

ETHICS AND ENTREPRENEURS: AN INTERNATIONAL COMPARATIVE STUDY

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EXECUTIVE SUMMARY

Societies with higher levels of business ethics tend to be characterized by greater certainty of actions and lower costs of regulation and policing. In order to fully understand this concept, it is important to study ethical attitudes and standards of businesspeople in different countries. A deteriorated business ethics situation has impacted difficulties in doing business in some Central and Eastern European countries. Using social contract theory and stakeholder theory as the framework, the differences in ethical attitudes of entrepreneurs and managers were examined; surveys using the same measuring instrument were done in Slovenia, Russia, and the United States.

The findings confirm many hypotheses based on the literature, but there are some interesting differences between knowing what is right or wrong and the actual behavior resulting from reactions to the different scenarios. The social contract theory posits that countries with institutions of higher quality will have more efficient economic interaction. The comparison of some key societal institutions (law, educational system, government) and of the quality of economic interactions led to a hypothesis that the United States would rank the highest in ethical attitudes, followed by Slovenia, and then Russia. The hypothesis was confirmed, with Slovenian business people having a surprisingly high level of business ethics (sometimes even higher than American standards), and in some cases, Russian entrepreneurs exhibiting a rather discouraging low level of ethical attitudes.

A comparison between entrepreneurs and managers in Slovenia and the United States was based on the assumptions of stakeholder theory. Due to a different type and degree of financial risks assumed by entrepreneurs compared to managers, it is hypothesized that entrepreneurs are more sensitive to the ethical aspects of decision making. The hypothesis was not confirmed in Slovenia, where a large share of entrepreneurs originated from previous managerial positions.

The evidence supports the use of integrative theoretical approaches within the field of business ethics. The integrative social contract theory reveals the relevant cultural and economic norms that are predictive of the rank level of the ethical attitudes among

societies and at the same time points out more subtle impact of social institutions on ethical attitudes of different groups within a society.

INTRODUCTION

During the 1990's a discussion of negative aspects of corruption and some aspects of unethical business behavior has become a worldwide phenomenon. International organizations have discovered that some financial assistance has disappeared due to ethically questionable practices and behavior. These unethical practices have frustrated the donor countries since evidence has indicated that more ethical societies tend to be somewhat more economically efficient.

The increased costs of conducting business in countries with low ethical standards is evident to businesses involved in international markets. Yet, besides this anecdotal evidence, there is a lack of empirical verification based on comparative research. This study presents some findings from a survey conducted in three different countries, the USA, Russia, and Slovenia based on the theoretical expectations of social contract theory.

INTERNATIONAL PERSPECTIVE

Social contract theory is based on the concept of a social contract between the society and an artificial entity, in which the entity is deemed legitimate by serving the interests of society in certain specified ways (Hasnas, 1998). The origins of the theory can be traced to the political social contract theories of philosophers such as Thomas Hobbes, John Locke, and Jean-Jacques Rousseau. Locke (1632-1704) argued that “a citizen’s obligation to obey the law can be grounded only in that citizen’s personal consent to the authority of the law” (Simmons, 1992, p. 919). Contemporary adaptations of social contract theory maintain that a group of rational people will establish a mutually beneficial principle of justice as the foundation for regulating all rights, duties, power, and wealth (Rawls, 1971). Dunfee et al. (1999) suggested that three elements are common to most social contract theories: (1) consent of the individual, (2) agreement among the moral agents, and (3) a device or mechanism by which an agreement is obtained.

The normative social contract theory of business ethics builds on similar fundamental elements to derive social responsibilities of businesses. Donaldson (1982) suggested a comparison of a society without productive organizations to a society with productive organizations to understand the benefits, which form the basis of the social contract between a society and productive organizations. The social contract theory presumes “an implicit contract between the members of society and businesses in which the members of society grant businesses the right to exist in return for certain specified benefits” (Hasnas, 1998, p. 29). A central tenet of the theory is that the benefits should at least outweigh the detriments of the existence of productive organizations. The members of society benefit from businesses in two distinct ways: as consumers and as employees (Donaldson, 1982). The society will agree to the existence of businesses only if it gains by doing so and only if the businesses agree to remain within the bounds of the code of law (Hasnas, 1998).

Donaldson (1982) argued that ‘society’ is a vague term, and that “it might represent the aggregate of individuals who make up society, or something over and above the sum of those individuals” (p. 43). Donaldson resolved the issue by stipulating that the social contract is between productive organizations and individual members of society. On the other hand, Rousseau and Schalk’s (2000) notion of societies is as national level institutions. Members of society construct higher level institutions, such as law, government, educational systems, and others to formalize social activities. The institutions are shaped by local influences and are therefore different across nations. The differences in political, economic and social institutions are reflected in the social contract, which specifies (or quite often implies) the acceptable modes of behavior within a given nation.

Society utilizes various mechanisms to specify the terms of the social contract. Axelrod (1986) suggested a wide variety of mechanisms that are important in the generation of norms: law, internalization, dominance, deterrence, membership, social proof, and reputation. Among these, law plays a key role in legitimating the terms of social contracts (Rousseau & Schalk, 2000). While national legal systems introduce obligations regarding the behavior of social actors, societies differ greatly in the degree of freedom they support. Additionally, there is a discrepancy between the people’s belief and the reality of law, leaving vast gray areas in which other

mechanisms shape social interaction. A study by Forbes and Jones (1986) is a good example of misperceptions by the general public, where an overwhelming number of respondents in Nebraska believed that the termination of employees at will is not legal, although the state law supports it. An example of differing interpretations of law occurred when the city of Philadelphia sued a number of gun makers despite the existing state law that prohibits Pennsylvania cities from taking legal actions against gun companies. In this case, city officials claimed that they found a loophole in the state law (Reuters, April 11, 2000).

The operation of other norm support mechanisms depends on the nature of existing institutions in society. The collectivistic societies may have institutions that enhance the operation of mechanisms like membership, social proof and reputation, while the individualistic societies may be governed by dominance and internalization. These mechanisms, supported by various institutions, establish different standards of acceptable behavior across different societies. On the other hand, there are some universally accepted norms that have an equalizing effect on the standards of social behavior. Gouldner (1960) defined reciprocity as “a generalized moral norm, which defines certain actions and obligations as repayments of benefits received” (p. 171). The norm of reciprocity is just one example of the universally accepted norms, or hypernorms as defined by Donaldson and Dunfee (1999), that are becoming increasingly important in the process of globalization of business ethics.

The nature of ethical behavior in economic systems helps determine the quality and efficiency of economic interactions (Donaldson & Dunfee, 1999). For example, in the case of the mutual fund industry in Russia in 1990's, economic systems that do not have sufficient institutions to provide legal protection against fraud will have difficulty developing activities that require some level of trustworthiness. Economic systems with institutions of higher quality and efficiency will have higher-quality and more efficient economic interaction.

In this study, the differences among ethical attitudes in three countries: USA, Russia, and Slovenia are explored. In order to develop a framework concerning ethical attitudes, recent developments in some key institutions in society (legal codes, educational systems, and government and its stability) in these countries are examined

and their economic efficiency compared. Recent studies about ethics are also reviewed. The differences in legal codes, educational systems, and government stability in USA, Russia and Slovenia were examined. The US legal system is based on centuries old Anglo-Saxon legal principles and has not undergone any radical changes recently. In Russia and Slovenia, on the other hand, private companies were only allowed in the last decade and the legal systems in the area of business activity are still being developed. One important difference between these two countries is that Russian companies were owned by the state, whereas companies in Slovenia were owned by employees – a situation somewhat closer to the private ownership. Several UNESCO indicators of the educational system were examined. The enrolment rates for secondary education are high for all three countries in the observed period (US – 97%, Russia – 87%, Slovenia – 91%), and the only major change occurred in the Russian percentage, which decreased four percentage points. The enrolment ratio in third level (post secondary or college level) education is the highest in USA (81%), followed by Russia (43% - a decrease from 50% in 1991) and then Slovenia (36% - an increase from 28% in 1991). The data show some negative tendencies in the educational level obtained in Russia, and some positive trends in Slovenia. The third institution examined was the stability of the political system. The United States can be characterized as a stable and mature democracy. Slovenia is a young democratic country with the Council of Ministers nominated by the prime minister and elected by the National Assembly. It has seen some turmoil, especially through rather frequent changes of ministers in the government, reflecting the need to form a coalition government. Russia has struggled in its efforts to build a democratic political system, where reform efforts have resulted in contradictory and confusing political regulations and practices.

The comparison of economic efficiency was based on the indicators of economic development. The United States is the most developed of the three countries with GNP per capita of \$30,000, followed by Slovenia with \$10,000, and Russia \$2,300. The long term trends show similar picture. The average annual growth of GNP in the period 1991-1998 in the United States was 2.5%, in Slovenia 2%, and in Russia negative 6.5%.

Finally, recent articles about ethics in the United States, Slovenia and Russia were examined. The ethical discussion in the United States has quite a long tradition. Hisrich (1999) mentioned that the formation of America demonstrated a society reconciling both personal values and socio-economic responsibility. American attitudes on ethics reflect influences of three fundamental principles: Judeo-Christian heritage, belief in individualism, and opportunities based upon ability rather than social status (Puffer & McCarthy, 1995). Vogel (1992) described key differences of business ethics in the United States compared to other developed economies. In the United States ethics is focused more on the individual and is more legalistic and rule-oriented with economic behavior more regulated by law. In Slovenia, business ethics was never a priority in Slovene business curricula, and during the 1980's ethical dilemmas primarily attracted philosophers. Ivanjko (1996) identified the informal character of control mechanisms during the socialist period as the reason why researchers avoided this issue. During the transition period, ethical issues started to occupy a more prominent place in the public discussion. Glas (1997) cited several reasons for this including the destruction of the former moral and value system, the existence of poorly protected social ownership that opened an area for wild privatization, slow legal changes that provided for gray zones for circumventing rules, harsh economic recession, a decreasing standard of living, and a liberal, highly permissive environment. The academic discussion opened (Pleskovič, 1994, Ivanjko et al., 1996) but conceptual disputes predominated, with only some anecdotal evidence of the attitudes and ethical views of different social groups. Kovač (1997) analyzed a number of transition scandals indicating the low ethical standards of many managers and entrepreneurs and the inability of the juridical system to deal with these actions. For Russia, the continuing problems of low business ethics, the interplay of politics, business, and the mafia has become a paradigm for the period following Perestroika. Apressyan (1997) pointed out the main normative experiences affecting business ethics in Russia: a) the experience of pre-Revolutionary business, b) the experience of socialist economy, and c) the experience of legally and administratively constrained private business and illegal shadow business. Neimanis (1997) explored highly publicized unethical business practices in the former Soviet Union and looked at some more covert ethical problems, like non-fulfillment of contracts, the lack of manners, and pernicious envy that justifies any action taken against the successful.

Looking at the quality of institutions in the three surveyed countries (antecedents of ethical behavior) and at the quality of economic interactions (consequences of ethical behavior), it is expected that the United States would rank the highest in ethical attitudes, followed by Slovenia, and then Russia. This inference posits two questions. First, how large and consistent are the differences between these three countries. Second, do these differences really follow the same pattern for different aspects of ethical choices.

H1. Based on the quality level of institutions and efficiency of economic interactions, ethical attitudes will be the highest in U.S, followed by Slovenia, and then Russia.

ENTREPRENEURS AND MANAGERS

We also wanted to explore the differences in ethical attitudes between entrepreneurs and managers. The social contract theory provides only limited foundation to explain potential differences between these two groups of actors. Traditional social contract theory operates on a macro level, where it defines a hypothetical agreement among rational members of a community. To a large extent managers and entrepreneurs would have to perform under a very similar influence of social institutions. The main differences may originate from their differential relations towards other stakeholders in the business activity. Entrepreneurs form social contracts with employees and the general public, while managers have a contract with business owners and higher level managers in addition to all the contracts that define responsibilities of entrepreneurs. These potential differential relations among business stakeholders are better explained by stakeholder theory.

Donaldson and Dunfee (1999) developed an integrative social contract theory (ISCT), combining the macro and micro forms of social contract, where micro contracts represent the actual agreements within industries or associations. ISCT is complementary to stakeholder theory, or rather serves as the normative foundation for the stakeholder theory, because “relevant sociopolitical communities are a primary source of guidance concerning the stakeholder obligations of organizations formed or operating within their boundaries” (Donaldson & Dunfee, 1999, p. 248).

It is important to understand the defining characteristics of business managers and entrepreneurs. While entrepreneurs assume financial, psychic, and social risks, and receive the resulting rewards of monetary and personal satisfaction and independence (Hisrich and Peters, 1998), managers have the power to allocate the resources but are not taking the same risks. Specifically, financial risks assumed by managers are not of the same type and degree as the ones assumed by entrepreneurs. Entrepreneurs, more often than managers, obtain loans that are secured by their personal property and risk losing a large proportion of their personal wealth. Managers, on the other hand, usually only assume limited financial and other liability for the operations of the firm.

At the core of stakeholder theory is that a business usually interacts with five stakeholder groups: shareholders, customers, employees, suppliers, and the community at large. Hasnas (1998) identified two principles of stakeholder management: the principle of corporate legitimacy and the stakeholder fiduciary principle. The principle of corporate legitimacy states that the company should be managed for the benefit of its stakeholders. The stakeholder fiduciary principle states that management bears a fiduciary relationship to stakeholders and to the corporation as an abstract entity. It must act both in the interest of the stakeholders as their agent, and in the interest of the corporation to ensure the survival of the firm, safeguarding the long-term stakes of each group. The stakeholder fiduciary principle is similar to the main relationships of agency theory.

Hill and Jones (1992) developed the stakeholder-agency theory where managers can be seen as the agents of other stakeholders. They noted that stakeholders differ among themselves with respect to (a) the importance of their stake in the firm and (b) their power vis-à-vis the managers. In most large corporations, few, if any, of the stockholders own significant enough shares of the company to be able to directly exercise their ideas concerning the operations of the company. The managers are governed by the boards of directors, and indirectly by the stockholders who can always sell the stock of the company when not satisfied with its operations. This influence is inherently imperfect as boards of directors are often elected from candidates proposed by top management and stockholders will often hold their stocks even in cases of unethical managerial behavior as long as the stock meets certain investment criteria. Jackal (1988) made the argument that ethical views of managers

are affected by a complex interaction between the manager's personal value system and that of upper management (and other stakeholders that might execute some influence on manager's decisions), frequently resulting in manager's ethical decisions being influenced by considerations other than their personal value systems.

Entrepreneurs, on the other hand, usually do not face the issue of the separation of ownership and control. Often, entrepreneurs are the founders and majority (or at least significant) owners of their companies. Unethical behavior in their own company would present an internal contradiction. The ethics of entrepreneurs should rely more on their individual or personal views. As owners-managers entrepreneurs could employ their personal values to a much greater extent than managers within large businesses (Humphreys et al., 1993), since they are not constrained by the structure of bureaucratic corporate organizations.

Recent studies used different research approaches. Two studies focused on the distinction between small and large companies. Longenecker et al. (1989) used sixteen vignettes in a survey of 2,290 respondents. Statistically significant differences occurred on twelve vignettes, with small businessmen being less acceptant of faulty investment advice, favoritism, acquiescing in dangerous design flaws, misleading financial reports, misleading advertising, and defending the healthfulness of smoking cigarettes. Similar to earlier findings, small business respondents were more acceptant of situations involving financial benefits derived at the expense of others, discrimination against women, computer program copying, tax avoidance, and insider information. Dunfee et al. (1989) in a survey of 62 respondents in firms with up to 1,000 employees found managers of larger companies were more accessible for bribes and quicker to introduce formal inquiries on sexual harassment, while managers from smaller firms would use insider trading, punish whistle-blowers and refuse a job offer from a competitor while working on a key project for their current employer. Other studies have suggested that not only the size of the company but some other variables should be included in a detailed study of the ethical behavior, such as individual personalities of employees, specific features of the industry/activities, and the country-specific environment (Smith, 1994; Vehovec, 2000). Smith (1994) found that business owners are influenced significantly by the community in which their firms operate, with non-urban owners adhering to stricter

ethical values than their urban counterparts. Vehovec (2000) showed that business people in Croatia have clear ethical attitudes in the area of personal responsibilities, but these attitudes weaken in relation to an organization or an employer due to opportunistic behavior. Lower ethical standards in Croatia were explained by the slow development of informal institutions in this transitional economy.

The contradictory results of these studies merit additional investigation of this area. Since country-specific institutions may confound the results and blur the differences between entrepreneurs and managers, separate analyses for the United States and Slovenia were done. This analysis was not possible for the Russian sample, because it included only entrepreneurs. The following hypothesis was tested.

H2. A greater percentage of entrepreneurs than managers will exhibit business ethical attitudes.

METHODOLOGY

The survey instrument used needed to be the same and developed from a literature review, with the objective, as put in Hisrich (1999), to be capable of being replicated in different cultures and economic environments. After extensive tests of the initial pool of 56 questions and 44 business scenarios used in previous research, the resulting instrument contained four sections: 34 questions having a binary response; twelve scenarios having a multidimensional scale modeled after Reidenbach & Rodin (1990); seven scenarios using a seven-point Likert scale; and comprehensive demographic information.

In the United States, mailing lists were obtained from COSE (Council of Smaller Enterprises of the Cleveland Growth Association), EDI (Enterprise Development, Inc., an incubator also providing seminars for entrepreneurs), and the Executive Management Development Program of the Weatherhead School of Management at Case Western Reserve University, Cleveland. The response rate of the mail survey was as high as 24 %.

In Slovenia, the survey involved national coverage of the country. The business directories from the Chamber of Economy and the Chamber of Crafts were used (113.328 entries). A sample of 887 businesses was randomly selected from two subsamples; a separate subsample was of entrepreneurs and a different subsample of managers in medium and large companies. The 166 returned questionnaires, a response rate of 18,7 %, was good for research in Slovenia, considering the topic and the length of the questionnaire. The survey in Russia was taken in a number of larger cities in the country including Moscow.

FINDINGS

The findings will be discussed in terms of sample composition, and then the ethical codes and attitudes of entrepreneurs and managers. The discussion will focus primarily on two issues: (1) the differences in the ethical attitudes of entrepreneurs in different countries, (2) the differences in the ethical attitudes between entrepreneurs and managers.

A third issue, the stability of changes in the ethical attitudes over time could also be explored, since a survey using basically the same questionnaire was conducted in Slovenia during 1996. However, the size of the subsample - only 42 entrepreneurs and 99 managers - is problematic in making reasonable conclusions. An initial analysis revealed a remarkable stability of results, supporting the notion of doing a follow-up survey in two years.

Sample Composition

While sample size differs among the countries, they provide sufficient data for comparative analysis as a basis for appropriate conclusions. Although the sample in Slovenia is a little smaller, it is well balanced between entrepreneurs and managers and is in line with the previous results.

The male/female percentages in all three countries indicate lower percentage of women in each of the samples (see Table 1). This structure for Slovenia does not represent the actual share of women entrepreneurs - it is roughly 24 % for

incorporated businesses and even less for sole proprietors (Glas & Petrin, 1998). A similar situation occurred in Russia. The share of women entrepreneurs in the US sample is closer to the actual figures for the US; it might be a little smaller (Brush, 1997).

Table 1. Sample characteristics (in %)

Characteristic		Slovenia		USA		Russia
		entrepreneurs	managers	entrepreneurs	managers	entrepreneurs
SAMPLE	Respondents	84	82	165	128	159
SEX	Male	62	82	77	68	55
	Female	38	18	22	29	35
	No answer	-	-	1	3	10
AGE	- 30 years	14	2	7	23	35
	30 - 39 years	29	20	28	33	29
	40 - 49 years	42	48	37	31	25
	50 - 59 years	10	24	20	12	-
	60 and more	4	4	8	-	3
	No answer	2	2	1	2	9
EDUCATION	Less than second.	5	-	-	-	-
	Secondary	46	10	9	3	1
	College	26	18	27	4	40
	University	20	51	29	21	10
	MBA, Ph.D.	2	21	34	72	35
	No answer	-	-	1	-	14
COMPANY SIZE	Small ¹⁾	87	16	77	24	55
	Medium	13	53	19	15	28
	Large	-	32	2	60	7
	No answer	-	-	2	1	9
INCOME LEVEL	up to 20.000	99	86	7	3	77
	20.000-39.999	-	1	14	16	11
	40.000 and more	1	13	79	81	2
	No answer	-	-	-	-	10

¹⁾ The company size: for Slovenia - small up to 50 employees, medium 51-250 and large over 250 employees; for the United States and Russia - small up to 99 employees, medium 100-999, large over 1.000 employees

The age of the entrepreneurs is similar for Slovenia and the United States, while the Russian entrepreneurs are relatively young. This difference reflects the characteristics of the former economic systems. In Slovenia, the self-management system was quite liberal and at least crafts constituted a fairly strong private sector in previous times.

Crafts were almost half of the small businesses during the early 1990's. In Slovenia, establishing small private businesses was a possible career choice during the socialist period and there are many experienced entrepreneurs from that time. In Russia, the socialist system was in existence for a longer period of time with much less economic freedom. This helps explain that the new generation quickly grasps the option of establishing a private business. This also helps explain the high educational status of the Russian entrepreneurs.

The difference in the educational levels is worth mentioning, when comparing the entrepreneurs and managers on one side and the country differences between Slovenia and the United States. The Slovenian sample confirms the results of other surveys of entrepreneurs: the share of college and university education is 24 % for the self-employed that used the scheme of financial and advisory assistance for unemployed, and is as high as 58 % for entrepreneurs in the upper-end group of business owners (Glas, 1999). The higher share of entrepreneurs with secondary school was found in previous research in Slovenia. American entrepreneurs exceed even Slovene managers in terms of their education and share of college graduates.

In Slovenia, entrepreneurship is strongly related to small business. The majority of entrepreneurs have small businesses using the EU criterion of 50 employees as the upper limit. In the USA and Russia, entrepreneurs are defined as individuals creating a company and are more often managing larger enterprises. The size structure is related to the size of the domestic market and the largest (privatized) company in Slovenia is a clothing company with 5.500 employees.

While other demographic data was collected, care needs to be taken in interpreting the comparisons due to the significant difference in the level of development. Considering the income levels, the two groups differ significantly. In the USA, significantly more entrepreneurs (47 %) were in the upper income brackets, with a \$100.000 and over income level and only 25 % of the managers had this level. In Slovenia, managers had significantly higher incomes. In Russia, in spite of its poor average income, entrepreneurs were doing surprisingly well in terms of income.

Business-oriented characteristics of the entrepreneurs and managers also differed to a certain degree. In the USA, more entrepreneurs worked in consumer services, mining

and extraction, retail/wholesale trade and more managers were in banking, investment, and insurance. In Slovenia, entrepreneurs were largely in services (49 %), with only 25 % in manufacturing and 14 % in trade. 49 % of Slovenian managers were in manufacturing, 33 % in services and 10 % in trade.

Ethical Attitudes

The ethical codes and attitudes of the entrepreneurs and managers were explored from several perspectives. First, 19 questions explored what the respondents consider as ethical (right) or unethical (wrong). For different aspects of behavior they had only a binary response - the behavior is either right or wrong.

The questions were classified into groups according to the content and/or ethical principle that should be used to evaluate the decision. The questions mostly focused on the unauthorized use of company's resources, the relationship within the organization, and views about the environment (see Table 2).

On the misappropriation of resources, respondents condemned the use of company supplies (physical resources) for private use, while the evaluation of the misuse of services or time was less stringent; most critical of such behavior were Slovenians (entrepreneurs and managers equally), followed by Americans (managers being less sensitive). Russians expressed a significantly lower level of responsibility.

Overstating expenses was considered unethical, but Americans were more permissive of smaller amounts of overstatement; Russians, again, were least sensitive and did not consider this as unethical perhaps believing it was cheating the government.

On the issue of gifts and bribes, Americans indicated the highest level of refusal, while at least giving gifts was considered as unethical by less than 50 % of Russian entrepreneurs. While accepting gifts is considered highly unethical, giving gifts is more acceptable as a way of doing business in some societies.

Table 2. The share of respondents evaluating certain type of behavior as unethical, wrong behavior (in %)

<i>It is ethical for "someone" to</i>	Slovenia		USA		Russia
	entrepreneurs	managers	entrepreneurs	managers	entrepreneurs
USE OF RESOURCES					
remove company supplies for personal use	97.6	98.8	93.3	85.9	84.6
use company services for personal use	90.5	90.2	81.5	71.8	61.4
use company time for non-company benefits or for personal business	91.7	95.1	80.7	70.4	72.3
overstate expense accounts by more than 10 % of the correct amount	97.6	98.8	98.8	94.5	81.1
overstate expense accounts by less than 10 % of the correct amount	97.6	97.6	92.7	86.6	81.6
GIFTS AND BRIBES					
give gifts / favors in exchange for preferential treatment	81.0	75.0	84.8	88.3	49.7
accept gifts / favors in exchange for preferential treatment	88.1	88.9	92.7	89.0	67.5
EXTRA TIME USE					
take extra personal time (lunch hour, breaks, early departure)	91.7	92.6	80.0	56.8	69.8
take longer than necessary to do a job	72.8	75.0	90.8	77.8	76.7
BREAKING RULES / POLICIES / LAWS)					
authorize subordinates to violate company policy	96.4	98.8	95.1	85.7	65.8
fail to report a co-worker's violation of company policy	82.1	88.8	73.2	64.5	43.7
falsify internal time / quality / quantity reports	100.0	98.8	98.2	92.1	86.2
fail to report a co-worker's violation of law	83.3	84.0	87.0	79.8	66.9
INTERNAL RELATIONS					
pass blame for errors to an innocent co- worker	100.0	100.0	98.8	96.1	87.4
claim credit for a peer's work	96.4	98.8	98.2	96.1	86.8
OTHER ISSUES					
purchase shares upon hearing / seeing privileged company information	83.1	70.7	88.9	89.1	46.2
hire competitor's employees in order to learn competitor's trade secrets	91.6	82.7	73.9	63.2	44.3
divulge confidential information to parties external to the firm	100.0	98.8	95.8	91.3	89.9

Breaking internal rules, in terms of falsifying reports to appropriate some undeserved rewards, was considered unethical (not so much in Russia), while avoiding to report violations of law was strongly condemned by Americans. Slovenians did not differentiate between company policy and law. However, respondents from all three countries were not very eager to report violators; they might feel that this is the job of supervisors or inspectors.

Respondents were strongly against passing blame to innocent persons or claiming other people's efforts in all three countries. Even Russians had a surprisingly high percentage feeling this way.

However, in some business practices, the answers differed widely: insider trading was considered unethical by Americans (tradition of stock exchange operations) but highly acceptable for Russians. The lower level of feeling for Slovenian managers probably reflects the privatization scheme that turned most managers into a kind of "insider" through taking a minor share in the internal sale of company's shares. The survey in 1996 found for Slovenia almost the same result, respectively 92.5 : 73.2 percent. Respondents were generally against the disclosure of company secrets to outsiders. Slovenians were against hiring competitor's employees to obtain the competitor's trade secrets. Russians would have no problems in using this approach. Slovenian and American managers were more apt to use such a practice than entrepreneurs.

Ethics and Business Values

Entrepreneurs and managers were also asked about their concepts and beliefs in doing business with other companies and to evaluate the degree of government interference with business. These questions were again classified into groups of statements with responses categorized in Table 3.

While Americans generally believed in free enterprise, there were more entrepreneurs in Slovenia believing in this system. The difference was significant in 1996, when 90 % of entrepreneurs and only 64 % of managers liked this system. Russians were less enthusiastic as was expected.

Slovenian entrepreneurs felt the country had too many laws governing business as well as their personal lives. Significantly more entrepreneurs than managers felt this way as the latter group was better able to separate the company from their personal life. The same opinion was shared by Americans. Russians, surprisingly, in spite of complaints about the bureaucracy and the administrative barriers confronting businesses, do not blame the government for excessive legislation.

Slovenians believed in the usefulness of a code of ethics although it was not a traditional practice for Slovenian companies to have such codes. This is in line with the European tradition of being inclined to develop strict internal regulations rather than follow more general codes.

Considering the issue of whether personal ethics should be sacrificed to the goals of business, the hypothesized rank order of countries occurred for entrepreneurs. Americans were the most against this, followed by Slovenians and then Russians. However, a large number of American managers felt they had to follow this practice.

The mistrust of the ethical behavior of other businesses / businesspeople revealed a diverse picture. Americans felt most strongly that businesses cared for their customers. The belief in fair treatment by most businesses was strong in Slovenia and the US, but weak in Russia. However, there is a puzzling distinction - businesses should be trusted for their fair treatment, but not individual people. Americans trusted salespeople more than Slovenians and Russians, although in the United States entrepreneurs had more trust and in Slovenia managers did. The ranking of purchasing from door-to-door salespersons followed this same pattern (see Table 3).

Table 3. Affirmative responses of entrepreneurs and managers about ethics and business (in %)

	Slovenia		USA		Russia
	entrepreneurs	managers	entrepreneurs	managers	entrepreneurs
BUSINESS AND GOVERNMENT					
Free enterprise is the best form of an economic system	81.0	76.3	94.4	94.4	75.5
The government has too many laws regulating business	83.3	65.4	79.0	59.5	60.1
The government has too many laws governing my life	80.7	51.3	73.8	56.7	59.7
BUSINESS AND ETHICS					
Having a prescribed "code of ethics" assist in decision making	78.3	82.9	73.5	70.9	62.7
Personal ethics are sacrificed to the goals of business	60.7	40.2	52.1	70.6	64.6
DOING BUSINESS					
Most businesses truly do not care about individual customers/consumers	41.0	19.5	30.2	25.8	50.3
Most businesses generally try to deal with me in a fair way, and thus, I try to deal in a fair way with them	95.2	92.7	93.3	87.3	67.3
If you deal honestly with a person he /she will deal honestly with you	60.2	67.9	67.7	65.9	50.0
I never purchase anything from a door-to-door salesperson	48.8	53.8	39.3	55.1	68.6
Most salespeople cannot be trusted; they will say whatever is needed to make a sale	67.5	43.9	27.6	42.5	67.6
Executives of large corporations are typically more honest than the executives of small business enterprises	13.4	24.1	7.0	10.4	25.8
PEOPLE AND ETHICS					
Man is basically good	71.4	74.4	88.8	91.2	66.0
The average person is more ethical than myself	20.3	10.7	3.9	6.8	38.3
If something is illegal, then it is ethically wrong to do it	53.0	30.0	52.5	38.7	51.9

Trust is a very important issue in business particularly with the increased number of small businesses where the sheer number of business partners makes it difficult to trade without a basic trust. The belief in the goodness of people is far stronger among Americans and is probably one of psychological barriers in former Eastern European countries. Without the trust it is difficult to build entrepreneurial teams and obtain outside private equity capital; difficulties are hindering the growth of the economy. Respondents do not consider themselves as less ethical than the average person, but a kind of self-criticism is strongest in Russia. In Russia there is a feeling that doing business demands a relaxation of ethical attitudes. Russia is followed by Slovenians in this aspect, while American business people consider themselves as no different than others.

Ethics and Business Scenarios

The third section of the questionnaire contained twelve business scenarios, describing certain questionable actions of different businesses or businesspersons. The respondents had to evaluate these actions along the following four dimensions, using a five-point scale:

- *just or unjust* - regarding the existing laws, regulations, and ethical values,
- *fair or unfair* - using the fairness and honesty as a pure principle for judgment,
- *right or wrong* - regarding the prevailing ethical values from the point of view of the duty-based ethical principle,
- *good or bad* - using the utility-based approach, with the focus on the ultimate result for the company and other stakeholders.

This section was the most difficult for respondents particularly in understanding the differences between the four dimensions. Some respondents chose to answer the question on only one of the four dimensions; some simply allocated the same point-value on each of the four dimensions. Some respondents simply skipped this section of the questionnaire. However, the majority considered the “fair - unfair” dimension as a “pure”

ethical assessment, while the “good - bad” dimension was considered as a matter of practical consequences for the business. It is also possible that these four dimensions were not understood in the same way in all three countries due to differences in language and a different cultural meaning.

Only some of the scenarios having a valid response rate will be discussed. The first of these scenarios is: *The seller sells the more expensive product to the customer, although he knows that a cheaper one would better suit the needs of the particular customer.* Responses to this scenario are presented in Table 4.

As is indicated in Table 4, an average value was calculated for each subsample to obtain a ranking of their attitudes on the different dimensions. These are presented in Figure 1. Russians undoubtedly display the lowest level of ethical responsiveness on all four dimensions. However, the comparison of Slovenians and Americans reveals an interesting feature. The comparison of entrepreneurs with managers shows entrepreneurs as being ethically more sensitive than managers on all four dimensions in both countries. However, Slovenians were very critical on the dimension of “fairness” or “honesty”, but they fell below the American level on the “pragmatic” dimension of good/bad. Perhaps Slovenians know what is ethically right/wrong (fair or just) and they clearly condemn such behavior. However, when they make their business decisions, they bend under economic and profit pressures and accept less honest behavior for the sake of better financial results for the business.

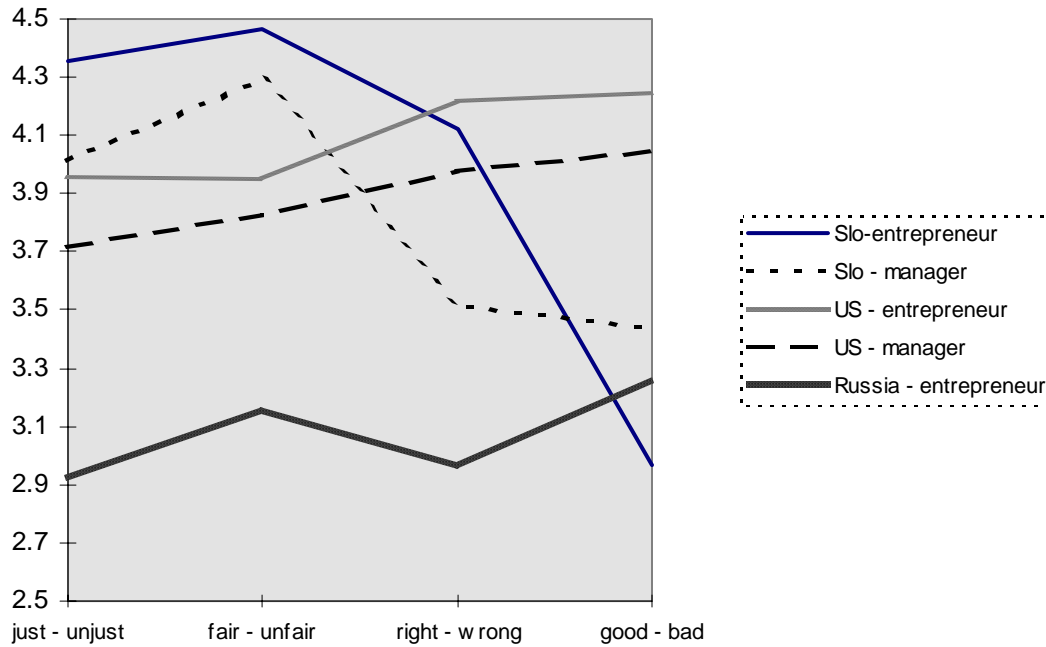
This may reflect the fact that the transition phase is still going on in Slovenia. In the current situation, it is still more profitable for businesses to exploit market opportunities and there still is a gap in the knowledge of customers about the true quality of products. The competition is still not strong enough to remedy this kind of behavior and minimize the gap in consumer information. The market does not punish sellers for not caring enough for the well-being of customers. In the United States, the hypercompetitive market and more adequate market information does not allow for this lack of customer focus.

Table 4. Answers to the scenario of selling an over expensive product (in %)

Dimension	Sample	Five-point assessment					Value
		1	2	3	4	5	
Just - unjust	Slo-entrepreneurs	2	4	7	32	55	4.36
	Slo-managers	3	8	26	12	52	4.02
	US-entrepreneurs	5	5	20	29	41	3.96
	US-managers	3	51	36	25	30	3.72
	Russia entrepreneurs -	18	15	22	18	26	2.92
Fair - unfair	Slo-entrepreneurs	-	3	8	29	60	4.47
	Slo-managers	1	3	21	15	60	4.29
	US-entrepreneurs	5	7	22	22	45	3.95
	US-managers	2	9	27	30	33	3.83
	Russia entrepreneurs -	19	16	22	17	26	3.16
Right - wrong	Slo-entrepreneurs	4	7	16	21	53	4.12
	Slo-managers	12	8	33	12	36	3.52
	US-entrepreneurs	3	2	18	27	51	4.22
	US-managers	2	7	26	25	41	3.98
	Russia entrepreneurs -	20	19	27	13	21	2.97
Good - bad	Slo-entrepreneurs	9	3	17	21	50	4.00
	Slo-managers	16	3	35	15	32	3.43
	US-entrepreneurs	3	3	17	23	55	4.24
	US-managers	2	2	24	33	39	4.05
	Russia entrepreneurs -	14	16	27	17	27	3.27

The same results occurred on many of the other scenarios such as: the internal bank auditor destroying the evidence on illegal loans; the car dealer taking a small bribe from the customer to arrange for a sizeable discount on the new car; a bicycle company paying a large fee to a foreign businessman for opening the foreign market; a company shifting a cleaning process producing a lot of dust to the night shift; a subcontractor selling truck axles falling short of prescribed quality standard; and falsified results of a marketing research presented to the company board.

Figure 1. The assessment of a scenario using four dimensions / criteria



The fourth section contained seven vignettes - short scenarios asking the respondents the likelihood of adopting an unethical behavior in a particular circumstance. Overall when considering the likely behavior facing real-life scenarios, Americans displayed the highest level of business ethics, while Slovenians lagged behind, followed by the Russians. The exact differences did vary among the vignettes.

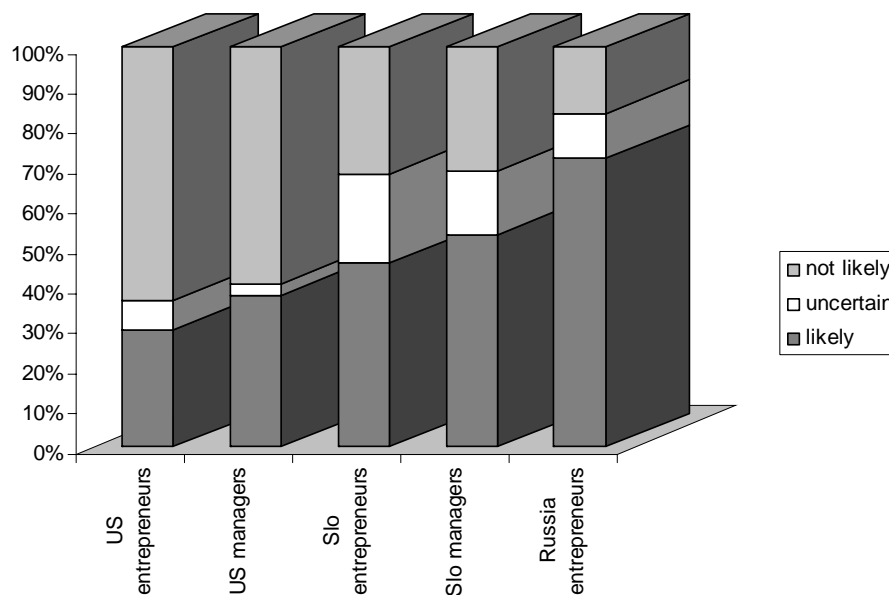
One of the vignettes used in the questionnaire is commonly used in research on business ethics: *You could conclude a large order providing you promise the delivery in two weeks. However, it is beyond your current capability and one week delay is necessary, which will not really damage your customer. How likely it is, that you will give the (unrealistic) promise to get the order?*

Ethical behavior would be honesty in dealing with customers and dealing in good faith in negotiations. Therefore, an ethical response would be admitting the need for an additional week for delivery in obtaining the order. In doing this, while running the risk of losing the order and maybe the customer, you might be able to persuade the customer that this

further delay in shipments will not be exceeded and indicate that you can be counted on in terms of honesty and reliability.

In Figure 2 the 7-point Likert scale (from “highly likely” to “highly unlikely”) was reduced to just three-point scale to make the comparison easier. Some interesting things are revealed: the country ranking follows the previous pattern (USA - Slovenia – Russia); Slovenia and Russia have a much larger share of uncertainty as an option; and entrepreneurs are less likely to lie to the client in order to secure the order. Perhaps entrepreneurs feel more comfortable in trying to persuade the client to agree on the different delivery schedule.

Figure 2. The structure of answers of respondents from three countries (%)

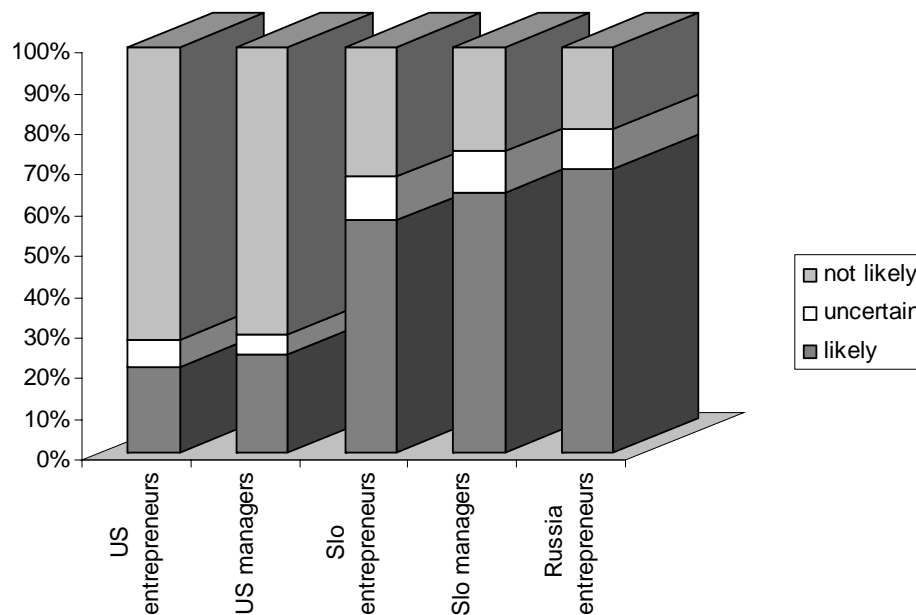


While this vignette clearly differentiates between Slovenians and Russians, some other vignettes displayed even larger differences between Slovenians and Americans, with Russians being closer to Slovenian respondents. This is illustrated in the following vignette: *You are having the coffee with a customer to discuss your proposal for a large project. The customer is enthusiastic about your quality but your price is still an unsettled question. He has two competing offers on the table. He leaves the table for*

some time, so you could check the competing offers left on the table. How likely it is for you to look into the documentation?

The results are indicated in Figure 3. Since the customer should be aware of your temptations, leaving the offers on the table might be understood as the customer suggesting to check the offers to propose a right price for the project. Most Americans would not use the opportunity to look at this information, while the majority of Slovenians and Russians would, considering it was deliberately offered by the customer. This vignette is similar to the real approach in public tenders in transition countries where some proposals have serious problems regarding the secrecy of the details in the offers of different competitors.

Figure 3. The likelihood to check the competing orders for your respondents (%)



CONCLUSIONS

This research provides a unique comparison of the ethical attitudes of entrepreneurs and managers from three highly different countries. Despite some problems on the use of a US based instrument in different cultural and economic environments, it provides unique international comparisons.

Slovenian entrepreneurs and managers revealed a surprisingly high level of business ethics in the sense of “knowing what is right / wrong”, while the ethical attitudes of Russian entrepreneurs had in some cases a rather discouraging low level, particularly on gifts / bribes, insider trading, ignorance of violations of company policy or law. American entrepreneurs and managers revealed a high level of ethical attitudes, but there is a sense of pragmatism particularly in some cases such as insider trading, and gifts / bribes. These cases are reminiscent of some well-known affairs of the past (Lockheed, Milken) and the awareness of the impropriety of such behavior is still very strong (i.e. the Foreign Corrupt Practices Act). There were only few cases where entrepreneurs and managers differed significantly in their ethical attitudes. This was especially true in Slovenia, where a large share of entrepreneurs originated from previous managerial positions. In some cases in the US, where the difference is statistically significant, almost as a rule, managers were less sensitive to the ethical aspect of decision-making.

The scenario part of the survey illustrated the relationship between business and some ethical views. While there is no single right answer for this relationship for different aspects, the level of trust in fair and honest business is by far higher in the United States, as is their response concerning the goodness in people and the strong belief in the free enterprise system. Slovenians, and Russians in particular, have a long way to go in building a truly competitive business environment that would also deserve trust from businesspeople. These scenarios mostly evaluated what respondents consider as right / wrong and their perception of the market economy and the role of businesses, managers and salespeople as important stakeholders in the business activities. The question that remains is if and how these ethical attitudes would transfer into the everyday business practice. Would the respondents stick with these attitudes or would they adapt to economic pressures?

The findings followed a pattern which was anticipated from the general knowledge about the countries surveyed. Americans were assumed to be the most ethical businesspeople due to a longer tradition of a competitive market economy, where unethical behavior

would result in dissatisfied customers and criticism. Slovenians do not face the same type of competition, but due to a more liberal system in the past, they are already somewhat accustomed to the ethical values of a market economy. However, in reality, at least in the short-run, they are still inclined to use short-cuts, and capitalize on the limited information of customers and the lack of competition. Russians displayed the highest level of disregard for ethics reflecting the lack of tradition of market economics and the harsh reality of the country's economic situation where survival might become priority over the ethics.

One of the most interesting findings is the significant dichotomy in Slovenians from people being well aware of what is right/wrong (even higher than American standards) to being less ethical in practice where the everyday economic pressures seem to dominate ethical attitudes and practices. Ethics appears to be something to know and to be used in an ideal world with a strong distinction existing between knowing and doing as is indicated in the few significant differences found in comparing the entrepreneurs and managers.

A comparison of ethical attitudes between entrepreneurs and managers in the three countries is a good example of the relevance of the integrative theoretical approaches within the field of business ethics. The distinction between entrepreneurs and managers is made on a micro level, where attitudes of each group are explored in relation to other organizational stakeholders. However, the international comparison is made on a macro level and requires introduction of various country specific characteristics. Many relations that are a constant within a certain nation, become a variable for international comparisons. Rousseau and House (1994) argued that micro and macro distinction is an oversimplification. Integration of micro and macro theory, or a meso approach, offers numerous benefits such as richer and more diverse interpretation of the meaning and functioning of organizations, deeper understanding of the assumptions of researchers, and investigation of fundamental building blocks of organizations.

The study shows support for integrative social contract theory (ISCT) of business ethics. ISCT is particularly important for global business ethics (Donaldson & Dunfee, 1994), because it can help identify authentic ethical norms for different international communities by revealing the relevant existing cultural and economic norms. The hypothesized ranking of countries regarding the ethical attitudes of business people was confirmed. The level of development and stability of social institutions was predictive of the level of ethical attitudes in a society. However, a comparison between entrepreneurs and managers in the United States and Slovenia pointed out a more subtle impact of the institution of private ownership on ethical attitudes of business people. While in the United States there are some interesting differences in ethical attitudes between the two groups, we found no such differences in Slovenia. Although the ownership of property is recognized as one of the hypernorms (Donaldson & Dunfee, 1994), there are apparent cultural and historical influences on the functioning of this hypernorm.

The study also has practical implications. It suggests that countries can, at least in the long term, influence the ethical nature of business behavior by developing formal and informal institutions that are conducive to high ethical standards. In future research, additional countries should be examined and the cultural differences in understanding and implementing ethical concepts should be studied in more detail to fully appreciate the diversity of results.

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