CONSEQUENCES OF ETHICAL LEADERSHIP WITH THE MEDIATING ROLE OF SELF-EFFICACY AND WORKPLACE CLIMATE

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ABSTRACT

Ethical leadership is an important determinant of job performance and organizational outcomes. Earlier studies have examined the direct effect of ethical leadership on the organizational outcome and job performance without incorporating mediating variables. Moreover, past studies have only incorporated one or two mediating variables. We have developed a new model based on social learning theory that contains six direct relationships and three indirect relationships because of this gap. The study specifically examines the effect of ethical leadership on job performance, self-efficacy, and workplace climate. We also examined the effect of workplace climate on job performance and safety compliance. Also, we investigated the mediating effect of self-efficacy and workplace climate on job performance and safety compliance while focussing on SMEs in Karachi. SMEs are generally less structured than large firms and vulnerable to unethical leadership practices. Based on quota sampling, we have collected a sample of 500. The Smart PLS software was used for estimating the measurement and structural models. Ethical leadership promotes job performance, self-efficacy, and work climate. Self-efficacy and work climate are significant precursors of job performance. Work climate promotes safety compliance. Self-efficacy and work climate have mediating effects on job performance. And work climate affect safety compliance.

Keywords: Ethical Leadership, Self-Efficacy, Job Performance, Safety Compliance, Workplace Climate.

INTRODUCTION

For decades, researchers have been interested in ethical leadership style and its association with employee attitudes and behavior, job, and organizational outcomes (Yang et al., 2016). Some researchers have examined the direct and indirect association of organizational identification, self-efficacy, and ethical leadership on work performance (Walumbwa et al., 2011). Simultaneously, others have used job characteristics and efforts as mediators (Piccolo et al., 2010). Moreover, Walumbwa et al. (2011) found that LMX, organizational identification, and self-efficacy, directly and through ethical leadership, influence work performance.

In the earlier decade, researchers have concentrated on leadership styles such as *"transformational leadership, transactional leadership, spiritual leadership, and authentic leadership"* (Munisamy, 2013; Shin, 2012). Comparatively, in this decade, the researchers have

mostly focused on leaders' moral standards and ethics (Brown et al., 2005). Ethical leadership is now a well-established leadership style (Nielsen et al., 2016). Ethical leadership pivots around leaders' norms and visions towards social and ethical values (Bass & Steidlmeier, 1999). Researchers believe that an ethical leader should have high ethical values as a person and as a leader. A leader as *"an ethical person"* is trustworthy and has high integrity. Ethical leaders and organizational objectives are aligned (Den-Hartog & De Hoogh, 2009). Ethical leaders are honest, creditable, and employees' role models. Thus ethical leaders inspire and motivate employees to follow organizational norms and values (Brown et al., 2005).

Theoretical Grounding and Conceptual Framework

Social learning theory proposes that *"ethical leaders are role models"*, and they use rewards and punishment approaches to promote ethical standards in an organization (Brown et al., 2005; Demirtas & Akdogan, 2015). Thus employees use their judgmental and self-reaction process to follow the guidance provided by the leader. An important facet of an employee's self-regularity process is self-efficacy, an antecedent to organizational performance. Self-efficacy is described as *"individuals' perceptions of their own belief in effecting change creative use of capabilities and enlistment of effort"* (Den-Hartog, & De Hoogh, 2009). Self-efficacy determines how an individual responds to external influence, including ethical leadership. Thus it affects job performance, workplace climate, and safety compliance. Based on the aforementioned theoretical discussions, we have developed a conceptual framework (Refer to Figure 1) that contains six direct relationships and three indirect relationships. The literature support for the proposed hypotheses is presented in the following sections.
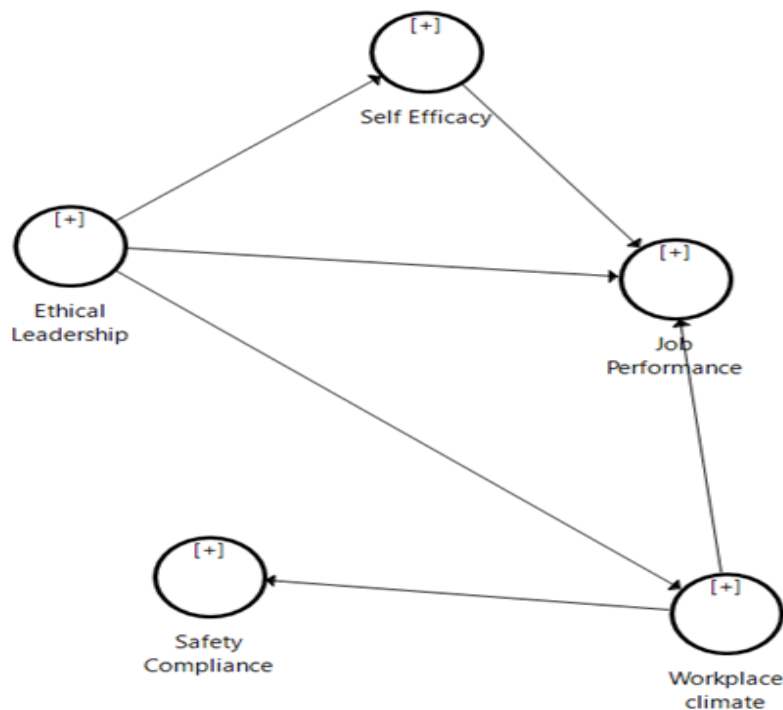
FIGURE 1
CONCEPTUAL FRAMEWORK

Ethical Leadership and Job Performance (H1)

Job performance has been conceptualized as *"how well employees do their job-related tasks"*. Many past studies have acknowledged that an ethical leader has both positive and negative traits. On the one hand, they often adopt deviant behavior towards employees. On the other hand, leaders inspire and motivate the employees, due to which they develop a positive attitude towards their jobs (Nielsen et al., 2016). Ethical leaders have high moral and ethical values and are experts in their field. Employees perceive them as trustworthy. Therefore, they feel comfortable sharing their views and take advice from the leaders (Resick et al., 2011). Thus, ethical leaders develop an environment that promotes professional and social interaction and enhances employees' satisfaction and job performance (Kwan et al., 2016). Moreover ethical leaders inspire the employees, due to which they develop a positive attitude towards work that enhances their job performance (Mayer et al., 2009).

Many past studies have extended social learning theory for examining the association between ethical leaders on employees' performance and found they both are highly associated (Lievens, & Vlerick, 2014; Kwan et al., 2016). The theory assumes that ethical leaders inspire and motivate employees by portraying themselves as role models. Thus, employees tend to follow the leaders by improving their job-related performance and developing a positive interactive relationship with the other employees (Langlois et al., 2014; Hoyt et al., 2013; Akkaya & Tabak, 2020).

Ethical leaders also provide timely feedback and guidance to the employees that improve employee's job-related performance and growth and development (Brown, & Treviño, 2006). Mayer et al. (2009) suggest that ethical leaders use reward and punishment strategies for enhancing employees' performance (Hoffmeister et al., 2014). However, an ethical leader applies this mechanism on merit, making it more effective in improving employees' related performance (Resick et al., 2011). Ethical leaders also promote two-way communication with employees. Therefore, they become more responsible and pay more attention to job performance (Kapp, 2012). Ethical leaders, as compared to other types of leaders, are more concerned about employees' well-being. Therefore, they reciprocate to ethical leaders through cooperation and improved performance (Kwan et al., 2016).

H_1 *Ethical leadership and employee performance are positively associated.*

Ethical Leadership and Self-Efficacy (H2)

Individuals with a high level of efficacy have a strong inclination to accept difficult and challenging assignments for them, enhancing their motivation level and. Social learning theory (Bandura, 1978) postulates that an individual's learning process includes watching others, verbal persuasion, and inspiration. Thus it is inferred that individuals need role models and mentors who guide and nurture them in their development process (Lievens & Vlerick, 2014). Brown et al. (2005) have explained the implications of social learning theory by stating that ethical leaders are role models for subordinates. Moreover, they delegate assignments and jobs to the employees aligned with their competence levels (Nielsen et al., 2016).

Consequently, employees learn to think strategically that enhances their self-efficacy believes, autonomy, and self-concept (Walumbwa et al., 2011). Similarly, Den-Hartog and De Hoogh (2008) stress that ethical leader's respect all the employees and they reward or punish them without bias. These aspects generate an environment in which employees work

satisfactorily, which results in an enhanced job and organizational performance (Weaver et al., 2005). Kapp (2012) also reports that ethical leaders give timely feedback to the employees that promotes a positive attitude toward work and reduces job-induced stress and anxiety.

> H_2 *Ethical leadership and self-efficacy are positively associated.*

Ethical Leadership and Workplace Climate (H3)

Earlier studies have mostly focused on the real work environment and its effect on employees' job and organizational performance (Demirtas, & Akdogan, 2015). However, since early 2000 the researchers' focus shifted on the *"leadership effects on employees' performance, employees' job design, and the importance of employees-wellbeing"* (Laschinger et al., 2015). Piccolo et al. (2010) acknowledge that ethical leaders promote an environment in which employees have more autonomy than others. Thus they learn how important the job-related assignments are for their performance and development (Dahl, 2013). Similarly, Brown & Trevin (2006) stress that ethical leaders are now more involved in job designs. In this process, ethical leaders ensure that all the job designs are rational, well-balanced, and may positively affect employees' well-being. All the job designs have two important aspects. One is quantitative, and the other is qualitative. Quantifiable jobs are measurable, and qualitative jobs are not measurable but may generate stress on the employees. Ethical leaders in the process of job design keep an appropriate balance of both the qualitative and quantitative aspects of a job design (Lievens & Vlerick, 2014). Researchers also argue that while allocating job-related assignments to the employees, ethical leaders make all the efforts to align efficiency, feasibility, and employee well-being (Kwan et al., 2016). Langlois et al. (2014) argue that an ethical leader develops an environment in which all the employees are fully aware of the factors related to ethical rewards and punishment. However, employees in such an environment are also confident that ethical leaders reward and punish with justice and unbiasedness (app, 2012). Thus this environment reduces the work-related stress of the employees (Laschinger et al., 2015).

> H_3 *Ethical leadership and workplace climate are positively associated.*

Self-Efficacy and Job Performance (H4)

Self-efficacy is a strong predictor of job performance (Brown et al., 2005). Highly efficacious employees always accept challenging assignments. They are highly self-motivated and optimistic, goal-oriented, and have a higher threshold level to absorb emotional stress (Hoyt et al., 2013). These qualities enhance his/her job and organizational performance (Hoffmeister et al., 2014). Moreover, Laschinger et al. (2015) argue that self-efficacious persons control the surroundings and take the initiative to break the status quo.

Thus, self-efficacy motivates employees to manage work effectively, makes them proactive, and prepares them for challenging jobs (Langlois et al., 2014). Job self-efficacy thus enhances employees' ability to increase job performance (Kapp, 2012). Social cognitive theory assumes that highly complex jobs, autonomy, and feedback to employees promote *"enactive mastery"*, which is an important facet of self-efficacy (Kwan et al., 2016). Similarly, Mayer et al. (2009) suggest that self-efficacy promotes employee autonomy and job enrichment and both individually and collectively influence employees' job performance (Hoffmeister et al., 2014).

> H_4 *Self Efficacy and job performance are positively associated.*

Workplace Climate and Job Performance (H5)

A workplace environment aligned to employees' values is referred to as the ergonomic workplace (Mayer et al., 2009). Also, workplace layout, furniture, and fixtures influence employees' satisfaction and job performance (Dahl, 2013). Many studies have concluded that the work environment is an important antecedent to job performance and job satisfaction (Laschinger et al., 2015). Resick et al. (2011) suggest that when employees are not satisfied with the workplace environment, they become exhausted and slowly do their work, leading to low performance and organizational productivity.

Conversely, researchers argue that a conducive working environment motivates employees to be more resilient towards the job. Consequently, it enhances job performance (Nielsen et al., 2016). Moreover, Langlois et al. (2014) examined how the workplace environment influences "employees' intrinsic, extrinsic, social needs, and turnover intention." The study concluded that firms that provide a conducive working environment to the employees would reduce absenteeism rate, enhance productivity and turnover intention. Furthermore, Fu & Deshpande (2014) found a positive association between environment and employee productivity. Therefore, the study suggested that the firms improve the working environment as it reduces employees' job-induced stress and enhances job-related performance. Freiwald (2013) acknowledges that employees deliver more in a conducive environment. Grojean et al. (2004) found physical environments such as lighting arrangements, low noises, and ventilated environments individually and collectively improve employee's productivity. Researchers have concluded that the working environment and organizational performance relationship is not industry-specific but is universal. It is applicable in both the service and non-service industries (Grojean et al., 2004; Fu & Deshpande, 2014).

H_5 *Work climate and job performance are positively associated.*

Workplace Climate and Safety Compliance (H6)

Organizational climate is not a one-dimensional construct. It is multidimensional, and its predictive power varies from person to person (Resick et al., 2011). For example, for some employees, leadership, roles, and communication may be important to one employee, and to another employee, a safe environment and customer satisfaction may be essential (Grojean et al., 2004). Safety climate includes management concern about employees' well-being, provision of safety equipment, and quality of safety management system. Compliance with these factors prevents random accidents (Mayer et al., 2009; Laschinger et al., 2015).

Many past studies have concluded that safety climate is an important facet of workplace climate. When employees see open interaction and communication in an organization, they perceive that it supports employees' well-being and safety (Langlois et al., 2014; Kapp, 2012). Mayer et al. (2009) reports that employees with a higher perception of safety climate have a more serious concern towards safety compliance. This attitude reduces negative outcomes, including injuries and accidents (Mayer et al., 2009; Grojean et al., 2004). Researchers have examined safety-related studies from two perspectives. Some studies have examined the influence of safety climate on safety performance, while other studies have examined the antecedents to safety climate (Hoyt et al., 2013; Mayer et al., 2010).

Resick et al. (2011) believe that organizations give more recognition to employees involved in safety practices than those who are not concern about it (Resick et al., 2011).

Moreover, safety compliance behavior is not consistent in all professions. For example, a study found that nurses are more concerned about safety compliance, followed by technicians and physicians (Fu & Deshpande, 2014).

> *H$_6$*   *Workplace climate and safety compliance are positively associated.*

Ethical Leadership, Self-Efficacy, and Job Performance

Ethical leaders generate self-efficacy in the employees by respecting and treating them equally (Kapp, 2012). Moreover, ethical leaders provide a stress-free environment to the employees, give them full autonomy and feedback that makes the employees more efficacious (Weaver et al., 2005).

Self-efficacy is important for employees' positive attitudes towards work (Kwan et al., 2016). An employee who is self-efficacious develop strategic thinking that helps him/her to prioritize job assignments that make him/her more efficient than others (Kapp, 2012)

> *H$_7$*   *Self-efficacy mediates ethical leadership and job performance.*

Ethical Leadership, Work Climate and Job Performance

Langlois et al. (2014) suggest an ethical leader develops a conducive working environment for the employees. The employees working in this environment are confident that ethical rewards and punishment will be transparent and without biases (Kapp, 2012). Thus, the environment created by ethical leaders reduces the work-related stress of the employees and gives them more autonomy (Laschinger et al., 2015).

A conducive environment aligned with employees and organizational values inspires employees to enhance their job performance (Freiwald, 2013). A working environment is not industry-specific. But lighting arraignments, ventilated environment, and overall ambiance are positively associated with employees' performance (Grojean et al., 2004).

> *H$_8$*   *Work climate mediates ethical leadership and job performance.*

Ethical Leadership, Work Climate and Safety Compliance

Researchers believe that ethical leaders are concerned about the well-being of the employees; therefore, while allocating job-related assignments, they aligned both efficiency and feasibility, which is important for a conducive environment (Kwan et al., 2016). Moreover, ethical leaders are willing to sacrifice their personal goals for the betterment of employees and organizations. Thus, the employees' respect and trust with the leaders increase necessary for a conducive environment (Kapp, 2012).

Safety climate includes factors such as management concern about employees' well-being, provision of safety equipment, and quality of safety management system. Compliance with these factors prevents random accidents (Mayer et al., 2010; Laschinger et al., 2015). Many past studies have concluded that safety climate is an important facet of workplace climate. (Langlois et al. (2014) and Kapp (2012) found that when employees see an open and interactive environment in an organization, they believe that it is supportive of employees' well-being and safety

H₉   Work Climate mediates ethical leadership and safety compliance.

METHODOLOGY

Population and Sample Size

The target population of the study is SMEs in Karachi. We have selected this domain as SMEs globally, and in Pakistan contributes to economic growth and development. The sample size for the study was 500. We have calculated the sample size based on 25 indicator variables used in this study and 20 samples for each indicator variable (Hair et al., 1998). There are five SME associations in Karachi located at Federal B Area, North Karachi, Korangi, and Site. We have selected ten units from each SME association, and from each unit, we have collected five samples.

Respondent Profile

Of the total respondent, 75% were males, and 25% were females. About 55% of respondents were married, and 45% were single. In terms of age, we found 30% of the respondents in the age range of 20 to 30 years; 35% were in the age range of 31 to 40 years; 20% were in the age range of 41 to 50 years, and 15% were in the range of 51 to 60 years. Most of the respondents (45%) were at least matriculate, 30% had an intermediate level of education, 25 % had a bachelor's degree, and 10 had a Master's degree.

Scale and Measures

The questionnaire used in the study has five latent variables and 25 indicator variables. Table 1 shows the source and the number of items for each latent variable.

Table 1 SCALES AND MEASURES		
Construct	**Source**	**No of Items**
Self-Efficacy	Laschinger (2015)	5
Ethical Leadership	Brown et al. (2005)	5
Job Performance	Lynch et al. (1999).	5
Work Place Climate	Cullen et al. (1993)	5
Safety Compliance	Hayes et al. (1998)	5

Statistical Analysis

We have used Smart PLS version 22 for data analysis. Initially, preliminary statistical analysis was carried out, including reliability, validity, and descriptive. Subsequently, the study used bootstrapping for generating a structural model.

RESULTS

Descriptive Analysis

The results related to descriptive and correlations are depicted in Table 2.

Table 2 DESCRIPTIVE ANALYSIS					
	Mean	Std. Dev	Skewness	Kurtosis	Cronbach's Alpha
Ethical Leadership	4.91	0.89	0.46	-0.78	0.824
Job Performance	3.96	0.87	0.17	-0.72	0.878
Workplace Climate	4.48	0.84	0.33	-0.47	0.835
Self-Efficacy	3.81	0.96	0.04	-0.98	0.863
Safety Compliance	3.11	0.91	0.07	-0.92	0.839

The results show that the highest Skewness is for ethical leadership (Mean=4.91, SD =0.89, SK=0.46), and the lowest Skewness is for self-efficacy (Mean=3.81, SD =0.96, SK=0.04). Similarly, the highest Kurtosis value is for self-efficacy (Mean=3.81, SD=0.96, KR=-0.98) and the lowest kurtosis is for workplace climate (Means=4.48, SD=0.84, KR=-0.47). All the kurtosis and Skewness values are between $\pm$ 3.5confirming that the constructs fulfill univariate normality requirements (Hair et al., 1998).

The results presented also show that the highest Cronbach's alpha value is for the construct job performance (α=0.878, Mean=3.86, SD=0.97), and the lowest is for ethical leadership (α=0.824, Mean 4.91= SD=0.89). All the Cronbach's alpha values are at least 0.70, suggesting that the adapted constructs have acceptable internal consistency.

Convergent Validity

A summary of the results related to convergent validity is presented in Table 3. It also shows mean standard deviation, composite reliability values, and AVE.

Table 3 CONVERGENT VALIDITY				
	Mean	Std. Dev	Composite Reliability	AVE
Ethical Leadership	4.91	0.89	0.855	0.608
Job Performance	3.96	0.87	0.877	0.591
Workplace Climate	4.48	0.84	0.909	0.627
Self-Efficacy	3.81	0.96	0.88	0.597
Safety Compliance	3.11	0.91	0.902	0.65

The results show that the highest composite reliability value is for workplace climate (CR=0.909), and the lowest is for self-efficacy (CR=0.880). Moreover, the highest AVE is for workplace climate (AVE=0.927), and the lowest is for self-efficacy (AVE=0.597).

Since all average variance extracted values are greater than (AVE=0.50), and composite reliability values are at least (CR=0.70) therefore, it is inferred that the constructs fulfill the requirement of convergent validity (Hair et al., 1998).

Discriminant Validity

The results related to discriminant validity are summarized in Table 4.

The discriminant validity results show that correlation coefficient values are lower than the square root of the variance explained (diagonal values in bold). Thus it is inferred that all the latent variables are unique and distinct (Fornell & Larcker, 1981).

Table 4 DISCRIMINANT VALIDITY					
	EL	**JB**	**SC**	**SE**	**WC**
Ethical Leadership	**0.78**				
Job Performance	0.71	**0.77**			
Safety Compliance	0.75	0.55	**0.79**		
Self-Efficacy	0.51	0.72	0.47	**0.77**	
Workplace climate	0.82	0.71	0.73	0.58	**0.81**

Path Coefficient

In this study, six direct hypotheses and three indirect hypotheses were proposed. The results are presented in Table 5. Measurement and structural models are presented in Figure 2 and Figure 3, respectively.
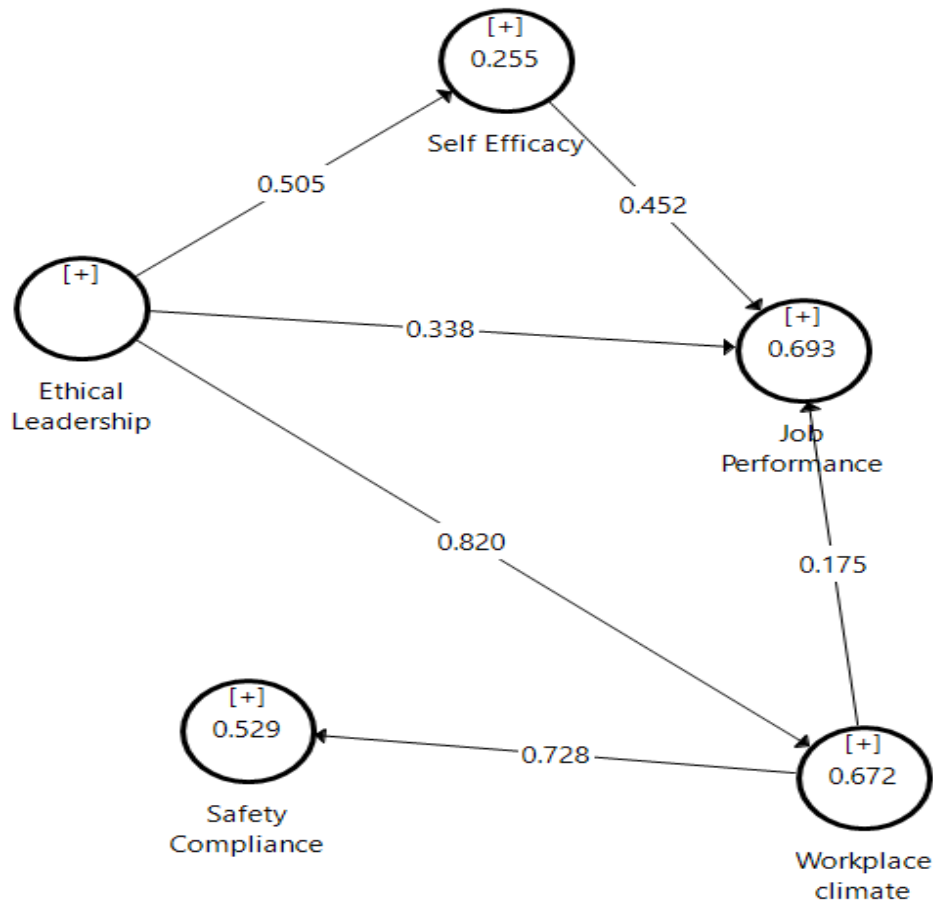
FIGURE 2
MEASUREMENT MODEL
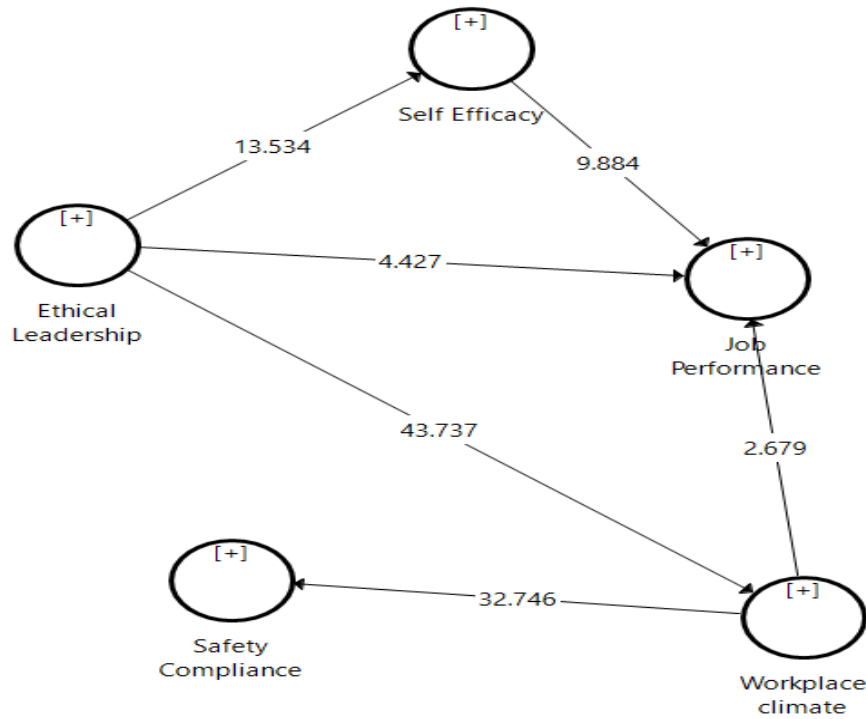
FIGURE 3
STRUCTURAL MODEL

The results support all the direct hypotheses. Similarly, our results support two mediating hypotheses and do not support one indirect hypothesis.

	Path Coefficient	T-Stats	P Values	Results
Table 5 **PATH COEFFICIENTS**				
Direct Relationships				
Ethical Lead -> Job Performance. (H1)	0.338	4.416	0	Accepted
Ethical Lead -> Self Efficacy (H2)	0.505	14.071	0	Accepted
Ethical Lead -> Work. climate (H3)	0.82	43.589	0	Accepted
Self-Efficacy -> Job Performance (H4)	0.452	10.512	0	Accepted
Work. climate -> Job Performance (H5)	0.175	2.553	0.011	Accepted
Work. climate -> Safety Comp (H6)	0.728	31.29	0	Accepted
Indirect Relationships				
Eth. Lead ->Self Efficacy -> Job Performance (H7)	0.229	10.626	0	Accepted
Ethical Lead ->Work-clim. -> Job Performance (H8)	0.143	2.447	0.015	Rejected
Ethical Lead ->Work-clim.->Safe.Comp (H9)	0.596	21.067	0	Accepted

DISCUSSION

We have proposed six direct and three indirect hypotheses. Our results support all the hypotheses except one. The results and their relevance with earlier studies are discussed in the following sections.

Hypothesis one states that ethical leaders promote employee's job performance, which our result support. Ethical leaders have high moral and ethical values and are experts in their field. Employees perceive them as trustworthy. Therefore, they feel comfortable sharing their views and take advice from the leaders (Resick et al., 2011). Thus, ethical leaders develop an environment that promotes professional and social interaction and enhances employees' satisfaction and job performance (Kwan et al., 2016).

Hypothesis two was on the association of ethical leadership and self-efficacy, which was also accepted. Social learning theory (Bandura, 1978) postulates that an individual's learning process includes watching others, verbal persuasion, and inspiration. Thus it is inferred that individuals need role models and mentors who guide and nurture them in their development process (Lievens, & Vlerick, 2014). Brown et al. (2005) have explained the implications of social learning theory by stating that ethical leaders are role models for subordinates. Moreover, they delegate assignments and jobs to the employees aligned with their competence levels (Nielsen et al., 2016).

Our results support the third hypothesis that states that ethical leadership and work environment are associated. .Piccolo et al. (2010) acknowledges that ethical leaders promote an environment in which employees have more autonomy than others. Thus ethical leaders know how important the job-related assignments are for employees, performance, and development (Dahl, 2013). Similarly, Brown & Trevin (2006) stress that ethical leaders are now more involved in job designs. In this process, ethical leaders ensure that all the job designs are rational; well- balanced and may not adversely affect employees' well-being

Our results support the fourth hypothesis, which states the association of self-efficacy and job performance. Self-efficacy is a strong predictor of job performance (Brown et al., 2005). A highly efficacious employee always accepts challenging assignments. He is highly self-motivated and optimistic, goal-oriented, and has a higher threshold level to absorb emotional stress (Hoyt et al., 2013). These qualities enhance his/her job and organizational performance (Hoffmeister et al., 2014).

The fifth hypothesis was on the association of work climate and job performance, which was also accepted. A workplace environment may or may not be aligned to employees, which is referred to as the ergonomic workplace (Mayer et al., 2009). For example, workplace layout, furniture, and fixtures influence employees' satisfaction and job performance (Dahl, 2013). Many studies have concluded that the work environment is an important antecedent to job performance and job satisfaction (Laschinger et al., 2015).

The sixth hypothesis states that work climate and safety compliance are associated. We also found support for this hypothesis. Safety climate includes management concern about employees' well-being, provision of safety equipment, and quality of safety management system. Compliance with these factors prevents random accidents (Mayer et al., 2009; Laschinger et al., 2015). Many past studies have concluded that safety climate is an important facet of workplace climate.

The last three hypotheses were on the mediating variables. Our results support self-efficacy mediates job performance (H7). But our results could not support work climate mediating ethical leadership and job performance (H8). However, the hypothesis (H9) on the mediating role of work climate on safety compliance was accepted. These findings, except H8, are consistent with earlier studies (Walumbwa et al., 2011; Walumbwa & Schaubroeck, 2009; Demirtas & Akdogan, 2015). And mediating variables influences dependent variables (Brown et al., 2005; Hoyt et al., 2013)

CONCLUSION

We found that ethical leadership promotes job performance, self-efficacy, and work climate. Whereas the results also show that work efficacy and work climate promotes job performance. We also found an ethical leader through self-efficacy and work climate influence job performance and safety compliance respect. However, our results did not support the work climate that mediates ethical leadership and job performance. Ethical leadership is a distinct leadership style that has emerged recently. However, some of its traits are common with other leadership styles. Our findings have several implications. The organizations, while appointing supervisors, must ensure that they have high ethical values and norms. Besides, the organizations need to spend considerable resources on mentoring and training of the employees. The focus of these mentoring and training sessions should be on *"accountability, self-discipline, fairness, communications, and ethical values"*.

Limitations and Future Research

We have focused on SMEs in Karachi since they are major contributors to national exchequers. Other studies can collect data from SMEs of other cities of Pakistan. Also, other studies can extend the model used in the study in service sectors. A comparative study between the two sectors may also bring further insight into the phenomenon. Attitude and behavior vary with age and gender, which we did not consider in the study. Future studies can incorporate demographic factors in their studies.

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