

Exploring Relationship between Corporate Social Responsibility Practices and Utilitarian Ethical Orientation from Sri Lankan Entrepreneurs' Perspective

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Abstract

Entrepreneurship is governed by moral concerns and thereby working with ethics in a business by the entrepreneurs are seen as very important as such practices define how society ought to function. This study explores the corporate social responsibility practices and the utilitarian ethical orientation from entrepreneurs' perspective. The purpose of this paper is to explore the corporate responsibility related business practices of entrepreneurs in terms of utilitarian ethical orientation. Entrepreneurial orientation was captured through four variables. Interpretive mixed method was applied to capture the holistic nature of interaction between corporate social responsibility and utilitarian ethical Orientation. Three hundred entrepreneurs called for the survey, and ten entrepreneurs were interviewed. Results reveal that the confused entrepreneur is struggling to understand how to practice ethics in a complex context while there are a few scattered individual efforts of practicing corporate responsibility which promotes social service by a few large organizations as a trendy behavior.

Key Words: Entrepreneur, Utilitarian Ethics, Values, Corporate Social responsibilities, Business

Introduction

Social responsibility and Ethics are concepts which bind the organization and the society together. In entrepreneurial standpoint he/she stays behind two types of social obligations towards society. One is as a citizen of the country and other is emerging social obligations to well-being of the society through his/her business operations as an entrepreneur of the country. One of the organization's primary goals was its obligation to operate in a socially responsible manner. (Tseng and Fan, 2011). Social responsibility may attract better employees and increase current employees' motivation, morale: employees have better self-images when they work for a company with a company that has a reputation for socially responsible behaviour (Poter and Kramer, 2006), commitment and loyalty (Koonmee *et al.*,2010). Davis (1973) states that in order to respond effectively and efficiently to the major social issues and the demands of the day, social policy must be integrated to co-operate the strategy (Lewis, 2002; Tseng and Fan, 2011).

In present business context entrepreneurs need to understand the significance of CSR and their responsibility of adopting and practicing CSR to the business to facilitate social well-being of the community at large

Literature Review

The core of utilitarian theory is to produce the greatest possible benefits or happiness for all of society (O'Fallon and Butterfield, 2005) and minimize harm in ethical reasoning. Utilitarianism is the most popular theory applied to business decisions. Werhane (1996) emphasized social institutions and individual behavior should be ordered so that they lead to the greatest good for the greatest number (cited in Napal, 2005). Wimbush *et al.*, (1994) found that caring orientation and law and code orientation were negatively related to stealing and lying behaviors. Phillips and Margolis (2000) noted that moral philosophy should be specified more efficiently for ethical judgment in the SMEs; yet Hartman (2001) proposed that utilitarianism should be the foundation of ethical judgment in every organization. As a result utilitarianism forms the organization's principles but will ignore moral obligations to the society. Ethics are visible in utility functions as moral preferences while utility maximization of utilitarian ethics, finding of earlier studies (Van Staveren, 2007). On the other hand, virtue ethics requires reassessment of the nature of consequentiality for ethical judgment in business context (Whetstone, 2001). In achieving the vision, utilitarianism focus on visionary ends with regard to character formation and motivation. While usual activities of business people may not need to reflect on their utilitarianism orientation; what so ever, they could benefit (Christie *et al.*, 2008). Arjoon (2007) proposed virtue ethics as a reflection to stimulate the e growth of meaning and wisdom to business people and employee at every level.

The virtuous character will guide the response that ideally demonstrates a specific commitment to achieve the intended outcome (McDevitt *et al.*, 2007). Whetstone (2001) explained that virtue ethics is based on the concept character that integrates with idea of being a good person in business. It considers primarily on the actor's character, motivations and intentions. Motivations and intentions are important to ethical judgment as the law acknowledge. As a result utilitarianism will shape the organization principles but ignored moral obligations to the society. This supports finding from previous studies that mentioned utility maximization of utilitarian ethics, where ethics appears in utility functions as moral preferences (Van Steveren, 2007). Consequently, unethical behavior among entrepreneurs can manifest in four different ways: towards customers, workers, competing firms, and government (Babalola, 2009). It seems that the business ethics has become a global issue which is inevitable and cannot be ignored by any business organization. Irrespective of the size of the business, businesses need to take into account the ethical aspect of its business operations. Under these conditions business founder(s), managers or employees should endeavor to earn profits in ways that do not harm the society.

Objective of the Study

The main objective of this paper is to;

1. What are the dilemmas in practicing corporate social responsibility or thinking about others in terms customers, employees, team work and other social works?

Research Design and Methods of Analysis

An interpretive mixed-method approach was employed for the study. The major focus of the study was Quantitative, whereas the minor was Qualitative method. The findings were triangulated based on both methods. The population of this study was business community in Sri Lanka. Three hundred business organizations were selected from proportionate sampling. Domain of the utilitarian ethicality captured through 16 items. In-depth interviews were done with 10 business leaders and observations were used as qualitative methods for the study. Data were analyzed using

The primary data analyzed through the sequential steps of analysis: descriptive analysis and multivariate analysis. Multivariate analysis like reliability, exploratory factor analysis (EFA), confirmatory factor analysis (CFA) and structural equation modeling (SEM) were employed.

Demographic profile

Out of 300 entrepreneurs called for the survey. 90 percent respondents were males and 10 percent females. In terms of age group, 30 percent is less than 40, 37 percent falls to 41-50 and 33 percent over 50 years. Where education is concerned, only 33 percent school educationists, 35 percent professional educationists and 32 percent higher educationist. Out of this, 80 percent Buddhists, 8 percent Christians, 7 percent Hindus and 4 percent Muslims were the reflected national demographics. Most of the responding entrepreneurs were rural origins (60 percent) and others (40percent) from urban areas.

Data Analysis and Results

Utilitarian Ethical Orientation (Utec)

In order to make sense of data in Table 1, the descriptive statistics for the construct, utilitarian ethical orientation (*Utec*) is depicted. The mean score for the construct is 3.940 ± 0.675 . The highest mean score (4.3) was reported for the item *UT_7* and it describes the idea that the organizations perceived 'team spirit' as the most important factor.

Table 1: Descriptive Statistics for Utilitarian Ethical Orientation

Variable /Items	Mean	SD	Construct- <i>Utec</i>
<i>UT_1</i>	3.77	1.063	
<i>UT_2</i>	4.01	1.006	
<i>UT_3</i>	3.84	1.028	
<i>UT_4</i>	3.60	1.111	
<i>UT_5</i>	4.00	1.096	
<i>UT_6</i>	3.92	1.102	M = 3.940
<i>UT_7</i>	4.30	0.949	SD.=0.675
<i>UT_8</i>	4.00	1.105	SE= 0.037
<i>UT_9</i>	4.19	0.945	
<i>UT_10</i>	4.11	0.939	
<i>UT_11</i>	3.90	1.104	
<i>UT_12</i>	4.03	1.028	
<i>UT_13</i>	4.1	1.214	
<i>UT_14</i>	3.13	1.178	
<i>UT_15</i>	4.21	1.169	

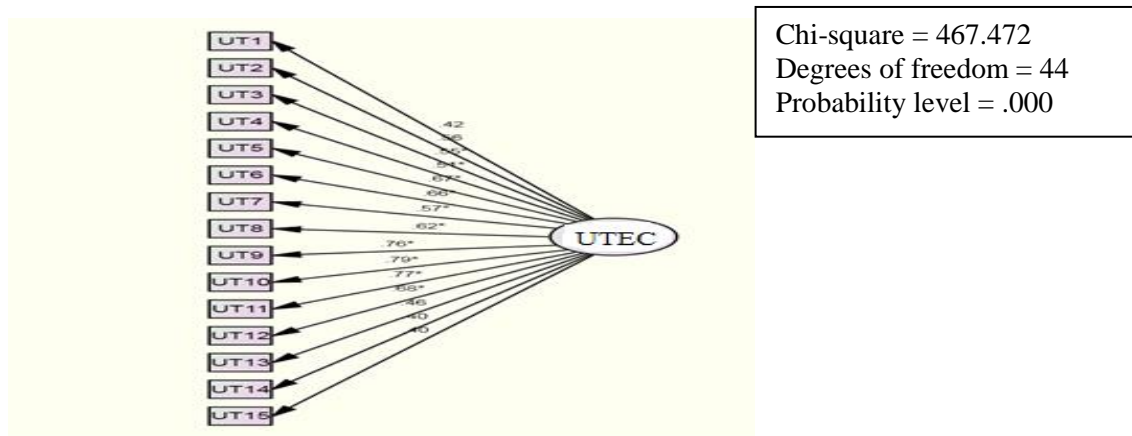
Note: 5 point Likert scale was used. Scale: 1= strongly disagree
5= strongly agree

Source: Author Constructed Base on Survey Data

However, the lowest mean score (3.13) is reported from *UT_14*, which is focused on ‘people are guided by their own moral values’. However, the reported mean score have ranged from 3.13 to 4.3. The standard deviation reported within 0.939 - 1.214 which means that most of the responses are clustered around the mean.

First Order Model for Utilitarian Ethical Orientation

This single construct was comprised of fifteen (UT1-UT15) items (see Figure 1). The standardized regression coefficients, except four observed variables (UT1, UT13, 14,15), all other observed variables were reported above the threshold of 0.50. The chi-square value of 467.472 with 44 degree of freedom was statistically significant ($p < 0.05$). The model fit indices also indicated that this measurement model did not fit to the data. Consequently, all model fit indices; CMIN/DF = 10.623, AGFI= 0.652, GFI = 0.768, NFI= 0.748, CFI= 0.765, IFI= 0.766, RMSEA= 0.170 were not within the acceptable level. It was deleted these four items from the initial model. However, these deletions do not significantly change the content of the construct as it was conceptualized. Table 2 details the results.



*Factor loadings are significant at 0.05 level

Figure 1 First Order Measurement Model for Utilitarian Ethical Orientation

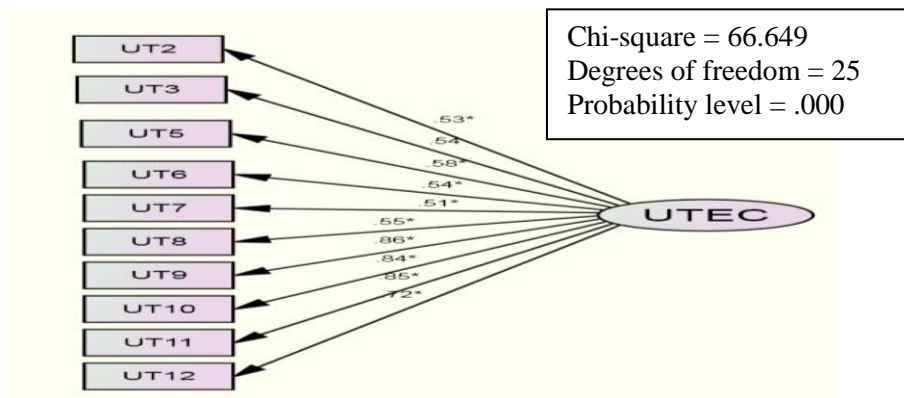
Table 2: Results of Goodness of Fit Indices for Measures of Utilitarian Ethical Orientation

Absolute				Incremental				
CMIN/DF	AGFI	GFI	RMSEA	NFI	IFI	TLI	CFI	RFI
10.623	0.652	0.768	0.170	0.748	0.766	0.706	0.765	0.685

Source: Author Constructed Base on Survey Data

In order to improve the good –fit of the model, modifications were carried out. As revealed in the modification indices the six pairs of measurement errors were correlated.

The confirmatory factor analysis of the purified model was confirmed the improvement to the good –of- fit indices for the model. The Chi- square value declined to 66.649 with 25 degree of freedom, it was still remain significant (p <0.05). Consequently, model fit indices improved as CMIN/DF = 2.793, AGFI= 0.917, GFI = 0.961, RMSEA= 0.73, NFI= 0.957, CFI= 0.972, IFI= 0.972, RFI = .926 (Refer Table 3). The standardized regression weights of the observed variables also were above the threshold of 0.05. Accordingly, this construct was deemed appropriate to be used in the further analysis.



*Factor loadings are significant at 0.05 level

Figure 1: Purified First Order Measurement Model for Utilitarian Ethical Orientation

Table 3 Goodness of Fit Indices for Measures of Utilitarian Ethical Orientation

Absolute				Incremental				
CMIN/DF	AGFI	GFI	RMSEA	NFI	IFI	TLI	CFI	RFI
2.793	0.917	0.961	0.73	0.957	0.972	0.951	0.972	0.926

Source: Author Constructed Base on Survey Data,

Data Analysis- Quantitative analysis

Practicing Utilitarian Perspective of Ethics: Community Concern and Ethical Practices

Moreover, Crea (2002) stated that if a organization desires to operate successfully in a specific environment, it has to bear responsibility not only for its own self well-being but towards the social well-being as well. Accordingly, As case three and case one, two, nine four and five said:

“Being a Sri Lankan entrepreneur it is my responsibility is to support mu country. Because I believe that all we should live healthy. Thus I pay much attention to our production process. We use quality materials. Thus our price is little bit high” (Most similar view brought by Case one four and, nine)

My main concern is protecting our environment and I always give my concern to green concept. Thus every year I allocated substantial amount of money for this types of project.(Case two and five) We need to focus on increasing exports. I feel that I should do some thing for my country, I will do it (case eight)

Entrepreneurs' behaviors and their thoughtful pattern explore that their accountability lies upon them as an entrepreneur towards the country. Instead of simply following the correct moral rules; they have the correct motives to do so. Doing CSR projects indeed optimizes social responsibility in order to gain recognition which would benefit the success of his business. They show that they perform their duties towards the betterment of the country, society, organization and themselves as well.

All most all cases explained different views with regard to CSR. Here they explain:

My aim is to maximize the profit of my business. When I am trying to achieve my profit target I may have to use some strategies to minimize the cost. I do some CSR work here. No formal CSR policy (case three and six)

I always push my workers to get maximum output and I closely supervised them to achieve our business targets. Profit is essential. I have introduces piece basis payment to workers than hourly basis. (Case two, seven. Ten)

I have recruited people from rural areas and have accommodation and facilities for their in the factory premises. It is very easy for me to get the work done. My annual profit is not enough to fulfill the CSR works in the society which people expect and ask from us.(case eight)

"I planned to give a quality product; the first priority wasn't profit....We annually do not allocate a sum of money for CSR but whenever such requests are made we look into the possibilities of fulfilling them"(Case Five).

Level of Work Relationships: Sense of Affection, Protection and Detachment

Organizational ethicality is concerned about employee aspect as a focal point. The entrepreneur in case one, five, six, seven, eight and nine genuinely explains his views and practices in relation to his employees as follows:

I believe that the best of resources of my business ids human resources(Case five and nine).

Business is built on the notion of trust. But I do not like to reveal all the information to the employees.(case eight and nine)

We need commitment to succeed and the ability to change is also important. When there are problems, we come together and find solutions (case six and seven).

We respect not only our employees but also their parents and family. We do not work with machines. We work with hearts and minds of people (case one, eight).

According to my experience employees do not think much about work conditions and employees rights they think much about how much that they can earn from the company (case ten). I have no personal support when dealing with my workers. My business no need to high qualification. Thus I can decide how much that I pay per day.

Another factor he highly values is 'trust'. Trust might be the most critical human value when it comes to succeeding in business. In an indirect way, the employer here is acting very rationally without making a quick decision and that rationality favors him in return as well as the worker. This is a very good example where we can see how much he values human feelings and dignity. This is definitely a proof of an intelligent, faithful and a successful entrepreneur.

Discussion:

According to their views, explain that without formal CSR policy they have engaged in some CSR activities to the society. However, Carlson *et al.* (2011) stated that for one's self, morality plays the role of controlling egotistical actions that would cause harm to others, despite one's own benefit. According to Buddhist philosophy arms giving is a symbol of friendship. It is clear that they are practicing some positive values which have been derived from positive ethics. Sri Lankan entrepreneurs are not seeing and thinking CSR in a wider perspective

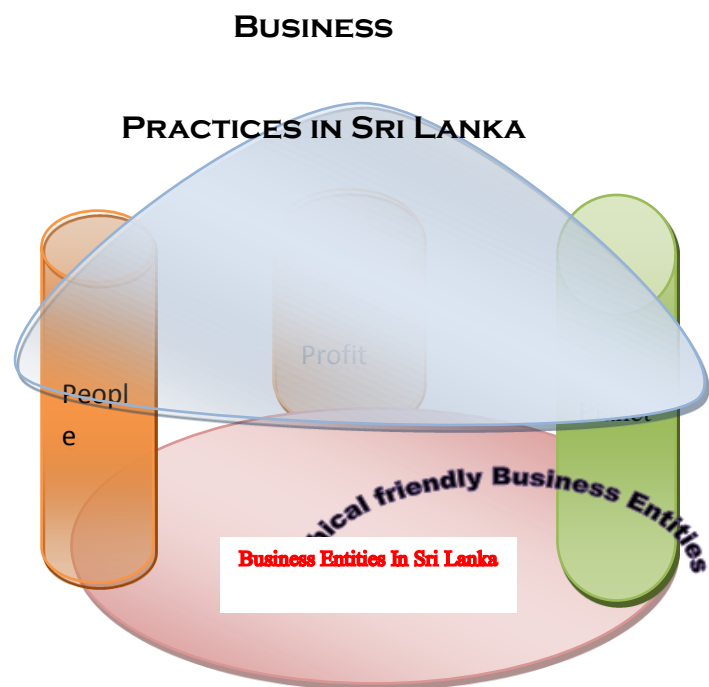
Entrepreneurs express their main target as profit making. Now it is trendy and fashionable to be socially responsible in a business context. It is clear that there is a conflict of interest between profit earning and doing social work. This practice is accepted by some classical scholars. They argue that social responsibility should not be part of management decision making process. Milton Friedman; Adams Smith have explained that functions best when sticks to its primary mission-producing goods and services within the society's legal restrictions. Its sole responsibility is to attempt to maximize returns. Inner point of this argument is that the most socially responsible action of the organization is to maximize its profit. They think profit maximizing is the only legitimate purpose of the business.

The central component of ethics is a "person". But according to Buddhist philosophy every one or all human beings should live happily ("Sabbe Saththa Bhawanthu Sukithaththa") and "Loba; Dosa; and Moha" are the negative concepts directed or pulled through mal practices. Always thinking about profit or money means we collecting Loba; Dosa; and Moha" mean negative attitudes and those think are harm for the society. However, earning profit is important but entrepreneurs' responsibility is to maximize their profit while achieving social well-being as well. However organizations should be balanced between profit and CSR. However the respondent is a Buddhist person. According to religion he explains that not only himself but all the other human beings should live happily (Sabbe Saththa Bhawanthuthe and (Sabbe Saththa Bhawanthume).

From these cases, the following facts could be discovered. Some organizations do follow the CSR program and actually provides services worthwhile to the society. These organizations are usually large scale organizations with an interaction bent and their exposure and capacities enables them and motivate them to be strategically consistent with the CSR plan. These organizations are concerned about their long term survival and understanding that their long term survival depends on attaining a long term brand loyalty. Some other organizations are not concerned about CSR programs. They consider CSR as an unnecessary expenditure and do not allocate funds annually for CSR projects. Most of these organizations are small to medium scale and operate largely within the country. Some other organizations do not have a fixed CSR plan, but whenever CSR related requests are made they consider possibilities

of making a contribution to them. These organizations too belong to small and medium scale. The four types of organizations use CSR as a façade to cover up the ill effect of their business operations in order to appease people who are affected by their unethical business operations. They make small contributions and promote these events lavishly and rigorously. By these means they try to preserve their brand image and ensure survival. From an ethical point of view some of these organizations adopt teleological principles of ethics suit for their purposes.

Qualitative insights of the current study showed that the majority of the selected entrepreneurs are highly concerned about profit rather than about other aspects of the business. The entrepreneurs engage in business solely to earn profits and therefore they cannot be expected to do anything other than tasks and strategies that could maximize their profits. The amount of profit does not have a bearing on ethicality. What matters is how the process of earning profit causes harm to others. What was observed is that entrepreneurs regularly try to maximize profit at the expense of consumers. Entrepreneurs do not seem to hesitate to resort to any course of action that would harm and damage customers and their interests. Being concerned about the customer is a focal point of organizational ethicality. It is proved by the quantitative analysis of the study. But the interview data reports that in certain situations entrepreneurs consciously and knowingly use low quality or banned materials in the production process in order to make higher profits.



Current Practices of Business Organizations in Sri Lanka

Source: Author Constructed

However, at present the Sri Lankan government is encouraging businesses to adopt sustainable development by creating awareness and motivating them to minimize pollution and at the same time to minimize the use of resources such as energy, environment and water. This would finally result in achieving the triple bottom line.

The present world scenario is to protect the triple bottom line which is profit (economic), people (social) and the planet (environment) which will ensure the development of ethical friendly business entities and that would be a pre requirement of sustainable society.

Almost everyone seems to be happy with just pretending to adhere to ethical and legal standards when in reality they only care about their own interests. This is not to deny the existence of self- interest or even self-centeredness in human nature but rather to show that selfish genes in human nature ultimately produce selfishness. Selfishness and concern for others exist on a continuum in human nature. Hobbes has argued that the basic attribute of human nature is egoism.

The present world scenario is to protect the triple bottom line which is profit (economic), people (social) and the planet (environment) which will ensure the development of ethical friendly business entities. Being concerned about the customer is a focal point of organizational ethicality. It is proved by the quantitative analysis of the study. But the interview data reports that in certain situations entrepreneurs consciously and knowingly use low quality or banned materials in the production process in order to make higher profits.

Conclusion

Entrepreneurs deal with a lot of power. The basis of power is their ability to generate changes to the social and economic fabric of a country. Through their production they influence the lives of their employees and consumers and their economic clout makes them key players even in the game of politics. Entrepreneurs use rules and regulations to control their employees and to maximize profit. In other words, rules provide them with the leverage to direct organizational resources to the maximum. As such, employers can abuse their power over their employees and deprive them of the rights they deserve. One mechanism for maintaining this imbalance of power is to isolate employees from one another so that they do not have rights as a collective whole

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