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AN ANALYSIS OF ETHICAL ATTITUDES OF FAMILY BUSINESS OWNERS IN A TRANSITIONAL ECONOMY: THE CASE OF KOSOVO

Robert J. Barbato, Robert N. Lussier, and Matthew C. Sonfield

ABSTRACT

A transitional economy provides an opportunity to examine the ethical attitudes of small businesses and family owned businesses. In this paper a survey of family businesses in Kosovo finds that family businesses do have different ethical attitudes than non-family businesses, although the differences are slight. Conflict among family members is associated with slightly improved ethical attitudes.

INTRODUCTION

A transitional economy is one that is changing or transitioning from a controlled or socialist economy to a free-market or capitalist economy, (Cordeiro, 2003). During this transition businesses will undergo a changing set of incentives and constraints, and this has led some to investigate the role of ethics in guiding the behavior of businesses as economies adjust to a market based approach to business (Cooper and Dorfman, 2003; Grbac and Loncaric, 2009; Gyula, Hisrich and Szegedi, 2000). It has been shown that attitudes toward ethical issues can be influenced by the extent to which an economy is in transition. For instance, in a study comparing the attitudes of Russian and US students on ethical issues of Russian businesses, it was shown that Russian business students were more likely to make decisions that would be considered unethical in the US. The study concluded that this was partly due to the fact that the Russian economy was in transition (Thelen and Zhuplev, 2001).

The challenge of building ethical norms into an economy in transition has been the subject of several research studies. In an early paper Bohata (1997) reported on public opinion on the state of ethics in these transitional economies, as well as the state of business ethics. Public opinion is mostly concerned with corruption among political leaders and insufficient morality as expressed in legislation. According to the author, there is widespread concern that a market based system alone will not be enough to guide a transition, because trust, integrity, and responsibility are necessary for a market economy to be effective. He goes on to argue that while surveys indicate that business leaders will take a pragmatic approach to ethical issues in business, economic motives to behave ethically must be augmented by moral education within families as well as institutions.

In a more recent study Cordeiro (2003) argued for more research into the role of small businesses in helping to establish ethical norms in a transitional economy. He used the example of the Russian mafia to illustrate that privatization has led to increased corruption and misconduct. Large business organizations have a role to play, and he argues that, although stakeholder theory requires a balancing act among various stakeholders, it is important for multinational enterprises in particular to adhere to minimum moral standards regardless of the practices and norms of the host countries. He concludes by calling for more research on the effects for local entrepreneurs. In an examination of the insurance industry in economies making the transition from centralized to market based, researchers concluded that, while some ethical issues facing a transitional market may diminish over time, there are other ethical issues which are not expected to decline as the economy makes the transition to a market based economy (Cooper and Dorfman, 2003).

This study will examine the intersection of these three research streams by studying the ethical attitudes and propensities of small family business owners in a transitional economy in the country of Kosovo which recently declared its independence from Serbia. In addition, the study will examine several aspects of family business dynamics to determine the effect of those relationships on ethical attitudes of small business owner/managers Kosovo is a newly established country in the former Yugoslavia, and the economy of Kosovo is making a transition toward a market based economy and also a transition to a post war economy. Kosovo has particular relevance because research using survey data that was collected from 150 public managers in four countries showed that organizational integrity was lowest in the former Yugoslavian countries of Serbia and Montenegro (Kolthoff, Erakovich, and Lasthuizen, 2010). This is in contrast, however, to the perceptions of 109 managers of small, medium and large firms in Croatia, a former Yugoslavian country with a transitional economy. In a response to a survey of the perceived role of ethics and social responsibility it was concluded that there is a perception of a positive relationship between organizational success and ethics and social responsibility among respondents (Grbac and Loncaric, 2009).

LITERATURE REVIEW

Although business ethics became an area of academic inquiry in the 1970's (De George, 2006), interest has increased greatly during the past several years due to several high-profile corporate scandals such as Enron and the sub-prime mortgage industry. This has led to greater interest in business ethics at the corporate level. The challenge in business organizations is particularly acute because individuals are more likely to morally disengage in a business organization. Moral disengagement occurs when people behave unethically without personal discomfort (Bandura, 1990), and Moore (2008) explains that organizations promote and encourage moral disengagement by focusing on organization goals and incenting corrupt behavior in organizations. Although most studies have focused on ethical concerns in large organizations, there has also been increased study of business ethics in small businesses.

In comparison studies of corporate giving, Corporate Social Responsibility (CSR), and ethical attitudes between small business owners and managers in large organizations, the research is mixed. In one comparison study of CSR strategies, small business owners differed from corporate executives. Perrini, Russo, and Tencati (2007) interviewed top executives at large firms and compared them to owner-managers of small firms in Italy, and it was determined that small firms are less likely to have a strategy of Corporate Social Responsibility that would encourage them to meet requirements of relevant stakeholders. However, Peterson and Jun (2006) drew a different conclusion. In a survey of 517 small business owner/managers respondents indicated a high degree of commitment to the idea that they feel a responsibility to society when they manage their business. While the Perrini, et. al. (2007) study may be specific to the economy of Italy, Lepoutre and Heene (2006) reviewed the literature on firm size and CSR and concluded that, although some studies suggest that a country's economic welfare will impact the level of social responsibility among smaller firms, there is not enough evidence to support the idea that the economic environment will affect the social responsibility of a small business. Amato and Amato (2007) used IRS data to show that the charitable giving of small firms is proportional to the charitable giving of large firms. The authors suggest that a connection to the local community may explain why small firms are more charitable than medium sized firms.

In an early study comparing small business owners to managers in large organizations Longenecker, McKinney, and Moore (1989) used a survey of 16 hypothetical scenarios to measure perceptions of ethical behaviors among small business owners. They found that small business owner/managers differ from managers in large organizations, but they cannot be described as either more or less ethical. And in a later study of ethical attitudes, Longenecker, Moore, Petty, Palich, and McKinney (2006), used a mail survey to compare ethical attitudes of small business owners to employees in large firms. The survey also used vignettes or situations to determine the extent to which a decision was seen as unethical. They concluded that there was no difference between small business owners and employees in large, publicly traded firms. Finally, a questionnaire examining attitudes toward business ethics and social responsibility was sent to managers in both small and large companies in Hungary. Few differences were found between large and small businesses, although managers in small companies felt more strongly that a market economy would lead to optimal results (Gyula, Hisrich, and Szegedi, 2000).

In addition to studies comparing small and large businesses on ethical attitudes and behaviors, studies have begun to examine the variables that influence these ethical dimensions. In one study Humphreys, Robin, Reidenbach, and Donald (1993) used ethical scenarios and a relativism measure to understand ethical attitudes of small business owner/managers. The study not only looked at the extent to which small business owner/managers saw scenarios as ethical, but went on to examine the extent to which the scenarios were seen as culturally or traditionally acceptable. It was found that the relative dimensions were important in understanding the ethical attitudes of small business owner/managers. In a survey of 226 marketing managers working in small businesses respondents were asked to react to marketing ethics scenarios. The authors concluded that one's personal moral philosophy was not influential in determining the extent to which these small business managers reacted to an ethical situation; rather, the specific attitudes of the managers to the situation was more influential (Marta, Singhapakdi, and Kraft, 2008). However, Quinn (1997) administered a questionnaire to 41 small business owner/managers and found that there is a positive correlation between membership in a organization with ethical goals, such as a church, and ethical attitudes. The study concluded that the personal ethics of the owner/manager will influence attitudes toward business ethics.

Some studies have examined the relationship of demographic characteristics of small business owners to ethical attitudes. For instance, Smith and Oakley (1994) surveyed 209 small business owner/managers using the survey of 16 hypothetical scenarios developed by Longenecker, et. al. The study concluded that older small business owner/managers have ethical attitudes that are more aligned with following rules and norms, whereas they are less inclined to use values as a basis for ethical attitudes. In addition, the study concluded that small business owner/managers from urban areas will be more accepting of ethically questionable behaviors than nonurban small business owner/managers.

Studies that focus on business ethics in a transitional economy have argued that business ethics can assist those businesses that are making a transition from a developing economy to a more modern, Westernized economy. Barclay and Smith (2003), conclude that, given the uncertainties involved, regulations are less effective than the ethical beliefs of business owners and managers. The challenge is to give voice to those ethical beliefs. Another study argues that business ethics in Belarus is often influenced by personal relationships as opposed to laws and regulations. Smaller companies in particular typically use false accounting and give kickbacks, and survival is often a result of knowing who to bribe. The study goes on to point out that different socio-cultural factors are operating in different countries that made up the former Soviet Union, and more empirical research on former soviet states is called for (Rees and Miazhevich, 2009). Finally, a very recent study examined the different meaning that honesty has at home and at the workplace among Russians in transitional economies. It was found that honesty is considered an important value, but that this value did not transfer to the workplace where stealing was considered more acceptable due to the historical nature of public ownership is Russia (Vadi and Jaakson, 2011).

HYPOTHESES

Although ethical attitudes among small businesses have been studied in transitional economies, there have been no studies that have examined the effect of family business dynamics on the ethical attitudes of small business owners. This gap is surprising given the studies that have suggested it is the commitment to one's community that can influence the ethical behavior of a small business owner as opposed to a manager who works for a large organization. Likewise, studies have indicated that ethical attitudes in a transitional economy are more influenced by personal relationships than by laws. Those former studies also show that small business owners in transitional economies make a distinction among different kinds of unethical practices. For instance, bribes and kickbacks are more viewed differently than unethical business practices or tax evasion issues. The extent to which a business owner is unable to accept an unethical practice is often relative to the cultural milieu and norms that exists in a transitional economy.

H1a: An owner/manager of a family business in a transitional economy will be less accepting of unethical business practices.

H1b: An owner/manager of a family business in a transitional economy will be less accepting of unethical business practices relative to the perceived cultural norms.

Family business dynamics involve a balance between business goals and family goals, and while these two goals overlap they are not congruent. Among those dynamics are the extent to which there is conflict among family members concerning decisions that affect the firm, and whether or not the founder is still active in the firm.

H2a: An owner/manager of a family business with an active founder in a transitional economy will be less accepting of unethical business practices.

H2b: An owner/manager of a family business with an active founder in a transitional economy will be less accepting of unethical business practices relative to the perceived cultural norms.

H3a: An owner/manager of a family business that experiences conflict among family members in a transitional economy will be less accepting of unethical business practices.

H3b: An owner/manager of a family business that experiences conflict among family members in a transitional economy will be less accepting of unethical business practices relative to the perceived cultural norms.

METHODOLOGY

The purpose of this study is to understand the extent to which family businesses in a transitional economy will be less accepting of unethical business practices. In particular, the study uses the case of Kosovo to examine this issue.

In order to develop the research methodology, parts of previous surveys on family business dynamics and ethical business practices were used. In particular, the family business questions were an extension of a data base on family business across cultures and across generations (Sonfield and Lussier, 2004; Sonfield and Lussier, 2005). The questions on business ethics practices were adapted from previous work by Longenecker, et. al. (1989), in which unethical scenarios were described and the respondents indicated the extent to which they felt that the practice was unethical. Seven scenarios were described and in each case respondents indicated whether the practice was acceptable to them and whether it was acceptable in Kosovo. The 7 questions were subdivided into three broad unethical business practices: bribery, tax evasion, and unfair business practices. The questions were translated into Albanian, and back translation was used to ensure accuracy. Back translation is the recommended method of translating a questionnaire into a different language (Brislin, 1970). The sample of Kosovo businesses were collected using personal interviews in order to address any translation issues that arose. The businesses were selected based on personal relationships among the interviewers. Of the 147 businesses interviewed, 100 described themselves as family businesses.

RESULTS

The hypotheses were tested using correlation and in each case three ethical measures were used: bribery, tax evasion, and unfair business practices. The following table shows the correlations.

	Extent to which bribery was not acceptable	Extent to which tax evasion was not acceptable	Extent to which unfair business practices were not acceptable	Extent to which bribery was not acceptable relative to cultural norms	Extent to which tax evasion was not acceptable relative to cultural norms	Extent to which unfair business practices were not acceptable relative to cultural norms
Family Business	.052	.085	.066	.109	.249**	.136
Is the founder active?	.102	-.028	.045	-.059	-.116	-.044
Conflict among family members	.237*	.191	.244*	.255**	.183	.135

* = statistical significance > .05
** = statistical significance > .01

The results of the study indicate that family businesses were less accepting of unethical business practices, although the results were generally not significant except for tax evasion. Hypothesis 1 received little support, although family businesses are less accepting of tax evasion relative to the cultural norms of Kosovo. The presence of the founder yielded mixed results, although none of them were significant. It is interesting to note that there was a negative correlation between the presence of the founder and the rejection of tax evasion, although this was not significant. Hypothesis 2 was not supported. The presence of conflict among family members over management issues correlated positively with less acceptance of unethical business practices, and the results were significant in the case of bribery and unfair business practices. Hypothesis 3 was confirmed by the data, although some results were weak.

DISCUSSION

Economies in transition provide an interesting opportunity to observe ethical behavior, especially among small businesses and family owned businesses. An economy in transition generally doesn't have the mechanisms in place to ensure restraint among small businesses that are operating for the first time with the latitude and choices associated with free markets. Even when restraints are in place they are difficult to enforce, and so smaller businesses often have to establish relationships that allow them to operate profitably and within guidelines that are often best described as moral codes. These circumstances present an interesting opportunity to study the relationship between family businesses and ethical attitudes. On the one hand, it's plausible that a family business, driven by the need to establish healthy relationships with other elements in the economy, would operate with an elevated sense of morality in the marketplace. On the other hand, survivability may very well result in a family business becoming an ethical laggard when compared to a non-family business.

The results of this study are mixed. When examining the issue of tax evasion, family businesses were more inclined to find tax evasion an unacceptable business practice, however, the results were not statistically significant. However, compared to the perceived cultural norms, a family business is significantly less inclined to perceive tax evasion as ethically acceptable. It is possible that there is increased acceptance of the role and benefit of government in a transitional economy among family businesses, given the importance of doing business in an environment free of organized crime, which is a serious concern in a transitional economy, and perhaps a more serious concern for a family business. It is also possible that a non family business is more driven by harsh economic realities, and tax evasion may be seen as more of a game to be played as long as the business can avoid detection.

The role of the founder presents an interesting dynamic for analysis. Although the results were insignificant, the presence of a founder does yield a negative correlation on all three ethical constructs when compared to cultural norms. That is to say, although the respondents will view themselves in a more positive ethical light when compared to perceived cultural norms, the presence of a founder moves the business slightly closer to the perceived cultural norms. It can be presumed that a family business with a founder present may reflect ethical attitudes that were established during an earlier economic stage and under different economic circumstances. Thus, the tendency is to be an ethical follower instead of an ethical leader. This is just speculation, of course, and caution is in order since the results were not statistically significant.

Finally, the presence of conflict within the family over the management decisions that affect the firm does influence the ethical attitudes of the firm in two of the three ethical constructs. The family business with conflict is significantly more likely to perceive bribery as unacceptable both in absolute terms and relative to cultural norms. Since bribery represents a cost of doing business, then a prudent business must assess the cost/benefit ratio of such a practice, and given the conditions of uncertainty that surround such a practice, one can imagine that conflicts over business decisions may lead to an aversion toward risk in general and bribery in particular. The presence of conflict also is associated with decreased acceptance of unfair business practices. Once again, conflict may have a homogenizing affect on business decisions, and this may lead to an avoidance of riskier business strategies. Unfair business practices can be less effective in the long run, and conflict may require a more disciplined and systematic decision process that yields stable and cautious results.

Although the current study did result in some interesting findings, the relationships among the variables were weak even when they were statistically significant. The mixed results raise several questions that require additional study which would include other economies in transition, since the case of Kosovo is unique in terms of its development stage as well as its culture. Because transitional economies provide an interesting opportunity to study ethical attitudes, and because little has been done on the impact of family business dynamics on ethical attitudes in transitional economies, future studies are needed.

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