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## Everyday-Life Business Deviance among Chinese SME Owners

**Abstract:** Despite its prevalence in emerging economies, everyday-life business deviance (EBD) and its antecedents have received surprisingly little research attention. Drawing on strain theory and the business-ethics literature, we develop a socio-psychological explanation for this deviance. Our analysis of 741 owners of Chinese small- and medium-sized enterprises (SMEs) suggests that materialism and trust in institutional justice affect EBD both directly and indirectly in a relationship mediated by the ethical standards of SME owners. These findings have important implications for researching deviant business behavior within SMEs.

**Keywords:** Everyday-life business deviance; ethical standards; materialism; strain theory; trust in institutional justice.

## INTRODUCTION

The dark side of entrepreneurship, which involves deviant activities associated with small- and medium-sized enterprises (SMEs), is seldom the subject of empirical research (Khan, Munir, and Willmott, 2007; Sutter, Webb, Kistruck, and Bailey, 2013). In addition to serious and formal crimes committed by SMEs, such as bribery, corruption, and environmental pollution (de Jong, Tu, & van Ees, 2010; Tonoyan, Strohmeier, Habib, and Perlitz, 2010; Zhou and Peng, 2012), a significant and unexplored aspect of deviant business behavior involves minor but frequent business actions in SMEs, which are often attributed to *everyday-life business deviance* (EBD) (Karstedt and Farrall, 2006; Messner and Rosenfeld, 2009). EBD involves morally dubious or trivially criminal behavior undertaken by SME owners on a regular basis to

gain a material advantage in business transactions (Button, Tapley, and Lewis, 2012; Itashiki, 2011; Karstedt and Farrell, 2006; Messner and Rosenfeld, 2009). Because this type of deviance is characterized by its common occurrence and small magnitude, it often falls “into a grey zone of legality and morality” (Karstedt and Farrell, 2006, p. 1011) and has become a part of the everyday business life of SMEs in emerging economies (Khan et al, 2007; Sutter et al., 2013). A typical example would be a request for cash payment to avoid paying taxes. The prevalence of EBD (Sutter et al., 2013) suggests that, *collectively*, this behavior could lead to serious economic damage (Karstedt and Farrell, 2006), which posits a threat to the moral standards of an economy that emphasize fair values and perceived equality in transaction mechanisms and their institutionalization (Chiotis, 2015; Sandberg, 2015). EBD may also influence the overall effectiveness of entrepreneurship in emerging economies.

Previous studies on the criminal behavior of entrepreneurs in emerging economies have shed light primarily on the circumstances under which such crimes are committed (de Jong et al., 2010; Haß, Johan, and Müller, 2016; Tonoyan et al., 2010; Webb, Ireland, and Ketchen, 2014). Nevertheless, surprisingly, the pressure that entrepreneurs face to explain deviance has seldom been studied, despite its sociological significance (De Clercq and Dakhli, 2009). Indeed, pressure is suggested to be a major antecedent to illicit behavior and is of particular importance for explaining individual economic deviance (Cressey, 1953; Featherstone and Deflem, 2003). In particular, strain theory represents a dominant socio-psychological perspective for interpreting *instrumental* crimes from an individual viewpoint. We employ this theoretical perspective herein because it stresses the implications of strain pressure, which is at the origin of individual deviance, and has been used previously to examine small-business owners (De Clercq and Dakhli, 2009). “Strain” refers to the tension that SME owners experience when

their goal of economic success is incongruent with the availability of legitimate avenues to achieve this goal (Cullen, Parboteeah, and Hoegl, 2004; De Clercq and Dakhli, 2009).

The current study investigates two key sources of personal strain: materialism and trust in institutional justice. These sources cause personal pressure by overemphasizing materialistic achievement and by requiring confidence in institutional fairness, respectively (Agnew, 1992, 2001; Bernburg, 2002; Johnson and Duberley, 2011; Johnson and Smith, 1999; Maume and Lee, 2003). We define materialism as the importance placed by SME owners on possessions as a necessary means to arrive at the desired end (Richins and Dawson, 1992), whereas trust in institutional justice is the extent to which SME owners have confidence in the fairness of institutional arrangements (De Clercq and Dakhli, 2009; Jost and Kay, 2010).

We choose these two constructs because of their theoretical and contextual significance. Specifically, first, strain theory historically emphasizes the role that social stratification plays in preventing people from attaining their goals. Compared with means, the influence of the prevalent materialistic goals that motivate members of society has not received sufficient recognition; an omission that requires further exploration (Baumer, 2007; Johnson and Duberley, 2011; Maume and Lee, 2003). Second, justice represents a theoretically important and empirically underexplored source of strain (Agnew, 2001, 2013). According to Agnew (2001), a strain that is perceived as unjust is more likely to lead to crime. In addition, by embodying “the rules of the game,” institutions exert a key influence on ethical considerations and on the behavior of players (Ahlstrom and Bruton, 2002; Tonoyan et al., 2010). Nevertheless, compared with institutional voids and stability (Mair, Marti, and Ventresca, 2012; Mair and Marti, 2009; Puffer et al., 2010; Xu and Meyer, 2013), the implications of this environmental aspect for SME owners in emerging economies have seldom been

empirically investigated, despite their importance. Third, an examination of these two variables also addresses the typical economic and institutional sources of strain pressure on SME owners in emerging economies because, in this context, the fetishism of economic success and institutional inequality is overt (Ahlstrom and Ding, 2014).

This study also looks at the ethics literature to investigate the role of the ethical standards of SME owners (Rest, 1986; Craft, 2013). These standards are defined as the extent to which SME owners are unwilling to justify ethically suspect behavior to solve ethical dilemmas (Cullen et al., 2004; De Clercq and Dakhli, 2009). Because EBD violates social norms, it is related to the issue of morality in SME daily business operations. Based on strain theory and the ethics literature, this study thus seeks to answer three main questions: (1) How does materialism affect EBD? (2) How does trust in institutional justice affect EBD? (3) What is the role of the ethical standards of SME owners in the strain-EBD relationship? To answer these questions, we investigate and analyze the key antecedents of EBD among SME owners in the largest emerging economy (China). We define SMEs as companies with fewer than 250 employees (Musteen, Datta, and Butts, 2014). We collected a large sample of 741 SMEs from both the Yangtze and Pearl River deltas.

In practice, we are aware that, in Chinese SMEs, EBD can be committed by either SME owners or their employees. For the latter case, we argue that the focal relationships in this study are not likely to be substantially affected. Chinese SME owners are especially diligent and are usually involved in day-to-day business operations (Browaeys and Price, 2008; Harrell, 1985). A hierarchical relationship emphasized by Confucian traditions encourages centralized decision-making in businesses and compliance by subordinates in Chinese firms (Ji and Dimitratos, 2013). Therefore, Chinese SME employees that engage in EBD are likely implementing

practices and norms that reflect the values, beliefs, and ethical standards of the SME owner or are repeating past business practices that are often endorsed by the SME owner (Dickson, Smith, Grojean, and Ehrhart, 2001; Schminke, Ambrose, and Neubaum, 2005).

This study makes three important contributions to the literature: First, it taps a significant but largely unexplored area in the literature on entrepreneurial deviance (Khan et al., 2007; Yin and Quazi, 2016). Without investigating these minor but pervasive “unproductive” or “destructive” entrepreneurial activities (Baumol, 1990), our understanding of the role of SMEs in emerging economies is incomplete. Second, we confirm that both materialism and trust in institutional justice play an important role in explaining EBD, and the evidence lends support to a strain view for interpreting destructive entrepreneurial behavior, which substantially complements the opportunity reasoning of deviance research in emerging economies (Haß et al., 2016; de Jong et al., 2010). In addition, the effectiveness of the strain beyond social stratifications is confirmed, which further broadens the categories of strain and affirms the recent development of strain theory (Agnew, 1992, 2013; Rebellon et al., 2012). Finally, our research also extends the research of De Clercq and Dakhli (2009) by providing a more complete understanding of the relationship between strain explanatories, ethical standards, and the deviant behavior of SME owners (Cullen et al., 2004).

This paper is structured as follows: We review the background literature and discuss the research model and its five hypotheses. Following that, we explore the methodological aspects of the study. The penultimate section presents the results of the statistical analysis and discusses the findings. The final section discusses the implications and limitations of the present study and proposes some future research directions.

## **THEORETICAL BACKGROUND AND RESEARCH MODEL**

### **Strain Theory and Rest's Four-Component Model**

Strain theory posits that deviance has social roots, and strain introduced by social conditions constitutes a major source of crime (Featherstone and Deflem, 2003). This socio-psychological view originates from Durkheim's work (1897), and its variant builds upon Merton's (1938) influential essay "Social Structure and Anomie." As one of the most cited frameworks in sociology, this theory has been widely applied to examine various instrumental types of illicit behavior (Agnew, 1992, 2001; Messner and Rosenfeld, 2001, 2009).

Durkheim (1897) attributed the increase in illicit behavior to sudden social changes, such as modernization, that attenuate the regulating functions of traditional norms. Insightfully, Merton (1938) shifted his attention to social structure and argued that unequal legitimate access to economic success between individuals in different social classes is the major cause of crime. In other words, the lower classes are provided with fewer legitimate means to achieve materialistic success prescribed by society, which in turn encourages them to attain these goals by deviant means (Baumer and Gustafson, 2007; Messner and Rosenfeld, 2009). On a related note, China's class structure has changed since the institution of a reform policy in 1978. The conditions forming social classes, such as the reliance on market transactions, the substantial privatization of ownership, and the constitutional protection of private property, have been gradually introduced over the past decades (Bian, Breiger, Davis, and Galaskiewicz, 2005). Currently, the private sector in China already accounts for over 60% of the national economy (China-US focus, 2016). According to Yan's (2015) report, 109 million Chinese possess between \$50 000 and \$500 000 and are classified

as middle class, which is more than in America. Similarly, Bian et al. (2005) identified a class structure distinctly different from the cadre-dominated social hierarchy. They also associate class structure in particular with economic success as an axial indicator to define social class in the Chinese private sector. In a related vein, Zou (2015) examined the applicability of Goldthorpe's (2007) class theory in the Chinese context and found that the classes attached to occupational structures were defined similarly in Chinese and Western society.

Nevertheless, previous evidence (Agnew, 1992; Baumer and Gustafson, 2007; Cao, 2007; De Clercq and Dakhli, 2009; Featherstone and Deflem, 2003) indicates that stratification variables such as income level, education, and membership only provide certain explanations for ethical problems and instrumental crimes. However, they fail to explain corporate crimes of the middle class in both Western and Chinese societies. To address this point, strain theorists advocate that other major sources of strain beyond social stratification should be explored (Agnew, 1992, 2013; Rebellon et al., 2012). First, compared with the uneven distribution of legitimate means among the social classes, many scholars suggest that more attention should focus on materialistic goals. Johnson and Duberley (2011) indicate that *materialism* should be held accountable for deviant behavior in modern societies. Similarly, Messner and Rosenfeld (2001, p. 5) argue that the overarching problem is the goal of materialistic success and "the drive to succeed entails criminogenic consequences for the lower and upper classes alike." A few macro-level studies acknowledge this issue, although in a rather unconvincing way because the concept of the desire for materialistic success is not well developed nor appropriately measured as societal differences (Cullen et al., 2004, p. 416; Martin et al., 2007). Benefiting from research in economic psychology and marketing (Richins and Rudmin, 1994; Tsang, Carpenter, Roberts, Frisch, & Carlisle, 2014), the present study



incorporates the individual-level construct of materialism to address this concern.

Next, based on the literature of justice and equity, Agnew (1992, 2001) suggests that still another type of strain exists. He claims that what matters is not only specific materialistic goals, but also the rules that specify how exchanges should be defined and how resources should be allocated within society. Individuals may suspect *the justice of the rules defined by institutions* because they frequently observe the disjunction between their expectations and actual achievements (Agnew, 1992). The distress they may experience caused by unjust treatment at the hands of institutions tends to pressure them into illicit behavior (Agnew, 2007). This argument is in line with that of North (1990), who claims that a fair and just institutional environment curbs behavioral uncertainty and reduces transaction costs in business deals. Such an environment also helps organizations and individuals adopt legitimate ways to fulfill their goals.

Strain theory focuses on the strain-deviance association (Agnew, 1992; Merton, 1938). In addition, further adopting an ethical perspective is valuable to better understand EBD. This type of deviance violates social norms, which are pertinent to the moral issues encountered in the daily business operations of SMEs. Although these acts are illegal, they are commonplace because offenders usually can get away with them. Therefore, it is a person's ethical reasoning that is likely to make the difference when social control manifests insufficiency. Rest's four-component model represents a foundational framework for individual moral behavior (O'Fallon and Butterfield, 2005, Craft, 2013) and posits that unethical behavior is associated with ethical reasoning and other inner processes. The four components essentially consist of moral sensitivity, moral judgment, moral motivation, and moral character. According to Rest (1986), prior to engaging in ethical actions, individuals go through the components of interpretation of the moral issue, determination of the morally correct course of action,

prioritization of the ethical value, and perseverance in a moral task.

Each component in the model may have certain impact on the other components, albeit not necessarily sequentially (Rest, 1986). This framework is frequently used with planned-behavior theory (Ajzen, 1991) to examine the relationship between moral judgment and motivation (O’Fallon and Butterfield, 2005). Nevertheless, the effects of preceding components on ethical behavior are underexplored (Craft, 2013; O’Fallon and Butterfield, 2005). The present study addresses this insufficiency by correlating the *ethical standards* of owners with EBD. Ethical standards reflect the ethical attitude of SME owners, which is similar to ethical judgment in Rest’s model (Al-Rafee and Cronan, 2006; Robertson, McNeill, Green, and Roberts, 2012).

Figure 1 shows the proposed model, which includes (1) the direct effects of materialism, trust in institutional justice, and the ethical standards of SME owners regarding EBD, and (2) the mediating effects of the ethical standards of SME owners on the relationship between materialism, trust in institutional justice, and EBD.

*Insert Figure 1 here*

## **Materialism and EBD**

This study adopts Richins and Dawson’s (1992) conceptualization of materialism because it regards materialism as the individual values that capture the essential role of materialistic goals in strain theory. According to Richins and Dawson (1992), materialists believe that personal success equates with the number and quality of accumulated possessions. They also posit that materialistic acquisition is the only way to access happiness in life and that materialistic acquisition is the central activity of life. In Chinese society, materialism has evidently surged among individuals of late. For instance, in 2012 Chinese consumers became the largest group of luxury-goods

shoppers worldwide, representing 25% of global luxury-goods spending (Bain and Company, 2012). In addition to the recent rapid economic growth and to the traditional cultural aspects such as “face saving,” researchers (Sun, D'alessandro, and Johnson, 2014; Yang and Stening, 2012) also attribute the rise of materialistic values to the former Chinese leader, Deng Xiaoping, who shifted the orthodox socialist ideology to prioritize the economy and pragmatism, as exemplified by popular slogans such as “to be rich is glorious” and “it doesn’t matter if a cat is black or white, so long as it catches mice” (Yang and Stening, 2012, p. 443). Consequently, materialistic values have become pervasive among the Chinese, as witnessed by the fact that noneconomic goals and even ideological debates now give way to economic development, which constitutes an important source of performance-based legitimacy for the Chinese government (Holbig and Gilley, 2010; Zheng, Luo, and Wang, 2014).

Strain theorists argue that, when their materialistic goals override their real conditions, materialistic SME owners experience pressure to achieve their objectives (Bernburg, 2002; Johnson and Duberley, 2011; Johnson and Smith, 1999; Maume and Lee, 2003). Despite an insatiable desire to accumulate possessions, legitimate access to attain materialistic targets is constrained because SME owners usually lack sufficient physical, financial, and intellectual resources (Dickson, Weaver, and Hoy, 2006; Lee, Lim, and Tan, 1999). This lasting frustration could be partially eased by committing minor acts of business deviance in daily operations. In addition, when materialistic ends are not congruent with the legitimacy of the means by which such ends are attained, SME owners high on materialism attach greater importance to the former than to the latter (Messner and Rosenfeld, 2009) because their materialistic goals are central in their lives. Thus, materialistic SME owners are driven into such deviance to acquire the associated materialistic advantages. In addition, the self-defined success and life

happiness of materialists can pressure them into seeking economic benefits from EBD because their internal state will be substantially deprived without recourse to deviant behavior (Agnew, 2001). Therefore, we propose the following hypothesis:

Hypothesis 1: *The level of materialism of SME owners correlates positively with EBD.*

### **Trust in Institutional Justice and EBD**

Institutions critically influence the behavior of SME owners in emerging markets (see, e.g., Mair and Marti, 2009; Puffer et al., 2010). North (1990) signifies the fairness and justice of institutions regarding individual choice in business transactions. Strain theorists (Agnew, 1992, 2001, 2007; Rebellon et al., 2012) argue that unjust treatment from an individual's surroundings is often conducive to frustration and negative emotions such as anger. Anger at institutions may foster SME owners to partake in EBD because it introduces a desire for revenge and simultaneously reduces the cognitive ability required for problem solving and for perceiving the cost of crimes (Agnew, 2001). Apart from this, a sense of alienation from society may also occur when SME owners perceive institutional arrangements to be unfair (De Clercq and Dakhli, 2009), which drives them to work toward their goal via an approach that does not fall within socially accepted norms. Therefore, EBD may be viewed as a favorable response to the unpleasant negative emotions caused by unjust institutional treatment (Rebellon et al., 2012). Evidence even suggests that individuals that engage in unethical behavior feel satisfied and less guilty when they perceive themselves to be treated unjustly (Schweitzer and Gibson, 2008). On the contrary, when institutional arrangements are viewed to be just and fair, there is little related tension for SME owners, who are not pressured to use illegitimate means to attain their goals (Dakhli and De Clercq, 2004).

Thus we make the following hypothesis:

Hypothesis 2: *SME owners' trust in institutional justice correlates negatively with EBD.*

### **Ethical Standards and EBD**

Ethical standards represent the attitude of SME owners in making ethical decisions (De Clercq and Dakhli, 2009), which is an important step that precedes actual behavior. Ethical attitude captures the favorability of appraisals of ethically related behavior. According to Rest's (1986) four-component model of moral behavior, individuals with high ethical standards do not attempt to excuse their suspect behavior when dealing with ethical dilemmas, which may constrain the recourse to such deviant behavior. Similarly, according to Ajzen (1991), attitude is also considered as one of the three key types of behavior antecedents. In addition, existing evidence argues in favor of the curbing effects that ethical standards have on deviant behavior. For instance, Graafland (2015) found that a favorable attitude on the part of consumers to socially responsible products determines their social buying behavior. In a similar vein, Lu and Lu (2010) observed that the positive attitude of consumers toward salespersons reduces the engagement on the part of the former in questionable consumer practices. Because EBD involves a low risk of legal consequences, informal norms such as ethical standards are expected to play an even more important role in constricting EBD. Thus, we propose the following hypothesis:

Hypothesis 3: *The ethical standards of SME owners correlate negatively with EBD.*

### **The Mediating Role of Ethical Standards**

We view the ethical standards of SME owners as an important step in the reasoning

that links the sources of personal strain with deviant behavior (Craft, 2013; De Clercq and Dakhli, 2009; Lu and Lu, 2010). The rationale underpinning this premise is that intense sources of personal strain in terms of materialism and distrust in institutional justice may allow ethical judgment to more willingly justify deviant behavior, subsequently promoting the recourse to deviant behavior to pursue materialistic goals. We estimate that this relationship is influenced by a partial mediation effect for two reasons: First, strain represents one type of determinant of ethical attitude along with other social factors, such as social learning and control (Agnew, 1992; Featherstone and Deflem, 2003). Second, EBD behavior is subject to the influence of reference groups and perceived behavioral control in addition to ethical attitudes (Ajzen, 1991; Ajzen and Fishbein, 2005).

The association between sources of personal strain and ethical standards has already been established (see, e.g., Cullen et al., 2004; De Clercq and Dakhli, 2009). With regard to materialism, Cullen et al. (2004) provide evidence that, in a sample of 3450 managers across 28 nations, pecuniary materialism correlates strongly and positively with the willingness to justify ethically suspect behavior. Furthermore, Rosenbaum and Kuntze (2003) show empirically that, in the USA, consumers high on materialism are more likely to justify fraudulent marketplace behavior. In line with these findings, Lu and Lu (2010) observe that Indonesian consumers high on materialism hold a more positive attitude regarding actively benefiting from illegal actions. The argument underpinning this evidence is that an overemphasis of materialistic acquisition on the part of SME owners encourages the use of economic metrics to assess self-worth, thereby separating self-worth from the concern for the welfare of others (Cullen et al., 2004; Messner and Rosenfeld, 2001). We thus propose the following hypothesis:

*Hypothesis 4: The ethical standards of SME owners partially mediate the relationship between materialism and EBD. Specifically, materialism correlates negatively with the ethical standards of SME owners and the ethical standards of SME owners correlate negatively with EBD.*

Regarding trust in institutional justice, Nivette (2014) argues that the fairness and justice of a state and its associated political, legal, and other institutions constitute a valid source of morality and, without these beliefs, individuals will withdraw their commitment to social welfare. Similarly, other studies (Lewis and Weigert, 1985; Dakhli and De Clercq, 2004) indicate that institutional trust provides a foundation for effective social order and exchange functions, and so the economic parties in business exchanges will not consider illegitimate means as a pathway to success. In an empirical study of self-employed persons across 39 countries, De Clercq and Dakhli (2009) found that trust in institutions regarding their fairness and efficacy correlates positively with their ethical standards. Therefore, we propose the following hypothesis:

*Hypothesis 5: The ethical standards of SME owners will partially mediate the relationship between trust in institutional justice and EBD. Specifically, trust in institutional justice correlates positively with the ethical standards of SME owners and the ethical standards of SME owners correlate negatively with EBD.*

## **RESEARCH METHODS**

### **Data Collection**

This study investigates the ethical standards and minor deviant behavior of entrepreneurs assuming an individual-level analysis that draws from strain theory (Agnew, 1992). We collected data from a large-scale distribution of questionnaires

among the members of the China Association of Small and Medium Enterprises (CASME) in both the Yangtze (Shanghai and Jiangsu Province) and Pearl (Guangdong Province) deltas. The CASME is a nationwide, nonprofit association that represents over 150 000 Chinese SMEs. The two aforementioned regions account for around 30% of the total number of SMEs in China (China Centre for Promotion of SME Development, 2014). Apart from the good availability of SMEs, these regions were selected because they are reported to be suitable locations to examine the rising materialism in China, which is related to their pioneering role in China's economic reform (Sun et al., 2014; Yang and Stening, 2012). This study has the support of the regional affiliations of the CASME and local business networks. After two screening processes to exclude firms with over 250 employees and to retain only non-subsidiaries and privately owned firms, we obtained a sample of 15 012 SMEs.

Previously developed scales were used for the research questions in the structured questionnaire and were refined following the advice of four scholars regarding the face validity of the constructs and from the feedback of sixteen SME owners on the clarity of concepts, language habits, and questionnaire format. Translation and back-translation procedures were adopted to ensure accuracy and consistency between the Chinese and English versions of the questionnaire (Brislin, 1970; Luo, Zhou, and Liu, 2005). Prior to finalizing the questionnaire, we further improved its contextual suitability and overall appropriateness through two focus groups consisting of SME entrepreneurs from Shanghai and Guangzhou.

Due to cost considerations, we pre-contacted 2,500 randomly selected SMEs from the sample pool with the assistance of the regional affiliations of the CASME. Questionnaires along with pre-paid return envelopes were sent to 1726 SME owners who provisionally agreed to participate. A phone number and email address were



provided to allow respondents to contact the research team. Three weeks after the first mailing, the same questionnaire was dispatched again to those who had not responded after follow-up phone calls. Eventually, of the 763 returned questionnaires (response rate = 44%), 741 proved usable. This high response rate testifies to the support from the CASME and local business networks, the relatively short questionnaire, and the professional survey skills applied.

To check for non-response bias, we applied the t-test to the number of employees ( $p = 0.77$ ) and the age of the entrepreneurs ( $p = 0.69$ ) between early and late respondents in the two mailings (Armstrong and Overton, 1977). The results suggest no significant differences. To assess the data quality, a second round of on-site surveys was conducted among 150 SME owners who had returned the questionnaire and who agreed to participate in this additional investigation. We compared the entrepreneurs' answers to the identical questions between the mail and on-site methods. The Pearson correlation coefficient ranges from 0.89 to 0.98, which suggests that the replies are highly consistent between the two methods (Kline, 1993).

We further paid special attention to social-desirability bias, which could arise because individuals may tend to deny (admit) socially undesirable (desirable) behavior (Chung and Monroe, 2003). First, we relied on the self-administration method to collect the data via the mail survey, which constrains the undesired effects introduced by the presence of interviewers. Interviewer effects are likely to occur when informants experience negative feelings such as shame, embarrassment, and jeopardy (Krumpal, 2013). Second, when asking sensitive questions, we adopted an indirect questioning approach that put informants in the position of a character portrayed in a hypothetical scenario (Fisher, 1993; O'Fallon and Butterfield, 2005, p. 404), which was further enhanced by using reversed items. Third, we assured confidentiality and anonymity in

the questionnaire in the form of a short and clear statement because evidence suggests that excessively sophisticated assurance or, on the contrary, the absence of such a statement could lead to poor-quality responses (Singer, Von Thurn, and Miller, 1995). Note that Chinese respondents demonstrate less social-desirability bias compared to their western counterparts in response to enquiries involving questionable business activities (Dunn and Shome, 2009).

### **Operationalization of Variables**

The Appendix reports the measures of the dependent variable (EBD), mediator (ethical standards) and independent variables (materialism and trust in institutions).

***Dependent Variable.*** We used a four seven-point Likert scale (Cronbach alpha = 0.84; composite reliability = 0.85) to measure *everyday-life business deviance*, which was taken from Karstedt and Farrall (2006). Respondents were asked the extent to which they would engage in minor deviant behavior in daily business operations in various scenarios (1 = never do; 7 = always do). Exemplar items included “paying or asking to be paid in cash to avoid paying taxes” and “being honest in insurance claims” (reverse scale).

***Mediator.*** *Ethical standards* were measured on a five-item ten-point Likert scale (Cronbach alpha = 0.86; composite reliability = 0.86) drawn from De Clercq and Dakhli (2009). The measures examine the extent to which SME owners think ethically suspect behavior *in society* can be justified (1 = always be justified; 10 = never be justified). Exemplar items included “lying in their own interest” and “avoiding a fare on public transport.” This scale had been assessed internationally and also in China (Cao, 2007; De Clercq and Dakhli, 2009).

***Independent Variables.*** We used a nine-item seven-point Likert scale to measure

*materialism* (Cronbach alpha = 0.86; composite reliability = 0.83). This scale, developed by Richins and Dawson (1992) and Richins (2004), has been widely used to gauge the general level of materialism in terms of individual differences in various disciplines (Richin, 2013). The effectiveness of this scale was further assessed in the context of China (Sun et al., 2014; Yang and Stening, 2012). The measures examine the preferential attitude (1 = strongly disagree; 7 = strongly agree) of respondents to possession and materialistic acquisitions in their lives. Exemplar items include “I admire people who own expensive homes, cars, and clothes,” and “I try to keep my life simple, as far as possessions are concerned” (reverse scaled).

*Trust in institutional justice* was measured by a seven-item seven-point Likert scale (Cronbach alpha = 0.91; composite reliability = 0.91) drawn from De Clercq and Dakhli (2009). Respondents were asked to assess the extent to which they had confidence in the fairness of various institutions (1= no confidence at all; 7= lot of confidence).

***Stratification Variables.*** Traditional strain theory suggests that a person’s social class influences his or her deviant behavior (Baumer, 2007). We included three social-stratification variables for SME owners to capture the social class of entrepreneurs with respect to their economic, education, and political status in China. In this research, *household income* was measured on a scale from 1 (lowest decile) to 10 (highest decile) relative to other entrepreneurs in China, taking into account their household income level including all wages, pensions, investment and other income. *Education level* assesses the highest level of education attained by the respondent, ranging from 1 (no formal education) to 7 (Ph.D.). We also capture membership in the Chinese Communist Party (CCP) by using a dichotomous scale. We coded CCP-party membership of entrepreneur as 1 and non-membership as 0.

***Controls.*** First, we controlled for the *age* of SME owners because older

entrepreneurs were found to have higher ethical standards than their younger counterparts (De Clercq and Dakhli, 2009). Second, the entrepreneur *gender* was captured on a dichotomous scale (1 = male, 0 = female) because prior evidence suggests substantial gender differences in relation to questionable business practices (Christie, Kwon, Stoeberl, and Baumhart, 2003). Finally, we used a dummy variable to operationalize *marital status* of the SME owner (1 = married, 0 = other status) because research into ethics shows that marital status constitutes an explanatory variable for ethical behavior (Cullen et al., 2004).

### **Construct Reliability and Validity**

The values of Cronbach's alpha and composite reliability are greater than 0.8, which suggest a good degree of internal consistency for all scales (Fornell and Larcker, 1981). With respect to *construct validity*, the rotated-factor solutions in the exploratory factor analysis are in line with theoretical premises and, furthermore, we checked convergent and discriminant validities of multi-item constructs through a confirmatory factor analysis (Anderson and Gerbing, 1988). The overall measurement model provides an excellent fit to the data ( $\chi^2/df = 1.89$ ; goodness of fit index is 0.90; comparative fit index is 0.95; root mean square error of approximation is 0.06; normed fit index is 0.95; and non-normed fit index is 0.94). All items were significantly loaded on their associated latent variables, with the lowest t-value being 14.47. Thus, the convergent validity of the constructs is satisfied.

The *discriminant validity* of the measures was assessed in two ways: We first calculated all confidence intervals ( $\pm$  two standard errors) around the correlation estimate (*phi* value) between the pairwise constructs, which do not include 1 (Anderson and Gerbing, 1988). Also, we computed the square root of the average variance

extracted value for each of the constructs, which was greater than the latent correlation of its pair with any other constructs (Fornell and Larcker, 1981). Together, these results show that the measures used in this study are both reliable and valid.

### **Common Method Variance**

We used the four *ex ante* and *ex post* strategies recommended by Podsakoff et al. (2003) to alleviate and detect the potential threat of common method variance. First, we placed the dependent variable, mediator, and independent variables onto different pages of the questionnaire to deliberately construct a psychological isolation between them, which was reinforced by a reversal of some item anchors and a clear assurance of anonymity and confidentiality. Second, sophisticated model specifications that included mediation effects were designed to prevent informants from deducing the research objectives of this study. The creation of such cognitive difficulties constrains the possible intervention of common-method bias. Third, we employed the *post hoc* Harman's one-factor test to assess the common method variance (Podsakoff and Organ, 1986). Testing the principal component factor of all the variables in our model revealed six factors; the largest factor explaining only 23.71% of the total variance. Fourth, a confirmatory factor analysis was used by introducing an unmeasured latent method factor into the measurement model (Podsakoff et al., 2003). The addition of this common method factor did not substantially improve the model fit, which only gave a variance of 0.14, significantly below the 0.50 threshold (Zhang et al., 2015). Collectively, it appears that the common method bias does not threaten to invalidate the findings of this study.

## **RESULTS**

## **Sample Characteristics**

In this research, the majority of respondent entrepreneurs were male (68.6%) and married (82.5%). The average age of these SME owners was 40.1 years and over half (51.9%) of the respondents had no university or higher education. Of all the entrepreneurs, 191 (25.8%) were members of the CCP. The investigated SMEs were small, with an average of 55 employees. The business of the SMEs ranged from the service sector; mainly including wholesale and retailing (17.1%), financial services and consulting (12.3%), catering (10.5%), and recreation (4.5%); to the manufacturing sector, primarily including information technology and electronics (11.0%), textiles (7.6%), and machinery and hardware (5.3%).

## **Statistical Analysis**

We analyzed and tested the hypotheses by using ordinary least squares hierarchical regressions. Baron and Kenny's (1986) standard approach was adopted to test the mediation through a series of regressions, which has two particular advantages over the structural equation modeling in our study. First, the standard approach incorporates multiple stratification variables, which is a theoretical prerequisite for testing the hypotheses. Second, this statistical technique is proven to be a valid approach to test *partial* mediation relationships (Souitaris and Maestro, 2010). In addition, only a small statistical difference separates these two methods in assessing mediation (James, Mulaik, and Brett, 2008). Prior to the analyses, all variables except the categorical ones were standardized to uniform the magnitude of scales, and decrease the chances of collinearity between variables and their interactions in the equation (Aiken and West, 1991).

## Findings

**Descriptive Statistics.** Table 1 summarizes the means, standard deviations, correlations of the variables, and collinearity statistics. In the correlation matrix, no correlation coefficient exceeds 0.40 with only one exception ( $r = 0.57$ ) between the variables of ethical standards and everyday-life deviance. Given its moderate nature and associated variance inflation factor (VIF) values of ethical standards approaching 1, no substantial collinearity effect appears for the regression variables (cf. Neter, Wasserman, and Kutner, 1996).

*Insert Table 1 here*

**Hypothesis Testing.** Table 2 presents the results of the hierarchical ordinary least squares regressions, from which we can sequentially examine the influence of the dependent variable on the controls, the stratification variables, and the predictors. The F-statistics that reflect the overall model fit are significant for all regression models, suggesting the overall robustness of the models. With regard to *direct effects*, materialism, trust in institutional justice, and ethical standards all significantly affect EBD ( $p < 0.001$ ), as predicted. Model 3 supports Hypothesis 1, confirming that the materialism of entrepreneurs has a positive impact on EBD ( $B = 0.36, p < 0.001$ ). Model 4 supports Hypothesis 2, positing that trust in institutional justice correlates negatively with EBD ( $B = -0.18, p < 0.001$ ). Model 5 supports Hypothesis 3, attesting to the negative effect of ethical standards on EBD ( $B = -0.57, p < 0.001$ ).

*Insert Table 2 here*

With regard to the effects of *partial mediation* (Hypotheses 4 and 5), our results support the presence of this type of effect by satisfying four conditions specified by Baron and Kenny (1986). First, Models 11 to 13 satisfy the first condition, which is that materialism and trust in institutional justice (the independent variables) must explain

ethical standards (the mediator). Second, Models 3 to 4 satisfy the second condition, which is that materialism and trust in institutional justice (the independent variables) must explain EBD (the dependent variable). Third, Models 6 to 8 satisfy the third condition, which is that ethical standards (the mediator) must explain EBD (the dependent variable) in the presence of the independent variables. The mediator of ethical standards in particular correlates negatively with EBD in Models 6 ( $B = -0.50$ ,  $p < 0.001$ ) and 7 ( $B = -0.56$ ,  $p < 0.001$ ) with materialism and trust in institutional justice, respectively. Still, in Model 8, the mediator had a negative impact ( $B = -0.49$ ,  $p < 0.001$ ) on the dependent variable with both independent variables together. Fourth, Models 6 to 8 satisfy the fourth condition, which is that the effects of materialism and trust in institutional justice (the independent variables) on EBD (the dependent variable) are reduced when the mediator of ethical standards is incorporated into the regression equations. Specifically, the effect of materialism drops from Model 3 ( $B = 0.36$ ,  $t$ -value = 9.95), to Model 6 ( $B = 0.24$ ,  $t$ -value = 7.20), and Model 8 ( $B = 0.23$ ,  $t$ -value = 6.98), whereas the effect of trust in institutional justice falls from Model 4 ( $B = -0.18$ ,  $t$  value = -4.50) to Model 7 ( $B = -0.12$ ,  $t$  value = -3.72) and Model 8 ( $B = -0.11$ ,  $t$  value = -3.45). The decline in the effect of the independent variables is formally confirmed by applying a Sobel test (Sobel statistic = 6.72,  $p < 0.001$  for materialism; Sobel statistic = -2.56,  $p < 0.01$  for trust in institutional justice). Thus, collectively, both hypotheses 4 and 5 are fully supported by the results.

**Robustness Checks.** We also checked the robustness of the results. First, we applied structural equation modeling to confirm the mediating role of ethical standards in our model. This estimate leads to a good model fit, and the direction and statistical significance of the hypothesized path relationships proved unchanged. Second, we separated our data into two subsamples according to their industries (manufacturing



and others) and re-ran the identical regression models for each subsample. The results remain similar and consistent. In addition, the reliability of our analysis is confirmed by the investigation of a repeat study of 150 SMEs in the second round of the on-site survey. Overall, these analyses further verify the robustness of these results.

## **DISCUSSION**

The minor but frequent deviant behavior of entrepreneurs is an overt but largely unexplored phenomenon in emerging economies (Sutter et al., 2013). The primary purpose of this study is to determine how materialism and trust in institutional justice—two important but under-researched strain constructs—affects EBD. We also analyze how SME owners incorporate their ethical standards into EBD. The results show that materialism correlates positively with EBD, whereas trust in institutional justice correlates negatively, and these effects are partially mediated by the ethical standards of SME owners.

The finding of materialism confirms the recent proposition of strain theory (Bernburg, 2002; Messner and Rosenfeld, 2009) that, apart from unevenly distributed accesses to economic success among social classes, the overemphasis of economic goals produces strains for individuals, which are responsible for increases on deviant behaviors. Previous research on entrepreneurs relates their personal traits primarily to entrepreneurial intentions or behavior (see, e.g., Mueller and Thomas, 2001; Wilson et al., 2007) and only peripherally discusses the sources of the strain that they experience and the associated consequences. Our evidence supports the view that a desire of materialistic success on the part of entrepreneurs pressures them into downplaying the legitimacy of how they access the requisite financial resources for attaining such a goal (De Clercq and Dakhli 2009; Dickson et al., 2006), which highlights the socio-

psychological reasoning among entrepreneurs that engage in deviant behavior (Agnew, 1992, 2001; Messner and Rosenfeld, 2001, 2009). Compared with the institutional voids and instability in transitioning economies (Puffer et al., 2010), the consequences of institutional justice on the behavior of SME owners has not been sufficiently investigated, despite it being stressed by North (1990) that this aspect is critical to the functioning and efficiency of the market. The results obtained herein support North's argument and the premises of strain theory (Agnew, 2001; Rebellon et al., 2012), whereby perceived justice constrains the illegitimate behavior of entrepreneurs in market transactions by easing the strain created by unfair treatment by institutions. Our findings are consistent with the view that the ethically apathetic and illicit behavior of managers accompanies the increasing perception of social injustice in transition economies (Martin et al., 2007; Zheng et al., 2014).

The results regarding the ethical standards of SME owners endorse the addition of the moral-behavior perspective into the investigation of the association of strain with deviance. In general, the results support the argument that ethical attitudes are applied in an important step in ethical reasoning that occurs prior to the recourse to business deviance (Craft, 2013; De Clercq and Dakhli, 2009; Lu and Lu, 2010). The existence of partial mediation effect suggests that personal strains lead to deviant behaviors only partially through ethical attitudes of SME owners in the process of moral decision-making.

## **CONCLUSION**

Our research objective was to juxtapose the recent advancement of strain theory as to the tensions originating from an overemphasis of materialistic goals and institutional justice with minor and frequently committed business deviant behavior.

This analysis of 741 Chinese SME owners largely confirms the key tenets of strain theory, which indicate that social pressure on SME owners encourages their engagement in EBD. The analysis also indicates that ethical reasoning is required to bridge the void between strain and minor deviant behavior on the part of SMEs owners (De Clercq and Dakhli, 2009). This study thus contributes to the literature on business ethics that discusses “unproductive” or “destructive” entrepreneurial behavior (Khan et al, 2007; Sutter et al., 2013). This work conceptualizes and explores a new type of deviant behavior on the part of SME owners, which is characterized by its small scale on an individual level and by its perceived commonness. In addition, such practices are largely overlooked in research dealing with formal and major crimes (Bowen and De Clercq, 2008; de Jong et al., 2010; Khan et al., 2007; Zhou and Peng, 2012). Therefore, this study advances our understanding of illicit business activities of SMEs in emerging economies, which responds to the appeal of phenomenon-based entrepreneurial deviance research (Yin and Quazi, 2016; Wiklund, Davidsson, Audretsch and Karlsson, 2011). Moreover, we substantially complement research on the opportunity reasoning of entrepreneurial deviance. This study supports and advances the strain perspective for understanding the deviant behavior engaged in by SME owners in emerging economies who experience heavy economic and institutional pressures (Ahlstrom and Ding, 2014). Instead of focusing on the traditional discussion of the lack of means hindering the attainment of goals, we confirm how the personal strain associated with economic goals and institutional justice affects the behavior of SME owners (Agnew, 2001; Baumer, 2007; Zheng et al., 2014), an analysis that substantially broadens the category of major strain endured by SME owners (De Clercq and Dakhli, 2009). In addition, this research explores the transfer mechanism of ethical standards of SME owners by considering the relationship between strain and behavior and substantially extends the power of

strain theory to explain deviance in SME business practices.

These results have substantial practical implications for policy makers. First, according to an Ipsos (2013) survey, 68% of the respondents in China report being under a great deal of pressure to make money and be economically successful, which ranks them first in the world for that characteristic. To control the negative effects of materialism, policy makers should adopt a more balanced approach to promote SME development that emphasizes both economic success and the use of legitimate means to attain that success. Second, weakened traditional norms such as the Confucian “five virtues” may be critical to sustaining the ethical system in China and should be reinforced to offset the negative influence of materialism. Such an approach could complement legal and/or regulatory methods. Third, to establish a fair institutional environment, a systematic reform should be implemented to eliminate or reduce discriminatory treatments with regard to financing, taxation, and administration that currently favor large-sized state-owned firms over SMEs (Zhao, 2009).

The limitations of this study provide directions for future research. First, although this study identifies two important sources of strain for SME owners (economic and institutional), our understanding of the strain-deviance association remains incomplete. Future studies should thus explore other sources of strain, such as conformity to peers or competitive stresses (Martin et al., 2007). Second, the incorporation of ethical standards only partially addresses the void between strain and deviance. Other aspects associated with reference groups and perceived social control may be added in future research (Ajzen, 1991; Ajzen and Fishbein, 2005). Of particular value would be to consider the role of regulatory enforcement as a social mechanism to deter unethical behavior (Haß et al., 2016). A third limitation of this study involves the sample used. Given the economic diversity in China, future studies should involve SME owners from

other geographic regions of the country to explore whether the results of the current investigation can be generalized. Fourth, this study fails to sufficiently investigate the implications of political affiliation due to lack of data. Undoubtedly, this aspect is especially of importance to understand personal strain of SME owners in China, which constitutes a promising research direction. Future studies could explore how the membership of SME owners' political affiliations (in addition to CCP), typically including National/local People's Congress and National/local Committee of the Chinese People's Consultative Conference, affects EBD. Fifth, because the results of this study are based on a large sample of Chinese SME owners, their validity would be enhanced by additional evidence from their counterparts in other emerging economies.

## Appendix

### Multi-item constructs and measures employed

Constructs	Operational Measures of Construct	Constructs derived from	Cronbach's Alpha
Everyday-life business deviance	<p>To what extent would the entrepreneur respond (1= never do, 7= always do) to the following hypothetical scenarios in daily business operations</p> <ol style="list-style-type: none"> <li>1. Paying or asking to be paid in cash to avoid paying taxes</li> <li>2. Being honest in insurance claims (reverse scale)</li> <li>3. Disclosing faults of goods when selling second hand (reverse scale)</li> <li>4. Claiming for replacement items, refunds or compensation from a business transaction party, which they were not entitled to</li> </ol>	Karstedt and Farrall (2006)	0.84
Materialism	<p>To what extent does the respondent agree with the items (1= strongly disagree, 7= strongly agree)</p> <ol style="list-style-type: none"> <li>1. I admire people who own expensive homes, cars, and clothes</li> <li>2. The things I own say a lot about how well I do in life.</li> <li>3. I like to own things that impress people</li> <li>4. I try to keep my life simple as far as possessions are concerned (reverse scale)</li> <li>5. Buying things does not give me a lot of pleasure (reverse scale)</li> <li>6. I like a lot of luxury in my life</li> <li>7. My life would be better if I owned certain things I don't have.</li> <li>8. I'd be happier if I could afford to buy more things</li> <li>9. It sometimes bothers me quite a bit that I can't afford to buy all the things I'd like.</li> </ol>	Richins and Dawson (1992); Richins (2004)	0.86

	To what extent (1= no confidence at all; 7= lot of confidence) does the respondent have confidence in the fairness of various institutions including		
Trust in institutional justice	1. The police 2. The people’s congress 3. Education system 4. The press 5. Labor unions 6. Civil services 7. Social security system	De Clercq and Dakhli (2009)	0.91
	For each of the following scenarios in society, the respondent was asked to indicate whether it can always be justified (1), never be justified (10), or something in between (2–9) (intermediate scores)		
Ethical standards	1. Someone accepting a bribe in the course of their duties 2. Avoiding a fare on public transport 3. Lying in one’s own interest 4. Claiming government benefits to which someone is not entitled 5. Cheating on taxes if someone has a chance	Cao, 2007; De Clercq and Dakhli (2009)	0.86

## COMPLIANCE WITH ETHICAL STANDARDS

Ethical approval: All procedures performed in studies involving human participants were in accordance with the ethical standards of the institutional and national research committee and with the 1964 Helsinki declaration and its later amendments or comparable ethical standards.

Informed consent: Informed consent was obtained from all individual participants included in the study.

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