

Ethics/Virtues and Consequences: An Exploratory Study of Regional Small Businesses in Developed and Emerging Countries

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Abstract

This research examines the ethics of Australian, Canadian, and Sri Lankan regional small businesses (Regional-SBs) in terms of how they perceive their duties to society, customers, employees, and the environment. A questionnaire compares the stated ethics of Regional-SB entrepreneurs with their preferences and with firm and entrepreneur attributes. We then analyze the long-term effects of ethics by regressing firm ethics and key attributes against the *perceived level of financial difficulty* and *firm age*. The lack of clear divides in *East-West* or *gender* ethics may be an artefact of the education system. A key finding of this study is that, while Regional-SBs in Australia, Canada, and Sri Lanka have a strong, consistent understanding of *civic duties* and *duties to customers*, they appear to have a poor and uneven understanding of *duty to employees* and of *environmental duty*. Future research can extend this topic by evaluating what influences Regional-SB ethical choices.

Key words: ethics; virtues; small business; developed and emerging countries

JEL classification: Y9

1. Introduction

As virtue (Vriens et al., 2018), ethics, and social responsibility are emotionally charged, vital human ideals are difficult to research (Draucker et al., 2009; Woodby et al., 2011; Murray et al., 2017; Smith, 2018). Specifically, unlike physical phenomena, which are often invariant, human ideals can vary across cultures or subcultures and even evolve or drift within a culture (Yin and Quazi, 2018).

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Furthermore, people within a culture are often unaware of how they are being influenced (Fraedrich et al., 2000). Krajewski (2008) highlights the aforementioned issue by citing a 2005 graduation address by David Foster Wallace:

“...two young fish swimming along...happen to meet an older fish swimming the other way, who nods at them and says, *Morning, boys. How's the water?* And the two young fish swim on for a bit, and then eventually one of them looks over at the other and goes, *What the hell is water?*...The point of [this story is that]...important realities are often the...hardest to see and talk about....The fact is that in the day to day trenches of adult existence, banal platitudes can have a life or death importance.”

The roots of the debate on the nature and relationship of ethics and virtue reach at least as far back as ancient Greece, where Plato (c. 380 BCE) ties ethics (behavior) to the virtues (attributes) of decision makers (Stanford Encyclopedia of Philosophy, 2016). However, a samurai's ethos (perceived ideal characteristics) likely greatly differ from those of a priest or of a business person. The ethos of business people from different cultures also likely varies substantially, leading to the question: *Do ethics flow from personal choices/responsibilities or from culture and education?* The scope of what needs to be considered when judging ethics has expanded over the last century as it has become increasingly apparent that the environment and the resulting effects of the quality of human life can be profoundly and adversely affected by human actions and/or inaction (Morrison et al., 2018). In response to the expanding environmental scope within ethics, this study includes a substantial review of the attitudes of regional small businesses (Regional-SBs) to environmental ethics.

The foregoing question, long the purview of moral philosophers, benefits from empirical data (Yin and Quazi, 2018). A great majority (89%) of articles published on ethics/virtues of non-SBs during the three decades up to 2011 are conceptual (essays, reviews, and theory development) with only 11% being empirical (Ferrero and Sison, 2014). Prior SB research primarily studies urban-SBs or undifferentiated mixes of Urban- and Regional-SBs (e.g. Acs and Armington, 2004; Aoyymma, 2009; Benson-Rea and Stringer, 2015; Papadaki et al., 2002). Hettihewa and Wright (2010 and 2018) find that Regional-SBs significantly differ from Urban-SBs. However, the examination by Fassin et al. (2011) of 23 Belgian SB owner-mangers' perceptions of business ethics and CSR-related concepts differs from most studies in that they find no little difference between Urban-SBs and Regional-SBs.

We contribute to the ethics/virtues (e.g., Spence and Painter-Morland, 2010; Spence et al., 2018) literature by empirically examining them in Regional-SBs of three countries (Australia, Canada, and Sri Lanka). We select these three as target populations, because they are sufficiently similar in their economic and legal systems to make a comparison that is feasible and sufficiently different at the culture and development levels (Australia and Canada are developed economies and Sri Lanka is an emerging economy). We thus offer a meaningful review of the effects of

those factors on perceived ethical duties. A focus on Regional-SBs also provides insight into the ongoing population exodus driven by urbanization that continues to blight many regional areas (Davis, 1965) in the world, from developing countries (Zuberi et al., 2003), to emerging countries (Arizpe, 1981; Hassan and Khan, 2012; Juan, 2012), and to developed countries (Bruce et al., 2005; Catto, 2003; McKenzie, 2008; Wilson, 2009). We also contribute to the ethics/virtues literature by applying the virtues' frameworks developed by Petersen and Seligman (2004) and Chun (2005) to a Regional-SB setting and by contributing to international business ethics (e.g. Donaldson, 1989; Werhane, 2015).

2. Why Small Business Ethics are Important

Most countries' SBs are numerically the vast majority of businesses, and while they are neither *value-adding* nor *foreign-currency-creation* powerhouses, they are the major providers of employment, especially under the consideration of owner/operator remuneration (Hettihewa and Wright, 2010; Hwang and Chung, 2018), and are often a critical source of *jobs of last resort* (i.e. those who are not able to get jobs can create their work by forming a SB). While the topic of ethics in business is heavily researched, the focus mainly concentrates on large firms. Research on ethics in SMEs has only come to the fore after 2003 (Demuijnck and Ngnodjom, 2013), and research on ethics in Regional-SBs is still very nascent.

Enlightened self-interest is the main socio-economic reason why businesses should behave ethically. While unethical behavior may create substantial short-run benefits for a business (Rose-Ackerman, 2002), in the long run such behavior can greatly harm a business in two ways, as follows.

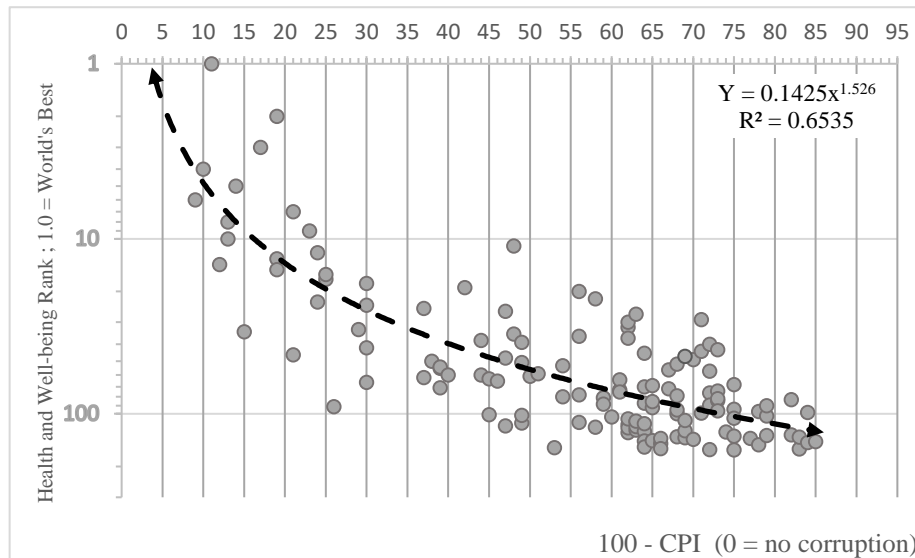
1. *Commons Effect* (Hardin, 1968): Benefits may accrue to a corrupt business, but the cost of the corruption is shared by everyone in the market and, as the corruption level rises, costs accumulate and overwhelm the benefits. The tragedy is that the externalities arising from individual maximization via corruption lead to group outcomes (e.g. customer perceptions and reduced market demand for a product) that are suboptimal and even harmful.
2. *Small-Community Effect*: The smaller the community is, the more likely that a firm's behavior that harms the community will be tied back to that firm and provoke shunning, sanctions, and/or other retaliation (Brown and King, 1982; Christenson, 1984; Vilcox and Mohan, 2007). Much of this effect is explained by Twain's (1962) observation that "...Laws can be evaded and punishment escaped, but an openly transgressed custom brings sure punishment."

The commons effect of corruption can also be seen in how the 1980s *decade of greed* was followed by a rolling series of crises over the next three decades (McKenzie, 2004) and in prose by Yeats (1921):

“... Things fall apart; the centre cannot hold;
 Mere anarchy is loosed upon the world,
 The blood-dimmed tide is loosed, and everywhere
 The ceremony of innocence is drowned;
 The best lack all conviction, while the worst
 Are full of passionate intensity...”

In contrast to the above longitudinal perspectives, Figure 1 presents a cross-sectional perspective for where a *nation's health and well-being rank* in the world (Anholt, 2017) and shows an inverse function in the level of corruption (as measured by $100 - \text{CPI}$; TI, 2016). The strong R^2 of the Figure 1 function and a very strong visual inverse relationship between a nation's Health and Well-being Rank and its corruption level indicate that corruption does adversely affect nations. The high variance from the trend line suggests that many factors (along with corruption) affect the Health and Well-being Rank of a nation. However, the R^2 of 65.4% suggests a strong relationship.

Figure 1. National Health Well-being Rank vs. Corruption Level

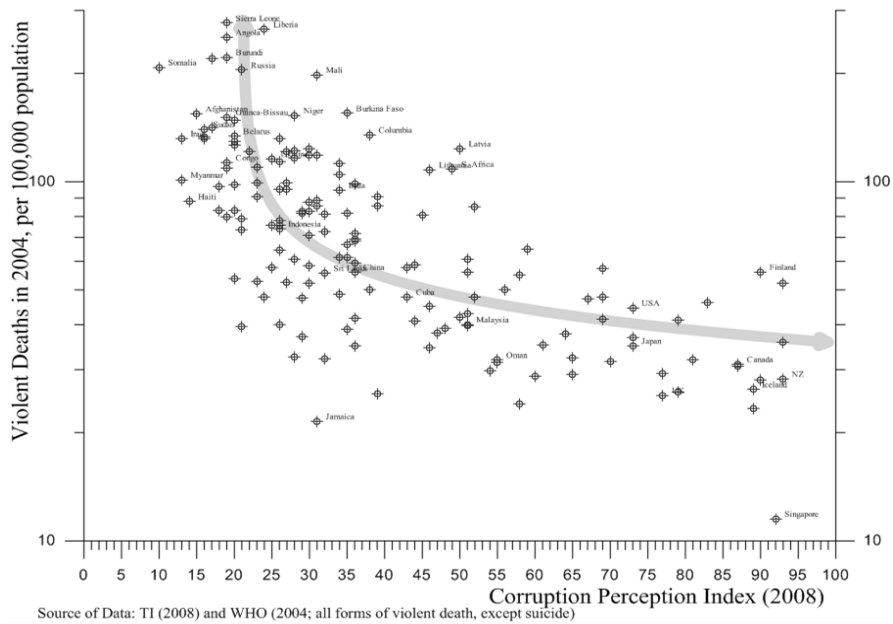


Al Zadjali (2010) shows that the violent-death rate (an economic bad; the obverse of a good) is highly positively correlated with corruption (see Figure 2).

The above discussion and figures show that, on both longitudinal and cross-sectional bases, ethical behavior/virtue is beneficial to countries and its absence is very harmful. Ethics are of increasing interest in small-business management (Hwang and Chung, 2018) and are a human construct. Seabright and Kurke (1997) state that “the moral responsibility of corporations and the moral responsibility of individual employees may be inseparable. ...it is not easy to

separate clearly the level of the human organism from the next level, that of social organizations.” Organizations are collections of individuals, and the ethics of a SB can be defined in terms of the attitudes and perceptions of the SB entrepreneur (Seabright and Kurke, 1997). The nature of business ethics has entered a period of contentious debate with some legislatures expanding the responsibility of businesses (Lipton et al., 2010) and some courts limiting it (Donaldson, 2017).

Figure 2. Violent-death Rate as a Function of the Corruption Perceptions Index



(100 = no corruption and 0 = totally corrupt)

This study seeks to extend ethics research by evaluating whether (and to what degree) being ethical/virtuous is good for Regional-SBs and whether amoral and/or immoral behavior is harmful. Specifically, we ask the following questions:

Do good ethics/virtues enhance the financial performance and/or increase the longevity/survivorship (i.e. life) of Regional-SBs and do these relationships differ between emerging and developed countries?

3. Hypotheses

Tying business ethics hypotheses/assertions to the extant theory in a way that is consistent, rational, and unbiased can be problematic. Specifically, while there is a consensus among business ethics academics and practitioners on the vital importance of ethical theory, debate among philosophers and ethicists over issues in ethical theory has and continues to be sharply divisive (Derry and Green, 1989;

Lippke, 1991). These issues are further confused by evolving legal and social debates and differences (Batten et al., 1997). In recognition of these difficulties, this study operationalizes its research question into positive hypotheses that seek to reveal the key consequences and drivers of ethics/virtues and social responsibility in small businesses.

- (A) The veracity of respondents is considered via the following two null hypotheses.
 - (A1) H₀: Regional-SBs with a high level of ethics have written codes of ethics that are enforced, periodically reviewed, and have consequences for those who breach them.
 - (A2) H₀: The revealed levels of ethics (social, customer, employee, and environmental) of a Regional-SB are consistent with the stated level of responsibility/ethics.
- (B) We split the consequential part of this overarching research question into three null hypotheses, which we test, and the test results flow into the overarching research question.
 - (B1) H₀: Financial concerns expressed on a Regional-SB are not influenced by the ethical attitudes revealed by that firm.
 - (B2) H₀: The survivorship of a Regional-SB is not revealed by the ethical attitudes expressed by its owner/operator.
 - (B3) H₀: The gender of the owner/operator of a Regional-SB is not revealed by the ethical attitudes expressed by that firm.
- (C) The drivers of ethics/virtue and social responsibility perceptions in SBs are considered in the following hypothesis.
 - (C1) H₀: The revealed ethics of a SB are not influenced by its location, age, size, or other attributes of it or its owner/operator (e.g. gender, age, education, and experience).

4. Methodology

This study is part of an omnibus investigation examining regional SBs in Australia, Canada, and Sri Lanka. The quantitative approach of this study uses 447 questionnaire responses from regional-SBs in three countries (155, 159, and 133 from respectively Australia, Canada, and Sri Lanka), using structured random samples. The questionnaire items used herein can be found in Appendix A.

Emotionally charged notions like virtue/ethics and social responsibility are difficult to test by a questionnaire due to distractions such as game playing, public mask vs. private face, fear, self-deception, and lies. Furthermore, impression management can lead individuals to not communicate information accurately (e.g. basing answers on what is socially desirable rather than the truth). If the design of a questionnaire on virtue/ethics notions does not have a means to facilitate accurate communications, then the notions may not be measured accurately. The questionnaire in this study resolves the foregoing issues by asking respondents to:

- (1) Rank choices (via a Likert scale) and in so doing reveal their preferences (Richter, 2008; Samuelson, 1938; Stigler, 1966).
- (2) Answer interlocked *yes/no* questions that reveal vital inconsistencies in their answers.
- (3) Respond to applied questions that involve ethical environmental issues and/or ethical responses to environmental problems.
- (4) Answer questions about key attributes of the Regional-SB and themselves, so as to allow those attributes to be correlated with their ethical responses.

The participating Regional-SB owner/operators are not asked what they think of ethics/virtue; instead, the questions draw out and cross-check their thinking about ethics. As noted above, this is a variant of revealed preference (Samuelson, 1938; Stigler, 1966) that taps into the sub-conscious of respondents and side-steps much of the game playing and other distractions that can arise when asking highly emotive questions. It also helps prevent the Regional-SB owners/operators from giving responses to impress others. This study draws on consistencies on right thinking (ethics) from both Western Christian-Jewish and Eastern Buddhist/Hindu traditions. Examples of such consistencies include the following.

- “...Be careful how you think; your life is shaped by your thoughts...” (Good News Translation Bible, Proverbs 4:23, 2001)
- *Cetana* and *sankhara* are respectively Buddhist and Hindu terms for the *intention/volition* driving an action and, where it is neither ethical nor innocent, harm from an action accumulates as a karmic debt (New Buddhist, 2013; Tashi, 2006).

Another potential problem for questionnaires is raised by Jung (1953), who suggests that all humans present *persona* (masks) in public and group situations so as to hide the actor underneath. Thus, a questionnaire should be designed with an understanding that respondents may play to the researchers or play other economic games (i.e. questions must get under the mask of the *persona* to reveal the actor).

Gruen (2010) provides an excellent example of how a confusing question can cause an erroneous conclusion that encourages a potentially disastrous investment. Specifically, he notes that, in a pre-construction survey of office workers near the Bay Area Rapid Transit (BART) stations in San Francisco (U.S.A.), nearly half approved of the BART project, but the BART usage that eventuated was only a third of what that implied by the survey approval rate. It appears that most of those who approved of BART expected that other workers would take BART and reduce the traffic load when they drove to work.

Chun (2005) and Peterson and Seligman (2004) present two widely-accepted virtue frameworks. Chun (2005) develops a list of six organizational virtue dimensions, and Peterson and Seligman (2004) lists six core virtues. We use these frameworks to examine the Regional-SBs and Regional-SB-owner/operator virtues examined in this study.

Chun (2005) sets up a virtue character scale that is composed of six

organizational virtue dimensions: integrity, empathy, warmth, courage, conscientiousness, and zeal. Integrity is probably the most frequently cited corporate virtue (Chun, 2005). Some concepts that have been used to measure this organizational virtue dimension are ethical, fair, honest, socially-responsible, and trustworthy (Payne et al., 2011). Trust is a key component of the social capital of a company (Pendaries and Castaneda, 2015). Ramos (2018) finds that trust between marketers and buyers is a key success factor in informal markets in the Philippines. We use items in our questionnaire to examine the integrity dimension of the Chun (2005) framework.

Using a positive psychology approach Peterson and Seligman (2004) develop schemata of six core virtues and twenty-four related character strengths. This approach endorses the reductive account of virtue, the favored account of virtue in business ethics, and organizational behavior, where virtues are behavioral dispositions that act in conformity with certain rules of action (Alzola, 2015). Peterson and Seligman (2004) define character strengths as “the psychological ingredients – processes or mechanisms – that define the virtues [or] distinguishable routes to display one or another of the virtues.” Their virtue framework consists of the following virtues (strengths): Wisdom (creativity, curiosity, open-mindedness, love of learning, perspective), Courage, (bravery, persistence, integrity, zest), Humanity (love, kindness, social intelligence), Justice (citizenship, fairness, leadership), Temperance (forgiveness, humility, prudence, self-regulation), and Transcendence (appreciation, gratitude, hope, humour, spirituality). Items from the study questionnaire help measure the Courage and Justice virtues in a SB setting. However, while the discussion is about organizational virtue and ethics, the virtue and ethics of an SB tend to reflect attributes of its owner/operator.

The first step in evaluating the null hypotheses listed in the forgoing section is to evaluate the ethics/virtue of the participating Regional-SBs, including how the questionnaire items used herein are mapped to Chun’s (2005) Organizational Virtues and Petersen and Seligman’s (2004) Core-Virtues Frameworks.

- Appendix A1 lists the questionnaire item that measures whether the Regional-SB follows a written code of ethics. This item maps to the integrity organizational virtue and the courage and justice core virtues.
- Appendix A2A lists the questionnaire items used to identify how seriously ethics are taken by the Regional-SB. Items one through four map to the integrity organizational virtue and the courage and justice core virtues, while items five and six map to the integrity organisational virtue and the justice core virtue.
- Appendix A2B lists the questionnaire items used to identify the Regional-SB’s owner/operator’s understanding of his/her environmental social responsibility. These items map to the integrity organisational virtue and the justice core virtue.
- Appendix A3 lists the questionnaire items used to identify a respondent’s understanding of his/her SB’s community social responsibility. These items map to the integrity organizational virtue and the courage and justice core

virtues.

- Appendix A4 lists the questionnaire items used to measure a respondent's revealed preference toward ethics (i.e. to society, customers, workers, and the environment). Items one to six plus eleven map to the integrity organizational virtue and the courage and justice core virtues, and items seven to ten plus twelve to thirteen map to the integrity organizational virtue and the justice core virtue.

4.1 Measuring Regional-SB Ethics/Virtues

The following five equations are used to value a responding Regional-SB's ethics/virtues by using the geometric mean of the answers to 11 ethics/virtues questions. Variable descriptions are in Tables 1 to 4. The ethics/virtues are split into four groups with a fifth equation combining the values to provide a measure of the total civic ethics/virtue of the SB.

Table 1. Variable Descriptions for Regional-SB Attributes

	Variable Description	Abbreviation	Variable Effect	Parameter
1	Number of employees	Emp	Firm-specific	β_1
2	Revenue	Rev	Firm-specific	β_2
3	Firm age	FAge	Firm-specific	β_3
4	Bookkeeping frequency	FRec	Firm-specific	β_4
5	Internet future access	Ifa	Firm-specific	β_5
6	Internal capital	KapIn	Firm-specific	β_6
7	Trade credit capital	KapTC	Firm-specific	β_7
8	Short-term bank loans	KapBS	Firm-specific	β_8
9	Medium-term bank loans	KapBM	Firm-specific	β_9
10	Long-term bank loans	KapBL	Firm-specific	β_{10}
11	Difficulty with interest rate	IR	Firm-specific	β_{11}
12	Financial difficulty	FC	Firm-specific	β_{12}

Table 2. Variable Descriptions for Respondent Attributes

	Variable Description	Abbreviation	Variable Effect	Parameter
1	Respondent education	REd	Management-specific	λ_1
2	Respondent gender	RGen	Management-specific	λ_2
3	Respondent age	RAge	Management-specific	λ_3
4	Respondent management experience	RMExp	Management-specific	λ_4
5	Respondent work experience	RWExp	Management-specific	λ_5

Table 3. Variable Descriptions for Regional-SB Perceived Risks

	Variable Description	Abbreviation	Variable Effect	Parameter
1	Perceived total risk	TR	Risk Factors	δ_1
2	Perceived cash-flow risk	CFR	Risk Factors	δ_2

Table 3. (cont'd)

	Variable Description	Abbreviation	Variable Effect	Parameter
3	Perceived credit-access risk	CAR	Risk Factors	δ_3
4	Perceived size risk	SR	Risk Factors	δ_4
5	Perceived new-market risk	NMR	Risk Factors	δ_5
6	Perceived business-innovation risk	BIR	Risk Factors	δ_6

Table 4. Variable Descriptions for Regional-SB Revealed Ethics/Virtues

	Variable Description	Symbol	Variable Effect	Parameter
1	Duty to Society/Civic Ethics/Virtue	τ	Ethics	φ_1
2	Duty to Customers	ζ	Ethics	φ_2
3	Duty to Workers/Employee	ω	Ethics	φ_3
4	Duty to the Environment	ψ	Ethics	φ_4
5	Total Ethics	Ω	Ethics	φ_5

The following equation uses a log-normal distribution to look at the response to civic duties:

$$\tau = (\Pi v_i)^{(1/4)}, \quad (1)$$

where:

τ = level of civic ethics/virtues

Π = product of a sequence

v_i = responses to questions 1-3 and 11 in part A4 in Appendix A.

The following equation uses a log-normal distribution to look at the response to duties to customers:

$$\zeta = (\Pi v_j)^{(1/5)}, \quad (2)$$

where:

ζ = level of duty to customers.

v_j = responses to questions 4-6 and 9-10, part A4, Appendix A.

The following equation uses a log-normal distribution to look at the response to duties to workers:

$$\omega = (\Pi v_k)^{(1/2)}, \quad (3)$$

where:

ω = level of duty to employees

v_k = responses to questions 7-8 in part A4 in Appendix A.

The following equation uses a log-normal distribution to look at the response to duties to the environment:

$$\psi = (\prod v_m)^{(1/2)}, \quad (4)$$

where:

ψ = level of environmental duty
 v_m = responses to questions 12-13 in art A4 in Appendix A.

The following equation combines the above four values into a total ethics/virtues measure for the responding Regional-SBs:¹

$$\Omega = [(\tau)(\zeta)(\omega)(\psi)]^{(1/4)}, \quad (5)$$

where:

Ω = level of total ethics/virtues.

Equations 6, 6a, and 7 contrast respondents' stated value of ethics/virtues (i.e. response to a direct question on ethics) with their ethics/virtues preference:

$$A1 = f(\tau, \zeta, \omega, \psi) \quad (6)$$

$$A1 = f(\Omega), \quad (6a)$$

along with the procedures to establish and enforce ethics in their firm:

$$A1 = f(A2A, A2B, A3). \quad (7)$$

Equation 8 measures the effect of ethics/virtues on the financial concerns (FC) of Regional-SBs. We add several variables to the equation to highlight and separate out the effects of ethics/virtues. In Eq. (8) and subsequent equations, the choice of variables to include is based on sound economic theory and/or the literature review.

$$\begin{aligned} FC = & \beta_0 + \beta_2 Rev + \beta_5 Ifa + \beta_6 KapIn + \beta_8 KapBS + \beta_9 KapBM \\ & + \lambda_1 REd + \lambda_2 RGen + \lambda_3 RAge + \lambda_4 RMexp + \lambda_5 WExp \\ & + \phi_1 \tau + \phi_2 \zeta + \phi_3 \omega + \phi_4 \psi + \varepsilon, \end{aligned} \quad (8)$$

where the variables are defined in Tables 1-4:

FC = financial concern
 ε = error term.

Equation 9 measures the effect of ethics/virtues on the survivorship of Regional-SBs. We add several variables to the equation to highlight the direct effects of ethics/virtues.

$$FAge = \beta_0 + \beta_1 Emp + \beta_{10} KapTC + \beta_{12} KapBM + \lambda_6 RWExp + \delta_2 CFR + \delta_4 SR + \phi_1 \tau + \phi_2 \zeta + \phi_3 \omega + \phi_4 \psi + \varepsilon \quad (9)$$

Equation 10 examines the power of firm attributes and ethics to identify the gender of the firm entrepreneur. The analysis in this section does not impute the arrow of causality, it is about whether or not the firm-structure, education, experience, and ethics choices of a firm's entrepreneur form patterns that can be used to identify their gender. The effect of gender on entrepreneurial behaviour has long been debated (Franke et al., 1997; Stedham et al., 2007). Dawson (1992), for example, draws from researchers such as House (1981), Chodorow (1978), and Stoller (1964) to assert that the differences in the interests, traits, and values that men and women bring to their workplaces reflect socially imposed stereotypes, and that those differences cause gender differences in ethical perceptions to be stable over time. In contrast, Eagly and Johnson (1990) argue that organizational roles trump gender roles, and as a result there should be no significant gender-driven differences for leaders. A third view (Robin and Babin, 1997) suggests that, even if major gender-based attitude differences are present in the greater population, professional- and/or self- selection/censure processes tend to eliminate females with these differences from business occupations. If gender-ethics differences are significant within SBs, then Eq. (10) should be able to capture that correlation and help identify the gender of the SB entrepreneur. As statistics is all about correlation and not causation, Eq. (10) does not check to see if ethics cause the gender of the entrepreneur; rather, it checks if gender-ethics differences are strong enough to form a statistically significant correlation.

$$RGen = \beta_0 + \beta_1 Emp + \beta_{10} KapTC + \beta_{12} KapBM + \lambda_3 Rage + \lambda_6 RWExp + \delta_2 CFR + \delta_4 SR + \phi_1 \tau + \phi_2 \zeta + \phi_3 \omega + \phi_4 \psi + \varepsilon. \quad (10)$$

5. Analysis and Results

Table 5 shows descriptive statistics of the ethics/virtues measures for the three countries examined herein. We find no significant differences in the Regional-SB responses in the developed and emerging countries. Regional-SBs in Australia, Canada, and Sri Lanka appear to have a strong and relatively consistent understanding of civic duties (τ) and duties to their customers (ζ), but their understanding of duty to employees (ω) and their environmental duty (ψ) appear to be poor and uneven.

Table 5. Regional-SB Ethics/Virtues-Descriptive Statistics

	Country	N	Min.	Max.	Mean	Std. Deviation
Equation 1: τ = $(\prod v_j)^{(1/4)}$ = level of civic ethics/virtues	Australia	155	1.0000	3.0000	1.94457	0.62099
	Canada	159	0.0000	3.1302	1.51040	0.75520
	Sri Lanka	133	1.0000	5.0000	2.85220	1.02109
Equation 2: ζ = $(\prod v_j)^{(1/5)}$ = level of duties to customers	Australia	155	1.0000	3.6239	1.45024	0.61274
	Canada	159	0.0000	3.5195	1.23730	0.51211
	Sri Lanka	133	1.0000	5.0000	3.47460	1.20066
Equation 3: ω = $(\prod v_k)^{(1/2)}$ = level of duties to customers	Australia	155	1.0000	5.0000	2.41872	0.90532
	Canada	159	0.0000	4.4721	2.17029	1.04363
	Sri Lanka	133	1.3200	5.0000	3.48240	0.93514
Equation 4: ψ = $(\prod v_m)^{(1/2)}$ = level of environmental duty	Australia	155	0.0000	5.0000	2.44897	1.23634
	Canada	159	0.0000	5.0000	2.14682	0.94161
	Sri Lanka	133	1.0000	5.0000	3.40640	1.15367
Equation 5: Ω = $(\tau * \zeta * \omega * \psi)^{(1/4)}$ = level of total ethics/virtues	Australia	155	0.0000	2.9083	1.77894	0.72134
	Canada	159	0.0000	3.2711	1.55730	0.71327
	Sri Lanka	133	1.3900	5.0000	3.21610	0.89257

Figures 1 and 2 show that as the perceived corruption level rises, national well-being tends to decline and violent-death rates tend to rise.

Table 6. Factors Influencing Regional-SB financial Concerns

Factor: Name Description	Australia	Canada	Sri Lanka
Eq. (8) Model fit: Significance value	0.000	0.044	0.000
Nagelkerke R ² ($\geq 20\%$ is good)	58.2%	30.7%	54.1%
Independent variables:	Coefficient (Sig. level)	Coefficient (Sig. level)	Coefficient (Sig. level)
Internal capital as a share of total capital (KapIn)	-2.448** (0.050)	-1.018† (0.101)	n/a
Bank loans, short-term (KapBS)	n/a	-1.763** (0.051)	n/a
Bank loans, medium-term (KapBM)	n/a	n/a	n/a
Relatively very low revenue (Rev= 1 vs. 6)	n/a	n/a	n/a
Relatively low revenue (Rev= 2 vs. 6)	3.108† (0.075)	n/a	n/a
Relatively high revenue (Rev= 5 vs. level 6)	n/a	n/a	2.470† (0.096)
High share of sales expected from the Internet in 3 years (Intsale3)	n/a	n/a	-0.041† (0.073)
Respondent gender (RGen: male = 0; female = 1)	n/a	-0.789† (0.101)	n/a

Table 6. (cont'd)

Independent variables:	Coefficient (Sig. level)	Coefficient (Sig. level)	Coefficient (Sig. level)
Relatively very low respondent age (RAge = 1 vs. 4)	n/a	n/a	-2.886*** (0.003)
Relatively low respondent age (RAge = 2 vs. 4)	n/a	n/a	-1.216† (0.103)
Relatively high respondent age (RAge = 3 vs. 4)	n/a	n/a	n/a
Respondent low work experience (RWExp = 1 vs. 4)	n/a	n/a	n/a
Respondent moderate work experience (RWExp = 2 vs. 4)	n/a	1.775** (0.017)	n/a
Respondent high work experience (RWExp = 3 vs. 4)	n/a	1.261† (0.096)	n/a
Respondent management experience (Rmgtxp = 1 vs. 4)	-4.095** (0.013)	n/a	-2.302** (0.013)
Respondent very low education (REdu = 1 vs. 5)	n/a	n/a	n/a
Respondent low education (REdu = 2 vs. 5)	-2.319** (0.029)	n/a	n/a
Respondent moderate education (REdu = 3 vs. 5)	n/a	n/a	n/a
Respondent high education (REdu = 4 vs. 5)	-4.046*** (0.001)	n/a	-0.976† (0.133)
Ethics – Duty to society (τ)	n/a	n/a	0.820** (0.027)
Ethics – Duty to customers (ζ)	n/a	1.008** (0.036)	n/a
Ethics – Duty to employees (ω)	n/a	n/a	-0.521† (0.077)
Ethics – Duty to the environment (ψ)	n/a	-0.575** (0.037)	n/a

†, *, **, and *** indicate respectively 10%, 5%, 1%, and 0.1% significance levels.

n/a = not applicable and indicates the value of significance is outside a normally accepted level.

Table 7. Factors Influencing Regional-SB Age

Factor: Name Description	Australia	Canada	Sri Lanka
Eq. (9) Model fit: Significance Value	0.000	0.000	0.000
Nagelkerke R ² ($\geq 20\%$ is good)	54.1%	40.0%	47.0%
Independent variables	Coefficient (Sig. level)	Coefficient (Sig. level)	Coefficient (Sig. level)
Number of employees (Emp)	0.260*** (0.000)	0.094*** (0.002)	n/a
Trade credit as a share of total capital (KapTC)	-2.830*** (0.001)	n/a	n/a
Bank Loan Medium-term (KapBM)	-6.950*** (0.000)	-2.480† (0.103)	n/a
Respondent low work experience (RWExp = 1 vs. 4)	-2.822*** (0.000)	-2.899*** (0.000)	-1.535** (0.017)

Table 7. (cont'd)

Independent variables	Coefficient (Sig. level)	Coefficient (Sig. level)	Coefficient (Sig. level)
Respondent moderate work experience (RWExp = 2 vs. 4)	-2.921*** (0.000)	-1.350*** (0.005)	n/a
Respondent high work experience (RWExp = 3 vs. 4)	-2.082*** (0.003)	-0.887† (0.138)	n/a
Low cash flow risk (CFR = 1 vs. 5)	1.153† (0.094)	n/a	n/a
Moderate cash flow risk (CFR = 3 vs. 5)	-1.140† (0.096)	n/a	n/a
Relatively very low size risk (SR = 1 vs. 5)	n/a	1.321† (0.089)	0.810† (0.095)
Relatively low size risk (SR = 2 vs. 5)	n/a	n/a	0.825** (0.051)
Relatively moderate size risk (SR = 3 vs. 5)	n/a	n/a	1.815** (0.054)
Relatively high size risk (SR = 4 vs. 5)	n/a	0.898† (0.118)	n/a
Ethics – Duty to society (τ)	0.472† (0.118)	n/a	1.430*** (0.000)
Ethics – Duty to customers (ζ)	n/a	0.712† (0.115)	n/a
Ethics – Duty to employees (ω)	n/a	n/a	-0.332† (0.115)
Ethics – Duty to the environment (ψ)	n/a	-0.522*** (0.001)	n/a

†, *, **, and *** indicate respectively 10%, 5%, 1%, and 0.1% significance levels.

n/a = not applicable and indicates the value of significance is outside a normally accepted level.

The effects of firm ethics on:

- Perceived financial concerns and firm age are isolated from the effects of firm location, firm size, the national culture in which the firm is embedded, and the gender of the firm proprietor. Most of the independent variables are statistically significant in all three countries, especially at predicting firm age (i.e. a firm-survivorship proxy).
- Perceived financial concern are not statistically significant in Australia, but in Canada and Sri Lanka they are statistically significant for one or more of our ethics measures. Specifically, financial concerns are reduced by a stronger duty of care to customers in Canada and a stronger duty of care to society in Sri Lanka, but negatively affected by a stronger duty of care to employees in Sri Lanka and a stronger duty of care to the environment in both Canada and Sri Lanka. This result suggests the presence of a perceived real cost to ethical treatment of employees and the environment. In Canada, the relatively strong established presence of well enforced laws, customs, and institutions protecting the safety and rights of employees likely makes any unethical treatment of employees potentially very costly.

- Firm age are statistically significant in all three countries for one or more of our ethics measures. In particular, a stronger duty to society appears to be significantly positively correlated with older firms in Australia and Canada (Table 7); A strong duty of care to customers appears to be significantly positively correlated with older firms in Canada; A strong duty of care to employees appear to be statistically negatively correlated with firm age in Sri Lanka; and A strong duty of care to the environment appears to be negatively correlated with firm age in Canada.
- Ethics is not a statistically significant identifier of the gender of the firm's proprietor in any of the three countries, suggesting that ethical attitudes of male and female owner/operators are little influenced by the development level of their nation.

The model seeking to identify the gender of the Regional-SB entrepreneur (Eqn(10)) does not generate any statistically significant results in any of the three countries. Moreover, earlier research (Hettihewa and Wright, 2007 and 2010) shows that Regional-SBs tend to be more durable (i.e. have a higher survival rate) than Urban-SBs. This study suggests that the enhanced survival rate of Regional-SBs is not due to differences in their ethics.

6. Conclusions, Limitations, and Recommendations for Future Research

The importance of ethics at the macro-level is very strong, as evidenced by the tendency of violent-death rates to vary with the perceived-corruption level and by national well-being tending to vary inversely with the perceived-corruption level. However, while the theory presented in the reviewed ethics/virtues literature strongly suggests that the effect of a firm's ethics on its long-term well-being should be robust and consistent, the developed vs. emerging countries' comparisons in this study suggest a relatively weak effect, which is inconsistent across cultures and varies across nations within the western culture.

Our study evaluates the effect of ethics/virtue on the long-term well-being of Regional SBs by looking at the effect of expressed firm ethics/virtues on the perceived financial concerns and the age of Regional-SBs. Variables are added to separate the ethics effects from the effects of location, firm size, national culture, and the gender of the firm proprietor. Among the more important findings of this study is that, while SBs in Australia, Canada, and Sri Lanka have a strong, relatively consistent understanding of *civic duties* (τ) and *duties to customers* (ζ), their understanding of *duty to employees* (ω) and their *environmental duty* (ψ) appear to be poor and very uneven.²

In both developed and emerging countries we find that:

- *Duty to society* and *duty to customers* tend to have a positive effect on a firm's finance and on its age.
- *Duty to employees* and *environmental duty* tend to have a negative effect on a

firm's finance and on its age.

As a counterpoint, the negative correlation between duty to employees and duty to the environment with firm age may reflect, at least in part, a reverse arrow of causality. Specifically, younger firms may have younger entrepreneurs whose understanding of their firm's duty to employees and environmental duty differs from that of older more experienced entrepreneurs. Future research should examine how the age of Regional-SB entrepreneurs influences their ethical views and actions.

When seeking to identify the gender of the Regional-SB entrepreneur, the failure of the model to generate statistically significant results in any of the three countries is highly significant. It suggests that the attributes of the Regional-SBs and the non-gender attributes of the entrepreneurs are more influenced by factors other than the entrepreneur's gender.

In the business and management literature, our research has implications for international regional small businesses and should be of interest to entrepreneurs, creditors, and policy makers. Given that differences in ethics do not appear to drive the improved durability of Regional-SBs, future research should continue looking for the source of that durability. One possibility is that the entrepreneurs of Regional-SB may have lower opportunity costs than their urban counterparts.

Another area for future research is to reverse the flow of analysis in this study by considering what drives ethics in Regional-SBs. One approach for doing that is to shift the four types of ethics analyzed herein from being independent variables to being dependent variables. The following equations (Eqs. (11) to (15)) are a good starting point for such an analysis in that the independent variables (also used herein) come from sound economics and a review of the literature (e.g. Brown and King, 1982; Hornsby et al., 1994; Serwinek, 1992; Smith and Oakley, 1994). We note that the variables used in this and the prior section are vetted for multicollinearity and other common econometric risks.

$$\begin{aligned} \tau = & \beta_0 + \beta_2 \text{Rev} + \beta_3 \text{FAge} + \beta_5 \text{Ifa} + \beta_{12} \text{FC} \\ & + \lambda_1 \text{REd} + \lambda_2 \text{RGen} + \lambda_3 \text{RAge} + \lambda_4 \text{RMExp} + \lambda_5 \text{RWEExp}, \end{aligned} \quad (11)$$

where $\tau = \text{Eq. (1)}$ and:

$$\begin{aligned} \zeta = & \beta_0 + \beta_2 \text{Rev} + \beta_3 \text{FAge} + \beta_5 \text{Ifa} + \beta_{12} \text{FC} \\ & + \lambda_1 \text{REd} + \lambda_2 \text{RGen} + \lambda_3 \text{RAge} + \lambda_4 \text{RMExp} + \lambda_5 \text{WEExp}, \end{aligned} \quad (12)$$

where $\zeta = \text{Eq. (2)}$ and:

$$\begin{aligned} \omega = & \beta_0 + \beta_2 \text{Rev} + \beta_3 \text{FAge} + \beta_5 \text{Ifa} + \beta_{12} \text{FC} \\ & + \lambda_1 \text{REd} + \lambda_2 \text{RGen} + \lambda_3 \text{RAge} + \lambda_4 \text{RMExp} + \lambda_5 \text{WEExp}, \end{aligned} \quad (13)$$

where $\omega = \text{Eq. (3)}$ and:

$$\begin{aligned} \psi = & \beta_0 + \beta_2 \text{Rev} + \beta_3 \text{FAge} + \beta_5 \text{Ifa} + \beta_{12} \text{FC} \\ & + \lambda_1 \text{REd} + \lambda_2 \text{RGen} + \lambda_3 \text{RAge} + \lambda_4 \text{RMEExp} + \lambda_5 \text{WExp}, \end{aligned} \quad (14)$$

where ψ = Eq. (4) and:

$$\begin{aligned} \Omega = & \beta_0 + \beta_2 \text{Rev} + \beta_3 \text{FAge} + \beta_5 \text{Ifa} + \beta_{12} \text{FC} \\ & + \lambda_1 \text{REd} + \lambda_2 \text{RGen} + \lambda_3 \text{RAge} + \lambda_4 \text{RMEExp} + \lambda_5 \text{WExp}, \end{aligned} \quad (15)$$

where Ω = Eq. (5)

Appendix A: Questionnaire Items

A1. Evaluation of a respondent's beliefs on the importance of ethics

Complete the following sentence by circling the most appropriate phrase or word:

In business, good ethics are:

- (a) A necessity
- (b) A nicety
- (c) Irrelevant
- (d) A luxury, or

A2. Evaluation of how seriously a respondent takes ethics and a respondent's understanding of his/her environmental social responsibility.

A2A. Evaluation of how seriously a respondent takes ethics

- (1) Does your organization follow a written code of ethics?

Yes No

If you answered 'No' to Question 25, please proceed to Question 27.

- (2) If you answered 'Yes' to Question 25, then:

- a. Who is responsible for policing the code?

Owner/CEO
 Human Resources Management
 Other (please specify): _____

- b. Are there set procedures in the event of a violation of the code?

Yes No

- (3) Is there an organized forum for the discussion of ethics in your firm?

Yes No

If you answered 'No' to Question 3 please proceed to Question 5.

- (4) If you answered 'Yes' to Question 3, what is the purpose of these forums?

- (a) To clarify issues Yes No
- (b) To assign priorities Yes No
- (c) To evaluate proposed solutions Yes No
- (d) To reinforce morally acceptable behavior Yes No
- (e) Other purpose (please specify): _____

A2B. Evaluation of a respondent's understanding of his/her environmental social responsibility:

- (5) Do the activities of your Company influence the environment?

Significantly
 Somewhat
 Not at all

- (6) If your Company influences the environment

- a. Has your Company taken steps to overcome these effects?

Yes No Not Applicable

Appendix A. (cont'd)

b. If 'Yes' to 30(a), has the adequacy of these steps been evaluated?

Yes No

A3. Evaluation of a respondent's understanding of his/her community social responsibility:

- (1) Do you believe that ethics can be taught in the education system? Yes No
- (2) If yes to 44, then where should it be taught?
 Secondary school Yes No
 Technical college Yes No
 University Yes No
- (3) Should ethics be taught at the workplace? Yes No
 Please specify _____
- (4) Do you believe the firm should instruct employees on what constitutes ethical behavior? Yes No
- (5) Should a firm's ethical code be in writing? Yes No
- (6) When people seriously violate the ethical practices of the firm, should they be dismissed? Yes No
- (7) Do you believe that a firm is obliged to replace and repair a defective product already sold to consumers? Yes No
- (8) Do you believe your firm is responsible for the *at-the-job* related actions of its employees? Yes No

A4. Measuring a respondent's community ethics/virtues:

(1 is strongly disagree and 5 is strongly agree)

1. Avoiding taxes is acceptable if the resulting savings are used for the benefit of the firm. 1 2 3 4 5
2. Software piracy is illegal. However, pirated software is so common that it makes little or no difference if my firm joins in as well. 1 2 3 4 5
3. Since a firm already pays high taxes, it is acceptable for it to take evasive actions to limit paying further taxes. 1 2 3 4 5
4. Under certain circumstances it is reasonable for companies to produce misleading financial reports. 1 2 3 4 5
5. If there is no other way for a firm to gain a benefit, it is acceptable to misinform customers. 1 2 3 4 5
6. Accuracy in advertising is not important. 1 2 3 4 5
7. The hiring of key employees of rival firms can make your firm more competitive and profitable. 1 2 3 4 5
8. Favoritism in hiring and/or promotion is acceptable when the other applicants for the position are not known to you personally. 1 2 3 4 5
9. Large amounts of information are readily available to customers. Therefore, we do not have a duty to ensure our customers are reasonably informed before they buy our product/service. 1 2 3 4 5
10. It is acceptable to label a product assembled, blended, or packaged in Sri Lanka as a "Product of Australia" even if most of its components or ingredients are imported. 1 2 3 4 5
-

Appendix A. (cont'd)

A4. Measuring a respondent's community ethics/virtues:

(1 is strongly disagree and 5 is strongly agree)

11. It is acceptable to use products made with child labor in my firm as long as I share the savings with my customers via lower prices. 1 2 3 4 5
12. Since pollution of the environment may be attributed to many factors, the actions taken by any one firm are of no concern. 1 2 3 4 5
13. The cost of pollution should be included in the calculation of the firm's overheads. 1 2 3 4 5

Notes

1. Equation (5) is expected to have a log-normal distribution, because it combines multiple log-normal distributions.
2. As evidenced by the very low average agreement with unethical acts against society and customers and low standard deviations for Eqs. (1) and (2). In contrast, the average agreement with unethical acts against employees and the environment is much higher, as is the standard deviation for Eqs. (3) and (4).

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