LINKING ETHICAL LEADERSHIP AND EMPLOYEE PERFORMANCE IN THE AUSTRALIAN BANKING INDUSTRY

A thesis submitted in fulfilment of the requirements for the degree of

Doctor of Philosophy

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Declaration

I certify that except where due acknowledgement has been made, the work is that of the author alone; the work has not been submitted previously, in whole or in part, to qualify for any other academic award; the content of the thesis is the result of work which has been carried out since the official commencement date of the approved research program; any editorial work, paid or unpaid, carried out by a third party is acknowledged; and, ethics procedures and guidelines have been followed.

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Narges Kia

8 December 2019
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Abstract

In 2017, the Australian federal government announced a Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry. The Royal Commission revealed that unethical business practices and leadership were rampant in the industry and thought to be ‘business as usual’ for banks. This discovery sent shock waves through the banking, superannuation and financial services industry, and enraged millions of consumers. Throughout the Royal Commission, many members of the community offered evidence that they had been charged for services they never signed on for; unethical leadership practices within the sector were exposed for the first time.

As these events unfolded, there was increasing interest among human resource management scholars and practitioners in leaders’ ethical behaviour within these organisations. Ethical leadership by top management is critical because unethical leadership has been shown to negatively influence employee attitudes, behaviours, and subsequently, in-role performance. Although studies have demonstrated the relationship between ethical leadership and employee in-role performance, there has been scant research examining the processes through which ethical leadership works to improve employee in-role performance. The research presented in this thesis examines how ethical climate, organisational identification, customer orientation and service climate mediates the relationship between ethical leadership and employee in-role performance.

The study presented in this thesis consists of two data collection methods: (1) a two-wave survey study of 233 employees in an Australian bank, and (2) use of Qualtrics to collect extra data from 187 employees of a different, but similarly sized bank.
Collecting data from two different sources allows testing of causal chain mediation relationships between ethical climate, organisational identification, customer orientation and service climate. The theoretical framework underpinning this research is social learning theory. Further, social exchange theory was used to develop five hypotheses: (1) H1 Ethical leadership positively effects employee in-role performance; (2) H2 Organisational identification mediates the relationship between ethical leadership and employee in-role performance; (3) H3 Customer orientation mediates the relationship between ethical leadership and employee in-role performance; (4) H4 Service climate mediates the relationship between ethical leadership and employee in-role performance; and (5) H5 Ethical climate mediates the relationship between ethical leadership and employee in-role performance. These were tested using the data obtained from the two-wave survey study. The findings indicated support for each of the five hypotheses: ethical leadership significantly predicted employee in-role performance (H1); organisational identification mediated the relationship between ethical leadership and employee in-role performance (H2); customer orientation did not mediate the relationship between ethical leadership and employee in-role performance (H3); service climate mediated the relationship between ethical leadership and employee in-role performance (H4); and ethical climate mediated the relationship between ethical leadership and employee in-role performance (H5). The second dataset was used to retest the five initial hypotheses, and test a new, sixth hypothesis: (H6) ethical climate, organisational identification, customer orientation and service climate sequentially mediate the relationship between ethical leadership and employee in-role performance. Findings from this dataset indicated support for the five original hypotheses, and in the causal chain mediation model for Hypothesis 6.
This research makes a contribution to the ethical leadership literature by addressing three under-researched areas. First, this thesis contributes to the extant research on ethical leadership theory by unpacking the process through which ethical leadership influences employee performance. By unpacking the boundary factors through which ethical leadership influences employee in-role performance, this research contributes to understanding of the ethical leadership-performance chain as a situational process in which ethical climate, organisational identification, customer orientation and service climate play an important role. Second, this study has attempted to unpack the process through which ethical leadership can influence employee in-role performance through service climate and customer orientation. Third, this research examined ethical leadership in banks.

The findings of this study have implications for leaders and human resources managers in the banking and finance sector. Most importantly, the findings are expected to assist leaders in developing their skills and knowledge regarding ethical leadership behaviour. In light of the damning findings of the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry, banks must invest heavily in management development around ethical leadership and the development of ethical conduct of staff. Based on findings of the Royal Commission, banks must develop and nurture customer orientation in their employees. Banks may need to invest in ethical training and customer service for leaders and employees.
Publications and Conferences


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<th>Description</th>
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<tbody>
<tr>
<td>ACA</td>
<td>Australian Consumers’ Association</td>
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<tr>
<td>AGFI</td>
<td>Adjusted-Goodness-of-Fit</td>
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<tr>
<td>ANZ</td>
<td>Australia And New Zealand Banking Group</td>
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<tr>
<td>APRA</td>
<td>Australian Prudential Regulation Authority</td>
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<td>ASIC</td>
<td>Australian Securities and Investments Commission</td>
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<tr>
<td>ADIs</td>
<td>Authorised Deposit-Taking Institutions</td>
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<tr>
<td>CEO</td>
<td>Chief Executive Officer</td>
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<td>CFA</td>
<td>Confirmatory Factor Analysis</td>
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<td>CFI</td>
<td>Comparative-Fit Index</td>
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<tr>
<td>CMV</td>
<td>Common Method Variance</td>
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<td>CO</td>
<td>Customer Orientation</td>
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<td>CSR</td>
<td>Corporate Social Responsibility</td>
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<td>DV</td>
<td>Dependent Variable</td>
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<td>EC</td>
<td>Ethical Climate</td>
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<tr>
<td>EFA</td>
<td>Exploratory Factor Analysis</td>
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<tr>
<td>FICC</td>
<td>Fixed-Income Instruments, Commodities and Currencies</td>
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<tr>
<td>GDP</td>
<td>Gross Domestic Product</td>
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<tr>
<td>GFC</td>
<td>Global Financial Crisis</td>
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<td>GFI</td>
<td>Goodness-Of-Fit Index</td>
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<tr>
<td>HR</td>
<td>Human Resource</td>
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<td>HRM</td>
<td>Human Resource Management</td>
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<tr>
<td>Ifie</td>
<td>Incremental Fit Index</td>
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<tr>
<td>IT</td>
<td>Information and Technology</td>
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<tr>
<td>IV</td>
<td>Independent Variable</td>
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KMO  Kaiser–Meyer–Olkin
LMX  Leader–Member Exchange Theory
NAB  National Australia Bank
NFI  Normed Fit Index
NNFI  Non-Normed-Fit Index
OCB  Organisational Citizenship Behaviour
OCBI  Organisational Citizenship Behaviour Towards Individuals
OCBO  Organisational Citizenship Behaviour Towards the Organisation
OID  Organisational Identification
OLS  Ordinary Least Squares Regression
RBA  Reserve Bank of Australia
RMSEA  Root Mean-Square Error of Approximation
SC  Service Climate
SRMR  Standardised Root Mean-Square Residual
TLI  Comparative-Fit Index
US  United States
Chapter 1: Introduction

1.1 Introduction

Ethical leadership and its impact on the behaviour of employees has emerged as an important issue for contemporary organisations, especially within the banking and finance industry. Interest in this sector is particularly strong given the Global Financial Crisis (GFC), which witnessed the collapse of banks in some European countries and large government bailouts of the sector in the United States (US) (Aktan, Teker & Ersoy 2009; Berenbeim 2010; O’Connell & Bligh 2009; Treviño & Nelson 2016). More recently, in Australia, a Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry found evidence of widespread and systematic unethical behaviour among banking leaders and their employees. These behaviours have negatively affected banking customers. The Royal Commission interim report (Commonwealth of Australia 2018a, p. 19) concluded that unethical behaviour among bankers was the result of ‘greed—the pursuit of short-term profit at the expense of basic standards of honesty. How else is charging continuing advice fees to the dead for continuing advice to be explained?’ Commissioner Kenneth Hayne reported that selling became the focus of attention. Too often it became the sole focus of attention [as] banks searched for their ‘share of the customer’s wallet’. From the executive suite to the front line, staff were measured and rewarded by reference to profit and sales. (p. 19).

In response to the Royal Commission, intense media scrutiny and the criticisms and experiences of customers, regulators and political leaders, banks and other financial institutions made several announcements regarding widespread change and remedial action. One such announcement was ‘the abandonment of products or practices, about the sales of whole
divisions of the business, about new and more intense regulatory focus on particular activities’ (Commonwealth of Australia 2018d, p. 1).

Despite the ‘promises’ of banking leadership to reform their ‘greedy’ and ‘unethical management practices’, this research argues from a human resource management (HRM) perspective that no longstanding change in the behaviour among bankers can take place in the absence of ethical leadership and subsequent development of an ethical and customer-focused organisational climate, underpinned by congruent HRM practice (e.g., rewarding customer orientation and the creation of customer value). This thesis is situated to enhance understanding of the process through which ethical leadership among managers may lead to improved employee performance through refocusing on customer orientation, developing greater organisational identification among employees and advocating the role of ethical leadership to support the development of ethical and service climates (Demirtas & Akdogan 2015; Lu & Lin 2014; Mayer, Kuenzi & Greenbaum 2010; Shin 2012; Walumbwa, Hartnell & Oke 2010).

Ethical leadership can be 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). According to Bavik et al. (2018, p. 2), ethical leadership comprises two major aspects: ‘a leader must be a moral person (demonstrating moral characteristics and traits in his/her behaviour as a role model) and a moral manager (actively promoting moral principles through two-way and open communication, rewards, and punishment)’.

Management scholarship has consistently demonstrated that ethical leadership is positively associated with morally desirable ethical behaviour among subordinates (e.g., Huang & Paterson 2017; Newman et al. 2014; Wang & Sung 2016). Underpinned by this scholarship, this thesis argues that critical to refocusing on the customer needs is the importance of the
creation of both a service and ethical climate within banking organisations (Kozlowski & Doherty 1989; Liao & Chuang 2004; Walumbwa et al. 2010; Zhang & Bartol 2010). Moreover, within the context of positive service and ethical climates, organisational identification may play an important role in enhancing the belongingness of employees, thereby enabling them to focus on customer needs and increase subsequent employee performance (Walumbwa et al. 2011).

To my knowledge, no study has attempted to unpack the process through which ethical leadership can affect employee in-role performance via service climate, customer orientation, organisational identification and ethical climate into an integrated framework. This thesis argues that understanding the mediating role of service climate, ethical climate, organisational identification and customer orientation is critical if the banking and finance industry is to rebuild trust among consumers. Critical to rebuilding this trust is the role of ethical leadership among bankers to create customer value and positive customer experiences (Commonwealth of Australia 2019c). Based on the Royal Commission report, some customers reflected that without asking for funds, they were offered additional credit. Many regretted obtaining larger loans than they could afford. Other customers reported that they were loyal customers for many years, and that such loyalty and trust was not reciprocated in their dealings with their bank (Commonwealth of Australia 2019c). Therefore, as mentioned in the Royal Commission report, the role of trust is highly significant in banks (Commonwealth of Australia 2019a).

While the existing literature on ethical leadership is extensive, few studies have focused on the relationship between ethical leadership and employee in-role performance (Bouckenooghe, Zafar & Raja 2015; Liu et al. 2013; Obicci 2014; Walumbwa et al. 2011). Little attention, however, has been paid to unpacking the boundary conditions such as organisational identification, service climate, ethical climate and customer orientation in the relationship between ethical leadership and employee in-role performance. Previous studies
have also linked ethical leadership to employee outcomes, such as the reduction of deviant behaviours, improved organisational citizenship behaviour (OCB), commitment, ethical behaviour and cognition (Avey, Palanski & Walumbwa 2011; Piccolo et al. 2010).

This research predicts that ethical leadership has a positive effect on employee in-role performance because ethical leaders rely upon honourable and moral values that help them develop and improve relationships with their employees (Brown, Treviño & Harrison 2005). This research also proposes that an ethical leadership style in organisations develops ethical climate, organisational identification, customer orientation and service climate. It proposes that ethical leaders, based on their characteristics, create an ethical climate, which develops employee organisational identification that facilitates customer orientation. In turn, this increases service quality.

This research examines four boundary conditions in the relationship between ethical leadership and employee in-role performance. The first is organisational identification (OID) in the relationship between ethical leadership and employee in-role performance. OID is defined as the ‘perception of oneness with or belongingness to the organization’ (Mael & Ashforth 1992, p. 104). Organisational identification was selected as the key mediating variable because based on previous research, employees with high organisational identification are likely to adopt converging goals and sacrifice (short-term) individual interests (e.g., working overtime) to achieve (more long-term) collective outcomes (e.g., attracting new business). This increases work motivation and, ultimately, employee in-role performance. In this research, organisational identification refers to the belongingness felt by bank employees (Mael & Ashforth 1992) to their organisation.

The second condition is service climate (SC). SC is defined as ‘employee perceptions of the practices, procedures, and behaviours that get rewarded, supported, and expected with regard to customer service and customer service quality’ (Schneider, White & Paul 1998, p.
SC was selected as a mediator because it is considered the central axis in service organisations from which to infer service quality (Little & Dean 2006). Specifically, SC becomes crucial when employees agree that this climate involves them (Yoon, Beatty & Suh 2001). In this research, SC refers to the banking climate that presents good service quality to customers.

The third condition is ethical climate (EC). Victor and Cullen (1988, p. 101) defined EC as ‘the prevailing perceptions of typical organizational practices and procedures that have ethical content constitute the ethical work climate’. EC was selected as a mediator because ECs are the reflection of organisations’ ‘general’ and ‘pervasive’ features that influence a broad range of decisions. In this research, EC refers to the banking climate created by ethical leaders.

The fourth condition presented in this thesis is customer-oriented behaviour (customer orientation [CO]). CO is defined as the importance that service workers place on customers’ needs and expectations regarding the service offerings and the extent to which service workers are willing to devote extra efforts to satisfy their customers (Kelley 1992). CO was selected as a mediator because it can be regarded as the core element of the marketing concept that promotes the idea of prioritising customers’ interests (Narver & Slater 1990). In this research, CO refers to employees who work with ethical leaders in the bank, and those for whom customers’ needs are their first interest.

The aim of this research is to unpack the process through which ethical leadership affects employee in-role performance. This research examines boundary conditions such as OID, SC, EC and CO as a chain process, and their effects on the relationship between ethical leadership and employee in-role performance. Specifically, this thesis examines whether ethical leadership influences employee in-role performance in Australian banks. It aims to examine if an ethical leader’s characteristics promote employee identification with the organisation. It will also examine whether identification with the organisation leads to
enhanced employee in-role performance: that is, whether identification functions as a mediator in the relationship between ethical leadership and employee in-role performance. This research proposes that ethical leadership influences EC, OI, CO, and SC, which in turn improves employee in-role performance. Hence, these variables function as a mediator in the relationship between ethical leadership and employee in-role performance.

By applying a quantitative research design to test the hypotheses, the objective of this research is to examine the relationship between ethical leadership and employee in-role performance. In particular, this study investigates whether ethical leadership is an effective predictor of employee in-role performance. Further, this study will investigate the mediating effects of EC, OID, CO and SC on the relationships between ethical leadership and employee in-role performance.

The context of this research is the Australian banking industry. As there have been many ethical scandals in the Australian banks, the role of ethical leadership in this industry is important to consider (Commonwealth of Australia 2018a). The Royal Commission emphasises the critical importance of leadership. Based on Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry Interim Report (Commonwealth of Australia 2019a), it is banks’ responsibility to monitor behaviour, and establish expectations and culture through middle managers from the top down. There is increasing awareness that the tone of the top level is significant. This means potential changes to how managers at all levels of the organisation are trained, supported and promoted (Commonwealth of Australia 2019a).

Chapter 1 is organised as follows. Section 1.2 outlines the research questions, while Section 1.3 present the context of this research. Section 1.4 provides the theoretical and practical contribution of this thesis. Section 1.5 presents the structure for the rest of the thesis. Finally, Section 1.6 provides a summary of this chapter.
1.2 Research Questions

The main research question in this thesis is:

What is the process through which ethical leadership affects employee in-role performance?

Based on the main research question, six sub-questions will be addressed:

**RQ1:** In what ways, if any, does ethical leadership influence employee in-role performance?

**RQ2:** In what ways, if any, does organisational identification mediate the relationship between ethical leadership and employee in-role performance?

**RQ3:** In what ways, if any, does customer orientation mediate the relationship between ethical leadership and employee in-role performance?

**RQ4:** In what ways, if any, does service climate mediate the relationship between ethical leadership and employee in-role performance?

**RQ5:** In what ways, if any, does ethical climate mediate the relationship between ethical leadership and employee in-role performance?

**RQ6:** In what ways, if any, does ethical climate, organisational identification, customer orientation and service climate sequentially mediate the relationship between ethical leadership and employee in-role performance?

1.3 Context of the Study

The research conducted in this thesis centres on the banking industry in Australia. This industry is important because the sector and its activities play a vital role in the Australian economy. In addition to providing significant financial services, this industry is a major contributor to employment, gross domestic product (GDP) and information and technology
(IT) investment (Australian Government 2016). Forces such as globalisation, technological change, deregulation and growing competition have brought evolutionary changes in the banking industry (Liu 2015). Together, regarding customer expectations of service quality and product knowledge in various dimensions, banking managers need to explore effective approaches to influence and assist employees to perform complicated and unstructured tasks effectively.

Previous studies have revealed that in different cultures and organisational settings—including financial institutions—leadership styles can have an important influence on performance outcomes (Aktan, Teker & Ersoy 2009). Effective strategies to create an ethical organisational environment provide a tool for banking managers to align the organisational environment and encourage trust and ethical behaviour among all organisational employees (Aktan, Teker & Ersoy 2009).

There are many unethical behaviours, regulatory failures and public scandals in the banking industry worldwide. For instance, in February 2009, the Royal Bank of Scotland reported a loss of £24 billion (approximately A$45 billion) the largest annual loss (Werdigier 2009) in British corporate history (Correy 2011). In Ireland in 2009, the Anglo-Irish Bank received a £4 billion (approximately A$7.5 billion) bailout from the Irish government (Correy 2011). When Iceland was revealed to be carrying US$120 billion in foreign debt, three of the largest banks collapsed. This figure was 10 times the country’s entire economy (Correy 2011). In 2008, a US insurance giant was bailed out by the US government (Correy 2011) to the tune of US$182 billion (Grunwald 2014). Therefore, ethics is considered critical for the reputation and competitive power of banks (Aktan, Teker & Ersoy 2009).

Surprisingly, limited research has been conducted on leadership and HRM within the banking industry. Very few studies have focused on the research on leadership styles in this sector (Awamleh, Evans & Mahate 2005; Chatterjee & Kulakli 2015; Riaz, Akram & Ijaz
Ethical leadership development is needed in the Australian banking sector, in which unethical behaviours have been uncovered. For example, placement of elderly retirees’ savings into high-risk investment products (contrary to instructions), lack of disclosure, falsification of documents and forgery of documents by financial planner are examples of unethical behaviour in one of the largest Australian banks (Ferguson & Vedelago 2013). Another example of unethical behaviour in Australian banks is the encouragement of such behaviours by providing incentives to financial planners in the form of commissions, bonuses and overseas sales trips for those who meet sales targets (Ferguson & Vedelago 2013). Based on these examples, there is lack of ethical leadership and proper control of the processes in place to protect customers.

This research argues that ethical leadership style could be a critical step in the banking sector to increase employee in-role performance. Based on the importance of business ethics in the banking industry and lack of research on ethical leadership in this sector, this research will investigate the relationship between ethical leadership and employee in-role performance in this context. This research could be important because it can be generalised to Australian and world banking, and help managers facing leadership challenges.

1.4 Significance of the Study

This study makes two major contributions to research. The next section will discuss a theoretical contribution to the ethical leadership literature. The second contribution is a practical contribution. This contribution is the provision of strategies to leaders in organisations who may be able to increase employees’ in-role performance.

1.4.1 Theoretical contribution

While there is considerable literature on different kinds of leadership such as transformational leadership, servant leadership, and employee performance, little attention has been paid to the relationship between ethical leadership and employee in-role performance (Bouckenooghe, Zafar & Raja 2015; Liu et al. 2013; Obicci 2014; Walumbwa et al. 2011).
This research addresses the call for future research by Brown and Treviño (2014) and Resick et al. (2006) to expand on ethical leadership research into other cultures. They believed employees in organisations use their ethical and cultural value systems as an absolute standard against which to measure the behaviour of members of the other culture, or they adopt the norms of the other culture. Previous studies have demonstrated several gaps within the ethical leadership literature; this research will address these gaps.

First, there is a lack of research about the unpacking process through which ethical leadership affects employee in-role performance. Previous studies have investigated psychological mechanisms such as trust and psychological capital in the relationship between ethical leadership and employee performance (Avey, Palanski & Walumbwa 2011; Chughtai, Byrne & Flood 2015; Khokhar & Rehman 2017; Luthans & Avolio 2003; Newman et al. 2014). However, there is lack of research about boundary conditions in this relationship (Kalshoven, Den Hartog & De Hoogh 2011). This thesis aims to fill in this gap using EC, OID, CO and SC to unpack the boundary conditions as a process in the relationship between ethical leadership and employee in-role performance. This research proposes that an ethical leader creates an EC that develops employee OID, thereby facilitating CO, which in turn increases service quality. Therefore, this research also addresses the call for further research on boundary conditions by Kalshoven, Den Hartog and De Hoogh (2011). They examined the effects of top management ethical leadership on group-level deviance and OCB and found this relationship to be mediated by supervisory ethical leadership. They suggested that other boundary conditions be examined, including in international contexts, to determine if different patterns of relationships were present in other industries. By focusing on the influence of these factors, this line of research can shed light on the influence of contextual or boundary conditions, and subsequently extend ethical leadership theory and practical applications to enhance employee in-role performance.
Second, there is a lack of research on the relationship between ethical leadership and organisational identification (Brown & Mitchell 2010). Previous studies have investigated the relationship between different kinds of leadership and OID. For example, Turgut, Tokmak and Güçel (2012) surveyed 214 academic and administrative staff at a private university and found that transformational leadership has a positive influence on OID. Similarly, Bose and Patnaik (2015) discovered that transformational leadership has a positive influence on OID. Moriano et al. (2014) examined 186 employees’ from public and private organisations in Spain. They concluded that transformational leadership has a positive impact on employee intrapreneurial behaviour and that OID mediates such relationships. These studies indicate a lack of research into the linkage between ethical leadership and OID. This research also addresses the call for further research by Brown and Mitchell (2010) on ethical leadership and OID to empirically support that ethical leaders’ characteristics foster employee OID. Further, this thesis investigates the conditions under which effects of OID influence the relationship between ethical leadership and employee in-role performance. Specifically, this thesis fills in the gap by examining OID as a mediator in the association between ethical leadership and employee in-role performance. This contributes important findings, including whether ethical leadership can be clarified through the influence of OID in organisations. Therefore, this thesis expands the research on the relationship between ethical leadership and employee in-role performance through identification. Understanding the relationship between ethical leadership and organisational identification is significant, as organisational identification can potentially generate a range of positive employee and organisational outcomes, such as enhanced employee performance (Ashforth, Harrison & Corley 2008; Riketta 2005). OID could be a factor that clarifies the effectiveness of ethical leadership and could be considered a mediator in the relationship between ethical leadership and employee in-role performance. It has been
found that follower OID acts a significant mechanism in the influence of ethical leadership on employee performance (Walumbwa et al. 2011).

Third, there is a lack of research on the relationship between leadership styles and SC (Shin et al. 2015; Walumbwa, Hartnell & Oke 2010). Few studies have examined this relationship. Kopperud, Martinsen and Humborstad (2014) identified a positive relationship between transformational leadership and SC, and determined that self–other agreement moderates this relationship. Similarly, Widianto and Wilderom (2017) consulted 151 healthcare professionals. They concluded that SC mediated the relationship between transformational leadership and psychological capital. Previous literature shows that the role of SC as a mediator in the relationship between leadership and performance has been ignored. This research also addresses the call by Walumbwa, Hartnell and Oke (2010) for further research on ethical leadership and SC. Specifically, this thesis fills the gap by examining the role of SC as a mediator in the relationship between ethical leadership and employee in-role performance. This study contributes to the research by increasing understanding of the ethical leadership-performance link and testing whether SC mediates the relationship between ethical leadership and employee in-role performance. Therefore, understanding the relationship between ethical leadership and SC is significant because leaders play a unique role in the creation and maintenance of organisational climate (Schneider, Ehrhart & Macey 2011) and SC. SC could be a factor that clarifies the effectiveness of ethical leadership and could be considered a mediator in the relationship between ethical leadership and employee in-role performance. The link between ethical leadership and SC further extends research efforts for leadership studies within various contexts.

Fourth, while a number of studies have examined the relationships between EC and various work outcomes, relatively little attention has been paid towards exploring factors that form or foster an ethical climate. This research fills in this gap by examining ethical leadership
as a factor that has been identified as an antecedent of EC. Little scholarly attention has been paid to the relationship between leadership and EC (Van Aswegen & Engelbrecht 2009; Erben & Güneşer 2008). Few studies have examined the relationship between ethical leadership and EC (Demirtas & Akdogan 2015; Lu & Lin 2014; Mayer, Kuenzi & Greenbaum 2010; Shin 2012). Lu and Lin (2014) examined the relationship between ethical leadership on EC among 227 Turkish students. They found that ethical leaders influence EC and such relationships are moderated by employee trust. Similarly, Mayer, Kuenzi and Greenbaum (2010) examined the link between ethical leadership and employee misconduct and found that EC mediated the relationship between ethical leadership and employee misconduct. Shin (2012) surveyed 263 employees in Korean companies; as predicted, chief executive officers’ (CEOs) self-rated ethical leadership was positively associated with employees’ aggregated perceptions of the EC of the firm. Further, Demirtas and Akdogan (2015) determined that ethical leadership behaviour plays a critical role in shaping perceptions of EC. They found that through ethical leadership behaviour, managers can influence perceptions of EC, which positively influences organisational members’ turnover intention and affective commitment. Based on these studies, the role of EC in the relationship between ethical leadership and employee in-role performance has largely been ignored. Understanding the relationship between ethical leadership and EC is important because EC could be a factor that clarifies the effectiveness of ethical leadership and could be considered a mediator in the relationship between ethical leadership and organisational outcomes (Gardner et al. 2011). This thesis provides empirical support for the notion that ethical leadership influences EC. This is supposedly beneficial for organisations in terms of whether leadership based on transparent communication and actions (aligned with core beliefs) fosters a supportive environment based on ethical principles.
Finally, there is lack of research regarding the relationship between leadership and CO (Liaw, Chi & Chuang 2010). Few empirical studies have examined such a relationship (Lindblom, Kajalo & Mitronen 2015). For example, Lindblom, Kajalo and Mitronen (2015) found that employee perceptions of their retail organisation’s ethical leadership are strongly related to employee CO. Similarly, Farrell, Souchon and Durden (2009) discovered that transformational leaders have a positive influence on CO. This research addresses this gap by examining the relationship between ethical leadership and CO. Specifically, it examines the role of CO as a mediator in the relationship between ethical leadership and employee in-role performance. Understanding the relationship between ethical leadership and CO is important because ethical leadership can serve as a significant driver in improving employee CO (Lindblom, Kajalo & Mitronen 2015). CO could be a factor that clarifies the effectiveness of ethical leadership and could be considered a mediator in the relationship between ethical leadership and employee in-role performance. Employees who receive and perceive support from a manager who is honest, trustworthy and fair are more motivated to serve customer needs (Lindblom, Kajalo & Mitronen 2015).

1.4.2 Practical contribution

In terms of managerial implications, the findings of this thesis are expected to assist leaders in developing their skills and knowledge regarding leadership behaviour. This will assist them in increasing subordinates’ performance. Further, this study highlights important implications for both leaders and employees, as it demonstrates that practising and encouraging ethical leadership behaviour not only is the right thing to do, it also has significant benefits for both the leader and the organisation. Additionally, regarding the lack of empirical studies done in this area, especially in Australia, the results of this study highlight the significance of ethical leadership and make a specific and valuable contribution to the field of leadership in the banking industry context.
1.5 Structure of the Thesis

This thesis consists of seven chapters.

Chapter 1 provides an overview of this thesis. It introduces the research and provides an overview of ethical leadership, EC, OI, CO, SC and employee in-role performance. Additionally, it clarifies the research objectives and questions, and theoretical and practical contributions of this research.

Chapter 2 presents an overview of the Australian banking sector, including ethical issues in this industry. Chapter 3 provides an extensive critical review of the literature relevant to the field of ethical leadership, OID, CO, SC, EC and employee in-role performance. Specifically, Chapter 3 discusses the relationship between ethical leadership and employee in-role performance. The mediating role of OID, CO, SC and EC in this relationship is presented in Chapter 3.

Chapter 4 outlines the research methodology. In this chapter, the research design, sampling strategy, data collection method, research instrument and data analysis procedure will be discussed.

Chapter 5 presents the analysis of the quantitative data collected for this thesis. This chapter presents the exploratory factor analysis (EFA), confirmatory factor analysis (CFA), validity and reliability. It employs the ordinary least squares (OLS) regression analysis to test the research hypotheses. OLS is demonstrated to answer the research questions and test the hypotheses.

Chapter 6 presents the analysis of the extra data collected in this thesis to retest the five initial hypotheses, and test a new, sixth hypothesis (H6). Chapter 7 provides the theoretical and practical implications, and the limitations of the study, including recommendations for future research.
1.6 Summary

In the ethical leadership literature, this kind of leadership has been found to be a significant predictor of employee performance (Liu et al. 2013; Obicci 2014; Walumbwa et al. 2011). It has been documented that effective leadership is a significant factor in enhancing employee performance. Therefore, this study examines the influence of ethical leadership on employee in-role performance among Australian banks’ employees. The roles of OID, SC, EC and CO as mediators are established. While many empirical studies have found that ethical leadership influences employee in-role performance, very little attention has been paid to the boundary conditions and the process through which ethical leadership affects employee in-role performance.

This chapter has justified the necessity of this thesis. The background of this study has been presented and the research gap has indicated that further research is needed. The aims, objectives and research questions provide guidance for the research direction and clarify the need for this study and the significance of its contributions and implications.
Chapter 2: The Australia Banking Industry

Chapter 1 provided the research background, and clarified the importance of ethical leadership and the context of the research presented in this thesis. Moreover, Chapter 1 outlined the theoretical and practical contribution of this thesis.

This chapter introduces the context for the research—the Australian banking industry. This chapter is divided into seven sections. Section 2.1 introduces the Australian banking industry. Sections 2.2 and 2.3 provide an overview of retail banking and investment banking, while Section 2.4 clarifies banking regulation in Australia. Section 2.5 discusses the GFC in Australia. The role of leadership during the GFC is explored in Section 2.6, while Section 2.7 examines unethical behaviours in the Australian banking industry. Finally, this chapter closes with the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry (Banking Royal Commission) in Section 2.8.

2.1 The Australian Banking Industry

In Australia, the banking sector is the largest part of the Australian financial system. The sector employs 450,000 people and is worth A$140 billion dollars to Australia’s GDP. It comprises 147 authorised deposit-taking institutions (ADIs) in which 55 per cent of Australia’s financial institutions’ assets are held. These institutions contribute to the Australian economy.

The biggest contributor to real industry gross value is insurance and financial services, which comprise ADIs and other financial businesses. In Australia, banking is dominated by four main banks: The Commonwealth Bank of Australia (Commonwealth Bank), Westpac Banking Corporation (Westpac), the Australia and New Zealand Banking Group (ANZ) and National Australia Bank (NAB). Throughout Australia, there is a robust financial sector that includes mutual banks, building societies and credit unions, all of which are described as ADIs.
and provide limited banking-type services. Many foreign banks have a presence, but few have a retail banking presence (Commonwealth of Australia 2018a).

Commercial banks in Australia are situated within the financial services sector in terms of market capitalisation. The financial sector is the third-largest sector of the economy and deals with banking, superannuation, insurance, mortgage broking and foreign exchange. In the 1980s, in Australia, New Zealand, the UK and the US a neoliberal economic expansionist program occurred, the outcome of which was the collective classification of various industries (Cutcher et al. 2007; Knights & Tinker 2016). Although initially the purpose of deregulation was to increase competition, initiatives in the banking sector (such as e-conveyancing to reduce switching costs) led to Australia becoming one of the most concentrated banking markets in the world. This was mainly due to the federal government’s implementation of the ‘four pillars’ policy, which prevented mergers between the four main banks (Cutcher et al. 2007). This distinctly Australian policy has prevented many of the effects of deregulation observed in other countries from being fully realised in Australia.

Australian commercial banks operate as a significant service industry, according to different banking sources such as the Reserve Bank of Australia (RBA) bulletin (Kaynak & Whiteley 2000). Commercial banks have around 16.5 million customers, holding over 40 million accounts and employing almost 1 in 50 members of the workforce in various capacities (Kaynak & Whiteley 2000). Since the economic crisis of the 1890s and the Great Depression of the 1920s and 1930s, a sense of public distrust has existed in Australia towards large commercial banks (Kaynak & Whiteley 2000). This distrust was exacerbated when the banks shifted from a banking culture to a sales culture after deregulation in the 1980s, with the adoption of cost-cutting employment practices and the closure of branch networks, particularly in rural towns, resulting in high levels of customer dissatisfaction and public resentment (Cutcher et al. 2007). Cost-cutting by the commercial banks led to job insecurity and branch
understaffing, and higher bank fees helped increase bank profits and maintain the high salaries of senior executives (Cutcher et al. 2007). In the early 2000s, public and customer dissatisfaction with the major banks peaked (Stevenson 2010). According to a 2002 survey by the Australian Consumers’ Association (ACA), only 11 per cent of the major banks’ customers were ‘very satisfied’ with the service they received, leading the ACA to conclude that deregulation has failed to recommend government intervention and provide a fair deal for consumers (Australian Consumers’ Association 2002).

2.2 Retail Banking

Retail banking, also identified as consumer banking, is the delivery of services by a bank to the public, rather than to corporations, companies or other banks (which is often described as wholesale banking). Banking services that are described as retail comprise transactional accounts and delivery of savings, personal loans, debit cards, credit cards and mortgages. Retail banking is also distinct from commercial or investment banking. It may refer to a bank department or division that manages individual clients. Retail banking is an area in which customer views are of critical importance and can make a significant difference. Since the deregulation of banking in Australia, banks have realised the importance of collecting customers’ views rather than assuming them (Majaski 2019).

2.3 Investment Banking

Investment banking businesses are intermediaries that advise companies, allocate securities and take principal positions. During these activities, information is produced. Most investment banking businesses are vertically combined organisations incorporating capital-raising services, merger and acquisition (M&A) advisory services, securities trading and brokerage, and research coverage (Ritter 2003). In Europe, universal banks have been allowed to perform both investment and commercial banking functions. In the US, the Glass–Steagall Act separated investment and commercial banking functions from the 1930s–1990s.
Commercial banks were allowed to take deposits from people that were guaranteed by the government (up to US$100,000 per account holder as of 2003). In return for the government deposit guarantee, commercial banks were forbidden from certain activities, such as underwriting corporate securities and taking equity positions in companies. The ban on underwriting securities was slowly relaxed, first for debt securities and then for equity securities. The Glass–Steagall Act was finally revoked in 1999, while deposit insurance remains (Ritter 2003).

With regard to corporate financing, the main difference between investment banks and commercial banks is that commercial banks act mainly as long-term principals, providing loans directly to borrowers, while investment banks act mainly as short-term principals. The marketing of financial securities is significant because investment banks sell to investors the securities issued by firms. In the marketing of financial securities, especially equities, a significant tool is research coverage by security analysts. Since the investment banking firm providing the underwriting also offers research reports, this is referred to as ‘sell-side’ coverage. There is a perception that analyst coverage has become more significant over time, partly because for many industries (i.e., technology and biotechnology companies), historical accounting information is of limited use in discerning whether new products and services will add economic value. The Securities and Exchange Commission’s Regulation for Fair Disclosure entered into effect at the end of 2000. This regulation may affect the role of analysts because it requires that information provided by a business to analysts must be publicly revealed to others as well (Ritter 2003).

An investment bank is typically a private company that offers numerous finance-related and other services to corporations, individuals and governments, such as acting as client agents in the issuance of securities or raising of financial capital by underwriting. An investment bank might also assist corporations involved in M&A and offer ancillary services such as trading of
derivatives, market making, equity securities and fixed-income instruments, commodities and currencies (FICC) services.

Unlike retail banks and commercial banks, investment banks do not take deposits. The US maintained a separation between commercial banks and investment banks from the time of passage of the Glass–Steagall Act in 1933 until its repeal in 1999 by the Gramm–Leach–Bliley Act. Other industrial nations, including G7 countries, historically have not maintained such a separation. As part of the Dodd–Frank Wall Street Reform and Consumer Protection Act of 2010 (Wilmarth & Arthur 2010), the Volcker Rule declared some institutional separation of investment banking services from commercial banking.

2.4 Banking Regulation in Australia

In Australia, banks are regulated through four separate agencies (Reserve Bank of Australia 2002). The first agency is the, which has responsibility for monetary policy, the payments system and financial constancy (Reserve Bank of Australia 2018). The second agency is the Australian Prudential Regulation Authority (APRA), which has responsibility for private superannuation funds, general and life insurance businesses, and prudential soundness of all deposit-taking institutes. APRA is accountable for the certification and prudential supervision of ADIs (banks, credit unions, building societies, friendly societies and certain purchaser payment facilities and participants in certain credit card schemes), life and retirement funds and general insurance corporations. For banks, consistent with the Basel II guidelines, APRA issued capital adequacy guidelines. All financial institutions regulated by APRA must report to the authority periodically. Investment banks are among certain financial intermediaries that cannot become licensed or regulated under the Banking Act 1959 and are not subject to the prudential supervision of APRA. Depending on the nature of their business activities, investment banks in Australia may be required to attain licences under the Corporations Act 2001 or other Commonwealth or state legislation (Paterson, Mallesons &
Mallesons 2018). The third agency is the Australian Securities and Investments Commission (ASIC), which is an authority for all financial institutions, financial system behaviour, marketplaces and market members. In Australia, regulation of the financial system is divided mostly between ASIC and APRA. ASIC has accountability for customer protection, integrity of markets and regulation of certain financial organisations (including finance corporations and investment banks). The regulatory situation in Australia for a person legally running a financial services business is that they must either hold an Australian financial services licence issued to them by ASIC or fall within a licensing exemption (Paterson, Mallesons & Mallesons 2018). Finally, the Australian Competition and Consumer Commission is responsible for competition regulation and consumer protection throughout the whole economy (Paterson, Mallesons & Mallesons 2018).

2.5 Global Financial Crisis in Australia

Among the numerous crises in recent years, the GFC is one that prompted scrutiny of business leadership, mainly in the finance sectors. Throughout international print media, the GFC was referred to as ‘a crime’, ‘a meltdown’, ‘a firestorm’ and ‘[the financial system’s] point of maximum peril’ (De Cock 2009). On its presence in Australia, then-Prime Minister Kevin Rudd described it as ‘one of the greatest assaults on global economic stability to have occurred in three-quarters of a century’ (Rudd 2009, para. 3). Intense media coverage focused on leaders in the Australian banking industry as reports of the rapid collapse of US and UK banks raised questions about the state of Australia’s banks.

Academic accounts of the GFC placed much of the blame on banking leaders, who were accused of greed (Flood 2009; Hargie, Stapleton & Tourish 2010), hubris (Coleman & Pinder 2010; Cairns, Roberts & Jain 2009; Weitzner & Darroch 2009) and even of being psychopaths (Boddy 2011). With increasing news reports of leadership failures, theorists turned to leaders, proposing that leaders were the solution to the crisis (Chambers, Drysdale & Hughes 2010;
Ethical, exceptional leaders can steer their organisations out of crises by conveying hope and confidence and maintaining trust and optimism. Media reports describing the major Australian banks as shelters from the ‘global economic storm’ reflected the assumption that leaders in the banks could, and should, control the financial crisis (Liu 2015).

The climate of uncertainty surrounding the GFC and renewed faith in leadership turned in favour of the largest banks in Australia, who emerged from the crisis with expanded market shares (Gluyas & Murdoch 2009). Throughout the GFC, the mortgage market maintained growth; by the end of the GFC, the main banks were writing more than 90 per cent of the nation’s new mortgages, compared with approximately 60 per cent before the GFC (Berry, Dalton & Nelson 2011). Perspectives on the GFC reflect the significance of leadership in an organisation, with leadership often cited as the preferred explanation for both positive and negative consequences (Bligh & Schyns 2007; Bligh, Kohles & Pillai 2011; Meindl, Ehrlich & Dukerich 1985). These accounts also tended to treat the financial crisis as given: a fixed historical event to be examined for variables (Boddy 2011; Carmassi, Gros & Micossi 2009; Falk & Blaylock 2012; Flood 2009; Aebi, Sabato & Schmid 2012).

2.6 Leadership Through the GFC

In 2007, the development of the GFC prompted many explanations related to the role of leadership in bringing about the crisis. Banking leaders demonstrated hubris and greed in their blind faith in the infallibility of their complex financial models (Grosse 2012; Weitzner & Darroch 2009). It was believed that their confidence fuelled excessively risky behaviours, which were incentivised by performance-based redress (Bebchuk, Cohen & Spamann 2010; Bhagat & Bolton 2014).

Interviews conducted with Australian finance executives across a number of sectors in the lead-up to the GFC revealed them to be optimistic about easy liquidity, rising asset prices
and their risk management mechanisms, and showed that they did not anticipate the crisis (Coleman & Pinder 2010). Boddy (2011) suggested that the GFC could be partly attributed to the concentration of dysfunctional leaders who compromised the welfare of others for their own self-interest, without remorse. In the UK financial services sector, dysfunctional leadership was observed (McCann 2013). Technicians and junior managers in international insurance and banking firms reported, through interviews and questionnaires, that senior managers upheld cultures of insecurity, work intensification and hostility (McCann 2013). McCann (2013) suggested that the GFC was fuelled by solipsistic and detached banking leaders unconcerned with their employees.

While a significant number of studies have attributed the GFC to banking leadership, others stated that leadership was the antidote to the crisis. In particular, scholars and practitioners believed that in the climate of uncertainty and fear created by the financial crisis, ethical leadership could be a solution (Freeman & Auster 2011; Northouse 2018; Peus et al. 2012). It is said that ethical leaders lead their followers through crises while conveying fairness, trust, morality and integrity (Gardner et al. 2005). Chambers, Drysdale and Hughes (2010) contended that in the aftermath of the GFC, ethical leaders were the ideal people to inspire organisational members, restore trust and re-establish a sense of purpose within and beyond the organisation.

A wide body of crisis management literature, which has long argued for the significance of leadership during societal and organisational crises, believed that that leadership could offer an antidote to the GFC (Boin, Stern & Sundelius 2016; James, Wooten & Dushek 2011). It is recognised that leaders are critical role models for their followers, demonstrating how subordinates should understand and respond to an event (Madera & Smith 2009). With crisis broadly defined as uncertainty and an extended period of threat that creates a sense of urgency and induces anxiety, this research area has focused on leaders’ behaviours and attributes,
involving adaptation, ability to mobilise, preparedness, personal selflessness and cultural awareness (Bledow, Frese & Mueller 2011; Useem, Cook & Sutton 2005).

It is also said that effective crisis leaders build networks within and beyond their organisations to secure a more comprehensive evaluation of organisational changes (Sheppard, Sarros & Santora 2013). It is improbable that leaders will achieve crisis exploitation independently. Successful crisis exploitation often needs leaders to persuade the media to endorse their crisis frame (Boin, ’t Hart & McConnell 2009). The crisis leadership literature suggests that when leaders produce a proactive, professional and consistent media performance, they are more likely to be perceived as credible (Coombs & Holladay 2010; Fearn-Banks 2016; Ulmer, Sellnow & Seeger 2018). This performance also involves an affective dimension. Madera and Smith (2009) found that during crises, leaders who conveyed sadness were more likely to be evaluated as effective leaders than those who conveyed anger. The role of leadership was significant during the GFC because leaders focused on the actions that directly caused, or delivered their followers out of, the crisis (Boddy 2011; Chambers, Drysdale & Hughes 2010; Weitzner & Darroch 2009). This highlights the importance of leadership and its effect on both negative and positive outcomes.

2.7 Unethical Behaviours in the Australia Banking Industry

There are many ethical problems in the Australian banking system. An annual survey by the Governance Institute of Australia demonstrated that Australians’ opinions of the ethical standards of big firms and their top management, particularly in the finance and banking sector, are very poor. The response to the survey of 1,000 Australians indicated that they thought their society was ‘somewhat’ ethical, giving the lowest ratings to finance and banking (Yeates 2016).

Executive pay continues to be a significant issue for most Australians, with respondents also flagging corruption, tax avoidance and misleading or deceptive advertising by companies as other major problems. For the finance and banking sector, bonuses and executive salaries
were considered the fundamental ethical issues in the survey, rating even higher than topical matters such as inadequate regulation and treatment of customers. According to a report by the Governance Institute of Australia’s CEO, the finance sector had issues with transparency, accountability and ethics (AAP 2017). Another ethical issue concerning Australians is the selling of insurance to clients who are not eligible to make claims. Due to the exposure of this practice, many Australians have been repaid hundreds, if not thousands, of dollars. These repayments have come on top of A$10 million the sector last year settled to repay after the same credit card insurance was sold to 65,000 students and unemployed people who were ineligible to claim on it (Beeby 2018). The biggest bank in Australia stopped selling its Credit Card Plus and Personal Loan Protection products and contacted customers for payouts because of their employment status at the time they bought their policies (Ziaziaris 2018).

The latest scandal reverberating through the industry prompted NAB and ANZ to review their life insurance businesses. ANZ was charged in early 2019 with fixing its bank bill swap rate. ASIC named it ‘unconscionable conduct and market manipulation’. Westpac has also been implicated. It is understood that ASIC, in its investigations of rate rigging, has recognised 120 of its employees as ‘persons of interest’ (Rhodes 2016). After claims by two sacked ANZ bank traders that a culture of drugs and alcohol was tolerated within parts of the bank, new CEO Shayne Elliott was said to be creating guidelines setting out how the bank aims to meet community expectations and serve customers (Yeates 2016).

To restore public trust in the scandal-plagued banking industry, financial institutions and industry bodies are supporting their employees through compulsory ethics training and an overhaul of professional and ethical standards. The CBA, Macquarie Bank and AMP have directed funds towards new ethics training programs for financial advisers after dishonest advice scandals rocked consumer confidence in the industry. (Commonwealth of Australia 2019b).
Based on the Finance Sector Union report, multiple financial collapses have occurred in Australia, leading to unethical behaviour in this industry and damaging the reputation of the financial sector (Finance Sector Union 2018). The Finance Sector Union reports that, despite the whistle-blower policies in banks, employees avoid these policies as they are under pressure from management (Wilkins 2017). The union noted some examples wherein employees have behaved unethically but were advised by managers not to report unethical behaviour. In some cases, when they have reported unethical and unlawful action, they have been exposed to onerous procedures (Wilkins 2017). The union believed that, in the financial industry, the rules are not adequate to encourage an employee to come forward as a whistle-blower or protect an employee who activates whistle-blower protections. The Finance Sector Union believed that whistle-blower laws should protect employees when reporting any unethical behaviour they observe. The number of unethical scandals involving poor advice and customer exploitation has been increasing as remuneration and managing practices created to exploit customer interaction have become more prevalent (Wilkins 2017).

Whistle-blowers play a significant role in identifying unethical behaviour and misconduct that may harm consumers. In Australia, the Corporations Act 2001 encourages whistle-blowers to expose illegal and unethical behaviours while giving them rights and protections (Australian Securities and Investments Commission n.d.). An example of whistle-blowing in Australian banks is the Commonwealth Bank scandal between 2005 and 2011 when Norris was running Commonwealth Bank (Dunckley 2019; Ferguson 2014). He was still working in this bank when a whistle-blower informed the ASIC of bank misconduct. The scandals included forgery and fraud, systemic misconduct and a cover-up in two of its financial planning divisions. The extent of the fraud and cover-up and what occurred to the managers highlight the need for ethical leaders in a bank to create a climate and behaviour based on ethics (Dunckley 2019; Ferguson 2014).
Before the start of the Banking Royal Commission, Australian unions created an online tool to gather information on fraud, misconduct and other criminal activities (Commonwealth of Australia 2018a). The Banking Royal Commission was established in December 2017. Its responsibility was to investigate the alleged misconduct of Australian banks and other financial services, particularly issues of questionable spending of people’s retirement savings, banks providing dishonest or fraudulent financial advice, and other behaviour that generally fell below expectations and community standards. The commissioner had powers to collect evidence, offer protection to people cooperating and hear witnesses under oath. In one case, a remarkable number of NAB employees were alleged to have been involved in a bribery ring spread across multiple branches, involving forged documents, fake payslips and Medicare cards. Bribes were paid in cash to secure loans as staff responded to an incentive program to sign up new customers. These have all been heard in the Banking Royal Commission (Lannin 2018).

Before and after the GFC, Australian banks were focused on fees, profits, the ongoing public scrutiny of their behaviour towards customers, and the effectiveness of their governance systems and training programs. In terms of significant media commentary and Senate inquiries, the allegations and scandals have been serious and illustrate a culture of unacceptable behaviour in the banking sector regarding guidance and regulatory activities. It seems that because of unreliable advice, thousands of customers lost millions of dollars from their savings and assets. Most cases are subject to ongoing lawsuits. The main reason for these events was system failures—the failure of banks’ financial systems, programs and HRM systems that allowed such procedures to remain mostly unchecked.

In Australian retail banking, allegations of corruption and financial misconduct towards clients have led to various public investigations and calls for a Royal Commission of Inquiry in this sector (Karvelas 2015b). The big four Australian banks are not except from unethical
behaviour and dubious business practices. In 2015, four well-paid executives in the banking sector were called upon to apologise before an Australian Senate inquiry that was televised nationally. According to Alberici (2015), these apologies stemmed from a culture that allowed unprincipled financial consultants to promote risky investments to vulnerable customers. Two Australian banks analysis is helpful to the banking system within the state. In an organisation, it is also valuable to underscore the significance of an effective and operational HRM system that develops ethical standards. The reputation of the Australian banks is damaged due to unethical advised provided with many customers. Therefore, this research is needed to help banking managers and employees behave in an ethical manner. When there is ethical leadership in a bank, employees understand that the role of ethics is important. Hence, their behaviour towards customers is more likely to be based on ethics.

The role of banks within societies are significant as they have many vital economic roles (Balluck 2015). They offer useful sources for debtors and investors to guarantee appropriate use of the funds they have at their disposal, acquired mostly from investors (Balluck 2015). In the capital market, banks also perform important roles and theoretically ‘contribute to the efficient functioning of financial markets’, but as illustrated in the recent financial crisis, ‘banks can create and propagate risks in the financial system given their scale, as well as the interconnected and complex nature of their activities’ (Balluck 2015, p. 4). As demonstrated by the financial crisis of 2008–2009, from a financial viewpoint, a society is at risk (Bhandari 2014) when banks lose their ethical scope (The financial crisis inquiry report 2011). It became apparent that many bank employees had populated the financial advice section with dubious ethics, some possibly bordering on misbehavior (Ferguson 2014). It also appeared these organisations rejected the corporate risks generally linked with immoral behaviours because they deemed themselves too large and influential.
Montague, Larkin and Burgess (2016) reported on the operational failures of two Australian banks: Bank A and Bank B. These are illustrative of the systematic and ongoing failures in the banks that have been realised through media and has been occurred because of diligence and governance. For instance, the CEO of Bank A acknowledged that how seven years earlier his organisation had ignored a whistleblower, who had advised about a rogue financial planner (Alberici 2015). In 2008, one of employees advised his organisation due to unethical behaviour the financial advice area but he was ignored. Here, the main question is why the bank only reacted after such a long time. A special reimbursement scheme was announced by Bank A (Alberici 2015), but to date, more than 200 applicants are yet awaiting payment and just three clients have received any compensatory money. Bank A’s financial gain constantly surpasses its big bank rivals in Australia, and most of the banks in the world, regularly documenting over AU$5 billion annual net profits (Janda 2015). Bank A was among several other banks to present customers with questionable financial advice (Alberici 2015). Bank A customers’ money was connected to ‘risky investments’ that the customers would have objected to, as theye were fake documents to cover up the unethical behaviour (Alberici 2015). Bank A’s former customers publicly observed that activities involving fraud, forgery and behaviour that was defined as misleading and deceptive were observed within the financial planning division of Bank A as reflecting an ‘acceptable business model’ (Alberici 2015).

In Bank B, 37 senior financial advisers have dismissed because they failed to meet ethical standards and engaged in activities involving conflicts of interest, forgery of clients’ signatures and documents, provision of inappropriate advice and engagement in inappropriate practices within a toxic culture (Ferguson & Williams 2015). Possibly, reimbursement payable to customers may take long time before they can find any solution (Ferguson & Williams 2015). In the Senate inquiry, one politician acknowledged that a same issue occurred in the Bank A scandal. However, Karvelas (2015a) mentioned changes in which Bank B had
dismissed its financial organisers, and Bank A had covered up unethical behaviour by financial
organisers, the major problem was that bank B reported only five breaches to the corporate
regulator and ignored to report those breaches to the regulating authority.

Based on an internal Bank B report, over the last five years, ‘rogue advisers’ within banks had begun operating. The document also mentioned additional major occurrences in which some consultants made customers’ signs and attempted to cover unethical behaviours (Ferguson & Williams 2015). Ferguson and Williams (2015) described this situation as troubling, as the paper confirmed that such examples were revealed through responses to queries instigated by authorities and client complaints, rather than through audits or controls—the bank’s internal reviews. Bank B’s wealth boss acknowledged to the Senate Economics References Committee that 750 customers paid A$14.5 million based on very poor advice they had received, most of which stemmed from eight advisers. The advisers’ behaviour was reported to ASIC in breach reports. Bank B discharged 41 advisers and provided their names to ASIC (Eyers 2015).

Since 2009, Bank B, because of inappropriate financial planning advice, has paid millions of dollars to hundreds of clients (Ferguson & Williams 2015). The level of unethical behaviour and misconduct among financial planners, employee dismissals and the millions of dollars in reimbursement affected Bank B, one of Australia’s largest four banks (Ferguson & Williams 2015). Additionally, following customers criticisms, Bank B was ‘forced to pay hundreds of millions of dollars to customers for mis-selling of insurance products in the UK’ (Ferguson & Williams 2015). Bank A and Bank B had convinced thousands of customers to commit to risky investments, subjecting them to substantial debt; the savings were dubious at best, and the result for many was the loss of millions of dollars. The Senate inquiry in 2015 was the main banks’ fifth investigation into financial assistance issues and happened over several years (Alberici 2015). In spite of a Banking Royal Commission being demanded by
many witnesses, it was constantly rejected by the federal government despite of millions of dollars spent by innocent losses of the banks (Alberici 2015; Karvelas 2015b).

The above discussion and instances illustrate a failure of banks, due diligence and effective management. The evidence reveals continuing issues in meeting customers’ needs, with bank workers able to work in a way that unfavourably affected their clients’ financial wellbeing, lack of ethical and professional behaviour damaging the banks’ reputations. Banks need to develop ethical training and ethical standards.

2.8 Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry

The Banking Royal Commission was launched in December 2017 following claims of customer abuse, poor governance and unethical lending practices adopted by banks (Commonwealth of Australia 2019a). The final report covers 76 recommendations and four key observations with a view to structural reform in the financial services industry (Commonwealth of Australia 2019a). These observations are conflicts of interests among employees as they pursued personal goals; the lack of an ethical remuneration structure; no separation of responsibilities between the provision of financial advice and the sale and marketing of financial products; lack of transparency among employees and failure to assist customers in choosing a suitable product; and lack of responsibility for the acts of employees who broke laws and regulations (Commonwealth of Australia 2019a).

In light of his observations, the head of the Banking Royal Commission, Commissioner Hayne, believed that institutions and employees should not have been rewarded for providing inappropriate advice to their clients or selling the wrong product (Commonwealth of Australia 2019a). In the financial services industry, the integrity of capital markets has been significantly affected, impairing the level of trust and confidence of clients. In the absence of a transparent and comprehensive source of financial advice, customers were exposed to significantly higher
risks than anticipated, which led to significant loss of customers’ wealth and income. Moreover, financial institutions, because of the absence of adequate internal integrity measures and controls, failed to comply with industry standards and legislations. Therefore, no-one was held responsible or accountable for breaking the law (Commonwealth of Australia 2018a, b).

The Commission’s report documented unethical behaviour by banks towards customers. For example, the submissions detailed stories of the emotional toll wrought by disputes with banks over approval of loans that borrowers were ultimately not able to repay. These cases often resulted in the loss of a family home, ongoing debt arising from penalty interest rates, breakdowns in relationships and payment of legal processes and other costs related with pursuing redress. Some customers reflected that, without asking for funds, they had been offered additional credit, and regretted accepting larger loans than they could afford. Others reflected that they were loyal customers for many years and that such loyalty and trust was not reciprocated in their dealings with their bank. The evidence also showed that banks placed the pursuit of profit above all else, specifically above the interests of their customers and compliance with the law (Commonwealth of Australia 2019c).

The government’s response to the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry sought to restore trust in Australia’s financial system and provide better service to customers. Based on the government’s report, attention to customer needs is important, as customers are vital to the health of the economy and society. The Royal Commission focused on the misconduct occurring in the Australian financial sector, discovering that individuals were putting profits ahead of people and rewarding unethical behaviour, a lack of responsibility for those who breached the law and managers who need to be more effective in punishing unethical behaviour (Commonwealth of Australia 2019d, p. 2).

The government’s response to the issues identified in the Royal Commission report is to recommend ‘strengthening protections for consumers, small businesses and rural and
regional communities, enhancing accountability, ensuring strong and effective financial system regulators, and further improving consumer and small business access to redress’. The government believed that, as a response to the Royal Commission, all Australians have to be treated fairly and honestly when dealing with financial services. In the insurance advice sector, another response to the Royal Commission report was to reform remuneration practices and create new ethical requirements for financial advisers (Commonwealth of Australia 2019d).

The government protected customers from excessive credit limits that may lead to unsustainable debt across credit cards. A regulatory framework has been created, and, based on this framework, employees are responsible if they fail to carry out their obligations (Commonwealth of Australia 2019d). Establishing a Banking Executive Accountability Regime enables bank employees to be responsible and answerable when they fail to perform their responsibilities. Introducing legislation for a single whistle-blower protection was another response to the commission to cover the corporate, financial and credit sectors. The significant actions of government were to increase the capabilities, powers and funding of financial regulators, as well as to refresh their leadership. The government also introduced a number of laws to ensure regulators are enough strong to protect customers from unethical behaviour in the financial sector (Commonwealth of Australia 2019d).

The four big banks in Australia responded to the Royal Commission report. In its response, NAB was ‘taking steps’ to earn back their customers’ trust through action. NAB said their employees are committed to be better to earn customers’ trust. They believed that this trust can be rebuilt through everyday actions and decisions. They argued that they would make better decisions and put customers’ needs as their first interest. NAB believed that they are committed to implementing the commissioner’s recommendations. Commonwealth Bank asserted that, as a result of the Royal Commission, they will address past failings, implement significant changes and improve their processes to ensure that their focus is on what is best for
customers. They mentioned that they will implement stronger policies and processes, including a new Code of Conduct. Overall, Commonwealth Bank seeks to earn back the trust of customers and perform in a respectful way (Australian Banking Association n.d.; Startsat60 2019).

ANZ said they will work better to rebuild customer trust. They noted that, as they review the Royal Commission report carefully, they are aware of their significance role in the Australian economy and will engage productively with all stakeholders to work on the recommendations stated by Commissioner Hayne. Westpac argued that they will address the commission’s report dealing with customer complaints in a better way. They acknowledged the significant role of this industry in the Australian economy and will try to engage productively in the transformation process. They confirmed their willingness to work with regulators to do their best toward customers (Australian Banking Association n.d.; Startsat60 2019).

Therefore, regarding the unethical and poor behaviour evidenced in Australian banks, cultural change and an improved, customer-focused banking system based on ethical behaviour is needed (Commonwealth of Australia 2019a). As a result of Royal Commission report, customers are protected by law to ensure that they are treated fairly. It is crucial for bank customers to perceive that bank employees treat them fairly, and to witness banks prioritise the ethical behaviour that is in their customers’ interests. It requires a moral shift and fair attitude, which cannot grow in banks from the bottom; it needs to start from the top (Knox 2019). This is the reason this research argues more ethical leadership is needed in banks; ethics cascade from the top down.

The Banking Royal Commission report outlines that the unethical behaviours in banks returned to those who manage and control the banks—top management and the board of directors (Commonwealth of Australia 2019a). As evidenced in this report, the role of
leadership in banks is significant, and banks must establish behavioural and cultural expectations from the top down, through middle managers to employees. The tone from the top is significant in banks; this requires a shift in how managers at all levels are trained, supported and promoted (Commonwealth of Australia 2019a). Therefore, ethical leadership is needed in banks because such leaders encourage employees to behave in an ethics-based manner (Brown, Treviño & Harrison 2005). Rebuilding trust is the role of ethical leadership in banks to create customer value and positive customer experiences (Kia, Halvorsen & Bartram 2019). Leaders are role models for employees; when employees observe that their managers are ethical and committed, they want to follow them, and they do their best in terms of customer satisfaction.

2.9 Conclusion

The recent corporate scandals have led to unfavourable impressions of leaders, leadership and leadership ethics (Ofori 2008). This situation calls urgently for suitable leadership behaviour for banking, effective leadership interventions that can accelerate leadership development, and effects on long-term organisational outcomes. Within Australian banks, there is a need to promote a positive culture and develop leaders who adhere to high levels of moral and ethical standards, and have positive values. These leaders should be capable of changing the conventional paradigm of management in the industry and setting exemplary standards for others. To achieve this goal, this research argues that banks need to focus on developing a new breed of future project leaders through ethical leadership development.
Chapter 3: Literature Review

Chapter 2 discussed the context for the research presented in this thesis: the Australian banking industry. Further, it provided a background on retail and investment banking and the role of leadership in banks during the GFC. Finally, the chapter concluded with a discussion of the unethical behaviours banks engaged in during and after the GFC.

This chapter is separated into five main sections and reviews the ethical leadership, OID, CO, SC, EC and employee in-role performance literature. Section 3.1 reviews the ethical leadership literature, discusses its importance and provides examples of unethical behaviour. Moreover, this section presents the literature on the relationship between ethical leadership and employee in-role performance using social learning theory and social exchange theory. Section 3.3 reviews the OID literature using social identity theory, while Section 3.4 discusses CO literature and its relationship with different organisational outcomes. Section 3.5 provides an overview of SC and its relationship with different variables, and Section 3.6 reviews the EC literature. Following the review of literature on the research variables included in this thesis, Section 3.11 outlines the development of research model. Finally, Section 3.12 discusses the development of the research hypotheses.

3.1 Ethical Leadership

Ethical leadership theory has grown in popularity since the early 1980s (Brown & Mitchell 2010; Den Hartog 2015; Kaptein 2019). After the credit crisis in 2008, ethical leadership was considered as a response to questionable corporate behaviour (Babalola et al. 2019). The world endured its worst global recession since the 1930s, with numerous scandals befalling leading corporations such as Enron, Arthur Andersen, WorldCom, Tyco, Parmalat and HealthSouth (Babalola et al. 2019; Bello 2012; Effelsberg, Solga & Gurt 2014). In corporate organisations, top managers made fraudulent decisions that artificially inflated
profits to increase redress, thereby contributing to the crisis (Berenbeim 2010; Van Quaquebeke et al. 2019).

According to Kanungo (2001), one crucial dimension of leadership is ethics. Leadership is a process in which leaders influence employees to reach organisational goals (Yukl & Mahsud 2010). The process is based on the exercise of power and value decisions. Therefore, an ethical dimension is an implicit or explicit part of all leadership theories and practices (Ciulla 1995; Treviño, Brown & Hartman 2003). It is argued that a manager’s views and values influence the whole organisation and its culture (Giberson et al. 2009; Schein 2010). For instance, Brown and Treviño (2014) pointed out that, within organisations, managers who make critical decisions act as role models and have an important influence on the organisational culture. Thus, they carry most of the responsibility in the organisation. In fact, within organisations, leaders and managers are responsible for the building and maintenance of ethical values (Groves & LaRocca 2011).

A survey of companies in the United Kingdom and Europe in 2010 revealed that the most significant ethical issues in organisations are corruption, facilitation payments, bribery, discrimination, harassment and whistleblowing (Webley et al. 2011). In Australia, some organisations have faced ethical challenges. The systematic wage roding and employee exploitation within 7-Eleven in Australia is an example of an ethical failure of leadership. Within 7-Eleven, the wages of young people and non-citizens were usually 50 per cent below the minimum wage. It has been argued that labour exploitation and forced labour was used by franchisees and the parent company to lower the costs of running stores, thereby increasing profits (Ferguson, Danckert & Hatch 2015). These problems stemmed from the top levels of management. The culture of a company sets the tone for its employees and should provide an ethical roadmap to encourage responsible behaviour (Mintz 2015). Similarly, Domino’s Pizza
did not reflect the strong financial performance of its franchise network, or the high ethical standards required of all employees and franchisees (Mitchell 2017).

The most critical problem in these organisations is lack of ethical leadership (Makaroff et al. 2014). In any organisation, ethical leadership is essential because leaders who exhibit ethical behaviour motivate others to act in ethical ways. These kinds of leaders try to influence people by using their power in a positive way through role modelling. This is why many researchers have emphasised the need for strong characters for ethical leadership (Brown & Treviño 2006, Brown & Treviño 2014).

Primary conceptualisations of ethical leadership were combined into broader leadership models that included aspects of morality and ethics. For instance, Bass and Steidlmeier (1999, p. 181) presented a model of authentic transformational leadership, suggesting that ‘to be truly transformational, leadership must be grounded in moral foundations’. Their model was an integration of authentic leadership and transformational leadership values such as trust, courage, integrity, hope and perseverance (Avolio & Gardner 2005). Mendonca (2001) contended that ethical leadership is a facet of transformational leadership, while Kanungo and Mendonca (2001) suggested that ethical leadership is a feature of both transformational leadership and transactional leadership. Specific conceptualisations of value-based models began maturing as instruments were developed, specifically: measures of ethical leadership by Brown, Treviño and Harrison (2005); measures of spiritual leadership by Fry, Vitucci and Cedillo (2005); measures of authentic leadership by Walumbwa et al. (2008); and conceptualisations and instruments of servant leadership by Liden et al. (2008). The differences between these styles provide the foundation for ethical leadership as a separate leadership concept rather than focusing only on ethical aspects of other leadership styles (Brown, Treviño & Harrison 2005; Den Hartog & De Hoogh 2009; Kalshoven, Den Hartog & De Hoogh 2011; Yukl 2012).
Brown, Treviño and Harrison (2005, p. 120) defined ethical leadership 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’. The authors focused on different parts of this definition, which are discussed below. This is the most published definition of ethical leadership in the extant literature (Ahn, Lee & Yun 2018; Babalola et al. 2019; Brown & Treviño 2014; Cheng, Bai & Yang 2019; Demirtas & Akdogan 2015; Lemoine, Hartnell & Leroy 2019; Li et al. 2017).

The first part of this definition suggests that those who are perceived as ethical leaders behave in a way that is normatively appropriate (e.g., with honesty, trustworthiness, fairness and care) to their followers, who consider their leader a credible and legitimate role model (Brown, Treviño & Harrison 2005). The expression ‘normatively appropriate’ is intentionally vague because beyond the generalities noted, ‘appropriate behaviour’ is somewhat context-dependent. For instance, normatively appropriate behaviour in some cultures might involve speaking out publicly in opposition to organisational action; in other cultures, such a public voice could be considered normatively inappropriate (Brown, Treviño & Harrison 2005).

The next part of Brown, Treviño and Harrison's (2005) definition recommended that ethical leaders in the social environment not only draw attention to ethics and make them salient by explicitly discussing them with followers, but also provide employees with voice, a procedurally or interpersonally just process (Bass & Steidlmeier 1999; Howell & Avolio 1992). The term ‘reinforcement’ in this definition suggests that ethical leaders establish ethical standards, reward ethical behaviour and punish those who do not follow the standards, which is unique to ethical leaders and contributes to vicarious learning (Lemoine, Hartnell & Leroy 2019; Treviño, Brown & Hartman 2003). The last component of the definition, related to decision-making, reflects that ethical leaders think about the ethical consequences of their
choices and decisions, and make fair and principled choices that can be observed and emulated by others (Brown, Treviño & Harrison 2005).

Ethical leadership has been defined by others more broadly. Some authors have defined ethical leadership as a purpose or intention of behaviour and its effect (Turner et al. 2002). De Hoogh and Den Hartog (2008) defined ethical leadership based on a social influence perspective; they believe ethical leadership to be the process of affecting the activities of a group in a socially responsible way towards goal achievement. Resick et al. (2006) focused on how leaders use their power in their decisions and actions, and how they affect others. Both definitions focus on leaders who attempt to achieve goals and also focus on the end results. In this approach, ethical leaders are driven by values of caring and moral beliefs; they aim for their judgements and actions to be beneficial for organisations and followers (Kalshoven, Den Hartog & De Hoogh 2011). Mendonca (2001) argued that ethical leaders can be defined as being guided by altruism. Kalshoven, Den Hartog and De Hoogh (2011) extended the ethical leadership definition to include power sharing, role clarification and sustainability. Resick et al. (2006), as part of their cross-cultural work on ethical leadership, included encouragement, follower motivation and empowerment in their construct of ethical leadership. The extensiveness and variety of these concepts, some of which overlap into antecedents and outcomes, has resulted in conceptual confusion (Hassan et al. 2013). Yukl (2012) supported the idea that ethical leadership should be defined more narrowly with limited overlap with other leadership styles. Based on this view, ethical leadership is limited to four features: integrity and honesty of the leader, communication and enforcement of ethical standards, fairness in decisions and reward and concern for others. This definition is similar to that of Brown, Treviño and Harrison (2005), which has been used extensively over the last decade.

Although many researchers focusing on ethical leadership have used the Brown, Treviño and Harrison (2005) model and definition, other conceptualisations have been
suggested. These conceptualisations are typically broader than the Brown, Treviño and Harrison (2005) model, often including aspects that Brown, Treviño and Harrison (2005) included as antecedents or outcomes. Generally, cross-cultural studies confirm the Brown, Treviño and Harrison (2005) model, although some differences have arisen. The following paragraphs review key alternative conceptualisations.

The literature on ethical leadership has triggered the publication of alternative conceptualisations, and recognises differences relative to the Brown, Treviño and Harrison (2005) model. For example, Plinio, Young and Lavery (2010) suggested a virtue-based approach and emphasised the importance of character. They included empowerment, and personal and societal development. Eisenbeiss (2012) included a responsibility/sustainability orientation and a moderation orientation (including temperance and humility) that involves a longer-term view.

The ethical leadership literature emphasises two crucial pillars: the moral person and the moral manager (Brown & Treviño 2014; Brown, Treviño & Harrison 2005; Kuenzi et al. 2019; Quade, Perry & Hunter 2019; Treviño, Hartman & Brown 2000). Being a moral person, an ethical leader has ethical traits such as integrity, honesty and trustworthiness, and displays these attributes consistently (Trevino, Hartman & Brown 2000). From a management perspective, ethical leaders are moral managers (Den Hartog 2015; Eisenbeiss 2012; Treviño, Hartman & Brown 2000). In fact, a moral manager is an ethical leader who makes ethical decisions, discusses ethical discipline with employees, holds employees responsible for their conduct, encourages employees to use two-way open communication and punishes those who violate ethical rules (Brown & Treviño 2006; Brown, Treviño & Harrison 2005).

The significance of ethical leadership is emphasised in cases in which ethicality fails, as shown in public corporate scandals such as Enron (Babalola et al. 2019; Sims & Brinkmann 2003). The importance of ethical leadership is twofold: first, ethical leaders are fair, effective
and good leaders, who in an enduring manner can improve organisational success; second, unethical leaders, by striving for personal advantage at the expense of their organisation and its employees, can harm the whole organisation (Toor & Ofori 2009). Therefore, leadership should be studied from an ethical perspectives for these reasons (Ciulla 2014).

The concept of ethics in leadership reflects a philosophical view of how leaders should behave (Brown, Treviño & Harrison 2005). The literature demonstrates that ethical leadership is based on normative ethical values (identified as virtue ethics), deontology and utilitarianism (Ciulla & Forsyth 2011; Dion 2012). From a deontological perspective, ethically appropriate behaviour accords with ethical principles and a voluntary intent that makes an action appropriate (Ferrell & Fraedrich 2009). From a utilitarian perspective, the leader predicts the consequences of an act and defines the moral appropriateness of that act. From a virtue ethics perspective, when individuals want to make a decision about the morally appropriate action, they emphasise the significance of personality and virtues (Ladkin & Taylor 2010). These perspectives of ethical values provide useful insights into the dynamics of morality, which represent ethical norms and social interaction guidelines that provide a desirable approach for a community and its members (Arnold et al. 2019). Each perspective could be related to the internalised moral perspective character of ethical leadership. The perspectives that organisational leaders follow in their decision-making processes are highly important.

Ethical leadership and decision-making are distinct in different public and private organisations, as missions and activities are different in these organisations (Heres & Lasthuizen 2012). While the primary aim of private organisations is profit maximisation, public organisations seek to provide public service and to serve the public interest (Raine & Chun 2005). In public organisations, stakeholders make decisions in ways that are not only coercive and monopolistic, but which also have a broader impact on society (Rainey & Chun 2005). Therefore, public organisations depend on their activities and nature, and there may be more
ethical scandals, so managers think that they need to make ethical decisions to manage ethical issues (Heres & Lasthuizen 2012).

Public and private organisations’ external stakeholders shape managers’ perspectives on ethical leadership. The public nature of an organisation affects the extent to which the organisation is susceptible to citizen pressure and scrutiny, with public organisations facing high expectations for fairness, openness, accountability and transparency (Pollitt & Bouckaert 2004; Rainey & Chun 2005). Therefore, in public organisations, managers may feel ‘forced’ to apply ethical leadership and ethics programmes. Therefore, in such organisations, managers prefer to discuss ethical issues and make ethical decisions. They emphasise ethical values and decisions rather than specific regulations, procedures, punishments and rewards. In some private organisations, managers think that employees are intrinsically motivated to provide high-quality service and tend to discuss ethics to a less extent with their employees (Heres & Lasthuizen 2012; Vernon & Brewster 2013).

3.1.1 Related and overlapping leadership models

Contemporary leadership styles, including transformational, transactional, authentic, servant and spiritual leadership have some similarities and overlap with ethical leadership (Anderson & Sun 2017). Walumbwa et al. (2008) argued that ethical leadership overlaps with authentic and transformational leadership. Specifically, they asserted that ethical leadership comprises an element of authentic leadership that is, internalised moral perspective (Lemoine, Hartnell & Leroy 2019). According to Walumbwa et al. (2008), this is guided by internal moral standards and values. They also showed that ethical leadership comprises the transformational leadership facets of the individualised consideration (providing a role model of high ethical behaviour) and idealised influence (attending to follower needs), but does not include intellectual stimulation (soliciting ideas and challenging assumptions) and inspirational motivation (inspiring articulation of vision) (Walumbwa et al. 2008).
Researchers have shown that transformational and authentic leadership are related to ethical leadership (Kalshoven, Den Hartog & De Hoogh 2011; Toor & Ofori 2009). Walumbwa and Schaubroeck (2009) suggested that ethical leadership is a subset of authentic leadership and transformational leadership. At the conceptual level, these perspectives demonstrate that a key attribute of positive leaders is ethical behaviour. Hence, positive leaders are honest, trustworthy, credible and reliable whether they are spiritual, servant, authentic, transformational or ethical. In fact, in the ‘moral person’ dimension of ethical leadership, they are strong; this is commonly shared across other forms of positive leadership. Although, as Treviño, Brown and Hartman (2003) highlighted, what distinguishes ethical leadership from other leadership styles is the moral-manager dimension of ethical leadership (Toor & Ofori 2009; Treviño, Hartman & Brown 2000).

According to Brown and Treviño (2006), the most defining characteristic of ethical leadership is the moral-manager dimension of the ethical leader. While a moral dimension in spiritual, transformational and authentic leadership constructs was identified, ethical leadership had a different application to this moral dimension. Specifically, an ethical leader sets clear expectations of ethical conduct for followers (Brown & Treviño 2006). In addition, the leader, through modelling and reward systems, communicates these expectations to hold followers accountable for ethical behaviour. Previous empirical studies have examined the relationship between ethical leadership and different employee outcomes, such as improved task performance, OCB, commitment, reduction of deviance, commitment, ethical behaviour and cognition (Avey, Palanski & Walumbwa 2011; Babalola et al. 2019; Piccolo et al. 2010; Walumbwa et al. 2011).
3.1.2 Ethical leadership outcomes

Ethical leaders are perceived as competent role models because their decisions are based on what is morally appropriate. This could be one of the positive effects of ethical leaders on their followers’ workplace behaviours and attitudes (Heres & Lasthuizen 2014). Moral character is displayed in such leaders’ behaviour, and has a positive influence on subordinates’ moral actions, which then typically occur voluntarily through the use of influencing processes and behaviours (Treviño & Brown 2004). This idea is supported by Caldwell et al. (2008), who argued that from the subordinate’s perspective, great leaders inspire considerable dedication and work ethic in their subordinates. Based on this influential relationship, a sense of trust between ethical leaders and their followers emerges, which affects followers’ behaviours and workplace attitudes in an ethically positive manner. In organisations, an environment that facilitates collaboration, assists in managing variance, encourages information sharing and increases trustworthiness and common acceptance uses trust as an important factor for successful working relationships between leaders and followers (Dirks & Ferrin 2002; Mayer, Davis & Schoorman 1995). The existence of trust or distrust will affect the relationship between ethical leaders and their followers’ performance, because when there is a lack of trust between supervisors and employees, this could affect employees’ performance. Based on social exchange theory, Blau (1964) noted the norm of reciprocity, wherein employees trust their leaders, wishing to reciprocate this trust with their best performance.

The leadership literature has demonstrated positive relations between ethical leadership followers’ outcomes, such as interaction justice, job attitudes and wellbeing (Wang & Chan 2019), OCB (Eisenbeiss & Van Knippenberg 2015; Kacmar et al. 2013; Tu & Lu 2016), job satisfaction and commitment (Brown, Treviño & Harrison 2005; Den Hartog & De Hoogh 2009; Hartog & Hoogh 2011; Mayer et al. 2009; Ren & Chadee 2017) and turnover (DeConinck 2015; Lam et al. 2016). Kalshoven Den Hartog and De Hoogh (2011) and Hartog
and Hoogh (2009) also connected ethical leadership to employee trust. Other positive associations have been found in relation to work engagement, extra effort (Toor & Ofori 2009), job performance (Piccolo et al. 2010), subordinate optimism (Den Hartog & De Hoogh 2009) and willingness to report unethical behaviour (Brown, Treviño & Harrison 2005). Other research has demonstrated inverse associations with negative behaviour such as conflict and unethical behaviour (Mayer et al. 2012), cynicism (Kalshoven, Den Hartog & De Hoogh 2011), deviance (Mayer et al. 2009) and counterproductivity (Detert, Treviño & Sweitzer 2008).

Based on previous studies, there are important benefits for organisations that incorporate ethical leadership and the leaders who apply ethical leadership. For example, Fulmer (2004) stated that organisations that applied ethical business practices attracted the highest quality recruits and retained employees longer. Thus, organisations need to gain a deeper understanding of ethical leadership (McCann & Holt 2009). Most extant studies have shown that, within organisations, ethical behaviour of top managers has a cascading effect on lower-ranked employees (Brown & Treviño 2006; Mayer et al. 2009; Schaubroeck et al. 2012). When leaders consistently role model high levels of ethics and integrity, they earn a reputation for being trustworthy and credible (Brown & Treviño 2006; Kouzes & Posner 2011). This reputation assists employees to build a sense of commitment and confidence in their leaders and organisations (Ng & Feldman 2015). When employees observe ethical leaders with strong moral character and ethical principles, they want to emulate such behaviour (Brown & Treviño 2014; Mayer et al. 2012; Schaubroeck et al. 2012; Schminke, Ambrose & Neubaum 2005). Therefore, leaders who constantly demonstrate ethical behaviours serve as powerful moral examples for employees (Gok et al. 2017). Notably, earlier research on ethical leadership suggests that this leadership style is related to positive organisational outcomes, especially regarding the performance and behaviour of employees at group and individual levels (Brown & Mitchell 2010; De Hoogh & Den Hartog 2008; Den Hartog & Belschak 2012). There are
several positive outcomes of ethical leadership, including greater perceptions of the effectiveness of leadership (Dion 2012; Eisenbeiss 2012; Mayer et al. 2012), development of an EC (Caldwell et al. 2008; Grojean et al. 2004; Mayer, Kuenzi & Greenbaum 2010), encouragement of followers to show OCB (Shin 2012), and establishment of organisational commitment among subordinates (De Cremer, Brebels & Sedikides 2008; Den Hartog & Belschak 2012; Neubert et al. 2009).

The relationship between ethical leadership and outcomes has been documented in previous empirical studies. For example, Kim and Brymer (2011) worked with 324 middle managers in US hotels to investigate the influence of ethical leadership on job satisfaction and effective commitment, which in turn influence performance. They identified a positive and significant relationship between ethical leadership, job satisfaction and commitment. They found that managers’ job satisfaction is positively connected to organisational commitment, but found no significant relationship between job satisfaction and effort exerted in the workplace. Their study confirmed the positive connection between middle managers’ efforts and hotels’ competitive performance. Similarly, Neubert, Wu and Roberts (2013) collected data from 250 working adults to explore the relationship between ethical leadership, commitment and extra-role compliance behaviour. They found a significant relationship between ethical leadership, job satisfaction and extra-role performance. Ponnu and Tennakoon (2009) investigated the link between ethical leadership, organisational commitment and trust among 172 intermediate managerial-level employees from the Malaysian corporate sector. They discovered that ethical leadership behaviour has a positive influence on employee organisational commitment and employee trust in leaders. Further, Okan and Akyüz (2015) examined the relationship between ethical leadership and job satisfaction among 223 academic and administrative staff at a university. They discovered that ethical leadership has an influence on loyalty, which in turn increases employees’ job satisfaction.
Javed et al. (2018) investigated the association between ethical leadership and employee creativity, in which trust played a mediating role, in 205 supervisor–subordinate small textile companies in Pakistan. They revealed that ethical leadership increases creativity at work, and the influence of ethical leadership on creativity is mediated by trust in the leader. Similarly, van den Akker et al. (2009) examined the relationship between ethical leadership and trust among 500 respondents from European corporations. They found that ethical leaders are trusted more by employees than are non-ethical leaders. In another study, Avey, Palanski and Walumbwa (2011) investigated the relationship between ethical leadership and OCB among 191 working adults. They discovered that ethical leaders increase their followers’ OCB.

Bedi, Alpaslan and Green (2016) found that ethical leadership is connected positively to different employee outcomes, such as employees’ ethical behaviour and perceptions of leader interactional fairness. DeConinck (2015) used a sample of 331 salespeople to investigate the link between ethical leadership and job outcomes (perceived organisational fit, OID and OCB). They discovered that ethical leadership directly affects salespersons’ perception of the degree to which their values fit with the organisation’s values, their willingness to engage in extra-role behaviour, their OID and turnover intentions. Shafique, Kalyar and Ahmad (2018) investigated the relationship between ethical leadership, employee job performance and turnover intention among 196 tourist companies in Pakistan. They identified a positive relationship with employees’ job satisfaction and job performance and a negative effect on employees’ turnover intentions. Further, job satisfaction mediates the effect of ethical leadership on employees’ job performance and turnover intentions. Therefore, while previous studies have explored the relationship between ethical leadership and different organisational outcomes, this research unpacks the process through which ethical leadership affects one organisational outcome—employee in-role performance. Specifically, this research unpacks
the process by analysis of the mediating effect of EC, OID, CO and SC as boundary conditions of the relationship between ethical leadership and employee in-role performance.

While social exchange (Blau 1964; Cropanzano & Mitchell 2005) and social learning theory (Bandura1977) are two important mechanisms that link ethical leadership to employee outcomes (Walumbwa et al. 2011), social information processing is another significant theory. Walumbwa et al. (2011) found that ethical leaders, because of their characteristics and positive moral behaviour, channel associations between leaders and employees into strong social exchange; followers subsequently improve their performance and reciprocate high-quality social exchange. Similarly, Brown, Treviño and Harrison (2005), Piccolo et al. (2010) and Walumbwa et al. (2011) proposed that ethical leaders, because of their normatively appropriate behaviour and clear communication of ethical standards, present themselves as role models and significant sources of information. This develops a shared understanding of acceptable behaviours among followers, encouraging them to emulate their leaders’ conduct, thereby ultimately enhancing task performance (Piccolo et al. 2010; Walumbwa et al. 2011).

3.2 Employee Performance

Leadership research has consistently attempted to explain employee performance by creating a direct or indirect connection between different forms of leadership and performance (Ahmad et al. 2019; Ahn, Lee & Yun 2018, Rego et al. 2012; Sheraz, Zaheer & Nadeem 2012; Tourigny et al. 2019; Walumbwa et al. 2011). Recent research has paid increasing attention to this relationship because of the significance of leadership as a contextual factor that affects employee outcomes and allows for practical interventions that can easily direct employee performance in favourable directions (Rego et al. 2012; Shin 2012; Walumbwa et al. 2011). Among different types of employee performance, one important classification is in-role performance versus extra-role performance (Katz 1964).
Katz (1964) defined in-role performance as ‘expected and required behaviour that is the basis of regular and on-going job performance’, while Organ (1997, p. 91) defined extra-role performance or OCB as ‘contributions to the maintenance and enhancement of the social and psychological context that supports task performance’. The differences between in-role and extra-role performance can be summarised as the distinction between ‘my job’ (i.e., in-role performance) and ‘beyond my job’ (i.e., extra-role performance) (Morrison 1994).

Most organisations believe that employees can provide a competitive advantage; their individuals contribute to organisational performance (Kataria, Rastogi & Garg 2013). Employees play a crucial role in organisational success (Petrou, Demerouti & Schaufeli 2018). It has been shown that employee performance has an important positive influence on organisational performance (Collis et al. 1999). Nevertheless, the main effect on the organisation’s performance is the quality of the workforce at all organisational levels. For an organisation, the function that human resources can play in gaining a competitive advantage is empirically well documented (Amarakoon, Weerawardena & Verreyne 2018; Brewster 2004). Organisations must constantly search for superior ways to manage and organise work to achieve their goals. There is increasing recognition that the primary source of competitive advantage is derived from the organisation’s human resources (Larsen & Brewster 2003). Employee performance has an influence on the organisation’s wider aims; therefore, it is imperative that employees’ performance be managed.

Previous research has investigated different leadership styles, such as leader–member exchange (Graen & Uhl-Bien 1995; Ilies, Nahrgang & Morgeson 2007), authentic leadership, and transformational leadership (DeConinck 2015; MacKenzie, Podsakoff & Rich 2001), and their relationship to in-role and extra-role performance in different contexts. However, very little is known about ethical leadership and its relationship with in-role performance.
3.3 Organisational Identification

Identification is defined as ‘the perception of oneness with or belongingness to some human aggregate’ (Ashforth & Mael 1989, p. 21). Identification includes the social features of an individual’s self-concept (Pratt 1998). Self-concept includes individual identity, which covers an individual’s abilities and interests, and a social identity, which includes salient group classifications (Tajfel & Turner 1979). People classify other individuals and themselves into social groups based on factors such as organisational membership and gender. They view themselves as representative of a particular group, which leads them to adopt unique group norms that guide their behaviour (Ellemers, De Gilder & Haslam 2004). Ashforth, Harrison and Corley (2008) defined organisational identification as the degree to which a person identifies with his or her organisation both emotionally and cognitively, and varies from mainly a cognitive consciousness of membership with the organisation to a fuller affective connection, involving value and goal congruence (Ashforth, Harrison & Corley 2008). Within organisations, understanding of organisational identification is significant because it is the process through which people define themselves, communicate this definition to others, and navigate their work and social lives (Ashforth, Harrison & Corley 2008). The role of OID is significant because it can lead to more cooperative behaviour, organisational support and lower turnover among members (Abrams, Ando & Hinkle 1998; Dutton, Dukerich & Harquail 1994; Tyler 1999).

OID theory originates from the work on social identity theory (Tajfel 1974; Tajfel & Turner 1979). Social identity theory suggests that people’s identities that stem from group membership are vital for their self-concept (Tajfel & Turner 1979), which in turn influences their cognitions, affect and behaviour. Social identity is defined as ‘that part of the individual’s self-concept which derives from his knowledge of his membership in a social group (or groups) together with the value and emotional significance attached to that membership’ (Tajfel 1978,
Social identity theory is premised on the understanding that people can identify with a variety of social categories based on, for instance, nationality, profession, gender and religion, and that each or a combination of these can be the target of identification. The theory has advanced understanding of a variety of phenomena connected to social effect and group behaviour involving work-related activity. In the context of work organisations, Ashforth and Mael (1989) applied social identity theory to explain identification with an organisation.

Recent research has paid increased attention to the social exchange antecedents of OID. Based on a social exchange perspective, the employee–organisation association rests upon mutual unspecified obligations, in which employees reciprocate the fair and beneficial treatment they receive from the organisation (Coyle-Shapiro & Conway 2005; Cropanzano & Mitchell 2005). The basic reason for the significance of social exchange variables in explanations of employee OID is that when the organisation promotes an employee, thereby fulfilling some of the employee’s socio-emotional needs, employees then have an obligation to reciprocate with an emotional attachment to the organisation. Most research has shown the consequences of employees’ identification with their organisation (Ellemers, De Gilder & Haslam 2004; Riketta 2005). These consequences are tenure, job scope/challenge, organisational prestige, intent to leave and in-role and extra-role performance.

Extensive research has demonstrated a positive relationship between OID and various work outcomes (Riketta 2005). For example, OID has been connected with lower turnover intentions (De Moura et al. 2009; Dick et al. 2004), increased job satisfaction (Feather & Rauter 2004; Knippenberg 2000) and extra-role performance (Dukerich, Golden & Shortell 2002; Huang et al. 2010).

Knippenberg (2000) found OID to be positively related to job satisfaction because people tend to think positively about concepts linked with the self. Similarly, Dick et al. (2004) suggested that OID affects job satisfaction because identified employees view their job as proof
of their membership, and a positive assessment of their job is consistent with their organisational identity. While previous studies demonstrate the consequences of OID, research indicates that certain variables act as antecedents of OID, such as organisational prestige and support (Dutton, Dukerich & Harquail 1994), leader behaviour (Kark, Shamir & Chen 2003; Tangirala, Green & Ramanujam 2007; Wieseke et al. 2009) and organisational justice (Lipponen, Olkkonen & Moilanen 2004; Olkkonen & Lipponen 2006). Most of the OID studies investigated the relationship between OID and OCB. These studies identified a positive relationship between OID and OCB. For example, Bergami and Bagozzi (2000) and Dukerich, Golden and Shortell (2002) found that OID has positive influence on OCB. Similarly, Riketta (2005) found a positive association between OID and extra-role performance.

Leaders have a significant role in shaping employee identities, including OID (Avolio, Walumbwa & Weber 2009; Ellemers, De Gilder & Haslam 2004). In an organisation, employees’ immediate leaders play a significant role in their daily work lives. Therefore, leaders’ behaviours may shape how employees perceive their association and social identifications with their work organisation. Previous studies have found that employee OID is positively related to several leadership styles, including transformational leadership (Carmeli, Atwater & Levi 2011; Epitropaki & Martin 2005; Huang et al. 2010) and ethical leadership (Walumbwa et al. 2011). A review of leadership theories proposes that one of the main ways in which leadership may attain its effects is through the creation of employees’ identification with leaders (Kark, Shamir & Chen 2003).

Personal identification manifests when an individual’s belief about a person (a leader) becomes self-referential or self-defining (Kark, Shamir & Chen 2003). According to early psychoanalytic theories of leadership, the influence of leaders on followers stems from the personal identification of the follower with the leader, which stems from a transference of earlier identifications with parents. Conger and Kanungo (1998) suggested that the emphasis
of charismatic leadership theory is on personal identification as a central mechanism by which charismatic leaders affect their employees. The authors recommended that such an effect is based on referent power. Similarly, Shamir, House and Arthur (1993) suggested that one of the major processes through which leaders affect their followers is identification.

Some social exchange theorists have posited that organisational representatives are organisational extensions (Eisenberger et al. 1986). Particularly, leaders implement the company’s policies, discharge its legal and financial responsibilities, and work with subordinates to achieve its goals. Thus, employees are likely to generalise supervisory treatment to organisational treatment. As organisational representatives (Shamir, House & Arthur 1993; Tepper & Taylor 2003), leaders may also encourage employees to identify with the organisation. Therefore, development of leadership contributes to supportive work environments (Shamir et al. 2000) that make organisational identification more attractive. Leaders may also positively affect OID when their developmental orientation is associated with the organisation’s missions and values.

3.4 Customer Orientation

CO is defined as a surface-level personality trait of an employee’s predisposition to meet customer needs in the job context (Chu-Mei & Kuang-Jung 2006; Treviño, Hartman & Brown 2000). Previous research has shown that, in organisations, a focus on customer needs is crucial to the achievement of long-term success (Deshpandé, Farley & Webster 1993) and firm performance (e.g., Feng et al. 2012; Frambach, Fiss & Ingenbleek 2016; Valenzuela, Mulki & Jaramillo 2010; Ziggers & Henseler 2016). Understanding customers’ needs assists in the development of customised offerings for the customer, and employee ability to easily recommend appropriate products and services (Smirnova, Rebiazina & Frosen 2018). Employees with a strong attachment to the organisation are more likely to develop a deeper bond with customers because of their familiarity with organisational procedures (Sluss &
Researchers have also asserted that employees rendering high levels of responsibility to customers is key to organisational success (Ahearne, Bhattacharya & Gruen 2005). CO is not only a significant component of enhanced job engagement among frontline employees, it also assists in the development of employee satisfaction and employee OID (Anaza & Rutherford 2012). CO is important in terms of enabling businesses to comprehend the market and develop suitable service strategies and products to meet customer needs (Donavan, Brown & Mowen 2004; Fellows, Liu & Fong 2003), which translates into performance. Kennedy, Lassk and Goolsby (2002) recommended that for organisational positioning in the marketplace, development and implementation of CO is vital (Liaw, Chi & Chuang 2010). This position is supported by an array of studies confirming the importance of the relationship between a firm’s CO and its financial and market performance. Thus, a customer-oriented company centres its clients and views the customers as its reason for being in business.

At the organisational level, CO is defined as ‘the set of beliefs that puts the customer’s interests first, while not excluding those of other stakeholders such as owners, managers, and employees, in order to develop a long-term profitable enterprise’ (Deshpandé, Farley & Webster 1993, p. 27). Therefore, at the organisational level, CO signifies the norms of organisational service-oriented actions with actual and potential customers. This may include development and implementation of organisational service standards, design of service systems, structures, policies and procedures, provision of service training and assessment of practices for ideal service delivery (Kennedy, Lassk & Goolsby 2002). At the individual level, it refers to service employees who strive to provide customers with quality service (Donavan, Brown & Mowen 2004). It represents an individual predisposition or inclination to provide courteous and helpful service in customer-service interactions, and effective commitments to continuously enhancing service quality (Cran 1994; Franke & Park 2006). The individual level
also highlights the need for customer service employees to prioritise customers’ needs and expectations (Kelley 1992).

Most CO studies have revealed that the success of a business is directly tied to its ability to meet customer needs (Donavan, Brown & Mowen 2004; Treviño, Brown & Hartman 2003). Previous research has shown that CO is instrumental in improving organisational commitment, job satisfaction and citizenship behaviours in employees (Donavan, Brown & Mowen 2000; Lindblom, Kajalo & Mitronen 2015; Smirnova, Rebazina & Frösén 2018). Consequently, employees are ready to anticipate customer concerns and develop customised solutions to specific customer needs to maintain customer satisfaction (Babakus, Yavas & Ashill 2009; Treviño, Brown & Hartman 2003; Lee et al. 2011). CO is likely to encourage employees to deliver better service to customers because personal goals can motivate individuals to adjust their behaviour to ensure desirable goal-related performance (Liaw, Chi & Chuang 2010).

Previous studies have shown that customer-oriented employees have greater job performance and exhibit higher OCB (Babakus, Yavas & Ashill 2009; Donavan, Brown & Mowen 2004). Research has demonstrated that employee–CO is an important predictor of customer outcomes, such as sales performance (Boles et al. 2001; Treviño, Brown & Hartman 2003), perceptions of service quality (Brady & Cronin 2001) and customer satisfaction (Stock & Hoyer 2005).

3.5 Service Climate

Borucki and Burke (1999) defined SC in terms of employees’ cognitive appraisals of the organisation’s attitude towards employee wellbeing, and organisation members’ concern for customer wellbeing. This includes the perception of the extent that management sets clear performance standards, provides appropriate training and information, removes obstacles to service, assists in employee job performance and distributes rewards for good service to the organisation and its members, assists customers, and contributes to outcome variables such as
individual and organisational service performance (Borucki & Burke 1999) and customer satisfaction with service quality (Johnson 1996). Previous studies have demonstrated that a strong SC (i.e., when employees agree on their perception of the climate) is associated with low variability in customer satisfaction, while weak SC results in high variability in customer satisfaction (He, Li & Lai 2010; Schneider, Salvaggio & Subirats 2002; Bowen & Schneider 2014).

Numerous studies have established the significance of the elements of SC to employees and customers. Rogg et al. (2001) found that SC facilitates the delivery of customer satisfaction, while Schneider, White and Paul (1998) established a positive connection between employees’ perceptions of SC and clients’ perceptions of service quality. Schneider, Salvaggio and Subirats (2002) proposed that the SC strength has a moderating effect on the link between employees and customers. Moreover, it has been found that SC may be connected to employee commitment (Lux, Jex & Hansen 1996) and increased empowerment of leadership behaviours of service employee supervisors, with flow-on effects for the worker (Yagil & Gal 2002).

A favourable SC is associated with excellent service quality (Schneider, White & Paul 1998; Wang 2015). SC is also connected to the insight that the organisation and its members help customers, and to outcome variables such as organisational and individual service performance (Borucki & Burke 1999), and customer satisfaction with service quality (Johnson 1996). SC has been recognised as a significant variable for organisations that specialise in and depend on providing quality customer service (Dietz, Pugh & Wiley 2004). The logic behind this is that, in an organisation, what occurs internally with regard to creating and supporting a quality customer service environment affects employees’ behaviour and their interactions with customers, which ultimately yields the service quality that customers experience (Mayer, Ehrhart & Schneider 2009). Previous investigations have shown that components of SC are related to customer perceptions of service quality (Dietz, Pugh & Wiley 2004; Schneider et al.
2009; Wang 2015). Moreover, previous research has identified important longitudinal associations between SC and customer satisfaction (Bowen & Schneider, 2014; Schneider, White & Paul 1998).

Social exchange theory highlights the effect of SC on individual behaviour. According to social exchange theory (Blau 1964; Cropanzano & Mitchell 2005) employees reciprocate received benefits by returning benefits to the exchange partners (Blau 1964; Cropanzano & Mitchell 2005). SC captures the social exchange associations between employees and organisations. When employees observe support, expectations and rewards for service quality, they believe their work roles and contributions are valued by management. Thus, according to the norm of reciprocity, they tend to reciprocate the favourable treatment with positive behaviours (e.g., in-role performance) (Walumbwa, Hartnell & Oke 2010).

Previous empirical studies have shown a positive relationship between SC and customer-focused OCB (Schneider et al. 2005; Zhijun, Jing & Mingjian 2015) and in-role service performance (Liao & Chuang 2004). Research has demonstrated that, in organisations, social exchange is widely embedded (Blau 1964) and employee–organisation relations signify the organisational climate. Social exchange (Blau 1964; Cropanzano & Mitchell 2005) may have several themes, such as ‘innovative service’ or ‘excellent service’. Under the theme of ‘excellent service’, employees perceive how their organisation supports and rewards them for good service quality, and according to the norm of reciprocity, they feel inclined to reciprocate with positive behaviours.

Most empirical studies have found a positive association between SC and work outcomes at the individual or multiple level and service performance (Liao & Chuang 2004; Jiang, Chuang & Chiao 2015). Research has mainly examined how SC develops motivated and capable employees to engage in service activities that help address customer needs. For instance, Schneider et al. (2005) and Mayer, Ehrhart and Schneider (2009) found that SC
encourages employees to frequently reach beyond standard service to help customers, which further leads to sales performance of service units and customer satisfaction. Similarly, in accordance with SC, service behaviour has been revealed to positively relate to market performance (Paulin, Ferguson & Bergeron 2006). Although previous research on SC has focused on service quality and different work outcomes, little attention has been paid to the role of ethics in SC and protecting customers from potential harm. SC is crucial in guiding employees to exert high levels of service behaviour, but the previous research does not focus on the general integrity and honesty of employees delivering service. Employees working in a SC may be motivated and capable of fulfilling customers’ requests, answering questions and meeting demands, but may still fail to act ethically.

3.6 Ethical Climate

EC is underpinned by organisational work climate (Schneider & Reichers 1983). An organisational work climate is defined as the shared perceptions of procedures, policies and practices, both formal and informal, of the organisation (Reichers & Schneider 1990; Schneider, Ehrhart & Macey 2011; Schneider & Reichers 1983). Victor and Cullen (1987) proposed that EC theory was first developed as an analytic tool for considering organisational normative systems. The subsets of these organisational work climates are ECs that have an effect on organisational outcomes. An EC is defined as ‘the perception of what constitutes right behaviour, and thus becomes a psychological mechanism through which ethical issues are managed’ (Martin & Cullen 2006, p.177). In organisations, ECs shape the setting in which members of an organisation operate, which has an influence on overall work attitudes and outcomes (Cullen, Parboteeah & Victor 2003; Kuenzi & Schminke 2009; Treviño, Butterfield & McCabe 1998).
Victor and Cullen (1987) suggested a two-dimensional theoretical typology of EC. Ethical theory comprises three dimensions: egoism, benevolence and principle. In egoistic (or instrumental) climates, the primary focus is exclusive self-interest; in benevolence (or utilitarian) climates, the main reasoning is the wellbeing of others; in principled (or deontological) climates, when making decisions, interoperation and application of rules, regulation and laws are considered (Lemmergaard & Lauridsen 2008).

The locus of analysis is the reference group when making ethical decisions (Barnett & Vaicys 2000). The classifications in this dimension are based on whose interests one is performing on behalf of when facing ethical difficulties. The dimension includes three possible referent levels: individual, local and cosmopolitan. The individual locus of analysis emphasises one’s own requirements and preferences. The local locus of analysis focuses on the interests of the organisation. The cosmopolitan locus of analysis refers to the social system or larger economic environment outside the organisation (Neubaum, Mitchell & Schminke 2004).


ECs affect behavioural responses to ethical dilemmas and decision-making, which is reflected in various work outcomes. The antecedents of ECs have been investigated, but most EC theories explore the influence of ECs on organisational outcomes. Previous research indicates that EC perceptions are important issues that influence individuals’ reactions to work and their organisations (Martin & Cullen 2006). The organisational outcomes that have been investigated in the literature are organisational commitment, turnover intentions, ethical behaviour, job satisfaction and dysfunctional behaviours.

Job satisfaction is a popular outcome variable that has been explored in numerous studies (Deshpandé 1996; Elçi & Alpkan 2009; Tsai & Huang 2008). Wang and Hsieh (2012) examined the influence of individual and organisational EC on job satisfaction in 472 full-time
employees from 31 organisations in Taiwan. They found that rules climates, organisational caring related positively to job satisfaction, while organisational instrumental climate related negatively. Elçi and Alpkan (2009) found that benevolent and principled climates related positively to job satisfaction, while egoistic climates related negatively. Similarly, Tsai and Huang (2008) discovered that, within an organisation, managers and administrators endeavour to improve benevolent and principled climates and prevent egoistic climates from developing. Fundamentally, the message from this body of research is there is a positive relationship between benevolent climates, principled climates and job satisfaction, and a negative association between egoistic climates and job satisfaction.

Organisational commitment is another outcome of ECs (Cullen, Parboteeah & Victor 2003). Sims and Keon (1997) found that people whose favoured type of EC matched their organisation’s EC were more likely to be committed to their organisations. Similarly, Cullen, Parboteeah and Victor (2003) examined the influence of EC types on organisational commitment. They identified a positive relationship between benevolent and principled climates and organisational commitment, and a negative relationship between egoistic climates and organisational commitment.

Previous research on turnover and its relationship to EC has led to similar conclusions to the commitment findings, as principled and benevolent climates tend to decrease employee turnover intentions; egoistic climates tend to encourage turnover intentions (Ambrose, Arnaud & Schminke 2008; DeConinck 2011; Sims & Keon 1997; Lopez, Babin & Chung 2009; Mulki, Jaramillo & Locander 2008).

Some of the previous research has focused on the relationship between ECs and organisational actors’ ethical behaviour (Deshpandé & Joseph 2009; Fritzsche 2000; Fu & Deshpandé 2014; Kia, Halvorsen & Bartram 2019; Leung 2008; Rothwell & Baldwin 2007; Shacklock, Manning & Hort 2011). Wimbush and Shepard (1994) were among the first
researchers to suggest a model connecting ECs with ethical behaviour. They found that EC characteristics were connected to ethical behaviour. Similarly, Deshpandé (1996) discovered a positive relationship between EC and successful managers’ ethical behaviour in Polish, Russian and Chinese contexts (Deshpandé, George & Joseph 2000; Deshpandé, Joseph & Shu 2011; Stachowicz-Stanusch & Simha 2013).

Some studies have examined the relationship between EC and dysfunctional behaviour (Bulutlar & Öz 2009; Martin & Cullen 2006). These studies found that the best climates in for reducing employee deviance and employee dysfunctional behaviours are benevolent and principled climates (Barnett & Vaicys 2000; Bulutlar & Öz 2009; Martin & Cullen 2006; Özer & Yilmaz 2011). In addition, this research showed that the worst climates for encouraging employee dysfunctional behaviours are egoistic climates.

Previous studies have investigated ECs in non-profit versus for-profit organisational contexts (Agarwal & Malloy 1999; Brower & Shrader 2000; Holloway 2012). These studies found that non-profit organisations tend to encourage different kinds of ECs relative than do government or for-profit organisations (Malloy & Agarwal 2010). Arnaud (2010) proposed that in the workplace, EC is a significant feature that affects employees’ ethical behaviour. Also, EC is associated with improving employee attitudes and behaviours, interpersonal relations and overall performance (Elçi & Alpkan 2009).

Previous EC studies have demonstrated the significance of EC for organisations. The above discussion highlights the lack of research into ethical leadership and EC. The research presented in this study fills this gap by using ethical leadership as an antecedent of EC. Specifically, this study examines EC as a mediator in the relationship between ethical leadership and employee in-role performance.
3.7 Social Learning Theory

According to social learning theory, new patterns of behaviour can be acquired through direct experience or by observing the behaviour of others (Bandura 1977). Based on this theory, the root of learning is in direct experience as governed by rewarding and punishing any action. Social learning theory suggests that people learn different behaviours through observation and imitation of other people’s behaviour (Bandura 1977). When people observe role models’ behaviour and understand these behaviours’ outcomes, it helps them develop their knowledge about causal relationships between these behaviours and consequences, thus directing their imitation of such behaviours (Liu et al. 2013; Resick et al. 2013). Role modelling is an important aspect of social learning theory. Most people learn behaviours through the influence of example. According to Bandura (1977, p. 8), ‘by observing a model of the desired behaviour, an individual form an idea of how response components must be combined and temporally sequence to produce new behavioural configuration’.

The social learning perspective of ethical leadership suggests that ethical behaviour of employees is affected through modelling. The modelling construct is related to a broad range of psychological matching processes containing imitation, observational learning and identification. According to Bandura (1977), almost anything that can be learnt through direct experience can also be learnt by vicarious experience—that is, by observing others’ behaviour and its consequences. When the behavioural target is ethical behaviour in organisations, this process seems particularly significant. Employees can learn through modelling the behaviour that is expected, rewarded and punished. Leaders are an important source of such modelling, as through their status they model the virtue of their assigned role and success in the organisation, and their power to affect the conduct and outcomes of others (Bandura 1977). This theory explains why employees want to imitate the behaviours of role models that are attractive to them in their environment (Brown, Treviño & Harrison 2005). This research will
apply social learning theory (Bandura 1977) and social exchange (Blau 1964; Cropanzano & Mitchell 2005) theory to explain the relationship between ethical leadership and employee performance.

3.8 Social Exchange Theory

Social exchange theory (SET) considered as an important theory for comprehending workplace behaviour (Cropanzano & Mitchell 2005). According to Cropanzano and Mitchell (2005, p. 882), “social exchange relationships evolve when employers ‘take care of employees,’ which thereby engenders beneficial consequences’. In other words, the social exchange relationship is advantageous and fair transactions between strong relationships, and the outcome of these relations is positive employee attitudes and effective work behaviour.

From a social exchange perspective, Brown, Treviño and Harrison (2005) indicated an association between ethical leadership and social exchange theory (Blau 1964; Cropanzano & Mitchell 2005) in their investigation into the effect of ethical leaders. From an employee’s perspective, ethical leaders can be believed and trusted. These kinds of leaders, through balanced decision-making, shape employees’ perceptions of the existence of a social exchange relationship (Mayer et al. 2009), thereby inducing an exchange response. Kacmar et al. (2011) believed that a social exchange relationship depends on the norm of reciprocity. For instance, employees’ feelings of obligation at work are vital, as they force them to reciprocate beneficial treatment received from their managers (Eisenberger et al. 2001), provide guidance in self-management (Dose & Klimoski 1995) and frequently precede direction at work (Morrison & Phelps 1999). Specifically, this research argue that when employees perceive their leader as an ethical person who takes care of them, they want to reciprocate this behaviour with their best performance.
Section 3.9 discusses the relationship between variable included in this thesis based on
the literature review.

3.9 Relationships Between Variables of the Study

This thesis will discuss the influence of ethical leadership on employee in-role
performance. The role of OID, CO, SC and EC as mediator in the relationship between ethical
leadership and in-role performance will be considered. Sections 3.9.1–3.9.5 highlight the
relevant literature, together with the results of prior empirical studies showing the role of these
factors on the relationship between ethical leadership and employee in-role performance.

3.9.1 Ethical leadership and employee in-role performance

In contemporary organisations, increased unethical conduct and ethical scandals have
led to the role of ethical leadership becoming critically significant (Frisch & Huppenbauer
2013). Although ethical leadership has had considerable intuitive support, this kind of
leadership has received strong theoretical support in the management literature (Babalola 2019;
Brown & Mitchell 2010; Brown & Treviño 2006; Kia, Halvorsen & Bartram 2019; Lemoine,
Hartnell & Leroy 2019). Such studies have outlined different perspectives on the relationship
between ethical leadership and employee performance. The most common perspectives in
explaining the relationship between ethical leadership and employee performance is social
learning theory (Bandura1977) and social exchange perspective (Blau 1964; Cropanzano &
Mitchell 2005).

Most empirical studies on ethical leadership have focused solely on social learning
(Bandura1977) and social exchange (Blau 1964; Cropanzano & Mitchell 2005) theories to
explain the effects of ethical leadership. For instance, Mo and Shi (2017), in a survey of
pharmaceutical retail chain companies, applied both social learning and social exchange to test
the relationship between ethical leadership and OCB. Specifically, they found that ethical
leadership influences employees’ performance; this relationship is mediated by employees’
trust in leaders. Similarly, Walumbwa, Hartnell and Oke (2010) explored LMX (organisational identification and self-efficacy) as a mediator in the link between ethical leadership and performance. They believed that social identity theory complements social learning and social exchange. In another study, Walumbwa, Morrison and Christensen (2012) explained the association between ethical leadership and group in-role performance with mediating roles of group conscientiousness and group voices based on social learning and social exchange theory. They identified a strong positive relationship between ethical leadership and group in-role performance; this relationship is mediated by group conscientiousness and group voice. Further, Williams and Seaman (2016) explained the effect of ethical leadership on managerial performance based on social learning and social exchange theories. They concluded that ethical leadership demonstrates a significant positive relationship with mindfulness, but surprisingly, there is no corresponding relationship with managerial performance. In research on the mediating effects of goal congruence and psychological capital, Bouckenooghe, Zafar and Raja (2015) applied social learning theory to explore the link between supervisors’ ethical leadership style and followers’ job performance. They found that ethical leadership has a positive influence on job performance.

Based on the above empirical evidence, this research will apply social learning theory (Bandura 1977) and social exchange (Blau 1964; Cropanzano & Mitchell 2005) theory to explain the relationship between ethical leadership and employee performance. Based on social learning theory, this research contends that ethical leaders influence employees through role modelling, which positively affects employees’ in-role performance. Through rewarding appropriate behaviour or punishing inappropriate behaviour, they clarify the right actions to perform the job. This research will apply social exchange theory because this thesis argues that subordinates feel a personal obligation to reciprocate and are motivated to perform beyond
expectations when their ethical leaders are fair, guide consistently and show concern for employee wellbeing.

Previous studies have examined the relationship between ethical leadership and employee performance in different contexts. For example, Sharif and Scandura (2014) surveyed 246 pairs of supervisor–subordinate dyads in a non-profit academic service and found a significant relationship between ethical leadership and employee performance. They examined the association between ethical leadership and involvement in change regarding job satisfaction, OCB and performance, and discovered that employees who perceived their leaders as ethical were more likely to be satisfied with their job, were better performers and engaged in citizenship behaviours in the organisation. Similarly, Bonner et al. (2014) worked with 172 employee–supervisor dyads in different organisations (construction, architecture, manufacturing, hospitality, technology, marketing, education, finance and transportation) to investigate the relationship between ethical leadership and OCB. They found that leaders who are ethical improve employees’ performance, including OCB and organisational citizenship behaviour towards individuals (OCBI). They found that supervisor moral disengagement is negatively linked to employees’ perceptions of ethical leadership. Frisch and Huppenbauer (2013) interviewed 17 executive leaders in different industries (financial services, spatial planning, trade, construction and hotels) in Switzerland and Germany. They found that executive ethical leaders care about employees, suppliers, customers and shareholders, and improve employee performance.

Shafique, Kalyar and Ahmad (2018) investigated the relationship between ethical leadership, employee job performance and turnover intention among 196 tourist companies in Pakistan. They discovered that when managers in the workplace demonstrate ethical leadership behaviour, they improve employee job performance and job satisfaction. They concluded that managers with ethical behaviour have a negative influence on employee turnover intentions.
Walumbwa et al. (2011) studied ethical leadership in the Chinese context and found it to be positively related to LMX, which in turn increased employee task performance. They surveyed 72 supervisors and 201 immediate direct reports and found that ethical leaders increase their employees’ performance as rated by their immediate supervisors and LMX; controlling for procedural fairness mediated such relationships. They further discovered that ethical leadership was positively related to LMX, which leads to enhanced employee performance. Similarly, Liu et al. (2013) found that ethical leaders in manufacturing firms increase subordinates’ task performance and OCB. This study examined the relationships between ethical leadership from an employee’s viewpoint, task performance and OCB towards the organisation (OCBO) and OCBI. They worked with 312 supervisor–subordinate dyads in a manufacturing firm in China and found that ethical leadership was positively related to subordinates’ task performance, as well as OCBO and OCBI.

Similarly, Obicci (2014) surveyed 160 employees in the Ugandan public sector and found that ethical leadership was the most significant predictor of employee performance. The results indicated that in organisational management, ethical leadership factors improved employee performance levels. Mo and Shi (2017) worked with 93 team supervisors and 486 employees in pharmaceutical retail chain companies to test the relationship between ethical leadership and OCB based on social learning and social exchange theory. They discovered that ethical leaders influenced employee performance and that this relationship was mediated by perceived procedural justice and employees’ organisational concerns.

In contrast, Walumbwa, Morrison and Christensen (2012) worked with 80 groups of nurses and their leaders to investigate the association between ethical leadership and group in-role performance, with group conscientiousness and group voices playing mediating roles based on social learning and social exchange theory. They identified a positive relationship between employee ratings of ethical leadership and leader ratings of group in-role performance,
which were mediated by group conscientiousness and group voice. Similarly, in research on the mediating effects of goal congruence and psychological capital, Bouckenooghe, Zafar and Raja (2015) consulted 171 employees and 24 supervisors and found that ethical leadership had a positive influence on in-role performance.

Conversely, Ahn, Lee and Yun (2018) examined the influence of ethical leaders on task performance and OCB in 225 employee–leader dyads. They determined that ethical leaders enhanced their followers’ performance and leaders’ core self-evaluation moderated such a relationship. Similarly, Gerpott et al. (2019), using a sample of 138 participants, investigated the relationship between ethical leadership and OCB. They concluded that followers’ moral identities mediated the relationship between perceived ethical leadership and both types of OCB. Khuong and Quoc (2016) worked with 677 employees in Binh Duong’s industrial parks to investigate the relationship between ethical leadership and performance. The findings indicated that ethical leadership influences employee willingness to invest extra effort in task performance. They believed that ethical leaders influence employee motivation, which leads to improved employee performance.

Gözükara and Şimşek (2016) surveyed 256 participants and found that ethical leadership was significantly and positively related to task performance. Further, they discovered that emotional intelligence had a fully mediating effect on the emotional intelligence–task performance relationship. Yang, Ding and Lo (2016) investigated 656 supervisor–subordinate dyads from 145 business units in Taiwan and found that ethical leaders influenced employee OCB and OCBI. They found that respect and LMX significantly mediated ethical leadership–OCBO and leadership–OCBI relationships. Ogunfowora (2014) consulted 297 employees in 58 work units to examine the relationship between ethical leadership and performance. He found that ethical leaders increased their followers’ OCB. Weng (2014) surveyed 214 employees from 22 branches of a large commercial bank in Taichung. The author
found that ethical leadership was the primary source of influence on employee job performance through the underlying mediating mechanism of supervisor–subordinate guanxi.

While this finding is consistent with some empirical studies, it is inconsistent with others. For instance, Park, Kim and Song (2015) studied employees working at a public agency in South Korea and concluded that ethical leadership has a positive indirect effect on in-role performance through psychological ownership. They found that employees have a sense of ownership over their organisations when they believe that their leader’s behaviour is ethical. In turn, psychological ownership induces them to behave in an ethical manner at work, although their perceptions of ethical leaders do not directly affect their in-role performance. Zhu et al. (2015) collected data from 302 employees in Romanian head offices. They reported that ethical leadership has an indirect effect on follower performance. Further, Williams and Seaman (2016) explained the effect of ethical leadership on managerial performance based on social learning and social exchange theories. They concluded that ethical leadership demonstrates a significant positive relationship with mindfulness but, surprisingly, there is no corresponding relationship with managerial performance.

3.9.2 Ethical leadership, organisational identification, employee in-role performance

This thesis introduces OID as an important variable in the relationship between ethical leadership and employee in-role performance. To date, few studies have investigated the effect of ethical leadership on OID or the role of OID as a mediator in such a relationship. Ethical leaders are trustworthy, approachable, honest, fair and caring in their decision-making. Specifically, ethical leaders are ethical role models for their employees because leaders establish ethical standards and communicate with their followers based on these standards. Ethical leaders, through rewards and sanctions, apply their ethical standards to others (Brown, Treviño & Harrison 2005).
OID is defined as employees’ strong emotional attachment to their organisation and internalisation of the organisational achievement (Mael & Ashforth, 1992). Walumbwa et al. (2011) found that OID helps clarify the influence of ethical leadership on employee in-role performance. This seems correct because for most employees, leaders are representatives of the organisation, its values and policies. Further, a characteristic of ethical leaders is their ability to create trust between leaders and their employees. When employees of ethical leaders trust their leaders and organisation, it leads to the development of OID. Ethical leaders increase feelings of self-esteem, organisational respect and OID in their employees (Tyler & Blader 2003; Walumbwa et al. 2011). If employees identify with the organisation, they will try their best and translate this to improved performance. Therefore, ethical leaders whose behaviours are based on principles of fairness, respect and care treat their employees with fairness, respect and care, and make decisions perceived to be principled. Consequently, employees are more likely to identify with the leader and to demonstrate cooperative behaviours (for example, voice).

The relationship between different forms of leadership and OID has been well documented. For example, Wang and Howell (2012) focused on 200 team members and their 60 leaders in a large multi-industry Canadian company. They found that, at the individual level, employee personal identification with the leader mediated the relationship between transformational leadership, employee performance and empowerment. Similarly, Hu, Zhang and Wang (2015) explored the mediating role of OID in the relationship between transformational leadership and voice behaviour among 233 employees from different industries, including finance, manufacturing, retail and communications. They determined that OID mediates the association between transformational leadership and voice behaviour. Similarly, Moriano et al. (2014) investigated the role of OID on the relationship between transformational and transactional leadership and employee intrapreneurial behaviour among
186 employees in Spanish public and private organisations. They reported that transformational leadership has a positive influence on employee intrapreneurial behaviour, while transactional leadership has a negative influence. Moreover, these relationships are mediated by OID.

Several studies have examined the relationship between ethical leadership and OID. For example, Walumbwa et al. (2011) surveyed 72 supervisors and 201 immediate direct reports from a major pharmaceutical joint venture in China. They discovered that OID helps clarify the influence of ethical leadership on employee performance, and identified a significant relationship between ethical leadership, OID and performance. Similarly, Zhu et al. (2015) collected data from 302 employees under the supervision of 27 leaders in Romanian head offices. They reported that ethical leaders develop employees’ OID with their leaders and organisation, which increases both follower voice behaviour and job performance.

In contrast, Qi and Ming-Xia (2014) collected data from 293 supervisors and followers in an insurance group in China and found that identification mediates the relationship between ethical leadership and employee voice behaviour. DeConinck (2015) used a sample of 331 salespeople to investigate the link between ethical leadership and job outcomes (perceived organisational fit, OID and OCB). They reported that ethical leadership directly affects salespersons’ perceptions of the degree to which their values fit with the organisation’s values, their willingness to engage in extra-role behaviour, their OID and their turnover intentions. Demirtas et al. (2017) worked with 440 employees and their direct supervisors in the Turkish aviation industry. They found that ethical leadership has a significant and positive direct effect on OID. Similarly, O’keefe, Peach and Messervey (2019) using a sample of 3,390 military personnel to examine organisational identification as mediator in the relationship between ethical leadership and organisational outcomes including turnover intentions, morale, and job satisfaction. They found that ethical leadership led to greater organisational identification, which in turn improve organisational outcomes. In another study, Gerpott et al. (2019)
conducted two studies with 138 participants and 225 employees respectively. They examined
the mediating role of identification in the relationship between ethical leadership and OCB.
They found that moral identity mediated the relationship between ethical leadership and OCB.

Apart from these few instances, the literature fails to consider the mediating role of OID
on the relationship between ethical leadership and employee in-role performance. This research
fills this gap by considering identification as a mediator in such a relationship. There are several
reasons this research investigates the effect of OID on the relationship between ethical
leadership and employee in-role performance.

First, investigating OID is crucial because it influences employee performance; when
employees have higher levels of OID, they are more willing to invest effort in their work.
Hence, employees believe that their own performance may make a difference to the overall
performance of the organisation and the extent to which they are (or perceive they are) able or
empowered to deliver better job performance. Understanding the influence of OID on
employee performance is a central research issue. Previous meta-analyses have suggested
positive associations between OID and employee performance (Knippenberg 2000; Liu, Loi &
Lam 2011; Riketta 2005). Indeed, some studies have found that OID is positively related to
both task and job performance (Farrell & Oczkowski 2012; Walumbwa, Avolio & Zhu 2008;
Weiseke et al. 2008).

Second, leaders can shape employees’ identities (Avolio, Walumbwa & Weber 2009;
including OID. The role of employees’ immediate leaders is critical in their daily work lives.
Hence, leaders’ behaviours may shape how employees view their relationship with their
organisation through OID. Therefore, this thesis argues that ethical leaders develop OID, which
enhances employee in-role performance.
Third, OID is a significant variable that should be studied because organisations are a social category with which employees may identify (Gautam, Van Dick & Wagner 2004). In fact, it is advocated that for individuals, organisations are the most significant social category (Hogg & Terry 2000). Moreover, OID is related to both ethical leadership (Walumbwa, Avolio & Zhu 2008) and performance (He & Brown 2013; Riketta 2005; Van Dick et al. 2006).

3.9.3 Ethical leadership, customer orientation, employee in-role performance

Kirca, Jayachandran and Bearden (2005) clarified that managerial actions within the organisation can influence the creation of a customer-oriented culture (Grizzle et al. 2009). For instance, supportive leadership behaviours have been related to a more customer-oriented approach (Anaza, Nowlin & Wu 2016; Harris & Ogbonna 2001). Grizzle et al. (2009) reported that a customer-oriented approach can be provided by managers who build relationships with their employees based on trust and support, both of which are characteristics of ethical leaders (Treviño, Hartman & Brown 2000). Additionally, when leaders are customer-oriented, employees tend to emulate this behaviour (Liao & Subramony 2008). One of the characteristics of ethical leaders is caring for the wellbeing of others and setting a good example. Finally, when employees observe that their leader is interested in others’ wellbeing, they are more willing to provide services to their customers and become more customer-oriented (Kennedy et al. 2003; Liaw, Chi & Chuang 2010).

Very few empirical studies have investigated the relationship between leadership and CO. For example, Farrell, Souchon and Durden (2009) consulted 174 reception desk staff members in UK hotels and found that transformational leaders have a positive influence on CO. Similarly, Liaw, Chi and Chuang (2010) collected data from 212 service employee–customer dyads in 55 stores in Taiwan. They found that transformational leadership not only directly increased employee–CO, it also indirectly increased employee–customer orientation through employee-perceived supervisor support. Zheng, Wang and Li (2011) using survey of
senior executives in 215 Chinese companies to investigate influence of social capital and ethical leadership on customer relationship. They found that ethical leadership and social capital have a significant and positive impact on customer relationship. Similarly, Qin et al. (2014) investigated the relationship between ethical leadership and outcomes such as customer orientation, work engagement and job satisfaction among 285 front-line employees in hotels and golf clubs in China. They found that ethical leaders improved customer orientation through employee individual work attitudes.

While this research supports the idea that leadership influences CO, some studies found the relationship to be negative. For instance, Bruno, Dell’Aversana and Zunino (2017) studied 57 health department directors in the north of Italy. They reported that leadership did not influence CO; the relationship between leadership and CO was moderated by workplace social support. Previous literature has failed to consider the mediating role of CO in the relationship between ethical leadership and employee in-role performance. Further, it has not investigated the relationship between ethical leadership and CO. This research fills this gap by considering CO as a mediator in such a relationship. To the author’s knowledge, no study has attempted to unpack the process through which ethical leadership can affect employee in-role performance via CO. In this research, CO was selected as a mediator in the relationship between ethical leadership and employee in-role performance for three reasons.

First, service employees with high CO tend to build long-term customer relationships, focus on customers’ needs and actively engage in solving customers’ problems (Franke & Park 2006). In addition, employees with stronger CO are more willing to invest extra effort and time in maintaining good relationships with customers, which may improve in-role job performance (Susskind, Kacmar & Borchgrevink 2003).
Second, although researchers have examined antecedents of CO (Liao & Subramony 2008), it is somewhat surprising that the extant literature has not considered the ways in which leadership behaviours affect CO (Stock & Hoyer 2002). That said, the role of leaders is important, not only in terms of motivating employees to meet customers’ needs, but also as role models for service employees. Previous studies have recommended further research to clarify how and why leadership behaviours influence employee–CO (Bell & Menguc 2002; Stock & Hoyer 2002). Therefore, ethical leaders, through their characteristics, develop CO in their employees. They prioritise customer needs and exert the best efforts; this translates into higher levels of performance.

Third, CO is an aspect of the service delivery of individual employees. The delivery of a high-quality service is closely related to an employee’s CO level. Contemporary financial institutions face a competitive environment that requires strong CO among bank employees. When bank employees display higher levels of CO, organisational culture will be more customer-oriented. Bank managers should develop a customer-oriented organisational culture to satisfy customers’ needs. To achieve this, they must consider the perceptions and activities of individual employees, which collectively help form the culture of the organisation.

3.9.4 Ethical leadership, service climate, employee in-role performance

To the author’s knowledge, only one study has investigated SC (as a moderator) in the relationship between ethical leadership and job satisfaction and identification. In this thesis, SC was chosen as a mediator in the relationship between ethical leadership and employee in-role performance for several reasons.

First, examining role of SC is important because it may influence employee efforts to deliver quality service to customers (Kuenzi & Schminke 2009; Schneider, White & Paul 1998). SC has been positively associated with perceived service quality, customer retention,
customer satisfaction, customer loyalty, service-oriented behaviours and higher organisational performance (Borucki & Burke 1999; Mayer, Ehrhart & Schneider 2009; Ehrhart et al. 2011).

Second, scholars have asserted that in organisations with unfavourable SCs, customer satisfaction ratings are lower (Dietz, Pugh & Wiley 2004; Mayer, Ehrhart & Schneider 2009). However, such environments can also become a backdrop against which effective leaders can shine. Under such conditions, trained and competent leaders can successfully empower, motivate and inspire staff in productive, service-led activities, and organisations can still be successful despite a poor SC.

Third, researchers have confirmed that a favourable SC can act as a buffer against leaders being perceived as ineffective, limiting the negative impact of a poorly trained or incompetent leader (Hui et al. 2007). Fourth, the combination of effective leaders and a favourable SC can bring excellent business results (Hui et al. 2007).

The literature indicates that supervisors can be effective leaders. In a service environment, effective supervisors influence and encourage the service behaviour of employees by setting targets. They inspire, reward, empower and serve as role models so that frontline employees understand how to deliver premium service. Many studies have demonstrated that such effective leadership behaviour is associated with the quality of work of subordinates in service organisations (Kia, Halvorsen & Bartram 2019; Liaw, Chi & Chuang 2010; Podsakoff et al. 1990; Walumbwa, Hartnell & Oke 2010).

Leaders who develop a positive association with their employees affect the discretionary behaviour of these employees. Lam and Schaubroeck (2000) found that service quality leaders who were influential and credible increased the positive attitudes of bank tellers towards service quality initiatives. This prompted favourable customer service ratings. Similarly, MacKenzie, Podsakoff and Rich (2001) found that transformational leaders could change the service behaviour of frontline salespeople. In another study, Schaubroeck, Lam and
Peng (2016) found that ethical and transformational leaders increased customer service performance and service quality.

Effective leadership behaviour influences individual service quality and increases team service quality. For instance, according to Ehrhart (2004), ‘servant leadership’ supervisors are connected with unit-level OCB. Moreover, it has been found that charismatic, proactive and considerate store managers significantly improve the objective business performance of their respective supermarkets (Koene, Vogelaar & Soeters 2002). Therefore, supervisors’ efforts in raising service quality at the team level can be multiplied in its impact.

Previous empirical studies have identified a positive relationship between SC and customer-focused OCB (Dimitriades 2007; Schneider et al. 2005) and in-role service performance (Liao & Chuang 2004). Although previous research on SC has focused on different leadership styles and SC, little attention has been paid to the role of ethics and in SC and protecting customers from potential harm scant attention has been paid to the relationship between ethical leadership and SC.

3.9.5 Ethical leadership, ethical climate, employee in-role performance

This thesis employs EC as another important variable in the relationship between ethical leadership and employee in-role performance. To date, few studies have investigated the effect of ethical leadership on EC or the role of EC in such relationships. The literature lacks empirical documentation on such relationships in the banking context. Previous research points to the importance of the role of leaders in creating an ethical framework in the organisation (Dickson et al. 2001; Engelbrecht, Wolmarans & Mahembe 2017; Kuenzi, Mayer & Greenbaum 2019; Mayer et al. 2009; Neubert et al. 2009). For instance, Aronson (2001, p. 245) noted: ethical behaviour on the part of the leader would appear to be necessary condition for the establishment of ethical organisation, but it is not alone sufficient. Ethical leadership is
required. Leaders must establish the spirit, set the ambiance and determine the boundaries of acceptable behaviour.

In the organisation, when EC is not clear and positive, employees will ask their leaders for guidance on managing ethical issues and difficulties (Kidwell & Martin 2004). Ethical leaders set ethical standards and create a moral environment within an organisation: ‘An organization’s EC should be a natural overflow of leaders’ commitment to ethical principles and values expressed in their daily struggle to live by them’ (Van Aswegen & Engelbrecht 2009, p. 1).

Therefore, when employees observe an EC in their organisation, they will likely provide a better service to, and foster good relationships with, their customers. Previous research has examined EC as a mediator in the relationship between ethical leadership and organisational outcomes. However, little attention has been paid to the role of EC as a mediator in the relationship between ethical leadership and employee in-role performance (Brown & Treviño 2006; Kia, Halvorsen & Bartram 2019; Mayer et al. 2009). For instance, Schminke, Ambrose and Neubaum (2005) investigated the association between leaders’ moral development and organisations’ EC. They reported that the moral development of leaders is related to the EC of the organisation. Similarly, Neubert et al. (2009) found that ethical leadership was positively connected to employees’ perceptions of EC. Lu and Lin (2014) examined the relationship between ethical leadership and ECe among 227 Turkish students. They concluded that ethical leaders influence EC, and that this relationship is moderated by employee trust. Mayer et al. (2010) examined the link between ethical leadership and employee misconduct using a sample of 1,525 employees and their supervisors in 300 units across different organisations, including government, technology, finance, manufacturing, insurance, law, retail and health care in the US. They found that EC mediated the relationship between ethical leadership and employee misconduct. Shin (2012) undertook a study based on 223
employees in Korean companies and found that CEOs’ self-rated ethical leadership was positively associated with employees’ aggregated perceptions of the EC of the organisation.

Demirtas and Akdogan (2015) collected data from 447 participants working as middle-level managers, chiefs and engineers of maintenance shops and found that ethical leadership behaviour plays a critical role in shaping perceptions of EC. Through ethical leadership behaviour, managers influence perceptions of EC, which positively influences organisational members’ turnover intentions and effective commitment. Similarly, Lu and Lin (2014) surveyed 128 respondents from Taiwan International Ports Corporation. They found that employees perceive that ethical leaders influence EC. Their findings demonstrate that employees with a higher perception of ethical leadership and EC have higher levels of ethical behaviour.

Engelbrecht, Wolmarans and Mahembe (2017), using data from 224 employees from different organisations in South Africa, identified positive relationships between ethical leadership, EC and leader effectiveness. Similarly, Zhang and Zhang (2016) worked with 502 insurance agents from 56 organisations and found that organisational ethical leadership is positively related to organisational EC. Further, they found organisational EC is positively related to business ethical sensitivity, and fully mediates the relationship between organisational ethical leadership and business ethical sensitivity.

DeConinck, DeConinck and Moss (2016) collected data from 317 salespeople and reported that ethical leaders positively affect EC. Lu, Kuo and Chiu (2013), using data collected from 147 container shipping firms in Taiwan, identified a positive relationship between ethical leadership and EC. Similarly, Choi, Ullah and Kwak (2015) worked with 313 employees of five large financial and banking service firms in Korea. They determined that ethical work climate mediates the relationship between ethical leadership and followers’ attitudes. Nikolic (2015) examined 112 fulltime employees from various job levels and found that ethical
leadership was significantly and positively related to EC, affective organisational commitment, in-role performance and OCB. Özden et al. (2019) worked with 285 nurses in the hospital in Turkey to investigate the influence of ethical leadership and ethical climate on job satisfaction. They found that there is a positive relationship between nurses’ ethical leadership, ethical climate and job satisfaction. With the exception of the above examples, the literature has failed to consider the mediating role of EC in the relationship between ethical leadership and employee in-role performance. This research fills this gap by considering EC as a mediator in such relationships.

3.10 Theoretical Framework and Research Questions

The literature review discussed how variables included in this study have been conceptualised and how theses variables mediate the relationship between ethical leadership and employee in-role performance. In past studies, ethical leadership was documented as a pivotal construct influence on organisational outcomes. There is a justifiable need to consider boundary factors such as OID, SC, EC and CO on the relationships between ethical leadership and employee in-role performance. This has led to the development of a theoretical framework for this research (see Figure 3.1).
Based on literature review, although a few studies have focused on ethical leadership and employee in-role performance, the role of boundary factors such as EC, OID, CO and SC have not been examined substantially from an empirical perspective. This research fills this gap by bringing these mediators together. Six research questions were developed for this research:

**RQ1:** In what ways, if any, does ethical leadership influence employee in-role performance?

**RQ2:** In what ways, if any, does organisational identification mediate the relationship between ethical leadership and employee in-role performance?

**RQ3:** In what ways, if any, does customer orientation mediate the relationship between ethical leadership and employee in-role performance?

**RQ4:** In what ways, if any, does service climate mediate the relationship between ethical leadership and employee in-role performance?

**RQ5:** In what ways, if any, does ethical climate mediate the relationship between ethical leadership and employee in-role performance?
RQ6: In what ways, if any, does ethical climate, organisational identification, customer orientation and service climate sequentially mediate the relationship between ethical leadership and employee in-role performance?

Based on the theoretical framework, a conceptual model was developed. The variables’ definitions are outlined below:

- *Ethical leadership* refers to ‘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).

- *Employee in-role performance* refers to required or expected behaviour and is the basis of regular and ongoing job performance (Katz 1964).

- *OID* refers to the degree to which a person identifies with his or her organisation, both emotionally and cognitively, and varieties from a cognitive consciousness of membership with the organisation to a fuller affective connection, involving value and goal congruence (Ashforth, Harrison & Corley 2008).

- *SC* refers to the cognitive appraisals of the organisation’s attitude towards employee wellbeing and organisation members’ concern for customer wellbeing (Borucki & Burke 1999).

- *EC* refers to the perception of what constitutes right behaviour, and thus becomes a psychological mechanism through which ethical issues are managed (Martin & Cullen 2006).

- *CO* refers to the surface-level personality trait of an employee’s predisposition to meet customer needs in the job context (Chu-Mei & Kuang-Jung 2006; Treviño, Hartman & Brown 2000).
3.11 Research Model

The research model in this thesis was developed in consideration of the literature review. The theoretical framework demonstrates the general relationships between the variables. This thesis focuses on employee in-role performance as the dependent variable. Ethical leadership has been shown to be the best predictor of employee in-role performance. The framework demonstrates that ethical leadership has a direct relationship with employee in-role performance. In this research, hypotheses use four mediators (EC, OID, CO and SC). According to the literature, OID, SC, EC and CO mediate the relationship between ethical leadership and employee in-role performance. Figure 3.2 presents the research model.
Figure 3.2 Research model.
3.12 Hypotheses Development

3.12.1 The relationship between ethical leadership and employee in-role performance

Previous empirical studies have investigated the relationship between ethical leadership and employee performance in different contexts. These studies have found that ethical leaders increase their followers’ task performance and OCB. For example, Walumbwa, Christensen and Hailey’s (2011) Chinese-context research reported that ethical leadership was positively related to LMX, which in turn increased employee task performance. Similarly, Liu et al. (2013) found that ethical leaders in manufacturing firms increased subordinates’ task performance and OCB. Obicci (2014) surveyed 160 employees in the Ugandan public sector and found that ethical leadership was the most significant predictor of employee performance. Babalola et al. (2019) using a sample of 131 employees working in different organisations in Nigeria, investigated the relationship between ethical leadership and OCB. They found that when employees see leaders as ethical, they are engaging more OCB and less deviance. Similarly, Ahmad et al. (2019) collected data from 248 employee-supervisor in goods multinational company in Pakistan to investigate the relationship between ethical leadership and OCB. They found that ethical leaders improve employees’ performance OCBs.

In another study, Shareef and Atan (2019) examined the influence of ethical leaders on OCB and turnover intention in 351 supervisor–subordinate dyads in three universities in Iraq. They found a positive relationship between ethical leadership, OCB and turnover intentions. In another study, Gerpott et al. (2019) conducted two studies with 138 participants and 225 employees respectively. They examined the relationship between ethical leadership and OCB. They found a positive relationship between ethical leadership and OCB and such relationship mediated by follower moral identity and moderated by perceived leader group prototypicality.
Tourigny et al. (2019) worked with 71 supervisors and 308 employees from five businesses of a conglomerate company in China to investigate the relationship between ethical leadership and OCB. They found a positive relationship between ethical leadership and OCB mediated by CSR and organisational trust.

While most empirical research supports the idea that ethical leaders increase their followers’ performance, there is evidence of an indirect or negative relationship between ethical leadership and performance. For instance, Park, Kim and Song (2015) surveyed employees of a public agency in South Korea, and concluded that ethical leadership has a positive indirect effect on in-role performance through psychological ownership. They found that employees have a sense of ownership over their organisations when they believe their leader’s behaviour is ethical. In turn, psychological ownership induces them to behave in an ethical manner at work, although perceptions of ethical leaders do not directly affect in-role performance. Zhu et al. (2015) collected data from 302 employees in Romanian head offices. They found that ethical leadership has an indirect effect on follower performance.

Regarding the association between ethical leadership and employee behaviour, the findings of previous studies have been inconsistent (Detert, Treviño & Sweitzer 2008; Dineen, Lewicki & Tomlinson 2006; Mayer et al. 2009). Based on these results, the effects of ethical leadership may depend on organisational context (Avey, Palanski & Walumbwa 2011; Yukl & Mahsud 2010). Very little is known about the boundary conditions that affect the association between ethical leadership and its outcomes. Hence, it would be valuable to investigate the boundary conditions that may influence the connection between ethical leadership and its consequences (Avey, Palanski & Walumbwa 2011).
Inconsistency in the results of previous studies demonstrates that additional research is needed. Thus, this research examines the relationship between ethical leadership and employee in-role performance in Australian context. This thesis argues that ethical leadership predicts employee in-role performance in the banking sector.

Based on social learning theory (Bandura 1977), it contends that ethical leaders increase their followers’ in-role performance by empowering and encouraging subordinates; ethical leaders encourage subordinates to internalise ethical values (Brown & Treviño 2006). By internalising an ethical leader’s values (Bass & Avolio 1993; Weng 2014), subordinates are likely to form an emotional bond or relational attachment with their leaders, and identify personally with them (Bass & Avolio 1993; Leroy, Palanski & Simons 2012; Peus et al. 2012). Within this identification process, the ethical leader’s behavioural traits, such as integrity, trustworthiness, concern for others and fairness, can create a strong level of commitment among subordinates to achieving organisational goals and their leader’s visions. When ethical behaviour from ethical leaders is a critical component of organisational vision and goals, employees tend to follow these behaviours, and their efforts translate into in-role performance.

**H1: Ethical leadership positively affects employee in-role performance.**

**3.12.2 Organisational identification as a mediator in the relationship between ethical leadership and employee in-role performance**

OID has been defined as the ‘the perception of oneness with or belongingness to some human aggregate’ (Ashforth & Mael 1989, p. 21). Employees who strongly identify with their organisation feel personally intertwined with the organisation and tend to experience its successes and failures as their own (Ellemers, De Gilder & Haslam 2004). Consequently, they are motivated to invest considerable effort on behalf of their work group. This effect holds true for both leaders and followers (Van Knippenberg & Hogg 2003).
Research has demonstrated the positive association of OID with various work outcomes (Riketta 2005). It has been linked with lower turnover intentions (Dick et al. 2004; Van Knippenberg & Van Schie 2000), increased job satisfaction (Feather & Rauter 2004; Karanika et al. 2015; Van Knippenberg & Van Schie 2000) and the performance of extra-role behaviours (Dukerich, Golden & Shortell 2002; Liu et al. 2013). OID is grounded in social identity theory (Tajfel & Turner 1979) and relates to followers’ ‘perception of oneness or belongingness’ (Ashforth & Mael 1989, p. 21) to the organisation. Further, this identity-based component complements the social exchange perspective through interpersonal (follower–leader) and organisational (follower–organisation) relationships (Cropanzano & Mitchell 2005; Sluss & Ashforth 2008).

Consistent with social exchange theory (Cropanzano & Mitchell 2005), this research indicates that ethical leaders, based on their characteristics, develop OID characteristics among their employees, which enhances employee in-role performance. When employees identify with an organisation, they strive to do their best and reciprocate ethical leaders’ behaviour (Ellemers, De Gilder & Haslam 2004; Riketta 2005). Aspects of ethical leadership characteristics, such as communication and trust, may positively facilitate OID (Smidts, Pruyn & Riel 2001; Walumbwa et al. 2011; Tseng & Wu 2017). Knippenberg (2000) proposed that when trust is present, followers will identify more closely with organisations. There is empirical support for this notion (Walumbwa et al. 2011) and trustworthiness is a key personal characteristic of an ethical leader (Treviño & Weaver 2003; Treviño, Hartman & Brown 2000).

Research suggests that a follower’s identification with the organisation is tied to the leader; further, the relationship between ethical leadership and identification ‘represents fertile ground for future research’ (Brown & Mitchell 2010, p. 601). Scholars have identified a positive relationship between the characteristics of ethical leaders (e.g. trustworthiness,
fairness and openness) and OID (De Cremer, Brebels & Sedikides 2008; Sluss & Ashforth 2008).

While many studies have examined different forms of leadership and OID, few have explored how the ethical and moral dimensions of leadership affect OID. For example, Kark, Shamir and Chen (2003) surveyed 76 bank managers and 888 employees and found that transformational leadership fostered followers’ identification with the organisation. In another sample of bank employees (83 supervisors and 437 followers), Walumbwa et al. (2008) reported that employees’ OID mediated the link between transformational leadership and employee performance. Hence, transformational leadership appears to strengthen employees’ identification with the organisation and its members, which supports efforts on behalf of the group.

Several studies on the relationship between OID and OCB have provided evidence that OID is an antecedent of OCB. For example, Lipponen, Bardi and Haapamäki (2008) showed that OID interacts with personal values of openness to change to predict innovative behaviour (i.e., suggestion-making) among employees of children’s day-care centres. Similarly, Liu, Zhu and Yang (2010) demonstrated that OID leads to voice behaviour, such as offering constructive criticism and suggestions for change. Many studies have demonstrated that OID is positively related to OCB. Bergami and Bagozzi (2000) and Dukerich, Golden and Shortell (2002) found that OID has a significant positive impact on OCB. Meta-analysis from Riketta (2005) also indicated a positive correlation between OID and extra-role behaviour. Members with high level of OID will likely think and act based on group norms and values. This may be explained by the process through which individuals have fused group norms and values with their own self-concept.

Although some empirical studies have investigated the relationship between different forms of leadership and OID (Akbari et al. 2014; Alharbi & Abdullah 2016; Wang & Rode
2010), little attention has been paid to the relationship between ethical leadership and OID. Very few studies have explored OID as a mediator in the relationship between ethical leadership and employee in-role performance. Underscoring this research gap, Brown and Mitchell (2010) argued that further research is needed to explore links between ethical leadership and OID. This research fills this gap by identifying the mediating role of OID in the relationship between ethical leadership and employee in-role performance. This provides further insights into how different dimensions link ethical leadership to employee in-role performance. Therefore, this study contributes to the research by increasing understanding of the ethical leadership-performance link and testing whether OID mediates the relationship between ethical leaders and employee in-role performance.

This study predicts that OID mediates the relationship between ethical leadership and employee performance. Mediators are variables that explain relationships between independent and dependent variables (Hayes & Preacher 2014; MacKinnon & Fairchild 2009). The aim of this research is to further clarify the mechanisms that link ethical leadership to employee in-role performance, because little is known about the role of OID in this linkage in the banking industry. This thesis argues that OID is a mediator because it explains the relationship between ethical leadership and employee in-role performance. More specifically, it argues that ethical leadership drives OID, which in turn positively affects follower performance.

Leaders who are perceived as more trusting promote and raise identification with the work group or organisation (Tyler 1999). Specifically, ethical leaders have characteristics such as trustworthiness, openness and proactive behaviour, which, in turn, increases cooperation (De Cremer, Brebels & Sedikides 2008; Dukerich, Golden & Shortell 2002) and promotes OID. Identification leads individuals to perceive themselves in terms of the characteristics they share with the organisation (Knippenberg 2000) and promotes positive responses to the organisation. As a result, individuals tend to expend more effort on behalf of the organisation (Dick et al.
Thus, they are motivated to achieve goals on behalf of the organisation (Knippenberg 2000). This heightened effort and motivation is likely to increase individual performance. Therefore, it is plausible to suggest that OID mediates the relationship between ethical leadership and employee in-role performance.

**H2: Organisational identification mediates the relationship between ethical leadership and employee in-role performance.**

### 3.12.3 Customer orientation as a mediator in the relationship between ethical leadership and employee in-role performance

CO is defined as the importance that service workers place on customers’ needs and expectations regarding the service offerings and the extent to which service workers are willing to devote extra efforts to satisfy their customers (Kelley 1992). CO can be regarded as the core element of the marketing concept that promotes the idea of prioritising customers’ interests (Narver & Slater 1990). CO can be studied both at organisational and employee levels (Ifie 2014).

According to Zablah et al. (2012), employee–CO is usually conceptualised in one of two ways: as a set of employee behaviours aimed at engendering customer satisfaction, or as a psychological variable that motivates employees to satisfy customer needs. Similarly, Ifie (2014) argued that at the employee level, CO refers to employee behaviours that are caused by job states or as a psychological phenomenon antecedent to important job states. Based on an extensive literature review, Zablah et al. (2012) stated that research grounded in the behavioural perspective holds that CO is a consequence of job stress, job engagement and a proximate determinant of job outcomes. In contrast, Zablah et al. (2012) argued that studies proceeding from a psychological perspective typically propose that CO is antecedent to job stress and job
engagement and have more frequently considered the possibility that CO is a predictor of job outcomes.

Zablah et al. (2012) proposed that employee–CO should be defined as a work value. By this, they mean that CO is primarily an aspect of employee psychology that guides on-the-job perceptions, attitudes and behaviours. This view nears the definition proposed by Brown et al. (2002). Brown et al. (2002, p. 111) defined CO as an ‘employee’s tendency or predisposition to meet customer needs in an on-the-job context’. In a similar Donavan, Brown and Mowen (2004) defined CO as an enduring disposition to meet customer needs. It can be argued that all these definitions treat CO as a psychological resource that guides people to feel, think and behave within context-specific situations (Donavan, Brown & Mowen 2004; Zablah et al. 2012).

Babakus, Yavas and Ashill (2009) suggested that frontline employees with high levels of CO have an internal motivation to engage in customer-satisfying behaviours because of their propensity to be helpful and cooperative when dealing with customers. Babakus, Yavas and Ashill (2009) also stated that customer-oriented employees exhibit optimism, cheerfulness and a strong concern for the needs of others. They also show low levels of nervousness and frustration during service encounters. Other key qualities associated with customer-oriented employees are feelings of enjoyment in serving customers and commitment to ensuring long-term customer satisfaction (Babakus, Yavas & Ashill 2009).

Although CO can be viewed as a stable work value, tendency or disposition that is consistent over time, this does not mean that CO is unchangeable or that it cannot be managed by any means. For example, Brown and Treviño (2009) stated that employee–CO may be vulnerable to the effect of certain aspects of the job environment such as socialisation, training and charismatic leadership. According to Stock and Hoyer (2005), one factor that has been increasingly discussed as an important driver of employee–CO is leadership behaviour.
(Lindblom, Kajalo & Mitronen 2015). Liaw, Chi and Chuang (2010, p. 478) expressed surprise that the ways leadership behaviour influences CO have received little attention in the extant literature. Liaw, Chi and Chuang (2010) stated that ‘leaders not only motivate and coach service employees on how they can best satisfy the needs of the customers, but also act as role models for service employees’. Therefore, as Liaw, Chi and Chuang (2010) argued, it can be assumed that leadership behaviour influences frontline employee–CO.

Although some empirical studies have explored the relationship between different forms of leadership and CO, scant attention has been paid to the relationship between ethical leadership and CO. Moreover, few studies have investigated this variable as a mediator in the relationship between ethical leadership and employee in-role performance. Further research is needed to explore the relationship between ethical leadership and CO. This would provide further insight into how different factors link ethical leadership with employee in-role performance.

According to social exchange theory (Blau 1964), the ethical treatment and fairness shown by an exchange party is likely to engender a feeling of indebtedness or obligation to reciprocate. As ethical leadership behaviours illustrate fairness, ethicality and consideration, ethical leaders should stimulate employees’ obligation to reciprocate in kind (Lemoine, Hartnell & Leroy 2019; Mossholder, Settoon & Henagan 2005). This should in turn increase CO. Employees engaging in CO that supports the psychological work context is a way that employees reciprocate ethical leadership behaviours (Brown, Treviño & Harrison 2005). Given CO is a behaviour that supports the work setting and is capable of driving organisational success (Dimitriades 2007), it can be argued that employees who work with ethical leaders engage CO as a way of reciprocating the ethical treatment and fairness received from such leaders.
This study predicts that customer-oriented behaviour mediates the relationship between ethical leadership and employee in-role performance. The aim of this research is to further clarify the mechanisms that link ethical leadership to performance, because little is known about the role of customer-oriented behaviour in this linkage within the banking industry. This thesis argues that customer-oriented behaviour is a mediator because it explains the relationship between ethical leadership and employee in-role performance. More specifically, it argues that, based on the social learning perspective (Bandura 1977), ethical leaders are legitimate and attractive role models who gain and hold employee attention and can, therefore, influence them more effectively (Brown, Treviño & Harrison 2005; Piccolo et al. 2010; Walumbwa et al. 2011). Brown, Treviño and Harrison (2005, p.123) stated: ethical leadership should promote employees going above and beyond the call of duty because when employees are treated fairly and well by a leader they trust, they are likely to think about their relationship with the leader and organisation in terms of social exchange (Blau 1964) and they are likely to reciprocate by helping the organization in a variety of ways (Organ1997).

Similarly, Walumbwa et al. (2011) argued that when employees perceive that their leaders act in their best interests and are fair and caring, they are likely to reciprocate by improving task performance. Thus, it is expected that when banking managers exhibit ethical leadership, employees infer that managers are committed to them, and subsequently feel greater optimism and job enjoyment. Most of all, they feel motivated to exert extra effort in serving and satisfying customer needs. Employee–CO should be associated with high levels of customer service, and consequently with improved employee in-role performance. Therefore, it is plausible to suggest that customer-oriented behaviour mediates the relationship between ethical leadership and employee in-role performance.

**H3: Customer orientation mediates the relationship between ethical leadership and employee in-role performance**
3.12.4 Service climate as a mediator in the relationship between ethical leadership and employee in-role performance

SC is defined as ‘employees’ shared perceptions of the policies, practices and procedures that are rewarded, supported and expected concerning customer service’ (Schneider, White & Paul, 1998, p. 151). According to Schneider, White and Paul (1998), there are two types of foundational issues linked with SC: internal abilities quality in organisations and general facilitative conditions. General facilitative conditions involve supervisory behaviours such as information sharing and feedback provision. These features of communication provide the relationship between leadership construct and climate. The study of SC (Schneider, Salvaggio & Subirats 2002; Schneider, White & Paul 1998) evolved as a subset of organisational climate and can be applied to industries with a customer-service orientation.

Social exchange theory (Blau 1964) provides a foundation on which employees can comprehend organisational expectations, types of support and rewards. The association between a positive SC and employees’ attitudes and behaviours has been supported by previous studies (Liao & Chuang 2004; Walumbwa, Hartnell & Oke 2010; Zhang & Bartol 2010). These studies reflect the researchers’ interest in exploring the effect of SC on organisational outcomes. This is especially important for practitioners given the difficulties of competing via high-quality customer service in competitive and global markets (Schneider, White & Paul 1998).

Liao and Chuang (2007) compared effective and ineffective leadership styles with favourable and unfavourable SCs to explore the association between leadership and SC. They found that while unfavourable climates benefit from an effective leader, effective leader behaviour does not seem to increase service in a positive SC. Walumbwa, Hartnell and Oke (2010) using 815 employees and 123 immediate supervisors to investigate mediating role of
service climate in the relationship between servant leadership and OCB. They found that service climate mediates such relationship. Walumbwa et al. (2010) studied the relationship between psychological capital, SC and performance, and identified a positive moderating impact of SC. Future research on the relationship between leadership styles involving ethical leadership and SC has been recommended by these authors. Greater SC understanding may assist leaders to manage during stressful times and in competitive settings, both of which are key to successful operation in financial services organisations. SC signals the behaviour valued by leaders and behaviours that are rewarded (Schneider et al. 2005).

Previous literature has demonstrated that little attention has been paid to the relationship between leadership styles, especially ethical leadership and SC. Underscoring this research gap, Walumbwa, Hartnell and Oke (2010) asserted that further research is needed to explore the relationship between ethical leadership and SC. The present research fills this gap by identifying the mediating role of SC in the relationships between ethical leadership and employee in-role performance. This provides further insights into how different dimensions link ethical leadership to employee in-role performance. Therefore, this study contributes to the research by deepening the understanding of the ethical leadership-performance link and testing whether SC mediates the relationship between ethical leaders and employee in-role performance. This study predicts that SC mediates the relationship between ethical leadership and employee performance. It argues ethical leadership through role modelling promotes valued behaviour and uses reinforcement to promote suitable behaviour. This provides an opportunity to discover associations between ethical leadership, SC and employee attitudes.

Walumbwa, Hartnell and Oke (2010) noted that SC has a direct utility in a service organisation because customer service is an implicit facet of an individual’s performance. SC captures the social exchange associations between employees and organisations. When employees observe the support, expectations and rewards associated with service quality, they
believe their work roles and contributions are valued. Thus, according to the norm of reciprocity, they tend to reciprocate the favourable treatment with positive work behaviours.

This thesis argues that ethical leaders promote high service quality in organisations because when employees observe a high-quality SC, they want to reciprocate by providing high-quality service to customers, thereby improving their in-role performance. Therefore, it is plausible that SC mediates the relationship between ethical leadership and OID.

**H4: Service climate mediates the relationship between ethical leadership and employee in-role performance.**

### 3.12.5 Ethical climate as a mediator in the relationship between ethical leadership and employee in-role performance

Based on previous studies, the role of ethical leaders in spreading ECs is crucial in organisations (Dickson et al. 2001; Mayer, Kuenzi & Greenbaum 2010). Studies have proposed that the shaping of formal common ethical codes and their integration into organisational processes and practices of organisational leadership is a determinant factor (Schminke, Ambrose & Neubaum 2005; Treviño, Weaver & Brown 2008).

Organisational leaders set the ethical tone by enacting policies, procedures and practices that encourage ethical behaviour and decrease the likelihood of misbehaviour. In the organisational climate literature, research indicates that the role of leaders is important as interpretive filters of organisational processes and policies for group members (Mayer, Kuenzi & Greenbaum 2010). Leaders influence employee perceptions of organisational climate based on the practices and policies they highlight and present to employees. Particularly, ethical leaders are expected to apply policies, practices and procedures that support ethical behaviour (Mayer, Kuenzi & Greenbaum 2010). Ethical leaders’ decisions are based their consideration of ‘the right thing to do’ in terms of ethics. Ethical leaders communicate with employees
concerning ethics, and reward and punish subordinates according to ethical principles. In this way, ethical leaders make it clear to workers that the role of ethics is important to organisational outcomes (Brown & Treviño 2006, Brown & Treviño 2014).

Based on previous research on EC, social learning theory (Bandura 1977) clarifies the effects of ethical leadership on EC. Based on this theory, ethical leaders help employees maintain high ethical standards without feeling pressure to forego ethical behaviour for the sake of accomplishing business goals. Ethical leaders, by role modelling appropriate behaviour, support an EC.

Little empirical research proposes that organisational leaders influence EC. Mayer et al. (2009) examined the link between ethical leadership and employee misconduct and found that EC mediated the relationship between ethical leadership and employee misconduct. Demirtas and Akdogan (2015) reported that ethical leadership behaviour plays a critical role in shaping perceptions of EC. Through ethical leadership behaviour, managers can influence perceptions of EC, which positively influences organisational members’ turnover intentions and effective commitment. Overall, these studies support the idea that ethical leaders have a positive influence on EC.

Few studies have examined the relationship between other leadership styles and EC. Ötken and Cenkci (2012) found that paternalistic leaders influence organisational EC. Similarly, Theron, Van Aswegen and Engelbrecht (2005) found that transformational leaders have a positive influence on organisational EC. Relatively little research has explored factors that form or foster an EC. This research fills this gap by examining ethical leadership as a factor that has been identified as an antecedent of EC. The relationship between leadership and EC is under-researched. This study predicts that EC mediates the relationship between ethical leadership and employee in-role performance. Ethical leaders, based on their characteristics, develop an EC in the organisation. An EC influences employees’ attitudes to their jobs and the
organisation, which leads to optimum performance (Cullen, Parboteeah & Victor 2003). The shared result of ethical perceptions among employees creates a work setting based on shared ethical work norms (Dickson et al. 2001). Therefore, it is plausible to suggest that EC mediates the relationship between ethical leadership and employee performance.

**H5: Ethical climate mediates the relationship between ethical leadership and employee in-role performance**

3.12.6 The sequential mediating effects of ethical climate, organisational identification, customer orientation and service climate on the relationship between ethical leadership and employee in-role performance

This thesis proposes that EC, OID, CO and SC have an effect on the relationship between ethical leadership and employee in-role performance. Previous studies have demonstrated that leaders support the development of an EC (Dickson et al. 2001; Lu & Lin 2014; Mayer et al. 2009; Mulki, Jaramillo & Locander 2009; Schminke, Ambrose & Neubaum 2005). By implementing policies, practices and procedures, organisational leaders set the ethical standards that facilitate the employees’ perception of organisational EC (Mayer et al. 2009). Schminke, Ambrose and Neubaum (2005) investigated the association between a leader’s moral development and EC in organisations. They concluded that development of morality of a leader is related to organisation regulation, regulation orientation, caring orientation and independent judgement, which are factors of EC. Mayer et al. (2009) examined the influence of ethical leadership on EC based on social learning theory. Similarly, Theron, Van Aswegen and Engelbrecht (2005) concluded that there is a significant relationship between ethical leadership and EC. While scholars express different processes through which leaders’ approaches influence organisational EC (e.g., rewards, role modelling, selection and communication), these researchers believe that leaders have considerable power in building
and sustaining ethical norms and processes, and specific types of EC (Schminke, Ambrose & Neubaum 2005). In fact, ethical leaders ask employees to do the right thing because they believe this behaviour is encouraged and valued. In turn, employees are willing to view their organisational environment as ethical. Ethical leaders role model to their employees how to be accomplished in identifying ethical issues and equip them for managing ethical issues (Mayer et al. 2009).

When employees perceive their leaders’ behaviours as ethical, these understandings affect ethical decision-making, and their attitudes towards individual jobs (Brown & Treviño 2006). The shared effect of multiple organisational members’ ethical perceptions provides a work setting based on shared ethical work norms (Davidovitz et al. 2007; Dickson et al. 2001).

An EC influences employees’ attitudes to their work and organisation (Cullen, Parboteeah & Victor 2003). Ethical leaders, by role modelling appropriate conduct, assist in creating a climate in which doing the right thing is valued. Stringer (2002, p. 12) argued that ‘most studies have shown that the single most important determinant of an organisation's climate is the day-to day behaviour of the leaders of the organisation’. This research predicts that there is a positive and significant relationship between ethical leadership and EC. Based on social learning theory (Bandura 1977), when ethical leaders in the work environment act as role models, employees tend to emulate the modelled behaviour. Employees learn desired behaviour by observing their leaders’ behaviour (Mayer et al. 2009).

When ethical behaviour is the target behaviour in an organisation, the social learning process is significant, since ethical leaders influence employees’ behaviour through their assigned role, status and power (Brown, Treviño & Harrison 2005). Thus, ethical leadership is expected to elicit employees’ collective engagement in ethical behaviour, which supports the development of an EC based on shared ethical work norms and perceptions (Dickson et al. 2001). EC affects employee conduct and attitudes regarding what is acceptable and
unacceptable in an organisation (Cullen, Parboteeah & Victor 2003; DeConinck 2011; Dickson et al. 2001; Martin & Cullen 2006). DeConinck (2011) reported that EC affects OID. In fact, employees tend to identify with the groups and organisations that are considered honest and ethical (Ellemers, Pagliaro & Barreto 2013). Ethical organisations promote employee commitment to the organisation (Ellemers et al. 2011). It is expected that strong ECs facilitate employee OID. In organisations, employees rarely function in isolation from their group or team contexts. Employee identification with their organisation affects their attitudes and commitment to customer-service quality (Solnet & Paulsen 2006). Most extant research (Homburg, Wieseke & Hoyer 2009; Hong et al. 2013; Kamakura et al. 2002; Loveman 1998; Silvestro & Cross 2000) has demonstrated that service quality has a positive influence on employee satisfaction.

Based on previous research in HRM and organisational behaviour, employees who are satisfied with their jobs are higher performers and provide superior levels of customer service (Chiang & Wu 2014; Nazeer, Zahid & Azeem 2014). Based on these results, this research contends that SC and quality of service, besides affecting loyalty and employee satisfaction, also has an important influence on employee in-role performance. Therefore, employees who provide high-quality service to customers and are rewarded accordingly tend to perform better in all job functions (Ahearne, Mathieu & Rapp 2005). Previous studies have supported the finding that SC leads to better performance outcomes (Mayer, Ehrhart & Schneider 2009; Schneider et al. 2009).

In this research, social exchange theory (Blau 1964) underpins the relationship between EC, OID, CO and SC. Based on social exchange theory (Blau 1964), employee behaviours are positively and significantly influenced by an organisation’s work climate, which provides positive perspectives of social exchange relationships (Farooqui 2012; Podsakoff et al. 2000; Shin 2012). Thus, an environment that provides ethical and fair treatment stimulates
employees’ willingness to reciprocate such behaviour (Leung 2008; Mayer et al. 2009). Specifically, Shin (2012) found that leaders’ establishment of a strong EC has a positive influence on employee attitudes and behaviours. Favourable treatment from leaders is often associated with higher levels of employee performance because of norms of reciprocity (Coyle-Shapiro & Conway 2005; Cropanzano & Mitchell 2005). When employees have an emotional attachment to their organisation and observe high levels of leader support and rewards, they believe their work roles and contributions are valued. Thus, according to the norm of reciprocity, they tend to reciprocate the favourable treatment with positive behaviours (Blau, 1964; Brown and Mitchell 2010; Cropanzano & Mitchell 2005).

This study predicts that there is a chain relationship between EC, OID, CO and SC. One of the objectives of this research is to examine the relationship between the variables included in this study. Little is known about the relationship between these variables in the banking industry. In sum, this thesis argues that ethical leaders, through characteristics such as honesty, transparency and morality, create an EC in the organisation. When employees experience an ethical work environment, they tend to identify with their groups and organisations (Ellemers, Pagliaro & Barreto 2013). This leads them to commit themselves to the organisation (Ellemers et al. 2011). Thus, it is expected that strong ECs facilitate employee OID (Kia, Halvorsen & Bartram 2019; Teresi et al. 2019) Employees’ identification with their organisation affects attitudes and commitment to customer needs and high service quality. Employees who provide service to customers and are rewarded for this may be higher performers (Ahearne, Mathieu & Rapp 2005). Therefore, it is plausible that there is a significant relationship between all the variables included in this research through a mediating chain of effects. Thus, it is reasonable to predict that EC, OID, CO and SCs have a chain relationship.
H6: Ethical climate, organisational identification, customer orientation and service climate sequentially mediate the relationship between ethical leadership and employee in-role performance.

3.13 Summary and Gaps in the Literature

This chapter reviewed ethical leadership, employee in-role performance, OID, CO, SC and EC. First, this chapter highlighted the importance of ethical leadership in organisations. It provided examples of ethical issues in organisations and different definitions of ethical leadership. Brown, Treviño and Harrison (2005, p. 120) provided a benchmark definition of ethical leadership 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’. The leadership literature has shown positive relations between ethical leadership and followers’ outcomes, such as OCB, job satisfaction and commitment (Brown, Treviño & Harrison 2005; Den Hartog & De Hoogh 2009; Kalshoven, Hartog & Hoogh 2011; Mayer et al. 2009). The literature review established that there was a dearth of research on ethical leadership and its effect on employee performance in contemporary organisations, especially banking organisations. This thesis fills this research gap by focusing on ethical leadership in the banking sector.

Very little is known about the boundary conditions that influence the relationship between ethical leadership and its outcomes. Therefore, it is valuable to examine the boundary conditions that may affect the relationship between ethical leadership and employee in-role performance (Avey, Palanski & Walumbwa 2011). This research fills this gap by examining the role of EC, OID, CO and SC in the relationship between ethical leadership and employee in-role performance. The social exchange (Blau 1964) and social learning theory (Bandura 1977) have been applied in previous studies to explain the association between leadership and employee performance. This thesis applies social learning and social exchange theory to
explain the relationship between ethical leadership and employee in-role performance. Generally, this chapter highlighted five gaps that will be addressed in this thesis.

The first gap is the lack of research on the process thorough which ethical leadership affects employee in-role performance. Despite the number of studies that have investigated psychological mechanisms such as trust and psychological capital in this relationship, research on boundary conditions is limited. This thesis fills this gap by examining EC, OID, CO and SC as boundary factors. This research addresses the call for further research by Kalshoven, Deb Hartog and De Hoogh (2011) about boundary factors. By focusing on the influence of these factors, this line of research can shed light on the influence of contextual or boundary conditions, thereby extending ethical leadership theory and the practical application of enhancing performance.

The second gap is lack of research on the relationship between ethical leadership and OID. Previous studies have investigated the relationship between different kinds of leadership and OID. This research also addresses the call for further research by Brown and Mitchell (2010) on ethical leadership and OID to empirically support that ethical leaders’ characteristics foster employee OID. This thesis fills the research gap by examining OID as a mediator in the association between ethical leadership and employee in-role performance.

The third gap is lack of research on the relationship between leadership styles and SC. Kopperud, Martinsen and Humborstad (2014) identified a positive relationship between transformational leadership and SC; self–other agreements moderate this relationship. Similarly, Widianto and Wilderom (2017) studied 151 healthcare professionals. They concluded that SC mediated the relationship between transformational leadership and psychological capital. Previous literature has shown that the role of SC as a mediator in the relationship between leadership and performance has been ignored. This research also addresses the call for further research by Walumbwa, Hartnell and Oke (2010) on ethical
leadership and SC. Specifically, this thesis fills the gap by examining the role of SC as a mediator in the relationship between ethical leadership and employee performance.

Fourth, while several studies have examined the relationship between EC and various work outcomes, relatively little attention has been paid to the factors that foster an EC. This research fills this gap by examining ethical leadership as a factor that has been identified as an antecedent of EC. Scant attention has been paid to the relationship between ethical leadership and EC, especially in the banking industry.

The fifth gap is lack of research regarding the relationship between leadership and CO. This thesis fills this gap by examining this relationship. Specifically, this is done by examining CO as a mediator in the relationship between ethical leadership and employee in-role performance. Few empirical studies have examined the association between leadership and CO. Lindblom, Kajalo and Mitronen (2015) found that employee perceptions of their retailer’s ethical leadership are strongly related to employee CO. Farrell, Souchon and Durden (2009) reported that transformational leaders have a positive influence on CO.

Finally, based on ethical leadership, employee performance, EC, OID, CO and SC, five hypotheses will be tested. Table 3.1 summarises these hypotheses.
3.14 Hypotheses Summary

Table 3.1

<table>
<thead>
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<th>Hypotheses Summary</th>
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<tbody>
<tr>
<td>H1 Ethical leadership positively affects employee in-role performance.</td>
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<td>H2 Organisational identification mediates the relationship between ethical leadership and employee in-role performance.</td>
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<td>H3 Customer orientation mediates the relationship between ethical leadership and employee in-role performance.</td>
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<td>H4 Service climate mediates the relationship between ethical leadership and employee in-role performance.</td>
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<td>H5 Ethical climate mediates the relationship between ethical leadership and employee in-role performance.</td>
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<td>H6 Ethical climate, organisational identification, customer orientation and service climate sequentially mediate the relationship between ethical leadership and employee in-role performance.</td>
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Chapter 4: Research Methods

Chapter 3 presented a comprehensive literature review that focused on the relationship between ethical leadership and employee in-role performance. Further, it explored previous studies on the variables included in this research, as well as the theoretical framework and several hypotheses based on these studies.

Chapter 4 introduces the methods used for the research undertaken and presented in this thesis. This chapter is divided into 15 sections. Section 4.1 discusses research paradigms and focuses in on the positivist paradigm as the guiding force of this research. Section 4.2 provides an overview of the research design used in this research, and Sections 4.3 and 4.4 present the data analysis and measurement scales used in this thesis. Section 4.5 discusses the sample size for this research, while ethical considerations are presented in Section 4.6. Section 4.7 describes the data collection procedure. The validity, reliability, pre-test and pilot test are discussed in Sections 4.8 and 4.9, while Section 4.10 presents data analysis for the variables included in this study. Section 4.11 discusses the result of outliers test. The result of normality test is outlined in Section 4.12, and Section 4.13 presents the regression analysis to test the mediator hypotheses. Section 4.14 provides an overview of approaches to test mediation effects. Finally, this chapter closes with a summary.

4.1 Research Paradigm

A research paradigm is a set of fundamental beliefs and assumptions about the perception of the world; this then acts as a thinking framework to guide the researcher (Jonker & Pennink 2010). Guba and Lincoln (1994) suggested that the basic beliefs that define inquiry paradigms could be addressed through three types of questions. The first question is about demonstrating different views on the nature of reality (ontology). The second question is about the association between the investigator (knowers) and the phenomenon under investigation
There are two major research design paradigms: positivist and interpretivist (Mackenzie & Knipe 2006; Wahyuni 2012). Positivism is based on an empiricist view that knowledge stems from human experience, and that the world consists of causes and effects that demonstrate a singular independent truth. In a positivist research design, to minimise interventions and increase the objectivity of the study, the researcher uses instruments such as surveys (Creswell 2013). By using quantitative measurement scales to test hypotheses, the investigated phenomena in the conceptual framework are clarified (Denzin & Lincoln 2011). The result will be explained in statistics, and based on these, causalities between selected variables will be described (Zikmund et al. 2013). In the interpretivist paradigm, there is no objective reality (Klenke 2016); the perceptions of individuals create their reality, social interactions and understanding of the world (Creswell 2009; Denzin & Lincoln 2005; Henn, Weinstein & Foard 2009). Previous research in the leadership discipline has used both positivism and interpretivist paradigms (Antonakis 2004). Parry et al. (2014) reported that leadership research was mostly based on positivist methods because it is closely related to psychology.

This thesis is positioned in the positivist paradigm and uses a deductive method, which is an essential part of the positivist paradigm, because this research is based on survey and hypothesis testing (Creswell 2009; Easterby-Smith, Thorpe & Lowe 2002). Moreover, this research describes the relationship of variables based on cause-and-effect in terms of predicting an outcome. Specifically, this thesis aims to develop a research framework involving examinable hypotheses to test the relationship between ethical leadership and employee performance in-role, with the mediating role of EC, OID, CO and SC in the Australian banking context.
4.2 Overview of Research Method and Design

The research design provides a plan for achieving the research goals, so it is an important and fundamental part of research. According to Creswell (2013), the research design helps a researcher recognise and answer the research questions and provides a logic to link the gathered data to answer the research questions. Kreuger and Neuman (2006) stated that when a study is designed to evaluate causal associations between underlying constructs, a quantitative approach is preferable. The quantitative method seemed the most appropriate for this study to provide answers to the research questions, and to develop a theoretically derived and empirically tested final path model for testing the hypotheses. This research is classified as a cross-sectional study because data were collected at two points in time across a wide population (Sekaran & Bougie 2010).

The literature review demonstrated that there is lack of research on the process through which ethical leadership affects employee in-role performance. Based on this gap, the research questions were developed, which led to the theoretical framework. In this thesis, data were collected through online survey questionnaires that were administered to employees in the Australian banking industry. Before data collection, ethics approval was granted. To measure the reliability and validity of the questionnaire, pre-testing and a pilot study was conducted; the pre-test sought to enhance the content validity of the survey instrument.

For the pre-test, the researcher distributed a questionnaire to a sample of 10 RMIT students to ensure it was suitable for the prospective respondents from the desired sample. For the main phase of the study, survey questionnaires were distributed. To ensure adequate statistical power to detect a medium-sized mediation effect, a power analysis was conducted using a power calculator, as prescribed by Aguinis et al. (2005).
To validate the measurement scales and factor structures, the next step was to run EFA and CFA. EFA is used to collect information to explore the interrelationships among a set of variables in the early stages of research. CFA is a more complex and sophisticated set of techniques used later in the research process to test (confirm) specific hypotheses or theories concerning the structure underlying a set of variables (Pallant 2005). To test hypotheses on the first dataset, OLS analyses tested the effect of ethical leadership on employees’ in-role performance. Four separate mediation analyses were conducted to examine how OID, SC, EC and CO mediate the relationship between ethical leadership and employee in-role performance. In the first analysis, a mediation regression analysis was conducted to examine how employee OID mediates the relationship between ethical leadership and employee in-role performance. In the second analysis, a mediation analysis was conducted to examine how employee SC mediates the relationship between ethical leadership and employee in-role performance. In the third analysis, a mediation analysis was conducted to examine how EC mediates the relationship between ethical leadership and employee in-role performance. Finally, in the last analysis, a mediation analysis was conducted to examine how CO mediates the relationship between ethical leadership and employee in-role performance.

In the second dataset, regression analysis was applied to retest the five initial hypotheses, and test a new, sixth hypothesis: (H6), EC, OID, CO and SC in turn mediate the relationship between ethical leadership and employee in-role performance.

The aim of this research was to examine the effect of ethical leadership on an important positive organisational outcome (employee in-role performance). Thus, ethical leadership has been recognised as the main independent variable. Moreover, employee in-role performance was identified as the dependent variable. To examine the relationship between predictor variable and outcome variables, a quantitative research design was the most appropriate method for this thesis.
In this research, in addition to the relationship between ethical leadership and employee in-role performance, the mediating effects were examined. According to Baron and Kenny (1986), mediating effects allow for description of more complex causal relations between independent and dependent variables. Mediators are variables through which the independent variable acts to influence the dependent variable (Baron & Kenny 1986). Finally, a mediator is a variable that has a direct association with both the independent and dependent variables. Therefore, EC, OID, CO and SC were identified as mediator variables to explain the relationship between ethical leadership and employee in-role performance.

4.3 Quantitative Data Analysis

This thesis aims to unpack the process through which ethical leadership affects employee in-role performance. For this purpose, it assesses the mediating role of EC, OID, CO and SC in the relationship between ethical leadership and employee in-role performance. Further, the research presented in this thesis assesses the in-turn mediating effects of EC, OID, CO and SC on the relationship between ethical leadership and employee in-role performance. The quantitative method was selected to answer the following research questions, which were outlined in Chapter 1:

RQ1: In what ways, if any, does ethical leadership influence employee in-role performance?

RQ2: In what ways, if any, does organisational identification mediate the relationship between ethical leadership and employee in-role performance?

RQ3: In what ways, if any, does customer orientation mediate the relationship between ethical leadership and employee in-role performance?

RQ4: In what ways, if any, does service climate mediate the relationship between ethical leadership and employee in-role performance?

RQ5: In what ways, if any, does ethical climate mediate the relationship between ethical leadership and employee in-role performance?
RQ6: In what ways, if any, does ethical climate, organisational identification, customer orientation and service climate, sequentially mediate the relationship between ethical leadership and employee in-role performance?

The following sections discuss the survey measures, population and sampling strategy, data collection process and data analysis techniques.

4.3.1 Survey questionnaire

In Chapter 3, the research model was developed as a result of an extensive review that identified five gaps in the literature. A 50-item questionnaire was subsequently developed. The first section was intended to collect demographical information including gender, age, marital status, employment status and education level. Other sections related to ethical leadership (10 items), OID (six items), CO (six items), SC (seven items), EC (14 items) and employee in-role performance (seven items).

Section 4.4 provides additional detail on the five scales used in this research: ethical leadership, EC, OID, CO, SC and employee in-role performance.

4.4 Survey Measures

In this thesis, the survey measured ethical leadership, employee in-role performance, EC, OID, CO and service climate. The items used a Likert scale with 1 = strongly disagree and 5 = strongly agree. All variables were measured in Wave 1 and Wave 2.

4.4.1 Ethical leadership scale

In this thesis, ethical leadership was measured based on the instrument developed by Brown, Treviño and Harrison (2005). The 10-item instrument with five Likert-type scales was utilised to measure ethical leadership. Previous studies that employed this instrument produced satisfying results (Eisenbeiss & Boerner 2013; Jyoti & Dev 2015; Muceldili, Turan & Erdil 2013). There is no sub-construct for this construct.
This construct was measured using 10 items:

1. ‘Listens to what employees have to say.’
2. ‘Disciplines employees who violate ethical standards.’
3. ‘Conducts his/her personal life in an ethical manner.’
4. ‘Has the best interest of employees in mind?’
5. ‘Makes fair and balanced decisions.’
6. ‘Can be trusted.’
7. ‘Discusses business ethics or values with employees.’
8. ‘Sets an example of how to do things the right way in terms of ethics.’
9. ‘Defines success not just by results but also the way that they are obtained.’
10. ‘When making decisions, asks “what is the right thing to do?”’

The Cronbach’s alpha for ethical leadership was 0.90.

4.4.2 Organisational identification scale

In this thesis, OID was measured based on the instrument developed by Mael and Ashforth (1992). The six-item with five Likert-type scale answers was utilised to measure OID. Previous studies that employed this instrument had satisfying results. There is no sub-construct for this construct.

This construct was measured using six items:

1. ‘When someone criticises my company, it feels like a personal insult.’
2. ‘I am very interested in what others think about this bank.’
3. ‘When I talk about this bank, I usually say ‘we’ rather than ‘they.’
4. ‘This bank’s successes are my successes.’
5. ‘When someone praises this bank, it feels like a personal compliment.’
6. ‘If a story in the media criticised this bank, I would feel embarrassed.’

The Cronbach’s alpha for OID was 0.87.
4.4.3 Customer orientation scale

In this thesis, customer-oriented behaviour was measured based on the instrument developed by Peccei and Rosenthal (2001). The six-item with five Likert-type scale responses was utilised to measure customer-oriented behaviour. There is no sub-construct for this construct.

This construct was measured using six items:

1. ‘I am always working to improve the service I give to customers.’
2. ‘I have specific ideas about how to improve the service I give to customers.’
3. ‘I often make suggestions about how to improve customer service in my department.’
4. ‘I put a lot of effort into my job to try to satisfy customers.’
5. ‘No matter how I feel, I always put myself out for every customer I serve.’
6. ‘I often go out of my way to help customers.’

The Cronbach’s alpha for CO was 0.80.

4.4.4 Ethical climate scale

In this thesis, EC was measured based on the instrument developed by Victor and Cullen (1988). The 14-item with five Likert-type scale responses was utilised to measure EC. This construct was measured using 14 items. EC was measured based on five types of EC: instrumental climate (three items), caring climate (three items), independent climate (three items), rules climate (two items) and law and code (three items).

Instrumental climate:

1. ‘People are expected to do anything to further the (company) interests, regardless of the consequences.’
2. ‘There is no room for one’s own personal morals or ethics in this (company).’
3. ‘In this (company), people protect their own interests above all else.’
Caring:
1. ‘The most important concern is the good of all the people in the (company) as a whole.’
2. ‘What is best for everyone in the (company), is the major consideration here.’
3. ‘Our major concern is always what is best for the other person.’

Independent climate:
1. ‘In this (company), people are expected to follow their own personal and moral beliefs.’
2. ‘In this (company), people are guided by their own personal ethics.’
3. ‘Each person in this (company) decides for themselves what is right and wrong.’

Rules climate:
1. ‘Successful people in this (company) go by the book.’
2. ‘People in this (company) strictly obey the hospital policies.’

Law and code:
1. ‘In this (company), the law or ethical code of their profession is the major consideration.’
2. ‘In this (company), people are expected to strictly follow legal or professional standards.’
3. ‘People are expected to comply with the law and professional standards over and above other considerations.’

The Cronbach’s alpha for EC was 0.96.

4.4.5 Service climate scale

In this thesis, SC was measured based on the instrument developed by Schneider, White and Paul (1998). The seven-item with five Likert-type scale responses was utilised to measure SC. There is no sub-construct for this construct.
This construct was measured using seven items:

1. ‘How would you rate the job knowledge and skills of employees in your business to deliver superior quality work and service?’
2. ‘How would you rate efforts to measure and track the quality of the work and service in your business?’
3. ‘How would you rate the recognition and rewards employees receive for the delivery of superior work and service?’
4. ‘How would you rate the overall quality of service provided by your business?’
5. ‘How would you rate the leadership shown by management in your business in supporting the service quality effort?’
6. ‘How would you rate the effectiveness of our communications efforts to both employees and customers?’
7. ‘How would you rate the tools, technology, and other resources provided to employees to support the delivery of superior quality work and service?’

The Cronbach’s alpha for SC was 0.94.

4.4.6 Employee in-role performance scale

In this thesis, employee performance was measured based on the instrument developed by Williams and Anderson (1991). The seven-item with five Likert-type scale responses was utilised to measure in-role performance. This seven-item employee performance scale is part of a 21-item performance scale examining in-role performance and extra-role behaviour.

This construct was measured using seven items:

1. ‘Adequately completes assigned duties.’
2. ‘How would you rate efforts to measure and track the quality of the work and service in your business?’
3. ‘Perform tasks that are expected of him/her.’
4. ‘Meet formal performance requirements of the job.’
5. ‘Engage in activities that will directly affect him/her performance evaluation.’
6. ‘Neglects aspects of the job he/she is obligated to perform.’
7. ‘Fail to perform essential duties.’

The Cronbach’s alpha for in-role performance was 0.94.

4.5 Sampling

Sekaran and Bougie (2010, p. 237) defined sampling as ‘a subgroup or subset of the population. By studying the sample, the researcher should be able to draw conclusions that are generalisable to the population of interest’. Specifically, the purpose is to select an appropriate number of the representative from the whole population (Sekaran & Bougie 2010). There are two basic kinds of sampling design: probability and nonprobability sampling (Neuman 2011; Sekaran & Bougie 2010). In probability sampling, every unit of the population has some known, non-zero chance or probability of being chosen as a sample subject. It is used when the representativeness of the sample is important for generalisations. In nonprobability sampling, the elements of the population do not have a known or predetermined chance of being selected as subjects. It is used when time or other factors are more important than generalisability (Sekaran & Bougie 2010).

In quantitative studies, the purpose of sampling is to create a representative sample (Sekaran & Bougie 2010). In this research, a nonprobability sampling technique was applied using a purposive method (Sekaran & Bougie 2010). In this sampling technique, samples are gathered in a process in which not all individuals in the population have an equal chance of selection (Creswell 2009). Therefore, based on the target population (banking sector), a purposive sampling method was applied to select employees who work in Australian banks. The reason is that they reflect the population connected to the variables of interest. Therefore, for this research, the most suitable sampling method was nonprobability purposive sampling to
ensure selection of a sample that matches those selection criteria, which are also represented in the variables of this study.

The researcher initially emailed the human resources (HR) department of bank and consulted with the HR manager to briefly explain the research project, the nature and purpose of the study and how participants’ contributions might play an important role in the study’s findings, and administration of the online survey instruments to eligible participants. Generally, the researcher surveyed 1,600 banking employees, sent the survey link by email and explained the purpose of the research in the message. The research was introduced via email, as was the survey link.

4.6 Ethical Consideration

Conducting ethical research is important because it ensures participants are protected, and answers provided to questions remain confidential and unidentifiable. Ethics approval was sought and granted by Human Ethics Committee prior to this research.

4.7 Mode of Data Collection

For the purpose of data collection, the researcher emailed the questionnaires to 1,600 banking employees over three months. In Wave 1, 445 employees responded to the survey; in Wave 2, 306 employees completed the survey. Finally, the number of employees matched in the two waves was 233. Data matching was done to ensure robustness of data. Using matched data allowed the researcher to better control for any effects of common method variance. The questionnaire items for Waves 1 and 2 were the same.

In this research, data were gathered from Australian banking employees through an online survey questionnaire at two different times to minimise common method variance (Podsakoff, MacKenzie & Podsakoff 2012). At time 1 (T1), the researcher asked employees to complete an online questionnaire describing their demographic backgrounds (e.g., age, gender and qualifications) and rating their level of agreement with the items of each construct: ethical
leadership, OID, CO, SC, EC and employee in-role performance (Brown, Treviño & Harrison 2005). At time 2 (T2), employees completed the survey again. At this time, employees completed questions that were same as in T1, which were related to ethical leadership, OID, CO, SC, EC and employee in-role performance sections. The demographic questions were asked at the end of this stage.

Qualtrics collected another round of data from 187 employees of a different, but similarly sized bank because the original organisation did not allow for a third wave of data collection. Therefore, the Qualtrics data were used to add depth to the thesis and test the final hypotheses. With extra data, the five initial hypotheses were retested, and test a new, sixth hypothesis ([H6] EC, OID, CO and SC in turn mediate the relationship between ethical leadership and employee in-role performance).

4.8 Validity and Reliability

In this thesis, to demonstrate the accuracy of research findings, it was critical to examine the reliability and validity of the research scales (Roberts, Priest & Traynor 2006). Reliability is concerned with the constancy, consistency and repeatability of the informant’s accounts, and the scholar’s ability to gather and record information precisely (Sekaran & Bougie 2010; Zikmund et al. 2013). Validity in research is about the truthfulness and accuracy of scientific results (LeCompte & Goetz 1982; Zikmund et al. 2013). A valid study should illustrate what exists and a valid measure or instrument should actually measure what it is supposed to measure. Validity and reliability are approaches to certify that the research procedure is free of error or bias, thereby increasing data integrity.

In this thesis, to address reliability, the measurement scales used were published in previous research. Specifically, the most published measurement scale for ethical leadership was a 10-item scale from by Brown, Treviño and Harrison (2005). The most published measurement scale for organisational identification was a six-item scale from Mael and
Ashforth (1992). The most published measurement scale for CO was a six-item scale from Peccei and Rosenthal (2001). The most published measurement scale for SC was a seven-item scale from Schneider, White and Paul (1998). The most published measurement scale for EC was a 14-item scale from Victor and Cullen (1988). The most published measurement scale for in-role performance was a seven-item scale from Williams and Anderson (1991). Moreover, the internal consistency of each scale had to address the purpose to investigate consistency in respondents’ answers to each item. Hence, to check for internal consistency of measurement, scale items were assessed using Cronbach’s alpha coefficient.

Normally, validity is differentiated between internal and external validity (Babbie 2015; Neuman 2006; Roberts, Priest & Traynor 2006; Zikmund et al. 2013). To simplify, internal validity relates to the research procedure—precise results reflect causal associations between variables. External validity relates to the generalisation of research results to different people or settings. Therefore, in this thesis, potential threats to validity were addressed. A pre-test and pilot test were conducted before data collection to address content validity concerns. The purpose was to examine and discover any shortcomings of practical and logical features of the survey instrument. In addition, correlation analysis and factor analysis was conducted on measurement scales to address content validity concerns.

4.9 Pre-Test and Pilot Test

To measure the reliability and validity of the questionnaire, a pre-test and a pilot study were conducted. The pre-test was employed to enhance the content validity of the survey instrument. The purpose of the pre-test was to ensure items of questionnaire were clear to participants, that wording was clear and to minimise possible errors (Sekaran & Bougie 2016). For pre-test purposes, the researcher distributed the questionnaire to 10 PhD students from the School of Management at RMIT. These students were third-year candidates working on leadership. They were appropriate participants because they were familiar with leadership
research and research design. For the pilot study, the researcher distributed a questionnaire to one manager, who was an expert in the industry, to ensure that the survey questionnaire was suitable for the prospective respondents from the desired sample.

4.10 Mode of Data Analysis

In this thesis, data were collected using a survey questionnaire. Descriptive statistics and statistical analyses were used to analyse the quantitative data. It was based on two main stages: data screening, EFA and linear regression; and mediation regression analysis. The data analysis procedures are discussed in Sections 4.10.1–4.10.4; the results are discussed in Chapter 5.

4.10.1 Data entry and data screening

In this thesis data were collected from the Australian banking sector using an online survey. The survey link was sent to 1,600 banking employees by email. In Wave 1, 445 employees responded; in Wave 2, 306 employees completed the survey. Finally, the number of employees who matched in the two waves was 233.

4.10.2 Data cleaning

Data were checked in terms of entry accuracy, missing values and normality in both waves of survey. Each check is described in the following sections.

4.10.3 Entry accuracy

In Waves 1 and 2, detailed data checks revealed several data-entry errors. Based on these errors, a few out-of-range values were identified. After reviewing hard copies of the questionnaires, the errors were corrected.

4.10.4 Missing values

One of the most common problems in data analysis is missing data (Tabachnick, Fidell & Ullman 2007). This refers to a situation in which values on variables are not valid for analysis (Hair et al. 2013).
Upon checking the data for missing values, 15 item-level missing values were found. For item-level non-response data, the best approach is mean imputation (Roth, Switzer & Switzer 1999). Mean imputation is a process in which a variable mean value replaces missing data (the mean is considered by assessing other participants’ responses) (Roth & Switzer 2002). This technique was used in both waves to manage missing values.

4.11 Outliers

The researcher checked for outliers and found no out-of-range values (Hair et al. 2016).

4.12 Data Normality

In this thesis, data normality was assessed through two tests, as used by Field (2013). First, for all variables included in this study, a Shapiro–Wilk test was undertaken (ethical leadership, EC, OID, CO, SC and employee in-role performance). This test compares sample scores with the set of scores normally distributed with the same mean and standard deviation (Field 2013). The Shapiro–Wilk test was selected because it is appropriate for datasets smaller than 2,000 elements. Thus, it seems more appropriate than the Kolmogorov–Smirnov test (Stephens 1974).

If distribution of the sample is not significantly different from a normal distribution, the test is non-significant. If the distribution is significantly different from a normal distribution, the test is significant (Shapiro & Wilk 1965). Non-normal data may demonstrate difficulties in the following analyses. However, the OLS regression will indicate and evaluate model parameters that minimise error. Hence, for regression analyses, the normality assumption is not required to fit a linear model (Field 2013).

The Shapiro–Wilk test for ethical leadership (W (233) = 0.97, p > 0.05) was significant, indicating that the distribution is significantly different from a normal distribution. The OID Shapiro–Wilk test (W (233) = 0.98, p > 0.05) also was significant, demonstrating that the distribution is significantly different from a normal distribution. The Shapiro–Wilk test for EC
(W (233) = 0.96, p > 0.05) was significant, indicating that the distribution is significantly different from a normal distribution. The Shapiro–Wilk test for SC (W (233) = 0.90, p > 0.05) represented a non-normal distribution. The Shapiro–Wilk test for CO (W (233) = 0.96, p > 0.05) was significant, indicating that the distribution is significantly different from a normal distribution. The Shapiro–Wilk test for employee performance (W (233) = 0.96, p > 0.05) was significant, indicating that the distributions is significantly different from a normal distribution.

4.13 Regression Analysis

In this thesis OLS regression analysis was applied to examine the relationship between ethical leadership and employee in-role performance. Simple regression is used in a situation in which one independent variable is hypothesised to influence one dependent variable (Sekaran & Bougie 2010). The regression coefficient estimates the degree to which the independent variable relates to the dependent variable. Therefore, the most appropriate approach to test the relationship between ethical leadership (IV) and employee in-role performance (DV) was linear regression. Further, this thesis applied mediation regression to test the mediator hypotheses. Regression was applied retest the five initial hypotheses, and test a new, sixth hypothesis (H6).

4.14 Approach to Testing Mediation Effects

Mediators are variables through which the IV acts to influence the DV (Baron & Kenny 1986). This thesis argues that EC, OID, CO and SC mediate the association between ethical leadership and employee in-role performance. This thesis applied the mediation regression process proposed by Baron and Kenny (1986) to test mediation effects. To identify a variable has a mediating influence between the predictor variable and the outcome variable(s), Baron and Kenny (1986) proposed three criteria to be formally satisfied (Cregan, Bartram & Stanton 2009). First, the predictor variable (ethical leadership) must significantly predict the outcome variable (employee in-role performance). Second, the predictor variable (ethical leadership)
must significantly predict the mediator (EC, OID, CO, SC). Third, the mediator (OID, SC, EC and CO) must significantly predict the outcome variable (employee in-role performance).

4.15 Chapter Summary

This chapter has discussed the methods used in this research, as well the design, approach and data analysis. The researcher collected data using a survey questionnaire, following a positivist paradigm. The most appropriate paradigm for this research is the positivist paradigm because the aim of this research is based on causes and effect in terms of predicting outcomes. This thesis uses a quantitative approach to empirically test hypotheses and generalise findings to predict outcomes. The population and sampling strategy, and the data collection process were discussed. The measurement scale used in this thesis, together with the pre-test and pilot study results, was discussed. Different statistical analysis counting data screening, missing values, normality and CFA were addressed. This chapter discussed how data are assessed for missing values and normality. Ethical considerations were also briefly explained. Chapter 5 presents the results of hypotheses testing.
Chapter 5: Research Findings

5.1 Introduction

Chapter 4 presented an overview of the quantitative research method used in this thesis, and discussed the positivist paradigm that underpins all quantitative research. It also discussed the scales used in the study, data collection procedure and pre-testing processes. Finally, Chapter 4 presented the data analysis technique used for testing hypotheses: OLS regression.

This chapter introduces the descriptive analysis and hypothesis testing results. This chapter is divided into eight sections. Section 5.2 presents the demographic characteristics of respondents such as age, marriage, employment and education. Section 5.3 clarifies the construct validity and Section 5.4 provides EFA. CFA is discussed in Section 5.5. Section 5.6 presents descriptive statistics and correlations of variables. The results obtained from hypothesis testing are presented in Section 5.7. This chapter closes with a summary (see Section 5.8).

5.2 Descriptive Analysis

5.2.1 Respondent demographics

This section presents the demographic characteristics of respondents including age, gender, education, employment status, number of years working in this company and other information. As mentioned, the sample comprised 233 banking employees in Australia. Most respondents were 37 years old, the average based on age of banking employee. The average tenure of banking employees five years, which was the longest duration of service.

Of the 233 employees, 42.9 per cent of were male and 50.6 percent were female. Regarding job type, 57.1 per cent of respondents were full time, 20.6 per cent were part time and 15.9 per cent were casual employees.
Regarding the education level, 7.7 per cent of respondents held bachelor’s degrees, 15.9 per cent had completed high school, 19.3 per cent had TAFE certificates, 5.6 per cent held certificates from registered training organisation and 7.3 per cent had some university degree. The number of respondents with a university degree comprised 37.8 per cent, which was the highest percent.

5.3 Construct Validity

Construct validity refers ‘Extent to which a set of measured variables actually represents the theoretical latent construct those variables are designed to measure’ (Hair et al. 2013, p. 601). According to Branine and Pollard (2010), the construct validity of the scales could be assessed by its convergent and discriminant validity. Hair et al. (2013) proposed that to ensure convergent validity, the items that are indicators of a specific construct should coverage or share a high proportion of variance. Discriminant validity is the extent to which a construct is truly distinct from other constructs. Several approaches are available to estimate the relative amount of convergent validity among item measures.

The size of factor loading is an important consideration. Hair (2010) suggested that factor loadings should be bigger than 0.50. Koufteros (1999) asserted that to show convergent validity, the significant t-values are very important. Further, the acceptable reliability of items is specified by measuring $R^2$ or SMC values. Hair et al. (2013) proposed that an acceptable reliable item must have an $R^2$ value bigger than 0.30 and ideally 0.50 or above. For construct validity, standardised estimations of 0.50 but ideally 0.70 and above are suggested (Hair et al. 2013).

Assessment of discriminant validity is based on checking the correlation coefficient between any two constructs. A correlation value larger than 0.85 indicates that the items of interest represent the same concept and may be collected as a single item (Kline 2010). Unidimensionality exists when the indicator items load on just one construct and may be
estimated through model fit parameters. Unidimensionality may be established if the fit parameters of the model with all factors defined to be loaded are acceptable on just one construct (Dibble, Levine & Park 2011; Koufteros 1999; Slocum-Gori & Zumbo 2011). Therefore, in this thesis, discriminant validity was evaluated through running a correlation analysis of each measurement scale.

5.4 **Exploratory Factor Analysis**

EFA is a cluster of common methods employed to explore the underlying pattern of relations among multiple observed variables (Baglin 2014). EFA is useful for assessing the dimensionality of questionnaire scales that measure underlying latent variables (Baglin 2014). An EFA was conducted to determine if the items loaded onto the relevant factors.

In this study, factorability was examined to find the appropriateness of the gathered data for the EFA model. The factorability of data was estimated by two tests: the Kaiser–Meyer–Olkin (KMO) measure of sampling adequacy and Bartlett’s test of sphericity (Pallant 2013). As suggested by Hair (2010), data are factorable when the KMO is between 0.5 and 1 and Bartlett’s test of sphericity is significant (< 0.05). Tabachnick, Fidell and Ullman (2007) proposed that if the KMO is above 0.60, the data is factorable. Table 5.1 demonstrates the results of KMO and Bartlett’s test of sphericity.
Table 5.1

*KMO and Bartlett’s Test of Sphericity*

<table>
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<tr>
<th>Constructs</th>
<th>Number of Items</th>
<th>KMO</th>
<th>Bartlett’s Test</th>
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<td>000</td>
</tr>
<tr>
<td>Organisational identification</td>
<td>6</td>
<td>.853</td>
<td>000</td>
</tr>
<tr>
<td>Customer orientation</td>
<td>6</td>
<td>.771</td>
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<td>000</td>
</tr>
<tr>
<td>Ethical climate</td>
<td>14</td>
<td>.954</td>
<td>000</td>
</tr>
<tr>
<td>Employee in-role performance</td>
<td>7</td>
<td>.933</td>
<td>000</td>
</tr>
</tbody>
</table>

Table 5.1 presents the KMO value for each construct, ranging from 0.771–0.954, significantly above the minimum satisfactory level \((p > 0.60)\), and hence, displaying sampling appropriateness. The Bartlett’s test of sphericity results was significant \((p < 0.05)\) for each construct, demonstrating a sufficient relationship between the items included in the analysis (Field 2009; Hair 2010). These results recognise EFA factorability (Hair et al. 2013; Pallant 2011). Table 5.2 demonstrates the outcomes of the EFA. The results show that the ethical leadership items loaded on the relevant factors.
Table 5.2

*Factor Loading on Ethical Leadership*

<table>
<thead>
<tr>
<th>Ethical Leadership Scale</th>
<th>Factor Loading Factor 1</th>
<th>Factor Loading Factor 2</th>
<th>Communalities</th>
</tr>
</thead>
<tbody>
<tr>
<td>My supervisor listens to what employees have to say.</td>
<td>0.384</td>
<td>0.744</td>
<td>0.701</td>
</tr>
<tr>
<td>My supervisor disciplines employees who violate ethical standards.</td>
<td>0.387</td>
<td>0.741</td>
<td>0.699</td>
</tr>
<tr>
<td>My supervisor conducts his/her personal life in an ethical manner.</td>
<td>0.362</td>
<td>0.8</td>
<td>0.771</td>
</tr>
<tr>
<td>My supervisor has the best interests of employees in mind.</td>
<td>0.635</td>
<td>0.457</td>
<td>0.612</td>
</tr>
<tr>
<td>My supervisor makes fair and balanced decisions.</td>
<td>0.999</td>
<td>-0.008</td>
<td>0.999</td>
</tr>
<tr>
<td>My supervisor can be trusted.</td>
<td>0.813</td>
<td>-0.003</td>
<td>0.662</td>
</tr>
<tr>
<td>My supervisor discusses business ethics or values with employees.</td>
<td>0.395</td>
<td>0.688</td>
<td>0.63</td>
</tr>
<tr>
<td>My supervisor sets an example of how to do things the right way in terms of ethics.</td>
<td>0.304</td>
<td>0.524</td>
<td>0.367</td>
</tr>
<tr>
<td>My supervisor defines success not just by results but also the way that they are obtained.</td>
<td>0.454</td>
<td>0.657</td>
<td>0.639</td>
</tr>
<tr>
<td>My supervisor when making decisions, asks ‘what is the right thing to do?’</td>
<td>0.345</td>
<td>0.291</td>
<td>0.204</td>
</tr>
</tbody>
</table>

KMO and Bartlett’s test

<table>
<thead>
<tr>
<th>Approx. Chi-square</th>
<th>1411.472</th>
</tr>
</thead>
<tbody>
<tr>
<td>df</td>
<td>45</td>
</tr>
<tr>
<td>Sig.</td>
<td>0</td>
</tr>
</tbody>
</table>

SMO measure of sampling adequacy
Table 5.3 presents the OID items loaded on the relevant factors.

### Table 5.3

**Factor Loading on OID**

<table>
<thead>
<tr>
<th>Organisational Identification Scale</th>
<th>Factor Loading</th>
<th>Communalities</th>
</tr>
</thead>
<tbody>
<tr>
<td>When someone criticises my company, it feels like a personal insult.</td>
<td>0.702</td>
<td>0.492</td>
</tr>
<tr>
<td>I am very interested in what others think about this bank.</td>
<td>0.667</td>
<td>0.445</td>
</tr>
<tr>
<td>When I talk about this bank, I usually say ‘we’ rather than ‘they’.</td>
<td>0.619</td>
<td>0.383</td>
</tr>
<tr>
<td>This bank’s successes are my successes.</td>
<td>0.786</td>
<td>0.618</td>
</tr>
<tr>
<td>When someone praises this bank, it feels like a personal compliment.</td>
<td>0.767</td>
<td>0.589</td>
</tr>
<tr>
<td>If a story in the media criticised this bank, I would feel embarrassed.</td>
<td>0.847</td>
<td>0.717</td>
</tr>
</tbody>
</table>

**KMO and Bartlett’s Test**

<table>
<thead>
<tr>
<th>Approx. Chi-square</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>629.95</td>
<td>0</td>
</tr>
</tbody>
</table>

**KMO measure of sampling adequacy**

<table>
<thead>
<tr>
<th>df</th>
</tr>
</thead>
<tbody>
<tr>
<td>15</td>
</tr>
</tbody>
</table>

**Bartlett’s test of sphericity**

<table>
<thead>
<tr>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>0</td>
</tr>
</tbody>
</table>
Table 5.4 presents the EC items loaded on the relevant factors.

Table 5.4

**Factor Loading on EC**

<table>
<thead>
<tr>
<th>Ethical Climate Scale</th>
<th>Factor Loading</th>
<th>Communalities</th>
</tr>
</thead>
<tbody>
<tr>
<td>The most important concern is the good of all the people in the (company) as a whole.</td>
<td>0.625</td>
<td>0.39</td>
</tr>
<tr>
<td>What is best for everyone in the (company), is the major consideration here.</td>
<td>0.837</td>
<td>0.701</td>
</tr>
<tr>
<td>Our major concern is always what is best for the other person.</td>
<td>0.855</td>
<td>0.731</td>
</tr>
<tr>
<td>In this (company), people are expected to follow their own personal and moral beliefs.</td>
<td>0.871</td>
<td>0.759</td>
</tr>
<tr>
<td>In this (company), people are guided by their own personal ethics.</td>
<td>0.774</td>
<td>0.598</td>
</tr>
<tr>
<td>Each person in this (company) decides for themselves what is right and wrong.</td>
<td>0.844</td>
<td>0.712</td>
</tr>
<tr>
<td>In this (company), the law or ethical code of their profession is the major consideration.</td>
<td>0.788</td>
<td>0.622</td>
</tr>
<tr>
<td>In this (company), people are expected to strictly follow legal or professional standards.</td>
<td>0.837</td>
<td>0.701</td>
</tr>
<tr>
<td>People are expected to comply with the law and professional standards over and above other considerations.</td>
<td>0.882</td>
<td>0.779</td>
</tr>
<tr>
<td>Successful people in this (company) go by the book.</td>
<td>0.811</td>
<td>0.657</td>
</tr>
<tr>
<td>People in this (company) strictly obey the hospital policies.</td>
<td>0.775</td>
<td>0.601</td>
</tr>
<tr>
<td>People are expected to do anything to further the (company) interests, regardless of the consequences.</td>
<td>0.735</td>
<td>0.54</td>
</tr>
<tr>
<td>There is no room for one's own personal morals or ethics in this (company).</td>
<td>0.739</td>
<td>0.546</td>
</tr>
<tr>
<td>In this (company), people protect their own interests above all else.</td>
<td>0.815</td>
<td>0.665</td>
</tr>
</tbody>
</table>

KMO and Bartlett’s test.

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2790.588</td>
<td>df 91</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Sig. 0</td>
</tr>
</tbody>
</table>

133
Table 5.5 presents the SC items loaded on the relevant factors.

Table 5.5

*Factor Loading on SC*

<table>
<thead>
<tr>
<th>Service climate scale</th>
<th>Factor Loading</th>
<th>Communalities</th>
</tr>
</thead>
<tbody>
<tr>
<td>How would you rate the job knowledge and skills of employees in your business to deliver superior quality work and service?</td>
<td>0.887</td>
<td>0.787</td>
</tr>
<tr>
<td>How would you rate efforts to measure and track the quality of the work and service in your business?</td>
<td>0.827</td>
<td>0.684</td>
</tr>
<tr>
<td>How would you rate the recognition and rewards employees receive for the delivery of superior work and service?</td>
<td>0.89</td>
<td>0.791</td>
</tr>
<tr>
<td>How would you rate the overall quality of service provided by your business?</td>
<td>0.88</td>
<td>0.775</td>
</tr>
<tr>
<td>How would you rate the leadership shown by management in your business in supporting the service quality effort?</td>
<td>0.839</td>
<td>0.703</td>
</tr>
<tr>
<td>How would you rate the effectiveness of our communications efforts to both employees and customers?</td>
<td>0.838</td>
<td>0.702</td>
</tr>
<tr>
<td>How would you rate the tools, technology, and other resources</td>
<td>0.714</td>
<td></td>
</tr>
</tbody>
</table>

KMO and Bartlett’s test.  
Approx. Chi-square. 1343.074

KMO measure of sampling adequacy.  
df 21

Bartlett’s test of sphericity.  
Sig. 0
Table 5.6 presents the CO items loaded on the relevant factors.

Table 5.6

*Factor Loading on CO*

<table>
<thead>
<tr>
<th>Customer orientation scale</th>
<th>Factor Loading</th>
<th>Communalities</th>
</tr>
</thead>
<tbody>
<tr>
<td>I am always working to improve the service I give to customers.</td>
<td>0.736</td>
<td>0.541</td>
</tr>
<tr>
<td>I have specific ideas about how to improve the service I give to customers.</td>
<td>0.628</td>
<td>0.394</td>
</tr>
<tr>
<td>I often make suggestions about how to improve customer service in my department.</td>
<td>0.73</td>
<td>0.534</td>
</tr>
<tr>
<td>I put a lot of effort into my job to try to satisfy customers.</td>
<td>0.918</td>
<td>0.842</td>
</tr>
<tr>
<td>No matter how I feel, I always put myself out for every customer I serve.</td>
<td>0.449</td>
<td>0.201</td>
</tr>
<tr>
<td>I often go out of my way to help customers.</td>
<td>0.429</td>
<td>0.184</td>
</tr>
</tbody>
</table>

KMO and Bartlett’s test.

| KMO measure of sampling adequacy.                                                          | Approx. Chi-square | 508.626 |
| Bartlett’s test of sphericity.                                                             | df                | 15      |
|                                                                                           | Sig.              | 0       |
Table 5.7 presents the employee in-role performance items loaded on the relevant factors.

Table 5.7

*Factor Loading on Employee in-role Performance*

<table>
<thead>
<tr>
<th>Employee in-role performance scale</th>
<th>Factor Loading</th>
<th>Communalities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Adequately completes assigned duties.</td>
<td>0.736</td>
<td>0.541</td>
</tr>
<tr>
<td>How would you rate efforts to measure and track the quality of the work?</td>
<td>0.628</td>
<td>0.394</td>
</tr>
<tr>
<td>Performs tasks that are expected of him/her.</td>
<td>0.73</td>
<td>0.534</td>
</tr>
<tr>
<td>Meets formal performance requirements of the job.</td>
<td>0.918</td>
<td>0.842</td>
</tr>
<tr>
<td>Engage in activities that will directly affect him/her performance evaluation.</td>
<td>0.449</td>
<td>0.201</td>
</tr>
<tr>
<td>Neglects aspects of the job he/she is obligated to perform.</td>
<td>0.429</td>
<td>0.184</td>
</tr>
</tbody>
</table>

Fails to perform essential duties.

KMO and Bartlett’s test

<table>
<thead>
<tr>
<th>Approx. Chi-square</th>
<th>1426.718</th>
</tr>
</thead>
</table>

KMO measure of sampling adequacy.

| df | 21 |

Bartlett’s test of sphericity.

| Sig. | 0  |
5.5 Confirmatory Factor Analysis

The previous section discussed EFAs. This method does not provide a wide assessment of construct validity and unidimensionality (Hair et al. 2013). According to Hair et al. (2013, p. 601), construct validity refers to ‘extent to which a set of measured variables actually represents the theoretical latent construct those variables are designed to measure’. Unidimensionality refers to the set of measured variables of only one underlying construct (Hair et al. 2013).

CFA is an adoptable tool that analyses theoretically grounded measurement models by determining the number of latent constructs expected to affect obvious measures and the pattern of these effects. Distefano and Hess (2005) stated that CFA is used to support an existing structure, refine an existing model and assess a known factorial structure in additional populations. A CFA was conducted to support the recognised factor structures to strengthen the outcomes of the EFA. The method included examining how a model constructs the factor structure fitted the data and evaluating model indices to test construct validity and unidimensionality. Based on Hair (2010), a CFA model is the factor structure that draws a set of relations to demonstrate how the measured items stand for latent factors.

Anderson and Gerbing (1988) proposed that CFA is one of the best techniques since it provides a complete estimation. In this research, a CFA was employed to approximate construct validity and unidimensionality. According to Hair et al. (2013), CFA allows researchers to assess the structure of factors and whether its particular pattern of loadings matches the data.

5.5.1 Estimation of model fit and assessment methods

Goodness-of-fit indicates how well the specified model reproduces the covariance matrix among the indicator items. Normally, the model is accepted if the fit parameters are confirmed as good. In the event of complete rejection, generally a model with unacceptable fit
parameters is respecified to improve model fit. Hair et al. (2013) identified three types of fit parameters.

Absolute fit indices are a direct measure of how well the model specified by the researcher reproduces the observed data (Hair et al. 2013). The basic index for this is Chi-square ($\chi^2$) statistics, which cover the value of $\chi^2$, degree of freedom (df) and significance level (p-value). Thadani and Cheung (2011) stated that a value close to 0.90 reflects a good fit model.

There are some alternative fit indices for measuring the degree of model fit (Shah & Goldstein 2006). These are normed Chi-square ($\chi^2$/df), goodness-of-fit index (GFI), adjusted-goodness-of-fit index (AGFI), standardised root mean-square residual (SRMR) and root mean-square error of approximation (RMSEA).

Incremental indices, according to Hair et al (2013), evaluate how well a specified model fits relative to some alternative baseline model: 1) the null mode, the observed variables are uncorrelated; and 2) the model that fits preferably with the data. Incremental fit indices include normed-fit index (NFI), Tucker–Lewis index (TLI), comparative-fit index (CFI) and incremental fit index (Ifie). For the AGFI, values range between 0 and 1; generally, it is accepted that values of 0.80 or greater indicate well-fitting models (Chau & Hu 2001). CFI ranges from 0 (poor fit) to 1 (perfect fit), and a level of 0.90 or greater is highly suggested (Hair 2010). The non-normed fit index (NNFI) is also identified as the Tucker–Lewis index. The problem with NNFI is that, due to its non-normed nature, values can rise above 1.0, and thus, can be difficult to interpret (Byrne 1998). A cut-off as low as 0.80 is permissible (Hair 2010; Hooper, Coughlan & Mullen 2008) but a value above 0.90 is suggested (Hair 2010).

According to Hair (2010), parsimony tests the parsimony of the proposed model by evaluating the fitness of the model to the number of estimated coefficients required to achieve the level of fit. In this category, Chi-square ($\chi^2$/df) is the most popular fitness index, which is
known as CMIN, and was used to evaluate this model. In this measure, for the $\chi^2$/df ratio, less than 5.0 indicates a reasonable fit model (Ullman 1996; Bollen 1989).

According to Hair et al. (2013), in addition to degrees of freedom (df) and Chi-square ($\chi^2$) value, at least one absolute index (RMSEA or SRMR) and one incremental index (CFI or TLI) and must be reported. In this thesis, six model fit indices were employed: $\chi^2$/df, RMSEA, CFI, TLI and IFI. The $\chi^2$ was employed in cross classification to detect any association between two nonmetric measures. The model shows the significant Chi-square, $\chi^2 = 2.761$, $p < 0.001$.

Fit indices proposed a reasonable fit linked with this model (CFI = 0.80, IFI = 0.81, RMSEA = 0.08). The sample size for measuring ethical leadership, employee in-role performance, EC, OID, CO and SC is 233. This thesis evaluated model fit based on chosen fit measures as suggested by Byrne (2016) and Kline (2010), as summarised in Table 5.8.

Table 5.8

Criteria for a Model Fit

<table>
<thead>
<tr>
<th>Fit Indices</th>
<th>Acceptable Value</th>
<th>Sources</th>
</tr>
</thead>
<tbody>
<tr>
<td>Absolute fit</td>
<td>Good fit: values close to 0.9</td>
<td>Thadani &amp; Cheung (2011)</td>
</tr>
<tr>
<td>GFI</td>
<td>Values below 0.1 reflect an</td>
<td>Thadani &amp; Cheung (2011)</td>
</tr>
<tr>
<td>RMSEA</td>
<td>acceptable fit</td>
<td></td>
</tr>
<tr>
<td>Incremental fit</td>
<td>Good fit: values &gt; 0.8 values close</td>
<td>Chau &amp; Hu (2001); Thadani</td>
</tr>
<tr>
<td>AGFI</td>
<td>to 0.9</td>
<td>&amp; Cheung (2011)</td>
</tr>
<tr>
<td>CFI</td>
<td>Good fit: values 0.9 and above</td>
<td>Hair et al. (2010); Chau &amp;</td>
</tr>
<tr>
<td>TLI</td>
<td>Good Fit: values 0.9 and above</td>
<td>Hu (2001); Hair et al. (2010)</td>
</tr>
<tr>
<td>Parsimony fit</td>
<td>Reasonable fit: 1 &lt; values &lt; 5</td>
<td>Hair et al. (2010)</td>
</tr>
<tr>
<td>Chi-square statistics</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
5.5.2 Common method variance

Podsakoff et al. (2003, p. 879) proposed that common method variance refers ‘variance that is attributable to the measurement method rather than to the constructs the measures represent’. Method biases are the main sources of measurement error and indicate a problem (Podsakoff, Todor & Schuler 1983). Regarding the associations between measures, measurement error threatens the validity of the conclusions (Bagozzi & Yi 1991; Podsakoff et al. 2003; Spector 1987).

Podsakoff et al. (2003) proposed that the CMV influence could be reduced in several ways. One of these methods is the separation of the predictor measurement and criterion variables. Temporal, psychological or proximal separation between the predictor measurement and criterion variables has several beneficial effects. First, in the retrieval stage of the answer procedure, it should reduce biases by removing the saliency of any contextually provided retrieval cues. Second, to use previous responses to fill in gaps in what is recalled and/or to infer missing detail, it should reduce the respondent’s ability and/or motivation (Podsakoff et al. 2003). To minimise the CMV effect, the gathered data were employed based on both surveys, which were completed by respondents to test the research hypotheses. Therefore, all variables in this study were measured in Wave 1 and Wave 2.

5.5.3 Testing for common method variance

CMV was tested using the latent variable approach, including adding the first-order factor to the CFA six-factor model. As proposed in the process outlined by Podsakoff et al. (2003), in the CFA model the first-order factor had all of the measures as indicators. This method has been employed in previous studies (Conger, Kanungo & Menon 2000). The model shows the significant Chi-square, $\chi^2 = 2.761$, $p < 0.001$. Fit indices proposed a reasonable fit linked with this model (CFI = 0.80, IFI = 0.81, RMSEA = 0.08). A comparison of this model to the original CFA (the four-factor model) indicated that allowing the items to load on a
method latent variable did not significantly improve fit. The Harman’s single factor has been applied to test common method variance in this thesis. It accounted for 58.53% of the total variances which suggests CMV is a problem in this study.

5.6 Descriptive Statistics and Correlations

Table 5.9 demonstrates descriptive statistics and correlation variables included in this study in Waves 1 and 2.

Table 5.9

Descriptive Statistics and Correlations

<table>
<thead>
<tr>
<th></th>
<th>Mean</th>
<th>SD</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>6</th>
</tr>
</thead>
<tbody>
<tr>
<td>EP</td>
<td>3.42</td>
<td>0.84</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>EL</td>
<td>3.67</td>
<td>0.73</td>
<td>0.73**</td>
<td>(0.90)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>SC</td>
<td>1.87</td>
<td>0.80</td>
<td>-0.43**</td>
<td>-0.44**</td>
<td>(0.94)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>CO</td>
<td>3.31</td>
<td>0.76</td>
<td>-0.33**</td>
<td>0.51**</td>
<td>-0.24**</td>
<td>(0.80)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>OI</td>
<td>2.74</td>
<td>0.88</td>
<td>-0.68**</td>
<td>-0.76**</td>
<td>0.44**</td>
<td>-0.36**</td>
<td>(0.87)</td>
<td></td>
</tr>
<tr>
<td>EC</td>
<td>3.50</td>
<td>0.79</td>
<td>-0.88**</td>
<td>-0.76**</td>
<td>-0.48**</td>
<td>0.37**</td>
<td>-0.71**</td>
<td>(0.95)</td>
</tr>
</tbody>
</table>

N = 233, *p < 0.05, **p < 0.01, ***p < 0.001.
Notes: All variables were measured in two waves of the survey. Cronbach’s alpha for each scale is reported in parentheses on the diagonal.

5.7 Hypothesis Testing

In this thesis, OLS regression analysis was the most appropriate procedure to examine the associations between variables in this research. The reason is that based on Shapiro–Wilk test of normality, the data were not normal. The use of regression is an appropriate alternative because it accounts for non-normal data for reduction of standard error (Field 2013; Gelman & Hill 2007). The OLS regression analysis was applied to test the five initial hypothesis because OLS is an appropriate way of analysing the first data set in this thesis.
5.7.1 Hypothesis 1: Ethical leadership positively affects employee in-role performance

Hypothesis 1 predicted that ethical leadership would significantly predict employee in-role performance. Table 5.10 shows the outcomes of a regression using ethical leadership to predict employee in-role performance.

Table 5.10

Regression Analysis: Ethical Leadership Predicting Employee In-Role-Performance

<table>
<thead>
<tr>
<th>Variables</th>
<th>b</th>
<th>s.e.</th>
<th>β</th>
</tr>
</thead>
<tbody>
<tr>
<td>Constant</td>
<td>0.35</td>
<td>0.19</td>
<td></td>
</tr>
<tr>
<td>Ethical leadership</td>
<td>0.83***</td>
<td>0.05</td>
<td>0.73</td>
</tr>
<tr>
<td>Employee performance</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>R2</td>
<td>0.53***</td>
<td></td>
<td></td>
</tr>
<tr>
<td>ΔR2</td>
<td>0.53***</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

N = 233, *p < .05, **p < .01, ***p < .001

Results of the OLS regression indicate support for Hypothesis 1, which shows that ethical leadership ($b = 0.836, \text{s.e.} = 0.51, p < 0.001$) is a significant predictor of employee in-role performance. The value of $b$ shows a positive value, demonstrating that ethical leadership positively influences the dependent variable of employee in-role performance. The table above demonstrates $r^2 = 0.534$ indicated that the ethical leadership that is independent variable explained dependent variable 53.4% of the observed variance in the dependent variable employee in-role performance. Hypothesis 1, therefore, is supported.
5.7.2 Hypothesis 2: Organisational identification mediates the relationship between ethical leadership and employee in-role performance

Hypothesis 2 predicted that OID would mediate the relationship between ethical leadership and employee in-role performance. Figure 5.1 presents the results of the mediation regression for Hypothesis 2.

Figure 5.1 Mediating effect of organisational identification in the relationship between ethical leadership and employee in-role performance.

Regression analysis was used to investigate the hypothesis that OID mediates the relationship between ethical leadership and employee in-role performance. Results indicated that OID mediates this relationship. As Figure 5.1 illustrates, the standardised regression coefficient between ethical leadership and OID was statistically significant, as was the standardised regression coefficient between OID and employee in-role performance. The significance of the indirect effect was tested using bootstrapping procedures. Unstandardised indirect effects were computed for each of the 5,000 bootstrapped samples, and the 95 per cent confidence interval was computed by determining the indirect effects at the 2.5th and 97.5th percentiles. The bootstrapped unstandardised indirect effect was 0.26 and the 95% confidence
interval ranged from 0.12–0.42. Thus, the indirect effect was statistically significant, and Hypothesis 2 is supported.

5.7.3 Hypothesis 3: Customer orientation mediates the relationship between ethical leadership and employee in-role performance

Hypothesis 3 predicted that CO mediates the relationship between ethical leadership and employee in-role performance. Figure 5.2 presents the results of the mediated regression used to test Hypothesis 3.

Figure 5.2 Mediating effect of CO in the relationship between ethical leadership and employee in-role performance.

Results indicated that CO does not mediate this relationship. As Figure 5.2 illustrates, the standardised regression coefficient between ethical leadership and CO was statistically significant, as was the standardised regression coefficient between CO and employee in-role performance. The significance of the indirect effect was tested using bootstrapping procedures. Unstandardised indirect effects were computed for each of the 5,000 bootstrapped samples, and the 95 per cent confidence interval was computed by determining the indirect effects at the 2.5th and 97.5th percentiles. The bootstrapped unstandardised indirect effect was −0.30 and the
per cent confidence interval ranged from 0.09–0.28. Thus, the indirect effect was not statistically significant, and Hypothesis 3 is not supported.

### 5.7.4 Hypothesis 4: Service climate mediates the relationship between ethical leadership and employee in-role performance

Hypothesis 4 predicted that SC mediates the relationship between ethical leadership and employee in-role performance. Figure 5.3 represents the outcome of this mediation model.

![Diagram](image)

**Figure 5.3** Mediating effect of SC in the relationship between ethical leadership and employee in-role performance.

The results from testing this mediation model indicated support for Hypothesis 4. As Figure 5.3 illustrates, the standardised regression coefficient between ethical leadership and SC was statistically significant, as was the standardised regression coefficient between SC and employee in-role performance. The significance of the indirect effect was tested using bootstrapping procedures. Unstandardised indirect effects were computed for each of the 5,000 bootstrapped samples, and the 95 per cent confidence interval was computed by determining the indirect effects at the 2.5th and 97.5th percentiles. The bootstrapped unstandardised indirect effect was 0.06 and the 95 per cent confidence interval ranged from 0.01–0.14. Thus, the indirect effect was statistically significant, and Hypothesis 4 is supported.
5.7.5 Hypothesis 5: Ethical climate mediates the relationship between ethical leadership and employee in-role performance

Our final hypothesis predicted that EC mediates the relationship between ethical leadership and employee performance. Figure 5.4 presents the outcome of this mediation model.

As Figure 5.4 illustrates, the standardised regression coefficient between ethical leadership and EC was statistically significant, as was the standardised regression coefficient between EC and employee in-role performance. The significance of the indirect effect was tested using bootstrapping procedures. Unstandardised indirect effects were computed for each of the 5,000 bootstrapped samples, and the 95 per cent confidence interval was computed by determining the indirect effects at the 2.5th and 97.5th percentiles. The bootstrapped unstandardised indirect effect was 0.68 and the 95 per cent confidence interval ranged from 0.56–0.82. Thus, the indirect effect was statistically significant, and Hypothesis 5 is supported.
5.8 Summary

This study addressed five gaps in the ethical leadership area (see Chapter 3). First, there is a lack of research on boundary conditions in the relationship between ethical leadership and employee in-role performance. Second, there is a lack of research on the relationship between ethical leadership and OID. Third, there is a lack of research on the relationship between leadership styles and SC. Forth, while several studies have examined relationships between EC and various work outcomes, little attention has been paid to factors that form or foster an EC. Finally, there is a lack of research regarding the relationship between leadership and CO.

The findings presented in this chapter show that ethical leaders, based on their characteristics, influence their employees’ in-role performance. These findings show that OID, SC and EC mediate the relationship between ethical leadership and performance. Finally, CO did not mediate the relationship between ethical leadership and in-role performance.
Chapter 6: Research Findings (2)

6.1 Introduction

The study presented in this thesis consists of two data collections: (1) a two-wave survey of 233 employees in an Australian bank using OLS regression; and (2) Qualtrics to collect extra data from 187 employees. As discussed previously, Qualtrics collected another round of data from 187 employees of a different, but similarly sized bank because the original organisation did not allow for a third wave of data collection. Therefore, the Qualtrics data were used to add depth to the research and test the final hypothesis. With extra data, the five initial hypotheses were retested and a new sixth hypothesis was tested.

Chapter 5 presented descriptive analysis, validity, EFA, CFA and CMV tests for the first dataset. The results of the hypothesis testing using OLS are described in Chapter 5. Specifically, Chapter 5 also found a significant relationship between ethical leadership and employee in-role performance. It determined that OID, SC and EC mediate the relationship between ethical leadership and employee in-role performance. Moreover, CO did not mediate the relationship between ethical leadership and employee n-role performance. The second dataset was used to retest the mediator hypotheses, and test a new sixth hypothesis. This chapter presents the results of hypothesis testing for the second dataset.
6.2 Descriptive Statistics and Correlations

Table 6.1 presents descriptive statistics and correlations variables included in this study in Waves 1 and 2.

Table 6.1

Descriptive Statistics and Correlations

<table>
<thead>
<tr>
<th></th>
<th>Mean</th>
<th>SD</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>6</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. EP</td>
<td>3.80</td>
<td>0.64</td>
<td>(0.72)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2. EL</td>
<td>3.77</td>
<td>0.86</td>
<td>0.39**</td>
<td>(0.93)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3. SC</td>
<td>3.70</td>
<td>0.76</td>
<td>0.64** 0.64**</td>
<td>(0.89)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4. CO</td>
<td>4.15</td>
<td>0.66</td>
<td>0.41** 0.33** 0.43**</td>
<td>(0.88)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5. OI</td>
<td>3.60</td>
<td>0.77</td>
<td>0.45** 0.41** 0.53** 0.39**</td>
<td>(0.80)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>6. EC</td>
<td>3.55</td>
<td>0.54</td>
<td>0.64** 0.47** 0.58** 0.45** 0.49**</td>
<td>(0.79)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

N = 187, *p < 0.05, **p < 0.01, ***p <0.001.
Notes: All variables were measured in two waves of the survey. Cronbach’s alpha for each scale is reported in parentheses on the diagonal.

6.3 Hypothesis Testing

6.3.1 Hypothesis 1: Ethical leadership positively affects employee in-role performance

Hypothesis 1 predicted that ethical leadership would significantly predict employee in-role performance. Table 6.2 shows the outcomes of regression using ethical leadership to predict employee in-role performance.

Results of the regression indicate support for Hypothesis 1, which shows that ethical leadership (b = 0.295, s.e. = 0.05, p < 0.001) is a significant predictor of employee in-role performance. The value of b shows a positive value, demonstrating that ethical leadership
positively influences the dependent variable—employee in-role performance. Table 6.2 demonstrates $r^2 = 0.156$ indicated that the ethical leadership that is independent variable explained dependent variable 15.6% of the observed variance in the dependent variable employee performance. Hypothesis 1, therefore, is supported.

Table 6.2

*Regression Analysis: Ethical Leadership Predicting Employee In-Role-Performance*

<table>
<thead>
<tr>
<th>Variables</th>
<th>b</th>
<th>s.e.</th>
<th>β</th>
</tr>
</thead>
<tbody>
<tr>
<td>Constant</td>
<td>2.69</td>
<td>0.19</td>
<td></td>
</tr>
<tr>
<td>Ethical leadership</td>
<td>0.29***</td>
<td>0.05</td>
<td>0.39</td>
</tr>
<tr>
<td>Employee performance</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>R2</td>
<td>0.15***</td>
<td></td>
<td></td>
</tr>
<tr>
<td>ΔR2</td>
<td>0.15***</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

N = 187, *p < 0.05, **p < 0.01, ***p < 0.001.

6.3.2 Hypothesis 2: Organisational identification mediates the relationship between ethical leadership and employee in-role performance

Hypothesis 2 predicted that OID mediates the relationship between ethical leadership and employee in-role performance. Figure 6.1 presents the results of the mediation regression for Hypothesis 2.
Regression analysis was used to investigate the hypothesis that OID mediates the relationship between ethical leadership and employee in-role performance. Results indicated that OID does mediate this relationship. As Figure 6.1 illustrates, the standardised regression coefficient between ethical leadership and OID was statistically significant, as was the standardised regression coefficient between OID and employee in-role performance. The significance of the indirect effect was tested using bootstrapping procedures. Unstandardised indirect effects were computed for each of the 5,000 bootstrapped samples, and the 95 per cent confidence interval was computed by determining the indirect effects. The bootstrapped standardised indirect effect was 0.15 and the 95 per cent confidence interval ranged from 0.07–0.24. Thus, the indirect effect was statistically significant, and Hypothesis 2 is supported.
6.3.3 Hypothesis 3: Customer orientation mediates the relationship between ethical leadership and employee in-role performance

Hypothesis 3 predicted that CO mediates the relationship between ethical leadership and employee in-role performance. Figure 6.2 presents the results of the mediated regression used to test Hypothesis 3.

![Diagram showing mediation effect]

Figure 6.2 CO mediates the relationship between ethical leadership and employee performance.

Regression analysis was used to investigate the hypothesis that CO mediates the relationship between ethical leadership and employee in-role performance. Results indicated that CO does mediate this relationship. As Figure 6.2 illustrates, the standardised regression coefficient between ethical leadership and CO was statistically significant, as was the standardised regression coefficient between CO and employee in-role performance. The significance of the indirect effect was tested using bootstrapping procedures. Unstandardised indirect effects were computed for each of the 5,000 bootstrapped samples, and the 95 per cent confidence interval was computed by determining the indirect effects. The bootstrapped standardised indirect effect was 0.10 and the 95 per cent confidence interval ranged from 0.04–0.18. Thus, the indirect effect was statistically significant, and Hypothesis 3 is supported.
6.3.4 Hypothesis 4: Service climate mediates the relationship between ethical leadership and employee in-role performance

Hypothesis 4 predicted that SC mediates the relationship between ethical leadership and employee in-role performance. Figure 6.3 presents the results of the mediated regression used to test Hypothesis 4.

![Diagram showing the relationship between ethical leadership, service climate, and employee performance]

\[ b = .57, p < .01 \]

\[ b = .56, p < .001 \]

**Figure 6.3** SC mediates the relationship between ethical leadership and employee performance.

Regression analysis was used to investigate the hypothesis that SC mediates the relationship between ethical leadership and employee in-role performance. Results indicated that SC does mediate this relationship. As Figure 6.3 illustrates, the standardised regression coefficient between ethical leadership and SC was statistically significant, as was the standardised regression coefficient between CO and employee in-role performance. The significance of the indirect effect was tested using bootstrapping procedures. Unstandardised indirect effects were computed for each of the 5,000 bootstrapped samples, and the 95 per cent confidence interval was computed by determining the indirect effects. The bootstrapped standardised indirect effect was 0.43 and the 95 per cent confidence interval ranged from 0.32–0.54. Thus, the indirect effect was statistically significant, and Hypothesis 4 is supported.
6.3.5 Hypothesis 5: Ethical climate mediates the relationship between ethical leadership and employee in-role performance

Hypothesis 5 predicted that EC would mediate the relationship between ethical leadership and employee in-role performance. Figure 6.4 presents the results of the mediated regression used to test Hypothesis 5.

![Diagram](image)

$\text{Ethical climate}$

$\text{Ethical leadership}$

$\text{Employee in-role}$

$\text{Direct effect: } b = .30, p < .001$

$\text{Indirect effect: } b = .28, 95\% \text{ CI [.20, .37]}$

Figure 6.4 EC mediates the relationship between ethical leadership and employee performance.

Regression analysis was used to investigate the hypothesis that EC mediates the relationship between ethical leadership and employee in-role performance. Results indicated that EC does mediate this relationship. As Figure 6.4 illustrates, the standardised regression coefficient between ethical leadership and EC was statistically significant, as was the standardised regression coefficient between CO and employee in-role performance. The significance of the indirect effect was tested using bootstrapping procedures. Unstandardised indirect effects were computed for each of the 5,000 bootstrapped samples, and the 95 per cent confidence interval was computed by determining the indirect effects. The bootstrapped
standardised indirect effect was 0.28 and the 95 per cent confidence interval ranged from 0.20–0.37. Thus, the indirect effect was statistically significant, and Hypothesis 5 is supported.

6.3.6 Hypothesis 6: Ethical climate, organisational identification, customer orientation and service climate in turn mediate the relationship between ethical leadership and employee in-role performance

Regression analysis was used to investigate the hypothesis that EC, OID, CO, and SC in turn mediate the relationship between ethical leadership and employee in-role performance. As Figure 6.5 illustrates, the standardised regression coefficient between ethical leadership and EC was statistically significant \((b = 0.31, \ p < 0.001)\), as was the standardised regression coefficient between EC and employee in-role performance. The standardised regression coefficient between ethical leadership and OID was statistically significant \((b = 0.22, \ p < 0.01)\), as was the standardised regression coefficient between OID and employee in-role performance. The standardised regression coefficient between ethical leadership and CO was not statistically significant \((b = 0.06)\), as was the standardised regression coefficient between CO and employee in-role performance. The standardised regression coefficient between ethical leadership and SC was statistically significant \((b = 0.37, \ p < 0.001)\), as was the standardised regression coefficient between SC and employee in-role performance.
coefficient between SC and employee in-role performance. Finally, the standardised regression coefficient between ethical leadership and employee in-role performance was statistically significant ($b = 0.30$, $p < 0.001$).
Chapter 7: Discussion and Conclusion

Chapters 5 and 6 presented the results obtained from hypothesis testing. The research presented in this thesis used ethical leadership theory to predict the employee in-role performance. Specifically, this thesis examined the mediating role of EC, OID, CO and SC on the relationship between ethical leadership and employee in-role performance. This chapter is presented in seven sections. Section 7.1 discusses the main results and the results of each hypothesis its consistency with the previous empirical studies. Further, it discusses the findings in relation to relevant theory and empirical literature. Section 7.2 outlines the theoretical contributions of this research to the leadership and HRM literatures and examines theoretically the process through which ethical leadership affects employee in-role performance. Section 7.3 clarifies the practical contributions of this thesis and provides practice implications for organisational leaders and HRM managers. Section 7.4 discusses the limitations of this study, while Section 7.5 provides further research directions. Finally, Section 7.6 concludes the thesis.

7.1 Discussion of Main Results

7.1.1 The relationship between ethical leadership and employee in-role performance

Based on first research question, the first hypothesis (H1) suggested that ethical leadership positively affects employee in-role performance. The results of the first hypothesis (see Figure 5.10) demonstrated that this hypothesis was supported and confirmed. This research identified a significant and positive association between ethical leadership and employee in-role performance in the Australia banking samples. This finding is consistent with the result of previous studies (Bonner, Greenbaum & Mayer 2014; Sharif & Scandura 2014; Walumbwa et al. 2011). For example, Sharif and Scandura (2014) surveyed 246 pairs of supervisor–subordinate dyads in a non-profit academic service and found a significant relationship
between ethical leadership and employee performance. Similarly, Bonner, Greenbaum and Mayer (2014) surveyed 172 employee–supervisor dyads in different organisations and found that ethical leaders influence employee performance. Frisch and Huppenbauer (2013) interviewed 17 executive leaders in different industries in Switzerland and Germany and found that executive ethical leaders increase employee performance. Walumbwa et al. (2011) examined 72 supervisors and 201 immediate direct reports in China and discovered that ethical leadership was positively related to leader–member exchange theory, OID and self-efficacy, which in turn increased employee task performance. Liu et al. (2013) collected data from 312 supervisor–subordinate dyads in a manufacturing firm in China and found that ethical leaders increase employee performance. Similarly, Obicci (2014) surveyed 160 employees in the public sector in Uganda and found that ethical leadership was the most significant predictor of employee performance. Mo and Shi (2017) studied 93 team supervisors and 486 employees in pharmaceutical retail chain companies, and found that ethical leaders increase their followers’ performance. Therefore, the results of these studies support a positive association between ethical leadership and employee in-role performance.

This thesis argues that the role of ethical leaders in organisations (e.g., banking) is important in increasing employee in-role performance. When employees perceive their leaders’ behaviour as ethical, they may wish to model their own behaviour on such an ethical exemplar (Brown, Treviño & Harrison 2005) This may translate into higher levels of performance (Brown, Treviño & Harrison 2005). Social exchange theory (Blau 1964; Cropanzano & Mitchell 2005) and social learning theory (Bandura 1977) are primary mechanisms through which ethical leaders influence employee attitudes and behaviours. Consistent with Brown and colleagues’ findings, this study reported that based on social learning theory (Bandura1977) and social exchange theory (Blau 1964; Cropanzano & Mitchell 2005), ethical leadership should predict employee in-role performance. From a social exchange perspective, Cropanzano
and Mitchell (2005) and Brown, Treviño and Harrison (2005) indicated the association between ethical leadership and social exchange theory in their inspection of the effect of ethical leaders. From an employee’s perspective, ethical leaders can be believed and trusted. These kinds of leaders, through balanced decision-making, shape employees’ perceptions of the existence of a social exchange relationship (Mayer et al. 2009), so induce an exchange response. Kacmar et al. (2011) believed that a social exchange relationship depends on a norm of reciprocity. For instance, employees’ feelings of obligation at work are vital, as they force them to reciprocate beneficial treatment received from their managers (Eisenberger et al. 2001), provide guidance in self-management and frequently precede direction at work (Eisenberger et al. 2001).

This research applied social exchange theory (Cropanzano & Mitchell 2005) because this study argues that subordinates will feel personally obligated to reciprocate and are motivated to perform beyond expectations when ethical leaders are fair, guide consistently and show concern for employee wellbeing. The social learning perspective of ethical leadership suggests the effect of ethical behaviour on employees through modelling. The modelling construct is related to a broad range of psychological matching processes containing imitation, observational learning and identification. According to Bandura (1977), almost anything that can be learnt through direct experience can also be learnt by vicarious experience—that is, by observing others’ behaviour and its consequences. When the behavioural target is ethical behaviour in organisations, this process seems particularly significant. Employees can learn through modelling the behaviour that is expected, rewarded and punished. Leaders are an important source of such modelling, through their status, the virtue of their assigned role and success in the organisation, and their power to affect the conduct and outcomes of others (Bandura 1977). This theory explains why employees want to imitate their role models’ behaviours that are attractive to them in their environment (Brown, Treviño & Harrison 2005). This thesis applied social exchange theory to explain the relationship between ethical
leadership and employee in-role performance. This research contends that ethical leaders have a positive effect on employee in-role performance because by rewarding or punishing (in) appropriate behaviour, they clarify appropriate job behaviour (Brown, Treviño & Harrison 2005).

This study found that ethical leadership in the Australian banking sample is important in predicting employee in-role performance (Malik et al. 2016; Sabir et al. 2012). Australian banks need ethical leaders because, as discussed in the literature, an important characteristic of ethical leaders is their morality as managers (Brown & Treviño 2014; Brown, Treviño & Harrison 2005). When banking employees regard their immediate manager as displaying ethical behaviour (Brown, Treviño & Harrison 2005), they may model this behaviour and translate it into improved in-role performance (Brown, Treviño & Harrison 2005).

In the Australian banks, the role of ethical leadership is important given the widespread unethical conduct within the sector (Aktan, Teker & Ersoy 2009; Commonwealth of Australia 2018a, b). Through transparency, ethical managers enable bank employees to make appropriate business decisions. Therefore, ethical leaders are needed in banks because they emphasise morality, integrity, transparency, trustworthiness and encourage employees to follow the same moral values and behaviours (Brown & Mitchell 2010).

7.1.2 Mediating effect of organisational identification on the relationships between ethical leadership and employees’ in-role performance

Based on second research question, H2 was developed (and suggested that OID mediates the relationship between ethical leadership and employee in-role performance). The results of this hypothesis demonstrated that it was supported; this confirms that OID mediates the relationship between ethical leadership and employee in-role performance.
OID as a mediator in the relationship between ethical leadership and employee in-role performance is consistent with the findings of previous empirical studies. For example, Walumbwa et al. (2011) surveyed 72 supervisors and 201 immediate direct reports in China and found that OID helps to clarify the influence of ethical leadership on employee performance. Similarly, Zhu et al. (2015) collected data from 302 employees under the supervision of 27 leaders in Romanian head offices. They reported that ethical leaders developed employee OID with their leaders and organisation, which in turn increases both follower voice behaviour and job performance. Conversely, Qi and Ming-Xia (2014) collected data from 293 supervisors–follower dyads in an insurance group in China and found that identification mediates the relationship between ethical leadership and employee voice behaviour. DeConinck (2015) using a sample of 331 salespeople, investigated the link between ethical leadership and job outcomes and found that OID mediates this relationship. Demirtas et al. (2017) surveyed 440 employees and their direct supervisors in the aviation industry in Turkey. They discovered that ethical leadership has a significant and positive direct effect on OID. Therefore, the results of these studies support the idea that ethical leaders influence OID, which leads to enhanced employee performance.

This thesis found that ethical leadership influences employee in-role performance through OID. Consistent with social exchange theory (Blau 1964; Cropanzano & Mitchell 2005), this research indicates that ethical leaders, based on their characteristics, develop OID characteristics among their employees, which leads to better in-role performance. The reason for the significance of social exchange variables in the explanation of employee OID is that when the organisation promotes employees to fulfil their socio-emotional needs, employees have a responsibility and obligation to reciprocate an emotional attachment to the organisation (Ellemers, De Gilder & Haslam 2004; Riketta 2005). Therefore, the result of this study is consistent with the findings of previous studies that have applied social exchange theory to
explain the relationship between ethical leadership, OID and performance (Brown & Mitchell 2010; DeConinck 2015; Demirtas et al. 2017; Qi & Ming 2014; Walumbwa, Hartnell & Oke 2010; Zhu et al. 2015).

More specifically, the findings indicate that banks need ethical leaders because ethical leaders, based on their characteristics such as honesty, transparency, integrity, morality and ethical behaviour, develop OID among their employees (De Cremer, Brebels & Sedikides 2008; Dukerich, Golden & Shortell 2002). The outcomes confirm that in banks, ethical leaders’ behaviour develops employee identification with their organisation, which in turn positively affects employees’ in-role and extra-role performance. Ethical leadership behaviours are likely to increase follower OID because ethical leaders may increase organisational trust, feelings of respect, employee cooperation and self-esteem in an organisation (Walumbwa et al. 2011).

Previous studies found that employee OID acts as significant psychological mechanism in the influence of ethical leadership on employee task performance (Walumbwa et al. 2011). Employee with high OID tend to contribute better to their organisation (Van Knippenberg et al. 2004). This is because identification leads individuals to perceive themselves in terms of the characteristics they share with the organisation (Van Knippenberg & Schie 2000) and to promote positive responses towards their employing organisation (Dutton, Dukerich & Harquail 1994). As a consequence, individuals tend to expend more effort on behalf of the organisation (Van Knippenberg, Dreu & Homan 2004). This heightened motivation and effort may be associated with an increase in employee performance (Van Knippenberg, Dreu & Homan 2004). Supporting these arguments, a growing body of research has shown that identification is positively related to employee behaviours such as in-role performance (Pratt, Rockmann & Kaufmann 2006; Smidts et al. 2001; Walumbwa et al. 2008; Walumbwa et al. 2011).
Therefore, the role of OID in banks is important because ethical managers, based on their characteristics such as honesty, transparency and trustworthiness, developed employees’ identification with their organisation (Walumbwa et al. 2011). When employees have higher OID, they are more willing to invest effort into their work and translate it to higher performance (Chughtai & Buckley 2010). Hence, employees believe that their own performance may make a difference to the overall performance of the organisation, and the extent to which they are (or perceive they are) able to deliver better job performance (Chughtai & Buckley 2010).

Understanding the influence of OID on employee performance is a central research issue. Previous meta-analyses have identified a positive association between OID and employee performance (Van Knippenberg 2000; Van Knippenberg & Schie 2000; Riketta 2005). Indeed, some studies have found that OID is positively related to both task and job performance (Walumbwa, Avolio & Zhu 2008; Weiseke et al. 2008). The role of OID in the banks is significant, as leaders have the ability to shape employees’ identities including OID (Avolio, Walumbwa & Weber 2009; Ellemers et al. 2004; Lord & Brown 2001; Shamir, House & Arthur 1993). Leaders’ behaviours may shape how employees (Walumbwan et al. 2011) view their relationship and identification with their work organisation (Walumbwan et al. 2011). Therefore, this thesis argues that ethical leaders develop OID, which increases employee in-role performance.

7.1.3 Mediating effect of customer orientation on the relationship between ethical leadership and employee in-role performance

In this thesis, based on third research question, H3 was developed (which suggested that CO mediates the relationship between ethical leadership and employee in-role performance). The results demonstrated that while this hypothesis was rejected in the first dataset, in the second dataset by Qualtrics this hypothesis was supported.
Although the thesis suggests that there is no significant relationship between ethical leadership and CO (in the first dataset), earlier studies have shown the opposite results. These findings are inconsistent with previous study results. For instance, Lindblom, Kajalo and Mitronen (2015) collected data from 230 retail locations in Finland and found that ethical leaders positively increase employee CO. Similarly, Garba, Babalola and Guo (2018) surveyed 152 employees and their 152 co-workers from 10 hotels in Africa and found that ethical leadership positively relates to CO citizenship behaviour via increased perceived obligation.

Consistent with social learning theory (Bandura 1977) and social exchange theory (Cropanzano & Mitchell 2005), the role of ethical leaders in developing CO is important. This thesis found that based on social exchange theory (Blau 1964), ethical leadership behaviours illustrate fairness, ethicality and consideration, and ethical leaders should stimulate employees’ perceived obligation so employees feel obliged to reciprocate in kind (Mossholder, Settoon & Henagan 2005), which should increase CO. From the social learning theory (Bandura 1977) perspective, this study found that when banking managers’ exhibit ethical leadership, employees infer that managers are committed to them, and thereby, employees feel optimism and enjoy their job. Most of all, they are motivated to exert extra effort in serving and satisfying customer needs. Ethical managers encourage CO in the organisation. In the organisation, CO encourages service behaviour. When employees observe their peers engaging in service-oriented behaviour, they are likely model their peers and perform actions aimed to benefit others (i.e., the organisation) and enhance their performance.

Therefore, while this thesis observed no relationship between ethical leadership and CO in the first dataset, the role of ethical leaders in banks is still important in terms of developing customer-oriented behaviour (Lindblom, Kajalo & Mitronen 2015). In banks, employees with high CO are more inclined to build long-term customer relationships, pay attention to customers’ needs and actively engage in solving customers’ problems (Franke & Park 2006).
Moreover, when employees have stronger CO, they are more willing to invest extra effort and time into maintaining good relationships with their customers, which increases their performance (Susskind, Kacmar & Borchgrevink 2003). Although researchers have examined the antecedents of CO (Liao & Subramony 2008), it is somewhat surprising that in the existing literature, very little attention has been paid to the influence of leadership on CO (Stock & Hoyer 2005). That said, the role of leader is not only important in terms of employee motivation to meet customer needs; they are role models for service employees. Previous studies called for further research to clarify how and why leadership behaviours influence employee CO (Bell & Menguc 2002; Mengue, Auh & Shih 2007; Stock & Hoyer 2002).

CO is also an important aspect of the service delivery of individual employees (Susskind, Kacmar & Borchgrevink 2003). The delivery of high-quality service is closely related to employees’ level of CO. Contemporary financial institutions, such as banks in competitive environments, require a strong CO. When employees display higher levels of CO, the culture of the organisation will be more customer-oriented (Susskind, Kacmar & Borchgrevink 2003). Bank managers should develop a customer-oriented organisational culture to satisfy customers’ needs (Commonwealth of Australia 2018a).

7.1.4 Mediating effect of service climate on the relationship between ethical leadership and employee in-role performance

In this thesis, based on the fourth research question, H4 was developed, which suggested that SC mediates the relationship between ethical leadership and employee in-role performance. The results demonstrated that this hypothesis is supported and confirm that SC mediates the relationship between ethical leadership and employee in-role performance. The findings of this thesis indicate that ethical leadership through role modelling promotes valued behaviour and uses reinforcement to promote suitable behaviour (Brown, Treviño & Harrison 2005). This provides an opportunity to discover the associations between ethical leadership,
SC and employee performance. This finding is consistent with Einstein (2013), who collected data from banking employees in 16 bank branches in the US. They found a positive and significant relationship between ethical leadership and SC.

In line with social exchange theory (Blau 1964; Cropanzano & Mitchell 2005), this thesis found that when bank managers exhibit ethical leadership, employees infer that managers are committed to them, and thereby, employees feel optimism and enjoy their job. Most of all, they are motivated to exert extra effort in serving and satisfying customer needs. This thesis found that role of SC is important in banks for several reasons. First, SC may influence employee efforts to deliver quality service to customers (Kuenzi & Schminke 2009; Schneider, White & Paul 1998). Therefore, ethical managers in banks develop high-quality SCs, which encourage employees to perform well and prioritise customer needs and increase their performance. SC has been positively connected to perceived service quality, customer retention, customer satisfaction, customer loyalty, service-oriented behaviours and higher organisational performance (Borucki & Burke 1999; De Jong, De Ruyter & Lemmink 2004; Dietz, Pugh & Wiley 2004). Second, scholars have found that organisations with an excellent SC have higher customer satisfaction ratings (De Jong, De Ruyter & Lemmink 2004; Dietz, Pugh & Wiley 2004). Finally, SC is important in banking because managers applying ethical behaviour leads to an ethical environment and a high-quality service. High-quality service motivates employees to satisfy their customers and invest effort to prioritise customers, which leads to higher levels of performance (De Jong, De Ruyter & Lemmink 2004).
7.1.5 Mediating effect of ethical climate on the relationship between ethical leadership and employee in-role performance

In this thesis, based on fifth research question, H5 was developed, which suggested that EC mediates the relationship between ethical leadership and employee in-role performance. The results demonstrated that this hypothesis is supported and confirm that EC mediates the relationship between ethical leadership and employee in-role performance.

This finding is consistent with the results of previous studies. For example, Schminke, Ambrose and Neubaum (2005) investigated the association between leader moral development and EC. They reported that moral development of leaders is related to EC within the organisation. Similarly, Neubert et al. (2009) found that ethical leadership was positively associated with employees’ perceptions of EC. Lu and Lin (2014) examined the relationship between ethical leadership on EC among 227 Turkish students and found that ethical leadership is positively associated with EC. Mayer, Kuenzi and Greenbaum (2010) studied a sample of 1,525 employees and their supervisors in 300 units in different organisations in the US; they reported that EC mediated the relationship between ethical leadership and employee misconduct. Shin (2012) surveyed 223 employees in Korean companies and found that ethical leadership was positively associated with employees’ EC. Demirtas and Akdogan (2015) collected data from 447 employees and found that ethical leadership behaviour plays a critical role in shaping perceptions of EC. Similarly, Lu and Lin consulted 128 respondents who worked in Taiwan and discovered that ethical leaders influence the EC of employees. Therefore, ethical leaders develop EC in the organisation, which may increase employee in-role performance.

This research applied social learning theory (Bandura 1977) to explain the influence of ethical leadership on EC. Based on this theory, by observing the behaviour of others such as leaders, employees learn appropriate ways to act (Bandura 1977). Social learning theory
(Bandura 1977) further suggests that individuals are likely to pay attention to and emulate behaviours from credible and attractive role models. In organisations, leaders are considered to role model normative behaviour. Employees are influenced by their supervisor because supervisors have the power to punish employees for unethical behaviour and reward them for ethical behaviour. Based on this theory, individuals learn what is expected of them in terms of appropriate behaviour by observing others (Bandura 1977).

In summary, ethical leaders confirm that employees acting ethically is encouraged, expected and valued. In turn, employees are more likely to observe an ethical organisational setting. Ethical leaders, as role models of ethical behaviour, show employees how to be skilful in identifying ethical difficulties and equip them to manage ethical issues. Moreover, to achieve business objectives, ethical leaders demonstrate to employees how to maintain high ethical standards without feeling pressured to forego ethical conduct. Ethical leaders, by role modelling appropriate behaviour, assist to create a climate in which doing the right thing is valued. In an ethical environment, employees want to behave based on ethics and translate this into enhanced performance (Cullen, Parboteeah & Victor 2003).

Therefore, the outcomes confirm that ethical leadership behaviour supports the development of an EC, which in turn positively affects employees’ in-role performance. Indeed, Stringer (2002 p. 12) stated that ‘most studies have shown that the single most important determinant of an organisation’s climate is the day-today behaviour of the leaders of the organisation’.

Therefore, developing an EC in banks is important because ethical managers, based on their characteristics such as trustworthiness, transparency, integrity and morality, develop an EC (Commonwealth of Australia 2018c). The role of EC in banks is significant because how employees perceive this climate has many organisational consequences. When bank employees perceive their organisational climate as ethical, it influences their attitudes and behaviours.
Therefore, in any organisation, specifically banks, EC may be one of most effective tools to improve the ethical attitudes and behaviours of employees.

7.1.6 The in-turn mediating effects of ethical climate, organisational identification, customer orientation and service climate on the relationship between ethical leadership and employee in-role performance

Based on sixth research question, H6 was developed, which suggested that EC, OID, CO and SC in turn mediate the relationship between ethical leadership and employee in-role performance. The results demonstrated that this hypothesis is supported and confirms that EC, OID, CO and SC in-turn mediate the relationship between ethical leadership and in-role performance. This hypothesis unpacks the process through which ethical leadership affects employee in-role performance. This process is underpinned through the development of an EC. Through these boundary conditions, ethical leaders, based on their characteristics such as honesty, transparency and morality, create an EC. When employees perceive their work environments as ethical, they tend to identify with their groups and organisations (Ellemers, Pagliaro & Barreto 2013), which develop employees’ identification with organisation (Walumbwa, Christensen & Hailey 2011). This facilitates CO, which in turn enhances service quality. Employees who provide quality service to customers and are rewarded for it tend to perform better across their job functions (Ahearne, Mathieu & Rapp 2005). Clearly, development of an EC in organisations leads to employee OID. Employees attempt to belong to groups and organisations that are considered honest and moral; this leads them to commit themselves to the organisation (Ellemers, Pagliaro & Barreto 2013). Therefore, a strong EC subsuming a collective and interdependent (v. an individual and independent) way to behave within the organisation should facilitate employee OID (Teresi et al. 2019). Employees who are strongly identified with their organisation will act in customer-oriented ways and focus on customer needs to increase service quality (Maurya et al. 2015).
By unpacking the boundary conditions through which ethical leadership affects employee in-role performance, this research contributes to understanding of the ethical leadership-performance chain as a boundary conditions in which EC, OID, CO and SC play an important role.

Based on an extensive literature review, no previous studies have investigated the chain relationship between EC, OID, CO and SC on the relationship between ethical leadership and employee in-role performance. Only one study has investigated the influence of OID and SC on CO. Solnet and Paulsen (2006) collected data from 228 employees in three hotels in Australia and found that customer-contact aspects of SC and employee identification influence employee perceptions of customer outcomes.

In this research, social exchange theory (Blau 1964) underpins how ethical leaders create an EC, which develops OID. This facilitates CO among employees which in turn enhances service quality. Based on social exchange theory (Blau 1964), when employees perceive their work environment as ethical, they develop OID and CO, which in turn enhances service quality. In this situation employees want to reciprocate their ethical leaders’ behaviours because social exchange theory proposes that employees reciprocate leaders’ behaviour on a pro quo (mutual reciprocity) basis as part of a social exchange relationship development process (Brown & Mitchell 2010; Cropanzano & Mitchell 2005). Social exchange relationships between leaders and employees develop from interactions between these parties and are motivated by the mutual benefits derived from the exchanges (Brown & Treviño 2006; Cropanzano & Mitchell 2005; Farooqui 2012; Podsakoff et al. 2000; Shin 2012). Specifically, when employees view their workplace environment as ethical, it stimulates employees’ willingness to reciprocate such behaviour by doing their best. Shin (2012) found that the establishment of a strong EC through leadership has a positive influence on employees’ attitudes and behaviours. In this situation, employees want to reciprocate the fair and beneficial
Ethical leaders are likely to form an emotional bond or relational attachment with their subordinates, who will personally identify with the leader (Zhu et al. 2015). Employees who identify with their organisation build an emotional attachment with their supervisor and organisation, and feel a responsibility and obligation to reciprocate this attachment. When employees observe the support, expectations and rewards for service quality, they believe their work and contributions are valued. Thus, according to the norm of reciprocity, they tend to reciprocate the favourable treatment with positive behaviours, attention to the customer needs and high service quality (Sierra & Mcquitty 2005). When there is high service quality, employees want to do their best to prioritise customers.

The results of the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry revealed a lack of CO, customer trust and good SC in Australian banks (Commonwealth of Australia 2018a, b). As stated throughout this thesis, many unethical behaviours manifesting in Australian banks derived from the top managerial level (Commonwealth of Australia 2019a). Therefore, the findings of this research highlight the importance of ethical leadership from the top management level as ethics cascade from the top to the lower level. This research also underscores the significance of the EC in the Australian banks, as the lack of an ethical environment in banks led to misconduct and unethical behaviour (Commonwealth of Australia 2019a). The results of this research emphasise that ethical leaders and managers are needed in banks to develop OID among employees (De Cremer, Brebels & Sedikides 2008; Dukerich, Golden & Shortell 2002). According to previous research, when employees build an identification with their organisation, they are committed to do their best, which increases their performance (Van Knippenberg et al. 2004). This research found that ethical leaders develop a CO culture, whereby employees put their
customers’ need as their first interest. When customers’ needs are the prime focus of banks and they consequently try to provide high-quality customer service, customers rebuild their trust in their dealing with the bank. Overall, this research highlights that preventing ethical scandals, building trust and developing CO in banks is impossible without the presence of ethical managers.

7.2 Theoretical Implications

The study makes five contributions. First, it contributes to the extant research on ethical leadership theory by unpacking the process through which ethical leadership influences employee in-role performance (Kalshoven, Den Hartog & De Hoogh 2011). This process is underpinned through the development of an EC. Through these boundary conditions, ethical leaders (based on their characteristics such as honesty, transparency and morality) create an EC. Employees who view their work environment as ethical tend to identify with their groups and organisations (Ellemers, Pagliaro & Barreto 2013), which develop employee OID (Walumbwa et al. 2011). This facilitates CO which in turn enhances service quality. Employees who provide service to customers and are rewarded for that tend to perform better in all job functions (Ahearne, Mathieu & Rapp 2005). By unpacking the boundary conditions through which ethical leadership influences employee in-role performance, this research contributes to the understanding of the ethical leadership-performance chain as a boundary process in which EC, OID, CO and SC play an important role. This research highlights the importance of ethical leadership in organisations and how the role of ethical leaders is significant in creating an EC, developing OID among employees, focusing on CO and encouraging high service quality and increasing employee in-role performance. Therefore, while previous studies have examined psychological mechanisms in the relationship between ethical leadership and employee performance (Bouckenooghe, Zafar & Raja 2015; Liu et al. 2013; Obicci 2014; Walumbwa et al. 2011), this research unpacked boundary conditions on the relationship between ethical
leadership and employee in-role performance based on social learning theory (Bandura 1977) and social exchange theory (Blau 1964, Cropanzano & Mitchell 2005).

Second, through social learning theory (Bandura 1977) and social exchange theory (Blau 1964, Cropanzano & Mitchell 2005), this research illustrated the potentially complex processes through which ethical leadership triggers a process of OID among followers (reciprocation of ethical treatment from leaders/immediate manager), EC, CO and SC (possibly through both modelling and reciprocity). This research underpins the relationship between ethical leadership and employee in-role performance by social exchange theory (Blau 1964, Cropanzano & Mitchell 2005). The effect of ethical leadership on employee’s behaviour provides a good insight into how ethical behaviour among managers is important in increasing employee in-role performance.

Based on social exchange theory (Blau 1964, Cropanzano & Mitchell 2005), there are reciprocity and transactions in relationships (Blau 1964, Cropanzano & Mitchell 2005). Therefore, this research found a strong transaction relationship between ethical leaders and their employees. Ethical leaders, based on their characteristics such as morality, transparency, honesty and fairness, engage and influence employees through different rewards (Brown & Treviño 2006). When employees view their leader as ethical and receive rewards, they want to reciprocate this behaviour and translate it to ethical behaviour with managers and other employees, and better in-role performance (Hansen et al. 2013). This research found that bank managers need to apply ethical behaviour because their behaviour affects employees’ behaviour with their leaders and other employees. When banks employees view their organisation and manager as ethical, they want to reciprocate this behaviour with an ethical relationship with colleagues and greater job efforts.

This research found that based on social learning theory (Bandura 1977), ethical leaders influence employees’ ethical behaviour through role modelling. This theory argues that based
on the rewards and punishments system (Bandura 1986), employees are informed about the benefits of the modelled (ethical) behaviour and the costs of inappropriate conduct (Brown, Treviño & Harrison 2005). Ethical behaviour through role modelling among employees is the product of leaders’ ethical behaviour. Therefore, this research identified ethical leaders as social learning models that influence employees by rewarding appropriate behaviour and punishing inappropriate conduct (Gini 1997; Treviño, Brown & Hartman 2003) in a way that is perceived to be fair. In fact, ethical leaders create values around the importance of EC. When employees view their work environment as ethical and are rewarded and punished for behaviours, they build identification with organisation, thereby focusing attention on customer needs and facilitating high service quality which in turn increase employee performance. Based on social learning theory (Bandura 1977), ethical leaders and managers are needed in banks because they are role models for employees. When employees view the bank environment as ethical, they want to commit to their customers and provide high-quality service, which increases their performance.

Third, this study responds to the call for further research into the relationship between ethical leadership and OID (Brown & Mitchell 2010) by examining the mediating role of OID on the relationship between ethical leadership and employee in-role performance. Consistent with Brown, Treviño and Harrison (2005), this research found that OID is an important factor in the ethical leadership-performance association. Based on the Royal Commission report and publicised unethical behaviours, there is lack of ethical leadership in Australian banks (Commonwealth of Australia 2018a). This research confirms that ethical leaders’ roles in organisations are vital in terms of building employee OID because ethical leaders’ characteristics increase cooperation and employee identification (De Cremer, Brebels & Sedikides 2008; Dukerich, Golden & Shortell 2002). When employee identify with their organisation, they want to do their best and translate this to better performance. Employees
with high OID tend to be greater contributors to their workgroup or firm (Van Knippenberg et al. 2004). This is because identification leads employees to observe themselves in terms of the characteristics they share with the organisation (Van Knippenberg & Schie 2000) and to promote positive responses towards their organisation (Walumbwa et al. 2011). As a result, on behalf of the organisation, employees are inclined to expend greater effort (Van Knippenberg et al. 2004); by so doing, on behalf of the organisation, they are more motivated to achieve goals (Knippenberg 2000). This heightened motivation and effort is likely to increase employee in-role performance. To support these arguments, a growing body of research has shown that identification is positively related to employees’ behaviours, such as performance (Pratt, Rockmann & Kaufmann 2006; Smidts et al. 2001; Walumbwa et al. 2008; Walumbwa et al. 2011).

Fourth, this research responds to the call for further exploration of the relationship between ethical leadership and SC (Shin et al. 2015; Walumbwa, Hartnell & Oke 2010) as well as ethical leadership and CO (Liaw, Chi & Chuang 2010; Lindblom, Kajalo & Mitronen 2015) by examining role of SC and CO as mediators in the relationship between ethical leadership and employee in-role performance. To the author’s knowledge, no study has attempted to unpack the process through which ethical leadership can influence employee in-role performance via SC and CO. In doing so, this study contributes to the understanding of the ethical leadership-performance link by examining the role of SC and CO based on social exchange (Blau 1964, Cropanzano & Mitchell 2005) and social learning theory (Bandura 1977). This work contributes to the existing literature of ethical leadership by incorporating ethical leadership, CO, SC and employee in-role performance into an integrated framework. Based on the first dataset, CO did not mediate the relationship between ethical leadership and employee in-role performance. However, the second dataset analysis showed that CO mediated such relationships. According to the Royal Commission, there is lack of CO and service quality
in Australian banks that is the outcome of unethical behaviour among employees and top managers (Commonwealth of Australia 2018a, b). Therefore, this research highlights that ethical leaders are needed in organisations to develop CO among employees. In fact, ethical leadership is a foundation on which to improve the ethical treatment of customers. Ethical leaders support the value of CO. When employees focus on customer needs ethically, their performance will increase.

Based on social learning theory (Bandura, 1986; Neubert et al. 2009), this research highlighted that ethical leaders are role models who create an EC that encourages employees to behave ethically (Mayer, Kuenzi, & Greenbaum, 2010). This thesis demonstrated that based on social exchange theory, ethical leadership behaviours illustrate fairness, ethicality and consideration; ethical leaders should stimulate employees’ obligation to reciprocate in kind (Mossholder, Settoon & Henagan 2005) which in turn should increase CO. Employees engaging in CO that supports the psychological work context is a way that employees reciprocate ethical leadership behaviours (Brown, Treviño & Harrison 2005). CO is a behaviour that supports the work setting and is capable of driving the success of organisations (Dimitriades 2007). It can be argued that employees who work with ethical leaders engage CO as a way of reciprocating the ethical treatment and fairness received from such leaders. Based on social exchange theory, the finding of this thesis confirm that in service organisations such as banking, ethical leaders (based on their characteristics) promote high-quality SCs. When employees observe the support, expectations and rewards offered for service quality, they believe their work roles and contributions are valued. Therefore, understanding the mediating role of SC and CO is critical if the banking and finance industry is to rebuild trust among customers and the broader community. Critical to rebuilding this trust is the role of ethical leadership among bankers to create customer value and positive customer experiences.
Fifth, while several studies have examined the relationships between EC and various work outcomes, there has been relatively little exploration of the factors that form or foster an EC. This research fills this gap by examining ethical leadership as a factor identified as an antecedent of EC. Little attention has been paid to the relationship between leadership and EC (Van Aswegen & Engelbrecht 2009; Erben & Güneşer 2008). The Royal Commission report (which is about unethical behaviour among employees and managers in Australian banks) confirms the lack of an EC in banks (Commonwealth of Australia 2018a). Therefore, this research, by examining EC as a mediator in the relationship between ethical leadership and employee in-role performance, highlights the significance of ethical leaders in creating an EC in the organisation, which affects employee performance.

This research highlights that an ethical environment in the workplace is impossible to create without the presence of ethical leaders because ethical leadership cascades from the top to the lower levels of organisations (Hansen et al. 2013; Mayer et al. 2008). When there are ethical leaders, employees want to behave ethically with colleagues and managers, they are more committed (Hansen et al. 2012) and translate this into better in-role performance. This supported by previous studies that found the role of ethical leadership to be important in terms of fostering an EC in the organisation; this affects employees’ behaviours (Gardner et al. 2005; Walumbwa et al. 2008).

7.3 Practical Implications

This study provides a number of practice implications for leaders and HRM managers in the banking and finance sector. Specifically, this study showed that ethical leadership is critical in improving employee perceptions and experience of an organisation’s EC, OID, CO, SC and in-role performance. Consistent with previous studies (Koh & Boo 2004; Mayer et al. 2009), ethical leadership is linked to employee ethical behaviour and in-role performance. The findings show that banks should invest in the ethical leadership of their managers. As leaders
are role models for their employees, it is important that they visibly engage in ethical behaviours because employees model their own behaviours on such conduct (Brown, Treviño & Harrison 2005; Caldwell et al. 2008; Mayer et al. 2009; Piccolo et al. 2010; Walumbwa et al. 2011). Hence, ethical leaders can influence OID, SC, EC and CO.

The current study raises important implications for HRM practice. First, in light of the damning findings of the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry, banks must invest heavily in management development around ethical leadership and the development of ethical conduct of staff. This may require the dismissal of management and employees that have instigated or perpetrated unethical and possibly criminal behaviour. Specific ethical training should contain communication of the importance of ethics and principals of ethical leadership. This is important because ethics is a tool to help employees understand the ethical decision process, assisting people to evaluate ethical priorities, provide ways to manage those who violate ethical standards, enable employees to recognise ethical problems with respect to company policy, increase sensitivity to ethical issues, enhance individual reflectiveness and improve the EC of a business through the creation of ethics support systems and codes. According to Valentine and Fleischman (2004), the purpose of ethics training is to recognise situations in which ethical decision-making is involved, understand organisational culture and values, and assess the influence of the ethical decision on the organisation. This research also advocates the use of HRM practices that support the development of both a SC and EC within banking organisations. Such HRM practices would include application of ethical behaviour by HR managers to create an EC and the process through which ethical organisational values are reinforced to build CO and value for customers. The author advocates that banks reconceptualise their performance measurements of employees to adopt a multidimensional view of their performance, inclusive of business ethics and customer needs (e.g., customer satisfaction).
Second, based on findings of the Royal Commission, banks must develop CO in their employees. Banks need to better understand their customer needs. HRM plays a strategic role when it engages in activities that can be directly viewed to support business strategy and drive business performance. Development and measurement of the bank level of customer-focused culture is one of those activities. Based on the Royal Commission report, it is important that banks have a culture that encourages good customer outcomes and the sound management of risk—a culture in which employees ask, ‘what should I do?’ instead of ‘what can I do?’, and feel comfortable to speak when they observe something is not right (Commonwealth of Australia 2019a). By applying ethical leadership, managers help strengthen customer-focused behaviours of staff, identifying weaknesses and their relevance to business results, and measuring progress (Lindblom, Kajalo & Mitronen 2015). HR professionals make the link between culture and business performance tangible, relevant and a top priority for senior management.

Third, by showing EC, OID, CO and SC as mediators, the research findings propose that managers should consider the nature of the relationship they develop with their employees when determining how to influence employee performance. Therefore, if managers display ethical behaviour, they could develop employee identification, an ethical environment, a high-quality SC and CO (Brown & Treviño 2006; Lindblom, Kajalo & Mitronen 2015; Mayer et al. 2009; Walumbwa et al. 2011). When strong EC, OID, CO and SC are achieved, employees are likely to do their best and translate this to better performance.

Fourth, the role of ethical training in banks is critical (Commonwealth of Australia 2018a, b). The findings suggest that banks may need to invest in ethical training and clarify the benefits of strong ethics and ethical leadership in terms of increasing employee in-role performance. By delivering training courses on ethical leadership, promoting an ethical culture and building ethical management practices, banks could promote ethical leadership (LeClair &
Ferrell 2000; Lee & Cheng 2012). The aims of ethics training should be related to risk areas, organisational needs, desired outcomes and ethical customers relationships. Ethical training in banks assists employee comprehension of the ethical decision process, provides ways to manage those who violate ethical standards, helps people assess ethical priorities, allows employees to classify ethical problems with respect to company policy, increases sensitivity to ethical issues, enhances individual reflectiveness and improves the EC of banks through the creation of ethics support systems and codes (LeClair & Ferrell 2000; Lee & Cheng 2012).

Fifth, the findings suggest that ethical leaders in service organisations such as banking could promote employee OID. If bank managers behave ethically, their employees perceive their ethical behaviour, which develops employee OID. When employees observe their manager, ethical behaviour builds an emotional attachment and sense of identification with their organisation and manager (Ellemers, De Gilder & Haslam 2004; Riketta 2005). In this situation, they develop commitment and are likely to invest greater effort and increase their performance. Employee performance leads to organisational performance, which is a significant purpose of any organisation. The next reason to have ethical leaders in the organisation is to create an EC (Demirtas & Akdogan 2015; Dickson et al. 2001; Lu & Lin 2014; Shin 2012). Ethical managers, based on their characteristics such as trust, integrity and transparency, create an ethical environment. When banking employees observe their role model, they invest effort to do their best and translate this to better performance.

Sixth, based on research findings, this study suggests that ethical leaders in organisations develop high service quality and CO. In service organisations such as banking, if managers follow ethical behaviour, employees observe their role model and respond accordingly. They want to present the best quality of service to their customers. Service employees displaying CO enhance customer satisfaction and build long-term service
relationships with customers (Liao & Subramony 2008; Susskind, Kacmar & Borchgrevink 2003).

7.4 Limitations

Despite the important findings of this study, it is not without limitations. First, this study is cross-sectional because data were collected at two points of time; therefore, causal inferences could not made. A longitudinal approach would establish causal relations between the variables included in this study. Second, in this thesis, data were collected from employees in the Australian banking industry. The result of this study could be generalised to employees in the banking sector, but it is not feasible to generalise the result of this study to other industries. Third, in this study, employee in-role performance was measured based on employees’ perspectives. This is a limitation because employee performance could be different from supervisor perspectives.

Fourth, bank employees did not discuss business ethics. Future studies would benefit from a qualitative research method and interview with employees to analyse how ethics are applied in the Australian banking system and how this influences employee in-role performance. Another limitation is common method bias. The appropriate CMV tests were conducted and the results shown (Podsakoff et al. 2003). This thesis collected data from 233 banking employees from a single large bank. Qualtrics was used to collect another round of data from a different banking source. The data used in this study were collected from the same source (employees). Future research would benefit from collecting data from supervisors and employees in distinct sources to help reduce potential problems with common method bias (Podsakoff et al. 2003).

Fifth, this study collected data at two times with a three-month time lag. Future research could collect data using a more sophisticated research design in multiple periods. Sixth, this research measured employee performance from employees’ perspectives. As previous research
has shown meta-analytically that objective performance and subjective performance ratings cannot be equated (Schachter 2010), future studies could replicate this research using objective performance measures (e.g., employee sales, ethical conduct and customer complaints). Finally, a quantitative approach is unable to evaluate why a phenomenon has occurred (Hair et al. 2013). For example, in this study, the quantitative results demonstrated a significant and positive relationship between ethical leadership and employee in-role performance. However, investigating why there is a positive relationship between ethical leadership and employee in-role performance can be only answered by a qualitative approach.

7.5 Future Research Directions

As argued in Section 7.4, to gain a deeper understanding of the association between ethical leadership and employee in-role performance, a longitudinal approach could be applied, as it evaluates ethical leadership effect and the increase of employee in-role performance at different times. The relationship between ethical leadership and employee in-role performance across three or four data collection periods in a longitudinal study is an avenue for future research. In longitudinal studies, causality is more reliable, and the researcher could access a range of data analysis techniques that are more powerful than OLS regression (Bauer 2004).

Further research might explore employee in-role performance from supervisor perspectives. The results obtained from supervisors and employees could be different. A comparative study to provide a better understanding of how employee performance in the banking sector could be improved would be worthwhile, particularly in exploring the role of OID, SC, EC and CO in the relationship between ethical leadership and OCB.

While this research was conducted in the Australian banking industry, this topic with the variables included in this study could be done in the banking sector in other countries or different industries in different countries. This would be a fruitful area for further work from a qualitative or mixed-method approach from the supervisor perspective. Interviews with
supervisors provide a deeper understanding of the ethical leadership effect on employee in-role performance.

Future research should focus on the variables, such as ethics training in the relationship between ethical leadership and employee in-role performance. The role of ethics training is crucial in banks, as there are many unethical behaviours among managers and employees. It is expected that organisations with ethical training are likely to be more ethical because responsible businesses are known to favour corporate awareness of ethical issues. The purpose of ethical organisations is not just to foster employee ethical sensitivity but also to ensure that employees behave ethically. Training that promotes ethical decision-making strengthens a company culture that has already been developed to encourage such positive conduct. Future research could examine how ethical training influences ethical behaviour of employees with colleagues, customers and performance.

Further research could explore other forms of leadership such as transformational leadership, servant leadership, paternalistic leadership and employee in-role performance. This research examined EC, OID, CO and SC as mediators in the relationship between ethical leadership and employee in-role performance. Further studies are needed to explore the relationship between different forms of leadership and EC, OID, CO and SC. It could be worthwhile because based on the literature, leaders influence EC in the organisation (Aronson 2001; Neubert et al. 2009; Schminke, Ambrose & Neubaum 2005). Further, leadership is considered a crucial factor in promoting a culture that focuses on customer relationships and customer service quality (Anaza, Nowlin & Wu 2016; Liaw, Chi & Chuang 2010).

Future studies could use mediators included in this study as moderators in the relationship between ethical leadership and employee in-role performance. It is important for managers to understand how EC, SC, CO and OID are significant characters of any organisation’s influence on their relationship with employees. For example, EC could influence
the relationship between ethical leadership and performance as a moderator. When there is an ethical environment in the organisation, employees want to behave ethically with their leaders, colleagues and customer. Therefore, their performance will be increased.

It would be worthwhile to examine the role of trust as a mediator in the relationship between ethical leadership and employee performance. While many studies have focused on different forms of leadership and trust, future research should work on how the ethical and moral dimensions of leadership affect trust.

While the sample size for this study was adequate to detect mediation effects, future research needs to use larger samples in multiple organisations to ensure generalisability of results. Importantly, a more complex analysis between the boundary factors examined in this research, highlighting importance of EC, OID, CO and SC is advocated. This would be provide deeper understanding of the complex process through which ethical leadership can affect employee in-role performance.

7.6 Conclusion

The banking sector is a key sector in the economy. Recently, Australian banks engaged in many unethical behaviours such as selling insurance to clients who were not eligible to make claims, selling Credit Card Plus and personal loans, and wrongly charging customers for financial advice. The Royal Commission identified conduct by many entities that has occurred over many years, causing substantial loss to many customers but yielding substantial profit to the entities concerned. The Royal Commission report showed a lack of ethical behaviour, trust, leadership and customer focus. Therefore, Australian banks require high ethical standards to help employees at all levels understand how to make good decisions and thereby, shape their culture.
This research examined the relationship between ethical leadership and employee in-role performance in Australian banks, specifically, potential mechanisms through which ethical leadership influenced employee in-role performance. This study highlighted how EC, OID, CO and SCf significantly influenced the relationship between ethical leadership and employee in-role performance. This thesis provides a more complete picture of how to translate ethical leader behaviour into follower actions such as effective employee in-role performance. This research will assist bank managers to apply ethical leadership to improve employee in-role performance. Managers should improve ethical leadership by discussing business ethics, completing ethics training, modelling exemplary ethical practice and considering the best interests of employees. The findings will encourage future research to examine further variables that influence the relationship between ethical leadership and employee performance in other contexts.
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Appendix A

SECTION ONE: PERSONAL INFORMATION

<table>
<thead>
<tr>
<th>Question</th>
<th>Options</th>
</tr>
</thead>
<tbody>
<tr>
<td>P1</td>
<td>What is your gender?</td>
</tr>
<tr>
<td>P2</td>
<td>What is your age?</td>
</tr>
<tr>
<td>P3</td>
<td>What is your highest level of education?</td>
</tr>
<tr>
<td>P4</td>
<td>What is your employment status?</td>
</tr>
<tr>
<td>P5</td>
<td>How long have you worked for your organisation?</td>
</tr>
</tbody>
</table>

SECTION TWO: QUESTIONS ABOUT ETHICAL LEADERSHIP

| EL1. | Listens to what employees have to say. | 1 2 3 4 5 |
| EL2. | Disciplines employees who violate ethical standards. | 1 2 3 4 5 |
| EL3. | Conducts his/her personal life in an ethical manner. | 1 2 3 4 5 |
| EL4. | Has the best interest of employees in mind? | 1 2 3 4 5 |
| EL5. | Makes fair and balanced decisions. | 1 2 3 4 5 |
| EL6. | Can be trusted. | 1 2 3 4 5 |
| EL7. | Discusses business ethics or values with employees. | 1 2 3 4 5 |
| EL8. | Sets an example of how to do things the right way in terms of ethics. | 1 2 3 4 5 |
| EL9. | Defines success not just by results but also the way that they are obtained. | 1 2 3 4 5 |
| EL10. | When making decisions, asks “what is the right thing to do?” | 1 2 3 4 5 |
### SECTION THREE: ORGANISATIONAL IDENTIFICATION SCALE

<table>
<thead>
<tr>
<th>OID1. When someone criticises my company, it feels like a personal insult.</th>
<th>Strongly Disagree</th>
<th>Disagree</th>
<th>Neutral</th>
<th>Agree</th>
<th>Strongly agree</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>OID2. I am very interested in what others think about this bank.</th>
<th>Strongly Disagree</th>
<th>Disagree</th>
<th>Neutral</th>
<th>Agree</th>
<th>Strongly agree</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>OID3. When I talk about this bank, I usually say ‘we’ rather than ‘they’.</th>
<th>Strongly Disagree</th>
<th>Disagree</th>
<th>Neutral</th>
<th>Agree</th>
<th>Strongly agree</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>OID4. This bank’s successes are my successes.</th>
<th>Strongly Disagree</th>
<th>Disagree</th>
<th>Neutral</th>
<th>Agree</th>
<th>Strongly agree</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>OID5. When someone praises this bank, it feels like a personal compliment.</th>
<th>Strongly Disagree</th>
<th>Disagree</th>
<th>Neutral</th>
<th>Agree</th>
<th>Strongly agree</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>OID6. If a story in the media criticised this bank, I would feel embarrassed.</th>
<th>Strongly Disagree</th>
<th>Disagree</th>
<th>Neutral</th>
<th>Agree</th>
<th>Strongly agree</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
<td></td>
</tr>
</tbody>
</table>

### SECTION FOUR: CUSTOMER ORIENTATION SCALE

<table>
<thead>
<tr>
<th>CO1. I am always working to improve the service I give to customers.</th>
<th>Strongly Disagree</th>
<th>Disagree</th>
<th>Neutral</th>
<th>Agree</th>
<th>Strongly agree</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>CO2. I have specific ideas about how to improve the service I give to customers.</th>
<th>Strongly Disagree</th>
<th>Disagree</th>
<th>Neutral</th>
<th>Agree</th>
<th>Strongly agree</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>CO3. I often make suggestions about how to improve customer service in my department.</th>
<th>Strongly Disagree</th>
<th>Disagree</th>
<th>Neutral</th>
<th>Agree</th>
<th>Strongly agree</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>CO4. I put a lot of effort into my job to try to satisfy customers.</th>
<th>Strongly Disagree</th>
<th>Disagree</th>
<th>Neutral</th>
<th>Agree</th>
<th>Strongly agree</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>CO5. No matter how I feel, I always put myself out for every customer I serve.</th>
<th>Strongly Disagree</th>
<th>Disagree</th>
<th>Neutral</th>
<th>Agree</th>
<th>Strongly agree</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>CO6. I often go out of my way to help customers.</th>
<th>Strongly Disagree</th>
<th>Disagree</th>
<th>Neutral</th>
<th>Agree</th>
<th>Strongly agree</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
<td></td>
</tr>
</tbody>
</table>

### SECTION FIVE: ETHICAL CLIMATE SCALE

#### Instrumental climate

<table>
<thead>
<tr>
<th>EC1. People are expected to do anything to further the (company) interests, regardless of the consequences.</th>
<th>Strongly Disagree</th>
<th>Disagree</th>
<th>Neutral</th>
<th>Agree</th>
<th>Strongly agree</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>EC2. There is no room for one's own personal morals or ethics in this (company).</th>
<th>Strongly Disagree</th>
<th>Disagree</th>
<th>Neutral</th>
<th>Agree</th>
<th>Strongly agree</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>2</td>
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<td>4</td>
<td>5</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>EC3. In this (company), people protect their own interests above all else.</th>
<th>Strongly Disagree</th>
<th>Disagree</th>
<th>Neutral</th>
<th>Agree</th>
<th>Strongly agree</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
<td></td>
</tr>
</tbody>
</table>
## Caring

<table>
<thead>
<tr>
<th></th>
<th>Strongly Disagree</th>
<th>Disagree</th>
<th>Neutral</th>
<th>Agree</th>
<th>Strongly agree</th>
</tr>
</thead>
<tbody>
<tr>
<td>EC4.</td>
<td>The most important concern is the good of all the people in the (company) as a whole.</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td>EC5.</td>
<td>What is best for everyone in the (company), is the major consideration here.</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td>EC6.</td>
<td>Our major concern is always what is best for the other person.</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
</tr>
</tbody>
</table>

## Independent climate

<table>
<thead>
<tr>
<th></th>
<th>Strongly Disagree</th>
<th>Disagree</th>
<th>Neutral</th>
<th>Agree</th>
<th>Strongly agree</th>
</tr>
</thead>
<tbody>
<tr>
<td>EC7.</td>
<td>In this (company), people are expected to follow their own personal and moral beliefs.</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td>EC8.</td>
<td>In this (company), people are guided by their own personal ethics.</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td>EC9.</td>
<td>Each person in this (company) decides for themselves what is right and wrong.</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
</tr>
</tbody>
</table>

## Rules climate

<table>
<thead>
<tr>
<th></th>
<th>Strongly Disagree</th>
<th>Disagree</th>
<th>Neutral</th>
<th>Agree</th>
<th>Strongly agree</th>
</tr>
</thead>
<tbody>
<tr>
<td>EC10.</td>
<td>Successful people in this (company) go by the book.</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td>EC11.</td>
<td>People in this (company) strictly obey the hospital policies.</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
</tr>
</tbody>
</table>

## Law and code

<table>
<thead>
<tr>
<th></th>
<th>Strongly Disagree</th>
<th>Disagree</th>
<th>Neutral</th>
<th>Agree</th>
<th>Strongly agree</th>
</tr>
</thead>
<tbody>
<tr>
<td>EC12.</td>
<td>In this (company), the law or ethical code of their profession is the major consideration.</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td>EC13.</td>
<td>In this (company), people are expected to strictly follow legal or professional standards.</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td>EC14.</td>
<td>People are expected to comply with the law and professional standards over and above other considerations.</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
</tr>
</tbody>
</table>
## SECTION SIX: SERVICE CLIMATE SCALE

<table>
<thead>
<tr>
<th>Statement</th>
<th>Strongly Disagree</th>
<th>Disagree</th>
<th>Neutral</th>
<th>Agree</th>
<th>Strongly agree</th>
</tr>
</thead>
<tbody>
<tr>
<td>SC1. How would you rate the job knowledge and skills of employees in your business to deliver superior quality work and service?</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>SC2. How would you rate efforts to measure and track the quality of the work and service in your business?</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>SC3. How would you rate the recognition and rewards employees receive for the delivery of superior work and service?</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>SC4. How would you rate the overall quality of service provided by your business?</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>SC5. How would you rate the leadership shown by management in your business in supporting the service quality effort?</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>SC6. How would you rate the effectiveness of our communications efforts to both employees and customers?</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>SC7. How would you rate the tools, technology, and other resources provided to employees to support the delivery of superior quality work and service?</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
</tbody>
</table>

## SECTION SEVEN: EMPLOYEE IN-ROLE PERFORMANCE SCALE

<table>
<thead>
<tr>
<th>Statement</th>
<th>Strongly Disagree</th>
<th>Disagree</th>
<th>Neutral</th>
<th>Agree</th>
<th>Strongly agree</th>
</tr>
</thead>
<tbody>
<tr>
<td>EP1. Adequately completes assigned duties.</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>EP2. How would you rate efforts to measure and track the quality of the work and service in your business?</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>EP3. Perform tasks that are expected of him/her.</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>EP4. Meet formal performance requirements of the job.</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>EP5. Engage in activities that will directly affect him/her performance evaluation.</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>EP6. Neglects aspects of the job he/she is obligated to perform.</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>EP7. Fail to perform essential duties.</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
</tbody>
</table>