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## **CONTINGENCY FACTORS INFLUENCING THE ETHICAL BEHAVIOUR OF SMALL ENTERPRISES**

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### **Abstract**

*The ethical behavior of small enterprises is less understood than those of large companies, because of their diversity, size, entrepreneurial management, as well as the methodological problems related to data collection and analyses. The importance of this research is paramount because the measures and sanctions adopted and applied to eliminate unethical behaviors have to be tailored for various types of firms, working in different socio-economic contexts. Our main research objective is thus to identify the main contingency factors that shape the unethical behavior of small business organizations. We organized a series of online focus groups with customers and entrepreneurs from three different European countries – France, Italy and the UK - in the first six months of 2023. Findings indicate three contingency factors that mainly shape the unethical behavior of small organizations: the time horizon of organizations' existence, their embeddedness in value added chains and/or networks, and their type of customers. Considering these contingency factors, our study discusses their influence on the ethical behavior of small enterprises and their theoretical and managerial implications.*

## **Keywords**

Small Enterprises, Ethical Behaviour, Contingency Factors, Focus Groups

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## **1. Introduction**

Most extant business ethics studies have been focused on large corporations (i.e., Enron, WorldCom, Arthur Andersen), for reasons related to their visibility, market power and media interest (Thompson and Smith, 1991). However, some researchers denounced the limits of this approach, indicating the high proportion and variety of small businesses in any modern economy, as an essential reason to investigate the ethical behavior of these organizations (Spence, 1999; Spence and Rutheford, 2003; Wyakarman et al., 1997), while Turyakira (2018) outline that “today’s customers have become increasingly mindful of the reputation of the businesses they patronise” (p. 1) regardless of their size. Analyzing the ethical behavior of small firms can thus provide a more favorable general environment for ethical business in general (Spence, 1999) and create competitive advantages, in particular for small organizations.

Unfortunately, extant studies that investigate small firms focus mainly on organizational characteristics (Longenecker et al., 2006; Sinclair, 1993) or managerial profiles (Quinn, 1997), to explain the more or less limited application of ethical principles in these ventures. The size and limited market power of small organizations make them extremely sensitive and vulnerable to the systemic forces that characterize their market and business environment. For this reason we consider paramount to include into this research project the role of the business and market context, by applying a contingency theory framework. Considering that many managerial decisions and organizational initiatives of small firms can be explained through the constellation of market forces and the business context in which they are embedded, our main research objective is to identify the main contingency factors (Bouchetara et al., 2021) that significantly influence the ethical behavior of small organizations, defined as firms with less than 50 permanent employees (European Commission, 2003).

## **2. Background**

Spence and Van Heekeren (2005) define ethics as a set of prescriptive rules, virtues, values and principles that inform and guide conduct.

Business ethics is based on the broad principles of integrity, transparency, accountability, responsibility and fairness, focusing on various issues such as product quality,

customer satisfaction, employee wages and benefits, local community and environmental responsibilities (Abiodun and Oyeniya, 2014). Studying the business ethics of small organizations requires a deep understanding of small firms' profile and specificity, and consequently, an optimal adaptation of data collection, analysis and interpretation to these particularities.

“A small firm is not a scaled down version of a large firm” (Westhead and Storey, 1996, p.18) but has unique characteristics that need to be recognized (Murphy, 1996), in terms of management, organizational structure, resource availability, flexibility, culture and other attributes (Maron et al., 2019). Because of their small size and limited - financial, human and managerial – resources, these organizations usually have a low market power being forced to react and adapt to the stronger market forces and the – more or less – unpredictable environment in which they are embedded. On the other hand, the manager of small organizations is usually also the firm founder, his vision and capabilities often determining the strategic – and the ethical – stance of the venture.

In this study, we investigate the ethical behavior of entrepreneurial small firms in France, Italy and the UK, using a contingency framework. The contingency theory posits that a leader's effectiveness is contingent on how well the leader's style matches a specific context (Wolinski, 2010). Considering that the ethical behavior of small firms is often determined by the vision and style of the top manager/entrepreneur, contingency theory represents a useful framework of analysis and interpretation to connect managerial decision, ethical behavior and specific business circumstances (Bencsik et al., 2018). If some previous studies have focused on the profile of the entrepreneurs/managers (Fassin et al., 2011; Longenecker et al., 2006; Quinn, 1997) to explain the ethical stance of their organizations, our research considers the contingency factors that may influence – based on the opinion of small firms managers and of their customers – the ethical behavior of small entrepreneurial organizations in three European countries: France, Italy and the UK.

### **3. Methodology**

Any study associated with contingency theory needs to take into account the interdependence among organizational fit, environmental contingencies and organizational characteristics (Drazin and Van de Ven, 1985), which is paramount for small business survival and success. In this study we adopt a market selection view of organizational fit, which assumes an identity or isomorphic relationship between environmental context and organization structure

in surviving organizations (Fennell, 1980; DiMaggio and Powell, 1983). Thus, the managers that provided data for our project represent a valid sample since their business – and ethics-related decisions – continue to ensure the fit between organizational capabilities and the business environment, ensuring the survival of their organizations.

On the other hand, the fitness and success of any business venture needs also to be judged through the eyes of its customers - the only ones who can directly evaluate if the firm is fulfilling its market purpose: to provide products and/or services that answer the needs of its customers and to profitably sustain its long-term activity and development. For this reason, to identify and interpret the effect of the contingency factors that significantly influence the ethical behaviors of small businesses we have also solicited the primary data input of customers. Finally, considering that relevant data about such a controversial and sensitive topic as ethical behavior of firms can best be collected through a dynamic and conflictual approach, we decided to use as the main primary data collection method a series of focus groups with a mix of small firms managers and customers.

Although focus groups are not easy to organize and moderate, they have the advantage of providing the direct reactions of people involved in a discussion, who are confronted with various ideas and opinions. In fact, we join the opinion of Vyakarnam (1995) who suggested a more widespread use of focus groups in order to counter the criticism of methodological weakness in business ethics research, as this data collection method allows “to concentrate on the experience of participants as they identify and discuss ethical dilemmas they have encountered and solutions they have explored” (p. 24).

In total, we organized in the first six months of 2023, nine focus groups – three focus groups organized in each of the considered countries. In these focus groups, we used as participants a total of 36 customers and 27 entrepreneurs, who were equally selected – 12 customers and 9 entrepreneurs - in each of the three countries. To select, identify and involve these people we started by searching – with Google - and randomly selecting the names and addresses of fifty small firms in each of the three considered countries. The managers of these firms were contacted by phone or by email and asked – after clearly presenting the objectives and the methodology of this project - if they want to participate in the study. Then, we accepted the first nine entrepreneurs who answered positively to our request. To obtain the name of customers associated with these firms, we first asked the participating managers to provide us with contact information about two-

three people who bought their products and/or services. Then, we used these initial contacts to create a snowball process, stopping this process when one or – in some cases - two customers for each of the selected firms accepted to participate in this project.

The focus groups have been organized online, lasting between 50 and 75 minutes. The questions discussed and debated were general enough so that the participants were not feeling personally criticized (the name and actions of the companies represented in the focus groups were not directly discussed), but on the other hand, interesting enough to involve the participants. The moderated interactions were registered with the consent of all participants, who required the anonymity of their identity in data reporting and analyses.

#### **4. Findings**

The collected data was abundant and diverse, but after applying axial codification – by connecting the instances of ethical and non-ethical behavior with identified contingency factors, it was obvious that the participants’ answers converged towards three main contingencies (see Table 1).

**Table 1.** *The Main Contingency Factors Identified to Significantly Influence the Ethical Behavior of Small Firms*

<b>Factors</b>	<b>Supporting answers</b>
The time horizon of organizations’ existence	<p>“Ethics becomes more and more a market value, so an unethical value will not survive for a long time” (Manager Italy)</p> <p>“Organizations and its leaders are learning to adapt to the market requirements, and if ethical principles are required by customers, they will have to learn and apply them to be successful” (Customer France)</p>
Organizational embeddedness in value added chains	<p>“Ethical behaviour is not an individual trait, but a systemic characteristic. From this perspective, an organisation that is deeply embedded in complex value-added chains will progressively refine the necessary level of ethical behaviour required by that system” (Manager UK)</p> <p>“Interacting with stakeholders, the organisation is permanently negotiating and evolving its ethical stance. Thus, the ethical level of its behaviour will depend in large measure by the ethical standards of its customers, partners, and regulating institutions” (Manager France)</p>

	“Organisation’s independence in relation to its environment will decide its ethical stance, because often profitability and ethics are interdependent in a complex way“(Customer Italy)
The type of organization’s customers	“In my opinion it is easier to trick individual customers into believing that you are an ethical organisation, just by using some greenwashing advertising and communication. However, it is more difficult to fool other organisations” (Customer UK)  “A large number of small organisations in our industry were forced to improve their ethical behaviour because they were forced by larger partners who implemented the concept of transparent supply chains” (Manager UK).

*(Source: Self/Authors’ Own Illustration)*

These three contingency factors are further discussed in the next section.

## **5. Discussion**

The contingency factors identified in relation to the ethical behavior of small firms reveal the systemic nature of ethical standards, and the existence of a dynamic tension between the internal and the external locus of organizational control.

The first factor indicates that ethical values represent an important element for surviving in a specific business system. It is interesting to note is that the provided answers do not necessarily qualify in what direction this influence is realized. As an organization survives and functions longer, its presence in a market is determined by the degree of organizational fit with the ethical standards accepted and applied within that market. Therefore, in time, through trial and error, the manager and the organization learn to adjust their behavior to the ethical requirements of their environment. The interesting part is that we can imagine not only an increase in the ethical standards of the firm but also a potential reduction, when its initial ethical stance is too high. If the organisation has a low market power, and therefore cannot impose its own standards, it may end by adapting itself to the market level of ethical practices.

The second factor deepens and concretizes the systemic perspective that influences ethical behavior: the organization takes decisions in order to answer the requirement of its environment and to adapt to its standards – in other words, to achieve organizational fit. Thus, the managerial decisions cannot really be considered as individually- or even organizationally-

centered, but rather relationship- and systemic-centered, being the result of multiple consecutive transactional processes. Once again, the low market power of small firms obliges them to adapt to the dominant market forces, which explains why their stance is mostly reactive.

Market dominance represents an important element of the third factor since respondents indicate that the small firm can often trick individual customers using information asymmetry; but, on the contrary, organizational customers, especially when they are larger and more powerful than the considered organization, will impose its own ethical standards to the firms integrated in their supply chain.

### **5.1 Theoretical and managerial implications**

Our findings clearly indicate the importance of adopting, at both theoretical and managerial levels, a systemic perspective that is capable of identifying and understanding the principles that define the power relationships and interactions in a specific market niche.

## **6. Concluding remarks**

Addressing the limitations of the dominant managerially- or organizationally-centered paradigms, our study demonstrates the importance and the necessity to apply a contingent, systemic perspective when analyzing and interpreting the ethical behavior of small organizations. Our study has several limitations: it has a strong exploratory stance, the selected sample of respondents is very limited, and the data analysis does not take advantage of the potential differences determined by respondents' nationality. However, these limitations open the way to further research projects, which can apply a similar methodology to validate, contradict or improve our findings.

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