

## THE INFLUENCE OF ETHICAL LEADERSHIP THROUGH DECISION MAKING AND REINFORCEMENT TOWARDS EMPLOYEE OUTCOMES

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### ABSTRACT

Today, in the early days of industrial revolution, ethical leadership has become an important organization strategy and aim for achieving the organizational objective and success. The purpose of this research is to explore into the influence of ethical leadership through decision making and reinforcement practice by leader on employees' outcomes such as organizational commitment and moral behavior. A cross sectional technique was employed to collect the primary data from 139 employees from the corporate telecommunication sector in Peninsular Malaysia who experienced the implementation and practice of ethical leadership. This study adopts the partial Least Square Structural Equation Modeling (PLS-SEM) for the purpose of data analysis. The outcomes display that decision making acts as an important predictor to moral behavior and organizational commitment. Additionally, reinforcement acts as an important predictor for moral behavior and yet, acts as an important predictor to organizational commitment.

**Keywords:** *Ethical Leadership, Decision making, Moral behavior, Organization commitment*

### INTRODUCTION

Nowadays, ethical issues have become increasingly important due to the revelation of numerous corporate scandals such as World Com, Enron and Tyco which involve the form of unethical practices by the leader (Muhammad Yasir & Amran Rasli 2018). Such concerns are highly related to the effectiveness of a leader and hence may affect employee outcomes such as lower turnover intention, greater commitment, job satisfaction and widely noted influence on employees' ethical behavior (Elçi et al. 2015 Sim & Kroeck 1994; Ma et al., 2012). Due to the severity of the situations and outcome, it is important to investigate the main cause that leads to the effects of the emergence of unfavorable employees' outcome in the organization. A study done by Sim & Kroeck (1994) and Muhammad Yasir & Amran Rasli (2018), Samina Karim & Sadia Nadeem (2019) found that understanding the impacts of ethical leadership may enhance the level of employee outcomes through the great ethical practice of leaders in the organization. In Malaysia, issues on ethical conducts involve leaders who have gotten more attention due to the increasing reports on commercial crimes. The statistics on commercial crimes as reported by Royal Malaysia

Police (2004; 2012) showed an increase on the number of reported commercial crimes in the nation from 4,229 cases in 2004 to 97,685 cases in 2012 with the data continuing to increase each year which involves corporate scandals in the organization. The statistics also demonstrates that the number of reported cases increased by almost triple within the earlier years of the record. Ponnu & Tennakoon (2009) and Ma et al. (2012) indicated that the increasing trend of commercial crimes is connected to the failure of the corporate leadership in demonstrating ethics in their leadership practices, thus leaving negative impacts on their employees.

Ethical leadership has gained awareness and alert from researchers in the past decades especially in identifying its background, outcomes, and process (Ciulla, J.B. 1995; Vivian C. Sheeri 2018; Yukl et al. 2013). Hence, this study is conducted to identify the impacts of ethical leadership practices through the decision making and reinforcement to employee outcomes specifically on moral behavior and organizational commitment. This study is conducted with four main objectives in identifying the connection between decision making and organizational commitment, exploring into the relationship between reinforcement and organizational commitment, identifying the possible connection between decision making and moral behavior, and examining the possible connection between reinforcement and organizational commitment.

The increasing number of scandals involving corporate leaders over the past decade has attracted many researchers to conduct more studies on ethical leadership (Brown & Trevino 2006; Chuang & Chiu 2018, Samina Karim & Sadia Nadeem, 2018). A review of recent literature established that leader values, conducts and practices are important aspects in a number of theories related to ethical leadership, and the implementation through effective decision making and reinforcement may enhance positive employee outcomes especially in terms of their organizational commitment and moral behavior.

Therefore, in order to clarify the importance of ethical leadership practices in organizations today, this research takes the initiative to confirm whether or not there is any relation between the elements of ethical leadership which are decision making and reinforcement with the employees' outcome. Thus, this positive influence may lead to the steps of maintaining and enhancing the organizational competitiveness and performance in the era of industrial revolution.

## LITERATURE REVIEW

Ethical leadership is a core factor in establishing and maintaining a stable organization which includes employees. According to Ramesh Krishnan et al. 2018 and Kavanagh, Brown and Benson (2007) the increasing organizational performance is closely related to the employees' individual performance which can be achieved through the responsibility of the leader. Furthermore, Walumbawa et al. (2011) and Yang and Liu (2014) in the description on ethical leadership indicated that it is an engagement between the actions and behaviors of leaders which will benefit others, especially employees and at the same time the action may harm the employees. Brown (2006) described the ethical leadership as a way to promote ethical practices accountable to both leaders of the organization and their employees. Besides, Brown, Trevino, and Harrison (2005) added that by highlighting the elements of ethical leadership practices based on the perspective of the organization which refers to the implementation of acceptable and appropriate practices of the leaders through their actions and the interpersonal connection with the employees through decision making and reinforcement.

Previous literatures on ethical leadership also indicated that there is a distinction between being a moral person and moral manager. However, since this study is focusing on employee outcomes and thus the emphasis is given on the aspects of moral managers in two key components namely decision making and reinforcement. Decision making is identified as a set of expectation laid on the leaders in making the right decision based on possible ethical significances of their decision

(Michael E. Brown; Linda K. Trevino 2006; Vivian C. Sheeri 2018). Leader should make clear decision to the subordinates about their responsibility at works, obligation, duties and assignment must be define clearly by the leader in order to motivate employees actively involved in the workplace thus improve their overall performance. It also related on how the decision has been made according to the organization systems, focusing on fairness of process involved in the distribution of the decision making outcome (Ramesh Krishnan et al. 2018).

Meanwhile, reinforcement is referring to the efforts and actions of the leaders in imposing and implementing clear and unbiased ethical regulations and standards in their daily functions in the organization. Leaders must act morally themselves, ethically guide their followers eg; employees by demonstrating, helping and supporting them to documentary organizational guidelines to practical works settings (Fehr et al., 2015; Ramesh Krishnan et al. 2018). As a result, decision making and reinforcement is an important aspect in managing organizational ethics and it may lead to positive impacts in employee outcomes especially in organization commitment and moral behavior among the employees. On the other hand, moral behavior is referring to any actions and attitudes or behavior shown to be objectively and morally correct. In organization, it is defined as correctness of behavior based on moral awareness. According to Fraedrich (1993), moral behavior is the opposite of misbehavior which is described as doing things which are not supposed to be done at work. Meanwhile, organization commitment is described as individual connection to the organization with strong desire and efforts to remain in the organization (Porter et al. 1974).

Many scholars agreed that ethical leadership practices in making decision and reinforcement, are differently but both are highly interconnected concepts as the main components in ethical leadership model which have certain consequences towards the employees (Brown & Mitchell 2010; Frisch & Huppenbauer 2014; G.A Yulk 2010). For instance, a leader may be effective with the practices in being fair in making decision and setting clear ethical standards, but the employees are accountable for their ethical and unethical outcomes (Yukl et al. 2013; Anettee 2014).

Using Social Exchange Theory as proposed by Blau (1964) to explain on how leaders' ethical behavior triggers feeling of reciprocal obligation (Cropanzo & Mitchell 2005), argue that there will be a positive effects on employee outcome through the ethical leaders concern for people such as employees, fairness and sensible use power through reinforcement practice of reward and punishment. According to Blau (1964), the leaders are more likely to build great rapport with the employees by treating them fairly and ethically. Hence, the employees are more likely to feel satisfied with the social exchange process and will in turn enhance their commitment and positive role behavior as an outcome (Bonner et al. 2014; Piccolo et al. 2010; Shin et al. 2015). Several previous studies were conducted by using the direct effect model to identify the connection between the decision making and reinforcement to employees' moral behavior in various samples and populations.

These studies were conducted on 110 employees in Pakistan (Sidra Shan et al.,2015), 142 employees from a private manufacturing company in Malaysia (Ramesh Krishnan et al. 2018), also on 20,936 employees from 1,946 companies in Great Britain (Ohana 2014),and it is found that the decision making has a significant influence on moral attitudes and organizational commitment when the leaders practice some appropriate ways when dealing with the decision making process and outcome. It may be related to the voice in the decision making when leader allows employees to have a voice in the decision making process must be equal, fair decision must be derived from accurate information, everyone must have an opportunity to correct any mistake that has been made and finally there must not be any way or chances for the leader to get the bias in the decision making. Thus, these studies indicate that the capability of the leaders to implement appropriate decision making strongly enhances the moral attitude of the employees in dealing with their tasks in the organization.

Conversely, there were a number of studies conducted by using the direct effect model to explore into the possible connection of reinforcement towards moral behavior and employee commitment with the organization in various samples and populations. It includes the research on 403 employees in Elazig by Mehmet Karakus (2018) and 465 employees from the Western countries by Adam (2001) where they found that leaders convey important moral values to the employees by the actual practices of laws and orders, leaders make the effort to enforce morality through reward and punishment, and practices of consistent actions and following commonly acceptable ethical standards significantly influence the level of employees' commitment. From the findings of these studies there is proof that the ability of the leaders to implement appropriate decision making and reinforcement strongly influence employees' outcome in the organization. Thus, we establish four hypotheses:

*H1: There is a significant relationship between decision making and moral behavior.*

*H2: There is a significant relationship between reinforcement and moral behavior.*

*H3: There is a significant relationship between decision making and organization commitment.*

*H4: There is a significant relationship between reinforcement and organization commitment.*

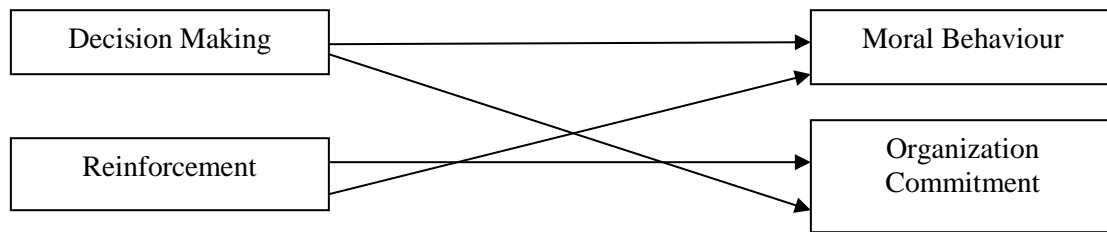


Figure 1: Research Framework

## METHODOLOGY

The cross-sectional research design is employed in this study to allow the researchers to incorporate the literature on ethical leadership and the questionnaire as the main technique to collect the necessary data. This data collection procedure may enhance the ability and capability of collecting accurate data, obtaining high quality data and decreasing bias data (Creswell 2014; Lomand 2016; Sekaran & Bougie 2016). This study was conducted at the headquarters of the corporate telecommunication sector in Klang Valley, Peninsular Malaysia and the name of the organizations involved in this study will not be revealed in order to protect the confidentiality of the data obtained. At the initial stage of this research, the content of the questionnaire was drafted on the basis of ethical leadership literature. This process was followed by a back-translation technique to translate the questionnaire into English and Malay Language in order to improve the ambiguities, errors and confusion of items which may lead to the increased validity and reliability of the research questions. As the result, this translation process may lead to the production of better research outcomes (Creswell 2014; Lomand 2016; Sekaran & Bougie 2016).

### *Instruments*

The survey questionnaire consists of three major sections. Firstly, the ethical leadership feature, namely decision making, carries eleven items (e.g. My leader makes fair decisions, My leader can be trusted in making decision), reinforcement has nine items (e.g: My leader opposes to the use

of unethical practices, My leader disciplines employees who violate ethical standard) adapted from instruments constructed by Yulk (2010) and Brown et al. (2005), Secondly, organizational justice was measured using ten items (e.g. I would be very happy to spend the rest of my career with this organization, I enjoy discussing my organizations with others) adapted from the instrument constructed by Meyer & Allen (1997). Finally, ethical behavior was measured using six items (e.g. I do not use company services for personal use, I do not accept any gifts in exchange for any preferred treatment) adapted from Ferrel et al., (2000). Exogenous and endogenous constructs in the questionnaire were measured using a 5-item scale ranging from *Strongly Disagree* (1) to *Strongly Agree* (5) as the prevention measure for the common method biased (MacKenzie & Podsakoff 2012). The inference statistics was used to test the hypothesis using the Partial Least Square Structural Equation Modeling (PLS-SEM) (Hair et al., 2017). Demographics variables were treated as controlling variables because this research focuses on employees' attitudes and outcomes.

### *Sample*

The targeted population of this study is employees in the corporate telecommunication sector located in Klang Valley, Peninsular Malaysia. A purposive sampling technique was employed to distribute a total of 150 survey questionnaires among the employees who have different personnel and services backgrounds, who serve in various divisions and sections in the organization. This sampling technique was applied since the organizations were restricted from exposing the details of the employees to the researchers due to confidentiality and safety reasons. This constraint does not allow the researchers to select participants using the random sampling technique. From the total numbers, only 139 useable sets of questionnaire were completed and returned to the researchers. The survey questionnaires were answered by participants based on their consent and based on voluntary basis.

## **FINDINGS**

### *Sample Profile*

Table 1 indicates that the most participants are female (53.2%), aged more than 41 years old (55.4%), Malay (91.4%), married (86.3%), hold executive position (53.2%), have monthly salary between RM 7000 and above (30.79%) and have working experience more than 15 years (56.1%).

### *Validity and reliability of the measurement scale*

Table 2 shows that the loading of the variables is greater than 0.70 in their own construct in the model. Additionally, the correlation between items and factors has higher loadings than other items in the different constructs. The loading values for items in the decision making construct are 0.778 – 0.896, 0.790 – 0.95 respectively for items in the reinforcement construct, 0.748 – 0.916 for items of organization commitment, and between 0.746 and 0.95 for moral behavior. Thus, all items achieved the satisfactory indicator loading of > 0.7 and the results show that the measurement model has met the criteria established for the validity and reliability analyses (Henseler, Ringle & Sarstedt 2014). Besides, all constructs indicated average variance extracted (AVE) larger than 0.5, which signifies that the constructs evaluated met the acceptable standard of the convergent validity (Barclay, Higgins & Thompson 1995; Fornell Larcker 1981; Henseler et al. 2014; Hair et al. 2017).

Table 1: Respondent Profile (n=139)

Respondent	Sub-Profile	Frequency	Percentage
Gender	Male	74	53.2
	Female	65	46.8
Age (years)	Less than 25	2	1.4
	26-30	13	9.4
	31-35	27	19.4
	36-40	20	14.4
	More than 41	77	55.4
Race	Malay	127	91.4
	Others	8.6	8.6
Marital Status	Married	120	86.3
	Single	14	10.1
	Divorced	5	3.6
Position	Executive	74	53.2
	Non-executive	65	46.8
Monthly salary (Ringgit Malaysia)	Less than 2000	1	7
	2000-3999	41	29.5
	4000-4999	25	18
	5000-5999	25	18
	6000-6999	4	2.9
	7000 and above	43	30.9
Length of service (years)	Less 5	8	5.8
	6 – 10	38	27.3
	11-15	15	10.8
	More than 15	78	56.1

Besides, Table 3 shows the results of the convergent and discriminant validity analyses. All constructs have values of  $\sqrt{\text{AVE}}$  in diagonal that are greater than the squared correlation with other constructs in off diagonal. The results indicate that all constructs meet the acceptable standard of discriminant validity (Henseler et al., 2014; Zhang 2009). The discriminant validity was assessed using Heterotrait-Monotrait (HTMT) (Hair et al., 2014). On the other hand, the values of composite reliability, the Cronbach's Alpha values for all constructs show the values greater than 0.80, indicating that the instruments used in this research have high internal consistency (Henseler & Chin 2010; Hair et al. 2017; Nunally & Bernstein 1994).

#### *Analysis of the constructs*

Table 4 illustrates the outcome of the variance inflation factors and descriptive statistics. The results show the value mean for all constructs ranging from 4.0759 to 4.3118, which indicates that the majority of the respondents perceived that the levels of decision making, reinforcement, moral behavior and organization commitment range from high (4) to the highest level (5). Besides, the values of the variance inflation factors (VIF) for the relationship between the independent variables (decision making and reinforcement) and dependent variables (moral behavior and organization commitment) is less than 5.0 which indicates that the data were not affected by any serious collinearity problem (Hair et al. 2017).

Table 5 presents the outcomes of the testing of the direct effect model. The inclusion of decision making and reinforcement in the analysis contributed 41 percent of the variance moral behavior. This result signifies that the overall predictive strength of the model is substantial effect (Cohen 1988). On the other hand, the inclusion of the decision making and reinforcement in the analysis explained 21 percent of the variance organizational commitment which indicates the substantial

effects of the overall predictive Cohen 1988). Furthermore, the results of the model hypothesis testing point to four important findings.

Table 2: The results of factor loading and cross loading for different constructs

Constructs	DM	REIN	MB	OC	Average Variance Extracted (AVE)
Decision Making (DM)					0.747
1.DM1	0.778				
2.DM2	0.892				
3.DM3	0.828				
4.DM4	0.887				
5.DM5	0.895				
6.DM6	0.867				
7.DM7	0.896				
Reinforcement (REIN)		0.869			0.721
1.REIN1		0.895			
2.REIN2		0.836			
3.REIN3		0.838			
4. REIN4		0.790			
5.REIN5		0.860			
6.REIN6		0.850			
7.REIN7					
Moral Behavior (MB)					0.715
1.MB1			0.874		
2.MB2			0.810		
3.MB3			0.746		
4. MB4			0.813		
5.MB5			0.791		
6.MB6			0.876		
7.MB7			0.895		
8.MB8			0.887		
9.MB9			0.902		
Organization Commitment (OC)					0.735
1.OC1				0.835	
2.OC2				0.916	
3.OC3				0.905	
4. OC4				0.893	
5.OC5				0.896	
6.OC6				0.748	
7.OC7				0.864	
8.OC8				0.784	

Table 3: The results of the convergent and discriminant validity analyses

Constructs	1	2	3	4	Composite Reliability	Cronbach's Alpha
Decision Making					0.954	0.943
Reinforcement	0.867				0.947	0.935
Moral Behavior	0.640	0.656			0.957	0.948
Organization Commitment	0.437	0.431	0.769		0.957	0.949

Table 4: The Result of Variance Inflation Factor and Descriptive Statistics

Construct	Mean	Standard Deviation	Variance Inflation Factor (VIF)	
			3	4
Decision Making	4.1029	0.5436	2.992	2.992
Reinforcement	4.0759	0.4961	2.992	2.992
Moral Behaviour	4.2683	0.4557		
Organization Commitment	4.3118	0.4453		

First of all, decision making significantly correlates with moral behavior ( $\beta=0.027$ ;  $t=2.215$ ), therefore H1 is supported. Secondly, reinforcement significantly correlates with moral behavior ( $\beta=0.007$ ;  $t=2.726$ ), therefore H2 is supported. Thirdly, decision making significantly correlates with organization commitment ( $\beta=0.115$ ;  $t=1.718$ ), hence H3 is supported. Finally, reinforcement correlates significantly with organization commitment ( $\beta= 0.214$ ;  $t=1.912$ ), therefore H4 is rejected. In sum, the overall results indicate that decision making acts as an important predictor for moral behavior and organizational commitment in the organization examined. Conversely, reinforcement only acts as an important predictor for moral behavior but not as an important predictor for organizational commitment.

As an extension to the testing of the above hypotheses, several tests such as the effect size test ( $f^2$ ) and the predictive relevance for reflective endogenous latent variables ( $Q^2$ ) were conducted by using bootstrapping and blindfolding procedures, respectively. Based on the result of the bootstrapping, it demonstrates that the relationship between decision making and moral behavior has  $f^2$  value of 0.051 which is between 0.02 and 0.15, hence signifying that decision making has low significant effect on moral behavior (Hair et al. 2017). Furthermore, the relationship between reinforcement and moral behavior has  $f^2$  value of 0.083, indicating that reinforcement has low effect on moral behavior (Hair et al. 2017). Conversely, the results of the predictive relevance test show that the value of  $Q^2$  for moral behavior is 0.269 and this value is greater than zero, thus reflecting the predictive relevance of the model (Hair et al. 2017).

On the other hand, as an extension to the testing of the hypotheses H3 and H4, the results of the bootstrapping test show that the relationship between decision making and organizational commitment has  $f^2$  value of 0.025, signifying that decision making has low effect on organizational commitment (Hair et al. 2017). Meanwhile, the relationship between reinforcement and moral behavior has  $f^2$  value of 0.018 which also signifies that reinforcement has low effect on moral behavior (Hair et al. 2017). In regard of the predictive relevance, the results show that the values of  $Q^2$  for moral behavior is 0.269, which is greater than zero, showing that they have the predictive relevance of the model (Hair et al. 2017).

Table 5: The Outcome of testing the hypotheses H1, H2, H3 and H4

Hypothesis	Path	$\beta$ value	t-value	R <sup>2</sup>	Decision
H1	Decision Making $\longrightarrow$ Moral Behavior	0.027	2.215	0.409	supported
H2	Reinforcement $\longrightarrow$ Moral Behavior	0.007	2.726		supported
H3	Decision Making $\longrightarrow$ Organization Commitment	0.249	1.718	0.21	Supported
H4	Reinforcement $\longrightarrow$ Organization Commitment	0.207	1.244		Not Supported



## DISCUSSION

The findings of this research show the relationship between ethical leadership practices through decision making and reinforcement that enhanced the positive and moral behavior of workers. In relation to the context of this research, leaders have put greater efforts to appropriately practice the good conduct in decision making and implementation of policies and procedure in daily management leadership practice towards their employees to encourage their positive moral of conduct. This situation explains that leader's ability will evoke employees' sense of practicing moral behavior while performing their duties and tasks. Besides, ethical leadership practice through the decision making acts as a significant contributor to organizational commitment. On the other hand, reinforcement did not significantly contribute to enhance organizational commitment. The reason of the non-significant relationship might be because of the smaller sample size as compared to the previous research in which the valid data for this study only totals 139. Besides, this study was only conducted in a particular organization, the employee may be reluctant to express their grievance to the outsider as it will tarnish and give a bad reputation to the organization as a whole. Furthermore, it may be due to other external factors that may affect the level of organizational commitment compared to the practice of reinforcement by the leaders such as compensation, benefits, and salary that will eventually increase the commitment of employees towards the organizations (Ramesh Krishnan et al., 2018). Consequently, this may lead to the higher level of organizational commitment among the employees.

### *Implications*

The findings of this research provide three important implications which are theoretical contribution, robustness of research methodology and practical contribution. In terms of the theoretical contribution, the findings of this research expose three specific outcomes: firstly, decision making acts as an important determinant for moral behavior and organization commitment. Secondly, the reinforcement acts as an important determinant for moral behaviors. These findings are in line with previous studies conducted by Sidra Shan et al. (2015), Ramesh Krishnan (2018), Schwatz (2001), and Adam (2001). On the other hand, the third finding of this research identifies different results from previous research which indicate that reinforcement does not significantly act as an important contributor to organizational commitment among the employees.

Concerning the practical contribution, the findings of this research may be used as a guideline and as important recommendation by practitioners to improve the practice of ethical leadership by the leader towards the employees in an organization. In order to achieve this aim and objective, the top management needs to give more attention to the following aspects: proper and regular ethical training should be conducted for leaders in order to retain and motivate them towards practicing proper and appropriate ways of leadership ethics as the role models for the employees. Besides, the management should take action towards the leaders who fail to maintain the professional ethics of conduct in the decision making and reinforcement practice of procedure and policies which may affect the employees' performance and commitment. A good leader must be able to maintain a good rapport with the employees and achieve the organizational success together.

Conversely, it is highly recommended for leaders to have adequate knowledge, skills and ability in making effective decisions and to reinforce ethical leadership in the workplace in order to create a better perception among the employees and to get better outcomes from them. It is also recommended for the leaders to include positive attributes and attitudes in leading the employees to instill positive outcomes from them and to avoid any unnecessary problems.

## CONCLUSION

This study confirms and concludes that effective decision making is an important determinant for moral behavior and organizational commitment. Besides, reinforcement is significantly contributive to moral behavior but not significantly so to organizational commitment among employees, especially in the organization involved in this research. The findings of this study also help to support and broaden the literature related to the topic from our local setting and this study has provided empirical evidence for linking ethical leadership to moral behavior and organization commitment.

However, the conclusion should not dismiss the limitations faced throughout this research. This study was conducted through a cross-sectional research design and the data were collected on one specific time and it failed to include the development of any issued and causal correlation among the variables. Furthermore, this study focuses solely on the connection between ethical leadership and employee outcomes without considering other elements such as leadership styles adapted and practiced by the leaders, and the differences among the employees in terms of their preferences and personality. The data collected for this study was obtained from one specific sector thus the findings of this study may not be generalized to other sectors or other organizations with different settings from those involved in this study. Plus, the use of the probability sampling technique may further decrease the generalizability of the findings of this study.

There are several suggestions that can be derived from this study to be used in future research. It is strongly recommended for the future researchers to consider using other research designs such as longitudinal study in order to obtain better results due to the changes of pattern, direction, and magnitude of the causal relationship among the variables. Additionally, conducting the study on a larger sample size may help the researchers to better characterize the population. Lastly, future researchers are encouraged to include other employee outcomes such as job satisfaction, turn over intention and organizational citizenship which may impact the outcome of the study. This issue should further be explored in future works.

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