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# Impact of Ethical Leadership on Employee Performance in the Public Sector: Does Leader-Member Exchange Matter?

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#### Abstract

This study assessed the impact of ethical leadership on employee performance in the public sector using leader-member exchange as a mediator. Data for this quantitative study was gathered using a structured questionnaire administered to Nigerian federal public officials in some selected ministries. A conceptual model was drawn and put to the test using the PLS-SEM. Based on the results, all hypotheses were significant at p < 0.001. More importantly, ethical leadership positively and significantly impacts leader-member exchange and employee productivity. More so, leader-member exchange mediates the relationship between ethical leadership and employee performance. This study's findings improve on earlier studies on ethical leadership and leader-member exchange relationships. Also, it suggests the importance of leaders' moral behaviour and their relationship with subordinates in the workplace, by imbibing workplace ethics. This study has added to the continuing discussion on ethical leadership and its implications in the public sector in a developing nation like Nigeria.

Keywords: Leader-Member Exchange; Ethical Leadership; Employee Performance; Public Sector

# Introduction

The focus on performance and productivity today has led to a widening gap between developed countries and third world countries as it appears to be effective in many areas of life. One of the most important ideas in every organization is employee performance. Therefore, optimizing and improving the performance of the organization, especially in the public sector, which serves the public good is one of the biggest problems faced by many public organizations (Bello et al., 2020). Although leadership as a concept has been researched in many circumstances and its relationship with the workplace environment, ethical leadership as a morality angle of leadership is still under-researched, especially in developing countries and Nigeria in particular (Ogunfowora, 2014). Human capital gives an organization a competitive advantage because of its uniqueness; as a result, it is one of the resources that help it achieve its objective. Several elements determine human resource value in organizational success. Some of these factors are linked to certain factors which must propel them, such as individual motive, quality of work, work environment, leadership qualities, rewards and recognition, work satisfaction and needs for achievements (Munawaroh et al., 2013).

Employees in an organization, especially in the public sector, are the engine of service delivery, built from the state bureaucracy to enforce the rule of law, ensure transparency, promote democracy, and ensure citizens' satisfaction in delivering services to different stakeholders. The global world demands that intellectual capital and human capacity assists organizations to achieve their objectives. Therefore, with the emergence of globalization,

competition for organizations has reached a higher level, whereby organizations invest in motivating to retain their best hands. At the same time, to obtain a competitive advantage, many government agencies are expected to focus on their staff to make employees motivated, which is important in determining their performance (Ali & Anwar, 2021; da Cruz Carvalho et al., 2020).

Usually, leadership qualities should encourage or discourage employees in performing their duties. However, one of the basic problems in many organizations, especially in developing countries, like Nigeria, is encouraging people to work, amid superior officers' bossiness and government officials' corrupt practices (Abdulkareem et al., 2021), low wages, and poor conditions of service. Therefore, the alternative open to employees to choose from in an organization determines whether the ethical qualities of a leader will become a critical factor that causes certain behaviours for employees to be effective.

Different studies in the past have examined the concept of leadership and its effect on performance, especially in the private sector. The dimensions of leadership have been majorly from the transactional and transformational approaches, as they affect employee performance (Evans, 2001; Naile & Selesho, 2014; Paais & Pattiruhu, 2020). However, recently the attention of researchers is beginning to turn to the concept of ethical behaviour of leaders in public organizations and how they affect employees' performance (Shakeel et al., 2019b). Moreover, leadership experts and practitioners are still very interested in the relationships that form between leaders and followers. Although a lot of study on leadership often focuses on the leader (e.g., leader personality characteristics, behaviours, styles, choices, etc.), there has long been interesting to see how interactions between leaders and followers shape and sustain performance in the workplace.

One of the most well-known ideas that examine the relationship between a leader and their followers is the LMX. LMX hinges on the tenet that leaders cultivate a variety of relationships with their subordinates, ranging from low-quality (out-group) to high-quality (ingroup) relationships. The amount of information interchange, trust, competence, dedication, role clarity, work satisfaction, and stress levels are all increased by high-quality LMX. A low-quality LMX, on the other hand, results in low levels of contact, little support, formal relationships, unproductive conduct, psychological disengagement, employee turnover, lower levels of job satisfaction, and increased job stress.

Therefore, the significance of this study emanates from the fact that in developing countries like Nigeria, the performance of public sector employees has come into question, which ultimately affects the delivery of public services to the public. Moreso, the question of the ethical nature of the leaders and their relationship with their followers have also been fingered as probable causes, which are often under-researched within the human resource and organizational discourse. It, therefore, raises the question of to what extent does the ethical behaviour of leaders with the kind of relationship with their followers affect the performance of the employees in the public sector? This is important because, leaders, especially in the public sector are the custodians of funds, workplace schedules and mentorship, therefore, the consequences for promoting unethical behaviour could result in trust deficit in public institutions (Hassan et al., 2014).

The theory applied for this study is the Social Exchange Theory (SET). It was initially propounded for studies in psychology and sociology, later applied to management (Cortez & Johnston, 2020; Cropanzano & Mitchell, 2005). SET in a working environment is a theory founded on the assumption that the organization's encouragement factors drive the relationship between employees and their organization. Employees in an organization expect certain things

to be given by their employers to guarantee their commitment and fulfilment towards their jobs and the organization (Lee & Cadogan, 2009). Employees decide to use their skills and energy to achieve the organization's goals. Hence, the need for the employers to exchange a favourable working environment and resources to achieve the organization's goals.

Sometimes, the value exchange between the employers and the employees is often guided by the cost and benefits attached, which in this regard, could be tangible or intangible (Cortez & Johnston, 2020; Cropanzano & Mitchell, 2005; Eggert et al., 2006). Therefore, employees often weigh the positives and the negatives of joining and remaining in an organization based on the decision from the benefit-cost analysis (Kemp et al., 2021; Molm et al., 2006). In this study, we draw a causal model based on SET (Figure 1) that assumes that employees with better organizational factors like ethical leadership will create an enabling organization that influences leaders- member exchange and leads to overall performance.

Based on the principle of reciprocity, which is entrenched in the social exchange theory, ethical leadership is placed as the moral trait of public sector organization leaders (Mitonga-Monga, 2020). Ethical leaders are bound to generate positive energy and outcomes for the employees because they perceive them to be fair, just and trustworthy. Therefore, employees who believe their leaders are fair tend to be motivated and satisfied (Fan et al., 2021).

Leaders who tend to be ethically upright to support their subordinates command followership. Ethical leaders show a strong commitment to the organization's ethical codes, standards, goals and principles; therefore, they motivate other employees to do the same (Treviño & Brown, 2005). They become mentors, command respect and trustworthiness, and are more likely to increase their organizations' image (Yasin, 2021). Ethical leaders that are strong exhibit dedication to the long-term success of their organizations by prioritizing the trust of their long-term stakeholders by adhering to high ethical principles. They also foster trusting situations where subordinates are more inclined to adopt comparable committee behavioural patterns (Ruiz-Palomino et al., 2011). Therefore, ethical leaders set the foundation for role modelling and emulative processes that lead to subordinate emulation of their ethical leaders' committed examples (Bandura & Walters, 1977; Mayer et al., 2009).

Ethical leadership, is the act of leaders knowing what is right and wrong and abiding by what is right. The foundation of moral leadership is the mental inspiration model, in which the leader mediates the interaction between productivity, goals, ambition, and relations with the personnel. According to Chi et al. (2012), the indirect effect of ethical leadership on increasing effectiveness predicts a characteristic of moral identity. Tu et al. (2017) argued that public sector leaders must serve as role models when it comes to matters of trust and integrity since they govern how the public sector does its business. They must ensure that their actions are not detrimental to society's values, but rather achieves the benefit of individual needs.

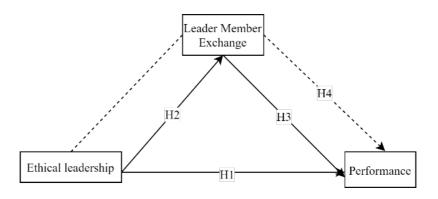
Administrative science has given much attention to LMX propositions (Derindag et al., 2021; Graen & Schiemann, 2013; Kangas, 2013; Yu & Liang, 2004). Exchanges between members in an organizational setting depend on the extent of emotional support and the exchange of valuable resources between the supervisor and their subordinates (Bos-Nehles & Audenaert, 2019; Lam et al., 2018). Accordingly, LMX is a social exchange between employees and their immediate superior or supervisor (Uhl-Bien et al., 2022). Social exchange theory states that based on who they communicate with, how they interact, and their experiences with them, employees tend to form quality relationships. In other words, the stronger the relationship between employees and their immediate supervisor, the more interactions there will be between them (Uhl-Bien et al., 2022). Therefore, leadership is a valuable asset in social interaction (Bos-Nehles & Audenaert, 2019).

A high productivity index can be been made possible, according to Giessner and Van Quaquebeke (2010), by private and public sector operations engaging in more expansive and hybrid public policy projects which can be accomplished via ethical leadership. This model of accomplishment should encourage the followers' moral growth, it increases production and efficiency. It can therefore be assumed that moral leaders establish the ideal surroundings and prerequisites for a successful, open, and accountable culture.

In general, ethical leaders in the public sector are supposed to set an example for their followers by acting in a way that upholds morality. This strategy aids in raising followers' moral consciousness, which results in an enthusiastic team, a great level of job satisfaction, and enhanced performance in the provision of services. According to Brown and Trevio (2006), Brown et al. (2005), moral leaders were first seen as honest and trustworthy moral beings. They are also recognized as principled decision makers who care more about the common good of the workforce, business and society. Employees assume leaders are dedicated to them when they think they care about them and act in their best interest. The result is high-quality LMX improvement through higher levels of loyalty, affective relationships, and mutual support (Scott & Zweig, 2020). Ethical leaders use balanced actions to hold followers accountable after informing them of the benefits of ethical action and the costs of doing otherwise (Brown et al., 2005). By soliciting ideas from employees without any form of self-censorship, these leaders are also interested in establishing relationships of trust with their followers (Treviño & Brown, 2005). By cultivating employee perspectives, ethical leaders can create deep personal relationships that transcend specific economic exchange agreements, enabling high-quality LMX. Different studies have found relationships between ethical leadership characteristics, leaders member exchange and employees' performance (CANSOY et al., 2021; Danish et al., 2020; Ouakouak et al., 2020; Qing et al., 2020; Shareef & Atan, 2018; Yilmaz et al., 2020). Therefore, we hypothesize thus:

- i) Ethical leadership influences employee performance in the public sector
- ii) Ethical leadership influences employee leader-member exchange in the public sector
- iii) Leader-member exchange influences employee performance in the public sector
- iv) Leader-member exchange mediates the relationship between ethical leadership and employee performance

Figure 1
Research Model



Source: Processed by Authors, 2022

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### Methods

We examined the influence of ethical leadership on employee motivation, satisfaction and performance. The staff of the Federal Civil Service in Nigeria were sampled across some selected ministries through a purposive sampling technique as the focus was more on the middle and executive cadre. We estimated the minimum sample size with a predictive power of 0.95; we used the G\*power software (Alzahrani et al., 2019). The minimum required sample size was 105 based on two predictors and an effect size of 0.15, significant at p < 0.05. However, we distributed 400 copies of the questionnaires, and 223 were returned and useful for further analysis.

The questionnaire was divided into two sections. The first section consists of closed-ended questions, which include the biodata of the respondents. The second section consists of the questions regarding the researched topic. A seven-point Likert scale agreement scale was designed for the study. The respondents' anonymity was guaranteed. There are no identifying questions in the questionnaire that could be used to identify the respondents. Also, the respondents were allowed to withdraw their participation at any time. The results were first entered into a statistical package for social sciences (SPSS) for initial data coding and preliminary analysis. Then, the screened data were transferred into SmartPLS for PLS-SEM analysis. The measurement and structural models were analysed accordingly. Table 1 shows the demographic characteristics of the survey respondents.

The demographic characteristics of the respondents showed that there are more males than females. Also, the majority of the respondents have a bachelor's degree as their highest qualification and a considerable number with post-graduate certificates. The majority of the respondents have spent between 11-20 years in public service. More so, we checked for the common method bias, and the result as shown in Table 1 showed that all the Variance Inflation Factors (VIF) values are below the 3.3 thresholds (Kock, 2017); therefore, our instrument has no common method bias.

We assessed leader-member exchange with a scale of five items developed by (Scandura & Graen, 1984). Performance is measured using Podsakoff and MacKenzie (1989) measurement items and ethical leadership's measurement is based on an adapted five items from Brown et al. (2005) instrument.

## **Results and Discussion**

## **Measurement Model**

We evaluated the measurement model based on the assessment of the loadings, average variance extracted (AVE), and composite reliability (CR) (Abdulkareem & Ramli, 2021). The indicator loadings were greater than 0.708, and the Composite Reliability was greater than 0.5. Similarly, the Average Variance Extracted was also above 0.5. Therefore, the reliability and convergent validity of the model are confirmed, as shown in Table 1. More so, we applied the Heterotrait-Monotrait ratio (HTMT) to assess the discriminant validity. The result, as shown in Table 2, indicates that the HTMT values are lower than the 0.85 thresholds; therefore, the discriminant validity can be confirmed.

Table 1
Summary of the Measurement Model

| Constructs | Items | Loadings | CA    | CR    | AVE   |
|------------|-------|----------|-------|-------|-------|
| EL         | ETL1  | 0.825    | 0.871 | 0.906 | 0.653 |
|            | ETL2  | 0.870    |       |       |       |
|            | ETL3  | 0.777    |       |       |       |
|            | ETL4  | 0.760    |       |       |       |
|            | ETL5  | 0.804    |       |       |       |
| LMX        | LMX1  | 0.983    | 0.973 | 0.982 | 0.948 |
|            | LMX2  | 0.978    |       |       |       |
|            | LMX3  | 0.961    |       |       |       |
|            | LMX4  | 0.966    |       |       |       |
|            | LMX5  | 0.865    |       |       |       |
| EP         | EPO1  | 0.977    | 0.989 | 0.982 | 0.969 |
|            | EPO2  | 0.988    |       |       |       |
|            | EPO3  | 0.995    |       |       |       |
|            | EPO4  | 0.979    |       |       |       |

EL= Ethical Leadership LMX = Leader-Member Exchange EP= Employee Performance Source: Authors' Computation (2022)

Table 2
Discriminant Validity

| Constructs | 1     | 2     | 3 |
|------------|-------|-------|---|
| 1          |       |       |   |
| 2          | 0.768 |       |   |
| 3          | 0.640 | 0.754 |   |

1 = Ethical Leadership 2= Employee Performance 3 = Leader-Member Exchange Source: Authors' Computation (2022)

### **Structural Model**

For the structural model, we account for the path coefficients, effect sizes, coefficient of determination, confidence intervals, and t-statistics for all paths using a subsample of 5000 bootstrapping as shown in Table 3 and Figure 2. All hypotheses can be confirmed as ethical leadership has a positive and significant relationship with employee performance and leadermember exchange; therefore, hypothesis H1( $\beta$  = 0.414; t = 4.405; p < 0.001) and H2 ( $\beta$  = 0.633; t = 7.321; p < 0.001) are confirmed. Also, hypothesis H3 ( $\beta$  = 0.533; t = 5.387; p < 0.001) can be confirmed as leader-member exchange has a positive and significant relationship with employee performance. More so, the mediating influence of leader-member exchange on the relationship between ethical leadership and employee performance can also be confirmed, therefore, Hypotheses H4 ( $\beta$  = 0.338; t = 3.711; p < 0.001) can be confirmed.

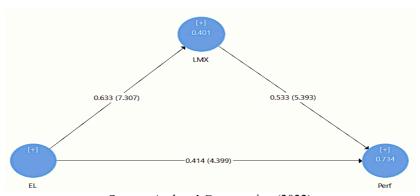
We examined the effect sizes of the relationships using the Cohen's guideline ( $F^2 \ge 0.35$  = Substantial effect size; 0.15 = Medium effect size and 0.02 = Small effect size). The  $F^2$  results showed that there are effect sizes in the H1 ( $F^2 = 0.385$ ), H2 ( $F^2 = 0.670$  and H3 ( $F^2 = 0.640$ ), respectively. The coefficient of determination ( $R^2$ ) can be confirmed as ethical leadership, explains 40% (0.289) variance total for leader-member exchange. While ethical leadership and leader-member exchange explain 73% ( $R^2 = 0.734$ ) variance total for employee performance.

| Table 3       |                         |  |  |  |
|---------------|-------------------------|--|--|--|
| Result of the | <b>Structural Model</b> |  |  |  |

|    | β     | Std Error | T-Value | P-Value | 5.00% | 95.00% |
|----|-------|-----------|---------|---------|-------|--------|
| H1 | 0.414 | 0.094     | 4.405   | 0.000   | 0.255 | 0.561  |
| H2 | 0.633 | 0.087     | 7.321   | 0.000   | 0.466 | 0.754  |
| H3 | 0.533 | 0.099     | 5.387   | 0.000   | 0.368 | 0.696  |
| H4 | 0.338 | 0.091     | 3.711   | 0.000   | 0.206 | 0.507  |

Source: Authors' Computation (2022)

Figure 2
Result of the Structural Model



Source: Authors' Computation (2022)

This study uses the social exchange theory to examine the mediating role of leadermember exchange in the link between ethical leadership and worker performance. The conclusions of earlier investigations are supported by the results. The findings show that ethical leadership has an impact on employee performance in the public sector and leader-member interchange. These results demonstrate that strong ethical leaders are more likely to set an example for their subordinates, establish high standards for ethical behaviour, and hold them accountable for their unethical behaviour. They also fairly distribute rewards and benefits, observe impartial dispute resolution, and take personal risks to defend subordinates who are in danger of being exploited or mistreated by others. Positive relationships with other leaders and member exchange are made possible by these ethical leaders' behaviours. People place a higher value on ethical leadership because it typically provides work with a purpose, instils moral principles, and emphasises the importance of tasks in achieving individual and organisational goals. More precisely, workers who are led by ethical characters feel that their task is essential, challenging, and meaningful, significantly improving the task they do is essential, challenging, and meaningful, which significantly improves the productivity of the workforce. Because an ethical leader's ethical orientation pushes them to treat their subordinates with consideration, a responsible leader's ethical character will establish excellent social bonds with the followers. The subordinates make an effort to make amends by copying the preferred behaviours of their superiors, which boosts productivity and enhances output. The findings of this study also corroborate the finding of (Inam et al., 2021; Mahsud et al., 2010; Martin et al., 2022).

This study has added to the continuing discussion on ethical leadership and its implications in the public sector in a developing nation like Nigeria. Studies on ethical leadership are expanding, although at a gradual pace, particularly in the public sector and from a developing country viewpoint (Shakeel et al., 2019a). Therefore, by evaluating the effects of

ethical leadership on employee performance within the context of the public sector, this study has furthered the awareness of that concept.

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According to the study's findings, ethical leadership has a significant impact on the interactions between leaders and followers as well as the productivity of Nigerian public sector workers. The component and measurement of ethical leadership indicate the leader's proactive attempts to affect followers' moral and ethical conduct. By openly declaring their ethics and principles, setting an ethical example, and using the incentive system (rewards and punishment) to hold followers accountable for their actions, ethical leaders make ethics an explicit part of their leadership agenda. As a result, such observable activities draw followers' attention, making ethics also one of their key leadership ideals.

The mediating role of LMX in this study further gives credence to the foundation of LMX where the leader establishes independent mutual relationships with other members, wherein two parties assume the roles of member and leader, respectively. In public organisations, LMX represents the hierarchy of the connection between the leader and the followers. Based on the LMX idea, a leader will develop a specialised exchange connection with several members who are his subordinates. When a connection with LMX is at its highest level, an ethical leader spends time talking with and listening to the members to assist them to develop their talents. This relationship will further increase the productivity of the employees and the organization.

The systems and tactics of authority, compliance, and supervisory standards are anticipated to be upheld with responsibility, openness, and accountability through the provision of good governance by ethical leaders. Organizational leaders create strategic plans and work to influence workers as a vital component of employee happiness and performance (Benevene et al., 2018). It is anticipated that organisational objectives and targets will equip executives to provide a roadmap for workers to follow and carry out. Similar to this, leaders are supposed to create an environment where staff members may flourish. They frequently play a crucial part in developing a motivational system through various strategies including fostering a great workplace culture, offering prizes, and recognising staff members.

Ethical leadership, in particular, ought to be stressed in organizations' daily activities to set ethical standards for their staff. Different studies have shown that ethical leadership produces needed results, especially in the areas of employee personal performance and positive work mindsets. More so, ethical management from leaders will enhance the morality of employees, and help them motivate and get satisfied in the workplace, thereby increasing employee retention. Therefore, in employee management in public organizations, the importance of ethical leadership should be highlighted.

# Conclusion

Therefore, this study concludes that ethical leadership plays a significant role in improving the productivity of employees, however, the importance of leader-member exchange equally improves the relationship better. Ethical leaders are assumed to be free and have cordial relationships with their subordinates as one of the main traits of a morally inclined leader, therefore, subordinates will reciprocate the gesture by improving their relationship with their superiors and improve on their relationship (Oladimeji & Abdulkareem, 2022). The positive high level of connection between the leader and the follower will further increase the trust, commitment and citizenship behaviour of employees to their organizations.

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