



The Ethical Advantage: Boosting Employee Commitment in Small Businesses through Leadership and Empowerment

Aaron Chin Chen Lai^{1,a}, Maniam Kaliannan^{1*} and Magiswary Dorasamy^{2,b}

¹The University of Nottingham Malaysia, Jalan Broga, Semenyih, Selangor Darul Ehsan 43500, Malaysia

²Taylor's University, No. 1, Jalan Taylor's, Subang Jaya, Selangor, 47500, Malaysia

^aaronchinchen@gmail.com,

^{*}maniam.kaliannan@nottingham.edu.my,

^bmagiswary.dorasamy@taylors.edu.my

Abstract. This study examines the relationship between ethical leadership and affective commitment among Malaysian MSME employees, testing psychological empowerment as a mediator. Grounded in Social Identity and Social Exchange Theories, a mixed-methods approach was employed with 213 participants. Structural equation modeling confirms that ethical leadership positively influences affective commitment, with psychological empowerment partially mediating this effect. The findings extend ethical leadership research by providing empirical evidence from a non-Western context and offer practical implications for HR strategies to reduce employee turnover.

Keywords: ethical leadership, affective commitment, psychological empowerment, micro, small and medium enterprises, social identity theory, social exchange theory.

1 Introduction

High-profile ethical scandals—such as Meta's privacy breach and Uber's discrimination—have periodically damaged organizational reputations and sparked public outrage. Palanski et al. note such issues often remain implicit until serious misconduct emerges[1]. While leaders frequently face tensions between profit maximization and ethical standards[2], ethical leadership has become increasingly critical for organizational integrity.

2 Related Work

2.1 Ethical Leadership and Affective Commitment

Ethical leadership (EL) theoretically fosters affective commitment (AC) through Social Identity processes, whereby followers emulate leaders' moral conduct[3]. However, empirical evidence remains mixed—while some studies demonstrate positive linkages [4], others report non-significant relationships[5], suggesting contextual contingencies [6]. Resolving these theoretical inconsistencies is imperative[8], particularly within Malaysian MSMEs where EL strategically strengthens employee commitment.

2.2 Ethical Leadership and Psychological Empowerment

Grounded in Social Exchange Theory[9,10], psychological empowerment (PE) represents employees' reciprocal response to supportive leadership, fostering intrinsic motivation and organizational commitment [11]. While early research emphasized Spreitzer's [12] "Competence" dimension, contemporary scholarship highlights "Self-Determination"—particularly autonomy—as central to empowerment [13]. Ethical leaders enhance PE by granting decision-making autonomy and protecting employee dignity. Thus, EL is posited to positively influence PE.

2.3 Psychological Empowerment and Affective Commitment

Empirical evidence regarding PE's mediating role remains mixed: while transformational leadership studies demonstrate positive effects on commitment [14,15], authentic leadership research reports insignificant mediation [16]. Notwithstanding, PE robustly stimulates affective commitment through autonomy-driven intrinsic motivation [12,17]. Consequently, a positive PE-AC relationship is hypothesized.

3 Methodology

This investigation combines numerical survey analysis with thematic interview exploration through a mixed-methods strategy. Interviews of three HR managers are conducted to enable methodological triangulation and enhance validity [18,19]. The quantitative phase employs correlational analysis to test hypothesized relationships, while qualitative insights complement statistical findings regarding ethical leadership implementation in Malaysian MSMEs.

3.1 Participants and Procedure

Using purposive and snowball sampling, 213 MSME employees were recruited. Participants rated their immediate supervisors using 5-point Likert scales.

3.2 Evaluation Metrics

This study utilizes Brown et al.'s 10-item Ethical Leadership Scale (ELS) to operationalize the construct of Ethical Leadership[7], assessing both moral qualities and managerial behaviors[21].

Affective Commitment is assessed via Meyer et al.'s [21] 6-item Affective Commitment Scale (ACS), widely validated in recent organizational behavior research [22].

Psychological Empowerment follows Spreitzer's[12] 12-item four-dimensional framework: Meaning, Competence, Self-determination, and Impact, with three items per dimension. As show in table 1.

Table 1. Summary list of measurements employed.

Determinants	Measurements	Academic Sources
Ethical Leadership	10-item Ethical Leadership Scale (ELS)	Brown, Treviño and Harrison (2005)
Affective Commitment	6-item Affective Commitment Scale (ACS)	Meyer, Allen and Smith (1993)
Psychological Empowerment	12-item Psychological Empowerment Scale	Ashforth (1989); Jones (1986); Hackman and Oldman (1980); Tymon (1988)

4 Results Findings

4.1 Harman’s Single Factor Test

Organization behavior scholars acknowledge that common method variance (CMV) frequently induces measurement errors in behavioral research [25]. One major source stems from social desirability bias—individuals' tendency to seek approval through culturally acceptable responses—which can distort variable relationships [25]. To address this concern, this study employed Harman's (1976) single-factor test [24], conducting exploratory factor analysis on all variables to examine unrotated factor solutions.

Results indicate that a single factor extracted 35.27% of total variance (Table 2), falling below the 50% threshold [24]. Consequently, CMV does not appear to substantially bias the obtained responses. As show in figure 1.

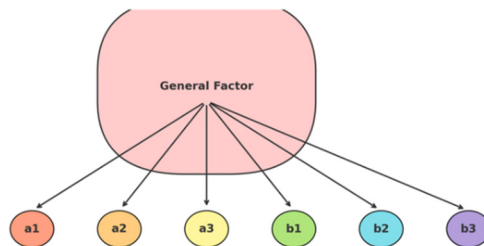


Fig. 1. Harman’s Single Factor Analysis. Source: Podsakoff et al. (2003)

Table 2. Single Factor Test.

Factor	Total	Initial Eigenvalues		Extraction Sums of Squared Loadings		
		% of Vari- ance	Cumula- tive %	Total	% of Vari- ance	Cumula- tive %
1	11.863	37.072	37.072	11.286	35.270	35.270
2	4.001	12.503	49.575			
3	2.190	6.844	56.420			
4	1.482	4.632	61.052			
5	1.299	4.060	65.112			
6	1.225	3.828	68.940			
7	.798	2.494	71.435			
8	.752	2.349	73.783			
9	.660	2.063	75.846			
10	.608	1.902	77.748			
11	.582	1.819	79.567			
12	.540	1.686	81.253			
13	.487	1.523	82.775			
14	.477	1.490	84.266			
15	.430	1.345	85.610			
16	.409	1.279	86.889			
17	.406	1.268	88.157			
18	.379	1.184	89.340			
19	.350	1.092	90.433			
20	.330	1.033	91.465			
21	.324	1.011	92.477			
22	.290	.905	93.382			
23	.281	.877	94.259			
24	.266	.833	95.092			
25	.256	.800	95.892			
26	.246	.769	96.660			
27	.222	.694	97.354			
28	.200	.626	97.980			
29	.180	.563	98.543			
30	.173	.540	99.048			
31	.163	.508	99.592			
32	.131	.408	100.000			

4.2 Reliability and Validity Test

After conducting a reliability test, Cronbach's alpha coefficients for three variables ranged from 0.867 to 0.939 (see Table 3), indicating strong validity and internal consistency, exceeding the 0.7 threshold as recommended by Nunnally and Bernstein [26]. Besides, both composite reliability indices (ρ_a and ρ_c) surpassed the 0.7

benchmark. These results confirm that the constructs are effectively represented by the items, which consistently measure each specific construct.

Table 3. Reliability and Validity Test.

Research Constructs	Items	Factor loadings	Cronbach's alpha	Composite Reliability	Composite Reliability
Ethical Leadership	EL1	0.728	0.936	0.943	0.946
	EL2	0.788			
	EL3	0.709			
	EL4	0.846			
	EL5	0.811			
	EL6	0.863			
	EL7	0.814			
	EL8	0.852			
	EL9	0.782			
	EL10	0.790			
Affective Commitment	AC1	0.771	0.936	0.941	0.945
	AC2	0.719			
	AC3	0.862			
	AC4	0.791			
	AC5	0.804			
	AC6	0.857			
	AC7	0.834			
	AC8	0.786			
	AC9	0.794			
	AC10	0.735			
Psychological Empowerment Meaning	PEM11	0.853	0.867	0.875	0.892
	PEM12	0.869			
	PEM13	0.867			
Competence	PEC21	0.846			
	PEC22	0.872			
	PEC23	0.754			
Self-determination	PESD31	0.831			
	PESD32	0.792			
	PESD33	0.877			
Impact	PEI41	0.846			
	PEI42	0.914			
	PEI43	0.893			

Within the context of SEM, cross loadings, otherwise known as “item-level discriminant validity” is conventionally be noticed as an alternative measurement tool to empirically measuring the uniqueness and representativeness of phenomena-of-interest that other measures do not capture . By taking a leaf out of Farrell and Rudd’s book,

this paper continues to embark on discriminant validity with an eye towards ensuring the hypothesized structural paths are not confronted with predicaments related to uncertainties nor statistical discrepancies.

Based on the computed statistics from Table 4, the items appear significantly loaded on their theoretically justified factor as contrasted with other factors. Meaning to say, the factor loadings of each item give every indication of being support the discriminant validity of the proposed model.

Table 4. Discriminant validity via Cross Loadings.

	AC	EL	PEC	PEI	PEM	PESD
AC1	0.771	0.493	0.202	0.293	0.309	0.223
AC2	0.719	0.447	0.191	0.334	0.32	0.195
AC3	0.862	0.495	0.223	0.52	0.416	0.326
AC4	0.791	0.42	0.207	0.441	0.363	0.233
AC5	0.804	0.512	0.193	0.438	0.304	0.234
AC6	0.857	0.444	0.216	0.434	0.463	0.282
AC7	0.834	0.586	0.26	0.407	0.432	0.297
AC8	0.786	0.425	0.292	0.446	0.414	0.274
AC9	0.794	0.452	0.219	0.422	0.429	0.243
AC10	0.735	0.481	0.155	0.311	0.42	0.29
EL1	0.576	0.728	0.128	0.307	0.298	0.212
EL2	0.418	0.788	0.058	0.179	0.183	0.142
EL3	0.371	0.709	0.063	0.206	0.142	0.167
EL4	0.511	0.846	0.105	0.263	0.336	0.106
EL5	0.502	0.811	0.053	0.267	0.231	0.06
EL6	0.538	0.863	0.112	0.225	0.304	0.139
EL7	0.433	0.814	0.038	0.173	0.35	0.086
EL8	0.485	0.852	0.069	0.265	0.281	0.125
EL9	0.405	0.79	0.074	0.187	0.306	0.193
EL10	0.432	0.767	0.109	0.236	0.213	0.094
PEC21	0.279	0.122	0.846	0.362	0.339	0.354
PEC22	0.273	0.108	0.872	0.452	0.459	0.434
PEC23	0.09	0.012	0.754	0.24	0.207	0.262
PEI41	0.37	0.171	0.402	0.846	0.355	0.355
PEI42	0.49	0.282	0.372	0.914	0.402	0.467
PEI43	0.5	0.323	0.397	0.893	0.431	0.355
PEM11	0.412	0.264	0.38	0.39	0.853	0.334
PEM12	0.437	0.34	0.385	0.412	0.869	0.28
PEM13	0.421	0.276	0.333	0.356	0.867	0.285
PESD31	0.365	0.218	0.464	0.392	0.311	0.831
PESD32	0.201	0.105	0.258	0.295	0.241	0.792
PESD33	0.244	0.093	0.348	0.413	0.31	0.877

4.3 Research Outcomes

Other than reviewing the path coefficients, it is essential to examine the T-statistics and p-values of each relationship. According to the computed result on Table 5, all paths attain a p-value of lower than 0.05. Supplementarily, t-statistics of all exam-ined paths has exceeded the minimal benchmark of 2.776. Authors explain that the greater the magnitude of T-statistics, the higher the significance of evidence against null hypotheses. By interpreting the results of T-statistics and p-values, the out-comes of three observed relationship are statistically significant and possess suffi-cient evidence to reject the null hypotheses.

Table 5. Mean, Standard Deviation, T-statistics, P-values of each direct relationship.

	Original sample (O) β	Sample mean (M)	Standard deviation (STDEV)	T statistics (O/STDEV)	P-values	Remarks
EL -> AC	0.475	0.478	0.054	8.838	0.000	Supported
EL -> PE	0.312	0.319	0.074	4.225	0.000	Supported
PE -> AC	0.397	0.396	0.059	6.724	0.000	Supported
EL -> PE -> AC	0.124	0.126	0.033	3.728	0.000	Supported

This paper has thence seized to embark on Baron and Kenny’s [28] three-step regression approaches to examine the significance-of-coefficient. Bottomed on Woodworth’s S-O-R model that underlines the critical role of “Organism” between “Stimulus” and “Response”, Baron and Kenny [39] diagram a causal-chain model (refer to Figure 2) that illustrate how two causal paths link up with the outcome var-iable. Patterning this paper after aforesaid social-psychological experimentalists in examining mediator, a few conditions in determining mediation effect are summa-rized as below:

- Significance-of-coefficient between IV and DV is statistically significant.
- Significance-of-coefficient between IV and MV is statistically significant.
- Significance-of-coefficient between MV and DV is statistically significant.
- Indirect significance-of-coefficient between MV and DV is statistically significant.

cant.

Fundamentally, this section attempts to quantify the influence of 4 distinct relationships between EL, PE and AC. All computed results reflect the statistically significant role of all paths in the proposed conceptual model. In other words, RO1, RO2, RO3 and RO4 can be seen as factually addressed and scientifically supported. It is noteworthy that path coefficient of this indirect effect ($\beta = 0.124$) is statistically significant with the support of p-value < 0.01 and t-statistics of 3.728 (refer to Table 5). Within this frame-of-reference, one could interpret that higher magnitude of PE could partially strengthens the influence on the relationship between EL and AC. In other words, notwithstanding all correlations are statistically supported and there-fore a theoretical model is proven, even so the mediocre indirect effect infers that PE does not eminently

play a significant role in the relationship of EL and AC with-in the context of Malaysia MSMEs.

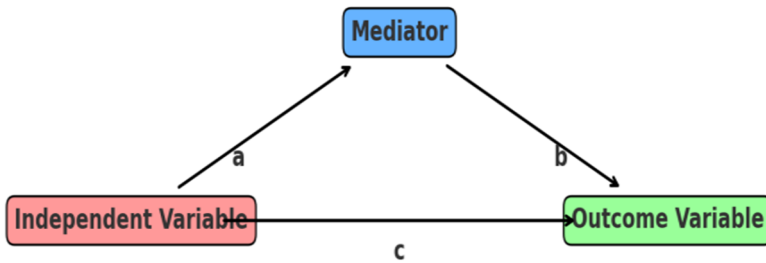


Fig. 2. The Mediator Model. Source: Baron and Kenny (1986)

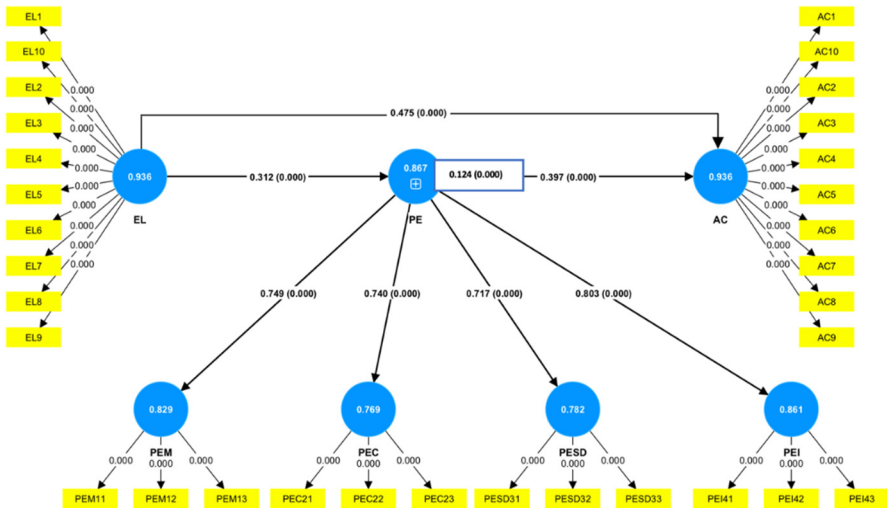


Fig. 3. Proven Model (Path Coefficients; P-values).

The theoretical model serves dual purposes: (1) illustrating the relationship between ethical leadership and affective commitment, and (2) empirically determining how psychological empowerment mediates this relationship. (Refer to Figure 3).

4.4 Semi-Structured Interviews for Qualitative Study

With the purpose of achieving triangulation and complementarity of this study, three human-resource leaders from distinct industries were engaged to obtain more insights (refer to Table 6). Point in fact, three open-questions have been formulated in effort to sought for further verification on the statistical results as well as in-depth professional insights from the human-resource practitioners to add value towards entire paper.

Table 6. Background of interviewees.

Respondent	Industries	Gender	Position	Years-of-experience in HR field	Work Tenure in current organization
1	Information Technology	Female	Human Resources Manager	7	5
2	Medical	Male	Assistant Human Resources Manager	12.5	10
3	Telecommunication	Male	Director of Human Resources	20	5

5 Conclusion

The present research offers two principal contributions. First, it introduces a parsimonious theoretical framework that delineates how ethical leadership directly influences both affective commitment and psychological empowerment, while also elucidating the intervening mechanism of psychological empowerment. Second, it provides empirical support for Social Identity Theory and Social Exchange Theory within the Malaysian context—a developing economy in the non-Western world that has received limited scholarly attention in this research area. The findings underscore ethical leadership's critical role in driving workforce motivation through psychological empowerment, thereby offering human resource practitioners, particularly within MSMEs, evidence-based strategies for fostering organizational sustainability and resilience. Ultimately, while affirming that ethical leaders energize and empower teams contingent upon employees' psychological readiness, this research calls for future investigations into additional mediators such as recognition and total reward systems to further elucidate these relationships.

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