



UNIVERSITI PUTRA MALAYSIA

***INFLUENCE OF ETHICAL WORK CLIMATE, AND ETHICAL LEADERSHIP ON
ORGANIZATIONAL PERFORMANCE AND MEDIATING ROLE OF
ORGANIZATIONAL TRUST AMONG EMPLOYEES IN MALAYSIAN SMEs***

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By

MOHAMMAD KHADEM FAR

**Thesis submitted to School of Graduate Studies, Universiti Putra Malaysia, in
fulfillment of the requirement for the Degree of Doctor of Philosophy**

February 2015



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DEDICATION

To who is The Supreme Seer of His Worshippers

And

To my beloved spouse, Seddigheh and my dear daughter
Hosna



Abstract of thesis presented to Senate of Universiti Putra Malaysia in fulfilment of the requirement for the degree of Doctor of Philosophy

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February 2015

Chairman: Associate Professor Khairuddin Idris, PhD
Faculty : Educational Studies

This study attempted to determine the influence of Ethical Work Climate (EWC) and Ethical Leadership (EL) on Organizational Performance (OP) in Small & Medium Malaysian Enterprises, which involve in electrical and electronic activities. Moreover, it examined the mediating role of Organizational Trust (OT) towards the OP. The study attempted to highlight the importance of OP which could be improved by organizations via EWC factors. In addition the influence of EL factors including Leader honesty, Interactional fairness, and Satisfaction with managers were also considered. The relationships between the independent variables (IV) including EWC, EL, and also contribution of OT as mediator towards the OP as dependent variable (DV) have been explained.

According to official updated website of Malaysian Small and Medium Enterprises (SMEs), the total number of active established electrical and electronic SME is 1457 (SME CORP; Malaysia Official Website; 2013). The majority of these companies are located in, Selangor (36.2 percent), Kuala Lumpur (17.4 percent) Penang (16 percent), and Johor (16 Percent). The researcher chose the four major states mentioned above which contain the majority of companies (85.8 percent). The total number of SMEs in these four states is 1250, and they are located different areas of country. The respondents were top level managers, senior managers, middle managers (supervisor), support staff and ordinary workers who are working in electrical and electronic SMEs. The research design was descriptive and inferential using Structural Equation Modeling (SEM) method. Data were collected employing two types of questionnaires. The study utilized simple random sampling technique and 304 active companies selected randomly through an alphabetically organized name list.

The study examined the perceived ethical climate that relates to organizational performance in Malaysian SMEs. To achieve this goal, Victor and Cullen's 36-item survey is used to find out the perceptions of top managers, senior managers and middle

managers in organization; this typology of respondents is relevant (Mathews, 1998).. The style and level of exist- ethical climate has been measured by analyzing the mean Likert-type scale scores computed for individual responses based on the nine commonly observed in ethical climate literature (Cullen et al., 1993). High performance Organization model employed to design the instrument for dependent variable. Organizational Trust Index and Ethical leadership questionnaire provided with logic and acceptable reliability. In a pilot survey; 30 companies were selected to conduct survey. The reliability of instruments has been determined by measuring the Cronbach alpha. The value of Cronbach Alpha for all factors was above 0.70 which assumed the scale of measurement is reliable (Jacobs & Razavieh, 2005).

The study relied on a face to face meeting and administering the questionnaire to respondents. Data were collected using a self-administered questionnaire distributed among 304 SMEs. Two sets of questionnaires were handed, set "A" was for the managers and set "B" was filled by one of employee in company. This specification of instrument related to the nature of variables. An initial period of a week was provided for each of the chosen SME to respond. A phone call was made after the week was up and a time was arranged for questionnaire pick-up.

The results showed EWC and ELB, have significant influence on organizational performance. So all hypothesis positively confirmed through the results. Social learning theory (Bandura's, 1977) that employed in current study explains the link among these three major variables and affirms the importance of managers' role to enhance the performance in Malaysian enterprises. This is a new complex model that illustrates the relationship of appropriate variables within EC and OP. since the result shows the positive significant relationships, it means managers are role model and employees learn desired behaviors by observing how managers act. In addition it shows that manager's fair employment of rewards and punishment can lead towards organization performance.

The findings of this study provided insights into the effectiveness of EWC, EL, and the role of OT on O-P. In addition, it is important for organizations to build plans and strategies in terms of training programs, managing the leadership style, reward and punishment system. Meanwhile there is a need to highlight the importance of organizational interest elements such as ethical conduct, climate and trust as part of organizational development. Policies and training that places prominence on ethical conduct can be beneficial for the organization particularly those operating as small-medium enterprises involved in manufacturing.

Abstrak tesis yang dikemukakan kepada Senat Universiti Putra Malaysia sebagai memenuhi keperluan untuk Ijazah Doktor Falsafah

**PENGARUH IKLIM ETIKA KERJA, DAN KEPEMIMPINAN BERETIKA
KEPADA PENCAPAIAN ORGANISASI DAN PERANAN PERANTARA
KEPERCAYAAN ORGANISASI DALAM KALANGAN PEKERJA PKS DI
MALAYSIA**

Oleh

MOHAMMAD KHADEM FAR

Februari 2015

Pengerusi: Profesor Madya Khairuddin Idris, PhD
Fakulti : Pengajian Pendidikan

Kajian ini bertujuan untuk mengkaji pengaruh Iklim Etika Kerja (EWC) dan Kepemimpinan Beretika (EL) terhadap Pencapaian Organisasi (OP) dalam kalangan syarikat Perusahaan Kecil dan Sederhana (PKS) di Malaysia, yang terlibat dalam aktiviti elektrik dan elektrikal. Tambahan lagi, peranan perantara Kepercayaan Organisasi (OT) terhadap OP turut juga dinilai. Kajian ini cuba menekankan kepentingan OP yang boleh dipertingkatkan oleh organisasi-organisasi melalui faktor-faktor EWC. Selain itu, pengaruh faktor EL termasuk kejujuran pemimpin, keadilan interaksi, dan kepuasan terhadap pengurus turut diambil kira. Hubungan antara pembolehubah tidak bersandar (IV) termasuk EWC, EL, dan juga sumbangan OT sebagai perantara kepada OP sebagai pembolehubah bersandar (DV) juga telah dijelaskan.

Berdasarkan laman web rasmi Perusahaan Kecil dan Sederhana (PKS) Malaysia yang dikemaskini, jumlah PKS elektrik dan elektronik di Malaysia yang aktif dan diiktiraf ialah 1457 (SME CORP; Laman Web Rasmi Malaysia, 2013). Majoriti syarikat-syarikat ini terletak di Selangor (36.2 peratus), Kuala Lumpur (17.4 peratus), Pulau Pinang (16 peratus) dan Johor (16 peratus). Penyelidik telah memilih empat kawasan utama seperti yang dinyatakan di atas, yang mengandungi majoriti syarikat (85.8 peratus). Jumlah bilangan PKS elektrik dan elektronik dalam empat kawasan tersebut ialah 1250, dan terletak di pelbagai kawasan yang berbeza di negara ini. Para responden merupakan pihak pengurusan tertinggi, pengurus kanan, pengurus pertengahan (penyelia), staf sokongan dan pekerja biasa yang bekerja dalam PKS elektrik dan elektronik. Kajian ini berbentuk deskriptif dan inferensi menggunakan kaedah Model Persamaan Berstruktur (SEM). Data telah dikumpulkan menggunakan dua jenis borang soal selidik. Kajian ini menggunakan persampelan mudah rawak dan 304 syarikat PKS yang aktif telah dipilih secara rawak berdasarkan senarai nama yang disusun mengikut abjad.

Kajian ini mengkaji tanggapan iklim etika kerja yang berkait dengan pencapaian organisasi dalam kalangan PKS di Malaysia. Bagi mencapai tujuan ini, 36-item dalam survey Victor dan Cullen digunakan untuk mengetahui persepsi pengurusan tertinggi, pengurus kanan, dan pengurus pertengahan dalam organisasi; tipologi responden ialah relevan (Mathews, 1987). Gaya dan tahap kewujudan iklim etika kerja telah diukur dengan menganalisis min skor skala jenis Likert yang dikira untuk respon individu berdasarkan sembilan ciri yang biasa dilihat dalam literatur iklim etika kerja (Cullen et al., 1993). Model prestasi tinggi organisasi digunakan untuk merekabentuk instrumen bagi pembolehubah bersandar. Indeks Kepercayaan Organisasi dan borang soal selidik Kepemimpinan Beretika telah dibuktikan logik dengan tahap kebolehppercayaan yang boleh diterima. Pada survei percubaan; 30 syarikat dipilih untuk menjalankan survei tersebut. Kebolehppercayaan instrumen telah ditentukan dengan mengukur alpha Cronbach. Nilai semua faktor melebihi 0.70, dengan menganggap skala pengukuran boleh dipercayai (Ary, Jacobs dan Razavieh, 2005).

Kajian ini bergantung kepada pertemuan secara langsung dan bersemuka dan memberikan borang soal selidik kepada responden (Cooper dan Schindler, 2001). Data telah dikumpulkan menggunakan borang soal selidik jawab sendiri yang diedarkan kepada 304 PKS. Dua set borang soal selidik telah diberikan; set 'A' untuk pengurus, dan set 'B' dilengkapkan oleh salah seorang pekerja dalam syarikat. Spesifikasi instrumen berkait dengan ciri pembolehubah. Pada awalnya, tempoh seminggu diberikan kepada setiap PKS yang telah dipilih untuk memberi respon. Syarikat dihubungi melalui telefon selepas tempoh seminggu tamat, dan masa telah ditetapkan untuk mengumpul semula borang soal selidik.

Keputusan kajian menunjukkan bahawa EWC dan EL mempunyai pengaruh yang signifikan terhadap pencapaian organisasi. Maka, semua hipotesis dibuktikan positif melalui keputusan kajian. Teori pembelajaran sosial (Bandura, 1977) yang digunakan dalam kajian ini menerangkan perkaitan antara tiga pembolehubah utama dan mengukuhkan kepentingan peranan pengurus untuk meningkatkan pencapaian dalam kalangan perusahaan di Malaysia. Ini merupakan model baru yang kompleks yang memberi gambaran hubungan antara pembolehubah bersesuaian dalam EC dan OP. Memandangkan keputusan menunjukkan hubungan positif yang signifikan, ini bermakna pengurus adalah model contoh dan pekerja belajar sikap yang diingini dengan memerhati sikap pengurus. Tambahan lagi, ini menunjukkan bahawa cara pengurus memberikan ganjaran dan hukuman mengarah kepada pencapaian organisasi.

Keputusan kajian memberi pemahaman terhadap keberkesanan EWC, EL dan peranan OT dalam OP. Tambahan lagi, amat penting bagi organisasi untuk membina pelan dan strategi dalam program latihan, mengurus gaya kepemimpinan, serta sistem ganjaran dan hukuman. Sementara itu, terdapat keperluan untuk menekankan kepentingan elemen minat organisasi seperti tindakan beretika, iklim dan kepercayaan menjadi sebahagian daripada pembangunan organisasi. Polisi dan latihan yang meletakkan kepentingan tindakan beretika boleh memberi manfaat kepada organisasi, terutamanya yang beroperasi sebagai perusahaan kecil dan sederhana yang terlibat dengan pengilangan.

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I certify that a Thesis Examination Committee has met on 18/02/2015 to conduct the final examination of Mohammad Khademfar on his thesis entitled “Influence of Ethical Work Climate and Ethical Leadership on Organizational Performance and mediating role of Organizational Trust among Malaysian SMEs” in accordance with the Universities and University Colleges Act 1971 and the Constitution of Universiti Putra Malaysia [P.U. (A) 106] 15 March 1998. The committee recommends that the student be awarded the Doctor of Philosophy.

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LIST OF ABBREVIATIONS

CMD	Cognitive Moral Development
DOSM	Department Of Statistic Malaysia
DV	Dependent Variable
EC	Ethical Climate
EL	Ethical Leadership
ELB	Ethical Leadership Behavior
ECQ	Ethical Climate Questionnaire
ECI	Ethical Climate Index
EWC	Ethical Work Climate
HPO	High Performance Organization
IABC	International Association of Business Communication research
IV	Independent Variable
NSDC	National SME Development Council
OP	Organizational Performance
OPQ	Organizational Performance Questionnaire
OT	Organizational Trust
OTI	Organizational Trust Index
PGT	Path-Goal Theory
SEM	Structural Equation Modeling
SME	Small and Medium Enterprise
SMID	Small and Medium Industry Department

CHAPTER I

INTRODUCTION

1.1 Introduction

The Malaysian government has introduced strategies and plans to provide the development path of Small and Medium Enterprises (SME). The first Malaysian plan introduced a broad spectrum of assistance programs towards improving the SMEs' performance. Despite of these strategies and programs, SMEs still face some difficulties in improving their performance. The statistics reveal that Malaysian SMEs significantly have low contribution to the total manufacturing sector output. Moreover compared with other countries, such as Germany and Taiwan, the amount of value-added goods and employment is still low (Fitriah, 2007).

In recent years SMEs have noticeably performed relatively ineffectually in the area of employment, value added, and productivity. Since 2003, the contribution of SME to the total employment in Malaysia has increased. However, in 2010 for example, the average productivity of SME is estimated at RM 46,400.00 per employee, which is about one-third of the average productivity of large firms rated at RM 147,623.00 per employee. The low productivity can be attributed in particular to the large scale employment of unskilled workers by SMEs in the labor-intensive activities (DOSM and SME Corporation, Malaysia, 2011).

The Malaysian SMEs have been enabled to potentially make significant contributions to the nation's employment and Gross National Product. The large numbers of SME in Malaysia are capable of acting as catalyst in developmental activities and providing access to financing, business, and facilities both locally and abroad. To be competitive, SMEs must be strengthened to be the next engine of growth through strong technical, managerial, and business skills to achieve high Performance (Aris, 2007).

Findings from a study by Ahmad, Wilson, and Kummerow (2011), show that success in Malaysian SMEs depends on managers' perception about the business success in terms of financial and non-financial performance. The study indicates that maintaining a certain level of profitability and obtaining certain level of financial security is very important. These may lead to guarantee the organizational performance (Ahmad et al., 2011).

Conversely, there are some noticeable themes that emerge as concerns regarding the ethical dilemma for employees who are working in private or public sectors (Waldo, 1974). Furthermore, the emphasis on the performance in organizations has been increased. The demands for responsibility on resource use and investments have resulted in the implementation of various performance measures. People normally would strive to gain success and health, because the values associated with the work ethic would

become established in society and considered as expected behavior. It seems that ethics can no longer be aligned with any one set of religious beliefs (Weber et al., 2002).

Since the organizational level consequences of unethical behavior affect the organizational performance (Okpara, 2000), the research in this area is important. Finding the extent of Organizational Performance (OP) regarding the Ethical Climate (EC) and Ethical Leadership Behavior (ELB) is useful. At present, it is not easy to attempt to measure the ethical dimensions, organizationally or individually (Heinze, Sibary, and Sikula, 1999). In contrast, defining ethics is not so difficult. However, the progress can be made as researchers continue their studies in the area of ethics (Heinze, et al., 1999).

Unethical practices can affect business in a number of ways. Firstly, consumers have a tendency to shy away from products and services of organizations with unethical statues (Román & Ruiz, 2005). Secondly, some unethical practices can increase the firm's cost and financial risk (Neese, Ferrell, & Ferrell, 2005). Third, unethical climate has a general effect on employees via the levels of lower job satisfaction and low performance (Kuvaas, 2008).

This study attempts to investigate and find the level of organizational performance by considering the contribution and influence of EWC, ELB in Electrical and Electronic SMEs. Moreover, the mediating effect of Organizational Trust (OT) towards the OP was assessed as well. The study attempts to highlight the importance of OP that can be built by organizations via EWC factors such as caring, Laws and codes, Rules, Instrumental, and Independence. In addition, the research tries to seek and discover the influence of ELB factors including Leader honesty, Interactional fairness, and Satisfaction with managers. The relationship between the independent variables (IV) including EWC, ELB, and also contribution of OT as mediator towards the OP as the dependent variable (DV) are explained.

1.2 Background of the Study

The study conducted by Daly (2002), in four small sized municipal governments shows that there is strong relationship between positive organizational climate and successful process. However, the research revealed that there is less evidence to support the impact of ethical leadership on organizational performance (Daly, 2002). Meanwhile, a World Bank survey of manufacturing indicates that Malaysian firms are doing less to develop innovative processes than those of similar countries. A survey conducted in 2000 and 2007 indicates that Malaysian firms prefer to undertake less sophisticated activities, such as upgrading existing product lines and machinery, rather than producing innovative equipment that may require the filing of patents (New Economic Model for Malaysia Part1, 2011). Only a third of total companies remain excellent over the long time (Keller & Price; 2011).

SMEs in Malaysia are major contributors in private sector industrial activities (Eikebrokk & Olsen, 2007). The significance of SMEs in economic growth has highlighted the SMEs as a basic element in much recent policymaking. SMEs appear to be appropriate units as network nodes due to their lean structures, adaptability to market evolution, active involvement of versatile human resources, ability to establish subcontracting relations and good technological level of their products (Ale Ebrahim, Abdul Rashid, Shamsuddin andTaha; 2013). SMEs possess advantages with regards to flexibility, reaction time and innovation capacity, and therefore SMEs play a major role

in the new economy. The managers of SMEs should invest less in tangible assets and more in areas which would directly enhance their future competitive advantage such as HR specifically for OP (Gassmann & Keupp 2007).

Organizations in both nonprofit and public sectors need to look for continuous improvement and to sustain high performance. As a newly developed country, Malaysia has seen its share of corporate irregularities and accusations of violation or infringement of EC and ELB. Besides that, corporate governance has made local headlines in this area. Thus, those factors or relationships that influence the organizations' performance in such cases would be useful. Nevertheless, the dearth and the lack of studies from a Malaysian context does not help and allow having an investigation to take place (Miller, 2008). Miller (2008) in his study indicated that there may be a fundamental shift away from the notion that newly developed countries do not place much emphasis on the ethical practices. Burns & Brady (1996), Pettijohn, Pettijohn, & Taylor, (2008) for example, believe that in developing countries like Malaysia, the expectation is that the country in general has lower ethical perception rather than their counterparts in developed nations. Furthermore, Shigematsu, Mizoue, Kajisa and Yoshida (2011) claimed that Malaysia does not hold integrity as an important issue. On the other hand, a study conducted among Malaysian industry firms by Chong, Chan, and Sim (2011) concluded that good practices such as strategic supplier measures, customer relationship, and information sharing improve the organizational performance; hence indicating some elements of ethical practice are being put in place.

Recently the government has focused on the importance of SMEs in improving performance and developing the economy. New empirical studies showed that policies should not be directed solely to strengthen inter-firm cooperation within SMEs clusters. However, programs, action plans, and various policies implemented to date have shown otherwise. Mohd Zulkifli, Char, Mohd Rushdan' and Zakiah (2010) believe that SMEs in Malaysia are still capable of absorbing the depressed global economic condition due to well-structured supporting plans provided by the government and related agencies.

In a study of Malaysian managers Abdul & Ibrahim (2002); Rashid & Ibrahim (2008) found that Malaysian managers consider the business activities are more ethical today than they were 30 years ago. The study reveals a positive picture of ethical perceptions of Malaysian managers. As such, this may indicate to the higher levels of awareness towards the importance of ethics (Miller, 2008).

Gupta & Sulaiman (1996) in a study regarding managers' ethical orientation in Malaysia concluded that although managers would like to express their faith in ethical behaviors to achieve the success in their organizational activities. But the practical evidence reveals that sometimes in the current situation, they have to make compromises.

A survey conducted by United Parcel Services (UPS, 2005) shows that Malaysian SMEs in terms of competitiveness came in tenth in Asian countries where 73 per cent of respondents considered that Chinese SMEs are more competitive than other countries. The result of this study indicates that innovation and access to market intelligence and access to funding and capital are the biggest challenges for Asian SMEs. Moreover, the survey conducted by Saleh (2006) reveals that the most

competitiveness issues which Malaysian SMEs faced are: labor cost, innovation and low financial performance.

In the recent century the importance of global ethics and compliance programs have made managers in Malaysia shift their emphasis towards these areas due to global competition. Global demands increase the observance of corporate diligence (Miller, 2008). The results of the survey show that managers do have positive attitudes towards business ethics when representatives were queried about whether managers were more ethical now rather than thirty years ago, the tendency among them was to agree (Miller, 2008).

1.3 Statement of the Problem

In Malaysia, there has been a noticeable increase in discussions dealing with ethical issues, especially in recent years. The ethical and moral standard has allegedly become lower, while the industrial progresses in many part of the world have resulted in higher levels of affluence (Zabid & Alsagoff, 1993). As evidence reveal, there are frequently reports regarding collusion, kickbacks, dishonesty and corruption by individuals and organizations (Gupta & Sulaiman, 1996). The critical interest is being taken in value judgments that remain behind organizational decisions and particularly those who responsible for managing SME organizations. The leaders through their intentions, goals and actions which relate to human resource factors, directly or indirectly influence the welfare of a number of people in the society. They are influencing the future not only for their own organization but also for employees, customers, suppliers, consumers, stockholders and the community as a whole (Gupta & Sulaiman 1996).

Previous studies show that managers in Malaysian SMEs believe the importance of Ethical Leadership as being relevant to the long-term success of their businesses. However, it has been reported that business realities may lead them to make compromises. The managers often feel pressured to resort to unethical adjustments for a variety of reasons, such as stiff competition, organizational ethical climate (OEC), and the ethical behavior of colleagues and employees. In addition, the lack of effective guiding mechanism in facing complex ethical problems has become another important point of contention (Gupta & Sulaiman, 1996).

The link between ethical practices and organizational performance is still somewhat inconclusive. Researchers such as Cochran & Mays (1989), McKendall, DeMarr, and Jones, Rikkers, (2002), found a positive correlation between corporate ethics and financial performance, while others have found a negative correlation between EWC and OP (Baucus and Near, 1991; Gaulden, Clinard and Yeager, 1980; Clinard & Yeager, 1980; Brisette, Petrakek & Harries, 1979; Weaver, Trevino, 1999; Cochran & Nigh, 1987). However, inconsistent results were prevalent among these studies. The lack of consistency is also extended to research conducted in Malaysia.

Moreover, creative behaviors tend to lead to enhanced performance (Moghim, and Subramaniam; 2013). The influence of Organizational Climate on individuals' creativity and innovation is expected. Despite the high expectation, Malaysian SMEs only reports 45.9% of the employee's creative behavior. So the gap in relationship between EWC and ELB, and its contribution to organizational performance in the Malaysian manufacturing organizations needs to be further investigated.

As such, behavioral responses and attitudes require efforts at institutionalizing ethics into the organizational decision making processes and work practices. Organizations are widely attributed to their value based actions and ethical leadership which guides the managerial practices (Peters & Waterman 1982; Pascal & Athos, 1981; Deal & Kennedy, 1982; Denison, 1990).

This study expects to investigate the major factors including EWC towards the OP and contribution of OT towards the OP in electrical and electronic SMEs. Since managers traditionally focus on OP from a performance and informal perspective, employee effectiveness, financial performance, supplier performance and customer's performance becomes important. This study will investigate the normative approaches of ethical behavior controls and reports on the preliminary results of survey that probe the relationships between EWC, ELB, OT and OP. Understanding this relationship fulfills a theoretical gap regarding the business community, particularly related to human resource development at SMEs in developing new industrialized countries like Malaysia (Glasow, 2007; Carlisle & Carter, 1988; Wotruba, 1990; Reidenbach and Robin 1991)

1.4 Research Questions

1. Does Organizational climate as independent variables influence the OP in Malaysian SMEs?
 - a. Does Ethical Work Climate significantly influence the Organizational Performance in Malaysian SMEs?
 - b. Does Ethical Leadership Behavior significantly influence the Organizational Performance in Malaysian SMEs?
2. Does Organizational Trust have a mediating effect between Ethical Leadership Behavior and Organizational Performance in Malaysian SMEs?
3. Are there significant relationship between Ethical Work Climate, Ethical Leadership Behavior, Organizational Trust and Organizational Performance in Malaysian SMEs?

1.5 Objectives

Main Objective: the study aimed to find the relationship between organizational ethics and organizational performance within electrical and electronic Malaysian SMEs; the organizational ethics consist of three major factors: ethical work climate, ethical leadership behavior, and organizational trust. Organizational performance generally from both financial and non-financial aspects considered; the private sector organizations have been covered.

- The specific objectives of study are: To determine the influence of Ethical Work Climate, on Organizational Performance in Malaysian SMEs;
- To determine the influence of Ethical Leadership Behavior on Organizational Performance in Malaysian SMEs;

- To determine whether Organizational Trust mediates the relationship between Ethical Work Climate, Ethical Leadership Behavior and Organizational Performance among employees in Malaysian SMEs;

1.6 Significance of the Study

The employees represent the individual knowledge stock of an organization at the workplace (Ostroff, Kinicki & Tamkins, 2003; Roos, Roos, Dragonetti & Edvinsson, 1997; Bontis, Crossan, & Hulland, 2002). Bontis (1999) argues that employees generate intellectual essence through their competence, attitude and their intellectual agility. Competence includes skills, education, and attitudes while the attitudes cover behavioral actions. Even though employees are considered the most important corporate asset in an organization, they are not owned by the organization. There is still argument whether new knowledge generated by employees belongs to the company. Bontis (1999) believes that organization's environment is important because of innovation, interacting customer, enhancing, and encouraging subordinates. In addition the strategic renewal is a matter that can enhance the performance of organizations. It is also a major component of the organization's integrity.

Malaysian Small and Medium Enterprise (SMEs) are an essential component of the country's economic development. They account for 93.8 percent of companies in the manufacturing output, 25.8 percent to value added production, own 27.6 per cent of fixed assets, and employ 38.9 percent of the country's workforce. The value added products from this sector is expected to be worth RM 120 billion for the manufacturing sector by 2020 (SMIDEC 2002; Saleh & Ndubisi, 2006). Nevertheless, this is only 50 per cent of total production in SMEs manufacturing. The total Malaysian export is approximately 20 percent lower than many other countries' such as Philippines, Hong Kong, Taiwan (Saleh & Ndubisi 2006).

In a report- study of SMIDP, it is stated that Malaysia facing many new challenges in terms of SME's product activities (Saleh & Ndubisi 2006; pp.1-14) ;Some of these challenges introduced as below:

1. Competition; compare with other Asian countries (for example China and India)
2. Low productivity and low quality output
3. A shortage of skills for new business environment
4. The high cost of infrastructure
5. A general lack of knowledge and information

Ting (2004) identified five key challenges: lack of access to finance, human resource constrains, inability to adopt technology, lack of information on potential markets, and customers and global competition. Ting (2004) believes that the high risk of SMEs in Malaysia will be wiped out if they do not increase their competitiveness in the new, quickly changing globalization(Saleh & Ndubisi, 2006).

In Malaysian organizations, managers' perceived personal codes of behavior have important influence on their decisions. They are guided more by their own conscience which relate to morality of their actions and encourage them to behave in a certain

manner. They generally internalize different values and beliefs about desirable and states understanding attitudinal and behavioral processes.

These ethical values and norms need to be incorporated in the planning process of management. Moreover clearly from organization's mission statement expressing values would then be translated into a specific code of conduct to adequately communicated and enforced. For such a culture to come into existence and become effective in influencing and enhancing ethical environment in organization, the most important factors are values, the words, and the deeds of top (executive) managers who act as leaders. They are the role models for employees and members in the organization (Gupta & Sulaiman, 1996).

Since the high performance considered as a main target in each organization, the significance of study may contribute to strategies and plans that provide the basis for Malaysian industry. In addition the SME manufacturing organizations will be able to develop programmes directed towards developing organizational trust ethical behaviors that could promote organizational performance. Previous research show that there is not enough documented research in this area; hence the current study aimed to find some comparatively source and information and may open a new phase for improving and developing the body of knowledge in the area of ethics and organizational performance.

1.7 Assumptions

The study used a self- reported survey by providing questionnaire. As such it is hoped that the responses on the survey were honest and the result was free of bias. In addition the SMEs are chosen based on the list as published on the SME Corporation of Malaysia official website (2013) is considered to be timely at the time of the research. The SMEs are assumed to be operated within a context that has a climate of ethical work and leadership.

1.8 Limitation

1. The research conducted in few regions of Malaysian SME organization which proceed in electrical and electronic productions; thus it cannot be ensure whether it could be generalized to whole manufactures or not.
2. This research was limited to the exploration of the perception of top managers, senior managers, middle managers (supervisors), and support staff in electrical and electronic SME in Malaysia. Specifically, the managers' perception was investigated regarding EWC and OP at their workplace. Similarly, in line with the requirements of the investigation, the support staff's perception was also assessed on ELB and OT. Since the respondents are limited to four major states in Malaysia, accordingly the generalization of the findings is limited to similar groups within the similar SMEs.
3. Another theoretical limitation in this study is related to social factors. The organizations' performance, especially in the private sector can sometimes be influenced by forces outside of the organization. For example economics,

culture, and politics affect the normal procedures and functions of organizations (Fombrun, et al., 1984). Therefore, the finding of current study cannot be generalized to other nations.

4. Another limitation goes to extensiveness of study, where it covered 300 cases within electronic and electrical manufacturing SME. The possibility of contextual differences in other industries such as food, automobile and the service industries for example, may produce different results.

1.9 Operational Definitions

1.9.1 Climate

Climate, refers to organizational member's perceptions in work place (Schneider, Salvaggio & Subirats, 2002; Schneider & Bowen, 1995). This perception consists of policies and procedures; both formal & non-formal of an organization (Schneider, 1990).

1.9.2 Ethical Work Climate

Hunt (1991) argues that it is a shared value that indirectly relate to what is right or correct to behave and how Ethical dilemma will be solved. Martin & Cullen (2006) defined it as a type of organizational climate that reflect employees' perceptions of the ethical policies, practices and procedures.

1.9.3 Ethical Leadership

Normatively, appropriate conduct through personal actions, and interpersonal relationship by providing two-way communication between leaders and followers in decision-making (Brown, Trevino, & Harrison, 2005).

1.9.4 Trust

Willingness to depend on another party (Mayer, et al., 1995). Trust is defined as "Reliance on a voluntarily accepted duty on the part of another engaged in a joint endeavor or economic exchange (Hosmer, 1995, p. 393). "Trust is the extent to which a person is confident in and willing to act on the basis of the words, actions and decisions of the others (McAllister, 1995).

1.9.5 Organizational Trust

Organizational trust is defined as the organization's willingness, based upon its culture and communication behaviours, inter-relationships and transactions, to be appropriately vulnerable based on the belief that another individual, group, or organization is competent, open and honest, concerned, reliable, and also identified with common goals, norms, and values (Mishra 1996).

1.9.6 Organizational Performance (OP)

Daft (2000), defines the organizational performance as the organization's ability to attain its goals by using resources in an efficient and effective manner. This is quite similar to Richard and Johnson's (2001) definition which argue that organizational performance is considered as the ability of organization to achieve its goals and objectives.

1.9.7 Small and Medium Enterprise (SME)

Arbaugh, Camp, and Cox (2008) define enterprising firms as one which is designed to create wealth through new economic activities by bringing together unique packages of resources to make use of marketplace opportunities. In international business, researchers and practitioners define SMEs based on the socioeconomic development of each country. In the United States, an SME is a company with 500 or fewer employees (Cavusgil & Knight, 2009). Lin, Chaney, Lawton, & Liu (2007) have defined SMEs in their studies as an establishment company with 650 employees or less.

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