

# Ethical Leadership and Employees' Ethical Behavior: Modeling the Contingent Role of Moral Identity

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**Abstract:** Ethical scandals, as well as unethical behaviour, are becoming major concerns in recent times. Thus, this study focused on the role of ethical climate and employees' moral identity. Specifically, this study examined the mediation effect of ethical climate on the relationship between ethical leadership and employees' ethical behaviour. Also, the study investigated the moderating role of employee moral identity on the relationship between ethical climate and employees' ethical behaviour. Data were collected from 620 full-time employees working at thirty-three Iraqi organisations from five Iraqi provinces. These organisations were from various industry sectors such as manufacturing, retailing, medical, insurance, information technology, legal, finance, and telecommunication sectors. The study found that ethical leadership impacted on the ethical behaviour of employees and the ethical climate also significantly mediated the relationship between ethical leadership and employees' ethical behaviour. The moderating role of moral identity on the relationship between ethical climate and ethical behaviour was found to be insignificant in this context.

**Key Words:** ethical leadership, ethical climate, moral identity, employees, ethical behavior, CRS, Iraq

## 1. Introduction

In recent years, ethical scandals, along with unethical behaviours, have become significant concerns. Likewise, these issues have also been debated by numerous researchers, organisations, governments and practitioners alike (Treviño, Den Nieuwenboer, & Kish-Gephart, 2014; Al Halbusi, Tehseen, & Ramayah, 2017; Al Halbusi, Williams, Mansoor, Hassan, & Hamid, 2020; Al Halbusi, Williams, Ramayah, Aldieri, & Vinci, 2020). The cause can be attributed to a variety of events involving ethical issues of large corporates such as Enron, and the National Irish Bank. Schaubroeck, Walumbwa, Ganster, and Kepes (2007) and Yasir, Imran, Irshad, Mohamad, and Khan (2016) mentioned that people with fewer ethical values tend to display more unethical behaviours. Moreover, these people tend to find opportunities to fulfil their desires at the expense of others. Arguments debating how unethical behaviour affects immoral actions have existed since the beginning of civilisation (Treviño & Brown, 2004).

However, to prevent occurrences such as unethical behaviour and immoral actions occurring in the workplace, organisational leaders need to adopt strategic actions to address this issue. Since the quality of leadership impacts the organisation's morals and morale, many studies (Tombaugh & Tombaugh, 2009; Brown & Treviño, 2014) have questioned the role of ethical leadership nowadays. A sound leadership model needs to be consistently emphasised, and leaders, likewise need to be well selected so that their subordinates can be better guided towards creating a better workplace environment. In any workplace, it is imperative that leaders, acquiring superior leadership qualities, lead the institution or organisation. Excellent leaders need to display higher values and qualities. In other words, they need to possess and display high ethical values, ethical behaviour, and apply high ethical standards in making decisions, actions, and behaviour. Such a demonstration of leadership is a good example for others to follow (Al Halbusi, Williams, Mansoor, Hassan, & Hamid, 2020). Prior studies investigating ethical leadership have mentioned that ethical leadership determines the ethical behaviours of employees (Ko et al., 2018).

Extending beyond ethical leadership, there are other factors which also impact employees' ethical behaviour. Among these is the ethical climate of the organisation (Engelbrecht, Wolmarans, & Mahembe, 2017) which forms the working environment of the organisation, in which the moral ethics and practices of employees are displayed and enacted via attitudes or values. Treviño, Den Nieuwenboer, and Kish-Gephart (2014) and Lu and Lin (2014), mentioned that an ethical climate is derived from the working environment such that shared beliefs, practices, rituals, power structures, assumptions, concepts and words

are specifically used within the culture of that organisation. When new employees join the organisation, they will learn about the ethical climate by observing others' behaviours, practices, and actions. Occasionally, the information may be acquired from policies or training materials.

Although not visibly measurable, such ethical climates may lead employees to behave in certain ways since they perceive those actions to be acceptable and appropriate to the organisation as normal organisational practices. In this regard, the ethical climate of the organisation will influence the behaviour, attitude and decision-making of employees, causing them to be either happy or unhappy in the workplace. The ethical climate factor can, therefore, establish improvement in the relationship between the organisation and employees. It may also improve organisational performance and productivity (Treviño, Den Nieuwenboer, & Kish-Gephart, 2014; Al Halbusi & Tehseen, 2017). The prevailing ethical climate of the organisation can be perceived by employees, both directly and indirectly, such as through organisational policies, payment systems, and decision-making procedures. These can typically provide employees with the information in which to enact or not enact certain behaviours (Lu & Lin, 2014; Al Halbusi, Ismail, & Omar, 2019b).

In recent years, the two factors consisting of ethical leadership and ethical climate have been discussed. Mayer, Kuenzi, Greenbaum, Bardes, and Salvador (2009) and Lu and Lin (2014) examined how ethical climate may act as the mediator between ethical leadership and the behaviour of employees. In this context, it seems that studies had neglected the element associated with employees' moral identity, which may be an important moderator on the relationship between ethical climate and employees' ethical behaviour. Indeed, investigation of this aspect would be advantageous in today's working environment given the information can contribute to the practical implications of workplace behaviour as well as add to the theoretical perspective. Further, the gathered insights would enable the working community to understand what qualities constitute ethical leadership and what organisations can do to promote an ethical work climate for employees. Employees' MI is important since it affects how employees treat themselves and others within the organisation, thereby contributing to their future decision-making actions and attitude (Treviño, Den Nieuwenboer, & Kish-Gephart, 2014; Al Halbusi, Williams, Mansoor, Hassan, & Hamid, 2020).

This study aims to expand the leadership literature, thereby making a significant contribution in clarifying and understanding the relationship that exists between ethical leadership, ethical climate and employees' ethical behaviour. The most significant aspect of this study will be to identify the moderating

role of employees' moral identity and its impact on the relationship between ethical climate and employees' ethical behaviour. Treviño, Den Nieuwenboer, and Kish-Gephart (2014) suggested that moral identity and controlling ethical conduct are both linked. However, no empirical study has incorporated moral identity as a moderator when examining such relationships. Also, in this context, this has not been investigated in the context of Iraq. Hence the current study will be beneficial from both a theoretical and practical perspective.

## **2. The Scenario in Iraq**

Typically, after invading Kuwait on August 2, 1990, Iraq suffered from the devastating destruction of two Prussian-Golf Wars (Tang et al., 2002; Al Halbusi & Amir 2018). States emerging from conflict are most vulnerable to economic exploitation (C4ADS, 2018) and corruption, sapping resources at all levels (Flintoff, 2007). In particular, states emerging from conflict are vulnerable to economic exploitation. In April 2003, the Iraqi economy collapsed due to pervasive misconduct, mismanagement, corruption, and power misuse (Al Halbusi, Williams, Mansoor, Hassan, & Hamid, 2020; Al Halbusi, Williams, Ramayah, Aldieri, & Vinci, 2020). For example, both public and private sectors suffered from traditional bureaucracy, rigid organizational structure, authorities' exploitation of powers, favouritism, and the absence of ethical leadership and ethical environment, exacerbating corruption (Arab & Atan, 2018; Abdullah, 2019). According to the 2018 Corruption Perceptions Index (CPI), Iraq ranked 168 out of 180 countries, and a CPI score of 18 out of 100, suggesting rampant corruption. In 2020, the country's ranking improved to 160 and CPI to 21. With a population of over 39 million, untapped opportunities, huge growth potential, and increased stability and security, Iraq is emerging as one of the top consumer markets in the Middle East (Research and Markets, 2018).

In addition, from the cultural perspective, Hofstede (1967/2010) showed that people in this Islam-based nation value high power distance (score = 95), uncertainty avoidance (85), long-term orientation (25), and collectivism (30). High power distance affects employees' perceptions of and responses to their supervisors (Smith & Hume, 2005). A long-term orientation prompts people to stick with established rules. Collectivists' thinking (we over I) helps them adopt various stakeholders and identify ethical dilemmas (Husted & Allen, 2008). To the best of our knowledge, minimal research has explored business ethics in the Republic of Iraq (Budur & Demir, 2019; Al Halbusi, Williams, Ramayah, Aldieri, & Vinci, 2020). Following these scholars' calls, this study fills the void. We investigate ethical leadership, ethical climate, employee moral identity and

subordinate ethical behaviors and collected data in the Republic of Iraq. Therefore, this study provides new evidence from different perspectives not only to help understand the scope and type of misconduct that is impacting Iraqi organizations, but also to analyses the effectiveness of leadership, and employee behaviour to assess both the weakness and integrity of this scheme. This study in achieving this aim will focus on the experience and perception of ethical leadership, ethical climate, and moral identity (MI). Despite recent progress in the fight against misconduct and ethical scandals, much remains to be done to help establish integrity and accountability in the institutional sector of Iraq (Al Halbusi, Williams, Mansoor, Hassan, & Hamid, 2020; Al Halbusi, Williams, Ramayah, Aldieri, & Vinci, 2020).

### **3. Theoretical Framework and Hypotheses**

#### **3.1. Ethical leadership and Ethical Behaviour**

Based on the social learning theory (SLT), this study argues that ethical leadership influences employee behaviour. The SLT looks at how the leadership model influences the lives of followers through what leaders bring to the organisation (i.e., their skills and background, experiences, beliefs, values, behaviours and decisions). In this regard, the SLT implies that individuals learn the norms of appropriate or inappropriate behaviour by observing others and through their own involvement (Bandura, 1977). Thus, as the leader of the organisation is supposedly the role model for other employees, ethical leaders must display integrity and high standards of ethical behaviour in the workplace for themselves and others as well (Brown, Treviño, & Harrison, 2005). In this way, employees are more likely to emulate and adopt the value-driven behaviours of their role modelling ethical leaders (Brown & Treviño, 2006). Importantly, such actions can have a repercussion on the organisation's work climate, work ethics and the working morale of employees.

Ethical leadership concerns good practices, including integrity, both of which demonstrates trustworthiness, fairness, care and concern for others, and behaving with ethical intentions (Treviño, Hartman, & Brown, 2000; Mayer et al., 2009; Al Halbusi & Tehseen, 2018). This is also supported by the studies of Treviño, Hartman, and Brown (2000), finding that ethical leadership can be classified into several dimensions. First, personal moral factors comprise integrity, concern for others, fairness, and trustworthiness, and secondly, moral manager factors which involve role modelling, ethical conduct, determining ethical standards, punishment, communication and reward. Therefore, as contended by Mayer, Kuenzi, Greenbaum, Bardes, and Salvador (2009), the ethical

manager would tend to focus more on transactional efforts to influence employees' ethical behaviours. Indeed, ethical leaders are those individuals who are in control of their socio-emotional temperaments (Mayer et al., 2009; Al Halbusi, 2022). Through this effort, they encourage others to have greater trust in them. Also, such leaders are often consistent, in control, competent, experienced, and knowledgeable and carry many great qualities. These positive traits enable employees to perceive these leaders in a good light, thereby establishing higher levels of trust and fairness (Blau 1964). Based on this argument, the following research hypothesis is formulated:

**Hypothesis 1:** Ethical leadership has a positive effect on employees' ethical behaviour.

### **3.2. Mediation: Ethical Leadership, Ethical Climate, and Ethical Behaviour**

Since ethical climate refers to conducive working conditions that are entrenched in good moral practices and good values, it also entails the prevailing working atmosphere perceived by employees to instil good organisational practices and procedures (Victor & Cullen, 1988). Otherwise, instilling the normative values and beliefs that promote moral practices that are inclusive within an organisation (Treviño, Butterfield, & McCabe, 1998). In this study, the underpinning research model applied is related to the social exchange theory. The social exchange theory (SET) was first introduced by Blau (1964) and Gouldner (1960) as a theory that is based on the reciprocal exchange of favours. It is premised upon the fact that social relationships are developed based on the exchange in which the parties involved need to feel that the reward given to the deed done in favour of the other, is favourable and comparable. Even within the organisational workplace, the SET can help to explain why employees are tempted to display good practices when they perceive their organisation to be treating them with respect, care and concern. Consequently, these employees serve their organisations with greater commitment as a reciprocal positive behaviour.

Based on the discussion above, it can be presumed that ethical leadership is not only an influential factor in employees' behaviour but also in the ethical climate within an organisation (Mayer et al., 2009). Previous studies have revealed that leaders tend to be selected to lead organisations given certain outstanding qualities (Schminke et al., 2005; Mayer et al., 2009; Al Halbusi, Tehseen, Hamid, & Afthanorhan, 2018). Therefore, it is most likely that strong ethical leaders carry the markings of excellence, such as the ability to develop exceptional work policies that can benefit the organisation and employees, simultaneously. When

employees perceive this to be in the best of their interests, they are more likely to remain steadfast and loyal to the organisation, thereby promoting the workplace climate to be even better and more conducive (Mayer et al., 2009; Jaaffar et al., 2018). In their study, Schminke, Ambrose, and Neubaum (2005) were able to show that leaders' morals impact the ethical climate factor such as the organisation's regulations which may bear a caring orientation. Such orientations of regulations may also bring about independent or impartial judgments, thereby instilling greater benefits to the organisation. Other studies (Mayer et al. 2009; Engelbrecht, Van Aswegen, & Theron, 2005) have discovered that ethical leadership may have a critical effect on the ethical climate. Through their role modelling of practices, such as rewards, selection, and communication, these ethical leaders also demonstrate to employees that they hold the power to generate and maintain ethical norms and procedures within the organisation. Accordingly, this also contributes to the ethical climate (Schminke et al., 2005). Ethical leaders may also influence the employees' desire to pursue their responsibilities or otherwise, in the workplace.

Numerous empirical studies support the argument that the ethical work environment is influenced by organisational leadership, and in particular leaders (Engelbrecht, Van Aswegen, & Theron, 2005; Choi et al., 2015; Demirtas & Akdogan, 2015; Engelbrecht, Wolmarans, & Mahembe, 2017). For instance, Schminke, Ambrose, and Neubaum (2005) examined the relationship between leaders' morals and the ethical climate of organisations where their results indicated that leaders' morals were associated with the ethical climate of organisations. Further, Engelbrecht, Van Aswegen, and Theron (2005) discovered that leadership behaviour has a positive association with ethical climates in organisations. In turn, leading to positive ethical behaviour of employees, also asserted that the ethical climate of an organisation significantly influenced the ethical behaviours of employees. More recent studies (Choi et al. 2015; Demirtas & Akdogan 2015; Engelbrecht, Wolmarans, & Mahembe, 2017) noted that ethical climate is essential towards influencing ethical behaviour. In essence, through role modelling the appropriate behaviours, ethical leaders have helped to create standards within the ethical climate by displaying valuable ethical behaviours. Accordingly, this influenced employees who were exposed to the same set of procedures and policies within the organisation's ethical climate. Consequently, these employees will follow their leaders' behaviour by applying the same standard of behaviour on themselves (Brown, Treviño, & Harrison, 2005; Mayer et al., 2009; Lu & Lin, 2014). The current study examines the relationship between ethical leadership and employees' ethical behaviour by proposing that ethical

climate is the key mechanism for ethical leadership and the ethical behaviour of employees. Thus, the following hypothesis is developed:

**Hypothesis 2:** Ethical climate will mediate the relationship between ethical leadership and employees' ethical behaviour.

### **3.3. Moderation: Employee Moral Identity**

The concept of moral identity is derived from the belief that one's identity must be linked to one's belief in those morals that one practices in. However, Hardy and Carlo (2005) defined moral identity as the degree of being a moral individual. Concerning this, Ashforth and Mael (1989) mentioned that moral identity is a concept that is rooted in the theory of social identity. The reason is that an individual's self-concept is also reflective of the social schema that defines him/her respectively since it is also used to regulate his/her moral behaviour (Kelley & Stahelski, 1970; Hales, 1985; Hardy & Carlo, 2005). Moral identity as a regulator of one's moral behaviour is easily understood through the respective manifestation of one's behaviour when among other societal actors. Moral identity can be described as a person's inward belief and values that is displayed outwardly as an illustration to others. This concept has also been supported by Blasi (1984, 1990) who insisted that moral self-conception is one's self-importance, as can be seen in one's MI. This concept of moral self-conception is in tandem with one's moral conduct.

The current study adopts the concept of moral identity as a moderator. The rationale for doing so is because even though specific factors affect people's behaviours, such an association has also been found to be dependent on several intra-individual variables (Nelissen et al., 2007; Tanghe et al., 2010; Treviño, Den Nieuwenboer, & Kish-Gephart, 2014). For example, many people have developed their own set of beliefs and values as they matured. This is an important element that could impact on their own self-identity or self-concept (Hardy & Carlo, 2005). It is this perception that individuals have about themselves, which has helped them to develop a set of moral traits (Aquino & Reed, 2002), hence helping them to display their self-identity. Research continues to study this aspect of the human entity because the individual's moral identity is a powerful regulator and motivator for the individual's ethical behaviour (Detert et al., 2008; Hardy & Carlo 2005; Lapsley & Lasky, 2001; Shao et al., 2008; Xu & Ma, 2015). Studies (Mitchell & Ambrose, 2007; Tepper et al., 2009; Holtz & Harold, 2013) have shown that different individuals have different responsive actions towards their own experiences. Some people may respond to their own



mistreatment by engaging in unethical behaviours as a form of retribution, while others may see this as an immoral action. These studies also state that individuals with high moral identity have weaker tendencies to respond to unethical behaviours such as mistreatment. Nevertheless, not all people will respond to a common situation in a similar way. People's upbringing and development, social environment and self-identity evolved over time will fortify their moral identity, which helps them to determine their own self-identity. Moral identity serves as the compass of people's own moral behaviour. The deeper one delves into one's moral identity when reacting to certain situations or making a judgement, the easier it becomes for one to revert to this moral identity for future references. The more this is applied, the more the moral identity is fortified. This phenomenon has been noted by studies such as Aquino and Reed (2002), Lapsley and Lasky (2001) and Blasi (1984, 2004). They observed that moral identity has an impact on the person's responsive mood to situations where ethical choices are cited when making judgements (Shao et al., 2008).

Therefore, even though employees with high moral identity may have stronger moral reactions, their desire to maintain moral self-consistency, and their use of moral self-regulatory mechanisms, is expected to weaken their tendency to engage in unethical behaviour, as a means of addressing their wrongdoings (Aquino & Reed, 2002). Given the above reasons, it is logical to expect that moral identity moderates these relationships. Thus, the following hypothesis is formulated:

**Hypothesis 3:** Moral identity moderates the relationship between ethical climate and the ethical behaviour of employees such that the relationship is stronger when moral identity is high than when it is low.

## **4. Method**

### **4.1. Sample and Procedures**

To test the hypotheses, a sample size comprising of 620 full-time employees working in thirty-three Iraqi organisations were approached. All participants were directly affiliated with various industries such as manufacturing, retailing, medical, insurance, information technology, legal, finance, and telecommunication sectors from five Iraqi provinces. The criteria set for the selection was that the respondent's working experience in the respective organisations should not be less than six months. The rationale is that this approach helped to ensure that the samples accurately represent the population of interest. Since this study is the first of its kind in Iraq, it is very important to have an overview of the

phenomenon in the context. Furthermore, since this study consists of full-time employees who are working in such industries, the researchers were unable to collect information regarding the total population because the full information was not available as well as due to the context complexity and security issues in Iraq. Thus, non-probability sampling techniques were the only options for the researchers to achieve the target number of respondents. Among all types of non-probability sampling design, purposive sampling design was chosen for this study (Memon et al., 2017; Hulland et al., 2018).

#### **4.2. Measurement**

The questionnaire was developed based on existing literature, as indicated in Appendix A. The items were originally written in English before translating into Arabic; this was to meet the need of the respondents who were Arabic speaking employees. To ascertain the reliability, the survey items were vetted and then approved by a panel comprising of six experts who were skilled and accustomed to the area of leadership style, organisational behaviour and business ethics. Following the development of the questionnaire, a pilot test was conducted to ensure validity. Eighteen employees were selected to ensure that they could understand the items and that the questions were able to elicit the necessary information. Subsequently, the questionnaire was translated into Arabic following the “Double-blinded principle” where the original English version of the scales was translated into Arabic, and the Arabic version was back-translated by two professional researchers, as a means of ensuring validity (Brislin, 1980). All the response format was based on a 5-point Likert Scale, ranging from ‘1 = Strongly Disagree’ to ‘5 = Strongly Agree.’

First, ethical leadership was assessed by using items taken from Brown, Treviño, and Harrison (2005), which included treating employees fairly, listening, caring, trust, behaviour model and communication response. Ethical leadership contains ten items, for example, “My supervisor listened to what employees have to say.” For the ethical climate, items were adapted from Victor and Cullen (1988) and comprised several dimensions identified in the organisation such as Caring, Independence, Law and Code, Rules and Instrumental. Fourteen items were included under Ethical Climate; for example, “What is best for everyone in the organisation is a major consideration.” In regards to moral identity was measured using five items were adapted from (Aquino and Reed, 2002). Example of the items “It would make me feel good to be a person who has these characteristics.” Lastly, ethical behaviour is, hereby referred to as the ethical behaviour that prevails and is manifested by workers within the organisation.

To assess this construct, sixteen items were adapted from past studies (Ferrell et al., 2000; Lu & Lin, 2014). In this regard, ethical behaviour comprises two dimensions: normative ethical behaviour, and juridical, ethical behaviour. Since items of normative ethical behaviour are related to activities, they were, thus identified as the normative ethical behaviour dimension. The dimension of juridical, ethical behaviour comprised six items. These items are professional, ethical related activities. Hence, they were identified as a juridical, ethical behaviour dimension, for example, “I am careful with company materials and supplies,” and “I refuse gifts that are offered for preferential treatment.”

## **5. Data Analysis and Results**

In this study, Structural Equation Modelling (SEM) using Partial Least Squares (PLS) was conducted to analyse the research model. The Smart-PLS 3.0 software was thus applied (Ringle et al., 2015). Hair, Hult, Ringle, and Sarstedt (2017) and Hair, Sarstedt, and Ringle (2019) recommended that two analytical techniques should be applied, beginning with the assessment of the measurement model (validity and reliability), followed by the structural model assessment (hypothesis relationship testing). In this study, the two-step assessment approach was performed, involving both the measurement model and the structural model.

### **5.1. Demographic Profile of Respondents**

The SPSS version 23 was used to analyse the demographic information of the respondents, which comprised 75.6 percent males and 24.4 percent females, showing that more men were involved in the industries. In terms of age, the majority of respondents or 42.6 percent catered to those aged between 31 and 40 years old. In terms of marital status, 73.7 percent were married. In terms of educational background, 54.8 percent had a bachelor's degree. In terms of job experience, the majority or 36.9 percent of respondents had six to ten years of work experience. In distinguish, the employees' organisation type, the majority or 20.8 percent were from the Insurance industry. Details are illustrated in Table 1.

### **5.2. Common Method Variance (CMV)**

Since it was difficult to collect data from multiple sources due to context complexities, all the data used in this study were based on a self-reported questionnaire. As mentioned earlier, the data originated from one single source. Researchers like Podsakoff, MacKenzie, Lee, and Podsakoff (2003) and Podsakoff, MacKenzie, and Podsakoff (2012) proposed numerous remedies for such an issue, such as minimising the likelihood of CMV bias by using both procedural and

**Table 1. Summary of Demographic Profile of Respondents**

<b>Demographic Item</b>	<b>Categories</b>	<b>Frequency</b>	<b>Percentage</b>
<b>Gender:</b>	Male	469	75.6
	Female	151	24.4
<b>Age:</b>	Less than 25 Years	35	5.6
	25–30 Years	128	20.6
	31–40 Years	264	42.6
	41–50 Years	139	22.4
	More than 51 Years	54	8.7
<b>Marital Status:</b>	Single	117	18.9
	Married	457	73.7
	Widowed	16	2.6
	Divorced	30	4.8
<b>Level of Education:</b>	High School	85	13.2
	Diploma	99	15.3
	Bachelor’s Degree	340	54.8
	Master’s Degree	59	9.0
	Doctorate Degree	37	6.0
<b>Job Experience:</b>	2 Years or Less	31	5.0
	3–5 Years	143	23.1
	6–10 Years	229	36.9
	11–15 Years	78	12.6
	16 Years or More	139	22.4
<b>Organization Type:</b>	Manufacturing	74	11.9
	Technology	88	14.2
	Medical	63	10.2
	Insurances	129	20.8
	legal	64	10.3
	Retails	92	14.8
	Finance	56	9.0
	Telecommunication	54	8.7

statistical remedies. Using procedural remedies, we ensured the confidentiality and anonymity of the respondents by counterbalancing the order of the survey questions. We also provided the definitions for each of the constructs used and provided clear instructions to help respondents complete the evaluation of the items. Psychological separations were also used throughout the measurement. In this study, we applied statistical remedies (Podsakoff, MacKenzie, Lee, &

Podsakoff, 2003; Chin et al., 2013; Afthanorhan et al., 2021) like “Cognitive Rigidity” to be used as the “Marker Variable” in order to control the method bias statistically. This variable was theoretically unrelated to the research mode but was used as a remedial step.

As both the procedural and statistical remedies were applied as control (CMV), Chin, Thatcher, Wright, and Steel (2013) suggested two approaches. The first approach was the construct level correction (CLC) while the second approach was the item level correction (ILC). However, this study was only concerned with the construct level correction (CLC). Therefore, to examine the common method bias, several steps needed to be followed. First, we drew and ran the hypothesised model by using the Smart PLS software to observe the original estimated  $R^2$ . Second, we pointed the “Marker variable” towards the endogenous constructs. Next, we compared the parameter values of  $R^2$ , before and after adding the “Marker Variable.” When there is no significant difference in the  $R^2$  value of any of the endogenous constructs, the CMV is then not an issue. Therefore, based on this, the original model, without the “Marker Variable” indicates the original estimated  $R^2$  (see Table 2). The “Marker Variable” as noted, was again pointed towards the endogenous constructs. The original  $R^2$  values noted in the PLS model for the endogenous constructs, such as ethical behaviour of employees, and ethical climate, were noted to be 0.604, and 0.6, respectively. The “Marker Variable”  $R^2$  values which were estimated by the CLC approach were noted to be 0.609, and 0.417, respectively. They represented the ethical behaviour and the ethical climate, respectively. Thus, based on the mentioned results, it was deduced that these changes were minor and not significant. From these changes, it was concluded that the CMV was not an issue in this study (Chin et al., 2013) The results are further illustrated in Table 2.

### 5.3. Assessment of Measurement Model

To assess the measurement model, we examined the internal consistency reliability, convergent validity, and discriminant validity. To evaluate the internal consistency of the measurement scale, Cronbach's Alpha and Composite

**Table 2. Comparison of  $R^2$  Values by Original PLS Models and CLC Approach**

Endogenous Constructs	Original PLS Estimates ( $R^2$ )	CLC Estimation ( $R^2$ )
Ethical Behaviour	0.604	0.609
Ethical Climate	0.416	0.417

Key: CLC = Construct Level Correction.

**Table 3. Measurement Model, Loading, Construct Reliability and Convergent Validity.**

<b>First-Order Constructs</b>	<b>Second-Order Constructs</b>	<b>Items</b>	<b>Loading</b>	<b>CA</b>	<b>CR</b>	<b>AVE</b>
<b>Ethical Leadership</b>		EL1	0.618	0.905	0.922	0.542
		EL2	0.640			
		EL3	0.709			
		EL4	0.792			
		EL5	0.721			
		EL6	0.734			
		EL7	0.763			
		EL8	0.800			
		EL9	0.770			
		EL10	0.792			
<b>Caring</b>		EC1	0.841	0.806	0.886	0.721
		EC2	0.866			
		EC3	0.840			
<b>Independence</b>		EC4	0.900	0.725	0.879	0.784
		EC5	0.871			
		EC6	Dropped			
<b>Law and Code</b>		EC7	0.834	0.792	0.878	0.707
		EC8	0.861			
		EC9	0.827			
<b>Rules</b>		EC10	0.827	0.687	0.862	0.758
		EC11	0.912			
<b>Instrumental</b>		EC12	0.849	0.750	0.850	0.655
		EC13	0.836			
		EC14	0.739			
	<b>Ethical Climate</b>	Caring	0.883	0.885	0.905	0.617
		Independence	0.739			
		Law and Code	0.875			
		Rules	0.776			
		Instrumental	0.627			
<b>Moral Identity</b>		MI1	0.814	0.838	0.883	0.603
		MI2	0.808			
		MI3	0.819			
		MI4	0.751			
		MI5	0.683			

First-Order Construct	Second-Order Construct	Items	Loading	CA	CR	AVE
Normative Ethical Behavior		EEB1	0.688	0.880	0.904	0.513
		EEB2	0.617			
		EEB3	0.738			
		EEB4	0.775			
		EEB5	0.704			
		EEB6	0.751			
Juridical Ethical Behavior		EEB7	0.767	0.866	0.900	0.603
		EEB8	0.677			
		EEB9	Dropped			
		EEB10	0.715			
		EEB11	0.755			
		EEB12	0.804			
		EEB13	0.651			
		EEB14	0.769			
		EEB15	0.839			
		EEB16	0.824			
Employees' Ethical Behavior	Normative Ethical Behavior	0.955	0.926	0.935	0.883	
	Juridical Ethical Behavior	0.924				

**Notes:** CR= Composite Reliability, CA= Cronbach's Alpha; AVE= Average Variance Extracted.

Reliability (CR) were utilised. The range of the Cronbach's Alpha was between 0.687 and 0.926, which was indicative of the acceptable level of 0.07. The range of the Composite Reliability (CR) was between 0.878 and 0.935, which was also indicative of an acceptable value. Therefore, based on these, the indication of the internal consistency reliability was established (Hair, Hult, Ringle, & Sarstedt, 2017). The Average Variance Extracted (AVE) was then conducted to measure the convergent validity, which was also confirmed since the AVE for all the constructs exceeded the threshold, which ranged between 0.513 and 0.883 (Hair, Hult, Ringle, & Sarstedt, 2017). Thus, measurement model outputs are shown in Table 3.

We found no problems with discriminant validity; the AVE for each construct was greater than the variance shared by each construct with the other latent variables (Table 4). (Hair, Hult, Ringle, & Sarstedt, 2017). Henseler, Ringle, and

**Table 4. Descriptive Statistics, Correlation Matrix and Discriminant Validity (AVE in bold and HTMT in italics).**

Constructs	Mean	SD	1	2	3	4
1. Ethical Leadership	4.051	0.560	<b>0.591</b>	<i>0.704</i> [0.662;0.749]	<i>0.392</i> [0.323;0.468]	<i>0.678</i> [0.620;0.731]
2. Ethical Climate	3.931	0.441	0.316	<b>0.874</b>	<i>0.543</i> [0.490;0.607]	<i>0.794</i> [0.758;0.827]
3. Employee Moral Identity	4.206	0.709	0.339	0.164	<b>0.446</b>	<i>0.570</i> [0.510;0.631]
4. Employee Ethical Behavior	4.014	0.521	0.554	0.292	0.246	<b>0.675</b>

Notes: S.D. = Standard Deviation. n.a. = not applicable. Bold values on the diagonal in the correlation matrix are square roots of AVE (variance shared between the constructs and their respective measures). Off-diagonal elements below the diagonal are correlations among the constructs, where values between 0.13 and 0.16 are significant at  $p < 0.05$ , and values above 0.16 are significant at  $p < 0.01$  (two-tailed test). Off-diagonal elements above the diagonal are the heterotrait-monotrait ratios of correlations (HTMT), and their respective confidence intervals at the 95% confidence level.

Sarstedt (2015) offer the heterotrait-monotrait ratio (HTMT) of correlations, which is based on a multitrait-multimethod matrix and is a more reliable method. Table 4 reveals that the HTMT values are less than 0.90, indicating that each pair of variables has discriminant validity. All HTMT values are significantly different from 1, and the 95 percent confidence intervals (CI) do not include 1 (Henseler et al., 2015), indicating that each pair of variables has discriminant validity.

#### 5.4. Assessment of Structural Model: Hypothesis Testing

The direct effect of hypothesis  $H_1$  was examined since it presents the direct relationship between ethical leadership and employees' ethical behaviour. Based on the application, the results demonstrated a statistically significant positive relationship between ethical leadership and the ethical behaviour of employees. Hence,  $H_1$  was accepted ( $\beta = 0.216$ ,  $t = 5.020$ ,  $p < 0.000$ ; Table 5).

Based on the objectives of this study, the mediation test was noted to be one of the main contributions in testing whether the ethical climate mediated the relationship between ethical leadership and the ethical behaviour of employees. As suggested by Hair, Hult, Ringle, and Sarstedt (2017), while testing the mediating effect, the approaches of Preacher and Hayes (2004, 2008) should be considered. Therefore, based on this, the process of the mediating analysis of this study also engaged the said approaches (Preacher & Hayes, 2004, 2008). Thus, as the results revealed that the indirect effect was significant ( $\beta = 0.199$ ,  $t = 6.480$ ,  $p < 0.000$ ). Preacher and Hayes (2008) mentioned that when the value of 0.199, 95 percent, CI: [LL = 0.142, UL = 0.264] does not straddle a 0 in between, it indicates



Table 5. Structural Model Hypotheses Testing: Direct Effect, Indirect effect, Interaction Effect.

Hypothesis	Relationship	Std Beta	Std Error	t-value	p-value	Bias corrected bootstrap CI (95%)		Decision	R2	f2	VIF
						Lower level	Upper level				
Direct Effect											
H-1	EL -> EB	0.216	0.043	5.020	0.000	0.147	0.286	Supported	0.617	0.066	1.86
Indirect Effect											
H-2	EL -> EC -> EB	0.199	0.031	6.480	0.000	0.142	0.264	Supported	-	-	-
Interaction Effect											
H-3	EC*MI -> EB	-0.128	0.068	1.870	0.031	-0.200	0.023	Not Supported	-	0.054	1.43

Note: VIF = Variance Inflation Factor (VIF).

Key: EL → EB = Ethical Leadership → Ethical Behaviour, EL → EC → EB = Ethical Leadership → Ethical Climate → Ethical Behaviour, EC\*MI → EB = Ethical Climate\* Moral Identity → Ethical Behaviour.

that there is mediation. Thus, in this study, we concluded that the mediation effect of the ethical climate was statistically significant. Hence H<sub>2</sub> was supported (see Table 5).

Importantly, based on the objective of this study, the moderation effect of 'MI' was tested on the relationship between ethical climate and ethical behaviour of employees. As mentioned earlier, the structural model was run via the PLS bootstrapping method, with 5000 re-samples to generate the t-value for the current model. The results of the moderation hypothesis showed that H<sub>3</sub> was not supported ( $\beta = -0.128$ ,  $t = 1.870$ ,  $p < 0.031$ ). The mentioned results are illustrated in Table 5.

Concerning the model's explanatory power, R<sup>2</sup> and Q<sup>2</sup> (predictive importance of the endogenous variable) gave more than adequate values. The model demonstrated first the R<sup>2</sup> value of 0.614 for the dependent variable, thus involving a moderate explanatory power (Hair, Hult, Ringle, & Sarstedt, 2017). In addition, when the Stone-Geisser blindfolding sample reuse technique was used by considering an omission distance of 7, it showed good predictive relevance for the model in predicting the ethical behaviour of employees, since this value was higher than zero (Q<sup>2</sup> = 0.314) (Hair, Hult, Ringle, & Sarstedt, 2017).

## 6. Discussion and Conclusion

The goal of this study was to assess ethical leadership and the ethical milieu that leads to ethical behaviour. Ethics is concerned with how one does one's duty in the course of one's career or occupation, as may be deduced thus far. Treviño, Den Nieuwenboer, and Kish-Gephart (2014) and Bright, Winn, and Kanov (2014) define ethics as an individual's way of behaving or acting that is guided by his or her personal values or beliefs. It is critical for ethical behaviour to survive within a society because ethical behaviour determines society's quality and the development of its human capital. Prior studies (Brown, Treviño, & Harrison, 2005; Mayer et al., 2009) focused on the antecedents of employees' ethical behaviour in order to discover elements that might increase employees' ethical behaviour within a business. Thus, any organization's fundamental purpose is to achieve organisational success. The management team, which includes the leaders who make up the managers, bears responsibilities in this regard. Managers perform a critical role in the success and ethical behaviour of an organisation. Ethical leadership inside an organisation can influence employees' ethical behaviour in the same way as great leaders lead their countries to greater heights. We suggested in this study that organisational leaders serve as role models for their workforce (Al Halbusi, Ruiz-Palomino, Jimenez-Estevéz, & Gutiérrez-Broncano 2021).

Leaders with ethical leadership skills become an asset through their respective role-modelling acts showing ethical behaviours. Ethical leadership fosters relational bonds, which is one strategy to ensure that the organization's quality is kept and respected. Managers serve this duty since they have the moral authority to influence their staff, as previously stated. Brown and Treviño (2006), Lu and Lin (2014), and Demirtas (2015) found that our findings were consistent with those of prior investigations. Therefore, instead of blindly adhering to their traditional norms of running their organisations, it is time for the Iraqi companies to start thinking about developing their human capital and about inspiring their employees to achieve greater potential. Without a doubt, this can be accomplished by developing their own leaders through ethical leadership values. The findings derived from the current study indicate that the way forward for Iraqi companies is through ethical leadership as role models (Al Halbusi, Tang, Williams, & Ramayah, 2022). First and foremost, Iraqi firms should consider hiring leaders with ethical leadership qualities; they should consider providing current organisation leaders with the appropriate training; they should also consider communicating this implementation to employees as well as to the general public by highlighting the rewards of good ethics and ethical behaviours. The

practice of rewarding and supporting employees who behave ethically within organisations and in the context of the workplace should be promoted, thereby facilitating a conducive working environment that is based on a good ethical climate (Al Halbusi, Williams, Mansoor, Hassan, & Hamid, 2020, Al Halbusi, Williams, Ramayah, Aldieri, & Vinci, 2020).

The findings of this study have shown that ethical leadership impacts on ethical climate, which, in turn, was found to be positively associated with employees' ethical behaviour. As stated earlier, ethical leaders promote ethical leadership qualities, which affect the ethical climate. For organisations to become more ethical and to practice ethical values, they must enhance the ethical conduct of their employees. To ameliorate the ethical conduct of their employees, all organisations should acquire leaders who encourage and model ethical behaviour; they should also implement a system that rewards ethical behaviour and discipline unethical conduct. The outcome generated from this study suggests that Iraqi organisations need to focus on developing an ethical climate that emphasises on the good ethical behaviour of employees. This may be accomplished by adhering to the law, following professional standards, and putting the public interest ahead of self-interest (Treviño, Den Nieuwenboer, & Kish-Gephart, 2014).

The outcome of this study has also shown that moral identity as a moderator, had an insignificant interaction on the relationship between ethical climate and employees' ethical behaviour. However, the concept of moral identity has been noted by Aquino and Reed (2002) and Tanghe, Wisse, and Van Der Flier (2010) to be one of the most important factors, which is contingent on ethical behaviour practices at the workplace. This study also highlighted that there was a significant positive relationship between ethical climate and employees' ethical behaviour and this relationship was moderated by moral identity (MI) which showed insignificant interaction. Generally, based on this, we conclude that people with higher moral identity is more likely to behave ethically across a range of organisations. This is because they have an internal moral compass, perhaps even an internal locus of control, as in 'I am responsible for my own ethical behaviour regardless of the organisation's climate practice' On the other hand, people with lower moral identity responded more to the organisation's values surrounding them. Hence, they were more inclined to display lower ethical behaviours, particularly when the organisation itself does not exhibit an ethical climate practice (Treviño, 2014).

In addition, there were several possible explanations for this result, with regards to the moderation role of moral identity in a particular context. First and

foremost, we attribute it to the ethnic diversity of the respondents attached to the Iraqi organisations. However, it is feasible that the concept of moral identity was perceived by the respondents differently due to the difference in ethnicity and culture (Desmet et al., 2017). Since moral identity is considered as a concept for self-regulation, self-conception and self-responsibility, the perception of moral identity could vary from one person to another, in a diverse context. This point was also highlighted in the Iraqi context where, basically, the different diversity of the employees may have unknowingly created an unconscious prescription for the concept (Moaddel & Karabenick, 2018). Another possible explanation can be traced to what Hofstede (1984) supposed about the Iraqi society being a collectivist society. Unlike the individualistic society, moral identity was perceived by the collectivists, differently. Since moral identity is considered as a self-conception and is self-regulatory, and the idea was derived from the western context, the concept is better understood by the individualistic society rather than the collectivistic society. Thus, the collectivist culture of the Iraqis may be the main reason why moral identity was not supported. This outcome also suggests that in the collectivist society, moral identity was insignificant because a collectivistic society prefers to be together in decision making rather than making decisions individually.

### **6.1. Theoretical Implications**

In a general glance, this study investigates the relationship of ethical leadership with employee ethical behaviour, using ethical climate as a mediator, while also analysing the intensifying role of employee moral identity. In particular, this research relates to an important aspect of the literature. First, this study investigated the relationship between ethical leadership and employee ethical behavior which expanding the prior findings (e.g., Al Halbusi, Williams, Mansoor, Hassan, & Hamid, 2020). Also, this study this study helps confirm a line of research that analyzes the ethical environment phenomenon (ethical climate) as a process through which ethical leadership impacts ethical behavior on employees thus, by using ethical climate as a mediator and analyzed the augmenting role of ethical leadership on employee ethical behavior. Thus, by including ethical climate as key mechanism that advances the literature.

Importantly, the current study contributes to the extant literature by providing an insight into moral identity of employees as a moderator on the relationship between ethical climate and employees' ethical behaviour. As mentioned by Treviño, Den Nieuwenboer, and Kish-Gephart (2014), moral identity is an important factor which should be highly considered business ethics literature.

Due to, to make ethical managers more effective in this regard, the level of employee moral identity is critical; the higher moral identities are those workers who experience the moral quality of their managers, the more effective ethical managers will be in improving the ethical behavior of these employees (Aquino & Reed, 2002).

## **6.2. Managerial Implications**

This study further provided practical contributions to management. The results of this study can be used as guidelines for organisations to develop better quality relationships between leaders and subordinates within the organisational context. Management may also utilise the results of this study as recommendations to improve the quality of their managers as well as their employees' perception of ethical climate, thereby, enhancing ethical behaviour within the organisational context. This study also offers these concept (i.e., ethical leadership, ethical climate and moral identity) as a new contribution to the Iraqi context. It is possible that the concept these concepts especially moral identity would be better recognised as a possible factor for improving the ethical behaviour of employees. Nonetheless, this concept needs to be clearly defined, especially for the Iraqi context so that diverse cultures can understand the concept.

More precisely, this study found that ethical leadership has a positive effect on employees' behaviour. Motivating managers to adopt ethical leadership is very important; given it has a direct impact on employees. Previous studies (Lu & Lin, 2014; Mayer et al., 2009) have suggested that top managers could shape the ethical climate, which can affect employees' behaviour (Lu & Lin, 2014). Our study, likewise, has offered some viable ways for managers to achieve that recommendation. Specifically, managers may use ethical climate to signal their ethical values to their staff, thereby motivating them to adopt ethical behaviours as a practice. Our study also noted that moral identity and ethical climate, to some extent, may substitute each other, in affecting employees' ethical behaviour. Based on this, organisations with low-level ethical standards, policies, and practices need to develop strategies to address this.

## **7. Limitations and Future Research**

This study is no exception, with the limitation that all studies have limitations. First, we can't draw any conclusive results about causality from our cross-sectional data, making it difficult to draw definitive conclusions about causality. Nevertheless, because we were evaluating a sensitive subject such as the participants' ethical behaviour, complete confidentiality was required, making a

longitudinal analysis difficult (e.g., Podsakoff, MacKenzie, Lee, & Podsakoff, 2003). This opens the way for future research into figuring out the formula for creating experimental or longitudinal designs that will aid to reinforce causality findings. The second limitation lies in data, which originated from a single source. Although we used procedural and statistical remedies, CMB cannot be ruled out entirely (Podsakoff, MacKenzie, & Podsakoff, 2012). Besides, the prospective influences of the CMB, the rigor of the empirical findings could also have been affected as self-reported data have been used to measure ethical behaviour, which is a very sensitive and complex issue. For this reason, the bias in the social desirability response cannot be ruled out completely. Future research should, therefore, gather data from multiple, where possible, and supervisors or peers should be asked to assess employee ethical behaviour.

Another limitation is that this study did not consider other external factors while explaining ethical conduct. Ethics is a highly complex phenomenon that is impacted by certain factors at the individual level, organizational, and external environment. As such, one needs to be cautious about making inferences from the present study which, to some extent, simplified ethical behaviour by focusing on a few variables such the traditional ideology of Arab culture, which continues to dominate across even the field of science (Abu Khalil, 1992). Also, there are political conflicts in the Middle Eastern cultural context, such as what is occurring in Iraq (Harff, 2018). Also, religious value/belief, Islamic work ethics and spirituality, therefore, it is important to include such aspects in future research. Moreover, this study was conducted in Iraq; hence, the results cannot be generalised to other Middle Eastern countries, due to geographical, political, and cultural differences.

## **8. Conclusion**

This study addressed one of the gaps identified in the research by investigating ethical leadership on ethical behaviours in the context of a Middle Eastern nation, Iraq. This study also examined how managers' ethical leadership behaviour contributes to employees' ethical behaviour. This study further revealed that ethical leadership has a direct and indirect impact in shaping the ethical climate. Importantly, this study examined the moderating role of moral identity on the relationship between ethical climate and employees' ethical behaviour in a new attributed culture and structure (i.e., Iraqi context).

## Appendix

### Instrument for Variables

No.	<b>Ethical Leadership, Brown, Treviño, &amp; Harrison, 2005</b>
EL1.	Listened to what employees have to say.
EL2.	Disciplined employees who violate ethical standards.
EL3.	Conducted his/her work in an ethical manner.
EL4.	Has the best interest of employees in mind.
EL5.	Made fair decisions.
EL6.	Can be trusted.
EL7.	Discussed business ethics or values with employees.
EL8.	Set an example of how to do things in the ethical way.
EL9.	Defined successes not just by results, but in the way these results are obtained.
EL10.	Asked "what is the right thing to do during decision making."
No.	<b>Ethical Climate, Victor and Cullen 1988</b>
	<b>Caring</b>
EC1.	The most important concern is the good of all people in the organization as a whole.
EC2.	What is best for everyone in the organization is the major consideration.
EC3.	Our major concern is always what is best for other person.
	<b>Independence</b>
EC4.	In this organization, employees are expected to follow their own personal and moral beliefs.
EC5.	In this organization, employees are guided by their own personal ethics.
EC6.	Each person in this organization decides for themselves what is right and wrong.
	<b>Law and Code</b>
EC7.	In this organization, the law or ethical code of their profession is the major consideration.
EC8.	In this organization, employees are expected to strictly follow legal or professional standards.
EC9.	Employees are expected to comply with the law and professional standards over and above other considerations.
	<b>Rules</b>
EC10.	Successful people in this organization, go by the guidelines.
EC11.	Employees in this organization strictly obey the organization's policies.
	<b>Instrumental</b>
EC12.	Employees are expected to do anything to further the organization's interests, regardless of the consequences.
EC13.	There is no room for one's own personal morals or ethics in this organization.
EC14.	In this organization, people protect their own interests above all else.

No.	Moral Identity Aquino and Reed, 2002
MI1.	It would make me feel good to be a person who has these characteristics.
MI2.	Being someone who has these characteristics is an important part of who I am.
MI3.	I would be proud to be a person who has these characteristics.
MI4.	Having these characteristics is really important to me.
MI5.	I strongly desire to have these characteristics.

No.	Ethical Behavior, Ferrell et al., 2000, Lu & Lin, 2014
<b>Normative Ethical Behavior</b>	
EB1	I take responsibility for my own errors.
EB2.	I give credit to those who deserve it.
EB3.	I use company services appropriately and not for personal use.
EB4.	I am open about my errors.
EB5.	I conduct only company business on company time.
EB6.	I do not give gifts/favors in exchange for preferential treatment.
EB7.	I keep confidential information confidential.
EB8.	I take the appropriate amount of time to do a job.
EB9.	I report others' violation of company policies and rules.
EB10.	I lead my subordinates to behave ethically.
<b>Juridical Ethical Behavior</b>	
EB11.	I am careful with company materials and supplies.
EB12.	I request reimbursement only for allowed expenses.
EB13.	I come to work unless I am sick.
EB14.	I refuse gifts that are offered for preferential treatment.
EB15.	I take only the allotted/assigned personal time (lunch hour, breaks).
EB16.	I complete time/quality/quantity reports honestly.

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