Ethics in Family Businesses and Venture Capital Firms
How Managers Manage Ethical Considerations and Steer Behavior

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Abstract

Business ethics is a fragmented and well covered scientific field. This Master thesis study concerns two type of organizations, namely family businesses (FB’s) and venture capital firms (VCF’s), in relation to the ethical decision-making process, which is a relatively undiscovered field. The study is conducted in the way it sheds a light on the influences on a manager when taking decisions concerning ethical considerations. Important scholars such as Colby and Kohlberg (1987) and Rest et al. (1999) framed the field of moral development of individuals, and what makes managers unaware of their unethical decisions (Bazerman, 2008). However, a manager’s possibility to take decisions is also influenced by organizational factors and actors. The type of management and ownership structure, and the expectations these actors have with regard to profits, as well as situational factors such as business strategy, maturity of the company, human and financial resources and market position are shaping the environment and possibility for managers to pursue ethical behavior because they affect the decision-making process.

The purpose of this study is to understand how managers in FB’s and VCF’s manage ethical considerations. The creating of the conceptual framework was used as a foundation to visualize how ethical behavior is constructed, while the focus laid on the influences and possibility to take decisions including ethical considerations and content. While performing this research, we have conducted eight semi-structured interviews with managers in three VCF’s and two FB’s in Sweden. The respondent companies and interviewees remain anonymous. We did that to increase the chance of honest and unbiased answers since we saw a risk to receive adjusted and image improving responses.

The empirical findings show that the VCF’s do not pay attention to ethical considerations in the same extent as FB’s do. Discovered reasons were lack of time and know-how, financial and human resources, business maturity and the fact that they were to generate a high ROI to the venture capitalist. Such a relationship makes the managers focus on profit maximization and short term objectives rather than ethical considerations. The two FB’s did have an ethical code of conduct with the employees and was constructed in order to fulfill acceptance, integration and efficiency with this management tool. The ethical codes of conduct were created with the goal to steer behavior and ensure ethical commitment in certain areas of interest. The major finding is that situational factors either suffocate or give room for ethical considerations in companies when taking decisions.

In particular, this research contributes to the field of business ethics and VCF’s in general, but also with regard to FB’s. The results of this thesis are constructed in the decision-making model which is different than the ethical decision-making model we constructed based on the theoretical research. However, reality did not allow us to recognize the fragmented patterns we interpreted from the theory. We therefore created a new top-down model which takes the need for a decision in companies into account, the actors and factors in the organization, the situational factors that influence the happenings in the organization and the outcome of the decision, which possibly contains ethical considerations and content. With the improved model we visualize the decision-making process while taking influences towards ethical decision-making into consideration and visualize organizational reality as we discovered it.

Key words: business ethics, ethical considerations, ethical code of conduct, moral awareness, ethical decision-making, ethical behavior, family business, venture capital firm, profit maximization, shareholder preferences.
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1. INTRODUCTION

The purpose of this chapter is to introduce the reader to the topic and provide insights in the background of the study and research areas. We start by presenting the most relevant theories that have been developed over the years after which we present the problem background, research question(s), purpose, delimitation, key concepts and disposition of the study.

1.1 Background

In a globalizing world where information is available for everyone, the strategic decisions of managers’ increase in impact since a mistake could have large publicity and organizational consequences. Companies who fail to act ethically risk to get abandoned by customers and the effort to win them back is costly in terms of time and money (Bhide & Stevenson, 2000, p. 127). Bearing ethical collapses as Enron and the financial crisis of 2008 in mind, companies increase chances to act ethically if they possess a high moral development (Rest et al., 1999). However, ethical behavior is a complex issue to deal with for all types of organizations (Stead et al., 1990).

Ethical behavior in organizations is related to all types of actions, both internally and externally. Some examples of ethical content and/or issues are honesty and fairness towards customers, clients, suppliers, shareholders and stakeholders (Marnburg, 2000, p. 201; McKendall et al., 2002, p. 367), but other important topics are fraud, bribery, sexual harassment, privacy (Geva, 2006), insider trading, abuse of power (Wimilasiri, 2001, p. 614) establishment of image and reputation (Burton & Goldsby, 2009, p. 147) which could be seen as “right and wrong” doing of employees and managers. Companies often approach and structure ethical behavior through an ethical code of conduct or other types of written documents that are meant to provide guidelines for desired behavior by people in the organization. However, these codes of conduct are an encouragement to “do the right thing” and not an absolute guarantee that companies or their employees pursue ethical behavior.

Over the past decades, researchers have provided insights in ethical behavior and judgment of people in situations where they can choose their action related to an ethical issue. Many studies that have been done are conducted on students and their ethical behavior. Evidence of trade-offs in favor of unethical behavior show that when students can cheat, most of them will cheat (Mazar et al., 2008; Cizek, 1999; Bazerman, 2008; Garner, 2007). Smyth et al. (2009) also showed that business students cheat more than students in other educational areas, which is interesting because we can assume that they are the future managers and employees of companies. The problem lies in the fact that people, in this case students, not only cheat, but also justify their own behavior and convince themselves it is not a bad thing to do (Smyth el., 2009; Mazar et al., 2008). The students consciously make a trade-off between punishment, reward and likeliness to get caught. Most students knew what they were doing. This type of motivation is called “moral awareness” and is the first step to a realization of ethical behavior.

The psychological approach on personal moral reasoning, a basis for ethical behavior, delivered three different development levels. The [1] pre-conventional level consists of basic understanding what is right and wrong, when being told. The [2] conventional level requires a more sophisticated moral development and includes the expectation of the persons surrounding, such as family, friends and colleagues. The [3] post-conventional level is reached when an universal approach to ethics is undertaken where one goes beyond laws and rules, and put aside one’s self interest and only look at what is best for society (Kohlberg, 1981). Rest (1986) developed this model and included more steps in the process, and
emphasized moral awareness as a key step towards ethical behavior. The recognition of moral content/issue is of highest priority, otherwise a decision may not correspond to the actual intent (Garner, 2007; Bazerman, 2008). However, a decision is not only affected from within, rather important is the external environment such as the company influences.

Management plays an important role to influence the moral awareness and ethical behavior of employees in organizations and companies. They are part of the influential framework of people that affect the learning of appropriate behavior (Hegarty & Sims, 1978). People have the ability to change behavior over time (Kujala et al., 2011; Longenecker et al., 2006). This proves that management can affect behavior, although it can occur both consciously and unconsciously (Jensen, 2010, p. 427). This psychological framework is what employees and managers use to come to the desired decision. One step to create an integrated fundament of ethical behavior is the development of ethical codes in a code of conduct.

In order to create effectiveness of these types of codes it is important that employees feel that these codes are part of the corporate culture. Because most ethical codes are created and communicated from top management and therefore seen as instrument of control, there are complications (Trevino & Weaver, 2003). One way to create a sense of ownership, so that employees take the ethical codes as a part of their value system, is through education and discussions between managers and employees (Marnburg, 2000, p. 200). However, not all companies and organizations truly aim to realize an improvement of ethical behavior. Instead codes can be established as marketing tool to improve its image (Burton & Goldsby, 2009; Marnburg, 2000, p. 201). Although the code of conduct is a tool created by management to influence ethical behavior, the individuals are in the end the ones to demonstrate responsibility and therefore ethical behavior (Jensen, 2010, p. 426).

The managers’ characteristics also have a great impact on the employees’ behavior and hence the overall company behavior. The difference in decisions that managers and employees take is the environment they are in and the consequences of these decisions. Brummer (1985, p. 83) argues that managers mainly take decisions that affect the macro environment of the company, which has greater impact on the success for the company. Whereas employees mainly take decisions on the micro level, and would generate relatively smaller consequences that affect the company success. As much as employees are different, so are managers. They apply different types of moral dimensions when they take decisions. Some examples of different dimensions are justice, female ethics, relativism, utilitarian, formalism and egoism (Reidenback & Robin, 1988). These different dimensions correspond to leadership styles and affect the employees that work under the supervision of a manager and thus affect the decision and the overall ethical behavior of the company. Employees reflect their behavior upon the manager’s behavior and might also copy some behavior. According to O’Fallon and Butterfield (2011, p. 383) this could be called the “monkey see, monkey do” perspective where they emphasize that people get affected by each other. Lowell (2011, p. 23) states that when managers’ commit unethical behavior, employees are affected. Moreover, if managers accept and justify unethical behavior, the company is pursuing an unethical path that only leads to more unethical behavior.

The reason why people follow some type of behavior has to do with their moral identity, need of affiliation and likelihood of socializing, i.e. introversion and extroversion. The stronger moral identity a person has, the more likely it is an independent decision will be taken without being affected by approval from the group. Although extravert persons are more actively seeking for social contact, it has been proven that they are less likely to be affected by social
group pressures and expectations than introvert persons in the decision making situation (O’Fallon & Butterfield, 2011, p. 386). These characteristics, moral identity, need of affiliation and likelihood of socializing, create a foundation for managers how to approach ethical content in relation to its employees. Furthermore, the ethical behavior of employees is highly influenced by the acting of successful managers (Jaffe & Tsimerman, 2005) and employees who believe that their manager is successful and ethical at the same time, are more motivated to act ethically (Hunt et al., 1984).

As manager’s behavior is of great importance, the way they approach conflicts of ethical interest, the agent and the steward approach is central for a company’s ethical behavior. The agent approach refers to ownership and control. The lack of control will result in lack of ownership and the risk that a manager will act upon his or her own interest, mostly to generate a profit that is related to himself or his department (Fama & Jensen, 1983, p. 303). The steward approach means that people chose to serve principles rather than him- or herself and will try to optimize the shared result (Davis et al., 1997).

The importance of ethical long term perspective could be presented in the perspective of shareholder value maximization. Ethical decisions, which are a part of shareholder value maximization, are not always logical as a decision could result in higher costs and/or lower profits since a long term perspective is applied. From that point of view, some managers and companies disagree to be ethical, because the ethical goals are conflicting with profit maximization (e.g. Reich, 2007). If ethical behavior would completely be steered by rules and regulations there would be no need of ethics, however, that is not the case (Venezia et al., 2011, p. 27). Although the contradicting opinions about ethics and profit maximization, Bhide and Stevensson (2000, p. 127) state that profit maximization implies honesty and ethical behavior, which is a total different perspective from what was argued by Reich (2007). We follow the Bhide and Stevensson implication and argue that ethical behavior is a part of profit maximization, with the addition of this clarification: ethical behavior is a part of a company’s short term and long term profit maximization.

Profit maximization, in relation to ethical behavior, has different meanings in different company structures. As far as research has been made, we found several comparison studies of big and small companies, between countries and cultures, etc. However, research on ethics in relation to different these company types (FB and VCF) and control and ownership has not been covered sufficiently by the field of business ethics. To relate control and ownership to company structures, in terms of affecting decisions and steering behavior, we argue that these dimensions between family businesses (hence force FB’s) and venture capital firms (hence force VCF’s) are applicable. FB’s do act differently in relation to non-family business, especially in ethical commitment and market orientation (Duh et al., 2010). VCF, which is a company that receives finances from a venture capitalist, possess opposing characteristics to FB’s. In other words, FB’s and VCF’s have different company ownership structures and sense of control. Therefore it would add value to the field of business ethics, more particularly to FB’s and VCF’s ethical commitment. We have identified a significant lack of theory in this specific area of business ethics, as well as in the comparison of FB’s and VCF’s. The study will be conducted in a way so it compares FB’s and VCF’s in how they manage ethical considerations, as well as it sheds a light over an area that significantly lacks research, namely business ethics in VCF’s.
1.2 Research Question

Based on the research background, we aim to answer to following research questions:

How do managers in family businesses (FB’s) and venture capital firms (VCF’s) manage ethical considerations?

In order to support the main question and capture reasons and aspects affecting how managers in FB’s and VCF’s deal with the topic we formulated sub questions:

- How do the managers perceive ethics in their business situation?
- How do managers interpret the combination of ethical considerations and profit maximization?
- What are the organizational reasons to have an ethical code of conduct or not?
- How do the ownership structure and control mechanism affect the possibility to include ethical considerations in the decision-making process of the company?

1.3 Purpose

Based on the research background, our purpose is to investigate how managers handle and manage ethical considerations and behavior in the company, given the different company ownership structures. From the theoretical research we understand that from moral awareness to ethical behavior is a continuous process that appears consciously or unconsciously and starts with recognizing a moral content or issue and ends with an action. As indicated in the research background, we intend to investigate FB’s and VCF’s for their different characteristics, such as to control and ownership and how they influence the ability to take decisions and behave ethically. However, we will not search for ethical breakdowns or analyze collapses, neither will we research the process from awareness to behavior, but use the steps in the process as support in order to understands how managers manage ethical considerations.

Through an in-depth study with semi-structured interviews, the managers in the companies we included were able to explain the underlying motives of daily decisions as well as strategic considerations. We also aim to be able to compare the differences and similarities as discussed in the background between FB’s and VCF’s.

1.4 Delimitation

The companies included in the study are geographically located in Sweden. We do not make any constraints regarding turnover, industry, size, etc. when choosing the companies to include in the study. The reason for doing so is because we found that this specific research area with these two types of companies is lacking of in-depth knowledge. Furthermore, we focus on the private sector, and not on the public sector which means we assume that all companies have profit as main goal. We focus on managers, and how they manage ethical considerations, and exclude how the employees are affecting the company’s behavior to become ethical.
1.5 Key Concepts

- **Moral Awareness**
  Moral awareness occurs when an ethical content or issue is recognized by the individual. It also constitutes the first step to pursue ethical behavior (Kohlberg 1981; Rest et al., 1999) and is the key aspect to change or sustainable keep an ethical behavior.

- **Ethical Behavior**
  Jones (1991) describes unethical behavior as behavior that violates generally accepted moral norms, therefore we understand ethical behavior as behavior in line with common rules and norms.

- **Profit Maximization**
  Profit maximization is a common definition of what is the objective of a business, which often excludes ethics since it is argued that it discourage profit maximizing (Reich, 2007).

- **Family Business**
  According to Sonfield and Lussier (2004, p. 190) a family business is one in which family members dominate the ownership and management of a firm and perceive their business as a family business.

- **Venture Capital Firm**
  Venture capital firm is an entrepreneurial (normal) company that got investment from a venture capitalist (our definition).

- **Ethical Code of Conduct**
  An ethical code of conduct is a written document with guidelines of how to behave and is used by the management to steer the ethical behavior of the company.

- **Moral Reasoning**
  Moral reasoning is a physiological process an individual employees to reach a decision concerning ethics, (Kohlberg & Colby 1987; Rest et al., 1999).

- **Moral Motivation**
  Mora motivation is the person’s ambition to follow what one think is right or wrong (Geva, 2006), which can both be influenced from oneself and from the company.

- **Moral Identity**
  Moral identity is the stage after motivation in the process before taking a decision concerning ethics, where one performs the ability to not get affected by others or be strong enough to sometimes take a though decision.

- **Decision-Making**
1.6 Outline of the Study

In order to guide the reader through the research rapport we have presented the main outlines of each chapter.

**Table 1. Outline of the Study**

<table>
<thead>
<tr>
<th>Chapter 1. Introduction</th>
<th>The introduction has the purpose to introduce the reader to the topic, shed a light on the research area and state the outline of the study.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chapter 2. Scientific Methodology</td>
<td>The scientific methodology positions the authors’ view of reality and how it will affect the study. Moreover, the strategy, methods and design are presented which aim to optimize the outcome of the study.</td>
</tr>
<tr>
<td>Chapter 3. Literature review</td>
<td>It presents the fundamental theory and models in the field, which leads to a theoretical gap. It ends with a conceptual framework which will give the guiding structure for following chapters.</td>
</tr>
<tr>
<td>Chapter 4. Practical Method</td>
<td>Here is the fundamental insight of how to gather the empirical findings, and it set the frame for the following chapters. It presents the data collection techniques, data management, and interviews.</td>
</tr>
<tr>
<td>Chapter 5. Empirical Findings</td>
<td>This chapter presents the findings from the interviews. The input will be categorized in best possible way to answer the research questions and purpose.</td>
</tr>
<tr>
<td>Chapter 6. Discussion and Analysis</td>
<td>The purpose of this chapter is to structure, analyze and generate findings that can later be presented in conclusion. Empirical findings are analyzed in relation to the conceptual framework.</td>
</tr>
<tr>
<td>Chapter 7. Conclusion</td>
<td>Hereby a conclusion of the study is made and main findings are presented. It also brings up a discussion about the empirical and theoretical contribution, in form of theoretical contribution and managerial implications. The chapter ends with some suggestions of future research.</td>
</tr>
</tbody>
</table>
2. SCIENTIFIC METODOLOGY

In the previous chapter we presented the overview of the study, whereas this chapter focuses on the research paradigm and how that will affect the way we conduct this study. Our intention is to present how we view the world, and in the way we approach and look upon knowledge, two central aspects when conducting a research. Also included are the research approach, choice of literature, the research strategy and the research design. However, first we describe why we chose this subject and our personal preconceptions.

2.1 Choice of Subject

When conducting a research, in our case a 30 credits Master thesis, the main challenge is to find a suitable topic. As the requirements from the thesis manual, the topic needs to fulfill the requirements of a theoretical gap, i.e. it needs to investigate a topic that has barely been investigated before. We are students majoring different topics, namely “Business Development and Internationalization” and “Management”. Given these slightly different backgrounds, we believe it will strengthen us to deliver a high quality thesis.

The process started when we both wanted to investigate an area that had not been covered well enough in either Master program yet still relevant for both majors. Since both of our programs are quite specified, there are some areas which we find less covered but still overlapping. The next stage in the process was to decide which strengths we have, and see if any of these strengths overlap programs and were equivalent to these topics we found out. We came to conclusion that investigating ethics could be a common base from where we intended to find a theoretical gap. Regardless of our different backgrounds, the topic can be applied in both educational fields and has gained an increased importance for all types of majors in the past few years. Furthermore, because of the lack of attention in the program and the importance of ethics we want to deepen our knowledge through the realization of this thesis.

Using management to influence ethics in a company in relation to growth was the starting point from which we developed after reviewing the literature. We found that moral awareness was important in pursuing ethical behavior, i.e. when analyzing a company’s approach to ethics. It is partly covered by the literature, but combining them into a model with other supporting aspects, was not conducted in this way before. In addition, since we found out that different company structures approached ethics differently, FB’s and VCF’s were our profile of companies that were of interest. These types of companies have been noted to show tendencies of opposite approaches, and therefore we find it relevant and a suitable topic. Therefore we believe that we can contribute to the existing theories.

2.2 Preconceptions

Since we come from different academic and national backgrounds, our preconceptions will assumingly be different and diversify our approach to ethics, compared to if we have same backgrounds. It is of great importance to include the authors’ previous knowledge when carrying out a research, especially in gathering empirical data and when it comes to what is seen and how it is perceived. Therefore we argue we have an advantage in this sense, at least in the risk of mistreating empirical findings, and approaching and interpreting the field of ethics, FB’s and VCF’s.

In addition, since none of us has a professional background explicitly dealing with ethics, we believe we can conduct this thesis with a neutral and open mindset in order for the best possible result to become achievable. However, our standpoint as Master students, including
some years of work experience in companies, we have been in positions to perform our attitude to ethical considerations. In all humbleness we would say that profit considerations are of high importance and an ethical code of conduct is good in its cause, while not always what is followed. In other words, we don’t expect that all managers and companies are always morally aware. Even if they are and conducted an ethical code of conduct it is not a guarantee that they act ethically. Ethical behavior, in form of an ethical code of conduct often is promoted proudly by companies. However, our opinion and experience is that profits would out rule ethics when time and money require it. Notably, we will be open for all outcomes for both what researchers and scholars argue and found out (literature review), but also what our respondents say (empirical data). We will be aware of this when creating the interview guide and question, and when coding and interpreting the data in order to achieve a trustworthy result.

Regarding FB’s and VCF’s, the general understanding of the difference between these types of organization structures with different perspectives on the future. We believe that FB’s have a long term perspective whereas VCF’s have a short term perspective, with regard to growth and the role of return on investment (ROI). The reasoning is that FB’s are generally more concerned to go bankrupt and are less likely to take risks since the family would be affected. VCF’s have the venture capitalist and shareholders to please and often needs to accomplish short term goals in order to survive. On the point that our previous knowledge in the field of business ethics, FB’ and VCFs is quite small, we find it reasonable to argue against Gummersson (2000), who declares that previous knowledge just enhance the quality of the study, and claim that our lack of experiences is in favor of the study’s quality. Our preconceptions allow us to treat data more objectively, and lead to avoidance of biased results. On the other hand, we have no experience of writing a Master level thesis, which may cause time consuming efforts on understanding structure and method, time that could have been spent otherwise. In other words, to be able to approach the topic with sufficient knowledge, we needed to spend more time and energy on cultivating ourselves regarding Master thesis methods, but in particular business ethics in relation to FB’s and VCF’s.

### 2.3 Research Philosophy

Every researcher has some knowledge and opinions relevant for the research area that might play a role while carrying out a research. The research philosophy is what kind of approach the researchers have to the world and to knowledge, in particular to the development of new knowledge (Ponterotto, 2005; Saunders et al., 2009, p. 107). In addition, Weber (1949) suggested that while all social research is motivated by values, which means that we can never be value free, the researcher is obliged to conduct the research in such a way as to ensure that such values do not dictate the outcome. Therefore the following chapters discuss the view upon the world and the nature of knowledge, the two main approaches in research philosophy, namely ontology and epistemology, and which standpoints we take.

#### 2.3.1 Ontology

As our research question is conducted, we will be investigating how managers in FB’s and VCF’s manage ethics, and what affect the decision-making process has. The purpose is to understand the managers’ reality, an interpretivistic approach (Cunliffe, 2011) and how they perceive ethical considerations, including factors affecting the decision, such as moral awareness, moral motivation and moral identity (Saunders et al, 2009) but also influences such as the company’s management, e.g. board of directors, and other individuals, such as managers and employees. The ontological reasoning can be explained by social constructivism (Saunders et al, 2009) which explains the reasons why and how managers and
employees subjectively relate to business ethics. The question of social ontology, social construction is thus more concerned with the nature of a social entity. The positions in social ontology are usually referred to as objectivism and constructionism (Bryman & Bell, 2007), where we apply the constructionist’s perspective on people, the employees and managers are actors, and a product of social life (David & Sutton, 2011).

Moreover, the marketplace consists of the companies and the managers taking decisions, who together change the reality of the world and the perception on business ethics, therefore multiple realities can exist. This study emphasizes the subjective consideration, how individuals interact, construct and give meaning to the world (Ritchie & Lewis, 2003) and we believe that reality is a social construction (Cunliffe, 2011), i.e. people decide and affect what is ethical and how to manage ethical considerations.

In addition, how to manage ethics, our social phenomenon, is not only produced through social interaction but that it is in a constant state of revision (Bryman & Bell, 2007, p. 23; Creswell, 2003). The expectations of others can decide what ethics is which make it a subject, not an object (Cunliffe, 2011, p. 651) and what is ethical for one may not be for another since both perspectives can change and the general perspective of the people in a community, i.e. we argue that there is nothing about ethics that can be called the truth, theoretically described as an object (Cunliffe, 2011, p. 651-652). Nevertheless, there are rules, laws and frameworks (objects) of how to do business, how it is possible to act in the marketplace. So the subject, individuals, companies and ethics must interact and are intertwined (Bourdieu, 1990). However, in this study we have a main focus on the subject and how they interact in multiple realities.

By applying this philosophy it enables us as researchers to grasp the underlying foundation from which decisions are taken and analyze if the ethical behavior has anything to do with the fact that FB and VCF has different characteristics. Because our standpoint is a subjectivist approach, where we investigate a micro aspect, the behavior of managers, and that companies are socially constructed products, (David & Sutton, 2011, p. 81-86; Cunliffe, 2011, p. 656). In line with this, Kent (2007, p. 46-49) state that the reality in a marketplace is the individuals, managers and employees, who are affected by each other’s different approaches to ethical principles which steer ethical decisions and therefore ethical behavior. By stating that, the reality is seen as subjective and depends on the relationship and interaction between different individuals, situations and researchers. That also explains why we intend to conduct a multiple case study, because each company may understand ethics differently and individuals in the same company may understand ethics differently as well (Kent, 2007).

2.3.2 Epistemology
In this study the FB’s and VCF’s management of ethics is of interest. We aim to investigate how the managers of each firm understand ethics. Therefore it is reasonable to say that the manager’s perception, interpretation and goal with ethical considerations and issues are crucial for their ethical behavior. Managers need to act and react to a fast changing marketplace, where decisions are based on information, values and ethical principles. Companies, with its employees and managers, subjectively understand the reality and take decision based on their own moral awareness, moral motivation and moral identity. The explained research topic aligns with Kent’s (2007) argument that when investigating a subjective understanding which affect following actions. In addition, given the fact the different managers understand ethical considerations differently and are situated in different industries with a different stage of maturity and situations in general. We take the position of
the ontological social constructionism which we discussed above and understand knowledge as incremental understanding of knowledge about behavior in order to develop theory.

A main issue in the epistemological considerations is whether or not the social world can, and should, be studied according to the same principles, procedures, and ethos as the natural sciences (Bryman & Bell, 2007, p. 16). Some social researchers who claim at least the possibility that social science can generate positive knowledge about the social world are called positivists. We agree with Remenyi et al. (1998, p. 32) whom disagree by arguing that businesses nor business ethics with its complex and constantly changing relationships can’t be studied with a positivism approach. Moreover, positivists also tend to propose naturalism, which refers to the assertion that human actions and happenings are both subject to causal mechanisms, even if the particular mechanisms at work are different. In short, positivists emphasize the extent to which human beings are the product of external causes while our standpoint is that the human being together is creating and recreating the reality, i.e. we do not follow a positivism philosophy, rather an interpretivist focus.

As opposed to positivism, there is interpretivism as epistemological approach. Interpretivists emphasize the capacity of humans to create meaning and to live by meaningful systems of belief. These are social researchers, like us, who reject the causal mode of naturalism and positivism, and assert that human action is the result of meaningful interpretation rather than causal mechanisms. Such processes do leave the human subject responsible for their own actions, like in our research where we intend to understand the managers perceive, interact and manage ethics (Cunliffe, 2011).

2.4 Research Approach

Our aim is to deliver a high quality thesis and research. With regard to the topic, our aim is to deliver to the social science in the field of business ethics, and more specifically moral awareness and ethical behavior in FB’s and VCF’s. The foundation of this research idea, which is also an identified gap, came after studying ethics with a focus on relating it to profit maximization, which could be seen as an opposite to ethics. By cultivating ourselves, and finally relating profit maximization to companies, we found out that VCF’s could somehow respond to the concept of profit maximization and FB’s more associate with ethics. They are significantly different in an organizational, ownership, market orientation, and corporate culture aspect. To grasp the interpretation of ethics in the business situation and gain understanding in the differences of ethical decision-making in these two types of companies, it has become clear that it is necessary to perform semi-structured interviews with managers in these companies.

We need the structure of previous research to fulfill an adequate framework of knowledge. However, the input from these companies must lead the interview to show each of every company’s situations. This is neither an inductive research (Gummesson, 2000) nor deductive research. We rather combine them both in order for us to use the existing theory to approach FB and VCF and how they manage ethics. A deductive approach sets out and tests a hypothesis while inductive research set out to explore a field. Moreover, inductive measures are exploratory, seeking to build accounts of what is going on from the data collected. According to David and Sutton (2011) and Bryman & Bell (2007), this does not require the establishment of preset measures and methods of counting. Some forms of social research are not hypothetic-deductive and pursue an exploration based approach. In some situations, this is to identify what is going on when existing knowledge is insufficient to generate hypotheses. For that reason we pursue neither an inductive nor a deductive approach.
A merge of these two research approaches (Danemark, 2001) implies the benefits of each approach is called the abductive approach (Alvesson & Skoldberg, 2009) and is applied to perform this study. The abductive approach and reasoning can be included in investigating ethics, i.e., social science (Danermark, 2001). As we are aiming to contribute to social science in this field, i.e., creating, improving and diversifying current theories in this field, we are interested in the happenings behind the ethical decision-making. The processes for managers (sometimes employees) of taking a decision can be analyzed upon existing theories, but when including a comparison of FB and VCF, it is not suitable to use a deductive approach, at least not for the existing research question. Neither is the research topic found from only investigating the reality (see Figure 1 for more information), since the applied theoretical knowledge, the conceptual framework, in the investigation is essential to how we approach the reality (Kovács & Spenc, 2005, p. 139) and to the firm’s empirical contributions. Both these elements are present in this research, hence we argue to follow an abductive approach in order to carry out the research. An abductive approach should be seen as a systematic approach to perform creativity (Taylor et al., 2002) in order to create or develop new theory (Kovács & Spenc, 2005; Kirkeby, 1990). The reason to mix between inductive and deductive is often the intuition of the researcher. In our case since we assume that the outcome of this study may not be totally foreseeable since the theoretical gap of investigating ethics in FB’s and VCF’s has not been done before. Advances in social science do not always follow logical steps (Taylor et al., 2002) so we will be open minded in approaching the interviews and analyzing the empirical data.

In the abductive approach we aim to facilitate the development of theory (Kirkeby, 1990), not creating theory. We argue that there are both theories about business ethics, and about FB’s and VCF’s. What we will do is pursue a path that can lead to the development of existing theory, where the empirical finding might not match the conceptual framework (Dubois & Gadde, 2002). The chosen approach is also somehow visible in the choice of interview technique since not structured neither unstructured interviews would benefit the study. Instead semi-structured interviews would steer the empirical input so that the respondents answer and develop their thoughts in aspects of relevance for the research question. However, it is of great importance to be prepared, set the direction of the interview, but not suffocate attempts to explain experiences, feelings, opinions, attitudes and examples of ethical considerations that managers can share.

Figure 1. The Abductive Research Approach
Source: Kovács & Spenc, 2005, p. 139
2.5 Choice of Literature

Given that we have limited developed knowledge about the field of business ethics, we made an effort to get a grasp of the different aspects. Scholars were sometimes contradicting each other and brought up different subjects that sometimes were linked to each other where later they were not. In that case it was therefore of great importance to critically analyze the literature to choose those scholars and authors of interest (Sauders et al., 2009, p. 60-61). An often returning subject included in the field of ethics is ethical codes of conduct, how they are used, what they say and what their purpose is. However, we felt that this was not of primary interest given the aim to understand how these company structures manage ethics, even though; it is included in this study. We do that in order to enable the focus on the case companies and how they manage ethical considerations. We wanted to go deeper into the subject and understand aspects that decide why a company may or may not have an ethical code of conduct, what the motivation is and what kind of influences the managers have.

It is important to make a rigid theoretical research to be able to answer the research question. That was also the case for us. The collected theory in form of secondary data is collected from articles, books, reports, etc. The tools we mostly used to collect were Business Source Premier (EBSCO), Google Scholar and the databases provided by the Umeå University Library. Keywords that were used when finding peer reviewed articles were for example, “moral awareness”, “business ethics”, “ethical code of conduct”, “family business”, “venture capital”, ethical decision-making” to name some. We understood that the field is quit fragmented and is broadly researched, however, we find areas we thought was less emphasized and some aspects that were not well connected, or even lacked connection. The process of investigating the field and researching in aspects we found relevant of several reasons. We came to the point where we wanted to investigate in FB and VCF, something that can be considered a theoretical gap. This was the start point from where we initiated, but also limited the study. The conceptual framework is used to guide the empirical gathering and is supposed to support the development of new knowledge.

As far as it was logically justified, we tried, after investigating and agreeing on a key aspects and components, to structure the literature review according to the conceptual framework we created. In the way the conceptual model is created, the process within is chronologically followed in the literature review which enables a more thorough understanding about what is intended to be communicated. The exception is the moral identity which did not follow the model, with the explanation that the concept is very much linked to management and managers. Of that reason we did not give it an own chapter but emphasized it along chapters. However, even though the conceptual framework includes a step wise process, from moral awareness to ethical behavior, the goal is not to investigate this particular process. The aim is to investigate in the managers and ethical considerations, using the process as a foundation from which an understanding is supposed to be generated.

2.6 Research Strategy

In this study, as can be understood from previous discussions of the scientific methodology chapter, we apply a qualitative strategy, i.e. we will collect the empirical findings through interviews and not questionnaires or other statistical gathering of data (Mintzberg, 1979). When trying to understand how managers manage ethics, numbers are of less importance while the words of managers can describe the phenomena and explain the reasons why, which lead us to apply the qualitative approach and pursue the soft data (Bryman & Bell, 2007, p. 28; Mintzberg, 1979). The study is not quantitative and it has neither a positivist approach, since previous discussion in this chapter argues the opposite (Creswell, 2003, p. 17-19). Since
the research question is to investigate how managers in FB’s and VCF’s manage ethical considerations, which can be different for each case. That could include different aspects for different companies. We aim to capture as much as possible through a qualitative approach, which is a more holistic approach.

Bryman and Bell (2007) and Patton (2002) argue that the chosen strategy sets general orientation, i.e. qualitative and quantitative research, of the chosen business research. It affects the outcome of concluding discussions and the frameworks from where action is supposed to be taken. In opposite to quantitative approach, which aims to measure a phenomenon in statistical terms, the qualitative approach allows the authors to observe and interpret the reality. The authors take the opportunity to embrace the reality, which could give more important clarifications about the researched area, when applying a qualitative strategy.

We will not perform any type of research that could give us quantitative data or information. As mentioned by David and Sutton (2011 p. 82) “qualitative research usually emphasizes words rather than quantification in the collection and analysis of data”. They continue by expressing that qualitative data is usually expressed in words, information about feelings, values and attitudes (Mintzberg, 1979; Bryman & Bell, 2007, p. 168). Qualitative research is as described with an emphasis to the collection of primarily non-numerical data, that is, thick descriptions of events, in-depth interviewing and the use of written or recorded evidence and artifacts. It is also strongly related with induction and exploration in research which implies that the researcher sets out a more tentative idea of what is important.

The researchers attempt to be more sensitive to the priorities held by those whom they will interview or observe, or whose texts and artifacts they will attempt to ‘read’. As such, the process of research design involves the deliberate attempt to leave a certain degree of openness in the structuring of the research questions, in the formulation schedules and so on. The relationship between literature, question formation, data collection and theory building in qualitative research often involves ongoing modification; with data collection leading to emergent theories which themselves redirect the data collection process. It is important to examine the relationship between induction and prior literature (David & Sutton, 2011).

Therefore we make the decision to follow and utilize a qualitative strategy and not a quantitative approach. One reason is the fact that we want to investigate in something that is, in some way, unknown and hard to predict since it has not yet been investigated by other researchers. Another reason is that we can assume that different experiences, size, situation, industry etc. affect the companies’ general approach to ethics, and therefore we want them to describe their situation and not structure them in a way we choke/suffocate them. Since the study is generally broad, no attempt to grasp the whole field is taken. However, it is a starting point of what could be further investigated, more about that in chapter “future research”.

2.7 Research Design
To summarize, we have stated that we aim to implement an ontological position, because we believe that managers and employees take decisions in the company. Moreover, an abductive reasoning is followed because we have reasons to believe that knowledge will be developed with help from existing theories. As a strategy we feel it is more suitable to use a qualitative approach since it gives us the chance to listen to the view on reality of the managers in the respondent companies. We came to the decision to apply a case study, in particular a multiple case study and that for several reasons.
A case study is a suited research design and can be derived from the fact that the design attempts to acquire a comprehensive examination of a subject. We believe that a case study can give the desired outcomes. Saunders et al (2009, p. 140) explain the differences between a single case study and a multiple case study. When choosing to conduct a single case study the author(s) often aim to find a unique case, where an in-depth investigation is the goal with no intention to include several aspects of chosen phenomenon. Oh the other hand, multiple case study should be used when the objective is to validate what the outcome of one case by investigating in several ones (Crow et al., 2011, p. 1-3). No desire to find a unique case is of interest, which goes hand in hand with what we intend in this study (Baxter & Jack, 2008). More elaboration about the type of companies will be explained in practical method.

2.8 Conclusion

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By stating the fundamental conditions in how we intend to pursue this study, we now move on to the literature review with its fundamental block of knowledge for the scope of this thesis. In order to better understand the choices we have made formulating the crafting of this literature review, bear the scientific methodological standpoints we have undertaken in mind.
3. LITERATURE REVIEW

Our intention with this chapter is to introduce the main theoretical concepts on which the study is based. The aspects and previous scholars in the field of ethics should add knowledge relevant for the research questions. The structure of this chapter is aligned with the conceptual framework, presented in the end of the chapter, and by this we create a logical presentation of the previous scholars and their contributions, which lead to the understanding we have of the key concepts. Before we initiate with first step of the model (moral awareness), we introduce some central concepts and how we approach them in this study. This is of great importance when trying to create an understanding about the role of ethics in general but particularly in family businesses and venture capital firms.

3.1 Basic Aspects of Ethical Considerations

This research focuses on moral awareness and ethical behavior of companies, and managers in general. It is therefore necessary to define these terms and how they are interpreted by the researchers in order to establish the research as proposed.

3.1.1 Definitions of Ethics

Ethics concern a variety of concepts and for this research we do not aim to divide or make a distinction between ethics. Instead we aim to grasp the reason and the situation with regard to how family businesses and venture capital firms interpret and manage ethics, whatever type they face. We find it, by narrowing ethics into one or two aspects, not contributing to the outcome of this study and not relevant for the research question. To clarify, we are interested in the managers’ interpretation of ethics, ethical behavior and if there is room for ethics in the decision-making process and how it is shaped. Due to the broad variety, researchers in both different and corresponding fields have been unable to come to a general understanding or definition of ethics. However, to facilitate the understanding of chosen research path, we want to present some common definitions of ethics.

Examples of areas where ethical mistakes can be made can be categorized into two groups; the application areas and the common generic issues. The first area refers to ethics in finance, marketing and accounting whereas the latter concerns questions about fraud, bribery, sexual harassment and privacy to name a few (Geva, 2006, p. 133). Other examples of ethical considerations can be issues such as misrepresentation, tax evasion, misleading and inaccurate advertising, fraud, acceptance and payment of bribes, insider trading, abuse of power, environmental degradation and lying are just a few examples of unethical behaviors of societal members (Wimalasiri, 2001, p. 614). As we can see, ethics is a broadly defined subject, and can have a combination of, or different meanings and interpretations by different people and companies.

3.1.2 Types of Ethics

By presenting several interpretations of ethics or rather definitions of ethics, we have shown the broad variety there is within one general topic. Gustafsson (1988) describes four different types of ethics in an attempt to grasp differentiation in such a broadly defined topic:

1. **Reliability ethics**: Ethics that regulate behavior in relation to promises and expectations (telling the truth, keeping promises).
2. **Human ethics**: Include the values of humanity, integrity and equality among people. How organizations relates to its employees and external stakeholders.
3. **Capability ethics:** These types of ethics impose the obligation on the organization and employees to produce as much value as possible and demand industrious and economical behavior.

4. **Future ethics:** These ethics are concerned with the future environment and welfare of future generations.

These different types are commonly used by firms in their attempt to define the meaning of ethics. We do not emphasize any one of them because we believe these steps can interfere and cooperate. Therefore we will let the companies that are included in the study describe how they understand ethics, and hopefully it can relate to reliability ethics, human ethics, capability ethics and/or future ethics. We now have explained ethics in different contexts and shapes. None of these are of greater interest than any of other, except those that the responding manager emphasizes and develops during the interview, i.e. we keep it open to see in what way and how they define, interpret and manage ethics.

### 3.1.3 Ethics and Profit Maximization

With regard to the role of ethics in the organizational context of companies, we have included the role of profit maximization. The work of the authors included in this paragraph have identified that there is a field of tension between the two concepts. As we are interested in obtaining an as broad as possible understanding of ethics, we have identified the need to include the work of these scholars and interpret their work in this thesis.

“Ethics is essential to capitalism, as there are not enough laws” (Venezia et al., 2011, p. 26). Falkenberg (2004, p. 25) agrees with the statement above, nevertheless, many researchers argue that ethics cannot be included in business profit maximization and capitalism. There is no room for ethics since it discourages profit maximization. Reich (2007) continues by adding that companies cannot undertake social goals because it would imply a cost on either the supply side or the customer side, while Venezia et al. (2011) and Shaw (2008, p. 567) declare that there are not enough laws to control all environments, and therefore ethics are essential to control capitalism within certain norms and values. Shaw (2008) continues by stating the importance of norms, which is the fundament for businesses and without it no oral agreements could be made. In addition, new laws must be based on existing norms to create a suitable and efficient marketplace. Vogel (2005) on the other hand argues that ethics, in form of Corporate Social Responsibility (CSR), is not a substitute for governmental governance, neither a sufficient one. Vogel (2005) and Venezia et al. (2011) agree on the role of ethics in capitalism, however, the situation of today is that companies do not often prioritize ethics. This requires governments to take action, hence create and implement laws (Vogel, 2005; Reich, 2007).

It has become clear that these scholars have positioned ethics and profit maximization as two fields that have different priorities and are complex to combine. Instead, they argue for rules and regulations and forces of power through law, to reduce capitalism and stimulate companies to pursue ethical behavior. We think it might be hard to pursue profit maximization while being ethical, especially in the short term perspective because ethics require an attitude change and develop over time, whereas profits are usually maximized in order to stimulate growth for the company. Therefore we see it as a part of a sustainable development in companies. However, there are also authors who claim that ethics can be good in relationship with profit maximization and should come from the inner motivation of companies. Burton and Goldsby (2009, p. 147) for example state that if a company has good ethics, it also has good business, and vice versa. Arguments for this distinction exist if...
employees, customers, suppliers, investors and other shareholders, as well as government are treated well. This would imply that these good relationships generate positive financial results. Generally speaking, a high level of reputational capital, positive result of good business performance and CSR (ethical behavior) could lead to high revenues. It has been proven that there is a positive relationship between CSR and financials results. A monograph of 95 studies was examined and shows a relationship (Margolis & Walsh, 2001) between the two.

Scholars disagree and no absolute truth can be argued, Burton and Goldsby (2009) argue philosophically that there is a relationship. On the other hand, Bhide & Stevenson (2000, p. 122) show that some people agree on that one can choose to be ethical, but it is not worth it because honesty does not pay. He continues by stating that acting honestly is not unified with an economic justification of higher financial performance; it is rather an individual moral choice. This choice, when taken, leads to trust. In contrast, when being dishonest, it leads to lack of trust and the market shows the negative consequences of reputation and vengeance. If the market fails to respond and condemn dishonesty, one can only hope that the society can shame that company or person (Burton & Goldsby, 2009, p. 150).

We have presented two opposing views that are supported by different scholars. On the one hand there is the assumption and claim that ethics and profit maximization are complex to combine because of the conflicting goals and demands, whereas on the other hand a view on ethics and profit maximization has been developed in which they can be combined and could benefit from one another. Through logical and basic reasoning, one can conclude that ethics and profit maximization are at least hard to combine. However, a deeper reasoning and trade-off effect in relationships with stakeholders that could result into indirect business and profits is a very reasonable assumption as well. We do not take a stance for either one of them. Instead we are interested in the view of the managers included in the study to shape an opinion through real life experiences and stories.

Ethical behavior can be implemented in different ways and where some argue that it should be stimulated through rules and regulations, others believe that the inner motivation of companies towards ethics can be profitable. Those against ethics in business may argue that if one chooses to be ethical and pass an opportunity to make business, someone else will do it, so it can anyway be someone to take the choice and earn some money. These issues can lead to tough decisions for managers in companies. Exposing one for the risk to take an opportunity may lead to devastating consequences, and the rebuilding of trust and regaining customers is time and money consuming. While in other cases, where the size and power of the different companies negotiating is unequal, power can replace trust and one of the parts may be forced to trust the power in order to survive in the marketplace (Bhide & Stevenson, 2000, p. 124). Nevertheless, there are those managers and companies who can choose and look upon ethics as an offensive tool to differentiate and create value instead of risk minimization (Michaelson, 2001, p. 337).

One of these businesses, who lean against the principles of social businesses, is among others RedQ (RedQ, 2012). RedQ exists on the core values of ethical business and has implemented this in all the processes in the company. For them, it is the reason to exist. We agree with Michaelson (2001, p. 337) that understanding the importance of ethics in business can lead to value adding and also a competitive advantage. “Flying under the radar”, i.e. acting ethically could give the company less advantages and benefits in the long run compared to using ethics as an offensive tool to add value. In that sense it should be understood that a self-regulating
effect takes place in the market and that the customers “judge” and/or “punish” unethical behavior. However, if managers take ethical or unethical decisions depend on many things, one of them is the power of owners and shareholders in general.

3.1.4 Shareholder Preferences

We have just discussed profit maximization with regard to ethics. Not unimportantly, shareholders, the owners of the company, play an obvious and very important role with regard to the companies’ decisions in ethical considerations and demands for profits. Regarded as final decision makers, one can suggest that the role of shareholders and the wish for returns on their investments (ROI) influences the managers that steer the company. It is often suggested that people’s desire for money, profit and shareholders’ wealth maximization are in direct opposition to ethical concepts such as honesty, fairness and the good of the society (Chambers & Lacey, 1996, p. 93). A study where corporate social performance and financial performance are measured, Hillman & Keim (2001, p. 132) shows that social issue participation, which are activities outside the company’s regular activities and are done pro-actively for the greater good of the community, is negatively correlated with shareholder value creation and will decrease shareholder value.

Although these results are quite recent and concluding that shareholder value maximization is not possible when an ethical program is followed, a contradicting view is presented to us by Brooks. Brooks (1989) showed that corporations were becoming aware of the large costs that can occur when a profit only strategy is followed and started to de-emphasize maximization of short term profits. Costs that could possibly occur were fines for breaking laws, rules and regulations in stock trading and related businesses. At the time, some corporations encouraged ethical behavior among employees. 65% of the corporate directors felt that an ethical business approach would strengthen their competitive position. Epstein et al. (1994) found that some shareholders were willing to tolerate profitable unethical behavior. However, most of the shareholders (58%) would sacrifice profits for ethical behavior and 72% would prefer some kind of disclosure about ethics in the annual report. Brooks (1989) and Epstein et al. (1994) suggest that shareholders that are willing to sacrifice short term maximization to support ethical behavior should make their position known and demonstrate support for managers. In other words this shows that shareholder can encourage managers attempt to use ethics as an offensive tool to add value and therefore increase competitiveness.

We have presented several theories and outcomes and it has become clear that duties to shareholders and duties to society are often conflicting. This is logically related to ethics versus profit maximization. Business leaders can feel pressure to trade social good for shareholder wealth (Ostas, 2004) because it is the owners that steer and direct the company. Even though managers and directors have standards of ethics and developed moral reasoning skills, the legal structure of the company often pressures and/or requires them to ignore their personal morals and ethical beliefs (Rose, 2007, p. 322). An experiment performed by Rose (2007, p. 319-320) indicates that directors that have duties to shareholders consistently give up CSR in order to increase shareholder value, even when their personal moral values and ethical standards suggest other courses of action. Interestingly, directors that perceive their role as company owner rather than director, do not trade ethical standards and CSR for shareholder wealth maximization.

Profit maximization and shareholder wealth maximization are two aspects closely related to the managers’, and finally company’s, approach to and manage of ethics. Some say they are contradicting and opposing standpoints, others argue that shareholder wealth maximization
should be taken into account to achieve long term profit maximization, in other words: ethics can be included in both profit maximization and shareholder wealth maximization. With regard to our standpoint and understanding of ethics versus profit maximization, we take a similar point of view for this matter because we believe that the issues are inter-related.

### 3.1.5 Ethical Costs

Ethical cost can be a result of insufficient regard to responsibility of its offering, equality and integrity to mention some (Falkenberg, 2004, p. 25-27) where the cost of the company depends on how much one has violated its commitments. Enron, Arthur Andersson and WorldCom are some examples of ethical collapses and meltdowns. Nestlé for example produced a tailored product to mothers in poor countries with its substitute to breast feed milk faced some ethical costs. They did not take into considering that these countries did not have clean water to mix the product with, which made the kids sick, and sadly also led to death. Nestlé became boycotted by society, new laws and procedures were implemented and they paid about 40 million US dollar to tackle the damaged image and re-attract old customers (Shaw & Barry, 1992).

### 3.2 Moral Awareness and Reasoning

By now we have presented the fundament of this study and we will now proceed to elaborate on the first step of the conceptual model towards ethical behavior.

#### 3.2.1 Moral Awareness

Moral awareness constitutes the first step to pursue ethical behavior (Kohlberg 1981; Rest et al., 1999), which means that if ethical content is not recognized, the chances of acting ethical is small. Rest (1986) explains moral awareness as the ability to recognize a moral problem through an interpretive process. Moreover, Baier (1958) enlightened us that moral awareness appears when one can accept that a moral point of view is a valuable point of view.

“Many people aren’t aware that they’re doing unethical things” (Bazerman, 2008, p. 2). In other words, one need to recognize that ethical content is faced, to consciously steer towards the desired behavior, otherwise a decision is made on incorrect background information and the behavior may not be what one intended. This only leads to an unsustainable approach to ethical considerations, where no improvement or maintenance of behavior is probable which doubtlessly can lead to an unsecure future success.

#### 3.2.2 Moral Reasoning Theory

After studying the theories delivered by many scholars, we have come to the understanding that moral awareness and moral reasoning relate to the personal decision process. It answers questions of how and where the decisions with regard to ethical behavior initiate and take form. After all, the process from where an ethical decision is taken contains several steps. In this paragraph we present the views on moral reasoning theory, the procedure of processing the ethical content, and what circumstances take the decision, while the moral awareness explicitly is the ability to understand that an issue contains ethical content.

The most recognized scholars in the field of moral reasoning, which includes moral awareness, are Lawrence Kohlberg and James Rest. Kohlberg developed a stage model in order to provide understanding about an individual’s moral development. The model analyses the moral development, by using moral reasoning as a tool to embrace the psychological process of an individual. Colby and Kohlberg (1987) constructed a model with six stages of reasoning, grouped into three levels which identify one’s moral development. Each stage is
part of a ladder, where the next stage responds to a higher, and more advanced type of moral reasoning.

The first two stages in the model build the *pre-conventional level*. In this level a person acts according to what is ‘right’ and ‘wrong’ and is built on that someone tells the person what to do, using punishment and rewards. Children are often associated with this level and therefore most people advance to the next stage without realizing it. Stage three and four are called the *conventional stage* and include the considerations about one’s group of friends, co-workers and opinions from family members, i.e. the social environment. One reflects upon the expectations of others, and to maintain relationships is important. Here are both what is right and wrong, and what others think is right, taken into account when deciding.

The last two stages, five and six are named the *post-conventional level* of moral reasoning. Here people undertake a more independent and personal reflecting perspective and relation to what one finds personally important. What one strives for is to achieve universal ethical principles, decided by a higher degree of empathy. In contrast to the first and second stage, no self-interest affects that decision (Kohlberg, 1981). Moreover, to guide the decision, universal moral principles/dimensions such as honesty, justice and fairness is applied and no affection to reference groups is made (Kohlberg, 1981). These steps of moral reasoning can still be regarded as present theory. However, there are scholars that created new models and theories to describe the moral development through moral reasoning. We will present some of these models further on, to conclude, we explained this model because it can be seen as the foundation of moral reasoning theory.

### 3.2.3 Defining Issues Test

An evolvement of Kohlberg’s moral development model was made by Rest et al. (1999). The Defining Issues Test, as the model is called, clearly contains similarities with Kohlberg’s model. Nevertheless, a different focus is undertaken as well as two new aspects/stages are included. The model starts when an individual realizes a moral issue, moral content, which Colby and Kohlberg (1987) did not explain thoroughly when presenting it as responding to external punishment and rewards. How one demonstrates awareness differs from situation, as well as for what reason one recognized the content or issue. As the issue has been recognized, the individual makes a judgment with regard to what is desirable. The model now proceeds to the third step, where the moral intent is estimated which affects the final step moral behavior. If the moral intent does not correspond to the outcome of the decision, moral behavior, one lacks moral education in the judgment phase (Rest et al., 1999).

1. Realize moral issue
2. Judgment and relate to what is desirable
3. Estimation of moral intent
4. Moral behavior

With regard to the above presented four-step model, this is when one realizes that there is a moral issue, e.g. a decision with regard to a standpoint has to be made, either a moral decision or immoral decision. Unfortunately, it is unclear who shapes the behavior to come to either one of the decisions. Furthermore, it assumes that people are able to decide what is moral and what is not and weigh all the trade-offs and possible outcomes. As researchers we believe that it is hard to construct people’s rationalities in such step models. However, we believe that it is the closest attempt to understand human behavior and present it in a systematic way and contribute to the theoretical background study of this thesis.
The model of Rest et al. (1999) clearly discloses important aspects of moral reasoning. Above all it sheds light on the first step to achieve ethical results in the marketplace, the moral awareness (Geva, 2006, p. 139-140). It also clarifies that awareness can be divided into recognition and classification, where recognition is the first step and classification refers to the organization of the moral content. However, “the core of moral awareness is recognizing the existence of a moral problem in a situation” (Geva, 2006, p. 140). Something that is lacking in managers skills, since it happens that they take decisions without really knowing if it is ethical or unethical (Garner, 2007; Bazerman, 2008). Therefore we emphasize the importance of moral awareness as the first stage in pursuing an improved ethical behavior in companies. And as of today they are being used as a framework, with some modifications or developments.

3.2.4 An Elaboration on Moral Awareness
Kohlberg’s model to analyze moral development is used as the framework to which Falkenberg (2004) include more perspectives for a company, in order to increase moral awareness and ethical behavior. The focus is mainly on uncovering potential ethical dilemmas, avoiding harming third party, and avoiding costly ethical collapses.

A developed and expanded model is justified and needed because of the globalized marketplace. Companies face more complex ethical content as customers, competitors, suppliers etc. often are internationalized. When dealing in a global marketplace, Falkenberg (2004) argues that the following post-conventional principles are of great help for companies to guide their decision: equality, justice, rights and duties, integrity and responsibility. However, understanding what relationships the company has and who one effect by its actions, i.e. moral awareness, is the fundament which these principles should rest on. Moreover, the importance of moral awareness and these ethical principles increases with size of the company, where MNE’s (multinational enterprises) run greater risks than SME’s (small and medium enterprises). These principles are mostly of interest when a company needs to apply its ethical principles to actors with a different culture and values (Falkenberg, 2004). What each principle stands for can differ from case to case, and why these five principles are of importance is because they generate a more holistic tool to analyze moral development and moral reasoning.

Although the psychological processes of individuals behind moral reasoning and ethical decision-making have been presented by Kohlberg and Rest in two leading models, an important indicator for people to behave in a certain way is however partly decided in one’s background and education. When growing up, people are shaping their personality through different influences. Nevertheless, moral awareness constitutes the first step in pursuing ethical behavior and is emphasized by several researchers. However, even if a moral content is realized, the want to do the right thing is decisive for its ethical behavior. In the next chapter, and the next step towards taking a decision, we will explain moral motivation. It is related to if an individual or a company wants to follow the decision which is considered the “right thing to do”.

3.3 Moral Motivation
Moral motivation is the individual’s responsibility, which can be decisive if the decision is ethical while the organization can affect the environment which influences this motivation. Different motivation will lead to different categories of moral content. Moreover, moral motivation can somehow be measured in order to analyze the second step in pursuing ethical behavior.
3.3.1 Cheating as an Indicator of Moral Motivation

A concrete example of what could respond to unethical behavior is cheating, which disclose the moral motivation, even if it is a surrogate and cannot confidently reflect on unethical behavior (Ariely, 2009; Smyth et al., 2009). As mentioned in the systematic reasoning process of people, people can choose to cheat or not. Obviously, the community and the general opinion is that cheating is unethical or immoral. We will first discuss the different aspects that could influence ones’ motivation to cheat, after which we will discuss how people reason, or learn to live with their own immoral decision.

Cheating can be analyzed with an external cost-benefit analysis. According to the economic theory, cheating is the answer to:

- What is the probability of being caught;
- How much one gains from cheating;
- How much punishment one would get in case of being caught.

One weighs the options presented against each other and then come to a decision. As with regard to the moral reasoning and ethical decision-making process, which is often experienced unconsciously, these decisions are made very consciously. The decision is often in favor of cheating and several authors have been able to prove that people weigh their decisions and cheat when they can (Mazar et al., 2008; Cizek, 1999; Bazerman, 2008; Garner 2007). Smyth et al. (2009) do not only prove that people cheat, they also prove that college students among different majors, business students cheat the most. Quite interestingly since it can be assumed that business students will be the future managers and decision makers.

Besides the fact that business students show “bad” morals, men show worse ethical behavior than woman do and older students show a higher ethical performance than younger students (Smyth et al., 2009). Furthermore, men are better at maintaining a positive self-concept compared to woman, which is not a positive ability in the eyes of the society because it basically means that they can live with, and justify their unethical behavior. According to Mazar et al. (2008) the adjustable self-concept maintenance is the core why cheating seems to be an alternative for most people, in particular the categorization malleability and inattention to moral standards. In line with the standard economic theory, Mazar et al. (2008) and Ariely (2009) state the conditions when people cheat more and less. If the rewards are big, cheating increases. If the probability of being caught is low, cheating also increases and lastly, if the punishment when being caught are low cheating increases.

Another example of cheating, when it involves money, is people’s attitude about reporting lost items to the incurrence company. In general people overvalue or overstate the items they lost (Accenture, 2003), in order to benefit from the incident. Unethical behavior is justified by different reasons such as “everyone does it” and “I am not sure what I get back”. Moral motivation is therefore an important aspect when trying to get hold of the building blocks of ethics.

3.3.2 Students versus Practitioners

As noted from above, Smyth et al. (2008) state that older students accomplish a superior ethical performance than their younger equivalents. Moreover, a study to examining differences in ethical decision-making between entry-level business students, senior business students and professional accountants, with three to five years of experience, only one overall significant difference was found. It appeared that women were consistently less willing to
perform acts that were viewed as less ethical, compared to men. The results were not mitigated by experience, where the amount of years studied and/or worked played a smaller role. However, the professionals were less willing to take a questionable action compared to graduate students with regard to bad debt allowance.

The effect of university accounting and business education on moral awareness appeared to be small (Cohen et al., 2001, p. 323-330). These results tell us, to some extent, that although students do weigh the possible outcomes of their unethical action, they do not continue with this behavior in professional life. This could be related to the decision which mostly affects the company rather than the individual. From this there is reason to understand that women and professionals have, generally seen, better ethical behavior, not always moral awareness, but partly a higher moral motivation that makes them follow their judgment. Moreover, the moral content/issues the student and professionals were facing can be categorized with different criteria, which gives background how and why the actions took place. Below we describe those that are most relevant for this research.

### 3.3.3 Moral Motivation and Judgment

Moral content can also be analyzed from the individual’s perspective. By using motivation and judgment, a difference between several moral problems and a categorization into four groups has been made. Motivation refers to a person’s will to make the “right” decision, even though motivation is not enough to make a moral choice. Judgment is the other attribute a person uses when deciding. It refers to the person’s knowledge and education in the problem area. These two attributes are visualized in Figure 2 below.

<table>
<thead>
<tr>
<th>Moral Motivation (will)</th>
<th>Moral judgment (knowledge)</th>
</tr>
</thead>
<tbody>
<tr>
<td>High</td>
<td>Intermediate: <strong>Genuine Dilemma</strong></td>
</tr>
<tr>
<td>Low</td>
<td><strong>Moral Laxity</strong></td>
</tr>
</tbody>
</table>

**Figure 2. Types of Ethical Problems**  
**Source:** Geva, 2006, p. 135

The model consists of four categories of moral content/issues; genuine dilemma, no-problem problem, moral laxity and a compliance problem. A genuine dilemma is constructed by the high motivation to solve a problem, but the judgment is not sufficient. This is an example of a person who tries to find the best solution but none of the possible decisions are morally satisfying. A no-problem problem, on the other hand, appears when moral judgment is determinate and motivation is high, hence, the person will take a moral adequate decision.

The ethical problems in general include a lack of motivation (Geva, 2006) with an exclusion of moral dilemmas, and demands more attention from a company’s management when strategic decisions can play a part for the company’s future. One of them is moral laxity, defined as a problem including a person’s low motivation and intermediate moral judgment. In this case, one acknowledges a moral problem, however not to the degree where it is urgent
to solve, or where one does not see the consequences of not solving the problem. Therefore, the company plays an important role when its employees are guilty of moral laxity Buchanan (1996). Employees may experience ambiguous rules of responsibility and absence of management which allows postponement of the duty. This problem does not contain any, from the employee’s perspective, relation to guilt, reward or breaking social norms but rather late recognition and slackness (Geva, 2006, p. 137-138).

Moral laxity lacks both motivation and judgment, a moral compliance problem on the other hand, an individual only lacks the motivation. According to Geva (2006, p. 135-138) one recognizes the right thing to do, nevertheless, for different reasons fails pursuing that righteous goal. Reasons can be short term thinking, bottom line orientation and self-interests. Jensen (2010) and Van Sandt et al. (2006) argue that the construction of the company, when it comes to culture, processes and unwritten laws, plays an important role in the outcome of one’s decision, and therefore a company’s ethical behavior. Compliance problems can for example be: lying to customers, falsifying financial reports, stealing for the company, or violating regulations (Weaver and Trevino, 1999). A response from the manager’s side could be to reinforce an ethical framework where incentives and punishments are clear and lead to willingness to do the right thing. However, managers tend to realize the harm of irresponsibility after it has happened. We can see examples of moral laxity in the 21st century’s financial bubble (Geva, 2006, p. 139), whereas the compliance problem also had part of the crisis.

### 3.3.4 Moral Intensity

A moral problem, such as those in crisis, can also be understood from an intensity perspective (Jones, 1991). Moral intensity can be explained by the level to which an action is subject for moral consideration. This is interesting to consider because it allows insights in the considerations made when a possibly unethical decision has to be taken. Although more of an implication and tool for managers, Jones (1991) defined six dimensions of moral intensity:

- **Magnitude of consequences** *(the total harm or benefits that derive from the decision)*
- **Concentration of effect** *(size of the possible effect on others, the organization)*
- **Probability of effect** *(the chance that the possible effects will happen and do harm)*
- **Temporal immediacy** *(how much time is there between the decision and the effects)*
- **Social consensus** *(social agreement on whether the decision/behavior is good or bad)*
- **Proximity** *(the distance between the decision maker and those affected by it)*

According to Jones, with these dimensions, a manager should be able to anticipate and act before a moral problem is a fact, react on current events and analyze the past to collect knowledge about experienced events. Moral intensity should be approached with a fundamental cross-functional analysis to get hold of a potential moral problem in time (Jones, 1991). Consequently, the vagueness and flexibility in a laxity problem should be tackled with fixed duties and determinate responsibilities. A compliance problem should be approached with more powerful sanctions and greater incentives; since one understands that a moral misconduct is committed. Interestingly, there is a concept called “self-justification” in which people justify their own decisions. We will now continue to elaborate on that phenomenon.

### 3.3.5 Self-Justification

Earlier in this literature review we briefly mentioned self-justification amongst students whom cheated. We will now go deeper into the phenomenon to gain a better understanding of the importance in the context of ethical decision-making. “Dissonance is such an uncomfortable
state, that we intuitively try to reduce it, sometimes by moderating our actions, but far more often through self-justification” (Lowell, 2011, p. 18). Self-justification happens when a person behaved immoral but convinces himself/herself that it was moral. Reasons for such a decision could for example be not to feel bad or to be able to mentally move on. Moreover, Mazar et al. (2008) describes a similar concept; self-concept maintenance, a factor that keeps dishonest people with an intact self-concept. We interpret it as people’s attempt to justify an immoral behavior and therefore maintain a positive self-image. Since managers are exposed to decisions each day, sometimes, with insufficient and incomplete of information, it leads to situations where moral dissonance may appear. These three stages, immoral behavior, moral dissonance and self-justification can be visualized in the feedback loop of immoral behavior below. In Figure 3, it is visualized how the happenings may lead to a negative downward spiral of immoral behavior.

![Figure 3. Negative Amplifying Feedback Loop of Immoral Behavior](image)

**Source:** Lowell, 2011, p. 23

The justification leads to internalization, which is the phase where an action gets affirmation from the company, and therefore also acceptance to take the same decision again. Because the level of acceptance has increased, the previous immoral decision is now moral, which is named amplification.

An important stage of the model, moral dissonance, should be interpreted as differences of magnitude, tangibility and attitude (Cooper, 2007). Magnitude refers to managers’ will to eliminate dissonance according to the level of bad conscience. Whereas tangibility can be explained as the dividing of dissonance, those of greater impact are dealt with first. And lastly, attitudes are easier to change than behavior and therefore the theory treats change of attitude which later can change behavior. Dissonance should according to Lowell (2011, p. 24) preferably be avoided and management’s attempt, in forms of systems, guidelines and corporate culture, is to guide managers to take moral decisions. A reaction of managers in order to reduce any inconvenient feeling is to use strategies as self-affirmation, rationalization,
and self-justification. These strategies are a threat to ethical management, to a company’s ethical code of conduct and to its long term profit maximization.

### 3.4 Ethical Decisions

By now we have explained the third step of the conceptual model towards ethical decision-making. Although it is the responsibility of organizations to behave ethically as a whole, it is the individual decision maker that makes the (un)ethical decisions. Ethical codes and social responsibility programs are created and implemented at a strategic and managerial level. It is interesting to know what the rationales are for the individual to behave (un)ethically because the ethical decision-making process of individuals in organizations is quite complex.

#### 3.4.1 Personal Influences

All individuals are different and thus think and judge differently, in different situations. Kavali et al. (1999) distinguishes four different factors that influence the ethical decision-making: [1] Personal factors, [2] inter-organizational factors, [3] issue-related factors and [4] extra-organizational factors. Personal factors are for example personal values, socio-demographic characteristics. Inter-organizational factors are for example the organizational goals and the role of stakeholders. Issue-related factors are everything that is related to the decision and could possibly influence it and extra-organizational factors could be issues from outside the company that influence ones decision. These aspects are relevant for the understanding of the total subject because it influences the individuals’ decision-making.

Another declaration is made by Roozen et al. (2001) whom state that the personal factors (personal values, organizational commitment and socio-demographic characteristics) and inter-organizational factors (organizational goals and the role of stakeholders) are of great significance. Personal values that are of importance are such as honesty and ambition. Socio-demographic values are for example gender and age. Organizational commitment is the attitude that employees have towards the organization they work for. Also, organizational goals influence the individual through the value that is attached to the goals.

#### 3.4.2 Organizational Influences

The role of stakeholders, e.g. the internal and external influences on the firm, affects the decision process of managers and employees also because of their importance on the company. Roozen et al. (2001, p. 97) found that human resource management and customer relations policies are important ethical attributes, more important than those attached to profits. Examples are that ethnicity, gender and age are not taken into account when recruiting or promoting people and that no information is kept secret for the employees, as well as the importance of safe working conditions. With regard to customer relations, examples are not forcing of potential customers, no sexist argumentation in advertising, no advertising towards children and complete and honest information regarding a products quality. The authors also found that when profit maximization in organizations is perceived as important, the ethical attitude becomes less important. Furthermore, older people with higher incomes, a lot of work experience and a lot of responsibilities, have a less ethical attitude. This could possibly be because of the increased workload and that ethical decision-making, and weighing all options rationally, might cost too much time. Or that decisions are being made based upon previous experiences and that ethical decision-making played a smaller role when these previous experiences were made (Roozen et al., 2001). These are a wide range of different type of decisions that managers and employees in companies are exposed to on the work floor, depending on responsibility and role in the company. Because we believe that these different
examples shed a light of clarification and create understanding in the matter, we find them of high relevance for the understanding of the positioning of this thesis.

### 3.4.3 Socialization Influences

Hegarty and Sims (1978) identified other socialization influences and defined: sex role differences, religious beliefs, age, work experience and nationality as factors that may influence the ethical decision-making. Many researches in social science have already proven the importance and influence of learning appropriate behavior as influence on our doing. Managers are also part of that influential framework. Other influences are ethical decision history, where previous decisions play a role in future decisions (Roozen et al., 2001), organizational factors such as the behavior of top managers and supervisors that have a great impact on the ethical behavior of employees (Hegarty and Sims, 1978).

According to Barraquier (2011) that argues that it is important for managers to take the specificities of organizational fields into account and identifies three categories that influence the decision-making. These three categories are [1] instrumental, [2] environmental and [3] experiential. Instrumental are the strategic and financial motives, environmental are institutional, legal and stakeholder pressures that apply and experiential are the personal or collective experiences. These three categories and influences cannot be seen as individual influence. In the organization they interact with each other and side effects may appear. This is because the organizational field as such is a complex array of business and psychological factors (Barraquier, 2011, p. 29). It becomes clear that more factors from the past and present in individuals’ lives influence decision-making in general and therefore also the ethical-decision-making process. We find that these different influences are complementing each other rather than contradict. The reason for that is that researchers that contributed to this field had different intentions with their research but also a different way of organizing and some contributions are similar yet differently named for example.

### 3.4.4 Intuition and Experience

Unfortunately, rationality does not have dominance in ethical decision-making and as Haidt (2010) argues, intuition plays a key role in ethical decision-making when one needs to decide between profits and ethics. As mentioned before, experience plays an important role when one has to make a decision. People (managers, employees, decision-makers) develop ethical know-how and expertise which they can apply when needed, often automatically (Barraquier, 2011). This relates back to the earlier stated fact that people with a lot of work experience and work-load are less concerned with making ethical decisions.

In a research in the flavors and fragrances industry, Barraquier (2011) found that managers analyze the instrumental, environmental and experiential by using their expertise to make a decision. Decisions are dealt with by intuition which comes from the memory that holds a set of patterns and previously taken decisions. The results also confirmed that behavior of decision-makers is specific to the competitive environment of organizations. How much profit do they want to make, what external pressures are present, what are the leadership and financial capabilities which influence the behavior. This also means that if decision-makers can move freely, they are up to making the decision themselves and estimate if they would go for profit or ethical decision-making, or somewhere in between. The decision highly depends on the organizational culture and dedication to it.
3.4.5 Integrated Decision-Making Model

Jones (1991) integrated several models of ethical decision-making. It represents all variables that are considered as influencing factor on the decision-making process (Pater & van Gils, 2003, p. 763). Jones also explains that the decision-making process is affected by the nature of the moral issue as such, but also individual and situational variables (Jones, 1991). This is in line with other organizational factors (reinforcement system, management behavior, job characteristics, and organizational culture) as important influence on the process. Figure 4 helps us understand the different theories and models that are developed over time and been treated in this thesis. As Pater and van Gils (2003) mentioned, the model is good and useful because it elaborates all existing and leading models, but it also manages to combine them in an effective and insightful way that increases understanding of the theoretical frameworks present.

![Figure 4. Synthesis of Ethical Decision-Making Models](image)

Source: Jones, 1991, p. 379

3.5 Ethical Behavior

We have now proceeded towards the fifth step in the conceptual model. Ethical behavior has become an increased research topic over the past decades. Before we can discuss ethical behavior and ethical decision-making, it is critical to define ethical behavior, but also, what is generally seen as non-ethical behavior? Although most authors define ethical codes, codes of conduct and similar corporate and organizational documents that describe what is right and wrong, definitions of ethical behavior are contradicting. Some authors attempt to give a definition or explanation to the phenomenon. Roozen et al. (2001, p. 97) provide quite a broad definition by stating that “ethical behavior in customer relations means that organizations do
not force potential customers, no sexist argumentation is used in advertising, no advertising towards children is used, complete product information is given as well as honest information about the quality of a product”. A shorter definition is provided by Jones (1991), who finds that unethical behavior is defined as “behavior that violates generally accepted moral norms”. For the purpose of this study, we follow both definitions and approaches because we believe that they complement each other.

### 3.5.1 Managing Ethical Behavior
For companies, the management of ethical behavior is important as well. The steering of employees in making the right decisions has always been a challenging task. If an individual’s behavior is affected by the existence of ethical codes, it can be expected that employees recognize, recall and comprehend the specific content of the codes (Weaver, 1995, p. 368). It has made clear that ethical codes cannot succeed without managerial implications. Freeman and Gilbert (1988) already addressed that strategic decision makers must address the issues they face in moral terms or risk moral decay. Stead et al. (1990) recognized that managing ethical behavior is a critical social problem for business organizations.

In the case that a company or organization has an ethical code of conduct, code acceptance of employees appeared to be very important. Employees were not influenced by the ethical codes in companies where they experienced the ethical code of conduct as external. This could be caused by forced code compliance (Stevens, 2008, p. 603) where senior management has decided the ethical codes and they are therefore not accepted as part of employees’ culture. Some companies have thus used ethical codes as instrument of control, however codes should be seen as tool to improve and steer behavior in ethical decision-making situations. Trevino and Weaver (2003) found that this type of forcing behavior places the employees outside the climate and culture boundaries where employees feel ownership. To address problems and change and steer behavior, senior managers and managers should thus approach ethical codes and employees’ behavior differently.

Laufer and Robinson (1997) showed that when employees’ and managers’ behavior is consistent with ethical codes, it can effectively influence others in the organization. Thus it can be used as effective management tool. In an earlier study, Trevino et al. (1999) found that ethical leadership and open discussions of ethics contributed to increased ethical behavior. It is important that codes become embedded in the organization and part of the ethical culture.

### 3.5.2 Ethical Codes as Control Mechanism
Cassell et al. (1997) provided more insights about the fact that ethical codes can be regarded as type of control mechanism, however, the authors emphasize that an ethical code is nothing more than a body of rules and procedures, which specifies what employees should and should not do in particular situations. As Pater and van Gils (2003, p. 769) found, when ethical codes do not correspond with personal ethical values, they might encounter resistance. Furthermore, employees that were not involved in the development of the ethical code might not share the values and perceive the code as showpiece of top management. Even in Sweden it was reported that mainly supervisors and senior managers were involved in the development of codes. Svensson et al. (2006, p. 551; 2010, p. 218) also describe that the downside of few staff involvement when codes are created, it may be less influential on lower level managers and employees.
3.5.3 Ethical Training and Interaction

In order to strive for a more ethical conduct, Pater and van Gils (2003, p. 770) suggest ethical training programs and constructive dialogues with employees in order to make sure that the codes are effective. When an individual recognizes and makes ethical values part of their value system, this should have influence the individual’s behavior and actions (Marnburg, 2000, p. 200). Managers might be excellent in their field of expertise. However the fact that they concern themselves to be ethical instructors through the creation and spreading of ethical codes deflates the employees’ expectations of ethics (Marnburg, 2000, p. 207).

3.5.4 The Process Towards Ethical Behavior

Until now we have presented the process of building blocks that create the process in which an understanding of ethics, from moral awareness to ethical behavior is made. A moral content is realized by the employee, manager or the company as a whole, also called moral awareness, and the moral reasoning starts. A judgment is made according what is preferable, afterwards the individual’s motivation decides whether the person want to do the right thing or not. When the individual knows and wants to decide for the right thing, the moral identity plays a part in form of letting the person take the decision or be weak and give in for internal and/or external influences. The process ends up with the ethical decision-making and the ethical behavior. Moral identity as the stage after moral motivation is yet not explained, however, it will be thoroughly clarified below, because we find it very closed related to both manager’s and management’s impact on the process. The influences and impacts together with the building blocks create the conceptual framework. Below in paragraph 3.6 we will elaborate the influences on the ethical decision-making.

3.6 Organization Influences on Ethical Decision-Making

So far we have aimed to establish a presentation of theories and models that explain the moral awareness and motivation of individuals, by what these processes are being influenced and how they come to ethical decisions that lead to ethical behavior. The foundation and the process proceed with introducing influences on the individual, which in turn, influence the behavior. Although one can argue for a placement before the ethical behavior chapter, we shift from a more individual perspective to company perspective where happenings influence behavior.

3.6.1 Organizational Interactions

“How to take responsible actions can be negotiated and decided upon collectively, but moral responsibility as such is exclusively individual” (Jensen, 2010, p. 426). Jensen (2010) continues by stating that moral responsibility is something human beings cannot say no to, since one is interacted in many kinds of relationships on a daily basis. Moral responsibility concerns the individual aspect whereas responsible actions rely upon management. With that in mind, a company’s management is of great interest when finding out the core aspects of what is affecting employees’ moral behavior (Van Sandt et al., 2006; O’Fallon & Butterfield, 2011; Jensen, 2010). Jensen (2010) argues for the increased importance of an action framework since a process of demoralizing is weakening the possibility of taking moral responsibility. The demoralizing process in companies leads to a moral distance between the employees. This makes companies obstruct their employees to make more moral decisions and take responsibility for their actions.

The demoralization process (Jensen, 2010, p. 427-431) occurs due to the discontinuous reinvention of companies, which refers to the phenomenon of more fierce competition among employees. A more egoistic behavior is often applied and people think about themselves and
their careers instead of the company. Employees need to show good results and state their importance for the company since reorganizations may appear, which put moral responsibilities in second place. The second and third examples that contribute to the demoralization process are flexible specializations of production and concentration without centralization of power (Jensen, 2010, p. 428). In general, a looser management and more instability encourage less moral responsibility. When power does not follow concentration due to complex organization, responsibility sustains floating which encourage negligence.

Jensen (2010) and O’Fallon and Butterfield (2011) proclaim that structures increase responsibility, something we agree on but also emphasize as a factor that associate to moral awareness. With regarding to the mentioned aspects about demoralizing, and the aspects explained later on, a company can increase its moral awareness. Jensen (2010) continues with another example of demoralization. The increasing importance of technology in companies unconsciously assumes some of the moral responsibility, since they take over some of previous human work. Managers and employees have accepted the technology’s role in the company but do not take the moral aspect into account. With these considerations in mind, Jensen (2010, p. 427) summarizes by saying that companies are neither evil neither good. With the explanation the ethical considerations companies often take as ethical codes of conduct in relation to described demoralization processes. Companies are adiaphoric, neither evil neither good.

### 3.6.2 Identity in the Organization

O’Fallon and Butterfield (2011) state on the other hand that a strong moral identity, low need of affiliation and extraversion among individuals will increase moral responsibility. It can be said that moral identity is the self-regulating function in individual’s self-concept (Erikson, 1964). The need for affiliation has been described as the need to establish and maintain close personal relationships with other people. According to Veroff and Veroff (1980), the need of affiliation is one’s tendency of seeking social contact and being in group, being part of something bigger. Introversion and extraversion are two opposite personality types and concerns the way a person prefer interaction with others. Introversion people values social contact avoidance, while extraverted persons are outgoing, active and high spirited. Furthermore, they stay around people more and are more likely interact as a form of personal stimulation (O’Fallon & Butterfield, 2011, p. 386). Ariely (2009) argues the importance of the group’s impact of one’s decision. He clarifies that one person gladly follows the group’s behavior as long as it is not too far out of its personal fudge factor. This factor can be explained as the area outside our moral perception, what we think is right. That means one can make an immoral decision and still feel good about oneself, it does not change the impression about oneself. To measure this phenomenon, O’Fallon and Butterfield (2011) have introduced the “monkey see, monkey do” perspective: when people are autonomous and undependable in decision-making.

### 3.6.3 Monkey See, Monkey Do

Moral differentiation, which is the core of the “monkey see, monkey do” perspective, can be explained as interpersonal distancing. This is a psychological distance between one person’s ethical action and someone else’s ethical action. “Moral differentiation is a multidimensional construct involving the joint influence of situational and individual factors” (O’Fallon & Butterfield, 2011, p. 383). In other words, one’s willingness to be influenced by another’s immoral behavior. The above described theories show the interactions in companies and how they influence the individual. It can even be said that employees look upon successful managers as role models. This means that the behaviors and actions of managers create
informal norms and codes of conduct within an organization. Therefore, the ethical behavior of the employees is highly influenced by the acting of successful managers (Jaffe & Tsimerman, 2005). Furthermore, Hunt et al. (1984) found that employees, who believe their manager is successful and ethical at the same time, are motivated to act more ethically. This is interesting because it means that employees, individuals, let their behavior being influenced by their role models and might to some extent eliminate previous decision memories and personal moral awareness.

3.6.4 Moral Identity
As mentioned earlier, O’Fallon and Butterfield (2011) could contribute proving that a strong moral identity, low need of affiliation and extraversion lead to a weak-end relationship between what other do and what you do (monkey see, monkey do) and therefore build a base from where ethical decisions can be made. Thus, a company should strive for employees with the above mentioned characteristics to possess over a moral responsible work force. A low need of affiliation and extraversion can be argued to contain contradicting standpoints. The reason is that people who care less about relationships, i.e. with a low need of affiliation, should also be less likely to promote socially active and encourage less interaction. Nevertheless, there is a difference between low need of affiliation and extraversion in terms of likelihood of being affected by others. In order to manage employees with the opposite characteristics, the goal must be to possess at minimum a majority of people with the above mentioned attributes (a high moral identity), to gain from the phenomena “monkey see, monkey do”. In this way people who are easily affected by other’s behavior obey and follow those with a higher moral identity and behavior. This is a crucial part in the process towards ethical behavior, since even if an individual or a company realize an ethical content (moral awareness), reason itself to the “right decision” (moral reasoning), have the want to take that decision (moral motivation) will not behave ethically if the moral identity is high enough to follow its conviction. This phase in the process is kind of a filter, either you are strong enough and you come to the next step in the process (ethical decision-making) or you not, therefore we have given it its own central place in the conceptual framework.

3.6.5 Ethical Work Climate
In favor of O’Fallon and Butterfield’s (2011) positive standpoint concerning management’s possibility to encourage moral awareness, Van Sandt et al. (2006) state that the best way for a company to increase the moral awareness is to:

1. Use benevolence or principle ethical criteria at loci level analysis instead of egoistic ethical criterion and a higher moral awareness is achieved.
2. A broader locus level analysis will achieve a higher moral awareness than employing a narrower.
3. An organization using egoistic ethical criterion and individual locus will achieve the lowest possible moral awareness.
4. Educate the employees and managers in order to increase moral awareness.

These theories enable us to relate these to a model presented by Van Sandt et al. (2006). In Figure 5 below it is explained that the box “self-interest” is representing the lowest moral willingness and “the law of professional code” the highest. In general one can say that the more someone places the company into the right down corner of the model, the more a company is achieving moral awareness. Criterion, e.g. level of maturity, is graded in; egoism, benevolence and principle. Egoism is referring to putting own interest in absolute first room. Benevolence can be explained as the maximizations of joint interest while principle is more
abstract and concerns compliance to laws and duties. On the horizontal axe the locus principles are located, including; individual, local and cosmopolitan aspects. Individual refers to psychology or physiologically place and one apply a more narrowed perspective, whereas a cosmopolitan perspective relies on principles that emphasize society’s best (Van Sandt et al., 2006, p. 411-413). This helps companies to define its own situation, and the model itself has several similarities with Kohlberg’s reasoning model, especially conventional and post-conventional level.

<table>
<thead>
<tr>
<th>Locus (place)</th>
<th>Individual</th>
<th>Local</th>
<th>Cosmopolitan</th>
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<tbody>
<tr>
<td>Egoism</td>
<td>Self-interest</td>
<td>Company interest</td>
<td>Efficiency</td>
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<tr>
<td>Benevolence</td>
<td>Friendship</td>
<td>Team play</td>
<td>Social responsibility</td>
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<tr>
<td>Principle</td>
<td>Personal morality</td>
<td>Rules and procedures</td>
<td>The law of professional code</td>
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</tbody>
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Figure 5. Ethical Work Climate
Source: Victor and Cullen, 1987, p. 56

3.6.6 Ethical Codes of Conduct
A code of conduct is considered to be an official company document that describes the desired behavior and is to some extent a standpoint of the company with regard to ethics. We will first discuss what a code of conduct can be considered as, after which we will continue to present the several reasons for their existence, but also the effectiveness of these codes in companies.

The Development of Ethical Code of Conduct
Codes of ethics are not so much a new phenomenon, but because of the increasing globalization, many organizations started adopting them in order to ensure that they are being seen as ethical in the marketplace (Svensson et al., 2009, p. 214). The increased globalization meant that many companies expanded rapidly into new markets in new countries and began to act cross-culturally. Because of these happenings, the employees were confronted with ethical dilemmas and there was an increased need for legislation and ethical codes. Although one can suggest that the globalization has lead to forms of unethical behavior, one cannot ignore the likelihood that globalization also facilitated spread of corporate ethical programs (Svensson et al., 2010, p. 500).

Some critics argued that codes are simply public relations tools; others believed they could be effective in encouraging more ethical behavior in organizations. “Codes articulate ethical parameters of the organization – what is acceptable and what is not” (Stevens, 2008, p. 601). Earlier, Stevens (1994) stated that an ethical code is a written document, ranging from five to fifty pages, a statement setting down corporate principles, ethics, rules of conduct, codes of practice or corporate philosophy concerning responsibility to employees, shareholders, consumers, the environment, or any other aspects of society external to the company. Later, Stevens (1996) described ethical codes as written documents which attempt to state the major
philosophical principles and articulate the values embraced by the organization. As mentioned, there are several definitions for ethical codes and the function(s) they have. Some describe ethical codes as documents that define responsibilities of the organization to stakeholders and articulating the conduct expected of employees (Kaptein & Wempe, 2002). Another example is provided by Nijhof et al. (2003), stating that codes contain open guidelines describing desirable behaviors and closed guidelines prohibiting certain behaviors. Rokeach (1972) stated that ethics are theories about what is good and bad, right and wrong. In the context of ethical codes, it is be practical to perceive ethics as espoused values, where values signify an enduring belief in a special way of action or a final preferred future state.

It has become obvious that one can discuss the definition of ethical codes. However, the content of codes should be taken into account as well. Research in the different contents of ethical codes differ from firms’ focus on illegal activities and employee misconduct (Mathews, 1987), to misuse of information, conflict of interest (Pitt & Groskaufmanis, 1990) and the defense of organizations against illegal behavior without much ethical guidance (Stevens, 1996). A more recent study by Kaptein (2004) shows a broader insight on the content of ethical codes. It was found that most codes described company responsibilities for product quality and services, obeying laws and protecting the environment. The purpose to have an ethical code as organization also distinguishes between the need to improve an image among share- and stakeholders, to the true belief that these codes could effectively encourage ethical behavior in organizations (Stevens, 2008).

**Why Ethical Code of Conducts Exist**

After gaining insights in ethical codes and the diverse contents and meanings they have to different companies, it is useful to investigate the reason for the existence of ethical codes. Behavioral effects on employees and image or reputation management are two reasons to implement ethical codes. Image and reputation management focus on the fact that the organization operates in an environment with stakeholders such as customers, public sector organizations, suppliers and other groups. With regard to the behavioral effects on employees, it regards honesty and fairness (Marnburg, 2000, p. 201). McKendall et al. (2002, p. 367) agree and say that codes firstly exist to enhance corporate reputation and brand image. Secondly, it conveys that the organization is committed to ethical behavior. Thirdly, a sense of community among employees could be created around the organizational culture which is expressed in the code.

There are studies that show effects of ethical codes. A study by KPMG (2008) found that organizations with ethical programs generally have a healthy ethics climate with lower incidence of misconduct, more effectiveness in detecting and responding to misconduct, and minimization of the ability to engage in misconduct. Somers (2001) even found that codes were associated with less wrongdoing in organizations and that a statistically higher level of employee commitment was present.

**Ethical Code of Conducts’ Effectiveness**

Although it has become clear that ethical codes can have effects on behavior, the actual effectiveness is important to companies because it is measureable. The effectiveness relates to the actual change in behavior of employees and managers in the ethical decision-making process, to make an ethical decision. We will now discuss that factors are proven to be of influence to the effectiveness of ethical codes in companies.
Code effectiveness is an important aspect in the outcomes of ethical codes of conduct in organizations. Corderio (2003) and Somers (2001) suggest that it is more important to have processes in the organization to ensure that the ethical considerations are implemented in the decision-making process. Wood and Rimmer (2003, p. 192) stated that a code is not a self-sufficient or stand-alone document that will change behavior. Without the ability to read the code, managers and employees will not have the opportunity and ability to familiarize with the content of the code. In order to imbue the code with life and reinforce the importance, management should communicate activities with regard to the ethical code regularly.

Furthermore, training programs are positively related to ethical decision-making (Stevens et al., 2005). Also, the more an ethical code is embedded in the organization, the more effective additional communication will be. Employees will be more receptive to communication activities because they are familiar with the concept and the content and the communications are therefore not a stand-alone activity, but part of a broader program. The ethical codes do not only serve to maintain an image to the public, but it can effectively discourage employees in performing unethical behavior (Kaptein, 2011, p. 239). White and Lam (2000, p. 37) discuss the importance of ethics training and education in order to increase effectiveness of ethical codes in the organization. They say that although many organizations have adopted ethical codes, codes of conduct and similar documents, an ethical program is not considered strategically important enough to measure effectiveness. Furthermore, they conclude that there seems to be an absence of a link between moral reasoning and decision-making.

We have now seen a handful of tools that managers can apply in their company to influence and change the behavior of employees to get affected by the ethical code and to make sure it has value to the employees. This is of importance because of the earlier described individual processes by which individuals are being influenced in the ethical decision-making process. In the next part we will further discuss the manager’s role in the organization with regard to ethical codes and ethical decision-making.

### 3.7 Manager’s Role in Ethical Decision-Making

The literature review has so far given insights in the personal and managerial processes, the influences on ethical behavior and decision-making and the tools and abilities managers have to influence individuals’ behavior and finally the whole company’s behavior. We will now go deeper into the manager’s role in the company with regard to moral awareness and ethical decision-making. In particular, how the characteristics of the manager influence the other actors in the company and how it therefore influence the ethical behavior of the company.

#### 3.7.1 From Macro to Micro Ethics

In order to analyze the manager’s role in relation to ethical behavior, a distinction of macro and micro ethics could be of use. According to Brummer (1985) a manager work and affect in the macro level, which is explained to concern ethics in a policy formulating standpoint. In addition, Brummer (1985, p. 83) argue that macro issues have a larger impact on society, and therefore also the company, compared to micro issues. Micro issues often relate to employees, but not only, and to a day-to-day basis and could certainly have big effects on society, if for example a quality check of a product is performed badly. However, if a company would have provided a bad quality check process, i.e. a macro issue, more products would probably not fulfill the quality standards from the company since several employees would follow the policy the company had formulated.
All ethical issues companies face are certainly not of this magnitude and some may even slide over to the micro perspective, issues can overlap. However, one can see the distinction which put macro issues in the hands of managers. Micro issues are not only concerning employees, since the framework of tools and incentives is constructed by the management. Management needs to decide these incentives, create an accurate culture where a professional behavior is encouraged and responsibility is obvious (Brummer, 1985, p. 81-85). Micro issues can be defined as implementation of policies. These issues often arise when an individual disagrees with a manager’s decision in relation to the individual’s personal values. Issues can also arise when there is room for interpretation (ambiguity) of the guideline and two individuals have a different understanding and a conflict arises. When this happens it is of high importance for manager’s to manage the conflict with sensitivity, take responsibility for fuzzy policy’s and state the course of the company since that decision guide future behavior (Brummer, 1985, p. 82).

### 3.7.2 Dimensions of Ethical Behavior

Ethical behavior can shift over time that have Kujala et al. (2011) and Longenecker (2006) proved, because the ethical principles within ethical behavior also can change. Different kind of ethical principles that managers apply varies and managers therefore base their decisions according to different parameters. These can be justice, relativism, idealism utilitarian, formalism, or egoism to name some often applicable for real business situations. We will further explain these often used parameters that are of importance for managers efforts to base their decision on. Understanding of these dimensions will therefore also give insights in the manageability of people.

At the end of the relativism dimension, highly relativistic people have a personal moral philosophy which is based on skepticism. They generally feel that moral actions depend upon the nature of the situation (Jones, 1991) and the people involved. When they judge others they weigh the circumstances more than the ethical principal that might be violated. People that are low in relativism, find that morality requires behavior that is consistent with moral principles, norms and/or laws. In other words, people that are highly relativistic, judge situations individually and make a decision. People that are low in relativism are likely to follow the same set of rules in every decision that has to be made. This means that people that are low in relativism, are likely to follow the same pattern of decisions and could possibly get stuck in this pattern. This could mean either that unethical decisions are constantly taken when it has been that way before, however, it could also mean that ethical decisions are constantly taken. The point is however that situations are not judged individually and therefore the decision taker could have the danger of misjudging a situation either for his or her own company, but also for the ethical policy (Forsyth, 1980; Schlenker & Forsyth, 1977).

Another dimension is idealism. Idealism describes people’s concern for the welfare of others. Highly idealistic people feel that it can be avoided to do harm to others and would not likely chose between “two evils” which will both lead to negative consequences for people. People that are less idealistic do not emphasize these ideas because they assume that harm is sometimes needed to produce positive outcomes (Forsyth, 1980; Schlenker & Forsyth, 1977). Utilitarian guidelines, is constructed from the focus on consequences to steer employees and decisions. Managers try to visualize the consequences of and action, what it mean for the company in short and long term perspective. A close related principle is formalism, which relies on rules, principles and behavior to guide decisions, which bears in mind what rules and principles could be broken when taking a decision and therefore tries to avoid it (Reynolds, 2006).
To combine all of these ethical dimensions into one model one can apply a multidimensional ethics scale. The method has been used and configured several times but it was first developed by Reidenbach and Robin (1988). This model gives possibilities to include more aspect and get a broader result. Kujala et al (2011) used this multidimensional ethics scale and added female ethics to the model, which contain aspects as how a decision affects third parties and how it is viewed by them. The reason for female ethics existence is due to a male focus in the all other ethical dimensions. This dimension allows managers to reveal diversity in their moral decision-making (Kajula and Pietiläinen, 2004, 2007). A theoretical opposite of female ethics is egoism, which can be evaluated according to the concept “agents and stewards” (e.g. Martynov, 2009).

### 3.7.3 Agents and Stewards

The agents and stewards theories describe one’s attitude towards situations and ethics. These theories relate even deeper to ones behavior in the situation of conflicts of interest, which is important because it will affect the possible decisions that can be made by individuals. Factors that underlie if one is egoistic or not, if one is an agent or not, can be derived from moral development models (e.g. Kohlberg and Rest) and moral motivation according to Martynov (2009, p. 239). The name agent refers to the agency theory which state that an agency exists because of the separation of ownership and control (Fama & Jensen, 1983, p. 303). Martynov (2009, p. 240) continue and explains that this lack of control is a result of no ownership which gives the person the possibility to act in his or her own interest. With low moral development and low motivation, a person will pursue behavior where he/she thinks about him/herself, this personalizes a typical agent. An agent maximizes his/her own wealth at the expense of the company and third parties. An example of typical agent behavior is using organizational resources for personal gain, coming late to the job and leaving early or working with reduced commitment when no one sees.

A steward on the other hand (Davis et al. 1997), show that human behavior choses to serve principles rather than himself/herself. A manager that shows attributes similar to a steward acts as a collectivist manager. Hence we interpret, as well as Martynov (2009) does, that the stewardship in a moral point of view, concerns its shareholders. A steward-manager maximizes the wealth of the company, including its shareholders and third parties, instead of its own interest. Example of a steward-manager’s behavior is working overtime even if no one told him/her so and no one sees, selling products or firm to the highest bidder (the best deal for the firm) without taking personal interest into consideration. Even if some scholars argue that a steward type of manager is preferred, an ignorant and less skilled steward can cause bigger damages than an egoistic agent (Martynov, 2009, p. 241).

### 3.7.4 Moral Luck

Although the previous parts regarding behavior and decision-making have been focused on the approach of control, influence and rationality, one cannot forget uncontrollable parts such as luck. Even though moral luck as a subject is usually researched as part of moral philosophy and not for example managerial characteristics, the outcome is according to us relevant when trying to present factors involved in the manager’s role. A common explanation of moral luck is circumstances which are out of one’s control. More explicitly, Zimmerman (2006, p. 585) argues that luck varies from individual to individual. First of all, the key when describing luck is to state that it is beyond someone’s control, however, what is out of control for one person does not need to be beyond someone else’s control. Second, luck can be good, bad or neutral and may be interpreted differently among people. Therefore, we conclude that luck should be
included in analyze of someone’s moral awareness and motivation as the interpretation of luck may differ, which may explain motivations of the decision.

The risks associated with taking moral decisions can be justified by a manager through self-justification and misinformation (Lowell, 2011), lack of attention, moral awareness and overconfidence (Michaelson, 2008, p. 773). Common belief is that the control condition stands in relation to responsibility and blameworthiness. If some circumstances are out of one’s control, one is not responsible for either blameworthy or praiseworthy (Enoch & Guttel, 2010, p. 372-373). This gives immoral managers an “emergency way out” if they have taken an immoral decision and need to justify the decision. What is important in an investigating phase is to clarify what is reasonable that the managers should know, and what is actually just “bad/good” luck. In the Figure 6 below we see four possible outcomes, and how others perceive the risk and the expected and the actual outcome of a decision.

![Figure 6. Possible Outcomes Moral Luck “Decisions”](source)

On the horizontal axes we find actual outcome, bad to the left and good to the right. The vertical axis stands for expected outcome, high moral risk on the upper half and low moral risk on the down half. To make sure, when the expected outcome it good, low moral risk, people tend to understand if the decision’s outcome became bad. Therefore, when a decision includes high moral risk, i.e. bad expected outcome, people show less understanding (Michaelson, 2008, p. 780). This does not mean that all decisions should be morally praised, as one of the choices in the model above; some decisions imply moral courage, implicitly “bad expected outcome” and could arise when a company for example decides to enter a new market, launch a new product, initiate new partnerships, and expand through acquisitions or even abroad.

By now we have highlighted the theoretical concepts that create the foundation of this study, including; ethics and how it relate to profit maximization and shareholder wealth

### 3.8 Conceptual Framework

Figure 7 below visualizes how we interpret the theories included in this study with regard to business ethics and decision making processes. We design this model by looking at previous models, from Kohlberg and Geva to Rest and Trevino among some. This process, including the influences management, managers is meant to lead us to an indication of our research question, how do managers in FB’s and VCF’s manage ethical considerations in the company.

![Conceptual Framework of Moral Awareness Towards Ethical Behavior](image)

**Figure 7. Conceptual Framework of Moral Awareness Towards Ethical Behavior**

As the process is constructed and interpreted from the existing theories, the steps a company goes through is; moral awareness, moral reasoning, moral motivation, moral identity, ethical decision which altogether lead to ethical behavior of the firm. The process is a stepwise procedure and if the moral or ethical content is not realized, one cannot pursue ethical behavior. Furthermore when for instance the moral motivation is low, the process ends. More explicitly, first a company realizes a moral content or issue, also called moral awareness and this is the first step towards an ethical behavior. It follows by the companies attempt to reason itself to a decision, however, the decision is far from being made. Several aspects influence the decision and the first one to affect is if the company chooses to decide according to what they think, also called moral motivation. Either the company, due to encouraging management, act ethically, or they do not. However, motivation can also come from within
each individual, and as we interpret this model a company, together with all its employees and managers, proceed through this model.

In the stage after motivation comes the ability to follow its own conviction, and not give in for an “easier choice” if either internal or external circumstances make the decision tough to take. After the company has passed the stage of moral identity, one arrives to the ethical decision-making process, where the final decision actually is taken. This decision together with previous taken ethical decisions constructs the ethical behavior of the company.

The final step of the process corresponds to the ethical performance of the firm. This behavior decides if the company pursues a path of short and/or long term success, in relation to business ethics. For our study, we will apply this conceptual framework on two different company structures regarded to ownership and control. FB’s show opposite tendencies of operating in the market in existing literature, compared to VCF’s which justify the relevance of investigating them. One can assume that the way they interpret and manage ethical considerations is still unclear.

We are aware that each step of the process, as we explain it, does not have to be as emphasized and as central as other steps in the process. However, when analyzing the empirical data generated by the companies, and bearing this model in mind, we argue that one can better find companies’ approach to manage ethical considerations compared to not using it. The process does not occur without influences from outside world, and it mainly gets influenced by the company’s general management approach and tools as well as the different managers’ characteristics. Management influences through tools such as ethical code of conduct, corporate culture, framework, and processes. How a manager leads its employees and approach ethics steer the whole company as well. Aspects that define what and how a manager affect is through characteristics of agent or stewardship, self-justification or responsibility, luck and which ethical parameter, such as formalism and utilitarianism to mention some, is used to guide employees and decisions. Although employees can influence the organization, we investigate the managers.

As this has been presented, we intend to progress to the following chapters with this model in mind. In order to understand how FB’s and VCF’s manage ethics, in form of moral awareness and ethical behavior, we intend to use this conceptual framework as a base for discussing the empirical findings. Our aim in the next chapter is to show an accurate approach of how this phenomenon can be examined. Although the model is presented as a process, we do not aim to investigate the process as such, but rather how the steps and decisions are affected and influenced by the ethical considerations of managers.

3.9 Company structures
With intention to find relevant empirical findings, we now will state the profiles of the companies of interest: family business and venture capital firms. In order to do so, we start to present the distinction of small and large firms and why it is not interesting in this study. Later on our attempt is to conceptualize family businesses and venture capital firms and how and why they are different.

3.9.1 Small versus Large Businesses
Small companies have less knowledge about concepts as ethics and CSR, less often an ethical code of conduct, therefore they base their decisions on own behavior and values, at least according to Fassin et al. (2010, p. 444). One the other hand, this does not mean that
managers at small firms are less ethical. To know the meaning of concepts does not make you necessarily more intelligent. Longenecker et al. (2006, p. 180) shows that there is no significant difference between small and big firms, even if magnitude of decision, control in the firm, and affection of the firm differs.

Even though there is often made a distinction between small and large firms, such as SME’s and MNE’s etc. we foresee no contribution to the study by adding this aspect. The goal is not narrow the study down, but rather keep many opportunities open for the companies to describe their situation and therefore affect the outcome of the study. By summarizing, since we find researcher with statements that argue of no or little significance in the difference of small and large firms, we will not take it into consideration either.

3.9.2 Family Businesses

FB as a field of study has grown tremendously from small and modest researches to a substantial, conceptual and theoretical body of knowledge (Sonfield & Lussier, 2004, p. 189). Although many attempts to define, describe, generalize have been made, there is no widely accepted definition for FB’s (Littunen, & Hyrsky, 2000; Ward, 1986; Ward & Dolan, 1998). Instead, different definitions have developed over the years, focusing on different aspects such as ownership, management or culture (Astrachan et al., 2002, p. 45) and business maturity, control and intergenerational development (Gersick et al., 1997). Corbetta (1995) describes FB’s as companies in which one or more families linked by kinship, close affinity, or solid alliances hold a sufficiently large share of risk capital to enable them to make decisions regarding strategic management. This description is in its sense quite complicated and comprehensive. A more compact definition is provided by Chua et al. (1999, p. 25) “a business governed and/or managed with the intention to shape and pursue the vision of the business held by a dominant coalition controlled by members of the same family or a small number of families in a manner that is potentially sustainable across generations of the family or families”.

Although the last definition is closely related to our idea of FB’s, we have decided to follow a more straightforward definition provided by Sonfield and Lussier (2004, p. 190): “A FB is one in which family members dominate the ownership and management of a firm and perceive their business as a FB”. The reason for choosing this definition is because we imply that FB’s are currently still under ownership, at least dominant, of one or more family members. They are also present in management or board of directors of the company because we believe that it has its effects on the direction and behavior regarding ethical decision-making. FB’s differ from non-family businesses in form of influence and control. However, to refine the definition and make it more precise, we add that the amount of involvement a family should not have less than 20% of the ownership, in line with (Chackrabarty, 2009, p. 34).

Born and Made Family Businesses

Chua et al. (2004) argue that there is a difference between born FB’s and made FB’s. The difference is in essence the fact whether the business was made and is owned by family members of the current generation, or generations back, or if that the business emerged because family members decided to take over shares in a company. The importance of this difference is the fact that it is very likely that when family members buy shares in an existing company, they are likely to follow the environment, current relationships, culture, and structure of the company and remain acting as a nonfamily business.
Concepts, Properties and Structures of Family Businesses

Now that we have a sufficient definition of FB’s for this study, it is useful to gain a deeper knowledge in the concepts and structures of FB’s, what makes them different from non-family businesses? FB’s typically depict a complex, longstanding stakeholder structure that involves family members, top management, and a board of directors. The ownership stakes are often passed from one generation to the next within the family (Mustakallio et al., 2002, p. 205). It is largely the nature of the social relationships among the owners and managers that defines the unique characteristics of a FB. It is logically to assume that FB’s exist of strong connections based on trust in other family members to run a good business with a sustainable future. This connection is also described by Mustukallio et al. (2002, p. 216-218). They found that “the strength of a shared vision among family members was positively related to strategic decision quality and commitment”. It has thus become clear that family members that run the company together are probably closer related and act more on trust than non-family businesses do.

With regard to growth and financial stability, it was found in a Spanish study by Gallo et al. (2004) among FB’s that they have a financial logic of their own. Whereas the classical and generally accepted principles of financial management are to maximize the value of the company’s stock, in FB’s the value of the stock is not only the price, but also passing on the tradition, offering job opportunities to family members, and staying in power for long periods of time (Gallo et al., 2004, p. 314). FB’s are well committed to tradition, quality, and service which are important for them because the family name is at stake as well (Gallo et al., 2004, p. 316). The trust on family members in doing well for the business, doing no harm to the reputation of the family name and the business comes back here once again. These results can be connected to the founding that on average, FB’s are older than non-family businesses, and that some FB’s have lower sales figures. This is related to the risk aversion of FB’s and the fact that they devote less financial resources to their mid- and long-term development. Furthermore, FB’s had a lower shared capital and tends not to accept partners and investors that are not family members (Gallo et al, 2004, p. 315). It is important for FB’s to be sustainable and carry on the tradition, create jobs for future generations and do no harm to the name or company.

With regard to decision-making and leadership, Sonfield and Lussier (2004) mention different generations and FB’s, they distinguish of first, second, and third generation firms. It can be said that first generation firms have a more centralized decision-making, because the original founder is still present and very powerful. In our research however, we do not make any of such distinguishes.

Family Businesses’ Ethics

When one family, either in the closest members or other relatives, has a substantial power in the company, it naturally transfers family values and culture to the company. Duh et al. (2010, p. 485) distinguish FB and non-family business with that FB’s are more personal and value trust, human development and openness. Whereas non-family businesses show more ambition to be dynamic and entrepreneurial, also willing to take higher risk and be more competitive are revealing. By this we can understand that FB should possess a superior ethical behavior compared to non-family businesses. In addition, Duh et al. (2010) continues by stating that both smaller and major differences in values, culture and ethical climate adds up to a general difference between family and non-family businesses.
Vallejo (2008) claims that FB’s culture show greater commitment to its employees, and consequently, has a higher satisfaction in the company and also more long-term oriented. On the negative part, if a family possesses major power, including the case when only one member with all the power, it can often lead to dominant leadership and create tension within to other employees and/or stakeholders. This/these member(s) can therefore implement values, norms and take decisions as they prefer, which shows FB’s negative impact on its culture (Barnett & Kellermanns, 2006, p. 849). Opposing to previous findings, Christman et al. (2006) can show that FB managers, approach to manage conflicts of interest (i.e. agent or steward), assume that the employees are agent’s and therefore treat them accordingly with monitoring mechanisms. This may relate to the fact that FB sometimes faces problems when the family’s values, control and influence are big enough to rule the company. Employees loose the commitment to the firm, while managers loose the trust of the employees, and monitoring mechanism is compulsory for controlling its business, i.e. an agent approach. The climate in this case is not ideal, since the trust is injured.

As presented earlier about ethical work climate, one can analyze a company’s ethical climate status according to Victor and Cullen’s (1987) model. Duh et al. (2010) argue that FB’s show a more caring ethical climate than non-family businesses and locate itself on a more developed square in the model. “In a benevolent climate, the expectations of members of the organization are concerned with the well-being of each other, both within and outside the organization” (Duh et al., 2010, p. 486). We interpret these findings and reasoning nothing else than that FB’s are more morally aware and ethical acting than non-family businesses. Our explanation to the difference is because of the family’s tendency of emphasizing healthy values, and its own exposure to risk and control in relation to profit maximization, make them more careful and long termed oriented.

3.9.3 Venture Capital Firms

The other types of company we focus our study on are VCF’s. It is important to distinguish some, possibly confusing, definitions that play a role here. Firstly, there are venture capitalists, which we perceive as those with capital, both financial and knowledge, which are by some authors referred to as VCF’s. However, a VCF in our study is an entrepreneurial firm that has become a VCF because of the perceived investments of venture capitalists. The distinction between VCF and venture capitalist is shown in Figure 8 below.

![Figure 8. Distinction between Entrepreneurial Firms, VC’s and VCF](image)

The general idea of the process is that these venture capitalists make young, innovative potential firms grow faster through a financial boost and investments. We aim to make it clear that we are not interested in the venture capitalist, but in the entrepreneurial firm that received
venture capital, i.e. VCF. Another important note is that the process of becoming a VCF does not play a significant role in this study.

**General Insights about Venture Capital**

Keuschnigg (2004, p. 257) provide empirical evidence that these investments speed up the professionalization and growth of firms and Gompers and Lerner (2001, p. 145) described the importance of venture capital towards firms with potential that have difficulties finding finances elsewhere. They describe these firms as “typically small and young and plagued by high levels of uncertainty and large differences between what entrepreneurs and investors know”.

Although it can generally be seen as high-risk investments, which could be one of the problems to find financing, the potential rewards are usually high as well. By investing capital into these entrepreneurial firms, the venture capitalist buys, depending on the contractual agreements, a share of the company which in turn can be used for investments and growth stimulation. These venture capitalists can be defined as “independent, professionally managed, dedicated pools of capital that focus on equity or equity-linked investments in privately held, high growth companies (Gompers & Lerner, 2001, p. 146).

**Venture Capital Firms’ Ethics**

There is fairly little academic research done about venture capitalism, venture capitalist, venture capital firm and ethics, business ethics, ethical considerations, aspects or concepts that was relevant for our subject. This we can only understand as a lack of theoretical contribution on this aspect.

From these theoretical interpretations, we move on to the practical methodology chapter in order to set the base of empirical gathering.
4. PRACTICAL METHOD

In this chapter we elaborate on the practical method used to perform the empirical data collection in this research. In this chapter we discuss the multiple case study design that we used for this research, how the data was prepared, how data was collected and of course how data was analyzed.

4.1 The Multiple Case Study Design

Yin (2009, p. 17) provides a definition of case study research: “The essence of a case study, the central tendency among all types of case studies, is that it tries to illuminate a decision or set of decisions: why they were taken, how they were implemented, and with what result.” In addition, Yin (2003) elaborated and clarifies that the goal of the design is to both capture the social phenomena, ethics in our case. Eisenhardt (1989) agrees on that the natural setting surrounding the phenomenon which affects its development and how you as researcher approach it which are the influences, managers and management in our case. An advantage with case study is when ethics is not separable with the companies situation, individuals, structures, environment etc., i.e. context and the phenomena is not separable (Yin, 2003). In addition, it helps the researcher to accomplish a reliable result of how and why questions (Baxter & Jack, 2008) since we aim do not aim to find one unique case.

As researchers, we decide to follow this definition because we are mostly interested in the ethical decisions made by individuals (managers and/or employees) in the companies that we investigated. We have decided to choose a multiple case study design because we believe that it will deliver the most valuable results for this thesis because we hope that including several cases could make it possible to replicate the result (Crow et al., 2011; Yin, 1981). As mentioned, we investigate two different types of business, namely FB and VCF. The multiple case study design allows us to investigate in cases individually and group wise, relate different aspects against each other and also compare organization structure.

Figure 9. Basic Types of Designs for Case Studies

Source: Yin, 1994, p. 40
In Figure 9 above we see the different types of case study designs Yin (1994) explains it, as we will investigate the behavior and how companies manage ethical considerations, we aim to get a comprehensive result by including several aspects that might influence how managers understand, interpret and manage ethics in their company situations, therefore we employ several cases to get improved data. In other words, we aim to craft a holistic perspective, with one focus in mind, to study ethics, and since how manager manage ethics is our research questions, and that it is one subject that can differ from manager to manager’s we will be able to thoroughly investigate in their perceptions on ethics. Harris and Sutton (1986) argue that a multiple case study includes more than a couple cases, and therefore is 5 cases like in our study, relevant and suitable for a multiple case study design.

4.1.1 Preparing for Data Collection

In performing a multiple case study, the procedures and general rules that have to be followed are written down in a case study protocol. By applying the protocol, the trustworthiness of the study is intended to increase (Eisenhardt, 1989, p. 536). According to Yin (2009, p. 81) which clarifies and explains the four sections that should be included in the protocol:

- An overview of the case study project including project objectives, issues and relevant readings about the investigated topic.
- Field procedures such as presentation of credentials, access to the case study sites, language pertaining to the protection of human subjects, sources of data and procedural reminders.
- Case study questions that need to be kept in mind when the data is collected, table shells for specific arrays of data and the potential sources of information for answering each question.
- A guide for the case study report including an outline, format for the data, use and presentation of other documentation and bibliographical information.

Yin argues that these topics enable the researchers to be targeted on the topic of the research but it also forces to anticipate to problems that might occur. We have from these findings tried to structure it according to the protocol, however, using it absolute correctly was not the intention. This protocol is too time consuming for the scope of this thesis where we did not have time to follow it strictly, or the possibility due to the requirements of this master thesis. We got influenced by it, and try to acquire aspects that could increase the trustworthiness of this multiple case study (Yin, 1994, p. 67).

In the collection of data, some important aspects have to be taken into consideration so that data will be collected in the best possible way. Firstly, there are some requirements to the investigator. Yin (2009, p. 69-72) discusses that a case study investigator should:

- Be good at asking questions and interpretation of the answers.
- Be good at listening and not be trapped by her or his personal ideologies or preconceptions.
- Be adaptive and flexible, meaning that newly encountered situations during the interview are seen as opportunities rather than threats.
- Have a firm grasp of the issues that are studied.
- Be unbiased by preconceived notions, including those derived from theory.

We, as researcher, have taken these considerations into account and discussed the interviews as well as the requirements of behavior and questions before the interviews and data
collections were performed. Especially we emphasized the ability to listen and understand the stories of the companies, in order to be flexible to pursue a path that will be relevant for the company and therefore give us more valuable data concerning ethics. During the interviews, we aimed to be focused and concentrated so that awareness of our own behavior was present at all time and that the requirements were followed as good as possible. In this way, including the preparations of creating earlier chapters; introduction, scientific methodology, literature review, we pursued creating theory through case study (Mintzberg, 1979), which is almost equivalent of the process of building theory from case study research, (Eisenhardt, 1989, p. 533).

### 4.2 Collection of Data

#### 4.2.1 Data Collection Method

The key for all research outcomes is data collection, in order to back up findings (Remenyi et al., 1998). Therefore we aim in this research to collect primary and secondary data because the combination of interviewing managers and analyzing their ethical code of conduct another material is of use in pursuing an understanding. According to (Eisenhardt, 1989, p. 543) and Harris and Sutton (1986) should a case study normally gathers data with different techniques, such as observation, questionnaires, archives etc. Although, and to respect of the scope of the study, the qualitative research design as we employed will be follow by semi-structured interviews with pre-selected respondents. One of the most common data collection strategies is the research interview. A qualitative interview (in-depth) has many different forms; it can be one-to-one, group based and even on returning base or a combination of the mentioned options.

According to Sauders et al. (2009) there are several options, and our position is that the most commonly used method; one-to-one (face-to-face) interviewing gives us the opportunity to capture the data we require to pursue the research. This interview technique will also enable the collection of non-verbal findings, such as attitudes, tones and expressions which enhance the data collection quality process (Sauders et al., 2009, p. 98). I addition, this method facilitate the extracting of information, stories and actions that happened in the past, how the company has behaved, what it has done and of what reasons (Creswell, 2007; Merriam, 1998).

#### 4.2.2 Sampling Strategy and Size of Sample

The choice of how to elect companies for a multiple case study is very much linked to the research outcome (Yin, 2009; Ghauri & Firsth, 2009; Eisenhardt, 1989). Each case should be carefully picked to serve the purpose of the study, and contribute with similar supporting data in order to give a broader spectrum of findings (Crow et al., 2011; Baxter & Jack, 2008; Yin, 2009).

Among sampling strategies, there are two types of sampling techniques especially used for case study designs, (Remenyi et al., 1998), namely probability and non-probability sampling. In probability sampling a random selection process of the respondents has been employed. This means in essence that the researchers do not know who will be included in the study and who will not. A no-probability sampling of respondents will be made for the study. This is most commonly used in quantitative research methods (Bryman & Bell, 2007) and the results are often generalizable for the target population. Why we conducted a non-probability sample is for many reasons. For example, our sample is limited to 5 companies which mean if we apply a probability sampling it would imply big risk to realize a sampling error (Krauss et al., 2009). Secondly, the companies may not be the type of company that is of interest for the
research. We sample according to our belief of the one who can best provide us with relevant information (Merriam, 1988, p. 48) where title and responsibility is of interest. We want to interview persons whom are in the position where he can perform power, take decisions and has the ability to manage ethical consideration on a strategic level, called judgmental sampling (Remenyi et al., 1998). In other words, we aim to find companies and persons that best can answer the questions which will fulfill the research purpose (Saunders et al., 2009) in order to systematically be able to approach the aligned data so we can generate knowledge from the sample (Mintzberg, 1979, p.585; Eisenhardt, 1989, p. 536). More specific information about the respondents can be found under “selection criteria of respondents”.

For the purpose of this study, respondents were sampled from two sources [1] the Swedish Trade Council and [2] through our own network connections. The reason for this way of sampling is because we were originally to be provided with contacts for businesses that fit the study from the Swedish Trade Council to ensure the internationalization aspect. However, the use of the personal network connections was usefully and suited the company profile for this research. On the other hand, it could be biased to choose from our own network, worth noting is that we do not have any personal relationships with them, these contacts have been gained on a professional bases, but we will be aware of the fact that some companies were selected with previous knowledge and treat every respondent the same.

The companies that were preselected for the inclusion in this study were first contacted by e-mail to introduce the researchers, the topic, and purpose and of course, the question for availability to perform an interview. When we did not receive a response through e-mail within seven days we contacted the respondents by phone to establish an initial contact, present our idea and what we wanted and purposed dates for realization of the interview. It was quite hard to find companies of interest, which also wanted to participate in an interview about ethics. Many companies turned down the request, blamed busy times and/or lack of knowledge, interest and relevance among some. We did expect the resistance from people to answer about ethics; however, we found it surprisingly challenging to find companies that could participate. We can only guess, but possibly because companies are reluctant to talk freely and openly with strangers about ethics. They could have the fear that it might hurt themselves or their company somehow with regard to reputation or via other forms because the thesis will be published, even when all participants are promised full anonymity.

Fortunately it was possible to interview several people within two weeks after the initial interview in the same companies (VCF and FB). Ethics could by some people be experienced unknown or confronting, as we also could hear in the interviews, however, after ensuring them it was anonymously and that we were not searching for ethical scandals or anything like that, some finally confirmed to give us an hour for the interviews.

4.2.3 Sampling Criteria and Choice of Responding Companies
In total were five companies interviewed including seven interviews, two FB’s and three VCF’s. How we defined FB and VCF is explained in the literature review. For the feasibility of this research, all samples in the study were picked according to the assumption that interviews with the respective managers could contribute to the study. Because of the importance of the gap for the research, and the comparison that was needed to be drawn, it would have been best to have an equal number of each type of business, however, we were not able to find the last suitable FB in the pre-decided time frame of this thesis, and we therefore chose to exclude FB’s that was not adding value, either they were too small, too young, i.e. just started or foreign companies based abroad, therefore we chose five suitable
and relevant companies. With regard to the ethical code of conduct within companies, we did not perform any investigation about the respondent companies beforehand upon that topic. Companies were not pre-selected upon their ethical content, whether they have ethical codes of conduct or any other type of behavioral and/or organizational systems in the company with regard to ethics. Neither did we pre-test whether they are moral/ethical aware or not.

When creating the profile of the companies that are of interest to interview, we saw no need for narrowing the responding companies down further. We did not make any differences among industries, as the focus in not to get empirical findings specified to one industry, since it would not gain the research questions or the researched theoretical gap. However, we have found companies that of geographical constraints operate in Sweden, and of respect to the managers we will not disclose any more information. Nevertheless, we proposed the companies to answer anonymously, because we saw a threat that the companies would have too much to lose if they had to answer in the position of the company. Moreover, that could imply that they had to think about the reputation which could be hurt or improved and we were not hoping for improved or false answers. In Table 3 below we see the characteristics of the companies we were aiming to find.

**Table 3. Selection Criteria for Respondent Companies**

<table>
<thead>
<tr>
<th>Criteria</th>
<th>Reason</th>
</tr>
</thead>
<tbody>
<tr>
<td>Case companies must be FB or VCF.</td>
<td>The foundation of the study.</td>
</tr>
<tr>
<td>Not be a single person firm.</td>
<td>Too few to reason as FB or VCF.</td>
</tr>
<tr>
<td>They should operate in Sweden.</td>
<td>For the scope and convenience of the study.</td>
</tr>
</tbody>
</table>

### 4.2.4 Selection Criteria for Respondents

The candidates for this study are supposed to possess a high position in the company, in order to more thoroughly elaborate on the subject of concern. In addition, they need to be advance in English so we can communicate effectively.

For two companies we found, we interviewed twice, one FB and one VCF, we asked the respondent if he could arrange or recommend another interview with someone else at the firm, either a middle manager or employee, a so called snow ball sampling method, i.e. one interview leads to another. The reason why we made this second interview (and third interview with the FB) was because we found that we could get more interesting and valuable information by getting someone else’s perspective. By doing so we collected more in-depth data that allowed us to work with and analyze in-depth data. As most researchers would agree to, more data is always better. The second (follow up) interviews in big parts followed the original interview guide; however, it was more focused on ethics and the ability to make decisions. It excluded parts which we believed did not deliver relevant data in the initial interviews because they were either irrelevant or not apparent for the company. Another reason for why we conducted a third interview with the FB was to better get hold of the ethical code of conduct they had, and to get more elaborations on how it is actually followed and consulted.

### 4.2.5 Semi-Structured Interview

With regard to in-depth interviewing, a difference should be noticed between structured and unstructured interviews, and standardized and unstandardized interviews. Structure refers to the degree to which the form and order of questions are asked are kept identical from interview to interview. The more unstructured an interview is, the more seeking to emphasize the depth validity of each individual interview there is. Most of the interest is in the
interviewee’s point of view. This means that the interviewee tells the story and to a greater extent determines and leads the flow of the dialogue. As David & Sutton (2011, p. 119-120) argue, standardization refers to the level of closure placed around the possible answers to the questions in the interview. Closed answers allow a greater scope for quantification whereas open questions allow greater depth and person detail. According to Saunders et al. (2009, p. 321) data collections techniques can mainly be presented into; structured, semi-structured and unstructured interviews.

We have chosen the semi-structured interviews, with regard to the aim to get elaborating and personal answers for each company. The interviews will be structured to the extent that the topic list will be followed in a logical sequence in order to introduce topics as evolved from the interview conversation as such. However, it is the interviewee that leads the interview to some extent through the answers that he or she gives. The semi-structured approach gives the responding manager freedom to elaborate, describe and develop their reasoning which is essential for us as researcher in gaining findings about how these FB’s and VCF’s manage ethics. It also means that extra questions can be asked when situation requires it. Moreover, since both the authors and the respondents have the control, it can give enhanced quality (Bryman & Bell, 2011) in the way it empowers the employee to contribute while the researcher can steer the direction of the interview.

4.2.6 Interview Guide

In order to address topics of concern for the research purpose and theoretical gap, we aimed to embody the semi-structured interviews with an interviewing guide. The guide should, by stating the building block of topics, steer the interview in a direction with benefits the responding parts possibility to elaborate the relevant topics as well as contribute to capture findings relevant to answer the research question (Kvale & Brinkman, 2009, p. 129-131). All of the interviews were conducted face-to-face and one-to-one, which is one way to perform an interview (Eisenhardt, 1989). To take advantage of being two researchers, we collaborated when possible so that one was asking the questions while the other took notes and observed which enhance the chance that the case is seen with a divergent perspective (Eisenhardt & Bourgeois, 1988). This was also done to avoid the missing out of relevant information.

The actual interview guide can be found below in Appendix 1. The guide is constructed with the intention to both describe how we want to pursue the interview, the way we understand how the interview should be conducted to accomplish best result as well as which topics is of concern. The interview guide and interview questions were constantly developed after a reflection which took place after every interview. This process enabled us to improve the question along the interview process with different respondents in order to collect more useful data. When we experienced difficulties during the interview to talk about a topic such as ethics, due to the way we asked the question or because of the topic we aimed to change questions or lead to the question more smoothly so that the respondents were more comfortable in answering the questions.

The research topics that the interview will concentrate to be aligned with the conceptual framework presented in end of literature review. I.e. the five concepts (moral awareness, moral reasoning, moral motivation, moral identity and ethical decision making) are the first five steps in the process in the conceptual model that together create the ethical behavior of a company. After asking for a brief introduction about the company, the respondents role in the company, decision making processes and their ability to make decisions we aimed to introduce the topic of ethics more concretely as focus subject. We then discussed their
personal definition, the meaning of ethics for the company and what role it plays in their daily life, but also what the role of ethics is in the company in general. We did it that way because ethics can still be considered a sensitive topic to speak about, even when the respondents know their answers will be taken care of with full anonymity. It was important for us to take this sensitivity into account in order to generate the best data possible for this thesis work.

We find it reasonable to believe that by creating describing questions to the managers in these themes we could grasp the experience and understanding each manager possesses (Eisenhardt & Bourgeois, 1988, p. 746). In addition, by focusing on the first steps in the process, we consequently receive the data on the ethical behavior. The research topics of the interview are: moral awareness, moral motivation, moral identity and ethical decision making, while the building blocks of research area is something else.

In order for the respondents to speak about abstract things as ethics, we planned to let them describe their history, what they do and as the conversation developed, we asked them adapted and applied questions relating to their stories, and once they ask us what it means, we explained them what we meant. But as far as possible we aimed to keep the conversation depending on the stories of the respondent, and those answers we did not get from the stories, we asked more direct questions afterword’s, for example; what is ethics in relation to profit maximization.

We find it useful to ask concerning the development and growth of the company. By that we want acquire knowledge regarding the company history in order to get insinuation of what has happened, what they did and how the behaved. After that we will bring up questions relating to ownership and control, to point out any differences or similarities when comparing the two company structures. Finally we will explicitly ask about the subject of interest, a kind of reassuring phase of the interview, in order for us to receive answers in those aspects the respondent yet has not provided. Of logical reasons we find it important to stress the fact that research questions and interview questions differ (Kvale and Brinkmann, 2009), because it might be too complex to understand the entire concept for the responding part without really had the time or motivation to thoroughly investigate in them.

To clarify: we are aware that understanding the process the managers and companies take decisions is not possible in the way we conducted the framework for this research or the scope of this thesis. It is neither the goal, but by following the presented conceptual framework we aim to acquire an understanding of the different aspects affecting how these companies manage ethics.

4.2.7 Interview Procedure

After making the appointment with the companies of interest, we sent the interview guide to them in advance in order for them to get hold of the coming subjects. By letting the respondents know about the structure as well as actual questions is, it made them think and prepare for what to answer, on the other hand it has some down side as the interview could be static and not as interactive and giving as it could have been. In addition, the respondent could have constructed and remembered image-enhancing answers. To avoid this we initiated the interview with general questions about the company in order to create a bond of trust. The interviews were performed at the office of the respondents’ company to ensure and enhance the ability for the manager to feel comfortable and confident. Krauss et al. (2009, p. 246) though argue that by allowing the respondents know about coming interview questions makes the authors procedure more professional as well as it should allow an increased quality of the
answers just because the responding part know what to expect and often also prepare itself. Therefore we chose to send the interview guide in advance.

### 4.3 Data Management and Analysis

Qualitative data which is gathered through the semi-structured interviews will deliver quite an amount of unstructured voice recordings. These recordings have been played back after the interview and the researchers have transcribed the data into text. It is however quite difficult to analyze these raw material because no interview will be exactly the same, however replication of each interview was done to provide exactness in findings. Furthermore, it might be so that the interviews deliver data that were not directly involved in the literature review, it will then not be excluded from the analysis if it related to ethics, but neither it can be compared or analyzed according to the conceptual framework, i.e. the applied literature review. Bryman & Bell (2007, p. 580-581) however explain that this is a logical evolvement of the abductive research approach, where the focus lies on developing knowledge rather than to only test it.

When structuring the empirical data we went through several steps to structure the data. We firstly identified all information that could possibly be useful as a first selecting process. We then aimed to generate groups of information and divide these groups among topics. Much of the interview data were not useful, for example when we made the describe their history and what they have done, but from these stories we could understand and ask specific questions regarding an event in order to capture ethical content and make them elaborate. After that we selected irrelevant data and removed it, after which we had a concentrated and most relevant and useful data collection with regard to the topics covered in theory, and new topics generated by the respondents.

As Eisenhardt (1989, p. 532) mentions, there is a confusion about the process of building theory from cases. Building theory from multiple case study research is a complex process. We like to repeat and state that we aim to develop theory and not create theory. Analyzing the empirical data is logically the most important in building theory from case studies yet it is also considered to be the most difficult part (Eisenhardt, 1989, p. 539). Reasons for this are because published studies generally lack an explanation and description of discussion of analyzed data. Although we have performed a multiple case study, the treated topics were quite focused and our understanding of the topics and their interaction to the context is high. Furthermore, we did not have enormous volumes of data.

After studying the theories, we have come to the understanding that there are two general strategies of qualitative data analysis that are relevant to our case. We considered namely analytic induction and grounded theory (Glaser & Strauss, 1967; David & Sutton, 2011, p. 243). These two strategies are frameworks that are meant to guide the analysis of data. Analytic induction is the strategy in which the analysis of data focuses on the seeking of general explanations of phenomena by pursuing the collection of data until no cases are inconsistent with a hypothetical explanation of a phenomenon is found (Bryman & Bell, 2007, p. 583). The analytic induction is a very straightforward and rigorous method of analysis where a single case which is inconsistent with the hypothesis will lead to the change of the hypothesis. According to Creswell (2003, p. 191-192) is the data analyzing process central because it is in this moment the authors clearly show his/her ability to interact with a big amount of data, the ability to prepare and categorize, and analyze the findings in order to answer the research question.
For this research however, the grounded theory is most appropriate. Although the grounded theory is quite a complex and intensive way of research, we find the properties on which the grounded theory is based most convenient. We believe it allows us to perform this research optimally by utilizing the most important factors. The grounded theory is one of the most used frameworks to analyze qualitative data (Saunders et al., 2009). Bryman & Bell (2007, p. 585) define the grounded theory as “theory that was derived from data, systematically gathered and analyzed through the research process. In this method, data collection, analysis, and eventual theory stand in close relationship to one another”. Therefore, the processed and categorized data should be related to the theoretical findings, i.e. the conceptual framework including the process towards ethical behavior and the company based influences. The grounded theory can be distinguished in tools and outcomes. Tools refer to the coding, which basically means that the data is broken into component parts, which is the first step after the data collection. We did not specify the other managers and employees we interviewed in VCF-1 and FB-2. We named them in this report according to their role in the specific company to avoid any confusion. We believe that coding their role would not be necessary to assure their anonymity or contribute to the quality of this thesis other how.

This is basically a way to manage data and connect parts in the transcribed interviews together in order to create the outcomes of data; namely concepts, categories, properties, hypotheses and theories (Bryman & Bell, 2007, p. 587-589). Concepts are also known as the building blocks of theory and come from the labels given to phenomena in the data. Categories are elaborated concepts and are regarded as representative for the real-world phenomena in which the study took place. A category may have two or more concepts, however not all of them might be useful. Properties are the attributes or aspects of a category and initial hunches about the relationships between concepts. Theories are a set of well-developed categories that are systematically related through the statements of relationship to form a relevant theoretical framework.

From the theoretical perspective, as shown in paragraph 3.8 Conceptual Framework, we show how we have understood the theory of business ethics, and from this standpoint we will discuss the empirical data. The conceptual framework and the process inside it can be understood and applied for one individual, i.e. managers and employees at the same time, as the management. This is in form of tools such as code of conduct, processes, systems, and culture. From the empirical perspective we benefit from the outcome of the interview guide; including a research area, research questions and interview questions in order to derive applicable data. The empirical data will be organized in the way in facilitates the understanding the most, and we think that by first presenting some basic facts about the companies and later investigate in the different findings. After the presentation of the companies, carefully selected data in order to ensure anonymity, we make a short summarize of them to highlight the key concepts. This can be useful bearing in mind when further analyzing the managing of ethical considerations. As mentioned that we promised the participants full anonymity and we will therefore codename each company and not display any specific details that could lead to the publication of the respondents’ names or their respective company names. The reason for doing so is that we, as researchers, believe that a topic such as ethics can be appreciated by many people in many different ways. By securing full anonymity to the respondents we aimed to create a sense of trust which could enable the respondents to talk open, honest and freely about the existence or absence of ethics, ethical behavior and the activities in the company in relation to the ethical process that we have presented earlier.
5. EMPIRICAL FINDINGS

This chapter aims to present the findings from each respondent company in a logical way. The interviews are interpreted and are presented in a way that it enables understanding of how the empirical data are analyzed. Firstly, we describe some of the company’s characteristics in order to set the fundament. Later on we have divided the responses into topics and connected these to responses made by other respondents. For facilitating reasons we will alongside the quotations sum up, comment and describe the data in order to assist the analyze process in following chapter.

5.1 Presentation of Case Companies

All companies do business across borders. With regard to the participating companies, we will briefly describe their type of customers, their market position and what type of industry they are in. These presentations are provided in the beginning. The empirical data is presented subject wise, with a chronological order to explain the situation of each case and how different aspects may affect other aspects of the company. In Table 4 below we present the basic characteristics of the respondent companies.

Table 4. Respondent Companies’ Overview

<table>
<thead>
<tr>
<th>Interview code</th>
<th>Established</th>
<th>Employees</th>
<th>Interviewee position</th>
<th>Document with ethical concerns</th>
<th>Market offer</th>
</tr>
</thead>
<tbody>
<tr>
<td>VCF-2</td>
<td>2009</td>
<td>&lt;5</td>
<td>CEO</td>
<td>No</td>
<td>Service</td>
</tr>
<tr>
<td>VCF-3</td>
<td>2007</td>
<td>5-10</td>
<td>Business Developer, (former CEO)</td>
<td>No</td>
<td>Product</td>
</tr>
<tr>
<td>FB-1</td>
<td>1995</td>
<td>5-10</td>
<td>CEO</td>
<td>Yes</td>
<td>Product</td>
</tr>
</tbody>
</table>

5.1.1 Company VCF-1

VCF-1 is a company that was first established in 2002 by several PhD students. However, due to financial restraints, not much development happened until 2006, when external financing was secured and the foundation for the current company was laid. At this point the firm has about 13 investment firms (municipal and private) that own some part of the company. The company is selling products but is still very much in the development phase into delivering a finalized product to the market. The product is quite complicated and technological and has quite a long sales cycle (>6 months) from initial contact to purchase. Their customers are large companies that mainly sell fast moving consumer goods worldwide. The industry is related to packaging of these goods. Currently, the company has a very small market share but
they are developing and selling an innovative product that did not exist yet. The strategic decisions are made by the board of directors. At this company we interviewed the CEO. Moreover, we performed a follow up interview with one of the private owners and starters of the company that mainly works with the applications and business development.

5.1.2 Company VCF-2
VCF-2 is a company that at the interview moment were about to find a new VC. They are owned and started from public investment organizations, venture capitalists and were funded in 2009. It all started much earlier actually when some professors invented a new technique, but already in 2000 they finished the technical invention and were just waiting for protection in form of a registered patent. In the current phase they are trying to make a big sale to their customers in Asia. The company has some established and successful relationships. Furthermore, they are earning money at the moment through some collaboration projects. However they are waiting and expecting to be able to attract the biggest customer and eventually be acquired by that company within five years. At this company we interviewed the CEO. They are a small company, with object of finding a new venture capitalist in order to realize the activities so that the company can be sold in a period of around five years. A deadline in December 2012 is making the company face a short term planning, and by finding a new venture capitalist they would realize the opportunity to fulfill the goal of becoming acquired in an approximately 5 year’s period. The industry they are in can be called the electronics industry and potential customers are big multinational market leaders that lead innovation in the industry.

5.1.3 Company VCF-3
VCF-3 is a company that is quite unique in its existence. The company is fully owned by investors and was established in 2007. They do have a patent on their product. Currently there are 4 investment companies involved but the expectations are that this number will grow in the future. In order to keep developing, the company works with both full-time and part-time consultants and some employees. The idea which drives the company is an innovation that came forth from a partnership and project between a university and a municipal organization. The product is an innovation that improves current methods. The main focus for the past five years, and still is, has been to collect funding for the development of the product so that it can be marketed and sold. Also for the products in this company, the sales cycles are quite long and can move up to a year. The company is currently in a development phase and has some products for trial at potential customers in the new market. However, it has to wait to sell and market the product until a license from an official authority is granted, therefore, it requires some rigorous efforts to enter the market. The (potential) customers are municipal organizations in the healthcare industry. At this company we interviewed the former CEO of the company whom stepped down after four years into the current role of business development consultant.

5.1.4 Company FB-1
Company FB-1 is a family business that is fully owned by one person. The company was first established by someone else than the original owner but has been taken over in 1996. That was when the first foundations for the current company were laid. The company is driven by a customer and end-user focus and is therefore quite dependent on their customers. The company aims to deliver products that match each specific customer (companies in the car and truck industry) but also sells to consumers through resellers. Production of the products is done in China in order to keep the price of production lower than it would be in Europe. The company currently has five employees including the CEO and an external board that is
responsible for the strategic decisions. The market position of the company is top three and
the company is currently growing and has the aim to become world market leader. At this
company we interviewed the current owner and CEO of the company. The industry the
company is in can be called the appliances industry for vehicles and their customers are
consumers and big companies operating both nationally and internationally.

5.1.5 Company FB-2
Company FB-2 is a company that was established in 1976 by one man that later on sold his
business to his children, whom are now the owners. The company is to be considered a
classical family business and is for 90% owned by family members that are still active in the
company. The company operates internationally and can be considered a world-leader in its
industry, and has patents on their products. Their customers are big multinational companies
that sell machinery in different industries. The production facilities of the company are
located in Sweden. Although the company had a set-back during the first year of the financial
crisis, 2008, it is still investing in R&D to remain world leader and offer the best technologies
and products. Currently, there are >200 employees working at the company. Among all the
respondent companies, this is the most established and developed company with regard to
market position, size and turnover. At this company we interviewed the Vice President of the
company that is also a board member but not an owner or family member. In addition, we
performed two follow up interviews, one with the marketing communications manager, and
one with the HR manager.

5.1.6 Summary of the Case Companies
We can see that the VCF’s are selling their invention and are technological intensive firms.
The FB’s have multinational companies as customer, where technology is central in their
market offering. Hence, the case companies show similarities in market offering. Concerning
maturity, VCF-2 is the youngest in terms of business maturity, although they have sold their
first service to a customer. The other companies are more mature and the different companies
may face different kind of ethical considerations depending of situation. A mainly service
company, may also be exposed of different ethical content compared to a product company.
The numbers of employees are almost the same between the case companies (<15), except the
FB-2 (>200).

5.2 Topic List
In this paragraph we will present the relevant topics that were discussed during the interviews.
Later, at the analysis part we will analyze the findings with regard to the ethical decision-
making process that we have presented in the conceptual framework. Also, in the analysis we
will take into account how the different topics relate to the conceptual model and in what
context the data were generated by the respondents. The topics treated during the interviews
that were most relevant are:

- Definition of ethics
- Role of ethics in the company (strategic and operational level)
- Decisions and ethics
- Ethics and profit maximization
- Organizational structure and decision-making
- Business orientation (present and future)
5.3 Definition of Ethics

The definition of ethics is important because it allows the respondent to reflect and explain ethics in their own context. They also show tendencies of their moral awareness and reveal evidence of how they could manage ethical considerations in a real life situation. In the case they follow their own beliefs about ethics. If they do not follow their own ethics, it could be due to lack of moral motivation, moral intensity, moral identity or other external influences. Because all respondents hold a high management position in the company, they influence the structure, employees and culture by their actions and beliefs. These different definitions enable the researchers to compare definitions and see what is considered as important for the respondents and what type of ethics are considered. We asked all respondents for an individual perspective on ethics, and one corporate view on ethics but not all respondents provided data on both these aspects.

VCF-1:
“Ethics is a lot about honesty to me, in the business unit, in the business situation. And if we are honest to our owners, and our customers and the whole promise in that our product do a lot more than it can.” In this definition presented by a VCF, honesty in business is the main topic that is of importance to the respondent together with living up to the promise that was made to the customer. In this approach the respondent is focused on the direct environment and does not take thirds into account. The development employee in the company mentioned respect for people, animals and the environment as ethical importance. “How you treat each other in the company. I think it is also about respect that it doesn’t matter if you have a different culture or I mean if you’re, if you want in your way you can respect a person and so on.”

VCF-2:
“It ends with ethics, which means it is a science...because moral is more an opinion and standpoint.” By “it ends with ethics” the respondent means that it is the ultimate point of action that can be done. However, there is a link missing to the personal opinion and standpoint of ethics as well as a clear example. There is another role ethics play in business for this company: “We have one area of interest, we are quite secret, our privacy is rather high. Before we meet a client a confidentiality agreement is signed, especially before going to Asia.” The role of ethics that come forward from this quote is that the privacy and secrecy of the service that the company sells is very important. This is an internal focusing on the company’s core competencies, i.e. a sort of protection effort.

VCF-3:
“I haven’t thought about it that much it is more like common sense, don’t hurt people and try to think about the environment if it is possible to do with the product, and we have done that as well. Choose materials that are environmental friendly as possible.” The respondent trusts on people’s common sense with regard to behavior, however he does believe that a very conscious choice should be made when choosing materials for the product. As did the respondent of VCF-1, the respondent also clearly takes third parties into account and is not merely focused on the direct environment.

FB-1:
“That we could stand up for the product that we have developed and that the quality and the, the end user environments are as the customer has requested. (...) That it is a good quality, that we have an environment responsibility that we also need to see that the economic situation of FB-1.” The respondent clearly refers to the quality of the product as the customer
requested. This could be compared to the first respondent that spoke about honesty in business. Another part of the external focus is the environment, although no specific example is provided, as well as the fact that the internal situation is important when the respondent refers to the economics.

FB-2:

“One angle is that ethics kind of concerns issues that are quite hard to deal with. You can’t say it’s obvious what is right or wrong. And ethical question is for me something that is hard to decide is it right or is it wrong. It’s complex in that matter, that is one angle of ethics, one perspective. Another thing is that I think ethics generally speaking it also concerns things, for me it is to behave as a good person. And if you talk about business ethics it’s in that my kind of way of defining that term it concerns how you make decisions, how you act as a human being or as a business man. And of course that you do it in a positive way. The respondent has a more philosophical approach to ethics and speaks about “right or wrong”, to behave as a good person and interestingly to “act in a positive way”. When asked what “a positive way is”, the respondent replied: ‘For the company, for yourself and for other people. I think if you have it [ethical approach] in a good way, long term it’s good for everyone.’ The respondent takes all aspects into account, one person’s internal and external direct environment and aims at a best situation for all that are involved in a matter. To some extent this definition can be compared to the definition provided by VCF-3 with regard to common sense and not hurting other people and choosing materials that are the best for the environment. The second interviewee mentions “I think the most important that everyone is has the same worth, everybody is equal.” The HR manager’s personal view on ethics is “I would say it is really to treat other people like you want to be treated yourself. I think the human being is the most important.” What we can see is that all three respondents from the companies mention values with regard to people as important.

In summary, most respondents, regardless VCF or FB, speak about honesty, respect for people and the environment and “trying to be and do and be good”. VCF-2 applies another, more internal focus, on ethics. An internal focus means on the organization as mechanism with the employees and managers in it, as we understood it from the respondents. Moreover, external logically means outside the organization. Respondents however found it difficult to explain what “doing good” is, or what right or wrong is. In opposition to VCF-2, the FB’s demonstrated a higher, both internal and external, awareness of ethical considerations. How well the ethical awareness generates ethical behavior is unclear, but anyhow it is a good base in pursuing ethical behavior. Furthermore, most respondents trust common sense in doing good (some only trust common sense, other make an effort in steering behavior, more about that in the following chapter), or rather said, not doing bad to others (both private persons and businesses) or the environment. In relation with VCF-2, FB-1 also bring up the economic issue, to care about the company finances and therefore have an internal focus on the residing competitive and staying alive.

5.4 Role of Ethics in the Company (Strategic and Operational Level)

From previous chapter we find out the standpoints for the respondents, concerning their own view on ethics. In this chapter we will present the situation in which each company operates and how they understand ethics within these circumstances. Some may have quite different views on ethics in an individual perspective compared the perspective for company. However, we aim to shed light on the moral and ethical awareness of each company in order to understand how and why companies pursue one ethical path and not another.
VCF-1

“We have a few values that we have agreed upon about how to do things. And then we have this what I call inside authority which is a document that says what we are allowed to do and what not. We don’t have a formal written code of conduct...” According to the second interviewee in the company, we gained the understanding that the inside authority mentions mainly the allowance with regard to spending in the company. The first respondent continues about ethics at the work floor, which is an internal focus and view. “We say that it’s really about the work ethics, we talk a lot about it, (...) everyone is needed in (...) All these pieces [different people] need to fit together and we do it [the work for growth] all together and to me that is work ethics, and its teambuilding.” The respondent states that there is an internal document that is established so that the employees know what they can and cannot do. Furthermore, when elaborating on the work ethics, it is again an internal focus. In relation to ethics externally, the respondent comes back to the common sense that was mentioned earlier: “I think most of the time it’s enough to just try to go with common sense and gut feeling. And then involve the employees as much as needed in the discussions so that everyone feels involved and be not so scientific about the decisions, but it is common sense.”

Thus there are no specific methods with regard to ethical decisions within the company, other than the general document. This is confirmed by the second respondent (development employee) “It is not something that is written down or things like that, but I mean for common sense.” The CEO continues: “I am not at all interested in doing business that get close to the illegal border to begin with, so I am keen on that we are aware of legal limitations and restrictions and things like that so we make sure that we follow that and not get into trouble later on.” With this quote it becomes clear that legal limitations are very important for the company. As shown in the previous quotes, the decision limitations are brought back in the internal document and will thus prevent employees from taking illegal and unethical decisions that could harm the company. The development employee confirms that the company has no ethical documentation; however, the respondent does mention ethical considerations in relation to customers. “The customers do ethic things and we should think twice before we sell equipment to them if they are using it in a bad way when producing.” We see an enhanced ethical awareness, including the care of its clients. As FB-1 and FB-2 (in chapter 5.3) are concerned to answer to the need of the customers and providing a product that clearly is for the customer’s best, and not just providing something that the customer could buy.

VCF-2

The respondent already mentioned that there is a confidential agreement that clients need to sign before business is done. The fact that the company does business abroad has a major fact about the perspective on business ethics. “But if you say for example that this material you cannot use to a client in Asia, it is like a signal for him that it can be valuable, this I steal and use for my own benefit. So, if I should be general speaking I can say that the ethical considerations have increased due to the fact that we are selling abroad. It is another business ethics. We have higher standards of ethics, more understood, because one does not want to be blacklisted, to be one of those that no one wants to do business with. So yes, it is a bit related to culture.” The respondent reflects on his international experiences and concludes that Asian clients have lower standard of ethics in relation to piracy. The respondent continues: “We have heard from others with similar experiences, one should be careful with business secrets. The Scandinavian business ethics is higher.” By maybe being over emphasizing this, the VCF-2 shows no knowledge or awareness of ethics in another way than
internally; protecting the core competence including acting in a professional way toward customers, partners and collaboration actors.

VCF-3
The company does not have an ethical code of conduct and they consider themselves to be too small to have an ethical code of conduct or similar program or document: “We don’t have any ethics things within the company specific, the company is too small to normally have this.” Concerning what is too small has not been disclosed in the theoretical field; what distinguishes companies’ size and compatibility with an ethical code of conduct. However, when hiring subcontractors they do take the ethical issue concerning child labor into consideration: “We don’t have an ethics program or something like that but we have in our quality system that we should try to look with our subcontractors who they are hiring, so they know we don’t want to have child labor, but that is quality system but it is very hard to know.” Because they are disabled by law to sell and market the products, they do not focus on it because they are not on the market: “When you are entering and show yourself to the market and being visible to the market it is more important.”

In relation to the comments made by the respondent from VCF-1, the respondent believes that people use their common sense and gut feeling. “You think about it all the time, it’s more like normal today than it was before so…..yeah so everyone thinks about it of course it is not new today, it is more like normal.” Furthermore, it is believed that most people are concerned with ethics, mostly reflected on in the internal view: “I think everyone is concerned, everyone is thinking about the employees and to take good care of employees like common sense.

FB-1
The company is concerned with ethics because they have their production units in China. With regard to that, they have created an official document that needs to be signed by companies they work with: “What we have done is that we have done a huge document that we call the FB-1 Way. All the companies that we are working with have to sign that, that this is the way they are working. And that takes responsibility of the production of environmental, child working, that they go with the rules in the Chinese company and also that they are following the rules that we have in Sweden.” The content of this document, which is to some extent a contract, is followed up by the company in check-ups: “That means that he [employee China] checks the factories and he do the most things about that and I am in China two times a year and I do the checking myself also.”

FB-2
FB-2, the largest company of all the case companies in this research is very concerned with ethics, and has developed a document, an ethical code of conduct, after a project in which they included all the employees’ commitment and efforts. This document can be considered to be part of the business culture. “I think we, we try to be open and fair and work with, with (…) we have what we call the “FB-2 philosophy”. It’s to be a good employer, to be a very good supplier. I think to take responsibility, not just for supplying to the customer or for handling, or for security and things like that for people in the company and for customers, but also to be a good part of the society. To be a kind of a role model in different areas. It is also the business culture.” The second respondent (marketing manager) confirms these statements by saying “We want to help our customer, we are a partner, we are listening and we want to be a good company in the society.” When asked deeper in to be a good company in the society, the respondent mentions that they have several sponsorships and supports for sport clubs and schools around the company area.
When asked if the FB-2 philosophy also plays a central role in the abroad offices: “Yes it is. But it’s definitely most, the most focus and emphasis has been here in [city were head office is] at the factories.” What we can see in this quote is that the company aims to be open and fair. This can be related to the comments by VCF-1 about fair business and being honest in doing business. In reply to more specific details and the content of the document, the respondent explains: “It also includes the promises to our customers principally and we try to use the same promises internally also (…). That’s also one part, or we can say a customer-supplier relationship. And it has, they need to understand what, first of all the customer needs and if we are going to fulfill the end customer needs and expectations we need to do the same in the whole process internally also.”

About the use of the document and if it changed anything within the company internally or externally, the respondent answers: “In connection with the customers we have worked in the same way for quite a long time. It has not really changed so much by this. It is more internally I would say. (…) Everyone was part of that development process, in seminars, in small group discussions and things like that. To make sure that it was really established and well known by everyone at FB-2 and kind of we had the fundament for really integrating this way of thinking into people.” Regarding the communication of this document the VP says the following: “We do it externally to customers, we talk a lot about this, we show it in presentations to customers but we also talk internally, all the time about the philosophy.” This is the same as for FB-1, whom also communicate the document externally because they are proud of it and it is of importance. For the marketing manager in the company, the philosophy document guides his behavior on a regular basis and the document is used as template and inspiration for marketing and communications also. “That is one of the most important help for us to make decision, because that really says what we stand for.” The HR manager also uses it regularly, when recruiting for example. “I use it in a kind of different way, depends on going to be a decision I think but also decision we got to take a recruitment.” The HR manager elaborates further in his personal view on ethics in and for the company. “We feel is the right way to go. Because we think it give us so much, both in cooperation in people and in the organization, and feel motivation and effectiveness and the environment and tend to feel the company is much more open, open-minded so sometimes it’s different we are working a lot with ethics and the philosophy internal.”

In summary, interestingly, none of the VCF’s have an ethical code of conduct that is focused on improving a situation for others, as to say a document concerning external aspects while they do are about to have internal directions of how to work in the company. Both the FB’s do have an ethical code of conduct. This effort translated in form of a document to steer behavior toward being ethical in both internal and external matters. Furthermore, the VCF’s consider themselves too small to have an active ethical code of conduct in the company. However, they do believe that it could have importance for the future, i.e. they think a code could be beneficial when taking the next step in respective growth. The FB’s code of conduct is to improve the work situation at suppliers and this could be regarded as contract. FB-2 however has developed an ethical code of conduct with all the employees and made it part of the business culture through a developed philosophy. Worth emphasizing is that FB-1 only has five to ten employees, which mean their size is comparable to the VCF’s.

5.5 Decisions and Ethics

Companies often take conscious decision to encourage ethical behavior among its employees. The most common is the ethical code of conduct, in theory a document with guidelines how to behave constructed by the company. However, we interpret the theories in the way that
documents concerning how processes look like in relation to business behavior in the company also steer ethical behavior, ethics does not always have to be out spelled in a document to be part of an conscious effort towards ethical behavior as we see it. This section could be seen as an elaboration of last chapter, although the decision aspect is central as well as the development and purpose of an ethical code of conduct.

**VCF-1**

How the document concerning internal ethical matters looks like, even if the respondent disagree that they have a code, starts like this “…but saying that we also have a, an instructional authority of what type decisions the people in the organization can take. Both with regards to spending, so limitations on how much money they can spend and order things, but also regarding things like talking to media, things like that…. Yes, well, a code of conduct is bit more. We should watch it compared to the instruction of authority, we have said labels of money of labels of decision-making inside the organization.” The respondent tries to find his words, thinking and continue elaborating, “It is part of, we have a few values that we have agreed upon about how to do things. But, and then we have this what I called inside authority with is a document that say what we are allowed to do and what not. We don’t have a formal written code of conduct, that is to say we don’t hit each other, etc... and individual responsibility that comes along with everything you do. For example, the work time. We don’t clock people coming in and out.” The document could work as such as stating right and wrong inside the company, it also affect the behavior of the whole company, including attitude to external matters. People in the company were to some extent also involved in the establishment of the instructional authority. “It was evaluated and discussed. People took part in it and understand it.” The development employee elaborates on the role of ethics when selling the product to customers. “We should think twice before we bring our solutions to those [unethical] companies, but of course we are a small company and if it is a very important customer we could sell as well.” The respondent values sales over ethical decisions because the company is in a growth phase and need the sales to continue growing and create a stable economic situation. The CEO however, clearly mentions “I am not at all interested in doing business that get close to the illegal border to begin with” and we can interpret it that the company has a great important to make sales, even though customers might be unethical, but the legal considerations are of great importance for the sustainability and reputation of the company.

What is explained are circumstances and aspects of what could exist in an internal ethical code of conduct. The “inside authority” guide the company, e.g. what is wrong and right. Regardless aim or perspective, all described aspects concern behavior containing ethical aspects, such as what decision one can take, how much to spend and how to respond to media to name a few examples. Even if the company does not agree on that this is an ethical code of conduct, we interpret this information as an applied and adapted structure that management has created in order to encourage desired behavior inside the company. On the other hand, it does not include external ethical considerations. Nevertheless, the respondent develops and states the reason why these guidelines exist, “Just to make people comfortable. If you don’t know what you are allowed and not allowed to do things can get a bit creepy and unsure. If you know that the limitations and you can take a decision and move on instead of being worried.” Weather it is to facilitate for employees or facilitate and give control to the manager is unclear and for the skeptical one the internal ethical code of conduct could be to ensure an employee’s room for decision.
The CEO explains the work with **affecting the behavior in the company**, besides the “guidelines” as they call it, “(...) well for us, for me, one of my tasks is build a stable platform for this company so that we could add employees and add operations without getting out of control. So that's why I work with, organizational, clear organization charts. I work with a balanced scorecard to guide our work. I, make sure that we, just a simple thing as a switch board setup that allows us to add employees without having to reconsider whatever switchboard to use. “. There is a clear attempt to organize the business to get an overview and control and enable and framework where decisions can be taken.

**VCF-2**

How decisions are usually taken clearly depends on the position. The respondent, and the CEO, like to have control over the situation, just as VCF-1. “I am the one that has the responsibility for the outcome, so I am interested to steer the company in the right direction”. Of course the respondent need to delegate and he does, “they have of course the possibility to affect, it is freedom under responsibility, I make sure that I take all the strategic ones, but some operational one can of course not go through me.” We see clear similarities with VCF-1 in the respondents input regarding decisions, taken on operational level and strategic level.

More explicitly, in this way he describes to lead the group which can affect the decisions concerning ethics, “I like to lead with example, I have several years of experience from Asia, my employees are a bit younger than me...they pick up and run with every project, while I do not do that anymore. I try to be professional to me, my employees and to the clients, that is what I try to transmit to the company.” Because the company is relatively small, the relationships are crucial for the environment at the company. “Both my positive and negative sides affect the others; at the same time as their decision and acting does the same at me. We are so small, so each roll is important.”

**VCF-3**

With regard to VCF-3, the focus is merely on developing the product and preparing the company for when the product will be acceptable on the market it is trying to enter. Therefore, ethical considerations do not play a role at that time according to the business developer: “Yeah, in the beginning you need likely when you are developing for a long time product it is not important to think of ethics. We chose materials from a different company, but it is not a main issue. Now it when we are discussing distributors and like that it is getting more important when you are entering and having a conversation with the markets in another way then people users.” For the company ethical considerations become relevant when they are visible to the market. However, the business developer (former CEO) is also a business consultant for another VCF and reflects upon the choices made there. “In the other company it is a marketing tool to have an environmental friendly product and the process, the chemical processes that can be used with those products, it is more about the environment.” Because these conscious choices are of our interest, even though it is another company, we asked about the type of products.

“Applications and products that are environmentally friendly, we are trying to have green chemicals. The environmental aspect is always more obvious than any other ethical aspect I think.”

Since that company decided to make a very conscious choice about the environment, we were interested for what reasons that was except the legal ones. “And it’s a sales argument that the
one that uses this product don’t need to have other chemicals that are hazardous somehow (...) and it is easily handling so of course it is, in that way it is a very good sales argument.”

FB-1
The company has made a conscious choice about ethical decisions and created a document that shapes the demands for suppliers and the way the company works. The code consists of 16 chapters discussing different themes where the management aims to steer the company towards ethical behavior. The respondent elaborates on the creation of the document: “We was reading a lot of companies, quite a lot bigger than FB-1 is, and then we was finding a way to make that paper working for FB-1 and we developed it from a lot of companies and take this decision that this is the way we want to work.” The document is actually followed up and the CEO explains that checks are regularly performed by the local employee in China, but also when the CEO is on a visit which is about twice a year. When asked if they change factories because the rules are not followed, the respondent replies “It has happened a lot, yes... We have to change factories. We have to decide that this product that we have sold is a good product that this is not good enough then we have to skip that. Also decisions that are really interesting to talk to about and also very important is that what kind of companies are we, want we to work in."

FB-1 Ethical Code of Conduct
FB-1 has an ethical code of conduct which they constructed in the “FB-1 way”, which includes standards and a minimum set of requirements of environmental, social and work-related conditions when purchasing products, services and material. As mentioned, it covers 16 topics where the FB-1 way is supposed to guide decisions. The code is based on both national and global guidelines, such as the International Labor Organization’s fundamental principles of right at work and the UN Global Impact 2000. The code consists of values such as: trust, integrity, and honesty are central for their business behavior and should generate sustainable work relations with all FB-1 actors.

The document is also used externally towards customers and plays an important role in the company: “It is important for FB-1 so we have it and we are working with it. I rather should see that they [customers] ask more.” The company also engages in communicating their ethical standpoints and existence of the document to customers, suppliers, clients and other parties. “When we sell we do all the time, and also with the distributor sells we can do it but it is more or less not so much discussion about that but OM and direct sells we always bring it up ourselves. Because we are proud of it.”

FB-2
The choice to create the “FB-2 philosophy document” came forth from the initiative to make the assembly part of the company more attractive for women, since it was mainly a male dominated work force. From that the company decided that they needed to develop a philosophy, corporate culture and did so together with all the employees. “We have over the last 6 years worked with different projects that include the equality between men and women. FB-2 is an industry and traditionally it has just attracted men as employees and we have realized that we need, long term we need to make sure that we attract the best people on the labour market and if you have that view of the labour market, you can’t say “no we are just going to attract 50% of the labour market” which is the male part of it. We need to make sure that we can attract both men and women to make sure we also can attract the best people, the best and most competent people. And we took it kind of a full grip a total grip of the values of FB-2. When asked about the creation of the document, the respondent explains that
all employees were involved through seminars, workshops and work groups and that they were working in mixed groups, e.g. management and assembly personnel. “But then we thought about well all aspects of the values of FB-2 and we developed this text [shows document] together with all people in the personnel.” The marketing and HR manager confirmed that the document was created with all staff members through seminars and workshops. The marketing manager goes even further with regard to decisions: “If we have something choose between, we lean on the philosophy, then we know how to take the decision.” In other words, the code is very much accepted and up-to-date.

**FB-2’s Ethical Code of Conduct**

FB-2’s philosophy, i.e. ethical code of conduct, includes both business and human goals. The business related objectives are concerned with customers’ perception of the company, that FB-2 is considered to be a world class supplier of its product. By providing and outstanding product and superior brand they want to add value to customer. In order for them to achieve these objectives, they will accomplish it by empowering the employees and performing encouraging leadership. They want to create a friendly environment and encourage personal development as key for success. Great emphasis is put on each employee. The leadership should be centered on a positive leadership style, which emphasizes the importance of equality and diversity to pursue future success. Success is estimated in long term objectives, some decisions can imply short term loss, in order to follow a path of long term “thinking” as they call it.

By summarizing, it has become obvious that both FB-1 and FB-2 are very concerned with the ethical code of conduct they have established. It plays an important role on a strategic and operational level and also with regard to decision-making in the company. VCF-1 has an internal authority that influences decisions and also affects the external ethics decision as a consequence of encouraged behavior. With regard to ethics it is mostly concerned to rules and regulations and money expanses that should not be broken. VCF-2 has had a procedure covering aspect of how to behave professionally, i.e. protect the company and it concerns legal rights of the product. VCF-3 however has no documentation at all, it follows the guidelines from the authorities that decide if they can be active on the market or not.

**5.6 Ethics and Profit Maximization**

The previous section concluded the ethics in both the individual and the corporate view. In this section we aim to disclose the respondents’ knowledge and opinion about profit maximization in relation to ethics. For almost every company profit is essential for survival. On the other hand ethics can be interpreted to be part of a strategy that pursues a sustainable development, i.e. survival and avoidance of expensive collapses. We find it central to understand their attitude on profits and whether ethics is a concern to be followed when it suits, not when the circumstances require putting ethics aside. We understand that companies who are concerned with ethical aspects and “being ethical” which is in line with long term orientation, visions and profit maximization.

**VCF-1**

“I mean business is about business, you can do business in different ways (...). So I am keen on that we are aware of legal limitations and restrictions and things like that so we make sure that we follow of that and not get into trouble later on. And if you act like that, I think it shouldn’t be that much difference between, or contradictions between ethics and profit maximization.” The respondent at the VCF does not see any contradictions between mentioned aspects. How ethics may change in the future, the respondent explicate: “I think
that we are a very honest company that can make a lot of money, and if ethics come into social or society responsibilities and environment responsibilities and things like that, then maybe then there are some more limitations applied to the business.” By this we understand that the respondent expect that ethics could be of more importance when forecasting the future of ethics in their business, something that could possibly disable maximizing the profits. Also, the respondent trusts on the people in the business to continue doing “honest” business and not break legal rules. The marketing manager emphasizes that the company has experienced turbulent economic situations for some years. Therefore, it is important to earn money and create stability. The respondent also elaborates on the future situation. “You decide what to do and not to do. The market is that large and big that you can do it in a selective way that you can choose good customers, bad customers and in an ethic way. I hope we can do that at least.”

The development employee mentions his view on whether ethics has become more important over the past few years “It is important that there are ethics but I think it is more that they strive for higher profit.” The respondent mentions also high salaries and believes that higher profits are still the main concern.

VCF-2
On the question of how ethics and profit maximization can be combined or not, the respondent develops the thought in this direction: “I do not see that they have to be in conflict, I on the other hand I admit that my ethical considerations not often is present, the moral is within me, and if by any chance an ethical dilemma should arise it should be solved by common sense, where ethics and profit maximization could be accomplished.” As did VCF-1, VCF-3 and FB-2, the respondent mentions that it is “in the person” and relates to unconscious behavior, as well as common sense of people in general, and oneself. The respondent continues to share thoughts about profit maximization and turnover, while this subject came into mind: “In general speaking I assume the FB has a more long term perspective and profits are as important as turnover, where losses can be accepted and managed in another way and they probably protect and care for the company and would not sell it to highest buyer. Like in our case.” It appears so that profits are the most important outcome over the entire time period, to create value for the company and its shareholders. More concretely, the respondent was asked to give examples, and mentioned:

"A conflict [between ethics and profit maximization] may appear in a situation of valuing the company. In this situation one maybe overvalues to get as much money as possible... for us on the other hand, it is good for us who have shares in the company, because we would benefit from a higher price.” In this example the respondent refers to valuating of the company and clearly values owners benefit (profits) over the right and correct valuation of the company. This shows what aspects, in theory, he would have in mind when arguing the valuating negotiation process if the company would be sold, i.e. in theory this is unethical behavior.

VCF-3
This company is currently not selling or marketing any products because they are not yet allowed to do so. Therefore, the respondent found it hard to relate profit maximization with ethics for the specific case. However, the respondent did mention that at this point, the most important activity is to make sure that the product can be sold and thus money can be earned. “It’s not a main thing [ethics], the main thing is to get the product out... and then when you get sales, then you can start being another kind company [more ethically concerned] when you are talking more to other people about the products.” The context of this answer is that the company has been developing the product since the startup and because of its unique
situation, 100% owned by venture capital, there is pressure to get licenses and be able to sale and market the product. Therefore the respondent states that ethical considerations come at the second place and ethics will be managed as it turns up.

FB-1
The respondent did not specifically reflect a view on profit maximization and ethics, however, when related to the “FB-1 Way” document which is also a contract to some extent with suppliers, the respondent elaborates that the document is followed strictly and as a result of checks in at the suppliers’ factories they had to change: “We have to change factories. We have to decide that this product that we have sold is a good product that this is not good enough then we have to skip that [factory]. With regard to increased sales, and logically more profits, the respondent reflects that it would be an ideal situation to have more sales people at different locations. The respondent reflects that growing slowly is acceptable at this point, but as mentioned earlier, breaking their ethical points is not. “And it would be very easy for us if we could have two more sells guys and I have one in Germany and one more in Italy and then I just go on and then we know that the sells is coming but it takes one year, one and a half. That would be very nice but we don’t have the economic situation for that so we have to wait and we have to do it slowly.”

FB-2
There was no reflection on profit maximization and ethics with this respondent either. However, the respondent did explain a situation that not too long ago, where they had to lay off a significant part of the people because sales decreased 60% and the company future was uncertain. The respondent mentions that the future of the company was most important and ethics did not play a role at that point. “We didn’t really sit down and think about ethics. Clearly when you are in that situation [sales drop] you have a lot of respect for what kind of decision you need to take and realize that laying off people, (...) So I think when you are in that process, you realize that this is a very, this is a tough decision, it’s a lot of ethical aspects, but you need to do something to make sure that the company is kind of protected for the future and will do as good as possible for the people that are still here.” The company include both the companies’ financial well-being and that the people should be taken care of. We interpreted this as a combination of ethics and profit maximization. It is logical to consider healthy finance as a main concern when facing troubling times. The HR manager mentions that ethics are important for the company and are not merely marketing and PR attempts. When asked if ethics are still pursued if they cost money, he replies: “Yes, we have invested a lot of money in education because we feel it benefits us so much, because I said the motivation, engagement, effectiveness, so we can see so clearly the benefits from it so for us it’s very very important do give time to discuss.” By this the company shows through different respondents that the philosophy is deep in the company culture and they are living it. The marketing manager thinks that ethics is part of the business growth for FB-2. He replies to profit maximization and ethics: “I think you could maximize the profitability in some level and then also be ethical company.” This statement is supported by the statement of the HR manager, whom said: “You have the chance to maximize it [profits], you also have to be ethical about it. Because if you have that, you have a strong power in the company because that’s the people. And then you get the profit I would say.” The company believes in growth through ethical behavior and personal growth and therefore the philosophy plays an important role. The marketing manager does however understand that not being ethical could give higher profits. “But if you are not ethical company you had a boarder the wider the circles are more wide to maximize the profitability, you have more [profits]. (...) But you are
doing it in the wrong way.” Concluding, ethics could be considered opposing profit maximization.

By summarizing, we can say that all companies believe that profit maximization and ethics are to some extent able to be combined. However, the VCF’s find it important to sell as much products at this stage as possible because it is important for them to earn money, find new customers, increase turnover in order to gain venture capital and survive. This should be seen in the perspective that these companies are quite recent and struggling with the economic stability, as well as the pressure they receive from investors to become more financially independent. FB-2 seems to be most concerned with ethics related to profit maximization and believe that by having an ethical code of conduct that works it could benefit the company profits in the long run. FB-1 also is struggling a bit with the economic situation and sales are therefore important. However, they have changed factories when the suppliers were not following the ethical code of conduct they need to follow, which shows the importance of combining ethics with profit maximization.

5.7 Organizational Structure and Decision-making

By describing the attitude of ethics in relation to profit maximization we aim to find out their attitude to ethics and choose of its importance. Either it is the respondents own belief, or the belief is affected by its surroundings. In this section we will let the respondent show the meaning of structure, the power of the shareholder in decision-making process and how much a manager can affect the system, framework and processes in the company.

VCF-1

The respondent of the company has the function as business developer, which is directly the highest position in the company and can thus be seen as CEO, has seen the fact that he is also board member. With 10-15 employees in total, the company is quite structured and centralized around the business developer, mainly because he is involved in all processes both strategically and operationally. On a strategic level, the respondent and the board take the decisions: “So far it is me making, doing the work [making a plan] on a strategic level, but we grow, so let’s not try to formalize more but it’s a compact management team that take the strategic decisions and make the strategic proposals.”

“So that’s why I work with, organizational, clear organization charts. I work with a balanced scorecard to guide our work.” Possibly important, the shareholders are not in the board of directors. “And the board, where we have external board members, they work through me, and I bounce off [communicate with employees and shareholders] our business plan and our strategy plan and so on with the board, then they discuss and maybe change a little bit.” The only role of the shareholders is to finance the business so that developments can be done and the company can grow. “But in the end the shareholders, they only agree on an owner’s plan which is directed to the board and we work according to that plan.”

The respondent aims for structure and work routines in the company and wants to optimize through that: “Well I take the outmost decisions, important decisions. We are still so small in number so that we have the opportunity to bounce off things that need a decisions, but saying that we also have an instructional authority of what type decisions the people in the organization can take. Both with regards to spending, so limitations on how much money they can spend and order things, but also regarding things like talking to media, things like that.” When asked for the reasons for the instructional authority document, the respondent replies:
“Just to make people comfortable. (...) If you know that the limitations and you can take a decision and move on instead of being worried.”

The decision freedom and abilities of the employees are described as followed: “We should watch it compared to the instruction of authority, we have said labels of money of labels of decision-making inside the organization. I need to approve a project and the budget, but then they can take the decisions of spending within the budget. It’s not necessary that they come to me before they take a decision on a certain level but often it happens anyway.” From this we can understand that there is a high amount of interaction with regard to decision-making in the company between employees and the manager that result in high involvement on both levels. The development employee confirms the situation in the company and mentions that he is mainly concerned with spending when he is on trips for the company.

VCF-2
The company is quite small with only <5 employees. The employees, of which the CEO is one of has quite some freedom to take decisions, “We have the owners, but I have the authority to find the markets. The decisions the board take is finance and the future direction of the company...so I travel to find finance, customers and partner/collaborations. It is all about selling. They are happy for every potential client I talk to”.

“On the other way we have quite an operational board. They meet once a month but they certainly affect the everyday life of the company employees.” As understood from the respondent, the board of directors is very keen on supporting the progress of the company, and take part of mainly in finance and economic issues, and report in economic terms of different project has been of central concern. “It has been quite some material they have asked for, something we rarely could have provided...however, it has changed for the better, we have met somewhere in the middle”.

To sum up, the board has been eager to get information about the projects, something the employees and the CEO could not provide. The reason for this could be due to eagerness to lead and control the company, a lack of trust. However, it was not possible to understand the reasons in the context of the interview. We can discover a trend in VCF-2, since this and the earlier findings argue that focus lays on survival; finding customer, lack of ethical awareness and responsibility and precise economic governing which makes ethics not prioritized.

VCF-3
In VCF-3, all the shareholders are also in the board of directors. As mentioned before, the company is unable to sell and market their products at this point and has been developing since 2007. There is some pressure from the board of directors, “They [the board] are usually very focused on things that are supposed to be happening in the company of course because they want to have results.” When asked for the decision freedom of employees in the company, “Practically a lot [decision freedom] actually, it is very open environment so. The CEO right now really wants everyone to take charge over their area and drive it forward because it is important, they are very few people and it are people that are very eager to go forward.”

With regard to interactions between the employees and meetings, “Every week we have a group meeting, all in the company, everyone has their responsibilities, and they report and we discuss everything about what's happening and where we are going and if you have some problems from customers, everything is discussed once a week.” There are regular
interactions between all the employees and everyone strives to move the company forward as fast as possible. This comes forth from the pressure from the shareholders, whom are also the board of directors to be able to sell and market the products so that money can be earned. All employees have a high awareness for the importance of development in the company so that sales can be made and money be earned. This importance has spread over all the employees in the company because of a strong need from management and the owners. Because of the regular meetings, it is likely to assume that it is one of the main concerns for the meetings which results in an overall attitude by all persons active in and around the company.

**FB-1**

FB-1 can also be considered as a small company, which make the organization and control less complex than it would be for FB-2. When questioned what decision freedom the employees have, the respondent replied: “We have...an agreement, employer agreement what kind of working they should have in FB-1 and then that is the head document.” However, these written documents, “head document” and ethical code of conduct must be performed and will be affected by the manager on a daily bases. Therefore leadership is important, and the respondent, in form of the CEO, has a great part in this. The respondent explains his leadership like this: “Open with, with a lot of responsibility of the employees, I give them responsibility quite fast and I trust that they do what they say and, I not so often double check them. Why the CEO chooses to pursue such a leadership style is “because I like when people is growing, if you double check and you are on them all the time then the growing is not coming so.” We can see here that the CEO is interested in people’s growth. This is typically related to characteristics of FB’s rather than VCF’s where profit growths are usually more dominant.

Concerning the role of other people in the company, “He [technical employee] has a quite big responsibility and also he can take his own decisions in the budget that we are working with. Let’s say I have responsibility for what he is doing but he has quite high level of how to do it that means it is more or less up to him.” Team meetings are done regularly because the company is so small, interactions happen daily “One times a week, or every day. It depends because we are so short people and we are just four people working here, you talk every day about everything so it’s more or less.”

If the CEO feels any pressure from the board of members, the answer was “We meet 5 times a year, about.” The respondent concluded that the board does not interfere in the daily work, and as CEO and the employees have freedom to act as they think it best serve the company. The strategic decisions are made in the company and the CEO, who is also the owner of the company made that choice consciously for a sustainable future of the company. That [if the owner takes all the strategic decision] is not good, that’s why my decision was I want the board to take the structure how to work and then I work like that.” And that means that in that we take decisions of what kind of way we are working and what kind of structure we should have in the company and then we are working here from that I as a CEO in the company gets from them what we have decided to do and then I do it.” Even though that the company is one of the small case companies (in number of employees) the CEO leads and set the framework of the daily life where decision-making freedom is central and people growth a goal.

**FB-2**

FB-2 is a typical FB with family members still active in the board and the company. The respondent, vice president, is not a family member and had concerns when he joined the
company about 18 years ago about the ability to take decisions: “In a FB it is that the owner and the general manager is very strong and makes all the decisions and not let people in (...). But I never felt that here at FB-2, they made the decision themselves to hire me and from the start I felt that in my area I had a lot of possibilities to influence decisions and make decisions.”

Now that the respondent is in a high management position self, and also in the board of directors, the leadership style is explained: “Of course you need to trust people, you need to base some of the decisions that are taken on trust from me as a manager to other people. But it’s also that you need to make sure that they have the right tools to make the right decisions”. In order to make sure that the manager has done what was possible to do for the employees to take the right decision, he continues with how he affects the employees by his behaviour, “I understand that I am a role model. It is very important if we talk about code of conduct and philosophy and how to behave, I need to behave that way because I am the most important carrier of that flag [philosophy], absolutely. (...) I think it is important that people are different. Everyone should not be like me. That is not good.” In other words, the employees are affected by the manager, at least according to him. Since both respondent two (marketing manager) and three (HR manager) have managing roles in the company, they are quite free in their decision-making and part of the organizational structure. Marketing manager: “You have the quite a large area of decision-making format in the top but also into the practical issues. (...) And I would also say one of the main part is in decision-making, is you experience, your own experience, that you have learn from year to year.” As theory also refers to, experience plays an important role in the decision-making process of people.

By summarizing, we can see that in all companies the employees have the ability to make their own decisions. The degree of freedom varies, where we understand that the respondents of VCF-2 and VCF-3 apply a control on the employees’ possibility to take decisions, mostly through human interaction and not system structure. Nevertheless, the employees are free in taking the decisions in their own area of responsibility and VCF-1, FB-1 and FB-2 are only slightly guided by managers or internal rules and regulations. This is does not differ much from companies with other types of ownership and control.

### 5.8 Business Orientation (Present and Future)

The business orientation of the company for both the short and the long term are of importance with regard to ethical standpoints. Short term goals and long term goals can somehow play a part in the commitment to ethics and how well a company could manage ethics. Pursuing short term profits discourage to see the whole picture and disregard aspects not relevant for the short term goal; however, in the long run it may create unbeneical consequences for the company. When companies are struggling with the economic foundation of the company, very focused on growth or development all measures to cut costs are taken. Insights in the business orientation of the companies will deliver us the context in which the respondents answered to the interview questions. It shapes a more realistic image of the company with regard to possibilities, opportunities, but also threats and weaknesses which we believe shapes the companies’ context and ability to pursue ethics.

**VCF-1**

The company is still in development phase, although three products are out on the market. However, investments from investors are still needed to keep the company developing at the same pace. “We have red numbers now, we don’t expect that have a positive cash flow cumulating until the end of 2013. We need to lead the phase where we get government
investment capital and get more into private investment.” Furthermore, there is a focus on creating awareness about the product and selling the product within the defined markets, so that turnover is made and developments can be financed. “Right now it is all about selling and we have this mobile solution, and we will sell that so that we get a cash flow and we get a solid ground and can afford to do the other things. And the other things are the things are to develop an integrated solution that could be placed on top of the line, or in the line with the one that is in control and then expand.” It becomes clear that the focus is to sell the product. As mentioned before, most decisions are communicated at different levels in the company. Therefore we believe that this influences the behavior and orientation of all the people that work in the company to have a sales and growth focus that could overwhelm ethical behavior.

With regard to expansion, which is a longer term plan, the respondent means both geographical markets, as well as expansion of personnel with the current facilities. “And then it is about geographical market, one day when we feel comfortable we can support the European market, as far as support is concerned, and possibly through dealers, then it would be time to take this concept that it would be at that time and maybe say ok lets go for the US. That is one of the goals too. To make it possible for us to have maximum 30 people and have that troop here in this facility and establish dealerships that could leverage the sales to conduct each market area.” Although the company is a VCF, they seem to realize that they need to pursue a sustainable growth because the product needs modifications and improvements. Going into markets that are geographically out of their control area, bring larger costs because of the need for regular and interactions with the client to develop the product further.

The development employee does mention that in the future he would like the company to be able to have an ethical code of conduct in the company. However, because of the economic situation, they are pressured to create sales and earn money. “In the short term I think it’s important that the customers that have now purchased our system is satisfied and find the costs saving, some sort of benefits and value of our system.” The respondent elaborates by explaining that when the value of their systems is clear, they can operate on bigger markets and on wider geographical scales through distributors and resellers, as did respondent one. “And I hope this company can be a worldwide company”. Since this vision is clearly long term oriented, i.e. it will take them some years, it would be possible to include ethical considerations into the growth plan. In contrast to VCF-2, that sees an exit of the company in approximately five years.

**VCF-2**
What is important for the future success, “to get accomplish more patents, sell more and be more professional toward the client. The client is the most important, but we need more patents as well. That is the core”. A classic answer with clear market orientation in mind, and the market driven opinion is presented; patent, sell and manage clients. This also relate to the fact that the company has an estimated exit in five years, need of venture capitalist and are working with a short term goal strategy to survive. The vision is limited to the five years span, where the goal is well integrated in among the employees, manager, owners and will be in the coming venture capitalist. Even though short term orientation could also imply ethical behavior, we understand the VCF-2’s attitude to lack ethical awareness and considerations.

**VCF-3**
The respondent developed ideas concerning this aspect, and explained why venture capitalists are not long term oriented in general: “In the long run probably not because everyone wants
to have this company to earn money and selling a lot of instruments and helping people all around but, that’s the vision, the people the venture capitalists that are in right now are not going to be at the end of the vision.”

Not being involved in the company in the end of a company’s vision is a reason why not to think about the long term. A venture capitalist commonly is active in a company for about three to six years, and pursuing the vision and future wealth of the company is not gaining the venture capitalist, but just the company. Even though the vision does not align between the company and the venture capitalist, the central part a venture capitalist has, including the power to influence, should not be forgotten, “…If they are just, ok we are taking too long they won’t put in any more money and then you’re screwed. However, the venture capitalist actor is central for the company, and we have four venture capitalists at the moment but...Yeah and it’s always looking for new all the time”. These aspects must be present when steering the company and an eventual long term vision must be self-managed by the company.

Once the respondent elaborated in the topic venture capital and short term thinking, one step further in the reasoning was concluded: “since the whole company is owned by VC, so it’s good and bad about that. Bad because they are not very, [silence] they want to earn money of course and they want to get out quick and it’s not very sustainable, it’s more difficult to have a plan, you can discuss a plan but you don’t have a plan for a very long time because, you don’t have money for the whole plan, you only get money, small money on the way and [silence]. I don’t know it’s difficult I think to have a sustainable company, actually.” The respondent himself question the way the company is managed, surviving and growing. Despite of this approach to do business, the respondent does not think their type of business idea could have been pursued in another way. As mentioned, the company is about to create some guidelines on how to behave and act within the company in different aspects. The respondent explains the work with finalizing these documents: “[the CEO] worked right now, (...) we have a lot of routines since before but now it is more about the company routines and policies and, when we are going. It is also about internationalization but it is more that we need to have a clear view and a good foundation.”

However, what is also an issue that makes the company ethical aware is when growing, and especially abroad. Now the company is about to enter the American market after acting on the European one, and the respondent declared the change of ethical considerations like this, “No but,... now it is more important to have policies about different things and what to put on the webpage and distributor materials we distribute and how to choose different things. It is more, when we are more visible to the market it is more important so in that since now that we are looking in different policies. So it is getting more important but in the beginning everything is been getting a perk and we do what the law says you need to be doing and if it says we need to have some ethics then we will have ethics. In other words, the company is taking ethical actions in order to stay competitive, to continue being a choice for the clients. However, it is not to pursue an increased ethical behavior for the benefit of the company and its stakeholders. Al though the ethical awareness has increased, the reason why is to fulfill all the requirements to sustain an actor in the market and supply a competitive product.

FB-1
The future of the company lies in entering new markets, “We are selling out of Europe also but most of the sales are in Europe. We are selling to the US.” And to supply their products to the biggest country in the world, the CEO answer, “China is interesting yes, it depends on what happens now in China. If the growing of the China economy is going up, as it has
been.” The CEO of FB-1 shows obvious market orientation in his explanations, although he is leaving product development out of the answer to future success. He also excludes the one who should be doing the product development, namely the human resources.

Interestingly, the CEO is currently considering taking in venture capital so that faster growth can be realized and more market shares can be taken. “We have talked about it and we have discussed with them [potential investors] about that. With two or three of them but we haven’t decided. And that is to have a better liquid situation and to take another, take the next step with FB-1. The owner is considering several steps to realize growth. However, more investments are needed to realize such growth, therefore venture capital is considered.

FB-2

Key for future success, “The key is to succeed in this strategy, to make, we can say one, or to make people grow and by that way also grow the company. But of course, it’s not just the people, we also need to take the right decisions about investments. Both in the production and in the products.” Interestingly, the standpoint regarding employees growth is related to company growth is taken. On the question about their competitors, on one side the company can state itself as world leader, delivering two products that are considered the best quality and technology, but also the most expensive in the market. However, it will be crucial for the company to live up to the expectations of their customers. “(...) to have the capacity and the competence to be a world class supplier to world class companies. So we also need to keep up with that. (...) If we don’t have the products, (...) and if they are not there in time with the right quality, they have no use for us as a supplier.”

As mentioned, the marketing manager thinks that ethics is part of the business growth. Furthermore, international markets will become even more important and possibly even offices at other, less remove locations to attract better employees could be realized in the future. “We are working abroad, but maybe more clear to even more much more, and marketing communication outside Scandinavia, and to be more active Europe and North America.” The HR manager comes back to the personal development and believes that it is critical for future success of the company because employees are engaged to the company. “We see that when people are involved they feel also the engagement and loyalty to the company. (...) Constantly we develop and I would say that is the most important thing, to constantly develop.”

In summary, we can see that, as earlier mentioned, the FB’s are very dedicated to the ethical considerations in combination to growth and earning money. The VCF’s are still in the development phase of the products and are also externally financed. The securing of future financing through external investors, or earning money, creates quite some pressure on all the present employees and managers in the company. Although the interviews have raised quite some questions about ethical considerations in the companies, most respondents admit that they have not thought about it that much, also because the focus is on creating growth and stability.

In this chapter we have provided you, as a reader, with a presentation and partly interpretation of the relevant gathered empirical data. We have delivered a presentation trough a dividing of relevant data in topics to guide you towards the analysis.
6. DISCUSSION & ANALYSIS

In the last chapter we structured and presented the findings for the interviews. In this we intend to answer the research question, which is “How do managers in FB’s and VCF’s manage ethical considerations?” We expose the theoretical findings to the empirical data in order to analyze and elaborate on ethical consideration in these FB’s and VCF’s. We aim to derive from these discussions theoretical and managerial contributions.

This section consists of six subsections covering different aspect of ethical considerations. The sections will together create a base from we intend to derive discussions and in-depth analysis. What it not will do is directly correspond to one of the parts in the conceptual framework, paragraph 3.8. Each and every one of the analyzing sections contributes to several steps in the conceptual framework, depending on content of the empirical data. Since we were aiming to investigate how they manage, we were not explicitly interested in acquiring material concerning one step in process, or one factor that influence an ethical decision. As mentioned, we used the model to guide the empirical gathering and then discussing analysis.

We start with some basic opinions of the case companies’ definition of ethics. In the following sections we present first an elaboration of ethical considerations and later about the behavior which is not including in an ethical code of conduct, but still add value in pursuing understanding of how the case companies manage ethical considerations. The forth subsection concerns the attitude the managers have to profit maximization, the following shed light over organizational influences. The last sub-sections analyses the marker orientation of the case companies, how central market driven aspects are for the present and future of the company. This gives us an indication of the importance of ethics.

6.1 Individual and Corporate View on Ethics

Under section 3.1.2 in the Literature Review we give examples of common used types of ethics. Ethical considerations can also include ethics in marketing, accounting and other application areas, but also about fraud and bribery to mention some common generic issues (Geva, 2006, p. 133; Wimalasiri, 2001, p. 614). On the whole, the standpoints of the managers are central in understanding how they manage ethical considerations. As explained in the literature review, Gustafsson (1988) defined different types of ethics as followed:

1. **Reliability ethics**: Ethics that regulate behavior in relation to promises and expectations (telling the truth, keeping promises).
2. **Human ethics**: Include the values of humanity, integrity and equality among people. How organizations relates to its employees and external stakeholders.
3. **Capability ethics**: These types of ethics impose the obligation on the organization and employees to produce as much value as possible and demand industrious and economical behavior.
4. **Future ethics**: These ethics are concerned with the future environment and welfare of future generations.

In the case companies we received both individual and corporate, we have presented both in Table 5, but some companies did not provide insights on both and therefore we lack either individual or corporate perspective on ethics.
Table 5. Definition of Ethics Respondents

| VCF-1 | “Ethics is a lot about **honesty** to me, in the business unit, in the business situation. And if we are **honest to our owners**, and **our customers** and the whole promise in that our product do a lot more than it can.” |
| VCF-2 | “It ends with ethics, which means it is a science...because **moral is more an opinion and standpoint**.” |
|       | “We have one area of interest, we are quite secret, our **privacy is rather high.** Before we meet a client a confidentiality agreement is signed, especially before going to Asia.” |
| VCF-3 | “I haven’t thought about it that much it is more like **common sense**, don’t hurt people and try to think about the environment if it is possible to do with the product, and we have done that as well. **Choose materials that are environmental friendly as possible.**” |
| FB-1  | “That we could stand up for the product that we have developed and that the quality and the, the end user environments are **as the customer has requested.** (...) That it is a good quality, that we have an environment responsibility that we also need to see that the **economic situation of FB-1.**” |
| FB-2  | “One angle is that ethics kind of concerns issues that are quite hard to deal with. You can’t say it’s obvious **what is right or wrong.** And ethical question is for me something that is **hard to decide** is it right or is it wrong. It’s **complex** in that matter, that is one angle of ethics, one perspective. (...) It is to behave as a **good person.** And if you talk about business ethics it’s (...) how you make decisions, how you act as a human being or as a business man. And of course that you do it **in a positive way.**” (VP) |
|       | “I would say it is really to treat **other people** like you want to be treated yourself” (HR Manager) |
|       | “I think the most important that everyone is has the same worth, **everybody is equal.**” (Marketing Manager) |

It is shown that VCF-1 respond to the reliability ethics, including honesty and a promised quality on the products. VCF-2 lacks ethical considerations on the individual level according to us, while VCF-3 focuses on environment, namely the future ethics. The VCF’s understand ethics and apply it on a more narrowed level, whereas the FB’s perceive the phenomena on a broader level. Considerations included future, human and reliability ethics, and an ethical code of conduct regulating internal and external guidelines.

FB-2, in which we made an in-depth study including three interviews in total, showed tendencies of lacking individual perspective among the respondents whereas the corporate view was ambitiously elaborated. This could have something to do with their ethical code of conduct which is rigorously integrated in the business culture. This consequently led us to understand that moral motivation and responsibility is decided on a strategic level. Concerning ethical problems in form of common generic issues and application areas, we could not find any relevant data, due to both that the companies had nothing to gain from telling us that and the fact that we were not aiming at find any type of scandal or ethical collapse. On the other hand, we tried to ask if some of the stories they told us could by some reason include indications of ethical problems, all the respondents neglected that possibility. That is also why we have no relevant data concerning moral identity. We did not succeed to initiate self-reflecting discussions where the managers described a situation including these circumstances. In general, respondents were not eager to tell or analyze decisions or situations where the company could have questioned its choice, if it was right or wrong. These ethical
problems, common generic issues and/or application areas is as its understood from the interviews are avoided by common sense (VCF’s) and the effect of ethical codes of conduct (FB’s).

6.2 Elaboration on Ethical Considerations

Above we briefly defined the different standpoints, which will be brought back, when relevant, into context in order to give the respondents’ statements power or questionability. In relation to the conceptual framework, this section corresponds and provides insight about the ethical considerations in the respondent companies. In this section we will present our analysis on the elaboration on ethical consideration the managers made. In Table 6 below we concluded the most central and relevant quotations concerning the topic.

Table 6. Managers’ Explanation on Ethical Considerations

<table>
<thead>
<tr>
<th>Manager</th>
<th>Explanation</th>
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<tbody>
<tr>
<td>VCF-1</td>
<td>“I think most of the time it’s enough to just try to go with common sense and gut feeling. And then involve the employees as much as needed in the discussions so that everyone feels involved. I am not at all interested in doing business that get close to the illegal border to begin with, so I am keen on that we are aware of legal limitations and restrictions and things like that so we make sure that we follow that and not get into trouble later on.”</td>
</tr>
<tr>
<td>VCF-2</td>
<td>“Our privacy is rather high. Before we meet a client a confidentiality agreement is signed, especially before going to Asia.” “But if you say (...) this material you cannot use to a client in Asia, it is like a signal for him that it can be valuable, this I steal and use for my own benefit... It is another business ethics. We have higher standards of ethics, more understood, because one does not want to be blacklisted, to be one of those that no one wants to do business with. So yes, it is a bit related to culture.”</td>
</tr>
<tr>
<td>VCF-3</td>
<td>“We don’t have any ethics things within the company specific, the company is too small to normally have this. (...) We have in our quality system that we should try to look with our subcontractors who they are hiring, so they know we don’t want to have child labor” “You think about it all the time, it’s more like normal today than it was before so…..yeah so everyone thinks about it of course it is not new today.”</td>
</tr>
<tr>
<td>FB-1</td>
<td>“What we have done is that we have done a huge document that we call FB-1 Way. All the companies that we are working with have to sign that, that this is the way they are working. And that takes responsibility of the production of environmental, child working, that they go with the rules in the Chinese company and also that they are following the rules that we have in Sweden.”</td>
</tr>
<tr>
<td>FB-2</td>
<td>“I think we, we try to be open and fair and work with, with, (...) we have what we call the “FB-2 philosophy”. It’s to be a good employer, to be a very good supplier. I think to take responsibility, not just for supplying to the customer or for handling, or for security and things like that for people in the company and for customers, but also to be a good part of the society. To be a kind of a role model in different areas.” (VP) “I think it is good describe in the philosophy, we want to help our customer, we are a partner, we are listening and we want to be a good company in the society, to the staff the our customer, and also our end-users we want to very close we want to be person, and we want to be eh be polite and yes what we tell them we have to put stand everything we tell. Yeah, and keep promises.” (Marketing Manager)</td>
</tr>
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</table>
FB-1 and FB-2 include several parameters when approaching ethical considerations whereas the VCF’s do not have these ethical considerations. Only VCF-3 has the consideration of child labor. To an extent we valued and estimated the likelihood and feasibility of the response we got concerning this topic, since presenting different ethical loaded words are just words, any maybe not at all feasible in the context of the company. That is why we made an effort to understand the situation of each business. Not primarily because it would answer the research question or contribute to existing literature, however, it helped us when trying to analyze the ethical findings from the case companies of this study.

6.2.1 Ethical Code of Conduct

Although a code means that the company made a strategic choice to pursue ethical behavior, the purpose, creating, implementation and living up to the code tells us something about the role of ethics and effectiveness on the organization, more about this below in Table 7.

Table 7. Ethical Code of Conduct

<table>
<thead>
<tr>
<th></th>
<th>Statement</th>
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<tbody>
<tr>
<td>FB-1</td>
<td>“We was reading a lot of companies, quite a lot bigger than FB-1 is, and then we was finding a way to make that paper working for FB-1 and we developed it from a lot of companies and take this decision that this is the way we want to work.” “It has happened a lot, yes…We have to change factories. We have to decide that this product that we have sold is a good product that this is not good enough then we have to skip that.”</td>
</tr>
<tr>
<td>FB-2</td>
<td>“...traditionally it has just attracted men as employees and we have realized that we need, long term we need to make sure that we attract the best people on the labour market and if you have that view of the labour market, you can’t say no we are just going to attract 50% of the labour market which is the male part of it. We need to make sure that we can attract both men and women (…)” (VP) “But then we thought about well all aspects of the values of FB-2 and we developed this text [shows document] together with all people in the personnel...If we have something choose between, we lean on the philosophy, then we know how to take the decision.” (VP) “The philosophy is a good guideline and the main goal in the HR to be an attractive employer and company, so that is something I think about in all kind of decision that is very very important when I talk with employees and customers.” (HR Manager)</td>
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</table>

The FB’s do have a code for different reasons and why they implemented such a steering tool. FB-2 felt the need to attract both men and women in order to ensure capturing the best employees. “We need to make sure that we attract the best people on the labour market (…) We need to make sure that we can attract both men and women”.

Both a market orientation approach and a gender aware attitude let them start the process of contracting the code which included the work of the every employee, in order to create acceptance and effectiveness (Wood & Rimmer, 2003; McKendall et al., 2002). FB-1 benchmarked other companies, but above all international organizations with focus on creating fair and suitable codes (e.g. World Labor Organization, United Nations). “We was reading a lot of companies, quite a lot bigger than FB-1 is, and then we was finding a way to make that paper working for FB-1” On the other hand, this code has incused in their business growth, e.g. when it came to choosing partner in China. Since they do have a long term perspective they might be better of following a sustainable development path, including some
set back of finding partners in China who not fulfill the standard of FB-1. That is what FB-1 believes: “We have to change factories”.

### 6.2.2 Reason to Why the VCF’s Do Not Have An Ethical Code of Conduct

As for the fact that the FB’s had an ethical code of conduct, the size of firms does not make a significant distinction between small and big firm, (FB-1 has 5-10 in relation to VCF-1 which has 10-15 employees). To have an ethical code of conduct does not per se imply an enhanced moral awareness and ethical behavior, as clarified by Fassin et al. (2010) even though the FB’s in our study invested time and energy on creating a document, with internal and external guidelines; which makes us convinced that they are at least trying to encourage ethical behavior. FB-1: “this is the way we want to work” and FB-2: “But then we thought about well all aspects of the values of FB-2”.

Moreover, Duh et al, (2010, p. 486) argue that there is no significant difference between small and big firms in the ethics behavior. In contrast, the VCF’s in our study rely on individual common sense, as they described it, a more laissez-faire management approach to guide ethical behavior. VCF-1: “enough to just try to go with common sense and gut feeling” and VCF-3: “it that much it is more like common sense” which implies that the manager’s of the VCF’s value each situation individually and that is an example of relativism as an ethical parameter (Forsyth, 1980). The reason for this could be related to accessible administrative resources, since they need to gather all resources they have in order to fulfill short term objectives. It can also be because of a thoroughly trust to its co-manager and employees. It could be argued also to be a suitable justification why ethics have not been considered, ethical knowledge is scare or an attitude aligned with “ethics is not part of profit maximization” is followed. However, from this dataset we can only suggest reasons.

The only conscious choice the VCF’s therefore make in steering ethical behavior is managed in the hiring process. However, how they ensure the “right characteristics” in a person, including aspects as moral awareness, motivation, identity which together create the common sense, is unfortunately not well considered by the responding managers.

The fact the VCF’s have not constructed a code could, as mentioned, have several explanations. One has to do with that the businesses are younger in average compared with the FB’s. Even though VCF-2 is selling to Asia, VCF-3 in Europe and obviously they are, in the context, mature enough to fulfill or at least initiated its internationalization process. This could be one explanation. However, we do not argue the importance of amount of years established as a company to be a decisive cause to the lack of code since they had time to develop product/service, initiate business relationships, grow firm size, and make some sales. On the other hand, the development phase might be prioritized and ethical considerations are included afterwards. The distinction of number of employees between the VCF’s and FB’s are not decisive either, since VCF-1 has more than FB-1, even though VCF-3 argues that they are too small to have a “code”. Concluding, the reasons behind not including the management of ethical considerations could be linked with time and/or maturity of the firm. Interestingly, this is the reality that the respondents for the VCF’s replied, FB-1 however is the same size and did make a conscious choice for an ethical code of conduct and to implement procedures.

### 6.2.3 International Aspects

We can see, in Table 8 below, that the internationalization process included some certain findings about how the case companies managed ethical considerations.
<table>
<thead>
<tr>
<th>Table 8. Ethics and the Internationalization Growth</th>
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</table>
| **VCF-2** | “So, if I should be general speaking I can say that the **ethical considerations have increased** due to the fact that we are **selling abroad**.”
   “We have heard from others with similar experiences, one should be careful with business secrets. **The Scandinavian business ethics is higher**.” |
| **VCF-3** | “Now it is more important to have policies about different things and what to put on the webpage and distributor materials we distribute and how to choose different things. It is more, when we are **more visible to the market it is more important** so in that sense now that we are looking in different policies.”
   “It is also about internationalization...we need to have a clear view and a good foundation” |
| **FB-2** | “We have kind of set some kind of **cultural, ethical standards** that is, I think especially commitment with, or in connection with the customers we have worked in the same way for quite a long time. **It has not really changed so much by this.**” (VP)
   “That would be really important to implement it outside here, because we have a daughter company (...). We also have a sales office abroad, so it’s important to feel and live the philosophy, **so customers feel it too**.” (Marketing Manager) |

What type of ethical considerations these case companies face can vary a lot, for several reasons. We have noticed that having suppliers/distributors outside Europe makes a difference, in particular in Asia. VCF-2: “**Ethical considerations have increased due to the fact that we are selling abroad**” and FB-2: “We also have a sales office abroad, so it’s important to feel and live the philosophy, **so customers feel it too**”. Not depending on size, we see that both FB’s are aware of the ethical complications that might appear when doing business in Asia. The perspective they apply is an external one, where they consider the conditions of the partners. VCF-2 though confirmed that their ethical awareness has increased when internationalizing: “So, if I should be general speaking I can say that the ethical considerations have increased due to the fact that we are selling abroad”.

From the interview we understood that in Scandinavia the rules and laws are broader applied, covering several aspects, while in Asia the ethical issues could arise more frequently due to lack of norms, partly because rules and regulations are insufficient to provide ethical and moral support: “**But if you say (...) this material you cannot use to a client in Asia, it is like a signal for him that it can be valuable, this I steal and use for my own benefit... It is another business ethics. The Scandinavian business ethics is higher**”.

As Venezia (2011) states that ethics is needed for a capitalistic society and Shaw (2008, p. 567) declare that there are not enough rules and laws to control, govern or surveillance all actions and VCF-2 agrees with these statements since they have taken an internal protectionist position concerning ethical considerations. VCF-3, in line with VCF-2, argues that ethical considerations have increased or are about to increase when internationalizing and when becoming visible to the market. VCF-3’s CEO was at the interview moment about to create new guidelines, partly similar to a code, in order to manage the complex situation which would come in the near future. VCF-3: “**It is more, when we are more visible to the market it is more important so in that sense now that we are looking in different policies. (...) It is also about internationalization...we need to have a clear view and a good foundation**”. The VCF’s proclaim that ethical considerations have increase due to internationalization, while the FB-2 does not see that trend. It could be founded in the fact that FB-2 has an ethical code of conduct and that they worked with these circumstances before and already are prepared.
How VCF-2 managed this situation was to consult other companies that have been in the similar situation, they included other companies’ experiences, but also consulted the Swedish Trade Council for expertise about the particular country of concern. “We have heard from others with similar experiences, one should be careful with business secrets”. They understood the risk, perceived the ethical consideration as such and took a stand. FB-2 contradicts both the VCF’s when they argue that ethical considerations has not changed when internationalizing, and explains it with help of the early created and well established code they have and could use the document in decision making situations “But then we thought about well all aspects of the values of FB-2 and we developed this text” (…) “If we have something choose between, we lean on the philosophy, then we know how to take the decision”.

6.2.4 Affecting Third Party, the Community

In Table 9 below we see how the case companies provided attitudes to third parties, what they included and how they reasoned themselves through the explanation.

<table>
<thead>
<tr>
<th>Table 9. Concerning Third Parties</th>
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<tbody>
<tr>
<td>VCF-2</td>
</tr>
<tr>
<td>VCF-3</td>
</tr>
<tr>
<td>FB-2</td>
</tr>
</tbody>
</table>

The role model of the society, as FB-2 states in Table 9 above, is to take it one step longer than Hunt et al. (1984) declared, that being a role model of the firm can positively affect employees are more motivated to act ethically. This internal role model effect can be related to the “monkey see, monkey do” effect as we described and explained in the literature review. This is the concept of employees copying behavior of their managers and other people they view at as role models. The VP in FB-2 is very aware of that and uses it in benefit of the company and ethical code. FB-2 tries, by letting their ethical code of conduct steer and encourage ethical behavior not only in the company, but the whole community by being a role model. From the interviews, and from the code, we could understand that it benefits the company to consider third party situation, because it will gain the company in the long run. “For us it’s important to be a good citizen to support maybe for instance thinking, companies here in [the city], and we have to be a good citizen to strengthen our brand, of course”. 
Kujula et al. (2011) and Kajula and Pietäninen (2004, 2007) state that this is female ethics which reveal a diversity of ethical considerations.

To treat geographically close existing companies and sport clubs can be explained with employee appreciation, keeping the region alive in order to attract future competitive employees or image and brand management. One can question if it could not be all of them? VCF-3 shows some intention of taking third parties into account, when explaining about choosing materials. Anyhow, we interpret the quotation as they are aware of the ethical considerations, but when the circumstances do not allow being environmental friendly the company will think about its own survival and success. The line between choosing ethics or not is diffuse and we argue this to be an unsustainable ethical behavior. VCF-3 shows that their service acts in an industry where no responsibility needs to be considered by them, except the choice of customer. In the next step, how the service could be transmitted to their customer to third party who could commit other unethical actions is not up to them. And we consider this as ethical aware, however, lack of ethical responsibility. We do understand that it is of course hard to control each aspect in a market concerning ones product/service, still, given the circumstances one could always aim and pursue an ethical use of its product and ensure that everything is done in order to create ethical behavior for the third party.

6.3 Ethical Guiding Behavior

How effective a code is has been questioned several times, and if it actually is useful. It needs to be well communicated, and embedded in the company to get some affect from it (Wood & Rimmer, 2003). Some scholars argue (e.g. McKendall et al., 2002) that a code anyway is just to promote the company and enhance the reputation. We will therefore include other actions and behavior which affects the company’s ethical behavior. In Table 10 below we present how the VCF’s steer behavior not using an ethical code of conduct.

<table>
<thead>
<tr>
<th>Table 10. Ethical Considerations Guiding Behavior</th>
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<tbody>
<tr>
<td><strong>VCF-1</strong></td>
</tr>
<tr>
<td><strong>VCF-2</strong></td>
</tr>
<tr>
<td><strong>VCF-3</strong></td>
</tr>
</tbody>
</table>
6.3.1 Moral Motivation and Responsibility

VCF-2’s CEO shows a high moral motivation (Geva, 2006) in the sense that he clearly wants to affect the outcome of most of the companies’ decisions, given that they are small (<5 employees). His high moral motivation is performed on an individual bases, while how to take moral responsibly actions (Jensen, 2010) is something he could negotiate on a corporate level, and therefore also include the other employees. Now he is managing ethical considerations like this, using a formalistic ethical principle (Reynolds, 2006), it might not encourage a sustainable development and would probably complicate growth in the aspect that sooner or later there are too many decisions to take on his own.

According to VCF-1 they have an instructional authority which includes how and what to do internally. However, the application builder, stats that the importance to not deliver a product which can be used in the wrong way, which clearly relates to ethical cost elaborate by Falkenberg (2004). Even though the company might have intentions to use it in one way, the customer might have another understanding of the product. We argue that they show a higher moral awareness, and take moral responsibility. Either it is due to fear of damaging the reputation and image, or it is of caring concern of their customers, either way it is more long term oriented. VCF-3’s lack of ethical concern is interesting. They state that they do not need to think about ethics, since they are developing the product. Despite the undertaken developing process, they have sold their product in Sweden and other countries in Europe, and therefore we argue that the company needs to take ethical considerations into account. The company might understand ethics as something important before entering a market but afterword’s not, in opposition to VCF-1 which includes the final customers’ use of their product.

As described, the industry of VCF-3 is highly regulated and being accepted to enter the market is difficult and sets some standards for the market actors. Nevertheless, one can discuss whether these regulations enhance ethical behavior sufficiently. Companies could have a merely regulations follow policy in which they look for the boundaries to do business and optimize in their way, rather than stimulating ethical behavior.

6.4 Ethics and Profit Maximization

Ethics and profit maximization are two topics that have been researched by several authors of peer reviewed articles over the years. Because of its importance, we have included these topics in our literature review study as well as in the collection of the empirical data through the interviews (find more in Table 11 below). The reason for doing so is to get a view on how the managers from the different businesses and business types perceive the two topics and how these are related to their own business. The theory presents two opposing statements, both that profits can be maximized while business is done ethically and the view that these two cannot be combined successfully. In this section, our aim is to present the views of both types of businesses, VCF and FB with regard to the theory, and one another.

Table 11. Ethics and Profit Maximization

| VCF-1 | “I am keen on that we are aware of legal limitations and restrictions and things like that so we make sure that we follow of that and not get into trouble later on. And if you act like that, I think it shouldn’t be that much difference between, or contradictions between ethics and profit maximization.”

“I think that we are a very honest company that can make a lot of money, and if ethics come into social or society responsibilities and environment |
responsibilities and things like that, then **maybe then there are some more limitations** applied to the business.”

“You decide what to do and not to do. The market is that large and big that you can do it in a selective way that you can choose **good customers, bad customers** and in an ethic way. I hope we can do that at least.”

“It is important that there are ethics but I think it is **more that they strive for higher profit**.”

VCF-2 "A conflict may appear in a situation of valuing the company. In this situation one maybe overvalues to get as much money as possible...for us on the other hand, it is **good for us who have shares in the company**, because we would **benefit from a higher price**.”

“I do not see that they have to be in conflict, I on the other hand I admit that my **ethical considerations not often is present**, the moral is within me, and if by any chance an ethical dilemma should arise it should be solved by common sense, where ethics and profit maximization could be accomplished.”

VCF-3 "**It’s not a main thing** [ethics], the **main thing is to get the product out**...and then when you get sales, then you can start being another kind company [more ethically concerned] when you are talking more to other people about the products.”

FB-1 “**We have to change factories. We have to decide that this product that we have sold is a good product that this is not good enough** then we have to skip that [factory].”

FB-2 “**But if you are not ethical company you had a boarder the wider the circles are more wide to maximize the profitability**, you have more [profits]. (...) But you are doing it in the wrong way.” (VP)

“Yes, we have **invested a lot of money in education** because we feel it benefits us so much, because I said the motivation, engagement, effectiveness, so we can see so clearly the benefits from it so for us it’s very very important do give time to discuss.” (HR manager)

“You have the **chance to maximize** it [profits], you also have to be ethical about it. Because if you have that, you have a strong power in the company because that’s the people. And then you get the profit I would say.”

“I am not thinking that ethical limits you, because it is so important. I don’t see it is a limit, but if you are not an ethical company you make more money but you are doing it in the wrong way for the cost of others, I think”(Marketing manager)

**6.4.1 Rules and Regulation**

With regard to ethical behavior, VCF-1 focuses on rules and regulations to guide behavior and makes sure that no laws are being broken. Although Venezia (2011) claims that laws are necessary to control capitalism, the respondent focuses mainly on fines and restrictions to the company through bad behavior. This could be more linked to VCF-2, where the respondent would prefer a high valuation (possibly wrong) valuation of the company so that he, his employees and shareholders have a higher profit. Not only does this relate to Martynov (2009) with regard to the earlier mentioned Steward perspective, this also relates directly to Ostas (2004) and Rose (2007) whom found that business leaders traded social good for wealth and shareholder value maximization and give up personal ethical and moral beliefs in order to realize that. VCF-2 and VCF-3 are also having lawful issues and considerations, although differently. We can see that VCF-2 is having patent issues when doing business in Asia and mentions the lack of business ethics of potential partners. VCF-3 is mainly having ethical standards because it follows the rules and regulations that are presented to them by official
authorities that decide upon a legal launch of their product. Legal issues play an important role for companies and are linked to ethics. FB-1 has “moved” the laws from Sweden to their suppliers in China and consistently changed factories when these rules were not followed. FB-2 did not mention specific issues.

Whereas Vogel (2005) and Venezia (2011) agree that ethics might be of importance, however come in second hand, we see similar trends at all VCF’s we interviewed. The firms are focused on business development and have not discussed or created ethical values in the company: VCF-1 “It’s not a main thing”, VCF-2 “Ethical considerations not often is present” and VCF-3 “Aware of legal limitations and restrictions”.

### 6.4.2 Honesty in Business

Shaw (2008) refers to the importance of norms and oral agreements. By doing so he refers to mutual honesty in business. This view is shared by VCF-1, FB-1 and FB-2. All the respondents mentioned that doing honest business is important to them and is part of the common sense. By doing honest business, the respondents refer to ethics as living up to the agreements and not purposely harm another company or employee. Based on the data received, we have to disagree to Bhide and Stevenson (2000) whom claim that honesty in business does not pay off. The fact that being honest could lead to trust and fruitful business relationships could in the future lead to higher profits. However, it is unclear from the data received whether the market would punish unethical behavior by moral punishment rather than through law.

### 6.4.3 Cost Issue

When looking at Reich (2007) who proclaims that ethics would mean a cost for the company, we can see similarities to both VCF-2 and FB-2. VCF-2 is concerned with a high valuation of the company so it would benefit the owners the most “We would benefit from a higher price”. FB-2 refers to the fact that no, or a less active ethical code of conduct enables the company to gain higher profits, although it is in the “wrong” way “the circles are more wide to maximize the profitability, you have more [profits]. (...) But you are doing it in the wrong way”. In addition, FB-2 is prepared to lose money in the short run to pursue long term success. In addition, VCF-3 proclaims to choose sometimes more expensive material to their products in order to be environmental friendly, but there is a limit they say, because they still need to be profitable. The show all awareness of the cost not concerning ethical considerations (Brooks, 1989).

### 6.4.4 Motivation for Ethics

We are of course concerned with the motivation of companies and managers to follow or not to follow an ethical code of conduct. As presented in the empirical data, both FB-1 and FB-2 are very much concerned with ethics that purposely improve a situation. The motivation from this comes from the inside of the company and is initiated by the will to do better. This can be related to the theory that Burton and Goldsby (2009) created with regard that good ethical code of conducts could mean good business. Both FB-1 and FB-2 seem to be profound of that issue. FB-1 has changed factories because the ethical code of conduct was not followed and FB-2 believes that a strong ethical culture can contribute to a better work atmosphere and could lead to a better company. The comment made by the respondent from VCF-2 “In this situation one maybe overvalues to get as much money as possible...for us on the other hand, it is good for us who have shares in the company, because we would benefit from a higher price” can also be related to the agency theory (Martynov, 2009, Fama & Jensen, 1983) which we described in the theoretical framework. The theory rests on the statement that
agents have a higher motivation for self interest rather than the steward approach which has a higher motivation that serves the organization and most people. The respondent however has a clear motivation for more money, even if the valuation is incorrect. He also refers to that it is better for those who own the company, of which he is one himself. This is an obvious egocentric choice where money and personal benefits are most important to the respondent. Therefore it is in line with the agency theory.

### 6.5 Organizational Structure and Decision-Making

As for the possibility to take decision without overwhelming influences, the owners of the company play a central part. Either it is a board of members including or not including the CEO, or it is a significant part of one family representing the owners who sets the framework, find the case companies relevant response in Table 12 below.

**Table 12. Organizational Structure and Decision-Making**

| VCF-1 | “So far it is me making, doing the work [making a plan] on a strategic level, but we grow, so let’s not try to formalize more but it’s a compact management team that take the strategic decisions and make the strategic proposals.”

“So that’s why I work with, organizational, clear organization charts. I work with a balanced scorecard to guide our work.” |
|-------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| VCF-2 | “I make sure that I take all the strategic ones, but some operational one can of course not go through me.”

“The decisions the board take is finance and the future direction of the company...so I travel to find finance, customers and partner/collaborations. It is all about selling.”

“On the other way we have quite an operational board. They meet once a month but they certainly affect the everyday life of the company employees.” |
| VCF-3 | “Practically a lot [decision freedom] actually, it is very open environment so. The CEO right now really wants everyone to take charge over their area and drive it forward because it is important, they are very few people and it are people that are very eager to go forward.”

“Every week we have a group meeting, all in the company, everyone has their responsibilities, and they report and we discuss everything about what’s happening and where we are going and if you have some problems from customers, everything is discussed once a week.” |
| FB-1  | *That* [if the owner takes all the strategic decision] is not good, *that’s* why my decision was I want the board to take the structure how to work and then I work like that.”

“Open with, with a lot of responsibility of the employees, I give them responsibility quite fast and I trust that they do what they say and, I not so often double check them. Because I like when people is growing.” |
| FB-2  | “In a FB it is that the owner and the general manager is very strong and makes all the decisions and not let people in (...). But I never felt that here at FB-2, they made the decision themselves to hire me and from the start I felt that in my area I had a lot of possibilities to influence decisions and make decisions.” (VP)

“Of course you need to trust people, you need to base some of the decisions that are taken on trust from me as a manager to other people. But it’s also that you need to make sure that they have the right tools to make the right decisions.”. (VP)

“I understand that I am a role model. It is very important if we talk about code of conduct and philosophy and how to behave, I need to behave that way because I am the most important carrier of that flag [philosophy], absolutely.” (VP) |
“You have the quite a large area of decision making format in the top but also into the practical issues. (...)And I would also say one of the main part is in decision making, is your experience, your own experience, that you have learn from year to year.” (VP)

6.5.1 Strategic Decisions in Different Organizational Structure

According to the literature review, organizational structure and decision-making influence the employees in the company in their freedom to take ethical or unethical decisions. How to take responsible actions can be negotiated and decided upon collectively, but moral responsibility as such is exclusively individual (Jensen, 2010, p. 426). With regard to the managers with leading positions in the company, there is quite some difference in organizational structure related to the strategic decision making. The CEO’s in VCF-1 and VCF-2 have a lot of freedom with regard to strategic decisions and plans, although they are agreed upon in the board of directors VCF-1 “I take all the strategic ones” and VCF-2 “It is me making, doing the work [making a plan] on a strategic level”. The CEO and owner of FB-1 found it important to have a transparent organization and hired external board members where the strategic decisions are made. Within VCF-3 and FB-2 the decisions are also made in the board. With regard to the different VCF’s and the ownerships, VCF-1 has no owners in the board of directors and VCF-2 and VCF-3 does. Although there are differences, the managers in all organizations have a considerably strong managerial and influential position on both the strategic and operational level. Please see Table 12 above to understand the decision power present in each company. This can be related to Jensen (2010) and O’Fallon and Butterfield (2011) whom proclaim that structures increase responsibility. Regardless of which company, we see that Barraquiers (2011) categories that influence decision making are all very apparent, both to promote ethics and profit maximization.

Within the companies there is a lot of interaction between management and employees, through formal and informal meetings. For example VCF-1 “I work with a balanced scorecard to guide our work”, VCF-3 “The CEO right now really wants everyone to take charge over their area and drive it forward”, FB-1 “lot of responsibility of the employees” and FB-2 “A large area of decision making”. The importance of these regular interactions lies in the fact that there is no collective importance for ethics in all VCF’s. Therefore, what are affecting the behavior are the leading issues such as growth through sales. As Van Sandt et al. (2006), O’Fallon and Butterfield (2011) and Jensen (2010) argue, the responsibility to discuss ethics lies, at least in the beginning, with the management to increase awareness and importance. Therefore, we can clearly see the demoralizing process (moral distance between employees) described by Jensen (2010) with a weakening possibility for employees to take moral action.

With regard to individual decision making of employees in the companies, all employees have, according to the interviewed managers except VCF-2, a lot of freedom to take decisions in their own area of expertise and responsibility. We argue that because there are two very strong, different cultures in both the VCF and FB’s with regard to ethical behavior, that the managers still influence the employees. As ethical behavior is part of the organizational structure for FB-1 and FB-2, the managers influence the employees to pursue such behavior. Although one could argue that the employees in all VCF’s are free to take ethical decisions when possible, we believe that because of the strong focus on development, short term survival thinking, the employees will not pursue such behavior themselves. Furthermore, as Ostas (2004) and Rose (2007) mentioned, strong owners and shareholders that pursue wealth
maximization over ethics, influence the leaders in the company. In turn they influence the employees in the company.

### 6.5.2 Best in Class Example

Roozen et al. (2001) clarify that human resource management and customer relations policies are important ethical attributes, more important than those attached to profits. When looking at FB-2, we can conclude that this is apparent for the organization. The company aims to live up to a collectively created ethical culture and philosophy and also takes this into account with customers and hiring new people. The ethical code is widely outspread through the people in the organization. It is a management tool to create cohesion and a culture, rather than a control mechanism. FB-2 enables the employees to reflect, discuss and develop the philosophy and ethical code of conduct in the company and take a personal stance. The three respondents in FB-2 also realize that they are a role model to the other employees in their behavior, which is important to live up to the culture and reasoning for other employees. This is clearly seen in the following quotes: “I understand that I am a role model” and “Trust from me as a manager to other people” to name two examples. When looking at Laufer and Robinson’s (1997), Cassell et al. (1997), Trevino et al. (1999), Marnburg (2000) and Stevens (2008) we argue that FB-2 is a “best in class” example of how to deal with ethics in the company with regard to creating, discussing, changing, elaborating, adapting and training between employees and management.

### 6.5.3 Ethics as Marketing Tool

There is also the motivation to use ethics for marketing purposes as Marnburg (2000), McKendall et al. (2002) and Stevens (2008) mentioned among others. FB-1 and FB-2 both clarified that they use it in contacts with customers and clients and also VCF-3 can imagine the use of ethics for marketing purposes to add value. The respondent also believes that when the company is visible to the market, it would be necessary to discuss ethics in the company. On the other hand, the environmental aspect they apply is shifting from being an ethical advantage, i.e. selling argument, to a common demanded attribute. Ethics shifts as the business actors and clients in the environment develop knowledge and also expectations. The marketing manager in FB-2 earlier declared: “And we have to be a good citizen to strengthen our brand, of course”, which clearly shows that ethics is also used as a marketing tool.

### 6.5.4 Organizational structure

Roozen at al. (2001) also found that organizations in which profit maximization plays an important role, ethical behavior and attitude becomes less important. Although one can argue that this should be discussed in the previous section, we believe that it is important to relate it to decision-making because we see in all three VCF’s that turnover, development and profits are most important, e.g. making money leads the company culture.

In general, the organizational structures in companies are alike, with a board of directors, managers and then employees, as are the possibilities to take decisions. Some companies have more structure than others for employees, but this not due to the fact that they are a VCF or FB. What is interesting however, that in the VCF’s there is almost no space for ethical considerations, because the focus is completely on development and selling products. The FB’s that do have ethical processes have developed systems in the company.

### 6.6 Business Orientation, Present and Future

The emphasizes on market related actions, such as innovation, market adaptation and product development as an indicator of success for the company tells us something about how they manage ethics. Another standpoint to what determines future success is the human role of a
company, the attitude toward personal development was what could be the base for further success. The business orientation of the case companies will bring up attitudes towards values which can be related to FB’s and VCF’s and their ethical awareness. In Table 13 below the elaboration of the respondents is presented in order to set the base for the analysis.

Table 13. Business Orientation Respondent Companies

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<th>Respondent Companies</th>
<th>Description</th>
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| VCF-1                | “We have red numbers now, we don’t expect that have a positive cash flow cumulating until the end of 2013. We need to lead the phase where we get government investment capital and get more into private investment.”
|                      | “And then it is about geographical market, one day when we feel comfortable we can support the European market (…), and possibly through dealers, then it would be time to take this concept that it would be at that time and maybe say ok lets go for the US.”
|                      | “And I hope this company can be a worldwide company.” |
| VCF-2                | “To get accomplish more patents, sell more and be more professional toward the client. The client is the most important, but we need more patents as well.” |
| VCF-3                | “Everyone wants to have this company to earn money and selling a lot of instruments and helping people all around but, that’s the vision, the people the venture capitalists that are in right now are not going to be at the end of the vision”
|                      | “If they are just, ok we are taking too long they won’t put in any more money and then you’re screwed. However, the VC actor is central for the company, and we have 4 VC at the moment but...Yeah and it’s always looking for new all the time”.
|                      | “Since the whole company is owned by VC, so it’s good and bad about that. Bad because they are not very, [silence] they want to earn money of course and they want to get out quick and it’s not very sustainable, it’s more difficult to have a plan, you can discuss a plan but you don’t have a plan for a very long time because, you don’t have money for the whole plan, you only get money, small money on the way and [silence].” |
| FB-1                 | “We are selling out of Europe also but most of the sales are in Europe. We are selling to the US and we also, we also have a distributor in Australia but we don’t say, we can’t work with them it is too long from here. Maybe later when we have growth, in 5 years maybe we have sells guys in that kind of area, I don’t know.”
|                      | “We have talked about it and we have discussed with them [potential investors] about that. With two or three of them but we haven’t decided. And that is to have a better liquid situation and to take another, take the next step with FB-1.” |
| FB-2                 | “The key is to succeed in this strategy, to make, we can say one, or to make people grow and by that way also grow the company. But of course, it’s not just the people, we also need to take the right decisions about investments. Both in the production and in the products.” (VP)
|                      | “So that two key areas to have ... the capacity and the competence to be a world class supplier to world class companies.” (VP)
|                      | “...We see that when people are involved they feel also the engagement and loyalty to the company. (...) Constantly we develop and I would say that is the most important thing, to constantly develop.”(VP)
|                      | “I would say involvement and also that people all the time develop themselves because then the company develops.” (HR manager) |
The business orientation and focus of the companies on both the short and long term tells us what is most important for them, but it also allows us to analyze what the role of ethics is in these plans. Although all companies have some type of internal ethical focus, e.g. be a good employer and want the best for the employees, it has become apparent that conscious decisions and ethical choices have not been made by the VCF’s in this study. A typical characteristic for FB is the human part of future success, which is in line with the VP’s and HR’s attitudes in FB-2.

6.6.1 Maturity Situation

All VCF’s are still in the growth and development phase of the company and the product. Therefore the economic stability is low and the dependency on current and new external finances (shareholders) is high. As mentioned in the analysis, ethical concerns are not present in the company as a result of the focus. The focus of the companies is thus to grow and create sales on a national, regional international and global level in order to succeed. VCF-1 hopes to be able to choose clients and decline unethical potential clients in the future. However, it is mentioned that in this phase all clients are good because the company feels the need to sell the product and earn money. The FB’s are also having the ambition to grow internationally because they believe that the national and regional markets will not increase. However, both FB’s take their ethical code of conduct very much into consideration when pursuing this growth whereas the VCF’s do not. The VCF’s do not name any ethical concerns or ambitions when speaking about their ambitions and future goals. VCF-1 “Get more into private investment” and “Be a worldwide company”, VCF-2 “accomplish more patents, sell more and be more professional” and VCF-3 “earn money and selling a lot of instruments”. FB-1 is currently considering venture capital to increase the pace of growth. They should take in mind that this new type of ownership will probably require other and new types of business and the ethical codes might be underpinned. The VCF’s believe that in the future, when they are bigger and more visible to the market, some type of ethics could be important for the company although it is unclear in what sense and/or size.

6.6.2 General organizational differences

With regard to the structure of the company, we have mentioned in the literature review that FB’s are commonly more related to sustainable and slower growth according to low risks because a sustainable future is important. VCF does on the other hand have several external financers that require a return on investment usually within a set timeframe of years. The FB’s that are included in the study certainly pursue a slower and less high risk growth than do the VCF’s. Interestingly, VCF-3 is 100% owned by venture capital and the pressure on the CEO to bring the product to the market is therefore high. The expectations are that when the products are allowed to be sold, many sales can follow quickly. With regard to the other two VCF’s, VCF-1 has long sales processes that require an investment from the clients into optimizing it for the company also, whereas VCF-2 has financial capital to survive until December 2012 and are very much in need of a new venture capitalist, and the search is mostly done abroad. In addition, the company has a plan to sell the company and therefore a high valuation of the company is requested and required, from both the board and the employees.

When analyzing, it became apparent that the differences and similarities between the FB’s and VCF’s allowed us to compare. One explanation was that the ethical code of conduct was central and integrated by the case companies, so this distinction happened naturally. The case companies’ output were followed and guided the coding, labeling, structuring, elaborating and analysis in the direction of making one analysis focused on VCF’s and one on FB’s.
6.7 Factors Affecting Managing Ethical Considerations

From the elaborations made above, we identified the basic findings and how the empirical data relates to the existing theories. The data either supported or contradicted the theories. From this point we use the findings to create a model that reflects reality as we have found it in this research. Most of the key aspects of the earlier constructed conceptual framework are present even in this one, although modified. Since our interpretation of the literature review did not end up in the same as what could be captured from the wording of the interviews, we find it reasonable to argue for a new conceptual model, created to better grasp the influences and elaborate on the key aspects of a how a firm, through its managers, manages ethical considerations.

6.7.1 Family Businesses versus Venture Capital Firms

An important part of our study includes the comparison of FB’s and VCF’s and how these different types of firms manage ethics. In the literature review we have presented the organizational differences of these firms and we will now continue to compare these firms with regard to the management of ethics and ethical considerations in these firms.

In the literature review it has become apparent that the two types of businesses, FB’s and VCF’s are quite different in many aspects. FB’s have a presence of family and the employees in the company are usually aware of the family tradition. Furthermore, the leaders (usually family members) are concerned with the sustainability of the firm, such as focus on personal development and sound values (Duh et al., 2010) so that it could be continued for more generations. Leading for this inclusion of FB’s in this research was the definition provided by Sonfield and Lussier (2004, p. 190) “A FB is one in which family members dominate the ownership and management of a firm and perceive their business as a FB”, including a family should not have less than 20% of the ownership (Chackrabarty, 2009, p. 34). Ownership, management and perception were leading in this definition and both FB’s included in this study fulfilled the requirements. To include VCF’s however, there was only one requirement. It has to be a firm with external financing, e.g. venture capital.

It has become clear that FB’s are more concerned with long term sustainability of the firm, ownership is passed on along generations and there are strong connections of trust among the family members (Mustikallio et al., 2002). Another important and great difference between VCF’s and FB’s is that whereas VCF’s are interested in optimizing the price of the stock or value of the company if you will, FB’s are usually more concerned with financial stability. This long term versus short term focus differs quite a lot between companies and we can see these happenings in the empirical data as well. The differences in ownership, control and management influence the ability of people in the organization to behave ethically or pursue ethical behavior. As Duh et al. (2010) argue that FB’s are generally more concerned with ethical behavior than non-family businesses and show a higher ethical awareness and action, these theoretical findings are in line with what we found in the interviews.

We have also seen that the decision-making power of managers and their influences on the business culture is very strong in all firms. This means that in the VCF’s where ethics are not of concern due to lack of time, financial and human resources, demands regarding ROI, maturity of the business and market position to name some, managers and employees are not given the organizational space to act or behave ethically, even if they would want to. In the FB’s on the other hand we see the same happening, however with a strong focus on acting ethically (Duh et al., 2010; Vallejo, 2008). Based on the data from our study, and a look back on the literature (Duh et al., 2010), we can say that FB’s are more ethical aware and more
concerned with ethical behavior than VCF’s are. For what we can see is that it is a result of several situational factors that influence the performance and direction of the firm which in turn influences the management and ability to behave ethically.

### 6.7.2 Individual Ethical Processing

From the theory it has become apparent that every individual has many different influences such as family, gender and education to name (Roozen et al., 2001) a few in life that decide how ethical considerations are perceived and acted upon (Colby & Kohlberg, 1987). We did not aim to test or follow the process as designed in the conceptual framework, supported with the theories provided by Rest at al. (1999) and Jones (1991), therefore we did not find out if this process is followed in reality. We have seen that some steps in the process merge or are being left out by the respondent companies. However, how ethical decision-making is followed in the way our conceptual framework in the literature review is constructed is unclear, as well as the defining issues test (Rest et al., 1999) and the synthesis of ethical decision-making models (Jones, 1991, p. 379). Steps we identified in literature were sometimes not considered, merged or excluded by the managers of the case companies. It is worth mentioning that our aim was not to investigate in the process of ethical decision-making in these stepwise models, rather to investigate in how managers manage ethical considerations in the company with help of the conceptual model. However, moral awareness (e.g. Rest et al., 1999; Baier, 1958; Rest, 1986) and moral motivation (Smyth et al., 2009; Geva 2006) are the two most relevant steps in an attempt to behave ethically. In our study it was clear when studying the FB’s. Furthermore, the lack of it decreases its chances to behave ethically, which is in line with Bazerman (2008) and Garner (2007) and could be found in VCF-2.

### 6.7.3 Managerial Influences

Managerial influences on ethical consideration can be divided into two main parts, namely management tools and managers’ characteristics. We have seen that management tools do influence the managers on how they manage ethical considerations, but also the individual characteristics (processing of ethical content), which mainly concerns moral awareness and moral motivation, elaborated further down. This is in line with theories presented by Jensen (2010) and Van Sandt et al. (2006). We are now including both the micro (employee) and macro (manager) perspective (Brummer, 1985) on ethics in order to better suit and support a model that improves the understanding of how companies manage ethical considerations. This was done initially in the literature review. Even though we still proclaim the manager’s central role in steering behavior, the issues occurring on a micro level is relevant for the possibility to manage ethical considerations.

**Management tools** in relation to individual characteristics take form in an **ethical code of conduct** (Stevens, 2008) for the FB’s while the VCF’s do not have one. Since the sample is small (5 responding firms) it could be a coincidence, however; we found the ethical code of conduct in the FB’s relevant, effective and well-integrated in the company’s daily life and behavior. The codes were used as guidelines, something to lean against when one is uncertain when taking a decision, but the code is not consulted in every decision. The code was not systematically concerned in the process of taking decisions, which does not make it a guarantee that the code is included and followed (with the exception of FB-1 when choosing suppliers in China).

The VCF’s often answered questions relating to ethics with “**common sense**”. VCF-2 proclaims in case they face ethical considerations, they would use common sense. VCF-1 and
VCF-3 also said to use common sense in order to take decisions, and the managers use it to steer behavior. As mentioned, it can be considered a laissez-faire commitment to ethics, in line with Fassin et al. (2010) who state that small firms have less outlined knowledge about ethical related aspects, and based their decisions on personal decisions. This way of approaching it could be explained by several reasons.

VCF-2 has been presented in the empirical data and earlier on in this chapter, as a less ethical aware company, which unlikely will pursue a sustainable future success, because they lack the knowledge according to Bazerman (2008). However, just because they could not elaborate on ethics, does not make them an unethical company (Fasin et al., 2010). Ethical behavior can be accomplished by delivering fair and high quality product or services to what customers expect (Roozen et al., 2001) that do not violate social and business norms (Jones, 1991). Therefore we argue that a company can behave ethically, without standing for ethical committed standpoints. A company could have a laissez-faire approach (i.e. take it as it comes, a relaxed uncommitted approach) which is justified, because not all companies are ethically committed, even though one can be aware of ethical considerations. Some companies might just act, in a market which either is superior regulated and therefore discourage ethical commitment, or their business relations might not include ethical considerations in a significant degree. What makes our case companies different compared to VCF-2 is that they sell a product while VCF-2’s market offering is a service. This different type of market offering can be the reason, since no supplier exist, no distributor, all the characteristics of a service such as; intangibility, perishability, inseparability, simultaneity and variability probably affect the ethical considerations of a product based companies compared to a service based company.

Managers’ characteristics in relation to individual characteristics concern the VCF’s managers which are well integrated in the daily life, including its decisions. They have up to 15 employees and include fewer commitments to customers, suppliers, etc, and therefore reason to be included in most of the decisions. The VCF’s we included in the study are all selling its products and service, since some years, in either Sweden and/or abroad. We argue that ethical considerations should be managed during the whole process, as they arrive, but in order to have moral awareness and increase the chance to act upon a decision containing ethical considerations and not react, ethical concerns should be “on the agenda” before the product is being sold. This is contra argued by VCF-3 with the explanation it should start “when being visible to the market”. Concerning conflicts of interest, VCF-2’s manager clearly is an agent (Martynov, 2009), in the situation of valuing the company when being sold, partly because he wants to maximize profits and maximize shareholder wealth. This is in line with the theory that shareholder wealth maximization contradicts ethics considerations (Chambers & Lacey, 1996). It can be explained by a suffocation of the personal moral of the shareholders (Rose, 2007) or possibly the lack of moral awareness, motivation and judgment (Geva, 2006).

FB’s managers show tendencies, also emphasized in the ethical code of conduct, contradicting Hillman and Keim (2001, p. 132), that ethical commitments decrease the value creating for shareholders. They make several efforts to enhance the quality in and outside the company, for example “to support …companies here in [the city]…we also support some sponsorships, for some …athlete clubs…because we think it give us so much, both in cooperation in people and in the organization, and feel motivation and effectiveness”. The owners of FB-2 sacrifice short term losses in order to create a sustainable ethically concerned company (Epstein et al., 1994). The company is aware of the cost of not being ethical aware and committed (Brooks, 1989). In addition, they combine profit maximization and ethics to create a good business, in
line with Buton and Goldsby (2009, p. 147), as well as Michaelson (2001, p. 337) that ethics is an offensive tool to create value, and FB-2 contradicts that ethics does not pay (Bhide & Stevenson, 2000, p. 122).

### 6.7.4 Situational Factors

As it could be derived from the VCF’s, the ethical considerations were less enhanced and developed, and they focused on business development rather than ethical considerations. We have seen several situational factors such as size, business maturity and short term and long term goals to name some reasons for this behavior. With regard to **business maturity** and **size**, we found out that all three VCF’s are founded in the late 20th century and are in the development phase. As understood from the interviews they are at busy times which refrains them from spending time on ethical considerations (Lepoutre & Heene, 2006). Despite that they start the process of building the company earlier, “a tight schedule” makes them deal with absolute essential stuff.

Anyhow, we find it relevant to shed light on this circumstance, because it is reasonable to believe that less time being a company also means less time to create managerial structure and frameworks such as an ethical code of conduct. The managers often have quite some things to take care of when developing and constructing the company. We understand this as they do **not have resources enough**, in form of financial (Kvåle, 2005; Bienkiewwicz, 2007) and human (Tencati et al., 2004), to start working with aspects concerning ethics. Lack of financial resources affects because the company might have to buy consultancy due to lack of know-how (Kvåle, 2005), in order to get hold of suitable and feasible ethical actions and frameworks. Human resources are relevant because time and efforts will be dedicated to educate and create an ethical framework integrate and accepted. This time and efforts could otherwise be devoted to market orientation activities. In relation, we think that even though ethics can increase competitiveness it could be hard to predict its profitability, Kvåle (2005).

Small firms do not in the same extent make ethical efforts, for instance a code, compared to large firms (Lepoutre & Heene, 2006). They continue to state that a small firm’s likelihood to implement a code depends on managers’ characteristics, the organizational characteristics and socio-economic environment that the company operates in. According to Porter and Kramer (2006) which declares that even though the resources are lacking a company should look upon ethics as an improvement of the companies’ competitiveness (Porter & Kramer, 2006; Michaleson, 2001). Small firms which lack resources should focus on ethical production management, environmental considerations and customer value creating to be increase competitiveness (Caroli & Tantalo, 2010). The factor of business maturity was repeatedly indicated to be the explanation to why the VCF’s did not consider ethics in their business situation. In line with this argument, we find it reasonable to believe that **business maturity** and **size** play a part in how the companies manager ethical considerations, why they do it, and what ethical considerations is for them.

What **goals** and **objectives** (short term and long term orientation) refer to is, for example if a VCF expects to be acquired and have an market exit in a certain amount of years, or if they do not. A FB might have a goal and vision which steers to become a world class actor in its market, or having related type of milestones, further away in time. We argue that these two opposing standpoints clearly affect the environment of the company, the possibility to take decisions and the corporate culture. These circumstances affect the approach to ethics, and how to manage ethical considerations. We argue also that the company working with a goal of **being acquired** in for instance, 5 years, as for VCF-2, clearly has **less ethical intensity**
(Jones, 1991) in its ethical considerations due to a shorter time of existence. For logical reasons, they mainly focus on business related action such as finding more customers, developing the product and growing in size, in order to maximize the price of the firm when being purchased. Ethical considerations are not prioritized or considered, and when being brought up on the “agenda” it probably is with goal to “fly under the radar” to not face any ethical collapses or failures. Moreover, VCF’s have to deal with expectations of the VC and owners, which assumes to get ROI. The VCF needs to perform in order to receive more money and increase value. Often a big amount of uncertainty about the financial situation (Glomper & Lerner, 2001) and its survival are present. This fact is for VCF’s clearly an important consideration of ethics, and how to manage ethical considerations.

FB’s are not in the same position as VCF’s. They work in a company where one family has a significant part of the shares, which makes this family affecting the direction of the company. Since both FB’s are bringing its name into the business (Gallo et al., 2004, p. 316) we believe that they care more about why and what they do. This is in line with the opinion of VCF-3 regarding FB’s. This eager to control can generate too governing approach to its employees (Christman et al., 2006) which put values and trust on risk. It is reasonable to believe that they are less focused on business orientated aspects (Duh et al., 2010), when it comes to pursuing an opportunity which implies risk. In addition, any failure does not only affect the company, but also the family members active in the company and those who now. Because if the company collapses and people have to get fired it affects the families as well. Also relevant, the FB’s are not dependable on a VC, in its existence, which makes them not systematically dealing with generating ROI in short term to survive. Regarding size, business maturity and goal of the FB’s, FB-2 in particular, we understand the goal to be long term oriented “to be a world class supplier to world class companies”. They are the biggest in terms of employees, and they are also the oldest and have had time to implement all the necessarily management tools and procedures. That could be explained factors to why we consider them to be a “best in class”, and/or it can be due the fact that they are a FB.

By summarizing, we have discovered what circumstance the case companies include when dealing with ethics. The main components that are contributing to a better understanding of how the manage ethical considerations are: business maturity and size, and goals and objectives. These circumstances do affect the managerial influences and the individual ethical processing because it let managers include ethical considerations into the decision-making process or it suffocate it by prioritizing the ROI and profits which make ethical commitment less prioritized. With these concluding remarks, we enter the Conclusions chapter.
7. CONCLUSIONS

The concluding chapter is now reached in this research process. We aim to sum up the study with the research findings, the conclusion, the theoretical contribution, the managerial implications and finish the chapter with some suggestions for future research in the field of business ethics in FB’s and VCF’s.

7.1 Research Findings

From the analysis we will now extract the main findings concerning how managers in FB’s and VCF’s manage ethical considerations. We performed eight semi-structured interviews with Swedish FB’s and VCF’s where the aim was to investigate how the ethical decision-making process is structured and by what it is influenced. We have developed a new decision-making model which represents reality as it has become clear to us through the analyzing process of this study. This model is represented in Figure 10 below. We now first present the general research findings, after which we construct the new decision-making model.

- Situational factors play an essential part in the possibility for managers to take decisions, concerning and including ethical content.

- These situational factors, such as business maturity, size, goals, type of ownership and strategic goals to name some may suffocate the space to include ethical considerations which then make the decision not relate to ethics and focus on profit maximization, shareholder wealth maximization and ROI.

- VCF’s have to fulfill short term objectives in order to generate ROI, and a short term perspective is performed and ethical considerations are not prioritized.

- VCF’s argue that ethical considerations are considered to be more relevant when the product and company is active on the market, and less in the development phase.

- VCF’s show less awareness upon ethics as concept and pursue rather in ad-hoc solving of issues upon appearance.

- The general agreed condition of business ethics by the respondent companies are topics such as “honesty in business”, “taking care of employees”, “no illegal activities”, “do as good as possible”.

- Behaving ethically can be aligned with future success, although the owners/board of directors needs to communicate their ethical commitment towards the management so that these goals can be integrated and accepted by managers and employees. These commitments often take form of an ethical code of conduct.

- VCF’s are not in the same degree, moral aware, moral motivated and ethically committed as the FB’s included in this study.

- The FB’s in our study have a high commitment to the ethical code of conduct which is integrated in the processes and culture of the company.
7.2 New Decision-Making Model

Based on the theoretical research we performed, we presented the conceptual framework. This conceptual framework is a model which we believed visualized the ethical-decision making process best based on the available theories delivered by scholars over many years. The research findings we achieved by analyzing the empirical data has however given us different insights on such a model.

The main differences between the conceptual framework model and the new model are that we found that the first model has a too positivistic approach towards ethical behavior. By that we mean that the model from the beginning (moral awareness) towards the end and result (ethical behavior) assumes that an ethical decision-making process is followed in the steps we have presented. As mentioned, reality did not allow us to visualize a similar model. Instead, we focused on the decision-making processes in companies and the influences that the company has to deal with when making decisions. Below in Figure 10 we present the model, after which we describe the several steps and happenings more detailed.

![New Decision-Making Model](image)

**Figure 10. New Decision-Making Model**

Above we present the renewed model as we believe reality is constructed, rather than the model we presented in the conceptual framework. It has become apparent that several steps in the original model are either incorporated with other steps, or totally “ignored”, meaning they cannot be distinguished. After critically studying and analyzing the empirical data, we have come to the development of the above presented model. The model has a top-down approach and is best explained in a stepwise way:

1. **Need for decision:** In every organization or company there is a need for decisions. With regard to our interest and the focus of this thesis, this is the natural starting point
of the model. The need for decisions can appear anytime, dependent on the size and structure of the organization.

2. **The organization**: The organization is visualized in yellow and includes all actors that are involved and influence or constitute the happenings in the organization, which are the managers and employees. These actors both have a personal content of moral awareness and moral motivation, but also the management which are the tools such as work documents and ethical codes of conduct. In the organization there are the actors and factors that influence one another when making decisions. This happening is visualized by the two arrows in the middle of the model. It is important to understand that these are the happenings inside the organization and are affecting each other.

3. On both the left and right side of the model we can see **situational factors** influencing the happenings in the organization. These are included on the side because we believe that although they describe the organization, they are factors, not actors.

4. The **outcome** is always a **decision**. This decision can have ethical concerns and considerations or not. This depends on the actors and factors in the organization and to what extent these are influenced by the situational factors to include ethical considerations or not.

As mentioned, the visualization of the model is straightforward and top-down to make it simple to understand for the reader. The main improvement of the model is that the organization and the situational factors influencing the happenings and decision-making process in the organization are taken into consideration, as well as the fact that this model focuses on the **decision-making** in the organization rather than merely **ethical decision-making**. We argue that the model is a better representation of reality, based on the findings we did in this master thesis research.

### 7.3 Conclusion

Based on the research findings we will now summarize the research and elaborate on the research question:

"**How do managers in FB’s and VCF’s manage ethical considerations?**"

Many factors influence how managers in a company manage ethical considerations. Both internal and external aspects need to be taken into account when trying to understand the situation in which a manager takes decisions. These decisions can include ethical aspects, which require to be considered and act upon by the manager, or the decision does not include any ethical content. When a decision requires ethical attention, the manager is influenced by the companies’ owners or board of directors and their expectations in form of ROI, but also business maturity and size, goals and objectives, the company’s management tools and its effectiveness play a role. Moreover, the personal ethical process including moral awareness and moral motivation has an influence on the personal decision-making processes as well.

As we understood it, the stepwise process from moral awareness to ethical behavior is more of a dynamic process often including the conceptual framework presented, but can also be performed simultaneously and/or steps emphasized or neglected. However, to understand ethical content and/or issues, i.e. moral awareness, it is of crucial importance to be able to manage ethical consideration. Without being aware of these considerations, one cannot steer
towards ethical behavior. In addition, the individual motivation to act ethically is also central for managers when they manage ethical considerations. Either the manager is motivated to take an ethical decision or not.

Management tools in form of an ethical code of conduct are influencing ethical behavior positively. The code should be well integrated in the firm, preferably constructed by the employees and managers together, and be updated to what concerns the firm as of today. In addition, understood from the empirical data, an ethical code of conduct should include both internal and external aspects. Internal could be how to behave in the company, what to do and how to treat employees. External can be how to treat customers and suppliers and what affects third parties such as the society and community.

What managers need to understand, a part of their own characteristics, is that the situational factors affect the possibility to take decisions including ethical considerations. The business maturity and size may not allow managers to include ethics, or goal and objectives in form of ROI is too demanding and suffocate the ethical opportunity to be part of a decision.

7.4 Theoretical Contributions
We have investigated how managers in FB’s and VCF’s manage ethical considerations and what influences their decisions to steer behavior towards an ethical one or not. By doing so, we have contributed to the field of business ethics in several ways. Firstly, we filled a gap when conducting a study including FB’s and VCF’s and comparing them with regard to ethics. To our knowledge, a similar research has not been performed before. FB’s has been covered in the literature of business ethics, and aspects relating to ethics have placed them as ethically concerned companies. VCF’s have on the other hand not been given the same attention when it comes to business ethics, in particular how to manage ethical considerations. Secondly, by tailoring the design of the study towards how managers manage ethical considerations, we narrowed it down and made it consist to one main aspect of what influences and steers ethical behavior in organizations. By including supporting factors such as profit maximization, ROI, shareholder wealth maximization, ethical code of conducts and situational factors we made an attempt to understand the environment of the manager in which he takes decisions. Thirdly, the study supports the existing theory about family businesses with regard to their strong values and culture, human development focus, and long term orientation and in context high ethical commitment. Fourthly, it has developed theory about business ethics in the field of VCF’s. Since an entrepreneurial firm which receives financial funding from a venture capitalist needs to generate a desired ROI to the owners within a period of time, a short term relationship is established and a performance based money receiving system is a fact. By this focus on money and survival, it down prioritizes the consideration to include ethical content into decisions, because it could obstruct profit maximization. Therefore we made, by this study, a contribution to the field of business ethics in VCF’s or for entrepreneurial firms which received funds from a venture capitalist.

7.5 Managerial Implications
The findings presented in this research and thesis work suggest several managerial implications that could be of use in the practical reality for managers. Although our research focuses on FB’s and VCF’s, we believe that most of the practical implications could be of use in many types of companies. We have found out that managers have indeed a big influence on the business culture and room to pursue ethical behavior in the decision-making process in the company. The FB’s showed many consistencies with the defined ethical code of conduct whereas the VCF’s that had no ethical code of conduct lacked the space for employees to
discuss and develop such behavior in the company. Managers in any organization should be aware that higher ethical behavior gives several opportunities to develop policies that could increase employee effectiveness and moral and loyalty to the firm, which in turn could lead to higher profits and benefits for the company. A short term focus where ethical behavior is seen as an extra cost could in turn lead to greater unfavorable business situations in the future, such as negative reputation and PR, demands from customers and/or suppliers which make change and adaption harder and give higher costs to educating staff.

Organizational integration of ethical behavior and decision-making processes could, as mentioned, be very successful for companies and organizations. Theory and reality show that discussion and feedback with employees, education and training, seminar sessions and such events can actually steer the behavior. It is however important to realize that the managers are always an example for the other employees in the organization. Consistency should thus not be underestimated in order to create successful ethical decision-making processes.

With regard to external focus of business ethics in the firm, it can be used to increase good PR, reputation and image through marketing endeavors and similar activities, which leads to customer loyalty and increase sales. One should however not underestimate the effects it can have which can be both positive and negative. Consistency of behavior is once again very important but one should not ignore the importance of managing expectations of the outside world on the effects of ethical behavior.

In conclusion we can say that strategies with short and long term goals can have ethical decision-making implications that could be profitable for firms in both the short and long term through effectiveness and loyalty of employees, but also through marketing and pr opportunities. Logically one can suggest that it is hard to measure the costs and profits of such behavior which make it intangible to some extent. However, we argue that the positive effects have the potential to outweigh the possible negative effects for ignoring ethical behavior.

### 7.6 Recommendations for Future Research

From the process of conducting this research we have come to the point where we dedicate some efforts into considering alternative research. The data from the respondent clearly contributed to the fact that we have developed some suggestions for future research in the area of FB and VCF in relation to ethical considerations.

- **Explore the role of product and service in the management of ethical considerations, do they face different ethical contents.**

- **Make an in-depth study focusing on size and business maturity in FB’s and VCF’s whether they have an enhanced and more elaborated ethical awareness and behavior, often formulated in a code of conduct, or not depending on these factors. This is justified because it is questionable whether size, including employees but also turnover and maturity could relate to ethical awareness of a firm.**

- **Make a single case study in one firm, making sure that empirical data is gathered in several levels of the company, in order to get hold of several aspects contributing to the (un)ethical behavior; such as moral awareness, moral motivation, moral responsibility (which was often mentioned in the literature and partly also in the interviews) and moral identity. Conduct the thesis under a longer time frame, in order to capture a process of managing ethical considerations.**
- Focus on moral identity, the relationship between a manager and the owners and/or board of members. Could also be interesting to thoroughly investigate the relation between employee and manager in a FB and VCF.

- Elaborate whether an internationalized FB and VCF manage ethical considerations differently than one operating domestically.

- Make a comparison study of best in class examples of both a FB and a VCF, in order to reach an understanding of how they may differ and show similar tendencies.

- Investigate in VCF’s with an exit strategy in a certain amount of years, and those VCF’s that do not have a goal of being purchased by a bigger company in a set time frame. There might be some differences between them in form of ethical awareness given the different long term goals and visions.

- Create a design of the study that enable the researcher to investigate in VCF’s and FB’s different life cycle stage which could lead to relevant finding why and how one manage ethics in that stage.

- Conduct an in-depth study actually following the conceptual framework we interpreted from studying the ethics literature, not the outcome of the Analysis chapter.
8. QUALITY CRITERIA

In order to assess the quality of this thesis we provide the reader with the quality criteria which we believe are important to fulfill such an assessment. In this chapter we evaluate the trustworthiness and authenticity of the thesis work. A high degree of confidence and trust in the collection of data and application of results is important for any thesis. Validity and reliability are terms that do not apply to qualitative research methods (Golofshani, 2003, p. 602). An alternative for validity and reliability are offered by Guba and Lincoln (1994, cited in Bryman and Bell, 2007, p. 411). They propose that a qualitative study should be assessed on trustworthiness and authenticity. By doing so, we aim to generate trust and confidence in the way we performed the research and analysis of data.

8.1 Trustworthiness

The measurement of trustworthiness; the credibility of the study, the transferability, the dependability and the conformability, is presented and elaborated on in the four sections below in order to ensure the trustworthiness.

Credibility

According to Bryman and Bell (2007, p. 414) credibility refers to the degree to which a study is performed with regard to recognized research procedures in the field. It is the consideration and concern of the researchers to ensure true and correct interpretations of the data collected.

Since qualitative research delivers different data and thus different results than quantitative research does, it is hard to measure internal validity. To achieve internal validity and credibility in the research performed amongst the readers why aim to give insights in that we have great understanding in the topic and the concept, and that the research design is related to the literatures. In our case, we have established a conceptual framework that came forth from the literature review.

Some researchers claim for a “prolonged engagement”, which refers to the importance of familiarity to the organizations that are included in the study (Lincoln & Guba, 1985; Erlandson et al., 1993) before the first data collection takes place. Realistically seen, it was impossible to perform such an act in each of the company. Assuming that time would not have been the problem from the researchers side, organizations found it already troublesome to contribute to our study with a one hour interview. We agree to the authors that it could contribute for a better understanding with regard to our in-depth study and higher trust between researchers and respondents. However, one should not ignore the view of Silverman (2000) that one can be too immersed in the respondent company and their culture and therefore have the risk of being unable to make professional judgments.

When collecting the data through semi-structured interviews, this conceptual framework was leading in order to collect that data is useful. In order to gain trustful data to perform analysis that reflect the data and scope of the study, we have aimed to present in-depth data that allow us to come to conclusions and recommendations. In order to increase the understanding and use of the data delivered by each respondent, they were first explained the purpose and reason of the research over the phone or through e-mail. Moreover, before the interviews were performed, we explained the respondents once more what the purpose is, why we are interested in their company and them and asked if they had any questions beforehand and if it was allowed by them to record the interview on an electronic device.
We did not perform any “after check” with the respondents or some type of feedback. Instead, we informed the respondents through what way they could contact us if they would like to check the data, see any results from the thesis or other types of information that they would want to see. A so called after check to confirm the data and whether it is correctly understood by the researchers, is called a “member check” (Gasson, 2004, p. 95). We did however perform a triangulation (Merriam, 1988, p. 171), which is a cross check of data about the respondent company other than the interview data. We performed a website check to get an idea about the company, for understanding in what context the data was generated and if anything might have influenced the data, and we used the content of the FB firms to understand the ethical code of conduct and their meaning for the specific companies.

Dependability
Dependability can be referred to as the stability and consistency shown by the researchers during the process. It is important that the researchers have taken care of the research at hand and followed the procedures and techniques that were presented earlier consistently (Riege, 2003, p. 81-82). An audit approach is explained by several authors and means that the research should be reviewed regularly in order to ensure process and product consistency in order to increase the quality (Hoepfl, 1997, p. 59; Morrow, 2005, p. 252; Bryman & Bell, 2007, p. 414). Regular meetings have been performed with a peer group “Work in Progress Seminar Group” consisting of two other 30 credits Master thesis groups and a supervisor. As the process went on in time, we increased the individual meetings from a bi-monthly ratio to a weekly and bi-weekly ratio during which we received feedback on the performed work and presented and discussed improvements and changes.

Shenton (2004, p. 71) argues that “in order to address the dependability issue more directly, the processes should be reported in detail, thereby enabling a future researcher to repeat the work, if not necessarily to gain the same results”. In this research we have aimed to deliver full transparency with regard to the methods used. This transparency resulted in a detailed description of how we have worked and all that is included and has contributed to the study can be found in this thesis report.

Transferability
The transferability or external validity refers to the question whether the results can be transferred to other research contexts (Gasson, 2004, p. 98; Merriam, 1998). It is important to understand that for an in-depth study with a small sample size (8 respondents from 5 companies spread over different industries) it is generally seen as very hard or even impossible to transfer such findings or conclusions because results can be not generalized in any way (Shenton, 2004, p. 69). The reasons for that are not only that the data generated by the respondents are very moment and context dependent, the meaning of life and experiences that influence such responses as generated could easily change due to changes in both private and professional life in which the respondents have full or none control at all over (Erlandson et al., 1993).

Our research consists of two main parts, namely the theoretical and empirical. We believe that one lead to the other and that similar result could be generated when copying our methods. However, the generated data are very moment and experience related and one should realize that another time and location focus of the study could influence a new performance. It is notable that we do find that our results give a clear general impression of the differences of business focus, organization and environment between FB’s and VCF’s and that it would be likely that similar results could be generated elsewhere. This is in line with the beliefs of
Stake (1994) and Denscombe (1998) that explain that although each case is unique, they are also part of a bigger group with examples. It is worth mentioning though, that it could be a coincidence that both FB’s in this research did have an ethical code of conduct, and all three VCF’s did not. We did not perform a back-up check with several other businesses to confirm or decline this finding.

Our view is that we are aware of that the reality and contexts, in which the data is generated, could possibly be generated elsewhere with the same methods and similar companies. However, we do realize that the data is very momentum and that the sample group is very small, which make the transferability very hard to do. Furthermore, we did not study the ethical decision-making process as was interpreted by investigating the field of business ethics which lead to the creation of the conceptual framework with its process towards ethical behavior. We focused on the managers’ implications in these individual steps in the reality of the organizational field.

**Conformability**

Conformability refers to the objectivity of the researchers that performed the study during the process. This means neutrality and objectivity in gaining data and performing analysis and interpretation upon the received data. This refers to the selection of literature, databases and types of journals to select articles from to selecting companies, respondents and interpretation and analysis of the empirical data. With concern we have aimed not to let our personal preconceptions influence the process in any kind and during the process we have reflected upon each other’s work and behavior in order to establish an objectively performed research. It is also worth noting that we have been very careful with the empirical data. All recordings and transcriptions are saved and the data presented, interpreted and analyzed in several chapters are a realistic visualization of the empirical data. This contributes to a higher conformability.

According to Morrow (2005) it is also important that the research properly addresses and links data, analytic processes and findings so that the research is enabled to confirm the adequacy of the findings. We strongly note that during the process, and while being critical on one another’s work in the process, we have followed all guidelines and rules for performing such a research, as well as the process that we have described earlier while being unbiased. This leads to a higher trustworthiness of this thesis work. An example that increased conformability is a conclusion of the important and well integrated and used ethical code of conduct, for the FB’s. Our preconception was that ethical code of conduct not often was of relevance and of use for employees and managers when taking a decision, but as we understand from the interviews that was actually the case.

**8.2 Authenticity**

According to Morrow (2005, p. 252) authenticity in qualitative research methods can be explained as the demand for fairness, ontological, educative, catalytic and tactical authenticity. From that description we can now elaborate upon each. With regard to fairness, we have always given different theories provided by literature and responses by respondents a fair chance of establishment in the context and concepts. This means that we have not excluded any information based upon judgment of the surface. We have always considered its usefulness for the research and contextual understanding. With regard to ontological, during the process we have considerably elaborated and worked upon the data provided by the respondents. With regard to educational we can say that during the process we have learned how processes and concepts that we recognized and developed upon the theoretical
background have sometimes similar, sometimes different realities. We have learned by our own behavior, reflections upon each other and research in the field. With regard to being the catalytic in the process as the two researchers, we have not only aimed to motivate each other during the process in order to keep on time track, with regard to the topic we have aimed to understand the concepts of ethics within the reality context of FB’s and VCF’s. The tactics applied by us were transparent and open for all with promises of anonymity towards all respondents because we believe it does not influence the presentation of data in any way (Morrow, 2005).
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## APPENDIX I

### Interview Guide:

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<th>Research area</th>
<th>Interview questions</th>
<th>Research topic</th>
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<tbody>
<tr>
<td><strong>Growth and development</strong></td>
<td>Tell us about the company history?</td>
<td>In order to understand the main growth steps, in what directions, magnitude, and strategy. And to get a sense about the importance of profit maximization In case they struggled hard to survive, is it reasonable to assume that they do not think about ethics much?!</td>
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<td></td>
<td>What is your position in the company?</td>
<td>Basic information</td>
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<td></td>
<td>Tell us about some major happening that change the direction of the company</td>
<td>To make them talk and reflect about what they did, if they considered any ethical parameters and if they were aware of doing it. If not, authors proves that, e.g. Garner, if they did: Rest (which emphasize moral awareness).</td>
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<td></td>
<td>What is ethics for you?</td>
<td>Moral awareness and Ethical Behavior</td>
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<td></td>
<td>What is ethics for the company?</td>
<td>Moral awareness and Ethical Behavior</td>
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<td><strong>Ownership in the firm</strong></td>
<td>Can you please describe and give us the organization structure, chart and number of employees?</td>
<td>To get a basic picture about the firm.</td>
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<td></td>
<td>How does the company structure affect you daily work?</td>
<td>Basic view of the company</td>
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<td><strong>Inside Processes</strong></td>
<td>Does the company have an ethical code of conduct? Why have (not) one?</td>
<td>Ethical code of conduct</td>
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<td></td>
<td>How are you improving the employees’ awareness of</td>
<td>Manage ethical code of conduct.</td>
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<td>Question</td>
<td>Answer</td>
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<td>Can you describe your leadership style?</td>
<td>Ethical parameter guiding his decisions, e.g. formalism and utilitarian</td>
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<td>How are decisions generally made in your company?</td>
<td>Basic information</td>
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<tr>
<td>How do these decisions and persons affect the other people’s decision in the company?</td>
<td>Moral identity, monkey see monkey do.</td>
<td></td>
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<tr>
<td>Tell us about your work relationships, with customer, suppliers, employees, owners etc?</td>
<td>Could indicate Moral identity, monkey see monkey do</td>
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<td>Have you ever had to take a decision that was hard to take, why and how did you do it?</td>
<td>Agent or steward, moral identity.</td>
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<td>What kind of circumstances can make a decision hard to take?</td>
<td>Lack of time and information, moral luck?</td>
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<td>What is the most commonly decisions employees take, and what freedom do they have?</td>
<td>Self-affiliation</td>
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<td>How are decisions on a strategic level made? To what extent are the owners/board of directors involved?</td>
<td>Company structure</td>
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<td>What is your general opinion about combining profit maximization and ethics?</td>
<td>Profit maximization and ethics</td>
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<td>Can you tell us about a decision which was both ethically and profitable?</td>
<td>Moral Awareness, how to solve problem and take decisions</td>
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<tr>
<td>Can you tell us about a decision which was not so profitable and less ethical?</td>
<td>Moral Awareness, how to solve problem and take decisions</td>
<td></td>
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<tr>
<td>How important is it for you and your company to grow, increase profits and turnover?</td>
<td>Relation to profit maximization could also indicate a difference between FB and VCF. FB wants to increase turnover? While VCF want profits?</td>
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</table>