

## Mediation Effect of the Organizational Culture on the Relationship between Perceived Ethics on Performance of SMEs

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### **Abstract:**

**Purpose:** This research aims to examine the association between perceived ethics and SMEs performance; also determine the mediation effect of organizational culture on the relationship.

**Design/methodology/approach:** Based on the literature review, this research developed a conceptual model of Perceived ethics, organizational culture and performance. This research applied purposive sampling to gather data from owners/managers of SMEs in Kano State North-West of Nigeria. Apart from assessing the reliability and validity of the constructs through confirmatory factor analysis, this research also used Partial Least Square Techniques (PLS) of analysis approach to test the proposed hypothesis.

**Findings:** Statistical result reveals that the relationship between perceived ethics and SMEs performance was found to be significant at p.value less than 0.001. Similarly as postulated the organizational culture mediates the relationships with significant value.

**Research limitations/implications:** The sample for this study is based on SMEs and cross sectional in nature, In addition, the present study employed quantitative techniques future study can employed qualitative or case study method for design and analysis of information

**Practical implications:** The finding of this study can assist practitioners and policy makers in SMEs to support the idea of social responsibility in designing strategic plan for superior

performance. As whole, the outcome of this research will assist managers for better understanding of the business social responsibility antecedents under the perspective SMEs.

**Originality/value:** This paper has tried to provide a comprehensive understanding about business social responsibility antecedents under the perspective SMEs context in Nigeria. Since there was a lack of such research in SMEs context, this research can provide theoretical contribution and managerial basis for future researches as well as implications for the managers.

**Keywords:** perceived ethics, organizational culture, SMEs performance and Nigeria

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## 1. Introduction

Perceived ethics is a business adoption desired ethical standard and practices, some business encourage an ethical culture by establishing positive values that influence organization members, ethical believes and actions (Jin & Drozdenko & Deloughy, 2013; Trevino & Nelson, 2004; Valentine & Fleischman, 2008), other business advance organization ethics with codes that provide ethical values and behavioral requirement (Valentine & Fleischman, 2004, 2008). Similarly, some business recognized training to provide workers guidance about ethics (Jin & Drozdenko, 2010; Jin et al., 2013; Perrini & Minoja, 2008; Valentine & Fleischman, 2008).

BSR can fulfill a business' commitment in offer attractive services for its workforce (Cacioppe et al., 2008; Pelozo & Papania, 2008). Earlier studies have also proven that a firm's ethics yields better work pleasure and organizational performance (Berrone, Surroca & Tribo, 2007; Deshpande. & Farley, 1999; Jin et al., 2013; Koh & Boo, 2001; Pelozo & Papania, 2008; Singhapakdi, Kraft, Vitell & Rallapalli, 1995; Vitell & Davis, 1990). Similarly, it has been observed that a link exists with regards to business ethics and BSR (Hilman & Gorondutse, 2013; Pelozo & Papania, 2008; Singhapakdi et al., 1995), with firm performance.

Today, company in society has been provoked by improved feelings to the consciousness of ethical and environmental issues (Valentine & Fleischman, 2008). This means that public have develop into more care that greater pressure and development by corporation has not been accompanied by the same attempt and wish in addressing vital issues including problem of shortage of resources, drug misuse, offences, inappropriate behaviour of employees, defective creation of production and ecological harm or toxic waste by the industries as it has eventually been reported in the media (Amaeshi, Adi, Ogbechie & Amao, 2006; David, 2012).

Consequently, it is necessary for all businesses to recognize that society requires better - social responsibility; good image may vanish if business organizations fail to react to the challenges these ethical issues may cause to society (David, 2012). Very few empirical researches have directly investigated BSR from an organizational or workers point of view, both with regards to how workers' see the social performance of their company or how BSR perceptions affect their everyday morals and behaviors (Aguilera, Ruth, Rupp, Williams & Ganapathi, 2007; Hansen, Dunford, Alan, Boss, Boss & Angermeier, 2011). Regrettably, however, very few empirical researches' has directly investigated perceived ethics from an organizational or workers point of view, both with regards to how workers see the social performance of their company or how business ethics perceptions affect their everyday morals and behaviors (Aguilera et al., 2007; Hansen et al., 2011).

In addition, despite many researches on BSR and performance link, there is general agreement that the association is still not well understood (Zaborek, 2014), Even though diverse attempts by organization to convene anticipation of stakeholders yet this responsible behavior has not been addressed hence led to call for a different way to make clear the association between the BSR and managerial performance (Berrone et al., 2007; Pelozo & Papania, 2008; Perrini & Castaldo, 2008; Pivato, Misani & Tencati, 2008). Additionally, due to increase emphasis on BSR from local and world business issue of organizational culture can be incorporated to investigate the influence of various cultures on the value of BSR strategies (Gorondutse & Hilman, 2014; Fang, Huang & Stephanie, 2010). In line with this considering theoretical linkage between managerial factors such as perceived ethics and meditational effect of organizational culture has been seen few or no tested proof to SMEs performances to date, this study undertaken to logically consider the potential mediating role of organizational culture in the perceived ethics-performance relation on SMEs.

However, most of the Nigerian firms are insensitive with the social responsibility particularly in Kano State, which is the largest city and centre of commerce of the country. Previous studies in Nigeria have given emphasis on multinational companies (Adegbite & Chizu, 2011; Amaeshi et al., 2006; David, 2012; Ite, 2004, 2005; Opara, 2010; Okoye, 2009). Therefore, this study will look at the relationship between perceived ethics and organizational performances of indigenous firms (local environment) with mediating role of organizational culture. SMEs account for more than 90% of the world's business enterprises, and SMEs and provide self employment nearly 70% of the sum engaged labor force (European Commission, 2003). There are diversity of gaps in the issue of social responsibility and SMEs research (Cochet & Chi, 2012). in Nigeria the paramount estimates obtainable recommend that SMEs constituted 87% of all business functioning in Nigeria, despite that the total figure of registered business in Nigeria is also unidentified (World Bank, 2005). Generally, it shows very few or no empirical based research on what might be the consequence on relations to that issue as mentioned earlier on organizational performance. Therefore, this paper aims to fill the paucity of this research in the newer context Nigeria.

The remainder of this paper will be organized as follows. Next, a literature reviewed on perceived ethics and performance is highlighted. Then, previous works that relate the concepts are presented toward the development of a model that explains the relationships, to link these relationships stakeholder theory is used as a root. Third section discusses on methodology and hypothesis to be tested, next is the discussion and analysis of result, and finally, conclusion, recommendations and limitation for future study.

## **2. Literature Review**

### **2.1. Relationships between Perceived Ethics and Performance**

Managerial ethics is a firms embracing of beloved ethical principles and business practices. Some firms encourage an ethical culture/climate by providing significant principles that persuade organizational members' ethical way of life and measures (Trevino & Nelson, 2004). Other firms advance organizational ethics with regulations that here ethical standards and behavioral necessities. A usual expansion of organizational ethics is a business's participation in BSR, which includes responding the necessities of stakeholders, with exacting concentration on community issues and opportunities Joyner and Payne (2002), it is consequently stands to basis that ethics activities not only increase a company's ethical social culture, but also its consideration to BSR other ethics programs should also enhance a firms performances (Berrone et al., 2007; Sen & Bhattacharya, 2001; Singhapakdi et al., 1995). Previous studies found relationship between perceived ethics and financial performances to be positive (Waddock & Cranes, 1997).

There has been a substantial argument on the association between business social responsibility and business performance measures. Carroll and Shabana (2010) reviewed the literature on the business case for BSR and finalized that there is proof of a relationship between BSR and corporate financial performance (Jin et al., 2013). Similarly, Mackey, Mackey and Barney (2007) were argue that business should sometimes invest in socially responsible behaviors even though those behavior might reduce the business liquidity, and present a speculation that shows how publicly traded organizations might still benefit from an increase to the market value of the firm despite the expenses resulting from implementing social programs (Jin et al., 2013).

However, Aupperle, Carroll and Hatfield (1985) and Coffey and Fryxell (1991), found there are no relationships or mixed results and method used varied and Contentious (Verschoor, 1998). Despite that, other studies use perceives ethics & performances in the perspective of customer and there is inconsistency in the results (Tian, Wnag & Yang, 2011; Stanaland, Lwin & Murphy, 2011; Peng-Lin et al., 2011; Valentine & Fleischman, 2008). Base on the above, this study tests the relationships on the organization perspectives and will look at both financial and non financial aspect of Performance

measurement. And this relation is in line with stakeholder theory which states that managers should tailor their policies in order to satisfy a number of stakeholders (Freeman, 1984). Hence, this posit hypothesis below:

*H1: Perceived ethics is significantly related to Performance.*

## **2.2. Relationships between Organizational Culture and Performance**

According to Schein (1992), organizational culture is the main and common diverse issue in the globe due to cultural difference among the nations as well as for organizations, and has been every time an essential construct in management and business research for many years due to its capability to impact organizational outcomes. Schein (1992), model of organizational culture showed its diverse stages including norms and principles which have an effect on the organizational performance indifferent angles. The constructive culture of the organization affects the organizational performance in significant directions and takes it to the success. The organizational culture mainly determined on the leadership/management's commitment and participation in the organizational works (Lok & Crawford, 1999).

Organizational culture educates the populace about the accomplishment of the objectives within the organization. So an organizational culture is connecting which direct the workers how to influence and respond with respect to their abilities (Nancy & Galanaki, 2008). Therefore, it must be an equivalent linking organizational culture, leadership efficiency and organizational performance (Dag, 2006). Furthermore A key to good performance is a strong culture, a significant and strong culture can make an organization to achieve excellent, where as negative and weak culture may lead to few performances and at end no achievement (Ahmad, Veerapandian & Ghee, 2011).

Furthermore, previous researches have also reveals that organizational culture has an effect on organizational performances (Shah, Iqbal, Yameen, Sabir & Khan, 2011; Larry, Morgan & Douglas, 2011; Rashid, Sambasivan & Johari, 2003). Although their situation is quite diverse from this research, Base on the above, it assumes that organizational culture played a vital role in promoting organizational success, and this could only achieved by putting a desire culture which shaped organization managers values, attitude and behavior (Rashid et al., 2003). Additionally, organizational culture and it relationship to performance, Therefore, it is possible for organizational culture as a mechanism or process to mediates the relationship between BSR and performance. The influence of moral values and perceived ethical of the corporate culture is not consistent; hence additional study considered organizational influence is needed (Herndon, Fraedrich & Jen-yeh, 2001). It's expected that this study will clarify the previous finding and contribute to general management knowledge using the stakeholder theory (Jones, 1995), and

which states that managers should tailor their policy to satisfy numerous constituents, and incorporate ethical culture in all aspects of the business activities (Freeman, 1984; Wood, 2002). Thus, this leads to the following hypotheses:

*H2: organizational culture is significantly related to performance.*

*H3: Organizational culture mediates the relationship between perceived ethics and performance.*

### 2.3. Underpinning Theory of Stakeholder

Many explanation of stakeholder theory has been predictable, but the contract is that it can be useful to give details as well as to direct the arrangement and operations of the reputable organizations (Donaldson & Preston, 1995). Therefore, this is not only to say that business have take action in a conscientious way to equivocate escalating stakeholder demands, but to accomplish a better or excellent community. In addition, Jones (1995) argued that business concerned frequent dealings with stakeholders on the foundation of trust and cooperation has a motivation to be honest and ethical, since such behavior is advantageous to business (Jones, 1995). Hence, this relationship is in line with stakeholder theory which believes that managers should tailor their policies in order to satisfy a number of stakeholders (Freeman, 1984).

Several interpretation of stakeholder theory has been projected, but the convention is that it can be useful to give details as well as to direct the arrangement and operations of reputable organizations (Donaldson & Preston, 1995). Consequently, this is not only to say that businesses have to take action against escalating stakeholder demands, but to be part in the development of better or excellent community. In addition, it is understood that BSR actions is about the concluding end or consequence from course of action but all process that exist throughout the entire management levels (Jones, 1995). In addition, Jones (1995) argued that businesses have frequent dealings with stakeholder's base on the foundation of trust and cooperation has a motivation to conduct and behave ethically, since such behavior give advantages to business.



Figure 1. Research framework

### 3. Methodology

The research method is cross-sectional study design and non-experimental using the quantitative method of running questionnaire. The study unit analysis was owner/manager. The population during the study was 29, 204 and required samples sizes is 394 in conjunction of Yamane (1967) sample selection formulae. In order to reduced the sample sizes error and take care of the non response problem, the sample size were doubling and round up to 800 (Hair, Wolfinbarger & Ortivian, 2008). In multivariate research, the sample size should be ten (10) times as large for the number of variables for the study. A purposive samples technique was used to draw a population samples through survey method using self Administration questionnaire method with the help of research assistances.

Moreover, measurement of this study was adapted from the study conducted by (Curras-Pérez, Bigne & Herrera, 2009; Lin, Chen, Chiu & Lee, 2011; Kaplan & Norton, 1992; Venkatraman & Ramanujam, 1986; Wallach, 1983), with little contextual modification that fit the environment of study to measure the control on the independent construct (perceived ethics) and dependent construct (performance) using 7-point type, a scale with midpoint provide better optimal results in information processing and scale reliability, in addition, the 7-point scale is said to be efficient (Cavana, Delahaye & Sekaran, 2001; Churchill & Peter, 1984). The data collected were analyzed using SPSS version 18 and SEM-PLS software which provide consistent data that reflect the theory. It has been reported that PLS SEM can account for measurement error and can present more precise calculations of moderation effects (Chin, 1998a) and feasible alternatives of testing mediation (Chin, Marcolin & Newsted, 2003). Additionally, PLS path modeling is becomes more suitable for real world applications, suitable for better prediction and more beneficial to use when models are complex (Hulland, 1999) and address the problem of statistical power with analysis (Haenlein & Kaplan, 2011). The soft modeling assumptions of PLS method (i.e., ability to be flexible develop and validate complex models) gives it the benefit of estimating large complex models (Akter, Ambra & Ray, 2011), PLS path modelling does not necessarily require data to be normal (Chin, 1998a). In other words, PLS treats non-normal data relatively well, by and larger.

#### 3.1. Common Method Bias

CMV is ascertained is ascertained when constructs are measured using cross sectional survey technique, in order to tackle with this issue the study applied Harman 1-factor test on 3 constructs' and the results reveals that no significant biases in the data. In addition, the correlation matrix (Table 5) does not signify any extremely correlated variables; common method bias frequently results in tremendously high correlations ( $r$ , 0.90) (Bagozzi, Yi & Phillips, 1991). Consequently, we may assume that common method

variance bias is not a problem, and the results corroborate the tenability of the proposed measurement model.

#### **4. Research Findings**

Out of 800 questionnaires distributed 514 were returned out of which 486 are usable and valid for analysis after taken consideration of missing values and outliers with extreme values which yield the response rate 64%. According to Tabachnik and Fidell (2007) a response rate considered sufficiently large for statistical reliability and generability. The data collection took almost 5 month after a series of follow up during the period; errors were checked by statistical analysis for all the constructs cases.

##### **4.1. Demographic of Respondents**

The descriptive analysis reveals that 31.1% were General Manager, 29.8% were different categories of Managers and 29.4% were Chief executive/Owner of business. Descriptive statistic show that the respondents were less than 5 years of their existence in the business with 35%, followed by the range of 5-10 years, which was 32.5%; followed by the range bracket of 11-20 years with 22.6%; the range bracket of 21-40 years with 7.4%, and, finally the range bracket of 40 years and above with 2.5%. It can be clearly seen that most of the respondents, over 80%, are still within the range of target of this study (see Table 1 for this and the subsequent descriptive statistic).

Furthermore, the descriptive statistic shows that the activities of business were more with Food and Beverages with 25.5%, followed by Poultry with 20%; then Textile Materials with 13.6%, Weaving & Dying with 10.7%, Furniture and Equipment with 10.5%, Others with 8.2%, Recycling with 7% and Tobacco Product with 4.5%. The initial analysis assesses the Total Assets of the respondents based on the activities they operate. It was reveals that close to the half of the respondents 1- 100 million (1 million naira is equivalent to USD 6250), precisely 43.8%, followed by less than 1 million with 34.6%, followed by 101-200 million with 10.7%, followed by 201-300 million and 301-Above with 5.8% and 5.1%, respectively. 301- Above is the least among Total Assets of the business by the respondents. These perhaps indicate that the businesses are small in nature. Based on the above, it could be summarized that the respondents who participated in the research provided adequate variance regarding their backgrounds. Hence, the data used in the study were provided by respondents from diverse economic backgrounds (see Table 1, for more details).



S/N	Items	Frequency	Percentage
1	<b>Job Title:</b> Chief executive /owner General Manager Managers Others	151 160 153 50	29.4 31.1 29.8 9.7
2	<b>Years of Existence:</b> Less than 5 years 5-10 years 11-20 years 21-40 years Above 40 years	180 167 116 38 13	35 32.5 22.6 7.4 2.5
3.	<b>Organization Location:</b> Headquarters Division Subsidiary Others	329 92 43 50	64 17.9 8.4 9.7
4	<b>Ownership of the Organization:</b> Individual Partnership Joint ventures Others	247 168 62 37	48.1 32.7 12.1 7.2
5	<b>Number of employee in your organization:</b> Less than 20 21-40 41-60 61-80 Above 80	271 91 39 66 47	52.7 17.7 7.6 12.8 9.2
6	<b>Organization Activities:</b> Food and Beverages Tobacco Product Textiles Materials Weaving and Dyeing Furniture and Equipment Recycling Poultry Others	131 23 70 55 54 36 103 42	25.5 4.5 13.6 10.7 10.5 7 20 8.2
7	<b>Total assets at the end of year:</b> Less than 1 million naira 1-100 million naira 101-200 million naira 201-300 million naira 301 million-Above	178 225 55 30 26	34.6 43.8 10.7 5.8 5.1

Table 1. Summary of respondents Demography

#### 4.2. Descriptive Analysis

Table 2 reveals descriptive statistic for the perceived ethics, organizational culture and performance. The mean value of perceived ethics was relatively high than the mean value of organizational culture and performance which demonstrated to be 5.33 and 5.23 respectively. Hence, the result indicates the level of perceived ethics on performance of SMEs in Nigeria.

Constructs	N	Mean	Standard deviation	Minimum	Maximum
Perceived Ethics	486	5.41	0.63	2	7
O.culture	486	5.33	0.58	2	7
Performance	486	5.23	0.69	1	7

Table 2. Descriptive analysis

### 4.3. The Measurement, Outer, Model

This paper used PLS structural equation modelling (SEM) to calculate approximately its theoretical model using the software application SmartPLS (Hair, Hult, Ringle & Sarstedt, 2013; Ringle, Wende & Will, 2012). PLS SEM depends on two vital multivariate techniques including factor analysis, and multiple regressions (Hair, Black, Babin, Andersen & Tatham, 2010). PLS tool is used throughout analysis of the main and mediating results for this study. Moreover, In PLS analysis, the first step is to evaluate the measurement model, or the outer model. Measurement model is focus with estimate the goodness of measure. Therefore, two main criteria are used in PLS analysis to evaluate the measurement model or what is otherwise called the outer model consist of validity and reliability (Ramayah, Lee & In, 2011).

#### 4.3.1. The Content Validity

Construct validity testifies to how well the results obtained from the use of the measure fit the theories around which the test is designed (Sekaran & Bougie, 2010). In line with Hair et al. (2010) and Chin (1998a), factor loading of the items could be used to confirm the content validity of the measurement model. Further, all the items meant to measure a particular construct should load highly on the construct they were designed to measure. If some items load on some other factors higher than their respective construct, these items will be candidate for deletion (Hair et al., 2010).

In addition, all the measures of the construct should be significantly loaded on their respective construct. As illustrated in (Table 3), all the items load highly and significantly on the constructs they were designed to measure. Thus, the content validity of the measurement, outer, model was confirmed, for example, this study used a cutoff value for loadings at 0.5 as significant (Hair et al. 2010, 2013). Therefore, if any items which have a loading of higher than 0.5 on two or more factors then they will be deemed to be having significant cross loadings. From Table 3 we can observe that all the items measuring a particular construct loaded highly on that construct and loaded lower on the other constructs thus confirming construct validity.

Constructs	Pethics	OCulture	Performance
PE03	0.695		
PE04	0.698		
PE05	0.743		
PE06	0.740		
BU08		0.500	
IN10		0.668	
IN11		0.677	
IN13		0.635	
IN14		0.652	
IN16		0.633	
SP17		0.665	
SP20		0.673	
SP22		0.714	
SP23		0.676	
SP24		0.650	
OP05			0.615
OP06			0.918
OP07			0.880

Table 3. Construct Validity

The average variance extracted (AVE) ranged from .430,518 and .670 respectively, confirming convergent validity and implicitly, content validity except organizational culture is closed to yardstick. Composite reliabilities ranged from Perceived Ethics .811, organizational culture, .890 and Performance .856 demonstrating reliability for all constructs see Table 4. Table 5 also displays the results for the Fornell–Larcker procedure (Fornell & Larcker, 1981) to assess discriminant validity. Discriminant validity is satisfactory for constructs, the result was not unexpected. However, since it represents a relationship between an exogenous construct and an endogenous construct. Examination of the indicators for these constructs shows the content in general is distinct from a face validity perspective as well as based on the literature (Curras-Pérez et al., 2009; Tian et al., 2011; Valentine & Fleischman, 2008). In sum, the two-construct model was considered satisfactory in terms of content and convergent validity, discriminant validity, and composite reliability.

Variable	Indicator	Loading	Cronbach alpha	Composite reliability (CR)	AVE
Perceived Ethics	PE03	0.605	0.691	0.811	0.518
	PE04	0.698			
	PE05	0.743			
	PE06	0.740			
O. Culture	BU08	0.500	0.865	0.890	0.430
	IN10	0.668			
	IN11	0.677			
	IN13	0.635			
	IN14	0.652			
	IN16	0.633			
	SP17	0.665			
	SP20	0.673			
	SP22	0.714			
	SP23	0.676			
	SP24	0.650			
Performance	OP05	0.473	0.749	0.856	0.670
	OP06	0.893			
	OP07	0.809			

Table 4. Reliability and Validity of Constructs

Constructs	OCulture (2)	Performance (2)	PEthics (3)
<b>OCulture (1)</b>	<b>0.656</b>		
<b>Performance (2)</b>	0.628	<b>0.819</b>	
<b>PEthics (3)</b>	0.589	0.623	<b>0.720</b>

Note: Diagonals (in bold) represent the average variance extracted while the other entries represent the squared correlations matrix.

Table 5. Fornell-Larker Discriminant validity

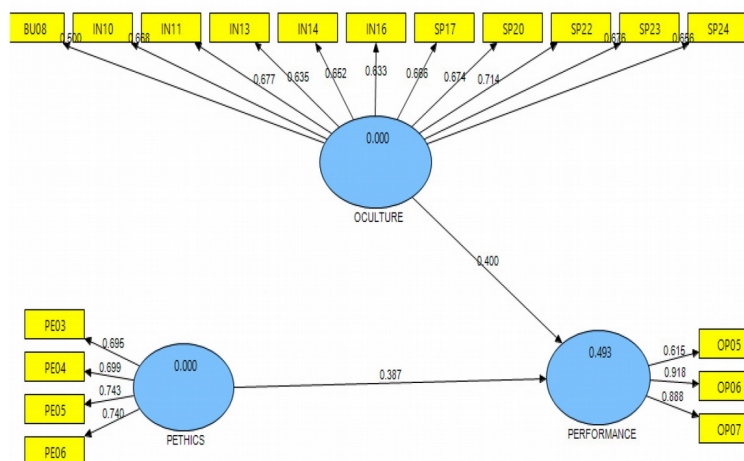


Figure 2. Measurement Model

The next step in SEM-PLS is to analyze the structural model. Figure 3 shows the model tested. The structural model was explained by Table 6 and Figure 3. The R square value was 0.49 which suggest that the model variable can explain 49% of the variance of the dependent variable which is substantial (Cohen, 1988). Hypotheses 1 stated that Perceived ethics was significantly related to a dependent variable business performance the result in Table 6 and Figure 3, shows that hypotheses 1 is supported (beta=0.387; t=8.215; p<0.001). This result showed the significance of perceived ethics for an improved business performance and thus supported H1 of the study. Similarly, relationship between Organizational culture and Performance is also significant (beta=0.400; t=7.771; p<0.001) H2 is accepted, equally organizational culture mediates the relationship between perceived ethics and performance (beta=0.378; t=7.845; p<0.001), thus H3 is accepted.

Hypotheses	Path coefficient	Standard error	T. value	P. value	Decision
PE -> OP	0.387	0.047	8.215	0.001	Supported
OC -> OP	0.400	0.052	7.771	0.001	Supported
PE ->OC -> OP	0.378	0.048	7.845	0.001	Supported

\*\*\*: p<0.001; (R2) = 49%.

Table 6. Hypothesis testing

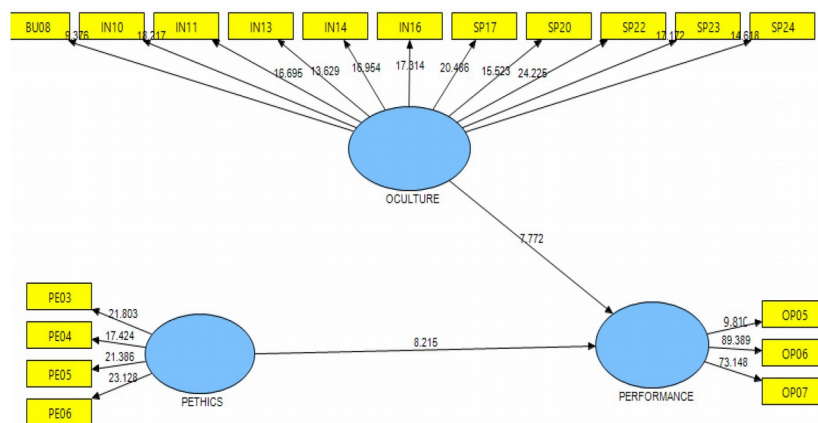


Figure 3. Structural Model

### 4.3. Mediation Test

Mediation test is conducted to discover if a mediator construct can significantly carry the ability of an independent variable to a dependent variable (Ramayah et al., 2011). Similarly, mediation test determine the indirect effect of the independent variable on the dependent variable through a mediator variable. In addition, in study of Hayes and Preacher (2010) examine that mediation analysis in multivariate analysis is determine through many techniques including: (1) simple techniques that consist of the causal steps

approach (Baron & Kenny, 1986) or the Sobel test (Sobel, 1982); (2) newer approaches that demand just fewer unrealistic statistical assumptions. Among other include the distribution of the product method (MacKinnon, Lockwood & Williams, 2004), and re-sampling approaches such as bootstrapping (Bollen & Stine, 1990; Preacher & Hayes, 2004, 2008; Shrout & Bolger, 2002). Significantly, the mediation test used for this paper was based on the PLS approach, hence, the hypotheses for the study were tested using the partial least squares (PLS) structural equations modeling (SEM) technique (Wold, 1985). And mediation test is measured by means of bootstrapping 5000 re-sampling analysis in with formulated hypotheses (Hair, Ringle & Sarstedt, 2011; Zhao, Lynch & Chen, 2010). In addition, mediation is measured by multiplying the average of paths “*a*” and “*b*” and then dividing the obtained value by the standard error of the paths (Kock, 2013). (See Table 6 for this result and Figure 4).

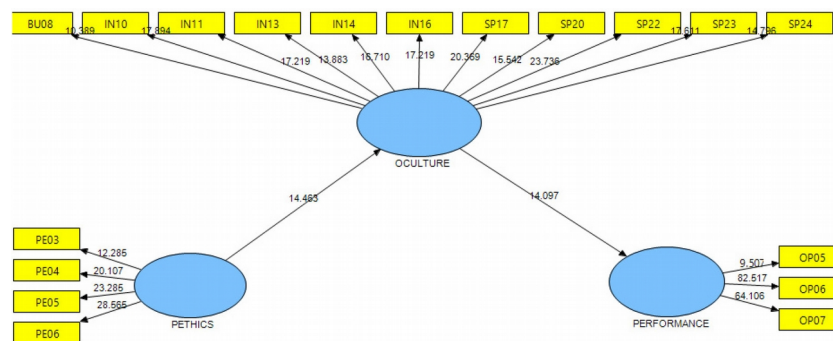


Figure 4. Mediation bootstrapping

#### 4.4. Predictive Relevance

Furthermore, a cross-validated communality  $Q^2$  is obtained when the data points are predicted using the underlying latent variable scores. Whereas, if the prediction of the data points is obtained by the LVs that predict the block in question, then a cross-validated redundancy  $Q^2$  is the output. In line with recommendations by Fornell and Cha (1994), the model will have predictive quality if the cross-redundancy value was found to be more than 0, otherwise the predictive relevance of the model cannot be concluded. Based on the Smart PLS 2.0 results, the obtained cross validated redundancy was found to be 0.249. Chin, (1998b), set three criteria

- if  $Q^2$  is 0.02, then the model has small predictive relevance,
- if  $Q^2$  is 0.15, then the model has medium predictive relevance, and
- if  $Q^2$  is 0.35, then the model has large predictive relevance. This result supports the claim that the model has medium and an adequate prediction quality see Table 7.

Dependent variable	R square	Cross validated redundancy
Performance	0.49	0.249

Table 7. Predictive relevance

## 5. Discussion, Summary, Implication and Recommendation

The statistically results recommend that there a reasonable significant relationship between perceived ethics and performance. The implication this finding is that the more SMEs perceives ethics and social responsibility the more they have positive performance which may likely have multiplier effect on GDP. Another meaning of this finding is that the more SMEs perceives business social responsibility programs this would likely enhance a firms performances. Like previous results, this finding is consistent with previous ones (Curras-Pérez et al., 2009; Berrone et al., 2007; Hilman & Gorondutse, 2013; Sen & Bhattacharya, 2001; Singhapakd et al., 1995; Tian et el., 2011; Torugsa, O'Donohue & Hecker, 2012; Valentine & Fleischman, 2008). In these studies, it was found that there is a significant relationship between perceive ethics and performance. In addition, in his survey on perceived BSR construct in United States, Hansen et al. (2011) found that the variable has a positive and significant relation on performance and turnover.

The second hypothesis state that *Organizational culture is significantly related to Organizational Performance* (OC -> OP) is statistically significant with a Beta ( $\beta$ ) value and high t-value of above 1.96 ( $\beta = 0.400$ ,  $t = 7.771$ ,  $p = 0.001$ ) and this results is consistent with Al-bahussin and El-garaihy (2013), Ali sha et al. (2011, 2005), Galbreath (2010), Larry et al. (2011) and Rashid et al. (2003) who reveal a positive association between organizational culture and performance. Consequently, the outcome of this research established that organizational culture significantly mediates the causal relationships between perceived ethics and performance hence H3 accepted. The finding also confirms that due awareness of social behavior by SMEs; organizational culture would have a mediating effect on their performance. To this end, this is hoped to have significantly contributed to management theory.

The results of this research can help practitioners to understand and present adequate indication for confirming a significant causal relationship. The findings were drawn based on the statistical results, and the practical recommendations were, in turn, derived logically from the findings. Managers/owners are provided with practical recommendations in order to have more insight regarding the implication of their perceived ethics and organizational culture vis-a-vis performance. Managers/owners should ensure that social responsibility behaviors given to stakeholders are continuous, good enough and in fact, tremendous. This would most likely improve their performance. This study reveals the significant causal relationship between organizational culture and performance. This implies that managers/owners and

policy makers should be more concerned about the organizational culture (i.e., ethical culture). Put differently, managers/owners and policy makers should ensure that the organizational culture suits the social behavior which could lead to a favorable performance.

Additionally, perceived ethics was found to have a significant positive causal effect on performance. The implication of this is that the more managers/owners perceive that they receive benefits comparable to the resources they spend on social behavior, the more they continue to practice it, and this is consistent with Husted (2005) who explains that BSR may be viewed as real options. Again, this implies that policy makers should provide an appropriate way that stakeholders can perceive greater benefits than sacrifices they make to SMEs. Policy makers should also view the issues of ethical and social behavior through the lens of smaller firms as a means of creating viable benefit. Hatten (2006) argues that ethical and social behaviors in smaller firms should go hand-in-hand with the strategic planning of the organizations. Therefore, policy makers should try to make it possible for stakeholders to accomplish and receive social behaviors with less effort and in the shortest possible time. Balmer, Fukukawa and Gray (2007) and Hansen et al. (2011) suggest that organizations engaged in BSR initiatives should not limit such actions to external stakeholders only but also to employees to encourage positive BSR perceptions, linking them directly in the planning and execution of BSR actions.

Similarly, the result of this study will add value to existing literature on the relationship between perceived ethics on business performance particularly on issue related to social behavior. Secondly, this study contributed in the body of knowledge by testing stakeholder theory outside the context of Europe and USA firms thereby confirming the theory which postulate that business managers should tailor their policies in order to satisfy a number of stakeholders (Freeman, 1984). In addition, the present study also combine various past measurement studies in measuring the effect of perceived ethics on business performance this also could add to the body of knowledge within the context of this research.

### **5.1. Conclusion, Limitations of Study and Suggestion for Future Studies**

This study is subject has some limitations, one constrain is the used of cross sectional design for survey research, thus, the study cannot establish causal relationship on a longitudinal basis. The finding cannot be generalized in larger context across the cultures of other countries since the data collected during the study was limited to Kano state, North West of Nigeria.

In this study an attempt was made to examined the influence of perceived ethics on business performance the results has confirm the significant of perceived ethics on business performances. Specifically, perceived ethics has proven to have a statistically significant effect on business performance, and account 49% of the variance in the business performance this result confirm the existing literature



(see for instance Curras-Pérez et al. (2009), Berrone et al. (2007), Hilman and Gorondutse (2013), Tian et al. (2011), Torugsa et al. (2012) and Valentine and Fleischman (2008)). Finally In order to overcome the limitations of this study, future research should employed longitudinal approach of the study. In addition, the present study employed quantitative techniques future study can employed qualitative or case study method for design and analysis of information.

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