ARE SLOVAK SMEs READY TO TAKE RESPONSIBILITY FOR THE DEVELOPMENT OF BUSINESS ETHICS?

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Abstract

The paper presents results of a qualitative study on ethics in small and medium-sized enterprises (SMEs) in Slovakia. It aims at identifying the best practices in developing business ethics in SMEs, and what needs to be done to implement ethics into the business practice and ensure that SMEs’ representatives would be willing to introduce ethics into their businesses. In order to gain a deeper understanding of how SMEs’ representatives perceive ethical issues that influence their businesses, the focus group method with a consecutive thorough in-depth analysis of the transcribed material was used for the purposes of this study. The research has revealed several new findings on the challenges of business ethics in SMEs. Interestingly, results indicate that Slovak SMEs’ representatives might not see themselves as subjects directly responsible for the development of ethics in their organizations, and they would consider implementing ethics only if the legislative conditions changed and it would pay off for them to act in an ethical manner.

Keywords: business ethics, ethical leadership, ethics institutionalization, SMEs, Slovakia

1. INTRODUCTION

The paper presents preliminary findings from one research strand of a large multi-method comprehensive research project on business ethics in Slovakia that is being currently carried out at the Faculty of Management at Comenius University in Bratislava. The project builds on prior works on ethics in the Slovak business environment (Remišová, 2015; Remišová et al., 2016). The mission of this project is to provide Slovak companies with effective mechanisms of business ethics application. Based on the critical analysis of the current state of ethics in the Slovak business, of the cutting-edge scientific knowledge and of practical experience in Europe and globally, the main aim of this project is to create a comprehensive Integrated model for long-term development of business ethics for companies operating in the Slovak business environment, taking into account the size of companies according to the number employees and thus differentiating various aspects of the Integrated model for micro companies (with up to 9 employees), small companies (10 to 49 employees), medium-sized companies (50 to 249 employees) and large companies (with 250+ employees). This study focuses on one portion of results acquired during the qualitative phase of the respective research project, namely on the prevalent challenges and best practices tied with the development of business ethics specifically in companies employing fewer than 250 employees (SMEs). Here, it should be noted that this is a first study of its kind conducted in Slovakia, providing a fresh insight into the problems with applying ethics in Slovak SMEs. These findings will serve in the next project stage as one of the knowledge bases for formulation of the Integrated model for SMEs nested in specific conditions of the Slovak business environment.

The primary motivation to focus in particular on SMEs stems from the fact that SMEs’ representatives have unique knowledge of the Slovak business environment. Their businesses are closely interconnected with the surrounding environment and are able to grasp the reality from a perspective, which only belongs to entities that are indigenous part of the national culture. According to the Slovak Business Agency report (2017), Slovakia belongs to the countries with the highest number of SMEs per capita. More specifically, SMEs account for 99.99% of all business entities existing in the Slovak business environment and employ 74.1% of the workforce in Slovakia. In addition, SMEs’ share in value creation is circa 52.7% (Slovak Business Agency, 2017). Thus, considering their economic, political, social as well as cultural influence, SMEs represent an extremely important part of the Slovak
business ecosystem. The underlying assumption in our research is that SMEs substantially affect the business environment through their activities. They are not only passive recipients of political decisions and social actions, but they are active creators of economic, social, political and cultural relations in our country, and represent therefore an “environment-creative” force. As Weltzien Hoivik and Mele (2009) say, “although SMEs may be “small fish,” paying attention to them is highly advisable, since they are a significant fraction of the world economy (Weltzien and Mele, 2009, p. 552).

Despite the influence of SMEs globally, as Spence (1999) noted, the existing literature on ethics in small firms shows a lack of appropriate research. Furthermore, Moore and Spence (2006) state that the academic discourse on ethics in SMEs is quite fragmented and this opens the space for further empirical investigation in this arena. Similarly, also Vazquez-Carrasco and Lopez-Perez (2013) show in their research that literature to date has failed to consider the firm size as an important factor in company ethics. Thus, although an abundant research deals with the differences in the management practices between large and smaller firms, a considerable smaller attention is paid to the ethics-related differences in this context.

SMEs are in nature led independently as they are managed on the “owner-manager” basis (Spence and Lozano, 2000). The owner-managers are often exhausted by multi-tasking (Spence, 1999) that leaves less space to think about ethics, which is thus often seen as a thing of minor importance. Furthermore, many authors emphasize that ethics in SMEs is subject to rules other than in large companies. According to Arend (2013), SMEs are exposed to novel dilemmas due to a constantly accelerating changes, while being under pressures that gives less time and resources for thoughtful decision-making, which may lead to reduced consideration of ethical consequences. Enderle (2004) states that SMEs must fight for survival in harsh conditions and assumes that the ethical standards developed for large companies may be inappropriate in SMEs. Likewise, Weltzien and Mele (2009) think that SMEs do not have to necessarily follow the patterns of large multinational companies in exercising ethics. They both do not have to as well as cannot copy the procedures of large companies in implementing ethics, mainly due to the lack of monetary resources to cover the costs related to ethics development and the insufficient personnel or skills capacity to deal with ethics on a professional basis. Ethics in SMEs reflects the owners’ values, beliefs and desires (Nkiko, 2013), their character and leadership (Weltzien and Mele, 2009), and management’s value and belief system (Cambra-Fierro et al., 2008). Furthermore, ethics mirrors also the owner-managers’ ability to delegate responsibilities and increase the discretionary slack, their absorptive capacity and knowledge attained for instance by engaging in networks (Lepoutre and Heene, 2006). SMEs are willing to meet the requirements of social responsibility especially in respect to their customers, employees, and the public (Fülöp et al., 2000). Also, some studies note that SMEs find it difficult to transfer socially responsible behaviors particularly towards their suppliers (Ciliberti et al., 2008; Roberts et al., 2006). They are especially driven by the desire to be viewed as a “good company” that has an ethical image on the market (Cambra-Fierro et al., 2008), and perhaps therefore it is vital for them to reduce the risks of collaboration with potentially unprincipled suppliers.

A remarkable attention is given also to the issue of maintaining close relationships in terms of trust and open communication with business partners and communities that surround SMEs. There is a growing number of studies dedicated to the research of social capital in relation to the development of ethics in SMEs. In this process, SMEs rely on their social networks and support from their communities and various associations. From a public policy perspective, Murillo and Lozano (2009) emphasize that to foster CSR (and ethics) in SMEs, effective public-private networks need to be instilled and the growing number of various CSR-related initiatives need to be coordinated. Likewise, Enderle (2004) notes that in recent years many business networks ascended. He argues that because individual SMEs are currently exposed to global competition, they may face these pressures more effectively by forming a wide variety of networks and thus advance and harmonize their business operations and standards. In addition, also Jenkins (2006) notes that the networking and learning from peers has the right potential to intensify the involvement of SMEs in ethically responsible conduct. Correspondingly, Roberts et al. (2006) note that business networks with partnership programs that are valued and trusted by SMEs represent an important ingredient for ethical development and corporate responsibility at SMEs. As Fuller and Tian (2006) show, there is an inherent power in the social relationships at SMEs, which forms their ethical behavior, and as they further conclude, “normative theories of the development of social capital may provide
‘competitive advantage’ through responsible behavior for small business in the global economy” (Fuller and Tian, 2006, p. 287). Interestingly, research shows that the importance of SMEs engaging in business ethics does surpass their own boundaries and could help even in building large social networks which reconcile deep political, economic or ethnic conflicts. For instance, in case of Malaysia, Ahmad and Seet (2010) say that the ethical practices in business could work as a mechanism to promote harmonious societal relations, because good business practices enhance trust, collaboration, and open-mindedness among the diverse ethnic groups in the country. As they conclude, fostering business ethics among SME practitioners could be one of the ways in which greater social integration could be enhanced, at least in the commercial context (Ahmad and Seet, 2010).

The number of SMEs and their strength in the economic and social life of the Slovak society provoke the need to map and understand what is happening in these companies in terms of the application of business ethics and what challenges SMEs face in the Slovak business environment currently. In particular, two research questions are posited in this study:

RQ1: What are the best practices in the development of business ethics in SMEs in Slovakia from the viewpoint of SMEs’ representatives? RQ2: What needs to be done to ensure that SMEs’ representatives would be willing to introduce ethics into their businesses? In other words, which factors condition the long-term development of ethics in SMEs from the viewpoint of SMEs’ representatives?

We developed this paper as an extended research note. Sections below inform briefly about the research methodology, and consecutively the research outcomes are described, discussed and summarized.

2. MATERIALS AND METHODS

2.1. Sample

In the course of March 2018, a call for participation in the focus group meeting was disseminated to three prominent Slovak business associations, informing briefly about the research focus and its aims. We contacted the National Union of Employers (NUE), the Slovak Business Agency (SBA) and the Slovak Compliance Circle (SCC). The NUE brings together 31 employers’ associations and chambers and 27 individual member companies. The SBA promotes public and private cooperation and support of SMEs, serving as a platform for cooperation between three establishing organizations (Ministry of Economy of the Slovak Republic, Entrepreneurs Association of Slovakia, and Slovak Trade Union), six specialized SBA organizational units and 13 public/private partnering organizations. The SCC represents a free association of 27 large business entities operating in Slovakia, mostly international corporations that support longitudinally the development of business ethics in Slovakia.

The participants had to fulfill two criteria established to enhance the accuracy of research outputs, i.e. to work as a SME’s representative (as a top manager/owner) and at the same time to be active in business/employer/vocational associations in Slovakia. Eventually, six professionals fulfilled these criteria and were able to participate in the focus group meeting that took place in April 2018. One of the participants maintained a dual role as a representative, because he was a small business owner as well as a top representative of a large association of SMEs connecting more than 44 legal persons and representing more than 34,000 employees in Slovakia. As focus group participants played an active role in several vocational or employer organizations, which represent the interests of Slovak SMEs and actively engage in the SMEs-related legislation, they had an extant experience from these organizations. Thus, their opinions expressed during the focus group represented not only their individual entrepreneurial experience but reflected their deep understanding of the specificities of both the business environment in Slovakia as well as the challenges faced by SMEs in particular. As for the position in their own companies, four research participants were statutory directors of their companies, one respondent was managing partner and another one was a company director. All were service sector companies established between 2003 and 2013, entailing construction, management and business consulting, administrative and office services, and catering.
2.2. Methods and data analysis

Given the scarce empirical evidence on business ethics in Slovak SMEs, a qualitative and exploratory methodological approach was chosen for the purposes of this study. More specifically, the investigation was based on the focus group method, followed by a thorough in-depth analysis of the transcribed material. We opted for a standard method in qualitative research, the focus group, in order to gain a deeper understanding of how our informed respondents (SMEs’ representatives) perceive ethical issues that influence their businesses and what are their expectations in respect to the given problems and accompanying societal phenomena. In order to raise the validity of this method, we followed Bryman’s (2008) recommendations. The composition of the sample was quite diverse in respondents’ professional background. All participants had several years of experience and know-how in doing business. They were active in vocational as well as employers’ associations and were knowledgeable of ethical challenges Slovak entrepreneurs face within the business environment.

The focus group itself consisted of three phases. First, one research team member introduced the participants and the rest of the research team and clarified the scope of the project and the topics that would be brought up during the discussion. Second, during the discussion, emphasis was put on creating a pleasant and safe environment, in which an open exchange of different views could take place. During the three-hour discussion, the facilitator encouraged all participants to express their opinions, and cared that everyone would be actively involved in the discussion. Third, after all research queries were saturated, the facilitator briefly summed up the main points and asked participants to add any other issue that had not been discussed yet they would consider important.

Three research team members recorded the discussion independently in order to minimize potential loss of information. The transcriptions were then compared, verified and supplemented by missing details. After completion of the material and after anonymizing the personal information on individual participants, all responses were carefully analyzed in the first round by two researchers independently. The transcribed material was broken down to individual sequences, which were then coded based on their meaning, while deliberately controlling for the context that framed the sequences. The codes were systemized into an initial coding scheme. In the next step, both researchers compared their coding schemes, and contradictory issues were assessed in order to reach a consensus over the final coding scheme. Codes were then sorted into sense-making categories based on meaningful connotations between the codes. In the next stage, this relatively larger number of categories was organized into a smaller number of clusters and, in order to exemplify our results, for each category instances (quotes from the transcribed material) were provided. Results given below are based on methods of abstraction from and synthesis and clustering of the individual respondents’ statements and their subsequent critical analysis.

3. RESULTS

After a thorough methodical analysis of the transcribed focus group material, we arrived at two tree-like schemes shown in Table 1 and Table 2. The first table shows what works best in business ethics in SMEs according to the opinion of SMEs’ representatives who participated in our research. The second table illustrates the multitude of challenges, which need to be resolved according to SMEs’ representatives in order to ensure that SMEs would be willing to introduce ethics into their businesses.
BEST BUSINESS ETHICS PRACTICES IN SMEs (RQ1)

<table>
<thead>
<tr>
<th>Clusters</th>
<th>Categories</th>
<th>Examples - Quotes from transcribed focus group materials</th>
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<tbody>
<tr>
<td>1. Upholding the ethical leadership</td>
<td>1.1 Manager/owner exhibiting ethical</td>
<td>“It is a cliché, but it is simple. You need to begin</td>
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<td>at the top of companies</td>
<td>behavior, being ethical authority and</td>
<td>from yourself. It is about small decisions, personal</td>
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<td>role-models for others</td>
<td>decisions, for example, “I want the payment on an</td>
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<td></td>
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<td>invoice and not in cash” (R6).</td>
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<td></td>
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<td>“The boss must show that it is worth it. The boss</td>
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<td>must explain the laws [to others] (R3).</td>
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<td>“The boss needs to lead employees by his own example” (R1).</td>
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<td>2. Maintaining fair and balanced</td>
<td>2.1 Fostering an ethical relationship</td>
<td>“My firm is on the market for 28 years, probably we</td>
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<td>relationship towards employees</td>
<td>with employees</td>
<td>wouldn’t survive, if we would behave differently [badly], people are employed for many years, and this testifies to something. We try to behave ethically toward our employees” (R3).</td>
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<td>2.2 Rewarding ethical behavior and</td>
<td>“In small businesses there is a different kind of</td>
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<td></td>
<td>disciplining unethical behavior</td>
<td>relationship [than in large companies] between</td>
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<td></td>
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<td>employee and employer, it is a partnership” (R3).</td>
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<td>3. Focusing on quality checks &amp;</td>
<td>3.1 Control of the quality of results/</td>
<td>“… rules of rewards and punishments meaning that if you will stick to this then you will be rewarded and vice versa, use a whip that will drive you back if you violate something” (R3).</td>
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<tr>
<td>control</td>
<td>work outputs</td>
<td>[It is important] to reward ethical and punish</td>
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<td></td>
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<td>unethical behavior, such an initiative is needed in</td>
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<td></td>
<td></td>
<td>society” (R2).</td>
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<td>“The most important is justice, if you are fair, you</td>
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<td>have the same meter, then the people would accept</td>
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<td>also tough conditions. Justice is needed, in respect</td>
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<td>to allocation of work and benefits, justice must be</td>
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<td></td>
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<td>applied” (R3).</td>
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<td></td>
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<td>“We build a relationship with employees through</td>
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<td>meetings, rewards and punishments that are linked to</td>
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<td>the work results” (R3).</td>
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<td>[You need to] “compensate based on the performance. If a person has done a good job, he needs to be rewarded accordingly” (R2).</td>
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Table 1. Best practices in business ethics in SMEs

As for the best business ethics practices in SMEs, three clusters evolved from the analysis, namely the 1. Necessity to uphold ethical leadership at the top of companies, 2. Maintaining fair and balanced relationships with employees, and 3. Focus on regular quality checks and control (Table 1).

The first cluster indicates that the responsibility for ethics development in SMEs is primarily attributed to the company owners and/or managers, who should exemplify ethical principles through their own behavior, and thus serving for others in the company as ethical role-models. The second cluster encompasses three categories of best practices, pinpointing the importance of respectful relationships towards employees. More specifically, it tackles the issue of stable employer-employee bonds built more on a partnership basis than on subordination. This cluster introduces also the sensitive issues of fair employee compensation as well as the balanced managerial decisions related to rewarding ethical and disciplining unethical behavior of employees. Finally, the third cluster focuses on the control of work results and outputs with a constant focus on the issue of quality production as a way of facing the problems resulting from the market pressure to keep the prices low.
FACTORS CONDITIONING DEVELOPMENT OF BUSINESS ETHICS IN SMEs (RQ2)

<table>
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<tr>
<th>Clusters</th>
<th>Categories</th>
<th>Examples - Quotes from transcribed focus group materials</th>
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<tbody>
<tr>
<td>1.1 Profound change of the public procurement process</td>
<td>“Circa 60-70% of small businesses are not even able to sign up for public procurement on time [because of the large companies and non-transparent rules]” (R3).</td>
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<td>“There is a limit where there is no need to go through public procurement and only a to do a survey is enough. This thing is often abused in practice” (R6).</td>
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<td>1.2 Improved tax administration policies</td>
<td>“Tax laws are a mean of pouring money into the budget. If tax costs increase, there is also a greater incentive to circumvent them, leading to even more control, and this loop to be cut” (R6).</td>
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<td>“The state is omnipresent, but the entrepreneur does not perceive the feeling of reciprocity. I don’t get anything back for my taxes” (R5).</td>
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<td>“These [tax rules] are the unfair rules, [the State] takes the missing funds from companies” (R3).</td>
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<td>“… the tax administration needs to be improved, and also legislation, [now] justice does not affect unethical behavior” (R2).</td>
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<td>1.3 Improved legislation regulating the SMEs in general</td>
<td>“The legislation is designed only for large firms” (R1).</td>
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<td>“Legislation for small and medium-sized companies is not satisfactory. Administrative obligations are increasing, burdening the small and medium-sized enterprises. In 1992, entrepreneurs had from 13 to 14% of net disposable profit, today they have 11.3%. This is not enough for development” (R3).</td>
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<td>Legislation is not set up in our country in a proper manner, and consequently it is not enforced. So important is the right legislation and its thorough expert commenting [before codification] … In our country this works only in a pro forma way, no one examines the effects of new laws” (R6).</td>
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<td>“Laws need to be adopted systemically and not at the same time a lot of legislation, now we are drowning in it” (R6).</td>
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<td>“Business rules need to be simplified, this will eventually eliminate the effort to circumvent them” (R4).</td>
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<td>“The entrepreneurs are constantly at fight, they fight with the tax office, with the municipalities, with the employees. Legislation throws a wedge between businesses and employees” (R3).</td>
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<td>1.4 Effective law enforcement</td>
<td>“This is related to the state of the judiciary, in Switzerland you have a decision within a month, and you can enforce a claim or go to court. [Here, in Slovakia] small businesses have to suffer losses every year” (R4).</td>
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<td>“… law enforcement needs to be increased”. … There is no respect for the courts. Someone has owed us since 1997 and did not received any final decision yet. … either it is a judge’s fault, or a procedural error, or a delay in the legal proceeding” (R3).</td>
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<td>“We need functional rules, enforceability, sanctions. There must be a great tiding up. Law enforcement is important” (R6).</td>
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<td>“… we need a better regulation and better laws, and better enforcement of the law” (R2).</td>
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<td>[Consider for instance] “the problem of protecting intellectual property, brand abuse, know-how, you will not end up with a result when someone steals your brand because the courts are idle” (R1).</td>
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| I. Principled “Law & Order” approach at the societal macro-level |

Legislation is not set up in our country in a proper manner, and consequently it is not enforced. So important is the right legislation and its thorough expert commenting [before codification] … In our country this works only in a pro forma way, no one examines the effects of new laws” (R6).
2. Methodical application of rewards and punishments to (un)ethical companies

2.1 Strict disciplinary actions against unethical actors in the business environment, especially for corruption

“If we read in the media that somebody did something and went through it with no harm, it has a negative impact on society. We need draconian punishments for corruption” (R6).

“The extent of corruption inside companies is greater than in the government. Managers are tunneling their businesses, making overpriced purchases because they are badly compensated in the company.” (R4).

2.2 Zero tolerance for the unethical practices of businesses towards customers

“But if a company will tolerate unethical practices toward customers in business, it won’t change. If the saleswoman is being disrespectful, the second time the customer should not come. This is how the unethical entrepreneurs will be sorted out” (R1).

“Legislation must include benefits for companies, which behave well. ... it [should be] clear that if businesses are doing business ethically, they will be rewarded” (R3).

“To behave ethically, it must pay off to the companies. ... If an unethical [action] will pay off, it will be here. If unethical [action] will increase profits and reduce costs, it will be here, too. ... The difference between legal and ethical needs to be reduced. To make the ethical behavior to pay off” (R2).

2.3 Introduction of motivational benefits for companies that act in concordance with ethics

[The change is possible] “probably just by education, through the education system and the societal pressure that emerges from it. The challenge for the education system is spread an idea among the people that those who will behave unethically, even if it brings some benefits, will be condemned at the end” (R4).

3. Development of the broader societal mindset

3.1 Cultivation of the whole society and thorough ethics education at schools

“The whole society needs upbringing” (R3).

“The education of the whole society will have an effect on the small entrepreneur” (R1).

3.2 Influence of mass media and pressure of the public opinion

“Social opinion is made up by the media. See what is there [in the media]. We have two to three professional journals, otherwise only tabloids which show only what somebody wears and how many ‘vuittons’ [note: branded handbags] she has. And public opinion is influenced by these media” (R1).

Table 2. Factors conditioning the development of business ethics in SMEs

As for the second research inquiry on what needs to be done to ensure that SMEs’ representatives would be willing to introduce ethics into their businesses, the analysis of the focus group outputs lead to a three-cluster solution including a multitude of factors that condition the development of ethics in SMEs (Table 2). During the focus group discussion, SMEs’ representatives emphasized the necessity of an 1. Principled approach based on law & order in the way how the macro-level (state, institutions) works, 2. Methodical use of both rewards and punishments for (un)ethical company conduct, and a need for 3. Developing broader societal mindset in line with ethics.

The first cluster regards mainly the legal aspects of company operations and consists of four categories of inter-related factors hindering ethics development in SMEs. Respondents declared repeatedly the problems in public procurement and in legislation in general, including also low level of law enforcement and complicated tax legislation and policies. They kept mentioning the inefficient processes at the state-level and the detrimental effects that the current legislation has on SMEs. The underlying assumption of SMEs’ representatives was that there is an urge to restore the balance in state-businesses relationships, because right now the business suffers inadequate losses due to the state malpractices, e.g. high taxes, frequent changes of legislation, administrative burdens, or a certain lenience of courts to illegal and/or unethical conduct.

In the second cluster, respondents articulated clearly the requirement to punish exemplary those who violated legal and ethical principles and vice versa, to reward those whose behavior could serve as a principled example. This cluster included three categories, namely the call for strict disciplinary actions especially for corruption among the actors in the business environment; no tolerance for the unethical
practices of businesses towards customers; and the introduction of motivational benefits for companies that act in concordance with ethics. The latter category seems to be particularly interesting, because it implies that it is, indeed, important for SMEs’ representatives to be institutionally acknowledged for doing business in line with ethics. Generally, society automatically expects ethical behavior from companies; it is commonly understood as a “rule of thumb” in doing business. Nevertheless, SMEs’ representatives in our sample declared for several times that ethical behavior should be deliberately stimulated on a formal and institutionalized basis. The state should assign benefits for ethical companies, because according to our respondents, SMEs will accept the idea of business ethics only if ethics will pay off to SMEs.

The third cluster of factors conditioning the acceptance of ethics by SMEs touched the issue of a certain under-development of the broader societal mindset in terms of ethics. Respondents indicated that the ethical development of business should go hand in hand with a broader cultivation of the society complemented by a systematic ethics education at schools and by the positive influence of mass media. SMEs’ representatives in our sample anticipate that ethics education and mass media coverage of worthy-to-follow examples of ethical behavior would accelerate the ethical development of businesses in Slovakia.

4. DISCUSSION

The first research question aimed to find out which best practices in the development of business ethics in SMEs proved to be successful from the viewpoint of SMEs’ representatives. In other words, we were looking for positive examples, patterns and inspiration in business ethics application for the small and medium-sized businesses.

The answers to the question on the development of ethics in SMEs focused in particular on the way organization’s managers should behave in order to foster the ethical behavior of employees. This shows that ethics in SMEs is highly dependent on strong leadership, or as Jenkins (2006) says on “championing” from highly motivated individual owners and managers. Our respondents agreed on that ethics in the company is being developed mainly by: (i) Manager’s or owner’s own behavioral example, being an ethical authority and a role-model for others; (ii) Fostering an ethical relationship with employees; (iii) Rewarding ethical behavior and disciplining unethical behavior of employees; (iv) Fair employee compensation based on the performance; and (v) Controlling the quality of results and work outputs.

Considering these results, it is clear that SMEs’ representatives in our sample do not link the ethics development in their companies with any of the formalized components of ethics institutionalization used in large companies. Instead, our respondents focused on the role of management. This is in line with Spence’s (1999) note that the key aspect of ethics in the small firm revolves “round factors that relate to management of the firm by one of its major owners” (p. 164). The ethical leadership is vital to build an ethical company culture. Fernandez and Camacho (2016) show that the key element as a leader in SME is to set an example towards others in how to fulfill the work, how to behave according to rules and how to communicate with employees and clients. Our research participants tended to omit particular personality characteristics and value orientations of the managers or the owners of the organizations. It is possible, however, that respondents covered these issues under the roof of “own example” (R1) and “moral and expert authority of the boss“ (R3).

Based on the critical analysis of respondents’ answers, we concluded that respondents did not see a link between the development of business ethics and the application of some common forms of ethical institutionalization. None of our respondents has described any form of institutionalization of ethics that is usually part of ethics and compliance programs in companies (e.g., Bohinská, 2018a, 2018b; Peterson, 2013; Remišová, 2015; Reynolds and Bowie, 2004; Weaver and Trevino, 1999). This finding connotes with outcomes of other researchers as well. For instance, Jenkins (2004) notes that in general there is a lack of formalized ethics management tools in small businesses and it is highly unlikely that SMEs would have a CSR declaration, codes of ethics or coherent vision and mission statements in place. Fernandez and Camacho (2016) also state that in the Spanish business environment it would be highly
desirable to strengthen the formal aspects of ethics infrastructures in SMEs as this formalization would help to keep the ethics components even in case of management change, succession or change of the company ownership.

In our research, respondents did not even list any ethical training although ethics education is an important component in the ethical development in a company (e.g., Delaney and Sockell, 1992; Frisque and Kolb, 2008; Warren et al., 2014). They did not refer to any communication channels usually used by employees who wanted to report unethical practices in the company. Similarly, nobody mentioned the systematic control or monitoring of employee ethical behavior. Even the existence of rules (simple or summarized in a code of ethics) was absent, too. We consider one statement significant in this context: “… micro companies take it as it goes, they don’t have any rules” (R5).

Another factor identified in our study pinpoints to building ethics in the organization through relationships and personal ties with employees. This seems to be an essential area also outside the Slovak SMEs. For instance, Spence (1999) and Lahdesmaki (2005) pointed in their research towards this issue, showing that for company owners to employ people is a critical milestone in business life, putting higher demands on entrepreneurs’ responsibilities. Besides the ethical behavior of the bosses and the close interpersonal relationship with employees, our respondents have mentioned also the factor of quality controls and checks. Interestingly, the same tendency was observed by Lahdesmaki (2005) who conducted a qualitative study among company owners to unveil their major ethical concerns in doing business. Six sources of ethical concern were identified, i.e. choosing suppliers, setting up the pricing, deciding about the content of marketing information, maintaining a close relationships to employees, collaborating with other entrepreneurs and the monitoring the quality issues, which for the interviewed entrepreneurs meant both the elevated standards of production and the reliable distribution of products to the customers (Lahdesmaki, 2005).

The second research question focused on what can be done to ensure that SMEs would implement ethics into their businesses. We were interested in what needs to be done to ensure that SMEs’ representatives would be open and willing to introduce ethics into their businesses. We expected that SMEs representatives’ responses will in a way reflect the three levels of ethics in business – the micro, mezzo and macro level (Enderle 1996; 1997). Nevertheless, our respondents focused mostly on the factors of the societal macro-environment, considering to lesser extent the company (mezzo-level) factors, and completely neglecting the individual (micro-level) factors, i.e. the level at which SMEs representatives themselves could co-create and develop business ethics.

The summary of the most important factors underlying the ethical development of SMEs include: i) Profound change of the public procurement process; (ii) Improved tax administration policies; (iii) Improved legislation regulating the SMEs in general; (iv) Effective law enforcement; (v) Strict disciplinary actions against unethical actors in the business environment, especially for corruption; (vi) Zero tolerance for the unethical practices of businesses towards customers; (vii) Introduction of motivational benefits for companies that act in concordance with ethics; (viii) Cultivation of the whole society and thorough ethics education at schools; and (ix) Influence of mass media and pressure of the public opinion.

Our respondents believe that ethics in SMEs is conditioned first by the improvement of the societal macro-level, in which the tax-related laws and policies are the key. SMEs representatives call for a comprehensive change in SMEs-related legislation and streamlining the business rules in general. Furthermore, the need to improve the law enforcement was underlines strongly during the focus group discussion. Overall, respondents agreed on the necessity of strict sanctions against those who are violating the law. According to their point of view, particularly severe punishments should be applied for corruption. Interestingly, the same trend in reliance on the state to provide clear guidelines for SMEs and other business subjects was marked also by Tilley (2000) who provided empirical findings from an investigation of the perceived gap between environmental attitudes and behavior of small firms. Based on the analysis of the interview data Tilley (2000) states that „the small firms look to institutions, particularly government departments, to provide clear environmental guidelines and set standards that they and other businesses should be expected to follow“ (p. 36).
Besides the necessary progress in legislation, our research participants conditioned the development of ethics in SMEs by the overall ethical standard of the whole society. They pointed out that first the society needs to change, i.e. be better educated in ethics and that this needs to be done by various channels simultaneously (media, schools, etc.). They realize, however, that it takes some time for the society to move towards higher ethical standards, and to understand that ethics is in the interest of all members of the society. Another prerequisite for more ethics in SMEs would be the strong public opinion pressure as another form of disciplinary action against unethical business subjects, especially in case of corruption and when customers’ rights are violated. More importantly, our respondents put emphasis on introducing new motivational benefits for companies which act as responsible agents in the society. “To behave ethically, it must pay off to the companies” (R2). Correspondingly to this, Perrini (2006) put forward the idea that if SMEs are able to discern those practices which impact firm’s profitability, they will be more likely to become involved in an ethical progress.

As for the mezzo-level, that is the level at which companies themselves are responsible for the ethics development, research participants mentioned the need to change the business mindset and begin to perceive the other actors as “partners” and not merely as “competitors”. There is an urge to understand other business entities as well as state administration subjects as partners who can cooperate together with the same vision – the prosperity of the whole country. Currently, “the entrepreneurs are constantly at fight, they fight with the tax office, with the municipalities, with the employees” (R3). Thus, a unifying vision for a common purpose of national prosperity would serve as the motor for improved ethical conduct of SMEs.

Interestingly, this finding supports the idea of a significant impact of the social capital (that is the interconnected networks between people who share the same socio-cultural, vocational, etc. space) on ethics development. As Putnam (2000) puts it: „Whereas physical capital refers to physical objects and human capital refers to the properties of individuals, social capital refers to connections among individuals – social networks and norms of reciprocity and trustworthiness that arise from them“ (Putnam, 2000, p. 19). In an earlier work, Putnam assumes that social trust embedded in social norms and networks results in “social equilibria with high levels of cooperation, trust, reciprocity, civic engagement, and collective well-being” (Putnam, 1993, p. 177). Thus, our respondents intuitively understand this situation and feel reliant on cross-social support in the effort to build an ethical company culture.

In addition, a strong emphasis was put during the focus group discussion on the introduction of motivational benefits for companies that act in concordance with ethics. The background assumption was that SMEs’ owners will act ethically only if this pays out for them. This is in line with a prior finding of Perrini (2006) who calls public authorities to support SMEs more as only eight percent of European SMEs receive some bonus for ethical conduct (e.g., public support in the form of tax reductions, subsidies, or access to information).

It is quite paradoxical that respondents did not mention any factor, which would lead to the development of business ethics directly at the level of SMEs. Our respondents did not perceive their businesses as subjects responsible for ethics development. This finding supports previous knowledge on a sort of detachment of small business from responsibility for ethical circumstances in the wider society. For instance, in this context Curran and Blackburn (1994) put forward a metaphor of the death of the local economy and Rutherford et al. (1997, acc. Spence, 1999, p. 164) frame the SMEs owners as “petite bourgeoisie” who stay focused just on their own business activities.

Interestingly, our results correlate with Perrini’s (2006) findings on the specificities of the application of the CSR theory by Italian SMEs. Our outcomes indicate that Slovak SMEs may have problems with implementing ethics into their companies if left alone, and thus cognitive as well as institutional support would be required in this process. Similarly, Perrini concludes that there “is not enough knowledge of business scenarios and obstacles and drives of SMEs-CSR relationships, and a solid body of evidence can be a major contribution to furthering the adoption of CSR among small businesses” (Perrini, 2006, p. 312). Perrini’s insights are inspirational in the Slovak context, because they show how the systematic institutional support of CSR and business ethics was formed in Italy; in 2002 the Italian government launched the CSR-SC project and the Ministry of Labor and Social Affairs suggested CSR-SC as
a standard for SMEs for CSR reporting and sharing best practices in business ethics among SMEs. In addition, in 2005 the Italian government launched the I-CSIR network with the aim to support CSR-related research. This initiative has ignited the discussion between public institutions, private businesses, universities and other relevant stakeholders, with significant participation of Union of Chambers of Commerce. Still, in the current Slovak context, there is no indication of such a support for a systematic business ethics development.

5. CONCLUSIONS

Beyond any doubt, this study has certain limitations. The research design was qualitative and exploratory in nature, which leads usually to a reduction in its explanatory potential. More importantly, the sample composition and its size do not allow for an extensive generalization of the research findings and, as such, the results should be considered with caution. Despite these limits, we believe in the added value of this study, being it the first empirical enquiry of its kind in Slovakia. It was conceived as a qualitative pilot on the business ethics-related best practices and factors challenging implementation of ethics in SMEs, which are heavily understudied topics in the Slovak business environment. In fact, this study represents oneresearch strand of a large multi-method comprehensive research project on business ethics in Slovakia that is being currently carried out and aiming to provide businesses with sophisticated models suitable for the long-term development of business ethics. The qualitative results on SMEs embody just one, but still important, ingredient contributing to the resulting sum of new knowledge on the drivers and barriers of ethics development in the Slovak business environment. Moreover, given the scope and aims of the whole multi-method research project, findings of all qualitative research strands, including the results presented in this study, will be utilized in its second stage in a large representative quantitative research on a sample of 1022 Slovak companies.

In sum, the above discussed focus group findings lead to the following preliminary conclusions that need to be established in the future quantitative research: (1) In the given phase, participating SMEs do not show any particular interest in applying business ethics into their companies; (2) SMEs’ representatives in our sample condition the business ethics development in their businesses by a massive change at the macro-level in state institutions, public administration and legislation, and in the society in general; (3) In case that SMEs consider company ethics, they do not link it with formalization and institutionalization of ethics (e.g., ethics & compliance program); instead, SMEs’ representatives focus on selected HRM processes (i.e. compensation), ethical leadership and building close relationships with employees; and last but not least, (4) SMEs in our sample do not consider themselves responsible for the ethical development on the company level nor for the business ethics development in the wider business environment.

Based on the critical analysis of our research participants’ views, it seems that business entities belonging to the category of SMEs might find it difficult to introduce business ethics into their organizations and develop it for a long time if they are left alone in this process. Therefore, long-term systematic assistance from other institutions is a prerequisite for the development of business ethics in SMEs. State aid, government support, as well as the academia, NGOs and large multinational companies must be involved in this support. Creating such comprehensive and integrated support will be a challenging task in Slovakia, as such an “intellectual complex” will begin to be built without any previous domestic experience. In addition, it seems that SMEs lack experience and knowledge on how to apply ethics in practice. They need to learn more about business ethics and internalize the fact that ethics is not an obstacle to the profit and success of a company. In the planned Integrated model for long-term development of business ethics for SMEs, a great role will play sharing experience from other organizations, i.e. best practices in the field. Finally, findings suggest that the model needs to be based on factors that lead to trust-building, reciprocity and social relationships, which connect the community members. In other words, conceptualizing the Integrated model for the SME sector should be based on the concept of social capital and on the theory of ethical leadership, while the traditional focus on the formalized ethics components and related formal institutionalization of ethics will be limited in scope.
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