Enhancing employee performance through ethical leadership, transformational leadership and organizational culture in development sector of Pakistan

Adil Sheraz¹*, Arshad Zaheer², Kashif-ur-Rehman³ and Mohammad Nadeem³

IQRA University Islamabad, Pakistan.

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The scale of work of nongovernmental organizations (NGOs) in Pakistan has drastically increased in the last few years due to man-made and natural disasters. These disasters have brought huge funding into Pakistan for implementation of emergency, relief and rehabilitation projects implemented by Government, United Nations, Population Welfare Department, International and Local NGOs. Effective implementation of these projects was not possible without transformational leaders that could promote ethical values within organizations and contribute for increasing employee performance through their supportive role. Researchers have focused on linkage of transformational leadership with ethical leadership. This study focused on how leadership qualities and organizational culture support employee performance. This study also analyzes how ethical leadership plays a mediating role between organizational culture and despotic leadership. In order to test the research hypotheses, this study used structural equation model (SEM) technique. Stratified random sampling was used and data were collected from 377 management staff of local and International NGOs working in Pakistan. The study has found positive and significant relationship among transformational leadership, organizational culture, ethical leadership and employee performance. The study further found negative relationship between ethical leadership and despotic leadership. The study findings are important for NGOs in promoting ethical values in organizations contributing to employee performance.

Key words: Transformational leadership, organizational culture, ethical leadership, employee performance and despotic leadership.

INTRODUCTION

The last few years have shown that across the world there is a dire need of strong leaders that observe high ethical standards. Leaders that are ethically sound and can inspire their followers through their charisma and ethical conduct are the dire need to today’s world. Looking at the ethical scandals in corporate sectors, government, development sector and even religious organizations (Colvin, 2003; Brown et al, 2005; Revell, 2003; Manz et al., 2008) have raised concern that our leaders have missing ethical values and moral spirit. These scandals have raised concern of top management of these organizations to promote ethical leadership and supportive organizational culture in organizations. Research has shown that “ethical leadership” relates to do good deeds, following appropriate behavior in society and to do personal actions that are morally, ethically and socially acceptable (Trevino et al., 2003; Brown et al., 2005). Leaders are mentors, coach, guide, and supporter that play a fatherly role for their followers. Individuals always idealize someone as their leader and look to him/her as ethical source and guidance (Kohlberg, 1969). Leaders should play their due role of an ethical guide and coach for subordinates and colleagues. Ethical leaders inspire others with their moral conduct and consider the

*Corresponding author. E-mail: adilsheraz7@gmail.com.
Leaders are champions and they play an effective role within organizations, as they provide regular support to their employees for their upbringing and help them to achieve departmental and organizational goals (Zaccaro and Kilmoski, 2001). Burns (1978) describes that strong leaders have transformational qualities and they inspire their followers by spending their personal and professional life ethically. Bass and Avolio (1993) describe that transformational leaders have ethical, moral and inspirational qualities in them which motivates their followers. Transformational leadership focuses on aspects of, idealized behavior, idealized influence, individualized consideration, inspirational motivation and intellectual stimulation. Within these sub scales of transformational leadership, idealized influence focuses on leaders ethical qualities (Avolio et al, 1999).

Leadership and organizational culture have strong association within every organization. Culture is referred as beliefs, norms, values that people posses in a society. Culture is not developed in a day; rather it has strong history in a society and organizations. In organizations the term “organizational culture” is used which refers to common beliefs, norms and principles in organizations that are based on principles and followed by the human resource of the organization (Dension, 1984). A weak culture in any organization not only de-motivates employees but, also effects negatively on organization’s and employee’s performance. In contrast, a supportive and strong culture excels both employee and organizational performance. An organizational performance is actually the “employees performance” so a strong culture motivates employees and help them to improve their performance (Deal and Kennedy, 1982).

Leaders that are morally sound also have inspiring qualities being transformational leaders. A couple of researchers have seen linkage between ethical and transformational leadership. Toor and Oferi (2009) in their study observed that ethical leadership has positive association with transformational leadership. Furthermore, in this study, it was also observed that one attribute of transactional leadership that is contingent reward is also positively associated with ethical leadership. Toor and Oferi (2009) in their study recommended future works on relationship between organizational culture and despotic leadership with the mediating role of ethical leadership.

Ethical scandals have been even in non-profits sector. In Pakistan Non-Governmental organizations (NGOs) have a long history of their work. Local, International NGOs and United Nations have been working in Pakistan for decades on socio, economic and development issues. Apart from United Nations and International NGOs, Social Welfare Department and thousands of local and community based NGOs are registered in Pakistan and working on development issues and disasters. Pakistan is among a few countries that receive large amount of donor funds to manage disasters and work on development issues in Pakistan. NGOs are large in numbers and directly linked with local communities for their empowerment, as well as improving their quality of life with the provision of safe drinking water, livelihood, health etc. Leaders in organizations are to be ethical and inspirational not only for their employees rather for communities too for leaving lasting effects.

The main focus of current study is to explore the association of ethical leadership with organizational culture, transformational leadership, employee performance and despotic leadership. This study will contribute in the literature on ethical leadership and its association with organizational culture and despotic leadership. This research will also explore if any relationship exist among transformational leadership, organizational culture and ethical leadership with employee performance. The research will help public sector social welfare departments, public sector disaster and development sector departments. The study would also help International NGOs, United Nations, local and community development NGO’s key staff, regional directors, country directors, project Head and senior management teams to introduce and adopt ethical qualities in their leadership and staff.

LITERATURE REVIEW

Leadership plays an effective role in upbringing of any organization. A good or effective leader is one that has leadership qualities and does good deeds and does not do any evil acts (Kanungo, 2001; Ciulla, 1995). A leader is considered as effective, moral, ethically sound based on his/her good deeds and qualities and traits. Several researchers have seen leadership concept based on individual’s personal traits, honesty, moral acts, trust among colleagues and overall in the organizations, market repute and integrity (Kirkpatrick and Locke, 1991, Posner and Schmidt, 1992, Kouzes and Posner, 1993).

Transformational leadership has been seen from its four components: idealized influence or charisma, inspirational motivation, individualized consideration and intellectual stimulation (Bass, 1999, Bass and Avolio, 1993). Each of these four components has its own characteristics. Charismatic leaders have traits and qualities through which they inspire their peers and followers. In inspirational motivation, followers get an opportunity to work on common goals. Intellectual stimulation component helps the followers to ask further questions, collect information and on the basis of facts and information identify solutions. Its individualized consideration treats every employee in the organization individually based on his/her needs, and the support they need. This is done through individual coaching, guidance, mentoring, support and growth opportunities (Bass and Steidlmeyer, 1999). Transformational leaders are considered to be not only doing good deeds but also...
Observing that ethical leaders direct their actions to the benefit of others, they are considered moral person. They act ethically in both personal and professional lives. Leadership qualities and ethical values are critical aspects of employee performance. For example, ethical leadership and transformational leadership are positively related, whereas despotic leadership and transformational leadership are negatively related. However, the previous study found that ethical leadership and transactional leadership behave negatively. Organizational culture is an important element of any organization and is linked with employee performance.

Aronson (2001) describes despotic leadership and refers to these leaders as self-focused. They consider their personal interests and fulfill their personal needs and interests. This behavior is not in the favor of others and thus has negative consequences. Despotic leaders are not like transformational leaders. These leaders are authoritative, controlling, and dominating in their behavior and acts (McClelland, 1975; Bass, 1990; House and Howell, 1992; Howell and Avolio, 1992). Despotic leaders have self-interests and their behaviors are socially destructive. They are ethically weak and do not fulfill an inner obligation for doing better deeds within or outside the organization. De Hoogh and Den Dartog (2008) have described that morality and fairness, power sharing, and role clarity function of ethical leadership are similar concepts as observed by Brown et al. (2005). Top management team effectiveness is linked with ethical leadership, as well as an optimistic vision of subordinates about their future. Hence, ethical leadership and despotic leadership have a negative relationship (Hoogh and Dartog, 2008).

From the previous discussion, Figure 1 model is build and the following hypotheses in Table 1 to be tested in this research paper.

**METHODS**

**Sample and procedure**

The study was conducted with NGOs in Pakistan. Initially, meetings were conducted with top management of non-profit organizations. Senior management was briefed on the importance of the study and the instruments involved for measurement. Survey forms on research variables were distributed among selected respondents. The respondents fall between the age group of 28 to 50. 415 questionnaires were distributed, however, despite regular follow up through phone and e-mails, a total of 377 completely filled questionnaires were received. Most of the questionnaires were received through e-mail. The response rate was almost 90%.

**Measure**

**Transformational Leadership**

Multi-factor leadership questionnaire (MLQ) 5X short was used to measure transformational leadership (Avolio and Bass, 2004). The instrument was used to measure different aspects of intellectual stimulation, intellectual stimulation and individualized consideration. Responses were obtained on 5-point Likert scale 0 (“Not At All”) to 4 (“Frequently, if not always”). Sample items are: “specifies the importance of having a strong sense of purpose.”
Figure 1. Model of transformational leadership and organizational culture; ethical leadership, employee performance and despotic leadership.

Table 1. Hypotheses statements.

<table>
<thead>
<tr>
<th>Hypotheses statements</th>
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<tbody>
<tr>
<td>$H_1$ Transformational Leadership is positively associated with ethical Leadership</td>
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<tr>
<td>$H_2$ Organizational culture is positively associated with ethical leadership</td>
</tr>
<tr>
<td>$H_3$ Transformational Leadership has significant and positive linkage with employee performance</td>
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<td>$H_4$ Organizational culture has significant and positive linkage with employee performance</td>
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<td>$H_5$ Ethical leadership mediates the positive relationship between transformational leadership, organizational culture and employee performance</td>
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<tr>
<td>$H_6$ Ethical leadership mediates the relationship between organizational culture and despotic leadership</td>
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(transformational leadership: idealized behavior); “suggests new ways of looking at how to complete assignments” (transformational leadership: intellectual stimulations).

Organizational culture

In order to get employee opinion on organizational culture, it was measured on instrument by Dension (1990). This instrument covers four prospective of organizational culture that is involvement, consistency, adaptability and mission. Responses were obtained on a 5-point Likert scale 1 (“Strongly disagree”) to 5 (“Strongly Agree”). Each dimension has further three scales under them. Involvement measured three aspects as empowerment, team orientation and capability development; consistency measured core values, agreement and coordination; adaptability measured creating change, customer focus and organizational learning; mission measured strategic direction and intent, goals and objectives and vision. The instrument was adapted to non-profit sector environment; therefore, customer focus aspect of instrument and item 20 under creating change was not measured in this study. The sample items on this scale are: decisions are usually made at the level where the best information is available (involvement), this organization has an ethical code that guides our behavior and tells us right from wrong (consistency); this organization is very responsive and changes easily (adaptability); this organization has long term purpose and direction (mission).

Ethical leadership

For the measurement of ethical leadership, 10 items scale was used according to Brown et al.’s (2005). Responses were gathered from 5-point likert type scale. Sample items are: “disciplines employees who violate ethical standards” and “defines success not just by results but also the way that they are obtained”.

Employee performance

Employee performance was measured through in role and extra role performance. In role performance, seven items were adopted from Williams and Anderson (1991) and two items were adapted from Smith et al., (1983). In order to measure extra role performance, seven items were adapted from different scales of extra role performance/behavior (McNeely and Meglino, 1994; Van Dyne et al., 1994; Williams and Anderson, 1991; Moorman and Blakely, 1995; Smith et al., 1983). Sample items are: “This employee performs tasks that are expected of him/her” (In-Role Performance) and “This employee goes out of his/her way to help new employees” (Extra-Role Performance).

Despotic leadership

Despotic leadership was measured on 7-point Likert scale, adapted
Table 2. Index of fit of the model.

<table>
<thead>
<tr>
<th></th>
<th>Chi-Sqr.</th>
<th>Pvalue</th>
<th>Chi/df</th>
<th>GFI</th>
<th>AGFI</th>
<th>RMR</th>
<th>RMSEA</th>
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<td>1.0103</td>
<td>9958</td>
<td>0.9841</td>
<td>0.0018</td>
<td>0.0052</td>
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</table>

Table 3. Regression weight (results of hypotheses tests).

<table>
<thead>
<tr>
<th></th>
<th>Estimate</th>
<th>S.E.</th>
<th>C.R.</th>
<th>P</th>
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<tr>
<td>E.L</td>
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<td>0.0453</td>
<td>5.6963***</td>
</tr>
<tr>
<td>E.L</td>
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<td>0.0416</td>
<td>8.2047***</td>
</tr>
<tr>
<td>D.L</td>
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</tr>
<tr>
<td>E.P</td>
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<td>8.1830***</td>
</tr>
<tr>
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<td>0.0077</td>
<td>0.0526</td>
<td>11.1472</td>
</tr>
</tbody>
</table>

from the MCLQ (Hanges and Dickson, 2004). Six items of this scale cover the authoritative, insensitive and exploitative behavior of a leader. Sample items are: “is in charge and does not tolerate disagreement and or questioning, gives orders” and “expects unquestioning obedience of those who report to him/her”.

RESULTS

The results of Table 2 are significant with reference to model fit index. All index values meet the requirements of general values of index fit. Table 2 meets seven (7) model fit criteria. From research prospect the general accepted standards for model fit are; Chi-square value (significant level > 0.05), goodness of fit index (GFI > 0.80), adjusted GFI (AGFI > 0.80), normed fit index (NFI > 0.90), comparative fit index (CFI > 0.90), root means square residual (RMR < 0.05) and root means square error of approximation (RMSEA < 0.08). This model fit meets all standards.

Table 3 showed the results of hypotheses through presentation of regression weights. The results obtained after structural equation modeling reflects that strong transformational leadership, healthy/supportive organizational culture and ethical leadership supports employees to perform effectively in organizations. This study has shown negative relationship between ethical leadership and despotic leadership. The results reflect significant relationship, because the p value is less than 0.05% for all tested relationships These results are accepted to all tested hypotheses. These results in acceptance of all hypotheses tested in this study.

Table 3 also reflects negative relationship between ethical leadership and despotic leadership with p value 0.000. This supports our hypotheses 6 showing significant negative relationship between ethical leadership and despotic leadership. The reason could be that leaders in non-profit organizations display higher ethical standards and play an effective transformational leader role than despotic leaders.

Figure 2, presents the study results with SEM model, reflecting the relationships of transformational leadership, organizational culture with ethical leadership, as well as role of these variables and its relationship with employee performance and despotic leadership. The model also reflects the regression relationship among tested variables. Tested model in Figure 2 reflects that organizational and ethical leadership has positive relationship. Similarly, transformational leadership and ethical leadership have significant and positive relationship. This model also reflects positive relationship of transformational leadership, organizational culture with employee performance, as well as ethical leadership with employee performance. However, negative relationship was reflected between ethical leadership and despotic leadership, which mean despotic leaders are authoritative and lack organizational ethical values. The fact remains that employee can perform well in a positive and healthy organizational culture, under the leadership that is ethically strong.

DISCUSSION

The analysis and results of this study supports to hypotheses tested, as well as supports earlier studies conducted on ethical leadership. The outcome related to ethical leadership supports earlier study findings which reflected that ethical leadership has association with transformational leadership (Toor and Ofori, 2009).

Furthermore, our study findings describe that ethical leadership and organizational culture have positive relationship. This supports to our hypotheses 2, and echo to findings of earlier studies, showing positive relationship between ethical leadership and transformational culture (Brown and Trevino, 2006). This reflects that leaders that are morally and ethically strong, promote a healthy and supportive culture.
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The results also show transformational leadership and supportive environment through organizational culture contributing to increased employee performance. This validates hypothesis 3 and 4 as a positive relationship between transformational leadership, its components (idealized behavior, idealized attributes, idealized influence, inspirational motivation, intellectual stimulation) with employee performance. There is a healthy linkage of organizational culture and employee performance.

An important finding of this study is that: ethical leadership is an important mediating variable with its relationship between transformational leadership and employee performance.

This reflects positive behavior of leaders, those who are morally strong, inspire their teams and play a role of manager, coach and mentor. Charismatic leaders that have strong moral and ethical values, support their teams and this result to increase employee performance. Similarly, findings of our work reflect that ethical leadership mediates positively with organizational culture and employee performance. It is an important angle which draws our attention that ethical leaders promote a supportive culture in organizations. They develop clear reward and punishment system in place and provide conducive environment in organization that effect positively on employee performance.

Recently researchers have given a way forward to see the mediating role of ethical leadership with organizational culture and despotic leadership (Toor and Oferi, 2009). This study also contributes to evaluate the relationship between organizational culture and despotic leadership with the mediating role of ethical leadership. Findings of this study have shown negative relationship in these variables. That means that despotic leaders are not ethically and morally strong and they do not promote a healthy culture.

LIMITATIONS AND FUTURE RESEARCH

The findings of our research are useful for NGOs in Pakistan to promote ethical leadership and develop a healthy and supportive organizational culture, as well as to develop future workforce with high ethical values. This study contributes to literature on ethical leadership. However, the study has certain limitations; first of all this study is conducted with NGOs in Pakistan. Researchers in further study on ethical leadership should focus on profit organizations with some specific industry.

This work has looked at employee performance from two aspects (in role and extra role employee performance). Future studies can further explore how important is ethical leadership in relation with leader performance, organizational performance and leader member exchange.

Furthermore, this study is limited to one culture only. Future works can focus on cross cultural work on ethical leadership and its association with ethical conduct at...
work in different cultures. Future works can also use controlling variables. Current study analyzed mediating role of ethical leadership with transformational leadership and employee performance. Future works can focus on analyzing mediating role of leader member exchange with transformational leadership and employee performance.

Conclusion

Leaders play an important role, ensuring a positive culture in organizations, which promotes ethical values at all levels. Charismatic leaders in organizations as managers and mentors with high moral values strongly contribute sustaining high performers. A marriage of supportive / healthy culture and ethical leadership is needed in organizations. Leaders have to play their due role in promoting ethical practices within organizations. This would contribute effectively by increasing both organizational and employee performance. Leaders in organizations have to demonstrate and enforce ethical leadership from top to bottom. Human resource policies including employee code of conduct supports ethical values and behavior in organization. However, leaders have to send clear and precise messages to employees on reward and punishment as associated with their moral and non-moral behavior.

Pakistan received significant funding to respond natural and man-made disasters that happened in last few years. Some of these major disasters include: 2005, earthquake, 2009, IDPs emergency, and 2010 flood that affected more than 20 million people of Pakistan. The country has been on eye-watch by International partners to ensure that funds are spent effectively and efficiently for beneficiaries and development work that was affected due to these disasters. Leaders have to play an important and effective role to ensure that funds are appropriately spent and accounted for, as well as employee show ethical values in their work with internal and external stakeholders. Ethical leadership today can play an important role in to building a moral society, effective teams, increase employee and organizational performance, as well as create a positive image of country at International level.

REFERENCES