

SMALL BUSINESS BRIEF

ETHICAL PERSPECTIVES IN HOME-BASED BUSINESS

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ABSTRACT

This paper reports the findings of an inaugural investigation into the ethical outlook of home-based business operators in Australia. Although generally overlooked in academic research, home-based businesses are internationally recognizable and economically significant. Their operators exercise a high level of control over the values that they enact. The study suggests that ethical considerations are important to Australian home-based business operators. While no one ethical perspective was dominant, non-religious beliefs and principles were found to be the most important determinant of their ethical values. Some variation was discovered in operators' attitudes based on their age, sex, and whether or not they were employers.

INTRODUCTION

The importance of ethical behavior in business operation has been emphasized in recent work (De George, 1999). But while there has been a growth in the study of ethical issues in the general business environment, there has been relatively little attention paid to these questions in the small business sector (Quinn, 1997; Spence, 1999). An extensive literature search identified only a small number of studies that addressed ethical issues in small business, and no investigations into ethical considerations in home-based business. It was considered important to initiate the study of ethics in this area because home-based business constitutes a significant part of the small business sector. It is economically significant, strongly entrepreneurial, and its operators exercise a high level of control over the values that their businesses enact.

Home-based businesses may be defined as businesses conducted from or at home, whether as main or second jobs (Peacock, 1999; Foster & Orser 1993). This definition is similar to that used by the Australian Bureau of Statistics since 1997, and includes both people who work only a limited number of hours and moonlighters working a second job. These two latter categories of business operator had been excluded from previous official small business

surveys (Australian Bureau of Statistics 1998). Employment size is not a factor in defining home-based business – for example, a secretarial service or a master plumber could work from a home base and employ any number of employees or subcontractors in turn.

Home-based businesses are an important though generally overlooked part of the economy. They exist in approximately 12 percent of Australian households, a figure comparable to the US and Canada (Peacock, 1999), and comprise 58 percent of all Australian non-agricultural small businesses (Australian Bureau of Statistics, 1998). Overall, small business produces approximately one third of gross domestic product and accounts for just over half of total private sector non-agricultural employment in Australia (Department of Employment, Workplace Relations and Small Business, 1999).

While home-based businesses represent a diverse range of activity, the property, financial and business services areas predominate (40%), followed by construction (15%), wholesale and retail trade (15%), and manufacturing (13%) (Australian Bureau of Statistics, 1998). They are highly entrepreneurial and often function as incubators for new businesses which may or may not expand from a home base into commercial premises (Peacock 1999). Further, home-based business operators exercise a high level of personal control over the operation of their businesses. As Vyakarnam et al. (1997) observed with respect to small business generally, personal ethics and business ethics are likely to be closely aligned in this situation.

The business ethics literature identifies four dominant ethical perspectives - idealist, utilitarian, deontological, and virtue ethics. Idealism involves following a set of religious or spiritual beliefs, utilitarianism is concerned to obtain the greatest good for the greatest number of people from any action, deontology concerns the following of rules, and virtue ethics is concerned with the development of one's innate potential and character (De George, 1999). Quinn (1997) has argued that the most influential factor determining an actor's behavior when faced with an ethically sensitive business issue will be their personal ethics. In order to understand why an individual resolves an issue in a particular way, however, one must determine the predominant ethical perspective that guides his or her thought.

The objective of the present study was to examine the relative importance of different ethical values in running a business, and to explore home-based business owners' views about key small business issues from an ethical standpoint. Although a recent national inquiry by the Micro Business Consultative Group (MBCG) addresses perceptions of fair trading by Australian small businesses (MBCG, 1998), wider ethical questions were not examined. This study represents an initial exploration of the ethical outlook of home-based business operators.

METHODOLOGY

The study involved a survey conducted with the active support of a micro and home based business networking organization. A total of 500 questionnaires were distributed to Victorian business operators via this database. A reply-paid envelope was included, and the project was given editorial support in the organization's newsletter.

A total of 103 useable surveys were returned. Of these responses, one was rejected as the person was not currently operating a business, and a further 21 were excluded as they indicated that their business was not home-based. This occurred because the range of businesses on the network mailing list was wider than strictly home-based business. A final sample of 81 responses resulted, a response rate of 16.2 percent.

The survey instrument was based upon previous work in business ethics research, in particular the work of Baumhart (1961), Grünbaum (1997), and Quinn (1997), and focused on owner

attitudes, not organizational mechanisms. As Spence (1999) has observed, institutionalized control mechanisms are uncommon in small firms and so are not likely to provide a useful indicator of ethical values in this sector. The study therefore sought to explore the underlying values of home-based business operators as the best starting point for further work on how attitudes might affect behavior. Previous work has not examined the area of underpinning values, but has mostly considered the responses of small business owners to sets of scenarios (e.g. Longnecker, McKinney, & Moore 1989, 1995, 1998; Humphreys et al., 1993; Hornsby et al., 1994), or has focused more on social responsibility (Wilson, 1980; Brown & King, 1982).

The questionnaire comprised two sets of questions. The first aimed to determine whether there is any recognizably dominant set of values that apply within the Australian home-based business sector. It asked respondents to indicate the importance of nine factors in influencing the way they ran their business using a five-point scale where 1 represented unimportant and 5 represented highly important. The items were developed from work by Grünbaum (1997), and reflect the principal streams of thought in the business ethics literature.¹ As Humphreys et al. (1993) observed, it is one thing to know the degree to which small business owners believe that an action is ethical, and another to understand why they hold these beliefs. These questions represent an attempt to capture the rationale behind the beliefs of a particular segment of Australian business people.

The second set of questions sought to ascertain home-based business operators' views on a range of issues that have an ethical focus and that have been identified as significant in the small business and ethics literature. It asked respondents to rate six statements using a Likert scale from 1 (strongly disagree) to 5 (strongly agree), where 3 was neutral. The phrasing of some of the questions was modified after pilot testing. The questionnaire concluded with the collection of demographic data that would enable the sample to be compared with national data. This comparison was regarded as essential to the validation of the study. As Orser (1991) cautioned, any relatively small sample risks exaggerating the profile of one or other characteristics of home-based firms. It was therefore necessary to determine the extent to which our sample could be regarded as typical of Australian home-based business operators, or in what respects it was atypical. The comparison between the demographic characteristics of the sample and national Australian small business data is shown in Table 1.

There has been relatively little data published on home-based business in Australia, and the national picture has been developed from a combination of sources. The majority of the data is from the Australian Bureau of Statistics *Small Business in Australia* (ABS 1998). Small business statistics provide a reasonable approximation to home-based business because home-based businesses comprise almost 58 percent of all private non-agricultural small business and the general characteristics of Australian small businesses are nationally consistent (Australian Bureau of Statistics 1998). The sex of home-based business operators was obtained from data published by the Australian Bureau of Statistics and Office of the Status of Women (1997), and data as to length of business ownership was obtained from an analysis by Peacock (1999).

The sample approximated national average small business statistics in respect of sex, age, and whether or not the business had employees. It was atypical in respect of education, business ownership, and length of business operation. In summary, it consisted primarily of home-based business operators over 30 years of age (93%), who held a degree or diploma (65%), and who had been in business for less than five years (67%). There were 39 male and 41 female respondents, plus one respondent who did not indicate his or her sex. More respondents were involved in a business that comprised only the owner/s (56%) than in a

¹ Three of the survey items are indicative of idealism, two reflect a deontological orientation, two are utilitarian, and two are virtue-based. For the items see Table 2.

business which employed staff (44%). The principal activity of half of the sample (51%) was providing services to other businesses.

Table 1: Comparative Demographic Data

Demographic	National Data	Sample
Sex		
Male	53%	49%
Female	47%	51%
Age		
Under 30	11%	7%
30 – 50	64%	62%
Over 50	25%	31%
Employing or not		
Employing	36%	44%
Non-Employing	64%	56%
Education Level		
Year 11 or less	4%	6%
Year 12	33%	14%
Vocational Certificate	38%	13%
Degree/Diploma	23%	67%
Ownership		
Sole	41%	64%
Co-owner	59%	36%
Length of Operation		
Less than 1 year	15%	14%
1 – 5 years	35%	53%
5 – 10 years	25%	19%
More than 10 years	25%	15%

RESULTS

The presence of dominant ethical factors was determined by comparing means of the items that are representative of the different ethical perspectives. This comparison is illustrated in Table 2.

The survey item that captured personal non-religious or spiritual beliefs and principles, which is reflective of idealism, appeared as the most dominant factor, having the highest mean ($M = 4.67$). Three quarters of the respondents gave this item the maximum rating of five. The second and third highest rated factors were the consequences of the respondents' actions for his or her own business ($M = 4.63$), and the consequences of his or her business actions for others ($M = 4.50$). Together these constitute the utilitarian perspective. The least dominant factor was respondents' religious or spiritual beliefs ($M = 2.88$), which is also reflective of idealism. One third of the respondents deemed this to be quite unimportant to the running of their businesses, rating it with a 1 on the five-point scale.

Table 2: Items that Constitute Principal Ethical Perspectives, Arranged by Mean Score.

Survey Item No.	How <i>important</i> are each of the following in influencing the way you run your business?	Ethical perspective	Score
2	My other [= non-religious or spiritual] personal beliefs and principles about how to act	Idealist	4.67
6	The consequences of my actions for my own business	Utilitarian	4.63
5	The consequences of my business actions for others	Utilitarian	4.50
3	The law, which sets out what is right and wrong	Deontological	4.30
7	The personal values of a potential employee	Virtue	4.19
9	My general ideas about human rights	Idealist	4.09
4	Other rules and regulations	Deontological	3.96
8	The personal values of my customers and clients	Virtue	3.79
1	My religious or spiritual beliefs	Idealist	2.88

A series of t-tests were conducted in order to investigate whether there were any differences in ethical outlook based upon demographic variables. The findings are presented in Table 3.

Table 3: Ethical Influence Mean Scores by Gender

Ethical Influences	N	Mean - Females	Mean - Males	Sig.
My religious or spiritual beliefs	81	2.88	2.85	.926
My other personal beliefs and principles about how to act	81	4.85	4.49	.014
The law which sets out what is right and wrong	81	4.37	4.28	.646
Other rules and regulations	81	4.10	3.82	.180
The consequences of how my business actions affect others	81	4.76	4.26	.003
The consequences of how my actions affect my own business	80	4.78	4.49	.021
The personal values of a potential employee	79	4.38	4.05	.163
The personal values of my customers or clients	81	3.76	3.87	.635
My general ideas about human rights	80	4.35	3.82	.028

The t-tests indicated that most of the significant differences in ethical values were sex-based. There were significant differences between males and females in respect of their non-religious personal beliefs and principles about how to act [$t(78) = -2.524, p < .05$], the consequences of their business actions for others [$t(78) = -3.081, p < .01$], the consequences of their actions for their own business [$t(77) = -2.338, p < .05$], and their general ideas about human rights [$t(77) = -2.242, p < .05$]. Females had a higher mean than males in respect of these four differences. There was also a significant difference between employing and non-employed businesses in respect of their general ideas about human rights [$t(76) = -2.232, p < .05$], with employing businesses scoring a higher mean.

The second set of questions reflected issues that were identified as important to small business operators in the small business and business ethics literature. The frequencies and means for these items are shown in Table 4.

Table 4: Frequencies of Response to Home-Based Business Ethical Issues.

<i>How do you rate each of the following statements?</i>	<i>Strongly Disagree</i>	<i>Disagree</i>	<i>Neutral</i>	<i>Agree</i>	<i>Strongly Agree</i>
When a business acts according to the law it cannot act wrong morally	31%	41%	16%	9%	3%
Large businesses are mostly fair in their dealings with small businesses	18	39	37	6	-
Ethical behavior is more important to small than to large businesses	21	16	23	25	15
Business decisions are usually separate from personal moral decisions	21	44	21	14	-
In business, one cannot afford much deliberation on moral issues	38	41	14	6	1
People in business either have integrity or they don't	11	12	18	31	28

The only item with which more than half the number of respondents either agreed or strongly agreed was the statement that 'people in business either have integrity or they don't'. No respondent strongly agreed with the proposition that 'business decisions are usually separate from personal moral decisions', and over three quarters of the respondents disagreed or strongly disagreed with the proposition that 'in business, one cannot afford much deliberation on moral issues'.

A series of t-tests were conducted to ascertain whether there were any significant differences in the responses to these six items based on demographic variables. These revealed a significant difference [$t(74) = -2.145, p < .05$] in respect of the statement that 'large businesses are mostly fair in their dealings with small businesses', based upon the number of employees. Single operator businesses with no employees had a higher mean ($M = 2.53$) than businesses involving more than one person ($M = 2.12$).

T-tests also identified a significant difference based on age in response to one of the six propositions. There was a difference regarding the statement 'when a business acts according to the law, it cannot act wrong morally' [$t(78) = -3.969, p < .01$], with those over fifty years of age having the highest mean ($M = 2.72$). In comparison to this, respondents under 50 years had a mean score of 1.82.

DISCUSSION

Overall, there is support for the belief that home-based business operators are ethical in the way they conduct their businesses, as they rated items that were representative of all four principal ethical perspectives as being important to them. Although there was no single dominant perspective, the item 'personal (non-religious) beliefs and principles about how to act', an indicator of the idealistic perspective, was rated highest. Interestingly, the item 'religious or spiritual beliefs', which is also partly constitutive of the idealistic perspective, was rated as the least important influence on the way operators ran their businesses.

This finding is in marked contrast to empirical American small business research, which has suggested that religious belief is an important factor in the construction of business values

(Longnecker et al., 1998; Barnett et al. 1996). It also contrasts with the findings of Quinn (1997), who suggested on the basis of his empirical British research that only members of religious groups had explicit ethical concerns with their business.

It was to be expected that a primary concern of home-based business operators would be with the consequences of their actions for their own business, and indeed the items that reflect a utilitarian outlook were ranked highly. It is noteworthy, however, that the current sample rated the influence of an idealistic perspective even higher. This response casts doubt on a prominent view which suggests that people are driven primarily by utilitarian considerations (Slote 1995). While self-interest is obviously a factor in establishing a business or in choosing any other line of work, it does not appear to dominate to the exclusion of other considerations.

Females recorded a significantly higher score than males on four items (non-religious beliefs and principles about how to act, general ideas about human rights, the consequences of their actions for their own business, and the consequences of their business actions for others). The question of the extent to which the sex of subjects may indicate predictable differences in ethical attitudes has been explored inconclusively by others. As has been observed, numerous studies have produced conflicting results on this issue (Serwinek 1992), and further work would be required to determine whether there is a consistent difference between male and female business operators in respect of the values examined in this study. None of the four ethical perspectives was dominant by sex.

The belief that when a business acts according to the law it cannot act wrong morally was more strongly rejected by respondents less than fifty years of age. It is possible that the greater life experience of older persons has led them to an awareness of the consequences of actions (and perhaps also of failure to act) of which younger persons are less aware.

Quinn (1997: 121) suggested that 'for the owner/manager of a small business the need to ... look for approval of referent others may well not exist or be less important'. The present study asked whether the respondent was a sole or co-owner/director in order to determine whether there were any measurable differences in ethical outlook based upon the locus of decision-making power. Sole ownership or directorship would imply sole responsibility for the policies and practices of the business, while co-ownership might suggest that policies and practices have to be negotiated with one or more others. T-tests revealed one significant difference in responses between businesses with a sole owner and those that were co-owned, in respect of general ideas about human rights. Businesses with a sole owner had a lower mean ($M = 3.84$) than those that were co-owned ($M = 4.37$). The simple fact of having other people involved in the business may reinforce the necessity of wider concern about others.

Within the second set of questions, the survey asked about perceptions of fair trading due to indications of concern about the treatment of small businesses by large companies expressed in a government-sponsored inquiry conducted by the Micro Business Consultative Group (1998). According to its report, many small businesses were concerned about unconscionable conduct, in which disparities of power between businesses of different sizes might lead to significant harsh and unjust conditions being imposed by large businesses upon small ones. This view was reflected in the present findings: only six percent of the sample agreed with the proposition that large businesses are mostly fair in their dealings with small businesses. This is especially noteworthy given that the principal activity of half the respondents was providing services to other businesses.

In an American study that considered ethics and fair trading, Arbuthnot (1997) observed that small retail buyers often lack leverage both because they buy in small quantities and because the buyer – who is often also the owner – has to deal with a diverse range of product vendors.

He found, however, that while many buyers had experienced problems that would be classified as ethical problems on any of several commonly accepted systems of value, only about 25 percent regarded these problems as ethically troublesome. Further work would be needed in order to determine whether Australian business operators consider fair trading issues to be an ethical as opposed to a legal or general business problem.

CONCLUSION

This study has attempted to ascertain the underpinning or motivating values of Australian home-based business operators. It aimed to examine the relative importance of different ethical perspectives in running a business, and to explore operators' views about business issues from an ethical standpoint. The findings show that there is no single dominant ethical perspective. Non-religious personal beliefs and principles were found to be the predominant influence on operators' business ethics, followed by the consequence of operators' actions both for themselves and for other people. This suggests that while self-interest is a factor in establishing a business, it does not dominate to the exclusion of other considerations.

Eight of the nine factors associated with the principal ethical perspectives addressed by this study were rated highly by respondents. The one exception was religious and spiritual beliefs, a finding that contrasts sharply with American and British small business research and invites further investigation as to the extent and influence of this apparent cultural difference. The study indicates that home-based business operators consider ethical considerations to be important to the conduct of their businesses, and provides reason for confidence in the integrity of Australian home-based business. Such a finding is important and should be promoted by home-based businesses. It is a potential competitive advantage for such businesses to market to their customers. The fact that these businesses see ethics as important is a positive message and adds value to the services offered. Educators and advisors need to counsel small businesses to identify such competitive advantages and acknowledge them wherever possible. In an environment of increasing competition, it is important to differentiate one business from another and a reference to business integrity can provide such a point of difference.

Two limitations of the present study were that the sample was relatively small and that the survey was able to contact only operators who had listed themselves on a networking database. Comparison of the demographics of the sample with national data showed that it approximated national small business operator characteristics in respect to the sex, age, and employing or non-employing categories, although it was atypical in respect to education, ownership, and length of operation. These differences are explicable in that the database came from an organization that is likely to attract people with a higher level of education who can see the advantages of networking, and sole operators and new businesses that need to network. A more extensive study would be desirable in order to validate the results within the Australian home-based business context. Ideally this would be accompanied by personal or focused group interviews to permit a deeper understanding of the elements that comprise the ethical outlook of home-based business operators, and of how these are translated into practice.

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