Business Ethics in International Small and Medium-sized Enterprises

Ethical Dilemmas of International SMEs and handling solutions

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ABSTRACT

Small and Medium-sized enterprises account for 99 percent of economic activity in EU (Floyd & McManus, 2005, p. 144). Moreover about 95% of enterprises in Organization for Economic Co-operation and Development (OCED) countries’ are SMEs and they account for 60 to 70 percent of employment in OCED countries (OCED, 2000, p. 1). The internationalization processes of Small and Medium-sized enterprises (SMEs) have recently been in focus of many researches and different models and perspectives have been presented to explain how small and medium size enterprises are expanding their activities into international markets.

This research studies the business ethics in international SMEs, as SMEs have not been in focus of business ethics studies (Asgary & Mitschow, 2002, p. 239; Arnold, 2007, p. 1161). Spence and Painter-Morland stated that, this lack of study of business ethics in SMEs is because most of the time in the field of business ethics, an assumption that considers large firms as the unit of analysis, has always been a norm (Spence & Painter-Morland, 2010, p. 1). This means researchers in business ethics instinctively considered large firms when they study business ethics in firms and put less attention to SMEs.

One of the topics of study in business ethics is studying the ethical dilemmas and how managers, individuals, firms, organizations, societies and economic systems are handling the ethical dilemmas and responding to them. In this study we defined the ethical dilemma, as situation that two or more than two ethical theories can justify an action or a situation differently.

In our research we categorized ethical theories, into two groups. The first group is ‘pure normative ethical theories’ and the second is ‘integrated-normative ethical theories’. In this research we have used qualitative approach and case study research design, and six semi-structured interviews were conducted with small firms that involved in international activities to find the ethical dilemmas that they have faced during their international activity. Moreover to understand how these ethical dilemmas are handled.

We found that international SMEs have faced with eight ethical dilemmas:

(1) Gift giving, (2) Providing fake invoice, (3) To stay with distributor or go directly to end-user, (4) Using export agency to go to another country, (5) To deliver the full quality of product, (6) Competition, (7) Human rights, and (8) Not to tell the truth about the quality of the product.

In addition, after we analyzed our findings, we suggested two propositions:

P1: International SMEs, which apply one of the integrated-normative theories than pure normative theories in international activity, do not confront with ethical dilemmas.

P2: Discourse ethics is the most appropriate ethical theory for international SMEs to handle their ethical dilemmas.

The result of this study is valid, based on validity criteria stated by Maxwell (1992). Moreover it is reliable because the procedures of conducting research were documented completely.

Keywords: International SME, Business Ethics, Ethical Dilemmas, Ethical Theories
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1. Introduction

The aim of this chapter is to provide an overview for this study and to introduce why the study of business ethics in international SMEs is interesting and important topic to study. In background section we provide brief overview of building blocks of this thesis. In problem discussion we show how this study relates and contributes to previous studies in the area of business ethics and SMEs internationalization. The specific focus of this thesis is expressed through the research questions, purpose of thesis, and delimitations sections respectively.

1.1. Background

Small and Medium Sized Enterprises

Small and medium sized enterprises (SMEs) are firms that usually have less number of employees and are operated mostly by the owner-managers. They have less amount of financial resources and are the most common type of organizations worldwide (Hermens, 2007). They have been pictured as independent and owner-managed firms with limited cash flow, facing survival challenges and built on personal relationships and controlled mostly by informal mechanisms (Spence, 1990, p. 164). Although there is no a unique definition for SMEs, different regions and countries defined them mostly based on the number of employees. For a firm to be considered as an SME, in most of the European countries the upper limit for the number of employees is 250 where as this limit is up to 500 in United States (OCED, 2000).

The developing market increasingly challenges SMEs to expand their business activities into regional, national and international markets (Burgi, 2010, p. 150). In addition advances on information and communication technologies facilitated the role of SMEs in international markets (Knight, 2001, p. 155). Furthermore, globalization has had effects on international markets, for instance, removing the barriers that had separated nations and international markets from each other, and in this way helped many firms including small and medium sized enterprises entered to international markets (Etemad, 2004, p. 1). As a result the players of the international markets were not anymore limited to only multinational enterprises (MNEs), small and medium sized enterprises (SMEs) are also becoming determinant players in international markets (Etemad, 2004, p. 1). The internationalization of SMEs has therefore been recently in focus of many researches.

Internationalization of SMEs

The internationalization is a phenomenon that has been obtained growing interest to study during the previous decades and this subject has been researched from different perspectives (Ruzzier, Hisrich & Antoncic, 2006, p. 476). The internationalization process of multinational enterprises (MNEs) was in focus initially, as MNEs were the major players in international markets (Knight, 2001; Peng, 2001, p. 809; Etemad & Wright, 2003, p. 4; Etemad, 2004; Sommer, 2010), but as discussed above SMEs have been becoming influential players in international markets. Therefore the internationalization processes of SMEs have recently been in focus of many researches and different models and perspectives have been presented to explain how small and medium size enterprises are expanding their activities into international markets. For instance the Uppsala Model of Internationalization, (U-Model) presented by Johanson and Vahlne (1977), the Innovation-related Model (I-Model)
implemented by for example Cavusgil (1980), the models of internationalization based on Resource-Based View (Barney, 1991) and the network approach of internationalization (Johanson & Mattsson, 1993) can be mentioned as those models which have obtained more attentions among others and more scholarly works have been done around them.

The numbers and varieties of researches according to SME internationalization are not limited to abovementioned examples and there are other researches, for example works of Johanson & Vahlne, 1977; Cavusgil, 1980; Oviatt & McDougall, 1994; Gankema, Snuif & Zwart, 2000; Knight, 2001; Etemad, 2004; Ruzzier et al., 2006; Sommer, 2010 and Kamakura, Ramón-Jerónimo & Vecino Gravel, 2012. Moreover some new fields of researches were emerged during the discussion about the internationalization of SMEs. The notions of International New venture or Born-Global firms were presented by work of Oviatt and McDougall (1994) and the almost recent concept of International Entrepreneurship (Oviatt & McDougall, 2005) are examples.

**Internationalization vs. Globalization**

Ho (2003) mentioned that in recent years many scholarly works have been conducted regarding international business and many policy makers, economists and businessmen have argued the essential of international business for reducing the global poverty and promoting world economy. He argued that in majority of literatures of internationalization, globalization and internationalization were often used interchangeably to show the business activities of a firm beyond its nation’s borders (Ho, 2003, p. 51). He continued that, opposite to globalization which, encourages free borders and may caused same value be expanded around the world, internationalization implies on different nations borders and nations’ culture and values (Ho, 2003, p. 51). The argument by Acs and Preston (1997) about the globalization also supports Ho’s point of view about the globalization. When Acs and Preston (1997) argued about globalization they also implied that globalization does not consider nations’ borders and prescribes universalism. As in Acs and Preston points of view (1997) globalization refers to the network of states, societies and organizations that make up the present economic world systems (Acs & Preston, 1997, p. 1). Acs and Preston stated that globalization creates new structures and relationships, and business decisions in one part of the world have considerable consequences in the other parts of the world (Acs & Preston, 1997, p. 1).

**Internationalization, Culture and Business Ethics**

The concept of internationalization implies national borders that separate nations from each other. It highlights the fact that different nations are different units and have different cultures and values (Ho, 2003, p. 52). Therefore during the internationalization and international activities, firms should be aware of these cultural differences. One of the elements that tied firmly with culture and values is ethics. As defined by Finken (2007, p. 791), ethics is a field of philosophy that deals with morality and concerns with nature of values and moral judgments. Thus, as long as (despite the effects of globalization) different cultures and values exist, there are still different moral values and then different ethics needed to be considered during business activities by international firms.

Litschka, Suske and Brandtweiner stated that study of ethics within the context of business, firms, and economic systems is the core of an interdisciplinary field called ‘business ethics’ (Litschka et al, 2011, p. 473). In addition as ethics are rooted in cultures, business ethics as a field of study also is related to the culture. Scholten and Dam (2007, p. 273) also supported
this idea that business ethics is part of the culture, and then stated that business ethics as part of culture does not happen in vacuum. Business ethics is in context of societies and cultural environments that are governed by complex set of values, laws, regulations, norms, and policies (Scholtens & Dam, 2007, p. 273).

**Business Ethics**

The field of business ethics can be considered as rather a new field as it was emerged in 1970s (De George, 1987, p. 202; Stark, 1993, p. 40; Schwartz, 2007, p. 217). There are several definition for business ethics, though seems really complex to define (Schwartz, 2007, p. 217). For example, De George defined the field as the interaction of business and ethics and its object is “study of the morality and immorality as well as the possible justification of economic systems” (1987, p. 204). As another definition Crane and Matten defined it as “the study of business situations, activities, and decisions where the issue of right and wrong are addressed” (Crane & Matten, 2010, p. 5). We will provide more different definitions for business ethics later in Chapter Two of this thesis.

Although the field of business ethics is relatively recent, there are different approaches to study this field as stated by Schwartz (2007, p. 218). But the most accepted and followed approach for study the field of business ethics is to divide the study of business ethics into two categories: (1) normative study (meaning prescriptive) and (2) empirical study (meaning explanatory and descriptive). This classification of study the business ethics has been supported by the works of many well-known scholars in this field such as De George, 1987; Tsalikis & Fritzsche, 1989; Stark, 1993; Donaldson & Dunfee, 1994; Trevino & Weaver, 1994; Dunfee & Donaldson, 1995; Hasnas, 1998; Spence & Painter-Morland, 2010; Burgi, 2010; Crane & Matten, 2010.

On one side of study of the business ethics, there is normative study of business ethics which means study the philosophical background of morality and ethics and come up with ethical theories that will help practitioners about what they ought to do in a given condition and situation (De George, 1987; Tsalikis & Fritzsche, 1989; Dunfee & Donaldson, 1995; Crane & Matten, 2010). Therefore this section of business ethics has been naturally developed more by philosophers and scholars from philosophy schools than by social scientists and scholars from business schools. The ethical theories in this portion also can be divided into some sub-categories. For example Crane and Matten (2010) divided the ethical theories into traditional ethical theories and contemporary ethical theories.

On the other side of study of the business ethics, we have the empirical study of business ethics. This section of business ethics study has been occupied mostly with the efforts of social scientists and scholars from business schools. The core of these types of researches is to describe the behavior of business practitioner in real life and explore their decision making process and explain the reason of their actions based on the ethical theories (Tsalikis & Fritzsche, 1989; Stark, 1993; Donaldson & Dunfee, 1994). Thus naturally, firms and their contexts have been in focus of empirical studies in business ethics.

**Business Ethics and International SMEs**

Therefore from one point of view, SMEs as a type of organizations could also be empirically studied in the field of business ethics. However, SMEs have not been in focus of business ethics studies (Asgary & Mitschow, 2002, p. 239; Arnold, 2007, p. 1161). Spence and Painter-Morland (2010) explained that, the lack of study of business ethics in SMEs is due to the fact that an assumption that considers large firms as the unit of analysis, has always been
a norm in most of the time in the field of business ethics (Spence & Painter-Morland, 2010, p. 1). That means researchers in business ethics instinctively considered large firms when they study business ethics in firms and put less attention to SMEs.

Then from the other point of view international environment and internationalization as the environment and the context of empirical business ethics study can be in focus of a research. Ho (2003) also supported that internationalization have caught the attentions of scholars by mentioning that many scholars in field of business ethics “are increasingly concerned about the moral implications” of internationalization of firms (Ho, 2003, p. 51). Although the efforts by Kung, 1997; Ho, 2003; Arnold, 2007 and Scholtens & Dam, 2007, are examples of empirical research in business ethics in the context of internationalization and international business, by reviewing the literatures it becomes clear that there are not enough researches that empirically have studied business ethics in international environment. In addition, Doh, Husted, Matten and Santoro (2010) also supported that international business and business ethics (as two fields of studies) have overlaps, but not enough research has been done so far to contribute to this overlap of business ethics and international business (Doh et el, 2010, p. 481).

As a result from above, it can be stated that not only, there are not enough number of empirical business ethics research in international context, but, those rare existing studies have also shown more interest to the study business ethics for multinational and large corporations, than for small and medium firms (Asgary & Mitschow, 2002, p. 239; Arnold, 2007, p. 1161; Crane & Matten, 2010, p. 15; Spence & Painter-Morland, 2010, p. 1). In the next section we will explain this latter issue more and will reveal the gaps that this thesis tries to cover and the contribution to the knowledge that is its aim; however first a short background about the ethical dilemma as the topic of this research will be suitable.

**Business Ethics and Ethical Dilemmas**

One of the topics of study in business ethics is studying the ethical dilemmas and how managers, individuals, firms, organizations, societies and economic systems are handling the ethical dilemmas and responding to them. Ethical dilemmas were defined by some scholars as situations in which one faces with conflicts among the values. In study by Hendry (1999), each culture has sets of ethical characteristics and then conflicts among the cultures is the defined as ethical dilemma. Hendry (1999) defined three types of ethical dilemmas that we will explain more in Chapter Two. In another effort Pedigo and Marshall (2004) also mentioned that because of cross-cultural differences, conflicts among values cause ethical dilemmas. In addition Crane and Matten (2010, p. 7) defined ethical dilemmas as situations in which values are in conflict. Moreover, Gupta, Pirsch and Girard (2010), defined ethical dilemmas as situations where clearly selecting moral choice is not easy considering different ethical theories and perspectives.

Ethical dilemmas were studied among MNEs and its importance gained the attentions of researchers. Carroll (2004, p. 117) stated that, ethical scandals as Enron, WorldCom, Tyco, and HealthSouth captured the world’s attention. Therefore ethical dilemmas and ethical issues faced by firms were studied and some scholars tried to specify some ethical dilemmas that managers and organizations are dealing with. For example Hendry (1999) named employment practice, workplace behaviour, social and environmental aspects of business as ethical dilemmas when companies are doing business among different cultures (p. 405). Moreover, Carroll categorized ethical dilemmas into eight different types (2004, p. 118), or Pedigo and Marshall (2004) found that Australian managers are faced four ethical dilemmas.
In Chapter Two we will state how we define ethical dilemmas in this study and will explore more studies regarding ethical dilemmas.

1.2. Problem Discussion

SMEs are important parts of many economies in both highly developed and less developed countries. In less developed countries SMEs are involved in micro-businesses such as street vendors and small service delivery operations (Spence & Painter-Morland, 2010, p. 2). In highly developed countries, SMEs have significant benefits for the economy, as they are playing important role for growing economy (Graham, 1999, p. 88). Small and medium sized enterprises constitutes about 95 percent of enterprises in Organization for Economic Co-operation and Development (OCED) countries (OCED, 2000). This statistics was 99 percent for EU countries on 2007, and these SMEs employed 75 million people (Hermens, 2007, p. 1422).

The small and medium sized enterprises offer considerable benefits to economy resulting from the ability to work more flexibly in compare to multinational enterprises (MNEs). For example SMEs have traditionally taken the advantage of being able to change production more rapidly compared with larger firms and this is important to be able to provide more customized products for consumers as traditional markets have become saturated especially for small firms (Floyd & McManus, 2005, p. 144). In addition small and medium sized enterprises tend to be younger, more risk takers, and have involved in job creations in different sectors which consequently have resulted in decrease of the rate of unemployment (Floyd & McManus, 2005, p. 145). Thus for these abovementioned reasons and other reasons, countries have been trying to aid small and medium sized enterprises to increase their international activities, which have positive influences on the country’s economic growth as also mentioned by Ruzzier et al (2006, p. 477). Therefore, international SMEs have been emerging and the internationalization of SMEs have been studied and discussed as mentioned earlier and will explained more in coming chapter.

Furthermore as discussed earlier, in opposite of globalization, internationalizations highlight the different nations, cultures and values. In addition as stated before, ethics is one element of culture and then confronting with different cultures means confronting with different values and ethics. Therefore it can be concluded that, because international SMEs are facing different cultures during their international activities, then they are facing different ethics and thus ethical dilemmas, which they need to handle. As stated earlier, ethical dilemmas were studied in context of MNEs which, shows this is an important topic in business ethics studies. But as also mentioned earlier there are lacks of research regarding study of business ethics of SMEs in international context, and as ethical dilemma is one of the topics in business ethics study, there are lacks of research regarding ethical dilemmas in international SMEs. In addition there are inherent differences between SMEs and MNEs and ethical dilemmas in large firms and MNEs may be different in SMEs context. We will discuss the differences between SMEs and MNEs later in Chapter Two (see section 2.7).

As a matter of fact, not only we do not know what the ethical dilemmas that SMEs face are, but also we do not know how they handle them. It should be mentioned here that, for the purpose of this research ethical dilemmas are situations that individuals or organizations face with situations that can be justified by two different ethical theories. We will provide different types and definitions of ethical dilemmas later on Chapter Two and will mention again our definition for ethical dilemma. We will explain the relationship between values and ethics in more detail in Chapter Two where we will show the relationships among values,
morality and ethics. Below we tried to picture the current status of business ethics study in SMEs in international context.

First, as we explained earlier international SMEs can also be studied in the field of business ethics as a type of organizations. The international environment and firms especially international SMEs are almost new context for business ethics empirical studies. However, until just recently most empirical research of business ethics have been in context of large corporation and MNEs (Asgary & Mitschow, 2002, p. 239; Arnold, 2007, p. 1161; Crane & Matten, 2010, p. 15; Spence & Painter-Morland, 2010, p. 1). Therefore, there are not enough research in business ethics, regarding SMEs, despite the fact that there are differences between large firms and small and medium size firms beyond the number of employees (Spence & Painter-Morland, 2010, p. 1; Burgi, 2010, p. 147). For example, as argued by Wynarczyk, Watson, Storey, Short, and Keasey (1993 cited in Spence & Painter-Morland, 2010, p. 2), SMEs and MNEs are different characteristically. These characteristics are uncertainty and vulnerability, active engagement in innovation, and in terms of evolution and change (Wynarczyk et al cited in Spence & Painter-Morland, 2010, p. 2).

Second, the internationalization is a phenomenon that can be also studied by business ethics’ scholars as also suggested and argued by Doh et al (2010). However by reviewing the literatures in field of internationalization, and especially the internationalization process of SMEs, we found that almost none of the main models of internationalizations consider ethics in their models and the influences that it would have on internationalizations. Actually Doh et al mentioned only few percent of literatures related to international business addresses questions of ethics in their papers (Doh et al, 2010, p. 481). Chapter Two has more detail in argument about how models of internationalizations have implications for business ethics.

Third, one can argue that there are many researches that studied for example cultures, corporate social responsibility (CSR) and inter cultural connections in international context. Then the claim that ‘there is not enough research regarding internationalization and business ethics’ is not valid. However as it might be possible to state that business ethics are involved in those activities (e.g. CSR), there are differences between CSR and culture with business ethics (Enderle, 2010). Although there are studies considering international business and business ethics (Tsalikis & Fritzsche, 1989; Kung, 1997; Ho, 2003; Kaptein & Schwartz, 2008) there is still a lack of study of business ethics, especially according to the international SMEs. This discussion and claim is also in line with the recent findings by Zhenzhong (2009), who stated that according to globalization and more international business what behavior are ethical and what are not, requires more academic enquiry and will be a major research theme in future (Zhenzhong, 2009, p. 263).

Fourth, as we have found, with a thorough literature review, there are three main reasons for the lack of research in studying business ethics of SMEs in international context:

I. First, the presumptions that we have already mentioned, and it is the idea that the units of analyze in business ethics is large firm (Spence & Painter-Morland, 2010, p. 1).

II. Second, the fact that the field of business ethics is almost a new discipline. Some efforts have been done to integrate the two-divided section of business ethics, namely normative and empirical (Donaldson & Dunfee, 1994; Trevino & Weaver, 1994; Dunfee & Donaldson, 1995). The theories like Integrated Social Contract Theory (ISCT) (Donaldson & Dunfee, 1994) and the Stakeholder theory (Freeman, Harrison,
Wicks, Parmar & De Colle, 2010) are result of these efforts. This part of research agenda is still occupying section of studies in business ethics.

III. Finally, the most empirical researches in the field of business ethics are quantitative research and their aim has been testing the hypothesis that could be extracting from normative ethical theories (Trevino & Weaver, 1994; Dunfee & Donaldson, 1995). However mainly for the lacks of explicit normative theory for the context of internationalization, there is not even enough quantitative research in this area.

Fifth, it should be stated that when we talk about the lack of business ethics research in the contexts of internationalizations, we mean both normative and empirical studies. This means that not only there are lacks of ethical theories that can tell managers and practitioners how they ought to behave or justify their behaviors in international business or based on what ethical theory they should act in international context, but also there are not enough empirical research to show how managers and practitioners are behaving in their daily business life in international context, why they behave so, and what are the ethical dilemmas they may have faced in international activities.

Sixth, although normative studies of business ethics ground their discussion on empirical data (Trevino & Weaver, 1994, p. 120) those data mainly should come from qualitative study. Because in the core of normative studies there are behavioral principles (as explained earlier), and how an ethical theory could prescribe a principle without any understanding of problem. Therefore to find these problems and understand them, there is a need to do empirical qualitative research (David & Sutton, 2011, p. 84-85).

Finally as conclusion for this section, there are three main gaps considering study of business ethics in SMEs and in the international context. First is the lack of study of business ethics in SMEs in general and in international SMEs in particular. Second, as ethical dilemmas are the topic in business ethics, therefore there is also lack of study, according to ethical dilemmas that international SMEs face during their international activities and how they handle them. The second gap is especially in the focus of this thesis as the aim of this research is to explore the ethical dilemmas of international SMEs and how they are handled. Third, there are not enough type of empirical qualitative business ethics researches to understand the ethical issues and dilemmas that SMEs would face in their international activities. This gap also can be considered as a methodology gap, because qualitative research arguably can work as intermediary research and as a bridge between empirical and normative study of business ethics. As normative studies also need empirical data, to ground their discussion and produce ethical theories (Donaldson & Dunfee, 1994; Trevino & Weaver, 1994; Dunfee & Donaldson, 1995), but different type of data, which are the results of not pure quantitative research.

1.3. Research Questions

According to the aforementioned discussion and regarding the business ethics empirical study in the context of international SMEs, it should now be clear that, (1), there are differences between SMEs and MNEs in nature, and because of that there are many researches about internationalization of SMEs in spite of the fact that MNEs internationalizations have been studied. We also believe that there are differences between SMES and MNEs regarding the business ethics studies and as stated by (Burgi, 2010, p. 149). SMEs have different features, internally and externally, that distinguish them by MNEs. Then as mentioned before and like internationalization, business ethics in SMEs needed to be studied. Ethical dilemmas, as
defined earlier, of international SMEs are what we desire to explore. (2) It should be clear by now that international environment is the context in which we are going to study business ethics in SMEs. (3) Finally it should be clear that, business ethics studies consist of two sections, normative study which provide practitioner with ethical theories for decision making in ethical situations, and empirical study which are studies about the acts of practitioners in different situation based on ethical theories. Moreover to develop normative theory you need qualitative data, which come from an empirical study.

As conclusion regarding to abovementioned arguments we think that by finding answers for the following questions we can cover the gaps. Here are our research questions:

(1) What ethical dilemmas the international SMEs confront with and Why?
(2) How international SMEs handle these ethical dilemmas?

1.4. Purposes and Contribution to Knowledge

The purpose of this research is to explore the ethical dilemmas of international SMEs and understand how they handle them. As can be understood by now, this thesis is positioned somewhere between international business study and business ethic study. Then at the end of this research we will find different ethical dilemmas that international SMEs faces during their international activities and also the ways they handle these ethical dilemmas. By the end of this research we would like to cover the gaps that we found from the past researches. In Figure 1.1 we illustrated the gap that exists. The gap is the intersections among internationalization, SMEs and business ethics. The authors think that by exploring ethical dilemmas that international SMEs face, there are opportunities to identify the needs of managers, executive and practitioners in this area, according to ethical principles. Then it would also provide the necessary data for normative researchers to provide such suitable ethical theories for these firms and people involved. We explained the implications of this thesis more in Chapter Six.

1.5. Delimitation

The theoretical scope of this research is to focus on different ethical theories and also internationalization theories of SMEs. The provided conceptual framework at the end of Chapter Two illustrates it more clearly and serves us as guidance through this research. The firms for study include diverse international European SMEs, which have international activity in divers markets.
2. Theoretical Framework and Literatures Review

To fulfill the purpose of this thesis, we need to study and explore the three knowledge areas that were shown in Chapter One (Figure 1.1), say internationalizations, SMEs, and business ethics. Moreover we need to understand ethical dilemmas as a topic in business ethics that we want to study, and explain how we define ethical dilemmas in this research. Finally we will explain the differences between MNEs and SMEs and will show that why the study of business ethics in SMEs is needed. By study the abovementioned topics we are able to build the conceptual frameworks that will guide us to conduct this research and works as our theoretical framework through this thesis. Therefore we have done thorough literature reviews to be able to build our theoretical framework.

The purpose of this thesis is to explore the ethical dilemmas that SMEs facing with during their international activities and the way they handle these ethical dilemmas. As a result internationalization works as a context for us that within this context we want to study SMEs from business ethics perspective, and explore at first what ethical dilemmas they are faced with and then how they handle them. Thus we started by internationalization to know the context we want to conduct our research.

2.1. Internationalization

The subject of internationalization has been in research focus for past decades (Gankema et al, 2000, p. 16; Ruzzier et al, 2006, p. 476). Many scholars have defined the internationalization from different perspectives and therefore different models of internationalizations have been provided (Mejri & Umemoto, 2010, p. 157). In other words depends on how the internationalization process have been defined, different internationalization process perspective and model has been provided. However if a firm has an activity or expand its activity beyond the national borders, the firm will be considered as an international firm, which internationalized fully or is in process of internationalization (Ruzzier et al, 2006, p. 477). These activities can have the range of simple sale in another country (export) or can be in other forms for example, licensing, joint venture, or even lunching production facility, though in some models of internationalization these activities are indications for the process of internationalization, for example the Uppsala model of internationalization by Johanson & Vahlne (1977).

Initially main focus of internationalization research was internationalization of MNEs (Peng, 2001, p. 809; Etemad, 2004, p. 1; Kalantaridis, 2004, p. 246; Ruzzier et al, 2006, p. 480) and it still gains attentions of many scholars in the field of international business. For example, when Peng argued about the main question that scholars in the field of international business should focus on it; his main attention was on MNEs (Peng, 2004, p. 99, 101, 102). Nevertheless as effects of globalization, advances in information technology (Kalantaridis, 2004, p. 245), and perhaps many other reasons (that may need to be investigated), small and medium sized enterprises have been also involved in internationalization and therefore the internationalization process of small and medium sized enterprises have become in focus of many scholarly works. For example consider the attempts by Gankema et al (2000), Knight (2001), Etemad & Wright (2003), Etemad (2004), Ruzzier et al (2006), Mejri & Umemoto (2010), Sommer (2010), Cerrato (2011), and Kamakura et al (2012). Furthermore SMEs account for almost 99 percent of economic activities in European Union (EU) countries (Floyd & McManus, 2005, p. 144). It implies that at least for EU, SMEs play considerable
role in international environment and it can be stated that, this is one of the reasons that they obtained so many attentions during about two past decades (Kalantaridis, 2004, p. 245).

To better understand the role of SMEs and the reason that they have obtained attentions among academic world, in the following section the authors tried to present definition of SMEs and also their almost current pictures in economic.

2.2. Small and Medium Sized Enterprises (SMEs)

Small and medium sized enterprises are main parts of almost every economic (Graham, 1999, p. 88). They have fewer amounts of financial resources and also less numbers of employees and are the most common type of organization worldwide (Hermens, 2007, p. 1421). The SMEs are important to study because of, for example, based on “European Competition Report”, they account for 99 percent of economic activity in EU (Floyd & McManus, 2005, p. 144). Moreover about 95% of enterprises in Organization for Economic Co-operation and Development (OCED) countries’ are SMEs and they account for 60 to 70 percent of employment in OCED countries (OCED, 2000, p. 1). Although there are not unique definitions for SMEs, they usually are defined based on their numbers of employee or their annual turnover. These definitions are different for European countries, U.S. and also in Australia and New Zealand (Hermens, 2007, p. 1421). For a firm to be considered as a SME, in most of the European countries the upper limit for the number of employees is 250 which this limit is 500 employees in United States (OCED, 2000, p. 2). Johnson and Turner (2000, cited in Floyd & McManus, 2005, p. 145) categorized SMEs based on their annual turnovers, though because of the thesis limitation, this criterion has not been consider as a criteria for sample selection. Therefore for the purpose for this thesis, along with limitation consideration, any firm with the maximum number of 250 employees will be considered as a SME.

The most common aspects of SMEs, that many of above literatures also mentioned, is their limit possession and or access to different kinds of resources, for instance, financial resources, information resources, human resources and so on. Because of these differences between MNEs and SMEs many scholars thought that, models that were explaining the internationalizations of MNEs are not sufficient and accurate to explain the same process for SMEs (Etemad, 2004, p. 2; Ruzzier et al, 2006, p. 480). As the purpose of this thesis is to explore and understand the ethical dilemma in international context for SMEs, the following section is helpful to understand the context in which, we are conducting this study. Then in the following section the main models of internationalization and internationalizations of SMEs were explained and discussed.

2.3. SMEs and Internationalization

During past three decades, the SMEs’ internationalization processes have been studied from different perspectives. Diverse and sometimes opposite models were introduced and presented (Kamakura et al, 2012, p. 236). Recently they were efforts for integrative models that cover the deficiencies of previous ones and present coherent models of internationalization for instance knowledge based view of internationalization by Mejri & Umemoto (2010) and dynamic perspective of internationalization process by Kamakura et al (2012). In the following paragraphs the authors tried to present the different models of internationalization, mostly regarding to SMEs, in addition to recently integrated frameworks. However as the purpose of this research is not confined solely to
internationalization, the most famous and influential models and perspectives of internationalizations were discussed and explained.

By reviewing the literature about the internationalization, we can classify different perspectives of internationalizations as follows. First the stage model of internationalization which also mainly consists of two models, the Uppsala model and the Innovation-related model. Second is the network-based view for internationalization and the third category is models that explain the internationalization based on the resource-based view. Some scholarly works used this approach to categorize the different perspectives of internationalizations before (Ruzzier et al, 2006, p. 482; Mejri & Umemoto, 2010, p. 158, Kamakura et al, 2012, p. 238).

**Uppsala model of internationalization**

The Uppsala model of internationalization is the one of most famous and recognized model that explains the internationalization of firms as gradual increase in their international involvement of abroad operations (Johanson & Vahlne, 1977). Johanson and Vahlne presented the model based on behavioral theory of firm (Cyert and March, 1963; Aharoni, 1966 cited in Johanson & Vahlne, 1990, p. 11) and Penrose’s theory of knowledge and change in organizations (Penrose, 1959 cited in Ruzzier et al, 2006, p. 482). They assumed that the lack of knowledge due to differences between home and host countries is the main obstacle to develop international activities (Johanson & Vahlne, 1977, p. 23, p. 26). These differences come from for instance different languages, culture, and laws (Johanson & Vahlne, 1977, p. 23). According to the model, firms try to involve into international business in small incremental steps and gain knowledge about the foreign market by start with countries that are in closer psychic distance of a firm’s home country (Kamakura et al, 2012, p. 238). The following four stages that were specified by Johanson and Wiedersheim-Paul (1975, p. 307) represent the levels of internationalization that firms are engaging in. Each stage illustrates higher degree of international involvement. These four stages are:

1. No regular export activities,
2. Export via independent representatives (agent),
3. Sales subsidiary, and
4. Production/manufacturing.

For explaining the internationalization process of firms, Johanson and Vahlne developed a dynamic model of internationalization that “outcome of one decision constitutes the inputs for the next” (Johanson & Vahlne, 1977, p. 26).

![Figure 2.1 Uppsala Model of Internationalization (Johanson & Vahlne, 1977, p. 26)](image-url)
They suggested two aspects for their model (see Figure 2.1.), the state aspect and change aspect.

Regard to the model, the state aspect involves the amount of resources committed to the foreign market or market commitment and experiential knowledge about the market or market knowledge (Johanson & Vahlne, 1977, p. 26; Ruzzier et al, 2006, p. 482). Moreover the change aspect also consists of two elements, the first one is commitment to assign resources to foreign market and the second one is the performance of current activity of the firm (Johanson & Vahlne, 1977, p. 26; Kamakura et al, 2012, p. 238). The authors then discussed that the state aspects influence the change aspect in a way that increase/decrease in market commitment and market knowledge affect the decision about resource assignment to foreign market (commitment decision) and also the current activity of firm would change. In the same way the change aspect in turn would cause increase/decrease in committing resources for foreign market (market commitment) and also acquiring knowledge about the market (market knowledge) (Johanson & Vahlne, 1977, p. 26).

The Uppsala model or U-model as it is also recognized in literatures, however has received negative feedbacks. For example Gankema et al (2000), stated that the time frame for each steps of internationalization has not been mentioned, and also there are possibilities for the firm to not follow one or more steps (Oviatt & McDougall, 1994).

**Innovation-related model**

The next stage model of internationalization is Innovation-related model or (I-model) explained by different authors, though the most well-known version are from Bilkey and Tesar (1977), Czinkota (1982), Cavusgil (1980), and Reid (1981) as cited in Andersen (1993, p. 212). Nevertheless the all different version of I-model are based on Roger's stages of the adoption process (Rogers, 1962 cited in Andersen, 1993, p. 212; Gankema et al, 2000, p. 17).

As stated before the I-model is like U-model in explaining the internationalization process. It means that in all abovementioned famous versions of Innovation-related model of internationalization, firms involve in international operations through passing different stages. Here each stage towards internationalization was considered as an innovation for the firm (Ruzzier et al, 2006, p. 483). As a matter of fact as mentioned before and summarized by Andersen (1993, p. 213) there are various stage models which their focus is entirely on the export development process for the small and medium-sized enterprises. As stated by Andersen these models generally are similar and only differences among these versions are in the number of stages, which each model was accounted through internationalization (Andersen, 1993, p. 213).

Alike to U-model, the I-model also obtained some critics. For example the borders between stages are vague and determining the stage differences regarding to activities could be subjective and then problematic (Ruzzier et al, 2006, p. 484). In Table 2.1 the different versions of famous I-model are provided. In continue we will argue about another approach in internationalization known as Network approach in internationalization.

**Network approaches to internationalization**

Network approach is another perspective to explain the internationalization process. The studies on this approach started on 1980s, by using network theory to explain the internationalization process (Mejri & Umemoto, 2010, p. 158; Che Senik, Scott-Ladd, Entrekin & Adham, 2011, p. 261). Based on the U-model of the internationalization,
Johnson & Vale (1990) continued an examination of the internationalization process by applying network perspective. In their point of view a network consists of collection of “actors” that can include people, departments, or businesses and their links to others entities such as family, community as well as financial or business alliances (Johanson & Vahlne, 1990, p. 18). Thus they stated that internationalization of firm means developing firm’s business relationship in networks in other countries (Johanson and Mattsson, 1988, cited in Johanson & Vahlne, 1990, p. 20) and firms start their internationalization by initially engaging in networks that are primarily domestic to the firm (Johanson & Vahlne, 1990, p. 19).

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<td>Management is not</td>
<td>Domestic marketing: The firm sells only to the home market</td>
<td>The completely uninterested firm</td>
<td>Export awareness: Problem of opportunity recognition, arousal of need</td>
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<td>interested in exporting</td>
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<td>Management is willing</td>
<td>Pre-export stage: The firm searches for information and evaluates the feasibility of undertaking exporting</td>
<td>The partially interested firm</td>
<td>Export intention: Motivation, attitude, beliefs, and expectancy about export</td>
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<td>to fill unsolicited</td>
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<td>Stage 3</td>
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<td>Management actively</td>
<td>Experimental involvement: The firm starts exporting on a limited basis to some psychologically close country</td>
<td>The exploring firm</td>
<td>Export trial: Personal experience from limited exporting</td>
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<td>explores the feasibility of active exporting</td>
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<td>Stage 4</td>
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<td>The firm exports on an</td>
<td>Active involvement: Exporting to more new countries--direct exporting--increase in sales volume</td>
<td>The experimental firm</td>
<td>Export evaluation: Results from engaging in exporting</td>
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<td>Stage 5</td>
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<td>The firm is an</td>
<td>Committed involvement: Management constantly makes choices in allocating limited resources between domestic and foreign markets</td>
<td>The experienced small exporter</td>
<td>Export acceptance: Adoption of exporting/rejection of exporting</td>
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<td>Stage 6</td>
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<td>Management explores the</td>
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Table 2.1 Review of Innovation related internationalization model (Andersen, 1993, p. 213)
Johanson and Vahlne defined three strategies that via them internationalization can be achieved. These strategies are extension, penetration, and integration (Johanson & Vahlne, 1990, p. 20). Extension refers to the investment in the networks that are new to the firm, while penetration means developing positions and increasing resource commitments in networks in which the firm already has positions. And finally integration can be understood as the co-ordination of different national networks (Ruzzier et al, 2006, p. 484). In their review Ruzzier et al (2006, p. 485), stated that according to network perspective, firms internationalize because other firms in their (inter) national network are engaging in internationalization process. It implies that firms develop relationship with other counterparts in the networks and in this way they engage in international operations and activities.

In addition to so far explanations, in Johanson and Mattsson points of view, this model also emphasized on gradual learning and obtaining the knowledge about the market through interaction within networks (Johanson & Mattsson, 1988 cited in Ruzzier et al, 2006, p. 485). They identified four levels for internationalization process: (1) the early starter, (2) the late starter, (3) the lonely international, and (4) the international among others. These levels or stages are the result of combining micro (firm-to-firm) and macro (firm-to-network) perspectives of networks. According to Ruzzier et al, (2006, p. 485) network perspective obtains its strength because of explanation the process of internationalization rather the existence of multinational or international firms. In network perspective’s point of view it is possible to characterize the firms’ strategy of internationalization in need to (1) minimize the need for knowledge development, (2) minimize the need for adjustment, and (3) exploit established network positions (Johanson and Mattsson, 1993 cited in Ruzzier et al, 2006, p. 485).

Recently the authors of U-model proposed an updated version of network internationalization process model (Johanson and Vahlne, 2009) in which they argued about share and develop knowledge within the network during a trust building process which consequently caused firms learn about sources and capabilities of their counterparts (Kamakura et al, 2012, p. 238). In summery network theory can help to distinguish the role of resources, activities, and actors within the networks and clarify the way they affect the different aspects of internationalization processes of SMEs. However some further researches are still needed to be conducted about the resources and development strategies used by the firms (Ruzzier et al, 2006, p. 486).

Resource-based approach to internationalization

The core of this approach to internationalization is resource-based view and the core of resource-based view is to look at the firm as sets of resources (Barney, 1991; Barney, Wright & Ketchen, 2001; Kraaijenbrink, Spender & Groen, 2010). This idea that firms can be seen as sets of resource goes back to the seminal work of Penrose (1959 cited in Wernerfelt, 1984, p. 171) called “The theory of the growth of the firm” in which he characterized firms as a collection of heterogeneous or firm-specific resources (Ruzzier et al, 2006, p. 486). Resource-based view mainly emerged in strategic literature by the works of Wernerfelt (1984) and Barney (1991) (Peng, 2001, p. 809). Consequently they defined firm resources and resources as follow. Barney (1990, p. 101) defined firms resources as inclusion of “all assets, capabilities, organizational processes, firm attributes, information, knowledge, etc; controlled by a firm that enable the firm to conceive of and implement strategies that improve its efficiency”. In other definition Wernerfelt stated that resources are anything “which could be thought of as a strength or weakness of a given firm. More formally, a firm’s resources at
a given time could be defined as those (tangible and intangible) assets which are tied semi permanently to the firm and effectiveness.” (Wernerfelt, 1984, p. 172)

The resource-based view has been subject of many attentions in strategy literature in past decades (Fahy, 2002, p. 62; Kraaijenbrink et al, 2010, p. 350) and has focus on sustainable and unique costly-to-copy attributes of the firm as the sources of economic rents. As a matter of fact it bases principally on the concept of “Ricardian rents, that is, economic rents that accrue to resources which are limited or quasi-limited in supply” (Peteraf, 1993 cited in Fahy, 2002, p. 62). As stated by Kraaijenbrink et al, the resource-based view originated as a proponent of industrial organization view of a firm (Kraaijenbrink et al, 2010, p. 350), but then served as complimentary to industrial organization view. Because as industrial organization view the determinants of firm’s performance out of the firm, the resource-based view were looking inside of firm for those performance determinants (Kraaijenbrink et al, 2010, p. 350). As discussed by Barney (1991) firm’s sustained competitive advantage results from the resources a firm controls which are valuable, rare, imperfectly imitable, and not substitutable. These resources and capabilities can be seen as sum of tangible and intangible assets, including a firm’s management skills, its organizational processes, and the information and knowledge it controls (Barney, 1991, p. 102; Barney et al, 2001, p. 628; Kraaijenbrink et al, 2010, p. 350).

The resource-based view (RBV) has had contributions in different fields of study (Barney et al, 2001, p. 627). One of these fields that RBV has had contributions is field of international business (Barney et al, 2001, p. 629). For example Peng (2001), reviewed international business literature from 1991 to 2001 and specified four different areas that RBV had influences on international business field (Peng, 2001, p. 810). He also stated that RBV has helped to recognize the resources required to overcome the problem of being new in another environment and moreover acted as a bridge to explore the essential resources for building product and diversifying international activities in international environment (Peng, 2001; Barney et al, 2001, p. 630). This last discussion is very important regarding to SMEs, because they do not have as much amount of assets as MNEs and then it is really important for them to be able to identify and define the critical resources needed for their internationalizations process. However, in his study Peng (2001) mentioned that most of literatures he had reviewed, the internationalization process of MNEs were in focus, though he added that the SMEs internationalizations should be in focus in future (Peng, 2001, 809). In another study, Ruzzier et al (2006, p. 487) also stated that there is no strong study in past regarding to RBV perspective of internationalization of SMEs. In addition he continued that the most promising study regarding to SMEs internationalization from RBV perspective is the work of Ahokangas (1998 cited in Ruzzier et al, 2006, p. 487).

Regarding Ahokangas’ model, its main concerns are resource development and strategic internationalization behavior of SMEs. He developed his model by combining the strategic and network perspectives of resources (Ahokangas, 1998 cited in Ruzzier et al, 2006, p. 487). In Ahokangas’ model, there is an assumption that small and medium sized enterprises cannot independently develop potential of key internal and external resources. These resources can be adjusted/developed within firm and among firm and their environment (Ahokangas, 1998 cited in Ruzzier et al, 2006, p. 487). As mentioned by Ruzzier et al (2006, p. 487) this adjustment behavior is analyzed along two dimensions:
(1) Where do the resources reside; that is, what is their source – are they internal or external to the firm; and (2) Does the development of resources take place in a firm-oriented manner (inward orientation) or in a network-oriented manner (outward orientation)?

The two abovementioned dimension then result to four hypothetical modes of resource adjustment: the adjustment of

(1) Internal resources in a firm-oriented mode, (2) external resources in a firm-oriented mode, (3) internal resources in a network-oriented mode, and (4) external resources in a network-oriented mode.

In Figure 2.2 you can see dimensions and modes of resource adjustment. Ruzzier et al (2006, p. 488) continued that in his point of view the network approaches of internationalization of SMEs and the resource-based approaches seems to be emerging by Ahokangas’ proposed model (1998 cited in Ruzzier et al, 2006, p. 488). They mentioned that in both resource-based theory and network perspective the internal and external resources available to the firm are seen as constituting the total set of resources available to the firm. They then concluded “the development of resource-based theory and network perspective seems to have gone hand in hand” (Ruzzier et al, 2006, p. 488).

Internationalization and SMEs: Summary of literatures reviews

Although there are (1) many other researches regarding SMEs internationalizations, (2) needs for example for an integrated model for internationalizations of SMEs (Mejri & Umemoto, 2010, p. 157), and (3) other studies according to internationalization of SMEs, for instance the phenomena of international new venture (Oviatt and McDougall, 1994) or almost recent concept of International Entrepreneurship (Etemad & Wright, 2003; Oviatt & McDougall, 2005), the authors think that the provided amount of literature review regarding to internationalizations of SMEs is enough for the purpose of this thesis. It is enough because as the aim of this research is not to study for example the neglected perspective of SME internationalization, but to study the ethical dilemmas of international SMEs. Therefore in the authors’ point of view only familiarity of well known perspectives of SMEs internationalization process would acceptably fulfill the requirements of this thesis.
Thus for now it should be clear that internationalization phenomenon can be explained and discussed from different perspectives. We have not covered all perspectives according to SMEs internationalization, but it is possible to come to conclusion and state that, ethics generally and business ethics especially, have linkage with internationalization. In the following section we will discuss in more detail on how these two areas of knowledge are connected to each other. In the remaining sections of this Chapter we will review literatures about business ethics, ethics, different ethical theories, ethical dilemmas, and MNEs vs. SMEs. In the following section we will discuss in more detail on how knowledge and especially knowledge about the cultures is the key to link internationalization and business ethics to one another.

2.4. Knowledge, Culture and Ethic

The most common aspects of abovementioned perspectives of internationalizations of SMEs are the role of knowledge and learning. Considering for example the Uppsala model of internationalization, knowledge and especially experiential knowledge has very important role on learning about foreign markets and advance the firm’s operation abroad (Johanson & Vahlne, 1977). They distinguished between two types of knowledge, general knowledge and market specific knowledge (Johanson & Vahlne, 1977, p. 28). Moreover, they defined that market specific knowledge as the knowledge about characteristic of special market for example its culture, business habits, and etc (Johanson & Vahlne, 1977, p. 28). This kind of knowledge is also emphasized in other perspectives. For instance as stated earlier, in network perspective, firms gain knowledge about the other market within their network, they share knowledge with network and in this way obtain their essential knowledge. Same argument is true from resource-based view perspective, as mentioned earlier both influential authors in RVB, Barney and Wernerfelt (Peng, 2001, p. 809), implied that knowledge is a kind of intangible resource for firms. When firms are internationalized, this knowledge consists of knowledge about the culture of host countries as well.

Moreover as we stated in Chapter One, based on Ho (2003) arguments, internationalizations despite the globalizations highlights the fact that there are differences among nations’ culture and values. Ho (2003), Acs and Preston (1997) and Crane and Matten (2010) argued that, in spite of the fact that globalization and internationalization are often used interchangeably; they are different and imply two different meanings. Ho (2003, p. 52) continued that, globalization encourages free borders and may cause same value be expanded around the world, internationalization implies on different nations borders and nations’ culture and values. Therefore culture, values, and intercultural relationships obtained the attentions of scholars and many researchers have studies regarding to the role of culture in international business and internationalization.

On one hand: one dimension of the knowledge that firms need through their internationalization is the knowledge about the culture and cultural values. On the other hand one of the elements of the culture is ethics (Finken, 2007, p. 791; Scholtens & Dam, 2007, p. 273). Ethics, as it defined by many scholars, is branch of philosophy that studies the meaning of values, morality and moral judgments (De George, 1986; Chryssides & Kaler, 1996; Finken, 2007; Crane & Matten, 2010; Freeman et al, 2010). Thus there are ethical points in international business, which have confirmed by some researches. For example, Watson and Weaver (2003) studied how internationalization has influences on corporate ethics, or Asgary and Mitschow (2002) tried to present a model for international business ethics for multinational corporations (MNCs), and Scholtens and Dam (2007) studied multinational
enterprises and their different ethical policies regarding to different countries and different cultures.

Then based on the relationship between internationalization and culture from one side, and relationship between culture and ethics from the other side, this study investigates business ethics in international context. In continue we will review and discuss literatures about ethics and business ethics.

2.5. Business Ethics

2.5.1 Business Ethics: Overview

De George (1987, p. 201) stated the business ethics as an academic field of study is young and was recognized on 1970s and early 1980s (De George, 1987, p. 202; Stark, 1993, p. 39; Bos, 2007, p. 119). In addition it is even that young, as mentioned by Zhenzhong (2009, p. 245), that does not have a history. However, in our literatures review we realized that there are so many researches, studies and efforts that studied the business ethics from so diverse and different perspectives. As a result it was really hard to categorize the researches in this field and classify the literatures containing the ‘business ethics’ on their keyword list. Considering the time limitation that we had and also the purpose of this thesis, we recognized that it is possible to categorize business ethics literatures into three groups. As a result the following grouping can be suggested.

The first group of literatures is journal papers, text books, researches, and studies that tried to define the business ethics field, answer the questions of why there is a need for such field, specifying the building blocks of business ethics as an academic field in form of providing different theories, and clarifying its borders, limits and purposes. This first group constitutes the majority of scholarly works in business ethics.

The second group of literatures is journal papers and researches that their main focuses are on teaching the business ethics in business schools and how to teach and train business ethics. Different levels of attentions were given to the topic of training and teaching the business ethics in different periods of time, depend on events like scandals in business and the status of economic growth (Brenkert, 2010, p. 704; Cuilla, 2011, p. 340).

The third group of literatures contains those researches and studies that have tried to classify, and review other literatures in the field of business ethics. The studies of De George (1987), Zhenzhong (2009), and Calabretta, Durisin, Ogliengo (2011) can be mentioned. It can be stated that the third group has emerged recently after almost 40 years from emerging field of business ethics.

As one the purposes of this study is to explore the ethical dilemmas of international SMEs, first we need to clearly define what we mean by ethical dilemma. It is discussed later (see section 2.5.3 and Figure 2.3) that, ethics is about to study the morality and morality is concerned with values, norm and believes embedded in societies. Therefore, as also stated by Scholtens and Dam (2007, p. 274), business ethics is part of the culture that takes place in context of societies and cultural environments and are governed by complex set of values, laws, regulations, norms, and policies (Scholtens & Dam, 2007, p. 273). Then as international SMEs are facing with different cultures during their international activities, they may face different values and at the times that they can justify their behaviors based on different values and ethical theories; they are faced with condition and situation that we called ethical
dilemma. In this thesis, ethical dilemmas are defined as situations in which, individuals can justify their behaviors, or situations by help of two or more ethical theories. Thus we also do not need to become familiar with all but main ethical theories that exist and understand them. It is essential because we would like to know, after finding out about ethical dilemmas of international SMEs, how international SMEs are trying to handle ethical dilemmas.

Therefore to fulfill the purpose of this thesis, we try to first understand the field of business ethics and to become familiar with its most influential ethical. Thus our literatures review covers the first group of above classification.

2.5.2 Business Ethics: Definition
Involving ethics in business is not a new subject but the field of business ethics is almost new in contrast (De George, 1987, p. 201). Some examples of history and religions might be helpful and show that ethics has been involved in business from long time ago. For example consider the Code of Hammurabi, created nearly 4,000 years ago, indicating the rulers of Mesopotamian attempts to create honest prices. In addition in the fourth century BCE, Aristotle discussed the vices and virtues of tradesmen and merchants. Moreover in the Old Testament and the Jewish Talmud and also New Testament and the Koran, there are discussions about various subjects, for instance, the proper way to conduct business, fraud, competition and free entry, environmental issues, and as the relation of business to poverty and wealth (Schwartz, 2007, p. 217). However the field of business ethics is almost young academic field started to be consider as an academic field in 1970s and early 1980s (De George, 1987, p. 202; Stark, 1993, p. 39; Bos, 2007, p. 119).

It may seem problematic to define the business ethics; because as implied by Stark (1993) and stated by Duska (2000), many people may perceive it as an oxymoron (meaning combination of two words that seem to mean the opposite of each other). There are different definitions provided by scholars (Schwartz, 2007, p. 217).

De George (1987, p. 204) defined the field of business ethics broadly as the interaction between ethics and business. In another definition Velasquez (2006 cited in Schwartz, 2007, p. 217) defined the business ethics field as a specialized study of moral right and wrong. Crane and Matten (2010, p. 5) stated that business ethics is the study of business situations, activities, and decisions where issues of right and wrong are addressed. Finally Bos (2007, p. 119) mentioned that business ethics studies the moral and immoral actions of individuals in business organizations as well the businesses and the morality of economic system of society. We used the definition of business ethics provided by Crane and Matten (2010). In this definition they included business activities and situations, and we believe that this definition is in line with the purpose of this thesis, as we are also studying international SMEs and their activities regarding to ethics in international context. Then business ethics as we defined it in this thesis is the study of business situations, activities, and decisions where the issues of right and wrong are addressed.

2.5.3 Business Ethics: Ethics and Ethical Theories
Among the studies and researches that belong to the first group (see section 2.5.1), the most followed approach for studying the field of business ethics is dividing the study of business ethics into two categories: (1) normative, means prescriptive, study of business ethics and (2) empirical means, explanatory and/or descriptive, study of business ethics. This classification of study the business ethics has been supported by the works of many well-known scholars in
this field such as De George, 1987; Tsalkis & Fritzsche, 1989; Stark, 1993; Donaldson & Dunfee, 1994; Trevino & Weaver, 1994; Dunfee & Donaldson, 1995; Hasnas, 1998; Spence & Painter-Morland, 2010; Burgi, 2010; Crane & Matten, 2010.

The empirical study of business ethics has been occupied with mostly the efforts of social scientists and scholars from business schools. The core of this kind of research is to describe the behavior of practitioner in real life and explore their decision-making and moral judgment processes and explain the reason for their actions based on the ethical theories (Tsalkis & Fritzsche, 1989; Stark, 1993; Donaldson & Dunfee, 1994). These ethical theories consist of the normative part of business ethics studies. It should now be cleared that, this thesis is an empirical study of business ethics, and provides qualitative data for normative study to develop normative ethical theories.

The normative study of business ethics means to study the philosophical background of morality and ethics and come up with ethical theories that will help practitioners on what they ought to do in a given condition and situation (De George, 1987; Tsalkis & Fritzsche, 1989; Dunfee & Donaldson, 1995; Crane & Matten, 2010). By reviewing the normative part of business ethics, it was possible to divide theories according to business ethics into two main groups. The first group is pure normative theories, and the second one is integrated-normative theories. This suggested kind of labeling is only a tool to prevent confusion. These two groups of theories are explained and discussed respectively. As mentioned before one of the aims of this research is to provide qualitative data to develop normative theories for international SMEs. It is in the case that it would not be possible to prescribe ethical solutions for international SMEs’ ethical dilemmas based on the current normative theories in business ethics.

2.5.4 Business Ethics: Pure Normative Theories

Business ethics is branch of applied ethics and ethics is branch of philosophy that deals with morality and consists of dealing with wide ranges of topics, for instance the nature of values, nature of judgment and how moral judgments are made (Finken, 2007, p. 791). Morality is concerned with norms and values and beliefs which define right and wrong and is embedded in social process and acts in both individual and community level (Crane & Matten, 2010, p. 8). Therefore the morality comes before ethics and ethics comes before business ethics.

Figure 2.3 shows the relationship among morality, ethics and ethical theories that constitute the normative parts of business ethics as an academic field of study.

**Ethics**

Oxford Dictionary of English defined the Ethics (2010) as: “Moral principles that govern a person’s behaviour or the conducting of an activity”. In another definition in The Oxford Dictionary of Philosophy the ethics was defined in more advanced way as: “The study of the concepts involved in practical reasoning: good, right, duty, obligation, virtue, freedom,
rationality, choice. Also the second-order study of the objectivity, subjectivity, relativism, or skepticism that may attend claims made in these terms” (Ethics, 2008).

Although dictionaries provided definitions for ethics, one of the major efforts of ethicists was providing the definitions for ethics. Thus the word of ethics has numbers of definitions and meanings (Tsalkis & Fritzsche, 1989, p. 696). Runes (1964, pp. 98-100 cited in Tsalkis & Fritzsche, 1989, p. 697) stated that ethical behavior refers to 'just' or 'right' standards of behavior between parties in a situation. Similarly Barry (1979) defined ethics as the study of what constitutes good and bad human conduct, including related actions and values (Barry, 1979, cited in Tsalkis & Fritzsche, 1989, p. 697).

According to De George (1986, p. 15) ethics is branch of philosophy with the object of study the morality. He continued with the explanations that generally ethics can be defined as a systematic attempt, through the use of reason, to justify our individual and social moral experiences. This justification is done in such a way to determine the rules that ought to govern our behaviour and values worth pursuing in life (De George, 1986, p. 15). And in another most recently definition Crane and Matten defined ethics as a subject that is concerns with the study of morality and apply specific rules and principles through reasoning to determine right and wrong for a given situation (Crane & Matten, 2010, p. 8).

These rules, principles, values, and moral principles that were abovementioned are called ethical theories (Derry & Green, 1989; Finken, 2007). In other words human beings justify their actions, decisions and behaviors through reasoning on basis of one or more chosen ethical theories in a given moral situation or experience.

By reviewing the above mentioned definitions, we define ethics as the study of morality, values, and norms for the purpose of this thesis. In following we reviewed main ethical theories.

**Ethical theories**

Similar to the situation of defining ethics, there are many numbers of different approaches to ethical theories among business ethicists.

De George (1986, p. 42) divided ethical theories into three groups. The first group is theories that have teleological approach. These theories argue on the basis of consequences. It means that to specify whether or not an action is right depends on the consequences of that action. De George stated that utilitarianism is a common form of teleological approach (De George, 1986, p. 42). He continued that common practice of calculating what we want and making balance among our wishes in the base of utilitarian approach to ethics. As De George defined, the utilitarianism is an ethical theory that holds that an action is right if it produces, or tends to produce, the greatest amount of good for the greatest numbers of people affected by the action (De George, 1986, p. 44). Thus according to utilitarianism one should evaluate an action by looking at its consequences, weighing its good and bad effects and then compare them with each other. If the good consequences outweigh bad consequences, it is good action and ethically acceptable; otherwise it is bad action and ethically not acceptable (De George, 1986, p. 45).

De George (1986) continued with the second group of theories which has deontological approach. They are duty based and for them an action is right if it has certain characteristics. The deontological approach to ethics does not accept utilitarian claims that the morality of an action depends on its consequences. In this point of view an action is morally right or wrong
independent of its consequences. The argument here is that from where people would know if an action has right or wrong features? De George stated that traditionally the religions and holly books told us which action is right or wrong and human beings obeying these rules to act morally (1986, p. 64). However in our modern life the ethics of duty by Kant obtained more attentions (De George, 1986, p. 67). Based on what Kant stated, no one can force us to act morally and we act morally because we choose to be moral as we choose to be rational. Then according to this view we act morally when we knowingly choose to act in the way reason demands (De George, 1986, p. 67).

And finally De George stated that the third group of ethical theories is ones with the approach that sometimes called ethical pluralist (De George, 1986, p. 42). It means to combine the both abovementioned approach and cover the negative points of one approach with the other approach. For example it is argued that utilitarianism cannot provide satisfactory account of justice, and then some philosophers added a deontological notion of justice to their utilitarian approach (De George, 1986, p. 42).

Similar to De George (1986) in another classification Tsalianis and Fritzsche (1989, p. 696) divided ethical theories into three groups. The first group is consequential theories that deal exclusively with the consequences of an action, and judge an action based on its consequences. Tsalianis and Fritzsche (1989) defined the second group as single-rule non-consequential theories that deal with a single rule and the right or wrong of an action is independent from the result and finally the third group that is multiple-rule non-consequential that deal with multiple rules. As also stated by Tsalianis and Fritzsche (1989, p. 696) the first group or consequential theories are similar to theories that called teleological by De George and others (Tsalianis and Fritzsche, 1989, p. 696). Moreover they mentioned that some philosophers call the second group deontological the group three is a hybrid of both teleological and deontological theories (Tsalianis and Fritzsche, 1989, p. 670).

Almost the same kind of grouping and classification was followed by others like for example Derry and Green (1989, p. 522-523) divided the approaches to ethical theory into consequentialist (or teleological) and non-consequentialist (deontological) views. But in rather different kind of classification Chryssides and Kaler (1996) divided the approaches to ethical theory into five categories.

Chryssides and Kaler (1996) categorized ethical theories into five groups. The first group, group (1), of theories has subjectivism point of view. Chryssides and Kaler, (1996, p. 25) named three different ethical theories that can be listed under the class of subjectivism. The first theory in this group was called self-realization and in that he stated that “moral judgments are up to the individual” (Chryssides & Kaler, 1996, p. 25). According to Chryssides and Kaler, the exponents of such theory included F.H.Bradley, who mentioned that there is some kind of “ideal self” that each person should try to aspire (Chryssides & Kaler, 1996, p. 25). The second approach under group (1) of theories has the existentialist view to the ethics, which prescribes that the main point matter of ethics is not what you decide but rather is that you decide. Simply it means not follow the crowd of people and what societies see as ethical or unethical but, decide personally. They continue and put a theory called emotivism in this (1) category as well (Chryssides & Kaler, 1996, p. 25). It entails that ethical expressions are nothing more than sophisticated ways of cheering about types of action. Ayer (n.d. cited in Chryssides & Kaler, 1996, p. 25-26) presented this theory and argued that ethical statements are rather different from scientific statements. In his point of view opposite of scientific statements that can be verified after claimed, ethical statements are
not verifiable and are similar to chant a football team by its supporter (Ayer, n.d. cited in Chryssides & Kaler, 1996, p. 25).

The group (2) of Chryssides and Kaler classification was called cultural relativism and implies that what is right or wrong is relative to the circles in which one moves. As mentioned by Chryssides and Kaler (1996, p. 26) ‘everyone does it!’ could be the motto of this approach. According to this approach to ethical theory, the ethical standards never get improved or worse, they just changed (Chryssides & Kaler, 1996, p. 26-27). Based on cultural relativists, moral truth can be different by time and also by place as well. For example sex discrimination is unethical in twenty first century in Europe, but not forty years ago and maybe even not now in some countries around the world. Relativism acknowledges that the environment around us, which varies from one time and place to another time and place, shapes our beliefs. Moreover this approach is a reaction against the dominant aspect of any culture that claims to have a monopoly of truth. And finally in the area of ethics, cultural relativism conveys the fact that there are important moral differences among cultures. It has an important implication especially in case of our research. It supports the claim that international SMEs would face ethical dilemmas during their international activities, because they are acting in different countries with different cultures. Then as a result they would face with conditions that morality and then ethics are different between those cultures and their home culture.

The third (3) group of Chryssides and Kaler (1996) classification is called non-consequentialism. Chryssides and Kaler divided the non-consequential approaches toward ethics into two sub-classes. The first one is ethical theories based on religious morality (Chryssides & Kaler, 1996, p. 28). It means that actions are ethical if they match with God wills that is stated through holly book. In these kinds of ethical theories, decision about whether or not and action is ethical is up to the rules, laws, and principals of given a religion (Chryssides & Kaler, 1996, p. 29). The second sub-class in this group (3) of ethical theories is based on philosophy of Kant’s duty-based ethical theory (Chryssides & Kaler, 1996, p. 30). As explained before, Kant believed that the essence of morality was to be found in reason. Based on Kant’s view, it is by a process of rational deduction, as distinct from religious faith, that one could discover the basis of right and wrong (Chryssides & Kaler, 1996, p. 30). In Kant’s perspective the moral laws should to be obeyed because it is the right thing to do, not because of it would have good or right consequences for others.

According to Chryssides & Kaler the fourth (4) group, is consequentialism. For them also the best-known theory among consequentialist theories is utilitarianism, which is first introduced by Jeremy Benetham and then developed further by John Stuart Mill (Chryssides & Kaler, 1996, p. 34).

Finally the last group (5) is natural law, an ethic of rights. This approach involved theories that emphasized the rights of human than their duties. It entails that human have rights that are inherent in nature. Then we need to know and recognize these human rights. Some theories related these rights to religious documents, while for others it can be found in other documents and declarations, for example the Universal Declaration of Human Rights (1984 cited in Chryssides & Kaler, 1996, p. 39). Among theories in this category the most famous one is natural law theory, which was presented mostly by philosopher John Locke (Chryssides & Kaler, 1996, p. 39). In the following table (table 2.2) we summarized Chryssides & Kaler (1996) classification of approaches toward ethical theories.
Table 2.2 Summary of Chryssides & Kaler (1996). Approaches to ethical theories

<table>
<thead>
<tr>
<th>Group 1 Subjectivism</th>
<th>Group 2 Cultural relativism</th>
<th>Group 3 Non-consequentialism</th>
<th>Group 4 Consequentialism</th>
<th>Group 5 Natural law</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Self-realization:</strong> Judgments are up to the individual. The exponents of such theory mentioned that there is some kind of “ideal self” that each person should try to aspire.</td>
<td><strong>Religious morality:</strong> In these kinds of ethical theories, decision about whether or not and action is ethical is up to the rules, laws, and principals of given a religion.</td>
<td><strong>Utilitarianism:</strong> Holds that an action is right if it produces, or tends to produce, the greatest amount of good for the greatest numbers of people affected by the action.</td>
<td><strong>Kant’s duty-based ethical theory:</strong> The essence of morality was to be found in reason. It is by a process of rational deduction, as distinct from religious faith, that one could discover the basis of right and wrong.</td>
<td><strong>Natural law theory:</strong> Theories that emphasized the rights of human than their duties. It entails that human have rights that are inherent in nature.</td>
</tr>
<tr>
<td><strong>Existentialist:</strong> Prescribes that the main point matter of ethics is not what you decide but rather is that you decide. It means not follow the crowd of people, decide yourself.</td>
<td><strong>Emotivism:</strong> It entails that ethical expressions are nothing more than sophisticated ways of cheering about types of action.</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

In more recent efforts, Schwartz (2007) mentioned that dividing approaches of ethical theories in two consequentialist and non-consequentialist are most dominant grouping among literatures in business ethics and has followed by many scholars (Schwartz, 2007, p. 217). However, according to Crane and Matten (2010) it is possible to classify ethical theories in more comprehensive style (Crane & Matten, 2010, p. 90-91).

Crane and Matten (2010) divided the ethical theories into two main groups, called (1) traditional ethical theories and (2) contemporary ethical theories. For group (1), means traditional ethical theories, they also followed the dominant classification approach and divided these traditional theories under the titles of consequentialist and non-consequentialist (Crane & Matten, 2010, p. 91). Similar to others, they named utilitarianism as the famous ethical non-consequentialist theory. Moreover they list another ethical theory called egoism, which Adam Smith was the main contributor of it. Egoism is one the oldest philosophical ideas according to Crane and Matten (Crane & Matten, 2010, p. 93). In this theory, an action is morally right if decision maker freely decides in order to follow their short-term or long-term interests (Crane & Matten, 2010, p. 93).
For non-consequentialist theories, Crane and Matten put the ethics of duties from Kant as well as ethics of rights and justice, that was listed in the fifth (see group 5, table 2.2) category of Chryssides and Kaler (1996) classification. In the following table (table 2.3) the style in which Crane and Matten, classified the ethical theories is illustrated.

<table>
<thead>
<tr>
<th></th>
<th>Egoism</th>
<th>Utilitarianism</th>
<th>Ethics of Duties</th>
<th>Rights and Justice</th>
</tr>
</thead>
<tbody>
<tr>
<td>Type</td>
<td>Consequentialist</td>
<td>Consequentialist</td>
<td>Non-Consequentialist</td>
<td>Non-Consequentialist</td>
</tr>
<tr>
<td>Focus</td>
<td>Individual desires</td>
<td>Collective welfare</td>
<td>Duties</td>
<td>Rights</td>
</tr>
<tr>
<td>Rules</td>
<td>Maximization of desire</td>
<td>Act utilitarianism</td>
<td>Categorical imperative</td>
<td>Respect for human beings</td>
</tr>
</tbody>
</table>

Table 2.3 Major traditional normative ethical theories in business ethics. (Crane and Matten, 2010, p. 91)

Crane and Matten (2010, p. 110) continued with contemporary ethical theories and defined them as theories that have either been developed or brought to prominence in the business ethics field over the past decade or so. They listed four ethical theories under the title of contemporary ethical theories: virtue ethics, feminist ethics, discourse ethics and finally postmodern ethics (Crane & Matten, 2010, p. 110). However as discussed below, we recognized that these four theories can be place under Integrated-normative Theories that we will discuss below.

2.5.5 Business Ethics: Integrated-normative Theories

As stated earlier, business ethics studies is divided into two sections, empirical studies and normative studies. The ethical theories that have been discussed so far constitute the normative studies of business ethics. By reviewing the abovementioned ethical theories, it can be stated that, they provide us with rules and principles about what is an ethical in any given condition. But the weak points for almost all of these ethical theories is that, they cannot provide business practitioners with enough practical rules and principles on how to deal with ethical dilemmas and handle them. For example, consider a situation in which two businessmen are confronting with an ethical dilemma and they have different perspectives about ethics (say egoism and Kant’s duty based). In this case, they cannot reach to an intermediary result that could be satisfactory for both sides.

This weakness point was considered by some researchers, though. For example, Dunfee and Donaldson (1995, p. 174), Hasnas (1998, p. 19), and Crane and Matten (2010, p. 109) also talked about the lack of a type of practical ethical theories that can be applied by businessmen practitioners in their ordinary day to day life. Considering these problems, some theories emerged that they have tried to cover this weakness of pure normative theories and provide
the practitioners with practical theories that can respond to their needs in confronting with ethical dilemmas in their ordinary day-to-day business practice. The integrated-normative theories of business ethics are those theories that try to integrate the empirical and normative parts of business ethics. To fulfill this aim they need to present practical solutions for handling ethical dilemmas and at the same time remain normative in their natures. It means these theories should talk about “ought to” as normative studies do, not about “is” as it is the area of empirical studies in business ethics (Donaldson & Dunfee, 1994, p. 252). But to be able to develop an integrated ethical theory, ethicists should know “is”, which it means should have empirical data about that particular situation. However, it does not mean to develop “ought to” base on “is” (Donaldson & Dunfee, 1994, p. 251; Hasnas, 1998, p. 20).

By this discussion, it should be clear that in this thesis, our aim is to provide empirical data, which would be used by business ethicists to develop an integrated normative theory for international SMEs. We will provide this by highlighting the ethical dilemmas that international SMEs face during their international activities.

In following paragraphs we will present six different theories that we believe could be classified under the label of integrated-normative theories. The first four of these theories are those that were classified by Crane and Matten (2010) as contemporary ethical theories. By reviewing the theories we realized we can place them under the sub-title of ‘Integrated-normative theories’. The other two theories are those that obtained considerable attentions from academic world, though in our perspective they are too unrealistic (i.e. Stakeholder Theory) or too difficult to understand and follow (i.e. Integrate Social Contract Theory). We started by four theories that Crane and Matten (2010) classified them as contemporary ethical theories. They are virtue ethics, feminist ethics, discourse ethics and finally postmodern ethics.

**Virtue ethics**

Virtue ethics puts value on the character of decision maker. In its points of view actions are morally correct if they are undertaken by actors with virtuous character and then formation of virtuous character is the first step towards morally correct action and behaviour (Crane & Matten, 2010, p. 110). From virtue ethics, virtue are sets of acquired traits that enable person to lead to a good life and in business obtained by being in relationship with others in a community of practice (Crane & Matten, 2010, p. 110). Good life is central notion in ethics of virtue and in business good life means far more than being a profitable company and brings money to a company (Crane & Matten, 2010, p. 110-111).

**Feminist ethics**

Feminist ethics approach to ethical theory start from the assumption that men and women have fairly different styles related to organize social life, with the impacts on the way ethics are perceived and ethical problems are handled (Crane & Matten, 2010, p. 111). In feminist ethics individual are deeply embedded in a network of interpersonal relations and then responsibility of members of this network and maintenance of connections, are rather important than obeying abstract principal of ethical theories. Thus as defined by Crane and Matten (2010, p. 112) feminist ethics is an approach that prioritizes empathy, harmonious and healthy social relationships, care for one another, and avoidance of harm above abstract principles (Crane & Matten, 2010, p. 112).
Discourse ethics

Discourse ethics is more a recipe for solving practical conflicts than a normative ethical theory. It is defined as it aims to solve ethical conflicts by providing a process of norm generation through rational reflection on the real life experience of all relevant participants (Crane & Matten, 2010, p. 114). Simply it implies that the only condition for discourse ethics to work is the assumption that all rational human beings share the experience, and that norm of peaceful resolution of conflict is the best way to organize social interaction. Steinmann and Lohr (1994, cited in Crane & Matten, 2010, p. 114) argued, as the main proponents of discourse ethics, that ethical reflection has to start from real life experiences rather than belief systems. They, Steinmann and Lohr (1994 cited in Crane & Matten, 2010, p. 114), stated that the ultimate goal of ethics and ethical issues in business ethics should be the peaceful settlement of conflicts.

Postmodern ethics

Finally Crane and Matten discussed about postmodern ethics (2010, p. 115). The postmodern school of thought fundamentally questions the link between rationality and morality that is inherent in all traditional ethical theories (Crane & Matten, 2010, p. 115). For instance in Kant’s ethics of duty as mentioned before, he presumed that, human beings are acting rationally, and stated that it is by a process of rational deduction, that one could discover the basis of right and wrong (Chryssides & Kaler, 1996, p. 30). Thus Crane and Matten defined the postmodern ethics as an approach that located morality beyond the sphere of rationality in an emotional moral impulse towards others. It encourages people to act based on their inner convictions, and ‘gut feelings’ about what they think is right and wrong in particular situation (Crane & Matten, 2010, p. 115). Then it is about to state that, postmodernism tends to suggest that universal ethical code will never be found. Moreover, the postmodernism approach to ethics does not provide us with any kind of ethical principles, and theories, not even a recipe for ethical decision making, like discourse ethics (Crane & Matten, 2010, p. 115).

Integrated social contract theory

Integrated social contract theory was introduced and coined by two business ethicists at the Wharton School of the University of Pennsylvania Tom Donaldson and Tom Dunfee (Wempe, 2007, p. 1141). Donaldson and Dunfee argued that, the two parts of business ethics studies (normative studies and empirical studies) needed to be integrated (Donaldson & Dunfee, 1994, p. 253). They presented a normative theory called integrated social contract theory, to advance the interconnection between two sections of business ethics studies (Donaldson & Dunfee, 1994, p. 254). They stated that, in business ethics it is not possible to develop an ethical theory (ought to principle) by conducting empirical study (study what it is), and then they argued that they tried to put “ought to” and “is” in hormone in their theory.

At the core of ISCT is the idea that all participants involved in the social contract (the contractors) voluntarily consent to whatever the terms of the contract are. ISCT states that the contractors as motivated by a variety of different preferences, but in which most are simply somewhere in between and do not know to which economic community they will belong or their personal wealth. But they have settled understandings of deep moral values, which are used as ingredients for the moral norms the contract will sanction (Donaldson & Dunfee, 1994, p. 255-256; Wempe, 2007, p. 1141).

According to ISCT contractors have bounded moral rationality and then are able to be freely choosing the situation (Donaldson & Dunfee, 1994, p. 257). The ISCT argues that contractors
will agree on a procedural model, consists of four steps (Donaldson & Dunfee, 1994, p. 262-270) that will help specify some universal principles, called hypernorms, which may be presumed to be valid in all places and circumstances (Wempe, 2007, p. 1142). The core idea of the integrated social contract theory is that any conflicts among local norms (means ethical principles in here) can be reconciled by these universal principles. In the case that more empirical evidence is gathered, these presumed hypernorms acquire a stronger status and supposedly more moral authority (Donaldson & Dunfee, 1994, p. 271-273; Wempe, 2007, p. 1142).

**Stakeholder theory**

From one point of view it is possible to state that business ethics are studied in three different levels: the level of individuals, the level of organizations, and the level of society (Bos, 2007, p. 119). Most traditional ethical theories can be considered as to be in the first group as their main roles are to prescribe individuals how to make decisions and behave. Stakeholder theory can be considered as a business ethics theory that belongs to the third group and in the level of society.

Fundamentally, the stakeholder theory is about how business can work as its best. It is about value creation and how to manage business effectively (Freeman et al., 2010, p. 9). To put in simple way it says that any businesses has different kind of stakeholders that can also be divided in two groups, the primary stakeholders (customers, shareholders, suppliers etc.) and secondary stakeholders for example government, media, consumer advocates group and etc. (Freeman et al., 2010, p. 24). Freeman et al argued that the stakeholder theory is about fulfilling the needs of both groups not equally but satisfactory (Freeman et al., 2010). Moreover, they also stated “A stakeholder approach to business is about creating as much value as possible for stakeholders, without resorting to trade-offs” (Freeman et al., 2010, p. 28).

The fallacy separation between business and ethic is one of the problems that the stakeholder theory was claimed to solve. The fallacy separation means that, if (x) is about business, then it does not have anything about ethic and vice versa (Freeman et al., 2010, p. 6). But by the arguments from stakeholder theory it is possible to think that ethic is in the core of business (Freeman et al, 2010, p.232).

**Business Ethics: Summary of literatures reviews**

By now we finished our literatures reviews about business ethics, but we have realized that making summary of our grouping, classifications and presenting material regarding to business ethics may be helpful and will help us to develop our conceptual framework.

By reviewing the business ethics literatures we first categorize them into three groups (see section 2.5.1) these groups are:

I. Journal papers, text books, researches, and studies that trying to define the business ethics field, answer the questions of why there is a need for such field, specifying the building blocks of business ethics as an academic field in form of providing different theories, and clarifying its borders, limits and purpose.

II. Journal papers and researches that their main focuses are on teaching the business ethics in business schools and how to teach and train business ethics.
Finally the third group contains those researches and studies which have been trying to classify, and review other literatures in the field of business ethics.

Then we continued and we reviewed mainly those literatures that belong to the first group, because as the purpose of this thesis to we had to familiarize ourselves with business ethics, its building blocks and ethical theories. Then we presented our classifications toward grouping mainly existing ethical theories and tried to present them. Besides the ethical approaches and theories in that were summarized in Tables 2.2 and 2.3; below, we will present our classifications and ethical theories discussed in the previous sections:

**I. Pure Normative Theories**

a. **Teleological/Consequential/Utilitarianism** approaches. These theories argue on the basis of consequences. It means that to specify whether or not an action is right depends on the consequences of that action. They deal exclusively with the consequences of an action, and judge an action based on its consequences.

b. **Deontological/Single-rule non-consequential** approaches. They are duty based and for them an action is right if it has certain characteristics. They deal with rules/a rule, and the right or wrong of an action are independent from the result.

c. **Ethical pluralist/Multiple-rule non-consequential** approach. It means to combine the both abovementioned approach and cover the negative points of one approach with the other approach. The hybrid of both teleological and deontological theories.

**II. Integrated-normative Theories**

a. **Virtue ethics** that puts value on the character of decision maker. In its points of view actions are morally correct if actors with virtuous character undertake them. Formation of virtuous character is the first step towards morally correct action and behaviour.

b. **Feminist ethics** start from the assumption that men and women have fairly different styles related to organize social life, with the impacts on the way ethics are perceived and ethical problems are handled.

c. **Discourse ethics** is more a recipe for solving practical conflicts than a normative ethical theory.

d. **Postmodern ethics** is an approach that located morality beyond the sphere of rationality in an emotional moral impulse towards others. It encourages people to act based on their inner convictions, and gut feelings.

e. At the core of **Integrated social contract theory** is the idea that all participants involved in the social contract (the contractors) voluntarily consent to whatever the terms of the contract are.

f. Fundamentally the **Stakeholder theory** is about how business can work as its best. It is about value creation and how to manage business effectively.
One of the topics of study in business ethics is studying the ethical dilemmas and how managers, individuals, firms, organizations, societies and economic systems are handling the ethical dilemmas. In the following section we will explain ethical dilemmas and will take stand on how ethical dilemma is defined regarding this study.

2.6. Ethical Dilemmas

There are not so many differences among scholars to define ethical dilemmas. In the study by Hendry (1999), it was mentioned that each culture has sets of ethical characteristics and then conflicts among the cultures’ values is defined as ethical dilemma. In another effort Pedigo and Marshall (2004) also mentioned that because of cross-cultural differences, conflicts among values cause ethical dilemmas. In addition Crane and Matten (2010, p. 7) defined ethical dilemmas as situations in which values are in conflict. Moreover in the paper by Gupta et al (2010), ethical dilemmas were defined as situations where clearly selecting moral choice is not easy; considering different ethical theories and perspectives (p. 208).

In addition, to provide definitions for ethical dilemmas, some scholars tried to specify some ethical dilemmas that managers and organizations are dealing with. For example Carroll (2004) stated eight different ethical dilemmas. As named by Carroll, the eight categories of ethical dilemmas that MNEs are facing with are (1) bribery and sensitive payments, (2) employment issues, (3) marketing practices, (4) impact on the economy and development of host countries, (5) effects on the natural environment, (6) cultural impacts of operations, (7) relations with host governments, and (8) relations with home countries (Carroll, 2004, p. 118). In another study, Pedigo and Marshall (2004) found that Australian managers are faced with four ethical dilemmas including bribery, breach of contract, abuse of human rights, and loss of confidentiality. Also, Hendry (1999) named employment practice, workplace behaviour, social and environmental aspects of business as ethical dilemmas when companies are doing business among different cultures (p. 405).

Hendry also went further and divided ethical dilemmas into three groups. As he stated the first kind of ethical dilemmas are “hard” ones, because they are caused by conflict among ethical values of two cultures that lead to opposite conclusions. It means what is wrong in one culture (for example deontological ethics) is right in another culture. The second type of ethical dilemmas are situations in which something that has morally significance attributes in one culture does not have any morality attributes in another culture. Simply it means that what is wrong from one perspective is neither right nor wrong from the other. And the third types of ethical dilemmas are those in which “contingent circumstances lead to different interpretations of what is ethically acceptable, despite agreement on the underlying values” (Hendry, 1999, p. 407).

In this thesis, our definition for ethical dilemmas is close to the definition by Gupta et al (2010), as we defined ethical dilemmas as situations in which, individuals can justify their behaviors by help of two or more ethical theories.

2.7. SMEs vs. MNEs

We stated earlier in Introduction Chapter that most of the time the presumption unit of analyzes in business ethics’ studies is large firm and this is also true regarding the abovementioned studies. But as we will discuss here, there are inherent differences among
SMEs and MNEs, and the abovementioned ethical dilemmas in large firms and MNEs may be different in SMEs context. Therefore in our explorative study in this thesis we tried to find the ethical dilemmas, which SMEs face during their international activities. However we have found that it is useful to have a little discussion about ethical dilemmas and typical ethical dilemmas that MNEs are faced with according to above scholarly works.

Small and Medium sized enterprises are different from large firms and also multinational enterprises. Differences among these two types of firms come from their natures and features, as SMEs do not have resources or access to resources as large and multinational firms do. As a matter of fact differences between large firms and small and medium size firms are beyond the number of employees (Spence & Painter-Morland, 2010, p. 1; Burgi, 2010, p. 147). Wynarczyk et al argued that SMEs and MNEs are different characteristically. These characteristics (which are different between MNEs and SMEs) are uncertainty and vulnerability, active engagement in innovation and in terms of evolution and change (Wynarczyk et al cited in Spence & Painter-Morland, 2010, p. 2). Therefore, studies on large firms or MNEs cannot be applied without any considerations to SMEs. The internationalization studies of SMEs support this idea that: because of the differences among SMEs and MNEs they should be studied separately.

2.8. Conceptual Framework

With our thorough literature reviews, we can develop and present our conceptual framework that guides us conducting our research. As presented below, internationalization is the context in which we studied SMEs. Moreover as discussed earlier, internationalizations highlights the role of nations’ cultures and values. Therefore, international SMEs would face with different cultures during their international activities. Consequently different cultures may prescribe
different ethical theories for single situation, behavior or action, which based on our definition will cause ethical dilemma for international SME.

After exploring and understanding ethical dilemmas, we would like to know how international SMEs handle them. We will discuss and explain in what extent the existing ethical theories will help international SMEs to handle ethical dilemmas. At the end our findings will help ethicists and philosophers of business ethics, to develop more the existing ethical theories or develop new ones that will prescribe international SMEs what they should do and how they need to act on ethical situation in international business. In the next chapter will explain our methodological point of views.
3. Methodology

Applying a methodology section and interpreting the methodological concept from the researcher’s point of view, helps us to create a rule followed by the readers, which also means by doing so the reader can grasp and better feel the way of doing such research.

In order to clearly illustrate the research methodology we applied in this thesis and to describe how we will achieve our research objectives we present our steps in following order. We will start by philosophical background and will state different paradigms. Then we will continue and will discuss about our research approach, method and design and finally we will finish this chapter by explaining our data collection method and how we will analyze our data.

3.1. Philosophical background

Research has been traditionally perceived as the creation of the knowledge that has to be real and objective, and a scientific method helps to create such knowledge for specific purpose (Alvesson, 2009, p. 1). This traditional way of developing knowledge is as well fully suitable for researches in business field. However, from our point of view, doing a research, especially a master thesis, is yet to be concerned with our ability and comprehension level of the real world.

Creswell stated that the research process begins with philosophical assumptions that the researchers make in deciding to undertake a study. They bring their own worldviews, paradigms or sets of beliefs to the research project, and these inform the conduct and writing of the study (Creswell, 2007, p. 15). That means it depends on how we see the world and what we perceive from that world to shape our research study. Our philosophical standpoint is thus necessarily important to be clarified, as Saunders, Lewis and Thornhill mentioned that research philosophy is contained with important assumption that can affect the way in which we see the world, and strengthen the strategies and methods that we adopt for our research (Saunders, Lewis and Thornhill, 2009, p. 108). He further discussed this issue by putting Johnson and Clark’s idea, that one has to be aware of his/her philosophical perspective due to the fact that these perspectives may have influence on understanding of their research action (Saunders et al, 2009, p. 108). We found the concept of research paradigm is useful according to our purpose to introduce our philosophical assumptions regarding this study.

The research paradigm has been defined and argued by some scholars (Guba & Lincoln, 1994; Alvesson & Skoldberg, 2009; Brand, 2009). However the definitions are more or less similar to each other. For example, Guba & Lincoln defined the paradigm as a set of basic believes that deal with first or ultimate principles. It represents a world view that defines, for the paradigm holder, the nature of world, the position of paradigm holder in this world, and the possible relationships among the entities in this world (Guba & Lincoln, 1994, p. 107). To be able to understand a paradigm, Brand argued that one needs to understand a paradigm’s components (Brand, 2009, p. 432). A paradigm consists of three components: ontology, epistemology, and methodology (Guba & Lincoln, 1994, p. 108; Brand, 2009, p. 432). The ontology and epistemology should be discussed and the differences in each way may influence on how we develop our research process and research design (Saunders et al, 2009, p. 109). Morgan and Smircich (1980) suggest that all methods to social science are based on the interrelated sets of assumptions concerning with ontology, human nature, as well as epistemology. They are also the real determinants of good social science (Alvesson &
Before continue to different research paradigm, the notions of ontology and epistemology, need to be defined.

Questions regarding ontology concerned with the nature of social entity or reality (Guba & Lincoln, 1994, p. 108; Bryman, 2012; Saunders et al, 2009). The ontological assumption makes claims about what kinds of social phenomena do or can exist, and how they are related to each other (Blaikie, 2011). An epistemological issue concerns the question of what is regarded as acceptable knowledge (Guba & Lincoln, 1994, p. 108; Bryman, 2012, p. 27), and what are the relationships between the researcher and that being researched (Guba & Lincoln, 1994, p. 108; Creswell, 2007, p. 17). A particularly central issue in epistemology is that whether the social world can and should be studied according to the same principles, procedures (Bryman, 2012, p. 27). Until now, the notions of ontology and epistemology were defined and introduced. Moreover it was mentioned earlier that, each research paradigm has three components of ontology, epistemology and methodology. Below we will introduce different research paradigms and will introduce the two main of them.

In their valuable book chapter Guba and Lincoln (1994, p. 109) introduced positivism, post-positivism, constructivism, and critical theory as four main paradigms. In another study Crane (1999) stated that, the two main paradigms in the field of management are functionalist and interpretive approaches (Crane, 1999, p. 238) and Brand (2009) mentioned that, positivism, post-positivism, interpretivism, constructivism, and critical theory are mainly discussed paradigms in business ethics researches (Brand, 2009, p. 432). Among the abovementioned paradigms, positivism are more acknowledged and employed by scholars in business ethics researches (Collier, 1995; Crane 1999; Band, 2009). However, we think that (social) constructivism, which is often combined with interpretivism (Creswell, 2007, p. 20), is our choice of research paradigm. Below we firstly will explain and define these two paradigms and secondly will show that why (social) constructivism is our choice regarding to this thesis.

Positivism is a position that advocates the application of the methods of the natural science to the study of social reality and beyond (Bryman, 2012, p. 28). The methods of the natural sciences are appropriate for social research, because positivistic view see human behavior is shaped by law-like regularities. In ontological point of view, the positivism sees reality as something that is out there, which means that from positivism point of view the reality exists and is concrete, and systematic (Guba & Lincoln, 1994, p. 109; Crane, 1999, p. 238; Brand, 2009, p. 447). In epistemological point of view, positivism is objective. It means that the reality is reachable and then researchers can find the truth (Guba & Lincoln, 1994, p. 109; Brand, 2009, p. 433). Methodologically, positivism uses experimental approaches and is concerned with hypothesis testing and mainly uses quantitative methods (Guba & Lincoln, 1994, p. 109; Crane, 1999, p. 238).

In contrast interpretivism or (social) constructivism claims that natural science methods are not proper to conduct social research; it should be go through the researcher’s, as well as participants, own view and perspective to understand the social world (Ritchie & Lewis, 2003, p. 23). The roots of interpretivism are in attempts to understand the meaning (Brand, 2009, p. 433). Then ontologically (social) constructivism sees the reality as socially constructed (Crane, 1999, p. 239; Bryman & Bell, 2007, p. 23) and also assumes that all meanings are contextual (Brand, 2009, p. 433). It displays “multiple constructed realities” through the shared investigation of meanings and explanations by researchers and participants (Ritchie & Lewis, 2003, p. 12). In epistemological point of view, (social)
constructivism is subjective which means that findings are created and how we can know is from the inside and in context (Crane, 1999; Brand 2009). Individuals seek for understanding of the world that they live in and subjective meanings are created socially and historically through their experiences. Methodologically in interpretivism point of view the focus is on the meaning and understanding (Crane, 1999, p. 239) and it on the level of individuals (Brand, 2009, p. 433). The goal will be to rely as much as possible on the participant’s perspectives of the phenomena. Once the researchers hold a constructivism view in a research study, as Creswell stated, they will tend to make questions that are more broad, general and open-ended, so that they will clearly interpret from the participants’ point of view by carefully listening to their story. They will also focus on the specific context in which participants have activities in order to understand their historical and cultural experiences (Creswell, 2007, p. 21)

As we stated before our research paradigm and then our philosophical assumption regarding this thesis is (social) constructivism. It means that from ontological point of view, we see the reality as socially created and the meanings are contextual. In according to our thesis it implies that ethical dilemmas might be different for different managers inside international SMEs. Then we believe that to acquire the knowledge (our epistemological perspective), we need to understand the context and on the level of individuals, because we think the history and experience have influences on understanding and then creating the reality. Therefore regarding our study, it means that we need to understand individual managers in the context of international SMEs. Finally we applied qualitative methodology, because we focus on specific context in which participants have activities and we want to understand and explore what lies behind the phenomenon that little is known about (Richardson & Kramer, 2006, p. 497).

3.2. Research approach

Generally, research projects will involve the use of theory. It is up to whether these researches should use deductive approach which is used to implement theory and hypothesis and to test the hypothesis and theory using specific research design; or inductive approach that helps the researcher to develop theory by analyzing gathered data (Saunders et al, 2009, p. 124). As explained in Haig, it is commonly thought that deductive and inductive approaches are the only main types in scientific research. Deductive arguments preserve the information or knowledge contained in their premises, but do not add new knowledge. Inductive arguments, by contrast, are enlarged in that they add new knowledge to existing information and knowledge (Haig, 2005, p. 304). However, inductive arguments are descriptive and risky in character as they only generate the result from several single cases (Alvesson & Skoldberg, 2009, p. 3).

We, however, additionally introduced the abductive approach (Alvesson & Skoldberg, 2009; Haig, 2005; Richardson & Kramer, 2006) to our research project. Abduction is a form of reasoning involved in the generation and evaluation of explanatory hypotheses and theories (Haig, 2005, p. 305). It introduced by American philosopher C.S. Peirce, and is a type of inference which, is focused at studying facts and finding explanation for them (Richardson & Kramer, 2006, p. 499). In abductive approach, a single case is interpreted from a hypothetic overarching pattern, and this interpretation will be strengthened by new cases. Abduction starts from empirical bases, like induction, but does not reject theoretical preconceptions, as
closer to deduction. It analyze the empirical facts combining with studies of the previous theory in the literature, and such analysis doesn’t appear as a mechanical application, rather inspires researchers to explore the deeper understandings.

Thus, although abductive approach does have some characteristics of both deductive and inductive approach, but it is very important to know that it distinguishes from them as it adds new elements and understanding to the context of research. Moreover Richardson & Kramer, mentioned that the abductive approach is the proper method for making sense of unknown situation (Richardson & Kramer, 2006, p. 500). Then we believe that, as the purpose of this study is to explore the unknown situation and making sense of it, the abduction will fit perfectly to this research.

In abduction researchers need to develop framework of thinking before analyzing the results (Richardson & Kramer, 2006, p. 509). Therefore, in our case of research that we aimed to explore the ethical dilemmas that the international SMEs are facing with we have developed our theoretical framework. We have built our theoretical basis on ethical theories, (the normative business ethics studies) which can be seen as a deductive reasoning. Ethical theories here serve as tools to give meaning to experiences and provide references for learning (Gustavsen, 1996 cited in Richardson & Kramer, 2006, p. 509). Accordingly, we will gather empirical data and will analyze them and present our findings, and this followed an inductive approach. We therefore conduct our research process in a way of abduction reasoning.

3.3. Qualitative research method

From our perspectives as business students, we hold a thought that quantitative and qualitative techniques have been widely applied for business researches. Researchers make their choice by making a basic distinction regarding their data collection and data analysis techniques. A quantitative approach, according to Creswell, is in which the researcher primarily use positivistic claims for developing knowledge (i.e. using measurement, testing theory). A qualitative approach, in contrast, is concerned with developing knowledge based on constructivist perspective (i.e. individual experience, generating theory) (Creswell, 2003, p. 18).

According to our previous discussion and chapters that have illustrated our research question and purpose, we simply adopt a qualitative strategy for our thesis. We have stated in our research problem discussion (see p. 5~6), that neither there are much of ethical theories to guide managers of SMEs to behave or act towards ethical dilemmas in international business, nor enough empirical research to explain current phenomena of treating these ethical dilemmas that they might have been facing with. We need not only the information about ethical dilemmas within the context of internationalization of SMEs, but more importantly, we have a strong expectation and interest to explore and deeply understand how these ethical dilemmas are perceived and dealt with from the manager’s perspectives. Creswell stated that we conduct qualitative research when we need a complex and detailed understanding of the issues; when we want to hear the individual’s stories, their voices; and when we want to understand the contexts or settings in which participants address an issue regarding the research study (Creswell, 2007, p. 40).
From the above discussion, it is more than clear that a qualitative method is the best fit for our research study. We believe by this approach, we will be able to gain the access to the manager’s view regarding the ethical dilemmas in SMEs.

3.4. Strategy of inquiry- Case study

After we determined our data collection method which is qualitative, we were able to choose our research strategy. There are different strategies for conducting a qualitative research, i.e. narrative, phenomenology, ethnography, case study and grounded theory, experiment, survey, archival research (Creswell, 2003; Saunders et al, 2009). Saunders et al suggested that no research strategy is inherently better than or inferior to any other; the importance comes from whether a particular strategy can answer your specific research question (what, why and how), and lead you to your research objectives (Saunders et al, 2009, p. 141). Yin made it even clearer by summarizing that “what” questions may either be explorative which means any method could be used, or about prevalence in which surveys or archival research are to be favored; and to answer questions of “why” and “how”, case study or experiments would be more proper, as these questions are more explanatory and deal with operational links needing to be marked out over time (Yin, 2009, p. 9-10).

In our case, we aimed to explore the answer for our claimed research questions: (1) what ethical dilemmas are the international SMEs confronting with, and why? (2) How do international SMEs deal with such ethical dilemmas? These questions require us to carefully and deeply learn the current issue, phenomena or events that exist within the context or specific background. Thus, following what Yin (2009) and Saunders et al (2009) suggested we adopted case study method for our research objective - understanding the ethical dilemmas that SMEs are facing and dealing with during their international activities.

3.5. Designing case study-multiple case study

All designs can lead to successful case studies, however, whenever we have a choice, multiple-case designs maybe preferred to single case study. By giving such advice, Yin in his book explained the advantage of choosing multiple-case study in several ways: the greater chance of doing a better case study than single-case design; single-case designs are relatively vulnerable; and more importantly the analytical benefits from having more cases are substantial (Yin, 2009, p. 60).

Thus, we consider more than one case to be selected for our research as we wanted to acquire broader and more comprehensive knowledge of the perspectives on ethical issues of different SMEs. We would also be able to obtain a more effective, result for our research.

3.6. Data collection method and Sampling technique

3.6.1 Semi-structured interview

For qualitative research, the data gathering source in case study approach includes documentation, archival records, interviews, direct observations, participant-observation, and physical artifacts. Among these types, the interview is one of the most important sources for collecting qualitative data (Yin, 2009). The research interview is an interpersonal situation,
and during an interview, knowledge is created “inter” the points of view of the interviewer and interviewee (Kvale & Brinkmann, 2009, p. 123). The use of interview in case study helps us to obtain valid and reliable data (Saunders et al, 2009). We believe interview as an open-ended conversation has advantage of providing with more insightful and historical information and explanation regarding the consideration of ethical dilemmas among managers in international SMEs.

Mainly, there are two types of qualitative research interview: unstructured interview and semi-structured interview (Bryman, 2012, p. 469). In semi-structured interview, researcher has a list of questions or fairly specific topics to be covered, often referred to as an interview guide (Bryman, 2012, p. 471). As an in-depth interview, semi-structured interview is intended to combine structure with flexibility. This structure is sufficiently flexible to be able to cover the relevant topic, lets the respondents to fully describe and explain the meanings and allows the researcher to use follow-up questions to gain deeper and fuller understanding of the meaning (Ritchie & Lewis, 2003, p. 141).

We therefore select semi-structured interview to be our main interview type. This is due to the fact that the research questions that we developed according to our theoretical framework should allow us to gather the precise knowledge about ethical dilemma in SMEs; and these questions, at the same time, ought to yield an open structure so that the interviewees may have plenty of chance, ability and space to talk about what they really perceive and explain their perspectives; furthermore, there needs to be a possibility for us to conduct a more flexible conversation as we assumed that additional questions might be asked during the interview, so that more correct and thorough understanding of the interviewee’s perspective could be achieved.

3.6.2 The interview guide
In order to produce knowledge through an interview, we need to prepare an interview guide. Interview guide is a script, which structures the course of the interview more or less tightly. For semi-structured interview, the interview guide contains the topics that covered in the research, with well structured and carefully designed questions (Kvale & Brinkmann, 2009, p. 130).

For our specific study, we developed the interview guide based on our conceptual framework that we developed for our research project. We developed our guide into two dimensions – research questions and interview questions. We implemented this way as we pursued what Kvale and Brinkmann suggested, that it may be useful to develop two interview guides, one with thematic research questions and the other with interview questions, because a good interview question should contribute thematically to knowledge production and dynamically to promoting a good interview interaction (Kvale & Brinkmann, 2009, p. 131-132).

As you see in the table below, the research questions are set in order to emphasize the related knowledge and findings that we aimed to capture. On the other side, the interview questions, which are open-ended and conversational, are translated from our research questions, so that we can implement them during our interview to promote a better interaction with the interviewees. Thus, the below set of interview guide took both the thematic and dynamic dimensions into account.
3.6.3 Interviewing procedure

After the finishing of the interview guide, we aimed to make our step into the actual interviewing process. We start with whom we are willing to make in-depth conversations with. Our interview objectives, according to our research topics, are the SMEs who have international business activities. We have, for this purpose, talked with our supervisor and other professors in the management department of USBE in order to get some information about such companies. They had provided us with rich advices regarding finding companies as much as they could.

Next, we sent our request of interviews to each company’s email address published in their websites, attached with brief information of our research. We further contact the CEOs or managers who are in charge of international business segment of these SMEs through telephone. We explained more detailed information to them and asked for appointments. Finally, we were given chance to have interview with six international SMEs.

Thirdly we set up our time schedule for all interviews to one week period. The time schedule was fixed after considering both side’s daily agenda and working progress. Before we started

<table>
<thead>
<tr>
<th>Research questions</th>
<th>Interview questions</th>
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<tbody>
<tr>
<td>What ethical dilemmas are the international SMEs confronting with, and why?</td>
<td>Could you describe your company and your international involvement?</td>
</tr>
<tr>
<td></td>
<td>How is the relation (relationship) between you and your business partner, competitors, suppliers in those countries?</td>
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<tr>
<td></td>
<td>How are cultural, legal, political and other kinds of differences affecting your interaction with your partners?</td>
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<tr>
<td></td>
<td>Have you faced any situations where you are not sure about how to act?</td>
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<td></td>
<td>How have you been concerning about things like morality, ethics or anything related to them that have been expressed during your business? And what are you thinking about such issues on a more general level?</td>
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<tr>
<td></td>
<td>What do you think are the main reason that these dilemmas develop?</td>
</tr>
<tr>
<td>How do international SMEs deal with such ethical dilemmas?</td>
<td>How do you handle those ethical dilemmas?</td>
</tr>
<tr>
<td></td>
<td>Could you describe what these regulations/routines or norms that being used are?</td>
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<tr>
<td></td>
<td>Could you give any example of some very typical (ethical) dilemmas, and how you solve or handle them?</td>
</tr>
<tr>
<td></td>
<td>Do you think a manager nowadays should obtain the knowledge about ethics and relatively possess an ethical behavior?</td>
</tr>
<tr>
<td></td>
<td>Would you suggest your company to more clearly develop guidance for dealing with such ethical dilemma?</td>
</tr>
</tbody>
</table>

Table 3.1 Interview Guide
each interview, at the very beginning, we had told the interviewees about the aim of our research and interview project and as well the information and explanation that we aimed to obtain regarding our research topic.

3.6.4 Sampling in qualitative research
Sampling procedures for qualitative research are not so rigidly prescribed as in quantitative studies (Coyne, 1997, p. 623). However it is still quite important and necessary to adopt a proper sampling strategy for our research. Qualitative research uses non-probability samples for selecting the population for study, and in this sampling units are deliberately selected to reflect particular features of or groups within the targeted population. That means in order to select population for qualitative study it needs to be focused on the characteristics of the population (Ritchie & Lewis, 2003, p. 78).

For our thesis, we have selected multiple-case study as our research inquiry. Using this approach, we were aimed to find out and make understanding about the ethical dilemma situation in international SMEs. We thus needed to carefully choose cases for our research, so that we will be able to capture the proper and essential knowledge and insights regarding such research questions.

3.6.5 Sampling strategy- purposeful sampling
The idea behind qualitative research is to carefully and purposefully choose participants who can provide best understanding about the research problem and research questions (Creswell, 2003, p. 185). Ghauri and Firth also underlined that selecting cases is probably the most important issue in case study research; it is very important to decide the target population for the investigation, i.e. the firms, individuals, or any elements that are representative for the study (Ghauri & Firth, 2009, p. 31).

Purposeful (or criterion based) sampling stresses the idea that the selection of participant should be basing on specific criteria or purpose. In this sampling the units will be chosen while they can represent particular features or characteristics which enable the researcher to explore and understand about the research topic (Ritchie & Lewis, 2003). Thus, these units will be purposefully selected according to researcher’s own knowledge and opinion (David & Sutton, 2011, p. 232).

Simply and accordingly, by applying purposeful sampling strategy it requires us to determine whether the case (the company) that we will be choosing for our study is relevant to our research objects; whether it has the characteristics or features that can help to fulfill the need of achieving the best understanding and knowledge about the research topic. We showed more detail about the cases and its size that we have chosen for this study in the following paragraphs.

3.6.6 Sample size and selection criteria
Qualitative samples are usually small in size. In qualitative research highly intensive resources are required, and it will be impossible to manage data from hundreds of interviews and observations in a short period of time. In general, the samples (interviews) for qualitative research are often controlled in less than 50. However, if the samples are too small they can simply have little diversity to explore the verifying influences of different factors. Small numbers of samples are acceptable only when using good purposive or theoretical sampling technique (Ritchie and Lewis, 2003, p. 83-85).
An appropriate sample size for a qualitative study is one that adequately answers the research question (Marshall, 1996, p. 522). Each sample (case) is to be selected carefully so that the results from these samples (cases) can be similar, or contrasting but significant (Yin, 2009, p. 54). As we have decided to use purposeful sampling, we might not be too much concerned with the small-size samples issue. However, we need to consider other more important fact when we handle the multi-case study, which is to follow a “replication” design rather than a simple “sampling” logic. Yin has given this view mentioning the consideration of multiple cases as multiple experiences. The logic behind “replication” is that a significant finding from a single experiment (case) should be followed or replicated by other similar findings from a second, third and even more experiments (cases), so that the original finding can be more robust. According to that, he further suggested if all the cases are predicted, 6 to 10 cases would be providing very significant support for the initial set of support (Yin, 2009, p. 53-54).

In our case, we are aimed to have insight into the international SMEs regarding their ethical dilemma and handling solutions. Therefore, we have aimed our target to those international small and medium-sized enterprises as our selected cases. We have also decided our sample size (6 firms) and selection criteria according to above mentioned discussion. They are illustrated as below.

3.7 Data analysis
In this section, we come to the core of generalizing concept and knowledge for our research program - data managing and analyzing. As introduced in the previous paragraphs, we conducted a qualitative study using multiple-case study approach with semi-structured interviewing. Interpreting and analyzing qualitative data from a case study is probably the most difficult and time consuming works (Ghauri & Firth, 2009). It is also one of the least developed aspects (Yin, 2009, p. 127).

For analyzing qualitative data, there are several traditional approaches and computer-based tool, i.e. CAQDAS. These analytic tools are very different from statistical technique widely
used in quantitative study. However, as qualitative data are relatively rich and complex, it will be up to the researcher to implement their own style of accurate empirical thinking and, along with the sufficient presentation of evidence and careful consideration of alternative interpretations (Yin, 2009, p. 127).

The above discussion implied that we need not only to build strong theoretical support for our research topic, but also to be more flexible and carefully focused on what we are aimed to conclude as empirical knowledge. We believe that the qualitative data which we gathered through our interview progress will able us to interpret the correct evidence and meanings and to learn the individual’s behavior regarding the ethical dilemma situation in SMEs.

3.7.1 Analytic strategy

It is quite necessary to apply a strategy for data analyzing. It helps to operate the evidence fairly, make sufficient conclusion as well as to use the right analyzing technique (Yin, 2009, p. 130). In our case of research, we followed the theoretical proposition which according to Yin (2009) is the most preferred analytic strategy. It assists us with organizing the entire case study and defining explanations to be examined (2009, p. 130). We, under such strategy, implanted our theoretical framework into the whole process of our data analysis.

We have, in our theoretical chapter, reviewed numerous literatures and critical concepts regarding SMEs and business ethics. Relating to our initial goal of doing this master thesis, we have then developed our conceptual framework to clearly show what we are aiming to find out, that is how international SMEs deal with different ethical dilemmas during their abroad business operating. Therefore, in the next subchapters, we will be thoroughly describing and explaining the analytic technique that we used for our data analysis.

3.7.2 Data analysis technique

Data analysis is a continuous and iterative process. This activity requires two key stages: managing the data and making sense of the evidence through descriptive or explanatory accounts (Richie & Lewis, 2003, p. 219). Creswell (2003) in detail described the process of analyzing qualitative data, that it involves making sense out of text and image data; preparing the data for analysis, conducting different analyses, moving deeper and deeper into understanding the data, representing it, and making interpretation of large meaning of data (2003, p. 190).

According to our data collection method the interview, we needed to transcribe the ‘raw’ data which are the interviews and conversations verbatim. And through the whole analysis process, we were cohesively basing on our conceptual framework and research purpose to develop the analytic results. We therefore implemented Creswell’s (2003) the five generic steps of qualitative data analyzing (2003, p. 191).

Step 1 – organizing and preparing the data for analysis.

Step 2 – reading through all the data.

Step 3 – detailed analysis with a coding process.

Step 4 – using the coding process to generate a description of the setting or people for analysis.
Step 5 – making the interpretation or meaning of the data.

Our practical application of these generic steps is shown below:

1. In the first step, we promptly and carefully transcribed our interviews with the 6 companies just after we finished recording the interview. All the recordings were typed into documents verbatim.

2. Next, we attentively read through all the transcription. The purpose of doing this is to get general sense of the data and extract the overall meaning of the data. We specifically focused on what general ideas the interviewees have provided us regarding ethical dilemma as well as getting general impression of overall depth and becoming largely familiar with the data that we have gotten.

3. In the third step, a coding process was carried out. It is the process in which the materials are categorized into “pieces”, so that later these “pieces” can be given specific meaning (Rossman & Rallis, 1998, p. 171).

Our coding categories according to interview guide and the abovementioned explanation are as below:

- Background of companies
- Perceived ethical dilemmas
- Handling solutions

4. In the fourth step, according to our coding process we will describe and explain companies and their backgrounds, the ethical dilemmas that they faced with, and how they handle these ethical dilemmas during their international business activities. In the next Chapter we will present our empirical data regarding to this coding categories. In order to make the flow of next Chapter more coherent and easier to understand we decided to interconnect “perceived ethical dilemma” and “handling solutions”. It means that we will describe these two categories within each individual company.

5. Finally the fifth step is our interpretation of data, regarding the ethical theories, and then to analyze them and to obtain the meaning out of them. This is our goal in Chapter Five.

In the next Chapter, we will present our gathered data during interviews.
4. Empirical Data

This Chapter is preparation to analyze data for the next chapter and find answers to our research questions. In this Chapter we will describe in detail the way the data was handled and coded regarding to interview guide and conceptual framework. We also will provide an introduction about how the data will be managed and analyzed. The chapter is structured related to the interconnected coding categories that were discussed in Chapter Three.

As it is mentioned before the aim of these interviews are, first to explore what ethical dilemmas international SMEs are faced with during their international activities, and second to understand how they handle them. Therefore, this Chapter will begin with a brief background of the companies who we interviewed and continue with firms’ international involvements and their relationships with their business partners. It follows by perceived ethical dilemmas by firms, and finally finishes by how they handle ethical dilemmas.

4.1. Background of Companies

According to this study some background information of companies is important and need to be gathered. Therefore the firms’ international activities, their relationship with different business partners in international environment and perceived differences and similarities among their relationships with their business partners regarding to culture, politics, laws, etc were considered. It is important to gather this information because according to our conceptual framework and the discussion in Chapter Two, the ethical dilemmas may have roots in differences among values in different cultures, which in turn reflects to different ethical theories that can be applied at the same time to justify a behavior (see section 2.5.1).

In the following Table (Table 4.1) we have summarized some information about our interviewed firms. In the following sections we will present our empirical data for each firm.

<table>
<thead>
<tr>
<th>Company</th>
<th>Industry/ Year of Establishment</th>
<th>Position of Interviewee</th>
</tr>
</thead>
<tbody>
<tr>
<td>Company C1</td>
<td>Agriculture Machinery/1946</td>
<td>Export Sale Manager</td>
</tr>
<tr>
<td>Company C2</td>
<td>Elevators, Communication/1998</td>
<td>Business Unit Manager</td>
</tr>
<tr>
<td>Company C3</td>
<td>Marine Industry/1975</td>
<td>CEO</td>
</tr>
<tr>
<td>Company C4</td>
<td>IT Industry/2007</td>
<td>CEO</td>
</tr>
<tr>
<td>Company C5</td>
<td>Telecommunication/1988</td>
<td>CEO</td>
</tr>
<tr>
<td>Company C6</td>
<td>Aerospace Industry/2001</td>
<td>Project Manager</td>
</tr>
</tbody>
</table>

Table 4.1 Companies Profile

4.1.1 Company C1

C1 is a company which manufactures front loader equipments for agriculture tractors. These front loaders are adds-on equipment that is attached to the tractors to give those more possibilities. The company was founded on 1946 in Umea as a family-owned company.
Currently the headquarter of company is located in Umea with almost diverse international activity.

Regarding the international involvement and activities, the C1 has two production sites, one in Umea, Sweden and one in Tennessee, United States. Moreover, they have production sites for other parts of the front loaders in France and China. The company has eight sales companies in Sweden, Norway, England, Germany, U.S., Canada, Denmark, and France but the C1 international activities are not limited with their sales companies, they also have 43 importers in 23 countries that are independent companies, which import C1 company’s products and sell in their own networks.

The company C1 has different types of relationship with their importers in different countries according to different cultures, laws, political situation, etc. The interviewee mentioned that the relationships:

“They are very different depending on ....em.... I mean there are many factors”

In continue he divided their relationship with their business partners (their importers, and sales companies) into two categories. The first is ones that they have long relationship as he mentioned, and they did not see any kind of differences regarding culture, laws, etc, with these importers:

“If we have long relationship with importer, now, we have our importer in Ireland we’ve worked with them for fifteen years...we have very very good and open relationship because we know each other well and we trust each other and of course they are part of EU and export is very easy...not a lot of paper work and very stable political situation... [...] our culture is, I mean, they are catholic there, we are protestant here, but I mean we’re, I would say in Sweden we are very unreligious anyway so I can’t really say that there is a problem or in any way something we treat them differently”

The second type of relationship is with new importers and they need time to know each other and there are some differences according to culture, laws and other factors:

“Then of course we have other importers that we have not been working with for so long, maybe only half year or year, we don’t really know each other, we’re trying to get to know each other as companies and also of course on the personal level, because when I visit our importer somewhere, of course I would like to have as good of relationship as possible because if you understand each other, then there is lot less room for mistakes and problems and misunderstandings that might have occurred later on”

For their export sales they are very aware of the cultural differences in different countries and also they are concerned about them:

“What is culture of giving gift, maybe, em... let’s say in Korea, they are always want to have something big, and want to have something made of the glass, it is very important for them to receive a gift doesn’t need to be expensive, but they would like to receive a gift, it is very important in their culture and in some countries let’s say, Norway, they’re more or less considered it as a bribe if you give them gift with value of 30 euro and that is important to keep track of that”

In another example he stated that the differences between cultures are more important when they want to enter to new market. This is also in line with his classification:
“[...] I’ve been concern before entering the market, Russia for instance; I mean you read a lot about Russia business culture in the news paper, you hear from other companies, there could be some difficulties”

Company C1 is aware of cultural differences among countries, as in the quote, that our interviewee compared Korea and Norway with each other. Moreover they are faced with more cultural differences in their relationship with their business partners when they want to start a new relationship in a country than with business partners that they have long relationships with them. We will see later in the next section that, they are faced with ethical dilemmas situations when their relationships were about to be established with their new business partners.

4.1.2 Company C2

The company C2 sells and develops systems for secure and reliable communication. They started their business in 1998. They present patent pending technology that can extend internal networks to mobile or geographical distance units while keeps the IT policy of internal networks. They have two basic business segments. One is machine-to-machine communication and the other is emergency communication for elevators specifically.

Their current market is mainly European countries as of now. They have representatives through distributors in Europe and this is how they are working in European markets. They produce their products in Sweden and China. The company in China is also involved in developing and it is not only for the production. These are all international activities they have engaged in so far.

When it comes to their relationships with business partners in European market and production in China the interviewee stated it is difficult to make comparison between these relationships:

“It would be a difficult comparison to make, since from the on end we buy and to the other we sell, so it would be completely different...and I am sure...em... obviously cultural differences are greater between China and Sweden than say Germany and Sweden for instance, absolutely so...[...] and I know that it is different...”

The the interviewee manager in company C2 is aware of the cultural differences, in addition he is aware of differences that might be caused by different cultures. But he added that in this industry he personally has not faced with any differences so far during his experience in this industry:

“Personally I wouldn’t say that differences are so great within Europe. In the industry where I have been working, it’s very [...] very conservative male dominated business, and I think that thing has been in certain way for probably fifty years and I have hard time seeing that it will change much for the next ten, fifteen years, at least. But certainly there are differences on how you regard gift giving for instance or em... I am sure, but I think... I have not experienced it so much as a national differences, as a cultural difference within industry or within in segment that for instance is completely man dominated... and if it’s if you are dealing with smaller companies or bigger companies I think as a bigger you influence...”

Therefore, the company C2 did not see any cultural differences among their business partners in international business. And this has influenced their perceived ethical dilemmas as we will see in the next section. In spite of company C1, the company C2 has faced with different type of ethical dilemmas in their international activities.
4.1.3 Company C3

The company C3 is a niche company in marine industry. The company provides elastic mooring solution for docks/pontoons. Their primary customers are pontoons manufactures, which in turn sell their products to marinas consultants. Therefore, they have one component and they give and sell added value to pontoon makers. The company established around 1975, and about 90 percent of their sales are exports.

According to their international activities, the manager of company C3 stated that, China and South Africa are their new markets, but the main markets are in Europe and they have one subsidiary in U.S. But they were also active in Middle East and they had one partner in Australia for so many years. The company C3 is working with pontoon manufactures in these markets expect U.S. that they have sale office.

The manager of company C3 continued with their international activities and their relationships with their business partners, and stated that, in his point of view their relationships with their business partners are not so different regarding to cultural factors:

“... I mean people are people and are not so diverse... It is international market so, lot of people speak English, obviously we have same internet, television so we have pretty much internalized as human beings I think, but when it comes to payments and these kinds of things and transportations and installations and quality control and...that is different in many countries depending on where it is it important to focus on those things”

We underlined the quality control here, because in this interview we realized that the quality in general has important role in company C3. As the interviewee stated that they have four different reasons in selling their products:

“We have four different reasons when we sell [...] No, no I haven’t come to that yet, they were economical, technical, and environmental. The fourth is quality”

Thus according to his quotes, the company C3 does not see much diverse relationships in international environment, according to cultural differences and it also have influences on how they perceived ethical dilemmas. As we will show in the next section, one of the perceived ethical dilemmas for the company C3 is related to being able to deliver full quality products.

4.1.4 Company C4

The company C4 is an IT company with wide productions in IT industry, from web sites development to audio guides for museums. They invent and develop software and solutions with a human centered approach - to make information, environments and technology available to everyone. The company C4 is based on RFID and speech synthesis technology. The company was founded on 2007.

According to their international involvement, currently they are mainly in markets of Scandinavian countries and they are looking also to maybe go to U.S. and North America. They have subsidiaries in Finland and Norway and one in progress subsidiaries in Denmark. Regarding to international business, our interviewee stated that:

“It is big difference to start a company in Finland to be in the North American with rules to taxes, to the government; it is a lot of different stuffs to do”.
The interviewee stated that the main difference between the relationships among their business partner is about the law:

“I think... the legal stuff it is basically one of the biggest issues, because you need to had the documents really hard... if you sell software product [in U.S.] that says hey this is Y, they want to have the background history ten years back and everything... and if go to Finland in EU, they are like need that documents to last two years that’s a big difference [...]”

However during the interview he mentioned that:

“I think this is really important to us if we gonna do something in another country but we don’t have the culture...em... in Europe we, we... in lot of the countries we understand the cultures how they work, but when go to Africa or Asia or somewhere else we wanna know the ethics, the human rights, the environmental... how we gonna do this, you know so it is really important for us in this company”

He continued that they had one installation in France and also they had a call from Ghana in Africa, but the important things for them was to have one business model in spite the fact that, they are aware of different political situations in, for example in Africa than in Europe. He stated that:

“So that’s gonna be the next step [Ghana], except for the American side, it gonna be probably Africa who showed me the interest of product [...] I think it’s hard for us to, even if it’s not that far away to Africa, it’s kind of we don’t have so much information... they changing a lot of the governments...em... you know, who is ruling the country, the cultural sector [...] they are not going to catch up the Europe right now, they are trying to catch up, so I think we can use probably the same business strategy that we have in Europe, because they are looking [...] I mean Africans, they are really looking how can we...how do we proceed and be successful in Europe, so I think we can use the same business model or I hope that...”

Then for company C4, they are aware of the cultural differences among the countries, and they know that they should be aware of these differences when they want to go to new market or country. Moreover as mentioned by interviewee manager, they prefer that these differences in cultures, law, and politics, would not affect the way on how they do business. They can apply the same business model in all markets despite the differences in cultures. Nevertheless they were faced with ethical dilemma that comes from the differences in values in different cultures.

**4.1.5 Company C5**

The company C5 delivers audio conferencing solution. The company is active in a very narrow part of telecom industry in which they develop, manufacture, and sell their product internationally. The company C5 was founded on 1988.

According to their international involvement they have their own manufacturing that was transferred to China fifteen years ago. They also have their own warehouses in Sweden and United Stated and their local sales offices in Germany, France, U.K., and U.S. Their business model is to sell their products through the distributors and then from them to resellers and end users. Therefore they have selected distributors in each country to cover the market as they desired. In addition regarding their international activity our interviewee manager stated that:
“You can say that we have footprint in North America and partly getting into Asia, South Africa, little bit into Africa, North part of Africa also but... Middle East and then right now we are starting an office in Asia…”

Moreover and besides their sale office in U.S. they also sell their products on another brand name in U.S.

The manager interviewee stated that their relationship among their sales office around the world they are different. He made compression between relationships that they have in U.S. and in Asia:

“They are quite different, and I supposed that it is... most of this based on cultural differences that you have in these countries since...em... the typical things in Asia is of course it takes longer time you have to build the relationship you really need to know each other and build trust between each other and then on the other hand in U.S. [...], specially the big difference for us has been to adopt our presentations depending on where we are”

Company C5, sees differences between different relationships that exists with different regions around the world and they see these differences as cultural differences. As abovementioned quote showed it they needed to have different types of presentations when they wanted to make a new business relationship depending on if they are in Asia or in U.S. However, it does not mean that they were faced with ethical dilemmas in their international activities as it will be shown in the next section.

4.1.6 Company C6

The company C6 is a high-tech company in aerospace industry. They are specialized in the design and manufacture of precision ceramic materials for a wide range of applications from light-weighted, high-quality optical components, both space- and ground-based, to parts for semiconductor manufacturing, high-temperature and high-corrosion-resistant components for furnaces and other extreme environmental conditions, high-abrasion-resistant brake disks. The company was founded on 2000.

Regarding their international involvement they have sold their products in Asia, U.S. and also in Europe. Currently, as the interviewee manager mentioned, they have customers from France, Switzerland, Spain, U.S., Japan, and South Korea. He added that there are differences in relationships with their customers around the world. For example he gave us example about their customers in Europe:

“... because most of European countries have close culture it’s much more easier to understand each other... and handling the...em... if you face with especial issue or problem it’s much more easier to handle it, because they know you very well and you know them very well but for Japan or South Korea, although we have some old customers and they know us as well but could be some difference especially because of the difference of the culture and difference of thinking...”

Moreover our interviewee mentioned that their market in Europe is more competitive than in Asia, and we will see later that it has influences on how they perceived ethical dilemmas. He stated that:

“One of the important things is the competition in Europe. Competition among different agencies; among the different companies [...] we don’t have so competition for example in
Asia, but in Europe we have lots of other companies that have competition with us, then for European projects you have more challenges than Asian…”

The abovementioned quotes showed that the interviewee manager in company C6 is aware of the differences related to culture in international business, but what catches their attention in international business (and is important to them) is the high level of competition.

4.2. Summary of Companies’ Background
As our empirical data showed, different companies have different relationships with their business partners around the world. The interviewee managers of company C2 and C3 stated that, they do not see international relationships with their business partners so different according to cultural differences. But the interviewee managers of companies C1, C4, C5, and C6 mentioned that they have different relationships with their business partners according to cultural differences. As we mentioned before, the background of firms’ relationship in international environment is important to us, because ethical dilemmas may have roots in differences among values in different cultures, which in turn reflect different ethical theories that can be applied at the same time to justify a behavior. We will discuss this more in next Chapter.

4.3. Perceived Ethical Dilemmas and Handling Solutions
The interviewed international SMEs responded differently to our questions about perceived ethical dilemmas. The answers are different and somehow divers. As we define in Chapter Two, there is an ethical dilemma when a situation or an action can be justified differently by two or more than two ethical theories. However why two or more than two ethical theories can justify an action at the same time, is part of our first research question that we will answer in the next Chapter. But for this section, we first will show the ethical dilemmas that our interviewed international SMEs have faced, and in second step we will show how they handle them.

4.3.1 Company C1
When it comes to perceived ethical dilemmas, the interviewee of company C1 mentioned two situations that they have experienced; the first is with starting new relationship with new importer:

“I think in terms of gift giving, I would say that…em…It’s recently we, the colleague of mine and myself we went to Korea in January and it was a meeting with a potentially new importer and we wanted to give them something nice, because it was our first visit but also something had so say... a local connection with Umea and so of course we discussed it and ok… what is the cost level that we can keep as maximum? because we want them to do business with us, because we have a good product, we are a serious company and sometimes I think that if you overdo a gift part, maybe the person on the receiving end will say, well nice gift but why are they doing this, because the product is not good enough or it is because…I mean that’s the way I would interpret that…”

Then for him gift giving per se is not ethical dilemma, but the meaning behind this action caused ethical dilemma. It means they were aware that for example, in Korean culture it is important to give a gift but they were concerned that, it would be see as cover of bad quality
product from customer’s perspective so it made them to re-think and put a maximum level for the gift. Then differences between the actual quality of the products and what is mentioned in business meeting was an unethical behavior to them and they try to avoid. Therefore the following situation that some actions may imply that, there are differences in real product quality and what is saying about the product quality in business meeting or alike, is perceived as ethical dilemma. We will analyze it more in the next Chapter.

The second type of ethical dilemma that the interviewee mentioned was about preparing invoice:

“It could be that let’s say some example, the company importing our products from country X, we send them the invoice for the products but then they ask us if is possible that we send the invoice for the fake cost via a different company in country Y for instance. They say it is perfectly legal we want the frank cost be sent to different company. For us legally I don’t think it is a problem if they want to pay that invoice via a second company, it is probably legal by the Swedish law, but is that for tax evasion or why they are doing it, of course that something I will start to consider is this ok or not ok for my own ethical stand point that could be one example...”

Besides the two-abovementioned situations, our interviewee manager stated the third point, which was about their importers around the world; he gave us example of Russia market:

“We also work with importers in Russia and they care of the sales in the Russian market so of course it’s... I am not in the Russian market myself doing the business; we let the importer doing it...”

And then he explained that the importers should conduct the business in their country in ethical way, but if they do not and they are making good profit for the company it is type of ethical dilemma for them. However, they have not faced with this situation so far.

Therefore for C1 there are two ethical dilemmas that they were faced with. The first one is about the gift giving and perceiving the quality of the product by the new customer. The second one is about providing the fake invoice for customer. The third point (which is potentially an ethical dilemma for them) is about the behavior of their importers in other countries. We will analyze them in more detail in Chapter Five, but now the data that show us how they handle these ethical dilemmas.

Based on what our interviewee mentioned, in company C1 individuals rely more on the culture, atmosphere and mindsets of the company to handle ethical dilemmas they may face during their daily works in international environment. However, the individuals also refer to their own ethical standpoints. For example, when he was talking about ethical dilemmas on how to confront with profitable importer that is doing business in unethical way he mentioned that:

“That’s when you have to go to your moral compass so to say and...”

But he continued that:

“[...]There is culture within this company as well, we’ve been around since 1949 and we’ve been doing this for more than sixty years and it’s very important that we do not, and it’s come from the owner and the managers of this company that... we are and definitely do not do anything illegal...”
Moreover he mentioned that, the company is in the process of developing code of conduct that everybody should sign and follow:

“We are in the process of standardizing it more, I mean documenting and have everyone sign as document of conduct, but at this stage it is more culture within in the company”

It was mentioned by our interviewee that currently, it is the culture of company and its perspective towards the ethics that guides the individual in ethical dilemmas situations. The managers of C1 try to develop this culture and make sure that all employees understood it:

“I as manager have of course very important roles for my people working for me that I need to first of all make sure that they understand whatever ethical or governing roles that we have, how to act, of course they know it and they informed about it, but also that I in my everyday life on my job act according to the ethical standard we have as a company”

Therefore according to abovementioned quotes, for handling the ethical dilemmas they rely on the culture of the company, its values and then its ethical theory that prescribes which action is right and which is wrong.

4.3.2 Company C2

When it comes to perceived ethical dilemmas for the company C2, our interviewee in this company provided us with; firstly the potential situation that they have not faced yet, but that would be hard condition for them and he considered it as an ethical dilemma. And secondly he mentioned some of the ethical dilemmas that he was faced with:

“So I think that yes will have to, we will have to confront it, if something comes up and there is a child labor or something which is not permitted in this country […] I think it would be seen as the…em… if you look at the size of our company and our importance to wherever the manufacturing takes place, this one company that we work with, a threat from us to withdraw production and move it somewhere else would be hurting and would affect them I don’t think in a much great way, they would simply switch to someone else. But for us with our capacity […] we would have a very hard time to ensure, then implement and then to move our production somewhere else, it would be disaster…it would be a disaster if the factory has child labor… because we don’t have backup plan and we would have to produce here…”

The interviewee manager of company C2 stated earlier that they were not faced with abovementioned situation before and their production manager travels two three times a year, to that company in China to do inspection and make sure that everything is good. But as he stated that would be disaster for them. Therefore we interpret it as a potential ethical dilemma for them. It is ethical dilemma because they would confront with the situation that they could apply two different ethical theories, depends on considering host culture or home culture. But as the interview went further he mentioned two ethical dilemma situations that he faced according doing international business. The first one is related to their distributors:

“I think there are other dilemmas that I would say are much more on top of my priority than for instance by serving dinner, that would be for instance working with distributors. If you have a distributor you have an agreement with the distributor for instance that they are your sold partner in a country and you know that they are not the best option for you, but you have a contract with them. They are not the best option for you because they don’t try hard enough with your products which is always the case when you are selling something that is part of the bigger solution such what we do […] and you look for enthusiasm and activities in your distributors and they don’t have it and they don’t show it to you, but you have the contract. Is
it ethical or unethical to go directly to the end customer? Some cases yes, some cases no; it depends on what kind of dialogue you have with your distributor...

Then when distributors are not doing well as company C2 imagined before, it was ethical dilemma for them either to continue relying on distributors or going directly to the end customers. Another situation as our interviewee stated is about obtaining help from export agencies:

“You have export agencies of countries [...] they help companies export, but how do they do this, it is the question of ethics I think, you use their services that are subsidized by taxes and who is paying for this, this is a much bigger ethical question for me. Yes I like to use these services if they lower cost and if you go on the market and buy it but I am not...em...In the back of my head I am not convinced that is good for the whole community [...] [but] you have a cheaper option if you go [to another country] via the export agency, because it is subsidized"

The ethical dilemma for the using the services of export agency was not only for the ethical questions that our interviewee mentioned. As later on in the interview he stated that it is ethical dilemma to use the service of export agency because:

“... They have a big marketing budget for you and you choose this option [to go to another country] that is against the market place really"

Then, besides the ethical question that he mentioned earlier, they use of export agency is ethical dilemma because in this perspective it is against the market place.

Then the company C2 was faced with two ethical dilemmas plus the one potential situation that would be ethical dilemma. We will discuss about these ethical dilemmas more in next Chapter and why they were considered as ethical dilemmas.

In dealing with the ethical dilemmas that they were faced with, he provided us two different approaches. He mentioned that they had a distributor in one of the neighborhood countries and they were not satisfied with the distributor’s result. Then to decide about if they need to go directly to the end customers or stay with distributor, at first they decided to meet distributor and have a dialogue:

“I made a phone call and asked for a meeting in the country and then we went together with my sale person for that country and we had a discussion and we ended up changing the distributorship or not even changing but, that person giving up his rights to another company if they start...”

Then to handle the ethical dilemma related to distributor, the company C2, decided to have dialogue with its business partner and discuss the situation with them and finally choose the solution. But when it went to handling the ethical dilemma that he mentioned earlier, about the export agencies, the situation was not as simple as the previous one. In this case he gave us the example of his previous workplace. In company ‘X’ our interviewee had the same current position.

“I can tell you also that the reason why I was thinking about export agency is from the company X where we used this service and they were [the company X] very poor in [product]quality ... and the only reason we choose to go with them[export agency] was because of the low price ... they have a big marketing budget for you and you choose this option that is against the market place really and then things do not turn out the way you
expect them, they are not doing as good job as you could expect and then we had good meeting about their services, but we didn’t in this meeting we didn’t bring up the fact that: ok why are you even providing this service to us in the first place? so that was...em...that was something I considered unethical from myself in that case [...] yes then here is the question, here is the thing if my personal feeling for this is not the best for the company it is my business to bring it up to surface but it would be bad for the company and probably for myself"

Then as it was shown above quote from our interviewee, the way of handling this situation from our interviewee manager’s perspective is to keep with the principle that you think is ethical but then he continued and explained the reason why he thinks that individuals in that situation should follow their own ethical perspectives:

“It is not as clear as a point you can be for it or against it, it almost like a let’s say subsidizing unemployed people to go to find a new job you can be a for or against, it’s not clearly good or bad it’s just a way you... so it’s unethical if you don’t follow your own perspective I think, that’s the only unethical. I doubt if you can say there is unethical to do, it is unethical not to follow it and in that case I think it is unethical as an individual but for the company???”

Therefore to handle the ethical dilemmas they used two different approaches in different situations. In the case of distributors they tried to reach to a new agreement that allowed them to look for another distributor company. They could have searched for another distributor or contacted the end customers directly, but because they did not see it as ethical behavior without informing their current distributor (because they have contract with it); they had a dialogue with their current distributor at that time. For the second case, their way of handling the ethical dilemma was to act based on the principle that they believe in. We will discuss each of these ways of handling ethical dilemma based on our conceptual framework (provided in Chapter Two) in the next Chapter.

4.3.3 Company C3
For the company C3 when we asked questions regarding to perceived ethical dilemmas, we understood that the quality of the products plays an important role in their way of doing business. Meaning selling product as itself alone (hardware) without its needed services, calculations, installations, and maintenance training (software) does not means to deliver a full quality good product to consumers. And this is the first type of ethical dilemmas that they were faced with:

“[...] like X country for instance, the Olympic harbor there, we did that sale, as a normal sell... and we also told them that the marina must be maintained and controlled and handled in a best way and that if they may changes, they must also ask us first how to make the changes and how to install new Y [their product name] and the original Y was not either installed in a good way, so they have had a lot of problems during the years with Y breaking which they shouldn’t do, and they should last for fifteen, twenty years...and we see that the local government and the ownership of the marina has changed like six, seven times, so there is no continues ownership and responsibility of the marina [...] so there is no way of getting it serious handling of the system [...] and they had to fix it, they were force to fix it do they as they asked and ordered new Y from us and we said yeah, we can sell you new Y but we must see that we correct the problems first and see that you will maintain it and you will handle the marina a good way and they said no no no we just want new material and this is the example
of where they think they just want Y and we want to give them a complete good working system and this is very very complicated to... you know...“

That was an ethical dilemmas situation for them because providing the complete good quality solution is an ethical bottom line to them and then when they were not allowed to provide the services and the customers wanted them the only material it became complicated for them and they considered it as an ethical dilemma. The interviewee manager of company C3 provided us with one more ethical dilemma situations. It is about competing in the market. He stated that:

“[…] Then there are gray zones one example is... we used to have a competitor, former customer in country Z, he used to be our customer, one day he said that I can produce the product much cheaper, and I know that he can do that [...] but our pricing is not only based on the product itself [...] then he said ok, then I will start competing so then he start doing his own business and he has no ethical... and if we are going to compete toward him we need to be in the same level [...]”

The manager interviewee in company C3 then told us one event that happened and explained for us why he sees the actions of his competitor unethical. He continued and stated again that for them it is the hardest thing to compete with the people that in their views are doing business unethically. This situation is an ethical dilemma for them because if they want to compete they need to be in same ethical level as their competitors and they do not want to be in the same ethical level in their business because for them that level is unethical. He continued:

“That is the biggest dilemma [...] a lot of people you would see wining a lot of projects, because they were so good at deceiving and lying to your customers and if you were going to be one hundred percent perfect and not lying you would actually lose too much money so it is bad situation that ethical and morality is so important but everyone had to play after that otherwise the good guys can lose”

“But this is the... this kind of you know low ethical or low moral... those when you compete with those kinds of people, you really need to try to make it on the same level as they are doing otherwise you are going to lose the business and they will survive. So that is the hardest thing to compete and extent some of your thoughts and you know...when you compete toward these kinds of people that take shortcuts...”

“It would be so much easier to be non-ethical and we would earn more much money”

Then for them to compete ethically with the competitors, while the competitors do not behave ethically is another ethical dilemma. Therefore based on our interview with manager of company C3, they were faced with two ethical dilemmas. The first ethical dilemma is when they cannot provide what they believe in is good quality solutions for the customers and the customers just want partial of their products. The second is competing with competitor while the competitors do not play ethically, and if one wants to win the competition he should act on the same ethical level as its competitor.

To handle these ethical dilemmas, they have been trying to follow the ethical principles that they believed in. Therefore for the first ethical dilemma (providing only the hardware product to customer, not the whole solution), they decided to not continue their business with that company. For the second type of ethical dilemma interviewee mentioned that:
“It is daily, day to day questions where these things occurred and we need to take steps...but we have like our business we actually have an internal documentation that everybody needs to sign and we ask our distributors to also sign the same thing it is a business conduct guidelines...”

Therefore, as quoted above, they have kind of ethical code of guidelines which help them to take position in ethical dilemma situation. Moreover our interviewee mentioned that, he had conversations with the sales persons of the company about how to handle the ethical dilemmas regarding to how to compete while their competitor crossed the ethical line. Thus to handle the ethical dilemmas, they utilize two approaches. First, they have a code of conduct that specified the ethical bottom lines for them and second, they have dialogue in the company for each case when following the guideline might not provide the best solution for them.

4.3.4 Company C4
The manager interviewee in company C4 mentioned that, they were not faced with so many ethical dilemmas. They were faced with one situation recently, regarding to selling a software product to one of the Asian countries. He stated that they had conversations regarding to this types of issue in the board of the company:

“That’s the big point of view that we had in the board, because we had for example last year big, em... very big meeting with X company and they were looking...we have one of the best face recognition algorithms in the world, then they were asking if they can buy the license for the algorithm, and we said yeah, that could be possible [...] then we went to the country and we met them and told us that we are going to use it at internet cafes, because we gonna have surveillance look after the people to see what they are doing when they are beyond the Internet when they are in Google or whatever and then we were like wow! Are we as a Swedish company, are gonna help X company to have surveillance? “

The above case was ethical dilemma for them, because based on the culture of that country, they were not acting against the human right and they probably have other considerations. Moreover this situation can be considered as an ethical dilemma because in one side they had to consider the human rights as it is important in Swedish culture and in other side they had a big opportunity to have a contract with one of the biggest company in that country. He explained it as:

“This was the first time that we are...em...we felt that, ok this is a really good business on that side but on the other side it is a really bad business because we gonna help the government to..., you know...It is also hard for business which needs to get cash to say no to that kind of business...”

They could only provide us with one ethical dilemma situation in which in one side they had the consideration of human rights of that country and from the other side they had a really great opportunity that would help the small company such C4 with a good amount of cash. To handle the abovementioned ethical dilemma, they had a long conversation among members of the board:

“We were discussing it and we had a phone conference with the rest of board back home...”

Moreover, they involved all the employees of the company about the decision that they were making and they received supports of the employees and then as interviewee managers stated it is becoming a road map for them in another situation in future:
“We told all employees and they were really happy [...] It’s gonna be kind of a road map for us for every decision we’re gonna do, we’re gonna have...we need... you know to measure all the stuff around, ok this is the money and this is gonna be the other side of it so I think it’s gonna be really important measurement for future for us”

The manager of company C4 added that they are thinking also to develop a kind of code of conduct that will help them to handle the ethical dilemma:

“Yeah, we were thinking about that kind of...em...to have kind of handbook for employees and it’s gonna be also a paper that’s ... this is our values... how we are working, it’s gonna be appendix for ...em...when you have the contract when you get employee, so I think it’s gonna be a guideline for the company”

Thus to handle the ethical dilemma that they faced, they had dialogue and conversations among the managers of the company and members of the board. For the future they are thinking to have a code of conduct or as our interviewee mentioned a guideline for the company will help them to handle the ethical dilemmas situations.

4.3.5 Company C5
In response to our questions regarding the ethical dilemmas that they were confronted in their international business, interviewee stated that, they were not faced with any ethical dilemmas situations. In his point of view, all people, deep down believe in similar ethical principles:

“Partly but not that much because I think that those kinds of things [ethical dilemmas situations] are starting to evens out more and more, because most of the partners we work with are international companies even though they are located in Asia or U.S. or wherever, so both...how we act and how they act, we are kind of sensitive to adopting to each other, so I don’t think we have experienced that we have any big problems with that [ethical dilemma]”

The manager of company C5 explained his point of view more:

“I think is more about trusting your, not just the logic, you need to listen to your heart and when you look at down to it, I’ve met so many people from so many countries, those basic things are not culturally different... we have so much common things between countries and people in those basic things, what’s right or wrong, yeah you do business in different ways definitely this is one thing [...] but [not] in those basic when you talk about ethics and those kinds of thing...”

They were not faced with any kind of ethical dilemmas, however he stated that, the potential of confronting with ethical dilemmas are becoming more if they would go more in deep in each market and would have not stopped with distributors. Moreover interviewee stated that they are sensitive about the relationships between their distributers and their corresponding resellers:

“Yeah, you are right you have to set a level of where you should intervene or not because... if a distributor has a strong relationship with a big reseller [...] we can say that you need to behave in a totally different way, normally this is when we see that they are doing business with our product in a wrong way that’s gonna effect the rest of sales in other part of the world...like perhaps price dumping or whatever”
Potentially there could be situations that distributors are behaving in not a good way, as the company wants, but at the same time influencing the rest of the sales office in positive way. Nevertheless they were not faced with this situation yet.

4.3.6 Company C6
According to the perceived ethical dilemmas that were confronted in their international business, the interviewee manager of company C6 only stated one type of ethical dilemmas situations that they were faced with. Their perceived ethical dilemma is related to not tell the truth about the quality of the product to the customer. It is related also to the budget of the project, and moreover, the competition in the market has influences on this situation. He explained us the situation that has recently happened in one of their projects for one customer in Europe:

“I cannot give you example in detail, but I can say... yes. For example in one project, I had a problem and I knew that, this problem... the source of this problem was from us, but I cannot mention this point [to the customer] because [...], I had to save my money, and my budget, otherwise not only I would lose my profit but also I would lose money from my side to again to handle [the problem]...”

Then regarding to abovementioned quote they were faced with an ethical dilemma that is related to not tell the truth to customer about the finished product and also is related to competition in the market. From one side they were faced with lack of financial resources to for example, repair the problem and from the other side they do not want to lose their customers because as he stated earlier the market in Europe is so competitive.

“One of the important things is the competition in Europe. Competition among different agencies; among the different companies [...] we don’t have so competition for example in Asia, but in Europe we have lots of other companies that have competition with us, then for European projects you have more challenges than Asia...”

Therefore this is ethical dilemma for the interviewee manager as an individual. From one point of view his moral compass does not allow him to say or to act against his believes but from the other point of view he is worried about the budget of his project. We will discuss this in more detail in the next Chapter. This ethical dilemma was because of the conflict between two different ethical theories that our interviewee manager considers at the same time. The following quote shows this ethical dilemma:

“Sometimes it happens and is not good, I can say it is against the morality but I don’t have any choice I have to do it...”

But when it went to questions about handling these kinds of ethical dilemmas, we realized that they do not have any procedure to handle them. They tried to keep their customers satisfied as he stated:

“So in this case I have to manage the defects in another way to show to my customer, O.K. this defect happened somewhere...”

Moreover he tried to keep everything in a good way as explained:

“Because of one of my colleagues did bad mistakes and he is in higher level than me in the company and now I have to correct his mistakes and save my company, my name, the name of
my company and my budget, so I am emphasize that he is in higher level than me because maybe if he was in lower level than me I could solve the problem in another way…”

It again shows that, because the quality of finished product was not good enough and had some defects, the interviewee manager was not satisfied. But he also found it difficult to solve the problem in a way that he preferred. He was in ethical dilemma situation but finally he acted in way to keep the budget and the company although it was not matched with his moral compass.

Furthermore in the interview the managers mentioned that, it is good to have a code of conduct but for him, the world of business if far away to reach to that point:

“Yes it’s nice but for me it is like a dream, but in reality you can’t reach to this condition, even if you write it, because different people, with different characteristics have different behaviors, so sometimes some of them would say we should respect to these notes or however I can say law or, … but some people would say no, it’s not important, forget it and I don’t like it…some of them may think you limited them, you have to do this way, or this way, maybe for some people it is like a jail…why they want to define for me how I have to behave and like this…”

4.4. Summary of ethical dilemmas for International SMEs

According to our interviews and based on our quotes which were presented above, the international SMEs that we interviewed have faced with different ethical dilemmas. Moreover not all ethical dilemmas have roots in different cultures and we will discuss this point in more detail in the coming Chapter.

To handle the ethical dilemmas our interviewed companies utilized different approaches. But having dialogue either with the other business parties or inside the firm with other employees or colleagues were the most applied approach. In the following table (Table 4.2) we summarized the perceived ethical dilemmas and the way they were handled in the following Table.

<table>
<thead>
<tr>
<th>Company</th>
<th>Perceived ethical dilemma(s)</th>
<th>Handling ethical dilemma(s)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Company C1</td>
<td>1. Gift giving (and then interpretation of product quality by customer)</td>
<td>Dialogue inside of the company with colleagues.</td>
</tr>
<tr>
<td></td>
<td>2. Providing fake invoice</td>
<td>Culture of the company</td>
</tr>
<tr>
<td></td>
<td>3. Behavior of profitable importer (potentially)</td>
<td>(They are in process of developing ethical business guide line)</td>
</tr>
<tr>
<td>Company C2</td>
<td>1. To stay with distributor or go directly to end-user</td>
<td>Dialogue with distributor</td>
</tr>
<tr>
<td></td>
<td>2. Using export agency to go to another country</td>
<td>Individual decision based on his moral compass</td>
</tr>
<tr>
<td></td>
<td>3. Child labor in production site (potentially)</td>
<td></td>
</tr>
</tbody>
</table>
As we defined in Chapter Two, ethical dilemmas are situations in which individuals can justify their behaviors by applying more than two ethical theories. Keeping this definition in mind we divide the perceived ethical dilemmas of international SMEs into two types. The first type of ethical dilemmas is caused, because different ethical theories which can be applied in that situation have roots in different cultures and values. An example for the first perceived ethical dilemma is company C1. The second types of ethical dilemmas have caused because individual that faced with that condition have options to justify that situation based on two or more ethical theories. We will discuss these two types in the next Chapter.

<table>
<thead>
<tr>
<th>Company</th>
<th>Perceived Ethical Dilemmas</th>
<th>Approaches to handle them</th>
</tr>
</thead>
<tbody>
<tr>
<td>Company C3</td>
<td>1. Providing the full quality of product for customer even when customer does not want it</td>
<td>Stop continuing to provide product for these kinds of customers</td>
</tr>
<tr>
<td></td>
<td>2. Competing with rivals that do not follow the ethical principles</td>
<td>Developed ethical business guideline and Dialogue inside the company for unseen Conditions</td>
</tr>
<tr>
<td>Company C4</td>
<td>1. Human rights</td>
<td>Dialogue inside the company (They are thinking about to developing ethical business guide line)</td>
</tr>
<tr>
<td>Company C5</td>
<td>-</td>
<td>N/A</td>
</tr>
<tr>
<td>Company C6</td>
<td>1. No to tell the truth about the quality of the product</td>
<td>Individual decision depend on each case</td>
</tr>
</tbody>
</table>

Table 4.2 Perceived Ethical Dilemmas and approaches to handle them
5. Analysis and Discussion

In Chapter Two we presented different ethical theories and we categorized them into two groups, which we called them ‘pure normative theories’ and ‘integrative normative theories’. In section 2.7 we took stand and stated that, we defined the ethical dilemma as situation in which, individuals can justify a situation, behavior, or an action by help of two or more ethical theories. Thus in this Chapter of our thesis, we will analyze our findings by the help of ethical theories.

As discussed in Chapter One, the purpose of this thesis is to find the ethical dilemmas that international SMEs are faced with and then to understand how they handle them. Therefore we developed two research questions as below:

1. What are the ethical dilemmas that international SMEs confront with and Why?
2. How international SMEs handle these ethical dilemmas?

In previous chapter we showed what ethical dilemmas international SMEs are confronted with. In this chapter we will discuss more about our findings and analyze our findings on theoretical level. We will start by analyzing each ethical dilemma and will show which of two or more ethical theories are in conflict to justify an action or situation. Then we will go further and will categorize these ethical dilemmas based on their origins. In the second step we will discuss how companies handle the ethical dilemmas and will try to explain their approaches by the help of ethical theories. Finally we will suggest two propositions, which will show how international SMEs handle their ethical dilemmas and in one further step how they prevent confronting with ethical dilemmas.

Our focus in this Chapter is to analyze the ethical dilemmas that our interviewee managers have confronted with and not those potential ethical dilemmas that they mentioned during their interviews with us.

5.1. Analyzing ethical dilemmas

5.1.1 Gift Giving

As we presented and discussed in the previous Chapter, to give a gift at the time of meeting new, or potential importer or customer is type of ethical dilemma for company C1. It is because two different ethical theories can be applied to justify the gift giving action. From one side the deontological ethical theory can justify gift giving action as a right action. Because based on the culture of guest country give a gift in their first meeting is an ethically right thing to do. As the interviewee manager stated:

“...it is very important for them to receive a gift doesn’t need to be expensive, but they would like to receive a gift, it is very important in their culture...”

As explained before from deontological point of view the right or wrong of an action is independent from the result (De George, 1986, p. 64; Tsalikis and Fritzsche, 1989, p. 696; Derry & Green, 1989; Schwartz, 2007; Crane & Matten, 2010, p. 91). In this case it means that, to give a gift is a right action independent of the result of their meeting and the interviewee manager of company C1 wants to do a right action. But from the other side teleological or consequential ethical theory can justify the gift giving action differently and
prescribes it as a wrong action, based on the culture of the home country as the interviewee stated:

“... maybe the person on the receiving end will say, well nice gift but why are they doing this, because the product is not good enough or it is because...I mean that’s the way I would interpret that...”

From the teleological or consequential point of view whether or not an action is right depends on the consequences of that action (De George, 1986, p. 42; Tsalikis and Fritzshe, 1989, p. 696; Derry & Green, 1989; Schwartz, 2007; Crane & Matten, 2010, p. 91). Then in this case it means if by giving a gift, the business partner of company C1 would think (as the interviewee manager of C1 would) that the product of company C1 is not good enough and this is the reason that they are giving gift to influence on the result of meeting the action of gift giving is not a right thing to do.

Thus the deontological and teleological ethical theories prescribing gift giving as right and wrong action respectively which result in ethical dilemma. In this situation two different ethical theories can prescribe two different behaviors and justify an action differently.

This gift giving ethical dilemma also can be analyzed by the cultural relativism points of view. As explained in Chapter Two, cultural relativism is one of the ethical approaches that is described by Chryssides and Kaler (1996, p. 26). Based on cultural relativism what is right or wrong is relative to the circles in which one moves, and then moral truth can be different by time and also by place as well. However, we think that the cultural relativism is too simplistic way to analyze the gift giving situation. Because based on this approach any ethical dilemma can be reduced to cultural differences without understanding the ethical theories behind them that were the reason for ethical dilemma situation. Therefore the authors think that, some ethical dilemma caused because of the differences among cultures, as in our findings, gift giving and human right, but we also think that we need to go further and understand the ethical theories behind each culture to understand the reasons of these differences.

5.1.2 Providing fake invoice

To provide the fake invoice for customers are the second ethical dilemma that our interviewee mentioned. In this case also two ethical theories can justify the action of providing the fake invoice and then it becomes hard to decide if it is right action to do or not. From the duty-based ethical theory the action can be justify as a right action to do. The duty-based ethical theory is similar to deontological or non-consequential ethical theory. It means that one action per se is right or wrong independent of its results (De George, 1986, p. 64). In this case our interviewee manager did not perceive providing a fake invoice per se as a wrong action, because their customer mentioned that it is perfectly legal and also in home country it is not against the law:

“...They say it is perfectly legal we want the frank cost be sent to different company. For us legally I don’t think it is a problem if they want to pay that invoice via a second company, it is probably legal by the Swedish law...”

Therefore from duty-based ethical theory the action is a right action to perform. But at the same time our interviewee applied another ethical theory to justify this action. By applying the consequential ethical theory to justify the action of providing fake invoice, our interviewee manager noticed that, maybe their customer wants to use this fake invoice for tax evasion purpose. Then by applying the consequential ethical theory the consequence of providing a fake invoice may not have a good result. Thus from one point of view duty-based
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ethical theory prescribes this action as a right action, but at the same time from the other point of view consequentialism prescribes it as wrong action to do. Similar to the first ethical dilemma, the conflict between two consequential and non-consequential ethical theories approach caused this ethical dilemma.

5.1.3 Staying with distributor or to go directly to end-users

To sign a contract with distributors generally means that they are your representatives in that specific market and your sales are conducting through your distributors. But sometimes they are not acting as you expect, and then whether or not to stay with distributor while having the contract or to go directly to the end-user, is a type of ethical dilemma that our interviewee manager of company C2 mentioned.

Egoism and non-consequential or duty-based are two ethical theories that can justify this situation differently. As we mentioned in Chapter Two in egoism points of view an action is right if individual freely decides in order to follow their short or long term interests (Crane & Matten, 2010, p. 93). As we showed in the previous Chapter our interviewee described their distributors as:

“They are not the best option for you because they don’t try hard enough with your products which is always the case when you are selling something that is part of the bigger solution such what we do [...] and you look for enthusiasm and activities in your distributors and they don’t have it and they don’t show it to you…”

Then in this case when a distributor is not good enough as the company C2 expected, by applying egoism ethical theory it is a right action to freely decide and follow the interest of the company and go directly to the end-user. But at the same time the non-consequential ethical theory can justify the action of going directly to the end-user as a wrong action. The quote below shows that our interviewee manager also applied this ethical theory at the same time as:

“If you have a distributor you have an agreement with the distributor for instance that they are your sold partner in a country [...] but you have the contract…”

Then from non-consequential or duty-based points of view going directly to the end-user is not a right action, because it is against the principle that you stated in the contract. In the other word from non-consequential points of view not to adhere to your words (here it means the contract), or not to follow your duty (adhere to the contract) is not a right action to do (De George, 1986, p. 67). We need to emphasize here that, what our interviewee meant by going directly to the end-user was to go to end-users without informing the distributor, because as we showed in Chapter Four, when they wanted to handle this situation, they initiate a conversation with their distributor.

Then by applying the egoism ethical theory, it is a right action to consider the interest of the company and to go to the end-users directly. At the same time by applying non-consequential or duty-based ethical theory it is a wrong action to go directly to the end-user while you still have a signed contract with distributors.

5.1.4 Using export agency to go to another country

In Chapter Two (see section 2.5.3) we divided ethical theories into two groups, pure normative theories and integrated normative theories. Until now the abovementioned ethical dilemmas have caused by conflicting between two ethical theories that both belonged to the first group of our classification. But this ethical dilemma is the result of conflicting between
two ethical theories that one of them belongs to the first group (egoism) and the other one belongs to second group (stakeholder theory).

The egoism prescribes that using the export agency and their facilities and aids for going to another country is a right action to do. Because in this way a company is following its short and long term interests and therefore egoism consider it as a right thing to do. As our interviewee in company C2 also mentioned using the export agency has advantages:

“They help companies export […], you have a cheaper option if you go [to another country] via the export agency, because it is subsidized…”

And also in another quote he stated that:

“… They have a big marketing budget for you”

Therefore considering the above quotes, it has advantages for company to use export agency and because of it, it is a right action based on egoism ethical theory. But by stakeholder theory in this situation, it is not right thing to do. As we explained in Chapter Two, based on the stakeholder theory, companies should create values for their stake holders (Freeman et al., 2010, p. 9). Moreover the stakeholders of the companies are not only their shareholders and employees, but also the community and the society are also their stake holders (Freeman et al., 2010, p. 24). Thus using the export agency is not a right action because in this way, the company is moving against the fulfilling the needs of community. As it was explicitly stated by interviewee:

“Yes I like to use these services […] but I am not...em...In the back of my head I am not convinced that is good for the whole community”

Then by applying the stakeholder theory to justify the action of using export agency, this action is not right because in this way the whole business and company is not moving towards satisfying some of its stake holders and then should not go in this way.

As a result using the export agency to go to another country is an ethical dilemma for international SMEs because according to one ethical theory it is right action to do because the company is following its interest (egoism), but at the same time according to another ethical theory, it is not right action to do, because the company is moving against the interests of some of its stake holders (stakeholder theory).

5.1.5 Delivering the full quality of product

Similar to the previous ethical dilemmas, providing the full quality of product for customer even when customer does not want it caused the ethical dilemma because this situation can be justified, by applying two different ethical theories.

For our interviewed company, C3, the quality is one of the core pillars of the company, as our interviewee stated:

“We have four different reasons when we sell […], they were economical, technical, and environmental. The fourth is quality”

Therefore, from C3 perspective, providing high quality products is kind of an ethical act, and then it is in their ethical principles to provide complete and full quality product for customers. If one customer does not want the full package of their products, to C3 it means to provide a product without quality.
Applying the deontological or non-consequential ethical theory, to sell not full quality product to customer (as they want), is not a right action to do, because in this way, they are acting against their own principles and it is wrong. But from teleological or consequential points of view it is not a wrong action, because the company will earn money and it has good consequences for the company and the customer, with his desire, does not want to obtain the full package of product (that means delivering the good quality product to customer). The statement of interviewee also shows this situation as an ethical dilemma:

“[…] they asked and ordered new Y from us and we said yeah, we can sell you new Y but we must see that we correct the problems first and see that you will maintain it and you will handle the marina a good way and they said no no no we just want new material and this is the example of where they think they just want Y and we want to give them a complete good working system and this is very very complicated to… you know”

Then from one point of view and by applying deontological ethical theory, it is not a good action to provide customers with a partial of complete package, which it means without quality. But at the same time by applying teleological ethical theory to justify this action, it is right action to do because it is a sale for the company and the company will gain money from its sale and it has good consequences regarding to gaining profit.

5.1.6 Competition
The competition ethical dilemma can be analyzed by the conflict between not two but three different ethical theories. The competition ethical dilemma indicates how to compete with your rivals when they are not adhere to ethics and crossing the ethical bottom line that you believe in? The following quotes of manager interviewee of company C3 show it:

“That is the biggest dilemma [...] a lot of people you would see wining a lot of projects, because they were so good at deceiving and lying to your customers…”

“...when you compete with those kinds of people, you really need to try to make it on the same level as they are doing otherwise you are going to lose the business and they will survive…”

Then consequentialism prescribes the competition with rivals at the same level of ethical behavior is a right action to do. Based on the consequentialism, this is right action to do, because in this case it would have good consequences for the company, its employee and all beneficiaries. It is a right action to do because otherwise the company would lose the market and customers.

In contrast the non-consequentialism prescribes the competition with rivals at the same level of ethical behavior a wrong action to do, if it means to act against ethical principle you believe in. In this perspective individuals should act based on the ethical principle they believe, and it does not matter what consequences that action would have (De George, 1986, p. 64; Tsalikis and Fritzschke, 1989, p. 696; Derry & Green, 1989; Schwartz, 2007; Crane & Matten, 2010, p. 91). Then the right action is not to cross the ethical bottom line, and therefore if competing in the market with other rivals means to act against your principles, it is a wrong action to perform. Moreover, the egoism prescribes this action as a wrong action. Based on the egoism to freely decide to follow the interest is a right action to do (Crane & Matten, 2010, p. 93). Then here, to compete at the same level of ethics with rivals is not a right action, because it is against their freely decision to follow their interest. If it was not against their freely choice of following their interest, it would not be an ethical dilemma for
them. It means that competition without adhering to ethics is not their interest, but they think that they have no other choices; otherwise they would lose the market.

“It would be so much easier to be non-ethical and we would earn more much money”

The competition in the market, while the rivals are behaving under the bottom line of a firm’s ethical bottom line, is an ethical dilemma. In one side consequentialism prescribes it as a right action, but in the other side, non-consequentialism and egoism prescribe it as a wrong action.

5.1.7 Human rights

The cultural relativism can explained this ethical dilemma. As explained in Chapter Two, cultural relativism is one of the ethical approaches that described by Chryssides and Kaler (1996, p. 26). Based on cultural relativism what is right or wrong is relative to the circles in which one moves, and then moral truth can be different by time and also by place as well. Then to have surveillance system interpreted against the human right in one culture, while in the other culture does not convey the similar meaning. The following quote from manager interviewee of company C4 shows it:

“Are we as a Swedish company, are gonna help X company to have surveillance?”

Moreover, deep down conflicting between two ethical theories can explain this situation better. From one hand consequentialism prescribes the action of selling product to the customer as a right action to do because it provides the cash that the company needs:

“…ok this is a really good business on that side […] It is also hard for business which needs to get cash to say no to that kind of business…”

Therefore because of the good consequences that this trade would have for the company it is a right thing to do. At the same time on the other hand, the non-consequentialism prescribes this action as a wrong action. Because in this case entering to this trade means acting against the principle they believe in. And based on non-consequentialism individuals should act based on their principles and duty and independently from the result (De George, 1986, p. 64; Tsalikis and Fritzche, 1989, p. 696; Derry & Green, 1989; Schwartz, 2007; Crane & Matten, 2010, p. 91).

5.1.8 Not to tell the truth about the quality of the product

Similar to other ethical dilemma telling the truth to the customer can be justified as a right or wrong action depending on which ethical theory the individual applied to justify the action. By applying non-consequentialism it is not a right action to do, because it is against the principles that the individual believe in. The following quote shows that he perceived the action of not telling the truth to the customer about the product deficiency as an unethical action:

“Sometimes it happens and is not good, I can say it is against the morality but I don’t have any choice I have to do it…”

In another perspective, considering the budget of the project, the financial status of the company and the high competitive market, it is not a right action to tell the truth to the customer because it would have bad consequences for the company and they would lose their customer in this competitive market. As our interviewee stated:
“...I had to save my money and my budget, otherwise not only I would lose my profit but also I would lose money from my side to again to handle...”

And about the market he mentioned:

“...we don’t have so competition for example in Asia, but in Europe we have lots of other companies that have competition with us, then for European projects you have more challenges than Asia...”

Therefore, by applying consequentialism the right action is to not tell the truth to the customer and in this case prevent the bad consequences for the company, which would be losing the customer in this competitive market or losing more money or gaining less profit.

5.2. Ethical dilemmas, Why?

By analyzing the abovementioned ethical dilemmas, now it is possible to answer why international SMEs were confronted with those ethical dilemmas. As we defined in our thesis and also as discussed above, conflicting between two or more ethical theories to justify a situation or action have caused ethical dilemmas. But why two ethical theories can justify one situation or action differently at the same time is - the ‘Why’ section of our first research question- that we will discuss here.

As we have discussed in Chapter Two, ethics is related to the culture, and their differences may apply different ethical theories to justify an action or behavior. This might result in ethical dilemma. International SMEs may confront with different cultures and as a result may face with ethical dilemmas. However, in our findings we have realized that not all ethical dilemmas that international SMEs are faced with come from the differences among cultures. Bus also, we have found that only gift giving and human rights are the ethical dilemmas that are resulted from cultural differences. This means, two different cultures apply two different ethical theories to justify the same situation or an action. The rest of the abovementioned ethical dilemmas are caused mainly because individual that faced with that situations they could justify that situations based on two or more ethical theories. Confliction between teleological/consequential approaches to ethical theories and deontological/non-consequential approaches to ethical theories is the first reason of ethical dilemmas for international SMEs.

In the Table 5.1 we summarized the founded ethical dilemmas with the reason of why two or more ethical theories can be justified at the same time. Plus we mentioned the conflicting ethical theories.

Until now, we have answered the first research question of this study. We explored the ethical dilemmas that international SMEs are faced and also found the answer to ‘Why’ section of our first research question. In the next section we will try to answer to the second research question.
5.3. Handling ethical dilemmas

The empirical data in Table 4.2 show that, dialogue, culture of the company, business guideline and individual decisions, are the ways to handle the ethical dilemmas situations. Initiating dialogue either inside of the company or with parties involving in ethical dilemma situation, were mostly used among the interviewed companies. By looking at ethical theories, it is possible to state that companies which useded dialogues were applying discourse ethics, to handle the ethical dilemma situations. Discourse ethics is defined as it aims to solve ethical conflicts by providing a process of norm generation through rational reflection on the real life experience of all relevant participants (Crane & Matten, 2010, p. 114). Therefore not surprisingly half of the time having dialogues with all participants was the selected choice to handle the ethical dilemmas. The following quotes show it:

<table>
<thead>
<tr>
<th>Ethical Dilemmas</th>
<th>Why two ethical theories can justify it?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gift Giving</td>
<td>Cultural differences</td>
</tr>
<tr>
<td></td>
<td>Because Two cultures, apply two different ethical theories to justify one action (Conflicting between non-consequentialism and consequentialism)</td>
</tr>
<tr>
<td>Providing fake invoice</td>
<td>Conflicting between duty-based and consequentialism</td>
</tr>
<tr>
<td></td>
<td>Because Individuals can justify one action based on two ethical theories</td>
</tr>
<tr>
<td>To stay with distributor or to go directly to end-users</td>
<td>Conflicting between egoism and consequentialism</td>
</tr>
<tr>
<td></td>
<td>Because Individuals can justify one action based on two ethical theories</td>
</tr>
<tr>
<td>Using export agency to go to another country</td>
<td>Conflicting between egoism and stakeholder theory</td>
</tr>
<tr>
<td></td>
<td>Because Individuals can justify one action based on two ethical theories</td>
</tr>
<tr>
<td>To deliver the full quality of product</td>
<td>Conflicting between non-consequentialism and consequentialism</td>
</tr>
<tr>
<td></td>
<td>Because Individuals can justify one action based on two ethical theories</td>
</tr>
<tr>
<td>Competition</td>
<td>Conflicting between egoism and non-consequentialism in one side and consequentialism in another side</td>
</tr>
<tr>
<td></td>
<td>Because Individuals can justify one action based on two ethical theories</td>
</tr>
<tr>
<td>Human rights</td>
<td>Cultural differences</td>
</tr>
<tr>
<td></td>
<td>Because Two cultures, apply two different ethical theories to justify one action (Conflicting between non-consequentialism and consequentialism)</td>
</tr>
<tr>
<td>To not tell the truth about the quality of the product</td>
<td>Conflicting between non-consequentialism and consequentialism</td>
</tr>
<tr>
<td></td>
<td>Because Individuals can justify one action based on two ethical theories</td>
</tr>
</tbody>
</table>

Table 5.1 Ethical Dilemmas, the conflicting ethical theories and why two or more ethical theories can justify a situation
The culture of firm along with the firm’s business guideline, also were references, which used by two of our interviewed companies to handle the ethical dilemmas. They are providing principles and rules for the employees and individuals and in this way utilize a type of duty-based ethical theory for their companies. The problems with these approaches are; the individuals of the company would face ethical dilemmas situations, if their personal ethical principles are in conflict with the company principles. The following quotes show the use of guideline or relying on the culture to handle the ethical dilemmas:

<table>
<thead>
<tr>
<th>Company</th>
<th>Quote(s)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Company C1</td>
<td>“[…] of course we discussed it and ok…”</td>
</tr>
<tr>
<td>Company C2</td>
<td>“I made a phone call and asked for a meeting in the country and then we went together with my sale person for that country and we had a discussion…”</td>
</tr>
<tr>
<td>Company C4</td>
<td>“We were discussing it and we had a phone conference with the rest of board back home…”</td>
</tr>
</tbody>
</table>

Table 5.2 Discourse ethics and the use of dialogue to handle ethical dilemmas and companies’ quotes

For the rest of the situation individuals decide personally. They may utilize each of the ethical theories. We found it out of the scope of this study to find out which ethical theories the individual mostly applied to handle the ethical dilemmas in their workplace. For the scope of this study delivering the ethical dilemmas to responsible individual in the company to handle was considered as another approach to handle the ethical dilemmas, which is not related to any ethical theories and cannot be explained by the means of ethical theories.

Therefore, to answer the second research question, we have found that, international SMEs applied three solutions to handle ethical dilemmas. The first solution is to use of discourse ethics and initiate dialogue with all participants in ethical dilemmas situation. Secondly, the business guideline and the culture of the company are two references that individuals can refer to them when they face ethical dilemmas. The final solution to handle ethical dilemmas is to deliver ethical dilemmas to a responsible individual to handle. In the next section we will present our propositions about how international SMEs prevent confronting with ethical dilemmas and then how they are handling ethical dilemmas.
5.4. Suggested propositions for preventing confronting ethical dilemmas and handling them

In this section the main purpose is to show our findings in more abstract level by providing two propositions about how international SMEs handle ethical dilemmas and how they prevent confronting with ethical dilemmas.

In Chapter Two, we defined ethical dilemmas as situations in which, two different ethical theories justify single situation, behavior or action differently. At the end of the same Chapter, we presented our conceptual framework that guides us to design this research. We explained that international SMEs would face with different cultures during their international activities, and then we mentioned that different cultures might prescribe different ethical theories for a situation, which will cause ethical dilemma.

5.4.1 First proposition: Prevent confronting ethical dilemmas

In this Chapter we have analyzed the eight ethical dilemmas that we found during our data collection process. We discussed and showed that these ethical dilemmas are result of conflict between two or more ethical theories, which can justify a situation or an action differently at the same time. Moreover, we discussed and answer the ‘Why’ section of our first research question. We explained the reasons that why two or more ethical theories can justify a situation or an action differently at the same time.

On one hand we have found that most of the time, the two conflicting ethical theories, which caused ethical dilemmas, belong to pure normative theories classification (see section 2.5.3). On another hand we have found that the manager interviewee of company C5, who mentioned, they were not faced with any ethical dilemmas, has the postmodernism approach to ethics. As we explained in Chapter Two postmodernism is one of the integrated-normative theories, and encourages people to act based on their inner convictions, and ‘gut feelings’ about what they think is right and wrong in particular situation (Crane & Matten, 2010, p. 115). Interestingly, they mentioned that they were faced with cultural differences in their international activities. The following quotes are from the interviewee manager of company C5 and show that he applied postmodernism in his international business activities:

“...it is more of how you are as a person, if you are a listener, then you can feel if there is something wrong or in a wrong track”

“...when we start working with that company, I don’t know how to express it, but I smelt that it was something wrong in the company...”

Therefore to prevent confronting with ethical dilemmas, we proposed:

P1: International SMEs, which apply one of the integrated-normative theories than pure normative theories in international activity, do not confront with ethical dilemmas.

5.4.2 Second proposition: Handle ethical dilemmas

In the next step we analyzed the solutions that international SMEs have used to handle the ethical dilemmas.

We have shown that discourse ethics, used most of the time to handle ethical dilemmas. Moreover we believe that the use of guidelines or the culture of companies to handle the ethical dilemmas would be problematic. It is because, as we discussed, the individuals of the company would face ethical dilemmas situations, if their personal ethical principles were in conflict with the company principles.
Therefore to handle the ethical dilemmas we propose:

P2: *Discourse ethics is the most appropriate ethical theory for international SMEs to handle their ethical dilemmas.*

*Discourse ethics* is defined as it aims to solve ethical conflicts by providing a process of norm generation through rational reflection on the real life experience of all relevant participants (Crane & Matten, 2010, p. 114). Mostly firms based on our findings used this approach.

We think that further research need to be done regarding the suggested propositions and we will discuss it more detail in the next Chapter.

In Chapter Six we will show how our findings have contributed to the field of business ethics. Moreover, we will provide the managerial implications of this study.
6. Conclusion

In the previous two Chapters we presented our empirical data and we analyzed them. In this Chapter we will present a clear overview of our main findings. Moreover, we will explain the theoretical contribution of this study and the implications that it has for managers of international SMEs. Finally, we will propose new suggestions for future research.

The purpose of this research was to explore the ethical dilemmas of international SMEs and understand how they are handled. In addition to understand and answer why they are ethical dilemmas for international Small- and Medium-sized Enterprises. We defined ethical dilemmas in our study close to the definition by Gupta et al (2010), and defined ethical dilemmas as situations in which, individuals can justify their behaviors by help of two or more ethical theories.

The overlap area of internationalization and business ethics has not been studied enough before (Doh et al, 2010, p. 481). Moreover most of the time the MNEs were the unit of analysis in business ethics studies than SMEs (Spence & Painter-Morland, 2010, p. 1; Burgi, 2010, p. 147). Therefore with this research we tried to cover these gaps (see section 1.2). To fulfill the purpose of this research, we used qualitative approach and multi-case study research design. The six semi-structured interviews were conducted, based on the thorough literature reviews, with small and medium-sized firms that involved in the international activities. In the following sections we will present our findings and will show the ethical dilemmas that international SMEs are facing and the way they are handled.

6.1. Research findings

In this study, we have found that small and medium-sized international enterprises are facing with eight ethical dilemmas during their international activities. They are:

(1) Gift giving, (2) Providing fake invoice, (3) To stay with distributor or go directly to end-user, (4) Using export agency to go to another country, (5) To deliver the full quality of product, (6) Competition, (7) Human rights, and (8) Not to tell the truth about the quality of the product.

We analyzed these ethical dilemmas and found that not all ethical dilemmas that international SMEs are faced with come from the cultural differences (which they have faced) during their international activities. Our findings show that only gift giving and human rights are the ethical dilemmas that are resulted from cultural differences.

This study shows that confliction between teleological/consequential approaches to ethical theories and deontological/non-consequential approaches to ethical theories is the first reason for ethical dilemmas of international SMEs. From teleological/consequential points of view to specify whether or not an action is right depends on the consequences of that action. This approach to ethical theories, argues on the basis of consequences and it deals exclusively with the consequences of an action, and judge an action based on its consequences. In contrast from deontological/non-consequential points of view an action is right if it has certain characteristics. It deals with rules/a rule, and the right or wrong of an action is independent from the result and they are duty based.

Furthermore by conducting this research we have found that, international SMEs applied three solutions to handle ethical dilemmas. The first solution is to initiate dialogue with all
participants in ethical dilemmas situation. The second solution is to use the business guideline and the culture of the company, as a reference, which individuals can refer to when they are facing with ethical dilemmas. The final solution to handle ethical dilemmas is to deliver ethical dilemmas to a responsible individual for handling. Based on this research, initiating dialogue either inside of the company or with parties involving in ethical dilemma situation, were mostly used among the interviewed companies to handle their ethical dilemmas. Explaining it by the help of ethical theories, we have found that international SMEs utilize discourse ethics to handle their ethical dilemmas. Discourse ethics is defined as it aims to solve ethical conflicts by providing a process of norm generation through rational reflection on the real life experience of all relevant participants (Crane & Matten, 2010, p. 114).

6.2. Theoretical contributions
As stated earlier, there are not so many studies in business ethics according to small and medium-sized enterprises (Spence & Painter-Morland, 2010, p. 1; Burgi, 2010, p. 147). Moreover the overlap area of international business and business ethics has not been the focus of many researches (Doh et al, 2010, p. 481) in spite the fact that, according to globalization and more international business, business ethics in the international business will be a major research theme in future (Zhenzhong, 2009, p. 263). Therefore, by exploring the ethical dilemmas of international SMEs and the way of handling them, this thesis has contributed to the field of business ethics, regarding small and medium-sized enterprises in international context.

The findings of this research indicate that none of the existing ethical theories can prescribe how international SMEs have to act in international environment and in their international activities. Our empirical findings may help ethicists to develop existing ethical theories or to develop a new normative ethical theory that will prescribe how international SMEs should act in international environment. Because by the help of our findings philosophers and ethicists in the field of business ethics will know the problems and ethical dilemmas that international SMEs are faced. They will also know that which ethical theories are more problematic if applied in international context.

This thesis also has contributed methodologically in the field of business ethics, as the large amount of past researches were quantitative researches in the field of business ethics. Then by conducting this study we also have shown that how empirical business ethics study can be qualitative.

Furthermore, we have presented two propositions based on our findings:

P1: *International SMEs, which apply one of the integrated-normative theories than pure normative theories in international activity, do not confront with ethical dilemmas.*

P2: *Discourse ethics is the most appropriate ethical theory for international SMEs to handle their ethical dilemmas.*

These propositions also have implication for managers and participants in international SMEs, though more researches are needed to be done.
6.3. Managerial contributions

The findings of this thesis have some practical implications for small and medium-sized international enterprises and their managers and participants. Initiating dialogue with all parties involving in ethical dilemma could have more benefits for international SMEs than other approaches. As we discussed in Chapter Five, developing business guidelines to handle ethical dilemmas would not protect companies in not confronting with ethical dilemmas (and sometimes they may cause ethical dilemmas. see section 5.3). Therefore, to be able to enter to a dialogue and use dialogue to handle the ethical dilemmas is the first implication of this research.

Applying more integrated-normative ethical theories in the international business from small and medium-sized enterprises will help international SMEs to prevent confronting with ethical dilemmas than before (see section 2.5.5). This is the second implication of this research. However, small and medium-sized enterprises have to consider their status regarding the number of employees, cultural differences, legal issues, different languages issues, and many other factors to utilize the ethical theories that best fulfill their needs.

6.4. Suggestions for future researches

This thesis tried to explore the ethical dilemmas that international SMEs are faced with and show how they are handled. The scope of this research covered all types of SMEs, however our sample included only established SMEs. Therefore, exploring the ethical dilemmas of Born-Global SMEs will be a potential research for future.

Ethicist in the field of business ethics may use the empirical findings of this study and develop the existing ethical theories in more detail and provide international small and medium-sized enterprises with ethical theories, which would tell them how to act in international context.

Furthermore, future researches can test the suggested prepositions and check the validity of different criteria. The influences of organizational position of individuals inside international SMEs on perceiving ethical dilemmas and the handling solutions will be interesting research for future studies in this field. In addition, the role of industry and whether or not ethical dilemmas are industry-related can be another interesting topic.

One example of future research will be to study the extend of use of integrated-normative theories among international SMEs and see if there is relationship between the use of one theory with the industry in which SME is acting.

Finally a study on how the international experience would effect on selection of ethical theory on applying in the international business for small and medium-sized enterprises will be a good research.
7. Research quality and Limitations

In this Chapter we will present the research quality of our study in three sections. Finally we will explain the limitation of this research.

7.1. Research Validity

Validity is a key issue for legitimacy of qualitative studies, because if qualitative research cannot produce valid results, then any plan, policy, and future studies based on them will not be reliable (Maxwell, 1992, p. 279). Undoubtedly, the concept of validity due to its wide variation in quantitative studies is grounded in the processes and intentions of particular research methodologies in quantitative researches and project. But no unique definition of validity for qualitative research exists, and all conceptualizations of validity are proper for some qualitative researches (Onwuegbuzie and Leech, 2007, p. 233). Despite some arguments about inapplicability of the term validity for qualitative research, the necessity of some kind of qualifying measure for the qualitative research have been notable by qualitative researchers (Golafshani, 2003, p. 602).

Maxwell stated that, the understanding is more fundamental in qualitative research than validity (Maxwell, 1992, p. 281) and Golafshani mentioned that, many researchers developed their own concept of validity and also select different words or notion that are more appropriate to them (Golafshani, 2003, p. 602). Therefore we will also try to develop our perception and understanding about conception of validity regarding this thesis.

Referring to Chapter Three (see section 3.1) this study is based on (social) constructivism (may known as interpretivism) research paradigm, and we agree with the Maxwell point of view who conceives understanding as a more fundamental concept for qualitative research than validity (Maxwell, 1992, p. 281). As (social) constructivist, the world puts forward different perspectives for each event and experience and, we absorb these events happening in our environment. Therefore it is likely to have equally valid understandings and interpretations for different events and from different perspectives. In order to validate a qualitative research, Maxwell defined three categories; below we will present them briefly.

7.1.1 Descriptive Validity

The accuracy of the empirical data is the first concern of every qualitative researcher. It means that data should not been distorted by what researcher heard or saw, and it has to be ensure that data were presented without any manipulations. According to this study each interview was transcribed after the data was gathered. We checked the quality of our recording immediately after leaving each firm to become sure that, every single word is understandable and recognizable. By this way we made sure that all the data were gathered correctly with high accuracy.

7.1.2 Interpretive Validity

Maxwell defined interpretive validity, as to become sure that participants’ perspective about the phenomena under study and the terms using in the research should be the same as what the researcher and the study aim to reach (Maxwell, 1992, p. 288,289). Regarding to our study, we provide them in advance about the topic of study and also during the interviews we made examples, to become sure that they understood what we mean.
7.1.3 Theoretical Validity

Based on Maxwell, theoretical validity refers to an” account’s validity as a theory of some phenomenon” (Maxwell, 1992, p. 291). For testing Maxwell mentioned theoretical validity that is has two aspects: (1) the validity of the concepts themselves as they are applied to the phenomena, (2) the validity of the postulated relationships among the concepts. The first item means creating proper operational measures for the concept being studied (Yin, 2009, p. 34).

To be sure that our study meets the criteria for this test, in Chapter Three, we showed that how our interviews guide is related to our research questions. We also explained that how we developed the interview guide based on our theoretical framework. Moreover in Chapter Five we showed that how data were coded and analyzed and then by doing so the relationship among the concepts were shown, as the second item of this test mentioned. It means that theoretical validity measures have been fulfilled in this study.

7.2. Reliability

Reliability means that same conclusion and findings will be achieved, if another study follows the same procedures that we have followed in this research. The goal of reliability means to reduce the biases and errors in study (Yin, 2009). For future studies to be able to repeats the same case study, the procedures followed in the earlier case should be documented.

In Chapter Three the procedures of data collection are thoroughly discussed. The data analysis was conducted by coding the interviews and categorization of the codes. In Chapter Five the codes and frameworks for connecting the data to the main research questions were illustrated and discussed. All the interpretations derived from the data are supported by theories in order to increase the reliability of the paper. Moreover all the research procedures were explained very well. Therefore we believe that this is reliable qualitative research which makes replication possible for others.

7.3. Limitations

There are considerations such as time and money the number of cases which were selected for the study was limited. We tried to select the international SMEs based on the selection criteria defined carefully this study; however there are unavoidable natural constraints in every study as it was the case here as well. The financial resources for travelling, personal contacts and other practical issues are of great importance. It was tried to select the firms in a systemic way to avoid the subjectivity however the period of the data collection (one month) was not enough which calls for studies that can focus on this topic without the time and geographical limitations. The results of such studies can probably be generalized in a larger scope.

Moreover the topic of ethics is sensitive topic and all people want to be in safe side when they are questioned about these kinds of topics. Then we assumed that there were some limitations for interviewee because of their roles and positions in their firms. We believed that this study is start point for business ethics study in international SMEs and especially a longitudinal research in this field will be invaluable.
8. References


9. Appendix – Interview guide

The following interview guide is used while conducting interview in order to ensure that all aspects of the study are taken into account. Based on the replies and things said by interviewee, questions that are not included in the guide may be asked as well.

**Background questions**

1. Could you describe XXXX, i.e. what you are doing and your international involvement? From the points below.
   a) **Products or services**
   b) **Countries, regions or continents**
2. How is the relation (relationship) between you and your business partner, competitors, suppliers in those countries?
   a) If the relationships are different between different markets could you please describe the relationships in one market that are very different from home market and one that is more similar to the home market
3. How are cultural, legal, political and other kinds of differences affecting your interaction with your partners?
   a) Examples of things that make it difficult to interact/operate/perform
   b) Examples of things that make it easier to interact/operate/perform

**Perceived dilemmas**

4. Have you faced any (ethical) dilemmas i.e. situations where you are not sure about how to act, and can you give some concrete examples
   a) Give examples like gift giving; environmental concern; human rights; bribery, etc
5. How have you been concerning about things like morality, ethics or anything related to them that have been expressed during your business? And what are you thinking about such issues on a more general level?
6. What do you think are the main reason that these dilemmas develop?

**How to handle ethical dilemmas**

7. How do you handle those ethical dilemmas?
   a) For most of the time they appear as your personal problem, or
   b) Any regulations/routines or norms of how to deal with such issues in your company?
8. Could you describe what these regulations/routines or norms that being used are?
   a) Any Document.
   b) Any example.
9. Could you give any example of some very typical (ethical) dilemmas, and how you solve or handle them?

**How to improve the way of handling these issues**

10. Do you think a manager nowadays should obtain the knowledge about ethics and relatively possess an ethical behavior?
11. Would you suggest your company to more clearly develop guidance for dealing with such ethical dilemma?