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# Positioning ethics and social responsibility as a strategic tool in employees' affective commitment

## Evidence from Malaysian small medium-sized enterprises (SMEs)

Mei Peng Low
*Department of Economics, Universiti Tunku Abdul Rahman,
Kajang, Malaysia, and*
Seng Fook Ong and Pei Meng Tan
*Universiti Tunku Abdul Rahman, Kajang, Malaysia*

## Abstract

**Purpose** – The purpose of this paper is to study the impact of ethics and social responsibility on employees' affective commitment in the context of small and medium-sized enterprises (SMEs).

**Design/methodology/approach** – This is a quantitative research. The authors employ multistage sampling technique, non-probability and judgmental sampling method. Data were collected through questionnaire survey to measure the respondents' perceptions of the ethics and social responsibility, as well as internal corporate social responsibility (CSR) practices. The data obtained were analyzed through variance-based structural equation modeling (SEM), i.e., partial least square SEM.

**Findings** – The findings reveal that perceived role of ethics and social responsibility (PRESOR) and internal CSR are positively related to employees' affective commitment. Job satisfaction is found to be mediating the relationship between PRESOR and affective commitment. The result also showed that internal CSR practices mediate the relationship between PRESOR and affective commitment.

**Research limitations/implications** – There are few limitations in the present research. First, present research merely investigates the practices of ethics and social responsibility by SMEs and did not perform a comparison with larger organizations. Second, the use of non-probability sampling method is unable to generalize results for the entire population. Future research could address the shortcoming of present research in order to further contribute to the academic and business world.

**Practical implications** – The findings provide insights to entrepreneurs and SMEs on the manifestation of ethics and social responsibility in enhancing employees' affective commitment. In turn, it reduces employees' turnover intention and enhances SMEs sustainability to strive in the competitive environment.

**Social implications** – These findings highlight the positive chain effects of enterprises in discharging their moral obligation as well as their social responsibility. The enterprises are benefited from the good reputation which may act as a magnet to attract talent-employees and also sustaining their enterprises through employees' retention.

**Originality/value** – This research paper contributes to current knowledge by painting a better picture on the importance of ethics and social responsibility and internal CSR from the employees' perception. As to date, employees' perception of ethics and social responsibility and internal CSR practices are still under-investigated. Moreover, past research often focuses the impact of ethics and social responsibility in the larger corporation but scant research is conducted in the smaller organization such as SMEs.

**Keywords** SMEs, Employees, Affective commitment, Ethics and social Responsibility,
Internal corporate social responsibility

**Paper type** Research paper

## Introduction

Globally, small and medium-sized enterprises (SMEs) are recognized for their substantive role in promoting economic development and growth for sustainable development. SMEs contribute to the economic development through jobs creation, increasing income levels and equalizing income distribution. According to The World Bank (2015), SMEs contribute

approximately 45 percent of total employment and up to 33 percent of national gross domestic product in emerging economies. A recent study conducted in Malaysia revealed that SMEs dominate Malaysian economy in a similar manner. In 2015, SMECorpration reported that SMEs contributed 65.5 percent of total employment and 17.6 percent of total exports of Malaysia. Despite its significant importance in Malaysia economy, SMEs face multiple challenges. Ahmad and Seet (2009) mentioned that the estimated failure rate of Malaysian SMEs is as high as 60 percent. This indicates that SMEs in Malaysia are in the critical stage and face serious obstacles to stay competitive. To mitigate these challenges, several suggestions are put forth including the incorporation of ethics and social responsibility to increase competitiveness and sustainability.

This research paper is organized into six parts. After this introduction section, relevance literature reviews are presented, followed by research model and hypotheses development. The fourth section discusses the research methodology operationalized to carry out the study. The fifth section shows the research findings before the ending conclusion and implication.

## Literature review
### Ethics and social responsibility
The study of business ethics and social responsibility are of recent interest due to rising number of corporate scandals such as Nike's sweatshop crisis in the 1990s, Walmart's ethical controversies in the mid-2000s and recently Volkswagen's emission in 2015. Volkswagen emission scandal which is also called "emissions gate" or "dieselgate" happened in September 2015 when the United States Environmental Protection Agency uncovered that many Volkswagen cars had a defeat device. The device is capable of detecting test and changes the performance respectively to deliver better results. This scandal brings to the worldwide attention on the issues of business ethics and social responsibility. Owing to the fast pace technology advancement and digital age, information is easily accessible and available. Consumers are more informed and aware about the development worldwide which compel business corporations to behave ethically and more responsible.

Generally, there are some overlaps in term of definition between ethics and social responsibility. Carroll (1999) pointed out that new definition of concepts and themes emerge in the 1980s based on more advanced empirical research. This variation includes business ethics, corporate, stakeholder theory, stakeholder management as well as corporate social performance that arrived on the scene in the 1970s (Carroll, 1999). Frequently, ethics is defined as the fundamental principle that produces actions to prevent substantial harm to others, when an individual or group has the chance to do so for their own benefit (Boddy, 2011). Social responsibility is an ethical framework, which suggests that an entity, be it an individual or organization, has an obligation to act for the benefit of society at large. Every individual's duty to act so as to maintain a balance between the economy and society is considered as social responsibility.

An individual's moral standard is based on individual's perception as to whether it can injure or severely benefit another (Churchill, 1982). Business ethics are moral guidelines for the conduct of business based on notions of what is right, wrong and fair. Most business people rely upon their own consciences in making business decisions, falling back to their own moral and religious backgrounds for guidance. Sullivan (2009) explained that business ethics is an attempt to set out a standard by which all of the employees of a firm can know what is expected of them. However, more often than not, business people are much affected by their superiors and immediate colleagues when making business decisions and may feel pressurized to behave unethically when seeking to make profits. This highlights the managers' perception of ethics and social responsibility in an organization. As such, many

firms and industries have attempted to develop codes of conduct which serve as a guide for managers during making decisions, among others is the emergence of corporate social responsibility (CSR).

*CSR*
According to *The Economist*, the concept of CSR has emerged in the decade of the 1990s and bringing forward to the 2000s. Over the decades, scholars have debated the definition of CSR and the constructs of the CSR paradigm (e.g. Bowen, 1953; Brown and Dacin, 1997; Carroll, 1999). It is often hard to define CSR because it means something, but not always the same thing to everybody (Van Marrewijk, 2003). Nevertheless, various management disciplines have recognized that CSR fits their purposes. McWilliams *et al.* (2006) mentioned that there is no strong consensus on CSR definition. Consequently, a variety of CSR definitions has been adopted by different groups, specific to their own interests and purposes.

CSR is a business philosophy which emphasizes the need for corporations to behave ethically as good corporate citizens by not merely obeying the law but also conducting their production and marketing activities in a manner which avoids causing environmental pollution or exhausting world scarce resources. On that account, businesses have begun to behave in a more socially responsible manner. It is argued that socially responsible behavior can pay off in the long run, even where it involves some short-term financial sacrifice. Thereon, the discussion of corporate behavior and social responsibility has taken on new relevance in a perspective of competitiveness and sustainable development.

The World Business Council for Sustainable Development (2003) defines CSR as the continuing commitment by business to behave ethically and contribute to the economic development while improving the quality of life of the workplace and their families as well as the local community and society at large. The present study adopted this definition of CSR as it covers the dimensions and perspectives highlighted by the early CSR researchers such as Carroll (1999) and Dahlsrud (2008). This definition also displays two dimensions of CSR, namely internal CSR, in the aspect of workplace quality of life, which is the employees; and external CSR in the area of the local community as well as society. In addition, this definition is appropriate for this study as it reflects CSR as a business imperative instead of an ethical or moral imperative (Velasquez, 2006; Culpan and Trussel, 2005; Greenfield, 2005). This definition also meets the objective of this study, which aims to look into internal CSR practice as an internal business mean to enhance employees' affective commitment rather than ethical imperative.

## Stakeholder theory and stakeholder management
It is natural to discuss stakeholder theory and stakeholder management in the context of CSR as they are closely related. Shafer *et al.* (2007) mentioned that stakeholder view reflects the significance of ethics and social responsibility to any organization survival and success. Freeman's (1984) stakeholder theory proclaimed that the purpose of a business is to create as much value as possible for stakeholders, in which stakeholders are any person or organization affected by or with the power to influence an organization's decision and actions. In order to succeed and be sustainable over a span of time, business corporations must keep the interests of stakeholders, e.g., customers, suppliers, employees, communities and shareholders aligned and moving toward the same direction of the organization. Stakeholder theory was further expanded by Donaldson and Preston (1995) who emphasized the moral and ethical dimensions of CSR, as well as the business case for engaging in social responsibility activities. This is congruent with Freeman's (1984) statement that an effective stakeholder management is essential to the survival and prosperity of the organization.

Stakeholder management was emerged and advanced from stakeholder theory in the early 1920s. According to Roloff (2008), there is no standard approach to stakeholder management. In essence, stakeholder management is the systematic identification, analysis, planning and implementation of actions designed to engage with stakeholders whereby they have vested interest in the project, program or portfolio at work. In this vein, CSR activities and stakeholder management is a relational affair. The motivation behind stakeholder management was to create a framework that was responsive to the concerns of managers who were being disturbed by the unpredictable challenge from agile environmental turbulence. Hence, the objective of stakeholder management was to devise methods to manage the multiple groups and relationships that resulted in a strategic manner.

An organization's stakeholders are the individuals or groups who are directly affected by the business' operations and decisions; who are candidates for either potential benefits or harm (Elango *et al.*, 2010). Organization and managers need to understand the concerns of these myriad groups of stakeholders in order to develop objectives that stakeholders would render support. This support is crucial for long-term success and management should enthusiastically look into its relationships for business strategies development. In this context, ethics and social responsibility appear to be the focal point in current management in view of the rise of many business scandals.

Among the stakeholders of any organization, employees are often regarded as the critical internal stakeholder. The rationale is that employees who hold positive attitudes toward their organization often more willing to direct their behavior on activities that are in line with the organization goals and values (Lamm *et al.*, 2013; Temminck *et al.*, 2015). This is particularly crucial in the discussion of ethics and social responsibility. Chang (2015) elucidated that organization that is actively engaged in CSR activities shall take into consideration of all stakeholders in order to gain support and trust, particularly the employees. Clarkson added that there is an inclination of firms to focus on primary stakeholders. Galbreath (2006) explained the criticality of focusing on few core, strategic, primary internal stakeholders for reason such as limited budgets, competing pressures and less favorable contextual conditions. The similar concern is applicable in the present study as SMEs often encounter resource poverty issue. Hence, the primary stakeholder in this research is not other than the employees.

**Social exchange theory**
In light of the undertaking that organizations are closely related to the employees' attitude and behavior, social exchange theory is examined in the present study.

Social exchange theory was developed by Blau (1964) and Homans (1961a, b) in explaining the motivation behind the attitudes and behaviors exchanged between individuals. Blau (1964) defined a social exchange relationship as involving unspecified obligations in which there are favors that produce diffuse future obligations, and yet not precisely defined, and the nature of the return is not bargainable but must be left to the discretion of the one who makes it, and what the parties exchange is ambiguous. Aselage and Eisenberger (2003) added that the exchanged resources can be abstract, for instance, financial or socio-emotional such as care, respect and loyalty. It is the latter resources that tend to create feelings of personal obligations, gratitude and trust (Blau, 1964). The present study discusses the role of ethics and social responsibility in affecting employees' affective commitment, whereby it highlights the essence of reciprocity in social exchange theory.

The concept of reciprocity embraces a feeling of an obligation to repay favorable treatment. Aselage and Eisenberger (2003) described employees' obligation feeling as a prescriptive belief whether one should care about the organization's well-being and should work toward achieving organization goals. They added that employees form general

perceptions about the intentions and attitudes of the organization toward them based on policies and procedures enacted by individuals and agents of the organization, attributing human-like attributes to their employer on the basis of the treatment they receive (Levinson, 1965). Aselage and Eisenberger (2003) further explained that the exchange, or reciprocation, in social relationships becomes stronger when both parties are willing to provide valuable resources to the other. Employees valued beneficial treatment, while employers seek dedication and loyalty (Coyle-Shapiro and Shore, 2007). Positive actions directed at employees by the organization are argued to contribute to the establishment of high-quality exchange relationships (Eisenberger *et al.*, 2001; Wayne *et al.*, 1997). Empirical evidence supports this sequential order of reciprocation. Employees being the stakeholders may develop a sense of obligation through social exchange theory to involve in productive or non-productive work behaviors, rewarding or reprimanding CSR practices, especially those acts directed to them and work conditions. In particular, these exchanges have been used to explain the positive consequences that ensue when employees react to perceived organizational support in many ways through human resource practices, such as flexi working hours. In this way, employees see themselves as having a relationship with their employer, reflecting the norm of reciprocity that corresponds to the relationships individuals build with each other.

### Perceived role of ethics and social responsibility (PRESOR)

To date, the debates of CSR are predominantly at the organizational level and there is limited fundamental questioning of the role of the individual in promoting ethical and social actions (Lee, 2008; Post *et al.*, 2002). Incidentally, employees' perception of ethics and social responsibility is deemed relevant in the discussion of CSR. As pointed out by Pedersen (2010) and Swanson (2008), the management's role is critically important in all CSR-related activities. Godos-Diez *et al.* (2011) elaborated that a manager's profile is a background factor that will form the behavior even though the relation may not be a direct relation, instead affected by the perceptions of the expected consequences of that behaviors. The potential consequences of a behavior are called the behavioral belief (Ajzen and Fishbein, 2005). If the perceived benefits of performing certain behavior outweigh its perceived downsides, managers tend to produce a favorable attitude toward the behavior in concern and subsequently put it into practice. Numerous research in relation to the perception of ethics and social responsibility have highlighted its influence on managers' ethical intention (Demirtas and Akdogan, 2015; Singhapakdi *et al.*, 1996, 2008; Marta *et al.*, 2004). This notation is also closely linked to CSR practices executed in firms due to their distinguished position in the organization (Kassinis and Panayiotou, 2006; Henriques and Sadorsky, 1999). Recent research by Yin *et al.* (2016) enforced the findings that personal values of managers together with situational dynamics have a role to play in CSR activities. They uncovered that management values and beliefs act as a guide for acknowledging and evaluating social issues together with the primary stakeholders. This forms a relationship between managerial PRESOR and CSR.

Regardless of one's position, an appreciation of the role of ethics and social responsibility as components of business decisions affecting organizational effectiveness is essential (Marta *et al.*, 2004; Singhapakdi *et al.*, 1996). Thus, may it be the manager or the employees, all of them have a role to play in organizational effectiveness. The instrument of PRESOR by Singhapakdi *et al* (1996) consists of items reflecting the different dimensions of ethics and social responsibility within an organization as well as the importance of ethics and social responsibility relative to conventional criterion measures of organizational effectiveness. As such, PRESOR was adopted to study employees' perceptions of ethics and social responsibility in achieving organizational effectiveness through employees' affective commitment.

## Internal CSR

According to Low (2015), CSR had undergone massive evolution and its focus had expanded to stakeholders. CSR practices in regard to social responsibility practices for employees cover areas such as employee's safety, health and well-being, work-family relationship, training and involvement in the business and equal opportunities (Vives, 2006). Recently, society has identified ethics, quality of work life and job satisfaction as the intervening factors that would determine the competitiveness of an organization when it comes to providing benefits to stakeholders (Koonmee *et al.*, 2010). On this account, business ethics is then believed to be important for stakeholders in trusting their organizations. Nevertheless, the term internal CSR has emerged with vague definition.

Turker (2009a) was the pioneer researcher who attempted to describe internal CSR. According to Turker (2009a, b), internal CSR activities are activities directly relate to the employees' physical and psychological working environment for the welfare of the employees. Most recently, Mory *et al.* (2016) used Turker's (2009a, b) definition of internal CSR to gauges its impact on employees' organizational commitment in the pharmaceutical company located in German. Turker's (2009a, b) definition of internal CSR is commonly adopted in recent internal CSR-related research. For the current research, Turker's (2009a, b) approach of six dimensions of internal CSR practices, namely employee involvement in voluntarily activities, career opportunity, employees' needs and wants, family and work life balance, organizational justice and equality and training and education were adopted.

## Job satisfaction

Locke and Latham (1990) defined job satisfaction as pleasurable and positive emotional attitude resulting from the appraisal of ones' job or job experience. Job satisfaction is a result of employees' perception of how well their job provides those elements that are seen to be important. Internal CSR practices entail activities which link directly to employees' physical and psychological working environment may be viewed as elements employees look forward to in an organization. If internal CSR practices are incorporated in the organization, it could result in employee's job satisfaction. Organ (1988) once mentioned that job satisfaction is the positive emotion which is capable of promoting organizational citizenship behavior. He explained that an employee will work the extra miles and goes beyond the job formal requirements to internalize the organization's objective function as his or her own when job satisfaction is achieved. Hence, many proactive organizations maintain a system that is designed to increase employees' job satisfaction and retention. Brayfield and Rothe (1951) measurement of job satisfaction was adopted for this research in view of its well-established reliability and validity.

## Affective commitment

Past studies revealed that an organization's CSR practices would have a significant positive influence on its employees' organizational commitment (Brammer *et al.*, 2007). Organizational commitment is construed as the psychological attachment an individual feel for the organization (O'Reilly and Chatman, 1986) and often referred to as a person's affective reaction to characteristics of the organization he or she attached to (Cook and Wall, 1980). Allen and Meyer (1996) stated that organizational commitment is psychology cognition between the employee and his or her organization that impact their likelihood to voluntarily stay or leave the organization. There are three commonly recognized types of organizational commitment, namely affective commitment, continuance commitment and normative commitment. Affective commitment is an emotional commitment, i.e., employees stay at their job because they want to stay. As for continuance commitment, employees stay at an organization because it would cost them more to leave it, which means employees stay because they must stay. In normative commitment, employees remain a part of their

organization, which is accordance with one's belief that he or she should continue to stay with the organization because of personal norms or social pressure. Normative commitment is also interpreted as when an employee switching job frequently, it may be seen as undesirable by a recruiter and potential employer. Allen and Meyer (1996) explained that although these three approaches of organizational commitment are commonly linked between the employee and organization that decreases the likelihood of turnover, it is clear that the nature of that link differs. Among these three types of commitments, affective commitment was the common organization commitment dimension which was found to be significant in studies concerning CSR (e.g., Mory *et al.*, 2016; Turker, 2009b). In addition, affective commitment was found to be the critical determinant of employees' dedication and loyalty toward the organization among other organizational commitment (Ditlev-Simonsen, 2015). Affective commitment is claimed as a measurable parameter in assessing employees' identification with the organization that facilitates his or her intention to stay or leave the organization. In fact, it is the organizational variables rather than employee characteristics that predict employees' organizational commitment. Present research endeavors to study the role of ethics and social responsibility, and therefore it is the "employee-centered" organizational factors, such as internal CSR practices that impact the employees' affective commitment. Based on these rational, affective commitment was chosen in the study and not normative and continuance commitment.

## SMEs

SMEs are defined differently across countries. For instance, SME is defined based on the purpose of accounting requirement in the UK and European Unions' definition of SMEs is comparable to UK definition. Meanwhile, USA's definition of SMEs reflects the relative nature of the "small" and "medium" size classifications, which is applied differently to firms in the manufacturing, agricultural and service sectors.

In Malaysia, SME business is a legally structured entity that registered either under the Registration of Businesses Act 1956 (Act 197) or Companies Act 1965 (Act 125). National SME Development Council defines SMEs based on sectors, sales turnover and the number of full-time employees. For the manufacturing sector, SMEs are enterprises with sales turnover not exceeding RM50 million or full-time employees not exceeding 200 workers. As for services and other sectors, SMEs are enterprises with sales turnover not exceeding RM20 million or full-time employees not exceeding 75 workers. Accordingly, a business is classified as an SME if it meets either one of the two specified qualifying criteria, namely sales turnover or full-time employees, whichever is lower. Table I provides the detailed definition of SMEs in Malaysia.

As current study focuses on the employees' perspective, henceforth, the approach based on the number of full-time employees for the SMEs definition is adopted.

| Category | | Micro | Small | Medium |
|---|---|---|---|---|
| Manufacturing | Sales turnover | Sales turnover not exceeding RM300,000 | From RM300,000 to less than RM15 mn | RM15 mn to not exceeding RM50 mn |
| | Number of full-time employee | OR | From 5 to less than 75 | From 75 to not exceeding 200 |
| Service and other sectors | Sales turnover | Full-time employees not exceeding 5 | From RM300,000 to less than RM3 mn | RM3 mn to not exceeding RM20 mn |
| | Number of full-time employee | | From 5 to less than 30 | From 30 to not exceeding 75 |

**Table I.**
Detailed SMEs definition in Malaysia by size of operation

**Source:** Circular on New Definition of Small Medium-Sized Enterprises (SMEs) by Bank Negara Malaysia (BNM)

## Conceptual framework and research model

The previous discussion highlights that the underpinning theories for this study are stakeholder theory, stakeholder management and social exchange theory. These theories guided the development of the conceptual framework as shown in Figure 1.

From the stakeholder's view, employees are likely to response to ethics and social responsibility activities in an organization. Therefore, stakeholder theory is espoused in the framework to investigate PRESOR and internal CSR. All forms of activities in an organization will produce certain impact to the employees. Similarly, any form of ethics and social responsibility undertaking would create reciprocity between the organization and its employees, be it productive outcome or counterproductive consequence. Social exchange theory is deemed relevant to explain this norm of reciprocity. As the focal point of the research is aiming at the sustainability of enterprise via employees' retention, hence, stakeholder management is discussed.

Drawing from these theories, the research model as shown in Figure 2 is developed to carry out the study.

Organizations that proactively engage in ethics and social responsibility activities by considering the interest of all stakeholders tend to gain support from internal stakeholders, i.e., the employees (Bhattacharya *et al.*, 2009; Chang, 2015). This is explained through stakeholder theory. While employees' behavior is influenced by organizational outcomes (DeVaro, 2006; Jiang *et al.*, 2012), when organizations implement internal CSR practices, it tends to enhance employees' job satisfaction which resulted in greater employees' commitment. This positive chain effect is continued to achieve organizational goals and values (Zhu *et al.*, 2014; Kehoe and Wright, 2013). Social exchange theory clearly explains the norm of reciprocity in this vein. On this account, PRESOR and internal CSR are constructs selected to study the role of ethics and social responsibility toward employees' attitudes and behavior. Job satisfaction and affective commitment are constructs picked to measure employees' attitudes and behavior as the consequences of ethics and social responsibility activities in the enterprise. The ultimate focus is the employees' affective
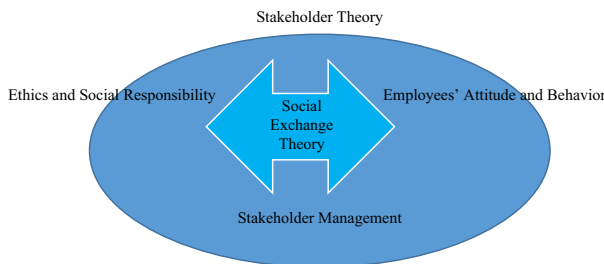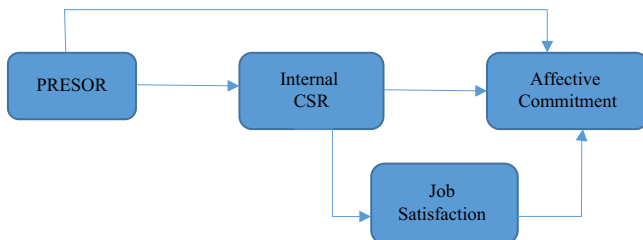


Figure 1.
Conceptual framework



Figure 2.
Research model

commitment which is construed as a mean for enterprise sustainability. Hence, stakeholder management is highlighted as to manage the primary stakeholder in order to achieve the organization goal.

## Hypotheses development

Owing to the growing realization of the importance of ethics and social responsibility, it would be of interest to investigate the possible impact of PRESOR on employees' affective commitment. The findings from multilevel consequences of ethics and social responsibility would be able to broaden and deepen our knowledge on its cascading effect. With this, we hypothesize that PRESOR has a positive effect on employees' affective commitment:

*H1.* PRESOR has a positive effect on affective commitment.

Regardless of one's position, employees' often have an inevitable role in organization undertaking. In fact, Neubert *et al.* (2009) explained that managerial values and beliefs are among the primary determinants of CSR behavior in an organization. Kim and Moon (2015) highlighted that socially responsible behavior may be largely embedded within the individual leadership level, particularly in Asian countries. As such, we argue that PRESOR is positively related to internal CSR:

*H2.* PRESOR has a positive effect on internal CSR.

In essence, internal CSR practices look into the well-being of the employees. Social exchange theory explicitly explains that there is a norm of reciprocity between organization and employees (Gouldner, 1960). Series of reciprocation translates to a stronger social relationship when employees value beneficial treatment from the organization, while organization seeks dedication and commitment from employees (Coyle-Shapiro and Shore, 2007). Based on this discussion, it is hypothesized that internal CSR has a positive effect on affective commitment:

*H3.* Internal CSR has a positive effect on affective commitment.

Empirical research showed that employees acknowledge the importance of CSR activities (Peterson, 2004) and that CSR can trigger employee behaviors which replicate those exchanges at the intra-organizational level (Gond and Crane, 2010). Valentine and Fleischman (2008) also confirmed that CSR mediates the relationships between ethics codes and job satisfaction. In this aspect, PRESOR could cause a change in the implementation of Internal CSR, which in turn, results in a change in employees' affective commitment. Based on this discussion, internal CSR is hypothesized to mediate the relationship between PRESOR and affective commitment:

*H4.* Internal CSR mediates the relationship between PRESOR and affective commitment.

Job satisfaction is a positive emotional state that can be influenced by organization actions, particularly those that relate to CSR activities (Bauman and Skitka, 2012). Often, organization undertakings that benefit stakeholders can lead to multiple positive emotions among employees, such as pride, enthusiasm, gratification and fulfillment. These positive emotions manifest into a stronger relationship between employees and organization, which is commonly related to affective commitment. In social sciences, a third variable may exist to intervene the relationship between variables. As such, job satisfaction is hypothesized as having a mediating role between internal CSR and affective commitment:

*H5.* Job satisfaction mediates the relationship between internal CSR and affective commitment.

## Methodological consideration

Since the early 1990s, structural equation modeling (SEM) has emerged as a widely used statistical technique in business and social sciences. Its popularity is due to its ability to model latent variables, to consider various forms of measurement error and to assess entire theories. There are two types of SEM, namely covariance-based and variance-based SEM. According to Henseler *et al.* (2016), covariance-based SEM estimates model parameters through the empirical variance-covariance matrix, and it is the method of choice if the hypothesized model consists of one or more common factors. Meanwhile, variance-based SEM approach is different from covariance-based. Variance-based requires the creation of proxies as linear combinations of observed variables, before estimating the model parameters using these proxies. Variance-based SEM is the method of choice if the hypothesized model contains composites.

Among the variance-based SEM methods, partial least squares (PLS) is considered as the most fully developed and general system (McDonald, 1999) and has been honorably labeled a "silver bullet" (Hair *et al.*, 2011). One of the distinguishing characters of PLS is that it permits the development of parsimonious predictive-based research model (Hair *et al.*, 2011, 2013, 2014; Becker *et al.*, 2012). Hair *et al.* (2014) added that PLS-SEM provides high efficiency in parameter estimation which is manifested in the method's greater statistical power as compared to CB-SEM. Due to greater statistical power, PLS-SEM is very likely to render a specific relationship significant when it is, in fact, significant in the population. Based on these statistical mechanisms of PLS-SEM, it is applied in a wide range of research. The very same holds for the present study, whereby the model is deemed complex as it involves few paths and mediating variable. PLS-SEM algorithm properties minimize the amount of unexplained variance and it converges after few iteration to the optimum solution. This makes PLS-SEM a popular and common statistical tool in recent research. While research on internal CSR in SMEs is at the embryonic stage, PLS-SEM's ability of predictive based and ability in maximizing explained the variance of endogenous construct fit well into this study. As such, PLS-SEM is adopted to analyze the research model.

## Research methodology

Present research is a cross-sectional study and the data were collected in a single point of time. Quantitative approach by way of questionnaire survey was used as a tool to collect data. Data obtained are then used to examine the relationships among the variables of PRESOR, internal CSR, job satisfaction and affective commitment. According to Churchill (1999) and Malhotra (1996), there are three types of research, i.e., exploratory, descriptive and causal. Considering the present research undertakes investigating the strategic role of PRESOR and internal CSR and examining the causes of affective commitment, it is regarded as an exploratory and explanatory research.

The employee is being selected as the unit of analysis in view of its crucial role in every organization along with the anticipation of expected bottom like benefits through the lens of CSR implementation. Non-probability and multistage sampling are used in present research. Non-probability sampling is employed in the present study as it is not feasible to locate the comprehensive list of SME employees in Malaysia. Multistage sampling is used as an exhaustive list of the target population of SMEs employees is unable to be compiled. Multistage sampling is carried in stages using smaller and smaller sampling units at each stage. The first stage involves locating which states having the highest number of SMEs establishment in Malaysia, followed by the second stage of selecting the sample. According to the Department of Statistics, Malaysia, the highest numbers of SMEs is found in the state of Selangor with 125,904 establishments as at 2012.

A pilot study was carried out on four randomly selected SMEs establishment in Selangor. Each establishment was given five sets of questionnaires. The respondents for

pilot study were briefed face to face individually on the purpose of the research and the pilot study. They were politely asked to complete the pilot questionnaire. Pilot test respondents' feedback was then incorporated into the final version of the questionnaire.

The full scale of research started with researcher obtaining the list of SMEs located in the state of Selangor as per SMEs Directory. Thereon, the researchers called up the establishments to find out whether they are still in business. Researchers then informed and explained the intention to conduct survey while obtaining their consent to participate voluntarily in this study. For establishments that agreed to participate, the researchers also enquired the targeted respondents' preference to participate, i.e., researcher hands the copies of the questionnaire to respective respondents by hand, by electronic mail which contains the link to the questionnaire or sending questionnaire via mail. A total of 100 establishments were identified through the initial calls made. Five sets of questionnaire were sent to each of the establishment based on the SMEs definition of the number of full-time employee adopted in this study.

Data collected were analyzed by using PLS-SEM. The evaluation of PLS-SEM results involves two stages. Stage 1 involves the examination of measurement models. Once the measurement model evaluation provides satisfactory results, the researchers proceed to Stage 2. Stage 2 involves evaluating the structural model (Hair *et al.*, 2014). In short, Stage 1 examines the measurement theory, whereas Stage 2 covers the structural theory, which includes determining whether the structural relationships are significant and meaningful, and testing hypotheses. Bootstrapping procedure was performed to calculate the significance of the path coefficient. The mediating role of internal CSR and job satisfaction was also examined under this procedure.

## Data analysis
Hair (2007) recommended that researchers shall examine the initial data obtained before conducting any further statistical analysis. Hair *et al.* (2014) highlighted that with second-generation statistical methods, the measurement model stage is very critical. Researchers are advised to carefully examine the data by identifying the error component of the data and remove it from analysis. The primary issues that need to be examined include missing data, suspicious response patterns, outliers and data distribution. Hence, data collected for current research were examined for missing data, suspicious response patterns, outliers and data distribution. The Little's MCAR test result for this study's data was recorded with a $\chi^2 = 3,277.59$ (df $= 3,393; p < 0.921$) which indicates that the data are indeed missing at random, which means that there is no identifiable pattern exists to the missing data.

A total of 395 responses were received at the end of the data collection process and five responses were removed as these responses were incomplete, suspicious and extreme based on Hair *et al.*'s (2014) guidelines. Based on the initial expectation of 500 respondents from SMEs located in the state of Selangor, the response rate was approximately 78 percent.

Because self-report questionnaires are used to collect data at the same time from the same respondents in the present research, the data obtained were being examined for common method bias. Harman's single factor test was used in this regard and the result reveals that the first factor account for 32 percent variance which is less than the threshold level of 50.0 percent of the total variance explained (Podsakoff *et al.*, 2003). It is concluded that common variance bias is not a concern in this research.

## Respondents' profile
The profiles of the respondents are analyzed according to ethnicity, gender, age group and education. Table II shows the respondents' profile according to their gender and ethnicity. There are 54.6 percent of the respondents who are male while 45.4 percent are female. The majority of the respondents are Chinese (62.6 percent), followed by Malays (22.3 percent), Indian (13.8 percent) and others (1.3 percent).

Table III shows the respondents' profile based on their age group and education level. Most of the respondents are less than the age of 30, which accounts for 64.4 percent of the total respondents. The second largest age group is recorded as 30-39 which is 23.6 percent, followed by the age group of 40-49 which is 8.7 percent, 50-59 (2.8 percent) and above the age of 59 (0.5 percent). This indicates that majority of the employees in SMEs are relatively young and below the age of 30. In terms of their education level, most of the respondents are degree holders and comparatively a small number of them are postgraduates.

## Findings
Data collected were analyzed using PLS-SEM two-stage approach. The measurement model was tested for its validity and reliability of measures, followed by the evaluation of the structural model for its significant and meaningful, and testing hypotheses. Bootstrapping procedure was performed to calculate the significance of the path coefficient and also the significance of indirect relationship.

## Measurement model evaluation
The evaluation of reflective measurement model evaluation includes the assessment of internal consistency, convergent reliability and discriminant validity. Table IV exhibits the

| | | Ethnicity | | | | Total |
| | Malays | Chinese | Indian | Others | | Percentage |
|---|---|---|---|---|---|---|
| *Gender* | | | | | | |
| Male | 40 | 145 | 25 | 3 | 213 | 54.6 |
| Female | 47 | 99 | 29 | 2 | 177 | 45.4 |
| Total | 87 (22.3%) | 244 (62.6%) | 54 (13.8%) | 5 (1.3%) | 390 | 100.0 |

Table II.
Respondents' profile according to gender and ethnicity

| Age group | Total | Education | Total |
|---|---|---|---|
| Less than 30 | 251 (64.4%) | MCE | 54 (13.8%) |
| | | Diploma | 46 (11.8%) |
| | | Degree | 127 (32.6%) |
| | | Postgraduate | 12 (3.0%) |
| | | Others | 12 (3.0%) |
| 30-39 | 92 (23.6%) | MCE | 9 (2.2%) |
| | | Diploma | 27 (6.9%) |
| | | Degree | 48 (12.3%) |
| | | Postgraduate | 6 (1.4%) |
| | | Others | 2 (0.5%) |
| 40-49 | 34 (8.7%) | MCE | 6 (1.4%) |
| | | Diploma | 8 (2.1%) |
| | | Degree | 14 (3.6%) |
| | | Postgraduate | 5 (1.3%) |
| | | Others | 1 (0.3%) |
| 50-59 | 11 (2.8%) | MCE | 3 (0.8%) |
| | | Degree | 3 (0.8%) |
| | | Postgraduate | 4 (1.0%) |
| | | Others | 1 (0.3%) |
| 59 and above | 2 (0.5%) | Diploma | 2 (0.5%) |
| Total | 390 (100.0%) | | 390 (100.0%) |
| **Note:** MCE, Malaysian Certificate of Education | | | |

Table III.
Respondents' profile according to age group and education

| Construct/items | Loading | CR | AVE | Cronbach's $\alpha$ |
|---|---|---|---|---|
| PRESOR | | 0.934 | 0.702 | 0.914 |
| Being socially responsible is the most important thing a firm can do | 0.835 | | | |
| Social responsibility of a firm is essential to its long-term profitability | 0.894 | | | |
| The overall effectiveness of a business can be determined to a great extent by the degree to which it is socially responsible | 0.880 | | | |
| Social responsibility is critical to the survival of a business enterprise | 0.851 | | | |
| An organization's first priority should be employee morale | 0.736 | | | |
| Business has a social responsibility beyond making profit | 0.822 | | | |
| Internal CSR | | 0.909 | 0.627 | 0.964 |
| Our firm encourages its employees to participate to the voluntarily activities | 0.653 | | | |
| Our firm policies encourage the employees to develop their skills and careers | 0.845 | | | |
| The management of our firm primarily concerns with employees' needs and wants | 0.896 | | | |
| Our firm implements flexible policies to provide a good work and life balance for its employees | 0.836 | | | |
| The managerial decisions related with the employees are usually fair | 0.771 | | | |
| Our firm supports employees who want to acquire additional education | 0.730 | | | |
| Job satisfaction (JS) | | 0.941 | 0.841 | 0.905 |
| I fell fairly well satisfied with my present job | 0.926 | | | |
| Most days I am enthusiastic about my work | 0.917 | | | |
| I find real enjoyment in my work | 0.908 | | | |
| Affective commitment (AC) | | 0.907 | 0.663 | 0.873 |
| I will be very happy to spend the rest of my career with this organization | 0.841 | | | |
| I enjoy discussing my organization with people outside of it | 0.828 | | | |
| I really feel as if this organization's problems are my won | 0.832 | | | |
| I think that I will not easily become as attached to another organization as I am to this one | 0.722 | | | |
| This organization has a great deal of personal meaning for me | 0.843 | | | |

**Table IV.**
Internal consistency and convergent validity

assessment of construct reliability and convergent validity studied in the present research. The loadings for all the items exceeded the recommended value of 0.6 (Chin *et al.*, 1997), with the average higher loading from job satisfaction. Items with loading below 0.6 were removed during the scale refinement process. In terms of composite reliability (CR) values, the highest is obtained for job satisfaction at 0.941, followed by PRESOR at 0.934, internal CSR at 0.909 and affective commitment at 0.907. All the CR values reveal that the constructs possess internal consistency. Average variance extracted (AVE) indicates that the items loaded on respective constructs that explain more than 50 percent of the constructs' variance for the present research depict a value above 0.5 (Hair *et al.*, 2014). The highest AVE was recorded for job satisfaction with a value of 0.841 while the lowest was recorded for internal CSR at 0.627 as per Table III.

Tables V and VI illustrate the assessment of discriminant validity. More recently, discriminant analysis is assessed by adopting Fornell and Larcker (1981) criterion as well as Henseler *et al.* (2015) heterotrait-monotrait (HTMT) criterion. Fornell and Larcker (1981)

| | AC | Internal CSR | JS | PRESOR |
|---|---|---|---|---|
| AC | *0.814* | | | |
| Internal CSR | 0.559 | *0.792* | | |
| JS | 0.785 | 0.567 | *0.917* | |
| PRESOR | 0.445 | 0.55 | 0.379 | *0.838* |

**Table V.**
Discriminant validity: Fornell and Larcker (1981) criterion

**Note:** Diagonal elements are the square root of the AVE of the reflective scales while the off-diagonals are the squared correlations between constructs

criterion is found by the square root of AVE for each construct which is larger than the correlation estimate of the construct. This indicates that a construct is truly distinct from other constructs by empirical standards. Meanwhile, Henseler *et al.* (2015) HTMT criterion is more stringent as it suggests that all constructs are distinctly different at $HTMT_{0.90}$ threshold.

As shown in Tables IV-VI, the measurement model for current research demonstrated adequate convergent and discriminant validity.

### Structural model evaluation

Prior to structural model evaluation, the model is being assessed for collinearity. Collinearity issues arise when two variables are highly correlated and this may render the path coefficient to be biased. Table VII shows the outcome of the collinearity test of the model. The variance inflation factor values for all the constructs are below 5, which indicates that collinearity is not a concern in present research (Diamantopoulos and Siguaw, 2006).

The structural model indicates the causal relationships among the constructs in the model (Sang *et al.*, 2010), which includes the estimates of the path coefficients. Tables VIII and IX present the results of path coefficient assessment using bootstrapping procedures for the hypothesized relationships. Both the direct and indirect relationships are found to be significant. PRESOR ($\beta = 0.133$, $p < 0.05$) and internal CSR ($\beta = 0.101$, $p < 0.05$) were positively related to affective commitment. Thus, *H1* and *H2* are supported.

| | AC | Internal CSR | JS | PRESOR |
|---|---|---|---|---|
| AC | | | | |
| Internal CSR | 0.615 | | | |
| JS | 0.873 | 0.624 | | |
| PRESOR | 0.497 | 0.595 | 0.411 | |
| **Note:** Discriminant validity is established at $HTMT_{0.90}$ | | | | |

Table VI.
Discriminant Validity:
HTMT criterion

| Construct | VIF |
|---|---|
| Internal CSR | 1.824 |
| JS | 1.488 |
| PRESOR | 1.444 |

Table VII.
Collinearity test

| | Descriptions | Direct effect | SE | *t*-Statistics | *p*-Values | Decision |
|---|---|---|---|---|---|---|
| *H1* | PRESOR → AC | 0.133 | 0.036 | 3.674 | 0.000 | Supported |
| *H2* | Internal CSR → AC | 0.101 | 0.045 | 2.245 | 0.013 | Supported |

Table VIII.
Path coefficient
assessment for
direct relationships

| | Descriptions | Indirect effect | SE | *t*-Statistics | CIBC 2.5% | CIBC 97.5% | Decision |
|---|---|---|---|---|---|---|---|
| *H3* | JS mediates internal CSR → AC | 0.349 | 0.040 | 8.822 | 0.332 | 0.464 | Supported |
| *H4* | Internal CSR mediates PRESOR → AC | 0.312 | 0.043 | 7.192 | 0.070 | 0.230 | Supported |
| *H5* | Internal CSR mediates PRESOR → JS | 0.282 | 0.031 | 9.063 | 0.560 | 0.771 | Supported |

Table IX.
Path coefficient
assessment for
indirect relationships

Job satisfaction was hypothesized to mediate the relationship between internal CSR and affective commitment, while internal CSR was hypothesized to mediate the relationships between PRESOR and affective commitment as well as job satisfaction and affective commitment. The bootstrapping analysis shows that the indirect effect of job satisfaction ($\beta = 0.349$) was significant at $t$ value of 8.822 with $p < 0.05$. Preacher and Hayes (2008) indicated that the indirect effect of 0.349 (95 percent boot CI: [LL = 0.332, UL = 0.464]) does not straddle a zero in between indicating that job satisfaction mediates the relationship between internal CSR and affective commitment. Hence, *H3* is supported. Similarly for internal CSR, $\beta = 0.312$ was significant at a $t$ value of 7.192 with $p < 0.05$ whereby this indirect effect of 0.312 (95 percent boot CI: [LL = 0.070, UL = 0.230]) does not straddle a zero in between indicating that internal CSR mediates the relationship between PRESOR and affective commitment. Therefore, *H4* is supported. The last bootstrapping analysis for the indirect effect of internal CSR ($\beta = 0.282$) was significant at $t$ value of 9.063 with $p < 0.05$ whereby this indirect effect of 0.282 (95 percent boot CI: [LL = 0.560, UL = 0.7710]) does not straddle a zero in between indicating that internal CSR mediates the relationship between PRESOR and job satisfaction. Thus, *H5* is also supported.

Table X shows the assessment of coefficient of determination ($R^2$) and predictive relevance ($Q^2$) of the exogenous and endogenous variables in this research. The value for coefficient of determination ($R^2$) for affective commitment is 0.648 which suggests that the exogenous variables in this research, namely PRESOR, internal CSR and job satisfaction explain 64.8 percent of the variances in Affective commitment. Meanwhile, the $R^2$ value for internal CSR is 0.301 that suggests that 30.1 percent of the variance in internal CSR is explained by PRESOR. Similarly, $R^2$ for job satisfaction is 0.328 which suggests that the exogenous variables of PRESOR and internal CSR explain 30.1 percent of the variances in job satisfaction. Overall, the $Q^2$ value of affective commitment is larger than 0 that proposes that PRESOR, internal CSR and job satisfaction possess predictive capacity over affective commitment (Hair *et al*, 2014). Likewise, the $Q^2$ value of internal CSR is above 0, suggesting that PRESOR possesses predictive capacity over internal CSR. The $Q^2$ value of job satisfaction is higher than 0, indicating that PRESOR and internal CSR possess predictive capacity over job satisfaction.

In addition to evaluating $R^2$ values of the endogenous variables, the change in the $R^2$ value when a specified exogenous construct is omitted from the model can be used to evaluate whether the omitted construct has a substantive impact on the endogenous variable. This measure is called effect size, $f^2$. The results reveal that internal CSR has medium effect on affective commitment ($f^2 = 0.016$) and job satisfaction ($f^2 = 0.275$). Meanwhile, job satisfaction has large effect size on affective commitment ($f^2 = 0.875$). PRESOR has large effect on internal CSR ($f^2 = 0.43$) but small effect size on affective commitment ($f^2 = 0.035$) and job satisfaction ($f^2 = 0.01$) as exhibited in Table XI.

|  | $R^2$ | $Q^2$ |
| --- | --- | --- |
| AC | 0.648 | 0.423 |
| Internal CSR | 0.301 | 0.181 |
| JS | 0.328 | 0.273 |

**Table X.**
Determination of ($R^2$) and predictive relevance ($Q^2$)

|  | AC | Internal CSR | JS |
| --- | --- | --- | --- |
| Internal CSR | 0.016 |  | 0.275 |
| JS | 0.875 |  |  |
| PRESOR | 0.035 | 0.43 | 0.01 |

**Table XI.**
Effect size ($f^2$)

## Conclusion and implication

This research reveals that ethics and social responsibility has a strategic role to play in enhancing employees' affective commitment. The results showed that there is a positive significant relationship between PRESOR and internal CSR practices. Employees, being the stakeholders, increasingly expect organizations to behave ethically and act socially responsible because of the scale and reach organizations possess to address social concerns are receiving attention (Pershing, 2006). This indicates that when an employee perceived that ethics and socially responsibility is an important element at work, they tend to behave ethically and social responsible. As a chain effect, through social exchange theory, they would also demand the employers to behave ethically and social responsible in their course of work. As internal CSR concerns about the well-being and welfare of the employees, the social exchange theory further reciprocate in this context, by enhancing their affective commitment toward their organizations. Current research also showed that the implementation of internal CSR could also increases employees' job satisfaction which is further manifested to enhanced affective commitment. Thus, the results of present research conclude that ethics and social responsibility have a strategic role to play in further boosting employees' affective commitment. Need to say, affective commitment is the strongest holding factors to retain employees in a turbulent business environment. Hence, the result is congruent to past research (e.g. Vlachos *et al.*, 2013; Shen and Chang, 2009) whereby doing good pay off in the long run.

Despite that present research has contributed by highlighting the strategic role of ethics and social responsibility to sustain employees in a smaller organization setting such as SMEs, there is a few limitation encountered. First, the present research merely investigates the practices of ethics and social responsibility in SMEs and did not perform a comparison with the larger organization. Second, the use of non-probability sampling method is unable to offer a generalization of the entire population. Future research could address the shortcoming of the present research in order to further contribute to the academic and business world.

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## About the authors

Mei Peng Low is a Senior Lecturer in Universiti Tunku Abdul Rahman (UTAR). She has been teaching more than ten years. She is currently pursuing her PhD in the area of organizational behavior and strategic human resource management. Her research focuses on employee attitude and behavior as well as employee-centered social responsibility. Prior to her teaching career, she was a corporate trainer for more than three years, where she had conducted numerous corporate training programs. Mei Peng Low is the corresponding author and can be contacted at: meipeng.low@gmail.com

Seng Fook Ong is an Assistant Professor at the Univeristiti Tunku Abdul Rahman (UTAR). He has research and lecturing experience in the fields of research method, strategic management and marketing at Master and PhD levels both in Malaysia and overseas. He has led and participated in a number of important consultancy projects funded by Malaysian and foreign governments, international bodies and private sectors such as e-local government readiness study on all town councils in Malaysia, e-government and ICT adoption among SME in Malaysia.

Pei Meng Tan is an Assistant Professor at the Universiti Tunku Abdul Rahman (UTAR). She holds a Doctorate of Philosophy in Law and Master in Law from the University of Malaya. She obtained her Bachelor of Law (Hons) from the University of London. Her expertise is in Commercial Law.