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## Linking ethical leadership to employee performance: The roles of leader–member exchange, self-efficacy, and organizational identification

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### ABSTRACT

This research investigated the link between ethical leadership and performance using data from the People's Republic of China. Consistent with social exchange, social learning, and social identity theories, we examined leader–member exchange (LMX), self-efficacy, and organizational identification as mediators of the ethical leadership to performance relationship. Results from 72 supervisors and 201 immediate direct reports revealed that ethical leadership was positively and significantly related to employee performance as rated by their immediate supervisors and that this relationship was fully mediated by LMX, self-efficacy, and organizational identification, controlling for procedural fairness. We discuss implications of our findings for theory and practice.

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### Introduction

Ethical leadership is defined as “the demonstration of normatively appropriate conduct through personal actions and interpersonal relationships, and the promotion of such conduct to followers through two-way communication, reinforcement, and decision-making” (Brown, Treviño, & Harrison, 2005, p. 120). In proposing the theory of ethical leadership, Brown et al. (2005) suggested that ethical leadership behavior plays an important role in promoting enhanced employee attitudes and behaviors. In support, prior work has linked ethical leadership to prosocial and negatively deviant behaviors (e.g., Avey, Palanski, & Walumbwa, 2010; Brown et al., 2005; Mayer, Aquino, Greenbaum, & Kuenzi, in press; Mayer, Kuenzi, Greenbaum, Bardes, & Salvador, 2009; Walumbwa & Schaubroeck, 2009).

However, relatively few studies have tested how and why ethical leadership relates to task performance, and if so, the mechanisms through which ethical leadership relates to task performance. An important exception is recent research by Piccolo, Greenbaum, Den Hartog, and Folger (2010) that examined the roles of task

significance, autonomy, and effort in the relationship between ethical leadership and task performance. Piccolo et al. (2010) found that ethical leadership increases task significance, which, in turn, results in improved performance. Accordingly, the primary goal of the present research is to extend this early and more recent research by examining the role of leader–member exchange (LMX) as a social exchange process, self-efficacy as a social learning process, and organizational identification as a social identity process in the ethical leadership–performance relationship.

*Leader–member exchange* is defined as the quality of exchange between a supervisor and an employee (Graen & Scandura, 1987). These exchanges are posited to fall along a continuum. For example, leaders may form high-quality social exchanges that are based on trust, open communication, information sharing, and liking of followers, whereas with others, they may form lower-quality, economic exchanges that do not extend beyond the employment contract (Erdogan, Liden, & Kraimer, 2006; Sparrowe & Liden, 1997). *Self-efficacy* is defined as individuals' perceptions of their ability to execute a specific task and is a major component of social learning theory (Bandura, 1977, 1986, 1997). *Organizational identification* refers to a feeling of oneness or belongingness to a particular group or institution (Smidts, Pruyn, & van Riel, 2001; van Knippenberg, van Knippenberg, De Cremer, & Hogg, 2004; van Knippenberg, van Knippenberg, Monden, & de Lima, 2002; van Knippenberg & van Schie, 2000), and is derived primarily from social identity theory (Tajfel, 1981). Together, we argue that the

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reason why ethical leadership predicts performance is that ethical leadership behavior enhances high-quality LMX, employees' self-efficacy, and identification with the organization. In turn, high-quality LMX, self-efficacy, and organizational identification improve employee performance.

Our contribution is to further increase understanding of the complex relationship between ethical leadership and employee performance by drawing on three major traditions in testing mediation in leadership research. We view identification and self-efficacy as representing two major themes in self and identity (i.e., self-construal and self-evaluation) perspectives as mediators. Additionally, LMX represents both the social exchange and trust perspectives as psychological states that mediate the ethical leadership effect on follower performance. Until now, the ethical leadership literature focused solely on social learning and social exchange explanations for the effects of ethical leadership. Thus, we contribute to the ethical leadership literature by integrating social identity theory and including organizational identification in our theoretical model. However, some research regarding social exchange and social identity suggests that LMX and identification may not be independent influences. For example, Sluss, Klimchak, and Holmes (2008) argued that LMX and perceived organizational support are precursors to identification, suggesting that identification mediates the influence of LMX. Similarly, van Knippenberg, van Dick, and Tavares (2007; see also Hogg et al., 2005) argued that identification and LMX may interact in predicting performance. Specifically, van Knippenberg et al. (2007) found that supervisor and organizational support interact with identification such that social exchange becomes less important with higher identification. However, to our knowledge, we are aware of no prior research that has simultaneously tested these perspectives to explain the influence of leadership on employee performance. Building on and extending the above research, we believe it is worthwhile to draw from the distinct advantages of each perspective to provide a more comprehensive understanding of the underlying mechanisms that link ethical leadership to follower performance.

Attention to the mediating mechanisms in the ethical leadership–follower performance relationship also highlights important practical benefits. For example, if research can specify the proximal processes through which ethical leadership works to increase performance, it could provide organizations with a framework to enhance performance through ethical leadership training. Finally, research on ethical leadership has not been conducted in China. Considering its rapid industrialization and the increased diversity in values held by Chinese people (Xie, Schaubroeck, & Lam, 2008), China provides an ideal setting for extending ethical leadership research and its practical utility.

## Theoretical background and hypotheses

Brown and Treviño (2006a) suggested that social exchange theory (SET; Blau, 1964) and social learning theory (SLT; Bandura, 1977, 1986) provide theoretical explanations for the relationship between ethical leadership and follower behaviors. Brown and colleagues (2005) suggested that followers of ethical leaders are more likely to perceive themselves as being in a social exchange relationship with their leaders because of the ethical treatment they receive and because of the trust they feel. When employees perceive that their leaders have their best interests at heart and are caring, they are likely to reciprocate by improving task performance. Similarly, a social learning perspective on ethical leadership proposes that ethical leaders are likely to influence followers' self-efficacy because they are attractive and legitimate role models that seek to help employees reach their potential at work (Bandura, 1986, 1997).

Although social exchange and social learning theories are valuable, we argue that they are not enough to explain the complex relationship between ethical leadership and followers' performance. Social identity theory (e.g., Ashforth & Mael, 1989; Tajfel, 1981) is another intermediate theory that we believe might further help explain the relationship between ethical leadership and performance. Social identity constitutes the perception of oneness with, or belongingness to, a specific social category where individuals are intrinsically motivated to contribute to the collective good (Ashforth & Mael, 1989; De Cremer & van Knippenberg, 2003; van Knippenberg & Hogg, 2001; van Knippenberg et al., 2004). Thus, social identity theory may complement both social exchange and social learning theories in explaining the link between ethical leadership and performance. We suggest that ethical leaders are likely to influence follower performance by enhancing greater identification with the group or organization, because such leaders represent the high ethical standards and values of the organization (van Knippenberg et al., 2004). Below, we develop hypotheses for the mediating roles of LMX, self-efficacy, and organizational identification in the ethical leadership–employee performance relationship.

### *Ethical leadership and leader–member exchange*

Leader–member exchange (LMX) theory has received considerable attention in the organizational sciences (Nahrgang, Morgeson, & Ilies, 2009; Walumbwa, Cropanzano, & Goldman, in press). Leader–member exchange is based on the degree of emotional support and exchange of valued resources (Liden, Sparrowe, & Wayne, 1997; Sparrowe & Liden, 1997) between a supervisor and his or her direct report. Thus, LMX is a social exchange relationship between an employee and his or her immediate manager or supervisor (Masterson, Lewis, Goldman, & Taylor, 2000). According to social exchange theory, employees tend to develop high-quality relationships based upon *whom* they interact with, *how* they interact with them, and their experiences with them (Blau, 1964; Coyle-Shapiro & Conway, 2004; Cropanzano & Mitchell, 2005). In other words, the more frequently employees interact with their immediate supervisors, the more likely the relationship will be stronger (Dienesch & Liden, 1986). This makes leadership an important currency in social exchanges (Cropanzano & Mitchell, 2005; Erdogan et al., 2006; Wayne, Shore, Bommer, & Tetrick, 2002). Therefore, we argue that because LMX relationships are developed through a series of interactions or exchanges between leaders and followers, immediate supervisors are critical in enhancing the LMX relationship because of their proximity to employees.

There are a number of ways ethical leaders can enhance high-quality LMX with their followers. First, ethical leaders are viewed as moral persons who are honest and trustworthy; they are also seen as principled decision makers who care more about the greater good of employees, the organization, and society (Brown & Treviño, 2006a; Brown et al., 2005; Treviño, Brown, & Hartman, 2003). When employees perceive that leaders act in their best interests and are caring, employees infer that leaders are committed to them. The result is enhanced high-quality LMX because of high levels of loyalty, emotional connections, and mutual support (Erdogan et al., 2006; Wayne et al., 2002).

In particular, Treviño, Weaver, and Reynolds (2006) argued that, "Because ethical leaders are caring...relationships with ethical leaders are built upon social exchange and norms of reciprocity" (p. 967). Ethical leaders inform their followers of the benefits of ethical behavior and the cost of inappropriate behavior and then use balanced punishment to hold followers accountable (Brown et al., 2005). Such leaders are also more concerned with establishing trusting relationships with followers through solicitation of employees' ideas without any form of self-censorship (Brown &

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