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## Social Enterprise: An Assessment of its Ethical Principles and Inclusive Growth Program

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**Abstract:** This is a case study which aims to stimulate future framework in the most interesting mechanisms and models of social enterprise, corporate social responsibility (CSR), ethical principles, and inclusive growth. The researcher aims to align the different ethical principles, and to assess if a social enterprise like F.A.R.M. practices CSR and truly promote inclusive growth, which can be replicated not only in the Philippines, but moreover in the ASEAN region. F.A.R.M. is a social enterprise in Baao, Camarines Sur, Bicol. Its prime objective is to help the Barangay women, by providing simple livelihood activities; promote environmental preservation; and offers college scholarship to the local out of school youths. The Theoretical Framework used in this study is based on Stakeholder's theory. This paper aims to know the following: 1) Description of the Ethical and Social Responsibility practiced by F.A.R.M.; 2) Analysis of the Ethical and Social Responsibility Issues within the enterprise; 3) Evaluation if the promotion of Social Responsibility and Inclusive Growth are attained, 4) Recommendation to stimulate replication in the ASEAN region. This study uses descriptive evaluative research design, utilizing primary data through personal interview from the owner and conducted survey to enterprise' workers using Perceived Leadership Integrity Scale (PLIS by Craig and Gustafson,1998). Data collected was analyzed through quantitative design utilizing mean, frequency count and coefficients through statistical tool Stata. Secondary data were also utilized coming from journals, and internet. The study concludes that F.A.R.M. is promoting ethical standards and inclusive growth for their community. However, due to limited time, the researcher recommends further research study to use the Stakeholder's Theory by using other social enterprises nationwide, so as to create "ripple effect" not only in the Philippines but in the ASEAN region as well.

**Key Words:** Social Enterprise; CSR; Ethical principle; Stakeholder's Theory; Inclusive growth



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## 1. INTRODUCTION

### 1.1 Background

Coming from the assumption that a social enterprise is created to uplift the bottom line known as 3Ps – People, Profit and Planet, or also known as social, economic and environmental, while producing valuable goods, this study aims to answer the questions - are social entrepreneurs socially responsible? Does it follow that when one is a social entrepreneur they are highly ethical people? Moreover, do social enterprises really promote inclusive growth over maximizing profit? Those are challenging questions that this study aims to analyze and shed light. Further, this research does not presume that the social enterprise is set up to “do good” in simplistic terms, but examine critically how it is organized, with what intentions and outcomes, and social value it provides.

#### 1.1.1 What is F.A.R.M.?

Fabulously Absolutely Rural Made (F.A.R.M.) was initially established in 2010 as a micro enterprise in Baao, Camarines Sur, Philippines, which is approximately 400km south of Manila. F.A.R.M. produces fashion accessories from discarded and upcycled buttons. Its proprietor is Ms. Bernadette delos Santos, a graduate of Business Management from one of the top universities in the Philippines, worked abroad and locally, until she finally decided to settle back in her home town. The micro business enterprise eventually evolved as a social enterprise, since the proprietor is a strong advocate of environmental preservation and empowering women. Presently, F.A.R.M. has the prime objective to help the community Ms. Delos Santos is based in, by providing simple livelihood activities, offering college scholarship to the local youths, and preserving environment by focusing on the reuse and recycle of materials particularly unused or outdated buttons. F.A.R.M. is also in collaboration with the Regional Office V of Department of Agriculture (DA) and Department of Trade and Industry (DTI), and has been awarded for doing Good Agricultural Practices (GAP) and has been the laboratory of said government agencies for its various agricultural and trade programs, respectively.<sup>1</sup>

In 2016, Ms. Delos Santos muses that upon reading a research article on the hazardous impact of denim (or known as blue jeans) in the environment, she hastened to reuse and recycle old denim jeans, thus, F.A.R.M. launched its “wild indigo dream products.” Product lines such as tote bags of different sizes, cushion covers, and vanity cases for men were produced from recycled denim jeans.<sup>2</sup>

### 1.2 Objectives/Statement of the Problem/Significance of the Study/ Scope and Limitation

This study aims to answer the following: 1) What are the Ethical and Social Responsibility programs practiced by the enterprise?; 2) What are the current problems and issues within the enterprise in relations to ethics and CSR; 3) How does F.A.R.M enterprise promote and attain Social Responsibility and Inclusive Growth; 4) What action plans can be recommended so as to sustain and replicate its programs in other parts of the Philippines and ASEAN region?

Scope of the study will be on the discussion of F.A.R.M. as a social enterprise, its inclusive growth programs and other ethical principles practiced by the proprietor within the operation of the enterprise. The research study limits its discussion on some ethical principles – Stakeholder’s Theory, Kantian’s categorical imperative/Deontological and Utilitarianism, and Corporate Social Responsibility to support ethical issues within the operation of F.A.R.M. as a social enterprise.

The research is deemed significant to increase number of Social Enterprises in the country which can be replicated in the ASEAN region that will continue promoting ethical standards and promote inclusive growth.

### 1.3 Framework

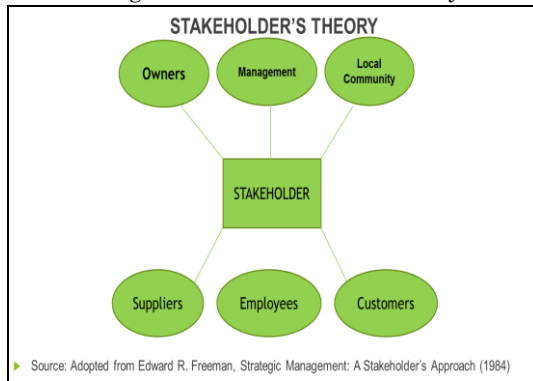
Using Stakeholder Theory or Corporate Social Responsibility (CSR), this study wish to present a wide range of corporate practices and policies balancing economic growth, environmental action and community involvement.



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This study used the concept of Friedman and Miles (2006) and Bowie (2002) that the goal of an ethical business is thus, to seek the optimal balance among stakeholders, including colleagues, creditors, customers, suppliers, employees, investors and local communities.

Figure 1 – Stakeholder’s Theory



Hence, as its theoretical framework, this study adopts Stakeholder’s theory which holds that business organization must play an active social role in the society in which it operates. Freeman (1984) one of the advocates of stakeholder theory, presented a more positive view of manager’s support of CSR. He asserts that managers must satisfy a variety of constituents (e.g. investors/owners and shareholders, employees, customers, suppliers, government and local community organizations) who can influence firm outcomes. In the study of Bolanle (2012), also citing Freeman’s (1984), Stakeholder’s Theory as a framework for business ethics because it acknowledges the plurality of values and moral agency on different levels, and gives a better understanding of a company’s complex moral responsibility.

## 1.4 Review of Related Literature/Studies

### 1.4.1 Social Entrepreneurship

In the book entitled Handbook of Research Methods on Social Entrepreneurship by Seymour (2012), it mentioned that the profile and popularity of social entrepreneurship are rapidly rising. This may be due to a number of factors including 1) the seemingly rolling crises in the world economy; 2) the concern that capitalism lacks a moral heart; and 3) recognition that management education has lacked a framework or purpose that is “good.”<sup>4</sup>

In the journal article entitled “Social Entrepreneurship and Business Ethics: Does Social Equal Ethical?” (Chell, Spence et al. 2014) they cited Kickul et al. (2013) noting that Social Entrepreneurship (SE), like its parent Entrepreneurship, has suffered the imponderable challenges of clarification, definition and differentiation. Protagonists have offered different approaches, e.g. Austin et al. (2006) have compared SE with Entrepreneurship and identified four key differences: the nature of emergent opportunities; differences in mission; differences in resource mobilization and management and performance measurement especially of social impact. Further, Weerwardena and Mort (2006) have approached an understanding of the characteristics of Social Enterprises from a small case-based study of predominant characteristics that shape actions: environmental dynamics, innovativeness; proactiveness, risk management; sustainability; opportunity-seeking/recognition and social mission. This appears to be so like the characteristics of Economic Enterprises—EEs—with only social mission as the apparent differentiator (although some researchers have disputed that the nature of the mission is necessarily so pure). The creation of social value per se is not in dispute but the approach, means, method and outcomes are. Thus, some authors have talked of a continuum between SE (notfor-profit) and Economic Enterprises (for-profit) (Dees 1998; Chell 2007). Furthermore, if the mission and motives are “impure” then this potentially raises a number of ethical issues and questions. More recently, Dacin et al.(2011) have acknowledged social value creation, defined as the primary mission of social entrepreneurship, as the most promising approach to set the boundaries around the concept. Focusing more closely on the social perspective, Bacq and Janssen (2011), in reviewing various definitions of social entrepreneurship, stress the ideas of a visionary or innovative approach; a strong ethical fibre; an ability to detect opportunities (to address a social need); with a social entrepreneur as change agent and a mission to make a difference.

### 1.4.2 On Business Ethics and Corporate Social Responsibility

In the Journal article of Pearce and Wilson (2013), they said that the fundamental question of business



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ethics is how people should behave when they are in the context of business. As scholars have grappled with this question, business ethics have emerged as specialized normative discipline. In the article, the authors, divided business ethics into three approaches: Profit maximization; social duty and ordinary ethics. By having the three approaches, Pearce and Wilson (2013) offer a conception of business ethics that recognizes the relational dimension of self-interest and identifies mutual benefits as the goal of business conduct.

**Profit maximization.** Proponents of this view assert that profit maximization without deception and within the bounds of the law is the only ethic appropriate for business. They argue that profit maximization is the only strategy consistent with promoting efficient markets and that efficient market represent the highest societal good.

**Social duty.** Although the ethic of profit maximization has become dominant in business school today (Khurana 2007, pp. 303-66), Khurana explains that a “rhetoric of social duty that business education as possessing a higher aim than mere “money making” shaped the “invention of the business school” in the late 19th and 20th century (Khurana 2007 and Kortina 2008). Today, the concept of social duty underlies a range of related approaches to business ethics, including stakeholder theory, contractarian theory, and corporate social responsibility. These concepts seek to explain why businesses and business people have ethical obligations to individuals and communities beyond profit maximization. While these approaches are somewhat distinct, they share a commitment to a social duty that extends to stakeholders other than investors. It is from this perspective that Stakeholder theory took its name. It asserts that business people have responsibilities to the businesses’ range of stakeholders, including colleagues, creditors, customers, suppliers, employees, investors and communities (Friedman and Miles 2006/ Bowie 2002).

Another variation of Stakeholder theory is Corporate Social Responsibility (CSR), a rather broad concept that encompasses a wide range of corporate practices and policies. In general, CSR represents an attempt by businesses to pursue ethical practices not as a matter of conformity with legal mandates, but as recognition that ethical behavior is good for society and in turn good for business (Mullerat 2005).

Moreover, Pearce and Wilson further cited that CSR encourages executives to become moral entrepreneurs who seek to discover how they can transform the market they operate in for the better, and further the needs and interests of those they serve and employ their stakeholders.

**Ordinary ethics.** Pearce and Wilson cited Peter Drucker, a prominent exponent of this view, asserts that “there is one ethics, one set of rules of morality, one code, that of individual behavior in which same rules apply to everyone alike (Drucker 1981). They cited that Drucker offers two specific applications to business conduct. First, he suggests that business leaders exercise “Ethics of Prudence,” which requires them not to act ethically but also to avoid appearance of unethical behavior. Second, Drucker proposes an ethic of mutual obligations, and not rights, between interdependent individuals. Drucker envisions that development of an understanding, similar to Confucian ethics, that particular applications are appropriate to particular relationships (Drucker 1981 p. 35-36)

## 2. METHODOLOGY

The research design used for the study was descriptive evaluative using qualitative and quantitative design.

Primary data collection was through personal interview with the proprietor, also adopting some of the questions and scenarios of The Ethical Leadership Style Questionnaire (ELSQ), developed by Peter Northouse. The survey questionnaire used for the workers and some colleagues of the proprietor was Perceived Leader Integrity Scale (PLIS) (by Craig and Gustafson, 1998). The PLIS had 30 sets of statement or questions, which measures the perceptions of another person’s integrity in an organizational setting. Four responses on the PLIS indicate the degree to which one see that person’s behavior as ethical with a 4 point Likert scale of 1 = Not at all 2 = Barely 3 = Somewhat 4 = Well. However, the scores on items 9 and 30 have to be reversed e.g. (1 becomes 4, 2 becomes 3, 3 becomes 2, and 4 becomes 1. Next sum the responses on all 30 items. A low score on the Questionnaire indicates that you perceive the person you evaluated to be highly ethical. A high score indicates that you perceive that person to be very unethical (Craig &





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Gustafson, 1998), the following interpretations can be made about the total score:

30-32 - Highly ethical: If the score is in this range, it means that you see the person you evaluated as highly ethical. Your impression is that the person is very trustworthy and principled. 33-45 - Moderate ethical: Scores in this range mean that you see the person as moderately ethical. Your impression is that the person might engage in some unethical behaviors under certain conditions. 46-120 - Low ethical: Scores in this range describe people who are seen as very unethical. Your impression is that the person you evaluated does things that are dishonest, unfair and unprincipled almost any time he or she has the opportunity.

Said PLIS questionnaire has translation in the local vernacular, not to undermine the respondents (especially F.A.R.M. workers), but to ensure that they understand the correct context of the questions being rated, to optimize best result of the survey.

The researcher made sure that ethical considerations were applied during the conduct of the survey by ensuring that the respondents were informed on the purpose of the survey, no respondents were below 18, and they were not forced to participate in the conduct of the survey.

The researcher used two sets of sample respondents: 36 workers of F.A.R.M. (5 regular and 31 contractual); 14 colleagues and strategic allies of proprietor coming from 2 government agencies, 1 private company and 1 university.

The research also used quantitative design utilizing percentage and frequency count through statistical tool Stata.

Secondary data was also used through journals, books and internet.

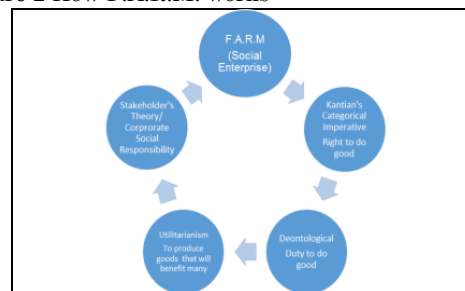
### 3. RESULTS AND DISCUSSIONS

#### Result 1 : Ethical and Social Responsibility programs practiced by the enterprise

Based on the researcher's interview with the proprietor, F.A.R.M. was created based on the proprietor's conviction to do good (Kantian's categorical imperative) especially for the environment - that is to reuse, recycle/upcycle used clothing as quilted bedsheets, table covers etc., and also to upcycle used buttons turned into fabulous accessories for women locally and abroad.

Consequently, the proprietor, personally believes in doing good or the duty to do good (Deontological), thus, employing local barangay women or farmers' wives during in between sowing and harvest period so they can generate income for their family. However, to be able to do her duty in doing good, Ms. Delos Santos has to produce goods and sell them at a fair price to be able to provide income for her employees and will benefit many (the customers). By doing such, she practices the Stakeholder's Theory or Corporate Social Responsibility considering environmental protection as such it becomes a cycle.

Figure 2 How F.A.R.M. works



#### Result 2 Current problems and issues within the enterprise in relations to ethics and CSR

Based on the interview, below are the Ethical and Social Responsibility Issues being encountered by F.A.R.M.

- Manpower related issues – Ms. Delos Santos used to employ Out of School Youths (OSY) but personnel turnover becomes a problem. There is restlessness and some sort of irresponsibility. Thus, she focused on hiring wives and stay-at-home mothers who are more responsible and less supervision. F.A.R.M. have 5 people working on a daily basis, at the shop and have 25-30 people who work on a per piece/work basis who just get the materials from Ms. Delos Santos to work on, bring it to their homes, work there and return the finished product/semi-finished product back for payment. Ms. Delos Santos realized that workforce stability is a great factor in enterprise growth.

- Economic Gaps – Ms. Delos Santos would like to address the economic gaps in the society, by providing an alternative livelihood to wives of farmers. These families rely their income solely during harvest season and become idle during the period between the planting season and the harvesting season. By training



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them skills, they can become productive and earn income even during nonharvest period.

At present, she has workers who report to her shop and get paid daily at P230/day. or P180 with 2 snacks and one lunch. F.A.R.M. have workers who are paid on a piece rate basis, depending on how difficult or intricate the design is. (Author's note F.A.R.M. is covered by R.A. 9178 or also known as BARANGAY MICRO BUSINESS ENTERPRISES (BMBEs). It offers Exemption from the Coverage of the Minimum Wage Law.)

During product development phase, workers are paid by the day as to study the time and motion for use in projecting productivity and making the pay rates per piece/work.

- Educational Gaps. Ms. Delos Santos would also like to address the educational gaps in the society. Thus, part of portion of the profits from F.A.R.M. are used to send scholars to college. She believes, it is only thru education that the next generation will be able to uplift their lives. She also provides training skills to women workers to enhance their capability in sewing and embroidery, and in producing fashion accessories and novelty items.

- Environmental issue. As an environmental advocate, Ms. Delos Santos is staunch to her advocacy in preserving the environment through her products. Thus, she uses recycled buttons, used clothing and recently started collecting used denim (jeans, etc.) and recycle it into beautiful satchels, pouches and cushion covers.

Result 3: How does F.A.R.M enterprise promote and attain Social Responsibility and Inclusive Growth;

On the issue of workforce, albeit Ms. Delos Santos stopped for a while in employing OSYs, she still accepts some OSYs who apply to work on her store or on a piece rate basis. She still believes in giving chance to OSYs as part of her advocacy in "doing good" to the members of her community.

Table 1 shows the demographic profile of the 50 respondents who answered the PLIS survey result from the 50 respondents (36 F.A.R.M. workers and 14 colleagues/strategic allies of the proprietor), minimum age was 21 years old and maximum age was 55 years old. In terms of number of years respondents know Ms. Delos Santos, minimum year is 2 years and

maximum is 10 years, they know or they have worked with F.A.R.M.'s proprietor.

Table 1 Demographic Profile of Respondents who answered Perceived Leader's Integrity Scale (PLIS) survey

Variable	Obs	Mean	Std. Dev.	Min	Max
id	50	25.5	14.57738	1	50
age	50	39.2	9.52119	21	55
noofyears-k-p	50	5.64	2.2566	2	10
s1	50	1.04	.1979487	1	2
s2	50	1	0	1	1

Table 2 shows 100% or all of the 50 respondents who are workers/strategic allies of F.A.R.M. proprietor, perceived her to be highly ethical with a score of 30-32.

Table 2 Result of Perceived Leader's Integrity Scale (PLIS)

Score	Interpretations	f	%
30-32	Highly Ethical	50	100
33-45	Moderately Ethical	0	0
46-120	Low Ethical	0	0
Total		50	100

#### 4. CONCLUSION

Based on the interview and survey conducted, it can be concluded that social enterprise F.A.R.M. together with its proprietor Ms. Delos Santos, is a socially responsible and perceived as highly ethical enterprise and entrepreneur, who promotes inclusive growth.

For further study on the assessment of ethical principles and corporate social responsibility of F.A.R.M, it is recommended that Ms. Delos Santos should provide performance reports to her stakeholders on a regular basis. As this could strengthen, the trust and confidence of F.A.R.M.'s stakeholders— customers, workers, possible investors. Moreover, Ms. Delos Santos should be conscious of continuously performing her "duty of doing good" to have a "sustainable good social enterprise" that would help the marginalized people in her community and that others may follow suit and proliferate social enterprise in the ASEAN region. Consequently, further research can be done using cross section data and PLIS can be conducted with other Social Entrepreneurs and their workers in the country to assess and validate whether the existing social entrepreneurs truly practice ethical principles and promote inclusive programs within their communities.



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