Chapter 7

Business Ethics and Cost Management in SMEs: Theories of Business Ethics and Cost Management Ethos

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ABSTRACT

This chapter illustrates aspects of business ethics and cost management applicable to small and medium-sized entities. The main objectives of this chapter are to identify and clarify ethical issues and business ethics theories applicable to small and medium-sized entities as well as to identify the functions and principles underpinning the cost management of small and medium-sized entities. Based on the literature, the authors also identify the factors that generate the ethical behavior, the organizational culture, the factors that influence the cost management of small and medium entities. There are also highlights of sustainable development and corporate social responsibility through which small and medium-sized entities align with the expectations and requirements of customers, the population and investors. Through the authors’ contribution, a new conceptual and empirical framework is created to discuss other issues encountered in the business environment of small and medium-sized entities.

INTRODUCTION

In a very active business environment, business confidence and business ethics are particularly important when it comes to relationships with customers, suppliers, employees and the small and medium-sized community. Virtually all the success and performance of small and medium-sized entities depend on these issues. Small and medium-sized entities are subject to pressure from both business and community partners, which is why they need to establish a business ethics policy, some ethical values that reflect
their image, both internally. But especially at the external level. A very important role is played by managers of small and medium-sized entities who have to take on this mission and on which their success or failure depends. An important role in this respect lies also in the cost management ethos, which puts its mark on managers’ future decisions to achieve significant results by small and medium-sized entities. The main objectives of this chapter are to: (1) identify and clarify ethical issues and business ethics theories applicable to small and medium-sized entities; and (2) identify the functions and principles underpinning the cost management of small and medium-sized entities.

BACKGROUND

Ethics is a system of rules of human conduct which allows the appreciation of what is good or bad in terms of moral and social criteria in relations between peers in order to establish useful relations that generate stability and coexistence based on reciprocity (Popa and Filip, 1999). Ethics fulfills both the role of moral judgment and decision-making in terms of balancing problems that can lead to conflict.

The majority of authors devoted to this field considered business ethics to be a field of study still young with no history of it (De George, 1987, Stark, 1993, Bos, 2007, Zhenzhong, 2009). The importance of business ethics is due to the events that have taken place (business scandals, economic growth status) and has been reflected in the formation and teaching of ethics in different stages of its evolution (Brenkert, 2010, Cuilla, 2011). A number of specialists have tried to classify and review literature in the field of business ethics (De George, 1987; Zhenzhong, 2009; Calabretta et al., 2011). The areas covered by the ethical responsibilities of small and medium-sized entities and the issues involved are as follows:

- Customers (product and service quality, product content, price, responsibilities and after-sales services, complaint handling);
- Employees (equal treatment in employment, promotion, dismissal, wages, awards, sanctions);
- Owners (profits, risks, promotion of their interests, accurate information about the existing situation);
- Suppliers (conditions of payment, information exchange, product quality);
- Competitors (methods of competition, mutual respect);
- Community (environmental protection, money support and material for health services, education, culture). Knowledge of business ethics helps Managers in solving ethical problems or dilemmas appearing in activities.

In other words, ethics is studying morality, and morality addresses the values, norms and rooted beliefs of society. Business ethics is part of the culture that takes place within societies and cultural environments and is governed by a set of values, laws, regulations, rules and policies (Scholtens and Dam, 2007). Ethical dilemmas are defined as situations in which individuals can justify their behavior or situations based on the aid of two or more ethical theories (Razmyar and Muzhapaer, 2012).

By studying the philosophical background of morality and ethics, a normative study of business ethics is being conducted to help orient small and medium entities in a given or encountered situation or condition (Tsalkis and Fritsche, 1989; Dunfee and Donaldson, 1995; Crane And Matten, 2010). Starting from what has been said by the specialists, Razmyar and Muzhapaer (2012) performs a classification of the theories of business ethics as follows: pure normative theory and integrated normative theory.
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