THE IMPORTANCE OF ETHICAL BEHAVIOR AT SMES – FROM THE PERSPECTIVE OF OWNERS

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Abstract

The main aim of this investigation is to assess the views of SME owners in Slovakia about ethical behaviour within enterprises. Data for this study were collected employing a qualitative mode of enquiry with structured interviews across 70 SME owners. The research results show that around 80% of SMEs do not have any formally established ethical standards. At the same time, most owners (84.4%) agree that ethical behaviour within a company is essential. When asked which actor, the enterprise itself or the employees could influence the other's ethics, 37.6% of the SME leaders stated that there could be a mutual influence. Nearly half of the owners (49.4%) have already experienced some unethical behaviour from their employees. Unethical employees were dismissed after the incidents, as indicated by 42.1% of entrepreneurs. These results confirm that the ethical element is crucial for SMEs. However, despite the owners being aware of it, they do not take actions to prevent these issues. The introduction of a code of ethics is strongly recommended – it is one of the most straightforward policies to implement in SMEs.

Keywords: business ethics, small and medium enterprises, management

JEL Code: M10, M12, M54

Introduction and theoretical background

The main assets of enterprises are the individuals (Minárová et al., 2021; Mura, Hajduova, 2021). Thus, it is important to acknowledge that employees have feelings and expectations and cannot be considered machines, only able to make rational decisions. Unethicality can be observed not only between companies but also within them. The management attitude towards ethics has been examined in other research. However, less attention has been paid to the ethics of employees within a company.

Research shows that employees generally recognise ethical behaviour and are aware of rules but may focus on possible consequences of their actions and less on ethics in critical

situations (Bencsik and Machová, 2012). In a situation where their supervisor's expectations may be more important than the values set in the company and individuals focus solely on accomplishing a goal set by a leader, they may resort to using unethical methods. For example, when individuals need some knowledge to perform a given task, they can access it unethically.

Another example of an employee's unethical behaviour in literature is withholding knowledge from others. According to Hobfoll (2001), individuals tend not to share their knowledge if it is directly related to their workplace identity. Kalkan (2005) states that employees' attitude is key to knowledge sharing, as sharing explicit and implicit knowledge is a voluntary activity and motivated from within. As a result, employees do not necessarily share all of their knowledge to keep themselves irreplaceable, thus not benefiting their co-workers. Similarly, Webster et al. (2008) emphasise that employees may develop a sense of ownership. As knowledge is a source of power and security in a workplace, they may consider not sharing it, regardless of their ethics. "Withholding" knowledge can be seen as unethical behaviour in some cases since the individual considers their interests above the company's development. It is essential to point out that employees need to be aware that they can also facilitate their work by sharing their knowledge and that ethical behaviour can be an advantage for all.

Employees' ethical behaviour can also be enhanced. According to Kessel, Kratzer, and Schultz (2012), individuals are more likely to share knowledge if they feel safe and have developed a certain level of trust in their workplace. Another element that can facilitate knowledge sharing is related to emotional intelligence. According to Fox and Spector (2000), people with more advanced emotions are more successful in interacting with others because they achieve their goals by recognising and adapting to the emotions of others. Emotional intelligence is, therefore, closely related to success within an organisation. They also state that self-management, empathy, and interpersonal skills are also needed as they help to recognise, regulate, and express emotions. Thus, individual ethics is linked to companies' success.

The role of emotions has also been considered in ethical decision-making. Gaudine and Thorne (2001) argue that emotions play a part because ethical debates in organisations are conducted emotionally. However, they add that the relationship between emotions and ethics is not yet professionally well established.

Mesmer-Magnus et al. (2010) suggest that an emotionally intelligent individual is less likely to behave unethically to achieve success. They identified the relationship between ethics and emotional intelligence with self-esteem. Individuals with higher self-esteem are aware of their own competencies and believe in themselves. However, their research also found that individuals' ethics, perceptions of the ethics of others, self-esteem, and emotional intelligence

are interrelated and greatly influence how individuals view unethical behavior as a necessary success factor.

In a similar vein, Rodrigues Cabral and Oliveira Carvalho (2014) conclude that individuals with higher emotional intelligence do not feel the need to use unethical tools to succeed. They have higher levels of ethical standards and, at the same time, do not consider themselves more ethical than their peers. In contrast, individuals with less developed emotional intelligence appear less ethical and consider others more unethical. This is in line with the earlier research by Morgan (1993), who found that those who behave unethically believe that people in their environment take far more unethical steps. In contrast to Mesmer-Magnus et al. (2010), Rodrigues Cabral and Oliveira Carvalho (2014) found no evidence that self-esteem had a mediating role between ethics and emotional intelligence.

1   Methodology

The research aimed to assess both experiences and opinions of the Slovakian SME leaders regarding the ethical behaviour of their employees. The research was conducted between December 7, 2021, and February 28, 2022. Due to the covid-19 pandemic, online video communication tools (e.g. Skype, Meet, Zoom) were used to conduct the interviews.

The method chosen was a qualitative interview. Structured interviews were conducted, and open-ended questions were formulated. The method proved to be efficient as it was relatively easy to compare answers, observe trends, and check the reliability of the data. The open-ended questions allowed to collect more in-depth and diverse information from the interviewees, who had more choices and opportunities to express their opinions. The sample included 82 entrepreneurs whose companies qualified as SMEs. The total number of interviewees analysed was 75 due to cancellations and discarding the answers by entrepreneurs without employees.

The answers were video-recorded, transcribed, and then manually coded using Microsoft excel.

2   Results

The results of the research are described below. In the first two interview questions related to demographics, several characteristics of the managers were assessed. These are summarised in Table 1. The gender factor showed the predominance of men (66.2%), while women accounted for 33.8%. This result aligns with the generally accepted fact that most Slovakian entrepreneurs are men.

Tab. 1: Demographics of SME leaders and essential characteristics of the enterprises

Gender		Number of employees	
Male	66.2%	1-9	79.2%
Female	33.8%	10-49	14.3%
Age group		50-249	6.5%
Baby Boomers (1946-1964)	13.4%	**Foundation**	
Generation X (1965-1979)	38.8%	1989-1999	18.2%
Generation Y (1980-1994)	41.8%	2000-2009	29.9%
Generation Z (1995-2003)	6.0%	2010-2019	37.7%
		After 2019	11.7%
		n/a	2.5%

Source: Own processing

The generational grouping by Berkup (2014) was used regarding age. The highest proportion (41.8%) included individuals born between 1980 and 1994 (Generation Y). They were followed by individuals born between 1965 and 1979 (Generation X) with 38.8% and then those born between 1946 and 1964 (Baby Boomers) with 13.4%. However, for "Generation Z" the upper limit considered was 2003 because 18 years old is the minimum age required to manage a business. Several years of experience are typically required to run a company. It is, therefore, unsurprising that Generation Z accounted for 6%. The standard deviation was 11, the median was 43, and the mode was 39, with an average age of 42 years. The higher representation of the older age group can be explained by the change of régime (Revolutions of 1989), as this may have significantly influenced the entrepreneurial spirit in the country.

Micro-enterprises predominated in the results with 80.5%, followed by small (13.0%) and medium-sized companies (6.5%). It can be noted that the majority of companies (38.6%) were founded between 2010 and 2019, followed by companies formed between 2000 and 2009 (30.7%). Companies set up between 1989 and 1999 made up 21.2%, and in the last position, although still a significant value (12.0%), we found those created after 2019. The standard deviation was 10, the median was 11, the mode was 11, and the average tenure years was 12.

The sectors represented in the research included: trading (13.0%), construction (13.0%), other services (12.9%) and telecommunications (10.4%), followed by transportation and manufacturing (9.1% each). Other companies, which could not be classified, scored 9.1%.

The vast majority of the SME owners (77.9%) stated that their enterprise does not have any ethical standards policy. Companies with an ethical policy (14.3%) mostly complied with the code of ethics. This represents 9.1% of all respondents and 63.6% of those with ethical standards. A third category, marked as "Other", has been created to include respondents who

stated that ethical expectations were included in the employees' contracts or the job description (7.8%). The group also contains answers, such as ethical expectations are not set out in writing but can be interpreted as a "basic expectation" or an "unwritten rule".

Fig. 1: Existence of ethical institutions in enterprises
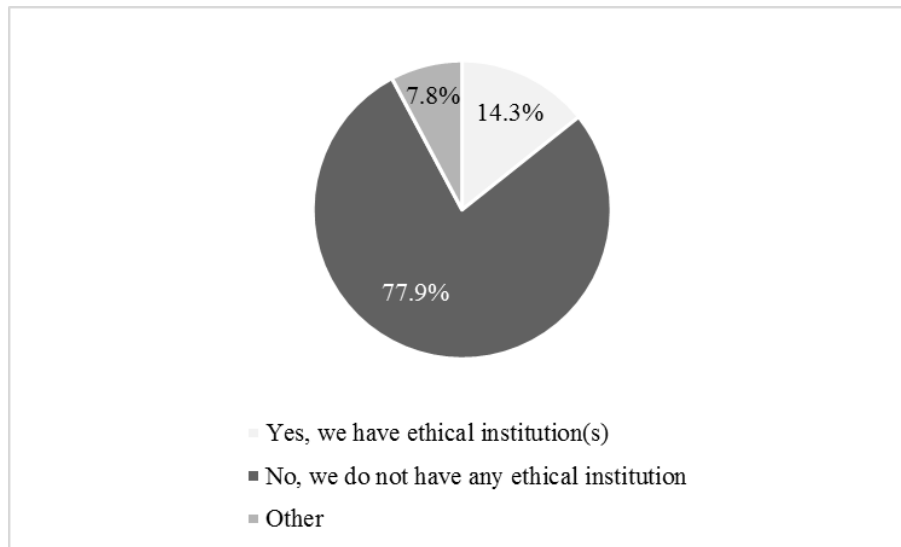
Source: Own processing

Owners attributed ethical behavior to 'basic expectation', 'helping the company' 'relaxed atmosphere' (15.4% each), 'encouraging, exemplary' (10.8%), "responsibility" (9.2%), "respect" (7.7%), "teamwork" (6.2%), "good impression" (6.2%), "communication" (6.2%), "problem prevention" (4.6%), "trust" (4.6%) and "intelligence" (1.5%).

Managers were also asked if they believed that ethical behaviour within the company was advantageous. It can be noted that 84.4% of the owners thought it was, while 7.8% did not. For the latter, the most negative answer appeared in the form of "human is a benefit-seeking being". Another 7.8% only partially consider corporate ethical behaviour to be an advantage. Some said that whether behaving ethically in the workplace is worthwhile or not depends on the situation.

In the following question, the interviewees were asked which actor shapes the other's ethics, with the two actors being the individual and the organisation itself. This question was open, but we encouraged respondents to choose a side. Interestingly, the proportion of respondents who believe that the organisation shapes the ethics of employees is higher (33.8%) than those who believe that individuals shape the organisation's ethics (28.6%). The third option, namely that both may affect each other, was not mentioned to the participants. Nevertheless, this view arose in the interviewees' responses too (37.6%).

The interviewees were asked if any of their employees had ever displayed unethical behaviour. A very balanced result emerged, as 50.6% of managers did not experience unethical behaviour from their employees, while 49.4% did. We also asked about the reasons for this unethical employee behaviour. It emerged that unethical behaviour was most often caused by "attitude, selfishness" and "tension, misunderstanding or bad mood" (18.4% each). Other unethical behaviours were: "Inappropriate manifestations" (15.8%), "theft and other offences (e.g. alcohol consumption)" (10.5%). The consequences of unethical behaviour were also mentioned. The majority (42.1%) indicated that the employee involved "had been made redundant". This was followed by "warning" (23.3%) and "discussion" (18.4%). 5.3% of the interviewees named other penalties (e. g., cleaning).

The entrepreneurs were asked whether the enterprise's ethical culture contributed to the loyalty of employees, customers, and suppliers. The results revealed that 90.9% of owners believe that an ethical culture contributes significantly to the loyalty of those involved. A further 7.8% of owners said the enterprise's ethical culture partially affects stakeholders' loyalty, while 1.3% said it does not.

Fig. 2: The contribution of corporate culture to employees' loyalty
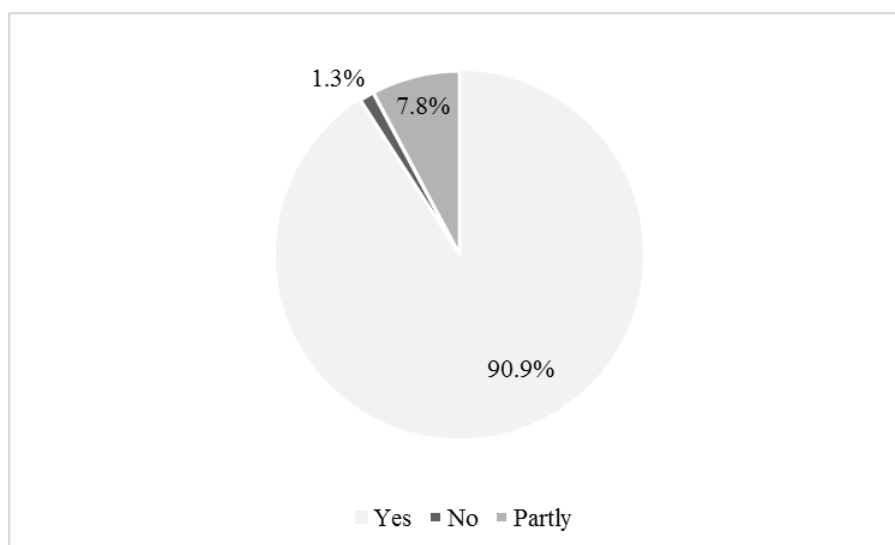
Source: Own processing

In the following question, "Does education impact ethical behaviour?", 68.8% of the owners believed education does not affect one's ethics. Only 18.2% thought they had discovered some connection between the two. A third category representing 13.0% of the respondents emerged to include individuals who did not take either side. In this last category, while some leaders thought certain connections could be discovered, others argued that there is usually a connection between the two, but not in all cases.

Fig. 3: Impact of education on ethical behaviour – according to owners
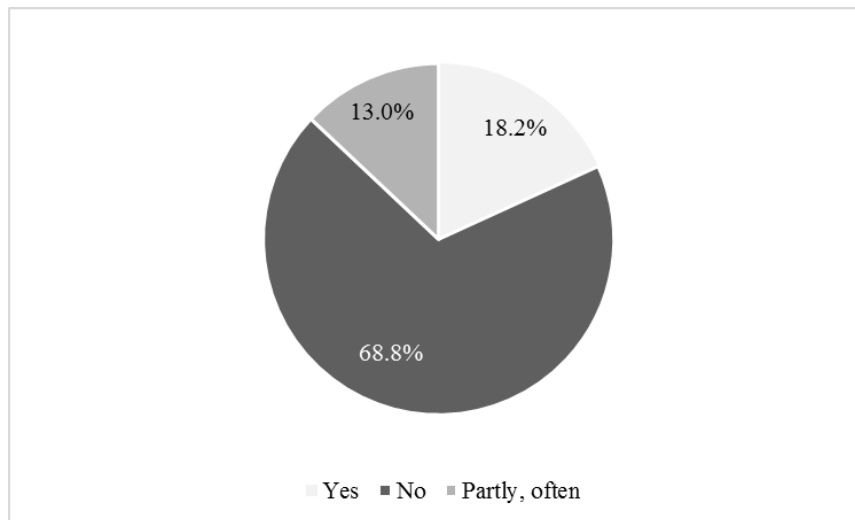
Source: Own processing

The last question aimed to get the views of the enterprise owners on the impact of EQ (emotional intelligence) on ethics. Figure 4 shows that more than half of the owners (57.1%) believed that individuals with higher EQ behave more ethically in their workplace. 24.7% instead said this was only partially true, while 18.2% denied the existence of a connection.

Fig. 4: Impact of EQ on ethical behaviour – according to owners
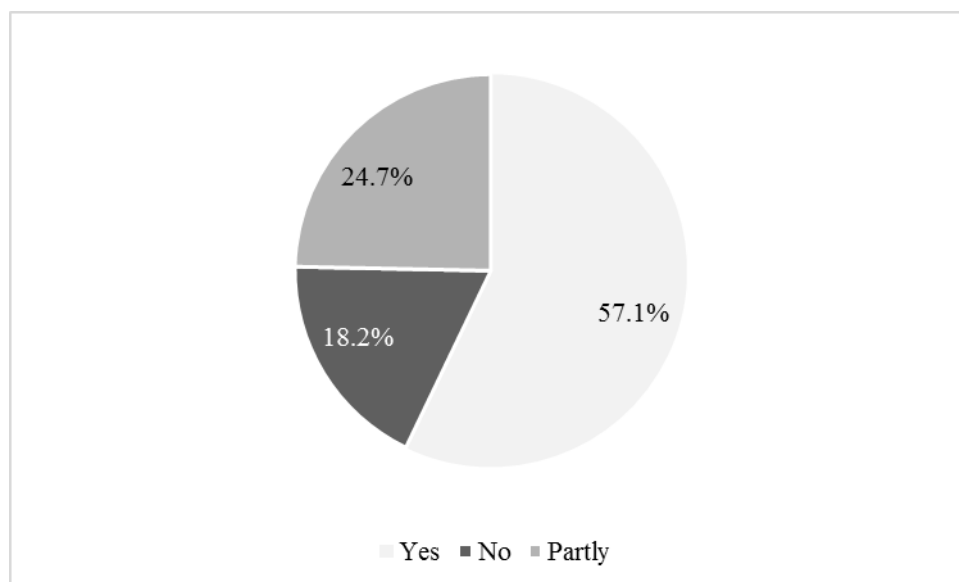
Source: Own processing

Conclusion and recommendations

Although the majority of the company executives (84.4%) believe that ethical corporate behaviour is advantageous, 77.9% of them admitted that their company does not have any

ethical standards. It has also been found that a relatively high proportion of the enterprise owners (33.8%) believe that the organisation shapes the ethics of employees. We attribute this to the fact that owners want the enterprise they run to influence the ethics of the individuals who work for the company. Another part of the results shows that nearly half of the owners (49.4%) have experienced unethical behaviour from their employees. It is important to note that the majority of the owners (42.1%) indicated that the unethical employee was dismissed after the incident. Based on the responses, 90.9% of the entrepreneurs believe that an ethical culture contributes significantly to stakeholders' loyalty.

The majority of the owners (68.8%) also believe that higher education cannot guarantee higher ethical standards. More than half of the interviewees (57.1%) thought that individuals with higher EQ behave more ethically in their workplace. These results confirm the conclusions by Mesmer-Magnus et al. (2010) and Rodrigues Cabral and Oliveira Carvalho (2014), who suggested that an emotionally intelligent individual is less likely to behave unethically to achieve success and that individuals with higher EQs have higher ethical standards.

If individuals trust their co-workers and superiors, they are more likely to act ethically in their work and are willing to share their knowledge. It is, therefore, necessary for the company owners to consider these elements from the employees' perspective. It can be recommended that proper communication, rather than immediate dismissal, should play an essential role if a specific unethical situation occurs. Management needs to evaluate if it could be worthwhile to keep a cold head and give the unethical employees another chance.

In developing an appropriate internal corporate culture, care must be taken to ensure that employees are not disrespectful of each other and their superiors. It is essential to have a certain level of ethical rules to which all participants must adhere. Introducing a code of ethics is recommended because of the high incidence of unethical behaviours experienced by the owners. It is one of the most accessible policies for corporate ethics to implement.

Our research had some limitations. These were material and time constraints, which limited our research in several ways. The disadvantage of a structured interview is that it is not possible to deviate from the pre-prepared interview outline. In our opinion, the proportion of the older generation may be even higher among entrepreneurs. However, they may run a company that does not depend on the use of the internet, so we could not reach them online.

Further research to include the employees' views on the issues raised is necessary. It would also be interesting to extend the research to the surrounding countries, especially those belonging to the V4 classification, to have a transnational view, identify any similarities or differences, and understand any situational influence (e.g., national culture).

Acknowledgment

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