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To Link this Article: http://dx.doi.org/10.6007/IJARBSS/v8-i4/3994  DOI: 10.6007/IJARBSS/v8-i4/3994

Received: 21 Jan 2018, Revised: 28 Mar 2018, Accepted: 05 April 2018

Published Online: 08 April 2018

In-Text Citation: (Kareem, Azmin, & Ahmad, 2018)

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Vol. 8, No. 4, April 2018, Pg. 11 - 23

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The Influence of Islamic Work Ethics on the Magnitude of Organizational Culture’s Effect on SME Performance in Nigeria: A Conceptual Framework

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Abstract

The performance of SME is a powerful engine that propels the growth and development of a nation. This is because majority of the businesses in various countries consist of SME and thus contribute immensely to the productivity, employment, innovation and industrialization. While extant literatures have highlighted the effective utilization of factors of firm resources in the achievement of firm performance, others argued that these factors may not be capable enough to attain such fit except through a contingent variable. Given that ethical crises in organizations have become increasingly high and thereby affecting their performance to the extent of threatening their survival. Islamic work ethics was suggested to provide guidelines that would enhance quality management and organizational outcomes. Hence, the main purpose of this study is to conceptualize a framework that explicate the moderating role of Islamic work ethics (IWE) in the relationship between organizational culture (OC) and SME performance. A critical review of literatures that highlight the varied effects of OC on performance is carried out. The major contribution of this study to the body of knowledge is the introduction of IWE concept into the relationship between OC and performance. Limitation and future research recommendation is provided.

Keywords: Islamic Work Ethics, Organizational Culture, SME Performance

Introduction

The economy growth and development of both developed and developing countries depend vehemently on the performance of Small and Medium Enterprises (SMEs) (Resnick, Cheng, Simpson & Lourenco, 2016). This is because SMEs constitute the larger part of the total
businesses in most countries of the world (Firoozmand, Haxel, Jung, & Suominen, 2015; Muller, Caliandro, Peycheva, Gagliardi, Marzocchi, Ramlogan & Cox, 2015). The sector presently account for over 95% and more than 50% of all businesses and employment respectively in the United States, United Kingdom, Japan, Nigeria and many other countries (Annual Report of EU SMEs 2016; SMEDAN & NBS, 2013). Consequently, this sector contributes enormously to GDP, export, innovation and technology as well as improve people’s standard of living through poverty alleviation (Alrousan & Jones, 2016; Bouazza, Ardjouman & Abada, 2015).

However, as a measure to position this sector to the level that will enhance its capability to pivot the development of the economy, government of many countries make SME a priority in their National Development Plan (Moffat & Kapunda, 2015). Programs and policies that can make SME sector a viable impetus for economic growth were established in many countries. Abruptly, the huge investments and massive support directed toward this sector could not salvage the depleting performance of SMEs in most of the developing countries of the world (Alrousan & Jones, 2016; Bouazza et al., 2015).

The common challenges identified to be bedeviling SMEs in developing nations are; bad economic situation, government instability, inconsistent polices, lack of transparency and unethical practices, lack of infrastructural facilities, lack of managerial and entrepreneurial skill, high cost of operation, inadequate marketing strategy, low technology capacities, inadequate finance and difficulty in accessing credit facilities (Alrousan & Jones, 2016; Bouazza et al., 2015).

In developed countries, access to credit facilities is a major challenge faced by SMEs and this is due to the recent global financial crisis (Annual Report of EU SMEs 2015; 2016; Muller et al., 2015). However, the consequence of non-performance of SMEs in developing countries is the resultant low contributions to GDP. A comparison with the developed countries indicate that the average contribution to GDP in less income countries (16%), middle income countries (39%) and high-income countries (51%) (Hashim, 2015). Additionally, there exist wide gap usually double, in the SMEs productivity relative to large firms in developing nations than the developed ones. For example, in some developing countries, large companies are about ten times more productive than small companies (International Trade Centre, 2015). Similarly, the capability gaps between SMEs and large firms are often widest in less developed countries and one vital reason for this is weak business environment and differences in businesses’ connectivity performance (SME Competitiveness Outlook, 2015).

Recently, SMEs in Nigeria are contributing very low to GDP (9.3%) due to the inability to leverage on the abundant human and natural resources available in the country to enhance their performance (Afolabi, 2013; SMEDAN & NBS, 2013). Another salient problem causing the lack of performance of SMEs in Nigeria is the inadequate implementation of some factors of organizational resources, for example organizational culture (Aminu, Mahmood & Muharram, 2015) as well as unethical business practices (SMEDAN & NBS, 2013). As indicated in Table 1.1, SMEs contribution to GDP in Nigeria is the lowest with 9.3%, while other countries such as USA (60%), UK (50%), China (60%), Malaysia (36%) and so on having double-digit figures.
Table 1.1: Contribution of SMEs to GDP

<table>
<thead>
<tr>
<th>Country</th>
<th>% Contribution to GDP</th>
</tr>
</thead>
<tbody>
<tr>
<td>USA</td>
<td>60</td>
</tr>
<tr>
<td>UK</td>
<td>50</td>
</tr>
<tr>
<td>China</td>
<td>60</td>
</tr>
<tr>
<td>Nigeria</td>
<td>9.3</td>
</tr>
<tr>
<td>Taiwan</td>
<td>55</td>
</tr>
<tr>
<td>India</td>
<td>18</td>
</tr>
<tr>
<td>Malaysia</td>
<td>36.3</td>
</tr>
<tr>
<td>South Africa</td>
<td>57</td>
</tr>
<tr>
<td>Ghana</td>
<td>53</td>
</tr>
</tbody>
</table>


Given the existing research which underlines that the effective management of resources owned and controlled by a firm will greatly determine firm’s performance (Penrose, 1959). And that superior performance is attained when a firm effectively and efficiently utilize the resources its owned distinctively (Barnley, 1991; Lonial & Carter, 2015; Ringim, 2012). Therefore, within the framework of resource based theory (RBT), organizational culture (OC) have been regarded as distinctive firm resources which if integrated successfully into organization can lead to firm performance (Daud & Yusoff, 2010; Shirokova, Bogatyreva, Beliaeva & Puffe, 2016). More so, the concept of work ethics has been linked with organizational performance in various studies with emphasis that unethical practices in business is capable of degrading performance and can be a threat to firm survival (Manan et al., 2013, Marri et al., 2013). Islamic work ethics (IWE), as the ethics drawn from Islam was found to be positively related to organizational outcomes (Abbasi et al., 2012; Farrukh et al., 2015; Haider & Nadeem, 2014; Imam et al., 2015).

Therefore, drawing from RBT paradigm and concept of IWE, this study aims to conceptualize a framework to explain the moderating effects of IWE on the relationships between OC and performance of SME. The study contributes to the research stream by broadening the under-research nexus of work ethics from the Islamic perspective. A comprehensive literature review on related studies was carried out to achieve this effect. The remaining part of this study is organized as follows: the literature on SME performance, OC and IWE are presented. Then the conceptual framework and proposed research hypotheses. Lastly, limitation, suggestion for future study and conclusion.

**Conceptual Background and Hypotheses**

**SME Performance**

Small and medium enterprises (SME) performance is vital as it depicts the key driver and indices for a country’s level of employment, industrialization, modernization, urbanization, income per capital, equitable distribution of wealth, and standard of living of the citizens (Aremu & Adeyemi, 2011). It is the level of business success attained in terms of profitability, sales growth, investment level, effectiveness, efficiency, growth and productivity (Akande, 2011; Kamyabi & Devi, 2012; Wilden et al., 2013). Performance is the consequence of initiating and practicing effective management process (Man, 2009). Extant literature portended that performance can either be financial or non-financial. Performance of SME is the strategic process through which
the SME owners/managers implement their management operations and functions to enhance business performance. However, from the definitions of SME with regards to various countries and based on the level of industrial development and economic growth, some firms that are considered large in developing countries might be small or medium in developed ones (Tiwari & Swarup, 2013). For instance, in the Europe, SMEs is defined as any business that employs less than 250 people, an annual turnover of 50 million euro and has a balance sheet figure of below 43 million euro. Micro and small enterprise employ between 5 and 10 people, annual turnover and balance sheet total of between 2 and 10 million euro (Annual Report on EU SMEs, 2016). In Egypt, SMEs are business enterprise that employs between the range of 5 and below 50 people, while in Vietnam, this consist of firms that employ between 10 and 300 employees. The World Bank defines SMEs as any business that employs about 300 people, earns annual revenue of US$15 million, and asset worth US$15 million. The perspective of Inter-American Development Bank is different as SMEs is considered as a business that employs up to 100 people and earn revenue of not more than US$3 million (Dalberg Global Development Advisors, 2011).

However, the criteria used to categorize SMEs in Nigeria includes, number of workers, sales turnover, asset base, investment or a combination of any of these. Hence, the definition of SME in Nigeria from SMEDAN is any firms with workers’ size of 10 to 49 and asset base of ₦5 million to less than ₦50 million are regarded as small enterprises, while firms with workers’ size of 50 to 199 and asset base of ₦50 million to less than ₦500 million are classified as medium enterprises. Table 2.2 below shows the definition of SMEs in Nigeria. In a case where there is conflict of classification with regards to the criteria given in the Table 2.1 below, then the employment-based classification takes precedence, for example, assume that an enterprise has assets worth nine million naira but employs 8 persons, the enterprise would be regarded as micro (Kale, 2015).

<table>
<thead>
<tr>
<th>S/N</th>
<th>Classification</th>
<th>Workers’ Size</th>
<th>Asset Base (₦ in Millions) Excluding Land and Building</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Micro Enterprise</td>
<td>5-9</td>
<td>Less than 5</td>
</tr>
<tr>
<td>2</td>
<td>Small Enterprise</td>
<td>10-49</td>
<td>5-Less than 50</td>
</tr>
<tr>
<td>3</td>
<td>Medium Enterprise</td>
<td>50-199</td>
<td>50-Less than 500</td>
</tr>
</tbody>
</table>

Source: SMEDAN and NBS (2013)

Since SMEs consists of firms based on classifications, SME performance can be referred to as the level of business success achieved in terms of profitability, sales growth, investment level, effectiveness, efficiency, growth and productivity (Akande, 2011; Kamyabi & Devi, 2012; Wilden et al., 2013). Thus, SME performance is directly related to the success and survival of SMEs which can be associated with the economic performance of the country (Mohammed & Obeleagu-Nzelihe, 2014). Though the analysis of the linkage of SME performance and economic growth could be complicated, organizational culture can play a vital role in the performance of SME and thus economic development (Eniola, 2014).

Organizational Culture
The achievement of superior performance of firm is driven by OC. It is an important factor that enhance profitability and performance (Singh, 2016). OC entails the way things that go on within
an organization is perceived by the workers (Hofstede, 2011). It has also been acknowledged as the “normative glue” that clutches members of an organization together and can thus positively influence the business outcomes (Singh, 2016; Willar et al., 2016). A standpoint that establishes the vital role of OC as a key strategic business driver that can enhance the achievement of performance and competitive advantage in any organization. Thus, the vital role of OC in relation to many organizational outcomes has been emphasized by prior research. Ajmal and Helo (2010), and Tseng (2010) reported its impact on the achievement of long term success of organizations. While Azanza, Mariano and Molero (2013) highlighted OC’s influence on job satisfaction and employee retention. Other studies that also emphasized the important role of OC includes; Coffey (2010) and Yazici (2011) project performance, Ul Mujeeb and Ahmad (2011) employee performance management, and Wiewiora et al. (2013) knowledge sharing.

Defining the concept of OC, many authors gave different definitions with respect to certain situations and context (Al-bahussin & El-garih, 2013). Schein (2010) defined OC as a set of values, practices, symbols, and assumptions that are shared by personnel of an organization with respect to applicable meaning and rules of behavior. While Hofstede (2011) defined OC “as the collective programming of the mind that distinguishes the members of one group or category of people from others”. Singh (2016) portended that OC can be regarded as “the set of symbols, beliefs, core values, forms i.e. process of communication, strategies, shared values which serve as the foundation for the organization and act as a collective programming action through which people feel related to each other and these set of beliefs and value systems gets transmitted from generation to generation and makes it unique from another organizations” (p. 199). As much as the definition are differently given, so also are the dimensions of OC. According to Hofstede (2011), there exist six dimensions of OC with respect to countries differences, namely; power distance, uncertainty avoidance, individualism versus collectivism, masculinity versus femininity, long term versus short term orientation, and indulgence versus restraint. Helmreich and Merritt (1998) argued that OC dimensions is applicable to organizational and occupational level and not national level alone, thus resulting to another six dimensions by Hofstede (2011) as; process-oriented versus results-oriented, job-oriented versus employee-oriented, professional versus parochial, open systems versus closed systems, tight versus loose control, and pragmatic versus normative. Cameron And Quinn (2011) presented competing value model (CVM) that led to four dimensions of OC as clan culture, adhocracy culture, hierarchy culture and market culture. More so, is the popular Denison’s (1990; 2000) dimensions of OC which includes; mission, adaptability, consistency, and involvement. Importantly, with these variation of dimensions, OC were studied by many authors in relation to firm performance. But the question of which dimension best explained OC still remain unanswered and thus continue to generate controversies as regards how OC can best impact on performance.

Organizational culture and Performance
Extant studies have investigated the relationship between organizational culture (OC) and the performance of firms establishing diverse result. Many of these studies indicated that OC can have a significant influence on the long-term success of organizations, for example, Ajmal and Helo, (2010) and Yazici (2010) as well as on project performance (Coffey, 2010). Other studies found a contradictory result, emphasizing negative relationship between the constructs, and some reported a weak linkage such as, Karyeija (2012) and Uzkurt et al. (2013).
However, Coffey (2010) found that various cultural traits appear to be closely linked to objectively measured organizational effectiveness. Mujeeb, Masood and Ahmad (2011) established that all the dimensions of OC have a significant and positive relationship with the performance management practices. Subsequently, Prajogo and McDermott (2011) examined the relationship between OC and organizational performance at the operational level focusing on the multidimensional relationships between OC and operational performance. The findings established a significant and positive relationship between OC and performance. Slater, Olson and Finnegan (2011) found in their study that cultural orientation plays a role in creating superior performance. This is an evidence that culture has a significant and positive relationship with performance. Shah et al., (2011) examined the influential role of culture on leadership effectiveness and organizational performance in Pakistan and thus revealed a significant and positive relation between culture and performance. Yazici (2011) and Duke and Edet (2012) also reported positive relationship between OC and organizational performance.

Conversely, Karyeija (2012) study revealed negative association between culture and performance. Similarly, Lo (2012) empirically tested the relationships between managerial capabilities, OC and organizational performance. The result shows a negative linkage between both managerial capabilities and OC on financial performance. Hence, these two reports agreed and concluded that OC has no significant relationship with organizational performance.

Additionally, Mudili (2011) examined the performance based reward and national culture from Indian culture, using survey questionnaire to collect data from the executive officers of companies and regression methods for data analysis. The outcome of the study reported mixed result. Three of the four cultural dimensions supported the relationship between culture and performance, while only one reported a negative relationship between culture and performance. However, Sokro (2012) established that OC has an indirect impact on organizational performance.

Sturman, Shoa and Katz (2012) examined the consequence of culture on the curvilinear relationship between performance and turnover, using survey and regression method. The findings indicated that cultural factors have a direct influence on profitability, turnover and influence performance, meaning a positive linkage between culture and turnover and performance. Cheung, Wong and Lam (2012) reported a significant relationship between innovation and organizational performance. As a conclusion, all these studies accorded that culture has significant and positive effects on organizational performance. Al-, Uzkurt, et al. (2013) found OC to have a weak effect on the dimensions of firm performance. However, with the varying empirical results from various literature as discussed, this study hypothesized that:

**H1:** Organizational culture will have a positive impact on SME performance.

**Moderating Effect of Islamic Work Ethics**

The ever-increasing research on Islamic work ethics was initiated by the work of Max Weber (1958) on the role of work ethics in Europe and the role religion can play in attaining economic advancement. Work ethics with regards to Weber’s theory, include many quality elements such as less leisure and long working hours, hardworking, perfection in doing job, feel pride in the job, recognize achievement, wealth accumulation, thrift, frugality and prudent in investment (Ali, Falcone & Azim, 1995). Therefore, work ethics is construed as the rules of behavior designed by an organization in overseeing behavior and actions of workers, to ensure that they abide by the determined principles (Wan & Wan, 2012). However, the extent of ethical climate at workplace
will have huge impact on organization attainment of competitive advantage (Manroop, Singh & Ezzedeen, 2014). Ethics in workplace becomes very critical as the tendency to facilitate positive economic development of a country is immense (Abdullah & Zainol, 2011). More so, the impact on the achievement of organizational outcomes is plausible (Abbasi, Mir & Hussain, 2012; Haroon, Zaman & Rehman, 2012; Muhammed, Sonia & Shaheen, 2015; Rokhman, 2010). Thus, instilling ethical behavior practices in the workplace by the management can play vibrant role in achieving organizational performance (Ali, 2005; Rokhman, 2010). To this effect, developing nations demands a cohesive work ethics that is distinct. Most especially, it has been proven empirically that the concept of work ethics is present in every culture, though with different values and attributes (Arsalan, 2000).

Despite the consideration of work ethics as a key factor in the management of organization (Yesil, 2012), it beyond the imagination how recently many organizations are ensued with performance crises to the level of inability to continue in business as a result of unethical practices in workplace (Manan, Kamaluddin & Putheh Salin, 2013). Big organizations from the Western world such as Arthur and Anderson, Enron, and WorldCom were all affected by ethical crises (Marri et al., 2013). Unethical practices by the management are the causes of most bankruptcy that occurred in theses organization (Sanusi, 2010). Thus, SMEs are not left out as the depletion in their performance the effects of low contribution to GDP and economic development. Thereby calling for stable work ethics that would improve the management practices (Chan et al., 2013; Lennerfors, 2013). This is specifically required in developing and developed nations where moral and ethical issues are of great concerned, given that the development of any nation vehemently depends on SME performance (Eniola, 2014).

The concept of IWE was derived from The Quran, the practice and sayings (Sunnah) of Prophet Muhammad (PBUH), and the consensus of Muslim scholars (ijma’ulama) (Ali & Al-Owaihan, 2008; Fauzwdi, Abu Bakar & Hishamudin, 2008). The Quran preaches and teaches justice and honesty in business endeavors, as much, the commitment to work is perceived as a virtue in IWE (Farsi, Shiraz, Rodgarnezhad & Anbardan, 2015). Islamic ethics oblige every individual to abstain from doing evil and encouraged the practice of goodness in every facet of life (Ali & Al-Owaihan, 2008; Manan et al., 2013). Therefore, Islam presented a unique viewpoint about ethics and articulated detailed conceptualization of work ethic. Especially, work in Islam embraces moral, psychological and social aspects which crave for improvement in economic development and wealth creation (Aldulaimi, 2016; Ali, 2005). IWE was explicated from three vital facets of social, attitudinal and humane, and a positive relationship with individualism reported (Alam & Talib, 2015). Also found by Athar, Shahzad, Ahmad and Ijaz. (2016) was positive relationship between IWE, Job Satisfaction and Organizational Commitment. Thus, this study suggests that IWE can play key role in enhancing the degree of employees’ commitment at workplace. IWE further signify that successful application of management strategies in the workplace will afford the organization with higher probability to accomplish performance (Athar et al., 2016). Therefore, based on the tenet that explicate the introduction of moderating factor to boost the impact of independent variables on dependent variable (Baron & Kenny, 1986; Preacher, Rucker & Hayes, 2007), this study proposes that:

H2: Islamic work ethics will enhance the impact of organizational culture on SME performance.
Conceptual Framework
Based on the literature review on OC, IWE and firm performance, a conceptual model that explain the direction of relationship between these variables were developed. As depicted in the path model, a positive direct linkage from OC to SME performance exist, while IWE moderates the effect of OC and SME performance.

![Conceptual Framework](image)

**Figure 1: Conceptual Framework**

Conclusion, Limitation and Future Research
This study developed a conceptual framework that explain the moderating effect of IWE on the relationship between OC and SME performance. With emphasis on the vital role IWE can play in enhancing the effect of OC on SME performance. Therefore, it is imperative for organization to consider the practice of IWE as it possess the guidelines that can assist the organization to enhance the management capabilities in a more quality and successful way for performance achievement (Aldulaimi, 2016). However, the major limitation of this study is the absence of data to empirically test and confirm the hypothesized relationship as well as affirm the conceptualized model, hence future research should consider statistical test of this relationships most especially in a less developed country. More so, the study considered only one factor of organization resources which might not be enough to explain the extent of performance, and the fact that organizations are or may be in possession of more resources with the combination of which can better impact performance. Therefore, future study should delve into testing a combination of resources and determine the extent of the effect of IWE on the combination of these resources impacts on performance.
References


