

## ETHICAL PRACTICES IN SMALL BUSINESS: A CROSS COUNTRY COMPARISON

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### ABSTRACT

The empirical literature on business ethics has been developing recently. However, the scholarly interest has so far been limited to ethical infractions of large corporations. Authors argue that findings based on the practices of large corporations have little applicability in the small businesses due to their unique financial circumstances, especially for the start ups. This paper argues that since many of the ethical principles are culture specific, ethnographic country studies of small businesses need to be encouraged toward comparative understanding of business ethics. Authors analyzed data from 130 small businesses of India and 112 from Bangladesh to bring out the differences in the small business practices of the two neighbouring countries. The study confirms that form of business, nature of industry which the firm operates have influence over ethical infractions. There are noteworthy differences in the ethical practices of the two nations, thanks to strong influence of contractual multinational presence.

### Introduction

A new surge of research and scholarly interest dealing with business ethics and social responsibility has become noticeable. However, the increased interest and publications largely remain limited in the domain of large corporations. While the small business sector is generally recognized by all nations as the “engine” of economic growth accounting for between 60 to 95 percent of the new wealth and job creations, the scholarly inquest of ethics for various reasons remain focused on the large, which form less than one percent (with sizes larger than 500 employees) of business enterprises. Bulk of the current literature is devoted to the cases of ethical violations of multinational/global corporations that made world news. Given the unique circumstances

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of the size, and of start ups, some scholars raised a question about the applicability of the findings to entrepreneurs based on studies of large organizations (Enderle, 2004; Spence, 1999). In addition, a very few credible publications address and emphasize the need of cross cultural and comparative understanding of the small business ethics especially with respect to the developing and underdeveloped countries.

Comparative study of business ethics and the corporate social responsibility is an emerging field ever since Transparency International began publishing its score cards in the form of CPI (Corruption Perception Index) during the 1990's (You and Khagram, 2005). Although recognized as a "barely charted field", without a shared universal definition (Enderle, 1999; 2004) of corporate ethical responsibility, some headway in the theoretical comparative perspective has been made through publications such as Amartya Sen's "capability approach"; the ethical framework of the "goal-rights system" (Enderle, 2004); three stages of ethical compliance (De George, R. T. 1993; 1999): Minimum ethical requirements, Positive obligations beyond minimum, and Aspirations for ethical ideals. The efforts continued with World Bank Institute's Control of Corruption Index (CCI); International Country Risk Guide; and a host of studies based on these indexes providing socio-political, economic, and cultural explanations of corruption by governmental, non-governmental, and business organizations (Husted, 1999; Friedman et al. 1997, Treisman, 2000; Paldam, 2002; You and Khagram 2005; Beets, 2005; Sanyal, 2005). The recent corporate scandals caused the U.S. Congress to enact Sarbanes-Oxley Act in 2002. It also affected the academia.

The dramatization with such a practical question as, *Can you grow a small, bootstrapped company into a success without lying?* may highlight the issue further. Jeffrey Seglin responds to this question with the findings of 1995-96 Inc. 500 survey data. He states that 14% of the companies who had grown their businesses with little or no capital, "said that bootstrapping, by definition, requires, 'unsavory business practices'. For some entrepreneurs, 'unsavory' involves stringing out a supplier on a payment or two, but for others it means out-and out lying" (Inc.com, July 2000). Not disclosing the full truth or not volunteering information that may adversely affect a used car sale or auto repair service may touch the edge of ethical principles but such a or similar situations are more frequent in the realm of entrepreneurship that consumers often reluctantly tend to tolerate. However, with intense competition, and adverse/positive impact of "word of mouth" ethical practices may finally emerge and the business survives by adopting the best business practices.

There is thus no denying the fact that entrepreneurship has its own unique challenges but the entrepreneur's responses and actions ought to demonstrate some degree of personal ethical standards in a civilized society. While the degree of expectations and compliance by the entrepreneurship may be lower than those affluent, large complex and successful organizations, there probably are ample examples of role models (best practices) in entrepreneurship and SME that the researchers may need to document. This paper therefore argues that a unique ethical framework for small business entrepreneurship separate from the large organization be adopted based on the unique circumstances as well as expectations.

## **Survey of Literature**

It needs to be recognized that the available literature on corporate ethics mostly concentrates on large corporations. The increasing significance of entrepreneurial firms in promoting world-wide economic growth and development has prompted some scholars to criticize the limited attention small business receives in the ethics literature (for example, Carr 2003; Sorrell 1998; Spence and Rutherford 2003). It has been perceived that there is an increasing need to promote and encourage socially responsible practices among small and medium enterprises (SMEs).

Considerable amount of ethnographic studies of business ethics in large organisations have featured in current literature. Manager's moral perception change in Finland during the 1990s (Kujala 2004); Comparison between corporate and public sector business ethics in Sweden (Svensson et al, 2004); Collusion, reputation damage and interest in codes of conduct in Dutch construction company (Graafland, 2004); Implementing the ethos of corporate codes of ethics in Australia, Canada and Sweden (Wood et al, 2004); Ethical practice and the work life balance in the U.K. (Frame and Hartog, 2003) are some of the numerous examples. Enderle (1999) has discussed the challenges and approaches in international business ethics in a book of readings.

The scope of the literature was further expanded to include the gender variation in entrepreneurship and small businesses. Morris et al., (2006) discusses the growth dilemma of women entrepreneurs. Some ethnographic studies would include examination of venture related myths concerning women entrepreneurs in Canada by Menzies, et al. (2004), challenges of female entrepreneurs in Nigeria (Woldie and Adersua, 2004), values and skills of female entrepreneurs in Vietnam. (Gerrard, et al., 2003).

The literature survey reflects that the ethical standards of the small business sector in the developed as well as the developing nations has to a large extent remained beyond the purview of study on business ethics. It needs to be realised that ethical issues confronting entrepreneurial firms are significantly different from those of larger corporations. Alpaner, Carter, and Forsgren (1990) identified some of the key managerial issues that confront small business owners in their formative years which pose ethical challenges. These issues include employee problems, product pricing, legal problems, product quality, and government regulatory concerns. In an article by Longenecker and Schoen (1975) entrepreneurial managers were found to have several different approaches to business in such areas as innovation, risk-taking, and independent action than their counterparts in larger organization. Spence (1999) therefore suggests a new set of "ethics-eyes" for the business that is characterized by owner-management, independence, multi-tasking, "fire-fighting", personal relationships and informality.

The unique nature of the size and characteristics of small firms questions the applicability of findings based on large corporations. In this hyper-competitive world, with increasing vulnerability to pressures of global competition, the probability of high mortality (i.e., the issue of survival) is so severe for the entrepreneurial ventures, that the role of ethics in these businesses becomes questionable. In businesses where indication of success lies in avoiding bankruptcy rather than raising ROI, Enderle (2004) examines the appropriateness regarding the importance of ethical conduct. The challenges encountered

by small businesses in maintaining ethical standards are distinct from those of their larger counterparts. Thus, the degree of initiative and compliance with respect to ethical conduct is lesser in these organizations in comparison to the larger companies.

### **Objective of the study**

In the developed, industrialized societies, legislations like the Affirmative Action legislation, Conflict of Interest Statement, Sexual Harassment Policies, Sarbanes- Oxley Act have been enacted to enforce compliance to ethical issues. But in developing countries like India and Bangladesh, institutional and political responses (in terms of laws) have not fully developed so that meaningful enforcement can be exercised. Ethical practices are sporadic and or left to individual entrepreneurs. Even today the vast population of small businesses in India continues to operate without official registration or licenses and do not always comply with legal requirement of taxes. The business morality in many instances is governed by entrepreneur's belief system (or religion). Based on experiences of countries like India, one can postulate that in spite of some commonalities of ethical issues and practices across cultures, wide ranging differences in what constitutes an ethical misconduct and the relative institutional mechanisms to deal with them can be expected.

The paper has been written keeping this perspective in mind. The primary objective of this paper is to explore the general ethical issues of small businesses in two neighbouring nations of India and Bangladesh and specifically show how the ethical conduct and unethical practices vary across industry sectors and types of ownership. An insight into the structural profile of the small businesses taking into accounts the type of ownership, industry sectors, number of employees and level of turnover has been attempted as the background of the study.

The following illustrative hypotheses are tested with empirical data:

H<sub>1</sub>: Single proprietorships tend to be more prone to ethical infractions

H<sub>2</sub>: Retail and Service sectors relative to other sectors in small businesses tend to demonstrate more incidences of ethical infractions.

### **Data and Methods**

Data were collected in India and Bangladesh from 130 and 112 entrepreneurs respectively during 2006 under a pilot study. We used purposive sampling over selected geographical area for practical purpose. In India, the sample was concentrated in West Bengal and the geographical jurisdiction was a radius of 40 k.m. from central Kolkata. As a result the sample was purposive. In Bangladesh, the selected unit was spread over 80 k.m. radius around the Rajuk area of Dhaka . Here too, purposive sampling was used. A structured instrument was administered at the interview with selected local entrepreneurs. The instrument comprised of a number of Likert type scales measuring entrepreneur's *Ethical Orientation and Unethical Practice Index*. Entrepreneur's ethical orientation index consisted of 15 Likert type items. A typical item of this index rates response on a 1 - 5 (1 = Strongly Disagree; 5 = Strongly Agree) scale regarding how the

business demonstrates high ethical standards in serving the customer. A Cronbach's standardized alpha score of .912 provides a high degree of reliability for the index. Unethical Practice Index consisted of 12 Likert type items. A typical item rates responses on a 1 - 5 (1 = Strongly Disagree; 5 = Strongly Agree) scale regarding price gouging as a common business practice. A Cronbach's standardized alpha score of .735 provides the proof of reliability of the index.

The ethical issues can be categorized as Ethical HR Practices and Ethical Standards. A typical item in Ethical HR for example, asks the respondent to disagree/agree on a 1-5 scale regarding ethical hiring practices (i.e. we observe ethical hiring practices). A typical item in the Ethical Standards asks how the business demonstrates high ethical standards in serving the customer.

The Unethical Practices can be viewed from both the legal and political aspects. A typical item in the Unethical Practices with regard to legal issues rates responses on a 1-5 (1 = Strongly Disagree; 5 = Strongly Agree) scale whether price gouging is a common business practice. Similarly, a typical item with respect to the political issues under the unethical practices rates responses on a 1 - 5 (1 = Strongly Disagree; 5 = Strongly Agree) scale whether incurring incidental costs (chadabazi) is a threat.

Business Sector consisted of nine types of businesses, namely, Manufacturing, IT, Export, Processing, Service, Retail, Repair, Medical/Clinical, and Others. Type of Ownership variable consisted of Proprietorship, Partnership, S-Corporation, and Others. SPSS 13.0 package was used to analyze the data.

Data has been analysed showing the comparison between the India and Bangladesh scenario. Frequencies of 'strongly disagree' are added with the frequencies of 'disagree' responses. Similarly the frequencies of 'strongly agree' were combined with the frequencies of 'agree' responses. Finally, neutral responses are placed in one category for the ease of analysis and presentation.

### **Profile of small enterprises sampled in India and Bangladesh**

The survey has enabled the authors to draw certain inferences about the structural profile of the small enterprise samples in the two neighboring countries of India and Bangladesh. Both countries are developing nations, and on a comparative platform although there are commonalities, the survey has also reflected some noteworthy differences. This has been discussed by use of the following tables

**TABLE 1**  
**Distribution of small business enterprises over the nature of business and the form of ownership**

|                   |                | Nature of Business |            |       |            |                   |            |         |            |        |            |        |            |         |            |        |            |               |            |       |            |
|-------------------|----------------|--------------------|------------|-------|------------|-------------------|------------|---------|------------|--------|------------|--------|------------|---------|------------|--------|------------|---------------|------------|-------|------------|
|                   |                | Manufacturing      |            | IT    |            | Export/Processing |            | Service |            | Retail |            | Repair |            | Medical |            | Others |            | Not available |            | Total |            |
| Form of Ownership |                | India              | Bangladesh | India | Bangladesh | India             | Bangladesh | India   | Bangladesh | India  | Bangladesh | India  | Bangladesh | India   | Bangladesh | India  | Bangladesh | India         | Bangladesh | India | Bangladesh |
|                   | Proprietorship |                    | 16         | 8     | 2          | 1                 | 2          | 2       | 25         | 5      | 27         | 8      | 3          | 0       | 4          | 2      | 1          | 8             | 1          | 0     | 81         |
| Partnership       |                | 12                 | 5          | 2     | 4          | 3                 | 1          | 5       | 7          | 14     | 0          | 1      | 0          | 3       | 3          | 2      | 8          | 0             | 0          | 42    | 28         |
| S. Corporation    |                | 4                  | 12         | 1     | 4          | 0                 | 5          | 0       | 19         | 0      | 0          | 0      | 0          | 0       | 1          | 1      | 6          | 0             | 0          | 6     | 47         |
| Others            |                | 0                  | 0          | 0     | 0          | 0                 | 0          | 0       | 1          | 0      | 1          | 0      | 0          | 0       | 0          | 1      | 1          | 0             | 0          | 1     | 3          |
| Total             |                | 32                 | 25         | 5     | 9          | 5                 | 8          | 30      | 32         | 41     | 9          | 4      | 0          | 7       | 6          | 5      | 23         | 1             | 0          | 130   | 112        |

In India, sole proprietorship and partnership concerns are the prominent forms of ownership, comprising 62 per cent, and 32.3 per cent of the 130 firms surveyed, while only a nominal 4.6 per cent firms are incorporated as limited companies. However in Bangladesh 41.96 per cent of the firms in the sample are small corporations. As the above table shows the concentration of the firms both in India and Bangladesh are found in manufacturing and services segment. In addition a large number (31.5 per cent) of the sampled Indian units are engaged in the retail sector. The private limited companies in Bangladesh are mostly (40.42 per cent) engaged in services. This is probably explained by the fact that Bangladesh being a labour surplus economy, entrepreneurs find it most profitable to engage in small corporation

**TABLE 2**  
**Distribution of small business enterprises over the form of ownership and turnover in the last year (2005-06)**

| Form of Ownership |                |      |             |      |                |      |        |      |       |      |
|-------------------|----------------|------|-------------|------|----------------|------|--------|------|-------|------|
| Revenue (Rs)      | Proprietorship |      | Partnership |      | S. Corporation |      | Others |      | Total |      |
|                   | Ind            | Bang | Ind         | Bang | Ind            | Bang | Ind    | Bang | Ind   | Bang |
| 10,000-1 lac      | 41             | 1    | 10          | 1    | 0              | 0    | 1      | 0    | 52    | 2    |
| 1lac-5lac         | 17             | 3    | 4           | 1    | 1              | 1    | 0      | 1    | 22    | 6    |
| 5lac-10lac        | 8              | 0    | 2           | 2    | 0              | 2    | 0      | 0    | 10    | 4    |
| 10lac-15lac       | 2              | 2    | 6           | 1    | 1              | 0    | 0      | 0    | 9     | 3    |
| 15lac-20lac       | 4              | 2    | 1           | 0    | 1              | 1    | 0      | 0    | 6     | 3    |
| 20lac-50lac       | 5              | 4    | 8           | 2    | 0              | 4    | 0      | 0    | 13    | 10   |
| 50lac-1000lac     | 1              | 11   | 7           | 4    | 1              | 19   | 0      | 0    | 9     | 34   |
| 1000lac-5000lac   | 0              | 1    | 0           | 1    | 0              | 4    | 0      | 0    | 0     | 6    |
| Not Available     | 3              | 10   | 4           | 16   | 2              | 16   | 0      | 2    | 9     | 44   |
| Total             | 81             | 34   | 42          | 28   | 6              | 47   | 1      | 3    | 130   | 112  |

**Note:** In the survey, business units in Bangladesh recorded their turnover in Taka, and Indian units in Indian Rupees. But for uniformity in comparison and analysis these tables have been constructed after converting the turnover of Bangladeshi units in Indian Rupees at the current exchange rate of 1 Rupee = 1.50 Taka.

After considering the industry segment they operate in and the form of ownership, we further look into the profile of the sampled units from the point of view of their turnover (data gathered for the year 2005-2006), with respect to their form of ownership.

The above table indicates that in India the majority of the sampled firms (76.15 per cent) have generated revenue less than Rupees 20 lakhs during the year under consideration, where as in Bangladesh only 16.02 per cent of the firms have turnover in the same range, in that year. The Indian sample is therefore found to be skewed towards units with a turnover of less than 20 lakhs. This can be traced to the prevailing forms of ownership in the sample. Among the Indian firms the (94.6 per cent) are sole traders and partnerships, hence their businesses are lower in terms of investment as well as turnover, where as in Bangladesh, as noted in previous table, 55.35 per cent are unlimited liability organizations.

Any study on small would remain incomplete without an understanding about the number of workers employed by the studied units. Employment generation being one of

the virtues of the small sector, we seek to look into the profile of the sampled units from the point of view of the number of employees, with reference to the form of ownership.

**TABLE 3**  
**Distribution of small business enterprises over the number of employees and the form of ownership**

| No. of Employees  |     |      |          |      |         |      |         |      |         |      |         |      |     |      |               |      |       |      |
|-------------------|-----|------|----------|------|---------|------|---------|------|---------|------|---------|------|-----|------|---------------|------|-------|------|
|                   | 0   |      | below 10 |      | 10---20 |      | 21---30 |      | 31---40 |      | 41---50 |      | 51+ |      | Not Available |      | Total |      |
| Form of Ownership | Ind | Bang | Ind      | Bang | Ind     | Bang | Ind     | Bang | Ind     | Bang | Ind     | Bang | Ind | Bang | Ind           | Bang | Ind   | Bang |
| Proprietorship    | 1   | 0    | 61       | 3    | 10      | 3    | 7       | 9    | 0       | 11   | 0       | 3    | 1   | 5    | 1             | 0    | 81    | 34   |
| Partnership       | 0   | 0    | 20       | 1    | 9       | 5    | 10      | 9    | 2       | 4    | 1       | 4    | 0   | 5    | 0             | 0    | 42    | 28   |
| S. Corporation    | 0   | 0    | 1        | 0    | 2       | 3    | 3       | 14   | 0       | 6    | 0       | 8    | 0   | 16   | 0             | 0    | 6     | 47   |
| Others            | 0   | 0    | 1        | 0    | 0       | 1    | 0       | 0    | 0       | 0    | 0       | 0    | 0   | 2    | 0             | 0    | 1     | 3    |
| Total             | 1   | 0    | 83       | 4    | 21      | 12   | 20      | 32   | 2       | 21   | 1       | 15   | 1   | 28   | 1             | 0    | 130   | 112  |

In India, 104 firms of the 130 firms surveyed (80 per cent), have less than 20 employees whereas in Bangladesh, the scenario is completely reverse, with 96 firms out of 112 firms surveyed (85.7 per cent) having number of employees exceeding 20. Amongst the proprietary concerns in India, 72 out of 81 (88.9 per cent) employ less than 20 persons In contrast, 28 of 34 (82.4 per cent) proprietorship firms in Bangladesh have more than 20 employees. With respect to small corporations, in Bangladesh 44 of 47 firms (93.6 per cent) on an average have 20 or more employees. The larger scale of operations in limited corporations as contrasted against proprietary and partnership firms account for more number of employees in small businesses in Bangladesh than in India. But we also need to look into the activities that generate the kind of employment it does.



**TABLE 4**  
**Distribution of small business enterprises over the number of employees and nature of business**

| No. of Employees      |     |      |          |      |         |      |         |      |         |      |         |      |     |      |               |      |          |     |
|-----------------------|-----|------|----------|------|---------|------|---------|------|---------|------|---------|------|-----|------|---------------|------|----------|-----|
| Sector                | 0   |      | below 10 |      | 10---20 |      | 21---30 |      | 31---40 |      | 41---50 |      | 51+ |      | Not Available |      | Total    |     |
|                       | Ind | Bang | Ind      | Bang | Ind     | Bang | Ind     | Bang | Ind     | Bang | Ind     | Bang | Ind | Bang | Ind           | Bang | Ind Bang |     |
| Manufacturing         | 0   | 0    | 15       | 0    | 6       | 1    | 10      | 7    | 1       | 5    | 0       | 2    | 0   | 10   | 0             | 0    | 32       | 25  |
| IT                    | 0   | 0    | 2        | 0    | 1       | 1    | 2       | 4    | 0       | 0    | 0       | 3    | 0   | 1    | 0             | 0    | 5        | 9   |
| Export/<br>Processing | 0   | 0    | 2        | 0    | 2       | 0    | 1       | 2    | 0       | 4    | 0       | 0    | 0   | 2    | 0             | 0    | 5        | 8   |
| Service               | 0   | 0    | 21       | 2    | 3       | 4    | 4       | 6    | 1       | 4    | 0       | 6    | 1   | 10   | 0             | 0    | 30       | 32  |
| Retail                | 1   | 0    | 33       | 1    | 4       | 3    | 2       | 3    | 0       | 2    | 0       | 0    | 0   | 0    | 1             | 0    | 41       | 9   |
| Repair                | 0   | 0    | 2        | 0    | 2       | 0    | 0       | 0    | 0       | 0    | 0       | 0    | 0   | 0    | 0             | 0    | 4        | 0   |
| Medical               | 0   | 0    | 4        | 0    | 3       | 0    | 0       | 5    | 0       | 0    | 0       | 1    | 0   | 0    | 0             | 0    | 7        | 6   |
| Other                 | 0   | 0    | 3        | 1    | 0       | 3    | 1       | 5    | 0       | 6    | 1       | 3    | 0   | 5    | 0             | 0    | 5        | 23  |
| Not Available         | 0   | 0    | 1        | 0    | 0       | 0    | 0       | 0    | 0       | 0    | 0       | 0    | 0   | 0    | 0             | 0    | 1        | 0   |
| Total                 | 1   | 0    | 83       | 4    | 21      | 12   | 20      | 32   | 2       | 21   | 1       | 15   | 1   | 28   | 1             | 0    | 130      | 112 |

As mentioned earlier the small units are concentrated in manufacturing, service and retail in India and in manufacturing and service in Bangladesh. Most of the Indian manufacturers (46.87 per cent), service providers (70 per cent) and retailers (80.4 per cent) employ less than 10 employees, where as in the Bangladesh, 93.75 per cent of the service sector units and all the manufacturing units employ more than 10 workers. This is an area of remarkable difference between the sampled units of the two countries. However, it is expected that number of employees would not be a guide for the ethical practices to be followed by an entrepreneur, hence would not significantly affect the analysis in this paper.

TABLE 5

**Distribution of small business enterprises over the number of employees and turnover in the last year (2005-06)**

| Revenue (Rs)    | No. of Employees |            |          |            |         |            |         |            |         |            |         |            |       |            |               |            |       |            |    |
|-----------------|------------------|------------|----------|------------|---------|------------|---------|------------|---------|------------|---------|------------|-------|------------|---------------|------------|-------|------------|----|
|                 | 0                |            | below 10 |            | 10---20 |            | 21---30 |            | 31---40 |            | 41---50 |            | 51+   |            | Not Available |            | Total |            |    |
|                 | India            | Bangladesh | India    | Bangladesh | India   | Bangladesh | India   | Bangladesh | India   | Bangladesh | India   | Bangladesh | India | Bangladesh | India         | Bangladesh | India | Bangladesh |    |
| 10,000-1 lac    | 1                | 0          | 47       | 0          | 3       | 1          | 0       | 1          | 0       | 0          | 0       | 0          | 0     | 1          | 0             | 0          | 0     | 52         | 2  |
| 1lac-5lac       | 0                | 0          | 14       | 0          | 3       | 1          | 4       | 1          | 0       | 3          | 0       | 0          | 0     | 0          | 1             | 1          | 0     | 22         | 6  |
| 5lac-10lac      | 0                | 0          | 4        | 0          | 6       | 0          | 0       | 0          | 0       | 2          | 0       | 0          | 0     | 0          | 2             | 0          | 0     | 10         | 4  |
| 10lac-15lac     | 0                | 0          | 4        | 0          | 0       | 0          | 4       | 2          | 0       | 1          | 1       | 0          | 0     | 0          | 0             | 0          | 0     | 9          | 3  |
| 15lac-20lac     | 0                | 0          | 3        | 0          | 2       | 0          | 1       | 1          | 0       | 2          | 0       | 0          | 0     | 0          | 0             | 0          | 0     | 6          | 3  |
| 20lac-50lac     | 0                | 0          | 6        | 0          | 4       | 2          | 1       | 2          | 2       | 1          | 0       | 2          | 0     | 3          | 0             | 0          | 0     | 13         | 10 |
| 50lac-1000lac   | 0                | 0          | 3        | 0          | 3       | 3          | 3       | 10         | 0       | 7          | 0       | 6          | 0     | 8          | 0             | 0          | 0     | 9          | 34 |
| 1000lac-5000lac | 0                | 0          | 0        | 0          | 0       | 0          | 0       | 1          | 0       | 1          | 0       | 0          | 0     | 4          | 0             | 0          | 0     | 0          | 6  |
| Not Available   | 0                | 0          | 2        | 4          | 0       | 5          | 7       | 14         | 0       | 4          | 0       | 7          | 0     | 10         | 0             | 0          | 0     | 9          | 44 |
| Total           | 1                | 0          | 83       | 4          | 21      | 12         | 20      | 32         | 2       | 21         | 1       | 15         | 1     | 28         | 1             | 0          | 130   | 112        |    |

Though 80 per cent of the Indian firms have less than 20 employees and 99 firms (76 per cent) have turnover less than 20 lakhs, the Bangladeshi sample is skewed towards the other end with 44.64 per cent firms having turnover of more than Rs 20 lakhs and 85.71 per cent employing more than 20 employees. This primarily shows the character of the sample and since a statistically strict sampling procedure was not followed in selecting the sample, this cannot be generalized as the feature of all Bangladeshi units in contrast to the Indian units.

## **Ethical Practices in the small enterprises of India and Bangladesh**

### **1. Ethical practices in HR policy**

In this study the ethical orientation of the sampled small businesses has been focused upon and it has been examined how these ethical issues vary across the two countries.

To infer whether the HR practices which are commonly followed in these small enterprises are up to the ethical standards or not, the authors considered the parameters like the presence of a fair/rational performance appraisal system in the organization which more than often ensures that promotions are based on good performance. Workplace safety is another important factor which has been taken into account. The percentage of firms, which have a sexual harassment policy, protection for the whistle blowers and ethics code in place, has also been examined. A formal employee grievance procedure is a good indication of ethical HR practice and this aspect has been studied in order to draw conclusions about the ethical conduct.

**TABLE 6**  
**Analysis of responses on Ethical HR Practices in India & Bangladesh**

| ETHICAL ISSUES                                     | DISAGREE(%) |       | AGREE(%) |       | NEUTRAL(%) |       |
|--|-------------|-------|----------|-------|------------|-------|
|  | INDIA       | BDESH | INDIA    | BDESH | INDIA      | BDESH |
| Performance appraisal system ration /fair          | 73.8        | 25    | 13.1     | 35.7  | 17.6       | 39.3  |
| Promotions based on positive performance appraisal | 73.1        | 8     | 13.8     | 67    | 12.7       | 25    |
| Workplace safe & secure for workers                | 35.4        | 5.4   | 30       | 79.5  | 24.6       | 15.2  |
| Sexual harassment policy in place                  | 7.7         | 64.3  | 18.5     | 26.8  | 73.8       | 8.9   |
| Whistle blower protection in place                 | 49.2        | 37.5  | 37       | 45.5  | 20.8       | 17    |
| Ethics code in place                               | 72.3        | 26.8  | 12.3     | 37.5  | 15.4       | 35.7  |
| Conflict of interest policy in place               | 85.4        | 27.7  | 7.7      | 51.8  | 6.2        | 20.5  |
| Ethics training                                    | 86.9        | 50    | 3.1      | 26.8  | 10         | 23.2  |
| Employee Grievance Procedures                      | 68.5        | 44.6  | 20       | 30.4  | 11.5       | 25    |

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The high negative frequencies of both the country’s entrepreneurs sampled for the survey indicate the magnitude of unethical HR practices. It is interesting to note that the high magnitude of responses in the neutral/missing categories both for commitment to affirmative action, and for having sexual harassment policy in place imply that these are issues not as important as they are in the developed world.

But a major difference is observed among small business owners in India and Bangladesh, with respect to safety in the workplace, ethical practices in hiring, training and even firing. This is probably due to the fact that most of the small businesses in Bangladesh were subcontractors to the MNC, who made it mandatory that ethical practices as regards child labour, women in work place, hygienic conditions were ensured.

**2. Ethical stand towards customers, law, society and environment**

Ethical standards would commonly be reflected by small business owners attempt at being responsible to their stakeholders, by way of offering fair deals to the customers, legal compliance, abiding by environmental regulations and social and community commitment ethical standards. In this regard, it has been observed that entrepreneurs of Bangladesh are found to be more ethically conscious. Responses from the Indian sampled units are skewed to disagreement but the picture is opposite in the Bangladesh data. But keeping the limitations of the sample in mind, no generalisation can be made about the ethical stand of small enterprises in Bangladesh or India in general. This is limited to the inferences of the case study.

**TABLE 7**  
**Analysis of responses on Ethical Standards in India & Bangladesh**

| ISSUES   | DISAGREE(%) |       | AGREE(%) |       | NEUTRAL(%) |       |
|--|-------------|-------|----------|-------|------------|-------|
|  | INDIA       | Bdesh | INDIA    | Bdesh | INDIA      | Bdesh |
| High ethical standards in serving customers              | 49.3        | 5.4   | 36.9     | 69.6  | 13.8       | 25    |
| High ethical standards dealing with environmental issues | 56.9        | 10.7  | 30       | 58.9  | 13.1       | 29.5  |
| High legal compliance                                    | 37.7        | 9.8   | 35.4     | 58.9  | 26.9       | 31.8  |
| Commitment to community & social issues                  | 62.4        | 26.8  | 7.7      | 42.9  | 29.6       | 30.4  |

These issues are a matter of concern in Bangladesh, probably because most of the small enterprises operate in a captive market as suppliers of large multinational

corporations. The main buyers insist that the host country supplier abides by domestic requirements as also ILO and allied norms regarding work environment, women workers and child labour.

However, this is a broad view of the situation on ethical practices, as the entrepreneur is often faced with many more nitty gritty of ethical or unethical activities in the day to day running and operational challenges. The specific issues, which capture the essence of ethical or unethical behaviour, are discussed below.

### **3. Ethical practices in operations**

The various aspects of unethical conduct, which are prevalent in small firms of developing nations, were examined in the course of the study. Cheating on customers by price gouging, manipulation of weights and not honoring warranty are common practices.

In all 12 items, in the table below, a larger percent of respondents and in many cases, the majority of respondents agreed with the unethical practices. Bribery and corruption are more common in countries such Bangladesh, Nigeria, Pakistan, and India compared to the western countries based on the reports of the Transparency International. The small business sector in West Bengal (India) and Bangladesh represent such widespread unethical practices. High interest money lenders (non institutional), and incidental costs involving involuntary subscriptions also known as 'Chandabazi' in the native language is the unethical/outlawed practices of the organized gangs or political factions is a culture specific or developing country specific unethical phenomenon that often cripples small businesses. The overwhelming majority (64 per cent in India and 67 per cent in Bangladesh) admitting such being a threat is a significant factor in the comparative analysis of small business

TABLE 8

**Analysis of Responses on Unethical Practices in India & Bangladesh**

| ISSUES  | DISAGREE(%) |       | AGREE(%) |       | NEUTRAL(%) |       |
|---|-------------|-------|----------|-------|------------|-------|
|   | INDIA       | Bdesh | INDIA    | Bdesh | INDIA      | Bdesh |
| Price gouging & cheating is common                    | 21.5        | 28.6  | 51.6     | 38.4  | 26.9       | 32.1  |
| Sales tax evasion is common                           | 18.5        | 33.9  | 59.2     | 45.5  | 22.3       | 20.5  |
| Income tax evasion is common                          | 19.1        | 33.9  | 65.8     | 44.6  | 16.2       | 21.4  |
| Counterfeiting is a major issue                       | 31.5        | 24.1  | 49.2     | 38.4  | 19.2       | 35.7  |
| Not honoring warranty is a major issue                | 20          | 9.8   | 65.4     | 58.9  | 14.6       | 31.3  |
| Manipulation of weights & measures                    | 29          | 43.8  | 43.9     | 33.9  | 27.1       | 21.4  |
| Bribery is a common to win government bids            | 22.3        | 26.8  | 47.6     | 46.4  | 30.1       | 25.9  |
| Bribery is a common expediter in govt. agencies       | 16.2        | 27.7  | 47.7     | 51.8  | 36.1       | 20.5  |
| Bribery is a common inducer for business loans        | 24.6        | 25    | 38.5     | 50    | 36.9       | 24.1  |
| Abnormally high interest loan from money lenders      | 26.9        | 33    | 53.3     | 34.8  | 20.9       | 32.1  |
| Incidental costs (chadabazi) is a threat              | 16          | 15.2  | 63.8     | 67.9  | 20.2       | 17    |
| Political affiliation contributes to business success | 9.2         | 23.2  | 71.6     | 48.2  | 19.2       | 28.6  |

**4. Ethical issues vis-à-vis form of business**

Ethical issues, which were examined with respect to form of ownership, relate to the various aspects of business conduct. The entrepreneur's willingness to abide by the tax laws and not to indulge in sales tax or income tax evasion reflects standards of ethical conduct. Resorting to any kind of bribery and corruption, when dealing with government agencies or bank officials for enhancing the scope of business is an indicator of ethical infraction. The approach towards serving customers better by maintaining good quality of the products and not resorting to manipulation of weights or price gouging helps to

establish the entrepreneur's ethical approach to business. Raising loans from moneylenders at abnormally high rates of interest in order to tide over financial crisis can induce entrepreneurs to resort to unethical practices. These issues have been focused upon in this study. Linkage between these issues and the form of ownership and nature of the business has been analyzed over a total of 242 units, 130 in India and 112 in Bangladesh.

**TABLE 9**  
**Percentage of disagreeing entrepreneurs on ethical issues with respect to their form of ownership**

| Issues   | Country    | Proprietorship | Partnership | Limited Company |
|--|------------|----------------|-------------|-----------------|
| Sales tax evasion is common                      | INDIA      | 16             | 23.8        | 0               |
|  | BANGLADESH | 29.4           | 42.9        | 29.8            |
| Incidental costs (chandabazi) is a threat        | INDIA      | 14.8           | 21.4        | 0               |
|  | BANGLADESH | 2.9            | 10.7        | 25.5            |
| Bribery is a common inducer for business loans   | INDIA      | 21             | 33.3        | 0               |
|  | BANGLADESH | 14.7           | 25.9        | 31.9            |
| High legal compliance                            | INDIA      | 44.4           | 26.2        | 33.3            |
|  | BANGLADESH | 11.8           | 14.3        | 6.4             |
| Abnormally high interest loan from money lenders | INDIA      | 23.5           | 31.7        | 16.7            |
|  | BANGLADESH | 23.5           | 25          | 44.7            |
| High ethical standards in serving customers      | INDIA      | 50.6           | 47.6        | 50              |
|  | BANGLADESH | 8.8            | 7.1         | 2.1             |

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Sales tax evasion appears to be common in Bangladesh and even higher in India. In terms of sampled units of Bangladesh, 42.9 per cent of partnership firms perceive that sales tax evasion is not common.

Incidental costs (chadabazi, tolabazi) by outlaws or political faction is an alarming threat to small business particularly in proprietorship and partnership in Bangladesh, much more than in India. The worst sufferers are the sole proprietors. If this is considered as an unethical activity, sole proprietors appear to be exploited to pay such unlawful charges to much greater extent than partnership firms or companies.

Bribery is a common phenomenon in both the countries. The data in the above table shows that bribery is more prevalent in Bangladesh than India. Proprietary firms are more prone to bribery payments than partnerships.

Compliance to legal provisions is a measure of ethical practices, but the comparative scenario shows that about 50 per cent of Indian sole proprietary firms disagree that they follow legal regulations. This indicates that proprietary firms are the most ethically infractious units. However, this is tested in the later part of this paper with chi square tests.

Firms in both the countries experience the burden of high interest loan from money lenders which shows signs of financial crisis and shortage of organized banking facilities, suited for the small business, particularly in proprietorship. But as far as serving customers ethically is concerned the firms in the sample from Bangladesh are more attuned to honest services. The question that may arise is, is this more by choice or by fear of enforcement or that of losing very valuable overseas business?

Study on ethical practices brings forth various issues that may be researched in order to look for their relationship with ethical infractions. In the following section of the paper we analyze the ethical practices of small firms in the sample with respect to their nature of activity. The idea is to relate which particular industry sector is more prone to ethical or unethical behaviour.



**5. Ethical issues vis-à-vis nature of activity**

**TABLE 10**  
**Percentage of disagreeing entrepreneurs on ethical issues with respect to their industry segment**

| ISSUES   | COUNTRY    | MANUFACTURE | IT   | EXPORT | SERVICE | RETAIL | MEDICAL | OTHER |
|--|------------|-------------|------|--------|---------|--------|---------|-------|
| Sales tax evasion is common                      | INDIA      | 12.5        | 20   | 0      | 13.3    | 22     | 42.9    | 40    |
|  | BANGLADESH | 24          | 77.8 | 12.5   | 31.3    | 11.1   | 16.7    | 52.2  |
| Incidental costs (chadabazi) is a threat         | INDIA      | 18.8        | 20   | 20     | 16.7    | 14.6   | 14.3    | 20    |
|  | BANGLADESH | 20          | 32.3 | 25     | 9.4     | 0      | 0       | 14.3  |
| Bribery is a common inducer for business loans   | INDIA      | 21.9        | 40   | 60     | 16.7    | 22     | 28.6    | 80    |
|  | BANGLADESH | 32          | 44.4 | 25     | 15.6    | 0      | 16.7    | 36.4  |
| High legal compliance                            | INDIA      | 50          | 40   | 20     | 26.7    | 36.6   | 14.3    | 40    |
|  | BANGLADESH | 4           | 0    | 0      | 6.3     | 22.2   | 0       | 26.1  |
| Abnormally high interest loan from money lenders | INDIA      | 21.9        | 40   | 20     | 23.3    | 27.5   | 57.1    | 20    |
|  | BANGLADESH | 48          | 44.4 | 25     | 25      | 22.2   | 0       | 39.1  |
| High ethical standards in serving customers      | INDIA      | 37.5        | 60   | 40     | 46.7    | 58.5   | 42.9    | 40    |
|  | BANGLADESH | 4           | 0    | 0      | 9.4     | 11.1   | 0       | 4.3   |

In comparison to Bangladesh, most of the entrepreneurs in India are of the opinion that sales tax evasion is very common, across all industry segments, except in case of retail and medical services. This helps us to substantiate our 2nd hypothesis that retail and service compared to other sector tend to demonstrate more incidences of ethical infractions. Among the other segments only 33 percent of the IT sector entrepreneurs avoid tax where as tax evasion among manufacturers is as high as 76 percents.

Chanda is a threat to all types of sectors in both India and Bangladesh Manufacturing and retail sector are the worst sufferers in this regard. All the units in different sectors agreed that interest on loans that they take from unorganized indigenous

sources is very high. This signifies the lack of financial support to them from organized banks.

Indian manufacturers and exporters are mostly affected in this regard where as Bangladeshi retailers (72 percent) are worst sufferers. Most of them, in both countries agreed that bribery is a common inducement to get business loan. In service sector, nearly 85 percent in both countries agreed that they give bribery to get business loan.

But such country specific generalization has its limitations. Therefore, an attempt is being made in the following section to look a little more deeper to reveal whether any particular industry sector, manufacturing, retail or services is specifically prone to ethical infractions, or specifically any form of entrepreneurship, sole trader, partnership or company form is closely associated with unethical practices. For this purpose, chi-square statistics has been analysed to get a statistically meaningful understanding of the association of unethical activities and form of business and industry sector to which the unit belongs.. This would enable us to draw the hypothesis suggested earlier in the paper.

#### **6. Association between Ethical Issues and Form of Business and Nature of Ownership**

Significant relationships between ethical issues and form of ownership or the nature of business have been observed on the basis of responses from the small enterprise owners in India and Bangladesh in the tables discussed above. This has prompted the authors to substantiate the association by use of the chi-square technique.

**TABLE 11**  
**Association among variables depicting ethical issues and type of ownership and industry segment**

| Responses   | Profile variable  | $\chi^2$ | $\chi^2$ |
|---|-------------------|----------|----------|
|   |                   | INDIA    | Bdesh    |
| Bribery is a common inducement for business loans | Type of ownership | 24.76*   | 12.082** |
| Bribery is a common induced for business loans    | Industry Sector   | 39.956*  | 24.087** |
| Abnormally high interest loan from money lenders  | Industry Sector   | 26.26*   | 23.113** |
| Abnormally high interest loan from money lenders  | Type of ownership | 32.24**  | 19.679** |
| Ethical hiring practices                          | Type of ownership | 24.72*   | 18.552** |
| Ethical hiring practices                          | Industry Sector   | 49.77*   | 26.463*  |

\* Significant at 0.05, \*\* Significant at .005

Table 11 reports findings of associations (Chi square values) between type of ownership, industry sector and three representative variables of ethical practices. The unethical practices observed are mostly in the area of financial dealing and employee hiring. The reason behind choosing these issues as representations of unethical behaviour is that small business enterprises are most vulnerable in terms of raising seed capital and maintaining cash flow to keep the business kitchen fire burning. Therefore, they often resort to paying bribes to obtain an out of turn loan (as the earlier loan had not been repaid) and also obtain loan from indigenous money lenders at abnormally high rates of interest. The other stakeholder of the small business sector, which is most prone to unethical behaviour, is the employee. An organized and merit based hiring practice is unheard of and “hire and fire” seems to be the most common phenomenon. The other stakeholders, the customers, the government and the civil society organizations (which take responsibility to prevent environmental damage) are in a comparatively powerful position to enforce ethical services on part of the small business entrepreneur.

The table11 reports significant associations between the type of ownership (single proprietorship, joint ownership, limited corporation) and the three representative ethical practice variables, namely bribery is a common inducement for business loans, abnormally high interest loan from moneylender, ethical hiring practices. The cross tabulation of the variables, reported in previous section, clearly indicate higher joint (disagree) frequencies for single proprietorship. Based on this finding, it can be said that the Hypothesis,  $H_1$ : Single proprietorships tend to be more prone to ethical infractions (although only with regard to HR practices), is substantiated.

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Table 11 also reports significant associations between the industry segment (manufacturing, IT, service, retail, medical) and the three representative ethical practice variables, namely bribery is a common inducement for business loans, abnormally high interest loan from moneylender, ethical hiring practices. The cross tabulation of the variables, reported in previous section, clearly indicate higher joint (disagree) frequencies for retail and services. Based on this finding, it can be said that, H2: Retail and Service sectors relative to other sectors in the small business tend to demonstrate more incidences of ethical infractions - is at least partially substantiated by empirical evidence.

### Limitations

Sample selection was entirely purposive and selected over geographically undispersed area. As a result the profile shows a skewness towards micro units in India and comparatively larger units in Bangladesh as regards number of units. This, we submit, is a major limitation, but since the scope of this paper is to look into the ethical activities of the business vis-à-vis their structure and industry segment, presumably, the difference in the employees' strength may not be a determining element.

### Way Forward

This kind of study may be extended in the future to help establish the relevance of ethical conduct from the perspective of the gender of the entrepreneur. Moreover, the effect of globalisation and competition on the ethical practices in small business enterprises may be examined. On the basis of such studies, interested scholars can attempt to conceptualize a framework to promote ethical and socially responsible behavior amongst the small entrepreneurs. This will probably go a long way in drawing up a policy prescription for the small business sector in the lines of corporate social responsibility.

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