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value creation, i.e. cost reduction and increase of profits, even though they do not explain much of the variance.

**In summary**, this study makes a valuable contribution to a better understanding of the drivers of long-term economic value creation and competitive advantage of responsible and ethical behavior of business leaders. To deepen the understanding of the impact of value orientation on value creation, future research should include more stakeholders in models like the one presented in the paper.

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Model 1 Value creation through increase in profits						Model 2 Value creation through cost reduction					
R	R <sup>2</sup>	Correct. R2	F	Durbin-Watson	Significance	R	R <sup>2</sup>	Correct. R2	F	Durbin-Watson	Significance
,573 <sup>a</sup>	,329	,313	20,742	2,069	,000 <sup>a</sup>	,691 <sup>a</sup>	,477	,467	46,509	1,972	,000 <sup>a</sup>

<sup>a</sup> dependent variable: **increase in profits**

Independent variables: (constant) lower price sensibility, employee satisfaction, reputation/image, employees' motivation, constructive feedback, customer satisfaction

<sup>a</sup> dependent variable: **cost reduction**

Independent variables: (constant) image/reputation, customer satisfaction, employee satisfaction, employees' motivation, feedback, absenteeism

**Figure 4: Summary of the two sub-models**

The findings suggest that the second sub-model is a little better than the first one. The relatively low R<sup>2</sup> in both sub-models are probable due to the exclusion of a lot of other important stakeholder groups. However, the study showed that it is possible to explain economic value creation via instruments/measurements of a value-based interaction with different stakeholder groups.

### Conclusions & Implications

The study of Palestinian small and medium-sized enterprises via addressing the members of the PBMA and GM was designed to shed light on the question whether an executive's personal ethical and moral values can lead to economic value creation. The investigation of an ethical value orientation of executives towards a firm's stakeholders was limited to three different stakeholder groups which had been identified as most important to SMEs.

Various insights have been gained as a result of this study. **First**, the results supported previous findings that employees, customers and society are the most important stakeholders of SME. Particularly, respondents agreed that the value orientation towards employees is very important. **Secondly**, the instruments or measurements chosen to represent the value orientation towards the three stakeholder groups showed internal consistency and proved to be applicable to the assessment of the value basis of executives and their effects. **Thirdly**, the results indicated that there is a significant relationship between the value-based instruments and the proposed organizational effects with regard to the three stakeholders. The value orientation towards employees had a positive effect on absenteeism, employee's satisfaction and motivation level. The value orientation towards customers had a positive effect on customers' satisfaction, their willingness to give constructive feedback and the reduction of price sensitivity of customers. **Finally**, the value orientation towards society has a positive effect on the firm's reputation. All the potential effects lead to economic

Instruments/ measurements  Effects	Participation in decision- making	Employee-oriented design of work	Support of employees	Provision of honest information	Compliance of quality standards	Fair price/performance ratio	Proper dealing with complaints	Donations	Partnerships	Integration of fringe groups	Social engagement of entrepreneur
<b>Employee satisfaction</b>	.267**	.231**	.200**								
<b>Fewer times absent</b>	.226**	.345**	.251**								
<b>Increased motivation</b>	.311**	.286**	.324**								
<b>Customer satisfaction</b>				.167**	.230**	.139**	.279**				
<b>Lower price sensibility</b>				.198**	.198**	.331**	.293**				
<b>Constructive feedback</b>				.284**	.223**	.260**	.309**				
<b>Image &amp; reputation</b>								.296**	.198**	.186**	.260**

\*\* = significant at a (two-tailed) level of 0.01

**Table 4: Correlations**

The findings support the hypotheses. A value-based interaction with the three stakeholder groups leads to positive effects with regard to these groups. Therefore, the last step was to test whether these effects lead to the creation of economic values, i.e. cost reduction and an increase in profits (Hinterhuber 2004).

Two models have been developed for the analysis of values and their impact on economic value creation. Model #1 was designed to test value creation through increase in profits. Lower price sensibility, employee satisfaction, reputation, employees' motivation, constructive feedback and customer satisfaction were chosen as independent variables which should explain the dependent variable "increase in profits". In Figure 4, the regression model #1 explained approximately 33% of the variance ( $R^2 = 0.329$ ). The significance test was also acceptable (Durbin-Watson = 2.069), indicating that there is no auto-correlation.

Model #2 addressed the value creation through cost reduction. This time, image/reputation, employees' satisfaction, motivation and absenteeism as well as customers' satisfaction and feedback were selected as independent variables. 47.7% of the variance could be explained. Like in the first model, the significance test was acceptable (Durbin-Watson = 1.972).

important stakeholder groups was assessed. The author assumed that value orientation towards employees becomes evident in three different kinds of instruments: employee participation, employee-oriented design of work as well as support and gratification of employees. These subscales proved to be satisfactorily as Cronbach's alpha was 0.81. Four items were chosen to measure the value orientation towards customers: Compliance with quality standards, provision of honest information, proper dealing with customers' complaints and the offer of a fair price/performance ratio. The Cronbach's alpha value was also satisfactorily ( $\alpha = 0.827$ ). Finally, the instruments/subscales of value orientation towards society were defined as donations, partnerships, integration of fringe groups and the executive's social engagement. The alpha for these four subscales accounted for 0.797 and therefore could be accepted as it lies above the generally established value of 0.70 (Nunnally/Marlowe 1997).

**Scale:**  
5: applies very much  
1: does not apply at all  
0: no answer

		Support of employees	Employee-oriented design of work	Participation in decision-making	Compliance of quality standards	Provision of honest information	Proper dealing with complaints	Fair price/performance ration	Social engagement of entrepreneur	Donations	Partnerships	Integration of fringe groups
N	valid	261	261	261	261	261	261	261	261	261	261	261
	missing	0	0	0	0	0	0	0	0	0	0	0
<b>Mean</b>		4,17	4,17	3,98	3,95	3,94	3,37	3,74	4,04	3,26	3,34	2,75
<b>Median</b>		5,00	4,00	4,00	4,00	4,00	4,00	4,00	4,00	4,00	4,00	3,00
<b>Stand. dev.</b>		1,32	1,21	1,35	1,42	1,36	1,45	1,40	1,28	1,41	1,43	1,38
<b>Variance</b>		1,74	1,45	1,83	2,02	1,84	2,09	1,95	1,64	1,99	2,03	1,89
<b>Min.</b>		0	0	0	0	0	0	0	0	0	0	0
<b>Max.</b>		5	5	5	5	5	5	5	5	5	5	5

**Table 3: Instruments of value orientation**

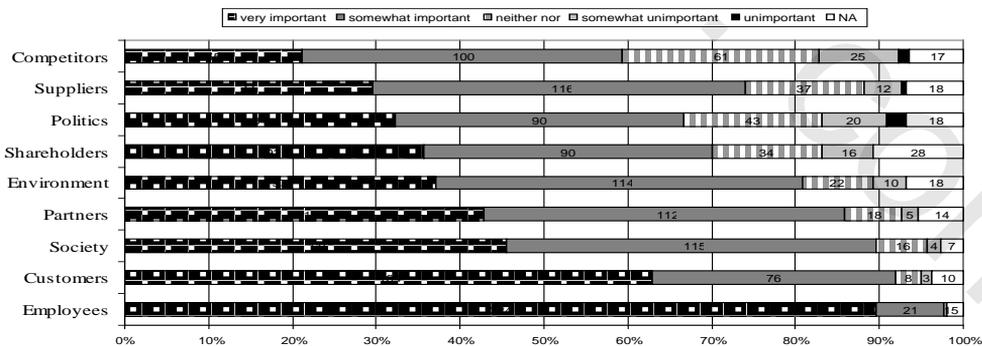
In order to test the hypotheses whether the three instruments/measurements of a value orientation towards employees are positively related to three specific effects (fewer times absent, employee satisfaction, increased motivation of employees) a matrix of Pearson correlation coefficients was calculated. The results in (Table 4) show the correlations coefficients between the instruments of value orientation and their possible effects. The linear relationship is positive and significant. Also, the correlation coefficients for the instruments of value orientation towards customers and their effects on customers are positive and significant. Finally, there is again a positive and significant correlation between donations, partnerships, the integration of fringe groups and the personal social engagement of the executive and the image/reputation of the firm.

	In general	Towards employees	Towards customers	Towards society
<b>Candidness</b>	4,07	4,04	3,82	3,26
<b>Honesty</b>	4,39	4,21	4,06	3,48
<b>Fairness</b>	4,33	4,10	4,00	3,46
<b>Respect</b>	4,26	4,02	3,92	3,39
<b>Trust</b>	4,25	4,11	3,91	3,43
<b>Solidarity</b>	3,69	3,61	3,16	3,05
<b>Reliability</b>	4,49	4,19	3,05	3,49

**Table 2: Personal values and their potential of being realized towards stakeholders**

As can be seen in (Table 2), values cannot be realized equally well with regard to the different stakeholder groups. The personal value orientation of respondents expressed through these seven values is shown most easily towards employees, followed by customers and society. Taking a closer look at the different values, it became obvious that reliability and honesty are those values that can be expressed best in the dealing with the different stakeholders. In contrary, solidarity was least applicable in the interaction with stakeholders.

When it comes to the importance of the personal value orientation with regard to the specific stakeholders, it became clear that according to the respondents, the value orientation towards employees is most important (234 entries for “very important”), followed by customers (164 entries) and society (119 entries). This supports previous findings in the literature. A value orientation towards competitors was perceived as least important. Only 55 out of 261 respondents rated a value orientation towards this group as very important.



**Figure 3: Importance of value orientation**

After having compared the results concerning the value orientation towards all potential stakeholders, the value orientation towards the three most

insight in the respondents' perception of the importance of executives within their companies as well as their role in society. Section C measured the value orientation in general and also with regard to the different stakeholders. Particular focus was on the three stakeholder groups – employees, customers, society. In section D socially responsible behavior was assessed and the last section E was designed to give indication of the demographics of the participants.

Phase Two: began with a pretest of the questionnaire before it was distributed. In August 2015, the questionnaire was sent to all available PBMA members (n=260), and (50) General Manager. From the total population, 261 returned their questionnaire, which lead to an effective response rate of 84.20%. The data analysis for this compete inventory count was done by SPSS 16.0.

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## Results & Discussion

The proposed research model was designed to give an answer to the central research question whether a moral and ethical value orientation will lead to financial value.

Before directing the discussion towards the central research question, the characteristics of the respondents are shown in (Table 1.), The majority of respondents was male and had a university degree. One third of the respondents indicated to be more than 15 years member.

Sex	Male	Female	N/A			
	239	14	8			
Age	≤ 40 yrs	≤ 50 yrs	≤ 60 yrs	≤ 70 yrs	> 70 yrs	N/A
	23	68	56	66	46	2
Education	University Degree	Master craftsman's diploma	University entrance diploma (Abitur)	Secondary school degree	Other	N/A
	172	13	31	35	4	6
Professional status	Pursuing profession career	Retired	N/A			
	203	56	2			

**Table 1: Characteristics of respondents**

In order to assess the value basis of the respondents, they were asked to rate certain values or secondary virtues, which had been identified in the course of the qualitative analysis as being essential. The results (means) are summarized in (Table 2):

influence satisfaction, loyalty of existing customers and also attract new ones.

The four instruments that cause positive effects on social interest groups, namely the executive's personal social engagement, donations and partnerships as well as the integration of fringe groups will create a supportive social environment for the company. Furthermore, the entrepreneur's/manager's engagement will also help acquiring new customers as they notice the firm's social activities and increase the commitment of the firm's employees as they become proud of their company.

All effects mentioned above will either lead to a reduction of costs or an increase in profits, and consequently in the company's long-term value creation. If employees are less absent from work, more satisfied, motivated and committed to the company, work will be done more efficient leading to a reduction of costs, but also to an increase in profits as employees may take initiatives and develop new ideas. The same is true for the firm's customers. Particularly, customer satisfaction and retention, but also lower price sensitivity or the willingness to pay premiums may increase profits. On the other hand, constructive feedback of clients may help improving products and as such leads to a decrease in costs. A supportive social environment affects both profit increase and cost reduction on a long-term basis.

The proposed research model serves as the conceptual basis of an empirical study in order to find out to what extent the instruments/ measurements and their effects are interrelated.

### **Research Design & Methods**

The target population was defined as small and medium-sized companies in Palestine. With regard to this, the Palestinian Securities Exchange [pex.ps](http://pex.ps) consists 50 company, and the Palestinian Businessmen Association PBMA, this association was founded in 1997 and currently consists of roughly 400 members. Both was chosen as research sample.

The research design was divided in two phases. Phase One: included an exploratory, qualitative study via personal in-depth interviews that was conducted in Jon 2015. Eight managers were addressed and interviewed via a semi-standardized questionnaire. The findings of these interviews shed light on questions concerning the value basis and personal motives of socially responsible engagement.

Based on these findings, a standardized questionnaire was designed. It consisted of five sections. Section A was designed to clarify the motives of respondents to become a full member of the PBMA. Section B should give

issue raised in this context is how the ethical disposition of a manager is actually reflected in the daily treatment of the three stakeholder groups.

Based on previous studies, participation of employees in decision-making, an employee-oriented design of work-rules (i.e. flexible working hours, consideration of an employee's needs, etc.) as well as support and gratification of employees have been selected as indicators for a value-based orientation towards the human resources of a company.

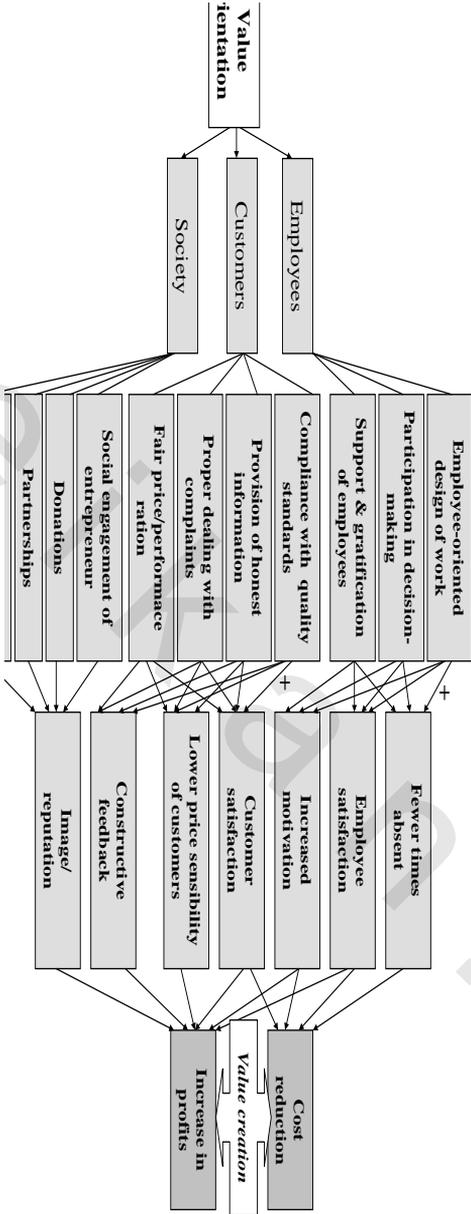
Besides, four instruments have been selected to represent a manager's ethical disposition towards customers: The compliance of quality standards, the provision of honest and true information about the firm's activities, a proper dealing with clients' complaints and finally the setting of a fair price/performance-ratio for the firm's products and services.

Interventions of an ethical manager towards society are reflected in his personal engagement in society, e.g. by volunteering in community organizations. Additionally, donating money to local communities as well as the non-monetary support in form of partnerships is also seen as instruments to show one's ethical disposition towards society. Furthermore, integration fringe groups into the business activities of the firm could also be an indicator for a value-based behavior of the respective executive or entrepreneur.

The effects of these interventions are displayed in the research model. The author hypothesize that participation in decision-making leads to a reduction of times absent, an increase in employees' satisfaction, motivation and overall commitment to the company. It shall be tested whether employee-oriented work-rules end up in fewer times absent. The support and interest for employees' needs and concerns has an impact on all possible effects.

In analyzing the effects of a value-based disposition on customers, it is proposed that the compliance of quality standards leads to satisfaction, loyalty, a lower price sensitivity or the willingness to pay premiums. Being known for quality, a firm will also more easily acquire new customers and make this stakeholder group an active partner in developing new ideas and realizing product or service improvement potential. Secondly, providing honest and true information is suggested to end up in increased satisfaction, customer retention, lower price sensitivity and a constructive two-way communication between the company and its customers. Existing customers might also be willing to pay more and new customers might be attracted by this intervention. Thirdly, dealing with customers' complaints properly will increase their satisfaction, their loyalty and will prompt them to give valuable feedback. Finally, offering fair prices will positively

members of their local community and are therefore the backbones of CSR



for their communities (Habisch 2004). Figure 2:

In this model, it is hypothesized that the ethical disposition of a manager has a positive impact on employees, customers as well as the society. The

regard, effective stakeholder management may be a tool to successfully resolve dilemmas such as generating high returns for shareholders, while on the same time meet the expectation of other stakeholders (Freeman/Gilbert 1987).

Companies must both sufficiently focus on their contribution to the welfare of society in the longer term and contribute to the relationship with their stakeholders and society at large (SER 2001). The decision-making concerning social initiatives has become much more strategic and focused on providing tangible returns to the firm (Margolis/Walsh 2003). Therefore, managing the relationship with stakeholders may help managers to integrate business issues with social responsible organizational behavior.

In a broader scope, an orientation towards sustainability and stakeholders is connected to Corporate Social Responsibility. In this regard, CSR can be defined as the business commitment and contribution to the quality of life of employees, their families and the local community and society overall to support sustainable economic development (Holme/Watts 2000). A pure definition of CSR in terms of the impact of organizational activities misses important points. Instead, social responsibility should be understood as a process, through which individuals' moral values and concerns are articulated (Maclagan 1999).

### **Research Issues & Hypotheses**

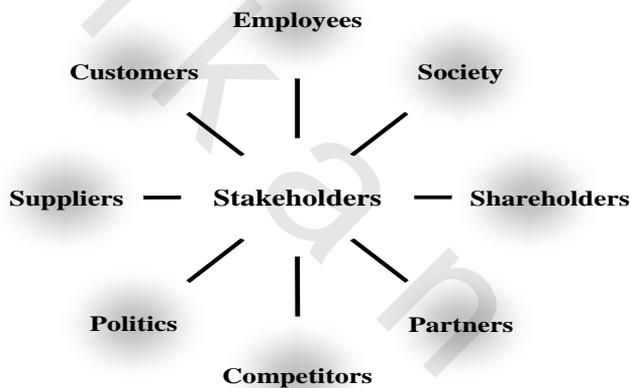
Based on the heterogeneous discussion whether CSR activities lead to economic and financial performance or not, the main question raised in this paper concerns the concrete mechanisms and instruments with which executives demonstrate their responsible behavior and on the same time might influence the firm's financial performance. The paper proposes a research model of the relationship between manager's ethical disposition and the economic value creation of a firm. As such, corporate social responsibility should be understood both as being process-oriented and outcome-oriented (Figure 2).

In the proposed model, it is hypothesized that the ethical disposition of a manager has a positive impact on stakeholder groups, rather than focusing on all interest and influence groups of a company, in this study three out of the whole range of stakeholders have been selected: Employees, customers and society. This selection is supported by literature (see Brammer 2006; Tyrrell 2006 as well as Vogelsang 2004). The authors believe that these three groups play a very important role for small and medium-sized enterprises, which are in the focus of this study. The reason for this particular selection is based on the consideration that small and medium-sized enterprises (SME) quite often act more than large corporations as

(CSR) a research model was developed to test the impact of ethical values on financial value.

### **Corporate Social Responsibility and the Stakeholder Perspective**

Socially responsible leadership and CSR are about the effects of entrepreneurial engagement on the different stakeholders of a company (Habisch 2004). In the wide sense of the stakeholder concept proposed by Freeman (2004), stakeholders are “any identifiable group or individual who can affect the achievements of an organization’s objectives or who is affected by the achievement of an organization’s objective (Public interest groups, protest groups, government agencies, trade associations, competitors, unions, as well as employees, customer segments, shareowners, and others are stakeholders, in this sense)”. Freeman continues that, “any group or individual on which the company is dependent for its continued survival”. The range of possible stakeholders is illustrated in Figure 1.



**Figure 1: Corporate Stakeholders (Freeman , 2004)**

For an organization doing business in today’s turbulent environments, stakeholders may be seen as important sources for long-term value creation (Maurer/Sachs 2005). But while there is a wide agreement among executives that customers, employees and suppliers have a stake in the enterprise, there is still some resistance against the inclusion of adversary groups such as competitors (Freeman/Reed 2004). Obviously, a company’s stakeholders vary considerably in their nature and characteristics, as some are internal stakeholders while others are external to the company. For a firm it is vitally important to know who the relevant stakeholder groups are, what they expect and how managers can meet their legitimate claims (Post 2002), in order to be able to balance their demands and interests. With this

process-oriented and outcome-oriented model which was then tested empirically. The results indicate that there is a positive relationship between ethical issues and financial values.

### **The Impact of ethical Values:**

Business ethics, leadership and social values have become an important issue in business and society and are considered as vital ingredients for the long-term success of businesses (Engelbrecht et al 2004). In the past, unethical behaviour was the basis for corporate scandals, fraud, and harassment at work or the creation of misleading financial reports. Issues like these have sensitized people worldwide towards the degree of social responsibility displayed by companies. Social responsibility of companies in turn is based on the conduct of entrepreneurs and executives at the top.

To contribute to an ethical climate, leaders at the top or business organizations have to feel that there is a need for ethical behaviour and that strategic importance has to be given to ethical and moral values. As characteristics of top level executives appear to be related to organizational outcomes, they are the ones that have to think and act on the basis of ethical and moral values (القريني، 2014).

Values help to both define the “core” of people and explain, why people make sacrifices, who they are and what they are willing to give up to attain their goals. For an organization, values serve to give a sense of identity to its members, enhance the stability of its social system, direct manager’s attention to important issues and guide their decisions. As such, values are an essential part of a company’s overall culture, affecting many important activities and relationships, such as competitive strategies, personnel policies and relationships with different stakeholder groups (Valentine/Barnett 2003).

Values are the basis for defining the normative standards for the organization’s members. They have consequences for the respective organization, including the legitimization of entrepreneurial and managerial actions, the quality of products, improved trust, a greater organizational commitment and increased effectiveness due to a strengthened organizational culture (Engelbrecht et al 2005). Besides, Peters & وهيبه (2014) point out that firms that show superior performance have a well-defined set of shared ethical values. In this regard, values are necessarily and explicitly part of doing business (Freeman 2004).

In this article, we argue that values are essential for creating sustainable economic and financial value because only those organizations which are able to import values and appreciate the relationships with their stakeholders will be successful in the future. In taking into account the Stakeholder theory and the business case of Corporate Social Responsibility

# The Impact of business ethics on value orientation and value creation The Case of Palestine

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**المخلص:** هناك اليوم إدراك متزايد بين المنظمات بأن نجاح الأعمال التجارية المستدامة وعملية خلق القيمة للمساهمين لا يمكن أن يتحقق فقط من خلال تعظيم الأرباح على المدى القصير، ولكن ذلك يتم من خلال السلوك الموجه نحو السوق وتبني المسؤولية الاجتماعية اتجاه كل الاطراف ذوي المصالح (May 2011). لقد اصبحت الشركات ومنظمات الاعمال تدرك أنه يمكن أن تسهم في تحقيق التنمية المستدامة من خلال إدارة العمليات لتعزيز النمو الإقتصادي، وزيادة القدرة التنافسية، مع ضمان حماية البيئة وتعزيز دور المسؤولية الاجتماعية، بما في ذلك مصلحة المستهلك وتحقيق رغباته.

لا شك ان قضية المسؤولية الاجتماعية للشركات قد تم تناولها بشكل مكثف بين الباحثين في السنوات الأخيرة. فقضايا العولمة والقضايا البيئية وفضائح الشركات فتحت الباب امام نقاش كبير حول المسؤولية الاجتماعية من قبل الشركات. والسؤال الذي لا يزال يحتاج لإجابة شافية حول الأثر المالي والاقتصادي لسلوك الشركات من مدخل المسؤولية الاجتماعية. الغرض من هذه الورقة هو دراسة ما إذا كانت القيم الأخلاقية وممارسة المسؤولية الاجتماعية لقطاع الاعمال تؤدي إلى خلق القيمة المالية والاقتصادية للشركات في فلسطين، حيث قام الباحث باختبار نموذج تم اختياره، حيث اشارت النتائج إلى أن هناك علاقة إيجابية بين القضايا الأخلاقية والقيم المالية. **الكلمات المفتاحية:** اخلاقيات الأعمال، المسؤولية الاجتماعية للشركات، الميزة التنافسية، خلق القيمة الاقتصادية.

**Abstract :** Today there is a growing perception among enterprises that sustainable business success and shareholder value cannot be achieved solely through maximizing short-term profits but instead through market-oriented yet responsible behavior, Mahajan (May 2011). Companies are aware that they can contribute to sustainable development by managing their operations to enhance economic growth and increase competitiveness whilst ensuring environment protection and promoting social responsibility, including consumer interest.

The business case of CSR is intensively discussed among scholars in recent years. Globalization, environmental issues and corporate scandals have sensitized people worldwide towards the degree of social responsibility displayed by companies. The question that can still not be answered satisfactorily is about the financial and economic impact of socially responsible corporate behaviour. Therefore, the purpose of this paper is to investigate whether ethical values displayed by small business executives lead to financial and economic value in Palestine. The author developed a