CRITICAL ANALYSIS AND MODELLING OF SMALL BUSINESS PERFORMANCE (CASE STUDY: SYRIA)

Dr. Rami Alasadi, PhD, MBA*

Dr. Ahmed Abdelrahim, PhD, MBA, MSWE

* Director of BscBA
Abu Dhabi University
INTRODUCTION
The health of small business sector is very important for the overall economic growth potential and future strength of an economy. There has been more written about small business growth in recent years than any other aspect of management. One of the main reasons is the contribution of expanding enterprises to economic development and unemployment reduction, which, generally, has attracted the attention of researchers and policy makers in many countries (Bernice and Meredith, 1997).

The existence of a strong small business sector is necessary for the boosting the economy. However, the transition of this sector to medium and large business sectors is as crucial to preserve the flow of new small businesses into the economy. In addition, such transition or growth will further reduce the unemployment rate and increase the number of products or services offered to the society. Hence, growth is considered to be synonymous with success.

While a considerable amount is known about the factors that affect the success of small and medium-sized businesses, this knowledge continues to be imperfect and a large number of questions remain unanswered regarding the small business sector in developing countries (Cook, 2001). Since developing countries are expected to adopt different economic policies and they are occupying different phases of economic development, factors that determine the success of small businesses would vary accordingly. In this study, the attempt is made to investigate factors that might contribute to the success of small businesses in Syria. Additionally, the effort is made in the study to develop success predictive models using several performance measures.

The remainder of the paper is organised as follows. The following section provides a summary of the status of the small business sector in Syria. Related literature will be reviewed in section three. Data collection and models development are described in section four. While the findings are discussed in section five, the conclusion is offered in the final section.

INVESTIGATION OF SMALL BUSINESS IN SYRIA
The nature of the centralized Syrian economy has been a major obstacle to the growth of the private sector, hindering the expansion of the small business environment in Syria. The Syrian authorities have come to realize the importance of decentralizing the economy towards a real market economy by putting effort into encouraging and supporting entrepreneurship among the small business investors. According to Piasecki (1995), private sector development in a centralized economy is extremely critical and vital for a smooth transition to a market economy. However, the development of the private sector could be in different shapes depending on the nature of investment in the Syrian economy. In other words, developing the private sector in any economy could result from either attracting foreign private investment or fostering the development of the small business sector. In spite of the attempts made by the Syrian government to boost the economy, the general political and economic conditions are still volatile. As such, encouraging local investments in the small business sector seems to be a more effective and efficient mean towards the development of the private sector. This strategy has been supported in previous studies as such noted by Yuzbasioglu (1997) who indicated that small businesses have become important elements in policies designed to promote economic regeneration, employment, and growth in many developing economies.
The Syrian economy in particular has witnessed such noticeable contribution of the SME sector in reducing the unemployment rate (Alasadi, 2003). For instance, the Syrian government has to provide almost 200,000 jobs every year, 90,000 of which are secured in the public sector. The private sector provides almost 30,000 jobs mainly in small and medium enterprises in addition to those jobs created as a result of the application of the Investment Promotion Laws (Hamza, 2000). According to the International Labor Organization, both public and private SMEs employ 88% of the labor-force in Syria. However, private SMEs employ a significantly bigger portion when compared to the public SMEs. Given those political and economical conditions, the private sector in Syria has proved successful, and part of its success comes from the historically strong merchant class in Syria that has survived even harder times (Schemm, 1999).

LITERATURE REVIEW

The fundamental contribution of the small business sector to the overall performance of the economy is indeed a crucial motive for researchers to investigate and examine the key success factors behind this sector. Small businesses face many challenges that hinder their growth or even further cause a permanent shutdown. However, few small businesses are able to overcome those challenges and achieve some rate of growth. The rate of such growth is considerably variable and the key factors behind it require a great deal of investigation. Therefore, it is critical and extremely important to identify and examine these factors that lead small businesses to survive and succeed. A tremendous challenge in studying these success factors is their inconsistent and variable nature and the absence of a well defined standard set of factors across the globe. In other words, these factors could significantly vary from nation to nation and from one business environment to the other due to economical, geographical, and cultural disparities and variations.

As such, the empirical investigation of those factors leading to the success and failure of the small business economy in different nations is a mandatory requisite for a better healthier economic development. The findings of such research are helpful and useful to individual entrepreneurs as well as to economic development planners (Wijewardena & Tibbits, 1999). With the presupposition that there tend to be common underlying factors that are associated with success (Hills and Narayana 1990), many small business studies have been undertaken to identify these success factors in different countries. However, Luk (1996) stated that most of these previous studies were based on the experience of small firms operating either in North America or in European countries. There has been a considerable number of studies ranging from single case studies to comprehensive surveys that explicitly investigated the factors of success of small businesses (see, for example, Bird 1989; Brockhaus and Horwitz 1982; Brockhaus and Horwitz 1986; Gartner 1989; Sandberg 1986; and Vesper 1990). Most of these studies concluded that business success is the result of a web of interacting factors. However, the application and effectiveness of these factors in different countries is still open to investigation.

In this section, the authors intend to review some of the most important studies that investigated small business success and contributed to a large extent to the literature of the small business economy. One such study by Bird's (1989) concluded that small firms with successful performance were characterized by innovation and risk-taking behavior and that small businesses started by a team of partners who had advance training were more likely to achieve successful performance. Duchesneau and Gartner
(1990) identified three categories of factors that are thought to influence the likelihood of small business success: entrepreneurial characteristics, start-up behavior, and the firm's overall strategy. According to their findings, factors that contributed heavily to successful performance were: prior related experience, an effort to reduce business risk, long working hours, good and clear communication, superior customer service, proper planning, and a flexible, participative, and adaptive organizational culture.

Storey (1994) agreed with Duchesneau and Gartner (1990) that the following three categories of factors primarily have the greatest influence on the growth of small business: (1) The characteristics of the entrepreneur(s)/owner-manager(s), (2) The characteristics of the small firm. (3) The range of business development strategies. These three categories of factors require a homogenous well planned integration to achieve adequate growth. Another important finding of Storey’s study stated that there was little evidence to the direct influence of the entrepreneurs’ background on the growth of the small business. However, the background of the entrepreneurs had a distinctive valid influence on their perception of the importance of managerial training programs. Storey also found out that the factors associated with growth in the entrepreneur/resources category were motivation, education, partnership, and young to middle age managers.

Barkham, Gudgin, Hart and Hanvey (1996) adopted the methodological framework introduced by Storey (1994) in their study which investigated the success factors behind small business success in the UK between 1986 and 1990. They found that it was the characteristics of the entrepreneur and the business strategies adopted that mainly determined the growth of small firms. Their study concluded that the firms with higher growth rates were those managed by relatively young entrepreneurs who had other business interests, market focus, profit oriented, and were members of professional organizations.

Another important study on small business success in Turkey was introduced by Ahmet (1995) where he measured business performance in terms of size (i.e. number of employees) and sales growth. He categorized success factors to internal and external factors to the small business environment. However, the focus of his study was on the internal factors only, categorizing them into five categories: owner/manager experience, age of firm, production competencies, marketing competencies, management competencies, and business strategy. When size of firm was used as a performance measure, accounting, technology, and purchasing were proved significant influential factors. However, product diversification and financial management appeared as significant factors influencing sales growth as another performance measure to business success. The experience of the owner and the age of the company were not significant factors to explain neither the size of the firm nor sales growth as performance measures.

An empirical study by Lussier (1995) investigated the predictability of small business success. Lussier developed a non-financial model that included 15 factors as independent variables tested for their significance using logistic regression. These factors were: planning, professional advisors, managers’ education, staffing, family business ownership, capital, financial control, industry experience, management experience, product/service timing, age of owner, economic timing, partnership business, minority ownership, and marketing skills. Analysis of the results suggested that only the first four factors were significant predictors of success.
Wijewardena and Tibbits (1999) examined a set of firm and industry related factors that affect the growth of small businesses in Australia. The study concluded that older firms have poor growth performance when compared to younger ones. Kangasharju (2000), in his study on the determinants of small business growth in different phases of the business cycle, agreed with Wijewardena and Tibbits (1999) that younger firms tended to have higher growth rates than older ones. In addition, Kangasharju pointed out that higher education and advanced training of small business owners/managers increased the likelihood of achieving business growth.

Blackwood and Mowl (2000) carried out a study in Spain with the primary objective of identifying and describing patterns of success and failure among small businesses. They concluded that business success or failure is dependent not only on the behavior of business owners/managers, but also on the economical and social behaviors of environment in which these businesses operate. Statistical analysis of the data collected in their study suggested that successful businesses were likely to be managed by owners who had initially considered several alternative ventures, purchased the business as a going concern, prepared a financial plan, regularly maintained financial records, used financial targets to assess business performance, and have had previous experience managing private business. Along the same line, Andreas, Michael and Sabine (2000) conducted a study on the predictability small business success with primary emphasis on planning as a significant determinant to small business success. The investigated sample was for small businesses operating in Ireland and Germany. In Germany, planning had a positive influence on small business success, while it was negative in Ireland. Accordingly, they concluded that the cultural context and the surrounding environment in which small business firms operate, determine the key factors of small business success.

Grounded theory approach to investigate success in small service sector organisations was used in a study conducted by (Simpson, Tuck, and Bellamy, 2004). The impact of education, training, development, prior knowledge and experience on the success of these businesses was investigated. Four substantive categories were developed, but only one category showed clear evidence that education and training had a positive effect on the success of the business. Most businesses relied heavily on prior knowledge and experience.

In their recent study, Wiklund and Shepherd (2005) investigated the Entrepreneurial Orientation of small businesses and found that a main-effects-only analysis provided an incomplete picture of performance. Access to capital and the dynamism of the environment were important to small businesses, and they found that when combined with the Entrepreneurial Orientation a three-way interaction model) the configurational approach explains variance in performance over and above a contingency model (two-way interactions) and a main-effects-only model.

**Independent Variables Justifications**

Previous studies investigating factors behind small business success have all lead to the valid assumption that there is a common set of underlying success factors, whose effect tend to vary depending on the cultural context in which small businesses operate. Accordingly several studies in this regard were conducted in different countries all over the world, very few of which were conducted in developing countries. Hence, the essence of this study is to contribute the literature of small business success by identifying the key success factors and their effectiveness on small business success performance for those operating in Damascus, Syria, which
relies heavily on small private business for its economic development. In this study, the authors have chosen five key success factors to investigate. These are: Training, Planning, Size, Owners/Managers’ Age, and Funding. The purpose of this section is to justify why these factors in particular were chosen to assess small business performance.

One of the most significant reasons behind the failure of SMEs is their inadequate use of essential business and management practices (Monk, 2000). Therefore, training for small business owners/managers as well as their subordinates allow them acquire the necessary skills to ensure the survival and success of their business. Several authors argued that human resource management (HRM) is a key factor in small business survival. Therefore, organisations need well trained managers and employees for their business to successfully and effectively compete in the marketplace. The empirical evidence showing the positive influence of various HRM activities and business performance has been reported in several studies such as Marlow and Patton (1993), Holt (1993), and Becker and Gerhart (1996). Training has been considered in many studies as a key success factor for small businesses such as Duchesneau and Gartner (1990), Storey (1994), Kent (1994), Gatewood et al (1995), Brown and Huang (1999), and Blackwood and Mowl (2000).

Planning was also recognised by several studies as a key factor to small business success such as Storey (1994), Duchesneau and Gartner (1990), Huck and McEwen (1991), Lussier (1995), Lussier and Pfeifer (2001), Andreas et al (2000), Schwenk and Shrader, (1993), and Jones (1982). Another factor featured in the literature that distinguishes a small business from a large one is size. Some authors argue that larger firms in small-scale business grow faster than smaller ones due to their ability to employ skilful managers and workers and to acquire more efficient technology and facilities (Wijewardena and Cooray, 1995; and Riding, Scott and Orser, 2000). Larger firms have more resources that could be used to conduct market research, acquire information more effectively, and get consultancy form professional advisors. Accordingly, size of the firm has been included in most of the previous studies on small business success as a key factor (Barkham et al, 1996; Evans, 1987; Storey, 1994; Wijewardena and Cooray 1995; Wijewardena and Tibbits, 1999).

Several studies have further focused on the entrepreneurial characteristics of the owners/managers of small businesses as key factors to small business success. Age of the owners/managers was one of the most important characteristic that was repeatedly used to predict small business performance (Storey, 1994; Duchesneau and Gartner, 1990; Lussier, 1995; Lussier and Pfeifer, 2001; Barkham et al, 1996; Kangasharju, 2000; and Carter and Jones, 2000). Last but not least, funding identified as the access and the source of finance, was frequently examined in the literature as a critical issue for small business (Coleman, 2000; Storey, 1994; Barkham et al, 1996; Lussier, 1995; Lussier and Pfeifer, 2001; and Yusuf, 1995).

In summary, the obvious justification for using such factors is that they have been repeatedly used in previous studies evaluating and modelling the small business performance. Another important justification is based on the fact that some of these factors can be used as a proxy for a number of other key factors that affect small business performance such as planning and owners/managers’ age. Planning is a proxy for a number of organizational activities and characteristics (Shrader, Mulford, and Blackburn 1989) while owners/managers’ age is a proxy for the following four factors: skill, experience, flexibility, and motivation (Barkham et al 1996).


**Performance Measurement**

The selection of performance measures that reflect the true situation of small businesses with some degree of certainty and reliability is indeed a crucial process (Murphy, Trailer, and Hill, 1996). The lack of universally accepted standard performance measures left the door open to business organizations to decide and choose its own performance measure that might not truly reflect its performance. Such performance measures include but not limited to: market share, sales volume, company reputation, return-on-investment (ROI), profitability, and established corporate identity. While some might argue that most of these performance measures are appropriate for large corporations, they are not always perfectly applicable to small businesses. In all cases, regardless of what measure should be used, the literature has strongly endorsed using multiple performance indicators (Corchran and Wood, 1984; Hall, 1982; and Ibrahim and Rue, 1998).

One performance measure that is widely used among small businesses, as a subjective indicator of the overall business performance is the degree of owner/manager satisfaction with the business performance. Few researchers have consulted owner/managers about their views on success of their small business ventures (Simpson,Tuck, and Bellamy, 2004). Luk (1996) identified the success of small businesses as actual performance equal to or exceeding the business owner/manager’s expectations. The diverse range of measures that can be adopted to define success can lead to a false judgment on the actual performance. For example, a small business with declining profits or market share could be seen as failing when in fact its owners/managers are satisfied with the overall business performance. Adequate income, job satisfaction, a happy workforce, and a stable market position are all factors that lead to small business owners’/managers’ satisfaction.

Another valid performance measure is turnover. Turnover growth is an objective measure that is relatively easy to get due to data availability and common use and is also a good indicator of firm size and a proxy for overall business growth. In this respect, Barkham (1996) concluded that an analysis of a company’s growth should, at least in part, be based on changes in turnover. In all cases, regardless of what measure should be used, the literature has strongly endorsed using multiple performance indicators (Corchran and Wood, 1984; Hall, 1982; and Ibrahim and Rue, 1998).

Small business success can be defined in many different ways. A study by Beaver and Jenning (1995) stated that the most commonly adopted definition of success is financial growth with adequate profits. The study concluded that being able to define success, whether generally or specifically, is not the same as explaining success. Other definitions of success are equally applicable. For example, some entrepreneurs regard success as the job satisfaction they derive from achieving desired goals. However, financial growth due to increasing profits has been widely adopted by most researchers and practitioners in business performance models.

**METHODOLGY**

The main purpose of this study is to explore the effectiveness of several influential factors in a model-ready format for better performance assessment of the small business sector in a developing economy, in particular, the Syrian economy. The study focused on the SMEs in the private service sector located in the Syrian capital, Damascus. The argument behind choosing the private sector, in particular, stems from the following observations:

- The Syrian government is expanding the private service sector and encouraging local investment. Accordingly, this sector is experiencing noticeable

- The majority of the SMEs are in the private service sector. This is due to the nature of SMEs which require modest initial capital requirements and the main resource is the human element.
- Inline with the majority of researchers in this particular field, the authors believe that studying the private service sector in particular is crucial for a better understanding of the performance of small businesses (Curran and Blackburn 1990).

The body of knowledge essential to conduct this study required initiating direct contacts with small businesses. The sample studied was drawn from a population of all registered small businesses in the private service sector located in Damascus, spanning various trade sectors such as: Car Rental, Travel and Tourism, Hotels, Real Estate, Advertising, Restaurant, Coffee Shops, and Financial and Engineering Offices. The population size was 3152 businesses of which 345 were selected for participation in this study representing the sample size at 5% confidence level. The sample firms were selected based on the following criteria:

1. Firms employing not more than 25 full-time employees. This criterion was inline with that adopted by Al-Ashi (1990) who carried out a research on small businesses performance in Jordan.
2. Firms located in Damascus. Damascus is the capital and is considered the primary business area in Syria. In addition, access to the business profiles of these firms (name, address, ownership details, tourism, trade sectors, employment data and date of formation) was readily available. These profiles would facilitate the process of identifying and selecting the appropriate sample firms.
3. Firms were privately owned by their management who had all decision making rights.
4. Firms have been in business for a minimum of 5 years.

Once the appropriate sample firms have been identified, their management was approached to participate in this study. The authors adopted both quantitative and subjective methods in their analysis and model development. A comprehensive questionnaire, exploring all areas related to small business environment, was developed for collecting the knowledge and data required for this study.

**Questionnaire**

The primary intention was to self-administer the developed questionnaire to increase the validity and reliability of the data collected. However, due to time constraints and firms’ owners/managers preferences, delivery and collection of the questionnaires was the only other alternative. For a sample size of 345, 28 (9%) were self-administered questionnaires and 197 (91%) were of type delivery and collection. The overall response rate was 57% with 148 questionnaires not returned. The questionnaire was designed as to encompass six sections: Owner/Manager background, Company background, Management practices and development activities, Business environment, Business information, and Manager’s training. The questionnaire used different types of question structures such as: open, category, and scale question types. Before developing the final questionnaire, a pilot test was
conducted, and feedback was collected that helped and improved the design and content of the questionnaire. For instance, there were concerns, from the firms selected for the pilot test, about the length of the questionnaire suggesting a shorter version to increase the response rate. The authors acted on this issue by changing the structure of some the open questions into category questions which are less time consuming.

**Models Development**

In order to study the impact of various factors affecting the small business performance, three predictive models were developed. These models incorporated the same set of factors (independent variables) using logistic regression analysis to predict small business performance from three different angles (dependent variables): profit, turnover, owner/manager satisfaction. The following six independent variables were included in the three models: Business size, Owner/manager’s age, Owner/manager’s training, Employee’s training, Planning, and Sources of fund. Logistic Regression was used to develop the predictive models for the three different performance measures. This technique was frequently used in previous studies such as Cooper et al., (1990); Cooper, Gasoncon, and Woo, (1991); Reynolds, (1987); Reynolds and Miller, (1989); Lussier, (1995); Lussier and Pfeifer, (2000, 2001); and Yuzbasioglu, (1997).

In the questionnaire the dependent and independent variables were measured in different scales but subsequently adjusted to make them fit to the requirements of the logistic regression due to the dichotomous nature of the original dependent variable “Owner/Manager’s satisfaction with the general performance” which had only two values either improving or declining. The other two variables (Sales and Profit) were re-coded and included in the analysis as new dependent variables. They were initially measured on a five-point Likert scale ranging from greatly decreased to greatly increased. Those who indicated that their business performance increased or greatly increased in sales or profits were considered as improving, others who indicated otherwise were considered as declining. Subsequently, all dependent variables included in the analysis were dichotomous having only two values (declining or improving).

With regards to the independent variables, Owner/manager’s training and Employee’s training were already dichotomous. The remaining independent variables “Business size; Owner/manager’s age; Planning; and Source of fund” were transformed from being categorical and nominal to dichotomous.

For more details, take in Table I

<table>
<thead>
<tr>
<th>Variable</th>
<th>Old Variable Type</th>
<th>New Variable Type</th>
</tr>
</thead>
<tbody>
<tr>
<td>Table I: Types of Old and New Variables for Logistic Analysis</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
RESULTS AND DISCUSSION
Prior to running the regression analysis to model the impact of the independent variables over each of the performance dependent measures, both a descriptive and correlation analyses of the sample firms’ responses about each of the variables are performed. Table I shows the count and percentage of the responding firms in regard to each of the independent variables used in the study. In addition, the count and percentage of the non-responding firms is also shown. The adjusted percentage recalculates the percentage of responding firms not accounting for the non-responding firms.

Table II Count and Percentage of firms responding to each of the independent variables

<table>
<thead>
<tr>
<th>Independent Variables</th>
<th>Count</th>
<th>Percentage (%)</th>
<th>Adjusted Percentage (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Owner/manager’s (O/M) Training</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>YES</td>
<td>140</td>
<td>71.1</td>
<td>83.3</td>
</tr>
<tr>
<td>NO</td>
<td>28</td>
<td>14.2</td>
<td>16.7</td>
</tr>
<tr>
<td>Sub-Total</td>
<td>168</td>
<td>85.3</td>
<td>100</td>
</tr>
<tr>
<td>Missing</td>
<td>29</td>
<td>14.7</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>197</td>
<td>100</td>
<td></td>
</tr>
<tr>
<td>Employees Training</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>YES</td>
<td>28</td>
<td>14.2</td>
<td>17.4</td>
</tr>
<tr>
<td>NO</td>
<td>133</td>
<td>67.5</td>
<td>82.6</td>
</tr>
<tr>
<td>Sub-Total</td>
<td>161</td>
<td>81.7</td>
<td>100</td>
</tr>
<tr>
<td>Missing</td>
<td>36</td>
<td>18.3</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>197</td>
<td>100</td>
<td></td>
</tr>
<tr>
<td>O/M Age</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Less than 41</td>
<td>126</td>
<td>64</td>
<td>66.7</td>
</tr>
<tr>
<td>41 or more</td>
<td>63</td>
<td>32</td>
<td>33.3</td>
</tr>
<tr>
<td>Sub-Total</td>
<td>189</td>
<td>96</td>
<td>100</td>
</tr>
<tr>
<td>Missing</td>
<td>8</td>
<td>4</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>197</td>
<td>100</td>
<td></td>
</tr>
<tr>
<td>Size</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Less than 15</td>
<td>154</td>
<td>78.2</td>
<td>81.5</td>
</tr>
<tr>
<td>15-25</td>
<td>35</td>
<td>17.8</td>
<td>18.5</td>
</tr>
<tr>
<td>Sub-Total</td>
<td>189</td>
<td>95.9</td>
<td>100</td>
</tr>
<tr>
<td>Missing</td>
<td>8</td>
<td>4.1</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>197</td>
<td>100</td>
<td></td>
</tr>
<tr>
<td>Source of Finance</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Loans  |  Count  | Percentage (%)  | Adjusted Percentage (%)
-------|---------|------------------|----------------------
Self-finance  | 161  | 81.7  | 88.5  
Total  | 182  | 92.4  | 100  
Missing  | 15  | 7.6  |  
Total  | 197  | 100  |  

Planning

|  | Count  | Percentage (%)  | Adjusted Percentage (%)
-------|---------|------------------|----------------------
Minor  | 91  | 46.2  | 54.2  
Major  | 77  | 39.1  | 45.8  
Total  | 168  | 85.3  | 100  
Missing  | 29  | 14.7  |  
Total  | 197  | 100  |  

Analysis of the data shown in Table II reveals the following observations:

- Managerial training was a dominant factor among the majority of the sample firms as 83.3% of the responding firms have considered managerial training. On the other hand, only 16.7% of those responding firms considered training their employees. This illustrates that managerial training was considered significant and indirectly as a replacement for employees training.
- The majority of the firms (81.5%) were small in size with 15 or less employees while the rest of the sample (18.5%) were labeled as medium-sized businesses employing more than 15 to a maximum of 25 employees.
- A considerable portion of the sample responding firms (66.7%) were managed and/or owned by individuals less than 41 years in age.
- A significant portion of the responding firms (88.5%) relied on self-financing rather than debt in funding their business.
- More than half of the responding firms (54.2%) did not consider planning as a major strength. This observation was a result of the lack of market and economical information required for adequate planning.

A similar descriptive analysis was also conducted for the performance measures used in the study.

### Table III Count and Percentage of firms responding to each of the dependent variables

<table>
<thead>
<tr>
<th>Dependent Variables</th>
<th>Count</th>
<th>Percentage (%)</th>
<th>Adjusted Percentage (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Owner/Manager Satisfaction</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
| Declining  | 35  | 17.8  | 20  
| Improving  | 140  | 71.1  | 80  
| Sub-Total  | 175  | 88.8  | 100  
| Missing  | 22  | 11.2  |  
| Total  | 197  | 100  |  
| **Profitability** | | | |
| Declining  | 56  | 28.4  | 34.8  
| Improving  | 105  | 53.3  | 65.2  
| Sub-Total  | 161  | 81.7  | 100  
| Missing  | 36  | 18.3  |  
| Total  | 197  | 100  |  
| **Turnover** | | | |
| Declining  | 42  | 21.3  | 24  
| Improving  | 133  | 67.5  | 76  
| Sub-Total  | 175  | 88.8  | 100  
| Missing  | 22  | 11.2  |  
| Total  | 197  | 100  |  

Analysis of the data shown in Table 2 reveals that the majority of responding firms were considered improving from the general perspective of their owners/managers. This observation was consistent when performance was determined based on profitability and turnover. However, the percentage of responding firms considered improving was relatively less.

**Correlation Analysis**

Regression modeling requires an investigation of the correlation among the independent variables as well as the dependent variables. Significant correlation between one independent variable and another, results in using such independent variable as a proxy to the other variable. Also, significant correlation among the dependent variables could eliminate the need for one or more of the dependent variables.

The results of the bivariate correlation analysis among the dependent variables, measured by the Pearson coefficient, were significant between the O/M Satisfaction and Turnover and between the O/M Satisfaction and Profitability as well but the relationship was not strong enough. However, the relationship was significant and relatively strong between Turnover and Profitability.

**Table IV** Intercorrelation matrix of dependent variables

<table>
<thead>
<tr>
<th></th>
<th>Turnover</th>
<th>Profitability</th>
<th>O/M Satisfaction</th>
</tr>
</thead>
<tbody>
<tr>
<td>Turnover</td>
<td>Pearson</td>
<td>.722**</td>
<td>.407**</td>
</tr>
<tr>
<td></td>
<td>Correlation</td>
<td>.000</td>
<td>.000</td>
</tr>
<tr>
<td></td>
<td>Sig. (2-tailed)</td>
<td>.000</td>
<td>.000</td>
</tr>
<tr>
<td>Profitability</td>
<td>Pearson</td>
<td>.722**</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Correlation</td>
<td>1</td>
<td>.492**</td>
</tr>
<tr>
<td></td>
<td>Sig. (2-tailed)</td>
<td>.000</td>
<td>.000</td>
</tr>
<tr>
<td>O/M Satisfaction</td>
<td>Pearson</td>
<td>.407**</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Correlation</td>
<td>.492**</td>
<td>1</td>
</tr>
<tr>
<td></td>
<td>Sig. (2-tailed)</td>
<td>.000</td>
<td>.000</td>
</tr>
</tbody>
</table>

**Correlation is significant at the 0.01 level (2-tailed)**

This was not a surprise, since the sample firms relied in their source of funding on their personal savings and not on borrowing, hence expenses are relatively low and sales turnover and profitability would exhibit such positive strong correlation. In order to generalize and not be specific to the Syrian economy where borrowing for funding is unlikely, turnover and profitability could exhibit a non-significant correlation if
borrowing as a source of funding is considered an important factor in small business development in other economies. Additionally, the logistic regression analysis yielded different results for Turnover and Profitability in terms of the significance level of some independent variables. In particular, planning was highly significant in Profitability relative to Turnover while funding was non-significant in Turnover but highly significant in Profitability. Accordingly, both Turnover and Profitability in addition to O/M Satisfaction have been used as dependent variables in the logistic regression models developed in this research. The use of multiple performance measures has been strongly endorsed by prior literature. As for the independent variables, the Pearson coefficients were found too low to be significant to conclude that all of the independent variables selected should be used in the models developed and none of them can be used as a proxy for the other.
Table V Intercorrelation matrix of independent variables

<table>
<thead>
<tr>
<th></th>
<th>O/M Training</th>
<th>Employees Training</th>
<th>Age</th>
<th>Size</th>
<th>Source Of Fund</th>
<th>Planning</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>O/M Training</strong></td>
<td>Pearson</td>
<td>-0.081</td>
<td>0.27</td>
<td>0.124</td>
<td>-0.175*</td>
<td>-0.136</td>
</tr>
<tr>
<td></td>
<td>Correlation</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Sig. (2-tailed)</td>
<td></td>
<td>0.345</td>
<td>0.738</td>
<td>0.117</td>
<td>0.027</td>
</tr>
<tr>
<td><strong>Employees Training</strong></td>
<td>Pearson</td>
<td></td>
<td>1</td>
<td>0.069</td>
<td>-0.211**</td>
<td>-0.163**</td>
</tr>
<tr>
<td></td>
<td>Correlation</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>-0.381**</td>
</tr>
<tr>
<td></td>
<td>Sig. (2-tailed)</td>
<td></td>
<td>0.395</td>
<td>0.007</td>
<td>0.039</td>
<td>0.000</td>
</tr>
<tr>
<td><strong>Age</strong></td>
<td>Pearson</td>
<td>0.027</td>
<td>-0.069</td>
<td>1</td>
<td>0.260**</td>
<td>0.277*</td>
</tr>
<tr>
<td></td>
<td>Correlation</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>0.124</td>
</tr>
<tr>
<td></td>
<td>Sig. (2-tailed)</td>
<td></td>
<td>0.395</td>
<td>0.000</td>
<td>0.017</td>
<td>0.117</td>
</tr>
<tr>
<td><strong>Size</strong></td>
<td>Pearson</td>
<td>0.124</td>
<td>-0.211**</td>
<td>0.260**</td>
<td>1</td>
<td>0.176*</td>
</tr>
<tr>
<td></td>
<td>Correlation</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>0.146</td>
</tr>
<tr>
<td></td>
<td>Sig. (2-tailed)</td>
<td></td>
<td>0.007</td>
<td>0.000</td>
<td>0.017</td>
<td>0.059</td>
</tr>
<tr>
<td><strong>Source of Fund</strong></td>
<td>Pearson</td>
<td>-0.175*</td>
<td>-0.163*</td>
<td>0.277**</td>
<td>0.176**</td>
<td>1</td>
</tr>
<tr>
<td></td>
<td>Correlation</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>0.095</td>
</tr>
<tr>
<td></td>
<td>Sig. (2-tailed)</td>
<td></td>
<td>0.039</td>
<td>0.000</td>
<td>0.017</td>
<td>0.221</td>
</tr>
<tr>
<td><strong>Planning</strong></td>
<td>Pearson</td>
<td>-0.136</td>
<td>-0.381**</td>
<td>0.124</td>
<td>0.146</td>
<td>0.095</td>
</tr>
<tr>
<td></td>
<td>Correlation</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>1</td>
</tr>
<tr>
<td></td>
<td>Sig. (2-tailed)</td>
<td></td>
<td>0.103</td>
<td>0.000</td>
<td>0.117</td>
<td>0.059</td>
</tr>
</tbody>
</table>

** Correlation is significant at the 0.01 level (2-tailed)
* Correlation is significant at the 0.05 level (2-tailed)

Logistic regression analysis
It is worth mentioning that the reason behind choosing logistic regression instead of other regression techniques such as linear regression is the dichotomous nature of the data collected for the dependent variables. For instance, profitability, turnover, and O/M satisfaction have all been defined as dichotomous as either improving or declining. Hence, logistic regression was the technique of choice for the analysis required for this study. Logistic regression analysis was run for the six independent variables and each of the three dependent variables.
Results reveal that the test for “goodness of fit” of the models, and the statistics for the three models are significant. This implies that the models have empirical validity and predict the success or otherwise of a business at 99 per cent of random guessing. \(-2\) log likelihood (LL) compares the model to a perfect model in which all cases would be correctly classified. The larger the \(-2\)LL the better, indicating that the model does not differ significantly from the Perfect model. The results show that profit model is closer to the perfect model than turnover model and general performance model in terms of \(-2\) LL as the scores are 56.124, 46.617 and 36.486 respectively.

The second way of testing the models in order to know how well they perform is to examine how they classify the observed data. Table VI demonstrated that 95.3 per cent of the improving firms were correctly predicted by the first model (Original model), 96.4 per cent by the second model (Turnover model) and 96 per cent by the third model (Profit model). In order to know how much the independent variables included in the model account for the variation in the dependent variable Adjusted R-square was calculated. The results reported in Table VI show that explanatory independent variables used in the models predict 80.2 per cent of the variation in the dependent variable in the first model, 75.1 per cent in the Turnover model and 74 per cent in the Profit model.
**Parameter Estimates and Significant Variables**

Out of the six variables in this multivariate test for the first model, age and manager’s training were significant at the .05 level. This indicates that these two variables are good predictors of the dependent variable and there is only a 5 per cent probability that the relationship between the independent variables and dependent variable has arisen by chance.

However, size and planning were added to the list when 10 per cent level of significance was used which means that the probability of this relationship being arisen by chance is 10 per cent. With regard to the Turnover model, of the six independent variables age, size, and manager’s training were significant at 5 per cent level and planning was significant at 10 per cent level. More statistically significant independent variables appeared in the Profit model compared with the other two models. Age, size, fund, planning, and manager’s training were highly significant.

**Direction of the Relationship among Variables**

The statistical results presented in Table VI show that the age of the owner/manager as an independent variable is highly significant. The negative direction of the coefficient indicates that successful firms are more likely to be run by younger owner/managers. This is in line with Kangasharju (2000). However, this explanation is not sufficient to show the role of age in the success of the business. The way the age of the owner/manager proxy for some factors, as mentioned earlier, which affect small firm success may give better understanding of the importance of this variable.

The first factor, flexibility, is negatively related to age. The older the owner/manager, the more the ability and willingness to make a fundamental strategic change of direction for the business diminishes. It was found from the Bivariate analysis that younger owner/managers were more likely to expand and grow their market share, as an organisational objective, than older ones. Measured on a five point likert scale, younger managers scored high (3.8) compared to older managers (2.7).

The second factor, motivation to work hard, is also negatively related to age. As the owner/manager accumulates wealth, this wealth provides an income and this reduces the need for income generated from work. The older the owner/manager the greater the incentive to live off earlier investment rather than invest additional time and resource in the hope of a future pay-off.

The third factor is physical energy, which generally reduces with age. This means that young and middle aged owner/managers are more likely to make changes in business and bring new ideas to improve the way the business is conducted. Many authors indicate that the key to survival, growth, and profitability is the continuous development of new products and processes (Chaganti and Chaganti, 1983; Nonaka and Yamanouchi, 1989; Oster, 1990; and Varadarajan, 1986). Bivariate analysis shows that 61 per cent of managers who always make operational changes were young, compared to 39 per cent who were older.

Finally, it may be argued that increased age brings with it a sufficient level of accumulated knowledge or experience of a certain trade to try going into self-employment alone, but a potential drawback is that older people may be more set in their ways. This has been described by Evans (2000) as a major barrier in a dynamic and rapidly changing environment. Older owner/managers who may have had
difficulties in establishing their business, due to the lack of sufficient funds will see no advantages in taking any risk and making strategic changes in the business in an uncertain business environment, which is one of the economic characteristics in Damascus. Older owner/manager, therefore, would rather maintain a small number of customers and generate an acceptable level of turnover that satisfy their basic motives and cover their living expenses. Bivariate analysis also shows that of those older owner/managers who do make some operational changes, tend to base their change on a single measure as opposed to the younger managers who use several measures to ensure that the operational changes were appropriate and not only a reaction to the changes in the market. This again is attributed to the flexibility and energy that is related to young aged owner/managers. Unlike older owner/managers who mainly base their operational changes on their experience, younger owner/managers seemed to base their changes on more than just experience such as asking customers for their opinions, discussion with experts, discussion with partners or observing competitors. Younger owner/managers, therefore, seem to be proactive rather than reactive. Younger managers were keener on conducting market research, as a marketing technique, which contributed to the business success by improving turnover through finding out what customers needed and subsequently satisfied those needs.

The results of logistic regression analysis presented in Table 4 illustrate that bigger firms in the small-scale sector were more successful than smaller firms. This is in line with Evans (1987); Wijewardena and Cooray, (1995); Wijewardena & Tibbits (1999); and Riding Scott and Orser, (2000).

Firms may perform well without any increase in the number of employees. Although the majority of firms in the sample did not consider the increase in employment size as an indicator of business success, a highly significant and positive association was found between the firms that have shown an increase in the employment size over the last three years and performance. The Bivariate results illustrate that all the declining firms did not show any growth in the employment level as they either remained the same or cut down on the number of employees. Bigger enterprises may have more resources which in turn help the firms to seek out more opportunities and enable them to absorb any unexpected changes in the market. Owner/managers should not perceive size as a barrier to business performance because it will be seen later that bigger businesses perform better than their small counterparts for whatever business performance criterion is used. Bigger firms may have the ability to make better use of resources enabling them to adopt the latest technological developments. The results of Bivariate analysis show that 80 per cent of firms within the 15-25 category were technologically advanced, while only 33 percent of firms within the Less than 15 category were technologically advanced.

The argument made by Barkham et al. (1996) that small enterprises achieve higher growth than big enterprises because they may be more flexible can still hold true in this study, as even the big businesses in the sample were considered small (25 employees). It is easy for firms with 25 employees and one chief decision-maker to manage effectively the business internally and react to changes in the market and exploit new opportunities.

The increasing size of the firm up to certain limit may have given the growing firms the chance to incorporate the advantage of being small in terms of flexibility. This may be impeded by the competing interests of workers, managers and shareholders in large businesses. They can also benefit from getting bigger in terms of access to
capital and information that are crucial for small firms. The importance of increasing business size within small business sector can further be explained by considering the difference between small and bigger firms in terms of conducting market research. Being small enables the small firm owner/manager to know automatically some facts about the customer’s need by asking them directly. But this is not enough to gather all information required. Being large and expanding within the small-scale sector can give the owner/managers the ability to acquire more resources. As a consequence they can probe the market and reduce their business ignorance of the market situation through conducting market research which may not be available for the very small firms. Although the analysis shows that the majority of big and small firms conducted market research, the percentage of bigger firms was higher than the one for smaller firms.

With regard to planning, it was also expected to have a positive sign indicating that successful firms were stronger in planning than less successful firms. This is in line with Lussier (1995). The results also showed that several factors contributed indirectly to the success of the firm by their direct association with planning and when they were included in the equations they ceased to be significant. Accounting with all its activities in addition to conducting market research were more likely to be the characteristics of successful firms that feed the planning process with timely and accurate information.

The nature of small businesses and the motives of owner/managers for establishing the current business assume that owner/managers should carry out most of the managerial activities. For this to be achieved effectively and for turnover to be improved, these practices and activities carried out by owner/managers need to be closely planned, monitored and controlled to ensure that they are generating additional profitable turnover and not just additional turnover. Planning is often assumed to be a sophisticated affair suitable only for large businesses. This is not the case. Every entrepreneur needs to make plans and size is no excuse for not planning unless the right information is not available to the very small businesses. The managers of successful businesses seemed to have developed an effective planning strategy which helped in obtaining a balance between the required level of profit and the need for growth in turnover. This seems to be supported and accompanied by a good accounting system, which was proved to be related to planning (positive and highly significant). The main element of good planning is the availability of accurate information, which comes from two main sources (internal and external). The accounting system seemed to play an important role in equipping those successful firms with internal information that improves the planning process. In addition, significant differences were found between the successful and unsuccessful firms in respect of accounting. However, the results of Bivariate analysis illustrated that there were no significant differences between improving and declining firms in respect of their abilities to collect external information for planning.

The Bivariate analysis proved that accounting and planning were related. The positive and the highly significant relationship indicate that firms with strong accounting system were better in planning process. Setting up a good accounting system to provide useful information is not an easy task but it seems to be one of the main factors that affect the planning process in the firm. This was explained by Dodge and Robbins (1992) since they stated that once the firm starts to expand or grow, setting up accounting records, recording information and cash flow become major problems. Although these activities become more important as turnover increase, they may
become management problems if not controlled and planned properly, in the way that they supply information to feed the planning process. These in turn affect the control of the business and finding sources of capital for meeting daily monetary obligations of the firm.

Accounting as an independent variable was included in the model to examine its direct influence on small business performance. The results revealed that accounting was not statistically significant and did not make any changes in the model. Although this variable was related to planning the relationship was not strong enough to conclude that they were collinear.

The fourth common significant independent variable between the models is manager’s training which had a positive sign. This means that successful firms tend to be managed by trained owner/managers indicating that managerial training plays an important role in increasing the chance of success in small business sector. This is in line with Cannon (1997) and Cosh et al (1998). It was expected that training in marketing in particular would have a direct impact on the performance of the firm in turnover. The following results were found with regard to this variable:

- there were significant differences between the declining and improving firms with regard to training in marketing,
- training in marketing and the strength of the business in marketing skills were positively related, and
- marketing and turnover growth were also related and this relationship was positive and highly significant.

Training, therefore, in a particular field of business may improve the skills of the owner/managers in that area and subsequently it may have a positive impact on the performance of the firm. However, similar results were not achieved with training in accounting. Bivariate analysis shows that the owner/managers who had received training in marketing were performing better than other firms in terms of turnover. Although 63% of successful owner/managers did not receive any training in marketing as opposed to 37% who did, all owner/managers who did not have training in marketing were unsuccessful.

Training in marketing seems to play an important role in the success of the business. Although the statistical analysis readily allowed establishing relationship between training and the dependent variables relying on the data collected. However, the data were not sufficient to reach a definitive conclusion and to explore the reasons for this relationship. Therefore, open-ended questions facilitated the interpretation of the relationship found between the two variables. The general comments of participants indicated that training was used as a means to translate the skills and knowledge they had already into better performance. The absence of training does not necessarily lead to failure, but the presence of training will increase the chance of success. Additionally, training can only be effective when it is combined with other factors such as education. This was also proved in the analysis where trained owner/managers were more educated than untrained ones and therefore, education may have indirect influence on performance through its direct association with training. It is worth mentioning that education was not significant when included in the model.

The source of funds was only found to be significant when profit was used as a business performance measure. This is in line with Yusuf (1995) and Coleman (2000). The high number of improving firms may be attributed to the fact that the majority of small business owners had some financial freedom due to their reliance on self-finance as a main source of money (88.5% of owners). Subsequently, this may have
given them the ability to retain control of the company. In addition, the fact that the self financed firms were not in debt to external lenders, means that no pay back needed to be made. Profitability, therefore, would not be eroded by extra debts. This may explain the positive and the highly significant relationship between the profitability and the reliance on self-finance as the main source of funds. However, the heavy reliance on personal savings may reflect the difficulties in having access to loans in Syria due to the lack of private commercial banks compared to neighbouring countries.

**CONCLUSION**
Based on the investigation of the factors that affect small business performance, this paper has provided some insights into how some factors interact and affect the performance of the business. Additionally, the paper showed that the significance of some independent variables varies depending on the criterion used to measure the dependent variable. The overall conclusion of the paper is that in the general performance model, only two independent variables were statistically significant indicating that successful firms were those whose owner/managers were young and had previous training.

With regard to the sales model, it was found that successful firms were those with more than 14 employees, tended to be run by young owner/managers who had previous training and strong planning practices. Training in general was proved to be statistically significant in the current model but training in marketing and new venture preparation particularly had a positive impact on business performance when sales was used as a business performance measure.

In respect of the profit model, it was found that successful firms were those that employed more than 14 employees, which tended to be managed by young owner/managers with strong planning practices, who were self-finance, and had previous training mainly in new venture preparation.

In conclusion, the paper suggests that small business success is affected by a web of factors. These factors are interrelated and to understand their influence on small business performance, it is necessary to understand the way they interact and affect the business performance directly and indirectly.
Bibliography
RELATIONSHIP BETWEEN PSYCHOLOGICAL CHARACTERISTICS AND ENTREPRENEURIAL INCLINATION: A CASE STUDY OF STUDENTS AT UNIVERSITY TUN ABDUL RAZAK (UNITAR)

Mohar Yusof
Manjit Singh Sandhu
Prof. Dr. Kamal Kishore Jain

University Tun Abdul Razak, Malaysia
Faculty of Business Administration
UNITAR Study Centre, Jalan SS6/12
Kelana Jaya, 47301 Petaling Jaya
Selangor, MALAYSIA
603-78092052 (Telephone) 603-78801744 (Fax)
mohar@unitar.edu.my
Abstract: Interest in entrepreneurship is intense in many parts of the world. For developed economies, entrepreneurial activity (new venture formation) is a means of revitalizing economy, a way of coping with unemployment problems, a potential catalyst and incubator for technological progress, product and market innovation. For economies of developing countries, entrepreneurship is seen as an engine of economic progress, job creation and social adjustment. Thus, small business growth/new business formation is widely encouraged by national economic policies to stimulate economic growth and wealth creation. As Malaysia entered the twenty first century, interest and concerns on the subject of entrepreneurship heightened among others by the government’s enormous funding allocation towards the promotion of entrepreneurship especially for small and medium enterprises, the issue of graduate unemployment which has risen to approximately sixty thousand (60,000) according to a Bernama report and the attitude of current graduates who are seen to be too pampered and dependent on the government and private organizations for employment. It is time to further examine whether our existing university students are inclined towards entrepreneurship. This study investigates the degree to which UNITAR students are inclined towards entrepreneurship. 361 students from three faculties at both graduate and undergraduate levels were surveyed to examine their entrepreneurial inclination and also to look into the relationship between certain psychological characteristics and entrepreneurial inclination. Further analysis is reported and recommendation for future research has been put forth in this paper.

Key words: Entrepreneurship, Entrepreneurial Inclination, Entrepreneurship Education
1. INTRODUCTION

Background to the research

Interest and research in entrepreneurship and entrepreneurship education have been growing over the past few years (Hatten and Ruhland, 1995; Green et al., 1996; Outcalt, 2000; Alstete, 2002; Morrison, 2000; Rohaizat and Fauziah, 2002; Klapper, 2004; Frank et al., 2005; Gurol and Atsan, 2006). One factor that has contributed to this is the importance of entrepreneurship in boosting economic growth and development. However, the Global Entrepreneurship Monitor (GEM) study (Minniti et al., 2005) reported that a strong variation existed across countries in terms of frequency and quality of entrepreneurial activity. Middle-income countries tend to exhibit higher percentages of individuals starting a business compared to higher-income countries. For example, some countries such as Venezuela (25%), Thailand (20.7%), and New Zealand (17.6%), exhibit very high rates of individuals participating in early-stage entrepreneurial activity. On the other side of the spectrum are countries with very low participation rates, such as Hungary (1.9%), Japan (2.2%) and Belgium (3.9%). Malaysia did not participate in this study.

In Malaysia, the government has created enormous amount of funding towards the promotion of entrepreneurship especially for small and medium-sized enterprises. However, the uptake is still slow. In fact, over the last few years, graduate unemployment has become a major problem. There were about 60,000 unemployed graduates in 2005 according to a Bernama report. In addition, current graduates are too pampered and dependent on the government and the private sector for employment. To resolve these issues, a reexamination of our higher education system is needed to find out the stumbling blocks that hinders the growth of entrepreneurship. Now is also the time to further examine whether our existing university students are inclined towards entrepreneurship.

There is not much research available in Malaysia in the area of entrepreneurship. This may be due to the fact that this field only began to be emphasized by the government in the mid 90s when a special ministry for entrepreneurs, the Ministry of Entrepreneur Development, was created in 1995. Most of the existing researches on entrepreneurship in Malaysia tend to focus more on the field of entrepreneurship in general; the success factors of actual entrepreneurs and to a certain extent characteristics of entrepreneurs (Nor, Ezlika and Ong, 2000; Nor Aishah and Yufiza, 2004; Ariff and Syarisa Yanti, 2002; Noor and Ali, 2004; Radzali, 1991). The empirical research on students’ perception or inclination towards entrepreneurship is also limited and focuses more on factors influencing entrepreneurship inclination rather than examining other personal factors (Kamariah, Yaacob and Wan Jamaliah, 2004).

This paper intends to close the existing gap by examining the relationship between psychological characteristics and entrepreneurial inclination among students in University Tun Abdul Razak. This will help in developing a clear cut policy to promote entrepreneurship at the national level so that our future generations, in general, and new graduates, in particular, are
able to move to a new level by becoming entrepreneurs. Specifically, this study will focus on the following research questions:

1. What is the relationship between psychological characteristics and entrepreneurial inclination among students in University Tun Abdul Razak?
2. What is the effect of the psychological characteristics on entrepreneurial inclination?

About Unitar

University Tun Abdul Razak (UNITAR) is the nation's first e-learning, MSC-status and ISO 9001:2000-certified private university in Malaysia. UNITAR offers the best combination in its teaching and e-learning methods by combining face-to-face classes with the effective use of web-based courseware and online tutorials. UNITAR currently offers 28 academic programs, 11 of which are accredited by the National Accreditation Council (LAN). All UNITAR programmes are approved by the Private Education Department. The programs range from foundation and diploma up to doctorate degrees in fields such as information technology, business administration, humanities and social sciences, and hospitality & tourism management. (www.unitar.edu.my)

2. LITERATURE REVIEW

Interest in entrepreneurship is intense in many parts of the world. This prolonged and heightened interest in entrepreneurship is prompted by several factors. First, for developed economies, entrepreneurial activity (new venture formation) is a means of revitalizing economy and a way of coping with unemployment problems. Moreover, it is accepted as a potential catalyst and incubator for technological progress, product and market innovation (Mueller and Thomas, 2000; Jack and Anderson, 1999). However, it has a more critical role for economies of developing countries since entrepreneurship is seen as an engine of economic progress, job creation and social adjustment. Thus, small business growth/new business formation is widely encouraged by national economic policies to stimulate economic growth and wealth creation.

Despite the substantial interest and research in entrepreneurship and entrepreneurs, defining and understanding both remain difficult and challenging (Mitton, 1989). From a survey of the entrepreneurship literature, Cunningham and Lischeron (1991) have identified six different major schools of thought. The existence of these schools of thought demonstrates that there is very little consensus on what entrepreneurship is and what an entrepreneur does. The ‘great person school’ views an entrepreneur as a person who is born with an intuitive ability – a sixth sense – and traits such as vigor, energy, persistence and self-esteem. The classical school finds that the central characteristic of entrepreneurial behavior is innovation. The management school describes entrepreneurs as persons who organize, own, manage and assume the risk of an economic venture. The leadership school views entrepreneurs as leaders of people who have the ability to adapt their style to the needs of people. In contrast, the intrapreneurship school posits that entrepreneurial skills can be useful in complex organizations through the development of independent units to create, market and expand services.
This study adopts the psychological characteristics school of thought that views entrepreneurs as individuals who have unique values, attitudes and needs which drive them. It is based on the assumption that people behave in accordance with their values and behavior results from attempts to satisfy needs. Therefore, this school of thought focuses on personality/psychological factors and characteristics associated with entrepreneurship which have received a great deal of attention such as need for achievement, locus of control, risk taking, tolerance of ambiguity, self-confidence (Begley and Boyd, 1987; Brockhaus, Sr. and Horwitz, 1986) and innovativeness (Schumpeter, 1934). According to Connie et al. (2005), personality research plays a critical role in the investigation of the entrepreneurial personality and has re-emerged as an important area of interest (Rauch and Frese, 2000) with the individual as the unit of analysis (Korunka et al., 2003).

These characteristics are included in the study because they are the most frequently enumerated as entrepreneurial characteristics in the literature and evidences indicating association between them and entrepreneurship have been widely documented (Koh, 1996). For example, three personality constructs have emerged as “classic” characteristics associated with the entrepreneurial personality: internal locus of control, high need for achievement and a moderate risk-taking propensity (Korunka et al., 2003).

Bygrave (1989) presented a model that includes need for achievement, internal locus of control, tolerance for ambiguity and risk-taking propensity as vital components. Similarly, Robinson et al. (1991) have listed achievement, innovativeness, control and self-confidence as entrepreneurial attitudes. Need for achievement and locus of control are among the characteristics that have received the most attention in the entrepreneurship literature (Shaver and Scott, 1991).

**Need for Achievement**

Of all the psychological characteristics presumed to be associated with entrepreneurship, need for achievement has the longest history (Shaver and Scott, 1991). Achievement motivation can be defined as “behavior towards competition with a standard of excellence” (McClelland, 1953). The belief that entrepreneurs might have a distinctly higher need for achievement is widely held (McClelland, 1965; Cromie, 2000). Some dominant cultural values encourage the need for achievement (McClelland, 1961; McClelland and Winters, 1969). 20 out of 23 major studies in the entrepreneurship literature found a fairly consistent relationship between need for achievement and entrepreneurship despite the variability among the studies regarding samples and the operationalization of the need for achievement (Johnson, 1990; Shaver and Scott, 1991). In line with this, the following hypothesis is formulated:

**H1:** Higher need for achievement has a positive influence on entrepreneurial inclination.

**Locus of Control**

Locus of control can be defined as an individual’s perceptions about the rewards and punishments in his or her life (Pervin, 1980). It can be referred to as the perceived control over the events of one’s life (Rotter, 1966). While individuals with an internal locus of control believe that they are able to control their life events, individuals with an external locus of control
believe that life’s events are the result of external factors, such as chance, luck or fate. Empirical findings that internal locus of control is an entrepreneurial characteristic have been reported in the literature (Ho and Koh, 1992; Robinson et al., 1991; Koh, 1996; Cromie, 2000). In a student sample, internal locus of control was found to be positively associated with the desire to become an entrepreneur (Bonnett and Furnham, 1991). Therefore, the following hypothesis is elicited:

\[ H2: \text{Higher locus of control has a positive influence on entrepreneurial inclination.} \]

**Propensity to take risk**

Risk-taking propensity is defined as “the perceived probability of receiving rewards associated with the success of a situation that is required by the individual before he will subject himself to the consequences associated with failure, the alternative situation providing less reward as well as less severe consequences than the proposed situation (Brockhaus, 1980). It is believed that entrepreneurs prefer to take moderate risks in situations where they have some degree of control or skill in realizing a profit. Situations which involve either extremes of risk or certainty are not preferred (McClelland, 1961; McClelland and Winters, 1969). Much of economics and entrepreneurship literature includes risk-taking as a major entrepreneurial characteristic (Palmer, 1971; Kilby, 1971; Sarachek, 1978; Mill, 1984; Cunningham and Lischeron, 1991, Ho and Koh, 1992; Koh, 1996; Cromie, 2000). Risk taking inclination is therefore expected to have positive influence on entrepreneurial orientation. The following hypothesis is formulated and will be tested:

\[ H3: \text{Higher propensity to take risk has a positive influence on entrepreneurial inclination.} \]

**Tolerance for ambiguity**

Budner (1962) defines intolerance for ambiguity as “a tendency to perceive ambiguous situations as sources of threat”. From this definition, tolerance for ambiguity can be inferred to be a tendency to perceive ambiguous situations in a more neutral way. A person who has a high tolerance for ambiguity is one who finds ambiguous situations challenging and who strives to overcome unstable and unpredictable situations in order to perform well (Koh, 1996). Entrepreneurs do not only operate in an uncertain environment; according to Mitton (1989), entrepreneurs eagerly undertake the unknown and willingly seek out and manage uncertainty. It is believed that tolerance for ambiguity is an entrepreneurial characteristic and those who are entrepreneurially inclined are expected to display more tolerance for ambiguity than others (Sarachek, 1978; Schere, 1982). In line with this discussion, the following hypothesis is formulated:

\[ H4: \text{Higher tolerance for ambiguity has a positive influence on entrepreneurial inclination.} \]

**Self-confidence**

Given that an entrepreneur is generally regarded as one who prefers to own his own business, it can be expected that the entrepreneur must believe that he is able to achieve the goals that are set (Koh, 1996). In other words, an entrepreneur is expected to have a perceived sense of self-esteem and competence in conjunction with his business affairs (Robinson et al., 1991a). Ho and Koh (1992) have suggested that self-confidence is a necessary entrepreneurial characteristic and that it is related to other psychological characteristics. Empirical studies in the entrepreneurship literature have found entrepreneurs to have a higher degree of self-
confidence relative to non-entrepreneurs (Ho and Koh, 1992, Robinson et al., 1991a). A positive relationship is therefore hypothesized between self confidence and entrepreneurial inclination.

**H5:** Higher self confidence has a positive influence on entrepreneurial inclination.

**Innovativeness**

Innovativeness relates to perceiving and acting on business activities in new and unique ways (Robinson et al., 1991). As suggested by Schumpeter (1934) and Mitton (1989), innovativeness is the focal point of entrepreneurship and an essential entrepreneurial characteristic. Evidence reported in the entrepreneurship literature shows that entrepreneurs are significantly more innovative than non-entrepreneurs (Ho and Koh, 1992, Robinson et al., 1991a, Robinson et al., 1991b., Cromie, 2000). According to Lumpkin and Erdogan (1999), innovativeness, especially product innovativeness, may be positively influenced by risk-taking propensity. Product innovativeness requires a certain degree of tolerance for taking risks because innovativeness benefits from the willingness to take risks and tolerate failures. So, higher inclination towards innovativeness is expected to lead to greater entrepreneurial inclination. With that in mind, the following hypothesis is developed:

**H6:** Higher level of innovativeness has a positive influence on entrepreneurial inclination.

**Conceptual framework**

The conceptual framework in this model is based on the psychological characteristics school of thought (Cunningham and Lischeron, 1991). The dependent variable in this research is entrepreneurial inclination and the independent variables are need for achievement, locus of control, propensity to take risk, tolerance for ambiguity, self-confidence and innovativeness.

The relationship between the dependent variable and independent variables is depicted in Figure 1.

**FIGURE I**

Schematic diagram of the theoretical framework
3. METHODOLOGY

Data Collection and sample
Survey based methodology was used in this research to obtain data from the respondents namely undergraduate and postgraduate students from UNITAR. Data collection for this study began in March 2006 and ended in early September 2006. The data for this study was collected through a self-administered questionnaire by the researchers. The questionnaire was divided into three sections, section A, B and C. Section A comprised questions eliciting demographic and other personal characteristics. Section B comprised of 12 statements designed to gather the information from the respondents regarding their inclination towards entrepreneurship. Section C comprised of 38 statements eliciting view on the factors influencing entrepreneurial inclination. A five point Likert scale was used in Section B and C where the respondents were required to state the extent to which they agreed or disagreed with the statements in the questionnaire. Due to time limitation, the sampling was based on convenience and 361 questionnaires were successfully collected and were found to be complete and usable for data analysis.

Regression model and measurements
To test the five hypothesis developed earlier, a multiple regression model is employed. This was due to the continuous nature of the data. The regression model takes the following form:

\[ \text{ENTPIN} = \beta_0 + \beta_1 \text{NEEDA} + \beta_2 \text{LOC} + \beta_3 \text{RISKIV} + \beta_4 \text{TOLA} + e \]

where,

\( \text{ENTPIN} \) = is the dependent variable measured by students entrepreneurial inclination
\( \text{NEEDA} \) = is the independent variable measured by items indicating whether ‘need for achievement’ is an important factor influencing entrepreneurial inclination.
\( \text{LOC} \) = is the independent variable measured by items indicating whether ‘locus of control’ is an important factor influencing entrepreneurial inclination.
\( \text{RISKIV} \) = is the independent variable measured by items indicating whether ‘propensity to take risk’ and innovativeness’ is an important factor influencing entrepreneurial inclination.
\( \text{TOLA} \) = is the independent variable measured by items indicating whether ‘tolerance for ambiguity’ is an important factor influencing entrepreneurial inclination.
\( e \) = is the error term

Factor Analysis
While conducting factor analysis, the correlation matrix of the 50 variables was obtained. The result indicated that factor analysis can be conducted as the KMO (Kaiser-Meyer-Olkin)
The measure of sampling adequacy is 0.850. The Bartlett test of sphericity is significant and the KMO measure of sampling adequacy is greater than 0.6 (Refer Kaiser criterion, 1960). Factor Analysis with principal axis factoring method and varimax rotation was then used to cluster the variables in Section B and C of the questionnaire into several factors that explain the respondent’s entrepreneurial inclination. In order to control the number of factors extracted, a minimum Eigen value of one (1) was used in the factor analysis. Factors with Eigen value less than one were considered insignificant and were excluded. Varimax orthogonal rotation was then used to group variables with large loadings (correlations) for the same factors so that each factor will be represented by a specific cluster of variables. Varimax rotation would ensure that the factors produced are independent and unrelated to each other. The factor analysis has generated fourteen (14) factors as solution with a total cumulative % of variance of 63.4%. Only five (5) factors were found to have a meaningful relationship and therefore the factors were retained and interpreted. These factors are depicted in Table 1.

F1: RISK TAKING AND INNOVATIVENESS (RISKIV)
F2: ENTREPRENEURIAL INCLINATION (ENTPINC)
F3: NEED FOR ACHIEVEMENT (NEEDA)
F4: TOLERANCE FOR AMBIGUITY (TOLA)
F5: LOCUS OF CONTROL (LOC)

Due to the reduced number of factors retained, only hypotheses H1, H2, H3 and H4 will be tested in the data analysis section. Most of the items measuring risk taking and innovativeness were grouped together after factor analysis. Therefore, it was decided to group them as one factor – F1.

Table 1: Rotated Factor Matrix

<table>
<thead>
<tr>
<th>ITEM</th>
<th>F1</th>
<th>F2</th>
<th>F3</th>
<th>F4</th>
<th>F5</th>
</tr>
</thead>
<tbody>
<tr>
<td>I can admit my mistakes</td>
<td>0.644</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>I welcome others opinion</td>
<td>0.641</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>I look at things from a variety of viewpoints before making a decision</td>
<td>0.639</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>I can express my true feelings</td>
<td>0.626</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>I can make up my mind and stick with it</td>
<td>0.597</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>I entertain new ideas with enthusiasm</td>
<td>0.588</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>I search for new and better ways of approaching work</td>
<td>0.570</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>I make decision that others call 'innovative'</td>
<td>0.566</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>I always ask questions</td>
<td>0.557</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>I am challenged by situations that require creativity</td>
<td>0.543</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>I have peace of mind</td>
<td>0.518</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>I like to do things that others may not think of</td>
<td>0.319</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>I have strong desire to be the owner of my business</td>
<td></td>
<td></td>
<td></td>
<td>0.820</td>
<td></td>
</tr>
</tbody>
</table>
I am interested in starting my own business 0.820
I am always inclined towards entrepreneurship 0.820
I see myself becoming some type of entrepreneur one day 0.791
I have strong plans to venture into business once I complete my studies 0.763
Planning for some kind of business has been, is, or will be an important part of my college career. 0.535

0.838
I like to increase my status and prestige 0.774
I have the desire to have high earnings 0.838
I like to achieve a higher position for myself in society 0.729
I have high ambition 0.559
I like to achieve something and get recognition for it 0.491
I will become successful if I work hard 0.838

I fear and avoid failure 0.643
I am afraid of uncertainties in my life 0.639
I will not take risk if I fail in a project 0.628
I am easily upset when my plan does not work out 0.437
I believe that luck can lead to success* 0.389*

0.609
I have strong control over the direction of my life 0.609
I believe, I am a master of my own fate 0.548
I believe success depends on one's own doing 0.427
I never do things which I am not sure of * 0.358*

*Items omitted to enhance reliability

**Reliability Analysis**

A Cronbach coefficient alpha test was conducted on all the four factors generated to test the reliability of all its item variables. This was to determine the internal consistency of the scale used. According to Sekaran (2000), Cronbach Alpha is a reliability coefficient that indicates how well the items are positively correlated to one another. The closer the Cronbach alpha is to 1, the higher the internal consistency. Item 6, 9, 10 (Section B) and item 2, 16, 19, 21, 24 (Section C) in the questionnaire were negatively worded and recoded prior to the analysis. Two items, one from factor 4 ‘I believe that luck can lead to success’ and another from factor 5 ‘I never do things which I am not sure of’ were omitted to enhance the reliability of the data. The values of Cronbach Alpha coefficient are depicted below in Table 2.
Table 2: Reliability Statistics

<table>
<thead>
<tr>
<th>FACTORS</th>
<th>CRONBACH</th>
</tr>
</thead>
<tbody>
<tr>
<td>FACTOR 1: RISK TAKING AND INNOVATIVENESS</td>
<td>0.868</td>
</tr>
<tr>
<td>FACTOR 2: ENTREPRENEURIAL INCLINATION</td>
<td>0.896</td>
</tr>
<tr>
<td>FACTOR 3: NEED FOR ACHIEVEMENT</td>
<td>0.861</td>
</tr>
<tr>
<td>FACTOR 4: TOLERANCE OF AMBIGUITY</td>
<td>0.670</td>
</tr>
<tr>
<td>FACTOR 5: LOCUS OF CONTROL</td>
<td>0.657</td>
</tr>
</tbody>
</table>

4. DATA ANALYSIS

Demographic and personal characteristics of the sample

Based on the demographic characteristics provided in Table 3 below, we find that the majority of the respondents are female (68%) and are between 21-25 years of age (69.3%). In terms of race, majority were Malay (49.3%) followed by Indians (29.1), Chinese (13.3%) and others (8.3%). 84% of the respondents were undergraduates with the remaining 16% being postgraduate students. With regards to student status, 73.5% of the respondents were studying on a full time basis as compared to 26.5% who were studying on a part time basis. UNITAR attracts a substantial number of part timers due to its flexible learning mode.

Table 3: Frequency Distributions of Sample (n = 361)

<table>
<thead>
<tr>
<th>Demographic</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gender</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Male</td>
<td>117</td>
<td>32.0</td>
</tr>
<tr>
<td>Female</td>
<td>244</td>
<td>68.0</td>
</tr>
<tr>
<td>Age</td>
<td></td>
<td></td>
</tr>
<tr>
<td>&lt; 20</td>
<td>35</td>
<td>9.7</td>
</tr>
<tr>
<td>21 – 25</td>
<td>250</td>
<td>69.3</td>
</tr>
<tr>
<td>26 – 30</td>
<td>41</td>
<td>11.4</td>
</tr>
<tr>
<td>&gt; 30</td>
<td>35</td>
<td>9.7</td>
</tr>
<tr>
<td>Race</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Malay</td>
<td>178</td>
<td>49.3</td>
</tr>
<tr>
<td>Chinese</td>
<td>48</td>
<td>13.3</td>
</tr>
<tr>
<td>Indian</td>
<td>105</td>
<td>29.1</td>
</tr>
<tr>
<td>Others</td>
<td>30</td>
<td>8.3</td>
</tr>
<tr>
<td>Student education level</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Undergraduate</td>
<td>304</td>
<td>84</td>
</tr>
<tr>
<td>Postgraduate</td>
<td>57</td>
<td>16</td>
</tr>
<tr>
<td>Student Status</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Full time</td>
<td>265</td>
<td>73.5</td>
</tr>
<tr>
<td>Part Time</td>
<td>96</td>
<td>26.5</td>
</tr>
</tbody>
</table>
**Descriptive analysis**

Table 4 shows the mean values and standard deviation of the constructs that depicts the psychological characteristics of the respondents. High mean values were obtained for four of the constructs – risk taking and innovativeness, entrepreneurial inclination, need for achievement and locus of control. However, the mean value for tolerance for ambiguity was on the low side.

Table 4: Descriptive Statistics

<table>
<thead>
<tr>
<th>Construct</th>
<th>Mean</th>
<th>Std. Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>F1 : RISK TAKING AND INNOVATIVENESS</td>
<td>3.86</td>
<td>0.16</td>
</tr>
<tr>
<td>F2 : ENTREPRENEURIAL INCLINATION</td>
<td>3.69</td>
<td>0.19</td>
</tr>
<tr>
<td>F3 : NEED FOR ACHIEVEMENT</td>
<td>4.32</td>
<td>0.10</td>
</tr>
<tr>
<td>F4 : TOLERANCE FOR AMBIGUITY</td>
<td>2.98</td>
<td>0.13</td>
</tr>
<tr>
<td>F5 : LOCUS OF CONTROL</td>
<td>3.86</td>
<td>0.26</td>
</tr>
</tbody>
</table>

**Correlation analysis**

Correlation values were computed among all the variables to find out whether there was any relationship among the variables. Specifically, correlation analysis was conducted between the dependent variable ‘ENTPINC’ with the other three independent variables namely ‘RISKIV’, ‘NEEDA’, ‘TOLA’ and ‘LOC’.

The correlation results are depicted in Table 5 below.

Table 5: Correlations among the variables

<table>
<thead>
<tr>
<th>Construct</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 ENTPINC</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2 RISKIV</td>
<td>0.383**</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3 NEEDA</td>
<td>0.375**</td>
<td>0.470**</td>
<td>1</td>
<td></td>
<td></td>
</tr>
<tr>
<td>4 TOLA</td>
<td>0.156**</td>
<td>0.049</td>
<td>0.021</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>5 LOC</td>
<td>0.237**</td>
<td>0.525**</td>
<td>0.502**</td>
<td>0.127**</td>
<td>1</td>
</tr>
</tbody>
</table>

** Correlation is significant at the 0.01 sig. level (one tailed)**

Positive correlations were found between ‘ENTINC’ the dependent variable and the other independent variables – ‘RISKIV’, ‘NEEDA’, ‘TOLA’ and ‘LOC’.

**Multiple regression analysis**
Standard multiple regression analysis was conducted to examine the relationship between the dependent variable - ‘ENTPINC’ and the independent variables - ‘RISKIV’, ‘NEEDA’, ‘TOLA’ and ‘LOC’. The results of the standard regression are shown in Table 6 below.

Table 6: Standard Regression Results

<table>
<thead>
<tr>
<th>Variables</th>
<th>Dependent Variables:</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>ENTPINC</td>
</tr>
<tr>
<td></td>
<td>Standard Coefficient</td>
</tr>
<tr>
<td></td>
<td>(β)</td>
</tr>
<tr>
<td>Constant</td>
<td>-</td>
</tr>
<tr>
<td>RISKIV</td>
<td>0.289</td>
</tr>
<tr>
<td>NEEDA</td>
<td>0.271</td>
</tr>
<tr>
<td>TOLA</td>
<td>0.150</td>
</tr>
<tr>
<td>LOC</td>
<td>-0.73</td>
</tr>
<tr>
<td>Rsquared</td>
<td>0.220</td>
</tr>
<tr>
<td>Adjusted Rsquared</td>
<td>0.211</td>
</tr>
<tr>
<td>F value</td>
<td>24.399</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Significant level</th>
</tr>
</thead>
<tbody>
<tr>
<td>t-value</td>
</tr>
<tr>
<td>4.986</td>
</tr>
<tr>
<td>4.989</td>
</tr>
<tr>
<td>3.133</td>
</tr>
<tr>
<td>-1.224</td>
</tr>
<tr>
<td>0.000</td>
</tr>
<tr>
<td>0.020</td>
</tr>
<tr>
<td>0.222</td>
</tr>
<tr>
<td>0.000</td>
</tr>
</tbody>
</table>

Notes: Standardised coefficient are reported along with t statistics in parentheses

* = p < 0.05

All the four (4) independent variables together explain 21.1% of the variance in the perception towards entrepreneurial inclination. The results are found to be highly significant as indicated by the F value – 24.399 (p<0.05).

Risk taking and innovativeness (RISKIV), need for achievement (NEEDA) and tolerance for ambiguity (TOLA) had positive and significant influence on entrepreneurial inclination (ENTPINC). The results also confirmed to the hypothesized sign. However, locus of control (LOC) had negative influence on entrepreneurial inclination (ENTPINC) and did not confirm to the hypothesized sign. This may be due to the small number of items used to measure LOC as shown in Table 1. It can also be due to the low reliability of this construct as indicated by the low Cronbach Alpha value given in Table 2. The construct LOC was also found to be highly correlated with the other independent variables as indicated in Table 5. LOC’s correlation with RISKIV was 0.525 and with NEEDA was 0.502. This high correlation between the independent variables shows that some of the items used to measure these variables are quite similar. So, the joint effect of these variables would have had an influence on the negative value obtained for LOC.

5. CONCLUSION

The purpose of this research was to examine whether our young generation is inclined towards entrepreneurship or not, based on the psychological characteristics of the students at UNITAR. It was observed that this group of students had a very high need for achievement, had a high propensity to take risk, was willing to innovate and had a high locus of control. They had a moderate tolerance for ambiguity. Based on these psychological characteristics of the respondents, it was not a surprise that they were highly inclined towards entrepreneurship. If
this sample of students could be taken as a representative of students at other institutions, we expect a lot of entrepreneurial activity in Malaysia. However, it is important that new entrepreneurial ventures should not only be created but should be successful too. What is likely to come in their way of success needs to be further researched and analyzed. On hindsight, a proper support system, education, and the development of managerial competencies may go a long way in making them successful.

Acknowledgement
Authors gratefully acknowledge the financial assistance given by the University to carry out this research.

REFERENCES


THEORISING A FRAMEWORK OF FACTORS INFLUENCING PERFORMANCE OF WOMEN ENTREPRENEURS IN MALAYSIA

Wendy Ming-Yen, Teoh
Faculty of Business & Law, Multimedia University, Malacca, Malaysia
E-mail: myteoh@mmu.edu.my; Tel: +606 252 3768   Fax: +606 231 8869

Dr. Siong-Choy, Chong
Deputy CEO, Putra International College, Malacca, Malaysia
E-mail: scchong@iputra.edu.my; Tel: +606 231 6826   Fax: +606 231 7537
ABSTRACT

Recognising the importance of the emerging women entrepreneurs in creating a vibrant and dynamic economy for the nation, the Malaysian Government has been actively promoting women entrepreneurship towards realising Malaysia’s Vision 2020. However, notwithstanding the importance of this area, surprisingly little research has been undertaken to determine the factors influencing performance of women entrepreneurs, particularly in Malaysia.

To close this gap, an in-depth literature survey was conducted to identify a comprehensive list of factors influencing the performance of Malaysian women entrepreneurs. The literature suggests that social psychological and organisational approaches are widely used to explore and analyse the relationship between the influence of women’s individual characteristics, parental influence, their business management and business strategies, goals and motives, networking and entrepreneurial orientation towards their business performance. This resulted in the development of a comprehensive theoretical framework which provides significant insights related to women entrepreneurship practices and their performance levels in Malaysia.

Keyword(s): Entrepreneurship, Women, Performance, Malaysia, Literature Survey, Theoretical Framework

INTRODUCTION

It is not an uncommon trend that the number of women entrepreneurs continues to increase steadily worldwide. Women represent more than one-third of all people involved in entrepreneurial activity [Global Entrepreneurship Monitor (GEM), 2004]. Valencia (2006) reports that 40.54 percent out of estimation of 73 million people who are active entrepreneurs in the 34 nations are women (GEM, 2005). This corroborates Sitterly’s (2001) findings where 40 to 50 percent of all businesses are owned by women, with an admirable success rate of 75 percent. At the southeast region of Asia, 18 to 30 percent of self-employed workers in Indonesia, Malaysia, The Philippines, Singapore, and Thailand were women (Licuanan, 1992). In Malaysia, the Companies Commission of Malaysia (CCM, 2003), reported that 49,554 units of women-owned businesses were registered in 2000, and the number has increased to 54,626 units in 2001. There were 28,185 units of women-owned businesses which registered in the first half of 2002.

Mohamed and Syarisa (n.d.) acknowledge that women are becoming a very important economic group and therefore more efforts are needed to nurture them in taking up entrepreneurship. Notwithstanding the increasing importance and numbers of women entrepreneurs, few studies have focused on or included women in their research sample (Baker & Aldrich, 1997) and data segregation on their performance are rather scarce and difficult to obtain. This is due to the lack of awareness in both government and among business
associations of the importance of women's businesses especially in Asian countries [United Nations Development Fund for Women (UNIFEM), 1996]. In order to overcome this problem, in Malaysia, the Ministry of Women and Family Development has developed the Gender Disaggregated Database Information System (GDIS). The GDIS is supposed to provide data for gender analysis and planning and to be used as a tool to develop gender responsive policies, strategies and programmes. Still the development of the GDIS is at its infancy stage where there are no data on women entrepreneurs that have been collected by this system so far.

Further, it was reported by the Ministry of Women and Family Development (2003) that Malaysian women entrepreneurs are under-represented in the business world with evidence that some undesirable development where micro-enterprises which were scaled up to bigger enterprises were subsequently managed and taken over by the husbands or other family members (Jariah & Laily, 1997). Besides that, the number of Malaysian women who make it to the international market is still small (Rafidah, 2005). They are urged to charge their mindset in line with the changing of times in the business world and are advised to start producing quality products which are capable of penetrating the global market (Azlan, 2005).

From the research perspective, a relatively small number of studies have investigated the factors influencing entrepreneurial performance exclusively among women (Brush & Hisrich, 1991). Studies on the factors affecting performance of women entrepreneurs’ of their businesses are limited in scope, as any existing research most often focuses on individual characteristics and motives as performance predictors. Insofar, the majority of related studies were conducted in Western countries like USA, Canada, United Kingdom, and Europe (Lerner, Brush & Hisrich, 1997). We can thus make safe conclusion that our present knowledge about this phenomenon is still insufficient.

It is of critical importance to note that the problems and the challenges faced particularly by women entrepreneurs today need to be taken into consideration. Besides, their successes need to be recognized for them to grow their businesses and to effectively access their business opportunities. To fill the above gaps, this study therefore aims to provide a holistic view of factors influencing the performance of women entrepreneurs through a comprehensive review of literature available on entrepreneurship. This resulted in the development of a theoretical framework for the initiation of policies and programmes for entrepreneurship development among women. From the practical point of view, it serves not only to provide a self-check to current women entrepreneurs, but also to increase women involvement in entrepreneurship through a better understanding of the determinants of business performance of women entrepreneurs in general and in the Malaysian context in particular. Such an understanding of the pre-requisites for Malaysian women entrepreneurs to succeed in their businesses is of critical importance especially in today’s competitive environment.

Women Entrepreneurship in the Malaysian Context: An Overview

In 1980, women accounted for only 7% of employers in the economically active population of Malaysia. In 1984, 0.6% of Malaysian women entrepreneurs were classified as employers, while 16% were classified as own-account workers. Hardly 10% of the total number of all employers was women (Jamilah, 1992). The percentage rose to only 8.5% in 1990, with men
still comprising the vast majority in employer status [Women’s Aid Organisation (WAO), 2001].

However, women entrepreneurship has recently become an important pool of resources for Malaysia’s economic growth and personal prosperity. Women account for about half of the total population, and about 36.7 percent of Malaysia’s total workforce of 10.9 million, with an increasing representation at the professional, managerial and technical levels [Ninth Malaysia Plan (9MP), 2006]. According to Normah (2006), the participation of women in Malaysia’s small and medium enterprises (SMEs) in 2003 was 1,122,000, or 36.8% of the total employment in SMEs. A proxy for women entrepreneurs obtained from Population Census in 2000 indicates that 30.3% are working proprietors and active business partners [United Nations Development Programme (UNDP), Malaysia, 2007].

It is not surprising that the number of women entrepreneurs in Malaysia has increased in the past three decades due to the emphasis on industrialisation, and growing interests in privatisation, self-employment and business-oriented employment. All of these have been facilitated by the growth in various sectors such as banking and financing, food manufacturing, general trading, personal and public services, education, training and consultancy, and others. It was found that Malaysian women have been increasingly involved in various enterprises which were formerly male-dominated (Maimunah, 1996a; 1996b). According to The Department of Statistics of Malaysia (2005), there were 518,000 companies involved in services, manufacturing and agricultural sectors, of which 99.1% were SMEs. More than 82,000 or 16% were women-owned companies with 89.5% of them involved in the services sector, 7.5% in manufacturing and 3.0% in the agricultural sector.

More importantly, the government support is considered cornerstone to the development of women’s entrepreneurs. This can be seen from the establishment of the Ministry of Entrepreneurial and Cooperative Development (MECD) in 1995, and the Ministry of Women, Family and Community Development (MWFCD) in 2001. These ministries, together with other supporting government agencies provide support to women entrepreneurs in terms of funding, physical infrastructure and business advisory services. In terms of financial support, the government has encouraged the creation of special funds targeted for women entrepreneurs, such as Special Assistance Schemes through the Small and Medium Industries Development Corporation (SMIDEC). The SMIDEC has allocated special assistance scheme worth RM9.2 million in 2006 for women entrepreneurs. It was reported that between August 1999 and June 2006, 541 women-owned companies have been granted grants and soft loans by SMIDEC worth a total of RM52.33 million. A total of 196 approvals were grants worth RM2.44 million for the information and communications technology (ICT) sector, while 128 approvals worth RM850,000 were for grants for market development projects (The Star Press, 2006).

Many women entrepreneur associations were established, such as the Federation of Women Entrepreneurs Association Malaysia (FEM), National Association of Women Entrepreneurs of Malaysia (NAWEM), Persatuan Usahawan Wanita Bumiputera (USAHANITA), the Women’s Wing of the Malay Chamber of Commerce Malaysia of the State of Selangor, and so forth in
order to promote and encourage more Malaysian women to become entrepreneurs besides creating a platform for networking among them.

It is clear that the Malaysian government has been actively involved and concerned about women entrepreneurship development in the last decade. This is to ensure that women entrepreneurs are not left out from the process of national and economic development, particularly in important sectors such as information and communications technology (ICT) and bio-technology, in order for the country to successfully realise Vision 2020. However, based on GEM’s study on Malaysia’s entrepreneurial environment, the results reflected poorly on the government’s performance, claiming that its policies disfavour new firms, and the government bureaucracy and regulation and licensing requirements impede new firms from expanding. It raised doubts about the government’s competence and effectiveness in supporting new and growing firms. The study singled out the lack of financial support, quality of education and training, and overall market openness as other main factors holding back Malaysian entrepreneurs (Gatsiounis, 2006).

Notwithstanding the above, various research attempts were undertaken to identify factors influencing the performance of women entrepreneurs as evidenced from the literature and prior surveys, albeit these factors being studied in a fragmented fashion and conducted among the developed nations. It is of paramount importance for the Malaysian women entrepreneurs to comprehend these factors as they bear substantial influence on their business performance, especially when they compete in this challenging, globalised business arena.

The following section discusses the definitions and factors influencing performance of women entrepreneurs based on the review of literature that have garnered impressive theoretical and practical support. The issues facing women entrepreneurs are highlighted. A theoretical framework is then formulated to depict the relationships between the factors discussed. Recommendations for Malaysian women entrepreneurs are then provided before concluding this paper.

THEORETICAL FRAMEWORK AND BACKGROUND

Factors Influencing Performance of Women Entrepreneurs

There are diverse definitions of woman entrepreneur which depend on the context of its role. In the context of Malaysia, women in business can be classified in the census under the employment classification of employer, self-employed and own-account workers (Jamilah, 1992). In 2000, only 10.4% of the 3.23 million Malaysian working females were employers while more than a third of them were paid employees in all economic sectors (MWFD, 2003). Based on United Nations Economic and Social Commission for Asia and the Pacific’s (UNESCAP, n.d.) discussion paper, women in business generally fall into small, micro and medium enterprises (SMMEs), either as managers or as owners from an employer’s angle.

The performance of women entrepreneurs in their businesses has become an important area of recent policy and academic debate. Comparatively little rigorous and in-depth research,
however, has been undertaken on the issues of gender and business performance, especially in Malaysia.

Performance is the act of performing; of doing something successfully; using knowledge as distinguished from merely possessing it. However, performance seems to be conceptualised, operationalised and measured in different ways (Srinivasan et al., 1994), thus making cross-comparison difficult. Among the most frequently used operationalisations are survival, growth in employees, and profitability (Lerner, Brush, & Hisrich, 1997).

Chandler and Hanks (1994:77) argue that the model of individual job performance indicate that performance is a function of ability, motivation and opportunity. The performance of a business founder is measured by the performance of the organisation (Schein, 1987), which is in turn influenced by the environment in which the organisation emerges (Covin & Slevin, 1989; Hofer & Sandberg, 1987; Tsai et al. 1991). Based on Rosa et al.’s (1996) study, they outlined four different measures of comparative performance of business by gender, that is, primary performance measures (number of employees, growth in employees, sales turnover, value of capital assets); proxy performance measures (geographical range of markets; VAT registration); subjective measures (including the ability of the business to meet business and domestic needs); and entrepreneurial performance measures (the desire for growth, the ownership of multiple businesses). Amongst the most frequently used measures of performance are annual sales, number of employees, return on sales, growth in sales, and growth in employee numbers (Brush & Vanderwerf, 1992). Fischer et al.’s (1993) study found that women’s businesses tend to perform less well on measures such as sales, employment and growth, but concluded that the determinants of gender differences in business performance were far more complex than had been recognised in earlier studies.

Box et al. (1995) suggest that there are 4 elements which have positive relationship with the business performance of Thai entrepreneurs, that is, previous experience as a member of an entrepreneurial management team, number of previous starts, age and scanning intensity. On the other hand, Hisrich et al. (1997) propose human capital (level of education, years of experience and business skill), personal goals, and strategy to assess the performance of men and women entrepreneurs.

Lerner and Hisrich (1997) conducted a study on Israeli women entrepreneurs and categorised the factors that affect their performance into five perspectives, that is, motivations and goals ; social learning theory (entrepreneurial socialization) ; network affiliation (contacts and membership in organizations); human capital (level of education, business skills) ; and environmental influences (location, sectoral participation, and sociopolitical variables).

Thibault et al. (2002) suggest personal factors such as demographic variable and business factors such as amount of financing, use of technology, age of business, operating location, business structure and number of full-time employees as important factors in examining the sales performance of entrepreneurs in SMEs in Southwestern Ontario.
Machado, Cyr, and, Mione (2003) suggest that women entrepreneurs’ managerial styles with the variables such as a) planning and strategic choices; b) decision style; c) formulation of objectives; d) structure of the company and share of power; and e) human resources policies were linked to and had association with their performance. The performance measures used in their study are turnover, number of employees, profit as well as the largest and the smallest salary paid.

Fischer et al. (1993) state that most of the comparative studies among men and women entrepreneurs’ performance are adopted with two theories, that is, liberal feminist and social feminist. Liberal feminist theory is based on premise that women are facing overt discrimination from, for example, education and/or business experience (Fischer et al., 1993; Watson, 2002). Social feminist theory is based on socialisation process, such as, family setting, social values, norms, experience, educational aspirations, and expectations (Fischer et al., 1993; Learner, et al., 1997).

The above literature surveys indicate that various research efforts have been undertaken to identify the factors influencing successful performance of entrepreneurs and that the factors have been studied in isolation.

Previous literature seems to suggest that there are five factors, a) individual characteristics; b) management practices; c) goals and motivations; d) networking; and finally e) entrepreneurial orientation, influencing the performance of entrepreneurs. Each of these factors, in turn, consists of supporting factors as depicted in Figure 1. The factors are discussed below:

**Individual Characteristics and Performance**

The individual characteristics focus on the influence of resources, in particular the level of education, occupation of parents, age, managerial skill, previous entrepreneurial experience and industry experience levels affecting entrepreneurial firm performance. Age and years of formal education have been shown to correlate positively with the business performance of women entrepreneurs. Dolinski et al. (1993) reckon that less-educated women may face financial or human capital constraints which limit their business pursuits. At the same time, managerial skills and particular strengths in generating ideas and dealing with people (Birley & Norburn, 1987; Brush & Hisrich, 1991; Hisrich & Brush, 1984; Hoad & Rosko, 1964) were important for a woman entrepreneur in establishing a business. Box, Watts and Hisrich (1994) and Box, White and Barr (1993) found that the entrepreneur’s years of prior experience in the industry are positively correlated with firm performance. This is supported by Schiller and Crewson (1997) who found that the dominant predictors of success for women entrepreneurs are industry experience and years of self-employment. However, Shim and Estlick (1993) found that women have less work experience and their firms were younger than men. As a result, they lack of networks or contact, socialisation practices and family roles. Masud et al. (1999) in a study on micro-enterprise project through 319 women in Peninsular Malaysia discovered that women gained knowledge through their projects in managing and controlling productive resources, skill, and experience, and an increase in their ability to source relevant
information and solve problems that equip them to become entrepreneurs and setting the business successfully.

From the environmental perspective, family influence, particularly parental influence has been found as the antecedent of small business career interest. Family members, especially parents play a key role in establishing the desirability and credibility of entrepreneurial action for individuals. Scherer et al. (1989) found that the presence of a parent entrepreneurial role model was associated with an individual’s business performance. Individuals with a parent entrepreneurial role model were perceived to be high performers and were significantly different from individuals without entrepreneurial role models, who were perceived to be low performers. The majority of successful women entrepreneurs identified one parent as being more influential, that is, many successful women identify strongly with their fathers (Henning & Jardim, 1978). Belcourt et al.’s (1991) study reported that 33 percent of Canadian women entrepreneurs surveyed stated their fathers were entrepreneurs. This is logical as parent-child relationship promotes achievement striving and independence (Stein & Bailey, 1973). Female labor force participation also seems to be related to the attitude of the family towards women. Aminah (1998), for instance, in a study of selected successful career women in Malaysia, revealed that changing attitudes of parents and husbands towards a more positive trend were perceived to be related to higher educational attainment of women which in turn could influence women's participation in the labor force by setting up their own businesses.

**Management Practices and Performance**

Buttner (2001) reports that the management styles of women entrepreneurs was best described using relational dimensions such as mutual empowering, collaboration, sharing of information, empathy and nurturing. Importantly, these dimensions, which have also been associated with women in different professional occupations, were deemed to be associated with firm performance. Women do work differently from men. According to Heffernan (2003), female negotiating styles have been shown to be different and it has been demonstrated that they are significantly more beneficial to long term business success. The most recent study that explored a genetic basis for special attributes of women in social ability and empathy imply a better performance of companies created and run by women because of their ability to communicate better with employees, suppliers and customers (Valencia, 2006).

According to Porter (1996), the essence of strategy is choosing to perform activities differently from rivals, which requires creativity and insight. Bracker et al. (1986, 1988) found that firms which undertook strategic planning performed better financially. Iakovleva (n.d) suggests three elements of business strategies which have significant relationship with performance, i.e. founder’s entrepreneurial competence, founder’s managerial competence, and strategies applied by the firm. The strategic adaptation perspective holds that success is primarily dependent upon the fit between changes in the environment and entrepreneur’s ability to develop and execute effective strategies. This approach takes into consideration on both environmental influence and entrepreneurial strategies as determinant of firm’s performance. In this regard, women entrepreneurs who focused on strategic planning are likely to achieve higher performance.
Goals and Motivations and Performance

An increasing number of scholars believe that the growth of a business is, at least in part, determined by the entrepreneur’s motivation (Shane et al., 1991). Psychological motivations such as achievement, independence, and locus of control (pull factors) have received significant research attention to their influence on business start-up but less attention has been paid to their relationship to business performance (Brockhaus & Horwitz, 1986). Studies conducted by Storey (1994) and Glancey et al. (1998) found that women pulled into establishing their enterprises have more profitable and higher profit margin.

According to Brush (1990), individual motivations and goals such as profitability, revenues and sales growth have been found to be related to performance in women-owned businesses, albeit their tendency to perform less well than their male counterparts (Fisher et al., 1993). Researchers found that women typically are motivated by a more complex set of objectives for starting a business than male counterparts. Factors related to the desire to achieve flexibility between work and family lives are valued differently by the genders (Cinamon & Rich, 2002; Stephens & Felman, 1997). In addition, Hisrich and Brush (1987) found that individual motivations and owner-founder goals are related to performance in women-owned businesses where opportunity motivation was related to survival and independence was associated with “no growth”. As a result, motivation shows a strong relationship to performance (Lerner et al., 1997). It can be an important explanatory variable to firm performance (Miner, 1990; Miner et al., 1992; Wiklund, 1998) as far as women entrepreneurs are concerned. In Malaysia, Nordin’s study (2005) revealed that the psychological motives such as self satisfaction and the search for independence and supportive environmental factors such as industry sector and source of finance affect women entrepreneurs from Terengganu in exerting themselves into businesses.

Networking and Performance

Networks have long been hailed as essential to the survival of female-run establishment (Blanco et al., 1996; Brodsky, 1993; Shim and Eastlick, 1998). Women value their ability to develop relationships. Hisrich and Brush (1987) suggested that support systems, mentors, and advisors; business associates and friends; participation in trade associations and women’s groups are the significant networks which are positively associated with business performance. According to Fraser (1995) and Wheeler (1995), the use of informal mentoring supportive relationships is one of the best ways of establishing a business and these relationships helped the new entrepreneur bypass the obstacles which impede growth, success, and personal fulfillment. However, women are often excluded from social networks or informal networks of information such as male-only clubs, old boys networks, and business lunches compared to men (Brush, 1990) due to lack of time (Belcourt et al, 1991).

In Malaysia, women entrepreneurs faced a shortage of peer support networks compared with men [Women Institute of Management (WIM), 1997] even though various women entrepreneurs and industry associations have been formed (FEM, NAWEM, USAHANITA) which generally serve as a platform for women entrepreneurs to establish networks and
exchange information and experiences as well as to conduct training programmes, seminars and workshops on motivation, leadership and entrepreneur development and to provide other means of support. This is due to the fact that women may not join these associations as they might be overloaded with business and family responsibilities. This limits the women entrepreneurs’ ability to seek informal advice and peer financing as well as the information networks needed for survival and growth. This might pose a challenge to women entrepreneurs in establishing networks which are helpful to the survival of their businesses.

Entrepreneurial Orientation and Performance

"Entrepreneurial" is often associated with venturesome or creative in terms of acquiring the resources an entrepreneur needs to build and grow her business. The entrepreneur is characterised principally by innovative behaviour and will employ strategic management practices in the business (Birley, 1996). Entrepreneurial orientation such as innovativeness, and risk taking are the factors found to determine the success of a woman entrepreneur in her business. Innovativeness enables women entrepreneurs to venture into new things, that is, technology, products and market whereas risk taking is required if women are to venture into relatively large-scale businesses. Bernama (2006) reported that a Malaysian woman entrepreneur needs to have confidence, courage and strong will power to succeed in business, be efficient and able to produce goods and services of high quality, in steady supply and at competitive prices. This may apply to the Malaysian women entrepreneurs to become more creative in producing and promoting their products and services and as well as willing to take risks with confidence they had to compete with others. However, women view risk as loss, danger ruin and hurt and they do not see risk as affecting their future. In short, women tend to avoid risky actions and decisions compared with men (Henning & Jardim, 1977).

CONCLUSION & IMPLICATIONS

There is a debate over the last decade on what determines the performance of women entrepreneurs. Prior literature has indicated that women possess different characteristics and thus strengths and/or weaknesses compared to men. As such, the collection of data on the profile, experience, management skill and competency, size and sector, individual characteristics and the motives of Malaysian women entrepreneurs are needed in order to allow the policy makers, educators, women associations and public to identify appropriate planning of national policies and programmes. This not only helps the government to identify the appropriate target, but also leads the women entrepreneurs in developing appropriate skills and capabilities in doing businesses especially at the start-up phase and might help them to create and sustain their business ventures successfully. In this regard, a comprehensive study on factors determining the performance of women entrepreneurs, particularly in the pre-startup and start-up phases would be beneficial.

Another important factor to be taken into consideration is the support received from the government of Malaysia. While the government has undertaken various efforts in promoting entrepreneurship especially among the women, there are more to be accomplished. The policy makers should continue their efforts in nurturing more women entrepreneurs and also to
facilitate their success. A policy that is friendly to new firms must be enacted. These include removing constraints such as red-tapes and to simplify the licensing requirements. More financial support are needed in various forms such as pre-seed and seed funding in order to draw more women into entrepreneurship. It is also important to encourage big corporations to have business collaborations with SMEs and to facilitate SMEs’ growth as they go international. Without these supports, the efforts in creating quality, resilient and successful women entrepreneurs in all sectors of the economy would be cumbersome. Given a conducive environment and adequate support, Malaysian women entrepreneurs can realise their full potential and maximise their contribution to the country’s economic development.

In line with the social learning theory, the parents must be encouraged to motivate their children, particularly daughters to venture into entrepreneurship. In the past decades, many of these parents are employees and therefore, they would expect their child to become one too. However, with the strong economic growth and greater awareness on entrepreneurship, many new ventures have surfaced. The broadcast of success stories of women entrepreneurs coupled with the need for more employment opportunities due to economic growth have prompted greater attention from all parties, including parents to venture into businesses and/or to encourage their children in doing so. Many universities has started to offer degree programme in entrepreneurship and/or make the subject of entrepreneurship mandatory. If it is true that entrepreneurial parents influence their daughters to become entrepreneurs, then these efforts by the government and universities will not fetch maximum results if the majority of parents are not entrepreneurs. Nevertheless, if this notion holds true, the current women generation who venture into entrepreneurship will create a larger pool of women entrepreneurs of the next generation!

Women and men entrepreneurs tend to perform differently. The women entrepreneurs should realise that by gaining access to the technical networks and business training that women need to succeed is of great importance. Thus, the women entrepreneurs should utilise this opportunity to the fullest extent by becoming members of these associations. Women nowadays certainly do not need to lose their femininity to achieve success in a man’s world in social network perspective. They should stay competence and objective and improve themselves to prove their capabilities in this business world (Sze, 2005, p.26). Besides, their spouses play important roles in encouraging their entrepreneurial wives to join and participate in the activities of these associations. Women non-governmental organizations (NGOs) and groups should network so that information on Government assistance available specifically for women entrepreneurs can be filtere
d down. This can contribute to the efficiency and competitive edge of the companies not only related to financing but also to programmes such as capacity-building, benchmarking, development of best practices and development of export markets. With the proactive intervention of associations representing women entrepreneurs, many more would be aware of the various support programmes and facilities (The Star Press, 2006). It is worth mentioning that the support given by spouse is of paramount importance. Their support enables the women entrepreneurs more time to join and to participate in beneficial activities of these associations.

Furthermore, women entrepreneurs were less likely to own multiple businesses, less eager to plan for expansion, and where expansion was planned, their strategies for growth were often
significantly different from those of their male counterparts (Rosa et al., 1996). Clearly, there is a need of more and better opportunities for potential women entrepreneurs to gain equal access to management, and financial skills that are deemed to be important for business success. In addition, the Malaysian women entrepreneurs need to have an acute understanding of the entrepreneurial orientation in order for them to succeed in their ventures. These orientations, including confidence, courage, strong will power, risk taking, creativity and innovativeness, and so on can be embedded within the women entrepreneurs through short courses, training programmes, mentoring or even long-term courses leading to the award of a diploma or degree. This is where the government agencies and associations play an important role in nurturing these skills within the women entrepreneurs. Incentives in the form of income tax relief, discounted or free-of-charge association membership and training could help to mould successful women entrepreneurs.

In conclusion, this study has contributed to both theoretical and practical aspects of factors affecting the performance of women entrepreneurs. If we can achieve a better understanding of the important factors influencing the performance of women entrepreneurs, this will have implications for Malaysian women entrepreneurs and investors to broaden their business successfully in this globalised environment. If certain factors increase the odds for success, then entrepreneurs can appraise their own prospects with this in mind.

Future studies are necessary to investigate the variables depicted in the theoretical framework. It is also interesting to compare the findings between men and women entrepreneurs using the comprehensive framework developed. Comparison between nations is another area that warrants further research attention.
REFERENCES


COMPARATIVE ANALYSIS OF FDI IN CHINA AND INDIA

Dr. Swapna S. Sinha
swapnassinha@yahoo.com

Dr. David H. Kent
dkent@ggu.edu

Dr. Hamid Shomali
hshomali@ggu.edu

Ageno School of Business
Golden Gate University
536 Mission St.
San Francisco, CA 94105
Tel: 415-442-6500
Abstract

Some emerging markets have been leaders in the world and have grown at a higher rate benefiting from higher Foreign Direct Investments (FDI) by Trans National Corporations (TNCs) and some have been laggards and have not able to attract as much FDI and grow that efficiently. Why China gets 60 billion dollars FDI annually as compared to India that does not even get 6 billion dollars is an intriguing question? This dissertation explores the determinants of FDI in such emerging economies to answer the above question. What has India done till now to attract FDI? What has been China’s strategy to become the most FDI attracting country in the world? What lessons India can learn from China and improve its FDI inflow? The study attempts to theorize what lessons emerging markets that are laggards in attracting FDI, such as India, can learn from leader countries in attracting FDI, such as China in the global economy.

This study fills the gap in the literature by analyzing the Indian data at the relevant micro state level for the period 1992-2005 and comparing it with the Chinese data for period of 1978-2005 at the relevant economic zone level. Indian FDI attraction model was tested using OLS and autoregressive models and it was found that India has grown due to its human capital, size of the market, rate of growth of the market, and political stability. For China, congenial business climate factors comprising of making structural changes, creating strategic infrastructure at SEZs, and taking strategic policy initiatives of providing economic freedom, opening up its economy, attracting diaspora, and creating flexible labor laws were identified as drivers for attracting FDI. The model using these variables was tested with OLS regression and autoregressive regression analysis and was found significant. There are lessons that India can learn from China. Emulating and replicating successful infrastructural stories such as DMRC, DVP, and Golden Quadrilateral will help develop infrastructure. Structural Shift in terms of moving idling labor in agriculture to ‘skill-neutral mass manufacturing’ will employ millions from ‘seven-up’ BIMAOR UT UP CHA JA (sick get up and conquer) states, instead of current trend of just developing the service sector core competence only. Few but large world class SEZ’s in ‘seven-up’ states on the east coast will help leverage ‘demographic-realities’. Privatizing oil sector and banks to reduce government intervention and provide economic freedom, opening economy to level playing field to TNCs by reduced tariff and taxes, proactively engaging diaspora, and flexible labor laws to permit free entry and exit to TNCs will help India attract higher FDI. This study might help countries such as PIN (Pakistan, Indonesia, and Nigeria) which, will follow the BRIC economies in growth, want to grow, to broaden their understanding and formulate policies to attract FDI. At the enterprise level, it might help TNCs in understanding markets and formulating entry and growth strategies in these markets.

Introduction

A simple definition of FDI would be –“An investor based in one country acquires an asset in another country with the intent to manage that asset” (OECD, 2000).

It is important to understand the significance of FDI in global trade and in economic development. Also it is important to understand the shift in FDI towards the developing world,
and the future trends of FDI. The global stock of FDI at the end of 2006 stood at $10 trillion which is equal to the current combined GDP of the four largest economies of the world after USA-Japan, China, Germany, and the United Kingdom. More than two-third of FDI is between TNC’s. Total revenues for the Global 500 TNCs in 2006 add up to $18.9 trillion, a third of the world's GDP. 70,000 TNCs and their 6, 90, 000 foreign affiliates, contributing $19 trillion in sales, a third of world GDP, create major component of this FDI stock and worldwide FDI flows. GE (US), Vodafone (UK), and Ford (US) are the top three non-financial TNCs worldwide contributing maximum FDI flows. The global FDI in 2005 increased to $730 billion registering a growth of 18% over $648 billion of 2004. Of the total FDI flows, the developed world contributed $637 billion, out of which half is from only three countries-US, UK, and Luxemburg. In 2005 the net outflows from the developed world exceeded the inflows by $260 billion. For the US, the largest economy in the world with $12.5 trillion GDP, FDI outflow increased by 90% to $229 billion in 2005. The developing world FDI grew by 40% to $233 billion in 2004 mainly due to M&A activity and also due to green field FDI rising consecutively for the third year. Studies suggest that FDI flows by TNC’s have transformed international trade in the last two decades and created new giants and a new world order (Blonigen, 2005). For 2006-07, global FDI flows are expected to rise further if economic growth is consolidated and becomes widespread, corporate restructuring takes hold, profit growth persists and the pursuit of new markets continues (UNCTAD, 2005).

The success of Asian Tigers- ‘South Korea, Hong Kong, Taiwan, and Singapore’ in last two decades has been largely attributed to FDI (Zhang, 2001; Lall, 1993). Following the growth of Asian Tigers, countries are creating ‘location tournaments’ by giving various incentives to TNCs to attract FDI to their lands (Wheeler and Mody 1992). Globalization has created many opportunities for the emerging markets that were earlier unavailable to them. Talking of the potential of growth of emerging markets a Goldman Sachs study ‘Dreaming with BRIC’s: The Path to 2050’ reports that Brazil, Russia, India, and China (BRIC) can be larger than the G8 in less than 40 years from now. AT Kearney’s ‘Global FDI Confidence Index’ ranks China as number one country for the last three consecutive years in attracting foreign direct investment.

Research purpose and motivation

The purpose is to learn what strategies leaders in emerging market growth have adopted to attract FDI and evolve and what is lacking on part of the laggards. What laggards have done and what they have not done. The purpose is to develop a model for both categories and test the model empirically to substantiate the hypotheses. What are the lessons that laggards can learn from these leaders? The study intends to show a path to the PIN countries and other markets that will emerge in next two decades.

A search for the terms ‘China and India’ and ‘Foreign Direct Investment’ on Proquest online search for dissertations and peer reviewed academic journals returned only six entries. Of these only three are relevant. Of the three relevant dissertations, first discusses the FDI from Chinese perspective and makes a passing reference to India, the second discusses the role of overseas Chinese investment, and the third discusses the ASEAN economies. There are not many studies from the Indian perspective. Anantaram (2004) research is one study, another study by
Wei (2004) focuses on China. Kumar (1989) study leaves out the Indian reform period. Venkatachalam (2000) study does not compare India and China the way it has been done in this study. This study intends and attempts to fill these gaps in the literature.

Not enough studies exist on India from an Indian perspective. Apart from helping India lean from leader in FDI attraction this study builds and tests a probable model of growth for emerging markets. PIN (Pakistan, Indonesia, Nigeria) countries can learn from this experience and tailor make their economic plans to grow at a faster rate.

**FDI impacts development in emerging markets:**

There are many studies on benefits of FDI to the emerging markets. There is lack of sufficient internal capital in emerging markets as the governments are devoid of resources, the private sector does not have enough capital, and the country lacks the know-how to invest in relatively large projects. The savings in these markets are not enough to create intrinsic economic growth. Therefore, emerging markets need foreign capital for growth. FDI is one of the major sources of foreign capital for these countries [Seid (1988); Srinivasan (2002); Jenson (2003)]. Even Government of India (GOI Economic Survey, 2001-02) recognizes the importance of FDI in economic growth

**Literature review:**

Why firms engage in FDI? Hymer (1959) was the first one to explore this phenomenon in his doctoral dissertation and stated ‘FDI as a means of transferring tangible and intangible assets to organize international production.’ Market failure theory (Vernables, 2004) states that firms organize international production to avoid market failure that might arise from licensing to a third party. Inter-firm rivalry theory (Knickerbocker, 1973) states that firms invade each other’s home market to fight and create an oligopolistic market. Vernon’s Product Life-cycle theory states that as product and markets mature, firms move production overseas to appropriate balance rent from the declining phase in the product life cycle. Resource Based View (Wernerfelt, 1984) stresses on the fact that firms have specific resources that are unique and provide advantage to them and firms go to foreign markets to benefit from these advantageous resource positions. Dunning’s Eclectic Paradigm theory (1996) of ‘OLI’ - Ownership, Location, and Internalization states three TNC motives or a combination of these motives to conduct foreign investment. Firms have ownership of specific advantages which they want to exploit in other markets, locations have specific advantage that TNC want to exploit, internalization is preferred by TNC over third party licensing to avoid ‘spill-over’. Caves’ Vertical vs. Horizontal FDI theory states that firms either undertake FDI to seek efficiency in their global supply value chain or make FDI to enter horizontally to explore new markets. Macroeconomic theories look at value maximization objective of the firm as a motive for foreign investment. Modern theories mention complex form of structure and processes by TNCs by conducting foreign investment in an ‘export platform’ manner that allows TNC’s to leverage and benefit from their global operations (Bergstrand and Eggar, 2004). In my view all FDI is ‘endurance seeking’ as TNC’s have to survive in current competitive global scenario
otherwise they will perish. Also, I think that FDI is not horizontal or vertical but linear as firms attain synergies through dual operations.

What are the determinants of FDI? Literature review suggests that market size (Lall et al, 2003), market growth rates (Jenson, 2003), political stability (Anantaram, 2004), corruption (Wei, 2003), exchange rate (Crowley and Lee, 2003), labor productivity (Ramamurti, 2004), economic freedom (Lee, 2005), infrastructure (Chantasasawat, 2004), openness (Singh and Jun, 1995), human capital (Hsiao, 2001), and taxes affect FDI flows to global markets.

Why laggards are falling behind?

There are many factors that are restricting laggard’s attractiveness as an FDI destination (Guha and Ray, 2000). Infrastructural bottlenecks have impacted FDI flows. History of invasion and rule by foreign trading company created a fear psychosis. Scant power availability has curtailed production, lack of manufacturing and stress on service sector growth has created a lopsided growth which is not commensurate with demographic realities. Bureaucracy and policy making has restricted FDI flows as the government’s attitude has not been favorable for a considerable time (Bajpai and Sachs, 1999). Overdependence on agriculture and regional disparities between developed and backward states has created a ‘bandwagon effect’ and forced FDI only in certain areas, segments, and sectors of the economy. The ‘super-six’ states are getting most FDI (Anantaram, 2004). Services sector now contributes to 52% of GDP. Skill intensive manufacturing has reduced higher growth in the manufacturing sector. Despite starting much ahead of China, the SEZ movement in India has not picked (Srinivasan, 2003) up and is currently shrouded in controversies. The sea ports are underdeveloped and underutilized. FDI regime has been restrictive and not welcoming as is evident in higher tariffs and taxes on TNC’s. The new FDI policy 2005 has not opened up many sectors to full participation by TNC’s and policies are parochial. Fiscal deficits, subsidies, corruption has affected Real Gross Domestic Capital Formation (RGDCF). Lack of privatization, low exports, missing diaspora involvement, and archaic labor laws have prevented development of a conducive business climate.

Statistical Indian story thus far

Based on my research on FDI literature on determinants and factors, I developed the constructs and formed the hypotheses for emerging markets. I formulated six hypotheses. India is a typical example of an emerging market so I took India to investigate my propositions. Most Indian FDI has gone to six mega states of Maharashtra, Gujarat, Hyderabad, Andhra Pradesh, Tamil Nadu, and Delhi (Anantaram, 2004) and most of the Indian growth is concentrated in the above six states (Kocher et al, 2006). My first construct included human capital in these states (Selected Educational Statistics, HRD Ministry, GOI-1992-2005). Other constructs that were measured at the national level were market size (GDP), market growth rate (GDP % growth), political stability (Interest rate), corruption (Transparency International Index, 1996-2005, trend extrapolated for 1992-2005), and exchange rate volatility (% change over last year). The Indian Model of FDI includes six above stated determinants and the impact of these variables
in the model was tested to predict FDI inflows and changes. Data was analyzed for the period 1992-2005. FDI data was taken for the six states from 1992-2005 from Indian Planning Commission and www.indiastat.com and national Indian data was taken from World Development Indicators 2006 and www.euromonitor.Com

The impact of the six above stated independent variables was tested on FDI flows. Multiple Regression and Correlation (MRC) analysis was done to study the relationship. Pooled data was utilized for the study. Cross sectional data from states and time-series (panel data) for the period 1992-2005 was taken for the study. Above stated measures were tested in OLS & Autoregressive models. Heteroskedasticity was also tested. Model significance, correlation statistics (<0.7), and VIF statistics (<5.3) was checked and reported.

Overall the OLS model was found significant (90% confidence level, alpha equals0.1, F=49.82, p=0.000<0.1, Adj. R² = 74.12%). The autoregressive model was also found to be significant (F=9.830, p=0.008<0.01, R² =91.0, Adj. R² = 89.1). The statistical analysis and findings of Indian FDI model suggests that FDI inflows in an emerging market of India in a globalize scenario are positively correlated with the human capital present in that market. Market size and the rate of growth were also found significant. These findings support the first three hypotheses. Political stability, corruption, and exchange rate volatility was also found to be partially significant lending support to the other three hypotheses.

Creating congenial business climate for attracting FDI

Congenial business climate in an emerging market leads to FDI. The purpose of FDI by TNC’s is to ‘seek endurance’ in their global operations necessitated owing to the maturity of certain developed markets. Linear propagation of FDI in emerging markets offers a solution. The leader in attracting FDI in an emerging market creates congenial business climate in its economic market environment. Leader’s Model of attractiveness has three underpinnings: structural changes, strategic infrastructure, and strategic policy initiatives.

Structural changes in the economy include improving physical infrastructure. Availability of road network, water, electricity, telecommunications, and other resources provides opportunity for TNC’s to produce, move goods and services efficiently, and minimize costs to that they can compete globally on a cost advantage. This can be measured in total road length, per capita electricity/water consumption, number of telephone lines and mobile phone subscribers, etc.

Strategic infrastructure means location, content, and a strategic intent to organize economic activity in an emerging market. The infrastructure should be strategic to reflect on the existing demographic realities. It should be strategic to the extent that sectoral composition should complement demographic realities. Age, availability, and educational skill set of the labor force should be reflected in the strategic infrastructure. The strategic infrastructure should have connectivity with the hinterland to obtain continuous supply of cheap labor from backward areas. The specified area should be self contained and have world class infrastructure such as hotels, airports, banks, stock markets, retail stores, educational institutes, recreational
facilities, etc. The infrastructure can be strategic if it has proximity to the largest global markets and has connectivity with the global shipping network. Such economic clusters are strategic in every sense of the system for merit term.

A strategic policy initiative implies policy initiatives to support the above stated strategic intent. My research indicates that these initiatives are fourfold in nature: creating economic freedom, facilitating openness, inviting diaspora involvement, and formulating flexible labor laws. Economic freedom can be provided by reducing government intervention in the economic activity, reducing fiscal burden by privatizing PSU’s, cutting down subsidies, balancing development in different regions of the country. Openness in trade can be adopted by reducing tariffs, inviting TNC’s to enter, invest, and exit or repatriate freely, reducing restrictions on trade, reducing bureaucracy and red-tape, and increasing exports. Diapora prowess of intellectual as well as economic capital can also be utilized for economic development. Their network relationship and TNC affiliations can be harnessed for emerging market growth. Flexible labor laws allow for free movement of labor and capital and increase efficiency in TNC operations. Policies directed towards attracting, retaining, and nurturing the quality talent promotes the system of merit.

China is an example of a country that has created this conducive business climate, attracted FDI over last twenty five years, and grown from $163.6 billion economy to being a $2.2 trillion dollar economy, the third largest economy in the world, and the fastest growing economy in the world. On purchase power parity basis, Chinese economy is the second largest economy of the world with $9.412 trillion in 2005 just behind USA. China has been growing at the rate of 9.5% for last ten years. In 2006 china grew at the rate of 10%. At this rate China will double its economy in every eight years and in 2040 will be largest economy of the world surpassing the US. In 2006 FDI inflow to China was $ 62.0 billion as opposed to $6.0 billion for India. AT Kearney FDI Confidence Index 2006 ranked China the most attractive FDI destination ahead of the United States for the fourth consecutive year.

Testimony from leaders in the race: China- The more evolved emerging market:

China’s achievements and comparison with India demonstrate the success of the congenial business climate adopted by China. In 1978 China ($163.6 b) was behind India ($168.0) in GDP. Chinese government initiated reforms in 1978 and carried them forward in 1992. Deng Xio Peng, the father of Chinese reforms created an industrial revolution in a communist China. China followed an ‘export-import’ oriented growth pattern as opposed to an Indian ‘import-substitution’ pattern. Chinese government made structural changes in the economy, provided strategic infrastructure in form of SEZ’s, and took strategic policy initiatives to provide freedom, openness in trade, attracted diaspora from Hong Kong to invest in Shenzhen and other neighboring areas, and made flexible labor laws to attract efficient labor in the manufacturing sector. All these factors attracted TNC’s to set up manufacturing units in the SEZ’s and export the produce to different parts of the globe. Modern China has an FDI stock of $600 billion which contributes almost one-third of current Chinese GDP.
Structural changes made in the economy can be demonstrated though the development of Shanghai and its modern infrastructure. Shanghai was a backward small place some fifteen years back. The government initiated the change process that brought about significant improvements. Modern Shanghai attracts 180 million people, has a GDP of $110 billion, has a life expectancy of 80 years, and has attained a growth rate of 10% for last ten years. Tallest Asian building Oriental Pearl Tower measuring 468 meters is located in Shanghai. Jingmao Mansion is the fourth largest building in the world. Shanghai World Financial Centre to be completed in 2009 might be the tallest building in the world. Shanghai has one of the most extensive bus system having 1000 lines. Shanghai Metro, subway, and elevated light rail have five lines which will increase to eight by 2010. Hongqiao and Pudong International airport attract the highest traffic in the world. Trans rapid train system is growing fast and Shanghai Maglev train system covers 30 kilometer trip in 7.21 minutes reaching a speed of 431 km/hour, highest in the world. Donghai Bridge is the longest cross-sea bridge in the world measuring 32.5 miles connecting Shanghai to the Yangshan islands.

Comparing Shanghai with India it seems strange that the achievements of the city are bigger than the country India. Shanghai received $60 b in FDI as opposed to $58 b for India. India’s foreign trade was 30% less than Shanghai’s $241 b in 2005, Shanghai world’s largest port handled 443 million tones cargo against 423 million tones handled by 12 ports of India. Coastal areas of Pearl River Delta, Yangzi River Delta, and Beijing Gulf were developed to create a platform for growth by TNC’s as foreign firms do not want to invest in capital intensive projects long gestation period and makes investor a hostage of fortune (Guha and Ray, 2000), three out of five busiest ports in the world are in Shanghai. Shanghai Yangshen deep water port is the busiest port of the world and handles 443 million tones of cargo. As a result of these structural changes made 430/500 TNC’s (220 only out of 500 for India), and 40,000 foreign invested companies have opened office in Shanghai.

Strategic infrastructure of China can be demonstrated with the Shenzhen SEZ creation and development. The 1979 reforms created four SEZ’s. The first SEZ was in Shenzhen. Shenzhen used to be small village and a fishing area (70,000 residents, 325 sq miles area) but due to the reforms initiated over the last twenty five years it is one the most modern places in the world. Modern Shenzhen has 7 million population, area of 2020 kilometers, produces $40 billion in GDP, has 120,000 foreign TNC’s in active operation, and is the sixth largest port in the world. Shenzhen is the only city in China that has a land port, sea port, airports, and stock exchange of its own. As a result of SEZ’s China’s global trade exceeded $1 trillion in 2004. Exports from SEZ’s account for 35% of GDP. Merchandise exports have grown by 15% during 1989-2005.

Strategic policy initiatives taken by Chinese government were providing economic freedom and creating openness during the period 1978-2005. Government intervention reduced over time and in 2005 85% of the manufacturing was outside non-state sector. Government allowed joint ventures between diaspora and local residents, gave incentives, tax holidays, promoted exports, and wages were kept low due to allowing free competition. Lease and ownership rights were provided to foreigners. Tax exemption on importing machinery, free movement of goods between SEZ designated areas, rebates on export duty, liberal entry and exit policies were adopted. Foreign currency transactions were allowed in SEZ designated
areas. Stock market was created and trading was allowed in foreign shares (B type). Decentralization was conducted and provincial governments were given powers to negotiate contracts. Visa norms and zoning laws were simplified for foreigners. Foreign firms could form Wholly Foreign Owned Enterprise (WFOE) in China from 1986 onwards. Bilateral tax treaty has also helped in attracting investment. Cheng and Kwan, (2000) found that there is a positive relation between SEZ and regional income in attracting FDI to China. River boat transportation and ‘industrial clusters’ helped in reducing infrastructural bottlenecks and reducing costs. Share of foreign affiliates increased from 9% in 1989 to more than 50% in 2005. Therefore, freedom and openness adopted by China had an impact on FDI inflows into the country.

Chinese diaspora which is 50 million people living in Honk Kong, Taiwan, Macau, Singapore (Wei, 2004) was attracted by the government by formulating preferential favorable policies in the SEZ’s. Policies such as giving three years tax holidays and reduced rates after that period attracted diaspora. Hong Kong and Taiwan based manufacturers shifted to Shenzhen due to tax benefits given, proximity and cultural affinity with China. Diaspora tycoons like Gordon Wu and others contributed significantly to the Chinese growth. ‘Guanxi networks’ helped in building a loose connection between the diaspora community and the local manufactures (Cheung, 2004). It is estimated that 70% of initial investment came from diaspora Chinese (Zhang, 2001). Chinese diaspora essentially is considered more entrepreneurial and wealthy than Indian diaspora (Ramamurti, 2004). Had these diaspora Chinese not invested in China, it would have been a totally different story in China today (Ramamurti, 2004).

Flexible labor Laws were created in 1979 and ‘iron-rice bowl’ system of guaranteed employment was discontinued. Labor housing was freed and free movement of labor in economic zones was permitted. Initially 20 million people were unemployed but with the growth in industrial activity unemployment rate dropped. High performing workers were rewarded suitably and a merit-based system was introduced.

**Statistical FDI model testing for China**

The hypotheses formulation included- congenial business climate leads to FDI inflow in an emerging market. Congenial business climate includes structural changes in the economy, strategic infrastructure creation, and strategic policy initiatives (providing freedom, creating openness, diaspora contribution, and labor laws flexibility). Control variables used were market size (GDP), market growth rate (GDP % growth every year), political stability (interest rate), corruption (Transparency International Index), and exchange rate volatility (change over last year).

The research methodology adopted was testing the model based on above stated variables. Research design included a two-step approach- an OLS multiple regression followed by an autoregressive analysis. The independent variables were the constructs of the above stated hypotheses. Measures for testing the hypotheses were as enumerated above in the hypotheses.
Data for the FDI inflows in China was taken for the three main coastal areas- Shenzhen area, Shanghai Pudong economic zone, and Beijing Gulf area for the period of 1978-2005 for 28 years. Therefore there were 28X3= 84 points same as for India. Data sources that were used -China Statistical Yearbook, China Foreign Economic Statistical Yearbook, Ministry of Commerce of the PR China website, www.shenzhen.com.cn; www.pudong.gov.in; www.shanghai.com.cn; www.szml.gov.cn; www.chinesenewsnet.com; and www.english.peopledaily.com

Data for the Independent variables structural changes (measured in telephone lines within SEZ’s), strategic infrastructure (GDP growth rate in SEZs) were taken from Eorominitor.com and World Development Indicators for the years 1978-2005. Data for strategic policy initiative variable ‘freedom’ was taken from Heritage Foundation 1995-2005 and extrapolated for the period 1978-1994. For ‘openness’ variable data was obtained by EX+IM/GDP for China for the period 1978-2005 from Euromonitor and International Financial Statistics Yearbook and tallied with data for individual SEZ’s. For the variable ‘diapora’ the FDI outflow from Hong Kong and Taiwan was taken as a measure and the data was obtained from SEZ as well as from Euro, and IFS data for the period 1978-2005. For ‘labor laws’ variable labor productivity ie GDP/ per hour of work was taken for the three SEZ areas for 1978-2005 from ILO and SIB for designated areas.

Control variables market size (GDP), market growth (GDP growth rate), political stability (interest rate), corruption (Transparency international), and exchange rate volatility (change over last year) were measured for the years 1978-2005 from the data obtained from Eoromonitor, IFS, and WDI 2005. For political stability and corruption data for the missing period was calculated from extrapolation of existing data.

The Data Analysis was done utilizing two-step process- OLS Multiple Regression Analysis and subsequently running an Autoregressive Models. The impact of the independent variables was tested on FDI flows in three Chinese SEZ’s. Multiple Regression and Correlation (MRC) analysis was done to study the relationship. Pooled data was taken, cross sectional data from states and time-series (panel data) for the period 1978-2005 was taken for the study. Above stated measures were tested in OLS & Autoregressive models. Heteroskedasticity was also tested. Model significance, correlation statistics (<0.7), and VIF statistics (<5.3) was checked and reported.

Overall the OLS model was found significant (90% confidence level, alpha equals0.1, F= 48.39, p=0.001<0.1, R² = 75.2, Adj. R² = 69.9%). The adjusted model after dropping insignificant variables was tested and was also found significant. The autoregressive model was also found to be significant (F=9.732, p=0.008<0.01, R² =82.1, Adj. R² = 74.1). Correlation matrix showed co linearity between corruption and exchange rate variable. Other variables did not have any multicollinearity problem as observed by the Pearson correlation matrix and VIF values were within prescribed limits. The statistical analysis and findings of Chinese FDI model suggests that FDI inflows in an emerging market in a globalize scenario are positively correlated with the congenial business climate actors comprising structural changes, strategic infrastructure, and strategic policy initiatives present in that market. These
findings support the hypotheses. Control variables Market size and the rate of growth were also found significant. Political stability was found partially significant. Corruption was found insignificant. Exchange rate volatility was also not found to be significant.

**How laggards can benefit from leaders?**

Based on the Indian FDI model and findings from Chinese FDI model policy recommendations are made for creating a Congenial Business Climate in emerging market India. India has to leverage the ‘endurance seeking’ FDI behavior of the TNC’s to attract ‘linear FDI’.

India has to make structural changes in the economy. It has to duplicate success stories in the structural changes it has adopted till now. Metro Rail (DMRC) in Delhi & Expressway Network (Golden Quadrilateral) has to be created at all metro towns and roads linking these towns. Metro is a necessity in the entire NCR in Delhi Metropolitan area. Mumbai, Calcutta, Chennai, Bangalore, Hyderabad, and Poona should have Metro network. Expressways have to connect all parts of the country. In the telecommunications field, mobile telephony has been highly successful in India and its penetration should continue to benefit farmers and rural poor people. Indian railway is a highly inefficient organization that needs to be privatized like Chinese railway was done. Trailing Indian states of Bihar, Madhya Pradesh, Orissa, Uttaranchal, Uttar Pradesh, Chattisgarh, and Jharkhand -BIMAOR UT UP CHA JA (sick, get up and conquer)- ‘the seven up’ have to experience this conducive business climate growth.

Power and electricity reform is another area where India needs to take immediate steps. Power sector has given -26% returns on government equity employed in SEBs (Economic Survey, 2006). Removing subsidy on power, privatization of power distribution companies and SEBs is long overdue. Precedent is already there from the privatization of Delhi power board (DVB) as another success story that has to be emulated in all other state capitals. Free rural power scheme (RGGVY) should be shelved as it might have several implementation problems, instead private companies should be allowed tax holidays on providing power to rural poor.

India needs $300 b in infrastructure development. Infrastructure development should be undertaken by using foreign exchange reserves & PSU offloading. India has reserves of more than $150 billion in foreign exchange. These reserves should be utilized in developing the infrastructure. Offloading public sector equity will provide funds for developing infrastructure. Government has to focus in social areas of providing health and education instead of conducting direct business.

India has to overcome the current service sector myopia. Service sector growth should be supported with manufacturing growth as Indian population of 1.1 billion people cannot be employed in service sector alone and majority of the population from Bihar cannot be converted in computer literate call center executives. Much hyped Indian IT sector constitutes less than 2% of Indian GDP. Sam Pitroda recently commented that IT and BPO create only 3, 00,000 jobs against 10 million required. 79.9% of Indian population earns less than $2 a day (Mehta and Shah, 2002) and services sector alone will solve their problems. India needs
manufacturing boom to move idling labor force of (67% employed in agriculture producing 22% of GDP) from agriculture.

India has to diversify from developing service sector based ‘core competence’ (Hamel and Prahalad, 1990) being currently followed to developing ‘dynamic capabilities’ (Eisenhardt, 2000) to augment current services growth with manufacturing growth. Manufacturing is the answer to employ India’s growing population that will exceed 1.5 billion by 2050 (IMF, 2005) and make India the most populous country in the world. China is catching up fast with service sector growth (40.26% in 2005) and its manufacturing model of Shenzhen is maturing into service model of Shanghai. Similarly, India has to move to manufacturing to compete with China. Even in R&D, that is thought of as an Indian stronghold, China filed for 943 US patents as opposed to 495 filed by Indian investors in 2004-05 (Economic Times, April, 30, 2006).

Paradigm shift in Indian manufacturing is required. India has to move towards skill-neutral mass manufacturing. As Chinese working age population ages by 2015 and burden on the economy increases, India has an opportunity due to its ‘demographic dividend’, having the highest young working population in the world. Despite manufacturing growth of 9% in last three years, the number of jobs in manufacturing remains the same as 1991, at 48 million, which is one third of China’s manufacturing labor force (The Economic Times, July, 7th, 2006). Current manufacturing pattern has created a ‘job-less growth’. Backward ‘seven-up’ states do not have majority of educated people so a skill neutral ‘mass-manufacturing’ will help employ large number of unemployed youth. Coastal areas in Bihar such as Gopalpur might be an ideal place for setting up large manufacturing units that can be ‘export-oriented’ to feed large US west coast market.

India is developing 100’s of SEZs that are small in size. Chinese SEZ are large- Hainan SEZ for example is of the size of Kerala. The right strategy for India might be rapid formation and showcasing of large but few SEZ’s on east coast to involve BIMAOR UT UP CHA JA states. Indian government might have developed 5-6 large SEZs of 40-50 square miles each instead of allowing 100s of SEZs (Morgan Stanley report on SEZ, September, 2006). Despite having started earlier than China in SEZ formation in 1965 at Kandla, India has not achieved much on that front. SEZ act of 2005 enacted in February 2006 has not achieved any tangible gain till now, currently large real estate companies are busy grabbing land from state government at throw away prices, for tax incentive purposes, extending tax benefits when they expire in 2009, and the government is treating applications on ‘case-to-case’ basis to suit individual interest. Most approved applications are either in landlocked areas or are in the developed states. Diaspora should be allowed to be board members and commissioners in SEZs. World class infrastructure should be backed up by world class human resource ownership. Decentralized working vested in commissioners with minimum bureaucratic intervention will help develop these SEZs. World class infrastructure having banks, townships, shopping malls, golf courses, swimming pools, recreation centers, prominent quality school franchises, and airports, etc. will attract diaspora to work and live in these SEZs. World retail giants like Wal- Mart, Target, and Rite Aid can be allowed to enter these SEZs.
Indian ports are congested and plagued with bad management. Creating large ports in open spaces from scratch in a state like Bihar will help in developing ‘state-of the art’ ports that can handle large ships directly. Port to be developed in Bihar and Orissa should have ‘deep bed port’ facility. The ‘seven-up’ states can provide cheap labor for these (Ray, 2004) ports. These ports can cater to the markets of the west coast of the USA i.e. California. Port management has to be privatized and private sector participation in terms of ‘Build-Operate- Transfer’ has to be welcomed. Modern techniques such as just- in-time management, supply-chain-management, and third party leasing and operations should be adopted to improve efficiency.

Strategic policy initiatives will help create conducive business climate in India. India fortunately, more by default than by design, has a high quality human capital at the top with western educated economist as the Prime Minister, a scientist as the President, an economist at Planning commission, a newly created knowledge commission with leading personality as its head, and a Harvard educated finance minister, etc. If India cannot achieve phenomenal growth now, it will never be able to reach the top. Current Indian bureaucracy and polity will thwart cataclysmic changes but Indian intelligentsia and intellectuals have to take leadership and propel economic growth. India cannot afford to be ruled by uneducated politicians or their henpecked bureaucrats. India needs a new order. A recent initiative by some young diaspora Indians to quit their high paying US jobs and form a political party called ‘Paritran’ and work at grass root level is a welcome step in this direction and such movements have to be encouraged. This is the first time since Indian independence that the Indian youth is coming forward with the feeling of committing themselves to national objective, the same sentiment that prevailed during the freedom struggle before 1947, the government has to sense this pulse and promote it.

Freedom and parity to TNCs by PSU-offloading and by tariff reduction, is desirable. PSU privatization has witnessed a complete moratorium in last decade. Privatization of Banks and Oil companies will provide competition and free capital for infrastructure development. Government in a developed country, such as in the US, does not own Banks or Oil companies then why should the Indian government control them. Creating a holding company to receive funds from PSU privatization will help channelize investment in to infrastructure projects. The Indian family owned businesses should be allowed a level playing field with the TNC as traditionally Indian business houses have enjoyed privilege at the hands of the government (Khanna and Palepu, 2004). The role of bureaucracy has to be minimized in India. Government can create a Ministry of Foreign Investment and can attract 10% of GDP in FDI by upgrading FIPB. By allowing full convertibility of rupee on capital account, it will help to attract foreign investment.

Leveraging Diaspora strength might be a good option for faster Indian growth. If 20 million people of Indian origin invest $1000 pm in India, it can get $200 billion each year, which is close to 30% of current Indian GDP. Like the ‘Guanxi’ style program created by Chinese government India can have ‘Sambandh’ networks. These can be started like virtual communities exist for IT majors like Sun Microsystems. Diaspora entrepreneurs such as Lakshmi Mittal, Vinod Khosla, and Bose, etc. should be welcomed to invest in Indian SEZs on the east coast and have a 25% share of firms in SEZs. Diaspora can also provide TNC
executives to benefit India from their global experience by giving them tax holiday for three-five years and then allowing 20% tax for them for five years as compared to 33% for domestic Indians. Dual citizenship can be provided much ahead of countries like US. Diaspora Indians can be minister and secretary of Ministry of Foreign Investment and should be participating in democratic process that is currently infested with ‘criminalization’, ‘cliquization’, and ‘elitization’. Like the Chinese ‘Chun- Hui’ program ‘Jugad networks’ can be created. ‘Ghar-Chalo’ program should be initiated to welcome Indians back home through allowing them a single window clearance. Medical tourism should be developed as price of healthcare increases in the US and EU. Also, legal outsourcing should be developed as US is a highly litigious society and lawyer/legal costs are very high in the US. Diaspora doctors and lawyers should be encouraged to set up shops in India. Providing immediate visas on entry on Indian ports will attract foreign travel and their subsequent investments. Diaspora ministries should be set up in ‘seven-up’ states and the missions from these ministries should be sent abroad for conducting road shows to attract Diaspora and investments.

Labor laws have to be relaxed to promote mass production. Hire- and- Fire has to be introduced in PSU’s and in the SEZs. Companies employing more than 1000 people should be kept within the purview of the labor laws, if at all (currently 100). SEZs have to be kept out of the scope of the Industrial Act. Labor Reserve pool, as suggested by Mahalanobis theory, should be created to deploy freed labor after layoffs in the public sector are initiated. Bankruptcy laws have to be simplified to attract free entry and exit for TNCs.

Discussion and Conclusions

The study tried to explore the determinants of FDI in emerging markets and took two largest countries in the world and rapidly emerging economies as an example of studying the phenomenon of foreign investment inflow in these countries. Surprisingly, one country has grown at a phenomenal rate and the other is now trying to catch up but is still far behind. China has grown rapidly and India has trailed behind. China got $60 billion dollars in 2005 in FDI and India did not even get $6 six billion last year in FDI. The study tried to explore this phenomenon and to understand the drivers for attracting foreign investment in emerging economies.

India despite being the largest democracy in the world has lagged behind due to its focus on services and specialized skill based relatively small manufacturing model in contrast to China. Indian growth model has been based on IT, ITES, and skilled manufacturing which is dependent on the availability of human skill and capital in an emerging market. The study analyzed the impact of the human capital on FDI inflow into India during the reform period of 1992-2005 and found statistical evidence for the same. Indian growth has been positively related to its human capital stock. Also, the size of the Indian economy, its growth rate, its political stability, exchange rate volatility, and the extent of corruption have affected foreign direct investment in the country in last fifteen years.

China opened its economy in 1978 and within 25 years grew at a rapid face to become one of the largest economies in the world with a promise of being the number one economy in
the world in next thirty-fourty years. We analyzed this development and found statistical evidence that Chinese growth has been due to its adopting a congenial business climate comprising of furthering structural changes in the economy, creating strategic infrastructure on its coastal boundary by developing Special Economic Zones, and by evolving strategic policy initiatives. These initiatives include providing economic freedom for companies to grow, creating openness in trade related policies to increase export and import across its borders, formulating flexible labor laws to allow market oriented corporate structures, and engaging the Diaspora to develop its economy. TNCs, pursuing ‘endurance seeking’ FDI, owing to their maturing homeland market, prefer to go to the leading emerging market to obtain ‘linear synergy’ through FDI. The study found positive relationship between congenial business climate factors and variables and FDI inflow in China over last twenty-eight years. The study also found that the size of Chinese economy, its annual growth rate, and political stability have also played a role in attracting Foreign Direct Investment over last twenty-eight years.

India can learn lessons from China and create congenial business climate in the country to catch up with China. India can let the ‘endurance seeking’ FDI of TNC’s enter its borders as TNC’s try to move ‘linear synergistic FDI’ to benefit from exporting and marketing opportunity in merging markets. Given other factors as constant TNC’s would like to manufacture in India six times more as compared to China due to the exchange rate advantage and the relative strength of US dollar to Indian rupee as opposed to Chinese Yuan. If India can create structural changes at a faster pace it might attract more FDI and grow rapidly. India can also develop strategic infrastructure on its coast (East) by growing large incentive oriented SEZ’s based on its demographic realities and by employing large population in labor oriented export manufacturing scenario, it can balance its service sector growth and grow holistically. Creating economic freedom for increasing private sector and TNC participation, opening trade to become more global in its outlook, formulating flexible labor laws to attract free market determined organizational structures, and engaging Indian Diaspora in its economic activity-can help India in becoming a global player in the world economy.

Emerging markets can learn from the Chinese and Indian story and attract foreign direct investment to grow their economies and benefit from the current wave of globalization.

Academic Contribution

The study attempts to contribute to the academic literature on how emerging markets can grow by following a strategic intent. Strategic structure and strategic policy initiatives can help emerging markets by creating a congenial business climate and in attracting foreign direct investment from TNC’s. The study attempts to add to the literature on the factors that determine investments by TNC’s in the emerging markets. The FDI literature has mainly focused on the developed world and there are not many studies on rapidly growing emerging markets. This study contributes to the literature from an emerging market perspective. Traditional FDI determinants such as market size, market growth rate, exchange rates, agglomeration, etc. have been widely explored as contributors of foreign investment flows but factors such as structural changes, strategic infrastructure, and strategic policy initiatives including economic freedom, openness, labor flexibility, and Diaspora have not been explored
much especially in merging markets. This study fills that gap. The study is going to highlight the pattern of growth in the emerging markets to the existing literature.

The study is expected to show how laggards can learn from leaders in attracting more FDI to their countries and can guide countries such as Pakistan, Indonesia, and Nigeria in attracting more foreign capital. By 2050 the world population is expected to increase to 9.1 billion from 6.5 billion today. Nine countries are expected to account for half the world's projected population increase: India, Pakistan, Nigeria, Dem. Rep. of Congo, Bangladesh, Uganda, U.S., Ethiopia and China (Wall Street Journal, October 22, 2006). Following suggested Indian model of congenial business climate countries such as Africa can grow by supplying manufactured goods from North Africa to Europe and from North West Africa to the East Coast of the United States. Similarly, countries such as Indonesia can grow by catering to Japanese markets. This study contributes to the academic literature on what drives foreign investment in emerging markets based on issues faced by them and suggests solutions for them.

Managerial Implications

The study might help the Indian government and various interest groups in creating the right congenial business climate so that maximum FDI can flow into India and India can grow rapidly. The study intends to help the TNC’s in understanding the determinants of growth in the rapidly growing emerging markets of the world and help plan entry and growth strategies in these markets depending on policies formulated by governments in pushing the reform process ahead. The study expects to help managers in understanding drivers of growth in different emerging markets and be able to pinpoint areas where investments can be made by TNC’s.

This study goes beyond just suggesting and testing a model of growth to emerging markets. It suggests how the model can be implemented to the benefit of an emerging market. The research answers the question- What are the different ways in which the model can be implemented to bring tangible gains to the emerging markets? The study does secondary research to arrive at qualified deductions that can be used to take meaningful steps in attracting FDI in emerging market. The study delves into these issues and recommends concrete steps that might be taken by the emerging market governments and other agencies in their efforts to grow their economies in the modern globalized world.

Limitations and Future Research

Though the research has been able to accomplish significant results, there are some issues that need to be addressed in future research and are limitations of this study. First of all, it is very difficult to obtain entire data on China and India over last twenty five years so the study makes some assumptions. India and China have grown at different time periods and India faces a lag of thirteen years; comparing different time dimensions can be misleading as their might be macroeconomic global factors such as Asian Crisis and Gulf war that might have influence on the flows into these countries differently. Also, this study does not statistically test all the factors that determine foreign direct investment in emerging markets because model restrictions do not permit including all the determinants, although most of the relevant determinants have been included. Third, this study only discusses China and India and does
not include other emerging markets such as Brazil and Russia (BRIC countries). A study of FDI determinants for BRIC economies over last twenty-five years can add to the findings of this study. Also, sector wise analysis can be done to pinpoint the exact sectors that led to the Chinese growth and their relationship with FDI flows over time.
References


Knickerbocker, F.T., “Oligopolistic Reactions and Multinational Enterprise”, Boston, Harvard University Graduate School of Business Administration, 1973

Kumar, N., “Multinational Enterprises in India”, Routledge, 1987


Ramamurti, R., “Developing Countries and MNC’s: extending and enriching the research agenda”, Journal of International Business Studies, 35,277-283, 2004


THE VALUE OF CREATIVITY AND INNOVATION IN ENTREPRENEURSHIP

Dr. Friday O. Okpara
UNIVERSITY OF GONDAR, ETHIOPIA
INTRODUCTION
Drucker (1985) argued that innovation is the tool of entrepreneurship. In addition, both innovation and entrepreneurship demand creativity. Creativity is a process by which a symbolic domain in the culture is changed. New songs, new ideas, new machines are what creativity is about Mihaly(1997). Creativity is the ability to make or otherwise bring into existences something new, whether a new solution to a problem, a new method or device, or a new artistic object or form. Wyckoff (1991) defines creativity as new and useful. Creativity is the act of seeing things that everyone around us sees while making connections that no one else has made. Creativity is moving from the known to the unknown. Culture exerts a negative force on creativity according to Pearce (1974), however, “were it not for creativity, culture itself would not be created.”

No entrepreneur or enterprise, however successful and big, can continue to hold a place of leadership unless it recognizes that modern business operates in a world of galloping change which creates new problems, risk and opportunities and for which they have to mobilize the enterprise’s resources before changes make their impact felt. To do successfully, the entrepreneur and enterprise should know where this firm is going and how the firm will get there. This is turn requires a clear definition of the company’s business which will enable it to continually adopt operations to the realities of the market place, “the very corner stone of survival and growth”

Innovation is defined as adding something new to an existing product or process. The key words are adding and existing. The product or process has already been created from scratch and has worked reasonably well. When it is changed so that it works better or fulfils a different need, then there is innovation on what already exists. Innovation is the successful exploitation of new ideas.

All innovation begins with creative ideas. Creativity is the starting point for innovation. Creativity is however necessary but not sufficient condition for innovation. Innovation is the implantation of creative inspiration.

CREATIVITY
Creativity is marked by the ability to create, bring into existence, to invent into a new form, to produce through imaginative skill, to make to bring into existence something new. Creativity is not ability to create out of nothing (only God can do that), but the ability to generate new ideas by combining, changing, or reapplying existing ideas. Some creative ideas are astonishing and brilliant, while others are just simple, good practical ideas that no one seems to have thought, of yet. (Harris, 1998).

Everyone has substantial creative ability including you the reader. So you should count yourself and believe it that you are a creative genius. All you need is to be reawakened and be highly committed to creativity. I want you to start thinking now, in the process something new will flow. Explore that something new today and you will be a different personality tomorrow.

Creativity is also an attitude, the ability to accept change and newness, a willingness to play with ideas and possibilities, a flexibility of outlook, the habit of enjoying the good, while looking for ways to improve it, we are socialized into accepting only a small number of permissible or normal things, like chocolate-covered strawberries, for example. The creative
person realizes that there are other possibilities like peanut butter and banana sandwiches, or chocolate-covered prunes. Harris (1998).

Creativity is also a process. Creative persons work hard and continually to improve ideas and solutions, by making gradual alterations and refinements to their works. Contrary to the mythology surrounding creativity, very few of creative excellence are produced with a single stroke of brilliance or in a frenzy of rapid activity. Much closer to the real truth are the stories of companies which had to take the invention away from the inventor in order to market it because the inventor would have kept on tweaking it and fiddling with it, always trying to make it a little better, (Harris, 1998).

A product is creative when it is “novel” and “appropriate”. A novel product is original, not predictable. The bigger the concept, and the more the product stimulates further work ideas, the more the product is creative (Sternbergen and Lubart). Creativity requires passion and commitment. Out of the creative is born symbols and myths. It brings to our awareness what was previously hidden and points to new life. The experience is one of heightened consciousness-ecstasy”- Rollow May.

CREATIVE THINKING

Creative thinking has various definitions. Okpara (2000). However, it is the art of generating solution to problems by the force of imagination and reasoning. It is an activity of the mind seeking to find answer to some of life’s questions. In a dynamic and changing world, the challenges of man are also not static. They take on new forms and require a deep creative thinking approach.

It is necessary to know that we live in a thinker’s world. It is therefore, not surprising to see that the men/women who are ahead are those who see ahead with the eyes of their mind. Men and women who have engaged their minds in resourceful thinking to generate idea and products, which stand the test of time.

Every idea is a product of thinking and every product is the manifestation of idea naked in a thinker’s mind. These are people who see problems as opportunities to improve and do something new or something better, people who keep these two vital questions on their mind. “What can I do to make things better, or what can I do to make better things? This is the product of thinking.

In making things better, the goals are usually to improve productivity And efficiency, achieve speed, enhanced comfort and convenience, influence returns positively, and so much more. While in making better things, thinking can produce various alternative leading making better things, thinking can produce various alterative leading to the evolution of a completely new idea, new production processes, or a total departure from the conventional. Whatever the goal, thinking is an indispensable tool in the life of all successful entrepreneurs.

The celebrated discoveries of man are not accidents. The minds of men/women were engaged in creative thinking to deliver the visible products we enjoy today. Name them: Bill Gate and the computer, Graham Bell and the telephone, Michael Faraday and electricity, Isaac Newton and physical law of science, the Wight brothers and Aeroplane, Adenuga and Consolidated oil, Adedo petserside and Investment Banking and Thrust Company, Raymond Depokesi and Dear Communications. The list is endless. You too can join them as you begin to “ponder the path of your feet, that all your ways may be established.”
Thinking begins with engaging yourself in a conversation with yourself by yourself, in yourself. That is to reach a conviction and conclusion as to what steps to take and what strategies to employ. It is advisable to always have a pen and paper at hand to document your thoughts. It unveils every illusion around you.

The place of asking the right and relevant questions in thinking process cannot be overemphasized. Questions remain the string tool to provoke the mind to respond to issues and discover new things. Creative thinking must, therefore, lead to the articulation of a strategy. A strategy is a way of organizing available resources to achieve results, what to do, what steps to take, the approach, the timing, positioning, all come to play when developing strategy. It is a common knowledge that successful entrepreneurs emerge not by strength or force but by superior strategy through creative thinking.

There are great business opportunities in applying creative thinking to solving mankind’s crying need for basic products and basic support services—better homes, better jobs, and a better way of life.

There are going to be tremendous opportunities in education because we need fundamental and radical changes in Nigeria if we are going to be competitive with other countries. However, being able to adapt ideas is what makes an entrepreneur successful. There is nothing wrong with learning from others ideas. Creativity comes in when you expand upon it, when you take an idea and make it move. The only way forward is to make our education to be adaptive and qualitative at all levels.

THE PRINCIPLES OF CREATIVITY
People become more creative when they feel motivated primarily by the interest, satisfaction, and challenge of the situation and not by external pressures; the passion and interest—a person’s internal desire to do something unique to show-case himself or herself; the person’s sense of challenge, or a drive to crack a problem that no one else has been able to solve.

Within every individual, creativity is a function of three components:

1. Expertise
2. Creative thinking skills

Expertise encompasses everything that a person knows and can do in the broad domain of his or her work—knowledge and technical ability. Creative thinking refers to how you approach problems and solutions—the capacity to put existing ideas together in new combinations. The skill itself depends quite a bit on personality as well as on how a person thinks and works. Expertise and creative thinking are the entrepreneur’s raw materials or natural resources. Motivation is the drive and desire to do something, an inner passion and interest. When people are intrinsically motivated, they engage in their work for the challenge and enjoyment of it. The work itself is motivating. People will be most creative when they feel motivated primarily by the interest, satisfaction and the challenge of the work itself—“the labour of love”, love of the work—“the enjoyment of seeing and searching for an outstanding solution—a break through.

Creativity, according to Robert Gahim, consists of anticipation and commitment. Anticipation involves having a vision of something that will become important in the future before anybody else has it. Commitment is the belief that keeps one working to realize the vision despite doubt and discouragement.
The entrepreneur is primarily concerned with developing new products, processes or markets, the ability to bring something new, product, processes or markets, the ability to bring something new into the market. The entrepreneur indulges in original thinking more than any other person thinks and he is able to produce solutions that fly in the face of established knowledge. Entrepreneurs are inclined to be more adaptable and are prepared to consider a range of alternative approaches. They challenge the status quo, which can sometimes bring them into conflict with their colleagues. They dismiss their detractors and are sometimes regarded as aloof. Stoner and Wankel(1986).

Creative outcomes seldom emerge in an instant: a recognized process is involved, even if it appears to be rather chaotic. It begins with recognition of a problem or anticipation of an opportunity, and then, through understanding the situation and reflecting on the issues, new linkages are contemplated and possible new combinations of components are aired: From this emerge visible solutions or possibilities that are subjected to valuation, which may be continuous with judgment being suspended while the search process is prolonged in pursuit of genuine newness.

Entrepreneurs take bold creative steps but situations encourage creativity. Creativity is, however, enhanced when people have some freedom, but not too much; high internal commitment to the task; but not too high a commitment; high proportion of intense rewards, but some extrinsic rewards as well; some competition but not winner-take-all competition. Thompson (2001). Entrepreneurial activity depends on the process of innovation following creativity, not on creativity alone.

INNOVATION
Innovation is the process of bringing the best ideas into reality, which triggers a creative idea, which generates a series of innovative events. Innovation is the creation of new value. Innovation is the process that transforms new ideas into new value- turning an idea into value. You cannot innovate without creativity. Innovation is the process that combines ideas and knowledge into new value. Without innovation an enterprise and what it provides quickly become obsolete.

The dictionary defines innovation as the introduction of something new or different. Innovation is the implementation of creative inspiration. The National Innovation Initiative (NII) defines innovation as “the inter-section of invention and insight, leading to the creative of social and economic value” Innovation is “value” – the creation of value adding value to customer’s satisfaction- “delighting the customers”. Innovation is the basis of all competition advantages, the means of anticipating and meeting customer’s needs and the method of utilization of technology.

Innovation is fostered by information gathered from new connections; from insights gained by journeys into other disciplines or places; from active, collegial networks and fluid open boundaries. Innovation arises from organizing circles of exchange, where information is not just accumulated or stored, but created. Knowledge is generated a new from connections that were not there before. Wheatley (1994).

Innovation requires a fresh way of looking at things, an understanding of people, and an entrepreneurial willingness to take risks and to work hard. An idea doesn’t become an innovation until it is widely adopted and incorporated into people’s daily lives. Most people resist change, so a key part of innovating is convincing other people that your idea is a good
Enterprises throughout the world are experiencing what can be legitimately described as a revolution: rising energy and material costs, fierce international competition, new technologies, increasing use of automation and computers. All these are major challenges, which demand a positive response from the entrepreneur and management if the enterprise is to survive and prosper. At a time when finance is expensive, the firm’s liquidity is bordering on crisis, the need for creativity, and innovation is more pressing than ever and as competitors fall by the way side, the rewards for successful products and process are greater.

The instigation of new development is the responsibility of the enterprises themselves, which, through experience, are aware of the difficulties created when undertaking innovative investments in a period of great uncertainty. Innovation calls for special entrepreneurial and management skills, the cooperation of a committed workforce, finance and a climate which will create the optimum overall conditions to encourage success.

Joseph Schumpeter (1934) believes that the concept of innovation, described as the use of an invention to create a new commercial product or service, is the key force in creating new demand and thus new wealth. Innovation creates new demand and entrepreneurs bring the innovations to the market. This destroys the existing markets and creates new ones, which will in turn be destroyed by even newer products or services. Schumpeter calls this process “creative destruction.”

THE ENTREPRENEUR AND ENTREPRENEURSHIP

What are entrepreneurs like? What distinguishes them from other business people? An entrepreneur is the man or woman who is able to actualize his/her innate potentials and develop a character that is not dependent but independent. He/She is that person who undertakes the voyage of creating value by pulling together a unique package of resources to exploit an opportunity. He or She has the capacity and capability to build something from practically nothing – initiating, daring, doing, achieving, and building an enterprise. They genuinely believe they have something new and special to offer, either a product or a service. To them, life will remain a fantasy unless their dreams are actualized.

Entrepreneurs have been described as people who have the ability to see and evaluate business opportunities, gather the necessary resources to take advantage of them and initiate appropriate action to ensure success. Meredith et al (1991). He is a risk- taker, a man, or woman who bears uncertainty, strikes out on his or her own, and through natural wit, devotion to duty and singleness of purpose, somehow creates a business and industrial activity where none exited before.

Entrepreneurs are achievement- oriented, like to take responsibility for decisions and dislike repetitive and routine work. Creative entrepreneurs possess high levels of energy and great degrees of perseverance and inauguration, which combined with a willingness to take moderate, calculated risk, enable them to transform what began as a very simple ill- defined idea or hobby into something concrete.
Entrepreneurs can instill highly contagious enthusiasms in an enterprise. They convey a sense of purpose and determination and by so doing, convince others they are where the action is. Whatever it is – seductiveness, competitiveness, or charisma – entrepreneurs knew how to lead an enterprise and give it momentum. The entrepreneur demonstrates a unique combination of energy, originality and shrewdness. He is the main driving force in the enterprise, a master of motivation and knows how to get the best out of people. Manfred (1997).

Most importantly, entrepreneurs are the driving force of any nation; they are value-adders and represent the wealth of a nation and its potentials to generate employment. The entrepreneur may be a highly educated, trained, and skilled person or he/she may be an illiterate person possessing high business acumen, which others might be lacking. Nevertheless, he/she possesses the following qualities:

I. He/She is energetic, resourceful, and alert to new opportunities, able to adjust to changing conditions and willing to assume the risks in change and expansion.

II. He/She introduces technological changes and improves the quality of his/her product;

III. He/She expands the scale of operations and undertakes allied pursuits, and reinvests his/her profits.

The ENTREPRENEUR, therefore includes any person who establishes and manages a business enterprise. This is the man or woman who owns a restaurant, fashion centre, boutique, bakery, tailoring outfit, beauty centre, barbering saloon, bookshop, home catering, business centre, shoemaker, car washing centre, photographing. Others are dry cleaning, video centre, telecentres, wholesale trade, coffee and teashop, hotel, producers of yoghurt, fruit juice, bottled and table water, nails, cellophane papers, etc are all entrepreneurs in the contents of this paper. They are all businesses and each has a unique contribution to make in the development of the economy.

The mix of creativity and irrationality is what makes entrepreneurs tick and accounts for many of their positive contributions. Their visionary abilities and leadership qualities stand them out as human colossus. From whatever perspective, the entrepreneur is the kingpin of any business enterprise, for without him or her the wheels of industry cannot move in the economy. As aptly pointed out by Brozen (1962). “The private entrepreneurship is an indispensable ingredient in economic development over the long period.”

Entrepreneurship means much more than starting a new business. It denotes the whole process whereby individuals become aware of the opportunities that exist to empower themselves, develop ideas, and take personal responsibility and initiative. In a broader sense, entrepreneurship helps young men and women develop new skills and experiences that can be applied to many other challenges in life. Entrepreneurship is therefore a key priority area with the potential to stimulate job and wealth creation in an innovative and independent way.

Entrepreneurship provides young people across the nation with valuable life skills and tools to empower them to build sustainable and prosperous futures for themselves and their communities. Entrepreneurship is the willingness and ability of an individual to seek out
investment opportunities, establish, and run an enterprise successfully. The concept of entrepreneurship has been associated with several activities concerned with the establishment and operations of business enterprises. Stevenson (1985) defines entrepreneurship as the process of creating value by putting together a unique package of resources to exploit an opportunity. Entrepreneurship is the ability to create and build something from practically nothing. It is initiating, doing, achieving, risk-taking, and building an enterprise.

Entrepreneurship instills the enterprise culture into the individuals. Enterprise here is defined as resourcefulness, initiative, drive, imagination, enthusiasm, zest, dash, ambition, energy, vitality, boldness, daring, audacity, courage, get up, and go. Entrepreneurship, therefore, encompasses all the productive functions that are not rewarded immediately by regular wages, interest and rent and non-routine human labour. It is also not investing capital funds along. It is actually, the functions of seeking investment, production opportunity, organizing an enterprise to undertake new production process, raising capital, hiring labour, allocating resources, and creating new enterprises.

THE ELEMENTS OF INNOVATION

Innovation is the successful development of competitive advantage and as such, it is the key to entrepreneurship. The entrepreneurs are the “dreamers”, who take hands on responsibility for creating innovation. It is the presence of innovation that distinguishes the entrepreneur from others. Innovation, must therefore, increase competitiveness through efforts aimed at the rejuvenation, renewal, and redefinition of organizations, their markets or industries, if business are to be deemed entrepreneurial.

Fiona Fitzpatrick identified the following elements of innovation:

1. Challenge: What we are trying to change or accomplish-the “pull”
2. Customer focus: Creating value for your customers – the “Push”
3. Creativity: Generating and sharing the idea(s)- the “brain”
4. Communication: The flow of information and ideas –the “life blood”
5. Collaboration: People coming together to work together on the idea(s) - the “heart.”
6. Completion: Implementing the new idea-the “muscle”.
7. Contemplation; Learning and sharing lessons lead to higher competency-the “ladder”
8. Culture: The playing field of innovation includes:
   - Leadership (sees the possibilities and positions the team for action-the role model)
   - People (diverse groups of radically empowered people innovate –the source of innovation)
   - Basic values (trust and respect define and distinguish an innovative organization-the backbone).
   - Innovation values (certain values stoke the fires that make the “impossible” possible-the Spark).
9. Context: Innovation is shaped by interactions with the world.

FORMS OF INNOVATION
In a start-up, the entrepreneur is regarded as the key actor in developing a business idea, marshalling resources, and creating an enterprise to bring a new product or service to the market. In a competitive business environment, the entrepreneur and the enterprise should continue to seek out new opportunities and make the necessary arrangement to convert them into new goods and services. Innovation should, therefore, impregnate the entire enterprise for the creation and invention of competitive edge and relevancy in the market place.

Innovation can take several forms:

i. Innovation in processes, including changes and improvement to methods. These contribute to increases in productivity. Which lowers cost and helps to increase demand.

ii. Innovation in products or services. While progressive Innovation is predominant, radical innovation opens up new markets. These lead to increases in effective demand which encourages increases in investment and employment.

iii. Innovation in management and work organization, and the exploitation of human resources, together with the capacity to anticipate techniques.

Innovation centres on people, culture, structure, process and technology. Innovation is the process through which the entrepreneur converts market opportunities into workable, profitable, and marketable ideas. Innovation is an application of something creative that has a significant impact on an organization, industry or society. Entrepreneurship is the continuing generation of Innovation in response to perceived opportunities in the business environment.

In this approach, entrepreneurship is therefore concerned with newness: new ideas, products, services or combinations of resources aimed at meeting the needs of consumers more efficiently. Entrepreneurship has been described in terms of the ability to create something from practically nothing. It is initiating… and building an enterprise rather than … watching one. It is the knack for sensing opportunities where others see chaos, contradiction and confusion. It is the ability to build a “founding team” to complement your own skills and talents. It is know –how to find, marshal and control resources. Finally, it is a willingness to take calculated risk. Timmons (1989).

CHALLENGE FOR INNOVATION

The place of innovation in commercial success is the development or adoption of new concepts or idea that leads to any form of increased organizational or social benefit. Innovation is vitally concerned with novel approaches, new ideas, and originality, and it the means by which ideas are exploited for competitive advantage. The present economic reform of the Nigerian Government- National Economic Empowerment and Development Strategy (NEEDS) calls for less dependence on imported materials – goods and services and technology. However, if this dependence is to be successfully broken, three activities should receive adequate priority management attention and the commitment of resources in this century.

1. The need to investigate our latent natural resources for the possibility of transmitting them into goods and services. This would require a scientific analysis of the various resources available in the country, the identification of their properties, and a determination of the extent to which those properties can be harnessed.
2. The need to develop new technology which can be used to process the raw materials which may result from the investigation of natural resources suggested above and with a view to producing goods and services from them.

3. The need to adapt existing technology so as make them accept local materials are substitutes. A complete change from an almost total dependence on foreign research and technology is source of products is called for.

Entrepreneurial success in this century, therefore, depends on the seriousness with which innovative activities are undertaken by the enterprises in terms of indigenizing input sourcing and the development of new indigenous products.

The society in general will benefit tremendously from the individual enterprises undertaking innovative activities rather than leaving such to government agencies. As Max Weber has observed “when innovation is channeled through autonomous competing enterprises, risk is encouraged and the social curse of unsuccessful innovation can be limited. Society can afford to have an enterprise failure, but society cannot afford to have government failure. Government economic planners proceeding by law or fiat have no flexible mechanism comparable to a market in which they can assess the probabilities of any given risk and measure its results”. No enterprise, however diversified or big, can therefore, rest on its oars and past achievements. It becomes imperative for an enterprise to continuously challenge itself to finding new and better ways of doing the old things or infact create new ways of doing new things. The new environment may therefore call for new product designs, new production techniques, composition and packaging which take cognizance of the dynamic business environment.

Success in business today demand constant innovation. Generating fresh solutions to problems and the ability to inherit new products or services for a changing market are part of the intellectual capital market that gives an enterprise its competitive edge. In a dynamic environment, success comes from looking for the next opportunity and having the ability to find hidden connections and insights into new products or services, desired by the customer.

While brain-power is the most valuable resource, great ideas are in short supply. Successful entrepreneurs place high premium on attracting and keeping talent because wealth flows directly from innovation. Creativity is the root of innovation. It is a process and a skill which can be developed and managed throughout the entire enterprise.

One of the first steps in creating a culture of innovation is unleashing the creativity in yourself. The challenge is getting to see the is world with fresh ideas and to develop fresh solutions. Speed innovating is a proven approach for helping you develop breakthrough solutions in the shortest possible time.

Creative ideas are not enough for your business to survive. You need a process organization and culture that will help you maximize your creative assets. This is innovation capability that helps your pull together the best thinking within your business, enabling you to connect the organization dots.

Shapiro argues that perpetual and pervasive innovation is the key to long –term sustainable success in the relentless competition for customers. To survive any competition, you must rapidly and repeatedly re-invent yourself. The road map to re-invention starts by applying the seven R’s.

1. Rethink your underlying assumptions.
2. Reconfigure how you carry out work.
3. Resequence when work takes place
4. Relocate where work is done to cut down on handoffs and delays.
5. Reduce the frequency of carrying our specific activities.
6. Reassign who does the work by asking if anyone else could achieve the same result more effectively and efficiently.
7. Retool the technology that supports getting the work done. Could new software and automated equipment transform our ways of working?

CREATIVITY AND INNOVATION IN AN ENTREPRENEURIAL ORGANIZATION

Growth and development cannot be sustained without additional innovations (usually in the product or services or in its marketing) with additional innovations, firms become “glamorous” Introducing new products is usually seen as part of the process of innovation, which is itself seen as the engine driving continued growth and development.

The “winning performance” of the entrepreneur and the organization focuses on.

- Competing on quality not prices:
- Domination of a market niche;
- Competing in an area of strength
- Having tight financial, and operating controls:
- Frequent product or service innovation (particularly important in manufacturing).

Porter (1985) argues that, while successful businesses will each employ their own strategy, they achieve competitive advantage through acts of innovation. Learning and problem-solving are common activities in many working environments today, but some people believe that true entrepreneurship occurs when individuals ignore the established ways of thinking and acting and seek novel ideas and solutions that can meet customers’ needs. Entrepreneurship, therefore, the innovatory process involved in the creation of an economic enterprise based on a new product or service which differs significantly from products or services offered by other suppliers in content or in the way its production is organized nor in its marketing. (Curran and Burroughs, 1986)

It has been argued that small businesses have a greater proclivity to innovate than their large counterparts and are, therefore, crucial in helping a country respond to myriad changes in the economic, technological and social environment. (Acs and Gifford, 1996). For instance, the OECD points out that small firms are innovative in different ways and are especially active in developing new’ approaches to management and marketing. (OECD/DST/IND, 2000)

To grow and prosper, most enterprises need to constantly improve their existing products and services through continuously innovating needed changes: and for survival of the enterprise, must also need to create new products and services to meet yet unfulfilled needs. Enterprises that rely exclusively on innovation will prosper until their products and services “ran out of gases and become obsolete and non-competitive. On the other hand, enterprise that are totally creative will have their new products and services ready to launch, but often too few current products sufficiently up-to-date and competitive to generate the cash needed to fund their creativity.

Changes are that the very successful leaders of the future will be more likely to make creativity and innovation a strategic priority in their organization. In today’s environment where
competition requires business enterprises to be distinct and meet customer needs with better or
never products and organization becomes in critical necessity
Joseph Schumpeter views innovation as the source of success in the market economy, a view
that is reinforced by today’s changing and competitive environment. The organization that is
not creative and innovative cannot survive in the market place. Thus, entrepreneurs and
enterprises are continuously creative and innovative to remain relevant to the customers, which
is the purpose of every business.

CONCLUSION
Successful entrepreneurs require an edge derived from some combination of a creative idea and
a superior capacity for execution. The entrepreneur’s creativity may involve an innovation
product or a process that changes the existing order. Or entrepreneur may have a unique
insight about the course or consequence of an external change. Entrepreneurship is the vehicle
that drives creativity and innovation. Innovation creates new demand and entrepreneurship
brings the innovation to the market. Innovation is the successful development of competitive
edge and as such, is the key to entrepreneurship.

Creativity and Innovation are at the heart of the spirit of enterprise. It means striving
to perform activities differently or to perform different activities to enable the entrepreneur
deliver a unique mix of value. Thus the value of creativity and innovation is to provide a
gateway for astute entrepreneurship—actively searching for opportunities to do new things, to
do existing things in extraordinary ways. Creativity and Innovation therefore, trigger and
propel first-rate entrepreneurship in steering organization activities in whatever new directions
are dictated by market conditions and customer preferences, thereby delighting the customers
to the benefit of the stakeholders. Innovation also means anticipating the needs of the market,
offering additional quality or services, organization efficiently, mastering details, and keeping
cost under control.

No doubt, the current economic environment is a volatile and violent one. The new
environment demands renewed dynamism of approach. Creativity and innovation is the new
name of the game. Only the discerning organizations can manage the changes inherent in the
new environment. It is the duty of the entrepreneur to keep his/her organization lean, young,
flexible, and eager for new things to continuously delight the customers, which is the purpose
of every business.

REFERENCES
October.

March – April.


Creativity at Work; Articles and Tips. http:www.creativity@work.com/articlescontent/whatis.htm.


BUSINESS ETHICS: WHERE PHILOSOPHY AND PRACTICE COLLIDE

Susan Bushe
Dr Dai Gilbertson

Victoria Management School
Victoria University of Wellington
New Zealand

Dai.gilbertson@vuw.ac.nz
ABSTRACT

This research investigates the decision-making process New Zealand business managers use when confronting potentially ethical dilemmas. Personal interviews were conducted using vignettes to provide situations where potentially ethical dilemmas needed resolution.

The perception that practitioners use utilitarian ethics when making business decisions was rejected. Managers identified and reasonably considered various facets of the dilemmas posed by the vignettes. However, it was noted that the decision making process regarding potentially ethical dilemmas is often difficult, confusing, and time consuming. The implications of these findings for management practice are discussed.

Introduction

Three objectives for this study were stated:
(1) illuminate the decision making process of a group of New Zealand managers involving potentially ethical dilemmas,
(2) test propositions derived from the literature and public perception of business managers; and,
(3) derive guidelines to assist managers in future.

Recently, managers have come under attack for being unethical. The general public are disillusioned with the way in which business is conducted. A variety of surveys indicate that the general public perceive business managers as being the least ethical of practitioners (Laczniak and Murphy, 1991). Business managers seem to be doing something "wrong" in their decision making given the widespread dissatisfaction of the general public (Laczniak and Murphy, 1991). Studies suggest that a large majority of the public view the lack of business ethics in managers as contributing to the decline of society's moral standards. The public's negative perception suggests that managers need to address the ethical principles that dominate their business conduct.

Popular media publicises business decisions that are considered to be of dubious ethical standards. For example, National Computers, a personal computer mail order business, ceased operating and left many customers without a computer or their deposit. The Avent brothers provided computers where the parts inside did not match the brand name it claimed to contain, secured deposits for computers that they did not provide, and misrepresented themselves to customers. Purchasers subsequently lost their money when the company closed, "until further notice to clear a production backlog” and attempts to contact the business failed (Keenan, 1994: 1). This example highlights one of the many instances where business managers make decisions that appear to ignore commonly
accepted ethical standards and seems to be primarily concerned with economic and financial considerations.

The amount of media coverage of business managers' unethical behaviour, the increasing cynicism of the general populace toward business managers, and the anecdotal evidence of unethical behaviour indicates that business managers do not have the assistance or guidance necessary to enable them to make ethical choices. Considering this low public opinion, it appears that business managers may be neglecting to consider philosophical ethics when making decisions. This generally negative opinion raises the issue as to whether managers perceive ethics as a problem in business. This could indicate that managers are unaware of how to handle problems that contain ethical dimensions.

Managers may have a position on many ethical dilemmas, yet they may not have necessarily determined why they have these opinions or how to consistently apply ethical frameworks. The study of ethics can assist managers by providing reasoned principles that support one's position (or alter it in view of new information). It is generally perceived that businesses tend to subscribe to an ethical theory - usually accepted as being utilitarian in nature. However, with the stock market crash of 1987 and the subsequent detection of white collar crimes, it is necessary to understand the decision making process regarding problems with ethical dimensions.

One could consider ethicists as being able to make a unique contribution to business, in much the same way as they have to biomedical ethics:

First, as outsiders to the medical profession [business community], they often have a perspective on medical [business] practice lacking in those fully socialised into the profession, its ethos and assumptions. Important ethical issues can then be raised that otherwise would pass unnoticed. Second, ethicists can use their extensive systematic training in ethics to carry the discussion of ethical issues to a deeper and more sophisticated level. Issues can be placed in a broader ethical context and parallels with subtly related issues pointed out. Ethicists can call on their familiarity with the variety of arguments made in the philosophical ethics and medical [business] ethics literatures for developing and criticizing the positions taken by the [participants] ... ethicists can use their training to help [participants] to articulate, clarify, and understand the complexities of difficult ethical conflicts and choices. (Wartman and Brock, 1989: 752-753)

Practicing managers operate in a confusing, challenging environment with little guidance or assistance regarding how to tackle ethical problems. "Far too many business ethicists have occupied a rarefied moral high ground, removed from the real concerns and real-world problems of the vast majority of managers." (Stark, 1993: 38)

Most business education tends to overlook the teaching of ethics as part of the curriculum, meaning they may be ill-equipped to deal with decision making involving ethical dilemmas. Business managers often face ethical dilemmas that are not straightforward and between obvious right or wrong, good or bad, but between actions and values that contain elements of both, and the manager must choose an option. Considering the experiences of the medical community, philosophy and ethicists can make a valuable contribution to practicing managers and enhance a practitioner's available tool set to assist in managerial decision making. The task is not so much one of
finding an ethical standard to use, but of applying a defensible principle that a manager may choose, and thereby improving the decision making process.
The assumption that managers are unconcerned with theory or ideology precipitated this research into how practicing managers make decisions, and investigation into methods by which the decision making may be "improved". This study addresses the research gap by illuminating the decision making process involving potentially ethical dilemmas faced by New Zealand business managers.

Related Theory
"Ethics" and "morals" are generally used synonymously. However, it would be more accurate to define morals as the conduct or action undertaken, that are based on an individual's interpretation of a preferred code of ethics. "Ethics, or the inquiry into the principles regulating human conduct, is a discipline that has been a part of philosophy's concern since its origins with the Greeks" (Stewart, 1980: 343). Ethical problems and moral actions have been a contentious issue throughout human history. Philosophers have struggled with, and inquired into, the meaning and nature of ethics, morals, good, bad, right, and wrong. As a result, they have produced several ethical theories that have been advanced to guide decision making regarding situations that involve ethical dilemmas and moral judgements. The debate continues as no philosophy or religion has developed a universally acceptable definitive answer.

Moral judgements differ from statements of fact because there exists no conventional proof to which one can refer to settle an ethical dilemma. No appeal to ordinary facts can settle a dispute. Two people may agree on all the ordinary facts pertaining to the judgement, but disagree on whether it is right or wrong. Moral statements are judged in some way other than by examining some parts of the universe. Non-moral issues are outside the problem situation. Non-moral questions, for example, are whether one's pair of binoculars have a range of 500 metres - but whether one should use them to spy on a competitor's board meeting would probably constitute a moral issue. Moral principles are thought to provide the standard one can use to determine the truth of moral statements. (Barry, 1985)

If a particular moral judgement is defensible, then it must be supportable by a defensible general moral principle. Whatever one's judgement and subsequent action, a general moral principle should support them, thus one should be able to provide some supporting principle that, together with additional facts, entails one's moral judgement. Moral principles, therefore, play a fundamental role in forming a defensible moral judgement. The legal system is useful for alerting managers to moral issues and informing them of their rights and responsibilities, however, it cannot be taken as an adequate standard of moral conduct. Conformity with the law is neither requisite nor sufficient for determining moral behaviour, any more than one's conformity to rules of etiquette. Nonconformity with the law is not necessarily immoral, for the law disobeyed may be unjust (Barry, 1985).

Presently, there exists no established religion or secular system for managers that resolves business situations involving ethical dilemmas or moral judgements. Additionally, the diversiveness of ethical theories that can be adopted (philosophy or religious based) and cultural diversity can result in conflicts as ethical issues are resolved.
Moral principles are thought to provide the standard one can use to determine the truth of moral statements. There are various possible approaches to moral problems and decisions. Generally, one can classify these principles into teleological and deontological categories. These two categories have identified sub-categories that will be used for this research paper, namely:

* teleological: act utilitarianism, rule utilitarianism, and egoism
* deontological: act deontologist and rule deontologist.

**Teleological Ethics**

Teleology is derived from the Greek words telos (end, purpose) and logos (theory, science). Teleological ethics are based on the outcome or worth of behaviour. These theories argue that acts are morally right if they produce some desired end-state of goodness. Two sub-categories of teleology are utilitarianism and egoism.

Utilitarianism advances the notion that one should always act to produce the greatest good for greatest number of people, or failing that, perform the act that causes the least unhappiness to the most people. There are two sub-categories of utilitarianism; act and rule. Act utilitarians base their decisions solely on the consequences, selecting the act that provides the greatest good. Rule utilitarians evaluate the rule under which the action falls, and selects the act that leads to the greatest long term social good, but not necessarily so in the short term. However, short and long term is not usually defined, and these would be important in a business sense because if a business cannot survive in the short term, it will have no long term future. This dilemma may affect one's decision making by potentially causing one to select an action as a means to ensure long term business operation.

Ethical egoists on the other hand are morally concerned with what is best for self, and select the act that promotes the greatest good for themselves.

**Deontological Ethics**

Deontology is derived from the Greek words deon (duty, obligatory) and logos (theory, science). Rather than focusing on outcomes, deontological ethics are based on the intentions involved in choosing a particular act. These theories argue that there exists moral principles that are inherently right or wrong, independent of any particular circumstances. The individual, rather than society, is the focal point for deontologists. Most world religions adhere to sets of rules that respect certain immutable standards.

Kant's categorical imperative states that one should "act only according to that maxim whereby you can at the same time will that it should become a universal law ... this is the canon for morally estimating any of our actions." (1985: 947, 949) This type of deontological theory is called rule deontology, where the formation of rules and emphasis on obligation is most important. The action performed from duty or obligation must be regarded only by the action itself and its principle, not by the result once the action is completed. Generally the rules are unconditional, however, some exceptions are "allowed" but the danger is that when one qualifies a rule, it will be weakened and
compromised. Qualifications to rules may modify the principle so it becomes more like act deontology.

Act deontologists assert that acts should be judged by the nature of the act itself. Philosophers, such as Sartre, argue that the rightness of a given act is independent of rules. (Fraedrich and Ferrell, 1992) The individual is the centre of meaning and value, and has the burden of responsibility for all actions. Act deontologists reason that particular acts are the proper subject matter of determining behaviour, and "that rules serve only as guidelines from past experiences. ... The distinction between act and rule deontology is that for act oriented deontologists the situational variables override the rules, whereas with rule types, the rules override the situation" (Fraedrich and Ferrell, 1992: 285).

Rule versus Act

Rule deontologists and rule utilitarians base their decisions on rules that are immutable and equal in importance. This type of rule perspective will mean that the situational factors do not affect the decision maker's course of action, and altering the factors will not change their decision. Act deontologists and act utilitarians use acts to determine the rightness of behaviour. Therefore, altering the situational factors of an ethical dilemma will alter an act oriented individual's decision.

Philosophy Type Statements

The explanation or reasoning regarding one's decision is classified as a philosophy type when the decision making process applies a moral philosophy in the justification of that decision (Fraedrich and Ferrell, 1992). For this study, five philosophy types were presented from which the respondent would choose for justifying their decision:

1) Rule Utilitarian
"If everyone {violated confidences/made under-the-table payments/polluted/omitted information to customers/cheated on their income taxes} no one would be able to trust anyone, and as a result, no one could really be happy or have peace of mind."

2) Egoist
"My decision, whatever it may be, will lead to some goal for myself (i.e. {recognition, keeping my job, praise, power over the system, promotion, money})."

3) Act Deontologist
"In this case, one has an obligation {not} to {provide information/pay the money/pollute/inform the customer/report the extra income}."

4) Rule Deontologist
"{Divulging confidential information/providing money to individuals/polluting/misleading customers/cheating the government} is simply wrong, regardless of the results it might bring."

5) Act Utilitarian
"Sometimes {providing information/paying money to get into a market/polluting the environment/misleading customers/not reporting extra income} is beneficial because it leads to {more competition, more efficient organisations, greater disposable income}.

These statements have been extracted from Fraedrich and Ferrell's research regarding the impact of moral philosophy on ethical decision making (1992: 293). By understanding how business managers resolve ethical dilemmas, it may be possible to incorporate philosophical ethics to assist business managers in dealing with problems.

Relevant Literature

Generally, past research has been mainly concerned with the theoretical aspect of business ethics, although a few empirical research articles regarding philosophical ethics and managerial decision making have been conducted primarily in the United States. Empirical research appears to be mainly quantitative. Articles published in the Journal of Business Ethics were researched by Diana Robertson (1993) to determine the trends in empirical studies. It was concluded that survey methodologies have tended to dominate empirical business ethics research and it was suggested that other methodologies, such as qualitative methods, be used. Robertson " (1993: 595).also suggests focussing empirical research on theory building, stating, "empirical research is ... capable of making substantive contribution to theory

Empirical research into ethical decision making in New Zealand appears quite opaque and there exists a lacuna, or dearth, of information directly linking ethical decision making to philosophical ethics. Previous research has indicated that New Zealand's business managers' ethical standards are low (especially compared with US managers) and many senior New Zealand managers feel these standards are decreasing (Brennan, Ennis, and Esslemont, 1992). New Zealand research into methods for improving business managers' ethical decision making seems almost non-existent.

The research using vignettes by Fritzche and Becker (1984) was sent to marketing managers, and classified responses mainly from a utilitarian viewpoint. Subsequent research using the developed vignettes concluded that practicing managers used utilitarian ethics when making business decisions (Premeaux and Mondy, 1993). Fraedrich and Ferrell (1992) expanded the use of vignettes by including ethical statements from which a respondent would select the one that they felt most appropriately described their reasoning behind their decision.

The amount of media coverage of business managers' unethical behaviour, the increasing cynicism of the general populace toward business managers, and the anecdotal evidence of unethical behaviour indicates that business managers do not have the assistance or guidance necessary to enable them to make ethical choices. It appears that the decisions business managers make are made solely from self-interest (egoism) and financial or economic considerations. The negative attitude toward, and perception of, business managers and their decisions needs further investigation to determine if business decision making could be improved with the assistance of philosophy.

This pilot study, which is qualitative in nature, begins to fill this research gap. However, it does not measure managerial ethical standards in New Zealand, but instead investigates methods that may assist managers in dealing with ethical dilemmas or possibilities for improving the ethical decision making process.
Research Propositions
This research was conducted with three propositions derived from the literature reviewed:
(1) Participants answering the vignettes would adopt a utilitarian philosophical theory for their decision making reasoning.
(2) Participants may be incapable of identifying a potentially ethical dilemma within each vignette used in this study and for the open-ended discussion section of the research interview.
(3) Participants will not have considered the different, and conflicting, aspects of the ethical dilemma presented to them, considering non-financial and long-term aspects.

Research Design
The data gathering method for this study was through recorded personal interviews. The interview was structured into three sections:
(1) individual variables: personal factors and situational factors
(2) vignettes: five vignettes for problem solving and interpreting the decision making process
(3) open-ended discussion: business dilemmas the participant has faced and its resolution

The interviews were conducted at the participant's particular premises, and lasted for approximately 40 minutes each.

Individual's Variables

This section consisted of data collection of variables that are uniquely associated with the individual decision maker and situational factors that include a variety of situational forces. For this section, there were up to 31 questions asked.

The majority of the questions asked in this situation were developed with the guidance of Ford and Richardson's (1994) survey of empirical research into ethical decision making. This survey (Ford and Richardson, 1994) reviewed a variety of variables that have been postulated as influencing ethical beliefs and decision making. Their review indicates that a number of the variables are inconclusive. However, these variables were incorporated into this instrument due to the ease with which the questions could be included in the interview, and with their acknowledgement that, "the number of empirical studies is distressingly small." (1994: 219)

Vignettes

A vignette is a short descriptive story that has a situation sketched out which provides some standardisation to the context from which the respondent must decide upon a course of action. This means the responses to a particular vignette can be compared. Vignettes were chosen for this research because they tend to elicit higher quality data from the respondent compared with simple questions (Alexander and Becker, 1978).

A selection of five vignettes was used, and presented in the same order for each interview in case of "learning" occurring during the interviewing process. Each vignette described a decision containing a potential ethical dilemma.
The vignettes were selected from Fritzsche and Becker (1984) and Fraedrich and Ferrell (1992) with minor modification for the New Zealand business environment and the final vignette was used solely from Fraedrich and Ferrell (1992).

Conflict of interest situations arise when a manager has more than one interest that, if mutually pursued, may result in injury to individuals, external parties, or to the firm. Coercion and control problems occur when an external force attempts to compel a manager to make a specific decision by using threats, extortion, or other sources of power. Personal integrity issues occur when a decision raises issues of conscience. (Fritzsche and Becker, 1984) The fifth vignette was less business related than the first four to determine if the respondent deals differently with a personal integrity problem if it solely concerns the individual. The order and the categories of the presented vignettes were:

<table>
<thead>
<tr>
<th>Problem Category</th>
<th>Vignette</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) Conflict of Interest</td>
<td>Sherry Smith</td>
</tr>
<tr>
<td>(betraying a trust)</td>
<td>Rollfast Bicycle Company</td>
</tr>
<tr>
<td>(2) Coercion and Control</td>
<td>Master Millers</td>
</tr>
<tr>
<td>(bribery)</td>
<td>Rebecca Ward</td>
</tr>
<tr>
<td>(3) Conflict of Interest</td>
<td>Allan Bartells</td>
</tr>
<tr>
<td>(pollution of environment)</td>
<td></td>
</tr>
<tr>
<td>(information omission)</td>
<td></td>
</tr>
<tr>
<td>(4) Personal Integrity (business)</td>
<td></td>
</tr>
<tr>
<td>(information omission)</td>
<td></td>
</tr>
<tr>
<td>(5) Personal Integrity (private)</td>
<td></td>
</tr>
<tr>
<td>(tax evasion)</td>
<td></td>
</tr>
</tbody>
</table>

**Problem Category**

Vignette
(1) Conflict of Interest
(betraying a trust)
Sherry Smith
(2) Coercion and Control
(bribery)
Rollfast Bicycle Company
(3) Conflict of Interest
(pollution of environment)
Master Millers
(4) Personal Integrity (business)
(information omission)
Rebecca Ward
(5) Personal Integrity (private)
(tax evasion)
Allan Bartells
The scenarios used were left primarily unaltered. The original Bill Smith in the Fritzscbe and Becker (1984) study was altered to Sherry Smith in the Fraedrich and Ferrell (1992), and was left unaltered for this research. Jack Ward's name was changed to Rebecca Ward for this study to "even" the male/female mix.

The participants were asked to read (or have read to them) each vignette. After the vignette had been read, they were to indicate whether they would be likely to perform that specific act. Subsequent to the likelihood of whether to perform an act, they were questioned about their decision to determine their reasoning. After the participant explained their viewpoint, they were then exposed to five moral philosophical statements and were asked to rank them from the one that most appropriately accounted for their decision to the least preferred. The moral philosophies used were selected from Fraedrich and Ferrell (1992), in which they adapted Rest's (1975) Moral Content Test and Boyce and Jensen's (1978) moral test and modified it into a single-item measure for each of the five philosophy types.

The ranking statements were numbered from 1 to 5, with 1 being the most preferred to 5 being the least preferred.

**Open-Ended Discussion**

The participant was asked to recall a difficult business decision personally encountered and describe the scenario, events that led up to it, the resolution, and reflect on the situation. This section was unstructured and the content was controlled by the participant.

**Response**

There were thirteen participants interviewed. The individuals were selected in a quasi-snowball manner, where initial respondents were selected and additional respondents were obtained by referral from the initial respondents. The referred respondents were included after consideration was made for the participant's position, company profile, industry, and sector. The participants varied from small to large business, owners to managers, middle to top management, public or private sector, and business scope. Only two of the participants requested the interviewer to read the vignettes; the remainder read the vignette off a card, entitled "Story #".

**Findings**

**Respondents Profile**

The average respondent was 38 years of age, married with 2 children, mature, and tertiary educated. The average respondent was a non-practicing Christian with a belief in God. The average respondent had significant work experience, was employed by a company rather than working for themselves, and would be classified in New Zealand as one of the top 10% of income earners grossing about $80,000. They were well travelled, however, it must be noted that to travel outside New Zealand means it is necessary to cover long
distances, for example, one of their closest neighbours - Australia - is 1,600 kilometres away.

Of the thirteen participants, seven were male and six were female. All participants identified themselves as European or Caucasian. Six of the participants were born in New Zealand. The remainder had European ties, either by being born in a Western European country or a former/present European colony country. Six participants had more than one nationality, and four had no New Zealand citizenship (but permanent residency status).

The respondents mainly had a world-wide outlook rather than limited or provincial scope to their thinking. Most had contemplated some form of applied ethical conduct through discussion with colleagues and/or reading. Participants appeared to be liberal thinkers within a capitalistic framework. The participants were responsible for decision making within the organisation for which they were working.

Six of the respondents spoke more than one language fluently, mainly modern European languages, but most had some familiarity with another language other than English. Not one was fluent in Maori.

The average number of years of education was 17 (there are 13 years of primary and secondary schooling in New Zealand), ranging from 9 to 22 years. Four respondents had no tertiary qualification, five had university degrees, and four had more than one university degree. One participant had a PhD.

Overall Findings
As a whole, act deontology was chosen as the most preferred philosophy type by 43% of the respondents. For the second ranking, rule deontology was chosen 34% of the time - tied with act deontology. Across all the vignettes, the ranking of the most preferred philosophy type to least preferred is:
(1) Act Deontology
(2) Rule Deontology
(3) Rule Utilitarianism
(4) Egoism
(5) Act Utilitarianism

<table>
<thead>
<tr>
<th>PHILOSOPHY TYPES AND THE PERCENTAGE OF TOTAL TIMES CHOSEN</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ranking</td>
</tr>
<tr>
<td>---------</td>
</tr>
<tr>
<td>1</td>
</tr>
<tr>
<td>2</td>
</tr>
<tr>
<td>3</td>
</tr>
<tr>
<td>4</td>
</tr>
<tr>
<td>5</td>
</tr>
</tbody>
</table>
PHILOSOPHY TYPES AND THE PERCENTAGE OF TOTAL TIMES CHOSEN

The respondents appeared to consider 1 and 2 their most preferred response, and 5 to be their least preferred. Respondents seemed to rank the "left over" statements into spots 3 and 4, generally feeling impartial or less "extreme" to those statements. Since the participants generally ranked the extremes (1 and 5) easily, it probably explains - for example - why egoism ranks higher than act utilitarianism since more disliked act utilitarianism and wanted it last.

This means that for each vignette, 43% of the respondents would generally believe in that particular situation one has an obligation to behave in what they believe is an appropriate, ethical manner given the circumstances. Almost half of the respondents were unlikely to justify their decision as an exception for this particular situation because of some perceived future benefit that may arise from making a questionably unethical decision at present. The implication of this is that these managers' decisions are not based on outcomes or based on producing the greatest amount of good for the greatest number of people. Instead, these managers focus on the intention of the act and believe that there exists certain standards to which one must behave and one's obligation is most important. However, the acts should be judged by the nature of the act itself for these managers, and not based on a set of rules.

Thus, research proposition (1) stating that participants answering the vignettes would adopt a utilitarian philosophical theory for their decision making reasoning is rejected. Some participants felt the ranking statements were too strongly worded for their liking, as they felt more moderate than the way in which the statements were worded. This could be a cultural difference between New Zealanders and Americans, or it could be that the respondent may have used a different philosophy type than the five listed in the ranking statements. However, when the respondent was pressed to express what they really felt, usually they were unable to think up an alternative statement that justified their decision. Sometimes a respondent felt that none of the statements reflected their viewpoint, believing their choice was based solely on pragmatic reasons than by any philosophical ideology.

The danger of having no ideology is that a manager will not have a principle by which to measure the truth of the moral statement. Some respondents claimed to have no particular ideological belief that they used to judge their decisions. These respondents did have a particular way in which they viewed the world, however, it is difficult to ascertain if it would alter significantly and rapidly over time. The appeal to pragmatism has the potential for managers to be manipulated by external controls and to be inconsistent in their decision making. To increase consistency, it may be preferable for a manager to have a chosen underlying ideology that is fortified by experience.

On the whole, the participants were inconsistent as to their preferred philosophy type, meaning they would use different philosophy types to justify their decision for each vignette. Only one person was consistent about their preferred philosophy, and this may indicate that the other respondents were generally "act" oriented or that this respondent is ethically sophisticated. Four respondents did consistently choose a deontological ethics category as their preferred decision justification. There are minor differences between
the philosophy type chosen by men as compared with women, but it was not significant, except that the male ratings were more extreme than the women. Men appear to prefer a rule philosophy while women tend to select an act philosophy. One could postulate that women in this culture are generally expected to be more compromising than men, and therefore evaluate each situation individually before choosing an action. The female respondents opted for a teleological philosophy for the bribery vignette, which was the only exception to choosing a deontological philosophy for both genders for all the other vignettes. This may exemplify that the situational variables will alter the decision maker's preferred "justification" method.

Act utilitarianism is the most consistently, and strongly, disliked justification method for the respondents. This may be due to the wording of the vignettes and ranking statements. It may also be due to the respondents tending to know what they dislike quickly and adamantly, but being less decisive about what they like.

People employed for less than 10 years are the only group likely to prefer egoism, which one may postulate is linked to experience and maturity.

In cases concerning direct money (for example, bribery and tax evasion), the respondents tend to be split in their responses. This could indicate that a company needs to be explicit about their money/spending policy within the organisation.

Specific Findings: Vignettes
Vignette One: Sherry Smith and the Computer Company

The first vignette presented to the respondent represented a potential conflict of interest. It meant the possible betraying of a trust could occur. The following story was presented to the participant:

The Vignette
Sherry Smith has recently accepted a job with a young aggressive computer company. Computer companies are engaged in intense competition. Smith's former employer is rumoured to have developed a confidential in-house software package which is easily used by manager. When Smith was hired she was led to believe her selection was based on her management potential. However, the morning beginning the third week of her new job, Smith received the following memo from the company president: "Please meet with me tomorrow morning at 8:15 for the purpose of discussing your former employer's software package."

The respondent was then asked, "If you were Smith, what are the chances you would provide your new employer with the software information?" After the response, the following statements were presented to the participant and they were requested to rank these five philosophical statements according to the one they think most describes how they think or feel to the least:

(a) Rule Utilitarian
"If everyone violated confidences no one would be able to trust anyone, and as a result, no one could really be happy or have peace of mind."
(b) Egoist
"My decision, whatever it may be, will lead to some goal for myself (i.e. recognition, keeping my job)."
(c) Act Deontologist
"In this case, one has an obligation {not} to provide information."
(d) Rule Deontologist
"Divulging confidential information is simply wrong, regardless of the results it might bring."
(e) Act Utilitarian
"Sometimes providing information is beneficial because it leads to more competition."

Ranking Results

Rule utilitarianism and rule deontology were tied as the most preferred philosophy types for this vignette, indicating the participants began with using a "rule" philosophy when finding a solution. This means the managers based their decision on rules that are immutable and equal in importance, and 38% of the respondents would not alter their decision if one changed the variables in the vignette. The majority of the managers did not agree that providing information to the new employer would be beneficial.

<table>
<thead>
<tr>
<th>Rank</th>
<th>Philosophy Type</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Rule Deontology &amp; Rule Utilitarianism</td>
<td>38</td>
</tr>
<tr>
<td>2</td>
<td>Act Deontology &amp; Rule Utilitarianism</td>
<td>38</td>
</tr>
<tr>
<td>3</td>
<td>Act Deontology</td>
<td>31</td>
</tr>
<tr>
<td>4</td>
<td>Egoism</td>
<td>54</td>
</tr>
<tr>
<td>5</td>
<td>Act Utilitarianism</td>
<td>62</td>
</tr>
</tbody>
</table>

Descriptive Quotations

The richness of the responses aids in illustrating the decision making process the participants adopted when faced with the potential ethical dilemmas in the vignettes. To give further insight and substance to the answers, several quotations were selected to represent the essence of the participants' responses.
The participants were unanimous in their reluctance to provide their new employer with the software information. Several were adamant that they would not provide any information. However, a few would evaluate the situation and think it would depend on mitigating circumstances. There were some basic arguments that arose for this vignette:

(a) Confidentiality
Most were adamant about not providing any information about the software that was confidential. The consensus was that the confidential information belonged to the previous employer and legally one would be infringing on their property rights. Confidentiality agreements signed with the previous employer was also cited as a main reason why they would not divulge the information.

The previous employer has intellectual property rights in relation to that package. She probably, or she should have, signed up a confidentiality agreement with her previous employer, but even if she didn’t, it is not hers to sell or disclose.

One person sums up the New Zealand business environment, and how breaking the confidentiality of a former employer will effect someone:

The basic business rules that I think operates in New Zealand, we're a pretty small country and it's a pretty small industry from what you are talking about there, reputations are very hard to earn and very easily lost ... those sorts of things get known very, very quickly and I don't think you can afford to do that sort of thing.

(a) The Golden Rule ("Do unto others ...")
Several of the participants raised the issue that this employer would expect a certain standard of behaviour from an employee. The respondents questioned how the employer could request you to behave in a manner in which they would not want you to act with another party.

I can't see how a company can expect you to conduct yourself in a way you should be with them and then on the other hand ask you to be disloyal and disreputable to what was simply your previous employer.

(a) Employer's Trustworthiness
Some of the participants raised the issue about the employer's intentions when they hired the person. One felt very strongly about this issue, stating:

It would be like being hired because you got good legs ... and I would feel a great blow to my ego if this happened to me which would make me quite angry because I would see them as having been dishonest and lied to me about my potential and my capability and I would be angry about that.

Some felt that the employer did not deserve to gain an advantage "unfairly":
And these lousy buggers haven't done anything worthwhile to gain that sort of advantage! That's not an acceptable way to do business.

Research Propositions
The research propositions presented for this vignette were accepted or rejected as follows:

1. Participants answering the vignettes would adopt a utilitarian philosophical theory for their decision making reasoning.
   The preferred philosophy type was split, making this statement difficult to wholly accept or reject.

2. Participants may be incapable of identifying a potentially ethical dilemma within each vignette.
   The participants identified the ethical dilemma, with some stating it was a confidentiality issue that related to the conflict of interest or betraying a trust. Thus, this premise is rejected.

3. Participants will not have considered the different, and conflicting, aspects of the ethical dilemma presented to them, considering non-financial and long-term aspects.
   Some participants had generically dealt with similar issues or discussed it with colleagues. Others went through their reasoning process while determining their decision for this situation. More than just financial considerations were discussed by most, and generally the non-financial issues were felt to be more important. Thus, this premise is rejected.

Vignette Two: Ed Johnson and Rollfast Bicycle Company

The second vignette the respondent was presented portrayed a potential coercion and control issue. The following story was shown to the participant:

The Vignette
Ed Johnson is in charge of market development for Rollfast Company. In the past, the company has been barred from entering a market in a large Asian country by collusive efforts of the local retail corporations. Rollfast could expect to net $550 million per year from sales if it could penetrate this market. Last week a businessman from the country in question contacted Ed and stated that entry into this market could be had for an "under-the-table payment" of $500,000.

The respondent was asked "If you were Ed Johnson, how likely would you be to pay the money?" Then the following statements were presented for ranking purposes:

(a) Rule Deontologist
"Providing money to individuals is simply wrong, regardless of the results it might bring."

(b) Act Utilitarian
"Sometimes paying money to get into a market is beneficial because it leads to more efficient organisations and more competition."

(c) Rule Utilitarian
"If everyone made under-the-table payments, no one would be able to trust anyone, and as a result, no one could really be happy or have peace of mind."

(d) Egoist
"My decision, whatever it may be, will lead to some goal for myself (i.e. praise, power over the system, promotion)."
(e) Act Deontologist
"In this case, one has an obligation {not} to pay the money."

Ranking Results

The most preferred option was rule utilitarianism, as well as the least preferred option. This situation highlights the difficulty one would have in resolving this ethical dilemma. The respondents choosing rule utilitarianism as their justification would have difficulty explaining their decision with those who dislike rule utilitarianism as a justification for this vignette. The monetary nature of this vignette may explain the extreme like and dislike of rule utilitarianism.

<table>
<thead>
<tr>
<th>Rank</th>
<th>Philosophy Type</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Rule Utilitarianism</td>
<td>38</td>
</tr>
<tr>
<td>2</td>
<td>Act Deontology &amp; Rule Deontology</td>
<td>31</td>
</tr>
<tr>
<td>3</td>
<td>Egoism</td>
<td>38</td>
</tr>
<tr>
<td>4</td>
<td>Rule Deontology</td>
<td>38</td>
</tr>
<tr>
<td>5</td>
<td>Rule Utilitarianism</td>
<td>46</td>
</tr>
</tbody>
</table>

Descriptive Quotations

The following quotations were selected to represent the essence of the participants' responses to this vignette.
The participants were split in their decision whether to pay the under-the-table amount to enter an Asian market. Six would be likely to pay the money, six would be unlikely to pay the money, and for one it would depend. Most wanted to obtain more information or clarify the situation. Most of the participants tried to redefine the problem so they would not have to confront or deal with the issue of bribery at all. The opportunity for earning such a large amount of extra revenue was difficult for any of the participants to dismiss out of hand or categorically. Most had an "act" orientation to this vignette. Almost all the participants had a relative perception to doing business in this manner. The basic arguments that arose for this vignette were:
(a) Prevailing Business Practice in that Culture ("When in Rome ...")

The basic defence for choosing to bribe to get into an Asian market was to explain that it was an acceptable, and expected, manner in which business is conducted. To some extent, there appears to be a generally held belief that there exists one set of behaviour for "us" (New Zealand managers) and another set for "them" (people from places other than New Zealand).

The morality and business ethics are quite different in Asia. Asia is the business environment where you play by different rules and sometimes ... you have to mirror the behaviour of the people you are dealing with.

You aren't going to change the way of doing business that's been done that way for centuries.

The conflict is that this is an acceptable way to do business in this country therefore one is almost being culturally insensitive saying that I refuse to be a part of your cultural baggage because in my country we don't do that sort of thing.

Another person would bribe partly due to the perceived "unfairness" of the other country's business practices.

I would pay the money because of opportunity first for the sales, also I don't know if collusive efforts by the retail corporations is really that good in itself.

(a) Legal Implications

Several participants were concerned about the legality of an under-the-table payment and about being caught.

If there is a law against it, I wouldn't do it, I wouldn't break the law.

A direct under-the-table secret commission arrangement that I had to pay, I would feel very bothered by that because it's against the law anyway in the country in which I'm operating.

I suppose where I wouldn't was that it was something where disclosure of that practice could actually materially affect the standing of the business from an international perspective.

(a) Other Solutions

Various methods for avoiding dealing with this vignette included finding other markets where this practice did not occur, entering into this market through other efforts, using an agent to arrange market access, or looking for employment elsewhere. Several people were uncomfortable with the practice of pay-outs, and wanted to avoid the issue rather than dealing with it.

It's like tipping. I think tipping is a horrendous practice, as far as I'm concerned. It stinks, it's awful. ... I'm very comfortable in a country, say like Japan, no tipping ... But other people who are accustomed to it have an entirely different view ... this is just the way we do business, so what's the big deal? ... I accept it's very ethnocentric.

I think I would probably look for another job because I'm not comfortable with it.

Regarding the legality of the action, one participant stated:
Presumably if it is worth that much money, there's got to be another way around it anyway, but a legal way around it.

Abdication of the responsibility was performed through appealing to agents or acting in the company's best interests.

I think it is a clear conscience, and in a way using an agent is the same thing except at least an agent you'll know - if you know him well enough - you can rely on him to make the right decision.

I would be quite comfortable with an agent that would deal with that because they understand the business practice and what is appropriate and what isn't appropriate. If it was a benefit to me, I wouldn't take it. But if it was for the company, then...

Research Propositions

(1) Participants answering the vignettes would adopt a utilitarian philosophical theory for their decision making reasoning.

The preferred philosophy type was utilitarian. Thus, this premise is accepted.

(2) Participants may be incapable of identifying a potentially ethical dilemma within each vignette.

The participants identified the ethical dilemma, mainly that it was a bribery issue. Thus, this premise is rejected.

(3) Participants will not have considered the different, and conflicting, aspects of the ethical dilemma presented to them, considering non-financial and long-term aspects.

Some participants had generically dealt with similar issues or discussed it with colleagues. Others went through their reasoning process while determining their decision for this situation. Mainly financial considerations were discussed, but other issues were also raised. Thus, this premise is rejected, although with some reservation.

Vignette Three: Master Millers and the new Flour Product

The third vignette represented a potential conflict of interest where the environment is the one that may be negatively effected.

The Vignette

Master Millers has developed a special milling process which yields a wheat flour which when used for bread provides a lighter more uniform texture than conventionally milled wheat flour. Unfortunately, the process gives off more dust than the emission control equipment presently installed can handle and still maintain emissions within legal limits. Due to lack of availability, the company is unable to install new emission control equipment for at least two years; however, if it waited that long to introduce the new process, competitors would be very likely beat it to the market. The general manager wants to use the new process during the third shift which runs from 10pm to 6am. By using the process at that time, the new flour could be introduced and the excess pollution would not be detected due to its release in the dark. By the time demand becomes great enough to utilise a second shift, new emission control equipment should be available.
The respondent was then asked, "If you were responsible, what are the chances you would approve the general manager's request?" The following statements were presented for ranking:

(a) Egoist
"My decision, whatever it may be, will lead to some goal for myself (i.e. keeping my job)."
(b) Act Deontologist
"In this case, one has an obligation {not} to pollute."
(c) Rule Deontologist
"Polluting is simply wrong, regardless of the results it might bring."
(d) Act Utilitarian
"Sometimes polluting the environment is beneficial because it leads to more competition."
(e) Rule Utilitarian
"If everyone polluted, no one would be able to trust anyone, and as a result, no one could really be happy or have peace of mind."

Ranking Results

For this vignette, act deontology was preferred by 54% of the respondents. This means that managers think that given the circumstances described for this situation, one has an obligation to act in such a way one would want others to act. Both deontological philosophy types ranked highly for this vignette. This indicates that the respondents thought that it was necessary to focus on the intentions involved in choosing a particular action, rather than the outcomes from that decision. The respondents rejected more competition as a reasonable justification for choosing to pollute the environment.

<table>
<thead>
<tr>
<th>Ranking</th>
<th>Philosophy Type</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Act Deontology</td>
<td>54</td>
</tr>
<tr>
<td>2</td>
<td>Rule Deontology</td>
<td>54</td>
</tr>
<tr>
<td>3</td>
<td>Rule Utilitarianism</td>
<td>62</td>
</tr>
<tr>
<td>4</td>
<td>Egoism</td>
<td>54</td>
</tr>
<tr>
<td>5</td>
<td>Act Utilitarianism</td>
<td>77</td>
</tr>
</tbody>
</table>
The results of the rankings indicates that the participants are more inclined to agree with one another as to which justification would be acceptable. In this instance, there exists the biggest majority against act utilitarianism as a justification.

**Descriptive Quotations**

The quotations cited in this section illustrate the decision making process the participants adopted to help solve the potentially ethical dilemma. For this scenario, eleven of the participants would not opt to pollute, but this was not necessarily a strong conviction held by those who would not pollute. The remaining two respondents would be split between deciding whether or not to do it. The most cited argument for not polluting was the threat of detection and its subsequent repercussions on the business in the long term. The most cited reasons for this vignette were:

(a) **Threat of Detection**
Even though the shift was going to operate at night, it did not alleviate the majority's feeling that they would be detected nonetheless, and the penalties would outweigh the benefits for the company.
If you try doing those sort of things, that they are proposing there, ... it really comes back to cause you grief at some stage in the future so you are better off not to do it in the first place...
It's more likely to rebound on you very badly in a business sense. You could lose a heap of credibility if you were caught out.
It can't be a clear yes, but there are some possibilities in there that would make it. There are some steps to take to at least look at it. Doing it under the cover of darkness is not a viable way to do it.
I mean if you think you're not going to get caught, that's just stupidity! You'd be stupid too. What are you going to do, pump garbage into the air and somehow because you put it out at night, it's all right ... ?

(b) **Regulations/Legal Implications**
The fact that there exists some sort of guidelines, regulations, or laws appears to be an effective enough deterrent not to pollute.
If the emissions were outside the legal bounds, I probably wouldn't approve the general manager's request ... If it were law, I wouldn't ...
Those regulations are there to protect the environment and that there has to be a time when business people, especially in this day and age, are socially responsible in terms of protecting the environment which they operate in. A combination of regulations and environmental concern is why I wouldn't do it.

(c) **Environmental Factors**
Most of the participants seemed to have a heightened awareness of the environment, and the concern society has started to place on it. This could be explained by the media
coverage these issues have received; however, this was a justification used by several for opting to not pollute.

I think if all organisations did that you would defeat the purpose of any environmental attempts to control environmental pollution.

The environment is getting more and more important to us, and the consequences - both political and financial - are getting more and more horrendous.

Too many people are impacted on that decision that have no knowledge about what is happening to them ... this would have sociological impact ... there's an immediate impact on any residents or the next future generation that comes along.

I would nearly be tempted to run it during the night. Not if it hurt my staff, and it would, and that's why - the flour gets in your lungs.

**Research Propositions**

The research propositions presented for this vignette were accepted or rejected as follows:

(1) Participants answering the vignettes would adopt a utilitarian philosophical theory for their decision making reasoning.

The preferred philosophy type was not utilitarian. Thus, this premise is rejected.

(2) Participants may be incapable of identifying a potentially ethical dilemma within each vignette.

The participants identified the ethical dilemma. Thus, this premise is rejected.

(3) Participants will not have considered the different, and conflicting, aspects of the ethical dilemma presented to them, considering non-financial and long-term aspects.

Financial considerations were not discussed by most participants, and generally non-financial issues were felt to be more important. Thus, this premise is rejected.

Vignette Four: Rebecca Ward and the Auto Manufacturer

The fourth vignette presented to the respondent dealt with information omission, and was a case of raising an issue of conscience. This situation represented the personal integrity dilemma in a business environment.

The Vignette

Rebecca Ward is working in product development for an auto parts contractor. Ward's firm received a large contract last summer to manufacture transaxles to be used in a new line of front wheel drive cars, which a major auto manufacturer plans to introduce in the near future. The contract is very important to Ward's firm, which has recently fallen on hard times. Just prior to obtaining the contract, half of the firm's employees, including Ward, has been scheduled for an indefinite layoff. Final testing of the assemblies ended last Friday and the first shipments are scheduled for three weeks from today. As Ward began examining the test reports, she discovered that the transaxle tended to fail when loaded at more than 20% over rated capacity and subjected to strong torsion forces. Such
a condition could occur with a heavily loaded car braking hard for a curve down a mountain road. The results would be disastrous. The manufacturer's specifications call for the transaxle to carry 130% of its rated capacity without failing. Ward showed the results to her supervisor and the company president who indicated that they were both aware of the report. Given the low likelihood of occurrence and the fact that there was no time to redesign the assembly, they decided to ignore the report. If they did not deliver the assemblies on time, they would lose the contract. Ward must now decide whether to show the test results to the auto manufacturer.

The respondent was asked, "If you were Ward, what are the chances you would notify the auto manufacturer?" After the response, the following statements were presented for ranking:

(a) Act Utilitarian
"Sometimes misleading customers is beneficial because it leads to greater disposable income."

(b) Rule Utilitarian
"If everyone omitted information to customers, no one would be able to trust anyone, and as a result, no one could really be happy or have peace of mind."

(c) Egoist
"My decision, whatever it may be, will lead to some goal for myself (i.e. money, keeping my job)."

(d) Act Deontologist
"In this case, one has an obligation {not} to inform the customer."

(e) Rule Deontologist
"Misleading customers is simply wrong, regardless of the results it might bring."

Ranking Results

For this vignette, act deontology was the majority's preferred philosophy type. This meant that the respondents felt that there existed an obligation in this situation to inform the customer of the report. Justifying the decision by claiming more disposable income was rejected by the majority of the managers.

<table>
<thead>
<tr>
<th>Rank</th>
<th>Philosophy Type</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Act Deontology</td>
<td>62</td>
</tr>
<tr>
<td>2</td>
<td>Act Deontology &amp; Rule Deontology</td>
<td>38</td>
</tr>
<tr>
<td>3</td>
<td>Rule Utilitarianism</td>
<td>54</td>
</tr>
<tr>
<td>4</td>
<td>Egoism</td>
<td>38</td>
</tr>
<tr>
<td>5</td>
<td>Act Utilitarianism</td>
<td>62</td>
</tr>
</tbody>
</table>
Descriptive Quotations

To gain insight into the richness of the decision making process, a range of selected quotations is presented.

This vignette had ten participants decide to tell the auto manufacturer, and three who opted not to divulge the information. The consensus was that it would be a task that they would not particularly relish performing, but in this situation, it would be something that would need doing. Most of the respondents were worried about losing their job. One of the arguments against telling the auto manufacturer was pragmatically - and unfortunately - based on probably what would occur. For example, problems arose regarding who should be told, who would listen, and who would believe the information? The rest opted for other reasons behind why they would alert the auto manufacturer, and the main ones were:

(a) Public Safety Concerns
Several participants were concerned about the end-user repercussions, and how they would not be able to feel good about themselves if they knew they had contributed to someone's death.

I couldn't stand to have something come up on the TV three months later - a family died and they found that people actually knew about this report and you were one of them and you actually hadn't done something that would be like crap ... Maybe it's external control but that would feel like that, let alone knowing a family had died ...

I think it would come down to a choice of possible loss of life versus you keeping your job and you can always get another job but you can't bring back a life.

The implications of that ... are too serious to ignore from the point of view of the potential for the fault to affect others, not just this company, but also in terms of other innocents ...

Because I think the public safety issue is greater than the immediate job gain.

(a) Contractual Obligation
As a justification for notifying the auto manufacturer, a few of the participants felt that the company was not fulfilling its contractual obligations. These respondents thought it was the responsibility of their company to inform the auto manufacturer about the report. From a business perspective you would knowingly be breaching the contract because you are not meeting the purchaser's specifications.

We got a contract with them to supply some equipment to a certain specification and we are not going to meet the specification ... we simply have got a contract, and to me, we've got a contract with the customer and you're not meeting what's specified in the contract and it's quite obvious ...

(a) Other Factors
The following sentiments seem to capture some of the feelings the decision maker would have if faced with this dilemma, which would need resolving:

I'm not opposed to profit, I just happen to think there are other things as well as profit which are important factors which sit as highly or are counterpoising - rather than sitting one thing on a pinnacle - it's crazy. So it's not profit at any cost.

The chances of actually having something like that come back and impact on the company in some stage in the future are very high indeed ... probably even more disastrous results than the results of actually losing the business ... Damn the consequences. In this case, it's a pretty easy sort of option anyway, because I'm going to get laid off!

You'd like to know that it wasn't you sitting in that car going down the hill and things going wrong as well.

More likely than not [the auto manufacturer] will simply think this is a disgruntled, about-to-be-ex employee, so why should I listen to that - it's just because of sour grapes. ... She wouldn't get anywhere.

**Research Propositions**

(1) Participants answering the vignettes would adopt a utilitarian philosophical theory for their decision making reasoning.

The preferred philosophy type was not utilitarian. Thus, this premise is rejected.

(2) Participants may be incapable of identifying a potentially ethical dilemma within each vignette.

The participants identified the ethical dilemma, one stating that it was clearing a whistle-blowing exercise. Thus, this premise is rejected.

(3) Participants will not have considered the different, and conflicting, aspects of the ethical dilemma presented to them, considering non-financial and long-term aspects.

Financial considerations were least important to participants. Thus, this premise is rejected.

**Vignette Five: Allan Bartells and the IRD**

The fifth, and final, vignette presented to the respondent involved the issue of tax evasion, and was another case of raising an issue of conscience. This situation represented the personal integrity dilemma in a private context.

The Vignette

Allan Bartells did some odd jobs for neighbours (i.e. painting, building sheds and garages, etc.) and was paid substantial sums of money. Allan knows that these moneys go unreported. At tax time, Allan considers his options of reporting the extra income or not. He knows that the IRD will never find out about the extra income.

The respondent was then asked, "If you were Bartells, what are the chances you would report the extra income?" The following statements were presented for ranking:
(a) Act Deontologist
"In this case, one has an obligation {not} to report the extra income."
(b) Rule Deontologist
"Cheating the government is simply wrong, regardless of the results it might bring."
(c) Act Utilitarian
"Sometimes not reporting extra income is beneficial because it leads to greater disposable income."
(d) Rule Utilitarian
"If everyone cheated on their income taxes, no one would be able to trust anyone, and as a result, no one could really be happy or have peace of mind."
(e) Egoist
"My decision, whatever it may be, will lead to some goal for myself (i.e. money, power over the system)."

Ranking Results

For this vignette, act deontology was chosen as the most preferred philosophy type. This meant that the managers felt one had an obligation to act in a certain way. However, in this situation, the respondents were divided between the obligation to report the extra income or to not report it. The managers felt the justification that not reporting the income would lead to greater disposable income was not sufficiently persuasive enough for them to want to adopt it.

<table>
<thead>
<tr>
<th>Rank</th>
<th>Philosophy Type</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Act Deontology</td>
<td>54</td>
</tr>
<tr>
<td>2</td>
<td>Rule Utilitarianism</td>
<td>31</td>
</tr>
<tr>
<td>3</td>
<td>Rule Utilitarianism</td>
<td>46</td>
</tr>
<tr>
<td>4</td>
<td>Egoism &amp; Act Utilitarianism</td>
<td>31</td>
</tr>
<tr>
<td>5</td>
<td>Act Utilitarianism</td>
<td>62</td>
</tr>
</tbody>
</table>

Descriptive Quotations

The focus of this vignette was less on business per se and more on the individual. As a result, the opinions for this vignette are more divided than on the other four. Five people
would report the extra income, while eight people would not report the extra income - although three of them would report it once the income became "substantial". The general sentiments regarding making a decision were:

(a) Social Contract
Several participants were concerned about the benefits the tax dollar contributed toward, and as they enjoyed the provision of these services, would be influenced to pay a "fair" portion of tax. This did not mean that in this circumstance they would report the extra income.
I really want the benefits ... I want to have a health system that works and an education system that works and stuff.
I'm happy to pay tax for some things - education, health care - I'm not happy to pay tax for people on the dole ...
The point is you are cheating all the other people who pay taxes of something that the taxes are going to. The taxes are a means to an end. Health, education, defence, roading - so whilst you are busy tucking some stuff away, someone else is basically going to have to pay more or there is going to be less to spend on those things. ... We cruise along as if we were basically individuals or small units, but in fact we are heavily dependant on a whole lot of people for a whole lot of stuff most of the time even if we are going around oblivious to it all - and there's that sort of social fabric which basically is what we are cheating on.

(a) Personal Experience and Self Interest
As an explanation for their decision, many of the participants reflected on their actions in the past. For example, if they had ever cheated on their tax form, they seemed to feel obliged to say they would not declare the extra income. Others seemed to feel that it was a national pastime to try and avoid paying tax to the government. These respondents treated tax evasion like a kind of game where if you were not caught, you received enormous personal satisfaction.
I'm a naughty boy and I like cash. ... Somehow defrauding the tax department seems ... pleasant somehow, I don't know how we can admit to that, but it does!
I think it's almost an in-bred feeling that you can in certain circumstances get away with screwing the tax man. And you generally pay tax on everything, so if you can get way without paying some tax then do it.
It depends on what you term "substantial" ... if you do odd jobs and so on, and someone pays you cash for it or gives you two dozen beer or whatever ... you don't do it for the purpose of earning money. You help out and get paid for the help and that's a bit different. But if it's for the purpose of earning income, you ought to be paying tax on it.

(a) The Risk of Getting Caught
The sentiment of several appeared to be that, in the end, someone would find out and they would get into some kind of trouble. It appeared to depend on whether they felt they could provide a reasonable explanation why the tax had not been paid which would be acceptable to the tax department.
There would come the time when a threshold would mean I would declare it, but only because I'd get caught.
The IRD would find out about the extra income at some stage. I believe in loose mouths by other parties. This is lots. They'd find out.
Is it the fear of getting caught? - I suppose that's a nagging one, you never know what someone is going to say to someone else and the next thing you know you're reported in the paper and all the rest of it.
Because I like to operate within the law, and I also believe in taxation, otherwise how would they pay me [laughs]?

(1) Participants answering the vignettes would adopt a utilitarian philosophical theory for their decision making reasoning.
The preferred philosophy type was not utilitarian, although a utilitarian philosophy did rank higher than the previous two vignettes. However, the percentage preferring a non-utilitarian philosophy was over half. Thus, this premise is rejected.
(2) Participants may be incapable of identifying a potentially ethical dilemma within each vignette.
The participants identified the basic ethical dilemma. Thus, this premise is rejected.
(3) Participants will not have considered the different, and conflicting, aspects of the ethical dilemma presented to them, considering non-financial and long-term aspects.
Financial considerations were generally the most important aspect to participants; however, consideration was given to the social implications as well. Thus, this premise is rejected.

Recounting Participant's Experience

The vignettes may have had an impact on the examples that the participants volunteered to recount for this section, as there were three examples of disclosing confidential information and two of whistle-blowing. Three managers deftly succeeded in not addressing the question, instead speaking in generalistic terms about the manner in which they made decisions. Three managers described redundancy type situations with restructuring and having to choose between personalities within their organisations. The remainder were business decisions that are unique.
The general sentiment appears that the individuals evaluated each scenario based on the circumstances surrounding it. Thus, they seemed to be act oriented in their philosophy type.
Specific Findings: Context Analysis
Throughout the interviews, there were some recurring words that all respondents felt were important factors regarding one's business environment and business decision making. These key words were:
* Trust and Mutual Trust
* Honesty - Up-front
* Relationships
* Truthful
* Confidence
* Reliable - Consistent
* Respect

It is noteworthy that these words have a particular meaning in philosophy. People generally tend to apply some kind of value to these words, and these constitute moral values held by the respondents. Many of the participants felt that without some (or all) of the above factors it became very difficult to make decisions and conduct oneself ethically in the business environment. Moral values can translate into an action, and the respondents' actions are entrenched in these values.

The respondents explained that external control tends to have a significant influence on their decision making, whether the influence be from the law, media, or codes of conduct. This has interesting implications, mainly if one creates some form of external guidance, managers will alter their behaviour for fear of reprisal. This could prove a very powerful method in which to improve manager's decision making process.

**Legislation**

There appears to be some support for increasing the amount of legislation that already exists to help guide business managers' behaviour. While this will be an effective method to try to alter the rules of behaviour, it may not affect act oriented managers. However, if the rules alter the given factors of a specific situation, one could argue this would also be an effective deterrent for both act and rule oriented decision makers. The quotations cited illustrate how more legislation may improve business managers' decision making:

* Even if the law is an ass, I wouldn't break the law.
* If I'm working for a company, I have to work within the law.
* I would [act honestly] ... probably because I have this fear of being locked up or something.
* Because everyone is watching you ... The Commerce Act is a very strong deterrent. It guides our behaviour.
* If there is a law against it, I wouldn't do it, I wouldn't break the law.
* If it were law, I wouldn't [break the law].
* Because I like to operate within the law.

**Media**
Media coverage is another important deterrent that will influence manager's decisions:
* I couldn't stand to have something come up on the TV three months later - a family died and they found that people actually knew about this report and you were one of them and you actually hadn't done something that would be like crap ... Maybe it's external control but that would feel like that, let alone knowing a family had died ...
* You never know what someone is going to say to someone else and the next thing you know you're reported in the paper and all the rest of it.
* You could lose a heap of credibility if you were caught out.
* I mean if you think you're not going to get caught, that's just stupidity!

**Codes of Conduct**

The ability for a company and senior managers to influence a manager's decision appears to be a fairly strong external influence. Thus, companies can develop and implement Codes of Conduct that will have some effect on business decisions made by their employees. Encouraging managers to discuss ethical dilemmas with a business ethicist could also influence - and potentially improve - the decision making process. It is important to have someone who can assist the manager in identifying the different principles and viewpoints that can affect a decision.
* I would discuss it, and I would also want to open up the discussion to my boss or my board or to whoever that would be, and give them an opportunity. ... I mean essentially you have to make your own decisions, but it's very important that you are in tune with the overall thinking of the organisation. ... I think it is important to take soundings before you make decisions because if you don't, it's quite difficult to make decisions in an environment where they are off the boil in terms of where your board are coming from.
* I discussed it with one of my senior managers, not so the senior manager could make the decision on my behalf but so that I could get, I suppose, a bit of experience added to mine.
* There are things ... whether they are highly codified or not - that I've absorbed as part of the way in which I work. ... Maybe I have the privilege or the benefit of working for a public sector organisation, where the company is not on the bones of its backside and going to go out the door. Whatever the arguments about that, it's not the way how we do things.

**Education**

Another way in which a company may influence decision making with the organisation would be to simulate or discuss potentially ethical dilemmas and the courses of action the organisation may expect from their managers. Literature or simulation may not provide solutions to specific problems, but it is "a useful ingredient in the process of strengthening moral reasoning about those problems" (McAdams and Koppensteiner, 1992). This would also better prepare managers for future situations in which they may face a difficult decision.
* The prewarned, prearmed sort of approach.
* I've been involved in decision making where the decision's been very hard. ... They don't always come up as black and white, you know where what should I do, A or B and the merits of both are the same. They're not, it's usually a trading process ...

General

The respondents stated many of the concepts regarding the different philosophy theories presented in this study. A few quotations from the participants are used to illustrate the various concepts:

ACT versus RULE

* If I'm given more information my answer may be entirely different.
* It depends.

* I made that decision, and I'll live with the consequences whatever that may be, negligible or significant.

The respondents tended to be ethical relativists, especially when dealing with the issue of bribery in a foreign country, as illustrated in Vignette Two. This may be due to the extent of overseas travel this respondent group has experienced which has meant they have become more liberal and tolerant to other cultures. The following statements illustrate the relativist attitude many seemed to hold:

* But you know, there's all shades of grey too in these things ...
* The morality and business ethics are quite different in Asia.
* It depends.

* Asia is the business environment where you play by different rules and sometimes ... you have to mirror the behaviour of the people you are dealing with.
* It can't be a clear yes, but there are some possibilities in there that would make it.

It was difficult to determine whether there existed clear cases of idealism versus pragmatism, however, the two following quotations are added to illustrate the richness of a manager's decision making process:

* I couldn't say that I would stand by and let that happen ... Whilst I believe that was the case, I couldn't for sure say that I wouldn't do that myself. I was more extreme when I was young, and now I'm more tolerant. "Worldly wise" my father would say. So the issue was to do with the scale of something.
* I'm not, I don't see my business decision making operating in a pure ideological framework, of say an economic framework. ... I think you make those sort of trade offs ultimately from a pretty pragmatic base, not necessarily from an ethical base. So, I mean you ask the question about pollution - I don't like pollution personally - but I don't see it as my job to be an advocate against pollution. In my role, I see myself as being neutral, but if I'm working for a company, I have to work within the law.

Artefacts and Limitations
To achieve the aims of this research, the chosen methodology had to provide depth rather than breadth and thus a limited number of respondents were examined in detail. This means that the responses delved into the substance of the decision making process involving potentially ethical dilemmas. Therefore, the respondents may not be representative of all New Zealand management.

* Language
There could be a cultural difference between New Zealanders and Americans, from which the vignettes and their wording were adapted. To illustrate, New Zealanders tend to define the word "excellent" differently to Americans. Rarely do New Zealanders classify something as 'excellent', whereas Americans appear to be more liberal with describing something as 'excellent'. This difference could be reflected in the New Zealanders' interpretation of the words contained within the vignettes and questions.

* Philosophy Types
* The respondent may adopt a different philosophy type than the five listed in the ranking statements.

Respondent Selection
Since some of the respondents were referred by initial respondents, there may exist bias because they are not an independent sample group.

* Cultural Bias
The respondents may be more tolerant and liberal than the norm. Their travel experience may orient themselves to ethical relativism. The capitalist, industrialised, western philosophy that dominates the culture may bias the results, and the researcher's immersion in that type of society may not recognise that bias.

"The experimenter's expectations and personality, subjects' personality, their awareness of the experimenter's intent, or their concern that they are being evaluated may affect the results." (Boring, 1969: 6) It is important to understand the frame of reference around which this study was conducted in case replication of this research occurs in future and the results are not exactly the same.

Ultimately, one would want to develop a grounded theory; however, this research is the first stage of that process. This project reduces the obfuscation of the decision making process regarding potentially ethical dilemmas. The next step would be to analyse the transcripts using grounded theory aimed at developing new theory (Turner, 1981).

Summary
Managers are not consistent in choosing how they will resolve a situation, or in providing the moral principles with which to defend their decision. Most of the respondents adopted an act deontologist philosophy for the justification of their decision. This means that the respondents believe there is a certain way in which managers ought to behave, and that they have an obligation or duty to obey moral rules. What these moral rules are exactly is more difficult to agree upon, and the managers have their particular definitions. The managers tend to be act oriented, evaluating the situational variables - and allowing it to affect their decision - rather than using any kind of "rule book". This means that one needs to understand the framework of how managers make their decisions. If one codified behaviour either through laws, media coverage, or codes of conduct, it may have an impact on a manager's behaviour. There appears to be external factors that will
regulate how managers behave and make decisions. This is also in keeping with the deontological orientation of the managers, because by formulating the guidelines by which they will abide the managers can use them as additional evidence when requested to explain the intent of their actions.

The public perception that managers are unethical may be too harsh as managers seem to strive to do the "right" thing to the best of their ability. Educational institutions ought to assist managers in preparing them to deal with ethical dilemmas. Business managers ought to take steps to prevent unfair, and negative, biasing of public opinion and media ought to give better coverage of those businesses and managers that are acting ethically.

There is no ethical principle which one can endorse in preference to another, however, while the principles may not be wholly perfect, each has a unique perspective to add to illuminate the dilemma. Understanding and being aware of the different moral principles is most valuable, as it permits the decision maker to make a considered choice and aid them in forming a defensible moral judgement. This is paramount to appreciate: the decision making process regarding potentially ethical dilemmas is often difficult, confusing, and time consuming. Since, at present, there exists no theory that has a universally acceptable definitive answer; the best managers can strive for is to recognise and consider their alternatives and not choose arbitrarily.

**Research Propositions**

The overall response to the research propositions was that they were rejected. However, there is some indication that managers generally want to improve the decision making process.

1. Participants answering the vignettes would adopt a utilitarian philosophical theory for their decision making reasoning.
   
   **REJECTED**

   The perception that businesses are utilitarian - based on economics which is utilitarian in nature - is erroneous, as most managers opt for deontological ethics over teleological ethics. This means that managers do not believe that the best long-term interests of everyone concerned should be the moral standard. This utilitarian perception is divergent from the results obtained from this study, therefore either the perception is inaccurate or the sample group is not representative of the general populace. Instead, the respondent managers prefer to focus on the individual as opposed to the society, and the intention of that individual in choosing a particular act.

2. Participants may be incapable of identifying a potentially ethical dilemma within each vignette used in this study and for the open-ended discussion section of the research interview.
   
   **REJECTED**

   The respondents did identify potentially ethical dilemmas within the vignettes. Generally, the respondents discussed an ethical dilemma they had faced in their business experience.

3. Participants will not have considered the different, and conflicting, aspects of the ethical dilemma presented to them, considering non-financial and long-term aspects.
Managers tend to reflect on past decisions and its consequences, and try to apply what they learned to making present decisions. If there was some form of assistance to help analyse those previous choices and results, this could contribute to improving future decisions. Reasoned discussions (or readings) appear to be a contributor to being prepared if faced with similar dilemmas.

Many of the participants underwent some form of discussion as a process to assist them in resolving dilemmas they faced. In this situation, there may exist the ability to externally influence the decision maker. Potentially having a resident "counsellor" or an externally consulting ethicist with whom the decision maker may discuss the situation would assist in improving decisions. The counsellor/ethicist may help managers gain insight into a situation, the ethical concepts involved, and help the manager to understand the dilemma.

Implications for Practicing Managers

While it is important to know how managers make decisions, there is a danger of managers making decisions from specific incident to specific incident without recognising the emerging pattern. Managers need to step back and determine their moral principles and the kind of ramifications their philosophical orientation will have on their decision making. By understanding the underlying fundamental principles of philosophical ethics, this will assist managers in developing a framework by which to judge their decisions.

New Zealand managers need to be aware of the repercussions of acting in isolation. Kant's categorical imperative states that one should act in such a way that one could will the maxim of the action to become a universal law. This means if a manager bribes, or condones bribery in their environment, that act of bribery will become an acceptable practice. Thus, managerial decisions and practice are expanding what society deem acceptable behaviour, and this is a consequence which managers ought not to perform thoughtlessly.

Next Steps
The next steps to build on this research are:
* Compare different ethnic groups within New Zealand and internationally to develop a representative picture of New Zealand managerial decision making regarding ethical dilemma.
* Encourage all listed companies to have a written code of conduct. Develop legislation with penalties that reflect the extent to which the organisation went to prevent unethical behaviour.
* Develop legislation that states out-of-court settlements are no longer permitted to enjoy name suppression, then encourage the media to broadcast unethical companies' names.
* Sensitise managers to look at ethical issues more broadly, potentially through formal education. Have educational institutions lessen their emphasis on technical training and increase the ethical aspect in the curriculum.
Recommended future research directions:
* Continue inductive analysis on raw data for the purpose of theory generation using grounded theory.
* Increase sampling size to determine if there exists significant differentiation between men's preference for rule type philosophies and women's preference for act type philosophies. This may have significance regarding the different information processing orientations held by each gender.

References
