


## Article

# Relationships among Ethical Commitment, Ethical Climate, Sustainable Procurement Practices, and SME Performance: An PLS-SEM Analysis

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**Abstract:** Although plenty of discussions have been conducted on the importance of top management's ethical commitment (TMEC), companies' ethical climate (EC), sustainable procurement practices (SPP) and organizational performance, empirical studies to explain the mechanism through which the top management's ethical commitment generates favorable performance for Small and Medium Enterprises (SMEs) are still not yet established. Constructing a formal theory, we recommend that TMEC contributes to SMEs' performance by promoting the company's EC and SPP. This hypothetical outline was empirically tested using a sample of SMEs in Saudi Arabia. This study tested hypotheses using structural equation modelling (PLS-SEM). Our analysis shows that TMEC significantly predicts companies' EC and SPP, which then fully mediate the effects of TMEC on SMEs' non-financial performance (NFP). This research supports the reasonable theoretical statement that TMEC boosts SME performance by providing empirical validation. The results also show that TMEC, the company's EC, and SPP impact SMEs' performance directly, except for the impacts of SPP on FP.

**Keywords:** ethical commitment; ethical climate; sustainable procurement practices; SME performance; structural equation modelling (PLS-SEM); Saudi Arabia

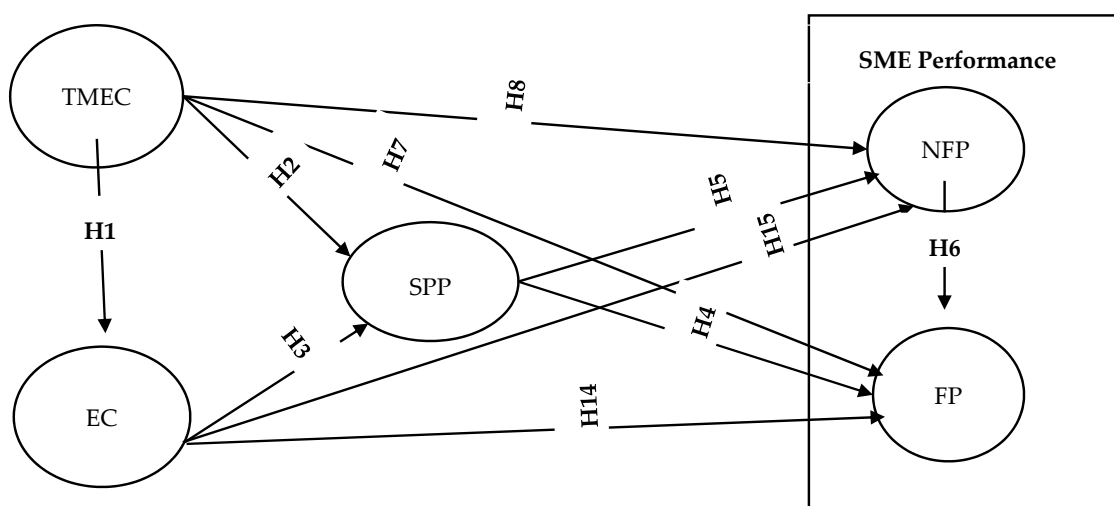
## 1. Introduction

Regardless of the size and location, sustainability is growing rapidly in the fields of economics, business and the public sector across the world. As a result, recently, sustainability strategy has become a necessity for competitiveness due to greater demand and expectations from society, environmental groups, other stakeholders, and government regulations [1]. This means that for any company, it is important to behave in an environmentally and socially responsible way while attempting to attain its economic benefits [2]. Achieving and managing sustainability is challenging for businesses but it is important to operating businesses to sustain for a longer period [3]. Lather [4] claims that ethical practices are supportive for businesses and stakeholders in terms of attaining sustainability. Besides, the World Summit of Sustainable Development [5] declares that the relevant authorities should operate responsibly, and policy makers should promote procurement policies to protect the environment, which lead to sustainable goods and services (sustainability). This means that companies could not satisfy this declaration through only conducting their internal operations responsibly. Rather, it is essential for companies to control their whole supply chain to fulfil the demand of various stakeholders for the liable goods, services, and processes. So, the implementation of business ethics and sustainable procurement practices (SPP) are becoming increasingly important for companies worldwide. The institutional [6] and stakeholders' theory [7] states that top management's ethical norms and commitments empower them to amplify the inspiration [8], which forms an institution's

ethical climate and supports ethical behaviors like purchasing with social responsibility (PSR) and sustainable procurement practices (SPP) [9], which in turn promote organizational performance. In addition, due to moral scandals of top management of world-recognized companies (such as Equifax, Samsung, Kobe Steel, Mitsubishi Materials, etc.), ethical leadership is being considered as one of the most essential attributes of business leaders [10]. Thus, top management's ethical commitment can be considered as the new frontier for organizational competitiveness and performance. In the existing literature, there is no common and clear definition of what the "top management's ethical commitment" of an organization is. According to Steven Mintz [11], the top management ethical commitment refers to the demonstration of top management's beliefs and initiatives to implement the core values of the company such as honesty, integrity, respect for others, taking responsibility for their actions, and being accountable for the company. Mihelic et al. [12], however, said that the top management ethical commitment refers to top management setting high ethical standards and acting in accordance with them. At the same time Brown et al. [10] argued that the top management ethical commitment refers to the demonstration of top management's beliefs and striving to put ethics in the center of their decision-making, to establish just and shared ethical values, to build an ethical climate at the organizational heart, and to enhance company values. The definition of "top management's ethical commitment" provided by Brown et al. [10] was utilized in this study.

A vast amount of research has explored the performance implications of ethical leadership [9,13–16]. These studies have investigated the role of ethical managerial behavior or leadership as an antecedent of organizational performance. However, these studies are predominantly conducted in multinational and large corporations, and most researchers only considered large firms as their unit of analysis for the topic. Therefore, there is a lack of knowledge about business ethics in SMEs [17,18]. Moreover, investigators often overlook the fact that the SMEs have nuances and limitations that cannot be addressed like large organizations. Therefore, there is not enough research in business ethics, regarding SMEs, even though SMEs and large corporations are different characteristically [18]. This is the first limitation of these studies. The second limitation of these studies is the fact that most of these studies mainly targeted individual work outcomes rather than company performance and focused on first-line supervisors rather than top management [19]. Moreover, the existing literature fails to offer a convincing theoretical account and empirical evidence about the mechanisms through which top management ethical leadership affects organizational performance. Therefore, the role of ethical leadership in the company is incomplete without knowing whether and how top management's ethical commitment relates to company performance.

Due to the lack of adequate ethical business practices, SMEs continuously struggle to sustain their business [20]. This in turn has adversely affected SMEs' reputations [21]. Due to the expanding role of SMEs globally, an ethical approach towards business is imperative for them. Therefore, SMEs call for a separate field of study as far as their ethical practices are concerned. At the same time, irrespective of their size, business ventures can no longer ignore business ethics [20] due to globalization and more international business. It is therefore necessary to conduct more academic research to examine the empirical association between top management's ethical commitment and organizational performance in general and SMEs' performance in particular. In the present study, we offer a theoretical and empirical analysis of the relationship between top management's ethical commitment and SME performance, claiming that the relationship between top management's ethical commitment and performance at the company level is reliant on a solid ethical climate and sustainable procurement practices. More specifically, we extend a conceptual model by incorporating understandings from the literature in ethical leadership, ethical climate, strategic management, and sustainable procurement practices, which encompasses organizational ethical climates and sustainable procurement practices as mediating variables (see Figure 1).



**Figure 1.** Research Framework.

A company-level investigation that uncovers the impact of top management's ethical commitment toward company performance is crucial for business ethics research. Such investigation offers significant implications for business leaders and executives. Due to companies' heavy emphasis on profitability goals, pursuing ethicality and profitability at the same time is a dilemma for many business leaders [22]. Thus, whether the ethical commitment of top management is indeed associated with the company performance and through what process top management's ethical commitment can improve the company performance are important research agendas. To answer these research questions, this study, based on SMEs in Saudi Arabia, will develop a theoretical framework to explain the mechanism through which the top management's ethical climate generates favorable outcomes for SMEs (namely financial performance (FP) and non-financial performance (NFP)). Generally, we will examine the impact of TMEC on SMEs' performance. Particularly, this study investigates the direct effect of TMEC, EC, and SPP on SMEs' performance and EC, SPP, and NFP as mediators in the relationship between TMEC and FP. Our theoretical propositions were empirically tested using data obtained from 117 managing directors and senior executives of 117 SMEs in Saudi Arabia.

There are strong justifications to select the Kingdom of Saudi Arabia (KSA) as the sample of the study. The economy of Saudi Arabia is a factor-driven economy. Recently, the Saudi Arabian government attempted to transform the economy from factor-driven into an efficiency-driven state. To achieve this goal, the government has launched "Saudi Vision 2030", and entrepreneurship is being taken to the forefront by the strategic economic planning of Saudi Arabia. An adequate number of policies, strategies, and programs have been taken into consideration to unlock the talent, potential, and dedication in the Saudi youth population to meet the goal of Saudi Arabia's 2030 vision. The contribution of SMEs in Saudi Arabia is vast as they account for 90% of all businesses in Saudi Arabia and account for 62% of total employment [23]. Although the government of Saudi Arabia is continuously supporting SMEs to build a sustainable and competitive environment, their performance and business growth remain slow-going [24]. Various reasons for this have been suggested, but minimal efforts have been made to ascertain how ethical practices in SMEs can introduce and support high standards of business practice. For instance, Jenkins [25] stated that the SMEs' efforts to incorporate broader corporate social responsibility activities had failed due to a confusion of their precise needs both in policy setting and in execution. Indeed, the Saudi government focused on accountability, transparency, social responsibility, and corporate governance due to the increase in the number of fraud cases. However, there are hardly any studies that deal with business ethics and ethical practices in Saudi Arabia. There are only a few studies on the performance of SMEs in KSA such as general performance [26], or performance linked with various scopes, information management [27], web based

business [28], innovation transfer [29], etc. Insofar as it addresses the lack of attention given to this issue, the significance of this study is justified.

This study makes several contributions to the current literature focusing on business performance. First, this study distinguishes itself from the past research on business performance by considering the ethical commitment of top management constructs as key drivers of non-financial performance in SMEs. Furthermore, it distinguishes itself by empirically evaluating the role of ethically committed top management in facilitating company climate, and practices of ethics and activities which in turn boost a firm's financial and non-financial performance; in other words, by teasing out the direct and indirect effects of ethical commitment of top management on financial and non-financial performance in SMEs. This study also showcases the causes and effects of companies' ethical climates, and their sustainable procurement practices are considered in a single model. More importantly, we extend earlier findings on business performance by documenting the logical mechanism of how ethical commitment of top management affects SMEs performance. Finally, this is the first study conducted to test the association between ethical commitment of top management and business performance within Gulf Cooperation Council (GCC) countries. The rest of the article is structured in five major sections. In the next section, we present a synthesis on top management's ethical commitment, ethical climate and sustainable procurement practices literature and derive our research hypotheses. Next, we elaborate on our methodology. In the subsequent section, we explain our structural equation model results, we discuss the findings and the implications of our research for practice and theory, summarize our key findings as well as limitations, and potential avenues for future research.

## 2. Theoretical Background and Hypotheses Development

### 2.1. Association between Ethical Commitment of Top Management and Ethical Climate

A sizable number of previous studies have examined the effects of EC on a variety of work outcomes, and a reasonably limited attempt has been taken to explore factors that form or foster an EC. Even though researchers agreed that ethical leaders drive the shaping of the EC of companies by setting ethical standards, and developing and incorporating ethical values into decision-making [30,31], there is scarce empirical evidence regarding the association between TMEC and EC [13]. It is important to examine the role of TMEC in cultivating EC in SMEs. To fill this gap, we focused on institutional theory [6]. Our theoretical model is in line with the sustainable procurement practices (SPP) that mainly focus on external stakeholders; we consider that it is important to include both the employee-focused [32] and community-focused climate [33]. Victor and Cullen [32] stated that climate of ethics that is represented by the prevailing perceptions of employees on the practices of organization and procedures including ethical content which is termed as a caring climate. Treviño et al. [33] kept focusing on the Victor and Cullen's ethical climate model by adopting the views of the stakeholder. They refer to ethical climate as a climate in which the perception of employees' decisions is built on a central interest on well-being of the community of the organization. Based on the existing literature [34], top management can be defined as managing directors and senior executives who are responsible with many leadership roles in their company. In this study, the ethical climate is conceptualized as a company-level construct that denotes perceptions of employees with regard to the presence of an ethical code, company ethical policies and actions of top management regarding ethics because the behaviors of employees of a company are influenced by these elements.

The institutional theory posits that enablers of an institution (leadership/top management) are responsible for modeling the culture of organizations, employee attitudes and climate through spreading awareness to employees that affect their behavior as top management can formulate a code of ethics and ethical norms [6,35]. In addition, Davis, Schoorman, and Donaldson [36] stated that the top management carries values and morals to attain ethical organizational climate effectively. Although these studies have not focused on business ethics, collectively, these findings recommend that top management is an antecedent of ethical climate. Moreover, other researchers asserted that

employees of organizations considered top management's behavior, ethical values, and commitments to be the means of bringing about the orientation of ethics in their organizations, and that these factors in turn influence the structure of the ethical climate in organizations [37,38]. At the same time, Finkelstein and Hambrick [39] stated that the ethical norms of top managers are highly significant as leaders enable employees to become motivated to uphold a positive ethical climate and the behavior it requires. Thus, the following hypothesis can be suggested:

**Hypothesis 1 (H1).** *Ethical commitment of top management is positively associated with the ethical climate in SMEs.*

## 2.2. Association between Ethical Commitment of Top Management and Sustainable Procurement Practices

Nowadays, external stakeholders impose more pressure on companies to enhance sustainable practices in companies including their procurement process [40]. As a result, research interest in SPP has increased by researchers, academics, and governments around the globe over the past years. Walker and Brammer [41] stated that the definitions and the theoretical views of sustainable procurement are different amongst countries, individual studies, and organizations. For example, according to Yip and Lo [42], HSBC Holdings stated that sustainable procurement refers to “making decisions maintain the right balance between the environment, society, and the economy to ensure long-term business successes”. The Sustainable Procurement Task Force [43], on the other hand, defined sustainable procurement as “a process whereby organizations meet their needs for goods, services, works, and utilities in a way that achieves value for money on a whole life basis in terms of generating benefits not only to the organization but also to society and the economy while minimizing damage to the environment”. Moreover, sustainable procurement practices differ across organizations, industries, and countries [44]. Sustainable procurement practices may include many concerns like human rights, involvement in community, diversity, working conditions, environment, philanthropy, business enterprises owned by women, safety and buying from local small suppliers [45]. For the purpose of this study, we utilized the literature's most popular definition of sustainable procurement, which is given by the Sustainable Procurement Task Force.

The existing studies concerning sustainable procurement practices have commonly highlighted opportunities and challenges faced by organizations [46,47], and aspects and dimensions of SPP [47,48]. Other studies highlighted the effects of commitment of top management on purchasing social responsibility. For example, Yen and Yen [49] stated that commitment of top management is the primary driver of firms' achievement in implementing green purchasing standards. In addition, Blome and Paulraj [19] claimed that the correlation between top management ethical norms and ethical behavior (purchasing social responsibilities) is significant and positive. At the same time, Godos-Díez et al. [35] said that socially responsible organizations would not be able to be established unless managers who are socially responsible can impact organizational ethical behavior. Moreover, a significant and positive association has been found between top management's commitment and CSR in several previous studies in the literature [50]. However, there are very limited studies that have focused on ethical leadership or top management's ethical commitment that influence sustainable procurement practices [46,47], even though the preference of the top management in any company is a key factor determining whether ethical behavior is practiced or not [51]. As an example, Giunipero et al. [46] reported that initiatives of top management motivate the efforts of sustainable procurement. Therefore, top management is vital in making decisions in an ethical fashion. These opinions are strongly adopted through stakeholders' theory [7] as this theory stated that top management's ethical norms are empower them to amplify the inspiration [8] which supports ethical behavior like PSR and SPP [9]. However, none of the studies empirically tested the relationship between TMEC and SPP in business. Thus, the following hypothesis can be formed.

**Hypothesis 2 (H2).** *Ethical commitment of Top management is a vital originator of sustainable procurement practices in SMEs.*

### 2.3. Association between Ethical Climate and Sustainable Procurement Practices

Ethics is a substantial concern in realizing sustainable procurement strategies and an ethical climate construct is a key driver of purchasing social responsibility [19]. The relationship between organizational climate and employee attitude, and behavior, has been well established in the present studies [32,52]. These studies reported a positive impact of community-focused as well as employee-focused ethical climates on ethical behavior (purchasing social responsibilities), which is in line with the utilitarian ethical model [53]. According to this theory, the most ethical choice is the one that will generate and maximize the greatest good for the greatest number. This means that the utilitarian climate encourages employees of an organization to assess their activities and roles within a wider framework of possibilities concerning the ways in which they could impact others [53]. Thus, employees can be inspired, by the benevolent climate, to be socially responsible, and this is of interest to outside stakeholders as well. According to the prevailing utilitarian perceptions, community-focused and employee-focused ethical climates could significantly and positively support the levels of SPP. In addition, Cooper, Frank, and Kemp [54] stated that the ethical climate of an organization is a valuable tool for guiding ethical purchasing behavior. As a result, we can hypothesize the following:

**Hypothesis 3 (H3).** *Ethical climate is positively related to sustainable procurement practices in SMEs.*

### 2.4. Association between Sustainable Procurement Practices and Company Performance

Sustainable procurement practices were acknowledged as a vital strategic topic that affects company performance [55,56]. At the same time, Eyaa and Ntayi [57] and Gudda and Deya [58] stated that the increase in sustainable procurement practices is the one aspect of supply chain management that could have strong potential benefits for SMEs. The business performance can be structured into financial and non-financial categories. There is no unique set of tools to measure an organization's financial performance and non-financial performance. The most used set of tools to measure financial performance are the firm's profit growth, sales growth, cost reduction, market share growth, and return of assets [48]. The non-financial performance is measured by most used five unique dimensions of: human resource management performance, quality performance, operation management performance, overall management performance, and local and international business performance [59].

Oyuke and Shale [60] revealed that sustainable procurement practices are now considered an important aspect of corporate governance that can empower organizations to promote their economic and social goals. Sustainable procurement is a holistic perception that categorically suggests that besides pleasing their shareholders, firms are in charge of fulfilling stakeholders' needs (e.g., social responsibility) which might sustain their long-term benefits and progress [61]. This result is supported by Renukappa et al. [62], who claim that that sustainable procurement practices are a key competitive factor for organizations seeking long-term achievements. Other studies argued that SPP is a driving tool that allow organizations to achieve better profits [63–67]. For example, Quayle [64] reported that green supply chain management practices have helped SMEs to effectively reduce costs without compromising on customer satisfaction levels. Moreover, Meehan and Bryde [67] remarked that sustainable procurement is a strategic opportunity for organizational financial benefits. Soonhong [65] argued that green supply chain management practices have facilitated SMEs in increasing market share and reducing costs, while other studies claimed that SPP is the key tool for organizational non-financial performance [48,68–74]. These studies reported that the connection between sustainable procurement methods and company image, innovation, competitiveness, efficiency, transparency, improvements to quality, operational excellence, and foreign direct investment has been powerful and positive. Moreover, Adams et al. [68] stated that the implementation of SPP is a strategic enabler to overcoming environmental challenges and delivering social welfare. The main role of sustainable procurement

practices is to deliver better service provision, improve brand value, and foster the stakeholder's goodwill towards an organization [69]. According to the resource-based view [75], SPP can eventually represent the main source of sustainable competitive advantage for businesses [73]. On the other hand, Ahmad et al. [76] argued that it is important to take into consideration the issue of sustainable procurement practices when discussing ethics among small businesses. This is because SPP is regularly ignored by SMEs regardless of the positive benefits it can generate for their firms. Kamyabi et al. [77] and Brammer et al. [78] found a positive relationship between SPP and SMEs' financial performance. While other studies reported that SPP does not have significant direct impact on SMEs' financial performance, the elements of SPP have significantly improved SMEs reputation, goodwill and brand image, which in turn to boost a firm's financial performance [47,48,79]. In other words, these studies suggested that sustainable procurement practices would exert their main influence through their effects on non-financial performance. Therefore, we hypothesized the following:

**Hypothesis 4 (H4).** *Sustainable procurement practices are significantly improved in SMEs' financial performance.*

**Hypothesis 5 (H5).** *Sustainable procurement practices are significantly improved in SMEs' non-financial performance.*

**Hypothesis 6 (H6).** *Non-financial performance is significantly positively associated with SMEs' financial performance.*

## 2.5. Association between Ethics of Top Management's Commitment and Company Performance

Many studies have investigated the effects of leadership on organizational performance [14,15,30,80,81]. These studies suggest that effective leadership or leadership behavior plays an important role in improving the performance of the company, both financially and non-financially, by improving the commitment, engagement, and inspiration of employees. Some studies have reported a direct association between TMEC and financial performance. For example, Vieira [16] reported that top management's ethical commitments in the civil construction companies in Portugal are positively associated with the company's financial performance. Other studies also claimed that management's ethical leadership is an important predictor of firms' financial performance [9,15], while some other studies claimed that top management with ethical manners can promote ethically and socially responsible actions, which is principal in increasing financial benefits in the long run for organizations and stakeholders. For example, Kim and Thapa [80] stated that ethical leadership significantly influenced the operational and social performances of an organization, which subsequently enhanced financial performance. They also stated that ethical leadership significantly influenced sustainable procurement practices, which in turn enhance positive commercial performance. The findings of this study are strongly supported by Williams et al. [82] and Zhu et al. [83], who claim that a close relationship exists between ethical leadership and socially responsible practice initiatives, which in turn significantly and positively influences both the financial and non-financial performance of the firms. Colwell and Joshi [84] reported that there must exist a substantial commitment from top management to implement sustainable procurement practices successfully, in order to ensure organizational benefits. The firm's financial performance is the reflection of ethical behaviors embodied by the top management [85]. On the other hand, Somers [86] claimed that the ethical commitment of top management leads organizations towards high productivity. Another study claimed that ethical leadership can be a supportive source for management growth and competitive advantage through the development of overall quality [87]. In addition, Wang et al. [88] stated that firms under ethical leadership are likely to achieve a more positive brand image because of their responsible business practices.

In addition, some studies reported that ethical leadership facilitates a significant improvement in the emotional climate, which firmly influences the outcomes of employees and organization through articulating and sharing its vision [15,89]. These studies identified the ethical climate as an intervening mechanism between top management's ethical commitment and organizational performance. For example, Shin et al. [15] claimed that the top management's ethical leadership significantly forecasts the ethical climate, which further affects the firm's level of organizational citizenship behavior and economic performance. Barling et al. [89] reported that ethical leadership builds a positive attitude among employees, which leads to top financial performance. At the same time, Messersmith et al. [90] argued that the commitment of top management has not directly improved the performance of firms, but it impacted the behavior of the employees, which enhanced the performance of firms. Institutional theory [6] also stated that institutional enablers such as top management ethical leadership affect an institution's ethical climate, which in turn promotes organizational performance. Some studies stated that decent ethical leadership has been recognized as an important factor that contributes to SMEs' success and profitability [91–93]. Despite the lack of empirical evidence, based on the discussion above, we can establish hypotheses as follows:

**Hypothesis 7 (H7).** *Top management's ethical commitment has a positive impact on SMEs' financial performance.*

**Hypothesis 8 (H8).** *Top management's ethical commitment has a positive impact on SMEs' non-financial performance.*

**Hypothesis 9 (H9).** *The relationship between top management's ethical commitment and SMEs' financial performance is mediated by the ethical climate.*

**Hypothesis 10 (H10).** *The relationship between top management's ethical commitment and SMEs' non-financial performance is mediated by the ethical climate.*

**Hypothesis 11 (H11).** *The relationship between top management's ethical commitment and SMEs' financial performance is mediated by sustainable procurement practices.*

**Hypothesis 12 (H12).** *The relationship between top management's ethical commitment and SMEs' non-financial performance is mediated by sustainable procurement practices.*

**Hypothesis 13 (H13).** *The relationship between top management's ethical commitment and SMEs' financial performance is mediated by non-financial performance.*

## 2.6. Association between Ethical Climate and Company Performance

An extensive number of studies have discovered the association between ethics in business and organizational performance. The mainstream of business ethics research has concentrated on EC as a key driver of company financial performance [94–101]. For example, Farouk and Jabeen [97] claimed that organizational performance is effectively and positively influenced by organizational ethical climate. At the same time, Moon and Choi [99] have claimed that ethical climate has been found as a key predictor of employee and customer satisfaction, and company performance. In addition, McMurrian and Matulich [100] revealed that ethical climate in business adds value for customers and results in increased profitability and performance for the firm. Another study was conducted by Jaramillo, Mulki, and Solomon [101] and found that the ethical climate significantly improves the business behavior of salespersons and could reduce work stress (e.g., the intention to leave jobs) and enhances performance. Some other studies claimed that ethical climate has been found to have a significant impact on job satisfaction [102,103], loyalty [104], and operation performance [105]. At the same time, Okpara and Wynn [106] stated that the positive ethical climate would have a positive

effect on the organization's effectiveness and efficiency. A very limited amount of studies has been conducted to examine the association between ethical climate and SMEs' performance. Ethical climate is very important for SMEs in the long run to balance the goal of profits with the values of individuals and society [107,108]. The findings of these studies are strongly supported by other studies claiming that ethical climate positively influences workers to take responsibility for their work, which results in improved SME performance [109,110]. Hasnah et al. [111] have stated that, in fact, businesses with a positive ethical climate are not only profitable but are also more likely to succeed in a commercially competitive world. Despite the lack of empirical evidence of the impacts of EC and company-level outcomes, the above discussion leads to the following hypotheses:

**Hypothesis 14 (H14).** *Ethical climate is positively associated with SMEs' financial performance.*

**Hypothesis 15 (H15).** *Ethical climate is positively associated with SMEs' non-financial performance.*

### 2.7. Theoretical Framework

Based on the above empirical and theoretical views, a unified model was developed and is depicted in Figure 1.

## 3. Model and Analysis

### 3.1. Measurement of Constructs and Psychometric Properties

This study mainly used the previously established and validated scales with slight changes in wording in a few items for the response choices, in order to reduce ambiguity. The instruments used by other researchers have been cross-checked carefully by this study. Items used to confine the essential features of the proposed model are presented in Table 1 and the information of the original sources are provided. All constructs are measured using multiple items as multi-item scales are more reliable than single-item ones [112].

Table 1. Constructs and survey items.

Constructs	Items	Loading	Source
Top management's ethical commitment.	Top managers of this company regularly show that they care about ethics.	0.723	Trevino et al. [33]
	Top managers of this company are models of ethical behaviour.	0.789	
	Ethical behaviour is the norm in our company.	0.885	
	Top managers guide decision making in an ethical direction.	0.912	
Ethical Climate.	The effect of decisions on the customer are a primary concern in this company.	0.888	Trevino et al. [33] Victor and Cullen [32]
	People in this company are actively concerned about the customer's and the public's interest.	0.820	
	The effect of decisions on the public are a primary concern in this company.	0.777	
	People in this company have a strong sense of responsibility to the outside community.	0.718	
	It is expected that everyone is cared for when making decisions in company organization.	0.807	
	In our company, people look out for each other's good.	0.835	
	What is best for everyone is a primary concern in our company.	0.736	
	The most important concern is the good of all people in our company.	0.868	
Financial performance.	People are very concerned about what is generally best for themselves in our company.	0.832	Islam et al. [59]
	Our company financially benefitted by reducing overall costs.	0.751	
	Our company is financially benefitted by increasing profits.	0.704	
	Our company is financially benefitted by increasing sales.	0.720	
	Our company financially benefitted by improving the Return of Assets.	0.701	
Non-financial performance.	Our company financially benefitted by increasing market share.	0.827	Islam et al. [59]
	Improved our company's on-time delivery.	0.889	
	Reduced our company waste.	0.928	
	Reduced our customer's complaints.	0.911	
	Increased our management's overall commitment.	0.845	
	Improved documentation.	0.833	
	Increased the company's image.	0.773	
	Improved our company's internal efficiency	0.765	
	Improved our company's transparency	0.790	
	Improved our company's productivity	0.809	
Sustainable Procurement Practices	Improved our company's social and environmental responsibilities	0.795	Carter and Jennings [73]
	Uses a life-cycle analysis to evaluate the environmental friendliness of products and packaging.	0.784	
	Participates in the design of products for disassembly.	0.763	
	Asks suppliers to commit to waste reduction goals.	0.790	
	Participates in the design of products for recycling or reuse.	0.766	
	Reduces packaging material.	0.789	
	Visits suppliers' plants to ensure that they are not using sweatshop labor.	0.856	
	Ensures that suppliers comply with child labor laws.	0.829	
	Asks suppliers to pay a 'living wage' greater than a country's or region's minimum wage.	0.875	
	We purchase from minority and women-owned business enterprise (MWBE) suppliers.	0.786	
	We have a formal minority and women-owned business enterprise (MWBE) supplier purchase program.	0.782	
	Donates to philanthropic organizations.	0.701	
	Volunteers at local charities.	0.718	
	Ensures the safe, incoming movement of products to our facilities.	0.716	
	Ensures that suppliers' location is operated in a safe manner.	0.702	
	Purchases from micro suppliers	0.725	
	Purchases from local suppliers	0.701	

**Top Management's ethical commitment (TMEC):** Although several studies proposed instruments for top management's ethical commitment measurement from various aspects, there were no common items for the measurement of this construct [10,11,33,113,114]. In this study, the construct of TMEC is computed through a Liker-type scale with four items which were developed by Trevino et al. [33]. The TMEC constructs tested by Trevino et al. [33] display Cronbach's coefficients  $>0.70$ , which demonstrate satisfactory levels of internal uniformity and reliability. Their test result also confirmed the content and construct validity.

**Ethical climate (EC):** In the existing literature, there were no common items for the measurements of ethical climate, and it varied across bodies, authors, and researchers [32,33,115,116]. In this study, we used a total of 9 items to measure EC and 4 out of 9 items were from a well-established employee-focused climate construct developed by Victor and Cullen [32] and the remaining 5 items were from the operationalization of community-focused climate developed by Trevino et al. [33]. Their tested results have confirmed the acceptable levels of internal homogeneity and reliability (Cronbach's coefficient  $>0.70$ ) for all items of both employee-focused climate and community-focused climate constructs. The results of their test also provide evidence of content and construct validity [32,33].

**Sustainable procurement practices (SPP):** Due to the lack of availability of a published and validated measure of sustainable procurement practices, we utilized the 14-item purchasing social responsibility (PSR) scale which was developed by Carter and Jennings [73] as a proxy measure of senior executives/managing directors' procurement practices. The SPP scale was measured using the five unique dimensions that are spelled out in Table 1. The values of Cronbach's coefficients for PSR scales ranged between 0.68 and 0.85, which shows satisfactory points of internal uniformity and reliability. The remaining two dimensions of SPP that were developed by Lindgreen et al. [45] were utilized. Their test result confirmed the inner consistency and reliability with Cronbach's coefficients  $>0.70$ .

**Financial performance (FP):** The term financial performance has been measured differently by different bodies, authors, and researchers due to nature and complexity of the business structure. For example, according to Chong [117], the financial performance measures include profit before tax, turnover, profits per employee, growth in revenue, and growth in number of employees. Some other studies stated that the financial performance measures include profits, revenues, returns on investment, returns on sales, and returns on equity [118]. Haber and Reichel [119] have measured financial performance by firms' financial ratios such as liquidity ratios, activity ratios, profitability ratios, and debt ratios while non-financial performance was measured by customer service, employee satisfaction, perceived growth in market share, perceived change in cash flow, and sales growth. A recent study measured financial performance by market share growth, growth in sales, return on equity, return on sales, return on assets, return on investment, and net profit margin of the firm [120]. The financial performance was assessed in terms of the organization's profitability, sales growth, operating costs, and return on assets relative to their competitors [121,122]. Islam et al. [59] have measured financial performance by five items which include overall cost reduction, market share, return on assets, sales growth, and profits. In this study, the FP was assessed through a Likert-type scale which validated five items that were verified by Islam et al. [59]. The tested results of Islam et al. [59] displayed the standard levels of internal consistency and reliability with Cronbach's coefficient  $>0.70$ .

**Non-Financial performance (NFP):** Although several studies addressed instruments for non-financial performance from various aspects, there are no common items for non-financial performance measurement. It varied across bodies, authors, and researchers [59,117,123,124]. For example, Ittner and Larcker [123] used five dimensions including customer and employee satisfaction, product and service quality, market share, productivity, and innovation to measure non-financial performance. At the same time, Hoque [124] measured non-financial performance using 3 dimensions with 14 items. Islam et al. [59] measured non-financial performance by using five unique dimensions with 27 items. The non-financial performance construct is based on the construct established by Islam et al. [59]. Their test result delivered the proof of internal similarity and reliability with Cronbach's coefficient  $>0.70$ .

## Psychometric Properties

Considering support for the scales used in prior research, this study used partial least squares structural equation modeling (PLS-SEM) software to analyze the psychometric properties. These involve things such as computing factor analysis, structural stability of the data set, and internal consistency rating analyses. The validity and reliability of the TMEC, EC, SPP, NFP (except 16 items, as their outer loading values are <0.70 and these items are absent in the final analysis) and FP were confirmed by the study analysis. The construct validity and reliability of the latent factors are established through the inspection of convergent validity, discriminant validity, and reliability. As shown in Table 1, all the outer loadings exceeded the threshold of 0.70. The average variance extracted (AVE) for all constructs were above the threshold of 0.50, which is shown in Table 2. This table also displays the Cronbach's Alpha, and the composite reliability, of each construct that is above the threshold of 0.70. Finally, the discriminant validity was proven using the Fornell–Larcker criterion [125]. The values presented in Tables 1 and 2 confirmed the internal consistency and validity of the latent factors [125,126]. Thus, results of this study are correct.

**Table 2.** Scale Validation—reliability and validity.

	ME	SD	CA	CR	AVE	TMEC	EC	SPP	NFP	FP
<b>TMEC</b>	3.91	0.829	0.848	0.899	0.691	<b>0.831</b>				
<b>EC</b>	3.63	0.873	0.934	0.945	0.658	0.552 **	<b>0.811</b>			
<b>SPP</b>	3.12	0.952	0.953	0.958	0.591	0.557 **	0.572 **	<b>0.769</b>		
<b>NFP</b>	3.55	0.736	0.951	0.958	0.698	0.615 **	0.687 **	0.701 **	<b>0.836</b>	
<b>FP</b>	3.67	0.610	0.797	0.857	0.547	0.522 **	0.609 **	0.414 **	0.551 **	<b>0.739</b>

ME = Mean; SD = Standard deviation; CA = Cronbach  $\alpha$ ; CR = Composite reliability; AVE = Average variance extracted; TMEC = Top management's ethical commitment; EC = Ethical climate; SPP = Sustainable procurement practices; NFP = Non-financial performance; FP = Financial performance. Italic values in the diagonal row are square roots of the AVE; \*\* Correlation is significant at the 0.01 level (2-tailed).

The findings on the degree to which respondents agreed on SME performance and its influencing factors are also presented in Table 2. The findings revealed that, on average, respondents show a relatively low level of FP (3.67) and NFP (3.55), a relatively high degree of TMEC (3.91), a moderate degree of EC (3.63), and an average degree of SPP (3.12). This table also shows a positive influence of TMEC, EC, and SPP towards company performance as all latent variables do correlate (at the 0.01 level) to each other positively and significantly.

### 3.2. Data Collection and Sample

The initial survey questionnaire was developed from existing literature and then incorporated inputs from two colleagues and experts in the areas of ethics and sustainability. The questionnaire contained five major sections. The first section of the questionnaire covered the company's profile followed by the section that contained questions covering ethical commitment of managing directors and senior executives who are responsible for the performance of many leadership roles in their firm. The second section contained questions covering the ethical climate at the firm-level, which represents the perceptions of employees with regard to the presence of an ethical code, company ethical policies and actions of top management regarding ethics. The third section contained questions covering six common aspects of sustainable procurement practices including concern for the environment, human rights, diversity, philanthropy, buying from small and local suppliers, and the safety implications of products and services. The fifth and final section contained questions covering financial and non-financial performance. All scales used the Likert-type scale with responses ranging from 1 (strongly disagree) to 5 (strongly agree). In addition, a response of 3 is represented as neutral. After gaining ethical clearance, the first stage of the study was a pre-test of the instrument developed with a total of five

individuals. The group was comprised of three senior executives and two managing directors drawn from SMEs. The classification of small and medium enterprises (SMEs) is different from one country to another and is based on the number of employees and annual turnover. The term SMEs has also been defined differently by different bodies, authors, and researchers. In Saudi Arabia, SMEs are defined as businesses having fewer than 250 full time employees and a total revenue under 200 million Riyals [127]. The number of employees is used as a proxy indicator of company size in this study. Based on the pre-testing, some modifications were implemented to ensure the clarity of all the items in the questionnaire. The improved questionnaire was mailed to targeted senior executives and managing directors. A total 250 senior executives and managing directors employed at SMEs in Saudi Arabia were randomly selected from two databases, namely, the Small and Medium Enterprise General Authority [127] and the Saudi Arabia Business Directory [128]. Demographic representation was also taken into consideration as it is important for ensuring that the findings are more generalized. We sent reminder emails twice to the probable respondents after sending the original survey questionnaire. After following up twice, the final number of respondents was 124. Eight incomplete surveys were eliminated from received responses. Thus, the study finally used 117 responses for statistical analysis, which corresponded to a response rate of 46.8 percent. This response rate is satisfactory for online surveys [129]. The sample distribution, presented in Table 3, indicates that the respondents diligently provided information on the distribution of SMEs at the national level.

**Table 3.** Sample Distribution.

Region	Total Number of SMEs & (%) <sup>a</sup>	Sample SMEs & (%)
Central Region (Riyadh and Qassim)	287,088 (31.2%)	38 (32.3%)
West Region (Makkah, Madinah and Tabuk)	303,385 (33%)	40 (34.0%)
Southern Region (Asir, Jazan, Najran and Baha)	137,712 (15%)	16 (13.7%)
Eastern Region (Eastern Province)	135,185 (14.7%)	17 (14.5%)
Northern Region (Northern Borders, Hail and Jouf)	55,787 (6%)	6 (5.5%)

<sup>a</sup> Source: Saudi General Authority for Statistics [26].

### 3.3. Statistical Analysis

This study utilizes a PLS-SEM tool to estimate the research model. As it is a prediction-based exploratory study with small sample size, the PLS-SEM approach is more suitable than AMOS (CB-SEM). AMOS is a software package which uses a covariance-based structural equation modeling (CB-SEM) [129]. In addition, the research model in this study reveals a composite structure and an association among TMEC, EC, SPP, NFP, and FP. It is in an early stage of theoretical development and therefore offers the prospect of discovering new phenomena.

#### Mathematical Model

There were 4 endogenous variables representing EC, SPP, NFP and FP; and there was 1 exogenous variable representing TMEC. The detailed specific SEM can be prepared according to the form of the matrices that are shown below, depending on Equations (1)–(3).

Structural Equation:

$$\eta = \beta\eta + \Gamma\varphi + \varsigma \quad (1)$$

where ( $\eta$ ) is an ( $4 \times 1$ ) column vector of 4 endogenous variables, ( $\varphi$ ) is an ( $n \times 1$ ) column vector of 1 exogenous variable, ( $\beta$ ) is a matrix ( $4 \times 4$ ) of coefficients that are related to the direct effects of endogenous variables on another endogenous variable, ( $\Gamma$ ) is a matrix ( $4 \times 1$ ) of coefficients associated with the direct effects of exogenous variables on another endogenous variable, and ( $\varsigma$ ) is a column vector of error terms associated with endogenous variables.

Measurement equations:

In our model,  $k = 40$  measured endogenous variables, and  $p = 4$  measured exogenous variables

$$y = \Lambda_y \eta + \varepsilon \quad (2)$$

$$X = \Lambda_x \varphi + \delta \quad (3)$$

in which  $y(40 \times 1)$  and  $x(4 \times 1)$  are the column vectors of 40 measured endogenous variables and 4 measured exogenous variables, respectively.  $y$  and  $\varepsilon$  are column  $k$ -vectors that are associated with the observed endogenous variables and errors;  $\Lambda_y$  is a  $(40 \times 4)$  structural coefficient matrix for the influences of the latent endogenous variables on those observed; in which  $x$  and  $\delta$  are column  $p$ -vectors that are associated with the observed exogenous variables and errors;  $\Lambda_x$  is a  $(4 \times 1)$  structural coefficient matrix for the influences of the latent exogenous variables on the observed variables.

This study used a two-step method for examining and elucidating the PLS-SEM results. These are (1) evaluation of the measurement model, and (2) testing of the structural model.

### 3.4. Evaluation of Structural Model

This study follows a five-step approach that was suggested by Hair et al. [129] to measure the structural model. These steps are (1) collinearity assessment among the constructs, (2) structural model path coefficients, (3) coefficient of determination ( $R^2$  value), (4) effect size  $f^2$ , and (5) predictive relevance  $Q^2$  and blindfolding. The details of each step appear below. First, the study examines each set of predictors in the structural model for possible collinearity. The collinearity test demonstrated, in Table 4, that the variance inflation factor (VIF) values for all predictor constructs in the structural model are between 1.478 and 2.166, which is below the recommended threshold value of 5.0 [126]. Therefore, there is no issue of collinearity in the model.

**Table 4.** Output of Variance Inflation Factor (VIF) test.

Constructs	SPP	NFP	FP
TMEC	1.478		
EC	1.478		
TMEC		1.696	1.833
EC		1.739	2.050
SPP		1.751	2.166

TMEC = Top management's ethical commitment; EC = Ethical climate; SPP = Sustainable procurement practices; NFP = Non-financial performance; FP = Financial performance.

Second, due to the small sample size, the study employed a resampling bootstrapping method to generate standard errors and  $t$ -values [129]. This was very useful in determining whether the sampling distribution was approximately normal. The study measures probable path associations among the latent variables by the sign and value of path coefficients. The results of bootstrapping as depicted in Table 5 and Figure 2 revealed that all latent variables have a significant positive relationship with each other except the relationship between SPP and FP. The direct relationship revealed that the TMEC has a significant positive relationship with EC ( $\beta = 0.569$ ,  $p$ -value  $< 0.001$ ), SPP ( $\beta = 0.353$ ,  $p$ -value  $< 0.001$ ), FP ( $\beta = 0.210$ ,  $p$ -value  $< 0.05$ ), and NFP ( $\beta = 0.221$ ,  $p$ -value  $< 0.01$ ), which supported  $H_1$ ,  $H_2$ ,  $H_7$ , and  $H_8$ . Further, the direct relationships of EC with SPP ( $\beta = 0.386$ ,  $p$ -value  $< 0.001$ ), FP ( $\beta = 0.364$ ,  $p$ -value  $< 0.01$ ), and NFP ( $\beta = 0.334$ ,  $p$ -value  $< 0.001$ ) are found to be positive and statistically significant, which supported  $H_3$ ,  $H_{12}$ , and  $H_{13}$ . Similarly, SPP has a significant positive effect on NFP ( $\beta = 0.386$ ,  $p$ -value  $< 0.001$ ) and supported  $H_5$ . The result also shows that NFP has a positive and significant relationship with FP ( $\beta = 0.265$ ,  $p$ -value  $< 0.05$ ) that supported  $H_6$ . Interestingly, the direct effect of SPP on FP ( $\beta = -0.063^{NS}$ ) is found to be negative and insignificant and did not support  $H_4$ .

Table 5. Structural Model.

Hypothesis	Path	$f^2$	Path Coefficients	Total Effects	Result
H <sub>1</sub>	TMEP -> EC	0.478	0.569 ***	0.569 ***	Supported
H <sub>2</sub>	TMEP -> SPP	0.148	0.353 ***	0.573 ***	Supported
H <sub>3</sub>	EC -> SPP	0.177	0.386 ***	0.386 ***	Supported
H <sub>4</sub>	SPP -> FP	0.003	−0.063 <sup>ns</sup>	0.039 <sup>ns</sup>	Not supported
H <sub>5</sub>	SPP -> NFP	0.237	0.386 ***	0.386 ***	Supported
H <sub>6</sub>	NFP -> FP	0.048	0.265 *	0.265 *	Supported
H <sub>7</sub>	TMEP -> FP	0.046	0.210 *	0.549 ***	Supported
H <sub>8</sub>	TMEP -> NFP	0.081	0.221 **	0.632 ***	Supported
H <sub>13</sub>	EC -> FP	0.123	0.364 **	0.468 ***	Supported
H <sub>14</sub>	EC -> NFP	0.179	0.334 ***	0.483 ***	Supported
H <sub>9</sub>	TMEP -> EC -> FP		0.207 **		Supported
H <sub>10</sub>	TMEP -> EC -> NFP		0.190 **		Supported
H <sub>11</sub>	TMEP -> SPP -> FP		−0.022 <sup>ns</sup>		Not supported
H <sub>12</sub>	TMEP -> SPP -> NFP		0.136 **		Supported
H <sub>13</sub>	TMEP -> NFP -> FP		0.059 <sup>ns</sup>		Not supported

TMEC = Top management's ethical commitment; EC = Ethical climate; SPP = Sustainable procurement practices; NFP = Non-financial performance; FP = Financial performance, \*  $p < 0.05$ ; \*\*  $p < 0.01$ ; \*\*\*  $p < 0.001$ ; ns = not significant.

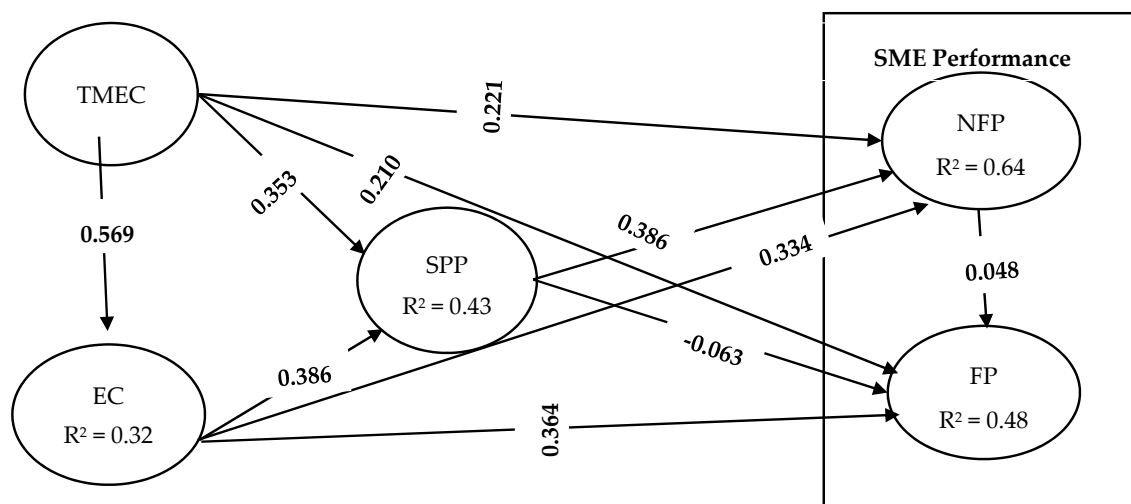


Figure 2. Path Results.

Third, the values of  $R^2$  for the endogenous constructs that are above 32% are considered large and acceptable, as Cohen [130] recommends. Thus, in this study, the values of  $R^2$  of FP (0.48), NFP (0.64), SPP (0.43), and EC (0.32) are large and acceptable. Fourth, we computed the effect size  $f^2$  to estimate the practical significance of these associations. Cohen [84] stated that the values of  $f^2$  that are 0.02 and above represent acceptable effect sizes. Table 5 represents the study results and noticed that all  $f^2$  values are above 0.02 except one, thus, these paths were at least practically significant. Finally, using the blindfolding procedure, all values of  $Q^2$  support the model's predictive significance as the values are above zero.

### 3.5. Test for Mediation

Preacher and Hayes [131] have introduced the bootstrap approach which has been established as a commonly exercised technique to examine the mediation hypotheses. Therefore, this study applied this extensively used bootstrap approach for testing the mediation hypotheses. The results of bootstrapped tests are shown in Table 5. The significant indirect effect provides evidence for mediation. Furthermore, the significant indirect effect indicates that some of the direct effects are absorbed by the mediator [129]. The bootstrapping analysis shows that EC indeed significantly

mediates the relationship between TMEC and the performance of both FP ( $\beta = 0.207$ ,  $p$ -value  $< 0.01$ ) and NFP ( $\beta = 0.190$ ,  $p$ -value  $< 0.01$ ) in SMEs, thereby supporting H<sub>9</sub> and H<sub>10</sub>. Table 5 also shows that the relationships between TMEC and NFP is significantly mediated by SPP ( $\beta = 0.136$ ,  $p < 0.01$ ), thus supporting H<sub>12</sub>. However, the result suggests that the indirect mediation between TMEC and FP through SPP and NFP does not exist ( $\beta = -0.022$ ,  $p > 0.05$ ;  $\beta = 0.059$ ,  $p > 0.05$ , respectively), and thus does not support H<sub>11</sub> and H<sub>13</sub>.

#### 4. Discussion

In this study, a theoretical model of the relationships among top management's ethical commitment, organizational ethical climate, sustainable procurement practices, and organizational performance, was developed and tested. We intended to examine the relationship between top management's ethical commitment and SMEs' financial performance, and the extent to which ethical climate, sustainable procurement practices, and non-financial performances mediate this relationship. This study extends the ethical leadership and sustainable procurement practices literature by providing a theoretical and empirical analysis of the associations among TMEC, EC, SPP, and SME performance (FP and NFP).

The statistical results of the PLS-SEM provide support for H<sub>1</sub>, which predicted the relationship between TMEC and EC. Our findings show that TMEC has positively and significantly influenced the ethical climate of SMEs, which closely follows the institutional theory. This theory suggests that it is comfortable for employees to develop morally correct manners by observing and following such exemplars [6]. Our result showed that TMEC could play a substantially major role in prompting a benevolent ethical climate and ethical behavior. One possible explanation for this finding could be that as strategic decisions are often made by top management, the ethical commitments of top management to employees and society have created an environment that encourages employees to develop positive attitudes and feel committed to forming a strong foundation for the benevolent ethical climate. Our result harmonizes earlier studies that identify ethically committed top management as an enabler of ethical climates within organizations [14,31–39].

The second hypothesis H<sub>2</sub> projected a significant direct association between TMEC and SPP in SMEs and was confirmed by the findings of our statistical analysis, which closely follows the stakeholder theory. The stakeholder theory stated that the ethical norms of top management will enable them to maximize the inspiration to promote ethical behavior such as PSR and SPP. This result is consistent with the findings of other studies [19,46,47,49]. The probable reasons for this outcome could be the Arabian culture that is intensely connected to religion (Islamic values) and motivated primarily by corporate philanthropy, human rights, and social responsibilities. As the managing directors and senior executives of SMEs are Muslim, their ethics are mainly based on Islamic belief, which emphasizes caring for others or having social responsibility rather than the accumulation of wealth and living in luxury. For example, the Holy Qur'an in Surah 5 and Ayah 8 instructs people to "Be fair and honest and do not depart from justice in all human affairs including business transactions". So, this religious-based attitude might encourage top management to be committed to influencing the firm's adoption of environmentally friendly behavior by inspiring employees to act in a socially responsible manner and to maintain resources for future generations. Ethical management always places much importance on ethics and considers SPP as the right thing to do. Another reason could be the Saudi government's recent national emphasis on sustainability policies, strategies, and regulations following the Sustainable Development Goals (SDGs) that were proposed by the United Nations [132]. For example, the Saudi government has given priority to purchasing goods and services from local suppliers to support Saudi Arabia's economy, which supports economic diversification objectives, which will lead to economic growth and job creation. Therefore, it is compulsory for the businesses to employ sustainable procurement practices. Our study confirms that TMEC has a strong impact on SPP. Thus, our research makes a substantial contribution to the current literature with similar outcomes, which are that top management's ethical commitment has a significant positive impact on the sustainable procurement practices of an organization. Our study represents a valuable contribution to the current literature as

our study is conducted from the perspective of SMEs, whereas the majority of the previous studies are performed in the large and non-business domains.

Concerning to the effect of the ethical climate on SPP, we found that EC has positively and significantly impacted SPP. This also confirms the third hypothesis  $H_3$  of the study, as expected, and is consistent with previous studies [19,32,52,54]. This result suggests that EC encourages employees to pursue externally oriented social initiatives. The positive impact of EC recommends that the wellbeing of society must be reflected considerably in the benevolent ethical climate so as to execute voluntary projects, for example, SPP. This result is further demonstrated by our mediating analysis, which suggests that EC mediates the effect of TMEC on PSR. So, taking the outside community into account further boosts the effect on SPP. The potential reasons for this result could be that the accommodation of ethics within the organizational climate facilitates consistent working relationships and influences how employees act within companies in Saudi Arabia. An ethics-oriented climate that promotes values such as fairness, equity, transparency, kindness, recognition, and human dignity and the inclination to be a responsible corporate citizen leads to significantly better levels of SPP.

The results of our PLS-SEM analysis confirm that SPP does not have significant impact on SMEs' financial performance and do not support the fourth hypothesis ( $H_4$ ). Our findings are not consistent with the findings of previous studies [47,66,67]. The potential reason for these findings could be that SMEs in Saudi Arabia do not have proper arrangements and policies to deal with shareholders, suppliers, employees, and the community as compared to larger businesses. Another reason could be the incorrect perceptions of SME owners that profits can only be made by unethical activities or dishonesty, which are perhaps due to a lack of business experience, skills, and competencies [133,134]. Our study also reported that SPP has a very strong and positive impact on SMEs' non-financial performance and supported the fifth hypothesis ( $H_5$ ). The study finding is compatible with research that reveals that theoretical models for sustainable/green procurement practices are clearly and considerably linked with narrow use of natural resources; better product features; high company impression, invention, competitiveness, and foreign direct investment; achieving strategic objectives and targets; and promoting a positive working atmosphere, with compliance, proficiency and precision in working environments [47,48,68,69,73,79]. This finding may be related to the Saudi government's recent active support to entrepreneurship by using Saudi Arabia Vision 2030 and the 2020 NTP as a mechanism to establish a competitive and sustainable Saudi nation [135]. In addition, Saudi Arabia has encouraged its youth towards green entrepreneurship by offering the Fastest 100 Rising Enterprises Award, the Prince Salman Award for Entrepreneurship, and the Most Competitive Youth Award [135]. This level of encouragement and innovative progression could be a potential reason for SMEs' motivation to pursue green activities [135]. Consequently, these attempts of SMEs help them to improve the dimensions of non-financial performance. Moreover, the study found a significant positive influence of non-financial performance on financial performance in SMEs and supported the sixth hypothesis ( $H_6$ ), which is aligned with the findings of previous studies [48,69]. The findings of this study report that it is significant for SMEs to form and commence SP practices to promote operational and business performance, which in turn boosts financial performance. The findings of this study present additional confirmation that perfection in an organization's internal quality and operational process, innovativeness, proficiency, transparency, social awareness, and environmental concerns are greatly motivated by SP practices. Our findings might encourage SMEs to adopt SPP that improves the overall performance of a company.

The statistical results of the PLS-SEM also support that the TMEC leads to a higher level of SMEs' financial performance. Therefore, the results supported  $H_7$ . This finding is strongly supported by previous studies [9,16,91–93] that indicate that ethically committed leadership plays an important role in enhancing the firm's financial performance. The statistical results also provide evidence that TMEC leads to a higher level of SMEs' non-financial performance as well as supporting study hypothesis  $H_8$ . This finding is firmly supported by previous studies [86–88] that indicate that ethical leadership performs an important role in boosting the firm's non-financial performance. The results of

the statistical analysis also confirm that organizational EC has a significant impact on SMEs' financial as well as non-financial performance and support the fourth hypothesis ( $H_{14}$ ) and fifteenth's hypothesis ( $H_{15}$ ). Our finding is consistent with the findings of previous studies [106–111]. The culture of philanthropy in Saudi Arabia and its application in the business could be the potential reason for this finding.

This study discovered that the EC and SPP are the core mediators in the association between the commitment of top management and business performance in Saudi Arabian SMEs. Such results have usefulness in their application as the culture of philanthropy is the best operational approach for a business in Saudi Arabia [136].

The attention of top management is vital due to their role in providing guidance on the creation of EC and the initiation of SPP and subsequent SME performance. Top management's ethical commitment is vital in forming and commencing strategy and policy [81]. Therefore, the current literature is being extended by discovering the association between TMEC, EC, SPP, and SME performance in this study. To generate better knowledge of the consequences of EC and SPP, it was illustrative to divide the SMEs' performance into two independent performance categories (i.e., non-financial and financial performance). Thus, a mediational analysis was performed to uncover the indirect influences of TMEC on SMEs' performance. The results of the mediating analysis demonstrate that TMEC has an indirect effect on NFP and FP via EC, which supports  $H_9$  and  $H_{10}$ . This finding shows that organizational EC is the specific mechanism by which TMEC influences overall performance in SMEs. Despite the contextual difference between SMEs and large organizations, our findings are supported by previous studies that show the mediating role played by EC between TMEC and SMEs' overall performance [15,89].

The findings of our study identify that TMEC individually influences SPP in SMEs, but this does not, in turn, influence financial performance, while the indirect effect of TMEC on NFP is positive and significant via SPP. Therefore, the results supported  $H_{12}$  but not  $H_{11}$ . These findings show that SPP is the specific mechanism by which TMEC influences non-financial performance in SMEs. Thus, our findings are supported by previous studies showing the mediating role played by SPP between TMEC and SMEs' non-financial performance [80,82,83,90]. However, the findings of this study do not support the mediating role played by SPP between TMEC and SMEs' financial performance. The contextual difference between SMEs and other organizations could be the reason for these findings.

Finally, the study revealed that TMEC has a direct impact on SMEs' financial performance but does not support the mediating role played by NFP between TMEC and SMEs' financial performance. One possible explanation for this result could be that other constructs, particularly those more directly linked to TMEC, such as EC or SPP, are the specific causal mechanisms driving financial performance. The results also report that it is important for SMEs to establish EC and introduce SP practices to improve non-financial performance, which in turn enhances financial performance. The significant positive association between TMEC and EC, SPP, and NFP indicate that, in some way, all work together to enhance SMEs' performance.

## 5. Conclusions

The main objective of this study was to discover how ethically committed top management influences SMEs' overall performance. To discover the answer to this question, the proposed model was tested on a sample of top management of 117 Saudi-based SMEs. The findings of this study suggest that top management's ethical commitment, creation of a benevolent ethical climate, and initiatives of sustainable procurement practices are worthwhile as these factors in turn affect the SMEs' overall performance.

However, there are some limitations to this study. First, there is a lack of generalizability. As the research was carried out on SMEs in Saudi Arabia, where the social, political, corporate, and legal systems are established on Islamic guidelines and values, the findings cannot be generalized to all

countries. Second, there are additional influencing factors that could be found in social-demographic and other characteristics. Future research papers should attempt to overcome these limitations by incorporating more diverse organizational variables for additional empirical investigations. Due to the cultural and regional homogeneity, future research can be carried on top management's ethical commitment, ethical climates, and efforts for sustainable procurement practices of other public and private sector organizations to achieve a broader scope. In addition, more research can be conducted on listed corporations in the Saudi Stock Market (Tadawul).

## 6. Implications and Suggestions

The findings of mediating analysis indicated that ethical top management-based EC seems to be valuable in improving each step of SMEs' overall performance (financial and non-financial), while ethical top management-based SPP seems to be beneficial in enhancing each step of SMEs' non-financial performance. So, the enhancement of TMEC can be an avenue to create a benevolent EC and initiate further SPP to meet increased societal and consumer demands. The capability to apply such results may be significant in terms of creating and maintaining the long-term competitiveness of SMEs as EC and SPP have recently become the most important topics in this business area [73]. This study offers appropriate implications for SME owners and indicates that they need ethically committed top management, who would execute strategies to develop and instill ethics and SPP within their companies in order to achieve competitive advantage. It establishes a new research model integrating ethics and SPP through the investigation of the impacts of top management's ethical commitment on SMEs' performance. This research can serve as a benchmark for top management in SMEs in Saudi Arabia in many features of ethics and SPP, and their influence on the performance of enterprises, particularly for those who are looking for a sustainable solution to extend their company's financing of ethics and SPP.

With the expanding role of SMEs globally as well as the continually changing competitive environments, SMEs need to be actively involved in ethical and social issues [20,100]. Thus, for long-term benefits, SMEs need to design processes that impact multiple stakeholders through the positive impressions of society [111]. At the same time, SMEs need to frequently arrange training on ethics, and their SPP attempts need be publicized and promoted clearly and consistently to stakeholders, including employees. Through benevolent EC and SP practices, SMEs can foster their progressive image in society and build further trust among socially sensible stakeholders [48,99,137]. Accordingly, SMEs with a constructive public image can attract new franchisees, suppliers, investors, and customers and be competitive. Hence, it is necessary for SMEs to realize their ethical and social responsibility to sustainability [137], which drives them to reach to their goals through the improvement of performance. For long-term survival, SMEs should start to work on forming strategies and practices that stimulate ethical values.

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