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Sustainable Influence of Ethical Leadership on Work Performance: Empirical Study of Multinational Enterprise in South Korea

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Abstract: This study empirically examines the route by which managers' sustainable ethical leadership influences employees' work performance. The study examines the relationships of four variables: ethical leadership, perceived salience of an ethics code, work performance, and leader–follower distance, operationalized as the frequency of leader–follower interaction. Data were obtained from a large multinational enterprise in South Korea and the questionnaires responses of 196 leader–follower pairs (196 team leaders, 196 employees) were analyzed. The results found that the managers' ethical leadership positively influenced the employees' perceived salience of the ethics code of the organization, which, in turn, positively mediated the relationship of ethical leadership to work performance. Furthermore, a conditional indirect effect was found in which the frequency of leader–follower interaction positively moderated the indirect effect of ethical leadership on work performance via perceived salience of the ethics code; specifically, the strength of the indirect effect increased as the frequency of leader–follower interaction increased. The theoretical and practical implications of the results are offered and limitations with suggestions for future study are discussed.

Keywords: ethical leadership; perceived salience; ethics codes; leader–follower distance; interaction frequency; work performance

1. Introduction

Although ethical leadership is a recent topic of interest for many researchers, it lacks in-depth research to uncover the explanatory mechanism linking ethical leadership to outcomes of followers [1]. Most literatures have examined the relationship between ethical leadership and employee attitude, or counter-productive or extra-role behaviors, such as organizational citizenship behavior, knowledge sharing, whistleblowing, bullying, voice, deviance, creativity, moral cognition, misconduct, emotional exhaustion, and compassion [2–15]. In particular, the unknown link between ethical leadership and work performance has recently drawn attention from researchers. Some scholars have tried to reveal the mechanism of the ethical leadership–performance relationship [16–20]. For instance, Walumbwa et al. [18] studied the mediation effect of leader–member exchange, organizational identification, and self-efficacy in the relationship between the leader's ethical leadership and the member's work performance. Piccolo et al. [19] also clarified that job characteristics and efforts mediated the relationship between ethical leadership and performance. The current study builds on the previous research, aiming to identify the ethical-leadership–work-performance relationship.

It is reasonable that the ethical example set by a leader with whom members continually come into contact influences the members' awareness of, and attitudes toward, codes of ethics, which, in turn, influences their task performance. However, because research on the mediation effect of perceptions of codes of ethics does not exist, the current study explores the mechanism of ethical leadership in relation to work performance. The results are expected to build on previous studies' that explored the

relationship between ethical leadership and work performance and add to the theoretical development of ethical leadership.

The introduction of codes of ethics is becoming common in the corporate world. Many US companies adopted codes of ethics in the 1980s and 1990s, and instituting ethics management policies is becoming a global corporate trend. The US Federal Sentencing Guidelines for Organizations, enacted in 1991, particularly advanced the use of codes of ethics [21]. These guidelines stipulated that companies that do not establish appropriate ethics systems or take steps to prevent illegal (unethical) acts will be punished in the event of a corporate crime. However, the guidelines also specify that companies with appropriate ethics systems, such as specific codes of ethics or ethics committees, are eligible for penalty relief. The guidelines encouraged many US companies to establish ethics management departments and ethics systems [21].

The presence, absence, or extent of codes of ethics is a variable at the organizational level, whereas perceptions of ethics are at the individual level. If ethics codes were examined only at the organizational level, the variation in perceptions of ethics among organizational members would not be possible. Thus, although codes of ethics vary at the organizational level, understanding organizational ethics requires study at the individual level as well. Some scholars propose that micro-organizational studies of codes of ethics at the individual level of analysis tend to consider organizational members' perceptions of greater importance than the actual codes of ethics. This is because significant effects can be achieved only when the codes are accurately communicated to the organizational members. The large-scale accounting fraud that led to Enron's (US) bankruptcy was not caused by a lack of a code of ethics or ethics policy at the company. In fact, Enron had elaborate, well-composed codes and policies of ethics. The case of Enron demonstrates that providing elaborate codes of ethics within an organization can be futile without the accurate perceptions and behaviors of the organization's members.

In the workplace, employees who frequently interact with their leaders (managers) tend to have more proximal relationships with their leaders than do followers whose interaction is infrequent [22]. According to social learning theory [23], a proximal relationship can strengthen the influence of leadership on followers' attitudes toward their leaders or organizations. The current study argues that the frequency of leader–follower interaction strengthens the mediating role of managers' ethical leadership on work performance via employees' perceived salience of the organization's ethics code. Specifically, the mediating effect becomes stronger as the frequency of leader (manager)–follower (employee) interaction increases.

In summary, this study contributes to verifying empirically the mechanism through which ethical leadership positively influenced employees' perceptions of an ethics code, which, in turn, enhanced their work performance. This study further found that manager–employee proximity strengthened the indirect effect of ethical leadership on work performance via perceived salience of the ethics code.

2. Theoretical Background and Hypotheses

2.1. Ethical Leadership

Brown et al. [24] (p. 120) defined ethical leadership as “the demonstration of normatively appropriate conduct through personal actions and interpersonal relationships, and the promotion of such conduct to followers through two-way communication, reinforcement, and decision-making”. Brown et al. [24] suggested that the construct of ethical leadership is based on social learning theory. Brown et al. [25] also presented social exchange theory as a theoretical explanation for the causal relationship between ethical leadership and the outcomes of followers.

This study adopts the construct of ethical leadership developed by Brown et al. [24,25]. The social learning perspective on ethical leadership argues that ethical leaders can easily be role models who are attractive and legitimate in the workplace. Ethical leaders influence their followers to learn their behaviors, and they promote followers' increased self-efficacy to maximize their work potential. Similarly, Blau [26] had earlier taken a social exchange perspective to propose that ethical leaders

encourage followers to believe that the leaders have their best interests in mind and that they care about them. These followers' perceptions of the ethical treatment they receive from their supervisors lead them to be likely to reciprocate by improving their task performance.

Brown et al. proposed ethical leadership as a context in which leaders independently perform ethical behaviors while actively encouraging ethical behaviors in their followers [24,25]. This proposition of ethical leadership stipulates that a leader's role as a moral manager for promoting followers' ethical behaviors is as important as a leader's role as a moral person individually performing his or her personal ethical behaviors. When compared to other leadership styles, ethical leadership is a construct that emphasizes the role of a moral manager [27].

Ethical leaders demonstrate ethical behaviors in the workplace [28]. They exhibit exemplary behaviors regarded as normatively appropriate by their followers, and leaders who behave in ways that are perceived as honest, trustworthy, fair, and caring are viewed as righteous, reliable role models by their followers. In addition, ethical leaders personally express normatively appropriate behaviors while encouraging their followers to perform these same actions based on active communication. Ethical leaders also consider the ethical aspects of outcomes that are likely to be produced by their decisions before the decisions are made and they make equitable choices based on ethical principles. Lastly, by modeling ethical standards to their followers, ethical leaders promote behaviors in their followers that correspond to those ethical standards, and by penalizing contrary behavior, they encourage their followers to comply with the ethical standards.

2.2. Ethical Leadership as a Precursor of Perceived Salience of Ethics Codes

A general definition of an ethics code is that it is "a written, distinct, and formal document which consists of moral standards used to guide employee and/or corporate behavior" [29] (p. 324). The perceived salience of ethics codes is defined as the condition in which individuals are highly aware of their organization's expectations, and thus, of the ethics tasks that must be carried out to perform daily tasks [30]. Therefore, the perceived salience of ethics codes is characterized by organizational members' awareness of the ethics expectations of the organization. Because organizational codes of ethics must be followed by all members regardless of their individual preferences or ideas, the concept of the perceived salience of an ethics code includes the perception that the code includes clear implications, covers all organizational members, and is useful for task execution.

Because the enactment of ethics codes has become increasingly common in the corporate scene, it has, in turn, reduced the differential meanings of the ethics codes. Therefore, the effectiveness of codes of ethics does not depend on the institution, per se; it depends on the way that an ethics system is communicated to the organizational members. In this respect, the perceptions of the ethics codes by the individual members are important to study.

Numerous contextual factors could influence employees' perceptions of their organizations' ethics codes, and supervisory leadership is an influential factor. Stajkovic and Luthans [31] pointed out the importance of the perceptions of organizational members regarding the ethics of their organizations. They presented a conceptual mechanism in which institutional, individual, and organizational factors influence organizational members' awareness of ethics codes that, in turn, manifest as their ethical or unethical behaviors that produce results, such as work performance.

According to employee-organization relationship theory, organizational members form relationships with their organizational leaders and perceive their leaders as agents who represent the organization [32]. Thus, a leader's actions can be interpreted as the organization's actions, and in that case, when the actions of a leader are ethically clear, the members clearly perceive the organization's code of ethics. Although ethics systems exist on the corporate scene, team leaders who represent companies tend to control, operate, and implement these systems. Because ethical leadership is defined as leaders' clear ethical behaviors, team leaders' ethical leadership may influence team members' perceptions of the salience of their organizations' codes of ethics.

From the perspective of social learning theory, leaders' ethical behaviors influence followers' ethical behaviors through the modeling process, which includes psychological matching processes, such as learning, imitation, and identification by followers' observations [33]. A leader becomes an important object of close observation and modeling to followers because of his or her managerial role and position in the organization. Followers who work with leaders who display ethical leadership have more opportunities to learn and understand ethics and to develop a perceived salience of their organizations' codes of ethics. Based on this reasoning, this study developed the following hypothesis.

Hypothesis 1. *The extent of ethical leadership positively relates to followers' perceived salience of the ethics code.*

2.3. The Mediating Role of Perceived Salience of Ethics Codes in the Relationship of Ethical Leadership to Work Performance

Previous studies have found that ambiguity related to task execution negatively relates to work performance [34]. Ethically ambiguous situations present a relatively greater risk that the expected results may not be produced with the effort or resources invested in those results, and, therefore, individuals tend to invest fewer resources to avoid the uncertainty of those situations [35]. Ethical ambiguity can be defined as the uncertainty involved when solving ethical questions that are generated during task execution [36]. In other words, ethical ambiguity is the inability to clearly perceive the work behaviors that are most ethically appropriate in a given situation. Individuals with high levels of ethical ambiguity tend to demonstrate low work performance because they cannot fully perform the task expected by the organization or leader. Rhoads et al. [37] verified that work performance declines at higher levels of ethical ambiguity. Individuals with low perceived salience of an ethics code are likely to experience ethical ambiguity in task execution, which could negatively influence their work performance by reducing both the quality and quantity of their work.

In contrast, when ambiguity is low, individuals feel assured and tend to invest their resources. Work environments with relatively low levels of ethical ambiguity provide employees with contexts in which they can execute tasks using methods valued by their organizations, which ultimately contributes to their enhanced task performance. Because the perceived salience of an established ethics code helps employees to clearly understand the actions that satisfy the organizations' ethical expectations, the perceived salience will positively influence the awareness stage of the moral behavioral model [30]. In a survey of corporate managers, Mortensen et al. [38] found that most of them believed that ethics significantly influence individuals' work performance and that the understanding of corporate ethics codes is important. Field managers tend to regard ethics as important elements of work performance, and they tend to consider workers' perceived salience of the ethics code in their evaluations of work performance. Thus, leaders' ethical leadership increases followers' perceived salience of the relevant ethics code, which, in turn, increases their work performance. Based on these arguments, this study developed the following hypothesis.

Hypothesis 2. *The relationship of the extent of ethical leadership to followers' work performance is mediated by followers' perceived salience of the ethics code.*

2.4. Moderated Mediation Role of Frequency of Interaction as Leader–Follower Distance

Although researchers' interest in leader–follower distance is increasing, consensus on the theoretical and operant definitions is still developing [39]. Napier and Ferris [40] (p. 326) suggested that the concept of “supervisor-subordinate distance” is a dyadic distance defined as “a multidimensional construct that describes the psychological, structural, and functional separation, disparity, or discord between a supervisor and a subordinate.” Based on Napier and Ferris' review, Antonakis and Atwater [22] proposed leader–follower distance as the three dimensions of physical distance, perceived social distance, and perceived frequency of interaction. The perceived frequency of leader–follower interaction was defined as “the perceived degree to which leaders interact with their followers” [22]

(p. 686). In the workplace, followers who frequently interact with their leaders have more proximal relationships with them than do followers who infrequently interact with their leaders.

Previous studies have considered the moderating role of leader–follower distance in the relationship of leadership to performance [41]. As opposed to the distant relationship, the proximal relationship provides followers with relatively more opportunities to observe their leaders' behaviors and to acquire leader-related information and personal relevance [39]. Proximal relationships can strengthen the influence of leadership on followers' attitudes toward their leaders or organizations. Social learning theory suggests that in this context, proximal followers are relatively more likely to be influenced by ethical leaders to form their perceptions of their organization's ethics codes. Based on these studies, this study suggests that the frequency of leader–follower interaction strengthens the influence of ethical leadership on followers' perceived salience of the ethics code, which increases followers' work performance. Thus, we developed the following hypothesis.

Hypothesis 3. *The indirect association between ethical leadership and followers' work performance through followers' perceived salience of the ethics code is conditionally dependent upon levels of leader–follower interaction, such that the indirect association is strengthened under high level of leader–follower interaction.*

This study proposes a conceptual model of the ethical leadership–performance relationship, in which the employees' perceived salience of the ethics code is a mediator and the frequency of leader–follower interaction is a moderator (see Figure 1).

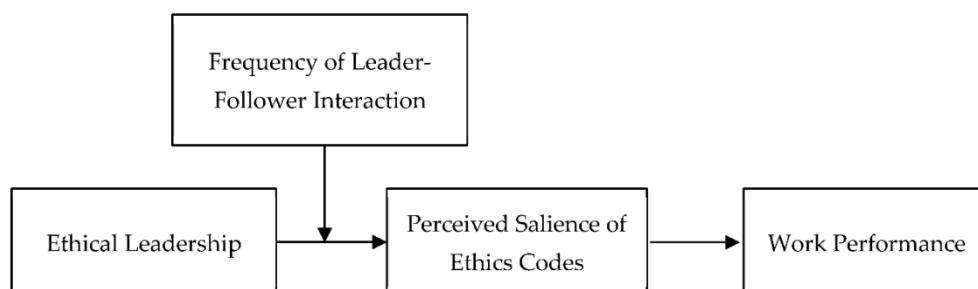


Figure 1. Research model.

3. Methods

3.1. Sample and Procedure

The data used for the analysis were derived from a survey of a large multinational corporation in South Korea. The questionnaires were dispatched nation-wide in South Korea. The English language survey items were translated into Korean. Before administering the survey, this study conducted a pilot survey on 19 employees working in the participant company to assess the question wording, which was then adapted to create clearly understood survey questionnaires.

To prevent any department from overrepresentation in the sample, the company randomly distributed the questionnaires to 431 team managers ("managers") and to one member of each of the 431 teams ("employees"). To obtain accurate and true responses, the first page of the questionnaire stated that the data would be used solely for academic purposes and the completed questionnaires were returned to the researcher in sealed envelopes.

The sample was finalized for analysis in two steps (see Appendix A). Of the 431 questionnaires distributed to the employees (one from each of the 431 teams), 215 were returned, and 220 of the 431 questionnaires distributed to the managers were returned. Altogether, 196 manager–employee pairs (392 individuals) completed questionnaires. The demographic composition of the sample is presented in Table 1. Because steel manufacturing companies mostly employ men, the sample was

mostly male employees. The most common position was assistant manager and many of the employees were in manufacturing or technical positions.

Table 1. Demographic composition of the sample.

Variable	Managers		Employees	
	Frequency	Percentage	Frequency	Percentage
Gender				
Female	1	0.51	10	5.10
Male	195	99.49	186	94.90
Age (years)				
24 or younger	0	0.00	0	0.00
25–29	0	0.00	24	12.24
30–34	0	0.00	50	25.51
35–39	2	1.02	12	6.12
40–44	29	14.80	26	13.27
45–49	105	53.57	41	20.92
50–54	59	30.10	37	18.88
55 or older	1	0.51	6	3.06
Education				
High School	2	1.02	49	25.00
2 years College	2	1.02	20	10.20
4 years College	113	57.65	96	48.98
Master	75	38.27	30	15.31
Doctor	4	2.04	1	0.51
Job level				
1	0	0.00	45	22.96
2	0	0.00	101	51.53
3	8	4.08	44	22.45
4	153	78.06	5	2.55
5	35	17.86	1	0.51
Job type				
Planning and Management	21	10.71	22	11.22
Sales and Marketing	7	3.57	8	4.08
Production and Maintenance	110	56.12	90	45.92
Technical and Engineering	48	24.49	58	29.59
R&D	2	1.02	1	0.51
Other	8	4.08	17	8.67

3.2. Measurements

Most of the responses were measured on Likert-type seven-point scales, where 1 = Very much disagree, and 7 = Very much agree. The Cronbach's alpha values of all of the variables used in analysis exceeded 0.70, which is the internal reliability cut-off.

3.2.1. Ethical Leadership

The employees provided the data used to analyze the ethical leadership of their managers. To construct the variable, this study used responses to 10 items on the ethical leadership scale [24]: (1) "My supervisor conducts their personal life in an ethical manner," (2) "My supervisor defines success not just by results but also the way that they are obtained," (3) "My supervisor listens to what employees have to say," (4) "My supervisor disciplines employees who violate ethical standards," (5) "My supervisor makes fair and balanced decisions," (6) "My supervisor can be trusted," (7) "My

supervisor discusses business ethics or values with employees,” (8) “My supervisor sets an example of how to do things the right way in terms of ethics,” (9) “My supervisor has the best interests of employees in mind,” and (10) “When making decisions, my supervisor asks what is the right thing to do?” The Cronbach’s alpha was 0.93.

3.2.2. Perceived Salience of the Ethics Code

Organizational ethics codes should be salient because they comprise obligations that all organizational members must obey, regardless of individual preferences or intentions. Salience is a state of clear significance, shared among all organizational members, that is appropriate for task execution [42]. Three items were used to measure the salience of the organization’s ethics code based on Oswald et al.’s [42] definition. The items were: (1) “The ethical standards of our company guiding the work execution process are clear,” (2) “The management and employees of our company share common ethical standards,” and (3) “The ethical standards of our company guiding task implementation are appropriate.” The employees’ data were used for the construct and the Cronbach’s alpha was 0.82.

3.2.3. Work Performance

To prevent problems of common method bias arising from using data entirely generated from the same response source, this study used data on the work performance of the employees provided by their managers. Three items assessed general performance [43]: (1) “This employee is one of my best subordinates,” (2) “All things considered, this employee is outstanding,” and (3) “All things considered, this employee performs their job the way I like to see it performed.” Cronbach’s alpha was 0.84.

3.2.4. Frequency of Leader–Follower Interaction

Following Chun et al. [39], the frequency of leader (manager)–follower (employee) interaction was measured by the managers’ responses to the question, “On average, how many hours per week do you spend interacting with the follower face-to face at work? Check one.” Response options were 1 = less than 1 h, 2 = 1 h, 3 = 2 h, 4 = 3 h, 5 = 4 h, 6 = 5 h, and 7 = more than 5 h.

3.2.5. Controls

This study controlled for the effects of the demographic variables of gender, age, and educational attainment. Although this study attempted to control for the effects of employees’ length of employment, there was such a high correlation between tenure and age ($r = 0.94$, $p < 0.001$) that including both in the analysis presented the problem of multicollinearity. Thus, tenure was dropped and age was retained because age was more strongly related to the major variables in the control variable group.

The analysis also included variables that have been used in previous studies that were found to influence work performance [41]. These were: (1) the length of time that the employee had worked with the manager, and (2) whether or not the employee was working in the same city as the manager. To control for the effects of personal values of social responsibility, three items were employed, drawn from Hunt et al. [44]: (1) “The socially responsible manager must occasionally place the interests of society over the interests of the company,” (2) “The fact that corporations have great economic power in our society means that they have a social responsibility beyond the interests of their shareholders,” and (3) “As long as corporations generate acceptable shareholder returns, managers have a social responsibility beyond the interests of shareholders.” The employees’ data were used for the construct and the Cronbach’s alpha was 0.72.

3.3. Analytical Strategy

An Ordinary Least Squares hierarchical multiple regression analysis was performed to test Hypothesis 1. The mediation verification method presented by MacKinnon et al. [45] was used to verify the mediation effect of Hypothesis 2, similar to previous studies of ethical leadership.

MacKinnon et al. [45] found a problem of low statistical power in the Baron and Kenny's causal steps approach and recommended the following method, which offers the best balance between Type I error and statistical power. In the first stage, the independent mediator variable must be statistically significant ($\alpha \neq 0$). In the second stage, the mediator must be statistically significant for the dependent variable, while the effects of the independent variable are controlled ($\beta \neq 0$).

To obtain precise verification of the mediation effect, this study also verified the indirect effect in a bootstrapping method test to directly verify the significance of the indirect effect. Specifically, the bootstrapping method is accepted as a better method than the traditional Sobel test to verify a mediation effect because it does not assume normal distribution and it does not present the problem of accumulated Type I errors. The results were obtained from a 10,000-times repeated sampling process that yielded bias-corrected two-tailed test results, which are accepted as more accurate than general verification results.

To verify the moderated mediation relationship (Hypothesis 3), this study followed the bootstrapping technique recommended by Preacher et al. [46], and this study operationalized the low and high levels of the moderator as one standard deviation below and above the mean value of the perceived salience of ethics code variables, respectively. This study presents the point estimates, standard errors, z-statistics, and 95% confidence intervals (percentile and bias-corrected percentile) from repeated bootstrapping for 10,000 times.

3.4. Common Method Bias and Validity Check

The potential problems of common method bias were lessened in the analysis by the use of the team-manager-employee paired data and the use of data gathered independently from managers and employees. However, common method bias could still exist in the interpretation of the results related to Hypothesis 1 because the independent variables and the mediator data were obtained from the same response source (i.e., employees). In other words, when Hypothesis 1 was tested using the data obtained from the employees, the statistical significance could be inflated. To check for the possibility of common method bias, Harman's single factor test was performed for verification. In a serious case of common method bias, one variable explains a large part of the variation of a second variable. According to the results of Harman's single factor test, the first factor, presenting the largest eigenvalue, accounted for only 25% of all of the variance, indicating that the possibility of common method bias was not high.

A confirmatory factor analysis (CFA) verified that the key variables in the analysis were distinct from each other. Table 2 presents the results of the CFA regarding ethical leadership, perceived salience of the ethics code, work performance, and the frequency of manager-employee interaction in analyses that included the six control variables. The results of the CFA in Table 2 show that among the model fit indicators, the absolute fit index (χ^2/df) was presented as 1.78 (317.92/179.00), which was less than 3.00, the standard cut-off value. In addition, the root mean square error of approximation was 0.06, which was less than the standard cut-off value of 0.08. Furthermore, the incremental fit index, Tucker-Lewis index, and the comparative fit index values that are extensively used as incremental fit indices were 0.93, 0.90, and 0.93, respectively, which exceed the standard cut-off values of 0.90. Thus, all of the CFA indicators satisfied the standards that verify that the model was appropriate to the data. This study verified that convergence validity was achieved because the factor load quantity of all of the items included in each of the constructs was appropriately loaded greater than 0.50 and all of the average variance extracted (AVE) values exceeded the standard cut-off value of 0.50 (0.70, 0.74, and 0.67 for ethical leadership, perceived salience of the ethics code, and work performance, respectively). Furthermore, discriminant validity was achieved because the squared value of the correlation coefficients between the constructs in the analysis was smaller than the AVE of each construct. Lastly, the variance inflation factors of all of the variables related to the assumption of regression coefficients were less than 10, indicating that the possibility of multicollinearity was low. The statistical package used for the analyses was STATA version 12.1.

Table 2. Results of confirmatory factor analysis ^{a,b}.

Variable	Estimate	SE	t-Value ^c	Loading	AVE	CR
Ethical leadership	1.00	n/a	n/a	0.75	0.70	0.96
	1.19	0.10	12.57	0.85		
	1.14	0.11	10.22	0.71		
	1.23	0.12	10.50	0.73		
	1.27	0.13	9.77	0.69		
	1.55	0.13	11.89	0.81		
	1.25	0.11	11.39	0.78		
	1.44	0.12	11.66	0.80		
	1.00	0.10	10.54	0.73		
	1.24	0.11	11.66	0.80		
Perceived salience of the ethics code	1.00	n/a	n/a	0.81	0.74	0.89
	0.89	0.08	10.55	0.78		
	1.02	0.10	10.43	0.77		
Work performance	1.00	n/a	n/a	0.71	0.67	0.86
	1.01	0.10	10.31	0.87		
	0.95	0.09	10.26	0.83		

Note: ^a $n = 196$; control variables were included; SE = standard error; AVE = average variance extracted; CR = composite reliability. ^b Model fit indices: $\chi^2 = 317.92$, $df = 179$, $p < 0.001$, IFI = 0.93, TLI = 0.90, CFI = 0.93, RMSEA = 0.06. ^c All results were statistically significant at $p < 0.001$.

4. Results

The means, standard deviations, minimum values, maximum values, correlations, and reliability coefficients of the variables are summarized in Table 3. The mediator (perceived salience of the ethics code) was positively correlated with ethical leadership ($r = 0.50$, $p < 0.001$) and modestly positively correlated with work performance (the dependent variable) ($r = 0.14$, $p < 0.10$). A significant positive correlation also was found between the perceived salience of the ethics code and age ($r = 0.27$, $p < 0.001$).

Table 3. Means, Standard Deviations, Correlations, and Reliabilities ^a.

Variable	Mean	SD	1	2	3	4	5	6	7	8	9
Ethical leadership	6.30	0.63	(0.93)								
Perceived salience of ethics code	6.31	0.65	0.50 ***	(0.82)							
Work performance	5.81	0.81	0.05	0.14 [†]	(0.84)						
Gender	0.95	0.22	0.07	0.07	−0.02						
Age	4.74	1.84	0.19 **	0.27 ***	−0.16 *	0.32 ***					
Education	2.56	1.04	−0.08	−0.07	0.02	−0.12 [†]	−0.55 ***				
Social responsibility	6.08	0.71	0.33 ***	0.37 ***	−0.01	0.11	0.27 ***	−0.07	(0.72)		
Tenure with leader	4.12	1.79	0.00	0.09	0.06	0.05	0.19 **	−0.05	0.16 *		
Leader and Follower in same city	0.96	0.20	0.09	0.09	−0.10	0.07	0.08	−0.11	−0.04	0.11	
Leader–follower interaction frequency	5.46	1.80	0.22 **	0.14 [†]	0.05	0.09	0.11	−0.08	0.00	0.06	0.02

Note: ^a $n = 196$; where relevant, internal reliabilities for the overall constructs are given in parentheses in the diagonal. [†] $p < 0.10$, * $p < 0.05$, ** $p < 0.01$, *** $p < 0.001$; Two-tailed test. SD = Standard deviation.

Table 4 presents regression results. Model 1 included only the control variables' influences on the perceived salience of the ethics code. Model 2 added the measure of ethical leadership to the variables in Model 1. Table 4 shows that there was a significant increase in explanatory power in Model 2 over Model 1 ($\Delta R^2 = 0.12$, $F = 35.04$, $p < 0.001$). The coefficient of ethical leadership in Model 2 was statistically significant ($b = 0.41$, $p < 0.001$); therefore, Hypothesis 1 (i.e., the extent of ethical leadership positively relates to followers' perceived salience of the ethics code) was supported.

Table 4. Results of regression analyses of the perceived salience of the ethics code and work performance ^a.

Independent Variables	Dependent Variables			
	Perceived Salience of the Ethics Code		Work Performance	
	M1	M2	M3	M4
Gender	−0.13	−0.10	0.18	0.22
Age	0.08 **	0.07 *	−0.12 **	−0.14 ***
Education	0.06	0.06	−0.10	−0.12 †
Social responsibility	0.30 ***	0.18 **	0.03	−0.06
Tenure with leader	−0.01	0.01	0.05	0.05
Leader–follower same city	0.30	0.16	−0.45	−0.53 †
Frequency of leader–follower interaction	0.04 †	0.01	0.03	0.02
Ethical leadership (H1)		0.41 ***		0.01
Perceived salience of ethics code (H2)				0.28 **
Constant	3.54 ***	2.01 ***	6.34 ***	5.32 ***
R ²	0.20	0.32	0.06	0.10
Adj. R ²	0.17	0.29	0.03	0.06
F	6.66 ***	11.10 ***	1.75 †	2.37 *
ΔR ²		0.12		0.04
ΔF		36.04 ***		4.33 *

Note: † = $p < 0.10$, * = $p < 0.05$, ** = $p < 0.01$, *** = $p < 0.001$; Two-tailed tests. ^a $n = 196$; values are unstandardized coefficients.

Model 3 (Table 4) included only the analysis of the influences of the control variables on work performance and Model 4 added the measures of ethical leadership and perceived salience of the ethics code to Model 3. The explanatory power in Model 4 was significantly greater than Model 3 ($\Delta R^2 = 0.04$, $F = 4.33$, $p < 0.05$). To test the mediation effect following MacKinnon et al. [45], this study verified that there was a statistically significant relationship between the independent variable (ethical leadership) and the mediator (the perceived salience of the ethics code) (see Model 2) ($b = 0.41$, $p < 0.001$). Then, in Model 4, the results verified that there was a significant relationship between the mediator (perceived salience of the ethics code) and the dependent variable (work performance) ($b = 0.28$, $p < 0.01$) when the effect of the independent variable (ethical leadership) was controlled for. Because the results of both stages were statistically significant, the mediation-effect verification method was verified according to MacKinnon et al. [45].

To confirm the mediation effect of the perceived salience of the ethics code, this study performed an indirect effect test with the bootstrapping approach. As shown in Table 5, 95% of the confidence interval of the indirect effect that was repeatedly bootstrapped for 10,000 times did not include 0, and the indirect effect was verified as statistically significant (bias-corrected percentile method bootstrapping results. Indirect effect coefficient = 0.11, bootstrapped standard error = 0.05, 95% confidence interval = 0.02–0.28). Based on these results, Hypothesis 2 (i.e., the relationship of the extent of ethical leadership to followers' work performance is mediated by followers' perceived salience of the ethics code) was supported.

To examine Hypothesis 3, this study performed a conditional indirect effect test using the bootstrapping approach. Table 5 shows the results of the 10,000 times repeated bootstrapping test results by point estimates, standard errors, and 95% confidence intervals (percentile and bias-corrected percentile). Under the condition of a low level of manager–employee interaction frequency, the point estimate of the indirect effect of ethical leadership on work performance via perceived salience of the ethics code was 0.09 (bootstrapped standard error = 0.05) and statistically significant (95% bias-corrected confidence interval did not include zero; lower limit = 0.01, upper limit = 0.21). Furthermore, under the condition of a high level of leader–follower interaction frequency, the point estimate of the indirect effect of ethical leadership on work performance via perceived salience of the ethics code was 0.12 (bootstrapped standard error = 0.07) and statistically significant (95% bias-corrected confidence interval did not include zero; lower limit = 0.00, upper limit = 0.29). The point estimate of the indirect effect increased from 0.09 to 0.12 when the level of the moderator (frequency of leader–follower interaction) changed from “low” to “high.” These findings demonstrate the conditional indirect

effect—manager–employee interaction frequency positively moderates the indirect effect of ethical leadership on work performance via perceived salience of the ethics code, such that the indirect effect was stronger as the frequency of interaction increased. Thus, Hypothesis 3 (i.e., the extent of leader–follower interaction frequency positively moderates the strength of the mediated relationship of the extent of ethical leadership to followers’ work performance via followers’ perceived salience of the ethics code) was supported.

Table 5. Results of Bootstrapped Indirect Effect Tests ^a.

Variables	Coefficient	SE	CI Lower Limit	CI Upper Limit
<i>Indirect effect (H2)</i>				
Perceived salience of ethics code	0.11	0.05	0.02	0.28
<i>Conditional indirect effect of Leader–Follower interaction frequency (H3)</i>				
Low	0.09	0.05	0.01	0.21
High	0.12	0.07	0.00	0.29

Note: ^a 10,000 times bootstrapped results are presented; SE = standard error; BC = bias-corrected percentile method; CI = 95% confidence interval.

5. Discussion

5.1. Theoretical Contributions

Currently, the field of leadership research is encountering new challenges worldwide [47]. The concept of transformational leadership that previously dominated leadership studies has matured into the theory of lifespan cycle, and alternative leadership theories are still developing. Thus, the number of studies of transformational leadership has recently declined, and research on other dimensions of leadership, such as ethical leadership, authentic leadership, and servant leadership, is gaining momentum [47].

As a variable characteristic of the foundation of leadership, ethics is not limited to ethical leadership theory. Developed leadership theories, such as transformational leadership and authentic leadership, also have placed importance on leaders’ ethical behaviors. Furthermore, these leadership theories stress the same ethical behaviors that are emphasized in ethical leadership. In fact, there is a significant correlation between the ideal influences of ethical leadership and transformational leadership. However, the ethics emphasized in transformational leadership theory and authentic leadership theory are focused on the ethics of the individual leader, whereas ethical leadership focuses on the moral manager dimension, which sets a high value on active moral management.

This study’s contribution to the literatures on leadership and business ethics is its furtherance of our understanding of the complex relationship between ethical leadership and work performance by drawing on the effects of perceived salience of an ethics code and on leader (manager)–follower (employee) distance. This study’s approach was to test the mediating role of perceived salience of an ethics code and the moderated mediating role of the frequency of leader–follower interaction. The results thereby extend the previous results of studies that investigated the links between ethical leadership and work performance as well as the theoretical understanding of the simultaneous development of ethical leadership and business ethics [18].

In addition, this study’s results are meaningful in terms of ethical management research. From an organizational standpoint, organizations adopt codes of ethics to send signals to relevant parties that they are being ethically managed. Organizations also may adopt codes of ethics to provide guidelines and prevent unethical behavior by employees. Thus, research on ethics codes has a macro as well as a micro dimension. However, to this point, these two aspects of research on ethics codes have been separately examined from either the organizational or the individual perspective. This study analyzes the ethical leadership of managers, the perceived salience of an ethics code, the frequency

of leader–follower interaction, and employees’ work performance at the individual level to engage discussion at that level of analysis and draw reasonable conclusions.

It is meaningful to clarify the relationship between individual-level perceptions of distinct ethical standards established in an organization and the work performance of those same individuals. First, even if an organization were to introduce an ethical management system in response to social pressure to acquire legitimacy [48], doing so could change the attitudes and behaviors of members if it were clearly communicated. Second, because codes of ethics, ethics education, and other ethics-related management activities are now common, it is difficult to determine differences in meaning by considering only the enactment of a code because the effectiveness of codes depends on the organizational members’ perceptions of the codes. Previous studies reported that the effectiveness of ethical management does not depend on the installation of ethics policies, such as ethics codes; effectiveness depends on the organizational members’ perceptions of the ethics codes. This study’s contribution is an empirical verification of that argument.

Furthermore, the theoretical connectivity between the ethical leadership and the main motivational theories at the managerial environment can be considered as management by objectives, managerial grid, organizational culture, commitment, citizenship behavior, and quality management [49–54].

This study adopted the measure of leader–follower distance from the ethical leadership literature, arguing (and testing) that the frequency of leader–follower interaction (proximal distance) positively influences the relationship by strengthening the mediating role of ethical leadership on work performance via employees’ perceived salience of an ethics code. The results found that the mediating effect of ethical leadership indeed was stronger as the frequency of leader–follower interaction increased. This study expects the theoretical argument and empirical results to jointly extend the ethical leadership and business ethics streams of research.

5.2. Practical Implications

The initial purpose of establishing an ethics system may not relate to improved work performance. However, accurate application of the code of ethics enhanced the work performance of the organizational employees in this study’s sample. This study’s results tell top management and human resources managers that ethics codes should not be considered solely within the formal corporate system and that emphasis also should be placed on the individual members’ perceptions through leadership behaviors.

Realistically, the reasons for creating and implementing organizational ethics policies can be complicated. From the perspective of neo-institutional theory, these policies can be viewed as an “institutional isomorphism” for acquiring social legitimacy [48] (p. 150). However, observing ethics codes from the sole perspective of institutional theory can be excessively fragmentary. The results of the current study, which found that the employees with better work performance have clearer understandings of the organizational code of ethics, suggests practical implications differing from those related to social legitimacy. The practical implication of this study call top management and human resources managers’ attention to the importance of the perceived salience of the ethics code to improve employees’ work performance.

Another practical implication is that the results demonstrate that ethical leadership could be a specific method for enhancing the perceived salience of ethics codes. Because the ethical leadership of immediate superiors (managers) positively relates to the employees’ perceived salience of ethics codes, which are antecedent to employees’ work performance, it would benefit organizations to foster managers’ ethical leadership skills and behaviors [55]. One approach would be to communicate practical messages to the field of organizational members that the managers are ethical examples in their relationships with the employees, which would ultimately contribute to improved work performance [56].

The results of this study suggest that promoting proximal relationships between managers and employees would have practical effects. The frequency of leader–follower interaction amplifies and reinforces the effect of ethical leadership on work performance via employees’ perceptions of ethics

codes. Thus, top management and human resource managers should encourage leaders to frequently interact with their followers to reduce the distance between them. New information technology seems to be a promising aid to managers' efforts to achieve proximal distance with their employees.

This could differentiate conclusions to be drawn regarding the company's adaptability of ethical systems, such as employees' perceptions of the ethics codes, effectiveness of codes, perceived salience of ethics code, ethical management system, and change of the members' attitudes and behaviors. Furthermore, certain managerial sectors, industries, and services could mostly benefit or be least attractive to the principles of ethical leadership. In terms of organizational type, trading and commercial companies and privately-owned organizations could be advantageous to the principles of ethical leadership. On the contrary, industrial sector and publicly-owned organizations could be less advantageous to it, because the ethical system is so strong that first-line supervisor's ethical leadership may not have a high impact on employees. In terms of workforce employed, small and medium enterprises may benefit more from the first line managers' ethical leadership than large companies and multinational companies do. In terms of technology intensity, technology-niche enterprises could be mostly advantageous to the principles of ethical leadership, more so than traditionally managed ones.

5.3. Limitations and Future Directions

Generalization of the results of this study may be limited because the analysis was limited to a sample of managers and employees at one large South Korean company. The sample was drawn from a company that is a Fortune 200 company that officially enacted an ethics code several decades ago and that strongly emphasizes its ethics code, evidenced by its printing of the code on employees' identification cards. Thus, the results of the current study are likely to apply to similar large companies, but whether the results are applicable to other types of companies with different characteristics is a question for future research. However, this limitation does not imply that managers' ethical influences are weaker in relatively small or medium-sized organizations. In fact, it is reasonable that smaller sized organizations would evidence stronger influences on employees' ethical behaviors and work performance because leader–follower distance may be generally more proximal. However, only further empirical analysis can address the question by expanding the coverage of surveyed organizations. It also is essential to determine whether ethical leadership influences work performance through the perceived salience of ethics codes in other types of organizations, such as finance or retailing.

The perceived salience of organizational ethics codes can be influenced by several factors besides the ethical leadership of the direct supervisors or team managers. For example, personal traits, co-worker characteristics, or features at the group level, such as organizational climate, may be influential. Thus, a limitation of this study is that it did not perform a multilevel analysis to investigate and compare variables' effects at multiple levels of analysis, and researchers should consider multilevel research designs in future studies. The purpose of this study was to investigate the individual-level perceptions of an ethics code, which was accomplished, and a multilevel analysis was beyond its scope.

More than 90% of previous empirical studies on ethical management have employed self-reported data [57]. The problem of common method bias that can be generated by this method degrades trust in the results of these studies [58]. To avoid inflated relationships caused by using data obtained from a single response source, this study used more than one source. Harman's single factor test was implemented as a statistical remedy, but the problem of common method bias could still exist. To avoid this problem altogether, future studies should be designed by researching a large sample of followers working under a single leader, measuring ethical leadership with data gathered from one-half of the followers, and measuring the perceived salience of the ethics code with data gathered from the other half of the followers. In addition, a longitudinal research design also would allow researchers to test the causal aspect of the found relationships.

6. Conclusions

In this study, managers' ethical leadership positively influenced employees' perceptions of an ethics code, which, in turn, enhanced their work performance. These relationships were empirically verified. It was further found that leader–follower proximity strengthened the indirect effect of ethical leadership on work performance via perceived salience of the ethics code. The results of this study are expected to increase organizational researchers of business ethics interest in this particular area of study and contribute to the development of ethical leadership theory, which is becoming a new domain in leadership studies.

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Appendix A

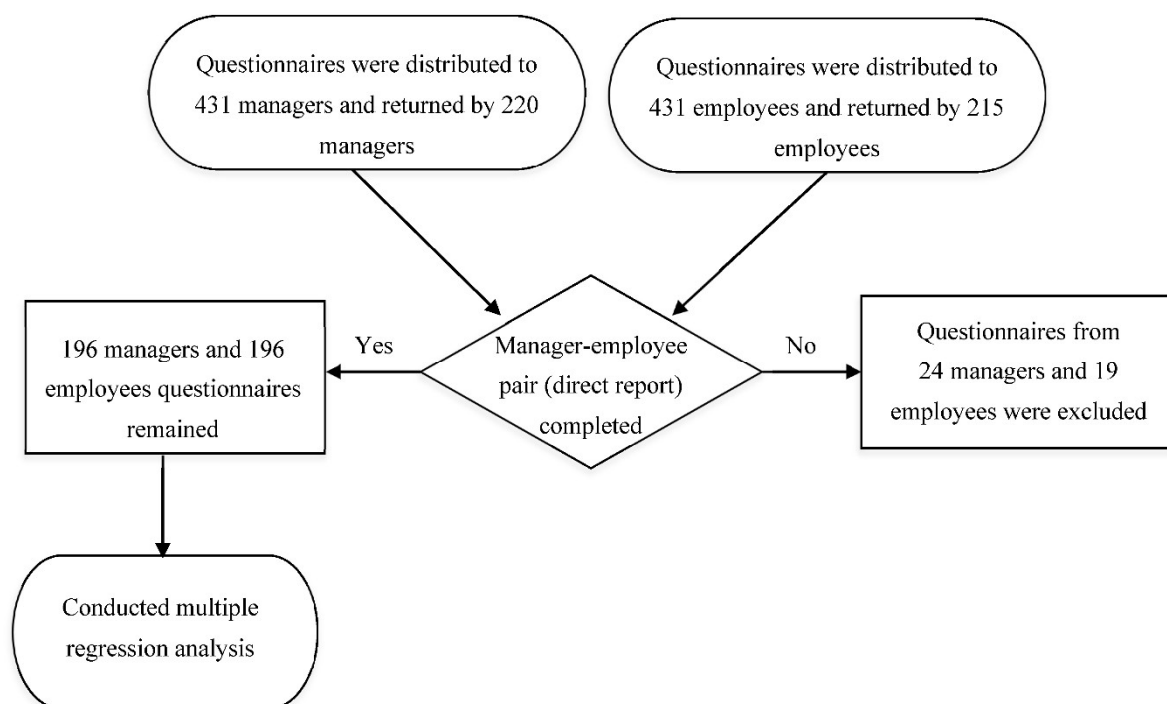


Figure A1. Sampling process.

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