



## Boosting the Organizational Performance: Ethical Climate as a Moderator for Optimizing Risk Management Practices in the Saudi Public Sector

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### ABSTRACT

**Purpose:** Drawing upon contingency theory, this study aims to investigate the relationship between risk management practices (RMPs), ethical climate (EC), and organizational performance (OP) in public organizations within the Kingdom of Saudi Arabia (KSA). Specifically, the study explores the moderating effect of EC in shaping the relationship between RMPs and OP.

**Design/methodology/approach:** Survey data were collected from a convenience sampling of 392 senior government directors within public organizations in the KSA through an online questionnaire. The relationships between study constructs were analyzed using PLS-SEM with the bootstrapping technique.

**Findings:** The study's findings reveal a significant positive impact of both RMPs and EC on organizational performance. Notably, the research demonstrates that ethical climate significantly moderates the positive relationship between RMPs and OP, highlighting the critical importance of ethical conduct in maximizing the effectiveness of risk mitigation strategies.

**Research limitations/implications:** The study's focus on the Saudi public sector and its use of a convenience sampling technique, primarily comprising senior government directors, are significant limitations when interpreting this study's findings. Expanding research to incorporate diverse organizational settings could significantly enhance this work's generalizability and practical implications. Additionally, focusing solely on EC as a moderator in the RMP-OP relationship overlooks other potentially relevant factors. Future research could delve deeper into the mechanisms through which ethical climate strengthens the impact of RMPs on performance, providing valuable guidance for organizational interventions.

**Originality/value:** This study's originality lies in its first-time examination of ethical climate as a moderator in the relationship between RMPs and organizational performance within Saudi public organizations. Further, study findings expanded the scope of contingency factors demonstrating that a strong ethical climate significantly amplifies the positive impact of RMPs on performance, providing compelling evidence for considering ethical climate as a crucial contingency factor for public sector success.

**Keywords:** Risk management, Contingency theory, Ethical climate, Public sector, KSA

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## I. Introduction

Business management has increasingly embraced the crucial role of risk management in ensuring organizational success across diverse national contexts (Ai et al., 2018). While developed countries have actively implemented various risk management practices (RMPs), research investigating their acceptance and effectiveness in developing countries still needs to be completed (Yirenkyi-Fianko & Chileshe, 2015). This gap motivates a deeper exploration of RMPs within the distinct landscape of developing economies. Risk management encompasses a comprehensive process of identifying, assessing, and prioritizing potential threats to an organization's assets and essential functions (Fan & Stevenson, 2018; Dionne, 2013). Its vital role across all business operations cannot be overstated. A practical and dynamic risk management system empowers managers to navigate potential challenges proactively, mitigate risks before they materialize, and ultimately contribute to sustainable organizational success (Yang et al., 2021). A lack of awareness and expertise in RMPs often translates into inefficient resource allocation and project mismanagement within organizations in developing countries (Nkwunonwo et al., 2020; Braumann, 2018). This underscores the need for more strategic management tools and effective methodologies in these contexts (Banihashemi et al., 2017). These limitations highlight the urgency for tailored approaches to risk management that address the specific needs and realities of developing economies.

Recently, significant research has focused on adopting and implementing effective risk management approaches across various industries. This focus is often driven by the need to manage insurable risks and occasionally to improve workplace safety (i.e., Hamzah et al., 2022; Saeidi et al., 2023; Rasid et al., 2014; Curtis et al., 2012; Yang et al., 2018). While the initial emphasis may lie on these immediate concerns, numerous studies beyond risk management, spanning disciplines like marketing and operations, have explored a more comprehensive range of factors

influencing organizational performance in local and international contexts. These factors encompass aspects like technology and innovation, organizational capabilities, and management and leadership styles (Al-Tit, 2017; Wang et al., 2016; Widakdo, 2022). This broader research landscape helps us understand how RMPs ultimately contribute to organizational success.

Risk management practices have gained significant traction in recent years, driven by factors like growing competition, heightened market volatility, and high-profile corporate scandals (Ngene et al., 2018; Godfrey et al., 2020). Beyond mitigating threats and managing negative consequences, these practices are increasingly recognized for their potential to promote ethical conduct and unlock valuable organizational opportunities (Francis & Armstrong, 2003). However, despite the growing body of research on both risk management and organizational performance, the interplay between these concepts and their connection to ethical climate still needs to be developed.

The ethical climate reflects the unspoken rules and expectations that influence employees' decision-making and actions. A solid ethical climate has been shown to significantly influence employee attitudes and behaviors, leading to positive outcomes such as job satisfaction, organizational commitment, trust, ethical decision-making, and ultimately, organizational performance (Peng & Kim, 2020; Pagliaro et al., 2018; Cullen et al., 2003; Newman et al., 2017; Sroka & Szántó, 2018; Hijał-Moghrabi et al., 2017).

The dynamic and rapidly evolving economy of the Kingdom of Saudi Arabia (KSA) provides a fascinating context for exploring the relationship between RMPs, EC, and OP. While developed countries have actively implemented RMPs, research on their acceptance and effectiveness in developing contexts like the KSA remains scarce (El-Sayegh, 2014). There's a need to understand how tailored approaches can address the specific needs and realities of these economies. Further, despite prior research exploring RMPs and organizational performance, the connection to ethical climate as a moderator in the link between RMPs and OP, especially in the public sector, remains

underexplored.

This study explores the application of contingency theory in the context of risk management practices (RMPs), ethical climate, and organizational performance. Contingency theory is employed in this study to provide a framework that recognizes organizations' dynamic and situational nature, emphasizing that the effectiveness of organizational practices may depend on the context in which they are implemented. In the context of risk management practices (RMPs), ethical climate (EC), and organizational performance (OP), contingency theory is aptly applied due to the understanding that the relationships between these variables may vary based on contextual factors. Contingency theory posits that there is no one-size-fits-all approach to organizational management. It acknowledges that effective strategies and practices are contingent upon an organization's unique circumstances and environment (Donaldson, 2001; Hofer, 1990). The choice of EC as a contingency variable aligns with the idea that ethical considerations are not universally fixed but contingent on the organization's context. Different ethical climates may influence the effectiveness of RMPs, as ethical norms and values can vary across organizational cultures. Therefore, EC is recognized as a contextual factor that may moderate the relationship between RMPs and OP, highlighting the nuanced interplay between ethical considerations and risk management practices in the Saudi public sector.

Hence, the study aims to empirically investigate this relationship in Saudi public sector, hypothesizing that effective RMPs positively contribute to organizational performance. It further proposes that the ethical climate moderates this relationship, with more robust ethical climates magnifying the positive effects of RMPs. The research seeks answers to three key questions: (1) How do RMPs contribute to organizational performance in the Saudi public sector? (2) Does ethical climate significantly influence organizational performance in the Saudi public sector? (3) To what extent does the strength of the ethical climate moderate the impact of RMPs on organizational performance?

By examining these relationships, this research may contribute to the literature on risk management, ethical climate, and organizational performance by investigating their interconnections. It provides insights for Saudi public sector organizations to optimize risk management and enhance ethical culture. The study deepens understanding of these concepts in the KSA's rapidly developing economy. The findings offer guidance for crafting comprehensive risk management strategies that mitigate threats and foster a robust ethical climate, potentially leading to improved organizational performance and sustainable success.

## II. Theoretical Background and Hypotheses Development

### A. Risk Management Practices (RMPs) and Organizational Performance (OP)

High performance has become the hallmark of successful organizations in today's dynamic and competitive business landscape (Ipinazar et al., 2021). While numerous factors contribute to achieving this pinnacle, effective RMPs have emerged as a crucial driver of organizational success (Hamzah et al., 2022; Saeidi et al., 2023; Rasid et al., 2014). Risk management, as described by Aven and Renn (2010), involves organizational strategies and processes aimed at managing risks and capitalizing on opportunities aligned with strategic objectives. Effective Risk Management Practices (RMPs), as highlighted by Brown et al. (2009), go beyond identifying and reviewing risks. They encompass proactive measures such as regular risk assessments, scenario analysis, and trend monitoring for systematic risk identification. RMPs extend to seizing opportunities, involving strategies like innovation, market expansion, and strategic partnerships to capitalize on favorable trends. In the public sector, maintaining and enhancing corporate reputation is crucial, emphasizing ethical conduct, transparency, and accountability. Communication strategies during crises, quality control, contingency

planning, and resilience-building initiatives are integral components of RMPs to ensure business continuity and reputation management in the face of unforeseen challenges (Al-Tamimi and Al-Mazrooei, 2007; Hamzah et al., 2022; Saeidi et al., 2023; Rasid et al., 2014).

The literature underscores the multifaceted impact of risk management on organizational performance, emphasizing its proactive role in navigating uncertainties and fostering sustained success (Alawattagama, 2017; Anton, 2018). Effective Risk Management Practices (RMPs) contribute to a resilient foundation, allowing organizations to capitalize on opportunities (Curtis et al., 2012; Yang et al., 2018). Enterprise Risk Management (ERM), particularly at the board level, enhances decision-making, positively affecting strategy implementation, operational efficiency, and cost reduction (Liebenberg & Hoyt, 2003). ERM also creates value by managing risk returns and facilitating market access (Salehi et al., 2018). Studies by Gordon et al. (2009), Anton (2018), and Farrell and Gallagher (2015) provide empirical evidence linking ERM to improved business performance, increased shareholder value, and enhanced financial positions. Grace et al. (2015) highlight ERM's contribution to cost and revenue returns, emphasizing its role in enhancing efficiency and value creation for organizations.

Drawing upon contingency theory, this study acknowledges that organizational performance is not solely a function of universal best practices but also depends on each organization's specific context and challenges. Both internal and external forces, as argued by scholars like Scott (1981), Venkatraman (1989), and Donaldson (2001), shape an organization's response to risk and ultimately influence its performance. Contingency theory also highlights the role of organizational systems and policies in mitigating unforeseen risks and fostering resilience (Yang et al., 2018; Sleimi, 2020; Gordon et al., 2009). Based on this multifaceted understanding of risk management and performance, this study proposes the following hypothesis:

**H1:** Risk management practices are positively associated with organizational performance.

## B. Ethical Climate and Organizational Performance

Ethical climate is seen as the prevailing moral atmosphere within an organization, reflecting the shared values, beliefs, and norms that guide the conduct of its members. It also refers to employees' shared perceptions regarding ethical norms and practices within their organization (Haldorai et al., 2020; Roy et al., 2023). It encompasses the collective understanding of what is considered right or wrong, both in terms of individual behavior and organizational practices (Peng & Kim, 2020; Pagliaro et al., 2018). Its influence on organizational outcomes has attracted significant research, particularly in business, where a positive ethical climate has been linked to numerous benefits (Martin & Cullen, 2006; Simha & Cullen, 2012). The ethical climate within organizations has emerged as a critical determinant of overall organizational performance. As businesses navigate complex environments, the ethical climate plays a pivotal role in influencing employee behavior, stakeholder relations, and long-term success (Peng & Kim, 2020; Pagliaro et al., 2018; Cullen et al., 2003). For instance, organizations fostering ethical climates tend to experience enhanced overall performance, including increased productivity, efficiency, and profitability. Ethical conduct positively influences the organization's reputation and stakeholder relations, contributing to sustained success (Farouk and Jabeen, 2018; Aloustani et al., 2020). Organizational citizenship behavior (OCB), encompassing discretionary actions that contribute to organizational effectiveness, is positively influenced by a supportive ethical climate (Gonzalez-Padron et al., 2008). Employees in environments promoting ethical behavior are more likely to engage in OCB, enhancing overall organizational functioning. Research consistently indicates that a positive ethical climate correlates with desirable employee behaviors and heightened job satisfaction (Mayer et al., 2010).

Organizations fostering an environment of ethical conduct tend to experience higher levels of commitment, motivation, and job performance among employees (Koo Moon & Kwon, 2014; Moghaddam et al., 2015; Yazdanshenas & Aghaei, 2019).

Recent research has identified a direct and positive impact of an organization's ethical climate on its performance within a given timeframe (Hough et al., 2020; Abdullah et al., 2014). Nevertheless, employees may sometimes lack awareness, familiarity, or diligence regarding the organization's code of ethics (Stöber et al., 2019). Therefore, an essential aspect of fostering ethical behavior is ensuring employees are cognizant of the organization's ethical code, creating a conducive ethical climate (Vitell & Singhapakdi, 2008). The realization of competitive advantage is plausible when employees perceive a positive attitude toward work within an organization (Urban & Puiui, 2009). Companies renowned for ethical practices often exhibit robust financial performance due to their focus on stakeholder needs (Berrone et al., 2007). Consequently, establishing a comprehensive code of ethics becomes imperative for public corporations. Based on the existing literature and the interplay between RMPs and ethical climate, we propose the following hypothesis:

**H2:** Ethical climate is positively associated with organizational performance.

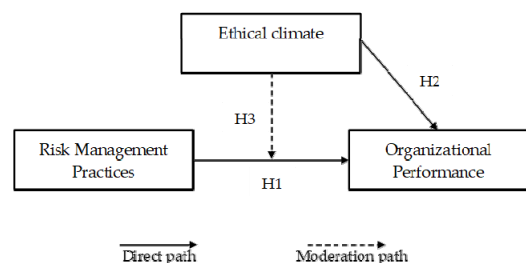
### C. Moderating Effect of Ethical Climate in the RMPs-OP Relationship

Optimizing the interplay between RMPs and OP necessitates strategically cultivating a robust EC. By integrating ethical considerations into risk management frameworks and fostering a culture of transparency and moral responsibility, organizations can transform RMPs from mere technical exercises into powerful drivers of ethical decision-making, sustainable growth, and superior OP (Saini & Martin, 2009). EC imbues risk assessments with a moral lens, ensuring a comprehensive evaluation incorporating non-financial

risks, such as reputational damage, which might be overlooked through purely technical analyses (Elliott, 2016). Further, a strong EC fosters trust and empowers employees to feel safe speaking up about problems (Sevik & Ko-kalan, 2019). This lets them report potential risks quickly, which can stop big disasters from happening (Chernyak-Hai & Tziner, 2023; Sabiu et al., 2016). In addition, alignment between ethical principles and RMPs reinforces ethical values at individual and organizational levels, further reducing risky behavior and promoting long-term sustainability (Danilwan & Dirhamsyah, 2022). Implementing RMPs will likely be more effective in organizations with a positive ethical climate characterized by trust, transparency, and a commitment to ethical conduct (Sheedy et al., 2021; Barnett & Vaicys, 2000). Employees in such climates are more inclined to trust the motives behind risk management decisions, fostering a cooperative and collaborative approach to risk mitigation. Hence, it could be suggested that.

**H3:** Ethical climate has a significant positive moderating effect on the relationship between risk management practices and organizational performance.

Figure 1 displays the study's conceptual model.



**Figure 1.** The study's conceptual model

### III. Research Methodology

#### A. Sampling and Data Collection

This study investigates the relationship between risk management practices, ethical climate, and organizational performance in public organizations within the KSA. Specifically, the study explores the association between RMPs and organizational performance. Further, it examines the moderating role of ethical climate in shaping the relationship between organizational performance and RMPs. An online questionnaire with a convenience sampling approach was chosen to gather data efficiently. While this approach provided valuable insights, acknowledging its inherent limitations in generalizability is crucial for interpreting the results accurately (Stratton, 2021). Firstly, a sample of 600 senior government directors was recruited from 30 diverse organizations, including local government entities and publicly owned companies representing different sectors such as education, public health, gas and oil, insurance, energy, aviation, housing, and tourism. Utilizing an online survey platform (Google form), participants were invited to participate through a dedicated link accompanied by a comprehensive introduction to the research objectives and clear instructions for accessing and completing the questionnaire. A total of 392 completed surveys were deemed suitable for analysis, resulting in a response rate of 65.3%.

Aligning with best practices for structural equation modeling, a sample size exceeding 200 participants was deemed necessary, as advocated by Boomsma (1985). Considering the research instrument's 11 items and recommendations from Nunnally and Bernstein (1994) regarding a 1:10 ratio, a sample size of 230 (23 items) was initially considered. Ultimately, to ensure robust analysis, this study recruited 392 participants. The data-gathering phase spanned approximately two months, from May to Ju-ly 2023.

#### B. Measurement Instruments

Drawing upon established instruments, this study employed modified versions of existing measures. RMPs were evaluated using a questionnaire adapted from the work of Al-Tamimi and Al-Mazrooei (2007). This modified 8-item scale retained its focus on key practices while tailoring it to the specifics of this research. To ensure the instrument's focus on our research objectives, we refined the original 10-item scale by re-moving two items (items 8.9) deemed irrelevant to our study (i.e., "*The application of the Basel Capital Accord by your bank would improve the efficiency of risk management.*") One indicator of the organization's commitment to risk management is "Your organization's policy encourages training programs in the area of risk management."

Further, the ethical climate was assessed through a 4-item adaptation of Cullen et al.'s (1993) scale, explicitly focusing on the company's social responsibility. The main reason to focus on a company's ethical climate towards social responsibility is that, for public organizations, building and maintaining public trust is essential. Demonstrating a clear commitment to ethical practices and social responsibility can enhance public trust and legitimacy, fostering stronger relationships with citizens. A sample of these items is "People in this company are actively concerned about the customers' and the public's interest." In addition, considering the study's focus on public organizations, perceived organizational performance was measured using an 11-item scale developed by Pollanen et al. (2016). To gauge individual perceptions, participants rated their organization's present standing on 11 performance indicators compared to similar organizations. Samples of these indicators include "quality of products or services provided, customer satisfaction, and operating efficiency." Generally, for measuring RMPs and EC, participants rated their agreement with each statement on a five-point scale: "1= strongly disagree, and 5= strongly agree." Concerning the OP, participants rated their perception of each statement on a five-point scale: "1= poor, and 5= Excellent."

To bridge the language barrier and ensure accurate comprehension, a bilingual team expertly translated the questionnaire into native Arabic, followed by a back-translation process to verify the accuracy compared to the original English version. Four professional scholars in business administration precisely assessed content validity, and a pilot study involving 25 participants (excluded from the primary sample) provided valuable feedback, prompting revisions to specific statements and the overall questionnaire order.

### C. Data Analysis

Descriptive statistics were employed to profile participants and their perceptions of the study's variables. Measurement instrument reliability was assessed through Cronbach's alpha and composite reliability (CR) calculations. Convergent validity of constructs was evaluated using average variance extracted (AVE). Discriminant validity was ensured by applying the HTMT test. Additionally, multicollinearity was checked using the variance inflation factor (VIF) test. Finally, PLS-SEM with bootstrapping was employed to test the study's hypotheses.

## IV. Results

### A. Characteristics of Participants

In terms of participants' gender, results revealed that most of the investigated respondents were male (72.9%) and 27.1% were female. The sample composition reflected a diverse range in age, with primary representation within the 31-40 years old (49.7%), followed by 41-50 years old (35.5%) and more than 50 years old (14.8%), respectively. Educational attainment was high, with over three-quarters (77.6%) holding university degrees and the others (22.4%) holding postgraduate degrees. In terms of experience in their current position, the majority were relatively

new, with over half (51.2%) having less than five years of tenure and 24.2% having from 5 to 10 years.

### B. Measurement Model

Researchers used a statistical technique, partial least squares structural equation modeling (PLS-SEM), to analyze their data. This method was chosen due to its ability to effectively handle small sample sizes and its lack of stringent assumptions regarding data distribution. A measurement model was employed to examine how effectively the scale measurements aligned with the underlying concepts they were designed to assess. This model, specifically a partial least squares (PLS) measurement model, enabled the evaluation of individual item and composite reliabilities and convergent and discriminant validity. The outcomes of this PLS model analysis, along with descriptive statistical measures, are presented in Table 1.

Firstly, internal consistency reliability, a measure of the degree to which multiple items within a construct collectively assess a single, underlying concept, was assessed using Cronbach's alpha ( $\alpha$ ) and composite reliability (CR). According to established guidelines, values exceeding 0.70 for both Cronbach's alpha and composite reliability indicate robust internal consistency Hair et al. (2019). As displayed in Table 1, the analyses yielded Cronbach's alpha values and composite reliability scores that surpassed this threshold, strongly suggesting excellent reliability of the constructs employed in this study. Secondly, to evaluate the reliability of each item within the constructs, researchers examined their corresponding factor loadings. These loadings reflect the strength of association between each item and its underlying construct. The results revealed that all items significantly exhibited factor loadings exceeding the widely accepted threshold of 0.70. This finding indicates a strong alignment between the items and their respective constructs, providing robust evidence for their reliability.

Thirdly, to ensure that the items within each construct genuinely converged on their intended concept, researchers employed average variance

**Table 1.** Constructs descriptive statistics, validity, and reliability measures

Construct	Item	Mean	S. D.	Outer Loading	$\alpha^1$	CR <sup>2</sup>	AVE <sup>3</sup>
Risk management practices (RMPs) <i>Mean = 4.15</i> <i>Standard deviation = 0.914</i>	RMP1	4.18	0.882	0.793***	0.921	0.936	0.647
	RMP2	4.25	0.862	0.723***			
	RMP3	4.22	0.877	0.855***			
	RMP4	4.14	0.941	0.782***			
	RMP5	4.25	0.836	0.783***			
	RMP6	4.00	1.006	0.846***			
	RMP7	3.96	0.939	0.860***			
	RMP8	4.20	0.922	0.785***			
Ethical climate (EC) <i>Mean = 4.22</i> <i>Standard deviation = 0.856</i>	EC1	4.29	0.845	0.873***	0.845	0.897	0.686
	EC2	4.09	0.889	0.855***			
	EC3	4.17	0.928	0.849***			
	EC4	4.33	0.796	0.726***			
Organizational performance (OP) <i>Mean = 4.16</i> <i>Standard deviation = 0.878</i>	OP1	4.24	0.831	0.702***	0.896	0.922	0.524
	OP2	4.14	0.853	0.701***			
	OP3	4.10	0.835	0.711***			
	OP4	4.38	0.805	0.718***			
	OP5	4.04	0.961	0.725***			
	OP6	4.21	0.815	0.778***			
	OP7	4.25	0.768	0.745***			
	OP8	4.07	1.096	0.753***			
	OP9	4.26	0.859	0.706***			
	OP10	3.98	0.928	0.715***			
	OP11	4.09	0.861	0.709***			

Note: M; mean, S.D.: Standard Deviation,  $\alpha^1$ : Cronbach's alpha, CR<sup>2</sup>: composite reliability, AVE<sup>3</sup>: average variance extracted, \*\*\*:  $p < 0.001$ .

extracted (AVE). As Hair et al. (2019) introduced, this measure quantifies the extent to which a construct explains the variance in its associated items. The analysis revealed that the AVE scores for all constructs within the measurement model surpassed the recommended threshold of 0.5. These scores, ranging from 0.524 to 0.686, provide compelling evidence of strong convergent validity, demonstrating that the items effectively measure their respective constructs.

Fourthly, to strengthen the evaluation of discriminant validity further, the researchers employed an additional method, the HTMT ratio of correlations. As recommended by leading scholars in the field, such as Henseler et al. (2015), HTMT ratios below 0.85 generally indicate satisfactory discriminant validity.

**Table 2.** Discriminant validity via HTMT ratio

Construct	EC	OP	RMPs
EC			
OP	0.847		
RMPs	0.389	0.804	

Note: HTMT values are less than 0.85.

The results of this analysis, presented in Table 2, revealed that all HTMT ratios in the current study fell below this threshold. This finding provides further compelling evidence that the constructs within the model are indeed distinct, reinforcing the discriminant validity of the research findings.



### C. Multicollinearity Statistics

Researchers conducted a multicollinearity assessment to avoid potential biases and inaccuracies arising from overly strong correlations among the model's constructs. This involved examining the Variance Inflation Factor (VIF) values for each construct, a metric that quantifies the extent to which other constructs in the model explain one construct's variance. Adhering to the guidelines established by Hair et al. (2019), VIF values exceeding three can signal problematic multicollinearity, potentially necessitating corrective measures. Results of the study revealed that the VIF values for all constructs in this study were below this threshold. This positive result indicates that multicollinearity is improbable in a way that would excessively impact the study's results, thereby enhancing confidence in the reliability and validity of the model.

### D. Structural Model and Testing of Hypotheses

The research hypotheses were scrutinized by applying PLS-SEM. To reinforce the statistical rigor of the path coefficient estimates, which represent the strength and direction of relationships between constructs, a bootstrapping technique was utilized using subsamples of 5000 iterations. The principal findings from the PLS-SEM analysis are concisely presented in Table 3 and Figure 2.

The PLS-SEM analysis, complemented by the bootstrapping technique, yielded significant findings,

as illustrated in Table 3 and Figure 2. Consistent with Hypothesis 1, a robust positive association emerged between risk management practices (RMPs) and organizational performance (OP) in public organizations within the KSA. This demonstrates that applying RMPs effectively fosters organizational performance. Hence, H1 is supported. Further, the results also confirmed that ethical climate substantially boosts organizational performance, as predicted by Hypothesis 2 ( $\beta = 0.625$ ,  $t\text{-value} = 17.685$ ,  $p < 0.001$ ). This suggests that fostering an ethical work environment enhances public organizations' performance.

Delving into the potential moderating role of EC in the relationship between RMPs and public organization performance, we utilized a bootstrapping approach. By examining how ethical climate might moderate this connection, the analysis, as depicted in Table 3, revealed that without the inclusion of the moderating effect (EC\*RMP), the  $R^2$  value for OP was 0.753. This shows that RMPs account for 75.3% of the change in OP. With the inclusion of the interaction term, the  $R^2$  increased to 0.897. This shows an increase of 14.4% in variance explained in the dependent variable (OP). Further, the significance of the moderating effect was analyzed, and the results indicate a positive significant moderating effect of EC on the RMPs-OP relationship ( $\beta = 0.038$ ,  $t\text{-value} = 2.405$ ,  $p < 0.05$ ) supporting Hypothesis 3, which proposes that ethical climate plays a significant moderating role in fostering the link between RMPs and OP. Moreover, the interpretation of the  $f^2$  given by Kenny (2018) was utilized to assess the moderation effect size. Kenny classified the  $f^2$  into three categories,

**Table 3.** Structural parameter estimates

Hypothesized Path	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T Statistics	Confidence Intervals		R <sup>2</sup>	f <sup>2</sup>	Result
					2.5%	97.5%			
Direct Path									
H <sub>1</sub> : RMPs -> OP	0.546	0.547	0.035	15.639***	0.477	0.615	0.753		Supported
H <sub>2</sub> : EC -> OP	0.625	0.623	0.035	17.685***	0.555	0.694	0.811		Supported
Moderation Path									
H <sub>3</sub> : EC x RMPs -> OP	0.038	0.038	0.016	2.405*	0.007	0.070	0.897	0.014	Supported

Note: RMPs: risk management practices, EC: ethical climate, OP: organizational performance, \*\*\*,  $p < 0.001$ , \*,  $p < 0.05$ .

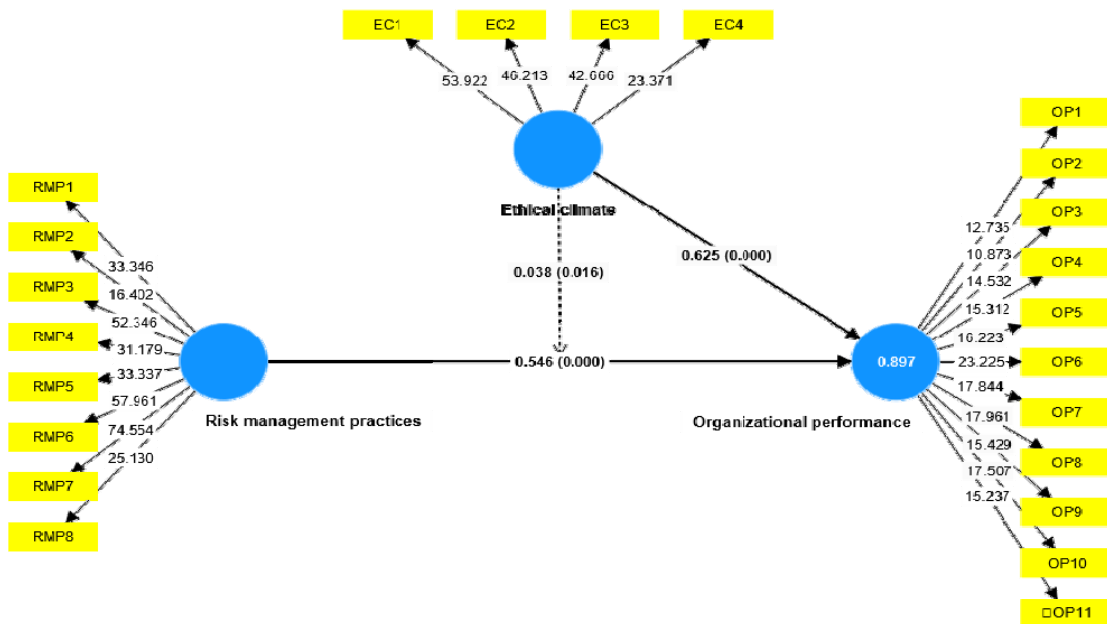


Figure 2. The structural model

denoting small (0.005), medium (0.01), and large (0.025) effect sizes. Based on the results obtained, the  $f^2$  of 0.014 indicates a medium effect size.

## V. Discussion

This study investigates the relationships among risk management practices (RMPs), ethical climate (EC), and organizational performance (OP) within the context of public organizations in the KSA. The comprehensive analysis reveals noteworthy insights contributing to understanding how these variables interplay and shape organizational outcomes. Firstly, the findings affirm Hypothesis 1, establishing a robust positive association between RMPs and organizational performance in Saudi public organizations. The statistical significance underscores the importance of effective RMPs in fostering improved organizational performance. This finding aligns with established literature emphasizing the pivotal role of effective risk management in enhancing overall organizational

effectiveness in various contexts (i.e., Hamzah et al., 2022; Hong, 2023; Saeidi et al., 2023; Rasid et al., 2014; Curtis et al., 2012; Yang et al., 2018). For instance, these results foster the findings of the empirical investigations carried out by Hamzah et al. (2022) and Saeidi et al. (2023), focusing on publicly listed companies in Malaysia, affirming a positive and significant impact of enterprise risk management (ERM) on the outcomes of these firms.

Moreover, Rasid et al. (2014) revealed that ERM is crucial for improving OP in Malaysian financial institutions. Not only that, but the finding also substantiates the vital role of ERM in enhancing non-financial performance. Further, in the transportation agencies context, Curtis et al. (2012) recommended that formalizing ERMPs, integrating them into core business processes, and prioritizing stakeholder trust are critical drivers of fostering organizational performance. In addition, research by Yang et al. (2018) demonstrated a significant and positive correlation between the implementation of ERMPs and the performance of small and medium-sized enterprises (SMEs) in the setting of Pakistan's emerging market. Hence, the higher the level of RMP

adoption, the more significant the positive impact on OP metrics like efficiency, effectiveness, and financial results.

Secondly, consistent with Hypothesis 2, the study affirms that ethical climate substantially boosts organizational performance. The positive correlation underscores the significance of cultivating an ethical work environment within public organizations in the KSA. This study's findings resonate with existing literature (i.e., Farouk and Jabeen, 2018; Aloustani et al., 2020; Moghaddam et al., 2015; Yazdanshenas & Aghaei, 2019), further confirming the importance of EC as a critical driver of OP. These findings emphasize the role of ethical environments in fostering a sense of purpose and commitment in employees. This boosts motivation, engagement, and productivity, directly influencing performance metrics.

Further, public organizations thrive on public satisfaction, trust, and legitimacy (Moon-Kyung et al., 2023). Emphasizing an ethical climate, which prioritizes consistently doing what is suitable for customers and the public while placing public needs and interests as the foremost priority, strengthens an organization's ethical reputation. This, in turn, fosters legitimacy, establishes favorable partnerships, and attracts resources, collectively contributing to improved organizational performance (Farouk & Jabeen, 2018; Aloustani et al., 2020). Accordingly, it could be concluded that, in the KSA, embracing the ethical climate within public organizations paves the way for substantial performance gains.

Thirdly, moving beyond the direct relationships, the study investigates the moderating role of ethical climate in the link between RMPs and OP (Hypothesis 3). The results reveal that ethical climate acts as a significant moderator, enhancing the relationship between RMPs and OP. This implies that an ethical work climate increases the positive impact of effective risk management on organizational performance. Organizations that prioritize ethical considerations in integration with effective RMPs are more likely to achieve superior performance outcomes. Specifically, in the context of public organizations, building public trust and maximizing performance requires not only

effective RMPs but also a firm foundation in ethical principles. The researchers attribute this significant impact to the notion that an ethical workplace cultivates stakeholder confidence and fosters trust in the organization's decision-making processes and risk management strategies. This trust, in turn, contributes to the organization's legitimacy, a crucial factor for sustained performance in the public sector.

## VI. Theoretical and Practical Implications

The study yields noteworthy theoretical implications, particularly within the scope of contingency theory and the broader domains of risk management, ethical climate, and organizational performance, particularly in public organizations. Firstly, it reinforces the perception of ethical climate and Risk Management Practices (RMPs) as crucial organizational resources directly contributing to performance improvement. Secondly, by unveiling the moderating effect of ethical climate on the relationship between RMPs and organizational performance, the study enhances understanding of its pivotal role in maximizing the effectiveness of risk management initiatives. Organizations can optimize RMPs by cultivating a robust ethical environment, turning them into influential drivers of high performance, resilience, and long-term success. This broadens the understanding of organizational performance by highlighting the interconnectedness of ethical conduct, risk management, and overall outcomes. Thirdly, the study extends the scope of contingency factors, demonstrating that Ethical Climate (EC) significantly moderates the RMPs-OP relationship, emphasizing its crucial role as a contingency factor in influencing organizational performance. The findings suggest exploring non-linear relationships and complex interactions between variables within the contingency theory framework. Moreover, focusing on public organizations adds context-specific considerations to contingency theory in diverse sectors. Lastly, the study presents a

comprehensive moderation model, enriching existing literature and guiding future research exploring the intricate pathways connecting risk management, ethical climate, and organizational performance across different contexts.

The practical implications of this study offer valuable guidance for directors and leaders of public organizations aiming to enhance organizational performance through effective risk management and ethical practices. Firstly, leaders should strategically integrate and prioritize Risk Management Practices (RMPs) within operational frameworks, incorporating risk assessment, mitigation, and contingency planning into decision-making processes. Second, recognizing the contribution of RMPs, leaders should invest in training programs for all employees to foster awareness and competence in dealing with potential challenges. Third, transparent communication about RMPs and their impact on organizational performance is crucial, instilling confidence in stakeholders and the public. Fourth, integrating ethical considerations within RMPs leads to responsible choices, reducing risky ventures, and optimizing resource allocation. Fifth, fostering ethical workplaces boosts trust, purpose, and employee ownership, directly impacting performance metrics. Sixth, leaders should demonstrate ethical behavior, equip employees to make ethical decisions and hold themselves and others accountable. Lastly, regularly measuring and monitoring RMPs and ethical climate is essential for continuous improvement and learning.

## VII. Study Limitations and Further Research

The study acknowledges certain limitations. Firstly, its focus on the Saudi public sector and convenience sampling with senior government directors may restrict the generalizability of findings to other organizational contexts. Future research should explore the moderating role of ethical climate across

diverse countries and cultures to enhance applicability. Secondly, the reliance on cross-sectional data hinders establishing causal relationships and tracking changes over time. Conducting longitudinal research could address this limitation and provide insights into the dynamics of ethical climate, Risk Management Practices (RMPs), and performance. Thirdly, the study concentrated on the moderating role of ethical climate in the relationship between RMPs and organizational performance. Future research could delve into specific mechanisms through which ethical climate amplifies RMPs' positive effects, exploring aspects like trust, employee engagement, and ethical decision-making. Additionally, investigating potential boundary conditions for this moderating effect, such as organizational size or leadership style, could contribute to a more nuanced understanding of these relationships.

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