6-6-2009

"DOING WELL BY DOING GOOD" - A STUDY OF ETHICAL AND SOCIA
L RESPONSIBLE PRACTICES AMONG ENTREPRENEURIAL VENTURES IN AN E
MERGING ECONOMY

Noor Hazlina Ahmad

School of Management, Universiti Sains Malaysia, Malaysia, hazlina@usm.my

Recommended Citation

Ahmad, Noor Hazlina (2009) "DOING WELL BY DOING GOOD" - A STUDY OF ETHICAL AND SOCIALLY RESPONSIBLE PRACTICES AMONG ENTREPRENEURIAL VENTURES IN AN EMERGING ECONOMY, Frontiers of Entrepreneurship Research. Vol. 29: Iss. 12, Article 2.
Available at: http://digitalknowledge.babson.edu/fer/vol29/iss12/2

This Paper is brought to you for free and open access by the Entrepreneurship at Babson at Digital Knowledge at Babson. It has been accepted for inclusion in Frontiers of Entrepreneurship Research by an authorized administrator of Digital Knowledge at Babson. For more information, please contact digitalknowledge@babson.edu.
“DOING WELL BY DOING GOOD” – A STUDY OF ETHICAL AND SOCIALLY RESPONSIBLE PRACTICES AMONG ENTREPRENEURIAL VENTURES IN AN EMERGING ECONOMY

Noor Hazlina Ahmad, School of Management, Universiti Sains Malaysia, Malaysia

ABSTRACT

The upsurge in ethical and social responsibility awareness in contemporary businesses has led to assumptions that the associated behaviours would enable competitive advantage to be attained as a firm distinguishes itself from its competitors through such practices. This paper reports on a study conducted on the prevalence of such practices among entrepreneurial ventures in an emerging economy (Malaysia), and the effect of such practices on both financial and non-financial performance. A sequential inter-method mixing design was employed in which during stage 1, a series of semi-structured interviews with ten Malaysian SME founder-owners were conducted. Stage 2 involved a survey in which a total of 212 usable questionnaires were received. The results of the first phase of the research (qualitative) found evidence that entrepreneurial ventures in Malaysia do generally engage in both ethical and socially responsible practices. The subsequent model testing using SEM however revealed that while ethical practices were positively associated with venture performance, socially responsible practices were not. This may indicate that while entrepreneurial ventures in emerging economies like Malaysia become quickly aware of the more serious consequences of not adopting ethical practices, the concern for social issues may still be lacking, i.e., in terms of motivations, they may be closer to the profitable end of the philanthropy vs. profitability spectrum. While the findings may be equivocal, we believe that the paper makes the following two significant contributions: (1) it provides an empirical test of the importance of ethical and socially responsible practices to entrepreneurial venture performance; and (2) it furthers understanding of how and why this may be different in an emerging economy context.

INTRODUCTION

In the last decade or so, there has been a significant rise in scrutiny on business ethics and social responsibility and this has attracted a great deal of debate pertaining to the prevalence of such practices in SMEs. However, in terms of research, most of the empirical work done to test the prevailing issues on ethics and social responsibility in the commercial landscape has so far concentrated on large firms, especially in the context of emerging economies (see for example, Amran, Lim, & Yahya, 2007; Zulkifli & Amran, 2006). Relatively little is known about SME founder-owners’ attitudes concerning ethics and social responsibility, particularly regarding how they perceive the importance of ethics and social responsibility as components of business decisions. This knowledge is very important since, usually, entrepreneurs need to firstly recognise the importance of ethics and social responsibility components in their decision-making processes before they can actually apply them in business settings (Hunt & Vitell 1986).

The main debate is around the issue of whether entrepreneurial ventures that devote resources and efforts to try to improve the society and the world around them will suffer in terms of performance or whether these ventures which “do good” will also “do well” and thus be successful both financially and socially. For example, there have been differences expressed in the
discussion surrounding the common dilemma of philanthropy vs. profitability faced by most entrepreneurs. The hallmark of philanthropic gestures is “giving without expecting anything in return” (Prathaban & Rahim, 2005). On the one hand, some argue that entrepreneurs are enticed to act ethically and in a socially responsible manner solely for material gain, and that “good ethics is good for business” (Zairi & Peter, 2002). On the other hand, others argue that there are other non-financial motivations and, as reasoned by Sarasvathy et al. (1998), entrepreneurs as firm owners bring personal values into business decisions and thus assume greater responsibility for the outcome. As such, they normally act in accordance with their moral beliefs and values.

The lack of consensus among researchers points to a need for further studies into why ethical and socially responsible practices in entrepreneurial ventures should be examined more closely. In addition, there are three other reasons why this research is important. Firstly, there is a large disparity in the number of studies of ethical and social responsibility between large, established firms and smaller entrepreneurial ventures. To date, research on ethics and social responsibility has been largely concentrated on large firms (Morris et al., 2002). Longenecker et al. (2006) notes that the size of firms is a significant differentiator for ethical issues whereby such issues identified in the larger firms do not reflect what is actually happening in smaller firms. Secondly, according to Gibb (2005), smaller entrepreneurial ventures often have strong interconnectedness with the local community in which they operate in and the conduct of ethical and socially responsible business is an important factor in creating a harmonious ‘business-customer’ relationship in the local community. Thirdly, while there is an increasing awareness about ethics and social responsibility in emerging economies, most of the research has been in developed economies.

This paper reports on a study conducted to further understand the prevalence of ethical and socially responsible practices among entrepreneurial ventures in an emerging economy, in this case Malaysia, and subsequently examine the effects of such practices on both financial and non-financial performance among these ventures. The study adopted an inter-method mixing design in 2 stages. Stage 1 involved semi-structured interviews, while Stage 2 involved a survey among Malaysian SME founder-owners were conducted. While the results of the interviews found evidence that entrepreneurial ventures in Malaysia do generally engage in both ethical and socially responsible practices, the subsequent model testing using Structural Equation Modelling (SEM) revealed that while ethical practices were positively associated with venture performance, socially responsible practices were not. This may indicate that while entrepreneurial ventures in emerging economies become quickly aware of the more serious consequences of not adopting ethical practices, the concern for social issues may still be lacking, i.e. in terms of motivations, they may be closer to the profitable end of the philanthropy vs. profitability spectrum.

While the findings may be equivocal, we believe that the paper makes two significant contributions. Firstly, it provides an empirical test of the importance of ethical and socially responsible practices to performance in entrepreneurial ventures. And secondly, it provides a further understanding of how and why this may be different in the context of emerging economies.

LITERATURE REVIEW

Ethical and Social Responsibility Issues in Malaysia

New times bring about new challenges to business practitioners. Emerging arguments about ethical practices (Ushedoto & Ehiri, 2006) and socially responsible practices (Luken & Stares, 2005) suggest that the associated behaviours may be linked with good business practices. In the context of Malaysia, the call for businesses to adopt ethical and socially responsible agenda has been made
explicit by the Malaysian government in its Vision 2020 strategic plan; especially in the pursuit of
the following three of nine thrusts, that is, creating (1) a moral and ethical society; and (2) a fully
caring culture; and (3) an economically just society.

The establishment of the National Integrity Plan (NIP) in 2004 that followed suit is another
example of the Malaysian government’s commitment to fuel economic growth through good
values and noble practices. The aspiration is that enhancement of ethical and socially responsible
practices would ultimately lead to the enhancement of the well-being of the community. In
addition, the government is seen as a conduit to spur ethical and socially responsible practices
among Malaysian firms through various support mechanism i.e., the increase of tax deductibility
of corporate donations as well as the launch of CSR Perdana Menteri Award in 2007 to recognise
firms’ charitable contributions to the society (Amran, Ling, & Yahya, 2007). Importantly, given
the ethnic and cultural mosaic of Malaysian society, practicing ethical and socially responsible
acts are seen critical to build a strong ground for harmonious business dealings among the
multiracial community namely the Malays, Chinese, and Indian.

In the context of large organisations in Malaysia, Zulkifli and Amran (2006) found a growing
understanding of corporate social responsibility among Malaysian companies in their study that
examined accountants’ perceptions of corporate social responsibility practices. However, due to
the lack of effort in reporting, these organisations remain the “unsung” heroes. Interestingly, while
Malaysia is also recognised as the most active emerging economies in terms of corporate
responsibility (Zulkifli & Amran, 2006), the issues of ethics and social responsibility among
smaller businesses in Malaysia has yet to be explored given that the focus on such issues in
Malaysia is often directed towards large firms rather than smaller firms.

Ethical and socially responsible practices have been claimed to benefit entrepreneurs
financially in the long run, especially in emerging economies. According to Goll and Rasheed
(2004), in fast-changing and unpredictable environments, socially responsible behaviours help
organisations to gain support from various external stakeholder groups. Such behaviours provide
them with some protection from the unpredictability they face. An organisation’s image and
reputation may be influenced by the ‘good’ practices it portrays to its customers and to the general
public (Jones, 2000). Taken together, the benefits of ethical and socially responsible practices
enable competitive advantage to be attained as a firm distinguishes itself from its competitors.

Beyond the commercial landscape, such practices demonstrated by entrepreneurs can be seen
as a means to promote harmonious business and societal relationships, especially in the context of
a multiracial country such as Malaysia. In particular, these good business practices could enhance
trust, cooperation, and tolerance among the three diverse racial groups in the country. Ethical and
socially responsible actions are intrinsically important because they could affect the emotional and
interpersonal aspects of the work and life relationships and as such, deserve more research.

**Ethical and Social Responsibility Practices in Entrepreneurial Ventures & Small Businesses**

There is substantial discussion on the prevalence of such practices in the context of small
business (Spence, 1999; Spence & Lozano, 2000; Quinn, 1997). With a view that ethical practices
should be the guiding principle for all businesses, large or small, studies investigating ethics in
smaller firms have started to gain momentum. In general, ethical practices within a commercial
context make claims about “what ought to be done or what ought not to be done” in managing a
business (Kuratko, Hornsby, & Naffziger, 1997). Vyakarnam et al. (1997) found that ethical
issues experienced by smaller firms in the UK revolved around the issues of conflict of interest
among the stakeholders, protection of knowledge and information, legal and moral obligation, and personal versus business decisions. In addition, using a dilemma-based approach, Spence and Rutherford (2001) identified four major dilemmas facing small business owners including profit maximisation, subsistence priority, enlightened self-interest, and social priority.

Closely related to ethical practices are social responsibility considerations. Fülöp et al. (2000) defined social responsibility as “the positive activities a company undertakes in the society in which it operates” and this includes responsibility towards customers, employees and the public. This concept follows the “Triple Bottom Line” philosophy which suggests that for a firm to be sustainable, it should incorporate not only economic, but social and environmental considerations in its decision making (Elkington, 1997). When the concept was first developed more than twenty years ago, organisations found it difficult to operationalise it in their business practices, as it required sacrifices to be made on the financial level. However, recently, organisations’ leaders have started to acknowledge the importance of being socially responsible in business affairs. For example, Fülöp et al. (2000) found that there is a growing commitment to social responsibility among smaller firms, which is comparable to that of larger firms. Specifically, they found that small firms have demonstrated willingness to make arrangements to meet the requirements of social responsibility especially to their customers, their employees, and the public.

Notwithstanding this, the issues of ethics and social responsibility in small entrepreneurial ventures may be, to some extent, different from their larger counterparts due to the nature and characteristics of these firms. Small entrepreneurial ventures are, by nature independent and self-managed (Spence & Lozano, 2000). Presumably, the key aspects of ethics would revolve around the personal values and beliefs of the owners themselves, rather than governed by the ethical codes of conduct in larger firms. “Multitasking” is another key criterion of small businesses (Spence, 1999). The variety of tasks facing founder-owners of entrepreneurial ventures may leave them with less time to consider ethics in their daily business management. In addition, Vyakarnam et al. (1997) note, “what constitute personal and business ethics are probably closer in situations where the owner is also the manager in a business.” (p.1627). Given these constraints facing founder-owners of entrepreneurial ventures, it is important to closely study the extent to which ethical and social responsibility considerations are applicable to them.

In line with the “doing well by doing good” credo, Vyakarnam, Bailey, Myers, and Burnett (1997) contend that ethical behaviours is one reason why firms are able to stay longer in business. Following this notion that “good ethics is good for business”, the study argues that ethical and socially responsible acts will have positive effects on business performance. On that basis, this study advanced a theoretical framework that links ethical and socially responsible practices with business success for further analysis (see Figure 1).

Based on this framework, the study advances 2 hypotheses as follows:

**H1:** The emphasis on ethical practices among entrepreneurial ventures will have a positive impact on their business success (i.e., satisfaction with financial, satisfaction with non-financial, and performance relative to competitors)

**H2:** The emphasis on socially responsible practices among entrepreneurial venture will have a positive impact on their business success (i.e., satisfaction with financial, satisfaction with non-financial, and performance relative to competitors)
METHOD

The present study is a part of a larger study that delved into the perception of entrepreneurs operating in SMEs in Malaysia with regards to good business practices and how these practices can be linked to their business success. This paper only reports the ethical and socially responsible practices among SME founder-owners. To understand such practices among entrepreneurial ventures, a sequential inter-method mixing design was adopted. A study combining both qualitative and quantitative approaches is useful not only in identifying issues specific to ethical and social responsibility in smaller firms, but also in enhancing the generalisability of findings, thus providing better support for theoretical advancement.

The first stage involved a series of semi-structured interviews with ten SME founder-owners of entrepreneurial ventures operating in Malaysia, from which the practices that reflected ethical and socially responsible behaviour were extracted following similar procedures established by Spence & Rutherfoord (2001). Given the limited studies of ethical and social responsibility practices in small firms, this study follows Spencer’s (1999) suggestion that exploratory research that builds upon qualitative interviews is needed as this will allow researchers to delve into ethical and social responsibility issues that are of particular relevance to smaller firms. Moreover, according to Morse and Richards (2002), employing a qualitative approach is appropriate if “the purpose is to learn from the participants in a setting or process the way they experience it, the meaning they put on it, and how they interpret what they experience” (p. 28). In view of these suggestions, semi-structured interviews were first conducted on an individual, face-to-face basis prior to a quantitative data collection involving a larger group of SME entrepreneurs.

Stage 2 involved a survey among SME founder-owners in entrepreneurial ventures operating in Malaysia. The questionnaire asked entrepreneurs to fill in their demographic and firm profile, as well as items pertaining to the importance of ethics and social responsibility considerations in handling their business. Items on ethics and social responsibility relevant in the context of SMEs were derived from the qualitative study and also adapted from Fülöp et al. (2000).

Sample

The definitions of SMEs provided by Small and Medium Industries Development Corporation (SMIDEC) Malaysia were used to identify appropriate businesses for inclusion in the study. Together, these definitions resulted in the following specifications for inclusion: (1) individuals who were actively participating in the management of the business; (2) businesses having less than 150 employees for the manufacturing sector and less than 50 employees for the service sector; and (3) businesses that are stand-alone firms i.e. not a franchise or part of a larger organisation.

For the preliminary interviews, ten entrepreneurs (five men and five women) volunteered to participate in the study. Given the limited studies of ethical and social responsibility practices in small firms, this study follows Spencer’s (1999) suggestion that exploratory research that builds upon qualitative interviews is needed as this will allow researchers to explore ethical and social responsibility issues that are of particular relevance to smaller firms. In view of these suggestions, semi-structured interviews were conducted on an individual, face-to-face basis. In the interviews, respondents were asked to comment on various aspects of their approach to managing their businesses that they perceived to be important to the success of a business. The interviews did not highlight any issue pertaining to ethical practices and socially responsible behaviours to avoid “socially desired responses” (Spence & Rutherfoord, 2001). Instead, the study was presented to the participants as being about practices for small business owners in managing their business.
Interviews were transcribed and behaviours that reflected ethical and social responsibility practices were extracted. The qualitative data generated provided a referencing item pool for the development of the survey instrument.

For the survey, the final sample of respondents in this study included 212 SME founder-owners. The demographic breakdown of respondents and profile of the respondents and firms are presented in Tables 1 and 2 respectively.

DATA ANALYSIS AND RESULTS: QUALITATIVE STUDY

Results of the Interviews

A content analysis of the interview data revealed themes associated with ethical and socially responsible practices. To facilitate the description of the findings, behaviours were regrouped into ‘clusters’. As there is no \textit{a priori} cluster that has been developed for ethical practices, behaviours reflecting ethics were aggregated, on a logical basis, to form clusters of ethical behaviours. In this case, it is debatable however, that one cluster is equally different to another cluster.

(i) Ethical Practices

Based on the interviews, a number of behaviours that were related to ethical practices in business dealings were identified. The comments obtained suggested that participants demonstrated the application of ethical rules and principles within a commercial context and considered them important in running a business. Generally, this was reflected in comments about “what ought to be done or what ought not to be done” or “what is right and good for humans” (Jones, 2000). As indicated in Table 3, seven specific behaviours were identified as being associated with ethical considerations in business and these were grouped into three clusters.

The importance of ethical practices in business is clearly elaborated by one of the respondents when she explained the way she runs her business. The entrepreneur stated that,

“It is a common practice in my business that during consultation sessions with the customers and potential dealers I will explain in detail the effects of each of the products and how the products could help solve the problems that customers have, and at the same time explain the side-effects of using the products. I would also disclose to my customers the potential hazards for those who have specific medical problems (translation).”

In short, participants clearly demonstrated concern for ethical business practices in managing their business. Behaviours revolving around maintaining honesty and integrity, being trustworthy, engaging in fair commercial practices, and taking responsibility as well as being accountable for one’s own actions were seen as important by the respondents. This finding is seen as consistent with the statement made by Fülöp et al. (2000, p. 5) that “ethical business behaviour is becoming increasingly important and starting to arise in the global economy”, even in smaller firms.

(ii) Socially Responsible Practices

Comments related to the social responsibility theme were extracted from the interviews. As indicated, social responsibility has been referred to as “the positive activities a company undertakes in the society in which it operates” including responsibility towards customers, employees, and the public (Fülöp et al., 2000). As indicated in Table 4, eight behaviors associated with the social responsibility domain were identified and these were grouped into three clusters.
The importance of socially responsible behaviour is made explicit by one of the respondent when he mentioned,

“In business it is not always about us…how much profit we want to achieve, how to improve our business, and how to get more customers. We have to consider people around us, the society. We should consider their welfare and how we can help them improve their well being (translation).”

Above all, participants expressed greater concern for the welfare of their employees. Interestingly, the participants pointed out that being socially responsible, especially towards customers, is beneficial for their business in the long run. While “serving others”, a term referred to “working for others’ benefit rather than your own” (Rushworth & Gillin, 2006) was described as the reason why some entrepreneurs were concerned about social responsibility, respondents indicated that acting in a socially responsible manner, especially towards customers, has economic advantages for the business in the long run. The associated behaviours are therefore seen as a mechanism for the firm to achieve competitive advantage.

**DATA ANALYSIS AND RESULTS: QUANTITATIVE STUDY**

**Survey Procedure**

Based on the identified themes and the measures identified in previous research, a scale measuring ethics and social responsibility in entrepreneurial ventures was developed. This second stage involved a survey using 44 items that asked about the overall business practices in the entrepreneurial ventures (however, this paper only reports a part of the business practices), with a 12-item scale specifically incorporated to measure ethical and socially responsible behaviours.

Statements relating to ethical and socially responsible practices derived from the interviews were incorporated in the survey (together with other 32 identified good business practices), which asked the participants to rate the extent to which the following practices are given emphasis in their businesses, such as emphasis on fair and open marketing practices, transparency in business dealings, commitment to offering products or services at reasonable prices, taking responsibility and accountability for their businesses’ actions, forging relationship with charitable organisations, engagement in community activities, concern for the staff welfare, as well as efforts to create job opportunities within the local community and others. Participants rated each item in terms of the importance they attached to the behaviour described for managing their own business using a 7-point Likert scale that allowed ratings from 1 (not at all) to 7 (to a large extent).

For business success, satisfaction with financial success including profitability, sales turnover, sales growth, and return on investment was assessed using items adopted from Chandler and Hanks (1993) who reported high overall internal consistency for their measure of .77. A 5-point Likert scale was used to describe this comparison with 1 representing significantly lower and 5 significantly higher. Evaluation of non-financial success took the form of ratings of overall owner’s satisfaction, customer satisfaction, employee satisfaction, relationship with suppliers, business image, as well as balance between work and family life (Ahmad & Seet, 2006; Hoque, 2004). Hoque reported high internal consistency with a Cronbach’s alpha value of .75. Participants evaluated their satisfaction with non-financial success in 6 areas on a 5-point Likert scale ranging from 1 (not at all satisfied) to 5 (very satisfied). Self-report of performance on “objective” financial indicators included estimates of the firm’s performance relative to its competitors. This 3-item scale, which consists of sales growth, return on sales, and growth in market share, has
reported a moderate internal reliability value of .53 (Chandler & Hanks, 1993). A 6-point Likert scale was used ranging from 1 (decreasing) to 5 (increasing rapidly).

A total of 212 usable questionnaires were received from the 1000 sent (21.2% response rate). Confirmatory factor analysis (CFA) was performed to examine the factorial validity of the factors and to assess the goodness of fit of the model (Byrne, 2001). The model was then tested using the structural equation modelling (SEM) procedure. Besides fit statistics, of particular interest is the path significance indicated by the standardised regression estimate (β) that assesses the effect of ethical and socially responsible practices on financial and non-financial success.

Results of the Survey

Confirmatory factor analysis (CFA) was performed to examine the factorial validity of the factors and to assess the goodness of fit of the model (Byrne, 2001). The model was then tested using the structural equation modelling (SEM) procedure. Besides fit statistics, of particular interest is the path significance indicated by the standardised regression estimate (β) that assesses the effect of ethical and socially responsible practices on financial and non-financial success. The central point in analysing structural models is the extent to which the hypothesised model “fits” or adequately describes the sample data (Byrne, 2001). A model fit can be evaluated by examining several goodness of fit indices which include: \( \chi^2 \), \( \chi^2/df \), GFI, TLI, CFI, and RMSEA. Besides fit statistics, of particular interest is the path significance indicated by the standardised regression estimate (β) that assesses the effect of one variable on another. The significance level was set at \( p < .05 \). Prior to testing the model, the psychometric properties and the goodness of fit of the constructs studied were undertaken.

Reliability and validity

As shown Figure 1, the measurement model for ethical and social responsibility practices returned Cronbach’s (α) alpha values greater than .70 (Ethical = .75; Social Responsibility = .76). The composite reliabilities (Pη) calculated were above the recommended value of .70 (Ethical = .78; Social Responsibility = .91). In addition, the composite reliability values of above .50 (Ethical = .54; Social Responsibility = .79) verified the convergent validity of the construct. Similarly, as depicted in Figure 2, all dimensions of the business success construct had strong internal consistency of >.80 (satisfaction with financial performance = .92; satisfaction with non-financial performance = .89; performance relative to competitors = .93). In addition, the composite reliability values were above .70 (satisfaction with financial performance = .95; satisfaction with non-financial performance = .93; performance relative to competitors = .96), providing further evidence of the reliability of the business success construct. The composite reliability values of above .50 (Satisfaction with financial performance = .78; Satisfaction with non-financial performance = .68; Performance relative to competitors = .82) also confirmed the convergent validity of the construct. Based on these indicators, it could therefore be assumed that these variables were reliable and that they could be valid to be utilised in the model testing.

Goodness of Fit

The goodness-of-fit indices generated for the measurement model for ethical, social responsibility, and business success constructs reflected a generally good fit of the model given the sample data (refer to Figures 2 and 3). The model for ethical and social responsibility yielded a good fit given the sample data with \( \chi^2 = 111.18 \), \( p = .000 \), \( \chi^2/df = 2.7 \), GFI = .91, TLI = .90, CFI = .92, and RMSEA = .081. In addition, the measurement model for the business success construct...

Frontiers of Entrepreneurship Research, Vol. 29 [2009], Iss. 12, Art. 2

Posted at Digital Knowledge at Babson
http://digitalknowledge.babson.edu/fer/vol29/iss12/2
also yielded a good fit given the sample data with $\chi^2 = 173.81$, $p = .000$, $\chi^2/df = 2.95$, GFI = .90, TLI = .92, CFI = .94, and RMSEA = .086.

Model Testing

An analysis of the data using the structural equation modelling procedure, as depicted in Figure 4, showed a significant direct effect of ethical practices on business success ($\beta = .19$, $p < .05$). However, the effect of social responsibility on business success was non-significant. The strongest effect of ethical practices was on satisfaction with financial performance ($\beta = .19*.94 = .18$), followed by satisfaction with non-financial performance ($\beta = .19*.70 = .13$), performance relative to competitors ($\beta = .19*.69 = .13$). This model yielded good model fit of $\chi^2 = 430.18$, $p = .10$, $\chi^2/df = 1.96$, GFI = .99, CFI = .99, TLI = .97 and RMSEA = .067.

DISCUSSION, LIMITATIONS AND CONCLUSION

The findings from the first phase of the research (qualitative) indicate that entrepreneurial ventures do generally engage in both ethical and socially responsible practices. However, for the subsequent model testing using SEM, the results were equivocal. While ethical practices were positively associated with venture performance, socially responsible practices were not. This may indicate that while entrepreneurial ventures in emerging economies like Malaysia become quickly aware of the more serious consequences of not adopting ethical practices, the concern for social issues may still be lacking among most entrepreneurial ventures. In other words, in terms of motivation, they may be closer to the profitable end of the philanthropy vs. profitability spectrum. Another possible explanation for the non-significant effect of social responsibility on business performance is that Malaysian entrepreneurs may perceive that the costs of engaging in socially responsible behaviours outweigh the benefits and that such behaviours have no relevance to business success; this, in turn, may have led to a lack of motivation to engage in such behaviours. However, it is important to remember that the data being referred to here describe those behaviours that participants think are linked to business success. It is possible that Malaysian respondents, while valuing social responsibility behaviours in general, do not see them as critical to the achievement of SME success.

The present study is not without its limitations. Self-report was used as the source of data for the measurement of predictor and outcome measures. Even though some argues for the possible bias of using such method, this approach was necessary because of difficulties associated with the independent assessment of each of these variables. Self-report is not uncommon in studies examining management behaviour, especially those involving entrepreneurs working in SMEs (Man, 2005). An avenue for future research is to look into the possibility of considering multiple informants by obtaining feedback from other stakeholders. Also future research should test the proposed model using a larger sample of small business owners to establish an informed understanding of the linkage among ethical practices, social responsibility, and small firms' competitive edge especially in emerging economies such as Malaysia.

In essence, while the findings may be equivocal, the study makes the following two significant contributions: it provides (1) an empirical test of the importance of ethical and socially responsible practices to performance in entrepreneurial ventures; and (2) a further understanding of how and why this may differ in emerging economy contexts. The identification of such “noble” practices (particularly, in the qualitative study) signals an important message regarding the prevalence of such practices, particularly in smaller firms. Also, in view of “good ethics is good for business”, it is assumed that failure to adhere to such practices will have major implications on well-being of
the business. The good example (in terms of the demonstration of ethical and socially responsible practices) set by the smaller firms may influence the broader trading environment to improve standards of behaviour and integrity in business and would also develop a healthier economy (Bishop, 1992), as they make up more than 80% of all establishments in most countries. In addition, ethical and socially responsible considerations are seen pivotal given that harmonious “business-business”, “customer-business” and “community-business” relationships could bolster firm performance and perhaps to a larger extent, promote communal unity that is built upon trust, respect, and integrity.

CONTACT: Noor Hazlina Ahmad; hazlina@usm.my; (T): 60-4-6533888; Universiti Sains Malaysia, 11800 Minden, Penang, Malaysia.

ACKNOWLEDGEMENT: I would like to extend my heartiest thanks to Dr. Carlene Wilson, Flinders University, and Dr. Liz Kummerow, University of Adelaide, for their guidance and support throughout the project.

REFERENCES


Table 1: Demographic Breakdown of Respondents

<table>
<thead>
<tr>
<th>Demographic profile</th>
<th>Category</th>
<th>Respondents</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Position in the company</td>
<td>Business owner</td>
<td>119</td>
<td>56.1</td>
</tr>
<tr>
<td></td>
<td>Business partner</td>
<td>93</td>
<td>43.9</td>
</tr>
<tr>
<td>No. of years in the current company</td>
<td>2-5 years</td>
<td>92</td>
<td>43.4</td>
</tr>
<tr>
<td></td>
<td>6-10 years</td>
<td>74</td>
<td>34.9</td>
</tr>
<tr>
<td></td>
<td>11-20 years</td>
<td>37</td>
<td>17.5</td>
</tr>
<tr>
<td></td>
<td>21 years and more</td>
<td>9</td>
<td>4.2</td>
</tr>
<tr>
<td>Current age</td>
<td>30 or under</td>
<td>41</td>
<td>19.4</td>
</tr>
<tr>
<td></td>
<td>31-40</td>
<td>80</td>
<td>37.7</td>
</tr>
<tr>
<td></td>
<td>41-50</td>
<td>59</td>
<td>27.8</td>
</tr>
<tr>
<td></td>
<td>51 or above</td>
<td>33</td>
<td>14.4</td>
</tr>
<tr>
<td>Gender</td>
<td>Male</td>
<td>160</td>
<td>75.5</td>
</tr>
<tr>
<td></td>
<td>Female</td>
<td>52</td>
<td>24.5</td>
</tr>
<tr>
<td>Race</td>
<td>Malay</td>
<td>147</td>
<td>69.3</td>
</tr>
<tr>
<td></td>
<td>Chinese</td>
<td>46</td>
<td>21.7</td>
</tr>
<tr>
<td></td>
<td>Indian</td>
<td>17</td>
<td>9.0</td>
</tr>
<tr>
<td>Educational Background</td>
<td>High School</td>
<td>66</td>
<td>31.1</td>
</tr>
<tr>
<td></td>
<td>Certificate Level</td>
<td>28</td>
<td>13.2</td>
</tr>
<tr>
<td></td>
<td>Diploma</td>
<td>41</td>
<td>19.3</td>
</tr>
<tr>
<td></td>
<td>Bachelor degree</td>
<td>68</td>
<td>32.2</td>
</tr>
<tr>
<td></td>
<td>Postgraduate degree</td>
<td>9</td>
<td>4.2</td>
</tr>
</tbody>
</table>
Table 2: Profile of Firms

<table>
<thead>
<tr>
<th>Firm’s profile</th>
<th>Category</th>
<th>Respondents</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>No of employees</td>
<td>Less than 50</td>
<td>150</td>
<td>70.8</td>
</tr>
<tr>
<td></td>
<td>51-100</td>
<td>51</td>
<td>24.0</td>
</tr>
<tr>
<td></td>
<td>101-150</td>
<td>11</td>
<td>5.2</td>
</tr>
<tr>
<td>Business area</td>
<td>Manufacturing</td>
<td>32</td>
<td>15.1</td>
</tr>
<tr>
<td></td>
<td>Service</td>
<td>180</td>
<td>84.9</td>
</tr>
<tr>
<td>Firm’s Location</td>
<td>Perlis</td>
<td>4</td>
<td>1.9</td>
</tr>
<tr>
<td>(Malaysia)</td>
<td>Kedah</td>
<td>50</td>
<td>23.6</td>
</tr>
<tr>
<td></td>
<td>Penang</td>
<td>54</td>
<td>25.5</td>
</tr>
<tr>
<td></td>
<td>Perak</td>
<td>18</td>
<td>8.5</td>
</tr>
<tr>
<td></td>
<td>KL</td>
<td>25</td>
<td>11.8</td>
</tr>
<tr>
<td></td>
<td>Selangor</td>
<td>29</td>
<td>13.7</td>
</tr>
<tr>
<td></td>
<td>Melaka</td>
<td>6</td>
<td>2.8</td>
</tr>
<tr>
<td></td>
<td>Johor</td>
<td>12</td>
<td>5.7</td>
</tr>
<tr>
<td></td>
<td>Kelantan</td>
<td>2</td>
<td>0.9</td>
</tr>
<tr>
<td></td>
<td>Terengganu</td>
<td>1</td>
<td>0.5</td>
</tr>
<tr>
<td></td>
<td>Pahang</td>
<td>3</td>
<td>1.4</td>
</tr>
<tr>
<td></td>
<td>N. Sembilan</td>
<td>8</td>
<td>3.8</td>
</tr>
</tbody>
</table>

Table 3: Ethical Practices

<table>
<thead>
<tr>
<th>Cluster</th>
<th>Examples of behaviours</th>
</tr>
</thead>
</table>
| Concern for ethical business practices | • Handle business based on ethical standard and consideration  
• Engage in fair, open, and honest marketing practices  
• Be committed to offering products/services at fair prices |
| Maintain honesty and integrity | • Be honest and transparent in business dealings  
• Be trustworthy and keep promises |
| Take responsibility and be accountable | • Take responsibility and be accountable for own actions  
• Admit mistakes and inform the affected party that they have occurred |

Table 4: Socially Responsible Practices

<table>
<thead>
<tr>
<th>Cluster</th>
<th>Examples of behaviours</th>
</tr>
</thead>
</table>
| Responsibility towards society       | • Engage in community activities  
• Concern for social welfare – “serving others”  
• Create job opportunities for local communities |
| Responsibility towards customers     | • Provide extra services to people/customers  
• Give customers value for their money  
• Demonstrate the willingness to add value to customers well being |
| Responsibility towards business associates | • Cooperate with and help others in business  
• Share knowledge and resources with others |
Figure 2: Measurement model for ethical and socially responsible practices

Figure 3: Measurement model for business success
Figure 4: Structural equation modelling procedure

[Diagram showing the relationships between Ethical, Socially responsible, Business Success, sat-financial, sat-non-financial, and performance relative to competitor with corresponding regression coefficients.]