



INTERNATIONAL JOURNAL OF ACADEMIC RESEARCH IN BUSINESS & SOCIAL SCIENCES



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To Link this Article: <http://dx.doi.org/10.6007/IJARBSS/v9-i5/6005>

DOI: 10.6007/IJARBSS/v9-i5/6005

Received: 18 March 2019, **Revised:** 06 April 2019, **Accepted:** 21 April 2019

Published Online: 27 May 2019

In-Text Citation: (Lee, Kawagit, & Yazid, 2019)

To Cite this Article: Lee, U. H. M. S., Kawagit, R. M. @, & Yazid, Z. (2019). Relationship between Ethical Leadership through Leader Practices of Decision Making, Two-Way Communication, Reinforcement and Ethical Climate. *International Journal of Academic Research in Business and Social Sciences*, 9(5), 761–772.

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Vol. 9, No. 5, 2019, Pg. 761 – 772

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Relationship between Ethical Leadership through Leader Practices of Decision Making, Two-Way Communication, Reinforcement and Ethical Climate

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Abstract

Ethical leadership is becoming an important organizational strategy in achieving its objectives in the fourth industrial revolution era. This study aimed to explore the impact of ethical leadership practiced through decision making, two-way communication, reinforcement towards ethical climate among organizational leaders. Cross sectional technique was employed to collect primary data from 150 employees from corporate organizations within West Malaysia. Data analysis was conducted through Partial Least Square – Structural Equation Modeling (PLS-SEM). The findings of the analysis indicated that there was a significant relationship between decision making and ethical climate, there was also significant relationship between two-way communication and ethical climate, and the connection between reinforcement and ethical climate was also found to be significant. Statistically, these outcomes confirmed that decision making, two-way communication and reinforcement practiced by leaders are the determinant factors for ethical climate in the organizations involved. Thus the findings of this study provided empirical evidence on the important elements of ethical leadership on ethical climate to enhance ethical climate in the organization.

Keywords: Ethical leadership, Decision Making, Two-Way Communication, Reinforcement, Ethical Climate, PLS-SEM.

Introduction

Ethical issues in the recent days are becoming more complex as they are mainly focused on certain crucial aspects such as fairness, social expectation, social responsibilities and legal rights. Victor & Cullen (1988) suggested a way to understand the practices of ethical conduct in organization by introducing the concept and ideas of ethical climate. Employees are more likely to opt for employment with an organization with parallel ethical practices to their preferences and since ethical leadership has been identified as an important variable in affecting the ethical climate of the

organization, it will lead the employees to perceive the climate practiced in the organization as ethical (Jr 2001; Ma et al. 2012). According to Brown & Trevino (2013) and Trevino et al. (2000; 2003), ethical leadership can help organizations to strengthen the climate in workplace if the leaders play their role as moral managers by practicing fair reward, discipline, communication, decision making and standards, and holding everyone accountable for the set standards.

The issues on ethical conduct which resulted from corporate leaders who failed to demonstrate ethical leadership practices have gained prominence in Malaysia due to the increase of reported commercial crime by year {Formatting Citation}. The statistics on reported unethical practices by organizational leaders in the recent years is alarming (Lu et al. 2013; Mayer & Kuenzi 2011) and it will certainly lead to critical impact on the business in the long run. A well-known corporate scandal of Enron WorldCom fits well to this statement where fraudulent activities of the leaders had eventually led the company to bankruptcy in December 2001. The issue hence led to the increased awareness on the impacts of misconducts practiced by organizational leaders and indirectly led to the increasing interest in researches related to ethical climate and the role of ethical leadership as an effort to reduce the occurrence unethical practices in the organization (Lu et al., 2013).

Previous studies since then have identified and suggested ethical leadership as an important factor which may impact the ethical climate of an organization (Lu et al., 2013; Brown Trevino 2006; Mayer et al., 2010). Ethical leaders are referred to the leaders who show ethical concern in upholding their duties and responsibilities (Ciulla, 1995) meanwhile ethical leadership is referring to the practices of ethical leaders towards the employees through two-way communication, reinforcement and decision making (Brown et al. 2005). Decision making, in this context is referring to the principled decision expected to be made by the leaders with ethical consideration on the impact of their decision, reinforcement is referring to the practice of setting unbiased and ethical regulations and standards in rewarding or correcting the employees, meanwhile communication is referring to the interpersonal interaction in conveying ethics and values to others (Brown et al., 2005; Eubanks et al., 2012; Vivian C. Sheeri et al., 2018).

The concept of ethical climate was first proposed by Victor & Cullen (1988) {Formatting Citation}. It is described as mutual perception on the right set of behaviors to be practiced in workplace and on the ways ethical issues should be dealt with in an organization. Recent studies on this matter concluded that ethical climate is one primary factor in determining interpersonal connection within the organization and the reciprocal attitudes of the employees, and it plays a role in influencing the performance of the organization through ethical leadership (Elci & Alpan, 2009). Therefore, this study aimed to investigate the connection of ethical leadership practices through decision making, reinforcement and two-way communication to ethical climate.

Literature Review and Research Hypothesis

Social Learning Theory proposed by Albert Bandura (1977) strongly supports the notion that ethical leadership is an important predictor to ethical climate where leaders are expected to play their role of role model as ethical leaders and implementing ethical practices in order to create ethical climate in the workplace (Dickson et al., 2001). There are also several other studies supporting this notion with empirical findings in assessing the impacts of ethical leadership on different samples.

A number of studies have been conducted in order to explore the connection of leadership practices through decision making, two-way communication, reinforcement to organizational ethical climate (Maureen et al. 2008; Mayer et al. 2009; Meral and Lutfihak 2009; Okpara and Lynn 2008). The following studies conducted by Lu & Lin (2013) on 147 employees in Taiwan, Elci et al. (2015) on 543 employees in Istanbul, Park et al. (2014) on 728 employees in Korea and Engelbrecht et al. (2013) on 224 employees in Africa indicated that decision making, reinforcement and two-way communication were significantly associated with ethical climate. Thus, it was hypothesized that:

H1: There is a significant relationship between decision making and ethical climate
H2: There is a significant relationship between two-way communication and ethical climate
H3: There is a significant relationship between reinforcement and ethical climate.

Hence it led the current researcher to develop a theoretical framework which also serves as a research framework (Figure 1):

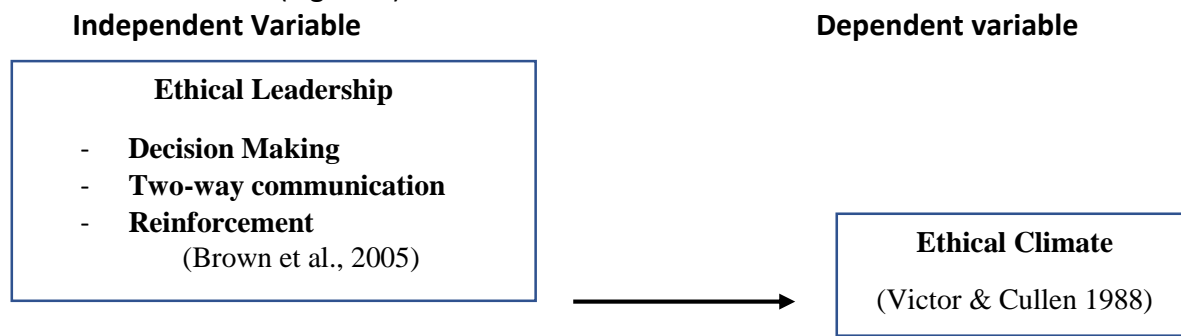


Figure 1: Conceptual Framework

Methodology

Research Design

The required data for this study were mainly collected through the integration of literatures related to ethical leadership and through a set of questionnaire provided to the respondents applicable through cross sectional research design. The method applied in the data collection process of this study can increase the probability of collecting accurate data, reducing data bias, and increasing the quality of the data obtained (Creswell 2014; Sekaran & Bougie, 2016). This study was conducted on respondents from various corporate sectors in West Malaysia. The identity of the organizations involved as well as the selected respondents is treated as anonymous in order to protect their confidentiality in participating. A set of survey questionnaire were developed in the earlier stage of the study based on related literatures on ethical leadership. The process was followed by sequential translation to translate and retranslate the questionnaire into English and Malay languages to remove errors, ambiguities and confusion on each item, and to enhance the validity and reliability of the instrument in order to obtain accurate data (Creswell 2014; Lomand, 2016; Sekaran & Bougie, 2016).

Measures

The items in the questionnaire consisted of four major sections. The first section consisted of seven items adapted from the instruments used by Yukl (2010) and Brown et al., (2005) in assessing the component of decision making. The items in this section were focused on the impartiality in the process and procedure of decision making. The second section of the questionnaire consisted of nine items adapted from the instruments developed by Yukl and Brown et al., (2005) in assessing two-way communication element of ethical leadership. All items in the second section were focusing on the practice of affective interaction between leaders and employees. Component of reinforcement was assessed in the third section of questionnaire with nine item adapted from the instrument constructed by Yukl (2010) and Brown et al. (2005) and all items in this section were focusing on the application of standard rules and regulations and the practices of reward and penalty. The final section consisted of eighteen item adapted from the instrument proposed by Victor and Cullen (1988) in assessing ethical climate and all items in this sections were validated by Okpara & Wyn (2008) and Tsai & Huang (2008) in their studies which agreed that the focus of the items is related to the compliance of organizational procedures and regulations, observance on legal and professional standards of the organization, and general consideration on the employees. Each item in the questionnaire was measured by using five-point Likert scale on the respondents' agreeableness to the posed statements. All demographic information obtained through the survey was classified as controlling variables as the study was focusing on the perceptions of the employees.

Sample

This study was conducted with the aim to study the general population of the employees working in various corporate sectors within West Malaysia. Purposive sampling technique was used to disseminate 200 sets of questionnaire to selected samples consisting of executive and non-executive staff of the organization. This specific sampling technique was used due to the restriction on individual information of the staff to protect their confidentiality hence limiting the researches to apply random sampling to the population. Purposive selection method is often used in social science research as it allows the researchers to imply their judgment in selecting samples to adequately represent the whole population (Black 2010; Saunders, Lewis & Thornhill 2012). 150 completed sets of questionnaire out of 200 were returned to the researchers which made a total of 75% response rate from the population. The participation of the respondents was on voluntary basis with their consent. The samples of this study met the needed standard of probability sampling technique and the data obtained through the survey were analyzed by using Partial Least Square – Structural Equation Modeling (PLS-SEM).

Findings

Sample Profile

Majority of the respondents were male (51.3%), aged between of 36-40 years old (52.7%), married (86%), with 11 to 15 years working experience (54%), was in executive level of employment (55.3%), and with monthly gross incomes ranging from RM 6000 to RM 6999 (27.3%).

Table 1: Respondent Profile (n=150)

Respondent	Sub-Profile	Frequency	Percentage
Gender	Male	77	51.3
	Female	73	48.7
Age (years)	Less than 25	2	1.3
	26-30	18	12
	31-35	34	22.7
	36-40	79	52.7
	More than 41	17	11.3
Race	Malay	129	86.0
	Chinese	15	10.0
	Indian	3	2.0
	Others	3	2.0
Marital Status	Married	129	86.0
	Single	14	9.3
	Divorced	7	4.7
Position	Executive	83	55.3
	Non-executive	67	44.7
Monthly salary (Ringgit Malaysia)	Less than 2000	2	1.3
	2000-3999	44	29.3
	4000-4999	29	19.3
	5000-5999	27	18.0
	6000-6999	41	27.3
	7000 and above	7	4.7
Length of services (years)	Less 5	10	6.7
	6 – 10	45	30.0
	11-15	14	9.3
	More than 15	81	54.0

Validity and Reliability of the Measurement Scale

Table 2 presents that the loading values of the variables to be more than 0.70 in respective construct of the model. It is also presented that the correlation between items and factors has higher loading value than other items in different construct. In overall, the outcome of the analysis indicates that the measurement model used met the established criteria for validity and reliability (Henseler, Ringle & Sarstedt, 2014). The average variance extracted (AVE) values of all constructs to be greater than 0.5 hence indicating that all constructs measured met the required standards of convergent validity (Barclay, Higgins & Thompson 1995; Henseler et al., 2014).

Table 2: The results of factors loadings and cross loadings for different constructs

Constructs	DM	COMM	REIN	EC	AVE
Decision Making					0.673
1.DM1	0.775				
2.DM2	0.840				
3.DM3	0.829				
4.DM4	0.894				
5.DM5	0.792				
6.DM6	0.746				
7.DM7	0.858				
Two-way Communication					0.788
1.COMM1		0.887			
2.COMM2		0.877			
3.COMM3		0.894			
4.COMM4		0.890			
5.COMM5		0.889			
Reinforcement					0.761
1.REIN1			0.872		
2.REIN2			0.811		
3. REIN3			0.899		
4.REIN4			0.917		
5.REIN5			0.861		
Ethical Climate					0.747
1.EC1				0.859	
2.EC2				0.854	
3.EC3				0.895	
4.EC4				0.858	
5.EC5				0.910	
6.EC6				0.834	
7.EC7				0.828	
8.EC8				0.873	

Table 3 shows the results of convergent and discriminant validity analyses. All constructs are reported to have AVE values in diagonal greater than the squared correlation of other constructs in off-diagonal hence indicating that all constructs met the required standards of discriminant validity (Henseler et al., 2014; Zhang, 2009). Additionally the composite reliability values for all constructs are also reported to be higher than 0.80 thus indicating that the instrument used for this study possessed high internal consistency (Henseler & Chib, 2010).

TABLE 3: The result of convergent and discriminant validity analysis

Variable	1	2	3	4	Composite Reliability
Decision Making					0.935
Two-way Communication	0.874				0.949
Reinforcement	0.781	0.831			0.941
Ethical Climate	0.824	0.829	0.877		0.959

Analysis of the Construct

Table 4 illustrates the outcomes of variance inflation factor and descriptive statistics analyses. The mean values for the construct are reported to be between 4.1388 and 4.1091 which indicate that most of the respondents indicated 4 and 5 for their perception on decision making, two-way communication, reinforcement, and ethical climate. Variance inflation values for the correlation between dependent and independent variables are reported to be lower than 5.0 hence indicating that all constructs were not influenced by severe collinearity issue (Hair et al. 2017). Therefore, these findings confirmed that the instrument used for this study met the required criteria for validity and reliability.

Table 4: The Result of variance inflation factor and descriptive statistics

Construct	Mean	Standard Deviation	Variance Inflation Factor (VIF)	
			3	4
Decision Making	4.1388	0.55326		2.952
Two-way Communication	4.1121	0.54022		4.881
Reinforcement	4.1091	0.48620		4.291
Ethical Climate	4.1009	0.49180		

Outcomes of Hypotheses Testing

The results of direct model effects of the hypotheses are as indicated in Figure 2. The analysis indicated that the inclusion of decision making, two-way communication, and reinforcement contributed to 79% of variance in ethical climate thus indicating that the general predictive strength of the model to be substantial (Hair et al. 2011; Henseler et al. 2009). Three findings were explored with the outcomes of the hypotheses testing. The first finding of this study indicated that there decision making significantly determine ethical climate ($\beta = 1.65$; $t=2.105$) hence supporting H1. The second finding indicated that two-way communication significantly correlated with ethical climate ($\beta= 0.501$; $t =3.277$), hence supporting H2. The third finding of the study exposed that there was a significant correlation between reinforcement and ethical climate ($\beta = 0.276$; $t =2.964$), hence supporting H3. In overall, the results demonstrated that decision making, two-way communication and reinforcement acted as significance predictors of ethical climate in the organizations involved.

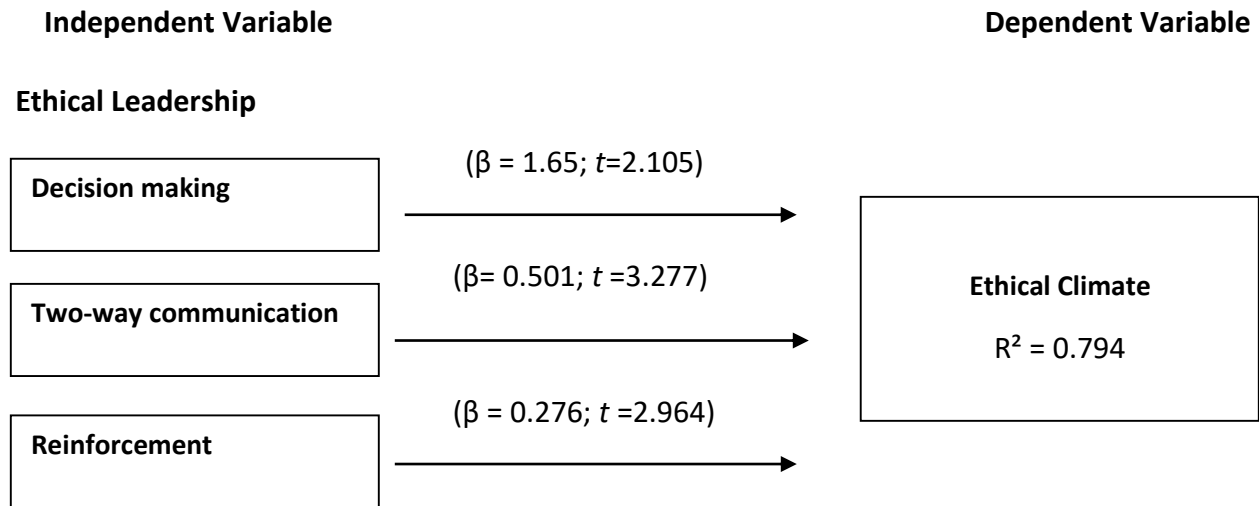


Figure 2: The Outcome of Hypotheses Testing (significant at t>1.65)

Aside from hypotheses testing, effect size (f^2) and predictive relevance for reflective endogenous latent variable (Q^2) analyses were also conducted through bootstrapping and blindfolding procedures. The outcome from bootstrapping procedure indicated that the f^2 value for the relationship between decision making and ethical climate was 0.046, more than 0.15 hence indicating that decision making showed medium effect on ethical climate (Cohen 1988). Meanwhile, the f^2 value for the relationship between two-way communication and ethical climate was 0.212, greater than 0.15 thus indicating that two-way communication showed medium effect on ethical climate (Cohen 1988). The procedure also indicated that the f^2 value of the relationship between reinforcement and ethical climate was 0.088 which is greater than 0.02 thus indicating that reinforcement showed weak effect on ethical climate (Cohen 1988). Meanwhile, Q^2 value for ethical climate was computed at 0.537 which is greater than zero thus signifying that ethical climate has predictive relevance (Hair et al., 2017).

Discussion and Conclusion

The findings of this study thus concluded that decision making, two-way communication, and reinforcement were significantly associated and may increase ethical climate in the assessed organizations. It was also indicated in the response of the samples that the organizational leaders were concerned with the needs and well-being of the employees in order to emphasize on ethical practices and values in dealing with any issue in the organization to achieve the objectives of the organization. The findings of this study also indicated that decision-making, two-way communication and reinforcement acted as important predictors to ethical climate on the assessed setting. Majority of the respondents had high perception on decision-making, two-way communication, reinforcement, and ethical climate thus explained that the capability of leaders in effectively practicing ethical leadership would strongly influence organizational ethical climate. This study has led to three important implications, which include theoretical contribution, the strength of methodology, and practical effects. This is in line with the main description in Ethical Climate Theory (Victor & Cullen 1998) and Social Learning Theory (Bandura, 1977).

This study also introduced a set of adapted instrument and analyses, which have fulfilled the needed standards for validity and reliability to enhance the findings of this research and future researches that might be conducted on similar setting. Additionally the outcomes of this study may be generalized and used as recommendation to industry practitioners in improving leadership practices of the organization. Overall findings from this study suggested that ethical leadership significantly affect ethical climate of the organization. Therefore, it is vital for the management to emphasize on the application of appropriate ethical climate in the workplace through the values and ethics of organizational leaders. Future researches may also consider exploring further on all nine criteria of ethical climate as proposed by Victor and Cullen in order to produce more generalizable outcome.

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