

Chapter 15

Decision Making in SMEs: Insights from Business Ethics and Entrepreneurship

Gizem Öksüzöğlü-Güven

University of Mediterranean Karpasia, Northern Cyprus

ABSTRACT

This chapter explores theories and concepts of ethical decision making in SMEs and how individuality of entrepreneurs affects their organisations. In order to investigate the entrepreneurial ethical decision-making process, the chapter crossbreeds the concepts of greed and power, cognitive moral development, ethical ideologies, and individual psychological characteristics as determinant of ethical decision making. Through discussion of relevant models, the chapter presents arguments on determinants of individual ethical decision making as well as external factors that influence the decision-making process. In doing so, it aims to provide a distinctive perspective on understanding decision making in SMEs through forming a bridge between individual moral psychology and entrepreneurial decision making. This understanding enables us to have an alternative reasoning when examining employment-related issues.

INTRODUCTION

Especially in micro and small sized enterprises, the individuality of the entrepreneur is highly influential both for daily operations and for the long term strategic decisions made for the company. This also includes human resources practices and related decisions; as in majority of micro or small sized enterprises, it is the owner who is the final decision maker in all relevant departments. Employee related decisions may have ethical implications within the areas of discrimination; downsizing or termination; health and safety, promotions and motivation.

This is because management and ownership cannot be detached from each other and the entrepreneur's preferences on self interest impacts on the company for better or worse (Spence & Rutherford, 2003; Smith & Oakley, 1994). When at least 90% of all private enterprises in most of the countries are SMEs and they are the primary source of employment, it is crucial to understand the decision mechanism of entrepreneurs who run these companies (Tanova, 2003; Beardwell et al., 2003). This chapter explores theories and concepts of ethical decision making in SMEs and how individuality of entrepreneurs affects their organisations.

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It crossbreeds the concepts of greed and power (Fassin, 2005; Gallo, 1998); cognitive moral development (Kohlberg, 1968; Gilligan, 1982); ethical ideologies (Forsyth, 1980; Rest, 1986) and entrepreneurs' psychological characteristics (Shane, 2003; Trevino, 1986) in order to build a bridge between individual moral psychology and on entrepreneurial decision making. Nevertheless, although individual ethical values correlate with the decision-making processes; enough research has been done to show that external factors play a very crucial role in that process as well (Allmon et al., 2000). Therefore, the chapter also critically discusses organisational factors and entrepreneurial environment (Hegarty & Sims, 1978; Wu, 2002; Longenecker et al., 2006; Stead et al., 1990) and how these can influence an individual decision making process of an entrepreneur.

However, when examining external factors, the claim is that the influence of the very same external factors changes from one entrepreneur to another since every individual's social constructs, experiences and expectations are different. This is why, the main ideas that are put forward in this chapter revolve around the moral individuality of entrepreneurs and the discussions in this chapter provide variety of perspectives on how moral individuality impacts decision making in SMEs. Furthermore, the chapter acknowledges that the cognitive decision making process of entrepreneurs are limited due to human nature; therefore expecting fully informed decisions on every occasion is unrealistic (Bommer et al., 1987). The chapter finalises the discussion of decision making in SMEs by concluding with a theoretical framework that is useful for case analysis and future research.

The objective of this chapter is to provide an alternative approach to our understanding of how to make employee-employer relationships more effective in SMEs through critically exploring factors influencing individual entrepreneur's ethical decision making process and characteristics. This chapter is informed both from individual

psychology and moral philosophy; thus, due to its interdisciplinary nature, it is aimed to provide an alternative perspective on employment relations in enterprises through exploring the individual entrepreneur.

BACKGROUND

Rooting from 'ēthos'; original meaning of ethics is character traits (Blackburn, 2005). Today, ethics has a deeper meaning; it evaluates human conduct and how human beings essentially supposed to behave, particularly to each other (Honderich, 2005). We can say that business ethics deals with the moral issues that emerge when we apply the concept of ethics to the business environment and practices.

According to Jones (1991) ethical decision is the one which is both legal and morally acceptable to the larger community (Jones, 1991, p.367). Conversely, unethical decision is defined as a decision that is either illegal or morally unacceptable to the larger community (Jones, 1991, p.367). However, here, 'unethical decision' refers to a decision that is morally unacceptable and 'ethical decision' refers to a decision that is morally acceptable. These two particular definitions provided in this paper exclude those decisions which are legal but are morally unacceptable based on the notion of 'ethical'.

Bommer et al., (1987) states that what is legal is not necessarily ethical; ethical and legal are not synonymous. However, legal dimension of ethics is an important element in ethical decision-making. Entrepreneurs do not act lawfully just because of the legal consequences an unlawful behaviour may lead to, but also because of society's perception of 'illegal' and obedience to what is morally required by the society. Business related crimes, frequently cannot be prosecuted because it is difficult to understand the intricacies of the offence. Moreover, usually since the harm is not physical but rather economic, the case may be given low

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