Impact of Ethical Leadership on Employees' Performance: Moderating Role of Organizational Values

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ABSTRACT

This study inspects the impact of ethical leadership on employees' performance. While several studies have gazed at the efficacy of the leader as supposed by employees, this research is concerned with the effect of an ethical leadership style on the performance of employees. Employees are very significant for the organization in terms of smoothing the progress in organizational achievement. Employees are considered to be the most vital resource for achieving competitive advantage. An ethical leadership style is typified as participative where the leader shares its authority with employees. It is thus believable that an ethical leader augments the inspiration of its employees which in turn will improve employees' performance. In addition the direct relationship between ethical leadership and employees' performance, this research will also look into the moderating role of organizational values.

Keywords: Ethical Leadership, Employees Performance, Organizational Values
JEL Classifications: M10, M12

1. INTRODUCTION

After the major financial crisis of 2008-2009, the business studies researchers emphasized over the importance of change in the organizations' leadership. The argument on whether the business world should rethink their business models in consideration with the ethical side of business was ignited way before the financial crisis hit. The deep sea disposal of Shell's Brent Spar and the accounting scandals at Enron and Ahold are few of the examples. The financial successes as well as the reputation of the organizations are at stake due to such scandals Lane (1995) affirmed that the business studies field has not adequately stressed out the significance of performing ethically amongst students. Lane (1995) revealed that numerous business students are ready to act unethical to expand competitive and personal benefits. The improvement in business and business studies demonstrate that there is an escalating requirement for more stress on moral standards and ethical decision making.

2. LITERATURE REVIEW

The research field of ethical leadership began after the many corporate scandals which have received global media consideration. One of the most renowned examples is the Enron scandal (Treviño et al., 2003). Treviño claimed Enron's Bankruptcy as a fundamental default of leadership and management (Treviño et al., 2003). The Enron case is an instance of the effect of leadership on organizational behavior and presentation of ethical business values. He further argues that leader behavior has a significant influence on employees' behavior in terms of belief, attitude and emotions. Leaders set the tone at the top which has a major effect on the organizational climate and the organizational approach (Treviño et al., 2003). According to Treviño et al. (2003) the moral facet of leadership is significant because of the leader's impact on employees and organizational conduct. "The Enron case implies that executives created a culture that set the stage for the conflicts of interest and unethical accounting practices that led to the firm's downfall" (Treviño et al. 2003).

Leadership studies describe two vital leadership style classes. The first class is task-oriented leadership. This leadership style implies that the leader is mainly involved with communicating the goals to its employees (Treviño et al., 2006). Second style considers people-oriented leadership where employees trust, admiration for their ideas, and consideration for their emotions are imperative issues. Ethical leadership has its source in the area of transformational leadership and is more of a people-oriented leadership style. The ethical leaders should show ethical behavior, such as morality, reliability, justice, and consideration. In this manner, the leader behaves as an influential role model (De Hoogh and Den Hartog, 2008). Ethics does not only comprise of generating a social environment by communicating ethical matters to employees, but employees should also be tangled in decision making. Ethical leaders set ethical values, recompense ethical behavior, punish employees who do not conform with the rules, and take just decisions which can be observed by others (Brown et al., 2005).

2.1. Ethical Leadership

From normative point of view, the researchers have written a lot about leadership and ethics but the question that is so basic about the concept i.e., "What actually is ethical leadership?" remains undiscovered. So, to move further we have to first clarify the link between leadership and ethics. According to the research conducted by Brown, Treviño and Harrison (2005), ethical leadership is "the demonstration of normatively appropriate conduct through personal actions and interpersonal relationships, and the promotion of such conduct to followers through two-way communication, reinforcement, and decision-making." On the basis of this definition we are going to shed light on ethical leadership construct and other leadership constructs carrying the essence ethical dimension.

As the world has observed ethical scandals in almost every kind of institute, the need to have a look at ethical leadership has grown far more than ever before. To understand the history of ethical leadership, its relation with other philosophies and the consequences to its following, we must first need to understand whether what ethical leadership actually is? Researchers have long considered that personal traits like honesty are essential to the effectiveness of leadership and research has put up with it i.e., research has associated the perceived leadership effectiveness with the traits of leader such as truthfulness, integrity, and trustworthiness along with the degree to which leader cares in a work setting, that has been linked with effective leadership style.

An exploratory research was conducted, to clarify this question, by Treviño et al. (2000; 2003). The researchers focused the top executives from different industries and asked them to come with a name they think as an ethical leader and pinpoint the similarities between their leader and themselves, and also to respond to questions regarding their personality, behavior and intentions of those leaders. The research pin pointed numerous personal characteristics that were associated with the ethical leadership. The leaders were thought to be ethical in both their professional and personal lives and they were also principle centered leaders with care and concern for the society in their decision making and leading style.

To recapitulate the up-and-coming research categorizes the leaders as ethical leaders if they make balanced decisions by being caring, honest and principled leaders. The leaders are those who communicate the ethical standards to their followers and utilize methods of rewards and punishments to ensure the implication of those ethical standards. Ethical leaders are those who preach what they practice and do not rely on reactive approach for the implementation of the ethical conduct.

2.2. Employee Performance

Performance of the workers is a significant constituent of an organization and plays a critical role in the organization's success. Though, an institute relies on its workers heavily but a few workers don't have the capacity to change the course of the organization. The performance of an institute is the combined effort of its workers. "Performance is the key multi character factor intended to attain outcomes which has a major connection with planned objectives of the institute" Ahmad and Shahzad (2011). To attain the institute's goals, its is necessary that the leaders and workers of the institute work on their full potential, regardless of their grade. An organization expects a lot from both the leader and the workers. But in many situations, the workers are heavily relying on the appropriate guidelines from their superiors in order to fulfill the organization's expectations.

Consequently, the workers need to be trained to its best so that they can achieve day to day tasks with better performance. The question to answer here is that how a worker can be proficient enough to improve the institute's product?. A successful strategic plan by the leaders can be a good competitive edge to attain leadership distinctiveness among the workers (Hassan, 2007).

Aguinis (2009) explained that "the definition of performance does not include the results of an employee's behavior, but only the behaviors themselves. Performance is about behaviour or what workers do, not about what workers produce or the outcomes of their work." The performance of the worker is the mirror image of the work related behavior and helps in the institute's success. Declarative, procedural and motivational knowledge are the factors that make the performance of a worker better than the others (Ahmad and Shahzad, 2011). Huselid (1995) argues that the human resource management's practices results in the efficacy that turns into the actions of employees, which verifies a positive relation among them.

Carlson et al., (2006) projected training and development, compensation level, maintaining morale, recruitment package and performance appraisal to be those five dimensions of human resource practices that enhance performance. Tessema and Soeters (2006) acknowledged research on such HR practices as placement practices, recruitment and selection practices, employee performance evaluation, compensation, training, promotion, social security, pension and grievance procedure which makes up the worker's performance. They established that the above stated human resource practices have noteworthy association with worker's performance.

2.3. Organizational Values

Treviño et al., (2006) defines organizational values as "a subset of organizational culture, representing a multidimensional interplay among various 'formal' and 'informal' systems of behavioral control." Such informal arrangements contain attitude, values, perceptions, norms, and values inside the institute. Related to these informal facades, organizational moral standards can be articulated by strong proper formation like agency procedures, compensation methods and set of laws and regulations. Organizational values are the principles that guide the strategic procedures and are the set of laws which differentiate between the right and wrong ways to behave. Only when the rules are followed strictly, the leaders and followers can achieve high quality organizational values. For example, leaders who are ethical in nature can achieve the moral standards by following ones' own self and considering ethical or unethical conduct for rewards and punishments respectively. An institution can use its ethical values as a weapon to recruit morally charged people in the organization which would lead to the attainment of institute's objectives.

According to Vogds (2001), the central values of an organization are: "A set of beliefs that influence the way people and groups behave; they are the 'soul' of the organization; effective values are deep rooted; and core values help form a social psychology that can support or overcome individual psychology." Vogds goes ahead to catalog some of the causes of core values' importance to the thriving operation of any institution:

They manipulate behavior, they converse what we actually accept as true, they provide a moral scope and continuity all the way through alteration, they aid decision making right through the institute, as well as spread out decision making. Nearly all core values arrive from the originators of an institute but are incorporated into all levels and occupation of the institute.

The values, or insight thereof, are the catalyst for an institute. The central values of an institute are the basis of an institute's vision and mission and their day to day operation's decision making (Shapiro, 1957). Much of the in print study on organizational culture has stressed upon the vital significance of values and beliefs that recline at the center of an organization's social structure. The most recurrent topics of concern have been the customs in which institutes develop and sustain these essential values and the behaviors that go along with them, or the method in which these principles and behaviors are conveyed to new members of an institute (De Hoogh and Den Hartog, 2008).

2.4. Impact of Ethical Leadership on Employees' Performance

Al Nasseri et al. (2013) states that leadership style needs to change as the project and processes moves forward. Democratic and participative style of leadership is ethical ones while autocratic style of leading is often seen lacking ethical conduct. Ethical leadership does provide employees, grounds to perform well but with strong organizational values the effect of leadership on employees' performance elevates to another level. The relationship between employees' performance and ethical leadership can be directly proportional or sometimes indirect, which ensures that moral values can be improved by running improvement programs regarding ethical leadership. Recent studies establish that investing in the development of human resource is the beneficial to the institutes to update the potential and proficiency of the workers to augment the performance and competence. In this situation, technical and non-technical education and exercise of the workers are vital to boost up their knowledge and potential. In this contemporary age, leadership is generally habituated and demonstrated through research as a significant aspect for the triumph of the institutes. Now, ethical leadership is used to manipulate and encourage the workforce for improved performance.

Treviño et al. (2006) initiated that dimensions of culture and moral environment were considerably interrelated and correspondingly opinionated workers' institutional commitment. Although, they saw dissimilarities as far as behavior is concerned. For instance, those organizations which has a code of ethical conduct which they forced on the organization, had a negative impact on unethical behaviors i.e., the stricter the code of conduct, the less are the unethical behavior experienced. In non-code settings, a climate focused on self-centeredness was most strongly related to unethical behavior. In the same way, they argued that treating workers fairly, maintaining moral conduct, keeping an eye on the workers are those factors of a culture which contributes in positive moral behavior and approach. A vital element of an ethical culture is the transformed reward system which covered both moral and immoral conduct (Brown et al., 2005). Studies have recommended that ethical conduct is affected by the punishment and reward systems of an institute.

2.5. Moderating Role of Organizational Values on the Relation between Ethical Leadership and Employees' Performance

The main objective of moral values is to enhance the moral values of workforce and their behavior (Treviño et al., 2006). Various researchers have stressed the effect of moral viewpoint on diverse aspects like organizational values, workers' performance and ethical leadership (Vogds, 2001). Additionally, contemporary studies have established that strong organizational values are the chief cause to improve the moral and social liability of the leaders and worker of the institute. To wrap up, individual approach of organizational values are strongly and positively consistent with moral strength and ethical protocol.

A considerable assessment of the values can smooth the progress of the arrangement of value. Vogds (2001) affirm that in inquiring about an organization's values, we are actually asking how efficiently that organization is rallying its human resources. Awareness of climate variables facilitates management to bind those forces toward the achievement of organizational goals. The stress on the perceptual nature of organizational values raised many questions. A major issue troubled the value of the actual condition versus the perceived condition in determining behaviors and attitude in organization. Another question concerned associations between purposive and expected factors, particularly in terms of determinants and accurateness of such expectations. Different levels of situational and individual difference functioned at different levels of clarification.

Brown et al. (2005) goes on to say that organizational values may be trace back to the originators, at least in fraction, of the institute, or to those who strappingly shaped it in the recent past. These persons often seize self-motivated individuals, strong moral standards, and a clear picture of how the institutes should be. Since they are on the sight primarily, and/or play a vital role in appointing early staff, their behaviors and values are eagerly conveyed to new workforce. Consequently, these visions become conventional in the organization, and continue as long as the originators are on the work setting.

3. METHODOLOGY

3.1. Development of Hypotheses
Extracted from the conceptual framework of the study shown in Figure 1, there are two hypotheses that we have proposed to test out in this study about the higher education universities of South Punjab, Pakistan.

The fundamental reason for selection of these specific variables is to check whether there is any association between them or not. i.e., If organizational values are put into practice, will it have any effect on the ethical leader's relation with workers performance? Treviño et al. (2006) argues that the studies till now suggest that ethical leadership effects workers performance positively. Therefore,
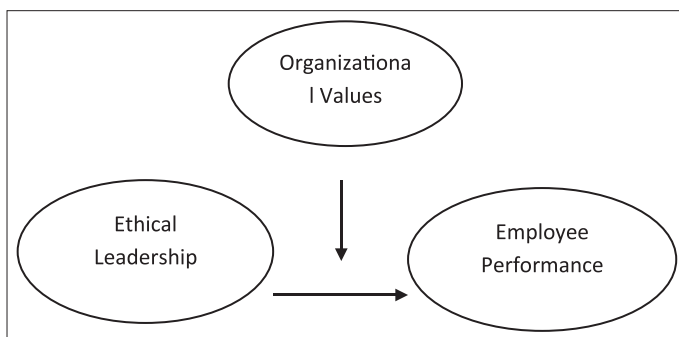
H_1: Ethical leadership has a positive impact on the performance of employees i.e teachers.

It's the responsibility of the organizations to provide a learning atmosphere to the employees. So, there must be a mutual effort shown by the workers and the leaders, to learn the ethical rules and codes of the organization. The success of an organization relies heavily on these factors (Sabir et al., 2012).

Organizational values, as a vairiable, is considered the most powerful one as it influences the relation between moral leaders and workers performance, and most probably enhances it. Hence, the relationship of organizational values can be hypothesized as:

H_2: Organizational values can amplify the impact of ethical leadership on employees' performance through its moderating effect.

Figure 1: Conceptual framework of the study

3.2. Instrumentation
To test the proposed hypotheses, primary data source was used. A questionnaire containing about 22 close ended questions were used to check the relationship between three variables in order to avoid biasness and ambiguity and to know the understanding of the respondents about the variables to be examined and get the appropriate response. 265 respondents were focused to collect the data.

3.3. Selection of Sample
This research will focus on respondents that are working in the higher education sector i.e. teachers. Sample is taken from six universities of Multan and Bahawalpur namely, Bahauddin Zakariya University, Air University, National University of Modern Languages, University of Education of Multan and The Islamia University of Bahawalpur and Institute of Southern Punjab.

3.4. Data Collection Procedure
Stratified random sampling is done in order to add variety to the research and add a blend of experienced faculty members' opinion and newly hired faculty members' view point on the current subject matter. The focus in this research was on higher education lecturers including under graduate, graduate and post graduate teachers.

4. DATA ANALYSIS

SPSS software is used to test the reliability of the data and testify the hypotheses. Cronbach's Alpha was used to test the reliability of the questionnaire. Exploratory factor analysis and confirmatory factor analysis was done. Regression analysis is also done. The purpose of exploratory factor analysis is done in order to identify the underlying construct for a variable set while confirmatory factor analysis is used in order to verify a variable set's factor structure. Along with these we have analyzed the demographics of the respondents.

5. FINDINGS

The total number of questions as well as the number of respondents effect the result of cronbach's alpha. Cronbach's alpha should be equal to 1, in Hinton et al. (2004) book "SPSS Explained."

The cronbach's alpha for the three variables i.e., ethical leadership (independent variable), organizational values (moderating variable) and employees' performance (dependent variable) is 0.969, 0.866 and 0.834 respectively as shown in Table 1.

Table 2 shows the direct effect of ethical leadership on the performance of employees in the absence of strong organizational values. The 0 significance level shows the positive impact of ethical leadership on the employees' performance.

Table 1: Cronbach's alpha for ethical leadership, employees performance and organizational values

Variable	Cronbach's alpha
Ethical leadership	0.969
Organizational values	0.866
Employees' performance	0.834

Table 2: Regression results of effect of ethical leadership on employees' performance

Variable Name	R^2	F	Beta	t-value
Ethical leadership	0.604	108.250 (0.000 significant)	0.540 (0.000 significant)	10.404 (0.000 Significant)

The beta results for the relationship of the ethical leadership and employees performance was 0.327 along with the 0.000 significance level showed a clear positive and direct relation among the two variables. Moving next the impact of ethical leadership on employees' performance was checked considering the moderating variable i.e. organizational values, the resulting beta values being 0.439, with a 0.00 significance level, showing the direct and positive impact of ethical leadership on employees' performance in the presence of organizational valueswhich is shown in Table 3. Furthermore the interaction between the ethial leadership and organizational values when tested showed the organizational values to be the simple positive moderator in the relationship of ethical leadership and employees' performance. The R^2 change showed the strength of the relationship as it improves when the moderator i.e., organizational values, comes into play.

The fallout is in the stream line as pointed out by the preceding studies that organizational value is optimistically associated with ethical leadership and workers' performance (Brown et al., 2005). He argues that, when it comes to constructing moral values in leaders and workers, organizational values play an integral part in that. So, the organizational value is a fundamental component while weighting the leader worker relationship and it helps performance to elevate. From the outcome of the performed analysis, it can be inferred that a leader has to have competence along with moral norms to succeed and perform various task. But for the organizations it is a tough task to find out people who have both these qualities and can serve the organization in a better way.

The outcome of this research is also confirmed by sufficient proposition and suggestion provided by Brown and Trevino (2006). This study was performed on three diverse variables, i.e., organizational values, ethical leadership and employee performance to see the effect of Organizational values on the relationship between ethical leadership and employee performance. Brown and Trevino (2006) projected previously that moral role models utilize moral dimensions to enhance the performance of their workers. Both hypotheses developed to carry out the analysis are optimistically and considerably interrelated with each other. Organizational value is the vital and most influential variable among the three, as it persuades the ethical leadership to augment the performance of the staff (teachers). It's the foremost responsibility of the organization to provide their recruits a learning atmosphere. Hence, it should be a joint effort by the leaders and workers to learn understand and implement the moral norms of the organization. These organizational values are the central factor for the success of an organization.

Another breakthrough of this study is that it revealed the organizational values as a moderator between ethical leadership and workers' performance, which shows that moral leadership boosts employees' veracity and moral standards and employee dedication (Treviño et al., 2006). On the basis of complete analysis it can be argued that to attain the organizational goals, its values

Table 3: Ethical leadership and employees' performance in the presence of organizational values as a moderator

Items	Ethical leadership (predictor) and employees performance (dependant)	Ethical leadership, organizational values (predictors) and employees performance (dependant)
R^2	0.292	0.439
F	108.250 (0.000 significant)	102.693 (0.000 significant)
Beta	0.327 (0.000 significant)	0.439 (0.000 significant)
t-value	6.165 (0.000 significant)	8.288 (0.000 significant)

play a governing role and also in enhancing the leader worker relationship and its efficiency, which will involuntarily elevate the organizational efficiency, performance and output.

6. LIMITATION OF THE STUDY

This research eared on the novice scholars working in different institutions, and ignored the veteran professionals who have plentiful experience. The main cause for missing the experienced professionals was that, majority of them were busy, and those who had this opportunity, were not approachable being active part of the decision making process in the institutions.

7. CONCLUSION

Our research had gone through the relation between ethical leadership and employees' performance and explored the moderating effect of organizational values on their relation. The propositions of our research cover both academicians and the practitioners. We have revealed in our study that organizational value plays a role of moderator between ethical leadership and employees' performance and further helps to nurture the work efficiency of the employees by supporting leaders' ethical context. We have also revealed that there are possibilities of future research on the point that how we can strategically implement organizational values in order to intensify the leader employee relation and the outcome of it.

As this study has not scrutinized the practical application, hence the research in future can be done to check whether what results these relations bring about if strategic implementation is checked.

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