The Relationship between Ethical Leadership and Organizational Performance
(Small Review on Malaysian Studies)

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Abstract

The strategies for growth and development initially need to have a high cooperate between private and government sectors. In order to achieve the main goal with expected proficient society, new plans could play a good role. Since, basically behaviors come out as actions in people treatments; however it can be related to ethical leadership which could be provided by organization in the work-place. Hence, the Ethical leadership improve the environment and promote the clients have a sensitive and positive attitude toward the organizations in private and public sector. Finally the organizations with suitable condition considered making more satisfaction and more profit for community through their high performance (Chong and Ooi, 2011). This study still looking for completing gathered data; therefore the analysis and conclusion will be done later.

Key Words: Ethical Leadership, Organizational Performance, SME (Small & Medium enterprise)

1. Introduction

Malaysian Small and Medium Enterprise (SMEs) are an essential component of the country's economic development. They are accounted for 93.8 per cent of companies in the manufacturing output, 25.8 per cent to value added production, own 27.6 per cent of fixed assets, and employ 38.9 per cent of the country's workforce. The value added products from this section expected to be worth RM 120 billion in manufacturing sector by 2020 (SMIDEC 2002; Saleh and Ndubisi 2006). Actually this is only 50 per cent of total production in SMEs manufacturing. The total Malaysian export is approximately 20 percent lower than many other countries' such as Philippines, Hong Kong, Taiwan (Saleh and Ndubisi 2006). In a report- study of SMIDP, Malaysia facing many new challenges in terms of SME's productivities (Saleh and Ndubisi 2006; Ali Salman Saleh and Nelson Oly Ndubisi, 2006, pp.1-14) ;Some of these challenges introduced as below:

1. Competition from other procedures (for example China and India)
2. Low productivity and low quality output
3. A shortage of skills for new business environment
4. The high cost of infrastructure
5. A general lack of knowledge and information

Ting (2004) identified five key challenges: lack of access to finance, human resource constrains, inability to adopt technology, lack of information on potential markets and customers and global competition. He believes that the high risk of SMEs in Malaysia will wiped out if they do not increase their competitiveness in the new, quickly changing globalization (Saleh and Ndubisi 2006). A survey conducted by United Parcel Services (UPS, 2005) shows that Malaysian SMEs in terms of competitiveness came in tenth in Asian countries where 73 per cent of respondent considered that Chinese SMEs are more competitive than other countries.

The result of this study indicate that innovation and access to market intelligence and access to funding and capital, are the biggest challenges for Asian SMEs. Moreover, the survey which conducted by Saleh, A. S. and N. O. Ndubisi (2006), concludes the most competitiveness issues that Malaysian SMEs faced are: labor cost, innovation and low financial performance. This study will try to find out whether the Ethical leadership influences the financial and non- financial performance in Malaysian SMEs? Since the high performance considered as a main target in each organization , so that the significance of study goes to importance of strategies, and plans which could provide the basis for Malaysian industry in future.

2. *The Review of Literature*

2.1 Ethical Leadership and performance

The employees, who influence the performance, responsibly contribute to design in best way their environment for leaders; they believe that this influence is from leadership style, so the work place concern on the part of the leader for their level of trust. The results of an empirical study confirm that ethical leaders not only influence employees' ethical behavior but also generate employees' trust. In fact the leaders provide a social exchange relationship with their subordinates (Hansen, S. D., 2011). Ethical leaders positively make influence; not just on employee but totally on attitudes and behaviors as well. This process assumed as performance improvement (Hansen, S. D. 2011). Additional note from this survey, reveal that individual differences do not impact the employee's desire toward the ethical leaders. In another word the individual differences among subordinates, encourage them trusting in leaders (Hansen, S. D. 2011).

2.2 Organizational Performance (OP)

Murphy et al. (1996) confirm that growth, profitability and efficiency are the most commonly form of performance factors in the entrepreneurship literature. The survey demonstrated enormous support for financial performance measures, yet many of the respondents believed that traditional accounting-based measurement systems no longer adequately fulfill a key role in developing strategic plans, evaluating organizational objectives and compensating managers. They cited that the heavy emphasis placed on financial measures, particularly profit making, is inconsistent with their relative importance to the organization as a unit (Lingle & Schiemann, 1996). Organizations need multiple criteria, which include indicators of key success factors that represent the entire enterprise (Chan & Lynn, 1991). Therfore, a variety of performance measurement innovations integrating financial and nonfinancial have surfaced, for example, the balanced scorecard (Ittner & Larcker, 1998) and the analytic hierarchy process (AHP). Despite these broad-based firm performance models, the consensus among researchers, scholars and practitioners, is that firms basically still rely almost exclusively on financial measures such as budgets, profits, accounting returns and stock returns for measuring performance (Ittner & Larcker, 1998). Some researchers reason that the financial performance, has been the dominate model for empirical strategic management. They commonly emphasized on the financial performance constructs such as return of investment, return on average assets, and return on equity (Rowe & Morrow, 1999).

2.3 A Model of High Performance Organization

Based on theories which found by Weber (1998), regarding to importance of organizations' structure and processes, and aligning behavior and strategy which has been highlighted by Drucker (1954), and Van (2001), the researcher interested to indicate to the High Performance Organization model (HPO). This model consists of five major characters including: Strategic approach, Customer approach, Leadership approach, Processes and structure and, Values and beliefs (Figure 1). Strategic approach helps to determine the organization's success; high performance organizations strive to establish a clear vision by achievable strategies and plans. Customer approach focuses on treating customers, trying to obtain new customers and also retaining them. Leadership approach as third component identifies the organization's strategy in managing people to rich a particular kind of behaviors. High performance Organizations (HPO) tend to be about employees' behavior; moreover organizations try to understand employees' functions and abilities; this will led the organization to guide their performance. The fourth factor is process and structure; this character helps to obtain the organization how arrange their policies, work process and proceed to support the strategy. The Value and Belief as the last factor in the model essentially help firms execute its strategy; each factor interacts with and influences the others, while creating a whole system. Finally a change to one provides changes in the others (American Management Association, 2007).

3. *Methodology*

3.1 Research Model

This study is going to investigate the relationship between ELB and OP in Electrical and Electronic Malaysian SMEs. EL is independent variable, and OP is dependent variable. The component and dimensions of variables have been explained in Figure (2). Based on the objective in order to measure the IV, the ethical leadership questionnaire which is evaluated and derived by John J. Kilrog (2009), will be applied to measure and assess the level of relationship of ELB while it will be tested by Pearson Coefficient *(r),* and for measuring the OP as DV; the organizational performance measurement will be used; the major factors in this measurements defined as: financial measurement , Supplier measurement, Employees measurement, and Customer measurement (Figure 2).

3.2 Population and Sample Design

According to official updated website of SME corporation of Malaysia the total Number of active established Electrical and Electronic SME manufactures in Malaysia is 1457 (WWW.smecorp.gov.my/). The majority of these companies located in Johor 16 Percent, Selangor 36.2 Percent, Pinang 16 Percent, and Kuala Lumpur, 17.4 percent (Table 1). The researcher will chose the four major origins mentioned above which contain the majority of companies (85.8 percent). The total number of manufactures in these four state is 1250, and it is almost located in various and different area of country (Table 2).

Based above criteria and using Cochran formula the sample size for this study will reach to 280; the researcher will apply to 300 numbers of Electrical and electronic active Malaysian SMEs in order to achieve high accuracy of analysis. The unit of analysis in this study is Organization. The respondents considered as top managers, supervisors, and ordinary workers. The SME manufactures will be listed by name (based on Alphabet) and numbers; researcher will select 300 cases after listing the name of all active manufactures by simple random sampling style.

In order to providing equal and logical chance for every company, the researcher makes accountable distribution for four major locations that has been selected to conduct the research regarding the size as showed in Table (2). Each participant will receive a survey packet that contained: a. Ethical Leadership Questionnaire, b. Organizational performance Questionnaire, and c. Socio-demographic information

The researcher a survey instrument has developed in order to test the research model.; Although the items and questions in the proposed questionnaire were adopted from previous and existing studies, but the questionnaire will be pre-tested with several senior executives in two languages from a few manufacturing firm to ensure that the wording and format of the questions are appropriate and understandable. The translation and back translation of questionnaire will be compared. Data will be collected using a self-administered questionnaire that distributed to 300 Electrical and Electronic SMEs. The result of collected data will be analyzed through appropriate statistic software.

3.3 Instrumentation Design

a. OP Measurement: Although most researchers (Kotter & Heskett, 1992; Marcoulides & Heck, 1993; Denison & Maishra, 1995; Lok, P., & Crawford, J. (2004); measured organizational performance by using quantitative data like return on investments (ROI), return on sales (ROS), and so forth; however still there is an inconsistent measurement of organizational performance. The new business environment and new sort activation in industrial productivities is characterized by importance role of customer, employees, and finally society. Based on this belief, this study strived to find out and prepare the appropriate measurement in order determine the organizational performance in manufactures (Dimorski and Skerlavaj, 2005; Skerlavaj et al, 2007). The factors which related to study introduced as bellow: Financial measures, Suppliers' measures, Employees' measures, and Customers' measures (Figure 2). Each factor will be explained and measured by some items. The instrument consists of 19 measurement items (Appendix B). The respondent will choose between two opposed statements on a five- point Likert scale while: 1= completely agree to 5= completely disagree (Dimorski and Skerlavaj, 2005; Skerlavaj et al, 2007).

b. ELB, Measurement: Beatitudes came and grew up by researchers (Northhouse, 2007; Patterson & Winston, 2006), and the effectiveness of value as a concept improved by scholars Loard & Brown (2001). Values generally used for evaluating the cognition and behaviors; so the leadership may have the best function when identities of follower are mach with level of subordinators. Therefore the Winston's (2002) proposition about the seven leadership scales provided certain leadership behavior and it is initially universal and not belongs just to a single religious. John J. Kilrog (2009) in his critical study used the beatitudes as a term. The author believes the leadership values inspired by beatitudes which encourage the leaders to be: Bumble, Concern for others, Demonstrate, Controlled discipline, Compassion, Display wisdom, Be highly focused, and Act as peacemaker.

John J. Kilrog (2009) evaluated all seven scales by conducting a survey; finally after analyzing the results he centralized and reduced the items of dimensions, so that the number of items in new evaluated scale reduced from 12 to 5 for each single dimension and the total number of items would be 35 in this instrument. In this study the researcher prefer to apply this measurement after adopting trough pilot study in terms of word and sense.

4. Discussion

In Malaysia, a noticeable discussions deal with ethical issues- specially in recent years. The ethical and moral standards became worse, while the industrial progresses in many part of the world have resulted in higher levels of affluence (Zabid and Alsagoff, 1993). As evident reveal, there are frequently reports regarding collusion, kickbacks, dishonest and corruption by individual and organizations (J.L. Gupta and M. Sulaiman 1996).

The critical interest is being taken in value judgments that lie behind organizational decisions and particularly those responsible for managing manufacturing organizations. The leaders through their intentions, goals and actions which relate to human resource factors, directly or indirectly influence the welfare of a number of people in the society. They are influencing future not only for their own organization but also for employee, customers, suppliers, consumers, stockholders and community as whole (J.L. Gupta and M. Sulaiman 1996). So, all these people should be able to trust the managers' judgments. It is very important that each manager has to become his/her own moral philosopher and apply moral thinking and principles to the decisions and actions in daily life (Buchholz, 1989). In the other words, ethics an inextricable part of managerial decision process and it is essential for managers to maintain an operational and continuing concern for ethical integrity. (J.L. Gupta and M. Sulaiman 1996)

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The previous studies show that although managers in small and medium sized Malaysian organizations, interested to affirm their faith in relevance actions of ethical leadership for achieving long –term success, but sometimes the realities required make compromises (J.L. Gupta and M. Sulaiman 1996). This is a point that researchers may note to that. The managers often feel constrain to unethical adjustments for a variety of reasons, such as stiff competition, organizational climate, ethical behavior of colleagues and employees. In addition the lack of effective guiding mechanism in facing complex Ethical problems has become another important point (J.L. Gupta and M. Sulaiman, 1996).

As such we would be able to claim that behavioral responses and attitudes require the great efforts in order to institutionalize ethics into organizational decision making processes and work practices as well; but still there is a big absent of adequate information regarding the association between ethical leadership and its influence on performance in Malaysian organizations. Moreover, the results of the cases in this area are not on a logic and significant line because of differences. Recent researchers on ethical managers have emphasized the need and concern of organizational orientation toward the values and process of excellence. It is expected that the organizations widely attributed to their valued actions and ethical leadership which guides the managerial practices (Peters and Waterman 1982; Pascal and Athos, 1981; Deal and Kennedy, 1982; Denison, 1990). Creating a united behavior, as a Characterized climate around core moral values to enhancing ethical leadership has been suggested.

These ethical values and norms would need to be incorporated in the planning process of management and must clearly from part organization's mission statement expressing values would then be translated into a specific code of conduct to adequately communicated and strictly enforced.

For such a culture to come into existence and become effective in influencing and enhancing ethical environment in organization, the most important factor would be the values, the words, and the deeds of top (executive) managers who act as leaders the role models for employees and members (J.L. Gupta and M. Sulaiman, 1996). In Malaysian organizations, managers perceived their personal codes of behavior as the most important influence on their decisions. They are guide more by their own conscience which decides the morality of their actions and encourage them to behave in a growing up from early childhood to adulthood; they generally internalize different values and beliefs about desirable and states understanding attitudinal and behavioral processes.

Accordingly to Kohlberg (1981), some people almost always make moral decision based on how the performances will affect some particular persons while others may consider the effect of their actions on group that they belong to. Still others look beyond their immediate reference points to consider the interest of society at large or even humanity as a whole. The priority of this study is expecting to achieve a new aspect in terms of the major factors including ethical leadership regard to the organizational performance in Electrical and Electronic SMEs. Since managers, traditionally focus on OP from a bottom line and informal perspective; so clearly employee effectiveness, financial performance, supplier performance and also customer's performance are more important in such studies in order to understand the extent of association of factors regards to the ethics in organization. Understanding this relationship is considered as a theoretical gap to the business community, particularly in developing new industrialized countries like Malaysia especially in SME manufactures (Glasow 2007; Elliott, Carlisle & Carter, 1988; Wotruba, 1990; Reidenbach and Robin 1991).
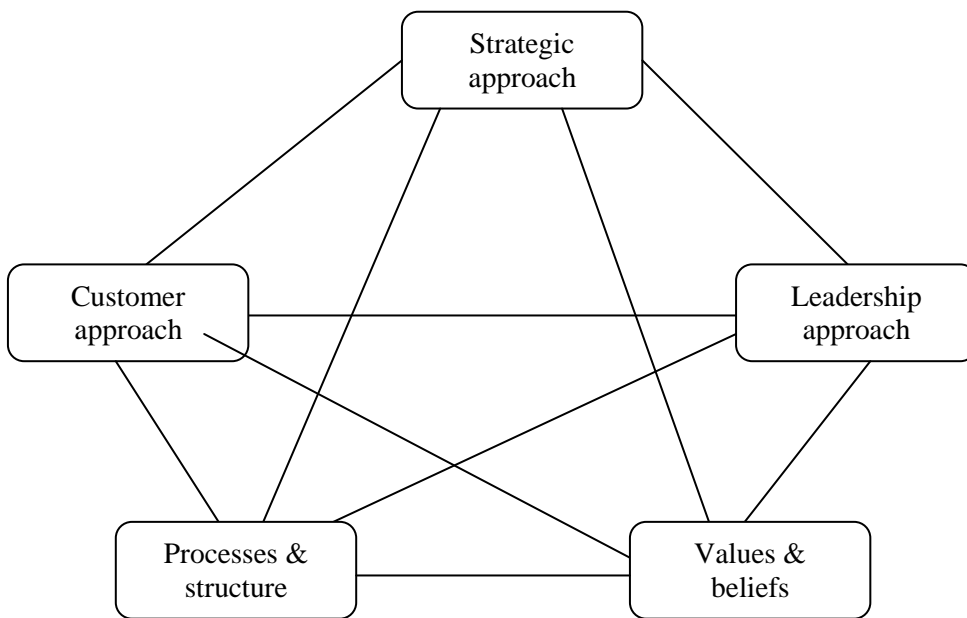
Figure (1)

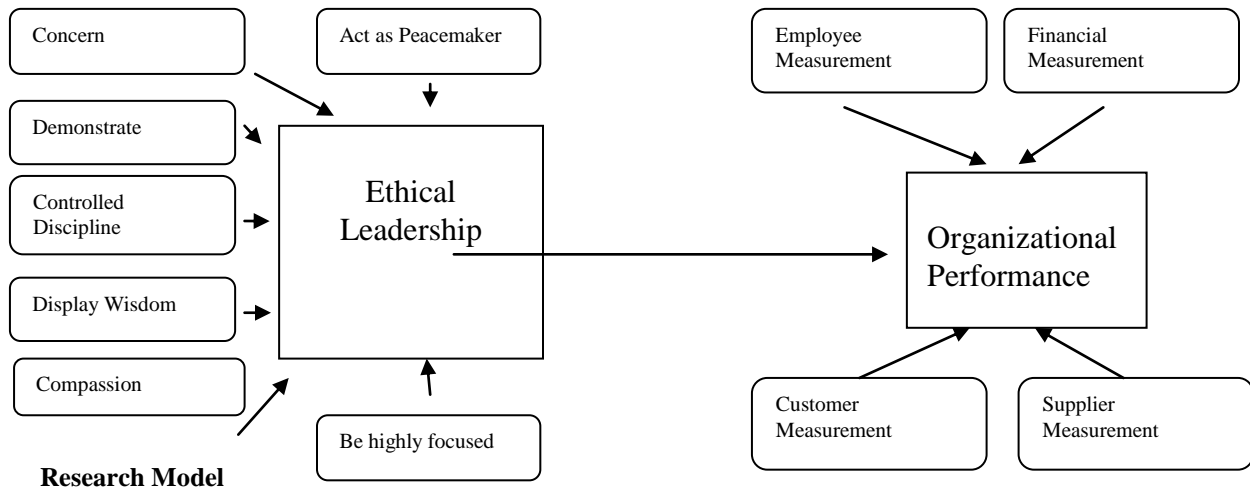**Figure 2.1; High Performance Organization model; From Overholt, Granell, Vicere, Jargon (2006)**

Figure (2)

Research Model

Table (1)

Location	Number of company	currently active company	percentage
Kedah	81	75	5.15
Kuala Lumpur	349	254	17.43
Kelantan	9	8	0.55
Johor	294	234	16
Melaka	65	54	3.7
Pahang	20	18	1.2
Perlis	1	1	.07
Pinang	274	234	16
Sabah	20	14	0.96
Sarawak	45	37	2.54
Selangor	608	528	36.2
Total Number	1766	1457	100

Distribution of Electrical & Electronic SME based on locations

Table (2)

Location	Number of active company	Selected cases for sample
Kuala Lumpur	254	61
Johor	234	56
Pinang	234	56
Selangor	528	127
Total	1250	300

Location and distribution of selected cases for sample size

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