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Impact of ethical practices on small and medium enterprises' performance in Saudi Arabia: An Partial Least Squares-Structural Equation Modeling analysis

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Impact of ethical practices on small and medium enterprises' performance in Saudi Arabia: An Partial Least Squares-Structural Equation Modeling analysis

Abstract

Purpose: The real challenge of establishing and maintaining business ethics in small and medium enterprises (SMEs) has become a global issue. We investigated the driving forces of ethical practices (EP) and its contribution to the overall performance in businesses.

Design/methodology/approach: This study collected primary data from 117 small and medium enterprises (SMEs) in Saudi Arabia by using a well-designed questionnaire survey amongst SMEs and draw inferences using the structural equation modelling (SEM) analysis.

Findings/results: Findings suggested that top management's characters and ethical commitment, ethical policy and culture of the organisation and external pressure positively influence the ethical practice in the organisation, which leads to a significant positive impact on both financial and non-financial performances of SMEs. But the level of fraud and corruption and the level of monitoring show a mixed moderating effect on the relationships between ethical practice in the organisation and business performance.

Practical implications: The findings of this research will help SMEs' administrators and managers, as well as the companies to instil workplace ethics, which manages the level of business performance. The policymakers and other relevant authorities can also utilise the outcomes of this study to develop ethical policy guidelines and frameworks to improve SMEs' competitiveness and sustain their companies in the long run.

Originality/value: The unique feature of this research is that both the causes and effects of EP are considered in one integrated model. This gives a more vivid picture of the ethical issue in a business organisation.

Keywords – *Business Ethics; Business Performance; Ethical Practices; Ethical Policy and Culture; Ethical Commitment; Small and Medium Enterprises (SME)*

1. Introduction

Ethics is vital in business because it forms trust and confidence in business relationships. Business ethics is a unification of the principles that guide the actions of management concerning their stakeholders. Any business should apply the elements of this concept if the business wants to be considered a reliable business partner. Business enterprises would not be able to ensure their sustainable existence without applying business ethics (Dutta & Banerjee, 2011). As a result, recently it has become an established and a first-growing field of interest of corporate and business organizations and within academia (Ajagbe & Ismail, 2014). Currently, the majority of corporations are seriously trying to enhance their commitment to ensuring their social responsibility by implementing the code of Ethics.

Several studies have been conducted business ethics and its impact on organizational performance. But these studies have sadly centered essentially around multinational and large corporations only, even though SMEs perform a major role in the economies regardless of countries. At the same time, SMEs are ethically encountering the true contest to propel their business in current global vibrant and competitive milieu (Crane et al., 2019; Naidoo et al., 2009; Spence & Painter-Morland, 2010). Moreover, due to different features of SMEs and their other limitations, SMEs cannot be dealt with similarly through legislation as in the case of large organizations (Spence & Painter-Morland, 2010; Werner & Spence, 2004). Nowadays, SMEs seek out new opportunities for future profit streams from existing operations, under ethical

practices and businesses need (Kristal et al., 2010). Such attempts require an exclusive evaluation of whether these opportunities translate into improved company success in the current aggressive and competitive environment (Dabor et al., 2015). At the same time, understanding the influencing factors of ethical practices with the link of business performance by utilizing a single integrated model is very rare and difficult. Therefore, the authors tried to fill up these gaps by empirically investigating the scenario of SMEs in Saudi Arabia, and the intention of this research is to uncover the driving forces of ethical practices as well as its contribution to the overall performance of SMEs in Saudi Arabia.

Although Saudi Arabia's economy has relied heavily on natural resources since independence, the government has taken several initiatives since 2016 to reduce that dependence and transform it into a multifaceted economy. For example, the government has launched 'Saudi Vision 2030' with a vital goal to develop entrepreneurship by inspiring young talents with the necessary talents, knowledge, and practices. As a result, the number of SMEs has increased and their number is about 90 percent of all businesses but the performance of SMEs is not enough and commendable (AlBar & Hoque, 2019; Jureidini, 2017). Moreover, due to increased fraud cases Saudi government have taken some initiatives to increase responsibility, pellucidity and develop a system of rules, practices, and process. But very little effort has been offered to understand how the adoption and implementation of ethical practices on SMEs can contribute extraordinary guidelines of business. For example, Jenkins and Gibb confirmed that the efforts made by SMEs to embrace and implement policies for broader CSR activities have not been successful due to their misperception of exact requirements (Jenkins, 2004). But to the best of our knowledge, no research has been performed to examine the impact of practices of business ethics in SMEs in Saudi Arabia. By focusing this vacuum, the importance of this research is evidently justified. Therefore, this study tries to find an answer to the following question: Does ethical practices play role in SMEs' overall performance and which elements are affecting the ethical practices in the Saudi SMEs?

This study extended the current literature on business ethics by discovering the key role of ethical practices for the non-financial performance of SMEs. This study has further expanded the existing literature by recording the logical process of how ethical practices influence SME's performance. In addition, this study distinguishes itself from other existing studies by analyzing both the reasons and consequences of ethical practice in a single model. Lastly, this is the first empirical research in the Gulf Cooperation Council (GCC) countries that discovered a link between the practice of ethics and the achievement of SMEs.

The next section highlights literature review and an overview of the theoretical framework of this study followed by the research methodology. The overall results of the study are described in Section 4, followed by discussion section. Finally, conclusions are drawn with the study contribution, implication, limitations, and suggestions for future study.

2. Literature and theoretical background

2.1 Business ethics and ethical practices by SMEs

Before the 1960s, the concept of business ethics was primarily theological and religious. Since then, the concept of business ethics has progressed and has gone beyond just a moral code of right and wrong. Now a days, business ethics lies underneath the umbrella of ethics, which denotes to forming decisions that affirm the stability between the economy, society, and environment to confirm long-term business success concerning ethical behavior. Business

ethics is a most debated topic in our time and there is no common definition of business ethics (Jones et al., 2005) and consequently the theoretical opinions and definitions vary with individual researches, organizations, and countries. There are different definitions provided by scholars though it seems complex to define (Commerce, 2004; Crane et al., 2019; Ferrell et al., 2013). This study utilized the definition of business ethics provided by Ferrell et al. (2013) as they comprised a set of specific principles of business actions and conditions. We considered this definition as we think that it is fit with the objectives of this research, as we are also exploring SMEs and their actions regarding ethics in a global context.

Ethical practice refers to the standards of moral conduct and judgment that any industry professional (employees at all levels of an organization) is expected to uphold. Organizational policies and procedures outline the basis of these activities. This study considered ethical practices as SMEs' professional activities aligned with its core principles, standards, systems, and expectations, supported by its business ethics setup. Ethical practice in an organization also includes policies toward and treatment of employees.

Weinstein (2012) argues that in the 21st century, market influence has moved from producers and dealers to purchasers and users. This means that buyers and customers have control over business sectors, and they influence business performance. Thus, ethical practices in business could be one of the fundamental factors of business success ((Twomey et al., 2016). Moreover, Jones (2000) stated that a business' picture and notoriety might be affected through the great exercises it displays to its clients and overall population. The advantages of ethical exercise empower a business the ability to acquire effective opportunities that set it apart from its competitors (Ahmed, 2009). Haron et al. (2015) stated that SMEs with high ethical rules and a guarantee to upgrading trustworthiness are not only productive as well as bound to prevail in a financially competitive world. Moreover, with the growing part of SMEs around the globe, a moral methodology towards business is basic for them (Dutta & Banerjee, 2011). Consequently, business associations and supervisors need to carry on being ethical and ensure their own business advantages in case they want to endure and stay competitive (Abiodun & Oyeniyi, 2011). SMEs might be not able to perceive such benefits because of absence of ethical practices (Mahmood 2008).

Business practices need the maintenance of fundamental ethical norms, for example, trustworthiness, unwavering quality, and participation. SMEs and other firms can't survive if their chiefs never come clean, if purchasers and merchants never trust one another or if the workers won't offer help to one another and to clients (Branko et al., 2015). Thus, SME owners should consider trust as a key factor in business investment, development and deals (Twomey et al., 2016). Chun et al. (2013) and Twomey et al. (2016) reported a strong and positive connection between ethical practices and monetary success of a business. While Webley and More (2003) has demonstrated that, there is a significant positive link between great economic success and different factors of business obligation. Thus, the above literature confirms that ethical practices in general make the business stronger and have better exposure that attracts clients. As a result, clients happily increase their reliance on these businesses and increase purchases from them. Therefore, in order to achieve that power, SMEs need to practice ethical principles and create publicity (McFarlane, 2013).

2.2 Research hypothesis development

Understanding the underline driving factors of ethical practices is very important to ensure proper ethical practices in the organization. There are many factors available that determine

the level of ethical practices in an organization, such as ethical characters and ethical commitment of top management (employers, etc.), ethical policy, ethical culture of the organization, and external pressures related to ethical practices, etc. As an influential institutional enabler, top management is in a position for formulating ethical standards and a code of ethics for the organization. Thus, they play a substantial role in modelling company culture, atmosphere, and staff views by affecting employees' perceptions and behavior (Blome & Paulraj, 2013; Godos-Díez et al., 2011; Grandia, 2016; Walumbwa et al., 2010). This is because, in organization, managers at various stages perform a crucial part in forming and sustaining moral values and ethical behavior (Madanchian et al., 2018). Moreover, earlier researches validated that the managers' justice and motivation are aligned with trust from staffs (Kalshoven & Zegveld, 2011; Nedkovski et al., 2017). Furthermore, ethical behaviors of the top management also impact the ethical behavior of other employees in different ways. Moreover, these factors are also universally different around the world (Bailey & Spicer, 2007). Although these studies were not in the domain of business ethics, but the results of these studies urged that leader is an essence of ethical exercises. Finkelstein and Hambrick (1996) also acknowledged that the ethical standards of managers are remarkably vital as managers can shape company reputation and practices, and later the moral conduct. Thus, the following hypothesis was proposed:

H₁: The ethical commitment of Top Management has a positive impact on SMEs to engage in ethical practices.

Similarly, the ethical culture of the organization is reflected by the collective views held by the workforce concerning the company's standards, rules, exercise, and process. Three essential aspects must be considered if unlawful actions are to be reduced in order to create an ethical environment for business (Schwarz, 2013). The three elements include (1) The existence of central moral standards in its strategies, progressions, and practices in all respect of the business.; (2) the incorporation of a proper ethics program for example moral teaching; (3) the constant presence of morally correct leadership in front of employees. Because of the devastating cost of corporate failure, investigators, educators, and practitioners have paid more attention to the concept of business ethics and ethical practices. It is a proven fact in the current literature that there exists an excellent bond between organizational culture and the outlooks and habits of employees. (Blome & Paulraj, 2013; Kaptein, 2008; Trevino & Nelson; Verbos et al., 2007; Victor & Cullen, 1988). These investigations narrated a clear influence of employee-focused and community-focused ethical culture on ethical behavior. For example, Kaptain (2006) stated that the lack of ethical culture (normative framework) in the organization led to unethical behavior / practice, which proves that management and workers depend on their ethical reform and good prudence is essential. In addition, Cooper et al. (2000) reported that the ethical atmosphere of a company is a useful weapon for regulating moral practices/behavior. Accordingly, the following hypothesis is proposed:

H₂: Established ethical policy and culture within SME firms enables ethical practices among SMEs.

At the same time, external pressures such as social culture, corporate social responsibility (CSR), the severity of the possible risk, stakeholder pressure, etc. make the organization more exposed to ethical environments. External pressure is an important factor that influences for execution of ethical practices (Diabat and Govindan, 2011). They also stated that the external pressure is gradually flattering most powerful on organization. Such pressures provide business entities with some protection from the volatility they face. The existing literature reported that the external pressure enables firms to practice ethical actions so that their business can get a competitive advantage over its competitors (Bucar & Stalnaker, 2014; Surroca et al.,

2013; Vallaster et al., 2019). Adams & Hardwick (1998) also confirms that companies that are facing substantial outside pressures are likely to practice better ethics to demonstrate their dedication to community obligation. Therefore, the following is proposed:

H₃: External pressure such as (social culture, corporate social responsibility, and stakeholder pressure) has a positive impact on SMEs to practice ethical actions.

Measuring business performance is a broad issue, which can be categorized in many ways, such as financial and non-financial performance. There is a limited literature on business ethics and organizational performance, and the results of the study of the existing study are not completely uniform. For example, some studies found that companies consider business ethical practices as a factor that increase profitability (Chun et al., 2013; Kehoe & Wright, 2013; Novelskaite, 2014). Thus, the outcomes of this study disclose a substantial connection between the level of moral practices and the monetary achievement of the organization. For instance, during the worldwide financial crisis in 2008, the businesses that have overlooked the moral standards and philosophies of sustainable development had substantial adverse consequences to their financial performance (Lewis et al., 2010; Ruiz-Palomino et al., 2013). Moreover, the positive and significant association between the ethical practices and non-financial performance are found by Cuadrado-Ballesteros et al. (2016). Conversely, some studies found that companies consider business ethical practices as a factor that constrains profitability as it only increase business costs (Hwang & Chung, 2018). In spite of the absence of practical proof of the effects of ethical practices on organizational performance (Hwang & Chung, 2018), the existing arguments guides to the subsequent hypotheses:

H₄: Ethical practices are positively associated with SMEs' financial performance.

H₅: Ethical practices are positively associated with SMEs' non-financial performance.

Level of monitoring can play a crucial role to improve the performance level of an organization (Bititci et al., 2015; Chintaloo & Mahadeo, 2013). In the case of the proper monitoring system, employees carry out their image as well as business image in their attention through the point of view and actions while interacting with colleagues, customers, and other stakeholders, which ultimately improves the non-financial performance of the organization (Hirsh et al., 2018). At the same time, the level of monitoring also helps to increase the financial performance of the organization by reducing fraud and corruption (Buallay et al., 2017; Yenkey, 2018). While, Holt et al. (2017) stated that ethical practices in organizations are poor under high monitoring situations which is also supported by (Alder et al., 2008):

H₆: Association among ethical practices and SMEs' performance is moderated by level of monitoring.

As SMEs are much more vulnerable proportionally to fraud by employees, and much less able to absorb these losses in comparison to a large corporation (N'Guilla Sow et al., 2018), fraud and corruptions cause negative performance of the organization. Therefore, to monitor fraud and corruption occurrences in the business organization, especially in SMEs, many organizations have established the internal control system (e.g., Accounting Information System) which is very helpful to control their business efficiency and performance (Shepherd & Button, 2019).

H₇: The affiliation among ethical practices and SMEs' performance is moderated by level of Fraud and corruption.

2.3 Proposed conceptual model

The framework for this research is presented in Figure 1 which denotes a single integrated model of influencing factors of ethical practices with the link of business performance.

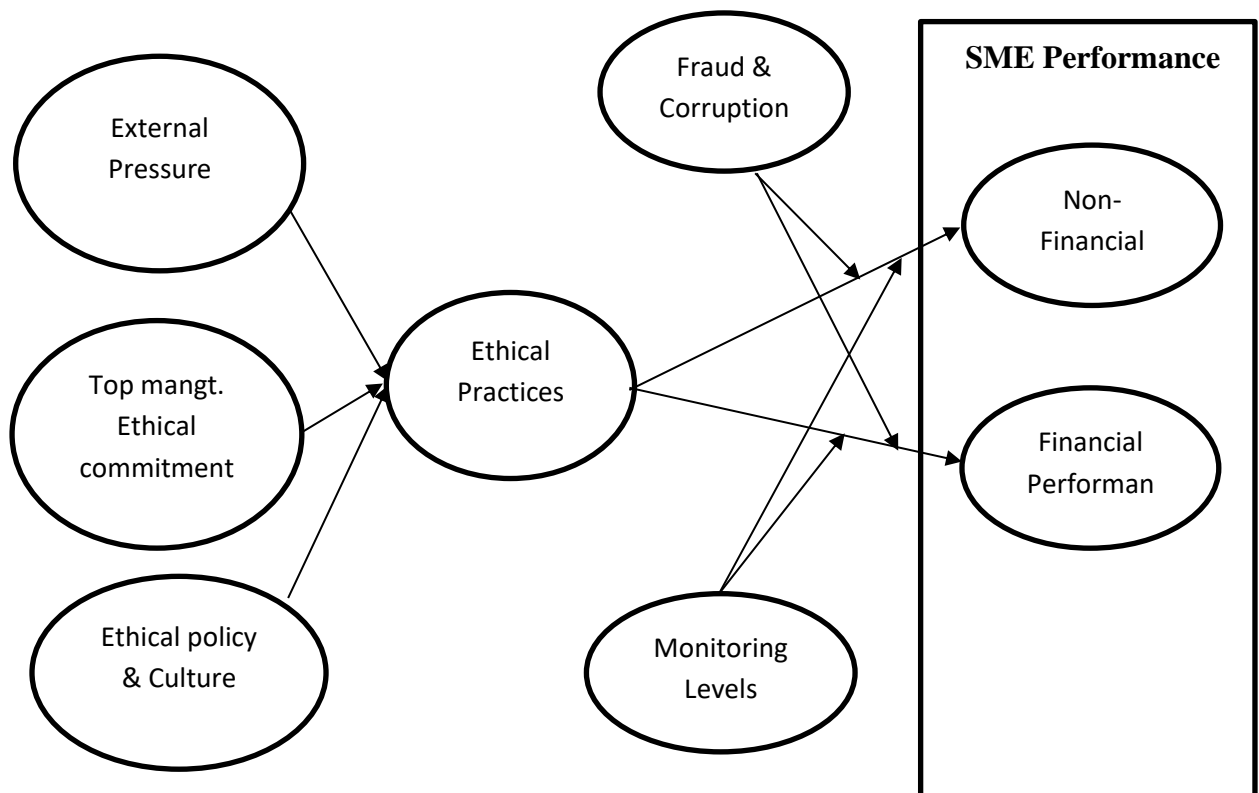


FIGURE 1: Research Framework

3. Methodology

3.1 Instrument development and psychometric properties

The different study has used different tools to measure financial performance, but the growth of profits, sales, and market share, as well as cost reduction, and return of assets are the most commonly used tools. The tools that Islam, Karim and Habes (2015) have developed were used in this study as a proxy scale of financial performance (FP) as they confirmed the validity and reliability of items with the Cronbach coefficient > 0.70 .

Psomas and Kafetzopoulos (2014) stated that non-financial performance (NFP) was measured using the five distinctive elements of: human resource management performance, quality performance, operation management performance, overall management performance, and local and international business performance. Islam et al. (2015) tested all items of this non-financial scale and validated the internal consistency with the evidence of Cronbach's coefficient > 0.70 . This research applied this proven 'non-financial performance' scale as a proxy measure 'non-financial performance (NMP)' scale.

This study used a scale of 'ethical policy and culture (EPC)' as a proxy measure of the 'Ethics policies' scale which tested by Center for Business Ethics (1992) and validated the internal reliability and harmony among items with the confirmation of Cronbach's coefficients > 0.70 . The 'ethical leadership' scale developed by Yukl et al. (2013) was employed in this research as

a proxy measure of top management ethical commitment (TMEC). They found the values of Cronbach's coefficient of 0.96 which proved the internal consistency and dependability of items. To better measure top management commitment in Saudi Arabian context (which exhibits a culture that has been shaped by its Islamic heritage), we added one more item from the religious dimension suited to Saudi leaders with the intension to inquire about whether leaders regulate the principal belief of their religion in daily activities in the workplace. The item is: management is practicing and committed to perform principal believe of their religion in daily activities.

Our study also used the 'external stakeholder pressure' scale developed by Tian et al. (2015) as a proxy measure of 'external pressure (ExP)'. They tested external stakeholder pressure scale and provided evidence of Cronbach's coefficient 0.77 which is indicating acceptable levels of internal homogeneity and reliability. The combination of the opinions of SME owners and existing literature was employed to design 'ethical practices' instrument (EP) and 'monitoring level (LM)' instrument related to ethical practices. This study measured the EP scale by the professional actions according to 12 core ethical principles stated by Josephson (2015) and the ML scale by the efforts of the organization according to 6 best practices suggested by Protiviti (2018). Finally, based on the perception of SME owner and a review of literature, this study designed 'level of fraud/corruption (LFC)' scale. A total of 12 items was established to measure the level of fraud/corruption scale.

3.1.1 Psychometric properties

Prior used scales and the scales that developed from a review of the literature, this study used PLS-SEM software to examines the psychometric properties. This process involves points such as factor analysis, structural solidity of data, descriptive statistics, and internal uniformity assessments. The analysis confirmed the authenticity and dependability of the dimensions of FP and NFP (except 15 items as their outer loading value were < 0.70) identified by Islam et al. (2015) dimensions of EPC developed by Center for Business Ethics (1999), dimensions of ExP (except 2 items as their outer loading value were $< 0,70$) developed by Tian et al. (2015), and dimensions of TMEC (5 items as their outer loading value were > 0.70) developed by Yukl et al. (2013) with an item identified by the authors of this study. The construct validity and reliability of the latent factors are established through the inspection of convergent validity, discriminant validity, and reliability. Convergent validity was judged by checking the outer loadings and the average variance extracted (AVE). The study reported that the loading value for each item was more than 0.70 which shown in Tables 1. The AVE for each construct was above 0.50 which presented in Table 2 (Hair et al., 2019). Thus, the model showed that convergent validity was achieved.

TABLE 1. List of Items with Factor Loading

Constructs	Item description	Loadings
EPC	Our company:	-
	has written ethical policies and guidelines.	0.717
	regularly updates, improves, and circulates the ethical policies	0.855
	has an ethical committee.	0.826
	provides ethical training to our workforce	0.816
	considers the ethical conduct as a core organizational value	0.753

	has compiled the legal requirements for adopting ethical policies and rules	0.884
	involves into social and environmental concern	0.593
TMEC	In our company:	-
	Management reviews the policies and procedures to ensure that appropriate internal controls	0.784
	Management emphasizes and promotes ethical conduct as a core organizational value and strategy.	0.916
	Management has deep-seated commitment and demonstrate ethical conduct in their day-to-day operation.	0.921
	Management takes appropriate action in instances of reported unethical behavior.	0.595
	Management practices and committed to perform principle believe of their religion in daily activities.	0.664
Exp	Our company:	-
	is liable to prepare the social audit report	0.896
	is responsible to disclose audit information to the public, shareholders, all employees, and relevant authorities.	0.837
	does ethical practices due to pressure from our customers to maintain a certain business image.	0.924
	involves with the environmental ethical practices due to pressure from environmental watch groups and public in general.	0.937
	willingly does ethical practice for our own beliefs and values	0.850
EP	Employees in our company usually:	-
	do not compromise with our ethical principles.	0.735
	acts in ways that are consistent with our commitment to social responsibility.	0.886
	choose what is right when a choice has to be made between what is right and what benefits our organization.	0.850
	tell the truth, even when confronted by personal and professional risks, economic pressures	0.807
	report any unethical behavior of our fellow colleagues to protect the image of our organization	0.777
	discloses the information of illegality, fraud, mismanagement, abuse of power, general wrongdoing, because of social justice and professional ethics.	0.719
	do not receive gifts from the peoples who are associated with our business transaction.	0.636
	being treated with fair managerial decisions.	0.833
	does not make any promise that cannot be kept.	0.729
LFC	Employees in our company do:	-
	not take informal payment from citizens/companies for any service/buying products.	0.931
	not blackmail private citizen or business to obtain money.	0.923
	not steal funds or equipment from the organization.	0.761
	not show preference to relatives and other close persons.	0.848
	not late or absent from work without justification.	0.893
	not get paid without work at all.	0.918
	not come late for work or leave early.	0.935
	carefully maintains and audits inventories of goods and equipment.	0.864
	not accept or pay bribes to help/get promoted or to hire.	0.863
	not find any fraud cases.	0.895
	not abuse of a power or trust relationship to gain a wrongful advantage.	0.775
	not create a falsified invoice by getting bribes.	0.731

LM	Our company:	-
	appoints an internal and an external auditor to monitor works for our workforce.	0.832
	uses technological tools such as software, telephone, video recordings to monitor our workforce.	0.858
	timely review transaction, quality checks and outcome data, staff completed checklists, recorded customer service intake calls, etc.	0.944
	ensures that audit reports are timely and clear.	0.862
	welcomes inspectors to investigate reports prior to submitted to donors.	0.931
	door is always open for funding and oversight agencies for monitoring.	0.838
	has a high-quality self-monitoring system that formed by an individual or a group of staff?	0.864
	puts best and timely efforts to review our monitoring systems with the assistance from various sources.	0.854
NFP	Due to ethical practices:	-
	improved our organizational internal efficiency.	0.856
	improved our organizational transparency.	0.764
	improved our organizational productivity.	0.902
	improved our organizational social and environmental responsibilities.	0.820
	improved our organizational on-time delivery.	0.909
	reduced our organizational waste and customer's complaints	0.856
	decreased our client's objections.	0.876
	increased board's dedication.	0.890
	upgraded documentation.	0.825
	increased organization's image.	0.877
MP	Ethical practices have:	-
	benefited our organization financially by reducing overall cost.	0.746
	benefited our organization financially by increasing profit (profits growth).	0.803
	benefited our organization financially by increasing sales (sales growth).	0.904
	benefited our organization financially by improving Return of Asset (ROA).	0.923
benefited our organization financially by increase market share.	0.913	

EPC, Ethical Policy & Culture; TMEC, Top Management's Characters & Ethical Commitment; ExP, External Pressure; EP, Ethical Practice; LFC, Level of Fraud & Corruption; LM, Level of Monitoring; FP, Financial Performance; NFP, Non-Financial Performance.

Further, the reliability for each construct was evaluated by inspecting the Cronbach's Alpha, rho A, and composite reliability. The results are presented in Table 2 which showed that all values are above of 0.70. Therefore, the reliability of all scales are proved (Hair et al., 2017). The AVEs were above the squared correlation value among the variables which proved discriminant validity (Table 3). In line with the Fornell-Larcker test, the HTMT ratios were below the threshold of 0.90 as shown in Tables 3 and 4 (Franke & Sarstedt, 2019). Therefore, both Fornell-Larcker criterion and HTMT ratios validated that discriminant validity was established.

TABLE 2: Convergent Validity Test

Constructs	Cronbach's Alpha (CA)	rho_A	Composite Reliability (CR)	Average Variance Extracted (AVE)
EPC	0.891	0.895	0.916	0.613

TMEC	0.836	0.859	0.888	0.620
ExP	0.934	0.94	0.95	0.792
EP	0.917	0.921	0.932	0.605
LFC	0.968	0.97	0.972	0.746
LM	0.956	0.967	0.963	0.763
NFP	0.96	0.964	0.965	0.737
FP	0.91	0.916	0.934	0.741

EPC, Ethical Policy & Culture; TMEC, Top Management's Characters & Ethical Commitment; ExP, External Pressure; EP, Ethical Practice; LFC, Level of Fraud & Corruption; LM, Level of Monitoring; FP, Financial Performance; NFP, Non-Financial Performance.

TABLE 3: Output of Fornell-Larcker Criterion

Constructs	EPC	EP	ExP	LFC	LM	FP	NFP	TMEC
EPC	0.783†	-	-	-	-	-	-	-
EP	0.741	0.778†	-	-	-	-	-	-
ExP	0.721	0.696	0.89†	-	-	-	-	-
LFC	-0.427	-0.717	-0.413	0.864†	-	-	-	-
LM	0.31	0.304	0.272	-0.322	0.874†	-	-	-
FP	0.362	0.378	0.292	-0.367	0.677	0.861†	-	-
NFP	0.418	0.538	0.279	-0.467	0.303	0.449	0.859†	-
TMEC	0.766	0.727	0.776	-0.443	0.442	0.441	0.491	0.787†

EPC, Ethical Policy & Culture; TMEC, Top Management's Characters & Ethical Commitment; ExP, External Pressure; EP, Ethical Practice; LFC, Level of Fraud & Corruption; LM, Level of Monitoring; FP, Financial Performance; NFP, Non-Financial Performance.

†, the square roots of the AVE.

Note: The bolded diagonals represent the square roots of the AVE while the other entries below the square roots of the AVE represent the latent variable correlations.

TABLE 4: Output of HTMT

Constructs	EPC	EP	ExP	LFC	LM	FP	NFP	TMEC
EPC	-	-	-	-	-	-	-	-
EP	0.816	-	-	-	-	-	-	-
ExP	0.785	0.74	-	-	-	-	-	-
LFC	0.453	0.751	0.425	-	-	-	-	-
LM	0.352	0.313	0.309	0.317	-	-	-	-
FP	0.411	0.417	0.32	0.385	0.704	-	-	-
NFP	0.445	0.565	0.301	0.474	0.29	0.481	-	-
TMEC	0.876	0.826	0.864	0.489	0.481	0.509	0.55	-

EPC, Ethical Policy & Culture; EP, Ethical Practice; ExP, External Pressure; LFC, Level of Fraud & Corruption; LM, Level of Monitoring; FP, Financial Performance; NFP, Non-Financial Performance; TMEC, Top Management's Characters & Ethical Commitment.

3.2 Participants and procedures

Primary data that were gathered through a survey form among 117 SMEs in Saudi Arabia was utilized to fulfill the objectives of the study. The survey was conducted in Jun-Aug 2019. The final questionnaire was distributed through email to 250 SMEs enlisted in the chamber of commerce. After two times follow up, the final respondents were 125 and this study used 117 samples based on the usability of data. The demographic portrayal was taken into account as

the study tried to cover the whole of Saudi Arabia. Our sample maintained nearly the same ratios of SMEs population to gain a demographic picture. (Table 5). Therefore, we may claim that our respondents nearly portrayed the national allocation of SMEs.

TABLE 5: Sample distribution

Region	Total number of SMEs		Sample SMEs	
	<i>n</i>	%	<i>n</i>	%
Central Region (Riyadh and Qassim)	287088	31.2	38	32.3
West Region (Makkah, Madinah and Tabuk)	303385	33.0	40	34.0
Southern Region (Asir, Jazan, Najran and Baha)	137712	15.0	16	13.7
Eastern Region (Eastern Province)	135185	14.7	17	14.5
Northern Region (Northern Boarders, Hail and Jouf)	55787	6.0	6	5.5

Source: Based on data from General Authority for statistics. (2019). *Population by Gender, Age Groups and Nationality (Saudi/Non-Saudi)*, Kingdom of Saudi Arabia. Retrieved 21 Feb 2021, from <https://www.stats.gov.sa/en/5680>

As the measurement model is valid, this study proceeds for the assessment of the structural model by using (PLS-SEM) software. The structural model assessment mostly involved inspecting collinearity, path coefficients, coefficient of determination, effect size, and predictive relevance. Besides, a bootstrapping method (with $n = 5000$ bootstrap resample) was also employed in this study.

4. Results and findings

4.1 Descriptive statistics

The descriptive statistics of the variables are given in Table 6. The highest average score was found for the construct of top management's characters and ethical commitment (TMEC), followed by EPC and ExP. It is indicating that the respondents are mostly agreed that top management is committed to ethical practices, and ethical policy and culture, and external pressure are existing in their company. In contrary, the lowest average score was for the level of fraud and corruption (LFC) construct which indicates that the level of fraud and corruption of the employee is high among the sample SMEs. The average score of ethical practices 3.49 indicates that SMEs engage in unethical practices and employees were involved with fraud and corruptions.

TABLE 6: Descriptive Statistics

Variable	N	Minimum	Maximum	Mean	Standard deviation
EPC	117	1.00	5.00	3.65	0.93
TMEC	117	1.00	5.00	3.88	0.76
ExP	117	1.00	5.00	3.63	0.89
LFC	117	1.00	5.00	2.60	1.07
NFP	117	1.00	5.00	3.35	0.83
FP	117	1.00	5.00	3.12	0.71
LM	117	1.00	5.00	3.40	0.95

EP	117	1.00	5.00	3.49	0.93
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EPC, Ethical Policy & Culture; TMEC, Top Management's Characters & Ethical Commitment; ExP, External Pressure; LFC, Level of Fraud & Corruption; LM, Level of Monitoring; FP, Financial Performance; NFP, Non-Financial Performance; EP, Ethical Practice.

4.2 Assessment of structural model

The bootstrapping procedure for 5,000 trails showed that: firstly, the direct relationships revealed that top management's characters and ethical commitment, ethical policy and culture, and external pressure had a significant useful connection with ethical practice in the organization ($\beta = 0.275$, $p < 0.01$; $\beta = 0.382$, $p < 0.01$; $\beta = 0.210$, $p < 0.01$ respectively) (Fig 2 and Table 7). Ethical practice in the organization had a significant positive relationship with both non-financial and financial performance ($\beta = 0.397$, $p < 0.01$; $\beta = 0.146$, $p < 0.05$). Generally, all the straight associations assessed in this study were all significant and positive.

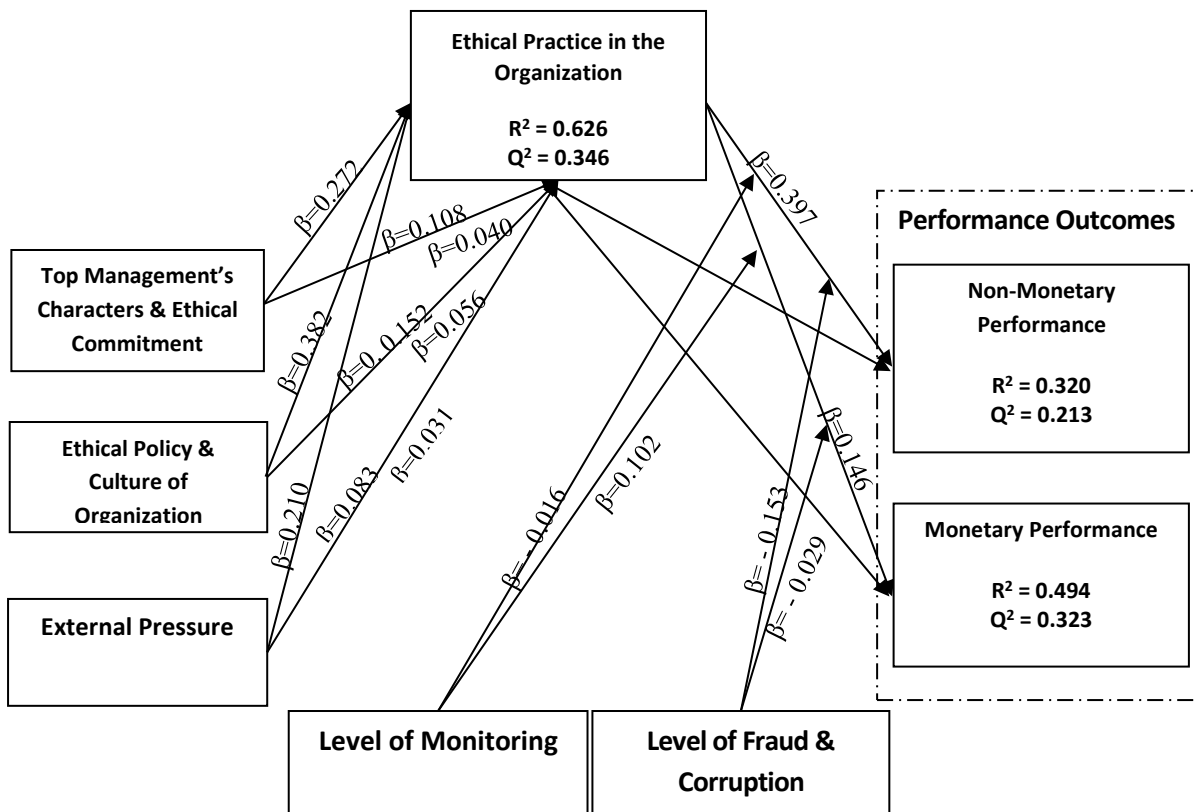


FIGURE 2: Path results

TABLE 7: Path coefficient

Relationships	Beta	p-values	Confidence Intervals			Decision
			LLCI	ULCI	F ²	
TMCEC → EPO	0.272	0.002	0.124	0.424	0.061	Supported
EPCO → EPO	0.382	0.000	0.210	0.572	0.145	Supported
EP → EPO	0.210	0.002	0.112	0.351	0.042	Supported
EPO → NFP	0.397	0.000	0.252	0.542	0.04	Supported
EPO → FP	0.146	0.021	0.033	0.265	0.024	Supported

TMCEC → EPO → NFP	0.108	0.012	0.038	0.212	n/a	Supported
TMCEC → EPO → FP	0.040	0.105	0.005	0.109	n/a	Not Supported
EPCO → EPO → NFP	0.152	0.010	0.057	0.292	n/a	Supported
EPCO → EPO → FP	0.056	0.099	0.004	0.14	n/a	Not Supported
EP → EPO → NFP	0.083	0.023	0.035	0.189	n/a	Supported
EP → EPO → FP	0.031	0.129	0.002	0.085	n/a	Not Supported
EPO*LFC → NFP	-0.153	0.020	-0.034	0.277	n/a	Supported
EPO*LFC → FP	-0.029	0.346	-0.084	0.139	n/a	Not Supported
EPO*LM → NFP	-0.016	0.407	-0.095	0.087	n/a	Not Supported
EPO*LM → FP	0.102	0.254	-0.045	0.316	n/a	Not Supported

EPC, Ethical Policy & Culture; EP, Ethical Practice; ExP, External Pressure; LFC, Level of Fraud & Corruption; LM, Level of Monitoring; FP, Financial Performance; NFP, Non-Financial Performance; TMEC, Top Management's Characters & Ethical Commitment; n/a, not applicable; LLCI, lower limit confidence interval ; ULCI, upper limit confidence interval.

Secondly, regarding the mediating impacts, Table 7 shows that ethical practice in the organization mediated the relationships between the three antecedents of ethical practice in the organization (top management's characters & ethical commitment, ethical policy & culture of organization and external pressure) ($\beta = 0.108$, $p < 0.05$, $\beta = 0.152$, $p < 0.01$, $\beta = 0.083$, $p < 0.05$ respectively), and non-financial performance. Contrastingly, ethical practice in the organization did not mediate the relationships of these antecedents and financial performance ($\beta = 0.040$, $p > 0.10$, $\beta = 0.056$, $p > 0.05$, $\beta = 0.031$, $p > 0.10$ respectively).

Thirdly, concerning the moderating impacts, Table 7 shows that level of monitoring did not moderate the relationships between ethical practice in the organization and business performance (financial and non-financial) ($\beta = -0.016$, $p > 0.1$ and $\beta = 0.102$, $p > 0.1$). While level of fraud and corruption moderated the relationships between ethical practice in the organization and business non-financial performance ($\beta = -0.153$, $p < 0.05$), but did not moderate for the relationships between ethical practice in the organization and business financial performance ($\beta = -0.029$, $p > 0.1$).

4.3 Robustness of the model

The collinearity test is given in Table 8, which shows the variance inflation factor (VIF) estimates for all predictors are between 1.129 and 3.237 which is less than the suggested threshold value of 5.0 (Hair et al., 2017). Thus, it is proven the absence of collinearity in the model.

TABLE 8: Output of VIF test

Constructs	EP	FP	NFP
EPC	2.680	-	-
ExP	2.783	-	-
TMEC	3.237	-	-
EP	-	2.082	2.082
LFC	-	2.108	2.108
LM	-	1.129	1.129

EPC, Ethical Policy & Culture; EP, Ethical Practice; ExP, External Pressure; LFC, Level of Fraud & Corruption; LM, Level of Monitoring; FP, Financial Performance; NFP, Non-Financial Performance; TMEC, Top Management's Characters & Ethical Commitment.

To evaluate the structural model, coefficient of determination (R^2) uncovered that the three antecedent variables of ethical practice in the organization collectively explained 63% of the variance as illustrated in Figure 2. The analysis also showed that ethical practice in the organization, level of fraud and corruption as well as level of monitoring explained 32% of the variance in non-financial performance and 50% in financial performance as illustrated in Figure 2. The values of an R^2 above 63%, 50%, and 32% are counted large (Cohen, 1988).

Thereafter, the cross-redundancy prediction technique has applied in this study for assessing the predictive capability (Q^2) of the model which is proposed by Hair et al. (2017). As shown in Figure 2, the Q^2 values for financial performance (0.323), non-financial performance (0.213), and ethical practice in the organization (0.346) were more than 0, signaling that the model had projecting applicability.

5. Discussion

The survey in this study is the first of its kind on ethical practice in SME business in Saudi Arabia. The present study examined the structural relationships among indicators of SME's business performance in Saudi Arabia. These findings further advance ethical theories on SME business as it finds evidence to support the ethical practice as an important driver of SME business performance. The structural model revealed that the three antecedent variables of ethical practice in the organization (top management's characters & ethical commitment, ethical policy & culture of the organization, and external pressure) collectively explained 63% of the variance in ethical practice in the organization. Initially it proposed a direct positive relationship between top management's characters & ethical commitment and ethical practice in the organization ($\beta = 0.272$, $p < 0.01$). According to Okpara and Wynn (2008), the theory of moral behavior suggest that ethics represents concrete standards of behavior and norms of action. Therefore, ethical commitment positively influences the ethical practice of management in the organization, which is also true for Saudi Arabia. The finding also aligns with the previous study conducted by Shin (2012).

Then, this study proposed that the ethical policy & culture of the organization has a significant positive relationship with ethical practice in the organization. This was also confirmed ($\beta = 0.382$, $p < 0.01$) as expected and consistent with previous studies conducted in entrepreneurship and other industries (Nedkovski et al., 2017). The ethical policy & culture of an organization induce the ethical practice of the SME's. Since ethical behavior is believed to be the power to perceive an individual's ethical attitude and ethical policy-making, business organizations and managers must practice ethics to secure their business advantages in order for their businesses to remain competitive (Savur et al., 2018).

This study further examined the association of external pressure and ethical practice in the organization. This was also confirmed ($\beta = 0.210$, $p < 0.01$) as expected and consistent with previous studies conducted in entrepreneurship and other industries (Williamson et al., 2018). External pressures induce business organizations and managers to be ethical and perform socially responsible behavior to gain support from different external stakeholder groups.

In line with that, results confirm that ethical practice in the organization had a significant positive relationship with non-monetary performance ($\beta = 0.397$, $p < 0.01$). Previous studies also support this result (Dzomonda & Fatoki, 2017), For instance, Berrone et al. (2007) have investigated the relationship between non-financial performance as a result of business ethics

and the financial performance of companies. Similarly, a considerable amount of positive relationships has found between the company's financial and non-financial performances and commitment to business ethics (Kehoe & Wright, 2013).

The findings of the study also confirm that anticipated significant positive relationship between ethical practice in the organization and financial performance ($\beta = 0.146$, $p < 0.05$) which also supports the previous literature (O'Boyle Jr et al., 2010). For example, O'Boyle Jr et al. (2010) discovered a positive and meaningful relation between ethical practice in the organization and financial performance. They concluded that in the long run, entrepreneurs benefit financially by exercising social and moral responsibility. It means that an SME's action of being honest, truthful, reliable, fair, responsible, and accountable is very important for the sustainability of an SME in the long run.

Further, the findings of the study confirm that anticipated significant mediating effect of Ethical Practice in organization in the relationship of top management's characters & ethical commitment; ethical policy & culture of organization; external pressure and non-financial performance (standardized regression weight = 0.108, $p < 0.05$; 0.152, $p < 0.01$; 0.083, $p < 0.05$ respectively). While their relationships with financial performance were not mediated by ethical practice in the organization.

On the other hand, this study did not find overall support for the moderation evidence for the level of monitoring in case of the relationship between ethical practice in the organization and financial and non-financial performance, did not support most of the previous studies that have conducted on large organizations (Bititci et al., 2015). The potential reason could be the firm size for this contradictory finding. Therefore, these mixed findings created the scopes of future research to get a better inference on the moderating roles, which might be the interest of future researchers. In the case of fraud and corruption level, the result shows a significant negative moderating effect for non-financial performance which is consistent with a previous study conducted by Shepherd and Button (2019). It means that a low level of corruption strengthens the relationship between ethical practice and the non-financial performance of the organization, but insignificant moderating effect for financial performance.

6. Conclusion

Contribution of the research: Best of researchers' knowledge, no research has explored the instill ethics in Saudi Arabia in the context of SMEs. This study presents a rigorous approach to empirically examines the complex relationship between ethical practices and business performance of SMEs in Saudi Arabia. The research reveals that ethical practice in the organization has significant positive influences on both financial and non-financial performances of SMEs. So ethical behavior is a vital issue that SMEs should take seriously so as not to suffer negative consequences such as lack of trust among different stakeholders, negative brand image, and lawsuits etc. This study also reported that SMEs in Saudi Arabia are involved with lower levels of ethical practices which is a risk to the sustainability of SMEs.

Implication of the research: The SME administrators and managers, as well as the companies, can utilize the outcomes of this study to develop ethical policy guidelines and frameworks to improve their competitiveness and brand reputations to maintain their financial performance and sustain their companies in the long run. Moreover, government and policymakers need to play a critical role in instilling a national culture that is ethically sensitive to motivate SMEs' managements and operators to practice ethical values in their companies to increase

profitability and sustain in the competitive market. As the government is a significant performer in various areas of Saudi Arabian life, it is obligatory upon this body to synchronize not only its attempts to promote entrepreneurs but also the energies of other organizations. For example, the government can accelerate collaboration between governmental, educational, and business entities as it has been uncovered that education develops the ethical understanding of SME owners. Similarly, the ministry of commerce and industry jointly with other government sectors such as the SME General Authority (SMEA) should develop a set of agendas to educate SMEs regarding the consequence of business ethics. They should also attempt to eliminate differences in their rules and regulations on big companies and SMEs to move toward a common goal of improving the business ethics among management staff and other employees. The government's intention to strengthen this vital sector was made clear by bringing entrepreneurship to the forefront of the Kingdom's strategic economic planning. Universities must be encouraged to conduct research on entrepreneurship and to make students more aware of business ethics and assistance with business planning. Policymakers ought to develop programs that will motivate SMEs to start instilling business ethics in their companies.

Limitations and scopes of further research: This study has few limitations such as: (1) the findings cannot be generalized as it is based on only one country study; (2) even the sample size is not so large to generalize the findings for the whole nations; (3) the questionnaire survey was based on online which may give more in-depth insights if conducted face to face; (4) the result may vary if consider small and medium enterprise separately. Therefore, there are few scopes available of future research on this issue. As this study is based on SMEs in Saudi Arabia only, to generalize the findings, it also needs to conduct on other countries. Moreover, future researchers can extend this study by including large organization and compare the performance based on organizational size, especially their financial performances. There are also scopes of looking at the barriers and inclusion of other control variables in the model which will help the practitioners, business, policy makers and academicians.

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