

## Moderating and Mediating Ethical Sensitivity on the Effect of Corporate Social Responsibility on Indonesia SME's Reputation

Setyabudi Indartono and Ratna Candra Sari  
Yogyakarta State University, Yogyakarta, Indonesia

---

**Abstract:** The Small and Medium Enterprises (SMEs) reputation is believed to be supported by the Corporate Social Responsibility (CSR) programs. It is believed that CSR activities are able to increase various advantages for SME's. However, most of SME's owners tend to reject CSR activities as well as their perceptions of the load of financial responsibility. They are likely argued that their business has various limitations of resources which are needed to apply CSR programs. Accordingly, it is believed that different SME's owner's ethical sensitivity may bring over the effect of the CSR's intentions on the SME's reputation. However, few studies explore the effect of CSR's intentions on the SME's reputation based on various SME owner's ethical sensitivity. This study, investigates the mediation and moderation effect of owner's ethical sensitivity on the effect of CSR on SME's. The result shows that ethical sensitivity partially mediates and moderates the effect of CSR on SME's reputation. Managerial implication and suggestion for future research are discussed.

**Key words:** Ethical sensitivity, corporate social responsibility, small and medium enterprises, reputation, moderation effect, suggestion

---

### INTRODUCTION

Since, Small and Medium Enterprises (SMEs) are announced to makeup more than 90% of businesses worldwide and account for between 50 and 60% of employment, Corporate Social Responsibility (CSR) for SMEs likely still receives little attention (Vives, 2006). Discussion on CSR is widely focused on large corporations. Scholars believe that large firms view CSR as their considerable philanthropic engagement for their workforces and local communities by using their considerable sums of money on promoting the general well-being of their society than SMEs which likely resist in applying CSR. CSR becomes a multi-layered concept which can be differentiated into economic, legal, ethical and philanthropic responsibilities (Matten, 2006). Large corporations argue to have greater resources available to them to do this and stronger imperatives to do so in the form of a greater number of external stakeholders. Whereas, SME's owners assume that to implement CSR, SME's will have various obstacles such as limitations of financial and human resources, lack of accountability and awareness of environmental issues. Small and medium enterprises are indicated to be pointing CSR as the process of creating a consensus within the management and leadership network. However, scholars believe that CSR practices for SMEs are able to improve various outcomes such as organizational culture, image

and reputation, improve customer loyalty, stakeholders satisfaction and competitiveness that in turn increase their performance (Pastrana and Sriramesh, 2014; Turyakira *et al.*, 2014). Yet, the relationship between CSR and sustainable development policy remains unclear (Murillo and Lozano, 2009).

The resistance of CSR intentions of SME's owner is likely to be affected by their different concept related to CSR and business ethics (Fassin *et al.*, 2011). Some of them are indicated to have less informed and unknowledgeable of the literature on CSR and business ethics. Accordingly, ethical sense making occurs among SME's owner related to CSR and ethics rather than cognitive perspectives. Ethical sensitivity of SME's owners is indicated to effect on the intention and quality of their CSR activities. Scholars argue that most SME must frequently deal with various obstacles in implementing CSR (Morsing and Perrini, 2009). However, few SME's are voluntary engaged to CSR as a part of their business activity. Hence, SME's owner is indicated to have different intention on CSR programs as well as various ethical sensitivities to motivate them to release CSR (Spence *et al.*, 2000; Spence and Schmidpeter, 2003; Hemingway and MacLagan, 2004). Furthermore, Hemingway and MacLagan (2004) indicate that philanthropy and religious values, social changes and personal values bring over and strengthen SME's owner intention to drive CSR. Personal values and interest in a

particular social cause can be a motivating factor for CSR. SME's owners are likely to adopt profit-seeking rather than profit-sacrificing on CSR approaches. Their perception and motivation are believed to incorporate in the decision to engage in CSR (Lee *et al.*, 2016). Accordingly, scholars argue that those factors are absolutely fundamental in the case of small enterprises (Quinn, 1997; Trevino, 1986). These tendencies are in line with the key decision maker in which owner-manager shape corporate value and culture in order to manifest their ethical sensitivity toward CSR (Klein and Kellermanns, 2008; Nicholson, 2008). However, Lee *et al.* (2016) argue that SME's owner often has diverse limitation in communicating their CSR activities due to a lack of resources and management skills that in turn drives the overall CSR impact on business performance. Hence, their motif is predicted to promote differently to engage the resource gaps on CSR communications. SME's owner with low motivation is indicated to leave the problems than their counterparts which engage their effort by their ethical sensitivity to opt CSR intention. Accordingly, it is predicted that SME's owner sensitivity has unique role on the intention of CSR and firm's reputation.

Various ethical sensitivities may depend on different antecedents such as culture, history, religion, ethical standard, business law and so on. Since, Hofstede (1984) promote various national cultures, empirical studies on different cultures vary. For example, a recent study shows that the effect of nationality has stronger effects on culture rather than on religion. It is indicated that the shared national history is a potential factor to shape cultures (Minkov and Hofstede, 2014). Within the national culture, values are expressed by the model of norms and/or behavior. These values are used to guide principles in life and to be preference for one mode of behavior over another (Mooij, 2013). Rosenbusch *et al.* (2011) argue that SMEs in societies are characterized by strong collectivism. Hence, SME's based in collectivism countries is believed to have more benefit than firms operating in countries with medium and high levels of individualism. CSR in the Eastern context is likely to have distinctive roots and unique expressions that do not always mirror the current understanding and practice in the western context (Jamali, 2014). Accordingly, scholars are attracted to investigate the application of different ethical values within various national cultures that is believed to render one's ethical sensitivity toward CSR practices on SME. Thus this study explores the different ethical sensitivities of SME's owners in term of the effect of CSR on SMEs reputation in the case of Indonesia SME's.

It is believed that this study will contribute to explain various finding on the intention of SME's CSR on firm reputation based on the deeper values of SME's owner rather than managerial orientation. For example, Murillo and Lozano (2009) argue that promoting CSR in SME is a strategic priority an additional space for dialogue to serve for all organizations a sphere of cooperation established upon an open agenda of activities and a possibility to accumulate knowledge both from the personal and institutional's perspective. Recent study by Lee *et al.* (2016) indicates that perception and motivation of SME's owner are believed to incorporate in the decision to engage in CSR. Furthermore, scholars believe that people change their behavior contingent on the opportunities exposed in the environment (Chen and Indartono, 2011). They would look for better advantages compared to the situation offered internally and externally. Being directed by their interest, they would respond to external offering defensively, reactively or protectively to avoid actions, blaming or changes. Thus, their behavior might change accordingly when they feel unprofitable. Organizationally, firms try to apply unique strategic postures so as to reach a better position in the market structure. They change, expand and blend their strategies from more than one pure strategic group to gain the competitive advantage (DeSarbo and Grewal, 2008). At the beginning stage, firms may apply the defensive strategy and then opt for the offensive strategy as they move to the next stage as well as the intention to apply CSR activities. A firm switching its orientation may cause business environment pressure or the demand of firm accelerations because such change of policies could be rather dynamic. Accordingly, it is plausible that exploring the dynamic ethical sensitivity of SME's owner plays a significant role on the effect of CSR intention on firm's reputation.

## **Literature review**

**Corporate social responsibility:** CSR is traditionally associated with huge businesses. However, it is believed that the SME's business sector is such a significant sector worldwide in terms of the economic, environmental and social impact it makes. Hence, scholars turn their attentions to discuss and analyze the principles and practices of CSR in small and medium size businesses. SMEs are not merely small versions of big businesses (Kechiche and Soparnot, 2012). In the beginning, the idea of CSR is described as an obligation for companies to take certain factors into consideration during the course of their business activities. It encourages companies to implement their business values and to take into account the expectations of all its stakeholders such as employees,

**Table 1: Theoretical and empirical perspective of SME's CSR**

Contents	Discussion
Definition of CSR in SMEs and practices	CSR in SMEs is on the increase. SME directors consider CSR not as an add-on but rather as part of their overall day-to-day management. Their responsible practices can be classified into three main categories namely internal social dynamics, external social dynamic and environmental dynamics
Determining factors for commitment to responsible practice in SMEs	Academic research reveals several factors which predispose towards commitment to CSR in a SME. The central role played by the director himself or herself, internal and external proximity of the company and finally small size of operation all tend to encourage development of ethical rather than economic considerations
Obstacles to adoption and implementation of CSR in SMEs	SMEs have certain weak spots such as the lack of resources, time and knowledge particularly of matters pertaining to sustainable development. In commitments to CSR a SME faces obstacles linked to the market particularly the difficulty of applying environmental and/or social regulations. Tools available are also poorly adapted to SMEs
Positive examples and consequences of CSR in SMEs	There are many advantages for a SME as a result of implementing a CSR strategy. For instance reduced costs and increased efficiency bring financial advantage. In effect, by implementing more careful and cost saving measures or introducing products less harmful to the environment a SME can reduce waste and develop innovative products and services. CSR also enables a business to increase the motivation and productivity of its workforce. Being aware of the challenges of CSR can actually constitute the basis of competitive advantages for the business and enhance corporate image

CSR within SMEs; literature review by Kechiche and Soparnot (2012)

suppliers, clients, consumers, the local community, environmental associations and NGOs. Furthermore, Jenkins (2004) point out CSR as an all-embracing idea that concerns having an awareness of the impact of the business and wanting to have a positive impact on a wide range of stakeholders through the business decisions that are made. Blomback and Wigren (2009) believe that firm's commitment to the respect to the environment can embrace the social by involvement in the community and by maintaining good working relations with local actors. Scholars classify SME's CSR into three main categories including isolated internal social measures, external social measures and environmental measures (Vives, 2006; Russo and Tencati, 2009). Internal social measures consist of the development of talents, the implementation of health and social security measures and the improvement of working conditions. External social measures consist of the development of network links with the local economy, professional development and social integration. Environmental measures consist of the reduction of energy consumption, reduction of waste and waste recycling (Kechiche and Soparnot, 2012).

The key responsibilities or dimensions of CSR include customers, employees, business partners, the environment, communities and investors. Successful, companies build lasting relationships with customers by focusing their whole organization on understanding what the customers want and on providing them superior quality, reliability and service. Socially responsible businesses are doing more to provide work which is meaningful and which helps employees to develop and to realize their potential. They are seeking to provide fair wages a healthy and safe work environment and a climate of respect that in turn increase employee's meaningful work and higher quality of life, productivity and innovation and they increase committed people at all levels. Responsible business leaders provide clear evidence that sustainable environmental management

makes good business sense. There is growing evidence that companies that rate highly on environmental criteria also provide better-than-average returns to shareholders. Since, business operates in neighborhood, local, regional, national and global communities, firms can make no more important contribution to these communities and especially to local communities than to provide meaningful jobs, fair wages and benefits and tax revenues. Companies relate to communities in various ways such as charity, social investment, partnerships and business basics.

Kechiche and Soparnot (2012) summarize that the implementation of CSR brings a certain number of advantageous outcomes for a company such as enhanced reputation and corporate image, improvement of working relations with staff, improvement in production processes and quality, financial advantages such as reduction of costs and increased efficiency. Accordingly, SME can develop innovative products and services and thus take advantage of new and emerging markets. Furthermore, implementing more careful management practices and measures, SME can reduce wastage and secure reduction in costs or outlays. CSR is also believed to be able to be a catalyst for increased motivation and productivity amongst a company's workforce. At the same time, awareness and understanding of the challenges and issues involved in CSR can actually form a very good basis for competitive differentiation and ultimately contribute towards the improvement of company images. Thus, CSR can be viewed as a method of achieving better corporate image and reputation. However, CSR on SME tends to be more intuitive than strategic. Various perspectives of SME's CSR are shown in Table 1.

**SME's reputation:** SMEs play important roles for economic and technological development and innovation in the context of smaller firms has received much interest in literature. SME as a business entity is believed to force

gaining a unique achievement. Although, SMEs typically face considerable resource constraints they often have high achievements and successes. They have to specify their organizational performance that comprises the actual output or results of an organization as measured against its intended outputs (or goals and objectives). According by Richard *et al.* (2009) organizational performance encompasses three specific areas of firm outcomes such as financial performance (profits, return on assets, return on investment, etc.) product market performance (sales, market share, etc.) and shareholder return (total shareholder return, economic value added, etc.). SMEs are believed to be more nimble than their larger counterparts they can move faster and hence obtain these monopoly rents for a longer period of time (Rosenbusch *et al.*, 2011). The introduction of innovative products, services, processes or business models tailored to attractive niches is an additional opportunity for SMEs to stand out from competition. Rosenbusch *et al.* (2011) argue that by offering high innovative products, small firms can avoid price competition. In addition, innovative products may create new demand and thus, facilitate firm growth.

Scholars believe that CSR initiates SME to create positive moral capital and to support a firm intangible asset such as credibility and reputation (Godfrey, 2005; Branco and Rodrigues, 2006). Reputation is a signal of the main characteristics of the company and as competitive advantage (Melo and Garrido-Morgado, 2012). A good reputation will protect the company from the consumer perception of negative information (Lange *et al.*, 2011). The company's reputation is the result of management actions and CSR engagement can be an effective way to achieve competitive advantages (Melo and Garrido-Morgado, 2012). Fombrun (2005) argues that CSR implementation enhances the reputation of the company as an external motivation whereas Lai *et al.* (2010) believe that the consumer perception of the company's CSR activities is positively related to the company's reputation. Hence, Hsu (2012) found a positive effect between CSR initiatives and company's reputation. The company linked to a certain social issue will be perceived for further credible firms (Subroto, 2002). Since, corporate brand credibility is still one of the most important issues for consumers, SME have to take account as a strategic development. Thus, it is posed that:

- H<sub>1</sub>: CSR are positively related to SME's reputation
- H<sub>1a</sub>: CSR in term of working condition is positively related to SME's reputation
- H<sub>1b</sub>: CSR in term of customer is positively related to SME's reputation

- H<sub>1c</sub>: CSR in term of community involvement is positively related to SME's reputation
- H<sub>1d</sub>: CSR in term of environment is positively related to SME's reputation

**Ethical sensitivity:** Ethical sensitivity is the ability to recognize or perceive ethical content in a problem situation before an ethical decision is made (Yetmar and Eastman, 2000). It refers to the ability to recognize and understand ethical problems to deal with conflicts empathically and to evaluate the consequences of actions. Ethical sensitivity is therefore not a uniform construct including at least seven areas of skills. Firstly, it is about reading and expressing emotions means understanding and identifying emotional expressions as well as learning how to appropriately express emotions and manage aggression in different contexts. Taking the perspectives of others refers to the ability to use an alternative perspective, for example that of other persons from a distinct cultural group or with a different socioeconomic status. Caring by connecting to others involved in transcending self-interests and providing care to others. Working with interpersonal and group differences includes perceiving and adjusting to diversity and multicultural adaptation. Preventing social bias involves identifying and countering interpersonal biases. Generating interpretations and options refers to skills to re-evaluate routines and to find another way to act. Secondly, ethical sensitivity is about identifying the consequences of actions and option refers to abilities to reflect to the outcome of actions and behaviors and to create alternative options (Narvaez and Endicott, 2009). Ethical sensitivity as individual's cognitive and intrinsic motivating tendencies of SME's managers affects how they perceive public goods problems in an effort to more fully understand how to encourage them to make sustainability concerns part of their decision-making process including CSR. Accordingly, it is expected that ethical sensitivity of SME's managers effects SME's reputation. Thus, the hypothesis proposed is:

- H<sub>2</sub>: SME's owner ethical sensitivity affects SME's reputation

Ethical intensity has been recognized as an important variable which could provide answers on individual's ethical judgment differences on certain ethical issues (Johari *et al.*, 2013). Individual differences on ethical orientation may account for varying approaches to ethical judgments (Forsyth, 1980). Hence, it is indicated that ethical sensitivity is likely to increase the intention CSR

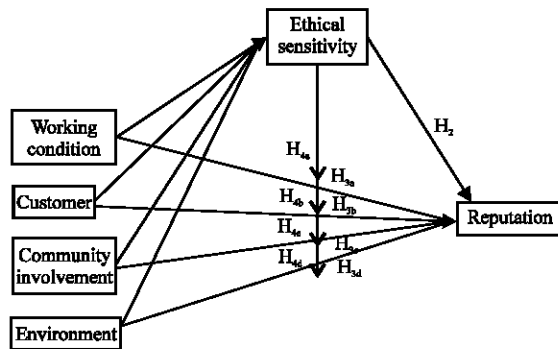


Fig. 1: Model of study

application toward SME's reputation. SME's owner ethical sensitivity may promote a better intension of CSR application that in turn increases the SME's reputation as well. Furthermore, the interaction of CSR and ethical sensitivity of SME's owners has different effects of SME reputation. The hypotheses proposed are (Fig. 1):

- H<sub>3</sub>: SME's owner ethical sensitivity mediate the effect of CSR on SME's reputation
- H<sub>3a</sub>: SME's owner ethical sensitivity mediates the effect of CSR in term of working condition on SME's reputation
- H<sub>3b</sub>: SME's owner ethical sensitivity mediates the effect of CSR in term of customer on SME's reputation
- H<sub>3c</sub>: SME's owner ethical sensitivity mediates the effect of CSR in term of community involvement on SME's reputation
- H<sub>3d</sub>: SME's owner ethical sensitivity mediates the effect of CSR in term of CSR in term of environment on SME's reputation
- H<sub>4</sub>: the effect of CSR on SME's reputation is higher for better SME's owner ethical sensitivity than their counterparts
- H<sub>4a</sub>: the effect of CSR in term of working condition on SME's reputation is higher for better SME's owner ethical sensitivity than their counterparts
- H<sub>4b</sub>: the effect of CSR in term of customer on SME's reputation is higher for better SME's owner ethical sensitivity than their counterparts
- H<sub>4c</sub>: the effect of CSR in term of community involvement on SME's reputations higher for better SME's owner ethical sensitivity than their counterparts
- H<sub>4d</sub>: the effect of CSR in term of environment on SME's reputation is higher for better SME's owner ethical sensitivity than their counterparts

## MATERIALS AND METHODS

**Sample and data collection:** Cluster random sampling is used in this study to obtain the information from small and medium enterprise samples. From 336 small and medium enterprises chosen, 33% respond rate was obtain in the form of 112 responded survey questionnaires. However, only 93 responded questionnaires are selected for further analyzes.

**Measurement:** Ethical sensitivity is measured by using the DIT-2 and its predecessor, the original DIT; psychometric instruments used to measure an individual's stage of moral reasoning (Rest 1986; Rest *et al.*, 1999). The new iteration has demonstrated construct validity and reliability across contextsand, thus is the most frequently utilized instrument for measuring moral development today. There are five ethical dilemma scenarios in the DIT-2. Respondents are given a choice of two actions related to the dilemma. Corporate social responsibility is measured by modifying Kinder, Lindenberg and Domini (KLD) instrument. We use only the five dimensions that are relevant to the SMEs. Reputation is measured by instrument developed by Subroto (2002). Demographics of respondents used within the analysis includes gender, marital status and education level.

## RESULTS

Demographic variables included in the study show gender, marital status, age, experience and education level. Of the 98 respondents, 58 % are female, 42% male; and15% hold junior high school, 38% hold senior high school, 42% bachelor degree and 4% postgraduate .This study examines the assumptions underlying the use of structural equation modeling. According to Kock (2014) standard of fitting, the results of the modified model indicatea satisfactory fit for the measurement model. The results of the model of fit analysis by using Warp PLS Version 3.0 are shown in Table 2.

The results of reliability analysis include the value of CR and AVE as shown at Table 3. CR index is found to be >0.7 (Nunnally, 1978; Joseph, 2006) whereas, the values of the AVE are >0.5. Accordingly, all constructs are internally consistent.

Validity tests included convergent and divergent validity. The result of the convergent validity test is accepted. Itis assessed by checking individual item loadings for each corresponding research constructin

Table 2: The model of fit

Fit	Value	Standard	Role of mediator
Average Path Coefficient (APC)	0.335**	$p < 0.05$	Accepted
Average R-Squared (ARS)	0.211**	$p < 0.05$	Accepted
Average Adjusted R-Squared (AARS)	0.198**	$p < 0.05$	Accepted
Average block VIF (AVIF)	1.422	3.3-5	Accepted
Average full collinearity VIF (AFVIF)	1.552	3.3- $\times 5$	Accepted
Tenenhaus GoF (GoF)	0.386	small $\geq 0.1$ medium $\geq 0.25$ large $\geq 0.36$	Accepted
Sympson's Paradox Ratio (SPR)	0.875	$\geq 0.7-1$	Accepted
R-Squared Contribution Ratio (RSCR)	0.991	$\geq 0.9-1$	Accepted
Statistical Suppression Ratio (SSR)	1.000	$\geq 0.7$	Accepted
Nonlinear Bivariate Causality Direction Ratio (NLBCDR)	0.750	$\geq 0.7$	Accepted

Table 3: Factor loading of construct

Parameters	Items	Mean	SD	Loading	CR	AVE
Ethical sensitivity	EthS1	2.78	2.450	0.945	0.968	0.748
	EthS2	3.38	2.630	0.754		
	EthS3	2.27	2.240	0.951		
	EthS4	2.66	2.300	0.985		
	EthS5	2.80	2.330	0.973		
	EthS6	2.65	2.170	0.967		
	EthS7	2.32	2.320	0.943		
	EthS8	2.70	2.380	0.962		
	EthS9	3.09	2.440	0.891		
	EthS10	2.46	2.340	0.970		
Working condition	WC1	3.69	1.170	0.815	0.876	0.61
	WC2	3.03	1.380	0.884		
	WC3	2.78	1.590	0.821		
	WC4	3.89	1.380	0.797		
	WC5	3.51	1.220	0.466		
Customer	Cust1	4.66	0.710	0.830	0.816	0.689
	Cust 2	2.80	1.320	0.830		
Community involvement	CInv1	3.17	1.210	0.870	0.875	0.701
	CInv 2	3.09	1.220	0.907		
	CInv 3	2.18	1.090	0.724		
Environment	Env1	3.91	1.210	0.654	0.875	0.748
	Env2	3.58	1.230	0.861		
	Env3	3.31	1.240	0.792		
	Env4	4.17	0.890	0.873		
Reputation	Rep1	4.71	0.610	0.670	0.932	0.754
	Rep3	4.60	0.830	0.930		
	Rep4	4.68	0.740	0.950		
	Rep5	4.60	0.810	0.900		
	Rep6	4.54	0.750	0.810		

Table 3. It is found that the values of factor loadings are above the recommended value of 0.5. Further, Average Variance Constructed (AVE) values are found higher than 0.5. Hence, based on Fornell and Larcker (1981) the convergent validity is accepted. Discriminant validity is indicated by correlation between variables and the values of the square root of AVE. Table 4 shows that the inter-correlation values for all paired latent variables are  $< 1.0$  and the square root of AVE values is higher than the correlation within the construct tests. Therefore, this indicates the existence of the discriminant validity and values less than the recommended 0.7 (Nunnally and Bernstein, 1994). Accordingly, the values of the discriminate validity between variables do not overlap.

The model of mediation effect of ethical sensitivity on the relationship between CSR and firm's reputation is found satisfactorily accepted. All of the standards of fit are within the range of acceptance (Table 5).

The results of the mediation hypothesis testing are shown in Fig. 2. Hypothesis 3 investigates whether the mediation effect of ethical sensitivity. It is found that ethical sensitivity mediates the effect of working condition the ( $\beta_1 = -0.336^{**}$ ,  $\beta_2 = -0.023$ ) and customer ( $\beta_1 = 0.555^{**}$ ,  $0.379^{**}$ ) on SME's reputation. However, it does not mediate the effect of community involvement ( $\beta_1 = -0.105$ ,  $\beta_2 = 0.162$ ) and environment of ( $\beta_1 = 0.014$ ,  $\beta_2 = -0.294^{**}$ ) on the SME's reputation. Accordingly, Hypothesis 3 is partially supported.

The model of moderation effect of ethical sensitivity on the effect of CSR on firm's reputation is found satisfactorily accepted. The standards of fit are within the range of acceptance (Table 5-7).

The results of moderation hypothesis testing are shown in Fig. 3. Hypothesis 4 investigates whether interaction of ethical sensitivity of SME's owner and CS

Table 4: Square root of AVE and correlation of construct

Variables	1	2	3	4	5	6
Ethical sensitivity	0.936	-0.529	0.205	0.275	0.088	0.031
Working condition	-0.529	0.771	-0.001	-0.047	0.178	0.222
Customer	0.205	-0.001	0.830	0.283	0.564	0.257
Community involvement	0.275	-0.047	0.283	0.837	0.233	0.254
Environment	0.088	0.178	0.564	0.233	0.800	-0.028
Reputation	0.031	0.222	0.257	0.254	-0.028	0.857

Diagonal element; square root of AVE; off-diagonal; correlation between construct

Table 5: The model of fit

Fit	Values	Standards	Role of mediator
Average Path Coefficient (APC)	0.264**	$p < 0.01$	Accepted
Average R-Squared (ARS)	0.581**	$p < 0.01$	Accepted
Average Adjusted R-Squared (AARS)	0.560**	$p < 0.01$	Accepted
Average Block VIF (AVIF)	1.619	$< 5$	Accepted
Average Full Collinearity VIF (AFVIF)	1.552	$< 3.3$	Ideally
Tenenthaus GoF (GoF)	0.640	$< 5$	Accepted
Sympton's Paradox Ratio (SPR)	0.778	$< 3.3$	Ideally
R-Squared Contribution Ratio (RSCR)	0.955	small $\geq 0.1$ medium $\geq 0.25$ large $\geq 0.36$	Accepted
Statistical Suppression Ratio (SSR)	1	$\geq 7$	Accepted
Nonlinear Bivariate Causality Direction Ratio (NLBCDR)	0.944	1	Ideally
		$\geq 9$	Accepted
		1	Ideally
		$\geq 0.7$	Accepted
		$\geq 0.7$	Accepted

Table 6: Mediation effect of ethical sensitivity

Variables	Direct effect ( $\beta_1$ )	Indirect effect ( $\beta_2$ )	Role of mediator
Working condition	-0.336**	-0.023	Accepted
Customer	0.555**	0.379**	Accepted
Community involvement	-0.105	0.162	Rejected
Environment	0.014	-0.294**	Rejected
Ethical sensitivity		0.513**	
R <sup>2</sup>	0.440	0.660	

Table 7: The model of fit

Fit	Values	Standard	Role of mediator
Average Path Coefficient (APC)	0.315**	$p < 0.01$	Accepted
Average R-Squared (ARS)	0.805**	$p < 0.01$	Accepted
Average Adjusted R-Squared (AARS)	0.786**	$p < 0.01$	Accepted
Average block VIF (AVIF)	2.413	$< 5$	Accepted
Average Full collinearity VIF (AFVIF)	3.861	$< 3.3$	Ideally
Tenenthaus GoF (GoF)	0.764	$< 3.3$	Ideally
Sympton's Paradox Ratio (SPR)	0.875	small $\geq 0.1$ medium $\geq 0.25$ large $\geq 0.36$	Accepted
R-Squared Contribution Ratio (RSCR)	0.953	$\geq 7$	Accepted
Statistical Suppression Ratio (SSR)	0.625	1	Ideally
Nonlinear Bivariate Causality Direction Ratio (NLBCDR)	0.938	$\geq 9$	Accepted
		1	Ideally
		$\geq 0.7$	Rejected
		$\geq 0.7$	Accepted

partially affects on SME's reputation. It is found that the interaction of ethical sensitivity and working condition is negatively affects SME's reputation ( $\beta = -0.474$ ;  $p < 0.01$ ), the interaction of ethical sensitivity and customer has a positive effect on SME's reputation ( $\beta = 0.33$ ;  $p < 0.01$ ) and the interaction of ethical sensitivity and community

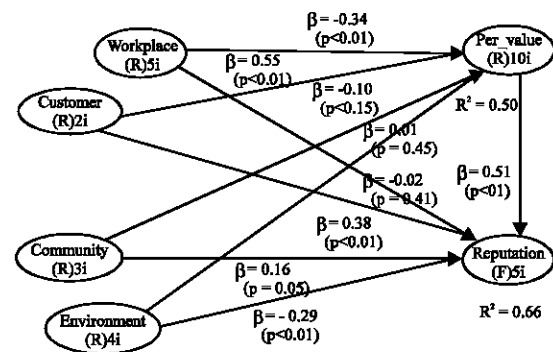


Fig. 2: Analysis result of mediation hypothesis

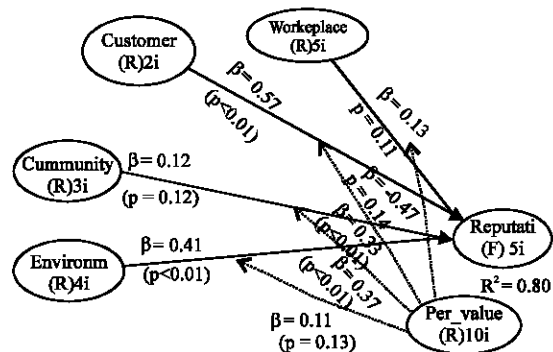


Fig. 3: Analysis result of moderation hypothesis

involvement has a positive effect on SME's reputation ( $\beta = 0.375$ ;  $p < 0.01$ ). However, the interaction of ethical sensitivity and environment does not have a significant effect on SME's reputation ( $\beta = 0.113$ ;  $p > 0.05$ ) Hence, Hypothesis 4 is partially supported.

## DISCUSSION

This study finds that ethical sensitivity partially mediates and moderates the effect of CSR on SME's reputation. Ethical sensitivity mediates the effect of working condition and customer on SME's reputation. SME's owners with better sensitivities are predicted to increase the effect of working condition and customer on SME's reputation. Some CSR activities aimed at increasing workforce condition includes offering training and staff development, creating equal opportunities and diversity and helping workers to maintain a work-life balance. Those activities are indicated to have better effects on firm's reputation when SME's owners able to recognize or perceive ethical contents in a problem situation of workforce condition that in turn generate SME's owners to their ethical decision made. For example, firm's activities to help workers maintaining their work-life balance will have a better effect on firm's reputation in term of fostering the market relationship to increase social capital when SME's owners are able to recognize or perceive ethical contents in work-family conflicts of workers and help them to solve the problems. Offering training and staff development with the ability of training needs assessment of SME's owner produces better training and development results that in turn increase the firm reputation.

CSR activities aimed at increasing customer orientation refers to the way in which a business focuses on the needs of its customers by responding quickly to consumer's orders and complaints about its products and services is open at convenient times, provides customers with useful information, treats customers fairly, charges fair prices and generates profit without cheating the customers. Those CSR activities include targeting improvements in product quality and safety, providing voluntary customer services, charging fair prices, ethical marketing, paying timely, cooperating with local partners, promoting good standards in supply chains and supporting the creation of local/regional business cooperatives (Turyakira *et al.*, 2014). Accordingly, SME's owner with an ability to recognize and understand ethical problems to deal with conflicts empathically and to evaluate the consequences of actions increasing customer satisfaction is indicated to strengthen the effect of quick responses to consumer's orders and complaints about its products and services on firm's competitive advantage as well as its reputation. Those direct actions such as helping workers and customers are reasonable to SME with various limitations of resources.

Ethical sensitivity is found to fail in mediating the effect of community involvement and environment on

SME's reputation. Society-oriented CSR activities refer to those community involvement activities aimed at the community, sports, health and well-being, education and assistance to low income groups and community participation. Such activities are viewed as supports for social and cultural community activities as well as community development and other related issues. The reputation of a business at its location-its image as an actor on the local scene certainly influences its competitiveness. A business which is considered socially responsible can benefit from its enhanced reputation within the public and business community. However, SME's owner with better ethical sensitivities consistently may take account of the limitation of resources as significant obstacles to implement CSR that in turn fail to strengthen the effect of community involvement on firm's reputation.

Environmentally oriented CSR activities refers to the measures a business can take to minimize its negative impact on the natural environment such as the ecological and economic use of natural resources, using environmentally friendly packaging, recycling, waste reduction, energy and water conservation and pollution control. The most important environmentally oriented CSR activities concern the consumption of materials and energy and the handling of pollution and waste in the most environmentally friendly manner. SMEs reveal that environmentally oriented CSR activities are generally aimed at designing environmentally friendly products or production processes or being actively engaged in recycling activities. Environmentally oriented CSR activities have a positive impact on their business reputation. Businesses that are environmental stewards stand to gain many satisfied and loyal customers. However, SME's owner with ethical sensitivities may consistently assume that the environment orientation of CSR implementation is costly. Accordingly, ethical sensitivity fails to strengthen the effect of environment orientation on firm's reputation.

The interaction of ethical sensitivity and working condition is found to negatively affect on SME's reputation. Different ethical sensitivity is found to have a contrast effect of working condition on SME's reputation. Better ethical sensitivity of SME's owners decreases the effect of working condition on firm reputation. The effect of working condition on SME's reputation is higher for SME's owners with less ethical sensitivity compared to firms with more sensitiveness on ethics. Hence, ethical sensitivity moderates the effect of working condition on SME's reputation. It is plausible to the context that SME with better sensitivities of owner may bring the effect of working condition on SME's reputation down. Their



sensitivity is likely play a better role on SME's reputation. Therefore, training and staff development, equal opportunities and diversity and maintaining a work-life balance of workers may have less impact on firm reputation when SME's owners recognize or perceive ethical contents to deal with workforce problems. The attention of SME's owners to their researcher's problems may be appreciated better rather than offering formal activities at work such as training and staff development, creating equal opportunities and diversity and maintaining employee's work-life balance. Within their small workplace, the ethical behavior of the owner seems to be more meaningful. Accordingly, closer relationship between owners and workers leads to further credible firms rather than the formal activities at work.

The interaction of ethical sensitivity and customer orientation have positive effects on SME's reputation. SME with narrow scopes of business, limited resources and highly depended on other parties, need a unique strategic posture to prevent and develop their business. Accordingly, strengthened effect of customer business focusing on its reputation needs a positive interaction of their internal competitive advantages such as SME's owner ethical sensitivity. Market evaluates a business operation by using the overall benefit of the firm's product. Accordingly, firms with better ethical sensitivities of owners are believed to have preferable effects of the focuses on the needs of their customers on firm reputation by responding to consumer's orders and complaints faster and treating their customers more equitably rather than SME's by poor owner's ability to recognize and understand ethical problems to deal with conflicts empathically and to evaluate the consequences of actions.

Further, interaction between ethical sensitivity and community involvement is found to have positive effects on SME's reputation. Acceptance business operation within the communities should in line to the need of its communities expectation to increase their well being. Accordingly, the community involved in to the business activities is likely to be motivated by their expectation to make better benefits of business existences. Otherwise, the perspective of the communities on the SME's business may vary. One may believe that SME's operation can help to increase the community's sense of business. The community with fast growing SMEs may motivate people within communities to set up similar businesses. Meanwhile, others may assure that SME may open various opportunities to people to have a better job. Accordingly, the CSR orientation to the communities is constantly being supported and thus promote SME reputation. The abilities of SME's owners to recognize

and understand ethical community's problems support the effect of CSR in term of community involvement in firm reputation. Accordingly, an SME's owner with better ethical sensitivities is believed to be able to deliver a higher quality of community development activities that in turn make a better effect on firm reputation rather than SME with weak owner's ethical sensitivity.

## **CONCLUSION**

This study however found the interesting findings. The interaction of ethical sensitivity and environment is not a significant effect on SME's reputation. Hence, it is assumed that SME by various ethical sensitivity levels of owners produce an equal effect of CSR in term of environment concern on SME reputation. SME owner's ability to recognize and understand ethical problems to deal with conflicts empathically and to evaluate the consequences of actions seem useless to make a different effect of CSR in term of environmental concern on firm's reputation. It is likely an acceptable condition that SME with limited operation has a slight range of requirement of negative effects on environment rather than big business operation. Accordingly, ethical sensitivity seems useless on the effect of CSR in term of environment on firm reputation.

## **LIMITATIONS**

Notwithstanding these contributions, this study has its limitations. This study allows us to rule out SME's owner ethical sensitivity. However, it is an open question as to whether these results can be applied to a different broader coverage of various sub conditions of SME such as cluster and size; different countries and cultures should become future attractive investigations. It might be expected to relate to CSR differently. Although, owner ethical sensitivity is found to mediate and moderate the effect of CSR on firm reputation, other psychological attachment variables can be used to explain this model.

Additional longitudinal study on SME's growth is plausible. It will likely be able to explain the prediction of CSR requirement on firm reputation. Measurement equivalence is now more than ever a general concern in organizational studies. It is not only examined in cross-cultural studies but also in comparisons of participants with different levels of academic achievement from different industries, of different sexes in experimental versus control groups and in comparisons between self- and subordinate-ratings of perception of SMEs condition. Hence, examining the equivalence approach as the extended procedure

(Cheung, 2008) solves the standardization problem by performing a systematic comparison of all pairs of factor loadings across groups. A hierarchical linear model is suggested to investigate the different perception of workers on the level of SME's firm (Raudenbush and Bryk, 2002).

## IMPLICATIONS

**Managerial implication:** The findings of this study indicate that have various impacts on managerial decision. SME owner's is suggested to increase their ethical sensitivities to strengthen the effect of workplace conditions and customer intention on firm's reputation. It is believed that better ability of SME's owner to recognize and understand ethical problems to deal with conflicts empathically and to evaluate the consequences of actions may increase firm's reputation. The opposite effect of workplace condition on firm reputation may decrease as an effect of SME's owner ability to deal with the conflict of workers and the effect of customer intention is able to be increase as well. Accordingly, they have to actively elevate their knowledge and skill of their analytical problem, conflict handling and forecast the program result in order to satisfy their workers and customers. However, SME's owner has creatively to promote other supporting attitudes to bear the effect of CSR in term of community and environmental concern on firm reputation. It is indicated that those CSR requirements are broader than worker's and customer's requirements. Hence, SME's owner needs to collaborate with other parties to increase the effect of community and environmental concern on firm reputation.

Negative interaction of ethical sensitivity and workplace condition implies the SME's owner to pay attention to the worker's perception on their leader is behavior and the official's activities and roles at work. The better communication between SME's owner and his/her workers is likely bridging the understanding gap of objectives for both interventions. Workers may appraise the quality of official activities offered by management as equal to the quality of their super-ordinates. Hence, sometimes they bag the better quality of such training and development offered by parties which have a better quality as well as judging from the book cover. Accordingly, training and staff development offered by SME's owners with better ethical sensitivity is likely charged to have a better quality rather than common training and development programs. Accordingly, it is plausible that the interaction of ethical sensitivities and workplace condition diminish the effect of workplace condition on firm reputation.

SME with better ethical sensitivity of owners promotes a stronger effect of customer intention and community involvement on firm's reputation. It indicates that ethical sensitivity is a positive atmosphere for SME to make a faster response to customer needs and to promote wider participation of communities that in turn produces a better effect on firm reputation. Accordingly, SME's owners have to strengthen their ethical sensitivity to endorse CSR on firm reputation. Meanwhile, equal effect of environment on firm reputation between high and low ethical sensitivities is implies SME's owner to integrate their perspective of business impact on the natural environment. Even though the CSR in term of environment is not related to the SME reputation, it is believed that SME's owner is able to recognize and understand the problem of the negative impact of his/her business operation that the natural environment may anticipate their business growth on the environmental considerations. Accordingly, SME owner's has to anticipate all of the negative impact on the natural environment during his/her business growth such as the growth of volume recycling, waste and pollution.

## REFERENCES

- Blomback, A. and C. Wigren, 2009. Challenging the importance of size as determinant for CSR activities. *Manage. Environ. Qual. Intl. J.*, 20: 255-270.
- Branco, M.C. and L.L. Rodrigues, 2006. Corporate social responsibility and resource-based perspectives. *J. SsBus. Ethics*, 69: 111-132.
- Chen, C.H.V. and S. Indartono, 2011. Study of commitment antecedents: The dynamic point of view. *J. Bus. Ethics*, 103: 529-541.
- Cheung, G.W., 2008. Testing equivalence in the structure, means and variances of higher-order constructs with structural equation modeling. *Organizational Res. Methods*, 11: 593-613.
- DeSarbo, W.S. and R. Grewal, 2008. Hybrid strategic groups. *Strategic Manage. J.*, 29: 293-317.
- Fassin, Y., A.V. Rossem and M. Buelens, 2011. Small-business owner-managers perceptions of business ethics and CSR-related concepts. *J. Bus. Ethics*, 98: 425-453.
- Fombrun, C.J., 2005. The Leadership Challenge: Building Resilient Corporate Reputations. In: *Handbook on Responsible Leadership and Governance in Global Business*, Doh, J.P. and S.A. Stumpf (Eds.). Edward Elgar Publishing Ltd., Cheltenham, England, UK., ISBN:1-84376-636-1, pp: 54-68.
- Fornell, C. and D.F. Larcker, 1981. Structural equation models with unobservable variables and measurement error: Algebra and statistics. *J. Market. Res.*, 18: 382-388.

- Forsyth, D.R., 1980. A taxonomy of ethical ideologies. *J. Pers. Soc. Psychol.*, 39: 175-184.
- Godfrey, P.C., 2005. The relationship between corporate philanthropy and shareholder wealth: A risk management perspective. *Acad. Manage. Rev.*, 30: 777-798.
- Hemingway, C.A. and P.W. MacLagan, 2004. Managers personal values as drivers of corporate social responsibility. *J. Bus. Ethics*, 50: 33-44.
- Hofstede, G., 1984. *Culture's Consequences: International Differences in Work-Related Values*. Vol. 5, Sage, Thousand Oaks, California, USA., ISBN:0-8039-1306-0, Pages: 327.
- Hsu, K.T., 2012. The advertising effects of corporate social responsibility on corporate reputation and brand equity: Evidence from the life insurance industry in Taiwan. *J. Bus. Ethics*, 109: 189-201.
- Jamali, D., 2014. Overview of corporate social responsibility in the Middle East. *World Financial Rev.*, 1: 71-72.
- Jenkins, H., 2004. A critique of conventional CSR theory: An SME perspective. *J. Gen. Manage.*, 29: 37-57.
- Johari, R.J., Z.M. Sanusi, R.A. Rahman and N.O.R.M.A.H. Omar, 2013. Ethical orientation and auditors' ethical judgments: The mediating role of moral intensity. *Proceedings of the 6th International Conference of the Asian Academy of Applied Business (AAAB)*, May 30-June 1, 2013, AAAB, Bandung, Indonesia, pp: 809-818.
- Joseph, F.H., 2006. *Multivariate Data Analysis*. 6th Edn., Pearson, Upper Saddle River, New Jersey, USA., ISBN:9780130329295, Pages: 899.
- Kechiche, A. and R. Soparnot, 2012. CSR within SMEs: Literature review. *Intl. Bus. Res.*, 5: 97-97.
- Klein, S. and F. Kellermanns, 2008. Understanding the noneconomic-motivated behaviour in family firms: An introduction. *Family Bus. Rev.*, 20: 121-125.
- Kock, N., 2014. Advanced mediating effects tests, multi-group analyses and measurement model assessments in PLS-based SEM. *Int. J. e-Collaboration (IJeC)*, 10: 1-13.
- Lai, C.S., C.J. Chiu, C.F. Yang and D.C. Pai, 2010. The effects of corporate social responsibility on brand performance: The mediating effect of industrial brand equity and corporate reputation. *J. Bus. Ethics*, 95: 457-469.
- Lange, D., P.M. Lee and Y. Dai, 2011. Organizational reputation: An overview. *J. Manage.*, 37: 153-184.
- Lee, K.H., D.M. Herold and A.L. Yu, 2016. Small and medium enterprises and corporate social responsibility practice: A Swedish perspective. *Corporate Social Responsibility Environ. Manage.*, 23: 88-99.
- Matten, D., 2006. Why do Companies Engage in Corporate Social Responsibility? Background, Reasons and Basic Concepts. In: *The ICCA Handbook on Corporate Social Responsibility*, Hennigfeld, J., P. Manfred and N. Tolhurst (Eds.). John Wiley and Sons, Hoboken, New Jersey, USA., ISBN-13:978-0-470-05710-0, pp: 3-46.
- Melo, T. and A. Garrido-Morgado, 2012. Corporate reputation: A combination of social responsibility and industry. *Corporate Social Responsibility Environ. Manage.*, 19: 11-31.
- Minkov, M. and G. Hofstede, 2014. Nations versus religions: Which has a stronger effect on societal values?. *Manage. Intl. Rev.*, 54: 801-824.
- Moore, M.D., 2013. On the misuse and misinterpretation of dimensions of national culture. *Intl. Marketing Rev.*, 30: 253-261.
- Morsing, M. and F. Perrini, 2009. CSR in SMEs: Do SMEs matter for the CSR agenda?. *Bus. Ethics Eur. Rev.*, 18: 1-6.
- Murillo, D. and J.M. Lozano, 2009. Pushing forward SME CSR through a network: An account from the Catalan model. *Bus. Ethics Eur. Rev.*, 18: 7-20.
- Narvaez, D. and L.G. Endicott, 2009. *Ethical Sensitivity*. Alliance for Catholic Education Press, Chicago, Illinois, ISBN:9780981950105, Pages: 176.
- Nicholson, N., 2008. Evolutionary psychology and family business: A new synthesis for theory, research and practice. *Family Bus. Rev.*, 21: 103-118.
- Nunnally, J.C. and I.H. Bernstein, 1994. *Elements of Statistical Description and Estimation*. In: *Psychometric Theory*, Nunnally, J.C. and I.H. Bernstein (Eds.). McGraw-Hill Education, New York, USA., ISBN:0-07-047849-X, pp: 13-103.
- Nunnally, J.C., 1978. *Psychometric Methods*. 2nd Edn., McGraw-Hill Education, New York, USA., ISBN:9780070474659, Pages: 701.
- Pastrana, N.A. and K. Sriramesh, 2014. Corporate social responsibility: Perceptions and practices among SMEs in Colombia. *Public Relations Rev.*, 40: 14-24.
- Quinn, J.J., 1997. Personal ethics and business ethics: The ethical attitudes of owner/managers of small business. *J. Bus. Ethics*, 16: 119-127.
- Raudenbush, S.W. and A.S. Bryk, 2002. *Hierarchical Linear Models: Applications and Data Analysis Methods*. 2nd Edn., Sage, Thousand Oaks, California, USA., Pages: 485.
- Rest, J.R., 1986. *Moral Development: Advances in Research and Theory*. Praeger Publisher, Santa Barbara, California, ISBN:9780275922542, Pages: 224.

- Rest, J.R., D. Narvaez, S.J. Thoma and M.J. Bebeau, 1999. DIT2: Devising and testing a revised instrument of moral judgment. *J. Educ. Psychol.*, 91: 644-659.
- Richard, P.J., T.M. Devinney, G.S. Yip and G. Johnson, 2009. Measuring organizational performance: Towards methodological best practice. *J. Manage.*, 35: 718-804.
- Rosenbusch, N., J. Brinckmann and A. Bausch, 2011. Is innovation always beneficial? A meta-analysis of the relationship between innovation and performance in SMEs. *J. Bus. Venturing*, 26: 441-457.
- Russo, A. and A. Tencati, 2009. Formal vs informal CSR strategies: Evidence from Italian micro, small, medium-sized and large firms. *J. Bus. Ethics*, 85: 339-353.
- Spence, L.J. and R. Schmidpeter, 2003. SMEs, social capital and the common good. *J. Bus. Ethics*, 45: 93-108.
- Spence, L.J., R. Jeurissen and R. Rutherford, 2000. Small business and the environment in the UK and the Netherlands: Toward stakeholder cooperation. *Bus. Ethics Q.*, 10: 945-965.
- Subroto, 2002. A correlational study of corporate of corporate social responsibility and financial performance: An empirical survey toward ethical business practice in Indonesia. Ph.D Thesis, Capella University, Minneapolis, Minnesota.
- Trevino, L.K., 1986. Ethical decision making in organizations: A person-situation interactionist model. *Acad. Manage. Rev.*, 11: 601-617.
- Turyakira, P., E. Venter and E. Smith, 2014. The impact of corporate social responsibility factors on the competitiveness of small and medium-sized enterprises. *South Afr. J. Econ. Manage. Sci.*, 17: 157-172.
- Vives, A., 2006. Social and environmental responsibility in small and medium enterprises in Latin America. *J. Corporate Citizenship*, 2006: 39-50.
- Yetmar, S.A. and K.K. Eastman, 2000. Tax practitioners ethical sensitivity: A model and empirical examination. *J. Bus. Ethics*, 26: 271-288.