so processes shd be such – minimise any chance of misconduct. we work hard to get the best within acceptable limits of ethical – but we do have guidelines on what we can do and what we cannot – I have an ethical requirement to my MD so that he can look at all I do commercially so I don't favour anyone.
A16	I always encourage to be self-aware and have tools of the right sort – not have a tool that's so deterministic – everything has been tried and failed – things that you are vaguely conscience of can bite you. This model cannot comprehend the GFC for examples – firm believer of measurement – I am in the favour of knowing as much as possible – I always caution people not to get dazzled into modelling – you can lose contact with reality – real time live feed will be required – is the ethical development of the person be individual – what's important for a balanced scorecard – ethical development in terms of the ethics required to meet the ROCE – you must have a self-aware organisation – organisations have this capacity in self-deceit – only need somebody to turn things over.
A19	Monitoring – BSC – I find lots of such things like BSC and other things are discussed in length but rarely put in place – I think you can use techniques that will assist in reducing ethical dilemmas for helping people to help solve themselves – in our case we get multiple people to do similar tasks – we get broader view of it – we find less personal biased the less team based and more statistically based and try and remove your analysis who those people are so it doesn't cloud your judgement – also being aware of education of people of ethical dilemmas and allowing people to talk about them – e.g. if someone doesn't want to do something, let them talk about it so that can be moved to other tasks.
A22	BSC – anything that can help helps. We should be careful with SMEs – keep it as simple as possible not a manual a foot thick – anything kept simple and

	easy to understand and people not treated with something that can wind up in a rubbish bin – it shd be desirable for incorporating into business – we are all here to get that part right (ROCE or reputation) and if the rest of it can assists to get us there then we shd be doing it – people shd not get bogged down with processes – I am with it – the benefit of this is it make you think to go back to a process – u shd be revisiting certain points – there's something that I would not discount – it's a matter of what format it should be brought into our business.
A23	That sounds like a good idea – some of this is probably our industry is doing at the moment – like when a client asks for advise – we need to collect all information and some of the ethical issues also – this is an interesting idea – we look at skills without looking at ethical development – I like that concept – it would depend on whether its in-depth or fairly light – not a lot of emphasis is put on ethical development of staff
A24	I have studied it but can you refresh my mind – that makes sense – it's a good flow chart – I would say that makes perfect sense to me and I think in this organisation I see all these things happening and it also aligns with measuring other things – like quadruple bottom line rather than just measuring finance – make sure your total output is the right output and we have a budget not to make profit but services to community. When you look at the small operators – owner operators – changes in legislation puts more restrictions on them – IR, OHS etc. – they may not the resources to put them in place.
A3	For small players – would see this as getting too far into the way the bus works – very logical – looks good – but more work, more paperwork, recently taken up ISO 9000 – tho no one adheres to it – you need people to run the system – if they could appreciate that they can have someone to run it – they will benefit from it – but my immediate reaction to is – it will take time – gathering info, analyse it etc. Introducing another level of complexity they don't want.
A4	My thinking is that from my experience, to able to satisfy my ethical standards, I need a feedback from management that it's ok – it's ok to shut the plant down. I was not confident – not stated to me that if I do act on my ethical requirement, that I will not be judged poorly. I don't know how I will be judged – because I felt that under pressure – like how good a job I am doing – I don't know – if you work in a company with high ethical standards, or not – either case feedback and process in whatever form we should know whether we doing ok or not – operate on the principle of no news is good news – that's what's lacking – this due process you can have systems and procedures – all very straight forward ones – but feedback is important. Letting people know either through BSC or not – don't know what form feedback should be in – a formal annual process is there but never about ethical issues.

A6	For me all of that – it's not all about financial returns – cause and effect is nice conception – yes – for a part of society and lot of businesses – other processes are important – assuming that is quantifiable – organisation will find it useful.
A9	Most small businesses adopt these things automatically – not necessarily formalised. I am up front with customers – lot of companies don't do that its only bottom line for them. Some customers don't deal with me if they have to decide between quality and delivery.