



A three-level examination of the cascading effects of ethical leadership on employee outcomes: A moderated mediation analysis

Gukdo Byun^a, Steven J. Karau^b, Ye Dai^b, Soojin Lee^{c,*}

^a Chungbuk National University, School of Business, 1 Chungdae-ro, Seowon-gu, Cheongju, Chungbuk 28644, Republic of Korea

^b Southern Illinois University, College of Business, 1025 Lincoln Drive, Carbondale, IL 62901, USA

^c Chonnam National University, College of Business Administration, 77, Yongbong-ro, Buk-gu, Gwangju 61186, Republic of Korea

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ABSTRACT

Based on social learning theory, we developed a moderated-mediation model of trickle-down effects to test how the ethical leadership of high-level leaders influences the ethical leadership of low-level leaders and the work outcomes of subordinate employees. Data were collected from 224 leader-employee dyads at six large companies in South Korea. The results of hierarchical regression analyses provided support for this model. Our results indicated that the ethical leadership of high-level leaders trickles down to low-level leaders, which then reduces the social loafing of employees while increasing their task performance. We also found that the self-enhancement motives of low-level leaders moderate the positive relationship between the ethical leadership of high and low-level leaders in a way that strengthens this relationship when the motives are low rather than high. This finding further suggests that low levels of self-enhancement motives strengthen the indirect effects of ethical, high-level leadership on employee social loafing and task performance.

1. Introduction

Various instances in which leaders have behaved unethically have resulted in a series of negative impacts on their respective firms and stakeholders. Varying from large corporate scandals to the less-sensational withholding behaviors of employees, these impacts reduce productivity and result in financial losses to firms (Bello, 2012). Beyond these direct harms (Kacmar, Bachrach, Harris, & Zivnuska, 2011), the proliferation of unethical behaviors in one organization can, like a proverbial “rotten apple,” potentially spread to other organizations and then into society as a whole (Treviño & Youngblood, 1990). For this reason, ethical leadership, which is conceptualized as a leader's display of normatively appropriate conduct and the promotion of such conduct among his or her followers (Brown, Treviño, & Harrison, 2005), has become an increasingly important and popular topic in both the media and academia (Treviño, Weaver, & Reynolds, 2006).

Over the past decade, the study of ethical leadership has grown rapidly (cf., Ng & Feldman, 2015), with one research branch focusing on the effects of ethical leadership on the positive or negative organizational behaviors of followers. According to a recent meta-analysis by Hoch, Bommer, Dulebohn, and Wu (2018), ethical leadership improves desirable employee outcomes, such as organizational citizenship behaviors, job satisfaction, employee engagement, and organizational

commitment, and also reduces employee deviance and turnover intentions. Although these studies contribute to our understanding of the significance of ethical leadership for achieving desirable performance outcomes, much less is known about the specific processes through which ethical leadership elicits these effects. Researchers have only developed a preliminary understanding of how the influence of ethical leadership trickles down through the organizational hierarchy to influence performance outcomes. Indeed, many researchers have called for studies along this developing line of inquiry (Bedi, Alpaslan, & Green, 2016; Brown & Treviño, 2006a; Ng & Feldman, 2015).

According to social learning theory (Bandura, 1977), individuals learn norms and appropriate behaviors by observing the behaviors of others who are credible and attractive. Several researchers have suggested that the ethical behaviors of leaders play a key role in efforts to foster positive, value-driven behaviors in employees (Bedi et al., 2016; Bums, 1978). A number of leadership constructs, such as transformational leadership (Bass, 1985; Bums, 1978), servant leadership (Greenleaf, 1977), and authentic leadership (Avolio & Gardner, 2005), contain elements of ethics. However, these constructs focus on a range of leadership behaviors that do not categorically include clear ethical components, and that therefore may not fully explain the effects of the ethical behaviors and choices of leaders and how those behaviors influence employees (Brown & Treviño, 2006a).

* Corresponding author.

E-mail addresses: bgukdo@cbnu.ac.kr (G. Byun), skarau@business.siu.edu (S.J. Karau), ye.dai@business.siu.edu (Y. Dai), soojinlee@jnu.ac.kr (S. Lee).

In contrast, ethical leadership focuses on a range of behaviors with an ethical conceptual focus. Ethical leaders embody integrity and help establish and reinforce ethical standards set for themselves and their subordinates (Bandura, 1977; Brown & Treviño, 2006a). As a result, leaders at lower levels of the organizational hierarchy can emulate and internalize the ethical values and standards of higher-level leaders. This internalization of values and standards within lower-level leaders then enhances the desirable behaviors of subordinate employees and decreases their harmful conduct through a role-modeling process. These effects have been referred to as the “trickle-down” or “cascading” effects of leadership (Bass, Waldman, Avolio, & Bebb, 1987).

Research has provided empirical evidence for the effect of high-level ethical leadership on the ethical behaviors of lower-level leaders, which helps to support the existence of cascading effects (Mayer, Kuenzi, Greenbaum, Bardes, & Salvador, 2009; Ruiz, Ruiz, & Martinez, 2011b). However, these studies have mainly focused on the effect of top managerial leadership styles on organizational outcomes, but have not fully established the mediating processes, moderating variables, or boundary conditions. Previous studies have also relied on the ratings of general employees in measuring the ethical behavior of leaders. Such practices can obscure the trickling-down of ethical leadership across organizational layers during the influencing process (Mayer et al., 2009; Ruiz et al., 2011b). Yet, ethical leadership across the organizational hierarchy might be most accurately measured by assessing the perceptions that direct subordinates have about their leaders across multiple leadership levels. Therefore, to ascertain the effects of multi-layered ethical leadership on performance, the field requires further studies constructed to identify the key variables of the influencing process and that use an appropriate strategy for testing these subtleties.

To partially address these concerns, the current study examines one particular process through which ethical leadership influences the work outcomes of employees across the organizational hierarchy by using data collected from leaders and employees at multiple levels. In particular, we investigated how ethical leadership trickles down across the organizational hierarchy to reduce the social loafing of employees and improve task performance.

Social loafing is often prevalent during team and group work, and results in decreased employee motivation and effort that falls below the level that can be achieved during individual work activities (Karau & Williams, 1993). This can pose a potent barrier to productivity and team performance (Erez & Somech, 1996; Steiner, 1972). Therefore, the identification of corrective methods to social loafing is valuable to both management scholars and practitioners. Effective leader behaviors may provide one such category of potent corrective methods. Unfortunately, the current literature on social loafing has largely disregarded leadership influences (for notable exceptions see Ellemers, De Gilder, & Haslam, 2004; Kerr & Stanfel, 1993). Thus, ethical leadership with its strong normative implications for promoting behaviors with positive implications for collective organizational outcomes provides a promising area of study for this inquiry. Therefore, our study also aims to fill another prominent research gap by examining the potential for ethical leadership across multiple organizational layers to serve as a corrective method for the social loafing of employees.

Additionally, in social learning processes, individuals may respond differently to role models depending on the types and strengths of their motives. Indeed, the differential levels of subordinates' specific motives are associated with differential levels of their adherence to and imitation of ethical leadership behaviors (Brown & Treviño, 2006a). Accordingly, the strength of low-level leaders' learning and imitation of the ethical behaviors of high-level leaders can vary (Mayer et al., 2009). Among various core social motives, the self-enhancement motive involves the improvement of one's self-image (Yun, Takeuchi, & Liu, 2007), and has been found to deliver a strong impact on the social learning process (Fiske, 2003; Yun et al., 2007). As such, this motive may serve as a potential moderator for the trickle-down process of ethical leadership that involves social learning. However, the extant

literature on the cascading effect of leadership has focused on the influence of certain extraneous factors, such as the general organizational climate (Ling, Lin, & Wu, 2016; Mawritz, Mayer, Hoobler, Wayne, & Marinova, 2012; Shin, 2012), on the transmission process. Current literature has paid insufficient attention to the role of self-enhancement motives, especially as an intrinsic factor that arises from individuals involved in the interpersonal learning process. Therefore, our study also seeks to provide insight into the potential influence of the self-enhancement motives of lower-level leaders in their acquisition of ethical leadership behaviors from higher-level leaders.

In summary, this study makes three unique and important contributions. First, it proposes that ethical leadership can trickle down across two leadership levels to reduce social loafing and improve the task performance of subordinates. This multi-level model of the antecedents and outcomes of ethical leadership improves our understanding of the dynamics of ethical leadership across multiple levels of the organizational hierarchy. Second, this study examines the additional subtleties of this cascading process by incorporating and testing the role of self-enhancement motives. The potential roles of individual motives have been widely acknowledged, but not explicitly examined in previous studies on the trickle-down effects of ethical leadership (Mayer et al., 2009; Mayer, Kuenzi, & Greenbaum, 2010; Ruiz et al., 2011b; Schaubroeck et al., 2012). Therefore, our results concerning the moderating role of self-enhancement motives may help researchers uncover further intricacies in the cascading process and provide practical implications to managers who are interested in fostering ethical behaviors among their subordinates. Finally, this study assists in further developing the social loafing literature by examining ethical leadership as a new corrective method to social loafing. Thus, this study highlights the potential for further linkages between the literature on leadership and that on social loafing and also highlights the potential for field investigations that intend to identify certain under-explored antecedents of social loafing, particularly those embedded in organizational relationships.

2. Literature review and theoretical development

2.1. Ethical leadership and employee work outcomes

Ethical leadership is defined as a leader's “demonstration of normatively appropriate conduct through personal actions and interpersonal relationships, and his or her promotion of such conduct to followers through two way communication, reinforcement, and decision-making” (Brown et al., 2005; p. 120). Based on the social learning perspective (Bandura, 1977), Brown and Treviño (2006a) suggested three processes through which the ethical leadership behaviors of top managers influence employee outcomes: modeling, communication, and the performance management system. First, the normatively appropriate behaviors of ethical leaders are generally perceived as attractive and such leaders are seen as credible role models for their employees. Second, ethical leaders can continually communicate the importance of ethical standards to employees, who are then influenced to conduct themselves ethically. Third, employees adhere to high ethical standards in the performance management systems developed by ethical leaders (Fig. 1).

Ethical leadership has been found to influence the work attitudes and outcomes of employees (Brown & Treviño, 2006a), including job satisfaction (Tsai & Huang, 2008), organizational commitment (Tsai & Huang, 2008), turnover intentions (Mulki, Jaramillo, & Locander, 2008), organizational citizenship behaviors (Mayer et al., 2009), intrinsic motivation (Piccolo, Greenbaum, Den Hartog, & Folger, 2010), task performance (Piccolo et al., 2010), and the willingness to report problems (Brown et al., 2005). Although the extant literature shows that ethical leadership can contribute to organizational and individual effectiveness (Brown & Treviño, 2006a; Piccolo et al., 2010), it has not equally investigated the potential of ethical leadership to mitigate

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