CHAPTER 2

Literature Review

This chapter is divided into four parts. First part reviews academic literature pertinent to business sustainability. The review begins with its definitions and determinants. The second part reviews theories and business orientations for sustainability of small and medium enterprises. The study is based on entrepreneurship theory and stakeholder theory to explain business sustainability of the enterprises. The former theory introduces entrepreneurial orientation, while the latter constructs collaborative orientation. Built upon the two scholars, the associations between the orientations and business sustainability are proposed. Then, the next part proposes environment uncertainty as the moderating factor affecting the relationships between the orientations and business sustainability. The last part then justifies theoretical framework for the study.

2.1 Business Sustainability

Business sustainability is a construct based on the original term of sustainable development from Brundtland's report. Sustainable development is originally defined as a development that meets the need of the present, without compromising the ability of future generations to meet their own needs (WCED 1987). The concept of sustainability and sustainable development are used interchangeably (Elkinton 1998, Hall et al. 2010, Holliday et al. 2002, Laszlo et al. 2002, Uhlaner et al. 2012).

In business context, sustainability focuses on productivity and the creation of values for owners and stakeholders (Kocmanova et al. 2011). In productivity term, sustainability can be viewed as the balance between inputs business takes from its resources and outputs which it returns to environment from raw materials and work-life balance to bottom line profit (Figge & Hahn 2005).

In terms of value creation, the value in business sustainability is a combination of three primary pillars - “Triple Bottom Line”-, including economic, social and environment value, for long term success (Avery 2005, Bansal 2005, Brown et al. 2006, Elkington 1998, Haugh & Talwar 2010, Kocmanova et al. 2011, Robin et al. 2006, Rondinelli & Berry 2000, Springett 2003). Business sustainability accompanies with demonstrating the inclusion of social and environment concerns in business operations, and in interactions with stakeholders (Kotler et al. 2010, Marrewijik 2002, Were 2002). Enterprises that deliver value for shareholders without robbing value from other stakeholders can be considered as having business sustainability (Laszlo et al. 2002).

Business sustainability can be assessed by three approaches: input, operations, and outcome. For input approach, sustainability of enterprises can be categorized into four levels of capital status. Enterprises with only economic capital are considered as very weak sustainable organizations. They will be more sustainable when they are able to possess social and environmental capital increasingly. The levels of capital sustainability are presented in Table 2.1.

Table 2.1 Levels of Capital Sustainability

Level	Description
Very weak	General production capacity of the economy is maintain.
Weak	All types of capital are equivalent. There is substitutability between natural capital and man-made capital.
Strong	Development of renewable natural resources matches or exceeds depletion of nonrenewable natural resources.
Very Strong	The quality of natural capital should increase or at least be maintain constant.

Source: Garvare & Isaksson (2011)

In operations approach, enterprises can maintain economic operations as the first sustainability level, and then continue adding social and environment activities to the highest sustainability operations respectively. There are six stages of operations sustainability starting from no ambition for sustainability to the integration of the triple bottom line, as presented in Table 2.2.

Table 2.2 Stages of Operations Sustainability

Stage	Description
Pre – sustainability	Enterprises have no ambition for sustainability. However, some activities toward sustainability might be initiated when forced from outside such as through legislation or a buyer strike.
Compliance-driven	Enterprises provide welfare to society, within limits or regulations from the rightful authorities. They may respond to charity and stewardship concerns.
Profit-driven	Enterprises integrate social, ethical, and ecological aspects into business operations and decision making.
Caring	Enterprises value in balancing economic, social, and ecological concerns, conducting their business beyond legal compliance and profit considerations, emphasis on human potential, social responsibility, and caring for environment.
Synergistic	Enterprises conduct win-together approach with all relevant stakeholders. Their operations consist of a search for well-balanced, functional solutions creating value in the economic, social, and ecological realms of corporate performance with a synergistic.
Holistic	Enterprises are fully integrated and embedded in every aspect of the organization, aiming at contributing to the quality and continuation of life of every being and entity for now and in the future

Source: Marrewijik & Were (2003)

To support the implementation accordingly to the six levels, sustainable value can be created through well managing risks and reputation, reducing energy usage and wasted, redesigning products to better serve customers while reducing safety hazards and harm to environment, and developing new business that contribute to improving social and environment performance (Laszlo et al. 2002). Enterprises can also initiate their goals, plans, and activities accordingly to key issues for business sustainability, as summarized in Table 2.3.

Table 2.3 Key Issues for Business Sustainability Operations

Economic Pillar	Social Pillar		Environment Pillar
	Internal	External	
Corporate Governance	Corporate Governance	Social Reporting	Environment Policy and Management
Codes of Conduct	Corporate Citizenship	Corporate Citizenship	Resources and Recycling
Customer Relationship Management	Stakeholders Engagement	Stakeholders Engagement	Environment Performance
Financial Robustness	Labor Practice Indicators	Ethical Behavior and Human Rights	Emission into air, water and ground
Investor Relations	Health and Safety	No Controversial Activities	Waste and Hazardous Waste
Risk & Crisis Management	Motivation and Incentives	No Corruption and Cartel	Biodiversity
Scorecards Systems	Human Capital Development	Standards for Suppliers	Environment Issues of Products
Strategic Planning	Organizational Learning	Industry Specific Criteria	Environment Reporting
Innovation and Technology	Knowledge Management		Industry Specific Criteria
Collaboration			
Clear Processes and Roles			
Sustainability Reporting			
Knowledge Management			
Industry Specific Criteria			

Source: Summarized from Baumgartner & Ebner (2010), Laszlo et al. (2002), Lo & Sheu (2010)

Once enterprises possess capital and conduct their business accordingly to sustainability requirements, they will be able to perform sustainability outcomes as a consequence. Firms that initiate business model simultaneously aiming for economic, social, and environmental gains are sustainable organization (Shepherd & Patzelt 2011). For outcome approach, sustainability can be measured by economic outcomes, social outcomes, and environmental outcomes.

Economic outcomes are fundamental to financial success. Enterprises can be sustainable from gaining both profitability and growth (Avery & Bergsteiner 2010, Gupta & Govindarajan 1986, Han 2007, Han & Celly 2008, Zahra 1991). Profitability focuses on achieving financial performance and can be measured by profit, profit margin, and return on investment (ROI), whereas growth emphasis achieving marketing performance and can be measured by market share, growth in market share, sales growth, and new market creation (Barkham et al. 1996, Han & Celly 2008).

Several researches advocate growth as the most important measure in small firms (e.g. Brush & Vanderwerf 1992, Chandler & Hanks 1993, Fombrun & Wally 1989, Tsai et al. 1991). It is introduced as a more accurate and easily accessible indicator than accounting measure and hence superior to be financial indicators (Wicklund 1999). However, implementing only one side of growth on this assumption carries a tradeoff effect between profitability for short term survival and growth for long term success (Han 2007, Zahra 1991). The two economic indicators, including profitability and growth, are paradoxical. Each reveals important and unique for business sustainability as measured by outcome aspect. Enterprises that focus on profitability may suffer from losing the opportunity to achieve market share and sales growth, while those with growth concentration may suffer from a lack of working capital to survive (Han & Celly 2008). Therefore, sustainable economic outcomes should be determined by both profitability and growth.

Besides economic benefits, companies are encouraged to produce outcomes regarding social and environment aspects. **Social outcomes** are associated with the humanitarian context of business and relates to social issues (Haugh & Talwar 2010). In business context, the outcomes involve wellbeing of internal and external stakeholders, including employees, suppliers, customers, local region and local government (Chang & Kuo 2008, Nejati et al. 2010). Relationships with stakeholders and their satisfaction levels can be indications in the social one (Avery & Bergsteiner 2010, Connolly et al. 1980, Donaldson & Preston 1995, Frombrun & Shanley 1990, Tusi 1990, Zhang et al. 2011) In addition, the outcomes can be determined by reputation with in industry, credential of business, and commitment of stakeholders towards enterprise's operations (Avery & Bergsteiner 2010, Clarke & Holt 2009, Zhang et al. 2011). Also, enterprises should have no problems with surrounding communities, has no case in a court with surrounding communities, be thought by general public as a socially responsible organization (Kantabutra & Siebenhüner 2011, Kantabutra & Suriyankietkaew 2013, Porter & Kramer 2006).

Environmental outcomes are associated with the impact of business responsibility on the quality and quantity of ecological management (Haugh & Talwar 2010, Townsend 2008). Organizations that commit to environment friendly will gain good environment image (Ejdys & Matuszak-Flejszman 2010), reputation (Bernstein 2008, Clifton & Amran 2011), and gain protection from complaints about environment harm (Epstein & Roy 2003).

From literature posited above, enterprises can strive for business sustainability by setting goals to the highest level of business sustainability as measured by capital status, operations, and outcomes. For small and medium enterprises, they face challenges to conduct their business with regards to the three approaches aiming for their survival and growth, as well as contributing to social and environmental benefits.

For the study, small and medium enterprises are focused. Although the three indications share the same focus on economic, social, and environmental values, they assess enterprise's sustainability differently. Although capital status and operations can be assessed in the organizations, the two approaches are insufficient to achieve the objectives of the study. Since the study aims to explore the orientations that leads firm to achieve triple bottom line, including economic, social and environmental values. The two approaches are unable to be separated into the triple bottom line. In addition, with limited resources of the enterprises, the measures for capital status are difficult to evaluate accordingly to social and environmental pillars. Also, the measures for sustainability operations, which mostly reserve for large corporations, may be inapplicable in small and medium enterprise with less structure of the enterprises, and therefore are unable to guarantee the ultimate goals for business sustainability in this context. For outcome approach, operational definitions for economic, social and environmental values in business context are provided specifically. The appropriate indications for this context are outcome approach. The sustainability outcomes can be set as goals for business sustainability of the enterprises. Hence, the study is interested in business sustainability as measured by outcome aspect.

2.2 Business Orientations

Business sustainability becomes more important as a business mission for long term success. It must be viewed as an essential value that requires full integration into core business (Johnson & Walck 2004). Generally, small and medium enterprises achieve business mission successfully from managing their internal resources accordingly to external environment (Autio et al. 1997, Barney 1991; 2006, Barney & Clark 2007, Bloodgood et al. 1996, Collis & Montgomery 2008, Hamel & Prahalad 1994, McDougall & Oviatt 1996, Oviatt & McDougall 1994; 1995, Penrose 1959, Rungwitoo 2012b, Zimmerer et al. 2008).

Based on the general definition of business sustainability, small and medium enterprises need to possess sustainability capital and to conduct their business aiming for benefits in economic, social, and environmental issues. Organizational resource, engaging routine and systems in organizations, is an important capital for business operations (Hofer & Schendel 1978). Organizations will achieve sustained superior performance from a strong set of core values (Barney 1986, Brion et al. 2010, Deal & Kennedy 1982, Peter & Waterman 1982), or a direction of thought, inclination, or interest (Covin & Lumpkin 2011). The term “orientation” is introduced as the capital one in encouraging people throughout the organization for superior performance (Brion et al. 2010, Burgelman 1983a; 1983b, Covin & Lumpkin 2011, Denison 1990, Robbins

& Coulter 2005). In addition, the orientation is viewed by behaviors or activities (Rauch et al. 2009) inferring to business operations of firms.

To be sustainable, the enterprises should possess appropriate orientations or business guidance, aligning with the key issues in sustainability context for economic, social and environmental gains. The study proposes a combination of entrepreneurial orientation and collaborative orientation as business orientations for business sustainability of small and medium enterprises. Built upon entrepreneurship theory, entrepreneurial orientation is introduced as a driver for economic gain. In addition, for many entrepreneurial ventures, strong collaborating relationships are necessary to create sustainable organization (Freeman et al. 2007). Also, based on stakeholder theory, collaborative orientation is introduced as another driver for economic gain and benefits in social and environmental aspect.

2.2.1 Entrepreneurial Orientation

Based on entrepreneurship theory, which is the appropriate explanation for small and medium enterprises to achieve business purposes (Baker& Sinkula 2009, Knight 2000, Lumpkin & Dess 1996), entrepreneurial orientation is introduced and empirically examined as the explainer for their business success (Covin & Slevin 1989, Covin et al. 2006, Covin & Lumpkin 2011, Lumpkin & Dess 1996; 2001, Merlo & Auh 2009, Rauch et al. 2009, Richard et al. 2009, Wicklund & Shephard 2003). Generally, entrepreneurship refers to the creation of new enterprise for wealth and business growth (Amit et al. 1993, Gartner 1990, Levie & Lichtenstein 2010, Low & Macmillan 1988, Shane & Venkataraman 2000). Entrepreneurship is the dynamic process of creating incremental wealth (Constadt 1987) or the innovative process of creating market disequilibria (Shane & Venkataraman 2000). Also, it is the process of extracting profits from new, unique, and valuable combinations of resources in an uncertain and ambiguous environment (Amit et al. 1993). It involves the discovery, evaluation and exploitation of opportunities to introduce new goods and services, ways of organizing, market, processes, and raw materials through organizing efforts that previously had not existed (Shane 2003). In addition, entrepreneurship is associated with capabilities of perceiving business opportunities and subsequently developing these into profitable results (Morris et al. 2008).

Entrepreneurship theory explains business success by personal level and organizational level (Gartner 1990, Lumpkin & Dess 1996). In early research, entrepreneurship was associated with individual or group of individuals, called entrepreneur (e.g. Carland et al. 1984, Constadt 1987, Gartner 1990, Kuratko & Hodgetts 2007, Meredith et al 1982, Schumpeter 1952, Timmons 1989, Vesper 1980). Entrepreneur is defined as an inventor (Schumpeter 1952), who establishes and manages a business for the principal purposes of profit and growth (Carland et al. 1984), as well as undertakes to organize, manage, and assume the risk of the business (Kuratko & Hodgetts 2007).

Entrepreneur can be categorized into those who are profit-seeking either working individually or in a corporate setting, and those who are not profit seeking, working in charitable, government and other not-for-profit organizations (Amit et al. 1993). They uses organized efforts and required resources to pursue opportunities to create value and growth by fulfilling wants and needs (Robbins & Coulter 2005, Vesper 1980), and by devoting the necessary time and efforts, assuming the accompanying financial, psychic, and social risks, and receiving the resulting rewards of monetary and personal satisfaction and independence (Hisrich & Brush 1985). Also, they have responsibility to reform or revolutionize the pattern of production by exploiting an invention or, more generally, an untried technological method of producing a new commodity or producing an old one in a new way, opening a new source of supply of materials or a new outlet for products, by organizing a new industry (Schumpeter 1952).

The challenge in individual level is to predict the profiles of successful entrepreneurs (Kihlstorm & Laffont 1979). Traits, characteristics and competencies of entrepreneurs are studied as key drivers for organizational change, entrepreneurial organization, and financial performance. The theory of entrepreneurship in individual level maintains that characteristics or competencies of entrepreneurs develops and sustains competitive advantage (Knight 2000, Wickham 2006, Zaugg & Thom 2003, Zimmerer et al. 2008) and leads their business to perform successfully (Capaldo et al. 2004, Sullivan 2000). They should possess required ability to foresee and evaluate business opportunities, to gather the necessary resources in order to take advantage of them, to create and build value from non-value resources, and to initiate appropriate action to ensure success (Meredith et al. 1982, Timmons 1989).

As behavioral and characteristics of successful entrepreneurs were studies and introduced (e.g. Timmons 1978, Ong & Ismail 2008, Man et al. 2008, Rungwitoo 2012b). Nonetheless, there are no common characteristics in personal level to identify successful entrepreneurs. As Gartner (1988) argued that the focus should be on what entrepreneurs do in the organization rather than on what they are, the focus then turned to the study of entrepreneurial behavior of enterprises and organizational process in enterprises. Entrepreneurship theory in organizational level therefore emphasizes organizational orientation as the explainer for business success. The term entrepreneurial orientation has become a central concept in the domain of entrepreneurship that has received a substantial amount of theoretical and empirical attention.

Entrepreneurial Orientation is a construct in strategic management (Covin et al. 2006, Richard et al. 2009), and refers to strategy making process that provides organizations with a basis for entrepreneurial processes, decision making, and actions (Covin & Slevin 1989, Covin et al. 2006, Covin & Lumpkin 2011, Lumpkin & Dess 1996; 2001, Merlo & Auh 2009, Rauch et al. 2009, Richard et al. 2009, Wicklund & Shephard 2003) Entrepreneurial orientation is a part of a company’s organizational culture and indicates a way of acting.

Among the research in entrepreneurial orientation, it originates from the work of Miller (1983) and was later developed by many followers (e.g. Covin & Slevin 1986, Hult et al. 2003, Lee et al. 2001, Lumpkin & Dess 1996, Wiklund & Shepherd 2003). Generally, the orientation compounds of five dimensions: autonomy, innovativeness, risk-taking, proactiveness, and competitive aggressiveness (Covin et al. 2006, Dess & Lumpkin 2005, Lumpkin & Dess 1996; 2001, Miller 1983, Rauch et al. 2009).

Autonomy refers to the independent action of an individual or a team in bringing forth an idea or a vision and carrying it through to completion (Lumpkin & Dess 1996). In organizational context, it refers to action taken free of stifling organizational constraints. **Innovativeness** means a company's openness to new ideas, novelty and experimentation, as well as creative processes, aimed at developing new products, services or technological processes (Frishammar & Horte 2007, Dess & Lumpkin 2005). **Risk-taking** is connected with making decisions and taking actions without any knowledge of the possible outcomes (Dess & Lumpkin 2005, Kihlstrom & Laffont 1979) and shows the degree of making risky resource commitments (Frishammar & Horte 2007). **Proactiveness** is treated as a forward-looking perspective as a result of which first mover or market-leader advantages can be achieved (Frishammar & Horte 2007, Dess & Lumpkin 2005). Proactiveness involves searching for market opportunities in order to introduce new products or services to the market ahead of one's. **Competitive aggressiveness** refers to a firm's propensity to directly and intensely challenge its competitors to achieve entry or improve position, that is, to outperform industry rivals in the marketplace (Lumpkin & Dess 1996).

The main direction of the research in entrepreneurial orientation focuses on the influence of the orientation on sustained financial performance, such as profitability (Haughes et al. 2012, Lumpkin & Dess 1996, Madsen 2007,), market growth (Baker& Sinkula 2009, Covin et al. 2006), and market share (Rauch et al. 2009). Businesses that adopt a strong entrepreneurial orientation perform much better than the less one (Covin & Slevin 1986, Hult et al. 2003, Lee et al. 2001, Wicklund & Shepherd 2003). Hence, the effect of entrepreneurial orientation on economic outcomes can be presented in Figure 2.1.

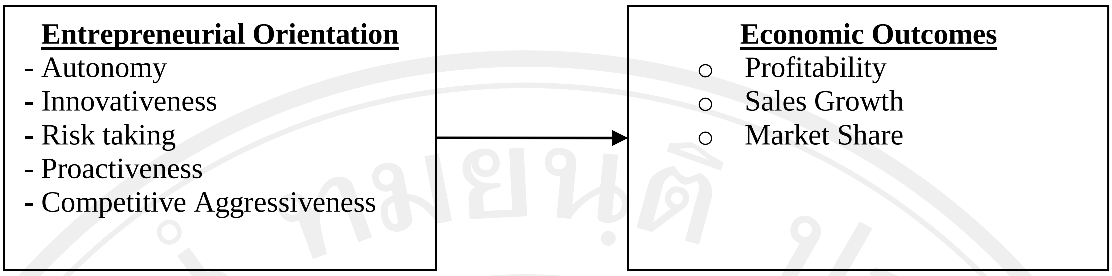


Figure 2.1 Relationships between Entrepreneurial Orientation and Economic Outcomes

Notably, the relationship in enterprises with 1 – 49 employees is stronger than those with larger employees (Rauch et al. 2009). Thus, for small and medium enterprises, the orientation can explain economic pillar in maximizing wealth and satisfying owners. However, entrepreneurial orientation explains only economic issues but it is insufficient to maintain its contributions to non-economic values (Rauch et al. 2009), which are about social and environmental aspect.

Considering the alignment of the orientation with the level of capital sustainability and operations sustainability, organizations with only entrepreneurial orientation can be regarded as very weak capital sustainability and also operational stage of pre-sustainability. Entrepreneurial orientation aiming for sustainable financial values may be helpful for economic benefits however it didn’t yet meet the requirements of business sustainability in which benefits in social and environmental issues are important.

Therefore, entrepreneurial orientation may be unable to explain business sustainability. It may positively explain only economic outcomes but may be unable to explain social and environmental outcomes empirically. That is,

Hypothesis 1: Entrepreneurial orientation insignificantly explains business sustainability.

Hypothesis 1a: Entrepreneurial orientation positively explains economic outcomes.

Hypothesis 1b: Entrepreneurial orientation insignificantly explains social outcomes.

Hypothesis 1c: Entrepreneurial orientation insignificantly explains environmental outcomes.

Notably, the argument is not to reject entrepreneurial orientation for business sustainability but the orientation should be integrated with additional one to meet the need for sustainability. Based on stakeholder theory, Freeman et al. (2007) posit that entrepreneurial ventures require strong collaborating relationships to be sustainable organizations (Freeman et al. 2007). This is also supported by previous literature that sustainable enterprises should emphasize stakeholders and morality constants (Benn & Dunphy 2007, Choi & Jung 2008, Clifton & Amran 2011, Cruz & Boehe 2008, Epstein & Roy 2003, Gibson 2012, Kantabutra & Siebenhüner 2011, Kocmanova et al. 2011, Kotler et al. 2011, Lo & Sheu 2010, Marrewijik 2002).Therefore, the study introduces "Collaborative Orientation" as the additional one for business sustainability.

2.2.2 Collaborative Orientation

In business sustainability concerns, stakeholder theory positing collaborative practices with ethics and responsibility is introduced as the path way for business sustainability.

The main concept of stakeholder theory and the term "stakeholder" existed prior from the pioneering work done by Stanford Research Institute (SRI) in the 1960s, but the origins of contemporary stakeholder theory are generally associated with the publication of Freeman (1984). Stakeholder is originally defined as any group or individual who can affect, or is affected by, the achievement of a corporation's purpose (Freeman 1984). Enterprises are not as sole and self-sustaining operators in a competitive world (Freeman 2010) but they are in a collaborative world in which the integration of the relationships and interests of all stakeholders are essential to ensure their long-term success (Freeman 1984, Freeman 2009, Parmar et al. 2010). The main groups of stakeholders are customers, employee, local communities, suppliers and distributors, and shareholders (Evan & Freeman 1990, Freeman 2010, Friedman & Miles 2006). In addition, competitors, business partners, academics, media, public interest groups, and government regulatory agencies are also considered to be stakeholder (Freeman 1984, Friedman & Miles 2006).

The focuses of the theory are articulated to explain the purpose of the firm, and the responsibility that management has to do with stakeholders (Freeman 1984, Freeman et al. 2004). Firstly, it encourages managers to articulate the shared sense of the value they create, and what brings its core stakeholders together. This propels enterprises forward and allows them to generate outstanding performance, determined both in terms of its purpose and marketplace financial metrics. The latter pushes managers to articulate how they want to do business. The relationships between firms and their stakeholders need to be articulated to meet the purpose of their business. It is about the stakeholders interact and create value for enterprises Business can be understood as a set of relationships among groups which have a stake in the activities that make up the business (Freeman 2010).

The essence of stakeholder theory is that all parties, such as employees, customers, suppliers, and business partners, are aligned in the same direction (Freeman 2009, Freeman 2010). No stakeholder stands alone in the process of value creation (Freeman 2009, Freeman 2010). If enterprises have a purpose, in addition to trying to produce the outcome of profits, and if there is alignment between stakeholders around this purpose, businesses will be sustainable over time (Freeman 2009, Freeman 2010).

From successful business stories, satisfying stakeholders in both social and environment issues will often lead to higher long-run operations better than focusing only on maximizing profit for shareholders (Kotler et al. 2010). Instead of maximizing only shareholder wealth, stakeholder management is means to maximize the total market value of the firm or to maximize long-term owner value respectively. Enterprises therefore should pay attention to the effects of their actions on their stakeholder ability to care for themselves and others (Engster 2011).

1) Stakeholder Focus

The basic idea of stakeholder theory suggests that businesses will ensure their long-term success if they can manage and integrate the relationship and interests of shareholders, employees, customers, suppliers, communities and other groups or individuals who can affect or are affected by them (Bingham et al. 2010, Freeman 1984; 2010, Freeman 2009, Parmar et al. 2010). Building and leading a great company has always been about managing for stakeholders. The key activity in stakeholder view is to intentionally develop a network of social contact from which resources can be obtained and with whom the entrepreneur will work to covert resources into value (Schlange 2009). Business models are successful when they capture the intersection of stakeholder interest.

To be sustainable enterprises, they are suggested stimulating employees to engage in business decision making and operations, and to deliver high-quality results and making them accountable for their action (Ghoshal & Bartlett 1994, Gibson & Birkinshaw 2004). It involves the establishment of a share ambition, the development of a collective identity, and the ability to give personal meaning to the way in which individuals commit to overall expectations of an organization. Clear standards of performance and behavior, a system of open, candid and rapid feedback, and consistency in the application of sanctions should be constructed. In addition, customers and suppliers should be invited to involve in business activities such as to jointly testing new products and services (Day 1994, Engster 2011, Sundaram & Inkpen 2004). From this, customers and suppliers will accept some of the risk inherent in developing new ideas, products, and programs (Sundaram & Inkpen 2004) and also pay attention to the effects of their actions on the final results (Day 1994, Engster 2011).

2) Morality Focus

In addition to the great care of stakeholders, morality is the essential constant to explain business sustainability. Morality, the integrity and honesty of doing business, is valuable for business conducts. Morality is not about a top up conduct but it is a based requirement for sustainable enterprises (NESBD 2007). It refers to business ethics (e.g., Borgerson et al. 2009, McCraw et al. 2009, O'Toole 2009) and social responsibility (e.g., Cruz & Boehe 2008, Lee & Pati 2012, Virakul et al. 2009).

2.1) Business Ethics

Business ethics is a central issue for business sustainability (Baumgartner & Ebner 2010, Clifton & Amran 2011, Curry & Sura 2007, Isarangkul & Pootrakool 2002, Kantabutra 2006; 2007, Kantabutra & Siebenhüner 2011, Kantabutra & Suriyankietkaew 2013, NESBD 2007, Rungwitoo 2012c, Sachayansrisakul 2009, Sasin Graduate Institute 2010, Wattanasupachoke 2009). Ethics refers to the code of moral principles and values that governs the behaviors of a person or group with respect to what is right or wrong (Daft 2012). Ethical obligations are explicitly addressed as a central feature of organizational management (Phillips et al. 2003, Watson et al. 2008). Business ethics therefore should be committed as a principle for internal operations of the enterprises. Enterprises should commit business ethics by for example introducing code of ethics as the norm of the companies, or establishing a disciplinary system (Choi & Jung 2008).

Because of limited resources, small and medium enterprises pay attention to a survival before doing philanthropy practices. They may be unable to establish additional committee or unit to establish ethical mechanism as well as to contribute funds for ethical activities. However, they should seek for appropriate practices for ethical considerations in every activity in their business operations. In addition to some possible ethical commitment, they may also establish support ethical workplace environment providing people with the security, trust, and latitude they need to perform (Ghoshal & Bartlett 1994, Gibson & Birkinshaw 2004). Enterprises can establish mechanisms that allow members to access the resources available to other actors, support induces employees to lend assistance and countenance to others, and support freedom of initiative at lower levels, and give priority to providing guidance and help rather than to exercising authority (Gibson & Birkinshaw 2004).

2.2) Social Responsibility

Social responsibility is defined as the commitment of business to contribute to sustainable economic development of employees, families and the local communities (WBCSD 2001). It is a set of policies, practices and programs that are integrated throughout business operations and decision making process, and intended to ensure that the company maximizes the positive impacts of its operations on society (BSR 2003), and meet legal, ethical, and public expectations (Prahalad & Hamel 1990).

The notion of social responsibility is an extension of the idea of managerial ethics and refers to management's obligation to make choices and take action so that the organization contributes to the welfare and interest of all organizational stakeholders (Daft 2012). Enterprises are suggested to integrate social and environment concerns in their business operations (CGP 2001). Enterprises can conduct social responsibility accordingly to three sustainability pillars for economic, social and environmental purposes (Gallardo-Vázquez et al. 2013). Notably, environment agenda is also regarded as social responsibility. Enterprises can conduct environment management practices to meet the need for ecological concerns. The dominant intention of enterprises is the creation of value in terms of improving ecological environment or preventing it from degradation (Gibson 2012). The practices also include active or deliberate strategies aimed at monitoring of company waste, producing or selling environmental friendly products, and searching for more environmental friendly products, services, or production methods (Uhlaner et al. 2012). In addition, this also associated with the attitude towards the benefit of environment conservations, including control energy costs, execution of energy regulation, and energy saving measures (Uhlaner et al. 2012).

To summarize, stakeholder theory posits that collaborative direction can lead business organizations to be sustainable. The direction provides practices for enterprises to create a strong and dense network connection with stakeholders in ethical and responsible way. Also, enterprises that orient their conducts with morality focus including ethics and social responsibility are sustainable organization.

Based on previous research, practices for collaborative orientation explain the three outcomes for business sustainability. Collaborative practices build up economic achievement and provide positive impact for society (Mitchell & Singh 1996). Also, morality, including business ethics and social responsibility, explains economic, social and environmental outcomes. Level of ethical commitment of organizations shows a positive association with financial leverage and corporate valuation (Choi & Jung 2008). Enterprises that initiate corporate social responsibility also gain brand preferences from their customers (Chomvilailuk & Butcher 2010). This is because goodwill from the great public of being good corporate citizenship is important from stakeholders' supports (Schlange 2009).

However, the associations are based on several literatures. To draw up the association between collaborative orientation and business sustainability, the relationship should be empirically studied in a single research. From previous research, their evidences can justify that collaborative orientation explain business sustainability as measured by economic outcomes, social outcomes, and environmental outcomes. Hence, it is reasonable to propose that collaborative orientation positively explains business sustainability outcomes, including economic, social, and environmental ones, as presented in Figure 2.2.

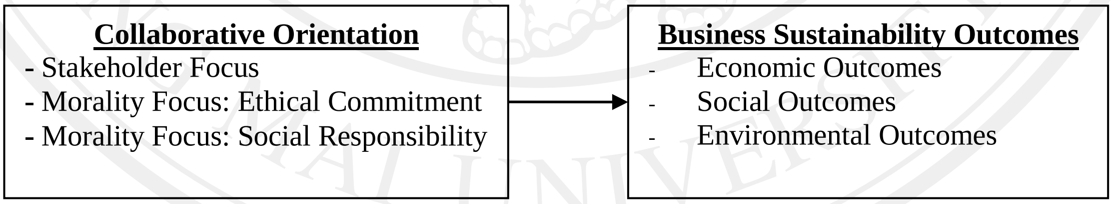


Figure 2.2 Relationships between Collaborative Orientation and Business Sustainability Outcomes

Comparing collaborative orientation with operations sustainability as presented in Table 2.2. Enterprises with stakeholder focus, ethical value, and social responsibility are considered as having high stage of the sustainability. In addition, stakeholder focus, morality commitment, and social responsibility are aligned with the key issues in Table 2.3. Hence, there are supporting evidences to justify that enterprises with collaborative orientation are aligned with sustainable operations and then could strive for ultimate sustainability outcomes. That is,

Hypothesis 2: Collaborative orientation positively explains business sustainability.

Hypothesis 2a: Collaborative orientation positively explains economic outcomes.

Hypothesis 2b: Collaborative orientation positively explains social outcomes.

Hypothesis 2c: Collaborative orientation positively explains environmental outcomes.

2.3 Environment Uncertainty

In entrepreneurship research, organization size and environment uncertainty have contingent effects on the relationship between entrepreneurial orientation and performance (Rauch et al. 2009). This is also consistent with several research that maintain organization size (Dean et al. 1998, Garcia-Morales et al. 2008, Jansen et al. 2008) and environment uncertainty (Grewal & Tansuhuj 2001, Jansen et al. 2009, Selnes & Sallis 2003) are moderator for the relationship between firm performance and its antecedents. Therefore, it is well justified to propose firm size and environment uncertainty as the moderator between the relationships between the two orientations and business sustainability. However, the study intends to empirically study the relationship in the contest of small and medium enterprises. Hence, firm size is controlled for the study while environment uncertainty is proposed as the contingency factor for the study.

For environment uncertainty, external environment is the major forces outside organization that have the potential to significantly influence the success of business (Grewal & Tansuhuj 2001, Jansen et al. 2009, Selnes & Sallis 2003). Based on entrepreneurship theory, Meta-analysis found that the relationship between entrepreneurial orientation and performance in firms that compete in high environment uncertainty is stronger than those in the low one (Rauch et al. 2009). Hence,

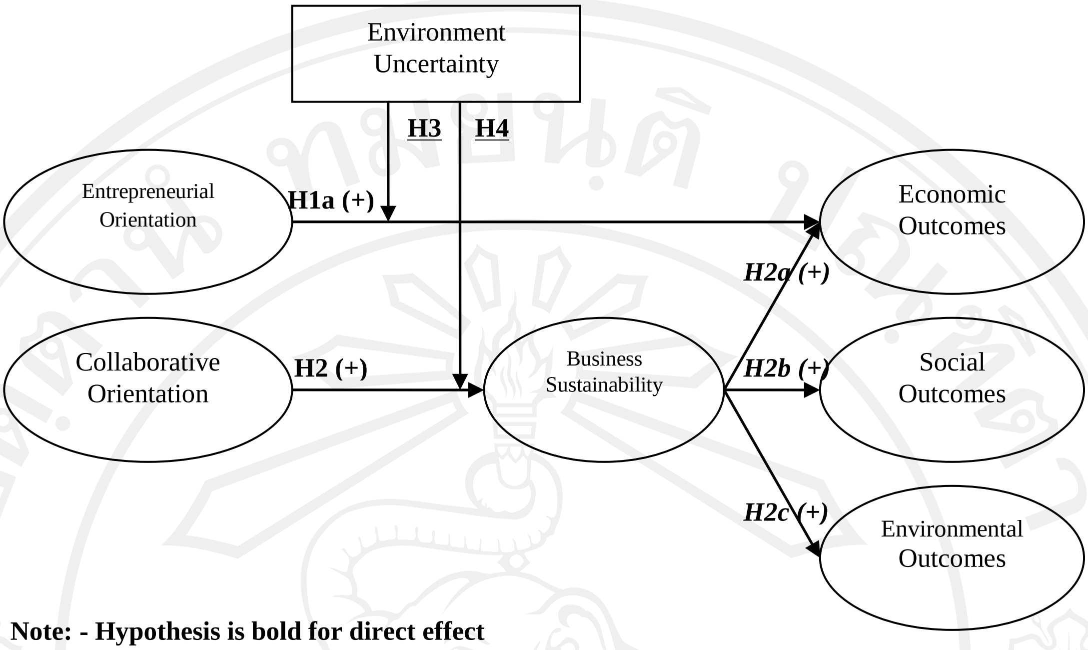
Hypothesis 3: The effect of entrepreneurial orientation on economic outcomes in the high level of environment uncertainty is stronger than in the low one.

In terms of the moderating effect between the effect of collaborative orientation and business sustainability, stakeholder theory explains that enterprises are not in a competitive world but in a collaborative one (Freeman 1984; 2010, Freeman 2009, Parmar et al. 2010). The study implies that the more they are collaborative, the more they gain sustainability (Freeman 1984; 2010, Freeman 2009) Based on traditional business practices, enterprises in higher unpredictable situation should put more effort in monitoring and collaborating with stakeholders to maintain their operations than in the predictable environment. That is,

Hypothesis 4: The effect of collaborative orientation on business sustainability in the low level of environment uncertainty is stronger than in the high one.

2.4 Theoretical Framework for the Study

Built upon entrepreneurship theory and stakeholder theory, theoretical framework for the study can be proposed that for small and medium enterprises, (1) entrepreneurial orientation explains economic outcomes but not social and environmental outcomes, and (2) collaborative orientation explains business sustainability, as measured by economic, social, and environmental outcomes. In addition, environment uncertainty positively moderates the relationships between entrepreneurial orientation and economic outcomes and between collaborative orientation and business sustainability. Hence, theoretical framework for the study is illustrated in the Figure 2.3.



Note: - Hypothesis is bold for direct effect
- *Hypothesis is italic bold for indirect effect*
- <u>Hypothesis is underlined bold for moderating effect</u>

Figure 2.3 Theoretical Framework for the Study

This chapter has reviewed academic literature and previous related studies pertinent the constructs of interest, including business sustainability, entrepreneurial orientation, collaborative orientation, and environment uncertainty. Business sustainability can be assessed by capital, operations, and outcome approach. For the study, outcome approach is focused as the ultimate sustainable indication for small and medium enterprises. Based on entrepreneurship theory, the study justifies that entrepreneurial orientation explains only economic outcomes but not social and environmental outcomes. However, this orientation is unable to support the enterprises to bring about all desired outcomes. Therefore, the study introduces collaborative orientation, conceptualized by stakeholder theory, as another orientation for business sustainability.

Moreover, the study proposed environment uncertainty as having moderating effects on the relationships between the two orientations and business outcomes. Finally, their associations were proposed. The chapter is able to facilitate developing research methodology, as presented in the next chapter.