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UNDERSTANDING THE RELATIONSHIP BETWEEN ETHICAL LEADERSHIP BEHAVIOR AND ETHICAL CLIMATE IN PRIVATE SECTOR BANKS IN ERNAKULAM DISTRICT

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ABSTRACT

The rising importance of governance in organizations emphasizes on the concept of ethics. A strong governance system is an indispensable component of sustainable and equitable development. The concept of ethical leadership is inevitable part for the success of an organization. The study examines the relationship between ethical leadership behavior of the leaders and the ethical climate of the organization. Ethical leaders greatly influence the climate of the organization. It was found that ethical leadership behavior and ethical climate are positively correlated. The study also attempts to identify the important factors contributing to both ethical leadership behavior and ethical climate.

KEYWORDS

ethical leadership behavior, ethical climate, ethics, governance.

INTRODUCTION

With the passage of time, several changes take place in the community. The same is the case with the organizations. In recent times, a complete shift of focus has occurred towards the area of governance. A strong governance system has become an apparent pre-requisite for the continued existence of any organization.

According to Armstrong (2004), 'the purpose of good governance is to add value to the organization, reduce financial, business and operational risk, strengthen shareholder confidence in the entity, and assist in the prevention of fraudulent, dishonest and unethical behavior'. Here comes the importance of ethics in building a strong governance system. Ethics governs the behavior of individuals or organization through a set of principles or standards which helps in upholding the transparency and, thus, the goodwill of an organization. When it comes to the question of deciding whether an organization is on the right track, it is, undoubtedly, the leader who plays the key role.

Ethics and leadership can be considered to be mutually-reinforcing concepts. Leadership, in short, is a means of direction. It is rightly pointed out by Ciulla, (2003) that, 'the moral triumphs and failures of leaders carry a greater weight and volume as those of non-leaders'. The concept of ethical leadership has gained relevance at the beginning of the 21st century. It grew rapidly as a response to enormous unethical happenings in the business environment.

Ethical behavior of the individuals within the organization has a direct impact on its climate. The notion of ethical climate was introduced into literature by Victor and Cullen (1988). They defined ethical climate as, 'the behaviors that are perceived to be ethically correct and how issues regarding deviations away from those expected behaviors are handled in the organization'. Organizational leaders play a vital role in moulding the ethical climate by stating and implementing ethical policies and practices (Gbadamosi. 2004). According to Victor (1987), ethical climate contains cues that guide employee's behavior and reflect the ethical character of the organization. Ethical climate is said to have a direct impact on governance. Without effective and ethical leadership, the creation of an ethical climate is next to impossible, and in the absence of ethical climate, good governance at all levels in any organization is difficult to achieve.

The mission and the central tasks are the most important factors that differentiate private and public organizations. This difference is quite significant when it comes to the matters of ethics, governance and leadership. 'The primary aim of private organizations is generally to maximize profits, whereas that of public organizations are to execute and enforce democratic law and policy, serve the public interest and provide public services that are generally not sold on economic markets' (Dahl and Lindblom, 1953). Several researchers including Hughes (2003) and Rainey and Chun (2005) points out that, 'public organizations often make decisions and operate in ways that are not only coercive and monopolistic, but which also have a broader societal impact and greater symbolic significance'. This leads to ethical dilemmas to be more pronounced in public organizations. Private organizations, thus, are a step further in its adherence to ethics. The present study, thus, tries to understand the relationship between ethical behavior and ethical climate in the private sector banks in Ernakulam district.

THEORETICAL FRAMEWORK AND HYPOTHESIS

ETHICAL LEADERSHIP

According to Brown et al. (2005), 'ethical leadership refers to the display of behaviors consistent with appropriate norms, which are visible through leader's actions and relationships'. "Ethical behavior is defined as behavior which is morally accepted as "good" and "right" as opposed to "bad" or "wrong" in a given situation" (Sims, 1992). In the words of Brown et al. (2005) and Neubert et al. (2009), "ethical leadership is the demonstration of normatively appropriate conduct through personal actions and interpersonal relationships, and it emphasizes the promotion of such conduct to followers through two-way communication, reinforcement, and decision-making".

It's, in fact, a competitive advantage which acts as a vital factor in the management of an organization's reputation in the external environment and in comparison with competitors (Blanchard and Peale, 1996). "Leading ethically is believed to be a process of inquiry – asking questions about what is right and what is wrong – and a mode of conduct – setting the example for followers and others about the rightness or wrongness of particular actions" (Guy, 1990).

ETHICAL CLIMATE

Ethical climate is said to be the predominant perceptions about the procedures and practices of the organization that has ethical content or the prevailing perceptions of typical organizational practices and procedures that have ethical content (Victor and Cullen 1988). 'It refers to the behaviors that are perceived to be ethically correct and how issues regarding deviations away from those expected behaviors are handled in the organization'.

It is an established fact that the ethical behavior of the leader is a necessary condition to establish an ethical organization. Leaders play a great role in building the ethical base for an organization. Flynn (2008) rightly points out that, "the managers who engage in ethical leadership behavior must also act as virtuous agents in promoting an ethical climate". Ethical climate also affects the individuals' attitudes towards their jobs as well as their organization (Cullen et al. 2003).

HYPOTHESIS

Ethical leadership behavior has an influence on the ethical climate.

METHODOLOGY

Descriptive research is used in this study. Here survey method was used to get the response from the respondents. Structured questionnaire survey is used here. In this study, a five-point Likert scale was used, in which, 1 = "strongly disagree" and 5 = "strongly agree"

SAMPLE

The participants of the study were employees working in private banks in Ernakulam District. As the population size was unknown, a margin of error of $\pm 5\%$ was fixed expecting a 0.5% variance at 90% confidence level. The questionnaire was administered to 275 employees who were chosen randomly.

MEASURES

'Ethical Leadership Scale' developed and validated by Brown et al (2005) was used to measure ethical leadership. The scale consists of 20 items. The Cronbach's alpha for this scale was 0.758.

Ethical climate was measured using the 10 items 'Ethical Climate Scale' developed by Victor and Cullen (1988). The Cronbach's alpha for this scale was 0.736.

DISCUSSION OF RESULTS**ETHICAL LEADERSHIP BEHAVIOR**

A good level of ethical leadership behavior is an essential requirement for an organization to be considered successful in the eyes of all stakeholders in the 21st century (Terry and Susan, 2005).

TABLE 1: DESCRIPTIVE STATISTICS OF ETHICAL LEADERSHIP BEHAVIOR

Mean	SD
Ethical leadership	78.9055 6.33365

Source: Data Analysis

The mean value of 78.90 indicates a fairly good level of ethical leadership behavior among the leaders. The respondents agree that their leaders have good leadership skills with a sound ethical base. According to Ciulla (1995), 'an ethical leader is an effective leader'.

FACTORS CONTRIBUTING TO ETHICAL LEADERSHIP BEHAVIOR

Ethical leadership behavior is a total of certain factors. The factors were identified by Brown et al (2005) are:-

- People orientation:** - Resick et al. (2006) describe ethical leaders as people-oriented. According to Kanungo and Conger (1993), Treviño et al., (2003), 'the people orientation component in ethical leadership reflects genuinely caring about, respecting, and supporting subordinates and where possible ensuring that their needs are met'.
- Ethical guidance:** -According to Brown et al. (2005), "ethical leaders guide followers in setting priorities and in ethical dilemmas they experience". Organizations and top management set rules, standards and codes of conduct, which provide guidelines for ethical behavior (Beu and Buckley, 2001).
- Power sharing:** - As per De Hoogh and Den Hartog (2009), 'ethical leaders allow subordinates a say in decision making and listen to their ideas and concerns'. Brown et al. (2005) advocates that ethical leaders provide followers with voice.
- Fairness:** - As per the observation of Brown et al (2005), "ethical leaders make principled and fair choices, are trustworthy and honest, do not practice favoritism, and take responsibility for their own actions".

TABLE 2: DESCRIPTIVE STATISTICS OF THE FACTORS CONTRIBUTING TO ETHICAL LEADERSHIP BEHAVIOR

Factor	Mean	SD
1. People Orientation	18.5273	1.95794
2. Ethical Guidance	19.5927	1.95794
3. Power Sharing	20.0509	1.89051
4. Fairness	20.7345	1.66504

The results indicates that the leaders are people oriented, provide ethical guidance and power sharing and are also fair and are truly committed towards their organization and society at large.

ETHICAL CLIMATE

According to Victor and Cullen (1988), 'ethical work climate is the predominant perceptions about the procedures and practices of the organization'. The managers who engage in ethical leadership behavior must also act as virtuous agents in promoting an ethical climate (Flynn 2008).

TABLE 3: DESCRIPTIVE STATISTICS OF ETHICAL CLIMATE

Mean	SD
Ethical Climate	76.1527 7.67607

Source: Data Analysis

The results indicate that the organizations have a good moral work environment and also a fairly good level of ethics is being practiced within.

FACTORS CONTRIBUTING TO ETHICAL CLIMATE

There are some factors contributing to ethical climate were identified by Victor and Cullen (1988) in their 'Ethical Climate Scale'. The factors are:-

- Self-interest and team interest:** - this shows the interest of the individual in their own matters as well as in the affairs of the team (entire organization). This factor shows how much the people are concerned about themselves and the organization.
- Rules, Standards and Social Responsibility:** - adherence to rules, policies and standards is very essential for building an effective and disciplined organization. A true organization must focus on supporting the society in which it operates.

TABLE 4: DESCRIPTIVE STATISTICS OF THE FACTORS CONTRIBUTING TO ETHICAL CLIMATE

Factor	Mean	SD
1. Self-interest and team interest	16.8621	2.90794
2. Rules, Standards and Social Responsibility	19.2315	2.65706

Source: Data Analysis

The result points out that both the factors show a good score. The organizations have an ethical climate which focus on the interests of the individual, organization as well as the society as well as are focused on following the rules and procedures.

RELATIONSHIP BETWEEN ETHICAL LEADERSHIP BEHAVIOR AND ETHICAL CLIMATE

As rightly said by Schein (1985) and Treviño et al. (1998), 'manager's ethical values and their fair and honest behaviors are important factors to shape the organizational climate'. An ethical leader holds the key towards creating a fair and ethical climate in an organization.

TABLE 5: CORRELATION OF ETHICAL LEADERSHIP AND ETHICAL CLIMATE

		Ethical leadership	Ethical climate
Ethical leadership	Pearson Correlation	1	.312**
	Sig. (2-tailed)	.000	
	N	275	275
Ethical climate	Pearson Correlation	.312**	1
	Sig. (2-tailed)	.000	
	N	275	275

Source: Data Analysis

The results show that Ethical leadership and Ethical climate are positively correlated. According to the words of Bandura (1977, 1986), 'social learning theory helps to explain why and how ethical leaders influence their followers'. Social learning theory is based on the idea that individuals learn by paying attention to and emulating the attitudes, values and behaviors of attractive and credible models. Most individuals look outside themselves to other individuals for ethical guidance (Kohlberg, 1969; Treviño, 1986). Ethical climate is also said to have an influence on the ethical behavior of the employees (Deshpande and Joseph, 2009). Elci and Alpan (2009) throws light into the fact that the ethical climate can improve relationships within an organization, employees' attitudes and behaviors, and enhance the performance of organizations. When employees feel the existence of ethical climate within the organization, they are more likely to provide better service and also foster good relationships with their customers and stakeholders (Weeks et.al, 2005). Ethical leaders are said to better understand and be aware of the importance of positive relationship with the stakeholders as well as being responsible towards the entire society. Resick et al. (2012) says that, 'ethical leaders play a leading part in understanding such natural form of relationship grow in an environment of integrity, respect and trust justice, equity as well as fairness. This focus on integrity, fairness and justice points towards the governance system of an organization. Ethical leaders, thus, influence the climate of the organization, which in turn helps to strengthen the system of governance.

CONCLUSION

Ethical leaders helps to communicate the importance of ethical standards and use the systems to hold employees accountable for their conduct. Ethical leadership behavior flows through the work environment and context and this shapes the ethical climate of the organization. "While establishing the ethical working condition as a role model, leaders' behaviors influence the other behaviors in the organizations, and their behaviors become the most important factor in this process" (Brown et al. 2005). Organizations require leader-managers who are efficient, effective and ethical.

"Ethical leadership behavior also plays a part in helping to reduce people's anxiety about the uncertainty of the jobs or behaviors in the organizations by being considerate, open, trustworthy, and honest, and by stressing the importance of adherence to high ethical principles" (Treviño et al. 2003). Ethical leadership behavior leads to building the ethical climate that can play a critical part in strengthening the governance system.

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