# The Effect of Self-Efficacy on the Relationship between Islamic Works Ethics and SME Ethical Behavior in Malaysia: A PLS SEM Analysis

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## Abstract

*The issue of ethical crises affecting the SMEs owner in Malaysia despite evidence of ethical business practice has been highlighted in various literatures. Protruding self-efficacy has a guideline for enhancing ethical behavior SMEs owner, this study aims to examine the moderating influence of self-efficacy on the magnitude of Islamic works ethics effect on SME ethical behavior in a developing country. A survey data was collected from 384 owners/managers of SMEs that are duly registered member of Malaysia Association of Small and Medium Enterprise in all states in. Using Smart PLS SEM as the analytical tool to perform the analysis of data received from the respondents. The findings of the study reveal that though self-efficacy exert significant positive influence on SME ethical behavior, the ethical behavior was improved with the moderating effect of self-efficacy. Therefore, a contribution of novel insight to literature and practice that the practice of self-efficacy imbues ethical practices that would positively enhance effectiveness, efficiency and harmonious working environment that would result to improved ethical behavior among businesses. Limitations and areas for future research are discussed.*

**Keywords**: *Islamic works ethics, Ethical behavior, Self-efficacy, SMEs, Malaysia*

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## 1.0 Introduction

Business practices involve explicit or implicit harm and injustice to the contracting parties or to the public at large are disapproved by Islam. (Abeng 1997). Islamic work ethics has great potential to improve business performance of an organization (Abbasi 2012). Current literature shows that study on work ethics is gaining popularity among researchers for a very obvious reason on moral hazard. Cases of corporate scandals and collapse provide evidence that morality misconducts among the employees contribute to the financial disaster of the company (Norlela 2010). The contemporary business world faces various issues related to business ethics. Despite the progress made, problems related to business ethics continue to rise periodically (Rice, G., 2008) Misconduct in businesses can be attributed to the greed of business people and their incapability of managing their wealth and business assets wisely (Norasmah Othman & Norsaidah Alias 2016).

Today's business is aware of the fact that ethical misconduct in business is something that is detrimental to the company, not only to the company but to the whole society (Abiodun & Oyeniyi 2014). Approaches to business are a priority for business owners, especially SME business owners (Sraboni & Sharmistha 2011). Therefore, business owners need to behave ethically in protecting their business interests if they want to remain competitive in today's marketplace (Abiodun & Oyeniyi 2014). According to (Shacklock, Manning, & Hort, 2011) research, defined as a worker's belief in their ability or ability to carry out ethical behavior. According to (Fischbach, 2015) some individuals are aware of their ethical abilities and there is also no ethical ability in dealing with ethical situations. According to research issues described earlier, the factors causing unethical behavior may be due to the inability of SMEs to deal with ethical situations. Business will be faced with a variety of situations that would jeopardize one's ethics.

Self-efficacy is an individual's belief in himself and his ability to successfully portray certain behaviors (Bandura, 1993). This belief is also about the challenges that will be encountered, sometime taken to deal with and overcome the problems that rise (Bandura, 1993). Individuals with high level of self-efficacy will be more confident to succeed in solving the ethical problems faced. Individuals with high self-efficacy will be seen to have high self-esteem and optimistic behavior. This facilitates cognitive and performance processes in multiple domains, including in decision-making quality. According to (Aronson & Mettee's1968) research suggest that ethical behavior is more consistent than self-perception of value altitude. Confidence in personal individuality reflects the high self-efficacy of an individual, necessarily allowing them to believe that a success can be achieved without using unethical ways (Beu, Buckley, & Harvey, 2003).

According to (Fischbach, 2015) some individuals are aware of their ethical abilities and there is also no ethical ability in dealing with ethical situations. Self-efficacy has been found to be associated with successful performance on positive behavior across multiple domains such as jogging, reducing alcohol consumption, weight loss Tipton & Worthington (1984); reduction

of smoking, Colletti, Supnick & Payne (1985), reducing the concern of Friedlander, Keller, Peca-Baker & Olk (1986) counselor, reducing depression, Moe & Zeiss (1982); weight loss Weinberg et al. (1984); reduction of pain in Dolce (1987); opazo depression, Andreani & Alliende (1983). Little research has been done on the association of the concept of self-efficacy on ethical behavior.

## 2.0 Literature Review

### 2.1 Self-efficacy

Research on self-efficacy states that self-efficacy can affect the choice and response to one's emotions (Marilyn E & Mitchell, 1992). According to (Bandura 1986), self-efficacy will affect the self-regulatory process, which will affect one's behavior. More specifically, some researchers have emphasized the role of self-efficacy in influencing one's ability and willingness to exercise, the most important factor is self-control. The constructive self-efficacy constructs demonstrate that all variables such as work, task autonomy, decision-making, and job enlargement are related to self-efficacy (Parker & Sharon, 1998). Moreover, research (Parker & Sharon, 1998) suggests that improvements in work autonomy, decision-making, and communication quality can improve self-efficacy. Although (Parker & Sprigg, 1999) have studied the background of self-efficacy, the relationship between self-efficacy and ethical behavior has not been tested (Parker, 1999). Research on self-efficacy has found that self-efficacy is closely linked to improved work performance (Barling & Beattie, 1983; Orpen, 1995) and also enhances personal initiative (Speier & Frese, 1997). According to (Litt, 1988) in his research, self-efficacy can influence a person to exercise control even if it will have a negative impact on behavior. The degree of self-efficacy of a person who determines whether he or she will evaluate the circumstances and difficulties that will apply (Litt, 1988). A person with high self-efficacy will have confidence in his ability to control and to exhibit better ethical behavior compared to someone with low self-efficacy (Litt, 1988). As noted by (Parker 1999), and (Jex & Bliese, 1999) also found that highly self-contained military forces were lower for unethical behaviors when compared to high-efficacy forces exhibiting ethical behavior. In line with the above statement, expectations of self-efficacy will make one feel capable of carrying out various activities, they will be more likely to improve ethical performance. In previous research, documenting that research shows that teachers with high self-efficacy will exhibit different behavioral characteristics related to work ethics and teaching pedagogy when compared to teachers with low efficacy. For example, teachers with high self-efficacy will work harder to improve teaching efforts such as identifying student mistakes and trying new teaching methods (Gibson & Dembo, 1984; Guskey, 1987). Recent research has shown that the relationship between self-efficacy with ethical behavior has to do with the positive significance (Sukserm & Takahashi, 2012). In addition, research conducted by (Galperin, 2002) shows that self-efficacy has a less significant relationship when it acts as a mediator or mediator between work autonomy and the construction of an unethical behavior.

According to previous research, when a self-contained SME with high efficacy will be less likely to engage in unethical behavior. Therefore, SMEs with high self-efficacy will have a positive relationship to the performance of ethical behavior. By the higher the self-efficacy of the person then the lower the unethical behavior to be performed. In previous research, some researches on the efficacy of ethics as done by (Ogilvie & Stewart, 2010) in measuring student self-efficacy for academic misuse. Further research (Nelson et al., 2012) examines the self-efficacy of ethical management and they found self-efficacy has a distinctive effect on ethical behavior (Bing et al., 2012) does not lead to self-efficacy but his research studies self-perceived cognitive abilities. Research from (McNabb & Worthley, 2008) also examined the self-efficacy of ethical behavior and found self-efficacy had a direct connection to whistleblowing. Research from (Stone and Hollenbeck, 1984; Zedeck, 1971) has proven self-efficacy has a moderator relationship between development and work control initiatives. In addition, the research (Kura, 2014) has reviewed the relationship of self-regulatory efficacy moderator to group norms on deviant behavior.

### 2.2 Islamic Ethics
Islamic ethics is the right and wrong principle to show what should be taught by humans based on the Quran and Al-Sunnah and shown in a great life by the iconic Islam of Prophet Muhammad (Hashi, 2011). The role of the prophet Muhammad is an ion to be observed in demonstrating morality and character to promote itself in the economic, social and psychological aspects of and to maintain social prestige, to enhance the welfare of society and to strengthen the faith (Ali and Al-Owaihan, 2008). Islam is a way of life that never separates every human activity from religion. Islamic law is based on four sources, where the two main sources are the Al-Quran and the Sunnah (*an example prescribed by the Prophet Muhammad*) while the other is the consensus of the scholars (*Ijmaa '*) and the analogy (*Qiyaas*). Analogy is the translation of the decision of a new situation based on analogy to the same situation that the Quran and / or hadith (Beekun and badawi, 2005). The Sunnah on the other hand is the way of life shown by the Prophet Muhammad who can be used as a model and icon for the famous human and business. Ali and Al-Kazemi (2007) listed four issues that had been emphasized by the Prophet before; working as the highest form of worshiping God, the work that is not done in the best capacity, work should be for the benefit of others as part of social dimensions, and society can obtain wealth and living standards that are reasonable by doing trade and business. Therefore, Islam directs the people to the Qur'an and As-Sunnah of the Prophet Muhammad as a matter of compulsion. It is a basic thing to the concept and ethical standards in Islam.

### 2.3 Islamic Works Ethics
Islam perceives work as an *Ibadah* (a religious duty) and Jihad (cause of Allah) Norlela, K., & Siti Khadijah, A. M. (2010). Al-Modaf, (2005) states that Islamic work ethics has played an important role in the development of the Islamic world since the time of Prophet Muhammad (SAW). Islamic work ethics has also affected the development and commitment of Islamic society Ali, (1992). The Islamic work ethics emphasizes the proper way of working to achieve glory in life (Ahmad, 1976). In addition, the view of Islamic work ethics serves as

a way to enhance and advance Ali, (2005). Research therefore states the indispensable work ethic for an organization to function, prosper, and endure in the future (Al-Modaf, 2005). Additionally, (Abeng 1997) states that an organization can work more effectively and efficiently by accepting a framework of work ethics that can guide and assist in organizing work. They define work ethics as variables that vary among individuals; it begins in the early stages of human life, and has a significant impact on attitudes and behaviors associated with workers (Saks et al., 1996). Because of their impact on employee attitudes and behaviors at workplace, work ethics contributed positively to productivity and work performance (Noe et al., 1999) also reduced employee absenteeism, productive behavior (Sheehy, 1990).

At the organizational level, Islamic work ethics has a profound effect on organizational development and prosperity of the company (Ali & Al-Owaihan, 2008). According to (Abeng 1997) also supports that, Islamic Work Ethics is one of the steps to improve work performance among Muslims. In certain instances, Islamic works ethics helps in preventing corruption and abuse of power, avoiding fraud and fraudulent acts, leading to better care of their employees and their rights, enhancing effectiveness and efficiency, and creating integrity and producing better quality. Frauds can be avoided if SMEs implement values of Islamic working ethics in life. In addition, Islamic work ethics also affects the formation of good attitudes and values of individuals in conducting a business. According to (Al-Qudsy, 2010), in Islam good values are fundamental in every aspect of life and career. But, the "basic point" here is not just in deed or practice but in terms of holding, trust and thought. The value in that belief and thought will determine the good value in the treatment or work. Good value in belief is the value of faith and piety to Allah SWT. This is the basic thing that is the cornerstone of all aspects of values and ethics in Islam. Without a precise grasp on this fundamental thing, a treaty or work is not recognized by God in order to comply with his ethics, though it has met the standard of organizational values or ethics.

In the construct of the Ethics of Islamic work can also be defined as a tendency to behave in order to comply with the rules set by Allah. Therefore, ethical work ethics is also important in the development and prosperity of the Muslim community and their organizations (Ali, 2001; Ali & Al-Kazemi, 2007). Hence, Islamic ethical work also contributes to the good behavior that can help the organization and leadership to succeed in the aspects of justice, honesty, loyalty, generosity, charity, co-operation, creativity, innovation, dedication, and perseverance and forbid the disadvantages that can harm organizations and individuals such as cheating, stealing, vandals (Ali, 1988; Ali, 1992, Bashir, 1988; Kumar & Rose, 2009; Yousef, 2000). Hence, this research will be conducted on SMEs in assessing the relationship between the constructive ethics of Islamic work towards ethical behavior of SMEs in Malaysia. Hence, researchers are exploring the influence of ethical work ethics in business, enhancing ethical behavior among SMEs and to avoid unethical behavior. In many businesses it involves buying and selling transactions between businesses and consumers. It's easy for unethical businesses to commit fraud. The height of Islamic work ethics within the SMEs also contributes to a healthy business environment as well as contributing to the nation's economic growth and fairness to consumers.

Previous research found that there is still a lack of ethical research on Islamic work in explaining the factors contributing to ethical ethics, especially in ethics (Hashim, 2012; Saeed Hameed Aldulaimi, 2016; Samir Ahmad Abuznaid, 2009). Research on ethical work ethics is still limited (Ahmad, 2011; Kumar and Rose, 2010; Rokhman, 2010; Farrukh, Butt, & Mansori, 2015). Many researches only examine Islamic ethics from various fields, including human resource management, work-related individuals with changes in research, commitment, job satisfaction and income (Haroon et al 2012, Mohamed et al., 2010; (2006) and performance (Abbasi et al 2012) is quoted from research (Farrukh et al, 2006), innovation (Abbasi et al 2012). But few researches measure the extent to which Islamic works ethics influences behavior human behavior is primarily a context of ethics among SMEs, as Islamic ethical research is still lacking in the ethical ethics of SMEs. This research is set up to further research ethics of ethical work on ethical ethics towards SMEs in Malaysia.

**2.4 Ethical Behavior**
Ethics refers to behavior that is subject to valuation based on accepted norms (Hegarty, W. H. & Sims, 1979; Treviño, Weaver, & Reynolds, 2006). There are numerous researches in ethics, various researches resulting in duplication of intentions have resulted in the interchange of ethical meanings in various fields of research. According to Ford & Richardson, 1994 (O'Fallon & Butterfield, 2005) a major weakness in ethical research is that most research does not provide theoretical definition of clear ethical behavior. So the theoretical definition of ethical behavior for this research is any behavior within individual environments tied to ethical judgments and assessed whether ethical or unethical based on moral or ethical norms, moral standards and general rules used in their lives. A behavior is said to be ethical in complying with norms, standards and moral rules accepted by individual and unethical behaviors if they do not comply or violate them. Therefore, this research will discuss the exact meaning of ethics and ethical conduct domain in detail to develop the theoretical definition of ethical behavior to be used in this research. Therefore, ethical behavior will be discussed to explain the relevance of the research literature survey on the factors that have been influenced by ethical behavior.

In the context of business, the theoretical definition of ethical behavior in business is any behavior within an organization bound to an ethical assessment and is assessed whether ethical or unethical based on moral or ethical norms, moral standards and general rules used in a business organization. In addition, a behavior is said to be ethical if it complies with the norms, standards and moral rules used in the business and violates business and government law, and it is unethical to fail to comply or violate it. In the context of individual religions, it is associated with religious belief, if an individual violates his religious instruction, then the individual is classified as practicing unethical behavior.

Previous research explains that strong influence on one's ethics is positive behavior, positive behavior can affect one's ethical behavior. According to research (Fritz & Sonnentag, 2010; Jacobs, Belschak, & Hartog, 2014) ethical behavior is influenced by positive influences that

can influence someone to do good things like collaborating and helping others. High moral awareness can also affect one's positive behavior and thus encourage one to exhibit ethical behavior. Religion plays an important role in directing a positive attitude and no religion that leads to misguided or negative (Abbas J Ali & Al-Owaihan, 2008). The role of positive and ethical behavior can be explained by Islamic ethical work. Hence, in this study, the problem of the reduction of ethical behavior in positive behavior also illustrates the negative behavior arising from factors such as the lack of ethical work ethics, negative subjective norms, lack of self-efficacy in traders who invite a deterioration of ethical behavior among traders in Malaysia.

**2.5 Islamic Work Ethics and Ethical Behavior**
 Research on ethical work ethics on human ethical contexts is still limited (Usman, 2015). However, ethical research on individuals and organizations on unethical behavior has been studied by Elango (2010). Among them (Usman, 2015) in his research suggested that Islamic ethics should be studied more widely in Islamic ethics in the context of human ethical behavior. Because of the ethical work ethics formed from the teachings of Islam. Work ethics in Islam is contains the words of Allah and is revealed to the Prophet Muhammad while the Hadith has the words and actions (*sunnah*) of the Prophet Muhammad. The relation between religious constructs to ethical behavior is not parallel by past researcher. This gives different and inconsistent results by past researchers before. It is supported by research on ethics and behavior (Fort, 1996: Singhapakdi, Vitell, & Franke, 1999; Singhapakdi, Marta, Rallapalli, & Rao, 2000; Weaver & Agle, 2002). Previous research on student population found a poorly-defined relationship between religious and ethical behavior (Hegarty & Sims, 1978; 1979). But Clark and Dawson's (1996), find otherwise in his research, strong influence on religion influenced behavior in ethical decision making. Furthermore, in marketing research, religion can help some of the ethical decision making. That finding that shows a significant religious factor in influencing one's moral philosophy (Singhapakdi, Vitell, & Franke, 1999; Singhapakdi, Marta, Rallapalli, & Rao, 2000). The findings are supported by (Keller, Smaith, & Smith, 2007) stating religious factors are significant in influencing ethical decision making among accountants in America.

## 2.6 Self-Efficacy and Ethical Behavior
Self-efficacy in ethical research has long been studied earlier by (Kuo & Hsu, 2001; Hannah, Avolio, & May, 2011; Youssef, & Luthans, 2007; Mitchell, Palmer, & Schminke, 2008). Self-efficacy has been introduced by Bandura in the efficacy of bandura efficacy, and it was developed by Mitchell et al., In the field of human ethics as a means of testing one's level of confidence in their ability to motivate motivation, cognitive resources, step action needed to make ethical behavior (Mitchell et al., 2008). Mitchell et al. (2008) suggested that research on self-efficacy on ethics is a requirement. It aims to predict ethical behavior and can measure the ability of a person to behave ethically at various moral levels and across various ethical situations.

## 2.7 Moderator self-efficacy with ethical behavior

The focus of this research is the role of self-efficacy moderator. The role of moderators is important in measuring a relationship between variables. Accordingly, the role of self-efficacy moderator in the research will be introduced. These self-efficacy constructs are somewhat synonymous as mediators in previous investigations, but for self-efficacy constructs as moderators is something most recently used in ethical behavior. Nevertheless, there is an effective research as a moderator in the field of ethics and has been described in the research (Kura, 2014). But his research used self-regulatory-efficacy as a moderator of behavioral deviating at the workplace, and the research found that moderator relations had a significant effect between the variables. In this regard, the efficacy constructs are best suited to expanding this research to contribute to future research. Hence, the contribution of self-efficacy research as a moderator is crucial in determining the relationship between ethical work ethics and subjective norms on ethical behavior in the context of SMEs. Furthermore, self-efficacy variables in the context of ethics as moderators have been reviewed and developed by (Mitchell et al., 2008) as efficacy in human ethics. Researchers will develop this research from the point of self-efficacy in context of business. This research will examine the extent of self-efficacy affecting the Islamic works ethics and subjective norms on ethical behavior of SME business owners in Malaysia.

In addition to the insufficient work ethic studies in developing countries, research regarding Islamic work ethic (IWE) and its implications in the workplace are limited (Ahmad, 2011; Kumar and Rose, 2010; Rokhman, 2010). From past literature research, also limited on research on self-efficacy and ethical work ethics of ethical behavior among SMEs owners in Malaysia. In addition, research on the role of self-efficacy moderators in identifying relationships between (1) Islamic work ethics, and subjective norms (2) among relationships with ethical behavior is particularly interesting to be developed. The limitation of self-efficacy on ethical constructs as a moderator in past research has become a major factor in the research being carried out as a new contribution in research.

## 2.8 Research Framework

Based on the literature review, the framework for the study is proposed as shown in figure 1. The framework proposed that Islamic works ethics and self-efficacy can influence SMEs owner ethical behavior, and that self-efficacy moderate the relationship between Islamic works ethics and SMEs owner ethical behavior. Importantly, this framework is grounded in self-efficacy, the Bandura theory introduced context of an explanatory model of human behavior, in which self-efficacy causally influences expected outcomes of behavior, but not vice versa (Bandura, 1986c, 1995, 1998, 2004, 2006b). Self-efficacy beliefs exert their diverse effects through cognitive, motivational, emotional, and decisional processes. Efficacy beliefs affect whether individuals think optimistically or pessimistically, in self-enhancing or self-debilitating ways. They play a central role in the self-regulation of motivation through goal challenges and outcome expectations. (Mark & Campbell, 2011). This theory is appropriate for this present study.

Based on the above empirical evidences, a proposed research framework for this study illustrating the moderating role of self- efficacy on the influence of Islamic works ethics on ethical behavior is depicted in Figure 1.
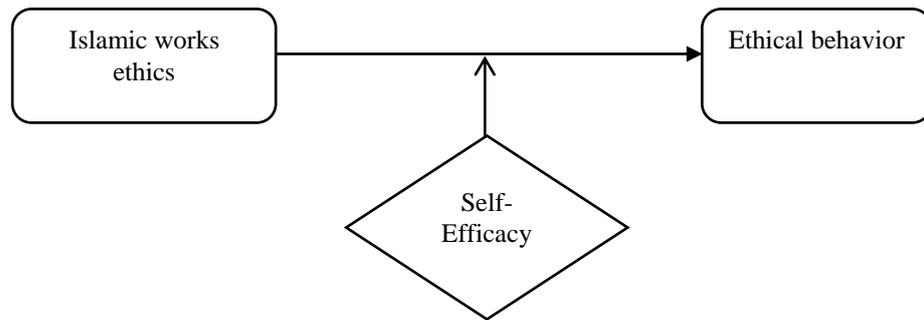


Figure 1 Research framework

## 3.0 Research Methodology

### 3.1 Sample and measures

The state is to represent the north, south, east and west zones of Malaysia. Starting from the state of Penang (40,824) for the northern zone, Selangor (125,904) west zone, Kelantan (37,097) east and Johor (68,874) southern zone of Malaysia. According to information at the Companies Commission of Malaysia, in 2015, 283,200 companies from 645,136 registered companies are bumiputera companies. The research sample represents the entire bumiputera SMEs in Malaysia. Cluster sampling will be used on selected states representing their respective zones throughout Malaysia. This research covers the natural and well-defined population groups, such as the states in Malaysia. After selecting the cluster formed, the researchers will randomly select samples from each cluster. In this research, researchers used cluster sampling to test the level of ethical behavior among bumiputera SMEs in four selected states representing the North and East South East zones. Data collection is from respondent's business owners of the Village Entrepreneurship Carnival (KUD) program and information from the Ministry of Rural Development (KKLW). Islamic works ethics is unidimensional is adapted from (Ali, 1988). Self-efficacy is measured by adapting the instruments used by Parker's (1998), the self-efficacy RBSE role (Role breadth self-efficacy). The last variable is the item for the dependent variable is ethical behavior of Bumiputera PKS, adapted from (Bucar, Glas, & Hisrich, 2003) were utilized for the questionnaire and all items were scored on a 7-point Likert scale with 1 = strongly disagree to 7 = strongly agree.

**Table 1: Measurement items, Factor loadings, Composite reliability, rho_A and Average variance extracted**

| Constructs & Items | | FLs | CR | AVE |
|---|---|---|---|---|
| ISLAMIC WORK ETHICS | | | 0.928 | 0.592 |
| EKI1 | | 0.716 | | |
| EKI10 | | 0.851 | | |
| EKI12 | | 0.670 | | |
| EKI2 | | 0.716 | | |
| EKI3 | | 0.716 | | |
| EKI6 | | 0.712 | | |
| EKI7 | | 0.833 | | |
| EKI8 | | 0.833 | | |
| EKI9 | | 0.851 | | |
| | | | | |
| SELF EFICACY | | | 0.900 | 0.564 |
| EFK1 | | 0.792 | | |
| EFK2 | | 0.792 | | |
| EFK3 | | 0.762 | | |
| EFK4 | | 0.762 | | |
| EFK5 | | 0.748 | | |
| EFK6 | | 0.748 | | |
| EFK9 | | 0.640 | | |
| WORKPLACE | ETHICAL | | | |
| BEHAVIOUR | | | 0.928 | 0.593 |
| TB1 | | 0.887 | | |
| TB10 | | 0.676 | | |
| TB11 | | 0.676 | | |
| TB12 | | 0.887 | | |
| TB13 | | 0.674 | | |
| TB2 | | 0.887 | | |
| TB3 | | 0.887 | | |
| TB4 | | 0.674 | | |
| TB5 | | 0.609 | | |

Note: FLs- Factor loadings, CR- Composite reliability, , AVE- Average variance extracted.

In the case of common method bias studies, which use a self - administered intersectional study, Herman's Single - Factor test was conducted to investigate any common method problem (Podsakoff, MacKenzie, Lee et Podsakoff, 2003). Thus there was not a was single factor, and the first factor variation was lower than 50 percent as recommended by Podsakoff et al. (2003); this shows that most of the variance is not linked to the first factor.

### 3.2 Measurement model

This study conducted exploratory factor analysis (EFA) and confirmatory factor analysis (CF A) for measurement model evaluation. During the EFA, ten items were deleted because they had not sufficient indicator reliability values. Table 2 above sums up the measures used for the final analysis. The model used for SmartPLSversion 3.2.7 consists of three latent buildings and 25 measuring items. Composite reliability, rho A and AVE (mode of use) (mode of use) exceed the recommended values and therefore support the overall validity and reliability of the structural analysis measures used (Fornell & Larcker, 1981; Hair et al., 2014).
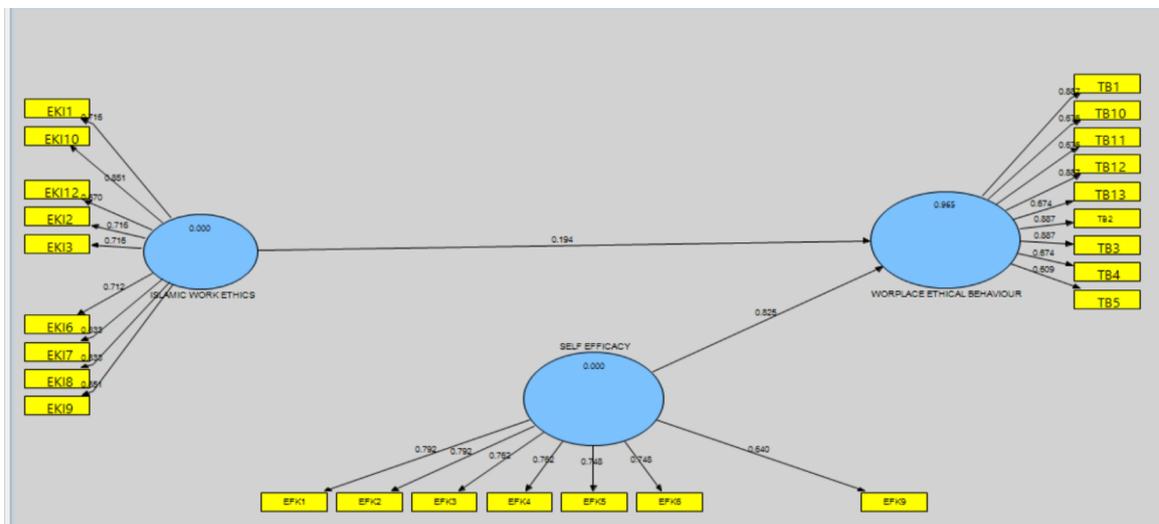


**Figure 2: Measurement model**

**Table 2: Latent Variable Correlation**

| Constructs | ISLAMIC WORK ETHICS | SELF EFFICACY | WORPLACE ETHICAL BEHAVIOUR |
|---|---|---|---|
| ISLAMIC WORK ETHICS | 0.783 | | |
| SELF EFFICACY | 0.484 | 0.837 | |
| WORPLACE ETHICAL BEHAVIOUR | 0.617 | 0.582 | 0.865 |

### 3.3 Structural model and hypotheses testing

At this stage, SmartPLS SEM software was used to test the hypothesized relationship between all the variable concerned (i. e. H1 – H2). Structural model for direct relationship shows the linkage between Islamic works ethics independent latent variable and ethical behavior (EB) dependent latent variable as depicted in figure 3. The structural model that shows the moderating effect of Islamic work ethics on the relationship between MO and SMEP was illustrated in figure 4. While, Table 5 shows the results of both the direct relationship as well as interaction effect (moderating effect).

The finding as shown in Table 5 revealed that Islamic works ethics ($\beta = .601$, $t = 59.86$) have a strong positive and significant relationship with ethical behavior; this was in support of H1 as hypothesized in the study. This result was in agreement with extant studies that found positive impact of EB on ethical behavior (e. g. Parboteeah, K. P., Paik, Y., & Cullen, J. B. 2009; Mohamed, N., Karim, N. S. A., & Hussein, R. 2010; Kumar, N., & Che Rose, R. 2012; Rokhman, W. 2010.; Khadijah, A. S., Kamaluddin, N., & Salin, A. S. A. P. 2015; Latib, M. F. A., Othman, Y. H., Ahmad, M. N., & Hasnan, R. 2017).
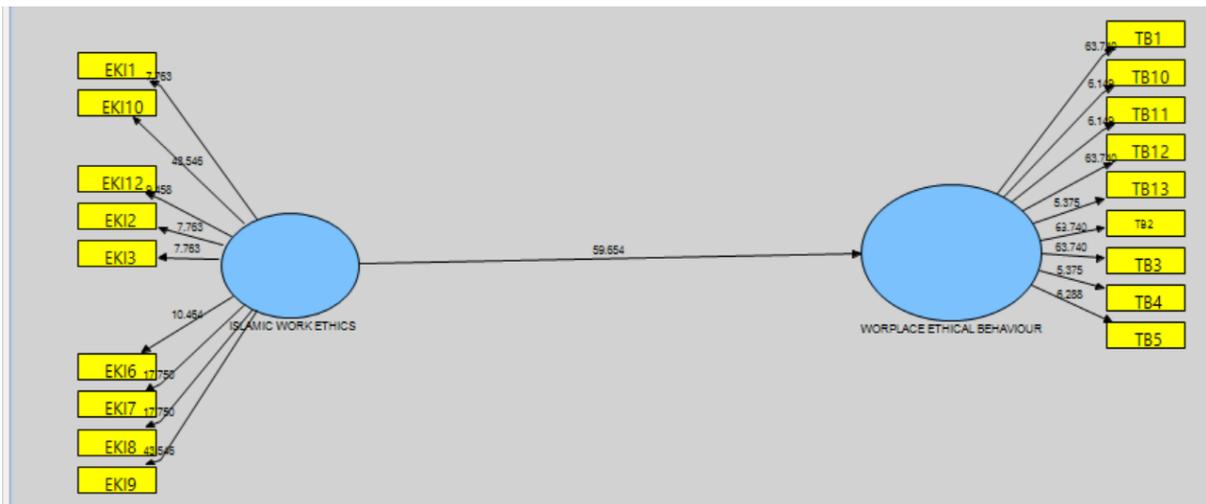


**Figure 3: Structural Model for Direct Relationship**

**Table 3: Result for direct relationship and interaction effect**

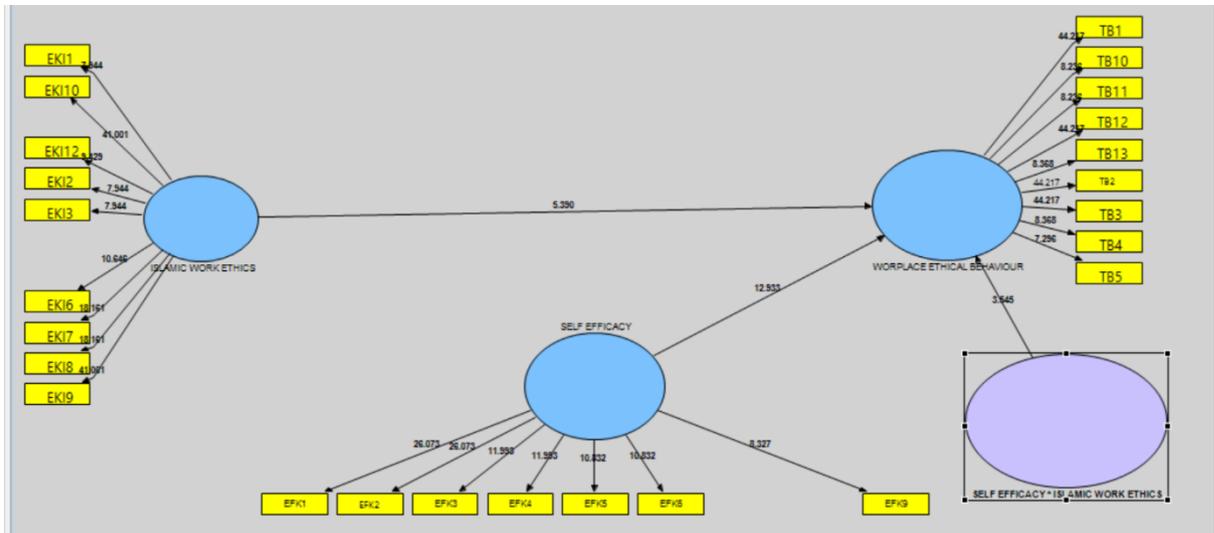| Paths | Beta | STDEV | T Statistics | Remark |
|---|---|---|---|---|
| **IWE -> WEB** | 0.612 | 0.063 | 59.86 | Accepted |
| **SE*IWE -> WEB** | 0.051 | 0.032 | 3.645 | Accepted |

**Figure 4: Structural model for interaction effect**

In testing the moderating effect, the concept of interaction term is used to facilitate the inclusion of a moderation variable in a statistical model. Two-stage method was used to estimate the interaction effect of independent and moderating variables on the dependent variable (Dawson, 2013; Hair,Hult, Ringle&Sarstedt, 2016; Henseler& Chin, 2010; Henseler&Fassot, 2010). This method was used due to its universal applicability in terms of whether the independent and/or moderating variables are measured formatively or reflectively and on the basis that it exhibited a higher level of statistical power (Hair et al., 2016). Figure 4 shows the interaction effect of IWE and SE on EB. The result from Table 4 shows (t = 3.645), in support of hypothesized H2 at the significant level of 10% (0.1). Hence, self-efficacy positively moderates the relationship between Islamic works ethics and SME ethical behavior in Malaysia. To furtherance the analysis of the moderating effect, a simple two-way interaction slope was plotted using the path coefficients obtained from the model together with interaction effects for hypothesis H2 (Preacher, Curran, & Bauer, 2006). This probes the conditional effect to better understand the structure of the relation of the significant interaction. Figure 5 shows the interaction slope that explains the strength of IWE on SE and EB.
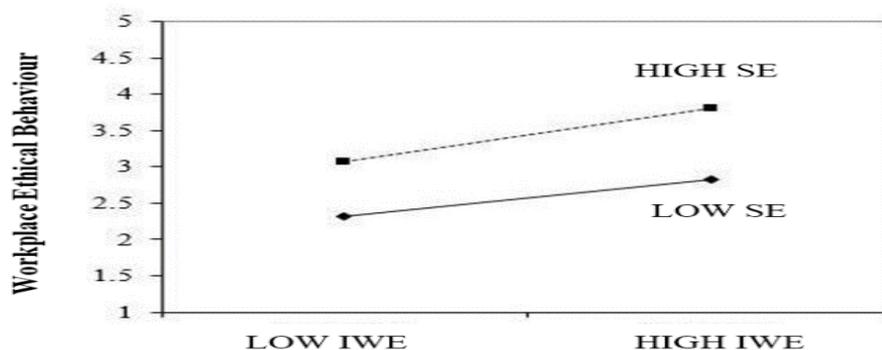


**Figure 5: interaction slope**

In relation to the moderating effect of self- efficacy on the relationship between IWE and EB. The positive relationship between IWE and EB is strengthening in the case of high level of self-efficacy practices. The low level of self-efficacy practices does not translate to weak relationship between IWE and EB, the level of IWE is stronger with higher self-efficacy practices. This means that the higher the self-efficacy practices by the owners/managers of SMEs in Malaysia, the stronger and better the positive relationship between IWE and EB.

## 4.0 Discussion

In the process of economic transformation of Malaysia, Small and Medium Enterprises (SMEs) with microenterprises played an important role in fostering growth, employment and income. The Government of Malaysia aims to provide small and small businesses with at least 40% of economic growth in 2016. The government must be clear about which sector of its economy is the most important contributor, which has the potential to generate more future growth and which sectors are weak and which need survival in the competitive economy (Tahir, H. M., Razak, N. A., & Rentah, F. 2018). However, there is scarce literature informing current knowledge on the interactive effect of auto-effectiveness with regards to the link between Islamic works ethics and ethical behavior in SMEs. This study therefore intends to contribute to the research by providing new insights into how self-efficacy can reinforce the impact of Muslim work ethics on SME ethical conduct. In particular, this study suggested that self-efficacy practices provide guidelines that would provide organizations with the incentive to enhance effective ethical management practices and help their future performance.

## 4.1 Contributions and future research

The study provided empirical evidence to demonstrate that SME ethical comportment requires self-efficacy and Islamic work ethics. The relationship between Islamic work ethics and SME ethical behavior was found to be significantly modulated by self-efficacy. In other words, the more self-effective the owners / manager of the organization and its commitment in Islamic work ethics is, the more likely it is that the SME behavior is more ethical. This is in line with current research, which acknowledges that if SME owners have self-efficacy and Islamic work ethics in companies can better satisfy their customers ' needs than competitors can improve their ethical behavior among SME owners (Elango 2010; Keller, Smaith, & Smith, 2007). In addition, this research provided contextual explanations for self-efficacy and ethical behavior among owners of small and medium-sized enterprises and Malaysia. Past research shows that most work ethics studies have been carried out in western and few developing countries (Rokhman, 2010).

In practical terms, the research results show that high self-efficacy can improved ethical behavior that reduces any type of unethical behavior and also enhances the efficiency and quality of the company. This paper thus emphasized that Islamic labor values exhibited by the managers in an organization will serve as a role model and as a motivation for workers to work hard, reliably, novelty, duty and organizational loyalty and thus to improve their ethical behavior.

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