The Ethical Decision Making Intention of Small & Medium Entrepreneurs in Malaysia

Yeoh Khar Kheng¹, Sethela June²

Abstract

This paper represents an attempt to propose a model on the ethical decision making intention of SME entrepreneur in Malaysia. In Malaysia, studies on the entrepreneur’s intention to make ethical decision are sparse and these only focused on the undergraduate students in a certain university. In the global context, past studies observe that, (i) there is lack of empirical research in ethical decision-making, (ii) appropriate samples that accurately represent the hypothesised population should be used; thus move away from using student sample, (iii) research on moral intensity is flourishing in a wide variety of situations. In a nut shell, past studies did not systematically investigate one elements that is attitude in TPB theory that mediating the relationship between emotional involvement and moral intensity towards the intention of SME entrepreneurs to make ethical decision making. Therefore this study seeks to extend the TPB model by including emotional involvement and moral intensity to relate to the Extended Theory of Planned Behaviour (ETPB) to model the ethical decision making intention of SME Entrepreneurs.

Keywords: ethical decision making intention, theory of planned behaviour, emotional involvement, moral intensity & SME.

1. Introduction

Small & Medium Enterprise (SMEs)’s entrepreneurs are playing crucial role in the economy of the nation. There is no exception in emerging economy like Malaysia, Thailand, Indonesia and et cetera. In Malaysia, although SME’s entrepreneur contributed to the growth of Malaysia but unfortunately there is a high unethical problem among SME entrepreneurs’ lately. Unethical problem (37%) constitute the highest percentage among Malaysian SME Disciplinary Offence (refer Figure 1) (SPRM, 2013). Due to the integrity awareness amongst Malaysian, SME’s firms are increasingly asked about their corporate social responsibility and environmental credentials during tendering processes with large corporations. SME owners managers also need to recognize the importance of trust and ethics in business when on the ‘receiving end’ of unethical business practice (Hanafi & Sallam, 2013). When suppliers deliberately do not adhere to agreed terms and conditions, business ethics has thus become a major issue for SME entrepreneur when come to the intention of making ethical decision making in their business (Hanafi & Sallam, 2013)

¹College of Business, Universiti Utara Malaysia, 06010 Sintok, Kedah, Malaysia
²Sentral College Penang, 10200, Georgetown, Penang, Malaysia
The previous studies indicate that although entrepreneur in Malaysian SMEs are interested to observe
good business practices, sometimes the realities forced them to make compromises. The entrepreneurs often
feel constrained and have to make unethical adjustments. In addition the lack of effective guiding mechanism
in facing complex ethical problems has become another important point (Tan et al., 2011).Ethics is
fundamental to decision-making at all levels of work and management; and ethical decisions are a part of
everyday life (Ferrell & Fraedrich, 2012).The ability to recognise and deal with complex business ethics
issues has become a significant priority in the 21st century companies. In recent years, a number of well-
publicised scandals resulted in public outrage about deception and fraud in business and subsequent demand
for improved business ethics and greater corporate responsibility.

Highly visible business ethics issues influence the public’s attitudes towards business and can destroy
trust (Ferrell & Fraedrich, 2012). Cases of unethical conduct such as these are particularly salient in the
media, because these actions are often intentional, unethical, and even illegal. Due to the threat that unethical
business practices can pose to both the business community, industry, and the everyday lives of millions of
people (Verschoor, 2006), business leaders, and academics alike, have begun work to improve the ethical
conduct of members of organisations, both in terms of research examining the mechanisms surrounding
ethical behaviour, and exploring and designing training interventions aimed at improving ethical behaviour.
The potential entrepreneurs easily overlook in business ethics because they often have other priorities, such
as business ideas, marketing, and financial matters, to consider (Davis, Frederick, & Blomstrom, 1984).Broni
(2010) suggests that business ethics is an application of ethical principles and moral or ethical problems that
arise in a business situation.Shell, NIKE, GAP, Nestle, and BP are a few of the large international
corporations that have come under ethical scrutiny within the past decade (Falkenberg, 2004). Globally, the
news media reveals the misconduct in governmental, educational, religious, and business institutions. It is
apparent that the unethical behaviour in organisations is a pressing social and economic issue demanding
attention (Trevino & Youngblood, 1990) from all the stakeholders.

Problem Statement

Emphasis on good business decision (in general) and good ethical decision (in particular), can influence
customer’s attitude towards SMEs and develop trust and loyalty. A variety of models of ethical decision-
making have been proposed, some describing ethical decision-making process (Jones, 1991; Malhotra
&Miller, 1998). While others highlight that the key model on decision making shares four main elements:
recognising and interpreting a moral issue; making judgments or choices about the morally correct course of
action; formulating an intention to carry out the moral action; and engaging in the moral behaviour
(Jones,1991).These models examine different facets of ethical decision-making in part because different
factors influence how people define ethical and moral situations, make judgments about ethical course of
action, formulate intentions to carry out those actions, and engage in the ethical behaviour. Gaudine and
Thorne (2001) model proposes that positive emotions will increase the likelihood that individuals will (a)
recognise ethical dilemmas, (b) have ethical intentions in line with their level of moral development, and (c)
carry out those intentions if emotional arousal is also present. Thus, emotional arousal provides cognitive energy or stimulation for recognising a need for and engaging in decision-making (Watson & Tellegen, 1985).

Previous studies examined attitude of entrepreneurs in developed countries (Sandhu, Sidique, & Riaz, 2011). In Malaysia, studies on the entrepreneurs intention to make ethical decision is sparse and these only focused on the undergraduate students in a certain university (Ramayah & Haurn, 2005). Ismail et al. (2009) suggest that future research should focus on the unanswered questions in terms of what factors help in realising the intention to do business. Hoe et al. (2012) propose a proper guideline in decision-making, giving encouragement and motivation for Malaysian entrepreneurs to be successful. While Poon and Ainuddin (2011) encourage future studies to examine a broader range of research issues in behavioural and ethics.

In the global context, past studies (Craft, 2012) observe that:

1) There is lack of empirical research in ethical decision-making.

2) Appropriate samples that accurately represent the hypothesised population should be used; thus move away from using student sample.

3) Research on moral intensity (Jones, 1991) is flourishing in a wide variety of situations involving ethical decision making such as whistle blowing (Sims, 2009); effects of business practitioners (Hayibor & Wasielewski, 2009); and connecting different theories, populations and using instruments and vignettes.

In examining the ethical business decisions, the approach taken in this present study is based upon a theory of decision-making, the Theory of Planned Behaviour (TPB) (Ajzen, 1991). The TPB emphasises the controlled aspects of human information processing and decision-making. The TPB may be a particularly relevant framework to use in ethical business decision making because it includes personal, normative, and control factors that may all influence the intention to make ethical business decision. The critical factor in the TPB is the intention of an individual to perform certain behaviour.

TPB has three conceptually independent determinants of intention: attitude (AT), subjective norm (SN), and perceived behavioural control (PBC). AT refers to the degree to which a person has a favourable and unfavourable evaluation of the specified behaviour; SN relates to perceived social pressure to perform or not to perform the behaviour; while PBC relates to perceived ease or difficulty of performing the behaviour (Ajzen, 1991, 2002). TPB has been operationalised and tested empirically in describing a wide range of behavioural intentions and behaviours but TPB has lack of personal feeling and moral obligation (Ajzen, 1991). Randall and Gibson (1991) study the application of ethical decision-making with TPB in the medical profession. Morton and Koufteros (2008) research on the intention to commit online music piracy based on the TPB model. Further TPB is also being incorporated into ethical decision-making in identifying the influential factors of electronic piracy (Panas & Ninni, 2011).

Emotion has to date attracted little attention because decision making has traditionally been viewed as a cognitive process (Loewenstein & Lerner, 2003), although incorporating emotion in decision-making models can greatly increase their explanatory power (Loewenstein & Lerner, 2003). The failing to understand the role of emotions by focusing on cognitive processes only hampers the understanding of consumers’ behaviors (Morris et al., 2002). Bagozzi et al. (1999) stressed the importance of emotions in marketing and consumers’ decision making because they influence information processing, responses to persuasive appeals, initiation of goal setting, and enactment of goal-directed behaviors.

The TPB has been criticized by other researchers for ignoring the emotional determinants of behavior (Conner & Armitage, 1998). As Eagly, Mladinic, and Otto (1993) proposed, the common assumption that people’s attitudes derive from their cognitions and attitude in the TPB is more likely based on cognitive (or evaluative) judgments. Godin and Kok (1996) pointed out that the TPB appears to perform less efficiently in the prediction of behaviors that have a strong affective or irrational component rather than a cognitive one.

Rivis et al. (2009) suggested involvement affect (i.e., involvement of emotion) as the construct for considering such an emotional aspect in TPB. They emphasized that this construct may make an independent
contribution to the prediction of intentions, where “involvement affect refers to the prospect of feeling positive or negative emotions after performing or not performing a behavior” (p. 2987). In addition, Bartolini (2005) argues that Ajzen (1991)’s original TPB does not consider the emotion aroused when making ethical decisions. Bartolini then extends the TPB by incorporating emotional involvement (EI). Bartolini defines emotional involvement as emotive process that affects cognition and thus leads to behavioural intention. For example, emotions, sadness, puzzlement, compassion, anger, happiness, that affect attitude towards decision.

In a nutshell, past studies did not systematically investigate one of elements that is attitude in TPB theory that mediating the relationship between emotional involvement and moral intensity towards the intention of SME entrepreneurs to make ethical decision making. Based on these literatures, there is a little evidence need to enhance ethical behaviour (in general) and ethical decision-making (in particular) by examining the intention to make ethical decision among SME entrepreneurs in Malaysia. Therefore this study of the thesis seeks to extend the TPB model by including Bartolini’s (2005) emotional involvement and Jones (1991) moral intensity to relate to the Extended Theory of Planned Behaviour (ETPB) to solve the intention of decision making SME Entrepreneurs. Only attitude element used in (TPB) in intention decision making and not subjective norms and Perceived Behaviour Control (PBC) elements under TPB due to Theory of Reasoned Action (TRA) or the TPB often have found that subjective norms (SN) have had a smaller impact on predicting behavioral intentions than the other factors of the models (Randall & Gibson, 1991). Specifically, Randall and Gibson (1991) found that PBC added little unique variance after the attitude and subjective norms factors were taken into consideration and PBC did not include personal moral obligation.

Research Questions

Based on the background and literature review, this study attempts to answer the following research questions:
1) Is there any relationship between emotional involvement and attitude of SME entrepreneurs to make ethical decision making?
2) Is there any relationship between moral intensity and attitude of SME entrepreneurs to make ethical decision making?
3) Is there any relationship between attitude and intention of SME entrepreneurs to make ethical decision making?
4) Is there any relationship between emotional involvement and intention of SME entrepreneurs to make ethical decision making?
5) Is there any relationship between moral intensity and intention of SME entrepreneurs to make ethical decision making?
6) Is there any mediating effect of attitude with emotional involvement and intention of SME entrepreneurs to make ethical decision making?
7) Is there any mediating effect of attitude with moral intensity and intention of SME entrepreneurs to make ethical decision making?

Research Objectives

The primary goal of this study is to examine SME entrepreneur’s intention to make ethical decision thereby projecting good ethical behaviour that can secure trust and loyalty by the firm stakeholders. The research objectives are as follows:
1) To examine the relationship between emotional involvement and attitude of SME entrepreneurs to make ethical decision making.
2) To examine the relationship between moral intensity and attitude of SME entrepreneurs to make ethical decision making.
3) To examine the relationship between attitude and intention of SME entrepreneurs to make ethical decision making.
4) To examine the relationship between emotional involvement and intention of SME entrepreneurs to make ethical decision making.
5) To investigate the relationship between moral intensity and intention of SME entrepreneurs to make ethical decision making.
6) To investigate the mediating effect of attitude with emotional involvement and intention of SME entrepreneurs to make ethical decision making.
7) To investigate the mediating effect of attitude with moral intensity and intention of SME entrepreneurs to make ethical decision making.

2. Literature Review

- **Intention Ethical Decision-Making**

  Enron, Shell, NIKE, GAP, Nestle, and BP are a few of the large international corporations that have come under ethical scrutiny in their intention ethical decision making within the past decade (Falkenberg, 2004). It is apparent that ethical and unethical behaviour in organizations is a pressing social and economic issue demanding attention from stakeholders (Trevino & Youngblood, 1990). Competing motivations and other incentives allow a person to act in a certain way that can challenge personal ethics (Tsang, 2002). The person will determine which outcome has the greatest reward and select it. If the ratio of cost of a certain act compared to the benefit of acting ethically is high, then instead of selecting to uphold ethical principles, the person may utilize ethical rationalization and reinterpret potentially unethical behaviour as being ethical or at least irrelevant to ethics (Tsang, 2002). It has been suggested that working individuals often encounter such predicaments in their interactions with regulators, suppliers, competitors, customers, subordinates, and superiors (Schermerhorn, Hunt, & Osborn, 2003). Therefore the commitment to act/make ethical decision is full of challenges because unethical act occurs from the failure of people to activate their ethical standards. This potential to commit an unethical act is possible for any person given the correct combination of circumstances (Tsang, 2002). Verschoor (2004) reports that a survey conducted on the CEOs from leading public corporations, government and regulatory agencies, consulting firms, academia, and the investment community in the United States reveal that upholding moral and ethical standards at their company is ranked first compared to overseeing mergers and acquisitions, safeguarding competitiveness, and obtaining capital. This indicates that individuals are constantly being confronted with the choice of either upholding ethical principles or engaging in ethical rationalization to justify a possible unethical behaviour (Tsang, 2002).

- **Moral Intensity**

  Jones (1991) defines moral intensity as the ‘‘extent of issue-related moral imperative in a situation’’ (p. 372). Moral intensity has a direct effect on Rest’s (1986) ethical decision-making model and its four stages: awareness, intent, judgment, and behaviour. Jones’ model of moral intensity included six dimensions: magnitude of consequences, social consensus, and probability of effect, temporal immediacy and proximity, and concentration of effect. A number of findings tested one or more of Jones’ six dimensions in the individual and organizational factor research. The trend to specifically test and hypothesize about the concept and specific dimensions of moral intensity has continued over the last decade. Based on the past studies, Loe, Ferrell, and Mansfield (2000) reported only two findings in moral intensity. Robin et al. (1996) concluded the perceived importance of an ethical issue influences behavioural intention. In addition, Singhapakdi et al. (1996) concludes that moral intensity influences the ethical decision-making process.

  Four studies include findings for moral intensity related to intent and ethical decision-making. Leitsch (2004, 2006) provides insights into the connection between the models proposed by Jones (1991) and Rest (1986). Specifically, the dimensions of moral intensity and moral judgment are significant predictors of moral intentions. Karacaer et al. (2009) echo Leitsch’s earlier findings (2004) in that perceptions of moral intensity influence behavioural intentions. A recent study concluded that when the more moral intensity was found in the attitude of business owner context and there will be a greater sales volume in his or her business (Valentine & Bateman, 2011). In addition, Shafer and Simmons (2011) concluded that within a low moral
intensity context, the rewards for unethical behaviour had a significant effect on behavioural intentions, but
the impact of ethical norms or incentives or behaving ethically is weak.

- **Emotional Involvement**

  Emotion is a complex system of mental and biological responses that orient people to their
environments and help them interpret the human experience (Scherer, 1984). Emotions will provide
information that human use to adjust to their behaviours. For example, emotions will impacts on how people
generate and interpret persuasive messages (Griffin, Neuwirth, Giese, & Dunwoody, 2002); an individual in
a bad mood may process a message more carefully, whereas a person in a good mood may readily accept the
message. Based on the past studies, researchers define that moods are affective states in reaction to
unspecified objects that arise less spontaneously and are of longer duration than emotions (Lazarus, 1994).
On the other hand, those in a good mood are more likely to process messages heuristically. In contrast to
moods, emotions are reactions to specific objects or events that arise quickly (almost spontaneously) and
tend to be of short duration (Ekman & Davidson, 1994). For example, one may hear a message and feel
anger or fear. The dual processing models make no provision for the processing of the emotion generated in
the target by the message. Yet communication researchers have clearly demonstrated that emotional
reactions impact the processing of persuasive 9 messages (Dillard & Peck, 2001). In these models, emotion
and cognition generally are considered distinct and separate means of processing. Bartolini’s (2005) defines
his emotion involvement as emotion concept: arousal, affect, emotion, and mood.

  - **Arousal**

    Refers to the physiological response of the emotional experience (Ortony, Clore, & Collins, 1990). When aroused, an individual’s heart rate may intensify, perspiration may increase, and pupils may dilate. For example, when someone feels embarrassed, the face may blush, the heart rate quickens, and shortness of breath may occur. Arousal refers to the physical reaction, whereas affect refers to the positive or negative nature of emotion.

  - **Affect**

    A general term referring to human emotional life (Ortony et al., 1990) and is defined as “the positive or negative valence of the emotional experience” (Andersen & Guerrero, 1998, p. 5). That is, one may feel good or positive about an experience (e.g., seeing a friend) or an individual may feel bad or negative in response to a stimulus (e.g., seeing a dreaded enemy). Affect is not the reaction of specific emotions, but the positive or negative valence. Because of its generalized nature, affect is not likely to increase knowledge about specific emotional experiences (Dillard & Peck, 2000).

  - **Emotions**

    Emotions are “valence reactions to events, agents, or objects, with their particular nature being determined by the way in which the eliciting situation is construed” (Ortony et al., 1988, p. 13). Emotions are reactions to specific objects or events, arise quickly (almost spontaneously), and tend to be of short duration (Ekman, 1994). For example, someone walking down a darkened street seeing a hooded person approaching may assess danger and feel fear. The potential victim appraises the situation quickly and, after determining the potential for harm, has an emotional reaction, fear. In contrast to the brevity of emotions, moods last longer.

  - **Moods**

    Moods are affective states that arise in reaction to unspecified objects, are less spontaneous than emotions, and are of longer duration than emotions (Ortony et al., 1988). Although emotions result from cognitive appraisals of specific objects, moods are the result of appraisals of the “existential background” of one’s life (Lazarus, 1994, p. 84). Thus, a negative mood is not the result of a specific unfortunate incident in
Emotions are the result of the individual’s evaluation of the environment in relation to goals, desires, and motives (Dillard & Kinney, 1996). Emotions have also been shown to be a primary source for decision making and influence attitudes (M. Booth-Butterfield & Booth-Butterfield, 1990). In addition, appraisal theorists further suggest that emotions have individualized action tendencies that set the stage for action and impact further behavior. The TPB does not consider the emotion aroused by the decision making or the emotional processing of the decision making. However, emotional involvement may explain the impact of emotion on the decision making process (Dillard, Kinney & Cruz, 1996). (Ajzen, 1985) stated that the concept of emotional involvement provide the theoretical basis for an examination and creation of a model of charitable gift processing.

- **Attitude**

It has been well supported that attitudes do mediate intention (Ajzen & Fishbein, 1980). The possibility that attitudes may have a direct impact on intention has received mixed and questionable support. Madden, Ellen & Ajzen (1992) re-reported to present the significant evidence that the attitude impact towards the independent mediator of intention. At the same time studied investigating the same hypothesis by Ajzen, Timko and White (1982) and Ajzen and Fishbein (1980) suggest that such a relationship is most likely mediated by attitude.

- **Hypothesis Development**

  - **Relationship between Emotional Involvement and the Attitude**

    Heightened emotional reactions may result in stronger attitudinal response. As noted earlier, higher levels of guilt have been shown to generate more compliance (Millar, 2002) and have higher levels of empathy (Cialdini & Fultz, 1990). Similarly, Dillard and Peck (2000) demonstrate that people who perceived the message as effective also has positive attitude towards the position advocated by the message. They demonstrate that people has emotional and cognitive reactions to the message which then affected message acceptance and, as a result, positive attitudes toward the advocated position. As a result, in this context of the intention to make ethical decision, the entrepreneur’s Emotional Involvement will influence the attitude for personal benefits in the organisations. Therefore, the hypothesis posits:

    \[ H_1: \] There is a significant relationship between entrepreneur’s emotional involvement and the attitude to make ethical decision

  - **Relationship between Moral Intensity and the Attitude**

    Ajzen (1991) argues that moral norms may prove a useful addition to the TPB. The Moral norms are regarded as an individual’s perception of the moral correctness or incorrectness of performing a behaviour (Ajzen, 1991) and take account of “personal feelings of . . . responsibility to perform, or refuse to perform, a certain behaviour” (Ajzen, 1991, p. 199). Moral norms should have an important influence on the performance of those behaviours with a moral or ethical dimension, and work in parallel with attitudes, subjective norms, and PBC (thus directly influencing intentions). As a result, in this context of the intention to make ethical decision, the entrepreneur’s moral intensity will influence the attitude for personal benefits in the organisations. Therefore, the hypothesis posits:

    \[ H_2: \] There is a significant relationship between entrepreneur’s moral intensity and the attitude to make ethical decision.
o Relationship between Attitude and the Intention to Make Ethical Decision

Attitude toward the behaviour is a person’s overall evaluation of the behaviour. Brown (1999) defines attitude toward behaviour as the degree to which a person has favourable or unfavourable evaluation of the behaviour. Underlying attitude refers to behaviour belief as well as evaluations of outcomes (Ajzen & Fishbein, 1980). For example, an accountant who believes the behaviour to be unethical and one which carries severe reprimand, including exclusion from professional membership, is likely to have an unfavourable attitude towards the behaviour. Several researchers including Ajzen and Fishbein (1977), Doll and Ajzen (1992), Fraedrich and Ferrell (1992), treat attitude towards behaviour as a significant predictor of behavioural intentions. As a result, in this context of the intention to make ethical decision, the entrepreneur’s attitude will influence the intention for personal benefits in the organisations. Therefore, the hypothesis posits:

H₃: There is a significant relationship between entrepreneur’s attitude and the intention to make ethical decision.

o Attitude as Mediator

Vaske and Donnelly (1999) defines that attitude will fully mediated the relationship between value orientation and behavioural intention to vote for wild land preservation. This study also supported by (Eagly & Chaiken, 1993; Heberlein, 1981) and previous causal research (Fulton, Manfredo, & Lipscomb, 1996) indicate that attitude mediates the relationship between value orientations and voting behaviour, bivariate correlation analyses of these concepts suggest that value orientations and attitudes both directly influence behaviour (Manfredo, Fulton, & Pierce, 1997). As a result, in this context of the intention to make ethical decision, the attitude mediates the entrepreneur’s emotional involvement and moral intensity towards the intention that will influence for personal benefits in the organisations. Therefore, the hypothesis posits:

H₄: Entrepreneur’s attitude mediates the relationship between emotional involvement and moral intensity towards the intention to make ethical decision.

3. Research Framework

Based on the review of the literatures, this paper develops a research framework of ethical decision making intention. Figure 2 presents the research framework for this study, supported by the TPB and ETPB.

**Figure 2: Research Framework Underpinned by Theory of Planned Behavior**

- **Emotional Involvement (EI)**
- **Moral Intensity (MI)**
- **Attitude**
- **Ethical Decision Making Intention (EDMI)**

Depicted in the diagram, the TPB model contains attitude variable and intention variable; while the above research framework (Figure 2) contains the emotional involvement and moral intensity variables.
4. Conclusion

The validation of the ethical decision making intention model from this study will attempt to reveal the roles of attitude, emotional involvement, and moral intensity in influencing the intention to make ethical decision by SMEs in Malaysia. With a good ethical intention of decision making model, it will reduce the rate of ethical problem in Malaysia and it will increase the business of entrepreneur that could boost up Malaysia economic. Further, this study will also attempt to assess the determinants of intention to make ethical decision. This revelation will provide new knowledge and important insight towards the creation of successful business model for SMEs. With a good ethical practise by the entrepreneur, it will help Malaysia to maintain the highest business ethical standards which is crucial in doing business globally.

References


