

# Improving the “Leader–Follower” Relationship: Top Manager or Supervisor? The Ethical Leadership Trickle-Down Effect on Follower Job Response

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**ABSTRACT.** Since time immemorial, the phenomenon of leadership and its understanding has attracted the attention of the business world because of its important role in human groups. Nevertheless, for years efforts to understand this concept have only been centred on people in leadership roles, thus overlooking an important aspect in its understanding: the necessary moral dimension which is implicit in the relationship between leader and follower. As an illustrative example of the importance of considering good morality in leadership, an empirical study is conducted in which a good performance of the “leader–follower” relationship is reflected when individuals perceive ethical leadership in higher hierarchical managerial levels. To be precise, findings of this study demonstrate that follower job response is improved through an ethics trickle-down partial effect from the Top Manager to the immediate supervisor, and also reveal both key aspects and managerial level on which the practice of ethical leadership should rest upon to have a stronger effect on the follower positive job response. Practical implications of these findings and directions for future research are finally presented.

**KEY WORDS:** ethics, job response, leadership, “leader–follower” relationship, trickle-down effect

**ABBREVIATIONS:** SDB: Social desirability bias; SEL: Supervisor’s ethical leadership; TMEL: Top Manager’s ethical leadership

## Introduction

Due to its importance in human groups, the concept of leadership is one of the organizational topics that have most intrigued researchers for centuries (Burns, 1978). However, aside from the high number of

studies about leadership (Bass, 1990), only a few are concerned with the moral dimension of leadership as a means to better understand this concept. This aspect only started to attract interest from academics when the concern for understanding the wholeness of the “leadership” phenomenon arose amongst them, implying to have a focus on the two main characters involved in the relationship: both the *leader* and the *follower* (Bass, 1990; Burns, 1978; Gini, 1997; Greenleaf, 1977, 1979). When this perspective is taken into consideration the moral dimension of the process of leadership necessarily arises and attracts the attention of academics and professionals in the business world. Any relationship requires mutual trust in order to be optimal (Kouzes and Posner, 2002) and trust needs, in turn, good morality (Treviño et al., 2000). As a consequence, scholars have started to give the role of wielding good morality major importance on the part of the leader to better understand that phenomenon, thus getting the optimum out of the relationship between the leader and the follower (Bass, 1990; Burns, 1978; Greenleaf, 1977, 1979; Perez-Lopez, 1998).

In spite of this, the attention paid to empirical research in this aspect is still very limited. Rather, the study on ethical leadership is still infant (Mayer et al., 2009), and knowledge about what exactly ethical leadership phenomenon comprises is not plentiful (Toor and Ofori, 2009). Furthermore, the call of Brown and Treviño (2006) for future research to demonstrate a trickle-down effect on ethics from top to bottom is scarcely explored (e.g. Mayer et al., 2009) and absent when we emphasize on the necessary identification of the managerial level (Top Management vs. supervisor) which is more

important in influencing the employee job response. Therefore, we think that more theoretical and empirical efforts are still necessary to move forward not only in the organizational behaviour field as Wright and Quick (2009) state, but also in the ethical leadership field of study. Thus the purpose of this article is to make a contribution to the development of the three following aspects, which, in our opinion, are still not definitively comprehended.

On the one hand, this study is aimed at empirically supporting the important role which is suggested to be played by ethics in understanding the concept of leadership. Indeed, based on the idea that leadership is defined as a phenomenon that gets: the voluntary adhesion of followers (Guillen and Gonzalez, 2001), the necessary effort of followers to achieve the group and organizational objectives (Koontz and Weichrich, 1994), and an increase in the followers' performance (Drucker, 1986), a suitable consequential indicator of leadership may be the extent to which followers feel motivated and "comfortable to bring the best of their knowledge and abilities" to the organization (Offerman, 2004, p. 832). Thus, the more followers deploy positive job attitudes and behaviour, the more effective the practiced leadership (Ciulla, 2004), and the higher the performance of the relationship between the leader and the follower is thought to be. Drawing on this perspective we think that in order to confirm the importance of ethics in leadership, empirical exploration of the relationship between ethical leadership and follower positive job response is necessary. Certainly, some recent literature exists on such matter (e.g. Brown et al., 2005; Chiaburu and Lim, 2008; Mayer et al., 2009; Toor and Ofori, 2009) but empirical research on the topic is scarce (Mayer et al., 2009) and the wide range of positive employee job attitudes and behaviour has not been considered to the present (e.g. turnover intention). Therefore, the findings of this study are thought to advance the understanding of the role played by ethics in leadership, particularly in an unexplored cultural context (Spain), and in an industry such as the banking sector (the insurance sector was also part of the sample of the study) whose moral failure has been suggested to be as the causal epicentre of the current world economic and financial crisis.

On the other hand, this study is aimed at, keeping in mind the most used and cited study of Treviño and colleagues (Brown et al., 2005; Treviño et al., 2000), describing the most important parts of the nature of ethical leadership (moral person and manager). In this sense, this study seeks to contribute to the *ethical leadership* field by identifying those aspects on which more emphasis should be attached in order to really create a moral manager and/or a moral person – both for Top Management and Supervisors – and therefore finally, an ethical leadership that contributes to the followers' deployment of a positive job response.

Finally, and as it is certainly unusual in the literature on ethical leadership (Mayer et al., 2009), we have included in the empirical analysis two important variables of leadership – one referred to the Top Manager and the other one to the Supervisor – and we analyse their distinct influence on the employee job response. Thus our findings are also thought to make a relevant contribution to the literature by extending the results obtained by Mayer et al. (2009) on the existence of a trickle-down effect on ethics with additional and distinct job outcomes. More importantly, our findings may help to resolve a typical controversy surrounding literature, and referred to the knowledge about the managerial level, whether Top Management (Barney, 2005; Weaver et al., 2005) or Supervisor (Brandes et al., 2004), which is more influential on the employee positive job response (Mayer et al., 2009).

In order to fulfil all the above proposed lines of action, we proceed as follows. First we carry out a literature review of research on theories of leadership to show how the moral dimension may imply an important aspect to consider to adequately defining and understanding the said phenomenon. Secondly, in order to delineate hypotheses, we review literature and discuss about the distinct dimensions which make Top Managers and Supervisors be considered as ethical leaders, we review literature on the relationship between ethical leadership and the follower positive job response, and finally analyse the theoretical arguments supporting the existence of a trickle-down effect on ethics. Thirdly, we describe the research method and findings. Finally we present the discussion of results and outline contributions and implications for researchers and practitioners.

## Understanding the “leadership” conceptual nature

In the past century many theories have been developed with the objective of understanding leadership better. According to the perspective from which this phenomenon is analysed, these theories can be grouped into two main approaches: Traditional and Relational.

### *Traditional approach to leadership*

All of these theories (e.g. Blake and Mouton, 1964; Fiedler, 1967; Hersey and Blanchard, 1988; Stodgill, 1948) were well accepted by academics. However, most of them are focused only on the leader as a person and on his/her particular style, without considering other important aspects in the leadership process. Only contingent theories focus their attention on other elements apart from the leader as a person (e.g. type of task, the follower’s job experience and maturity) as important factors in predicting leadership and leadership’s effectiveness. All of this implies an important move forward and a trend in the understanding of the phenomenon, specifically, when the academic interest began to be focused on one of these elements: the *follower*. Leadership, then, was left without much attention as a one person phenomenon and begun to be considered rather as an interpersonal devotee relationship between two agents (leader and follower) (Gini, 1997), in which knowing and explaining the reasons why the follower is motivated to follow and adhere to the leader was essential to understanding the phenomenon better. Thus, in the past few decades of the past century, new theories on leadership came up with an emphasis on the analysis of the phenomenon from a psychological point of view on human motivation. These new theories on leadership form the relational approach to understand the leadership phenomenon, taking into account the moral dimension of leadership as a central role for that purpose.

### *Relational approach to leadership*

Even though the relational dimension of leadership has never been the focal point of the studies carried

out on this topic, leadership, practically speaking, has always been considered as a relation, purely on a transactional basis (Bass, 1990). However, according to this perspective, leadership was understood egoistically and this undoubtedly led to the non-optimization of the results of the relationship between leader and follower, since leadership was understood from a context of exchange in which not only the follower but also the leader obtained something which was already bargained. Thanks to the new emphasis which was attached more than three decades ago on the relationship itself and on the requirements by the follower from such relationship, different more enriching leadership perspectives such as transformational leadership (Bass, 1990; Burns, 1978) and servant leadership (Greenleaf, 1977, 1979) were developed, through which the leader–follower relationship is improved.

Indeed, in contrast to the transactional approach, moral quality of leadership is seen to have increased outstandingly on both new approaches (Whetstone, 2002), reason for why the very best of the existing relationship between the leader and the follower may be obtained. Both transformational leader theory and servant leader theory emphasize other types of associations which are not exclusively limited to formally required behaviour on the part of the employee (follower) but yield optimum results on both sides of the relationship. On the one hand, the transformational leader stimulates followers to do more than it was initially expected (Bass, 1985). The relationship would be based on social aspects of the exchange (Cardona, 2000) and appealing to the satisfaction of higher order needs (e.g. self-realization, self-esteem, etc.) and to the concern for common good/welfare (Bass and Steidlmeier, 1999) would give rise to a change in beliefs, values (extending to a higher moral level) (Burns, 1978) and also follower’s attitudes and actions. On the other hand, the servant leader, through serving and satisfying the main follower’s needs, would inspire not only intrinsic or extrinsic motivations but also transcendental motivation in the follower, by trying to transform the follower into a servant who will look for the good in the consequences over others by his/her actions.

Therefore, it is through the development of these theories that a new focus appears on morality as a necessary aspect to understand the leadership

phenomenon, leading to the conclusion that the moral dimension is closely linked to leadership (Ciulla, 1995; Sendjaya, 2005). It should then be through ethics that the better performance of the “leader–follower” relationship can be understood and the reason for why the follower freely adheres to the leader’s will. Indeed, the follower’s perception of ethical leadership would make the follower feel as having greater confidence in the leader (Kouzes and Posner, 2002) and in the relation kept with him/her. As the research literature suggests (e.g. Brown et al., 2005; Ehrhart, 2004; Liden et al., 2008), this would probably result in a more positive job response, thus showing not only the follower’s well-being but also a strong follower’s loyalty to the leader’s will.

### **Ethical leadership: constitution and relationship with follower positive job response**

The research literature seems to suggest the relevance of ethics in understanding the “leadership” phenomenon, but how can ethical leadership be defined? In general, ethical leadership implies thoughts, values, attitudes and morally good behaviour that are directed in such a way as to promote ethical behaviour in the employees (Brown et al., 2005; Treviño et al., 2000). Indeed, ethical leaders are understood to exhibit commitment to ethical values for getting the follower’s implication and free adhesion to them. Then an ethical leadership requires the leader to not only be morally good natured but also to motivate the follower to behave and perform well (Brown et al., 2005). So according to Treviño et al. (2000) and Brown et al. (2005), it is believed that an ethical leader is created by the development of two necessary pillars: being both a *morally good manager* and a *morally good person* (Figure 1).



Figure 1. Pillars of ethical leadership. Source: Adapted from Treviño et al. (2000).

It seems clear that an ethical leader must demonstrate that he/she is a *morally good person* who develops appropriate behaviour (Brown et al., 2005), making the person who exercises this behaviour to excel him/herself in human terms (Guillen, 2006) and which suggests a motivation to act and to decide in an altruistic nature (Brown et al., 2005). Therefore, honesty, justice, integrity, caring for others, empathy, listening to others, etc. are attitudinal and behavioural aspects which are linked to being a *morally good person*. However, *being morally good* is not enough since an ethical leader must show an image of good morality to followers; that is, being a *morally good manager*. Then, if in addition to being a *morally good person* the leader does not care about if (a) his/her *ethical behaviour is perceptible by followers*, (b) *the consequences of the follower’s ethical/unethical behaviour are not rewarded or sanctioned or/and* (c) *ethics and its relevance to decisions/actions are not thoroughly communicated to followers*, ethical behaviour amongst the followers might not be promoted (Brown et al., 2005).

In conclusion, taking into practice the two pillars explained is the path a formal leader should follow to be a truly “ethical” leader who earns the devotion of the follower voluntarily. Ethical leadership, as previously described, entails the inextricable virtuousness (Ciulla, 2004; Havard, 2007) with character virtues such as love, faithfulness, temperance, justice... (Neubert et al., 2009) and some other positive characteristics (e.g. caring–concern for others, fair treatment to others or altruism) (Treviño et al., 2000) which not only facilitate the achievement of followers’ key needs and desires of human beings (e.g. solidarity, trust, security, safety) (García-Echevarria, 1993; Neubert et al., 2009) but also enable the follower to move forward in moral reasoning (Schminke et al., 2005) and behave ethically (Peterson, 2004). As a consequence, the achievement for the follower of the Aristotle’s “eudaimonia” concept is easier, and then the flourishing of the follower as human being (Ciulla, 2004), finally affecting his/her job response in a positive manner. Indeed, in his *Nicomachean Ethics*, Aristotle (2009) defended that a virtuous behaviour in accordance with reason is the main way to be truly happy/eudaimon (both in terms of personal–material and of moral development), to live well and do well. Therefore, in the presence of ethical leadership, not

only do followers flourish as human beings by feeling the existence of adequate conditions to do it but also by being influenced in moral terms, and then by behaving ethically or practicing virtue (Ciulla, 2004). Some previous empirical studies seem to support such statement as they conclude that positive employee job response is reflected when either a context of an ethically virtuous type is experienced (Neubert et al., 2009; Rego et al., 2010; Sharma et al., 2009) or an ethical/virtuous behaviour is performed by individuals (Baker et al., 2006; Burke et al., 2009; Roman and Munuera, 2005; Ryan, 2001).

Undoubtedly, an ethical leader is associated with the act of real authority that generates trust in the follower and changes the follower’s mind, heart and will (Guillen and Gonzalez, 2001). Then it is very likely that the follower makes more effort in doing tasks that are initially expected from him/her (Brown et al., 2005; Chiaburu and Lim, 2008; Mayer et al., 2009) and who is generally happy, satisfied and loyal to the company by developing work attitudes that are very valuable to the company (Koh and Boo, 2001; Neubert et al., 2009; Toor and Ofori, 2009). Specifically, job satisfaction, (affective) organizational commitment, citizenship behaviour and lower intention to leave are expected on the part of the follower, which are only some of the attitudes and behavioural aspects which may be used to measure the performance of the “leader–follower” relationship.

#### *Top Manager’s ethical leadership and employee job response*

Although due to factors related to the size of the organization it is not probable for an employee to perceive the Top Manager’s *morally good person*, Top Manager’s ethical leadership (TMEL) is suggested as an important influence on employee job response since it is possible to perceive the Top Manager’s *morally good manager*, that is, his/her image of good morality. Then if the Top Manager shows that ethics is not only a common aspect in his/her work–life but also important in the operation of the organization, the ethical tone is set for the whole organization (Mayer et al., 2009). Furthermore, due to the great distance separating Top Management levels from lower hierarchical levels, a magical image of Top Management facilitating emotional “Top Manage-

ment–employees” ties is thought to be created (Katz and Kahn, 1966), thus reinforcing the influence of TMEL on the employee’s job response. Thus, when the *morally good manager* dimension is perceived in Top Management levels, employees may feel that they are supported, taken care of (Valentine et al., 2006) and fairly treated by Top Management (Treviño et al., 1998), and they also may perceive that different and basic needs and desires for them (e.g. security, safety, solidarity) (Garcia–Echevarria, 1993) can be satisfied (Neubert et al., 2009). In addition, employees may develop relational psychological contracts which reinforces the mutual commitment acquired by both parties (individual and Top Management) in order to work for mutual (Top Management–employee) well-being (Barnett and Schubert, 2002). Therefore, when Top Management’s ethical leadership is perceived, a positive contribution to perform valuable positive job attitudes and behaviour may be deployed by employees. Ample research suggests such relationship as a result of the outcomes obtained: job satisfaction increases (Koh and Boo, 2001; Tsai and Huang, 2008; Valentine and Fleischman, 2004; Viswesvaran et al., 1998; Vitell and Davis, 1990), organizational commitment increases (Treviño et al., 1998; Tsai and Huang, 2008; Valentine and Barnett, 2002; Valentine et al., 2002) and turnover intention decreases (Mulki et al., 2008; Peterson, 2003; Pettijohn et al., 2008; Shafer, 2002) when an ethical context or simply Top Management’s ethics/interest for ethics is perceived by employees. Research results also demonstrate a significant influence on the employee citizenship behaviour, especially when an ethical/virtuous context is perceived by them (Mayer et al., 2009; Rego et al., 2010). Therefore, TMEL may get the best employee job response, and as a consequence the following hypotheses are proposed:

- $H_{1a}$ : Top Manager’s ethical leadership has a positive influence on employee job satisfaction.
- $H_{1b}$ : Top Manager’s ethical leadership has a positive influence on employee (affective) organizational commitment.
- $H_{1c}$ : Top Manager’s ethical leadership has a negative influence on employee turnover intention.
- $H_{1d}$ : Top Manager’s ethical leadership has a positive influence on employee organizational citizenship.

*Supervisor's ethical leadership and employee job response*

In the case of the supervisor's ethical leadership (SEL), as supervisors are very proximal to employees, the follower may not only get the impression that the leader is morally good but also that he/she is really morally good. In fact, both pillars may be perceived by the follower who may be able to identify himself/herself to a higher degree with leaders and their values (Brown et al., 2005). Thus, there is not a magical image but a real image derived from the continuous interaction maintained with the leader. Therefore, insofar supervisors are perceived to practice an ethical leadership, ethical, loving, faithful and temperate behaviour, trustworthiness, honesty, integrity, listening, concern and responsibility for others (employees or community) and interpersonal fairness are some of the pleasant aspects that may be perceived by followers from the formers (Brown and Treviño, 2006; Neubert et al., 2009; Treviño et al., 1998) and with high probability, in the immediate work environment (Neubert et al., 2009). Drawing on these conditions, then, followers may be satisfied and motivated to respond in a positive manner (Brown and Treviño, 2006; Brown et al., 2005; Ehrhart, 2004) and even give the best of themselves for the good of the leader, the group and the organization. Previous empirical research exists in support of such association as employee job satisfaction (Neubert et al., 2009; Toor and Ofori, 2009), organizational commitment (Neubert et al., 2009) and citizenship behaviours (Chiaburu and Lim, 2008; Mayer et al., 2009) are found to be increased when ethical leadership is perceived in immediate supervisors. Also previous research suggests the above-mentioned association when turnover intention of the individuals is the focal dependent variable, as trust in supervisor, a necessary ingredient for ethical and good leadership (Kouzes and Posner, 2002), is found negatively associated with intention to quit the organization (Mulki et al., 2008). Therefore, SEL is expected to yield a positive job response from followers, thus leading to the proposition of the next hypotheses:

- H<sub>2a</sub>*: Supervisor's ethical leadership has a positive influence on employee job satisfaction.  
*H<sub>2b</sub>*: Supervisor's ethical leadership has a positive influence on employee (affective) organizational commitment.

*H<sub>2c</sub>*: Supervisor's ethical leadership has a negative influence on employee turnover intention.

*H<sub>2d</sub>*: Supervisor's ethical leadership has a positive influence on employee organizational citizenship.

*Organizational trickle-down effect: Top Manager–Supervisor–employee job response*

Finally, it is suggested that Top Manager's ethical quality may be reflected in other leaders in the organization. From the Role-Set Theory perspective (Merton, 1957), it is suggested that the formal authority level of the person which is considered as a referent develops a key role in affecting the individual's attitudes and behaviour, above all considering it in conjunction with other important factors like frequency of interaction and intra-organizational distance. Therefore, keeping in mind that Top Management has a broad impact on the organization as a whole (Mayer et al., 2009), it may be suggested that the moral quality level of the Top Manager's leadership flows through a trickle-down effect in the business organization (Mayer et al., 2009). Different hierarchies in management may be influenced through a cascade effect by the moral quality level of the Top Manager's leadership suggesting that job response consequences of that leadership are mediated by the different mid-low level leaders. Then if the employee's supervisor may be one of these influenced leaders, SEL may have a probable mediation effect on the proposed relationship between TMEL and employee job response. However, this mediation effect cannot be total as some logical arguments can be claimed in support for the partiality of this effect. For example, it is not unusual to find multiple small informal groups in the organization which may be guided by different values or norms from those formally implemented in the organization (Schein, 1992). Thus, although employees perceive the practice of ethical leadership in Top Management hierarchical levels, they may be rather negatively influenced in terms of job response by the immorality of supervisors and vice versa. Furthermore, both Top Manager and supervisors are thought to possess different personality backgrounds (Machiavellianism, locus of control, conscientiousness,

agreeableness, etc.) which significantly weigh at the moment of deciding or behaving ethically/unethically and in constructing an ethical leadership (Brown and Treviño, 2006). Drawing on the arguments above provided, we have proposed that the trickle-down effect on ethics from top to bottom, ending in an influence on the employee’s job response, is certainly likely to occur, but SEL plays only a partial mediation role in such relationship. A third hypothesis (H<sub>3</sub>) is proposed, which means adding a sub-hypothesis (H<sub>3a</sub>):

H<sub>3</sub>: Supervisor’s ethical leadership partially mediates the relationship between Top Manager’s ethical leadership and employee job response.

H<sub>3a</sub>: Top Manager’s ethical leadership positively influences Supervisor’s ethical leadership.

These last hypotheses combined with the previous ones make it possible to reflect the model which is being tested in this article in Figure 2.

### Methodology

#### Sample and procedure

A survey instrument was used to gather data to test the relationships shown in the research model, having decided to choose Spanish banking and

insurance industries. Surveys were handed to a sample of 4,500 employees and confidentiality was guaranteed, both in individual and corporative terms. Due to the fact that organizational variables are included in the questionnaire and having the aim to receive trustworthy information, all persons who only had a temporal contract and had been working less than 1 year for the company at the time of receiving the questionnaire were not accepted for the study. In the end 525 usable surveys were received, which implies a response rate of 11.7%. This response rate is reasonable in organizational behaviour research especially if we consider that employees from multiple different business organizations have been surveyed in this study (Valentine et al., 2006) which is also necessary and appropriate in this type of research (Valentine et al., 2006).

To explore the possibility of non-response bias, we assessed possible differences in relevant variables across early and late respondents under the assumption that late respondents are more similar to non-respondents than early respondents are to non-respondents (Armstrong and Overton 1977). Two-sample *t*-tests and *chi-square* tests on dependent variables in this study, respectively, indicated that early (the first quarter) and late respondents (the last quarter) do not differ from one another at the 5% significance level suggesting that non-response bias is not a concern. Furthermore, a *chi-square* test shows no

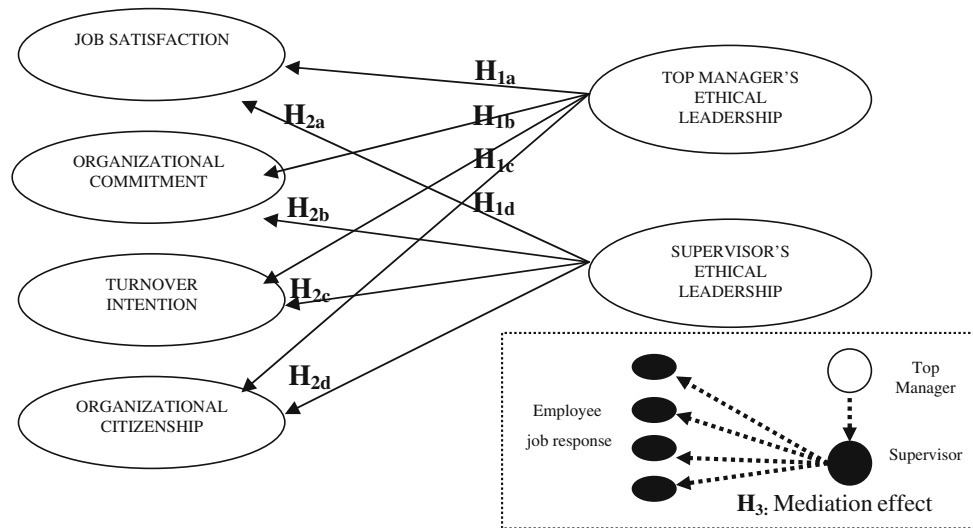


Figure 2. Ethical leadership and employee job response.

significant differences at the 5% level between sectors for both TMEL and SEL assessment by respondents. Finally, as the information was gathered through only one instrument, suggestions to avoid common method bias were considered in the questionnaire (Podsakoff et al., 2003). In addition a one-factor Harman test was conducted in order to assess the possible existence of this problem (Scott and Bruce, 1994). The principal component factorial analysis done to all the items of the questionnaire reflected that up to 8 factors with eigenvalues greater than 1 explained the 67% of the variance. As many factors accounted for that variance and the first factor only explained the 30% of that, it is suggested that common method bias cannot be a problem in this study.

### Operacionalization

Previously developed measures were utilized in this study although in some cases, items were additionally added. All measures were rated with a five-point scale anchored by “1” (completely disagree) and “5” (completely agree). On the one side, in relation to independent variables, we used a seven-item scale for measuring TMEL. This is an adapted scale from the Corporate Ethical Values’ scale (Koh and Boo, 2001; Vitell and Davis, 1990), adding some items from other researches (Treviño and Weaver, 2001; Treviño et al., 1998) to emphasize the *morally good manager* dimension (e.g. *Top Manager in my organization is a model of ethical behaviour*). SEL was measured by a ten-item scale from Brown et al. (2005) in which items absorb both the *morally good manager* and *morally good person* aspects (e.g. *My superior conducts his/her personal life in an ethical manner*). On the other side, in relation to dependent variables, item-reduced scales were used. Job satisfaction was measured by a three-item scale from the General Satisfaction Scale (Seashore et al., 1982). (Affective) organizational commitment was measured by a three-item scale by Allen and Meyer (1990) which has been previously validated by Moideenkutty et al. (2001). Turnover intention was measured by Konovsky and Cropanzano’s three-item scale (1991), and organizational citizenship was measured by a five-item scale adapted from the four-item Cardona et al.’s scale (2004) and one item designed for this research to cover the “loyalty” dimension

(“helpful behaviour”, “sportsmanship”, “individual initiative” and “loyalty” dimensions), (e.g. *I usually suggest new ideas to improve the department or the office where I work*). Finally, a group of socio-demographical questions are included (age, gender, level of education, organizational tenure and sectorial occupancy) whose inclusion in this research is really necessary due to the probable influence they may have on dependent attitudinal and behavioural variables (Cotton and Tuttle, 1986; Mathieu and Zajac, 1990).

### Statistical method

Structural equations analysis was used since it presents some advantages over traditional multivariate techniques (Haenlein and Kaplan, 2004). Specifically, we used partial least squares (PLS), a powerful method of analysis (Chin et al., 2003) which develops a flexible modelization through rigorous and robust statistical procedures (Wold, 1979). We considered that PLS is a suitable analysis technique for our study since PLS is a statistical tool primarily intended for causal-predictive analysis that has proved very useful in situations of high complexity but low theoretical information (Vitell et al., 2010). Thus, PLS is adequate in developing and constructing theory (Wold, 1979) or for testing theories that are at a developmental stage (Fornell, 1982), as it is the case in this study. Furthermore, SEM techniques are particularly recommended to test the mediation hypothesis (James et al., 2006) and several recent studies can be found analysing this effect with PLS (e.g. Cording et al., 2008). Accordingly, the PLS via PLS-Graph 3.00 (Chin, 2003) was used for hypothesis testing and the stability of the estimates was tested via a bootstrap re-sampling procedure (500 sub-samples). SPSS 17.0 statistical software was also used although only for socio-demographical descriptive and correlational exploration of the data.

### Results

The results obtained will be described in the next sections. Due to the fact that the number of respondents (525 respondents) was much more than 10 times the number of predictors (5 predictors), it



can be assured that biased estimates of indicator loadings and path coefficients in the model are not a problem (Chin, 1998b). Actually, according to Cohen (1988), sample size is much more than the optimal minimum recommended for an alpha value of 0.05, a power level of 0.80 and a size moderated effect  $f^2$ . All in all, the large number of respondents in this research is reliable for parameter estimates (Chin et al., 2003).

*Socio-demographical background of the sample data*

As shown in Table I, regarding gender, there are predominantly more men than women ranking from 48% for men and 29% for women, thereby stressing the lack of response about this socio-demographical aspect (23.43%). On the other hand, the sample is relatively young since more than 51% of the sample was less than 40 years old and only little over 23% were more than 50 years old. Moreover, the sample shows a high seniority of the respondents surveyed, since the majority of them started working in the company more than 10 years ago (59,1%). In general, respondents are characterized by a high level of education as 62.85% had a college degree and only 3% of respondents had not completed high school education. Finally, 27.43% of the employees are in banks, 62.76% of them work in the social economy sector of banks and 16.95% in the insurance sector.

*Measurement model*

In PLS, indicators may be modeled as reflective or formative (Fornell, 1982). Reflective indicators are determined by the construct and, hence, correlate the level of that construct. Formative indicators, on the other hand, form, cause or precede the construct and then not necessarily covariate between them. In our case, all the measures used for the latent variables are reflective,<sup>1</sup> giving as a consequence that the measurement model for these variables is assessed in terms of individual reliability, construct reliability, convergent validity and discriminant validity. Only a latent variable was measured by formative items although it is a special formative type not requiring analysis according to the literature about formative indicators. This variable is “sectorial occupancy” and

TABLE I  
Sample’s characteristics (n = 525)

Variable	Frequency	% of Total
Gender		
Male	249	47.43
Female	153	29.14
No response	123	23.43
Age distribution (years)		
20–29	76	14.48
30–39	192	36.57
40–49	133	25.33
50–59	117	22.29
> 59	4	0.76
No response	3	0.57
Organizational tenure (years)		
< 1	15	2.86
1–5	106	20.19
6–10	91	17.33
11–15	77	14.67
16–20	60	11.43
> 20	172	32.76
No response	4	0.76
Level of education		
Less than high school graduation	15	2.86
High school graduate	166	31.62
Bachelors degree	109	20.76
Masters degree	172	32.76
Postgraduate degree	49	9.33
No response	14	2.67
Sectorial/industrial occupancy	144	27.43
Banks	144	27.43
Social banks <sup>a</sup>	277	62.76
Insurance company	89	16.95
No response	15	2.86

<sup>a</sup>Social Banking is a type of initiative that came about as a reaction to liberal capitalism and through the principle of solidarity tries to satisfy general interest as a main objective.

according to Falk and Miller (1992), a latent variable *dummy* for it is created with three codified formative indicators as described in the following: Insurance: 1 0; Banking: 0 1; Social economy banking: 0 0.

As can be seen in Table II, individuals belonging to banking is the one category which positively and significantly contributes to make the “sectorial occupancy” variable up ( $p < 0.001$ ) meanwhile individuals belonging to the insurance sector do not

TABLE II

Constitutional measure of the “occupancy” construct

Construct/variable	Content	Weight	t-Value
Sectorial occupancy	Banking	0.947***	6.8823
	Insurance	-0.148	1.3026

\*\*\* $p < 0.001$ , \*\* $p < 0.01$ , \* $p < 0.05$ , + $p < 0.10$  (based on a Student  $t_{(499)}$  two-tailed test):  $t_{(0.001;499)} = 3.310124157$ ;  $t_{(0.01;499)} = 2.585711627$ ;  $t_{(0.05;499)} = 1.964726835$  and  $t_{(0.1;499)} = 1.64791345$ .

significantly (negatively) contribute to it. Owing to being a three-category dummy variable, understanding the relation of this variable with dependent variables will be by considering as a referent category the one which has been excluded, that is, individuals surveyed belonging to the social economy sector in banking.

Finally, the rest of the demographical variables which are included are manifests, not needing to be assessed in terms of how good they are. It is necessary to indicate that from the results obtained in the correlation and descriptive analysis of the data through SPSS 17.0, it was decided to only include organizational tenure (interval scale from 1 to 5, where 5 indicates the longest) and level of education (dummy variable for graduate and undergraduate studies). Age, on the one hand, was not included because of its high positive rate of correlation with organizational tenure. Gender, on the other hand, was not included because of its low rate of response (Table I) and its insignificant relationship with dependent variables, so its inclusion in the study had been in detriment to the strength and consistency of the results and conclusions reached.

With regard to the measurement model for all the reflective latent variables, we began assessing the individual item reliability. The individual item reliability is considered adequate when the value of its standardized load equals to or is over 0.707 (Carmines and Zéller, 1979). Despite this, loads of 0.5 or 0.6 can be acceptable if the scale is at its initial stages of research (Chin, 1998b) or if the scale, as it is happening in this case, is being applied in different contexts (Barclay et al., 1995). So, taking into consideration as optimum value that which is over 0.707, a minimum acceptable of 0.55 as suggested by

Falk and Miller (1992) will be considered here in this case. A first analysis of the model shows the necessity of trimming items as suggested by Barclay et al. (1995) and Chin (1998b), so five items were eliminated because of loading too low. Two of them were being used to measure “reward/sanction of morality/immorality” and “communication of ethics and its importance” aspects of TMEL (tmel2 and tmel3); another one to measure “reward/sanction of morality/immorality” aspect of SEL (sel4) and another two to measure the “helpful behaviour” citizenship dimension (oci3 and oci4).

Once this trimming process had taken place, there were not any problems in loading for items. Overall, the optimum level recommended of 0.707 was overcome for almost all the items; the “organizational citizenship” variable was the only one which showed a problem with one of the indicators which loaded only in this construct with the value of 0.547 (Table III). However, the aforementioned indicator was held in the measurement model since this value is both significant and very close to the required level. Moreover, as it is stated by Chin (1998b), as long as the rest of the measurement demands for the construct are achieved, it is better to include that item in the model.

With respect to construct reliability, it was evaluated by examining the composite reliability (Werts et al., 1974). Having used the guidelines offered by Nunnally (1978) who suggests 0.7 as a benchmark for a modest reliability, all of the latent constructs are reliable, having measures of internal consistency that exceed 0.7 (Table III). Convergent validity, on the other hand, was evaluated by means of the Average Variance Extracted (AVE) which should be greater than 0.5 (Fornell and Larcker, 1981). Again, all constructs of our model exceed this condition (Table III) meaning that 50% or more variance of the indicators is accounted for. Finally, according to Barclay et al. (1995), discriminant validity was assessed by the AVE. The AVE should be greater than the variance shared between the latent construct and other latent constructs in the model (e.g. the squared correlation between two constructs) (Barclay et al., 1995; Fornell and Larcker, 1981) and really all latent variables satisfy this condition (Table IV). To sum up, we can conclude that the measurement model for reflective variables used in this research is reliable and valid.

TABLE III  
Measurement model: item loadings, construct reliability and convergent validity

Construct	Item	Loading	Construct reliability	AVE	<i>t</i> -Value
Job satisfaction (JS)	js1	0.8767	0.923	0.800	57.3920
	js2	0.9137			94.7259
	js3	0.8922			51.7352
Organizational commitment (OCO)	oco1	0.8970	0.920	0.794	70.6789
	oco2	0.9218			111.9769
	oco3	0.8528			54.6226
Turnover intention (TI)	ti1	0.8373	0.874	0.699	32.0201
	ti2	0.8140			26.0036
	ti3	0.8556			36.1383
Organizational citizenship (OCI)	oci1	0.7089	0.756	0.516	17.2059
	oci2	0.5466			9.30510
	oci5	0.8641			41.8473
Top Manager’s ethical leadership (TMEL)	tmel1	0.7316	0.910	0.669	27.1306
	tmel4	0.7901			36.8750
	tmel5	0.8980			100.1741
	tmel6	0.8438			58.1027
	tmel7	0.8175			47.7467
Supervisor’s ethical leadership (SEL)	sel1	0.6948	0.947	0.665	22.5193
	sel2	0.7498			24.0994
	sel3	0.8080			42.0798
	sel5	0.8635			73.8227
	sel6	0.8508			60.0756
	sel7	0.7575			31.9271
	sel8	0.8658			64.2334
	sel9	0.8700			80.4725
	sel10	0.8599			65.4910

Structural model: hypothesis testing

Consistent with Chin (1998a), bootstrapping (500 sub-samples) was used to generate standard errors and *t*-values. Tables V, VI and VII show the results obtained in this research (path coefficients, *t*-values, variance explained and effect sizes) and Figure 3 shows a graphical representation of the path coefficients ( $\beta$ ) and the  $R^2$  values (variance explained) in the dependent variables, which allows a better understanding of the structural model.

As can be seen (Table V; Figure 3), on the basis of this empirical data, the model is supported and also all the proposed hypotheses ( $H_{1a-d}$ ,  $H_{2a-d}$ ,  $H_{3a}$ ) at a significance level of  $p < 0.001$ . On the one hand, in relation to the influence of TMEL on employee job response, TMEL positively influences on both job

satisfaction ( $H_{1a}$ ,  $\beta = 0.252$ ), (affective) organizational commitment ( $H_{1b}$ ,  $\beta = 0.359$ ) and organizational citizenship ( $H_{1d}$ ,  $\beta = 0.452$ ); and negatively influences on turnover intention ( $H_{1c}$ ,  $\beta = -0.204$ ). On the other hand, our results reveal a significant effect for SEL on employee job response too, positively affecting both job satisfaction ( $H_{2a}$ ,  $\beta = 0.341$ ), (affective) organizational commitment ( $H_{2b}$ ,  $\beta = 0.221$ ) and organizational citizenship ( $H_{2d}$ ,  $\beta = 0.165$ ); and negatively affecting turnover intention ( $H_{2c}$ ,  $\beta = -0.193$ ).

With regard to the mediation hypothesis ( $H_3$ ;  $H_{3a}$ ), we do find that the relationship between TMEL and employee job response is partially mediated by SEL. Indeed by comparing a mediation model that embodies the mediator variable SEL with another competing model (the direct one), the

TABLE IV  
Mean, typical deviations and correlation matrix (AVE in bold)

	Mean	SD	1	2	3	4	5	6	7	8	9
1. TMEL	2.79	4.31	<b>0.817</b>								
2. SEL	3.08	8.23	0.554	<b>0.815</b>							
3. JS	3.70	2.55	0.444	0.479	<b>0.894</b>						
4. OCO	3.15	3.04	0.476	0.409	0.519	<b>0.891</b>					
5. TI	2.04	2.80	-0.281	-0.280	-0.530	-0.445	<b>0.836</b>				
6. OCI	3.52	2.38	0.567	0.422	0.585	0.617	-0.413	<b>0.718</b>			
7. TENURE	4.11	1.64	-0.199	-0.154	-0.092	-0.024	-0.113	-0.180	<b>n.a.</b>		
8. EDUCA <sup>a</sup>	-	-	-0.046	-0.025	-0.001	0.055	-0.121	-0.071	0.508	<b>n.a.</b>	
9. OCCUP <sup>a</sup>	-	-	-0.079	0.009	-0.078	-0.137	0.059	-0.196	0.030	-0.009	<b>n.a.</b>

Notes: Diagonal elements (bold figures) are the square root of the variance shared between the constructs and their measures. Off-diagonal elements are the correlations amongst the constructs. For discriminant validity, diagonal elements should be larger than off-diagonal elements in the same row and column.

n.a. Non-applicable.

<sup>a</sup>The original variables were transformed to dummy ones; therefore, mean and SD are not applicable.

TABLE V  
Direct, indirect, total effects and explained variances

Effects on dependent variables	Direct effects <i>t</i> -value (bootstrap)	Indirect effects	Total effects	Variance explained <sup>a</sup>
Job satisfaction ( $R^2 = 0.280$ )				
H <sub>1a</sub> : Top Manager’s ethical leadership	0.252*** (5.2844)	0.188	0.440	0.112
H <sub>2a</sub> : Supervisor’s ethical leadership	0.341*** (8.0385)	-	0.341	0.163
Affective organizational commitment ( $R^2 = 0.278$ )				
H <sub>1b</sub> : Top Manager’s ethical leadership	0.359*** (7.8582)	0.122	0.481	0.171
H <sub>2b</sub> : Supervisor’s ethical leadership	0.221*** (4.6971)	-	0.221	0.090
Turnover intention ( $R^2 = 0.139$ )				
H <sub>1c</sub> : Top Manager’s ethical leadership	-0.204*** (3.9062)	-0.106	-0.310	0.057
H <sub>2c</sub> : Supervisor’s ethical leadership	-0.193*** (3.6104)	-	-0.193	0.054
Organizational citizenship ( $R^2 = 0.367$ )				
H <sub>1d</sub> : Top Manager’s ethical leadership	0.452*** (10.5246)	0.091	0.543	0.256
H <sub>2d</sub> : Supervisor’s ethical leadership	0.165*** (3.4438)	-	0.165	0.069
Supervisor’s ethical leadership ( $R^2 = 0.307$ )				
H <sub>3a</sub> : Top Manager’s ethical leadership	0.554*** (14.5190)	-	0.554	0.307

\*\*\* $p < 0.001$ , \*\* $p < 0.01$ , \* $p < 0.05$  (based on a Student  $t_{(499)}$  one-tailed test):  $t_{(0.001,499)} = 3.106644601$ ;  $t_{(0.01,499)} = 2.333843952$  and  $t_{(0.05,499)} = 1.64791345$ .

<sup>a</sup>In the “explained variance” column, socio-demographical contribution is not considered.

existence of the aforementioned mediation effect is shown. As can be seen in Figure 3, conditions for supporting a partial mediation effect (Tippins and Sohi, 2003) are accomplished: there is a significant relationship between TMEL and SEL (H<sub>3a</sub>); there is

also a significant relationship between SEL and employee job response (H<sub>2a-d</sub>); a significant effect for TMEL on employee job response (as observed in the direct model) is greatly diminished in the partial mediation model; and lastly, the partial mediation

TABLE VI  
Direct and mediation model: variance explained and strength of the mediation effect

Dependent variable explained	Variance explained			Strength of the mediation effect ( $f^2$ )
	Direct model	Mediated model	$\Delta$ Variance explained	
Job satisfaction	0.200	0.280	0.080	0.111 (weak-moderate)
Affective organizational commitment	0.245	0.278	0.030	0.041 (weak)
Turnover intention	0.114	0.139	0.025	0.029 (weak)
Organizational citizenship	0.351	0.367	0.016	0.025 (weak)

$f^2 = (R^2_{\text{included}} - R^2_{\text{excluded}}) / (1 - R^2_{\text{included}})$ ; effect sizes of  $f^2 \leq 0.02$ ,  $\leq 0.15$  and  $\leq 0.35$  are regarded as weak, moderate and strong, respectively (Chin, 1998b; Cohen, 1988).

model explains more variance in employee job response. Thus, it can be asserted that SEL partially mediates the relationship between TMEL and employee job response. According to Chin (1998b), this mediation effect, once calculated  $f^2$  for effect size, is small to moderate for job satisfaction ( $f^2 = 0.111$ ), and small for affective commitment ( $f^2 = 0.041$ ), turnover intention ( $f^2 = 0.029$ ) and citizenship behaviour ( $f^2 = 0.025$ ) (Table VI).

Finally, socio-demographical variables also had a significant influence on some dependent variables (affective commitment, turnover intention and organizational citizenship) (Table VII), specifically, both organizational tenure and occupancy. On the one hand, as may be expected, organizational tenure had a significant negative effect on the employee turnover intention ( $\beta = -0.157$ ;  $p < 0.01$ ), which may be explained by the fact that as years go by, the individual achieves and experiences a greater number of positive aspects (pension plans, satisfactory personal relations, etc.) which make it costly for him/her to leave the organization (Stephens et al., 2004). On the other hand, occupancy has a significant effect on the employee affective commitment and citizenship, so in contrast to working in social economy banking, working for a bank influences more negatively on the employee affective organizational commitment ( $\beta = -0.112$ ;  $p < 0.01$ ) and citizenship behaviour ( $\beta = -0.160$ ,  $p < 0.001$ ). One possible reason for this result may be a higher stressful climate in banks, which would make the employee perceive the organizational climate as an unpleasant one. Another cause which may explain this finding is that in contrast with the circumstances

TABLE VII  
Socio-demographical variables’ effect on employee job response

Dependent/independent variables	Standardized path coefficient ( $\beta$ )	t-Value
Job satisfaction		
Occupancy	-0.061	1.6453
Organizational tenure	0.004	0.0896
Level of education	-0.016	0.3870
Affective organizational commitment		
Occupancy	-0.112**	2.8619
Organizational tenure	0.063	1.4160
Level of education	-0.044	0.9807
Turnover intention		
Occupancy	0.049	0.8884
Organizational tenure	-0.157**	3.1521
Level of education	0.055	1.1845
Organizational citizenship		
Occupancy	-0.160***	4.0227
Organizational tenure	-0.048	1.1593
Level of education	0.023	0.5419

\*\*\* $p < 0.001$ , \*\* $p < 0.01$ , \* $p < 0.05$ , + $p < 0.1$  (based on a Student  $t_{(499)}$  two-tailed test):  $t_{(0.001;499)} = 3.310124157$ ;  $t_{(0.01;499)} = 2.585711627$ ;  $t_{(0.05;499)} = 1.964726835$  and  $t_{(0.1;499)} = 1.64791345$ .

in the social economy banking sector, foundations of banks are not related to “solidarity” and “concern for the well being of the community”, reason for which banking employees may not feel as good with organizational objectives as the employees who work in the social economy sector of banking.

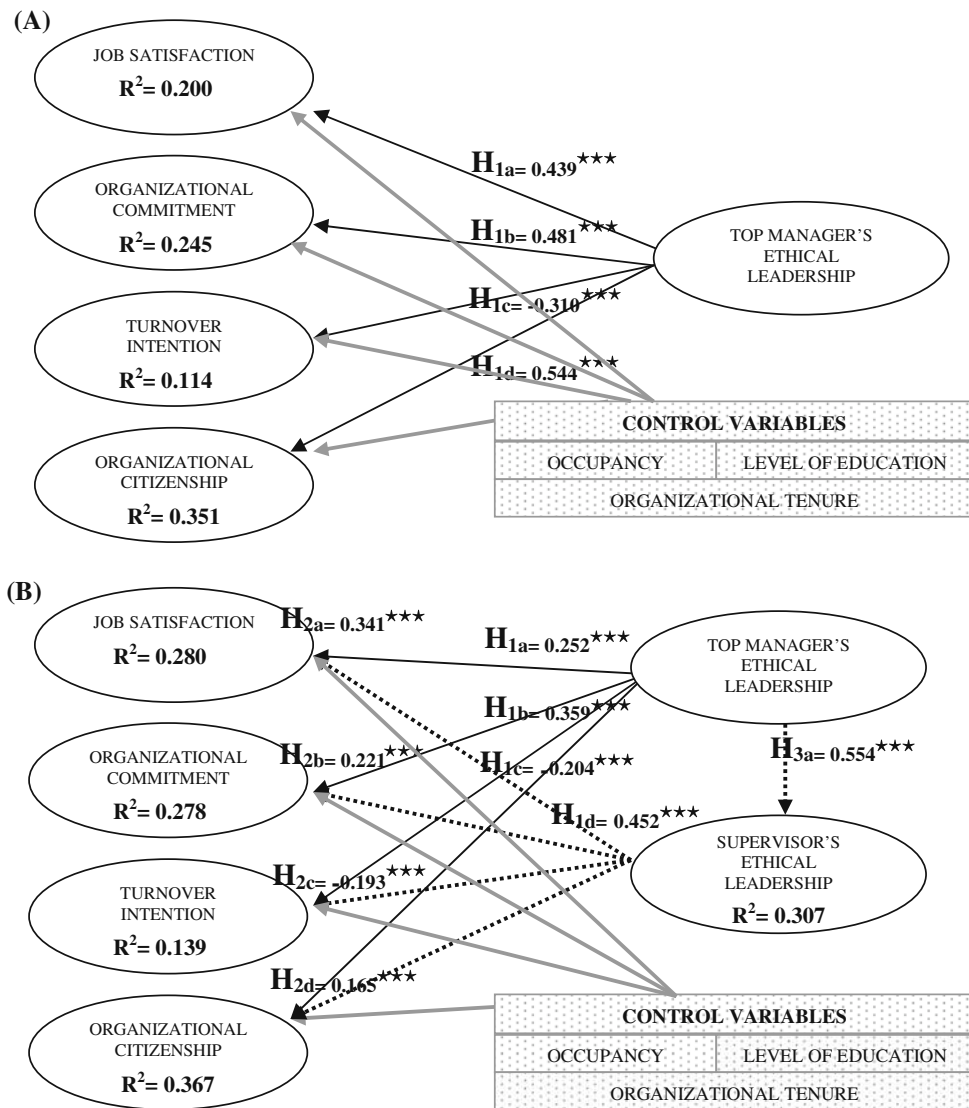


Figure 3. Mediation effect: comparative analysis of models. **a** Structural model incorporating direct effects. **b** Structural model incorporating mediation effect. Notes:  $***p < 0.001$ ,  $**p < 0.01$ ,  $*p < 0.05$  (based on a Student  $t_{(499)}$  one-tailed test):  $t_{(0.001; 499)} = 3.106644601$ ;  $t_{(0.01; 499)} = 2.333843952$  and  $t_{(0.05; 499)} = 1.64791345$ .

In the end, following the recommendations of Chin (2010) in terms of reporting a PLS analysis, as principal indicators we used the  $R^2$  values of the endogenous constructs to assess the predictiveness of the model. As shown in Table VI, it can be stated that our research model has an appropriate predictive power for all the endogenous variables since all of them are explained in a percentage higher than 10% which is the optimal minimum according to Falk and Miller (1992). More specifically, the endogenous variables have reached  $R^2$  values that are never

lower than 0.139, with the “citizenship behaviour” variable having a maximum explained variance of 0.367, and the mean level of the explained variance of the implied variables of 27.42%. In addition to the  $R^2$  statistic, we also performed the Stone–Geisser test to assess model fit (Geisser, 1975; Stone, 1974), a procedure which uses the  $Q^2$  test statistic as an analogue of the  $R^2$  statistic, and which needs to be greater than zero in order to show predictive relevance for the dependent variable (Chin, 2010). With the only exception of the turnover intention

variable, all the  $Q^2$  test values are positive, which indicates that for most of the endogenous variables, observed values are well reconstructed by the model and its parameter estimates (Chin, 2010). Finally, to conclude, we calculated the Tenenhaus et al.'s (2005) global fit index for PLS, which is the geometric mean of the average communality and the average  $R^2$ . As expected, this value is higher in the mediation model (GoF = 0.4367) than in the direct model (GoF = 0.397), which represents a better fit for the data in the former case. In addition, the GoF value for the mediation model represents in general a good fit for the data (Antiocho et al., 2008), since is above 0.36, a value indicating a large effect size for GoF when considering a cut-off value of 0.5 for the average communality (Fornell and Larcker, 1981) and effect sizes for  $R^2$  proposed by Cohen (1988) (small 0.02; medium 0.13 and large 0.26).

## Discussion and conclusions

The results obtained support the hypothesis that ethical leadership has a significant influence on employee job response. Indeed, it is unimportant that in relation to the influence on the employee turnover intention  $Q^2$  statistic shows that the model lacks predictive relevance. Such fact simply means that, in order to better explain such an attitudinal variable, other variables and relationships should have been considered in the model, as for example those which are suggested to exist amongst the job attitudes included in this study (Griffeth et al., 2000), as confirmed by a post hoc analysis. The model proposed in the present research was, however, empirically supported, thus also proving the significant influence of ethical leadership on all the employee job attitudes and behaviour variables included. Firstly it is confirmed that TMEL has a significant impact on job satisfaction, (affective) commitment to the organization, citizenship behaviour (loyalty, sportsmanship and individual initiative) and turnover intention; and secondly the same results are obtained for these attitude and behavioural aspects by means of the SEL. Then, it seems that exercising an ethical leadership based on two pillars that, according to Treviño et al. (2000), help to positively affect the follower's ethical behaviour, is the way to get a positive employee job response.

As it was already referred to above when explaining the item-trimming process, only one of the aspects of the *morally good manager* pillar "ethical/unethical behaviour reward/sanction" does not seem to be accurate for performing an ethical leadership, as it does not load well in either the TMEL or SEL constructs. Indeed, *making ethics perceptible and communication on ethics and its importance* seems to be the main *morally good manager's* aspects to be considered for exercising an effective ethical leadership. Above all the former is considered because the latter does not even appropriately load for the TMEL construct.

Contrary to what was to be expected, findings revealed that TMEL has more influence on employee job response than SEL, having a greater total effect on all of the attitude and behavioural variables. Only when explaining job satisfaction, variance explained by the supervisor is greater than the one explained by the Top Manager. These results support ideas of some authors highlighting that the tone at the top is critical in affecting employee attitudes and behaviour (Barney, 2005; Weaver et al., 2005). In our opinion Top Management's moral authority carries more weight with the workforce than a mixture of higher interaction and lower formal authority (supervisor). So, an interest in ethics from the Top Manager may have greater consequences for the employees. If Top Manager's good moral image is perceived, followers may feel that ethics are all important within the organization, not just in a department or group, and this perception may be a transcendental fact to be strongly appreciated by the employee in any organization.

Finally, with regard to the partial mediation effect which was hypothesized between TMEL and employee job response, results confirm its existence. Indeed in this research SEL was positively influenced by TMEL. This is an expected result because the moral quality level of the person with the highest formal authority may be reflected in other employee's moral quality as suggested and confirmed in literature (Treviño et al., 1998). Nevertheless, the interesting point is that SEL partially mediated the relationship between Top Manager's leadership and employee job response, moderately in job satisfaction and poorly in the rest of the dependent attitude and behavioural variables. This is an interesting result because it shows the proposal by Brown et al. (2005)

and extends the results obtained by Mayer et al. (2009) on the statement that Top Management's effort in exercising an ethical leadership to promote ethics may translate into influencing on lower-level employees' job response. Indeed, due to the high interaction and proximity that individuals present in their relation with supervisors, and since supervisors play an important role in filtering, interpreting and enacting formal policies, supervisors are thought to be the key mechanism through which Top Managers influence on lowest-level employees' behaviour and attitudes (Mayer et al., 2009). However, as found in this study, TMEL's effect on lower hierarchical levels continues causing a direct impact on the follower's job attitudes and behaviour. As we have found that the mediation effect for the supervisor on the TMEL-employee job response is partial, we can highlight the important role that Top Management plays in the employee's mind and will, no matter the organizational distance between them.

In summary, the results obtained in this research support the belief that ethics may be an important aspect to be considered when exercising leadership in business organizations. Not only does the moral dimension of leadership give better comprehension but it contributes to a stronger and successful "leader-follower" relationship. Indeed, the leadership phenomenon is only understood in a plural context, that is to say, the leader needs the followers to act which results in the fact that good morality becomes necessary, especially as leadership has as an essential task, that of understanding and satisfying the follower. In this sense, trust is essential in any relationship and this is gained when followers are sure that the leader does not want to take advantage of them but he/she is honest, trustworthy and is concerned with their needs and he/she is willing to give up particular interests for them (Mele, 2000). Therefore, ethical leadership makes the follower trust in the leader and satisfies the expectation of the relationship, achieving as a consequence an improvement in terms of performance of such relationship. The relationship between the two agents based on social aspects is better than the one based on instrumental aspects since in the former the follower's effort is greater than formally expected in the job contract. The perception of this type of exchange makes it possible that collaborators identify themselves with the leader up to the point of

building up a superior unit from which to pass the formally required limits. Furthermore, the follower surely would be influenced in moral terms (Schminke et al., 2005), which would contribute to the follower as a human being, helping him/her by means of moral virtuous behaviour to attain the highest and most complete good/end: the true happiness (eudaimonia) Aristotle (2009) refers to in his "Nicomachean Ethics". As a consequence, a positive job response on the part of the follower is expected so we believe that through including the moral dimension when trying to understand the leadership phenomenon this concept becomes enriched and the leader-follower relationship becomes improved.

#### *Contributions and developmental implications*

The primary contribution of this study is highlighting the importance of including the moral dimension to understand the leadership phenomenon by means of obtaining a better "leader-follower" relationship. Through this objective, this study exceeds the limits of empirical grounding on this matter, since by showing the association between ethical leadership and employee positive job response, the "leader-follower" relationship may be justified to work adequately. Improving the performance of the "leader-follower" relationship in this way may be a logical consequence of an effective leadership that achieves the goal of attracting and getting the best from the followers.

This study also contributes to the literature by identifying the hierarchical level of management in which managers play a more important role in improving the employee job response. We differentiate between a higher formal authority (Top Manager) and a less formal authority and higher interaction (supervisor). Results obtained in this research confirm that formal authority (Top Manager) plays a more important role, no matter the large organizational distance separating Top Manager from the average workforce. Further, the cascade effect on ethics happens only in a partial way since the Top Manager still goes on having an important and significant direct effect on employee job response, which helps to resolve the classical controversy existing about the most influential



managerial level on the employee. The results obtained agree with literature which states that promoting ethical behaviour amongst employees must be primarily at the top of the organization (Gini, 1997; Schroeder, 2002). Proximity and interfacing does not seem to matter as much as some authors think (e.g. Davis and Rothstein, 2006; Falkenberg and Herremans, 1995) and ethical leadership by Top Managers seems to overcome the supervisors’ in having an effect on employee job response. Probably, as already stated by Katz and Kahn (1966), because of the idealized and magical image that employees may have of Top Managers when good morality is perceived in them, TMEL is more influential on the employee job response than SEL. Furthermore, as Top Managers may represent the most important reference for employees (Sims and Brinkmann, 2002), when an ethical image is presented, it may give the workforce not only the perception of being taken care of but also a feeling of trust in that the whole organization is doing well, which will undoubtedly facilitate a positive employee job response.

Finally, this study presents interesting outcomes having direct implications for managers. In addition to prescribing to firms “the more ethical manager the more ethical organization”, our results seem to stress the need for ethics in managerial positions to help the firm to have leaders in all hierarchical levels, and have a source of competitive advantage. To be precise, it seems that the most important aspect that any manager should consider in daily managerial tasks is the personal practice of moral virtuosity, which should be perfectly complemented with continuous efforts to communicate the importance of ethics in the group/organization and make personal ethics perceptible to subordinates. Indeed, this is the way through which managers may become complete leaders who gain recognized authority from subordinates, inspire subordinates willingly in terms of behaviour and attitude (Gini, 1997) and obtain a good performance in the relationship between the manager and the subordinate. Therefore, by considering the development of the above-mentioned aspects, managers may get from the employees special job outcomes (e.g. job satisfaction, organizational commitment, citizenship behaviour, etc.) that are considered as signs of possible business value generation according to the Resource-Based

Theory of the firm (Grant, 1991; Peteraf, 1993; Rumelt, 1991), since such outcomes are a reflection of the well-being of such hard-to-imitate business assets as human beings truly are (e.g. knowledge, abilities, know-how, etc.).

#### *Limitations and future research directions*

Some limitations should be considered. First of all, this research took place only within two industries – banking and insurance – and in a specific cultural context – Spain – so although it is very probable that results may be repeated in other contexts, the external validity and spread of our results beyond the population of this study is limited. Secondly, the “ethics” trickle-down effect that seems to exist in organizational settings has only been contrasted in two leadership figures when the organizational hierarchical structure is usually much more complex. Furthermore, in some cases, workmates may also serve as informal leaders and they may also have an important effect – even greater than in the case of formal leadership – on the individual’s positive job response.

Another important limitation is that we had no control over social desirability bias (SDB), a problem commonly faced in business ethics research (Randall and Fernandes, 1991) and in the organizational behaviour field study (Zerbe and Paulhus, 1987). Therefore, this study might have been affected by the respondents’ tendency to give a favourable (socially and culturally) image of themselves or others. However, it is necessary to remark that in this study respondents assessed the level of morality of other people, so problems of SDB are found with greater difficulty (Beekun et al., 2008; Treviño and Weaver, 2001). In addition, we took some steps to reduce as much as possible this problem, for example, we guaranteed confidentiality and the anonymity for both individuals and companies (Peterson, 2004; Podsakoff, et al., 2003; Randall and Fernandes, 1991) and included reverse score items in the survey (Podsakoff, et al., 2003). Furthermore, as shown in Table IV, the mean of the focus variables included in this study does not reflect the existence of ceiling or floor effects, which are likely to take place when SDB is present in the data (Mulki et al., 2008), and more importantly, a post hoc descriptive

analysis of the data shows that less than 5% of the responses were of 5 (responses range from 1 to 5) on those scales which are considered as more problematic with regard to this problem (SEL, TMEL and self-ratings of citizenship behaviour).

As a final limitation, this research considered that a positive job response like the one used in this study is valid to measure the performance of the leader–follower relationship. However, only some of the usual measures reflecting a positive job response were included meanwhile several others can be used too (e.g. job performance, job effort, pay satisfaction, job involvement, etc.). What is more, to better reflect the performance of the leader–follower relationship other constructs might have been used like the ones referring to the commitment, admiration or trust in the leader.

Further research should address some of the study's limitations. The use of a variety of data collection methods would be a good option to objectify results obtained in this research and future studies should test whether our model applies to other industries and cultural regions as well. Other studies might be conducted comparing results obtained by different leadership styles including or not good morality, to check if good morality really matters for defining the leadership phenomenon. Furthermore, tools measuring ethical leadership may consider rewording the sanction/reward dimension of leadership. It may be that considering “reward” or “holding people responsible for actions and decisions” would be a better idea than reflecting “sanction” to measure this dimension of a *morally good manager*. In addition, in order to control for SDB and at the same time use the minimum physical space to this aspect in the questionnaire, for future research we recommend the use of short SDB forms, such as the reliable Strahan and Gerbasi's (1972) 10-item version of the Marlowe–Crowne scale or, as proposed by Randall and Fernandes (1991), reliable Overclaimings scales such as the 4-item short type used by Deshpande et al. (2006). Finally, in relation to the cascade effect on ethics by means of ethical leadership, to further investigate it, future research, both quantitative and qualitative, will be needed to test the real existence of this effect amongst the different hierarchical levels since this research has only proved the trickle-down effect between Top Management and the employee's immediate supervisor. Total or partial mediation amongst the

different hierarchical levels and the final effect on the follower's ethical behaviour should be tested to describe some important implications. Moreover, informal leadership by workmates should be assessed in terms of influence on the individual job response. Then, some interesting questions that would extend the findings of this study are: Does good morality really make a difference in producing an effective leadership? Is there really a trickle-down effect on ethical leadership through the different hierarchical levels? Is this effect total or partial in every level or not? Do workmates serving as informal leaders have an important effect on the individual job response? Does the sanction/reward dimension for constituting an ethical leader really need rewording?

## Note

<sup>1</sup> Although the nature of indicators measuring citizenship behaviour has been widely debated, LePine and Johnson (2002) show strong evidences for a sound relationship between the different citizenship dimensions, and these authors recommend defining it as a personality variable which must be measured with reflective indicators.

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