

# Ethical Sensitivity and Sustainable Performance of SMEs: Empirical Evidence from Nigeria

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**Abstract:** Regardless of the relevance of sustainability practices to business organisation, literature indicates very few studies have attempted to investigate the effect of ethical sensitivity on the sustainability of small and medium enterprise (SMEs), mainly the relationship between ethical sensitivity and sustainable performance of SMEs. The literature suggests that there is not only limited information on the Sustainable Performance of SMEs in Nigeria but also little research in this important area of study. By using structural questionnaires, the data for the study were collected from 288 SMEs in Nigeria. The findings of the study indicate a significant positive relationship between ethical sensitivity and sustainable performance of SMEs. The result of the study seems to demonstrate that the practice of ethical sensitivity in SMEs will not only be to improve their economic performance but also to increase both environment and social performance as well.

**Keywords:** SMEs, Ethical sensitivity, Sustainable Performance, Nigeria

## I. INTRODUCTION

Sustainability has become a very sensitive issue for the public wellbeing (Bwise 2018; Lin, Chang, Chang, 2014). It is important because it checkmates incidents that harm the business image and value. For example, the discovering of inhuman work conditions in global operations such as high carbon emissions and unsustainable farming of raw materials can significantly damage business credibility (Xia, Chen, & Zheng, 2015). Modern investors that show ethical concerns would not want to be accused of destroying environment with excessive pollution from their business activities (Feridun, 2006).

Accordingly, SMEs now need to be more concerned with sustainability. This is because businesses are not stand alone in society. Every decision a business makes, affects the surrounding community and stakeholders. Bhandarker (2014) reported that business is an agent of world benefit whilst sustainability, including corporate social, financial and environmental responsibility as the over arching umbrella and the new challenge would be how to make a business remain profitable and sustainable.

The concept of sustainable development arises in an attempt to meet the needs of the present generation without compromising the ability of future generation to meet their own needs. (WCED, 2012). Sustainable performance is therefore a strategy of the practice of sustainable development (Kocmanová & Dočekalová, 2011). Over the years, a number of studies carried on this concept include that of Harmon and

Auseklis (2009) Hopwood, Mellor, and O'Brien (2005) Huson, Malatesta and Parrino (2004) and Ostrom, 2009) and majority have depicted fundamental activities from the regulatory factors such as institutions and stakeholders while a few indicating the firm's voluntary efforts ensuring the success of the green activities being implemented.

On the other hand, the trend of the performance of SMEs in Nigeria appears to be poor and not sustainable. Consequently, (Basil, 2005) indicates that the Performance of SMEs in the country is below expectation and they have failed to make desired impact in terms of social, economic and environmental performance.

Although the literature shows that the number of research that focused on SMEs seems to increase over the years, a review of past studies highlights that most of these studies focused only on economic aspect of performance (Almubarak, 2016; Moorthy et al., 2012; Neeta Baporikar Geoffrey Nambira Geroldine Gomxos, 2016; Suryaningrum, 2012; Zheng, Yang, & McLean, 2010). Never the less, literature review reveals also that studies on either/or empirical conceptual studies on the sustainable performance of SMEs are few (Baumgartner & Korhonen, 2010; Bottery, 2014; Prasad & Vatsal, 2013; Sustainable & Studies, 2007; Wesarat, Sharif, & Abdul Majid, 2017). Moreover, even the few studies that focus on sustainable performance of SMEs are predominantly in developed nations (Ciemeleja & Lace, 2015; Golicic & Smith, 2013; Gunasekaran, Jabbour, & Jabbour, 2014; Martínez-Ferrero & Frías-Aceituno, 2015; Tisdell, 2001; WCED, 2012). The review of the literature indicates that, there is not much information on the determinant of SMEs performance in Nigeria, especially from the sustainability outlook which are society, economy and environment.

Furthermore, research on previous studies on SMEs are mostly focused on government support, training, entrepreneurship skills, marketing, competition and financial performance of SMEs (Almubarak, 2016; Moorthy et al., 2012; Neeta Baporikar Geoffrey Nambira Geroldine Gomxos, 2016; Suryaningrum, 2012; Zheng et al., 2010). Considering the importance of ethical sensitivity to firm's performance very few studies examined the aforementioned variables in different dimensions (Kauffman & Riggins, 2012; Pereira-lópez, 2016; Qammach, 2016; Singh, 2012).

For instant, previous studies identified ethical sensitivity as a division of philosophy which relates to principles of good and bad. Principles of ethics give guidelines for practices in the

organisation, because they depict what is “right”. Ethics support businesses in making moral decisions and taking ethical actions (Smith GE, Barnes KJ, 2014). The studies shows that ethical sensitivity is linked to the performance of SMEs (Carreira FA, Guedes MDA, 2008). Based on this information and research gaps, the paper is presented in five sections. The following Section Two is literature review. Section Three is research methodology. Section Four is the result. Finally, Section Five presents discussion and conclusion of the paper.

## II. LITERATURE REVIEW

Sustainable performance is a strategy of the practice of sustainable development (Kocmanová & Dočekalová, 2011). The concept of sustainable development arises in an attempt to meet the needs of the present generation without compromising the ability of future generation to meet their own needs. Sustainable performance can also be viewed as the integration of economic, social and environmental performance. Yet some literature indicate that, the concept of sustainable development arose as a result of the failure from the conventional development to fight poverty (Kolk, 2016).

In order to ascertain the sustainable performance an organisation, the management system of the enterprise is taken in to recognition (Ciemleja & Lace, 2015). This relates to providing effective and efficient sub-systems, taking into respect deviances from the state of balance. The practical application of sustainable performance of SMEs requires processes that support sustainability of an enterprise. This process is mutually functional that insists each management level decision should be implemented through dimensions of sustainability. Thus, the quality of an SMEs management influences the total result as well as innovative potential of the SMEs (Ciemleja & Lace, 2015).

In recent times, firms are beginning to adopt an account frame- work with three parts used for performance measurement namely; Social, Environmental and Financial. Thus, a balanced and multi-dimension theory known as the Triple Bottom Line (TBL) became more relevant as an effective tool for measuring sustainable performance and it said to give greater value (Rashid, Jabar, Yahya, & Samer, 2015; Venkatraman & Nayak, 2015). TBL provides an opportunity for the integration of sustainable business practices that may lead to sustainable performance (Rashid et al., 2015).

Sustainable performance comprises of economic, social and environmental performance. Previous studies by Rennings, Schroder and Ziegler (2003) and Connelly and Limpaphayom, (2004) in established relationship were carried out by pairing each component of sustainable performance (economic, social and environmental), rather than relating all the three together within the mainstream. However studies by other (Balabanis, Phillips and Lyall (1998), Brinkø et al., (2015); Hillman and Keim (2001) and Waddock and Graves (1997) accept sustainable performance

collectively. They argue that these components cannot be dealt with individually, because they have relationships with each other (Venkatraman & Nayak, 2015).

Ethical sensitivity seems to play a role as a sustainability practice of SMEs. Ethics is identified as a division of philosophy which relates to principles of good and bad (Carreira FA, Guedes MDA, 2008) . Principles of ethics give guidelines for practices in the Organisation, because they depict what is “right”. Ethics support businesses in making moral decisions and taking ethical actions (Smith GE, Barnes KJ, 2014).

Ethical sensitivity focuses on environmental and sociological components of sustainable development (firm performance). Organizational ethics integrates ethical climate and ethical culture in firms that lead to important impact on ethical decision making. These results would ultimately provide sustainable performance (Wesarat et al., 2017).

The concept of organizational Ethics provides the means Long-term business. It is very important that Business remain ethical to stake holders under conditions of uncertainty. Firms are also expected to serve sustainable development not only for the benefits of themselves but also the interest of others in society (Wesarat et al., 2017).

In business organization, the aspiration for better productivity and profit maximization have been overtaken by sustainable performance. Organisations that focus on profit only often make short-term decisions without concern for long-run sustainable benefits.

Previous studies have revealed the evidence that show the linkage between ethics and the sustainability of performance in organisations. The findings of more recent studies by Chan and Cheung (2012), Bottery (2014), Kolk (2016), Chan and Cheung (2012) and Wesarat et al., (2017) have also demonstrated the existence of the relationship between the ethical sensitivity and sustainable performance.

The study considers Triple Bottom Line theory (Elkington, 1998) and Resource base View Theory (Barney, 1991; Mahoney & Pandian, 1992) relevant and suitable for the research. The TBL gives room for the integration of sustainable business practices that may lead to sustainable performance while RBV offers opportunities for competitive advantage based on firm’s resources and capabilities.

## III. METHODOLOGY

The data for this study was collected through structural questionnaires. The structured questionnaires were addressed to the Managing Director/CEO, General Managers and Senior Managers of the SMEs as the respondents. However, of the 310 SMEs, only 288 completed and returned the questionnaires.

The structured questionnaire used in this study comprised three sections. In the first section, nine items were used to generate information regarding the background of the

respondent. The 35 items in section two attempted to collect information regarding the features of the SMEs. Section three has 13 items that focuses on the Sustainable performance of the SMEs. In section three, seven items were used to measure ethical sensitivity of the SMEs. The ethical sensitivity and sustainable performance were rated by using a five numerical scale ranging from “Strongly disagreed” (1) to “Strongly Agreed” (5).

This study used the Least Squares Structural Modeling (PLS-SEM) to analyze the data collected as well as to test the hypotheses of the study. The first part of the data analysis involved descriptive statistics. This involves determining the percentages, means, modes, standard deviations, minimum and maximum value of the items used in collecting the data for the study. In the second part, the partial least squares (PLS) regression modeling was used for testing the research hypotheses. The PLS analyses used in this study involves the assessment of measurement as well as the structural models. The following section briefly describes the statistical procedures used in this study.

In the PLS regression analysis, assessment of measurement model was required for testing hypotheses. The assessment of measurement model in this study involves examining the individual item reliability, ascertaining internal consistency reliability, ascertaining convergent validity as well as discriminant validity. More specifically, this method was employed for testing the reliability and validity of the items and the focal variables used in this study.

In the results, the loading of all items is greater than 0.70 and the composite reliability value (CRV) of all constructs is greater than 0.70. The Average Variance Extracted (AVE) values of all constructs are also greater than 0.50, ranging from 0.520 to 0.665. The Composite Reliability (CR) values ranged from 0.759 to 0.959. Taken together, these results statistically fulfilled the convergent validity criteria recommended by Hair et al. (2011). In addition, **Error! Reference source not found.** shows that the Cronbach’s Alpha scores of all the items are higher than 0.70. The scores ranged from 0.825 to 0.955. These results also suggest the reliability of the measures used in the study.

Having ascertained the measurement model, the study assessed the structural model. The assessment of the structural model involve the assessment of significance of path coefficients, the determinant of level of  $R^2$  values, the assessment of the effect size, the assessment of predictive relevance as well as the assessment of the moderating effect. In the assessment of significance of the path coefficients, the study applied 5000 bootstrap samples and 121 cases as required by the standard bootstrapping technique (Hair, Hult, Ringle and Sarstedt, 2014).

## IV. THE RESULTS

### *Sample Characteristics*

Respondents were asked to indicate various aspects relating to their firms, such as job position, business type, location of the business, age of the firm, number of employees, ownership type and estimated total assets. The following are the results of the features of the respondents.

As shown in Table 1, 221 (76.7 percent) of the total of 288 respondents were male and the remaining 67 respondents (23.2 percent) were female. In terms of their age, 14 respondents (4.9 percent) were between the ages of 21 and 30 years old, another 78 respondents (27.1 percent) were between 31 to 40 years old and the another 161 respondents (55.9 percent) were between 41 and 50 years old and the remaining 35 respondents (12.2 percent) were between 50 and above years old.

With regard to the education of the respondents, 5 respondents reported that had a PhD degree, another 60 respondents indicated that had a master’s degree, another 61 had first degree or HND, another 137 respondents had Diploma or NCE and the remaining 25 respondents disclosed that had a secondary certificate.

As far as the export of their products and services is concerned, 39 respondents (13.5 percent) reported that their company do export their products or services while the remaining 249 (86.5 percent) do not export their products or services.

Table 1: Demographic Characteristics

		Frequency	Percent (%)
Gender	Male	221	76.7
	Female	67	23.2
Age	21-30	14	4.9
	31-40	78	27.1
	41-50	161	55.9
	50 and Above	35	12.2
Position	Managing Director/CEO	193	67
	Others	95	33
Education	Secondary	25	8.7
	First Degree/HND	61	21.2
	Masters	197	68.4
	PhD	5	1.7
Age of Business	Less than 1 year	73	25.3
	2-5 years	133	46.2
	6-10 years	52	18.1

	11-15 years	30	10.4
Form of Business	Sole proprietorship	198	68.8
	Partnership	81	28.23
	Private Limited	6	2.1
	Public Limited	3	1
Assets	Less than 5m	164	56.9
	5m to less than 50m	92	31.9
	50m to less than 100m	22	7.6
	100m to less than 500m	10	3.5
Number of employees	10 to 49	253	87.8
	50 to 99	35	12.2
Does your company export your product	Yes	39	13.5
	No	249	86.5

### *Relationship between Ethical Sensitivity and Sustainable Performance of SMEs*

Table 2 presents the regression results between ethical sensitivity and sustainability performance. The result of the analysis indicates positive relationship between ethical sensitivity sustainable performance as ( $\beta = 0.176$ ,  $t = 3.01$ ,  $p < 0.003$ ).

Table 2: Regression Result

	Hypothesis	Beta	SE	T Statistics	P Values	Decision
1:	ES -> SP	0.176	1.802	3.01	0.003	Supported

## V. DISCUSSION AND CONCLUSION

This paper examined the relationship between ethical sensitivity and sustainable performance of SMEs. The results show significant positive relationships between ethical sensitivity and sustainable performance of the SMEs ( $\beta = 0.176$ ,  $t = 3.01$ ,  $p < 0.003$ ).

The findings of this study attest with previous research that provided evidence that indicate the linkage between ethical sensitivity and organizational performance (Chan Cheung 2012; Bottery, 2014). The finding of the study is also in line with the findings of more recent studies by Kolk, (2016) and Wesarat et al., (2017) have also demonstrated the existence of the relationship between the ethical sensitivity and sustainable performance. The result of the study seems to demonstrate that the practice of ethical sensitivity in SMEs will not only be to improve their economic performance but also to increase both environment and social performance as well.

The findings of this study indicated that sustainable performance is relevant and applicable to SMEs as it is to large firms. This research indicate that sustainable performance consists of three dimensions as economic, social and environment is influenced by ethical sensitivity. The findings of the study present interesting implications for the owner's managers of SMEs.

Additionally, given the train of the performance of SMEs in Nigeria which appears to be poor and not sustainable, the study reveals ethical sensitivity would enhance the economic, social and environment components of sustainable performance to be improved as well as better chances to withstand in the long run.

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