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Does the Notion of 'Doing Well by Doing Good' Prevail Among Entrepreneurial Ventures in a Developing Nation?

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Abstract The rise 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 versus 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.

Keywords Ethical practices · Social responsibility · Entrepreneurial ventures · Developing nation · Business success

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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 et al. 2007; Zulkifli and 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 and Vitell 1986). Also, based on the Upper Echelons theory, the way an organisation is managed is heavily dependent upon the experience and values of those who hold key positions in the organisation (Hambrick and Mason 1984). Hambrick (2007, p. 334) continues that 'if we want to understand why organisations do the things they do, or why they perform the way they do, we must consider the biases and dispositions of their most powerful actors…'

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 versus profitability faced by most entrepreneurs. The hallmark of philanthropic gestures is 'giving without expecting anything in return' (Prathaban and 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 and Peters 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) note 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. Specifically, the study adopted an inter-method mixing design in a sequential fashion. Stage 1 involved semi-structured interviews with Malaysian SME founder-owners, while Stage 2 involved a survey among a larger pool of Malaysian SME founder-owners in order to test the effects of ethical and socially responsible practices on their business success.

Literature Review

Ethical and Social Responsibility Issues in Malaysia

New times bring about new challenges to business practitioners. Emerging arguments about ethical practices (Ushedo and Ehiri 2006) and socially responsible practices (Luken and 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 earnestness 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 et al. 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 Indians.

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 and Amran 2006), the issues of ethics and social responsibility among smaller businesses in Malaysia have yet to be explored given that the focus on such issues in Malaysia is often directed towards large firms rather than smaller firms.

Despite claims that due to the lack of resources and financial vulnerable state of SMEs, this cohort could not practise socially responsible gestures, 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 and Small Businesses

Defining ethics and social responsibility is a vexed and controversial issue. According to Davidson and Griffin (2000), ethics refers to personal beliefs that are held by individuals pertaining to what is right and what is wrong, whereas social responsibility reflects the obligations of organisations to protect and improve the society in which they operate. Joyner and Payne (2002) on the other hand argue that, no matter how both concepts are being defined, ethics and social responsibility are two similar and interchangeable concepts, at least in the manner in which they are being utilized in management literature. Nonetheless, Fisher (2004) believes that ethics and social responsibility are two distinct but obviously related concepts. He adds that the ambiguity emerged due to the inconsistencies in the way these terms are defined in the literature. Clearly, ethics reflects the beliefs and values that individuals or groups embrace regarding the standards of right and wrong as well as good and bad (Schermerhorn 2002). Social responsibility on the other hand denotes the obligations that a business has towards its shareholders and stakeholders (i.e. customer, employees, suppliers, and society) and the drive to fulfil these obligations is guided by the values and beliefs that is held by the key person in an organisation (Hemingway and Maclagan 2004). This view is somewhat similar to that of Samson and Daft (2003) who argue that the decisions to practice social responsibility are shaped by ethics, the internal values that are a part of organisation's corporate culture. The present study concurs with the view that ethics and social responsibility are different but related concepts.

Regardless of the way both terms are being employed, a review of the management literature suggests that these noble practices have often been related to good business practices, especially among large firms. With the heighten interest in both ethics and social responsibility; there is substantial discussion on the prevalence of such practices in the context of small business (Spence 1999; Spence and Lozano 2000; Quinn 1997). In general, ethical practices within a commercial setting make claims about 'what ought to be done or what ought not to be done' in managing a business (Kuratko et al. 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.

Fülöp et al. (2000) defined socially responsible practices 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 that 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). Ferrell et al. (2000) contend that a socially responsible organisation will strive to maximise the positive effects it has on the society and minimise the negative effects. They argue that apart from fulfilling economic and legal responsibilities, society expects business to fulfil its ethical and philanthropic responsibilities. Taking on this argument, Fisher (2004) adds that socially responsible organisations are those that fulfil all these responsibilities.

When the concept was first developed more than 20 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. 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. 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 and 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. 'Multi-tasking' 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 et al. (1997) contend that ethical behaviours is one reason why firms are able to stay longer in business. Following the notion that 'good ethics is good for business', this study argues that ethical and socially responsible acts will have positive effects on business success. It is worth noting that the measurement of business success in smaller firms is another controversial issue. While some researchers defined success based on strictly financial performance, as it is believed that a business will only be viable if it is financially solvent (Marlow and Strange 1994), others is of the opinion that non-financial measure of success is equally important particularly in the context of smaller firms (Frese et al. 2002; Hoque 2004). Similarly, Murphy et al. (1996) argue that, in smaller firms, financial measures are necessary but not sufficient to capture total organizational success, therefore non-financial measures need to be emphasized as well. The present study concurs with the multiple dimensions of business performance and thus incorporates both financial and non-financial measure of business success. Specifically, business success is measured using satisfaction with financial and non-financial performance as well as performance relative to competitors.

Based on the preceding discussion, this study advanced a theoretical framework that links ethical and socially responsible practices with business success (see Fig. 1).

Based on this framework, the study advances two 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).

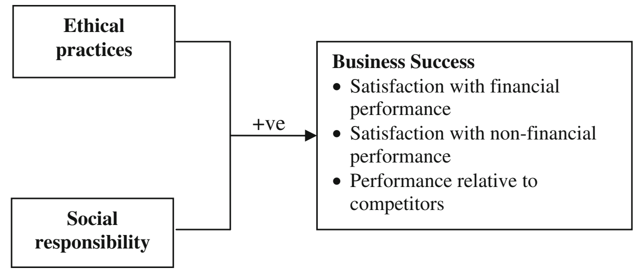

Fig. 1 Theoretical framework

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 regard 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 and Rutherfoord (2001). Given the limited studies of ethical and social responsibility practices in small firms, this study follows Spence'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.

The second stage 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 SME Corporation 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. 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 and Rutherfoord 2001). Instead, the study was presented to the participants as being about practices for small business owners in managing their business. Interviews were then 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, given that the official Small and Medium Industries Business Directory contained mainly SMEs operating in manufacturing sector, the Malaysia Productivity Corporation (previously known as National Productivity Corporation) was contacted to obtain a more representative sample of SMEs given that more than 85% of SMEs in Malaysia are operating in service sector). A list of 1,520 companies was available in the database, but the screening process undertaken by the researcher eliminated firms that did not meet the specified criteria or did not have complete contact details. This resulted in a pool of 1,000 SMEs. This large pool provided the initial access to potential participants from the manufacturing and service sectors. 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 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.

Ethical Practices

Based on the interviews, a number of behaviours that were related to ethical practices in business dealings were

Table 1 Demographic breakdown of respondents

Demographic profile	Category	Respondents	%
Position in the company	Business owner	119	56.1
	Business partner	93	43.9
No. of years in the current company	2–5	92	43.4
	6–10	74	34.9
	11–20	37	17.5
	21 and more	9	4.2
Current age	30 or under	41	19.4
	31–40	80	37.7
	41–50	59	27.8
	51 or above	33	14.4
Gender	Male	160	75.5
	Female	52	24.5
Race	Malay	147	69.3
	Chinese	46	21.7
	Indian	17	9
Educational background	High school	66	31.1
	Certificate level	28	13.2
	Diploma	41	19.3
	Bachelor degree	68	32.2
	Postgraduate degree	9	4.2

Table 2 Profile of firms

Firm's profile	Category	Respondents	%
No of employees	Less than 50	150	70.8
	51–100	51	24
	101–150	11	5.2
Business area	Manufacturing	32	15.1
	Service	180	84.9
Firm's location (Malaysia)	Northern region	126	59.5
	Central region	57	26.9
	Western region	14	6.6
	Southern region	12	5.7
	Eastern region	3	1.4

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.

Table 3 Ethical practices

Cluster	Examples of behaviours
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

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 behaviours 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

Table 4 Socially responsible practices

Cluster	Examples of behaviours
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

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 and 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

Data Collection 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, cooperate with and help others in business, share knowledge and resources with others as well as efforts to create job opportunities within the local community. 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 0.77. A 5-point Likert scale was used to describe this comparison with one representing *significantly lower* and five *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 and Seet 2006; Hoque 2004). Hoque reported high internal consistency with a Cronbach's alpha value of 0.75. Participants evaluated their satisfaction with non-financial success in six 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 0.53 (Chandler and Hanks 1993). A 6-point Likert scale was used ranging from 1 (*decreasing*) to 6 (*increasing rapidly*).

A total of 212 usable questionnaires were received from the 1,000 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). Structural equation modelling (SEM) procedure was utilised to test the model using AMOS 16.0 package. 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

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 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 fit indices that include the following: chi-square (χ^2), chi-square/degree of freedom (χ^2/df), goodness-of-fit index (GFI), Tucker Lewis Index (TLI), comparative fit index (CFI), standardized root mean residual (SRMR), and root mean square error of approximation (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 $p < 0.05$. Prior to testing the model, the psychometric properties and the goodness of fit of the constructs studied were undertaken.

Reliability and Validity

To measure the reliability of the measures, we used the inter-item consistency reliability value of Cronbach alpha.

As shown in Table 5, the values range from 0.83 to 0.95, which were above the threshold of 0.7 as suggested by Nunnally (1978) and Nunnally and Bernstein (1994). Next, we tested the convergent validity of the measures. Convergent validity is the degree to which multiple attempts to measure the same concept in agreement. As suggested by Hair et al. (1998), we used the factor loadings, composite reliability, and average variance extracted to assess convergence validity. The loadings for all items exceeded the recommended value of 0.6 (Chin et al. 1997). Composite reliability values, which depict the degree to which the construct indicators indicate the latent, construct range from 0.805 to 0.931 which exceeded the recommended value of 0.7 (Hair et al. 1998).

The average variance extracted, which reflects the overall amount of variance in the indicators accounted for by the latent construct, was in the range of 0.434 and 0.71, which were close to the recommended value of 0.5 (Hair et al. 1998). Next, we proceeded to test the discriminant validity. Discriminant validity can be examined by comparing the squared correlations between constructs and variance extracted for a construct (Fornell and Larcker 1981). As shown in Table 6, the squared correlations for each construct are less than the square root of the average variance extracted by the indicators measuring that construct indicating adequate discriminant validity. In total, the measurement model demonstrated adequate reliability, convergent validity, and discriminant validity.

Model Testing

Given that our data are not normally distributed, as indicated by Mardia's coefficient = 90.686, CR = 21.991, $p < 0.01$, the Bollen–Stine bootstrap p would be a more appropriate statistic for the evaluation of the fit of our model. As shown in Table 7, the Bollen–Stine bootstrap $p = 0.104$ is not significant, the RMSEA value is 0.062, the confidence interval is between 0.045 and 0.069, and the PCLOSE is not significant. Other fit indices depicted in Table 7 showed that the model yielded a reasonable fit given the sample data.

Table 5 Result of CFA for measurement model

Construct	Item	Internal reliability Cronbach alpha	Convergent validity		
			Factor loading	Composite reliability[a]	Average variance extracted[b]
Ethical practices	ETH1	0.75	0.58	0.818	0.434
	ETH2		0.54		
	ETH3		0.60		
	ETH4		0.72		
	ETH5		0.77		
	ETH6		0.71		
Socially responsible practices	SR1	0.76	0.57	0.805	0.455
	SR2		0.58		
	SR3		0.74		
	SR4		0.71		
	SR6		0.75		
Satisfaction with financial performance	SF1	0.92	0.90	0.931	0.771
	SF2		0.87		
	SF3		0.91		
	SF4		0.83		
Satisfaction with non-financial performance	SNF1	0.89	0.73	0.865	0.518
	SNF2		0.77		
	SNF3		0.69		
	SNF4		0.63		
	SNF5		0.77		
	SNF6		0.72		
Performance relative to competitors	PRC1	0.93	0.84	0.821	0.605
	PRC2		0.76		
	PRC3		0.73		

[a] Composite reliability = (square of the summation of the factor loadings)/{(square of the summation of the factor loadings) + (square of the summation of the error variances)}

[b] Composite reliability = (summation of the square of the factor loadings)/{(summation of the square of the factor loadings) + (summation of the error variances)}

Table 6 Discriminant validity of constructs

Constructs	(1)	(2)	(3)	(4)	(5)
(1) Ethically responsible	**0.659**				
(2) Socially responsible	0.332	**0.675**			
(3) Satisfaction financial	0.071	0.030	**0.878**		
(4) Satisfaction non-financial	0.105	0.017	0.428	**0.720**	
(5) Performance relative	0.045	0.043	0.321	0.222	**0.778**

Diagonals represent the square root of the average variance extracted while the other entries represent the correlations

Table 7 Fit indices for the measurement model

Fit index	This study	Recommended values	Source
df	163		
χ^2	271.484		
Bollen–Stine p	0.104		
χ^2/df	1.666	$\leq$3.00	Byrne (2001)
GFI	0.875	$\geq$0.90	Hair et al. (1998)
AGFI	0.842	$\geq$0.80	Chau and Hu (2001)
CFI	0.940	$\geq$0.95	Hu and Bentler (1999)
RMSEA	0.062	$\leq$0.06	Hu and Bentler (1998)
NNFI (TLI)	0.935	$\geq$0.95	Hu and Bentler (1999)
SRMR	0.06	<0.08	Hair et al. (1998)

An analysis of the data using the SEM procedure, as depicted in Fig. 2, showed a significant direct effect of ethical practices on business success ($\beta = 0.54, p < 0.001$). However, the effect of social responsibility on business success was non-significant. Ethical practices account for 19% of the business success variance, which is deemed acceptable given the variance is explained by only one variable and there are many other variables that can account for the variance in performance. The strongest effect of ethical practices was on satisfaction with financial performance ($\beta = 0.54 \times 0.88 = 0.46$), followed by satisfaction with non-financial performance ($\beta = 0.54 \times 0.82 = 0.44$), performance relative to competitors ($\beta = 0.54 \times 0.70 = 0.38$).

Discussion

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 versus 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.

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,

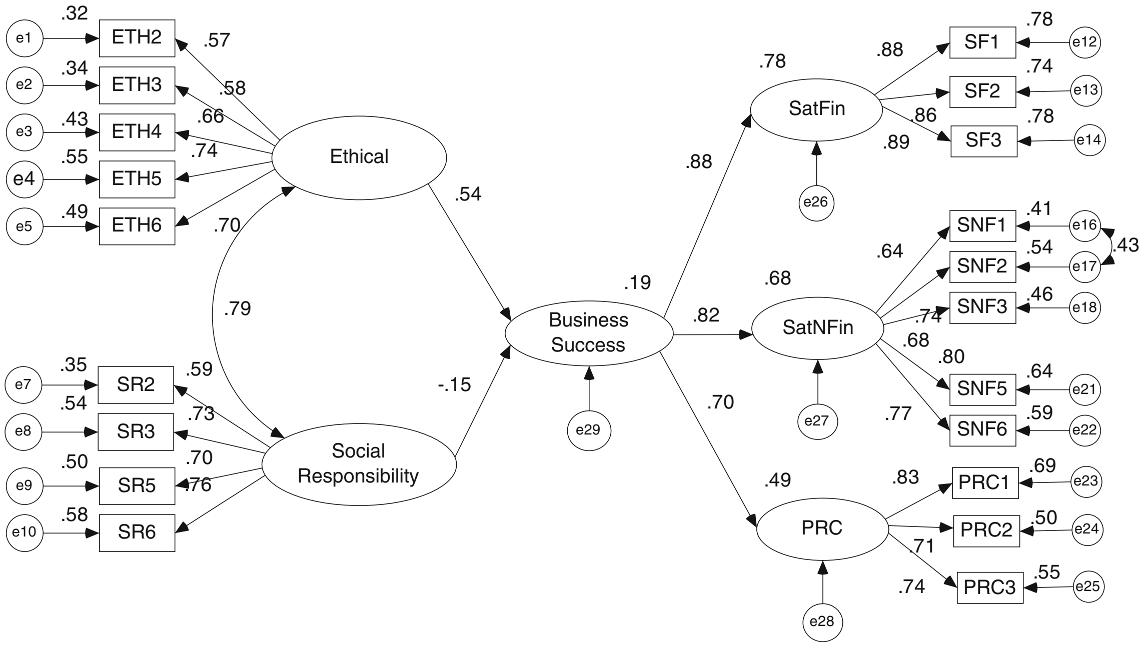

Fig. 2 SEM procedure

promote communal unity that is built upon trust, respect, and integrity.

The challenge now is for the entrepreneurship educators and policy makers to view the issues of ethics and social responsibility through the lens of smaller firms as a means for creating competitive advantage. As argued by Hatten (2006), ethical and social responsibility issues in smaller firms should go hand in hand with the strategic planning of the firms because the entrepreneurs' decisions of 'what to do and how to go about doing it' are largely influenced by their ethical and socially responsible values. Training programs that could portray the relationships among strategic planning, ethics, and social responsibility of the entrepreneurs are of great value.

Limitation

The present study is not without 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. 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.

Conclusion

In short, this study sets a platform for further investigation in ethics and social responsible practices in smaller firms. Even though the findings were partially supported, entrepreneurs should be cognizant of the increase awareness about ethics and social responsibility in commercial context which may eventually lead the society to disapprove firms that are found to be ethically ill and socially irresponsible. More importantly, business practitioners should recognize that ethics, social responsibility, and profit making are not conflicting agenda; they can go hand in hand. As such, firms, be it large or small, should continue to practice ethical and socially responsible behaviours in their business dealings.

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