IMPACT OF CORPORATE ETHICAL VAULUES ON ETHICALLEADERSHIP AND EMPLOYEE PERFORMNCE

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Abstract

The main purpose of this research is to examine the impact of corporate ethical values on ethical leadership and employee performance in Pakistan. This research was conducted considering three variables i.e. corporate ethical values, ethical leadership and employee performance. Leadership having no ethical manners can be harmful, vicious and even poisonous. Although there is enough discussion regarding corporate ethical values and ethical leadership in this research, very few research work has been done so far in relation to the mediating effect of ethical leadership on corporate ethical values and employee performance. It is also found that a corporate ethical value is the most important factor for ethical leadership and employee performance. So, the two variables collectively prove a photogenic effect and augment the overall productivity of the employees. Practical implications of these findings are also discussed. Directions for future research are also suggested.

Keywords: Corporate ethical values, ethical leadership, employee performance

INTRODUCTION

There has been a remarkable attraction in ethical atmosphere for many researchers (e.g., Martin and Cullen, 2006; Parboteeah and Kapp, 2008) and these researchers have been eager to explore the different related issues to identify in the ethical behavior (e.g., Agarwal and Malloy, 1999; Ruppel and Harrington, 2000; Schminke et al., 2005; Sims and Keon, 1997; Upchurch and Ruhland, 1996; Wimbush and Shepard, 1994; Wimbush et al., 1997). However, there is an remarkable reality that, although researchers have explained in many research about the character of the leaders (e.g., Dickson et al., 2001; Grojean et al., 2004; Wimbush and Shepard, 1994) and organizational formation and its rules and regulations (e.g., Jin et al., 2007; Verbeke et al., 1996) to persuade the ethical surroundings, a little bit work has been done so far to define the ethical environment and its background. In this study, we tried to explore the relationship between corporate ethical values, ethical leadership and their impact on ethical environment. Schein (2004) recommends that now a days, leaders can operationalize a lot of things to entrench the most important norms and values which they possess in the routinely decision-making process of the employees, which is the key factor for the good environment of the organizations. Now a day, no single organization is safe from corporate scandals, and we think that one main issue in these ethical misconducts is the negligence of ethical corporate values and lack of ethical leadership. So, from the above discussion, this research paper is very important to analyze two decisive supervisory facets, namely corporate ethical values and ethical leadership in relation with employee performance.

An image which is most important for us in this era is to build the corporate ethical values which are deeply related with the values and vision of the humanity. The resources from which we can extract our vision, are the morality of the humanity from which we can transform the ethical leadership now an in near future (John William Gardner 1993). The efficient and effective leadership can be a strong weapon only if it is on ethical footings. It is the responsibility of the leaders to express the utmost moral and ethical behavior in their daily conversations, dealings, judgments, and meetings in order to become a mirror for the followers. Spiritual people, scholars and the theorists from the past have been stressing upon the substantial effect of ethics for the followers and the leaders to control the supremacy in organization. Though ethics has been a burning question for the world, still it is like a hot cake to be explored for the researchers and business society. One apparent cause for the augmented awareness in the field of ethics is the ethical contravention which has been discovered in the modern corporate humiliation (Manz et al., 2008; Revell, 2003; Mehta, 2003; Treviño and Brown, 2004). In this world, there are leaders, called "lethal leaders" who search out the loopholes in the administration system, and use them for their personal benefit at the cost of the company and its workers (Padilla et al., 2007; Schaubroeck et al., 2007).

Trevin'o and Brown (2004) suggest that unethical behavior is in existence since the beginning of the humanity, and now in this modern era, people are more ethical than before. Now with the passage of time, the environment is becoming more complex and still there is a regular change in its behavior. This is the main reason for the ethical challenges and threats. The ethical and unethical leaders are ever there since the evolution of the humanity. But in the modern era, there behavior is becoming the most crucial factor for the organization. The mounting intricacy regarding modern businesses, swelling quantity and rapid pace of information flood, and huge performance pressure have raised the chance of honesty or sometimes dishonesty in ethical decision making and perception of leaders. In the views of Carroll (2004) "worldwide ethics regarding business is demanding a revolutionary perception and observation as many companies are making every effort to increase their productivity, performance, profits and operations all over the world". Furthermore, growing consciousness about someone's privileges, rising judgment of people regarding fair conduct, emphasis on societal consciousness and ritual integrity, and rising demand of the employees for self contentment are the major elements, which force the leaders of the organization to conduct ethically. Queries regarding management and leadership are increasing very fast as compared to past (Veiga, 2004), and the ethical leadership is still a complex phenomena to be discussed.

LITERATURE REVIEW

Ethical leadership

According to Ciulla (1995), when citizens inquire about leadership, they absolutely think about good leadership or ethical leadership. Therefore, there is much demand to be more stress on ethical aspects of leadership. For a high-quality leadership, it is imperative that leaders should be strong enough in their ethical behavior in day-to-day business matters (Ciulla, 1995, Kodish 2006). According to the Aristotle's viewpoint about leadership, ''Leadership is above the skills, above the awareness of assumptions, and beyond the diagnostic ability. It is the aptitude of the followers to handle the situation ethically and productively depending upon their knowledge, skills, expertise, experience, sensitivity, and insight vision. So, leadership is the perception of the world with a broader visionary fertility of mind. Bass and Steidlmeier (1999) adopt this explanation and say that, the leaders may or may not be strong enough in their decision making power. They suggest that this decision making power can make them affective or ineffective. Besides this, ethical leaders have strong ethical norms and values, supportive character for themselves and others, which are intensely surrounded by a broad vision.

Ladkin (2008) considers that leading skillfully has three dominant attributes; "visionary" in recognizing them self and the situations, "consistency" similarity among himself and other's ideas and communication, and "rationality" achievement of goals. Ladkin (2008) finds out that leading skillfully "engages in recreation of the ethical aspects of a leader's efforts" and point outs whether the leader's purpose fits with the full awareness of the human atmosphere. On similar lines, Kanungo (2001) mentions that ethical leader's behacior is sometime connected with the welfare of the others and in the meanwhile, they engage in acts and behaviors that benefit others and at the same time, their behavior can be the source of any spoil to others. The researchers of leadership normally sketch features and distinctiveness that relate to "good quality leadership".

Is ethical leadership divergent?

Researchers have explained different types of leadership like transactional leadership, transformational, servant, authentic leadership etc., which have been explained many times by the different scholar, researchers and followers. Each type of leadership has its own value depending upon its different features, characteristics etc. (Avolio and Gardner, 2005; Brown and Trevin'o, 2006; Luthans and Avolio, 2003; Walumbwa et al., 2008). The major distinguishing feature of ethical leadership is its stress on characterized moral perception, moral judgment, moral management, and moral impression (Brown and Trevin'o, 2006; Walumbwa et al., 2008). Ethical leadership is mostly related with self-actualization, moral relationship, moral perception, and unbiased dealing (Gardner et al., 2005; Walumbwa et al., 2008).

Corporate ethical values

Corporate ethical values (CEV) can be explained as "a subset of organizational culture, representing a multidimensional interplay among various 'formal' and 'informal' systems of behavioral control" (Trevino et al., 1998). These informal systems consist of the values, attitude, norms, perceptions and beliefs inside the organization (Key, 1999; McDonald and Nijhof, 1999). In relation with these informal facets, corporate ethical values can also be expressed by strong formal structure like compensation methods, agency procedures, and rules and regulations.

Corporate ethical values are the guidelines for planned procedures (Yankelovich, 1981) and are the codes and conducts which differentiate among what is right and what is wrong way to act. High quality of corporate ethical values can only be achieved if the rules and regulations are strictly followed by the ethical leaders and the ethical employees of the organization. For instance, ethical leaders can pursue ethical codes and conducts by following ethically themselves which consists of gratifying ethical conduct and harshen unethical conduct (Hunt et al., 1989; Jones, 1991; Trevino, 1986). Corporate ethical values can be considered the sword of the organization which is used for the recruitment and selection of the employees on ethical basis to attain the organizational goals and objectives (Davis et al., 1997). The basic reason to give an importance to ethical values is that the employees must also be ethical in their behavior and conduct (Hunt et al., 1989). Different researchers have emphasized the affect of ethical perspectives on different factors like corporate ethical values, ethical leadership and employee performance (Schwepker, 2001). Furthermore, modern research has proved that strong corporate ethical values are the major source to enhance the ethical and social responsibility of the leaders and employee of the organization (Vitell and Hidalgo, 2006). To conclude, individual feelings of corporate ethical values are closely and positively coherent with moral strength ethical manners (Valentine et al., 2002).

Employee Performance

Employee performance is the vital element of any organization and the most important factor for the success of the organization and its performance. It is true that most of the organizations are dependent on its employees, but one or two employee can not change the organization's destiny. The organization's performance is the shared and combined endeavor of all of its employees. "Performance is the key multi character factor intended to attain outcomes which has a major connection with planned objectives of the organization" (Mwita. 2000). The leaders and the employees of any rank must contribute their performance and contribution and construct utmost utilization of their capabilities to achieve organizational goals and objectives. The organizations have also some expectations from their leaders and employees. So, in many situations the employees try to fulfill these expectations, but in some cases, they are dependent on their bosses or the management for proper guideline. Therefore, the employees must be trained so well to show performance by accomplishing their tasks and responsibilities artistically. Here, a question comes in mind that how an employee can be competent and efficient for improving the productivity, modernism and performance for an organization. An efficient leadership plan can be a strong weapon for support to assist in discovering and polishing leadership characteristics between the employees of the organization.

The association among performance and leadership can be direct and sometime indirect (Gadot, 2007), which testifies that leadership qualities can be build among employees through leadership development programs. Recent researches prove that investment in human resource development is the asset of the organizations to modernize the capabilities and skills of the employees to increase the performance and efficiency. In this context, technical and non technical education and training of the employees are imperative to boost up their expertise and capabilities (Rowold, 2008). In this modern age, leadership is broadly familiarized and proved through research to be an important factor for the success of the organizations. Now, leadership is being used to influence and stimulate the people for better performance (Popper, 2005).

Theoretical Framework

For the implementation of the study, dependent, independent, and mediating variables have been highlighted in this research. The independent variable is corporate ethical values while dependent variable is employee performance and ethical leadership is the mediating variable. The basic motive for choosing these variables is to judge the relationship between them whether these are interlinked with each other or not, i.e. if corporate ethical values are implemented, can the ethical leadership and employee performance be affected? So, it is apparent from the existing literature that there is a strong positive impact of corporate ethical values on ethical leadership and employee performance. So, the theoretical framework can be observed from the following diagram.

| Corporate Ethical Values | → | Ethical Leadership | → | Employee Performance |

Hypothesis
H.I   Corporate ethical values have the positive relationship with ethical leadership
H.2   Ethical leadership has the positive relationship with employee performance

H.3   Corporate ethical values have the positive relationship with ethical leadership and employee performance.

RESEARCH METHODOLOGY

This overall study is about the significance of corporate ethical values and its impact on the ethical leadership and employee performance. In this study we have tried to develop the relationship between corporate ethical values with ethical leadership and employee performance and also tried our best to judge their consequences and value in Pakistani organizations.

Research design

This entire research is proposed to establish the relationship between corporate ethical values, ethical leadership and employee performance. Each variable has an important link with other variables. On the other hand, power and source of connection of these variables would be examined to categorize the type and strength of the affiliation. So, depending on these discussions, this research is exploratory.

Selection of Sample

For our research work, the respondents were those, serving in different organizations in different cities of Pakistan and had the sufficient qualification, knowledge and experience in their fields. Therefore, convenience sampling method was applied for this study. The other reason for choosing this sampling method was the time constraint, so this sampling method was preferred. The data was gathered from the middle and top level management depending on their knowledge and work experience for the authenticity of the information.

Data Collection Tool

To analyze the results of this study, primary and secondary data sources techniques were employed. To prove and to test the results of the above stated three hypotheses, a questionnaire (primary source) was intended, and rest of the supporting material for research accessible in the international research journals and articles from internet, was used as a secondary source for the current study. So, ethical corporate values, ethical leadership and employee performance were scrutinized in relation with the above hypothetical model. Therefore, in the questionnaire, each variable (corporate ethical values, ethical leadership and employee performance) contains four questions to inspect the connection of these variables. These questionnaires were designed to see the relationship of ethical corporate values on leadership and employee performance. So, first four questions were related with ethical corporate values, next four with ethical leadership, and the last four questions were related with employee performance. The questionnaire comprised of 12 questions and 5 point Likert Scale technique was used (ranging from 1 to 5 such as strongly disagree, disagree, neutral, agree, and strongly agree.

We dispersed 190 questionnaires to the respondents and collected 180, out of which 18 questionnaires were not filled and 12 questionnaires which we rejected due to scarcity and incompleteness of information. So, we chose 150 questionnaires for my analysis. We did not prefer any definite organization or segment for the research because the main aim of the study was to see the overall impact of ethical corporate values on ethical leadership and employee performance in different organizations. The information and data received from the respondents was analyzed with the help of statistical software program SPSS-16. To testify the hypothesis, Pearson Correlation analysis was used to accept or reject the hypothesis. Regression and correlation analysis were also applied for quantifying the two independent variables' impact individually on employee performance and joined impact of ethical corporate values on ethical leadership and employee performance.

DATA ANALYSIS AND DISCUSSION

Data Sampling

Total 190 questionnaires were distributed to different employee of different organizations in private and public sector. Different organizations like banking, PTA, hotels, Private industries, and other organizations were selected for the survey purpose. Out of 190 questionnaires, 180 were received in which 18 questionnaires were blank and 12 questionnaires were rejected due to insufficient and incomplete data. So, 150 questionnaires were considered for the analysis to find out the results and to draw conclusion.

Table 1 discloses the demography of the different respondents. Most respondents were between the age limit of 31-40 year i.e. 40%. The demography of the different respondents also exposes that the majority of the respondents were male with 85.3% which represents the biggest portion of the gender group, whereas female were only 14.7% of the total respondents.

Only middle and top level of management were selected for the analysis. Front line managers were ignored for the analysis as their work experience were less than one year and also had no background of training, coaching, empowerment, participation in decision making process. A small number of top management supplied as a respondents but their provided information was satisfactory to accomplish the analysis. The top management was comprised of Chief Executive Officers, VPs, AVPs and the General Managers which were 18.7% of the sample size. And the middle management was 81.3% as shown in Table 1.

TABLE 1: Demographic information of the different respondents (N=150)

Variables	Frequency Distribution	Percentage
Age limit		
<=30 years	44	29.3
31-40	60	40
41-50	30	20
>=51	16	10.7
Total	150	100
Hierarchy of organization		
Middle Management	122	81.3
Top Management	28	18.7
Total	150	100
Level of Education		
Masters degree holders	35	23.3
Bachelors degree holders	115	76.7
Total	150	100
Working Experience		
3 years	25	16.7
4-6	25	16.6
7-9	70	46.7
10-12	12	8
13-15	9	6
16 and above	9	6
Total	150	100
Sex		
Male	128	85.3
Female	22	14.7
Total	150	100

Most of the respondents were having the masters' degree holders. It was also an important factor that majority of the respondents had compound qualification i.e. if a person was a lawyer or an engineer; he or she also had an additional degree of MBA or other. In short, middle management was 81.3% and top management was 18.7% of the respondents. Practical field experience after education was also an important factor. Majority of the respondents were between the arrays of 7-9 years of practical exposure which was 46.7%. The lowest array for the practical exposure was three years with a percentage of 16.7 (respondents) and the ceiling was 16 years and above by 6% respondents.

Reliability

For the reliability purpose, cronbach's Alpha is commonly used for data collection. The results in cronbach alpha depend on the total number of questions used in the questionnaire. For the reliability of the cronbach alpha, it should be equal to 1, as mentioned by Hinton and Brownlow in his book "SPSS Explained"

Reliability Statistics	
Cronbach's Alpha	N of Items
.969	3

The cronbach alpha's test value of 0.75 or higher is considered a comparative value or acceptable value for the reliability of the variables. The reliability test value using SPSS Analysis, of the cronbach's alpha is .969 which is equal to 1.

Co-efficient and Regression Analysis
Co-efficient Analysis

Pearson's correlation analysis was carried out to examine the impact of corporate ethical values on ethical leadership and employee performance.

Table #2: Co-efficient of correlation of the relationship between ethical corporate values, Ethicsl leadership and employee performance

		Corporate Ethical values	Ethical leadership	Employee performance
		Correlations		
	Mean	Corporate Ethical values	Ethical leadership	Employee performance
Corporate Ethical values	Pearson Correlation	1	$.950^{**}$	$.943^{**}$
	Sig. (1-tailed)		.000	.000
	N	150	150	150
Ethical leadership	Pearson Correlation	$.950^{**}$	1	$.990^{**}$
	Sig. (1-tailed)	.000		.000
	N	150	150	150
Employee performance	Pearson Correlation	$.943^{**}$	$.990^{**}$	1
	Sig. (1-tailed)	.000	.000	
	N	150	150	150
**. Correlation is significant at the 0.01 level (1-tailed).				

Table #2 highlights the co-efficient correlation paradigm between the corporate ethical values (independent variable), ethical leadership (mediating variable) and employee performance (dependent variable). All the independent and the dependent variables were bonded with each other and had the positive and significant correlation. The most considerable correlation and robust relationship between all the variables was the ethical leadership r = .990, p<0.01 with employee performance. The following next considerable and mediating correlation was seen among corporate ethical values and employee performance that was r = .943, p<0.01. While corporate ethical values and ethical leadership were positively correlated at r = .990, p<0.01. Table 2 shows positive coherence between all the variable of corporate ethical values, ethical leadership and employee performance. However, the mean of the relationship of all the variables with single variable i.e. corporate ethical values, was also computed.

Regression Analysis
The regression result were also computed which are shown in the following table 3 and 4.

Table# 3

Model	Sum of Squares	df	Mean Square	F	Sig.
		ANOVA^b			
Regression	93.129	1	93.129	1.366E3	$.000^a$
Residual	10.090	148	.068		
Total	103.219	149			
a. Predictors: (Constant), Mean					
b. Dependent Variable: Mean					

Table#4: Expected findings of Regression Analysis

Variables	Coefficient				
	Constant	Beta	F	R^2	N
Corporate Ethical Values	.654	.950	1.366E3	.902	150
Ethical leadership	.108	.990	7.043E3	.979	150
Employee Performance	.764	.943	1.180E3	.889	150

Table 3 disclosed that there was a considerable and positive impact of corporate ethical values on ethical leadership and employee performance at a significant stage of 1%. Ethical leadership had also a major influence on employee performance and was significant at 1% level. These findings were described by Russel and Hwang (2003) as well. Table 3 showed the regression analysis of the variables of corporate ethical values, ethical leadership and employee performance. The forecasted regression results of the ethical leadership, corporate ethical values and employee performance also had the momentous impact. It was also clear from the analysis that corporate ethical values had a positive and strong influence on employee performance. It could be judged from the analysis that F value = 1.180 had significant effect at $P<0.05$ which stated that ethical leadership was the major cause of the change in employee performance. The value of R square was .979, $p<0.01$ which was the fraction of the variability in the dependent variable as mentioned by the regression analysis. So, in general, all the hypothesis of corporate ethical values, ethical leadership and employee performance were significantly correlated with each other as mentioned by the Petersons and Luthans (2002).

The proposed hypothesis is explained as under.

H1:   Corporate ethical values and ethical leadership

The correlation analysis as discussed earlier, explain that there was a positive and

Significant correlation between corporate ethical values and ethical leadership, that was

$(r = 0.950)$. Hence, Hypothesis 1 was positive and significant. Additionally, corporate ethical values could also be measured by applying regression through Beta that was 9.674 at t = 9.676 and the R^2 of corporate ethical values and ethical leadership is 0.902 at $P< 0.01$. Previous researches had proved that there was a significance impact of corporate ethical values on ethical leadership. Corporate ethical values were very important for the leadership to be the best for employers of the organization. Ethical corporate values can be utilized for many reasons, but most of he important is to handle different ethical issues between the employees of the organization (Wilson, 2004).

H2:   Ethical leadership and Employee Performance

There was a strong coherence between ethical leadership and employee performance and had a positive correlation r = 0.990, $p<0.01$. The regression model was also applied and the result was R square = 0.979 and F value = 7.043, $p <0.01$ which proved the positivity of the hypothesis 2. It was clear from the analysis that ethical leadership if executed could have the strong impact on the employee performance. It was supported from the previous researches that ethical leadership directs to self-sufficiency, motivation to the employees, wisdom of self reliance which leads towards performance maintenance and attainment of the objectives of the organization. Ethical leadership is a strong weapon to pull out the ideal expertise and capability of the personnel (Houtzagers, 1999). So, the employees who are authorized by ethical leadership can be productive to boost up the performance level of the organization.

H3:   Corporate ethical values, ethical leadership and employee performance

It was clear from the above analysis and overall discussions that the hypothesis were positive and proved to be significant which guided that, "there was a positive and strong relationship between corporate ethical values, ethical leadership and employee performance. So, after a comprehensive overview of all the above discussions regarding the relationship of all the variables, it was observed that corporate ethical values' involvement in ethical leadership and employee performance was very high.

So, the organizations must have to realize that what are their contributions to build corporate ethical values in order to develop ethical leadership for employee performance? So, organizations must visualize the ethical leadership liability to direct and transform the performance (Jones, 2005).

CONCLUSION

The overall analysis provides a comprehensive description for the hypothesis as explained by the different earlier researchers. The results are within the stream line as mentioned by the previous researches that corporate ethical values are positively correlated with ethical leadership and employee performance (Brown et al., 2005). According to Echo Burns (1978), corporate ethical values are the predictors of influence in terms of building the ethical values and ambition in the leaders and the followers. So, corporate ethical values are the basic component for ethical leadership and employee performance. From the findings and the analysis of the research it is stated that the leaders should have the ethical values, interpersonal qualities and capabilities to carry out the different tasks as needed by the organizations. But, it is also very difficult to find out a single person who is the mixture of different skills to perform the different tasks of the organization.

The results of this research are also supported by numerous assertions and suggestions as described by Brown and Trevino (2006). This research was operationalized depending upon three variables, i.e. corporate ethical values, ethical leadership and employee performance to see the relationship of corporate ethical values on ethical leadership and employee performance. Brown and Trevino (2006) forecasted earlier that ethical leaders use moral dimensions to increase the productivity of the employees. The entire three hypothesis developed to perform the analysis are positively and significantly correlated with each other. A corporate ethical value is the strongest variable between all the three variables which influences the ethical leadership to increase the performance of the employees. Organizations must maintain the learning environment for their employees. So, there must be collaborative efforts of the leaders and the organizational employees to learn the ethical codes and conduct to enhance their performance. These ethical values are the important factors for the organizational success.

On the other hand, another discovery in this research is that ethical leadership is a mediator between corporate ethical values and employee performance, which tells that ethical performance, provides the leaders to prosper, increase employee's integrity and ethical standards and employee commitment (Trevino et al., 1998, 1999). After the whole analysis of the research, it can be stated that corporate ethical values play a dominant role to enhance ethical leadership and to increase employee performance for the achievement of the organizational goals, which will automatically high the organizational productivity, market share and performance.

PRACTICAL AND RESEARCH IMPLICATIONS

Ethics and the moral values are considered the most important factors of the organization. Corporate ethical values with other factors in relation to organizational context would probable be an additional edge for upcoming research purpose. An empirical analysis in this research are needed more to investigate the validity and reliability of the construct regarding various corporate ethical factors would be valuable. A hard effort is needed to build a scale which would build the organizations ethically strong. Trevino at al., (2003) describes that organizational leaders having ethical norms and values, can lead to persuade their employees and the supporters. Therefore, it is necessary for the organizational trend makers to give importance to the corporate ethical values by spreading out this information to the employees (Thomas et al., 2004). It depends on the careful selection of the proficient professionals who are strong in ethical norms and values, which could make organization ethically strong.

So far as several contributions are there in this research, a lot of limitations are still there. This study focused on the experienced executives working in different organizations, and ignored the young generation who had entered into their practical field and had less experience. The main cause for not taking the young generation into the account was that, majority of them were not skilled in their field, and those who had this opportunity, was not authorized to play their active part into the decision making process.

FUTURE RESEARCH

This research paper is directly related with corporate ethical values and its impact on ethical leadership and employee performance. Although the practical execution and the blueprint are not under the observations, hence the future research can be to discover that how corporate ethical values can be strategically executed and implemented in order to increase the employee performance of the organization. Ethical leadership is an asset of the organization towards employees for the efficiency; this study can also be extended to see the relationship of the ethical leadership with organizational commitment and development. This research can be extended further to see the impact of corporate ethical values on psychological factor like performance appraisal, perception of learning, attitude of the employees towards goals achievement etc. Another aspect of the future research can be to see whether ethical corporate values are negatively correlated with ethical leadership or employee performance.

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