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# Ethical Leadership and Employees' Outcome through the Sequential Mediation of Ethical Work Climate and Reward System Politics

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Affective commitment; Proactive customer service performance; Social exchange theory; Temporal breaks; Ethical leadership (EL); Ethical climate.

#### **Abstract**

This research aims to investigate the importance of ethical leadership and its impacts on creating an ethical environment that translates into proactive customer service performance and affective commitment of the employees. This study makes use of survey methods with temporal breaks. The data is collected from 447 respondents from sales and customer services staff of reputed retail stores located in Pakistan by utilizing a random sampling technique. The hypotheses are derived by using social exchange theory. We found that ethical leadership contributes significantly to the prosperity of an enterprise in terms of improved affective commitment and staffs' customer service performance.

**Disciplinary**: Management (Leadership, Organizational Behavior)

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#### 1 Introduction

With globalization, things are changing quickly and its impacts are visible everywhere. The development of globalization is symbolized by the abatement of trade restrictions and barriers for the free movement of capital, goods, services, information, technology, culture and values [1]. Following the expansion of globalization in the 1980s, the major economic powers have witnessed a

shift from manufacturing industries to service businesses including many developing economies [2]. At the moment, to remain competitive in any industry and to cope with the changing trends, Pakistani industries should learn from their Western counterparts not only of resources, which could change the direction of time but the new skills, perspectives and leadership styles which enable them to work comprehensively and effectively. It's an important fact to know that the contribution of the service sector is three times more than the participation of other industries in job creation during recent times across the globe. During the mid-1990s era, world consumers have seen exponential growth in the retailing industry. Transnational Companies (TNCs) like Walmart, JC Penney from the USA, Tesco from the UK, Carrefour from France, etc. have seen enormous growth in their businesses and retail-chain stores in a globalized economy [2]. Correspondingly, the retail business has developed a lot in the world and it represents 10% among 500 top multinational enterprises (MNEs) [3], and by the late 2000s, the scale and scope of multinational retailing had become substantial [4]. This industry is facing many challenges globally and in developing countries as well. Therefore, that becomes imperative for managers to discern that the risk profile is directly affected by strategic moves and long-term decisions [5].

Likewise, to be competitive and successful, the need for having visionary leadership is much more than ever before [6]. The leader is the spearhead of his team, while leadership is a support level, guidance, and encouragement to employees [7]. Several leadership behavioral aspects have been discussed in the literature. A leader's support – at the highest levels of ability, fair treatment, and respect to the workers – encourages understanding between employees and the decision-makers. Leaders of any business, primarily, should be ethical role models for each member of the organization [8]. In the business world, it is said that "Customer is king," and leadership must understand the worth of customer services, customer loyalty, and its impacts on the financial outcomes of the business [9]. All these things are only possible if organizations develop a highly ethical culture that can help their leaders to create acceptance and a feeling of high affinity among employees. In a professional environment, noble work means "the existing perceptions of typical organizational practices and measures that have ethical content" [10]. It is proven that ethical leaders can only create such climate impacts the level of job satisfaction and the commitment of employees towards the organization [11], and an ethical work climate (EWC). It is perceived as knowing and doing what is right in the organizations [12].

Many researchers have examined the EWC and finding these investigations advocate that an ethical environment is a significant player in reinforcing and increasing proactive customer service performance (PCSP), reward system politics (RSP), and affective commitment. However, these studies have not discovered what the driving force behind the EWC is? Who creates this ethical environment? This was the gap and it is ethical leadership, who creates this ethical work environment. This study will reveal this gap. The lack of proactive customer service due to an unethical work environment attributes to weak job commitment and politics in the enterprises. Learning the role of leadership in creating EWC might enhance employees' productivity. Hence the

objective of the present study is to investigate the effect of ethical leadership (EL) on proactive customer service (PCS) of the employees and their job commitment. Further, this study also inspects the mediation of RSP and ethical climate between EL and PCSP and affective commitment.

## 2 Literature Review

### 2.1 Social Exchange Theory

It has been argued in previous research that Social exchange theory is among the dominant frameworks to understand employees' behaviors [13]. Many scholars agree with the statement that social exchange incorporates various interactions that between two parties that ultimately cause commitment and obligation [14]. Moreover, such relations are frequently mutually dependent and also dependent on the activities of another individual [15]. In specifically working context, Social exchange relationships develop when employers "take care of employees," which then stimulates beneficial results. So, social exchange theory is also considered as mediating variable. Individuals usually reciprocate gains they take and mostly offer benevolence and kindness toward individuals to whom they establish social exchange association [16]. Hence through the lens of social exchange theory, the present research is going to investigate the impact of EL on the affective commitment of employees and PCSP.

### 2.2 Ethical Leadership and Affective Commitment

Brown [17] defined EL as, "the 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". EL is strongly related to employees' behaviors and has a positive effect on employee attitudes and ethical conduct [18-19]. EL may improve the employees' desired outcomes such as organizational citizenship behavior, job satisfaction, and organizational commitment [20]. Ethical leaders' have an impact on the employees' affective commitment, and further this relationship becomes stronger under the social exchanges [21]. Brown [22] explicated that EL directly relates to followers' behavior and explicated that ethical leaders create organizational commitment among employees. Organizational commitment is the individual's psychological connection to the company. In recent history, the researchers of organizational behavior have been much impressed and greatly valued with the notion of organizational commitment as an area of significant research [23]. Trust in senior management, usually brought about through communication and disclosure, can give people a sense of control by feeling protected by the good intentions of top leadership. This behavior is likely to guide to an affective commitment to transform due to encouragement, and followers are ready to respond positively to the message of change. Cumulative on the whole would want to be connected with greater confidence to top management [24]. Brown [22] stated that EL is directly related to the behavior of followers and suggested that ethical leaders create organizational commitment among employees. It has been shown that EL is directly or indirectly connected with the organizational commitment of the staff. It is a common theme that people dedicate to create and welcome ethics and values in the organization, show an extra mile attitude, and are keen to

form a strong association with their organizations [25]. The commitment of the organization aroused the interest of the stakeholders between the 1970s and 1980s as an essential feature of the affiliation between enterprises and individuals [25]. Several authors have called for the identification of the precursors of organizational commitment of managers so that they can positively influence the commitment of their subordinates [26]. Meyer [27] distinguished between continuous commitment and affective commitment with an effective obligation. Emotional connection to recognition with and participation in the company and continuity dedication to the perceived sacrifice connected with quitting the organization. It is the everyday observation that the attitude of employees towards work is influenced by signals received from the context of work [28]. Affective commitment is a common reaction to a positive work environment. One can interpret that an ethical climate positively influences affective commitment. Thus, this research hypothesizes that:

H1: There is a positive relationship between EL and affective commitment.

#### 2.3 Ethical Leadership and Proactive Customer Services Performance

The customer services are of two forms, reactive and proactive and the difference between them is that if the customers get help only when they ask for it, it is called responsive customer service and whenever the intention is to offer solutions to problems before asked, it is proactive customer service (PCS) [29]. PCS is a customer service approach, where companies take the first step to help customers. In this approach, the staff makes every effort to find potential problems first and then resolve them before customers ask for help. The best method to assess whether you are offering PCS or not to the customers is to ask yourself, who makes the first move? You or the customer? In short, proactive service is a Self-initiated goal of a long-term and ongoing beyond explicitly required performance requirements [30]. This service helps to build customer loyalty through an amazing customer service experience and the level of the services offered to the customers should be exceeding their expectations. This is the main task of the employees of contacts related to the dealings with consumers, and the excellence of service depends to a high degree of the eminence of this co-operation. In PCS behavior, employees are proactively engaged in self-initiated activities, adopting a long-term approach that involves forward-thinking and tends to make constructive changes in their work environment [30]. Front line employees deal with the customers and they play a significant role in building the relationship with them. Market research relationships suggest that the main driver for a client to establish and maintain a link in the long run with a service provider is to get relationship advantages like personal recognition, trust, brotherhood, and friendship; Therefore, an essential part of the operating result means giving nonstandard, adaptive and creative services [31]. Ethical climate consists of the perception of faith, accountability, and high moral values in terms of perceived or uncorrected correction, in the context of service, to promote service performance [32]. Further, well-trained and groomed professionals as service quality leaders can surely enhance the encouraging attitudes of employees

towards service quality initiatives, which increases the customer loyalty and customer rating of service [33]. Therefore, it is concluded that EL affects the proactive customer service standard.

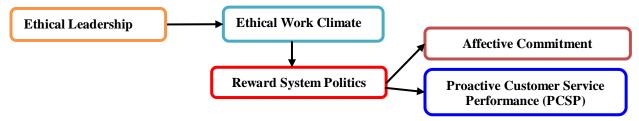
**H2**: There is a positive relationship between EL and PCSP.

# 2.4 Sequential Mediation of Ethical Work Climate and Reward System Politics

Confucius in the olden times had identified, "Gentlemen can convince the world only with their noble ethics" [34]. In an ethical environment, employees respect their managers, take them as their role models and enjoy their jobs. They try their best to stick to that organization and move to the next ladder in their career path. Some of the previous have shown that EL is highly associated with employees' satisfaction and loyalty to the leader, organizational commitment, and job performance [35]. Work engagement has proven to be an important yardstick for measuring occupational success and corresponds to positive associations with a low level of politics, employee commitment, customer satisfaction, productivity, financial return, profitability, and business success [36]. Yoon [37] stated that highly satisfied employees would go beyond the call of duty to meet customers' high expectation levels. Further, Kim [11] proved EL had a positive relationship with the middle managers' affective commitment and job satisfaction. Therefore, middle managers' job satisfaction has positive correlations with organizational commitment. A firm can only knock out its competitors and outperform if the leaders and managers utter a high degree of motivation and devotion giving more confidence to employees and inhibiting job-turn [37]. Followers' perceptions of being treated relatively should affect both commitment and job satisfaction [34]. EL has a positive correlation with follower satisfaction and contended that EL positively influences follower attitudes [22]. Leaders who motivate their followers to become proficient enough to unlearn the old means of doing jobs and develop temptations to think out of the box to address the existing issues and emerging problems, their employees get encouragement from them to challenge the status quo. Thus, we hypothesized

H3: Ethical work climate and RSP sequentially mediate the relationship of EL with PCSP.

H4: EWC and RSP sequentially mediate the relationship of EL with affective commitment.



**Figure 1**: Theoretical model underpinning social exchange theory.

#### 3 Method

This is quantitative research designed with a deductive approach to theory development and a survey strategy is employed to collect cross-sectional data through a self-administrative questionnaire. The data is collected by making use of already developed instruments from 447 employees working in sales and customer services departments of retail stores in Pakistan by

utilizing a random sampling technique. As the random sampling permits to select sample without bias and the selected sample may be believed to be representative of the target population [38]. PCSP is measured by utilizing Rank [30] seven items Likert type Scale [1= strongly disagree; 7= strongly agree]. The sample item is, I create a partnership with other service representatives actively to better serve customers. The EWC is measured by making use of Victor [10] fourteen items on seven Likert-type Scales [1= strongly disagree; 7= strongly agree]. The sample item is: our major concern is always what is best for another person. Further, RSP is measured by using Kacmar's [39] six items sub-scale on a seven-point Likert Scale from strongly disagree to agree. The sample item is, promotions around here are not valued much because how they are determined is so political. Affective commitment is measured through Allen [40] eight items on the Likert type Scale [1= strongly disagree; 7= strongly agree]. The sample item is, this organization has a great deal of personal meaning for me. EL is measured by making use of Brown [17] of ten items sevenpoint Likert Scale from strongly disagree to agree. The sample item is "my supervisor discusses business ethics or values with employees." Further, the control variables of this research consist of participants' age, gender, education, and experience. This study used the Structural Equation Modeling technique for analysis of the data and to test the proposed hypotheses. This technique is largely applied to test more than one independent variable, dependent variable, mediating variable, and moderating variable in a given time simultaneously. AMOS is used to test the relationships hypothesized in this research as it is employed to conduct SEM, path analysis, and confirmatory factor analysis.

## 4 Result and Discussion

Table 1 explains the reliability of the constructs since the Cronbach's Alpha values for all the variables are above 0.60. All of the scales have the value of Alpha in the range from 0.81 to 0.73. Most researchers consider Cronbach's Alpha values greater than 0.60 acceptable. The results show that all measuring instruments have values greater than 0.60.

**Table 1**: Relaibility and validity analysis

Variables	Item	Cronbach Alpha	CR	AVE
Ethical Leadership	10	0.81	0.87	0.70
Ethical Work Climate	7	0.78	0.90	0.70
Reward System Politics	6	0.73	0.87	0.87
Proactive Customer Service Performance	7	0.75	0.91	0.74
Affective Commitment	8	0.80	0.89	0.67

The validity of the constructs factor loading should be greater than 0.70, composite reliability (CR) should be more than 0.80, and average variance extract AVE should be greater than 0.50. Accordingly, the reliability analysis of CR and AVE results is above the given levels.

Table 2 explains the summary statistic and correlation results for our data set. The mean value represents the central value of the data set for all the variables of the study and further, correlation values represent no strong or exact correlation among the variables. All the values are in the supposed direction.

**Table 2**: Summary Statistics and correlation

	Mean	SD	1	2	3	4	5
1. Ethical Leadership	6.63	0.31	1				
2. Ethical Work Climte	2.27	0.41	0.32**	1			
3. Reward System Politics	6.49	0.46	-0.02	-0.09	1		
4. Proactive Customer Service Performance	6.72	0.37	0.30**	0.01	-0.21	1	
5. Affective Commitment	6.52	0.34	0.42**	0.05	-0.29	0.33**	1

**Notes:** SP = Service performance, SD = standard Deviation, \*\*p < 0.01

Table 3 reports the direct effects of the study variables. It is found that EL has a statistically significant positive effect on the EWC (0.47, p < 0.001). This explicates that with a unit increase in EL, EWC increases by 0.47 units by keeping all other things constant. Similarly, it is also noted that EL has a statistically significant and positive effect on affective commitment (0.19, p < 0.01), and PCSP of employees (0.20, p< 0.01). The results are in the favor of H1 and H2, thus both are accepted. It is noted that the EWC is significantly and negatively linked with RSP (-0.48, p < 0.001). Thus, EWC minimizes RSP. Moreover, a statistically significant and positive effect of EWC on affective commitment (0.17, p < 0.05), and a statically insignificant effect on PCSP is noticed (0.00, p >0.05). RSP has negative and statistically significant effect of affective commitment (-0.41, p < 0.001), and PCSP (-0.22, p < 0.001).

Table 3: Direct effects.

	Estimates	p-value	Remarks
Ethical Leadership → Ethical Work Climate	0.47*	0.001	
Ethical Work Climate → RSP	-0.48*	0.001	
Ethical Leadership → RSP	-0.06	Ns	
$RSP \to PCSP$	-0.22*	0.001	
RSP → Affective Commitment	-0.41*	0.001	
Ethical Leadership → Affective Commitment	0.19**	0.01	H1: Supported
Ethical Leadership → PCSP	0.20**	0.01	H2:: Supported
Ethical Work Climate → Affective Commitment	0.17**	0.05	
Ethical Work Climate → PCSP	0.00	Ns	

Table 4 summarizes the mediation effects. Accordingly, it was found that EL positively affects the EWC, which further minimizes the RSP that finally enhances the affective commitment of the employees. The results indicated the partial sequential mediation of EWC and RSP on the indirect effect of EL and affective commitment 0.092 (95% CI [0.044, 0.114]). Thus, H3 is accepted.

Further, it is found that EL positively affects the EWC, which further minimizes the RSP that finally enhances PCSP. The results indicated the partial sequential mediation of EWC and RSP on the indirect effect of EL and PCSP 0.050 (95% CI [0.030, 0.088]). Thus, H4 is accepted as well.

Table 4: Mediation effects.

Relationship	Estimates	95% CI	Remarks		
$EL \rightarrow EWC \rightarrow RSP \rightarrow AC$	0.09	0.001	H3: Supported		
$EL \rightarrow EWC \rightarrow RSP \rightarrow PCSP$	0.050	0.001	H4:: Supported		
<b>Notes</b> : Total effect of EL $\stackrel{.}{\text{a}}$ AC = 0.092+0.19 = 0.282, Portion on serial mediation = 0.092/0.282 = 0.33 or 33%. Total effect of EL $\stackrel{.}{\text{a}}$ PCSP = 0.050+0.20 = 0.250, Portion on serial mediation = 0.050/0.250 = 0.20 or 22%.					

#### 5 Conclusion

Examining the effect of EL on the PCSP and affective commitment of the employees through the serial mediation of EWC and RSP, it was found that EL is highly significant to create an affective commitment, PCSP, and EWC within an organization. The results are in line with the existing literature on the positive outcomes of workplace EL. In an organization with an ethical work environment, employees are dealt with care, respect, and integrity which helps not only to reduce the RSP [41] but also enhances the employee's job commitment and PCSP as well [12]. Thus, our research findings are consistent with the existing literature that noted the positive effect of EL on employees' workplace attitudes and behaviors.

EWC plays an essential part in the success of a business, but at the same time it has also been observed that EWC does not always work positively; sometimes it works adversely as well. To meet the high operational cost in the weak economy of Pakistan, employers are not always in a position to offer high salaries, quick promotions, yearly bonuses, and career growth, etc. We find that EWC is indispensable for organizational accomplishments, and this climate is developed by ethical leaders only. This study analyzes that EWC mediates the relation between EL and RSP, which is quite obvious and is consistent with our study and the research work of others [12]. This means EL creates EWC and sets rules and regulations. which brings professionalism to the company and makes it hard to go against merit, this also reduces the biases [42].

This research also found the partial mediation of EWC and RSP on the effect of EL on affective commitment and PCSP. These results are consistent with the existing research [17]. Thus, it has eventually been concluded that EWC that is created by EL reduces the RSP and it enhances the affective commitment and PCSP of the workforce. Precisely, this research contributed and extended the current literature in the six knowledge domains including EL [43], EWC [11], RSP [23], affective commitment [21], PCSP, and social exchange theory. For instance, the present research validated the postulates of the social exchange theory as the results are in line with the existing studies that noticed that the leaders' ethical behavior is reciprocated by the subordinates or followers by engaging in positive workplace behaviors.

The findings of this research do have various implications for the management of the retail industry. The HR department should make job descriptions against every job position with relevant education and skill set. Organizational policies should be made and communicated to all the employees on day to day basis especially during the orientation of new employees. Senior Management should demonstrate and create an ethical culture that will reduce office politics and will ultimately enhance the affective commitment of employees towards their jobs. To enhance team spirit among employees and to enhance their customer service standards, the HR department can conduct seminars and training sessions for the staff. Most importantly employees 'feedback should be valued during the policymaking. Every organization should conduct seminars and training on ethics on regular basis to bring a positive change in the company.

## 6 Availability of Data and Material

Data can be made available by contacting the corresponding authors.

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