

ETHICAL LEADERSHIP AND ORGANISATIONAL IDENTIFICATION: THE MEDIATING EFFECT OF PSYCHOLOGICAL CONTRACT —EVIDENCE FROM SRI LANKAN APPAREL INDUSTRY

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ABSTRACT

Albeit a plethora of studies were undertaken across many countries, cultures, and industries, ethical leadership in the workplace remains a topic of ongoing debate and inquiry. This study aims to investigate the direct and indirect impact of ethical leadership on organizational identification in employees working in the apparel industry in Sri Lanka. Drawing on social exchange theory, the study further explores the mediating role of psychological contract in the impact of ethical leadership on organizational identification. The study adopted a survey research strategy and the data were collected from conveniently chosen employees working in the apparel industry with the aid of a self-administered questionnaire. The questionnaires were distributed among the respondents via online and a total of 414 responses were received. As a caveat, the fundamental statistical assumptions and the psychometric properties of measures were examined. The results showed that ethical leadership positively impacts organizational identification. The study averred a partial mediation of psychological contract in the impact of ethical leadership on organizational identification. The current study pushes back the frontiers of literature in the terrain of leadership and organizational studies and provides useful practical implications.

Keywords: Ethical leadership, Organizational identification, psychological contract, Apparel industry

1. Introduction

The organizational environment is more unstable as a result of growing globalization, escalating competition, facing ethical scandals, and fast-shifting markets, on the other hand, employees are under constant pressure to provide maximum outcomes (Straatmann et al., 2017). In times of economic uncertainty, an employee who is firmly devoted to the organization's objectives and willing to put in extra effort may offer the organization more resources than they can (Scrima et al., 2014). In reality, several of the largest international organizations have lately come under criticism as a result of the ethically dubious actions of their leaders (DeConinck, 2014). For instance, CEOs at major companies are frequently to blame for embarrassing stories like Facebook's data breach, Samsung's bribery and embezzlement scandal, or Uber's harassment claims. Concerns about business ethics, unethical conduct, and ethical leadership in the business world have recently arisen as a result of several ethics scandals and unethical employee actions (Veetkazhi et al., 2020).

Such scandals and unethical commercial practices have made ethical leadership necessary in the current scenario. However, researchers have been confirming the importance of ethical leadership studies in advancing moral standards among staff members and within the organization (Qing et al., 2019), as well as in encouraging positive behaviors like organizational commitment, citizenship behavior, engagement, and job satisfaction while avoiding negative ones like withdrawal behaviors, deviant behaviors, and turnover intention. Every organization is willing to get employees who are always delighted to talk about the company, sense of ownership, and being a member of the company, its core values, and brands. Most of the employees, who are specialists working in the apparel sector often leave the apparel and join another organization and do not talk about where they work (Jasinth & Raveendran, 2021). At the same time, fewer employees are prepared and wished to provide additional effort in such circumstances may give companies greater resources that may help assure their survival inside the company (Scrima et al., 2014).

Employees who are very happy within the organization would be engaging in their work (Umphress et al., 2010). Similarly, employees in any organization want their managers to display exemplary ethical behavior (Ahmed, Ulla & Khan, 2022). Every employer desires that every employee becomes more fully integrated into the company as a whole. Nonetheless, the identification has seemed to be less in apparel in Sri Lanka (Jasinth & Raveendran, 2021). In this regard, it can be claimed that employee identification plays a crucial part in influencing workers' support for their organization as well as engagement in behaviors that are not specifically required by contract or explicitly mandated by employees (Fuchs et al., 2012). On the other hand, the number of workers who are engaging in work in Sri Lankan workers is also comparatively less (James, 2021; Mathushan & Kengatharan, 2022; Mayuran & Kailasapathy, 2021). Rarely employees' identification with their employer and with their job been linked to a variety of organizationally desirable inputs, which supports this line of reasoning (Suifan et al., 2020).

Employees' attitudes differ often, those attitudes change based on the types of leadership that they are in at the organization. As per the studies, it is obvious that ethical leadership reduces negative effects such as turnover intention (Suifan et al., 2020) and increases job satisfaction (Hughes, Avey, & Nixon, 2010). As per this, it is clear that ethical leadership provides a positive working environment for the employees as well as the employers. Although, this organizational identification has rarely been addressed in the Western (DeConinck, 2014), but uncommonly addressed in the Asian context. Therefore, the impact of ethical leadership on organizational identification is tested in this context.

On the other hand, in analyzing the impact of the above two variables, it is vital to understand the informal obligations that the employees and employers share among them as mutual. Employers believe that by achieving employees' expectations for pleasant working conditions and compensation, the norm of returning will inspire workers to show gratitude for their employers by exhibiting favorable attitudes and actions in return (Tekleab & Chiaburu, 2011). The psychological expectations of employees possess the potential to help firms develop and maintain an engaged workforce (Rigotti et al., 2009). Therefore the

psychological contract between the employees and employers can be created through positive inputs from the organization. Psychological contract fulfillment has previously been described as workers' feelings of organizational support (Aldossari & Robertson, 2018). Therefore, the psychological contract is tested as a mediator on the impact of ethical leadership on organizational identification through the ground of reciprocal behavior of social exchange theory (SET) in Sri Lanka. Consequently, the research question is: (1) to what extent ethical leadership impacts organizational identification and (2) whether psychological contract mediates the impact of ethical leadership on organizational identification.

2. Literature Review and Hypotheses Development

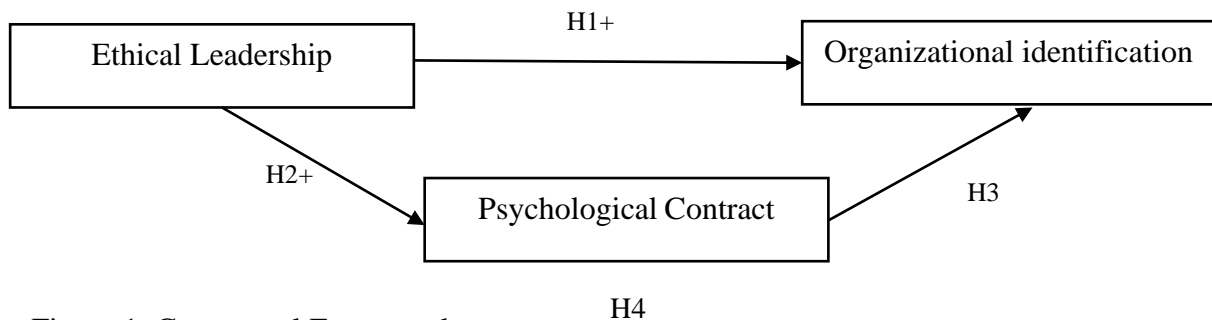


Figure 1: Conceptual Framework

2.1 Ethical Leadership and Organizational Identification

Ethical Leadership is an act following a set of values and principles that are widely accepted as providing a solid foundation for the general good. It involves being aware of the moral dimensions of leaders' actions (Nusrat et al., 2018). Further, it is a proper behavior that is promoted to followers through two-way communication, reinforcement, and decision-making, as well as through one's behavior and interpersonal interactions (Brown et al. 2005). The ethical qualities of justice, dependability, and honesty. On the other hand, organizational identification is the feeling of belonging a person has within the company they work for and employees have the willingness to say that they are the member of the organization (Asforth & Mael, 1989).

While the supervisors are so moral, employees are expected to commit to work as the company practices ethics in all the processes. Therefore employees would feel good about their organization, and happy about saying that they are the member of the company. This can be seen through the lens of social exchange theory. Since it is a reciprocal behavior. As per the theory, it is believed that managers who possess moral qualities and practices that will lead to positive organizational outcomes. They are the well-being of employees (Chughtai, 2015), organizational citizenship behavior (Arain et al., 2017), and employee performance (Ahmed et al., 2011). If the leadership is as expected by the employees, they want to be in the company as an exchange and feel proud. In that way, it creates the identification. It is said that employees who can adopt moral practices in the company can behave in their interest (Knippenberg & Hogg, 2013).

More than that, employees who admire their leaders for their better ethical practices, have organizational identification (DeConinck, 2014). And those who perceive that the leaders have a fair perception, it increases organizational identification (Edwards, 2009). In addition to that, it is confirmed that ethical leadership has a positive impact on organizational identification in the Western context (Suifan et al., 2020; Vondey, 2010). Although the impact has already been tested in a Western context, this study tried to attempt to show whether the same impact exists or any difference in the Asian context too. In addition to that, it is believed that employees who are working in an ethical environment are automatically attached to the organization and ethical leadership helps to elicit feelings of identification among employees and absence of ethical behavior might harm organizations and be very costly (Detert, Treviño, Burris, & Andiappan, 2007). Based on the above arguments the following hypothesis is proposed:

H1: Ethical leadership positively impacts organizational identification.

2.2 Ethical Leadership and Psychological Contract

It is a type of leadership known as ethical leadership which prioritizes moral and ethical principles. It highlights two crucial points. A moral leader, first and foremost, is viewed by his or her followers as having qualities such as honesty, justice, and care for others. Second, the moral leader reflects the leader's proactive attempts to influence followers' moral and immoral conduct. These efforts are displayed through interacting, satisfying, punishing, highlighting moral norms, and modeling moral behavior (Brown et al., 2005). On the other hand, a psychological contract is the expectations, convictions, goals, and duties of people as seen by the employer and the employee. Employees' psychological contract are fulfilled by their impressions of corporate support (Guzzo, Noonan & Elron, 1994).

This impact of ethical leadership on psychological contract can be seen through the lens of social exchange theory as it focuses on exchanges. Leaders are crucial motivators and drives for anything. A leader's vision guides the development of organizational strategy, and their actions serve as models for followers on how to conduct themselves (Brown & Treviño, 2006). Leaders' encouragement and support aid employees in achieving both their own goals and the organization's environmental objectives. Role modeling by ethical leaders affects the ethical atmosphere by fostering trust and ensuring that their actions match their statements (Kuenzi & Schminke 2009). One of the key precursors of numerous aspects of the psychological environment is leadership. Leaders are crucial in influencing and reshaping the psychology of the followers at all levels of an organization (Kuenzi, Mayer & Greenbaum, 2020). In addition to being concerned with their actions, ethical leaders are also concerned with the welfare of their workforce (Trevino et al., 2003). Leaders are crucial in creating an ethical culture because they establish the "ethical tone" of the organization.

Because of the leaders and the way of their interaction and letting the subordinates meet the expectations the amount of support the employees get. Therefore it can be concluded as ethical leaders' moral activities are evident at work, ethical leadership has a significant influence on workers' ethical behaviors which, in turn, creates a psychological contract (Chen & Hou, 2016). Normally, employees reciprocate what is given to them, therefore

ethical climate increases employees' integration with the company since they are deeply rooted (Akgunduz & Bardakoglu, 2017). In addition to that, it is stated employees grow more psychologically linked to their company the more leaders exhibit ethical qualities like justice, trustworthiness, honesty, etc (Lamm, Tosti-Kharas, & King, 2015). Therefore, the impact of ethical leadership on the psychological contract is hypothesized as follows:

H2: Ethical leadership positively impacts the psychological contract.

2.3 Psychological contract and organizational identification

The employees who feel their expectations are met they feel satisfied at the company. Because it entails giving workers a sense of their satisfied feeling and existence at the company. Employees feel more connected to the organization's structure as a result, which increases the motivation of the employees. Due to the self-satisfaction and the met expectations, employees feel so much integrated with the job and the company and are happy to say that they are members of the company (Prati & Zani, 2013).

This can be seen through the social exchange theory. The psychological contract, which depicts each employee's unique thoughts and expectations of their working relationship with their employer, is a crucial sign of how successfully expectations have been satisfied (Rousseau, 1989). The social exchange theory (SET), created by Blau (1968) to explain why people accept voluntary acts in the expectation that they would be repaid at a later time, informs the dynamics of psychological contract fulfillment. This theory, which asserts that in an interaction relationship, workers return favors given to them, supports this (Lambert, 2011). In other words, the more firms foster a favorable working environment for their workers, the more probable it is that those individuals will embrace the company's culture and beliefs.

Past studies indicate that workers report higher job satisfaction, a stronger desire to remain with the company, and a higher level of management confidence when they believe their psychological contract has been met (Turnley & Feldman, 2000). Therefore, it leads to organizational identification, in which employees feel a sense of belonging to the company. On the other hand, workers of organizations who breach their obligations are less likely to feel devoted to, excited about, or absorbed by their work. This argument is based on the concept of reciprocity. People could attempt to reclaim their prior positions by exerting greater effort in exchange. In other words, firms will have good outcomes the more they value their relationships with their employees since they are more likely to encourage people to accept the company's principles (Akgunduz & Bardakoglu, 2017). Therefore, the impact of psychological contract on organizational identification is hypothesized as follows:

H3: Psychological contract positively impacts organizational identification.

2.4 Psychological Contract, Ethical Leadership, and Organizational identification

According to the prior theories, ethical leadership has favorable results including lower turnover, absenteeism, higher engagement, better organizational citizenship behavior, improved employee psychology, and higher work satisfaction. The reciprocity norm, a component of SET, serves as the foundation for the relationship between psychological

contract and mediation. According to the concept that if specific social exchange norms are followed, employees would respond favorably and reciprocate (Blau, 1968), therefore the employees will act in accordance with positive psychology as long as the leader upholds moral and ethical principles. The study advances the claim that when workers believe organizational promises are kept or fulfilled, they are compelled to adopt particular attitudes.

On the other hand, according to Wu and Chen (2015), ethical leaders may act as a counterbalance to employees' focus on both short- and long-term financial objectives. Since ethical leaders concern their subordinates a lot and that concern leads to employee satisfaction, which in turn leads the subordinates to have an exchange relationship (Trevino et al., 2003). Therefore, the more employees who are feeling that their expectations are met, the more level of organizational identification exists (Suifan et al., 2020). It is believed that employee who psychologically integrates with the company through the moral values that are exhibited by ethical leaders are likely to find their jobs meaningful and they feel their job are relatively worthwhile. Therefore we can assume that psychological contract mediates the impact of ethical leadership and organizational identification.

H4: Psychological contract mediates the impact of ethical leadership and organizational identification

3. Methodology

3.1 Sampling and data collection

Employees from Sri Lanka's garment industry— MAS Holdings, Brandix (Pvt) Ltd, and Omegaline Ltd – served as the study's sample. Due to the challenge in physically reaching out the respondents, the study employed an online survey which provides a rich domain in contacting countless individuals within a shorter period. Additionally, online surveys allow those who do not desire to express their opinions to do so while saving time and money (Wright, 2005). Out of the 443 respondents, 414 usable questionnaires were received. The response rate is appropriate for this study since, according to Conroy (2015), the unknown population should have received 384 or more replies. The 414 samples had a male-to-female ratio of 47% to 53%. Ages 20 to 35 made up 78% of the respondents that took part in the research. Another 22% of people were above 40. 54% of the employees were having A/L and less than educational background. 67% percentage of the employees are in the team member position. The highest percentage which was indicated as 52% of employees are from 2 to 5 years of experience in their position.

3.2 Measures

The current study has utilized the established scales for each variable. All of the items were assessed on a five-point Likert-type scale, with the range being from (1) strongly disagree to strongly agree (5).

Ethical leadership: Ten questions from Brown et al. (2005) on ethical leadership were used to gauge how the followers regarded the leader's ethical conduct and behavior. The respondents were asked to assess the ethical leadership of their immediate superiors as well as to indicate how much they agreed or disagreed with certain comments made about

them. Examples include “My immediate supervisor 'listens to what employees say' and 'disciplines employees who breach ethical standards’”. The Cronbach’s alpha value of the items was .94.

Organizational Identification: Five questions from Smidts et al. (2001) were used to assess employees' organizational identification. Sample items are “I feel strongly connected to my company” and “I have a great feeling of belonging there”. The Cronbach’s alpha value of the items was .86.

Psychological Contract: Five-item scale from Robinson & Morrison (2000) was used to measure the psychological contract. A sample item is “I believe that my employer has kept its end of the bargain when it comes to delivering employee obligations”. The Cronbach’s alpha value of the items was .92.

4. Data Analysis

4.1 Reliability and Validity

As a caveat, the reliability of the scale was investigated and the results are presented in Table 1. According to the table, the Cronbach’s alpha for each variable is acceptable, ranging from 0.67 to 0.92: psychological contract (0.67), ethical leadership (0.83), and organizational identification (.92) (Hair, Black, Babin, & Anderson, 2009). The convergent validity and discriminant validity were then examined using average variance extracted (AVE), factor loadings, maximum shared variance (MSV), and average squared variance (ASV). The results disclose the strong convergent validity of the model: the AVE was greater than 0.50; the CR was greater than 0.70 and highly significant factor loadings (greater than or close to 0.70). In addition, the study also confirmed the discriminant validity of the model: $MSV < AVE$; $ASV < AVE$.

In addition to that (VIF) values for the independent constructs are as follows: The VIF values for psychological contract and ethical leadership are 1.285 and 2.679, respectively. According to Hair, Black, Babin, and Anderson (2009), inflation factor numbers shouldn't be higher than 10. Therefore, dataset is free from multicollinearity and this data is devoid of common method bias (see low correlations) (Kock, 2015).

Table 1: Correlation coefficient, mean, and standard deviation of the constructs

	M	SD	1	2	3	4	5	6	7	8
1. Ethical Leadership	3.71	0.51	(0.83)							
2. Psychological Contract	3.82	0.92	0.91***	(0.92)						
3. Organizational Identification	3.85	0.34	0.57***	0.74***	(0.67)					
4. Gender	1.57	.50	-.45	-.55	.43	-				
5. Marital Status	1.57	.50	.12	.21	.08	.42	-			
6. Educational Qualification	2.0	.94	-.45	-.17	.09	-.31	-.62	-		
7. Position	1.86	.85	-.44	.54	0.00	-.15	.20	0.0	-	
8. Experience	2.43	.74	.54	.46	.24	-.68	-.28	.42	.57	-

Correlation significance level 0.00 % *M*= Mean, *SD*=Standard Deviation Cronbach alpha value was entered diagonally

Table 2: Standardized coefficients for the predictors of organizational identification

Variables	R2	Beta Value	t-value	Sig
EL-OI	81.4%	.906	10.916	0.00
EL-PC	32.7%	.572	3.555	0.00
PC-OI	54%	.735	5.528	0.00
EL-PC-OI	88.2%	.322	4.000	0.00

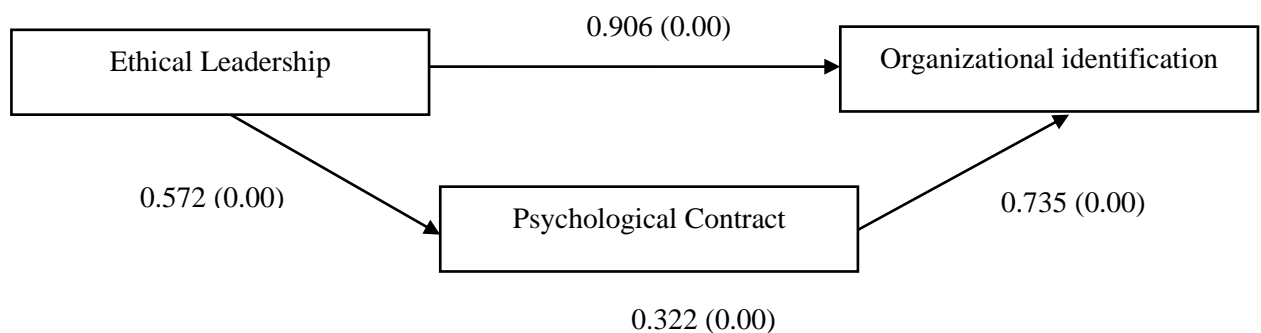


Figure 2: Regression results

As can be seen in Table 1, a positive relationship exists between ethical leadership and organizational identification ($r=0.57$; $p=0.00$). The relationship between organizational identification and the psychological contract is also positive ($r=0.74$; $p=0.00$). The findings of the coefficient estimation for the study's organizational identification metrics are shown in Table 2. As can be seen in Table 2, all predictor variables have significant values. The t value and the beta value (β), R^2 value for the impact of ethical leadership on organizational identification were (t) 10.916, (β) 0.906, 81.4%, and (t) 5.528, (β) 0.735, 54% respectively. Therefore, the hypothesis predicted that the ethical leadership positively impacts on organization identification was supported. The t value and beta value (β) and R^2 value for the impact of ethical leadership on the psychological contract were (t) 3.555 and (β) 0.572, 57.2% respectively. Thus, the positive impact of ethical leadership on psychological contract was confirmed. Similarly, there was a positive impact of psychological contract on organizational identification was also confirmed ($\beta = 0.735$). Hence, it can be believed that the employees who perceive ethical leadership would have the psychological intimacy as well as a sense of belongingness towards the company.

4.2 Mediation Results

A three-step process as prescribed by Baron and Kenny (1986) was followed to test the mediating role of the psychological contract between ethical leadership and organizational identification:

- Significant effect of ethical leadership on organizational identification ($\beta = 0.906$, $p < 0.05$).
- Significant effects of ethical leadership on psychological contract ($\beta = .572$, $p < 0.05$).

- Significant effect of psychological contract on organizational identification ($\beta = 0.735$, $p < 0.05$).

Consequently, as per Table 2 ($\beta = 0.322$, $p < 0.05$), a partial mediation effect of psychological contract on the impact of ethical leadership and organizational identification was confirmed. Thus, the hypothesis surmised that psychological contract mediates the impact of ethical leadership and organizational identification was supported.

5. Discussion

Ethical leadership has become a social issue. The prime objective of this current study was to analyze the mediating effect of psychological contract on the impact of ethical leadership on organizational identification among the Sri Lankan apparel workers, drawing on the Social Exchange Theory. The results of the study revealed that a positive impact of ethical leadership on organizational identification was confirmed, which is in line with the past studies that were carried out in the western context (Suifan et al., 2020 ; Valambuwa et al., 2011; Vondy, 2010) . Employees expect the ethical behavior in all the processes in the organization, once it is identified, they feel that the organization is an acceptable place to work in and which turn to sense of belongingness (Hu et al., 2018). It is clear that ethical leaders are better at conveying the workplace ideals that give their employees a sense of purpose. In addition, morale is boosted by constructive criticism and a sense of competence when ethical leaders highlight skills and abilities (Dust et al., 2014). Furthermore, moral leaders are more comfortable delegating tasks and giving their staff members' autonomy. Employees feel more influential in their job when ethical norms are communicated to them.

Additionally, the mediating role of psychological contract on the aforementioned outcomes was examined in this study. Significant findings were unexpectedly found, which is quite new in the Sri Lankan context. By introducing fresh research into leadership studies showing psychological contract may also operate as a mediator between ethical leadership and organizational identification. This study has aided the empirical literature on ethical leadership. The other psychological variables were also act as a mediator among the leadership and employee outcomes (DeConinck, 2014; Mostafa, 2018; Walumbwa et al., 2011). Finally, it can be concluded that ethical leaders incubate positive employee outcomes.

6. Theoretical and practical implications

The study aims to investigate the impact of ethical leadership on organizational identification through the mediating effect of psychological contract. The analyses supported the hypothesized mediation on the impact, indicating ethical leadership is more powerful for the employee behavior at the organization. This study, like other studies, has theoretical implications in the ethical leadership literature. At first, the results of the study are in line with the previous studies on ethical leadership and employee behaviors (Ahmad, Donia, Khan & Waris, 2019). This demonstrates the exchange relationship exists even having ethical leadership is more complex in real-world scenarios. Secondly, the study has connected social exchange theory among ethical leadership, psychological contract, and

organizational identification variables. Thirdly, this is the first study that focuses on psychological contract and organizational identification along with ethical leadership in the Sri Lankan context since there are limited studies on ethical leadership too. This study offers another fresh insight into the possibility that ethical leadership may significantly influence people's other behaviors at work as well by examining the psychological contract's mediating role. By utilizing instruments like organizational identification, the current study aims to fill a gap in the body of knowledge about ethical leadership and employee outcomes. In this study on Sri Lankan Phenomena, the mediating effect of psychological contract perception on a wide range of employee attitudinal and behavioral outcomes was thoroughly investigated.

Concerning practical implications, the importance of ethical leadership and its effects are highlighted throughout this paper. The study's results, in particular, showed that ethical leadership is a crucial factor in motivating employees towards positive outcomes (Ren & Chadee, 2017). At first, the findings of the study showed the importance of behaviors of ethical leaders for the employees in the organization, since it fosters a more endowing working environment which leads to keeping the right people in the organization for a long time. Since ethical leadership is so important, managers must act ethically in all of their interactions with staff members. Since morals and ethics are at the foundation of ethical leadership, responsible leaders take care of all stakeholders. Therefore, it can be claimed that both the top management and the employees' supervisors should act with such responsibility. In addition to that, this study has given further insight into how ethical leadership influences on organizational identification and the psychological contract of employees. Staff members should have a strong sense of identification inside the company given their employment with such ethical leaders and the organization as a whole (Suifan et al., 2020). Therefore, it is crucial to establish an ethical workplace culture. This, in turn, leads to higher organizational identification and psychological contract of employees. Most importantly, every manager and supervisor should create an environment that enables the psychological contract of the people as reciprocity.

Since every employee highly expects to work in an ethical environment that avoids unethical behaviors, a strong ethical culture must be encouraged at all levels of the organization, and supervisors must also be held accountable for following this culture. Finally, this study has significant practical ramifications for the globe at large as well as for the decision-makers in the Sri Lankan government. Being ranked 89th for corruption perception in terms of anti-corruption efforts and scoring 79% on the Global Corruption Barometer (Transparency international report, n.d), it is now necessary for the nation to take a comprehensive and strategic approach to the problem of having ethical leadership at all levels. The Sri Lankan government must encourage companies in both the public and private sectors to uphold moral standards and work to safeguard the nation as a whole. They must reinforce the current policies and their ramifications for this to happen.

7. Limitations and Recommendations for the future research

This study also has limitations. Firstly, this study was conducted in Sri Lankan context only, therefore, the findings cannot be generalized in other contexts. Therefore, undertaking similar studies in other settings provides useful information and validates the findings of the current study as well. Secondly, this study per se is a cross-sectional study. Therefore, conducting studies in a longitudinal nature will illuminate deeper understanding. Thirdly, this study focuses on organizational identification as a dependent variable, and it is recommended for future studies to consider other employee outcomes variables as well. Fourth, since the data were collected in a specific sector which is from the apparel industry, the same study can be replicated in other labour-centric organizations (IT sector, government organizations, and other manufacturing organizations). Importantly, this study used individuals as a unit of analysis, but further studies can be considered 'groups or dyads' as a level of analysis to illuminate ethical leadership and organizational identification.

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