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THE EFFECT OF ADOPTING THE ETHICAL LEADERSHIP STYLE ON ORGANIZATIONAL OPERATION: THE CASE OF TEHRAN URBAN TRAIN ORGANIZATION

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ABSTRACT

One of the main threads of studies in the area of organizational behavior management is leadership. One of the approaches of leadership under emphasis in terms of the current global circumstances is ethical leadership. Ethical leadership is among the approaches being seriously introduced to the literature of leadership and management in final decades of the 20th century. The purpose of the present research is to examine the effect of adopting the ethical leadership style on Organizational Operation. The descriptive-correlation method was applied. The population consisted of all staff working at Tehran Urban Train Organization, among whom a sample of 200 experts was selected through simple random sampling. To analyze the data, statistical tests including Pearson correlation coefficient (SPSS), and Structural Equation Modeling (Smart PLS) were used. Results indicated a significant relationship between the variables.

Keywords: *Ethical Leadership, Organizational Operation, Structural Equation Modeling, Tehran Urban Train Organization*

INTRODUCTION

Ethical leadership refers to effort to spread justice, show respect to others' individual features; and a combination of honesty, reliability, Trustworthiness, Sincerity, Democratic decision making, Supporting participation, and Being sympathetic and gentle (Yilmaz, 2010). In every environment and conditions, human beings mark or pay attention to human and moral issues due to their nature. This attention becomes very salient, clear and effective, specifically when human beings with mental health, ventures to judge others against values and ethical principles, i.e. besides the continual and usual evaluation of personal behavior and performance by superego, another part of ethical evaluation is focused on others' behavior and performance. Managers and administrators belong to the group of individuals who are intensely under judgment based on ethical and value principles in work environments. Not only has this attention been pursued at the level of employees, but at the level of theorists and researchers of organizational behavior and industrial and organizational psychology. Researchers believe that the renewal of attention to value and ethical leadership in work environments and organizations arises from the needs created by the spirit of time for human beings regardless of their religious belief. Undoubtedly, the frequency of unethical behavior published and broadcasted has warned researchers and theorists just as the public. This discomfort and worry is highly visible in surveys, research studies and results obtained from scientific research on ethical leadership or ethic-oriented leadership during the recent years.

Statement of the Problem

Ethical leadership refers to the representation of appropriate behavior as a norm in personal actions and interpersonal relations, encouraging followers through bilateral relations, promotion and decision-making (Brown *et al.*, 2005). Ethical leadership is a branch of ethical behavior that has recently become an important issue in organizations. However, so far, no comprehensive research study on this variable could be found (Ave *et al.*, 2010). Ethical Leaders are characterized with certain attributes such as being committed to principles, socialized, and honest with balanced decisions; establishing relations with followers about ethical principles, formulating clear ethical criteria, using reward and punishments in order to witness a healthy and productive environment in the organization (Brown & Trevino, 2006).

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Research has shown that ethical leadership affects psychological health and business experiences of staff (Stouten, 2011). Therefore, ethical leaders attempt to protection and support the organization's human capital to create a healthy environment.

A scientific look into published texts about ethical leadership reveals that this form of leadership could be considered as a leadership based on ethical behaviors, decisions and measures (based on principle like justice, fairness, honesty, righteous, respect and reverence for staff as, first, human beings and then followers) in work environments, and promotion and distribution of ethical behavior and measures through decision-making, encouragement and persuasion and punishment as necessary. Research evidence show that managers and administrators' support of ethical behavior along with action based on ethical principles has several positive outcomes at the level of employees. Among the major positive outcomes is employees' job satisfaction.

In today's industrial society, securing a healthy and safe environment is among the basic rights of organizations' employees; research has shown that the health of the work environment causes productivity and organizational confidence of employees. Therefore, to recognize health in the work environment, first environmental determinants of mental health should be recognized (Avatefi Monfared *et al.*, 2011). Managers have to adopt ethics as a major part of their business plans, establish with their followers about ethical principles, and provide a climate of confidence in organizations. Increasing ethical leadership and cognitive mental health of the work environment causes an increase in organizational confidence of employees (Avatefi Monfared *et al.*, 2011).

Organizational leaders influence their followers through showing respect to employees, interpersonal skills, inspiration, induction of positive thinking and commitment to ethics (Hassani and Shohoodi, 2013). It seems that that with the above factors, ethical leadership can provide the ground for and promote psychological abilities of employees directly through clinical sovereignty. Therefore, considering the issue discussed above, exploring ethical leadership and its relationship with organizational operation is of great importance, since there is a dearth of studies in this area of knowledge. The present research study aimed to propose the relationship between ethical leadership and organizational operation as a conceptual model. In doing so, the main research question was formulated as follows:

Is there any significant relationship between ethical leadership and organizational operation?

Literature Review

Ethical Leadership

A wide range of leadership styles have ever been introduced, some of which are newer than others in terms of nature and emphasis (Golparvar *et al.*, 2011). Among the styles that have been recently introduced is ethical leadership. Ethical leadership refers to representation of appropriate behavior as a norm in personal actions and interpersonal relations, encouraging followers through bilateral relations, promotion and decision-making (Brown and Trevino, 2006). Features of ethical leadership include respect, offering service, righteousness, honesty, collectivism (Siyadat *et al.*, 2010), support, development of skills, confidence to subordinates (Yukl *et al.*, 2013), compassion, fairness, recommending followers to commitment and observance of ethical criteria, marking reward and punishment for ethical and unethical behaviors (Fathi *et al.*, 2004), attention and establishing human relations (Zhu, 2008).

Leadership behaviors have a direct effect on employees' commitment and job satisfaction and this in turn affects turnover (Elci *et al.*, 2012). In this regard, ethical leadership is of high importance because of the leader's influence on employees (Tre Vini *et al.*, 2005). Ethical leader is a model in the organization and pursues ethical behavior among subordinates (Brown *et al.*, 2005). So far ethical leadership has been defined by different theorists. Some has defined this form of leadership as being based on social learning, in that it is able to influence over employees through processes focused on ethical spacing and modeling at all levels. Some have defined it as a norm represented through acts, actions, decision-making and executive methods for reward and punishment of ethical or unethical behavior in the organizational space (De Hoogh and Den Hartog, 2008). Among the variables under the effect of ethical leadership are job stress and turnover intentions. Indeed, ethical leaders attempt to make fair decisions, watch subordinates' emotions and provide fair work environment (Makaremi and Makaremi, 2015).

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Organizational Operation

Operation is the major issue in all organization analyses, which requires assessment in order to improve, and thus no organization could be imagined without an operation assessment system (Suhong *et al.*, 2006).

Operation Assessment Process

Every process contains a set of activities and measures with special, logical and targeted sequence and arrangement. Within an Operation assessment process, regardless of the selected model, adopting the steps and observance of order and sequence of the following activities is necessary:

1. Development of indices, related dimension and axes, and determining units of measurement;
2. Determining the weight of indices, in terms of importance, and the respective point ceiling;
3. Standardizing and determining the favorable status of each index;
4. Measurement and assessment through comparing actual operation at the end of the evaluation period with the favorable predetermined standard; and
5. Extraction and analysis of the results.

Indices specify the path for organizations' movement toward goals. The first look in developing indices is focused on vision, mission and macro goals, long run and short run strategies, operating programs and main activities (Stouten *et al.*, 2011).

Research Hypothesis

Considering the above, the research hypothesis was formulated as follows:



Figure 1: The Conceptual Model of the Research Adopted from Suhan, *et al.*, (2006) and Hoogh and Hartog (2008)

MATERIALS AND METHODS

Methods

The present research study investigated the effect of ethical leadership on organizational operation. In terms of the purpose, the research method is practical, and in terms of the methodology, it is descriptive-correlation. The population included Tehran Urban Train Organization.

Considering the research topic, those who had enough knowledge of the topic and organizational trends and procedures were selected. Seventy hundred and thirty individuals with such characteristics were recognized. However, through Cochran's sampling formula, at the 0.05 error level and $p=0.5$, the sample of 251 were estimated.

$$n = \frac{NZ_{\alpha}^2 S^2}{Nd^2 + Z_{\alpha}^2} \sim 251$$

$N = 730$, $Z = 1.96$

Since some questionnaire forms were likely to not be completed or returned, 260 forms were distributed, and 200 were returned. The questionnaire contained 28 items (variable ethical leadership with 16 items, and organizational operation with 12 items). All items were measured based on a 5-point Likert scale.

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Procedure

Since the items of the questionnaire were translated, in order to make sure of the content validity of the questionnaire, professors and experts' opinions were used. The reliability was checked using Cronbach alpha coefficient for the components of ethical leadership, and organizational operation and the total questionnaire as 93.6%, 87.5% and 95.7% respectively. Since the reliability values are above 70%, the reliability of the scale is acceptable. Factor analysis was used to check the construct validity. To test the main hypothesis, Structural Equation Modeling was used.

To test the hypothesis and determining the effect of latent variables, Structural Equation Modeling (SEM), in Smart PLS was used. First to investigate the fitness of the measurement model (confirmatory factor analysis) and then to assess the model and significance of the relationships between the variables, path analysis was used.

Confirmatory Factor Analysis and Fitness of the Models

Confirmatory analysis factor checks that if the available data fit the intensely limited pre-experimental structure that estimates similar situations. Confirmation or rejection of significant factor loadings is performed against the t-value. If it is less than -1.96 and larger than 1.96, the relationship is confirmed.

RESULTS AND DISCUSSION

Results of Construct validity of Indices Related to the Main Factors of the Research Model

Results related to confirmatory factor analysis of indices related to three factors indicated that all factor loadings and indices such as T statistic and R^2 are acceptable. All items related to three factors contained factor loadings above 0.5 (18), i.e. factor loadings are acceptable. In addition, T value was above 1.96 for all items, that confirms the significance of all relationships between each factor and the respective index. In addition, fitness indices of the measurement model related to all components revealed that measurement models related to every factor are appropriate.

Table 1: Results of Pearson Correlation

| Correlations | | | |
|--------------------------|---------------------|--------------------|--------------------------|
| | | Ethical Leadership | Organizational Operation |
| Ethical Leadership | Pearson Correlation | 1 | .928** |
| | Sig. (2-tailed) | | .000 |
| | N | 200 | 200 |
| Organizational Operation | Pearson Correlation | .928** | 1 |
| | Sig. (2-tailed) | .000 | |
| | N | 200 | 200 |

** . Correlation is significant at the 0.01 level (2-tailed).

Before, examining the full research model, to primarily check the hypotheses, Pearson correlation coefficient was used for regression analysis. Results related to regression analysis are provided in Table 1. Given the value of the Pearson correlation coefficient, research hypotheses were confirmed at the 99% level.

Results of Path Analysis and Causal Relationships between the Main Research Variables

To determine the level of proportionality of the path analysis model, fitness indices were used. Results of the model indicated that the path analysis model was appropriate.

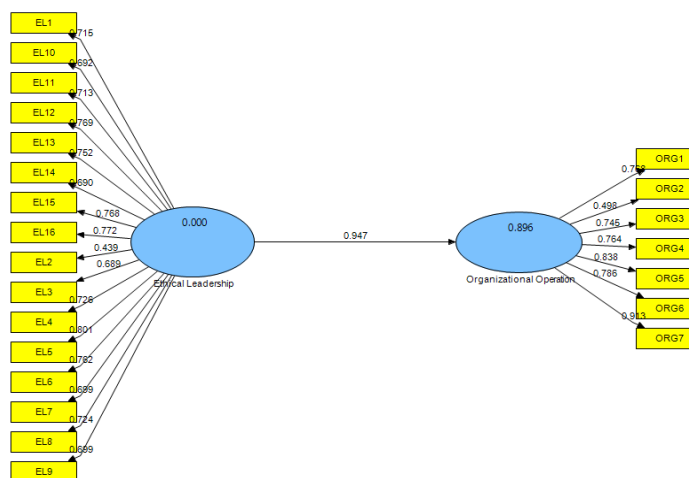


Figure 2: The Model in the Algorithm State

Results related to latent variables represented in Figure 2 show that the correlation coefficient between variable ethical leadership and operation organizational is 0.947.

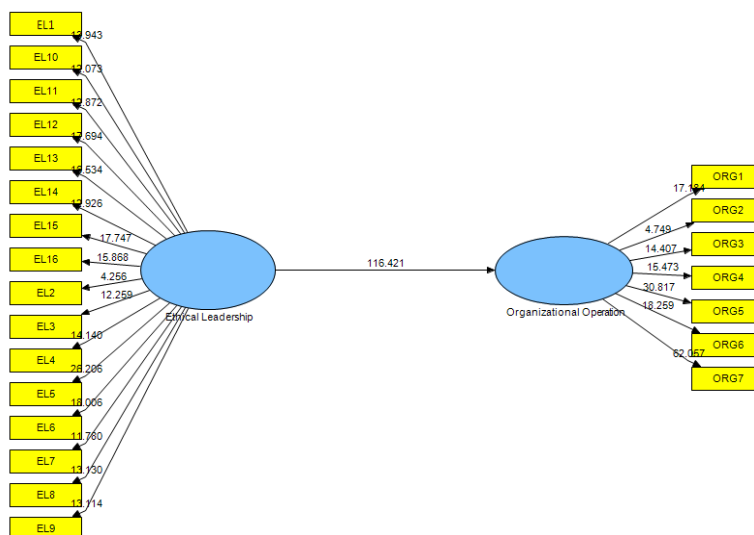


Figure 3: The Model in the Significance State (Bt)

Considering Figure 3, calculation of significance numbers show that the relationship between ethical leadership and organizational operation is significant. Given the significance of the path it could be argued that ethical leadership can significantly and positively affect organizational operation ($t = 116.42$).

Discussion and Conclusion

The present research study examined the relationship between ethical leadership and organizational operation. Results revealed that ethical leadership improves organizational operation (given factor loading of 0.947 and correlation coefficient of 0.928). Therefore, the research hypothesis was confirmed at the 99% confidence level ($t=116.42$).

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Given the predictive role of ethical leadership it could be argued that if grounds for creating ethical leadership are extended, the organizational operation of Tehran Urban Train Organization can improve up to 90%.

According to the results, the following points are recommended:

- Improving communication between management of the Urban Train Organization and staff to improve organizational operation;
- Valuing feedback from staff in order to promote information available to management; and
- Creating constructive interactions among management structures and queue to implement ethical leadership as precisely as possible.

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