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Impact of ethical leadership on employees' ethical behavior: mediation of ethical climate using PLS-SEM

Harpreet Mehra and Mahabir Narwal
Department of Commerce, Kurukshetra University, Kurukshetra, India

Abstract

Purpose – Recent ethical challenges and unethical actions have raised significant concerns, compelling organizations to emphasize ethical practices within their operations. This study aims to explore how ethical leadership influences behavior in the workplace, particularly by examining the role played by an ethical atmosphere as a mediator.

Design/methodology/approach – To achieve the study's objectives, data were collected from 150 employees across various Indian organizations, such as banking, information technology, legal, finance, telecommunications and manufacturing, using a structured questionnaire. The collected data were subsequently analyzed using partial least squares structural equation modeling.

Findings – The findings revealed that ethical leadership serves as a role model for subordinates; however, in the absence of an ethical climate, ethical leadership has a statistically insignificant impact on ethical behavior within the Indian context. Moreover, the study demonstrates that the ethical climate plays a mediating role in influencing employees' ethical behavior.

Research limitations/implications – The current study was conducted across various companies operating in India. Future research could adopt a longitudinal design to focus on specific sectors in emerging economies, particularly in India. Additionally, while the study used two predictors of ethical behavior, future research may consider incorporating potential indicators into the proposed model.

Practical implications – Given the erosion of ethical principles and the rise of corporate dishonor, organizations in India should prioritize ethical training and the implementation of ethical programs for their senior officials, while also cultivating a moral organizational climate. By promoting ethical behavior, Indian corporations can lay the foundation for sustainable practices in the workplace.

Originality/value – This study addresses critical gaps in the existing literature by examining the ethical leadership – ethical behavior relationship within the underexplored context of a developing country, specifically India. Prior research on ethical leadership has predominantly focused on Western or specific regional contexts, with limited attention to culturally diverse and hierarchical environments like India. Moreover, much of the existing literature is industry-specific, lacking cross-sectoral insights into how ethical leadership operates across varied organizational settings. This study contributes by offering a cross-industry analysis, thereby enhancing the generalizability of ethical leadership research.

Keywords Ethical leadership, Ethical climate, Ethical behavior, Sustainability, Ethical scandals, PLS-SEM

Paper type Research paper

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Abbreviation

EL = ethical leadership;
EC = ethical climate; and
EB = ethical behavior.

Introduction

Recently, there has been growing concern about ethical scandals and unethical conduct in the workplace. These challenges have sparked debates among scholars, organizations, governments and practitioners (Tsai, 2022; Kerse, 2021). The rise in such concerns can be attributed to several high-profile ethical failings in prominent organizations, including Enron, Tyco and WorldCom. Many of these wrongdoings may have remained unnoticed or unreported due to fears of retaliation or a desire to protect the perpetrators. Ethical crises across various industries, including banking, information technology (IT), legal, finance, telecommunications and manufacturing, have highlighted significant challenges in maintaining organizational integrity in India. Furthermore, Ernst and Young Pvt Ltd (2012) annual report revealed that 61% of frauds were committed by employees, including senior management. These scandals underscore the urgent need for improved corporate governance, stricter regulatory oversight and greater transparency across Indian industries. Consequently, addressing ethical behavior (EB) has become a pressing global issue, with clear ethical standards and strong guidance essential for fostering integrity within organizations (Trevino *et al.*, 2000a; AI Halbusi *et al.*, 2019). Despite India's rapid economic growth, which continues even amidst the COVID-19 pandemic, the increasing frequency of scandals, frauds and scams highlights a troubling erosion of values that threatens to impede the nation's economic progress.

Experts are increasingly interested in studying the influence of ethical leadership on the development of ET within organizations. Brown *et al.* (2005) stated, "Ethical leadership demonstrates normatively appropriate conduct through personal actions and interpersonal relationships, and promotes such behavior to followers through two-way communication, reinforcement, and decision-making." To mitigate unethical behavior and the potential for significant harm, both research and practical experience highlight the advantages of ethical leadership at both the managerial and organizational levels (Babalola *et al.*, 2019; Mayer *et al.*, 2009; Brown *et al.*, 2005). When managers set high ethical standards through their conduct, others in the organization are more likely to emulate and exhibit ethical practices (Brown and Treviño, 2006). Ethical leaders set a positive example for their subordinates by identifying and demonstrating clear ethical principles. As Brown and Treviño (2006) state, leaders should instill moral values in their workforce and reward or penalize ET. Khan *et al.* (2021) concluded that ethical leadership plays a crucial role in addressing employees' silence behavior, as it encourages them to share information in response to the ethical conduct demonstrated by their leaders. This is critical, as a leader's ethical principles and behaviors significantly impact positive workplace attitudes and employee behavior (Kerse, 2021; Tsai, 2022).

Furthermore, another crucial component in supporting ethical conduct at work is the creation of an ethical organizational environment (Elçi and Alpkan, 2009). Indeed, the antecedents and consequences of these work climates have been studied since the 1950s (Wimbush and Shepard, 1994). Martin and Cullen (2006) define an ethical climate as a specific type of work environment characterized by prescriptive norms that reflect the organization's policies, procedures and practices with ethical implications. The most recent perspective on organizational work climate accepts the view that a variety of climates exist both within and across organizations. This atmosphere is "the overall impression individuals have regarding ethical policies, rules, and regulations within a work unit or organization" (Mayer *et al.*, 2010a, 2010b). Ethical climates in a company develop when employees believe certain ETs and decision-making processes are the expected norms within the

organization (Cullen *et al.*, 2003). These climates guide decisions and help prevent unethical behavior when employees face moral dilemmas. The ethical climate not only shapes what issues employees perceive as important from an ethical standpoint but also influences the standards they use to understand, assess and resolve these issues (Cullen *et al.*, 1989). This process helps turn the company's values into real actions, which then impact various outcomes at work. Victor and Cullen (1987) assessed the perceptions of ethical climate within organizations, which are categorized into five types: "instrumental, caring, independence, law and code, and rules." An "instrumental climate" emphasizes decisions driven by personal or organizational gain, while a "caring climate" prioritizes the well-being of others. The "independence climate" encourages ethical choices based on personal moral convictions, whereas the "law and code" climate relies on external principles such as laws, religious texts or professional codes. Finally, the "rules climate" focuses on adherence to company policies and procedures. These constructs have been widely used to explore ethical perceptions across various domains, including education (Rosenblatt and Peled, 2002), health care (Joseph and Deshpande, 1997) and management (Neubaum *et al.*, 2004; Weber, 1995). The framework highlights the diverse ways organizations approach ethical decision-making, offering a foundation for examining ethical leadership and its implications for organizational integrity. An ethical atmosphere can impact how employees view components such as the ethical foundations of organizational policies, payment systems and decision-making processes (Ng and Feldman, 2015; Mayer *et al.*, 2010a, 2010b), thereby shaping their behavior to comply with ethical norms.

Managers in countries with low power distance values were generally more communicative and perceived as more approachable than those in countries with higher power distance (Offermann and Hellmann, 1997). Moreover, Resick *et al.* (2006) suggested that cultural differences can influence how various elements of ethical leadership are perceived, either enhancing or hindering effective leadership. In this regard, findings indicated that future studies should collect data from diverse industries and geographic areas to gain a more comprehensive understanding of the relationship between ethical leadership, climate and employee behavior (Lu and Lin, 2014; AI Halbusi *et al.*, 2023). Similarly, Mahmood *et al.* (2023) suggest that ethical leadership influences career success in the banking sector and emphasize the need to expand research to multiple industries for a deeper understanding of the broader significance and practical implications of this relationship. To mitigate potential biases, data collection from multiple organizational members within workgroups could provide valuable insights into the impact of ethical leadership on group-level climate and behavioral outcomes (AI Halbusi *et al.*, 2023; Dua *et al.*, 2022; Kalshoven *et al.*, 2011; Neubert *et al.*, 2009). Furthermore, Victor and Cullen's (1987, 1988) foundational work on ethical climate theory (ECT) identifies five types of ethical climates: instrumental (focused on self-interest), caring (focused on others), law and code (guided by rules), rules (focused on following internal procedures) and independence (emphasizing personal judgment). These climates offer a framework for understanding how organizational norms influence behavior. Finally, current perspectives on organizational work climates acknowledge that a variety of climates exist both within and across organizations (Martin and Cullen, 2006).

This study aims to address critical gaps in the existing literature, which predominantly focuses on ethical leadership in developed countries, rather than focusing in developing nations like India. While most of the research examined ethical leadership in specific sectors or domains, there are limited studies on cross-industry comparison that explore sector-specific ethical challenges and how these challenges influence ethical leadership. To fill this gap, the study seeks to explore the impact of ethical leadership on employee behavior across multiple sectors, including banking, IT, telecommunications and manufacturing, offering a

broader perspective on how ethical leadership manifests in diverse industries. Moreover, the study proposed the integrated ethical leadership model (IELM). This comprehensive framework synthesizes social learning theory (SLT), social information processing theory (SIPT) and ECT to advance the understanding of EB. Unlike prior studies that examine these theories in isolation (Engelbrecht *et al.*, 2017a, 2017b; AI Halbusi *et al.*, 2021), the IELM integrates them to capture the dynamic interplay between ethical leadership, employee cognition and organizational norms. This study addresses this gap by investigating how cultural and contextual factors influence the perception and effectiveness of ethical leadership, considering India's unique cultural dynamics. By focusing on these cross-industry and cultural aspects, this study aims to contribute to a more comprehensive understanding of ethical leadership, its impact on ethical climate and employee behavior in the Indian context as illustrated in Figure 1.

Literature review

Theoretical framework

Drawing from the SLT, this study examines the impact of ethical leadership on employee behavior within organizations, encompassing various leadership dimensions such as skills, backgrounds, experiences, beliefs, values, behaviors and decisions. Ethical leadership holds a pivotal position in fostering moral management within organizations. Supervisors play an active role in promoting ethical conduct while discouraging unethical behavior. This is achieved through the facilitation of ongoing dialogues on ethical matters with employees. Additionally, supervisors institute measures aimed at addressing and preventing unethical behavior (Agarwal *et al.*, 2022). Employees are more likely to trust and respect their leaders when they believe that their superiors have integrity and can make wise decisions. Ethical leaders establish clear ethical standards by maintaining open communication with their team members. This fosters a positive emotional connection between employees and their supervisors (Walumbwa *et al.*, 2011). Ethical leadership includes positive attributes such as trustworthiness, fairness, empathy and ethical conduct (AI Halbusi *et al.*, 2023; Mayer *et al.*, 2009; Trevino *et al.*, 2000b). From the above arguments, the research hypothesis is set up:

H1. Ethical leadership has a positive impact on employees' ethical behavior.

Based on SIPT, the study proposes that the ethical environment is linked to employee misbehavior inside the work units (Salancik and Pfeffer, 1978). The aforementioned theory also states that people rely on environmental cues to understand and characterize their work environment, which creates their values and beliefs as well as their EB at work. Ethical climates are one such signal, indicating whether behaviors are acceptable or undesirable

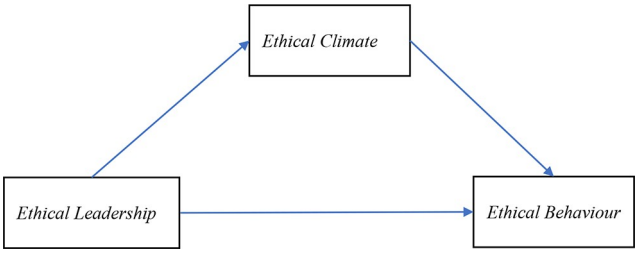

Figure 1. Proposed model of the study
Source: Authors' own work

inside the work unit. Furthermore, Engelbrecht *et al.* (2005) argued that an organization's ethical atmosphere has a considerable effect on workers' ethical conduct. Numerous studies have used field and laboratory research to investigate the influence of ethical work environments on various ethical outcomes (Choi *et al.*, 2015a, 2015b; Demirtas and Akdogan, 2015a, 2015b; Engelbrecht *et al.*, 2017a, 2017b). These studies repeatedly show a substantial link between ethical work environments and unethical behavior inside organizations. Schwepker *et al.* (1997) observed that organizations with a better ethical atmosphere had fewer disputes between employees and management. As a result, the ethical climate (EC) has a significant impact on employee EB. Based on the above arguments, the following research hypothesis is formulated:

H2. Ethical climate has a positive impact on employees' ethical behavior.

ECT argues that the types of ethical climates observed in organizations depend on the nature of the organizational units and their contexts (Victor and Cullen, 1988). For example, organizations with different structures or from different industries are expected to have varying prevailing perceptions of ethical climates. Ethical climate can be defined as "shared perceptions of procedures, policies and practices, both formal and informal, of the organization" (Reichers and Schneider, 1990). Several empirical studies provide evidence that the principled work atmosphere within an organization is profoundly influenced by its leadership, particularly by the actions and behaviors of the leaders themselves shed light on the significant impact of ethical leadership (EL) on shaping the EC within the workplace (AI Halbusi *et al.*, 2023; Choi *et al.*, 2015a, 2015b; Demirtas and Akdogan, 2015a, 2015b; Van Aswegen and Theron, 2005). Similarly, Mayer *et al.* (2010a, 2010b) observed a positive relationship between leadership behavior and EC in organizations, leading to enhanced employee moral conduct. Comparably, managerial EL is a motivating element that depends on workers' views of an ethical environment inside their organization (AL. Halbusi *et al.*, 2021). This leads to an increase in EB among employees. According to Brown *et al.* (2005) and Trevino *et al.* (2014), an ethical atmosphere in the workplace includes ethical standards, practices, policies and procedures that align with the organization's goal. It defines what is considered good or incorrect inside organizations, encouraging EB among personnel (Kuenzi *et al.*, 2020a, 2020b; Parboteeah *et al.*, 2018). An ethical atmosphere conveys organizational standards, norms, rules and regulations, which helps workers identify and successfully resolve their ethical challenges. Subordinates use the ethical environment as a framework to guide their everyday decision-making processes. Thus, the subsequent proposition is framed:

H3. Ethical climate has a positive and significant mediating effect on the relationship between ethical leadership and employees' ethical behavior.

Research methodology

Data collection and sample

The data for this study were collected through an offline mode, structured questionnaire survey conducted from August 16 to October 2, 2024. Before its full-scale implementation, the survey underwent rigorous pretesting by three professors and seven PhD students specializing in survey methodology and corporate reputation research. The sample comprised employees from Indian organizations listed among the Indian Fortune 500 companies, selected based on market capitalization rankings. Data were gathered from

employees of the top 20 organizations across various industries, including manufacturing, banking, insurance, IT, legal services, finance and telecommunications.

A total of 210 respondents initiated the survey, with 150 completing all sections, resulting in a response rate of 68.18%. The sample size was determined using G*Power version 3.1.9.4, with a statistical power of 0.95 and an effect size of 0.1, requiring a minimum of 132 participants to test the model with two predictors. Furthermore, to meet the recommended minimum threshold of 100 samples for structural equation modeling using partial least squares (PLS-SEM), as suggested by Reinartz *et al.* (2009), the study adopted a precautionary approach, collecting data from 150 respondents to address potential challenges associated with smaller sample sizes. To minimize socially desirable biases, responses were collected exclusively from employees with at least six months of work experience within their respective organizations.

Given that this may be the first research of its kind in India, gaining an understanding of its occurrence in this context is critical. Furthermore, due to India's complexity and security concerns, obtaining information from the entire population was not feasible. Nonprobability sampling procedures were used to gather the required number of responses. A purposive sampling strategy was chosen as the most appropriate technique for this investigation, following established research methodology norms (Hulland *et al.*, 2018; Memon *et al.*, 2017). The sample profile consisted of 150 respondents, of whom 96 (64%) were male and 54 (36%) were female. Additionally, 68 (45.33%) were public sector employees, and 82 (54.66%) were private sector employees. The majority of the employees were between the ages of 18 to 35 (70%). The sample included 40% junior-level, 36% middle-level and 24% senior-level employees. Furthermore, 72% of the respondents had a graduate degree and 28% had a postgraduate degree. The employees' experience was primarily less than 10 years (52%), and so on. Demographic information is presented in Table 1.

Partial least squares structural equation modeling over covariance-based structural equation modeling (CB-SEM)

The data collected were analyzed using the PLS-SEM technique to evaluate the paths in the structural model. It is deemed more appropriate, especially when examining relationships

Table 1. Demographic characteristics/sample profile (n = 150)

Demographics of respondents	Categories	Frequency	%
Types of organizations	Public	68	45.33
	Private	82	54.66
Position in the company	Junior level	60	40
	Middle level	54	36
	Senior level	36	24
Experience	<10 Years	78	52
	10–20 years	46	30.66
	20–30 years	26	17.33
Educational background	Graduate	108	72
	Postgraduate	42	28
Gender	Male	96	64
	Female	54	36
Age	18–25	60	40
	26–35	45	30
	36–45	30	20
	46–55	15	10

Source(s): Authors' own work

between variables of recent interest and when dealing with small sample sizes (Dash and Paul, 2021; Khanam *et al.*, 2023). There are two primary reasons for preferring PLS-SEM over CB-SEM. First, concerning the "normality of the data," and second, due to the nature of the study as a "behavioural study" (Hair *et al.*, 2019). Normality is checked using the K-S test and Shapiro–Wilk test and is thereby indicated as not normal as significant value is below 0.05. CB-SEM typically requires normality assumptions; thus, the study opted for PLS-SEM. Moreover, since the study focused on behavioral aspects and involved various endogenous variables support, PLS-SEM is considered adept at handling such complexities accurately. Therefore, nonparametric techniques were used for further data measurement and modeling.

Measures

Every participant's response on the poll was on a five-point metric, where one represented "strongly disagree" and five represented "strongly agree," unless otherwise indicated. Table 2 presents the sources of the indicators used in the current study.

Ethical leadership

Ethical leadership was measured using a 10-item scale developed by Brown *et al.* (2005). This scale assesses how employees perceive their supervisors' moral qualities, such as fairness, honesty, integrity and genuine concern for others. A sample item is: "My supervisor sets an example of ethical behavior in the workplace." Higher scores indicate a stronger perception of ethical leadership.

Ethical climate

The study measured ethical climate using a 14-item scale adapted from Victor and Cullen (1988). This scale covers five dimensions: "caring, independence, law and code, rules, and instrumental" (Huang *et al.*, 2012). The items help us understand how employees view the organization's overall ethical environment. A sample item is: "People in my organization care about doing what is right." Higher scores reflect a stronger perception of an ethical climate.

Employees' ethical behavior

Employees' EB was assessed using a 12-item scale adapted from Ferrell and Weaver (1978) and Newstrom and Ruch (1975). This scale has been widely used across different cultural contexts, including the USA, China and Uganda. A sample item is: "I conduct only company

Table 2. Sources of constructs

First-order construct	Second-order construct	Items	Source
Ethical leadership		10	Brown *et al.* (2005)
Ethical behavior		12	Ferrell and Weaver (1978) and Newstrom and Ruch (1975)
	Ethical culture	14	Victor and Cullen (1988)

Source(s): Authors' own work

business on company time." Higher scores on this scale indicate stronger ethical conduct among employees.

Results and findings

Measurement model assessment

The two accurate measures of the suggested model, reliability and validity of the constructs, were addressed in the main step of reviewing the measurement model's findings, before factor analysis. As shown in Table 3, the dependability of all items is significant with Cronbach's alpha values greater than 0.70 for all three constructs, exceeding the recommended value of Hair *et al.* (2020) which indicated that the items have strong internal consistency.

Validity of measurement model

Convergent validity was used to assess the construct validity of the measurement model (Hair *et al.*, 2020). In this study, the item loadings, average variance extracted (AVE) and composite reliability (CR) were extensively investigated. The AVE and CR test results are shown in Table 4 below, and all item loadings were more than 0.6 as depicted in Figure 2, which is the value recommended by Hair *et al.* (2017). The AVE requirement should exceed 0.5 (Hair *et al.*, 2009). In this study, the AVEs varied from 0.523 to 0.595, which was satisfactory.

Discriminant validity

After completing the convergent validity test, the next step was to investigate discriminant validity, a method developed by Fornell and Larcker (1981) and extensively acknowledged in the literature. All constructs show sufficient or satisfactory discriminant validity, which means that the square root of the AVE must be greater than the correlations of the constructs, and all constructs in the proposed model meet the criteria established by Fornell and Larcker (1981). Overall, the measuring model ensured that the discriminant validity was well established, as shown in Table 5.

Model estimation and findings assessment of collinearity issue

Subsequently, the validation of the measurement items, the structural model underwent assessment via a bootstrapping method using 5,000 resamples using Smart-PLS 4, as suggested by Hair *et al.* (2017), to establish the significance of the hypotheses. It is imperative to address collinearity concerns (Hair *et al.*, 2010), as the presence of multicollinearity can introduce biases in path coefficients, akin to conventional multiple regressions. The findings presented in Table 6 reveal that the maximum VIF value is 50,631, significantly below the threshold range of zero to 1.000 (within the 10 thresholds). Consequently, one can infer that the model is devoid of collinearity issues, affirming its suitability for further path model analysis.

Table 3. Internal consistency reliability

Items	Cronbach's alpha	Composite reliability (rho_a)	Composite reliability (rho_c)
EC	0.776	0.846	0.841
EL	0.925	0.933	0.936
EB	0.964	0.967	0.968

Source(s): Authors' own work

Table 4. Measurement model, item loading, construct reliability and convergent validity

First-order construct	Second-order construct	Items	FL	CR	AVE
Ethical leadership		EL1	0.662	0.933	0.595
		EL2	0.812		
		EL3	0.753		
		EL4	0.733		
		EL5	0.848		
		EL6	0.815		
		EL7	0.867		
		EL8	0.817		
		EL9	0.735		
		EL10	0.640		
	Ethical climate				
Caring		EC1	0.757	0.738	0.647
		EC2	0.835		
		EC3	0.819		
Law and code		EC4	0.908	0.891	0.808
		EC5	0.886		
		EC6	0.920		
Rules		EC7	0.905	0.743	0.788
		EC8	0.870		
Instrumental		EC9	0.857	0.868	0.785
		EC10	0.859		
		EC11	0.906		
Independence		EC12	0.745	0.753	0.666
		EC13	0.879		
		EC14	0.819		
	Ethical climate	Caring	0.479	0.846	0.523
		Independence	0.672		
		Law and code	0.775		
		Rules	0.841		
		Instrumental	0.791		
Ethical behavior		EB1	0.884	0.967	0.716
		EB2	0.854		
		EB3	0.877		
		EB4	0.864		
		EB5	0.858		
		EB6	0.879		
		EB7	0.851		
		EB8	0.881		
		EB9	0.821		
		EB10	0.805		
		EB11	0.794		
		EB12	0.778		

Source(s): Authors' own work

Coefficient of determination and effect size

The structural route was then explored using bootstrapping findings, the coefficient of determination (R^2) and the explanatory endogenous construct (F^2). Table 7 depicts the R^2 values for EB (0.195) and EC (0.084), indicating that EB defines 19.5% of the variation, whereas ethical leadership explains 8.4% of the variance. The *R*-square of ethical conduct (0.195) explains a considerable amount of the variation in ethical leadership, whereas the

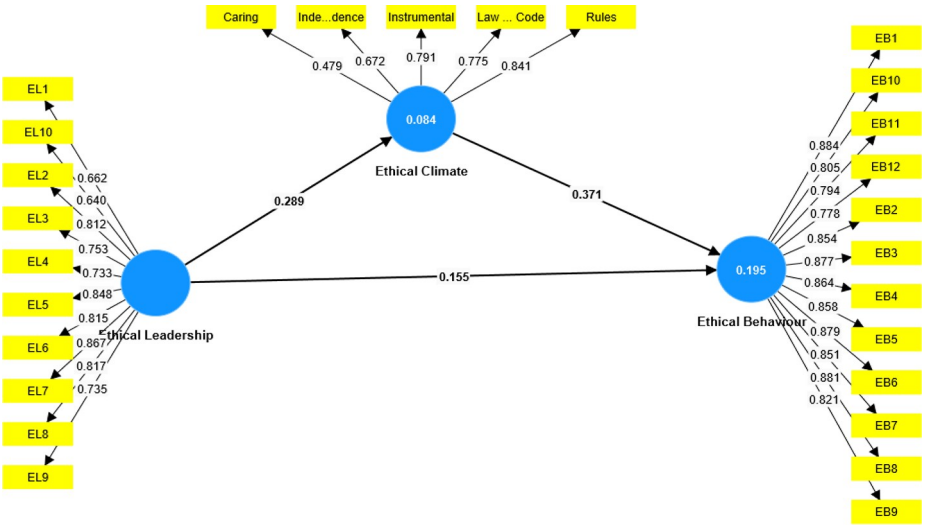

Figure 2. SEM model
Source: Smart PLS software

Table 5. Fornell–Larcker criterion

Constructs	EB	EC	EL
EB	*0.846*		
EC	0.416	*0.723*	
EL	0.262	0.289	*0.772*

Source(s): Authors' own work

ethical atmosphere (0.084) explains a modest amount of the variance in ethical leadership (Cohen, 1998). In addition, in PLS-SEM, again run bootstrapping to compute the value of F^2. The value of F^2 indicates how external structures help to explain a certain endogenous component. Table 7 reveals that the value of F^2 of ethical leadership to EB is 0.027, indicating a weak effect on EB; ethical leadership to ethical climate is 0.091, highlighting a weak effect on ethical climate; and ethical environment to EB has a moderate effect on EB.

Path analysis

Examination of Table 8 reveals the direct link between independent and dependent variables. The connection between ethical leadership, ethical climate and EB is statistically significant ($t = 3.700$; $p < 0.05$; $\beta = 0.289$). The direct association between ethical leadership and EB is not statistically significant ($t = 1.745$; $p > 0.05$; $\beta = 0.155$).

For mediation analysis assessment, the study used the protocols published by Hair *et al.* (2017), which are an update to the techniques proposed by Hair *et al.* (2014). The method starts by establishing whether the indirect influence is important, then moves on to determining whether the direct effect is substantial. When the direct effects are negligible but

Table 6. Variance inflation factors (VIF)

Items	VIF	Items	VIF
EB9	2.783	EL1	2.585
EB1	4.672	EL10	1.945
EB10	3.044	EL2	4.166
EB11	3.410	EL3	5.631
EB12	2.624	EL4	3.156
EB2	4.106	EL5	4.926
EB3	4.189	EL6	3.561
EB4	4.357	EL7	5.005
EB5	4.700	EL8	3.525
EB6	5.118	EL9	2.261
EB7	3.925	Independence	2.083
EB8	5.596	Instrumental	3.648
EB9	2.783	Law and code	1.530
Caring	1.166	Rules	2.856

Source(s): Authors' own work

Table 7. R-square and F-square

Variables	R-square	*R*-square adjusted	EB	EC
EB	0.195	0.184	EB	
EC	0.084	0.078	EC	0.156
			EL	0.027	0.091

Source(s): Authors' own work

Table 8. Direct relationship for hypothesis testing

Variables	Original sample (β)	Sample mean (M)	SD	*T*-statistics (|O/SD|)	*p*-values	Decision
EC → EB	0.371	0.377	0.079	4.687	0.000	Supported
EL → EB	0.155	0.162	0.089	1.745	0.081	Unsupported
EL → EC	0.289	0.313	0.078	3.700	0.000	Supported

Source(s): Authors' own work

the indirect effects are strong, thus there was a case of full mediation, which necessitates more investigation to establish whether the mediation is competitive or complementary.

The results in Table 9 depict that the indirect effect was significant because none of the confidence intervals included zero. The *t*-values of the indirect effect of EL on EB through EC is 2.693 with $\beta = 0.107$ and a *p*-value of 0.007. Also, when we looked at the direct effect of EL on EB in Table 7, the direct path (0.155) was not statistically significant ($\beta = 0.107$; $t = 1.745$; $p > 0.05$). This means EC completely mediates the connection between EL and EB. After calculating the product of the straight and ancillary effects, we found that the result was positive. This led us to conclude that an EC completely complements the relationship between EL and EB.

Table 9. Indirect relationship for hypothesis testing

Variables	Original sample (β)	Sample mean (M)	SD	*t*-statistics (|O/SD|)	*p*-values	Decision
$EL \rightarrow EC \rightarrow EB$	0.107	0.118	0.04	2.693	0.007	Supported

Source(s): Authors' own work

Findings and discussion

This study examines how moral leadership and an ethical environment influence EB in Indian organizations, with the ethical climate serving as a mediator. The first hypothesis, which posited that ethical leadership would significantly influence EB, was rejected. Our research revealed that ethical leadership had no statistically significant effect on ethical conduct. These findings align with the work of Mayer *et al.* (2009) and Agarwal and Ghosh (2018), who argued that the effectiveness of ethical leadership is shaped by contextual factors such as cultural and organizational dynamics. In India, factors like high power distance, collectivism and rigid hierarchical structures may limit the influence of ethical leadership on employee behavior (Hofstede, 2001). In contrast, the second hypothesis, which suggested that the ethical environment would significantly impact EB, was supported. Our results indicate that the ethical environment indeed plays a crucial role in influencing employee behavior. This finding aligns with prior research, which emphasizes the importance of a supportive ethical environment in fostering EB (Engelbrecht *et al.*, 2005; Choi *et al.*, 2015a; Demirtas and Akdogan, 2015a, 2015b; Engelbrecht *et al.*, 2017a). Furthermore, the third hypothesis, proposing that the ethical climate mediates the relationship between ethical leadership and EB, was also supported. In the context of Indian organizations, the ethical climate was found to mediate this relationship. While ethical leadership alone may not directly impact EB, the ethical environment shaped by the organizational climate plays a critical role. This finding is consistent with Mayer *et al.* (2010a, 2010b), who highlighted the importance of the ethical climate in influencing employee behavior. Additionally, the dimensions of ethical climate in the Indian context were ranked according to their contribution to EB: "rules" (0.841) emerged as the most significant, followed by "instrumental" (0.791), "law" (0.775), "code independence" (0.672) and "caring" (0.479). This ranking underscores the prominent role that structured procedures and rules play in shaping EB within organizations. These findings support previous studies that have emphasized the critical role of formal structures in ensuring ethical practices within organizations (AI Halbusi *et al.*, 2021; Schwepker *et al.*, 1997). This study contributes to the literature by identifying the ethical climate as a mediator between ethical leadership and EB, supporting previous research on the role of organizational climate in fostering ethical conduct (AI Halbusi *et al.*, 2021; Kuenzi *et al.*, 2020a; Parboteeah *et al.*, 2018; Choi *et al.*, 2015a; Demirtas and Akdogan, 2015; Mayer *et al.*, 2010a; van Aswegen and Theron, 2005; Schwepker *et al.*, 1997).

Theoretical contribution

This study makes several meaningful theoretical contributions to the field of ethical leadership. First, while prior studies have examined the mediating role of ethical climate in the relationship between ethical leadership and EB (e.g. Mayer *et al.*, 2009). However, most studies on ethical leadership and ethical climate have been conducted in Western countries, limiting the generalizability of findings to non-Western, high-power-distance contexts (Resick *et al.*, 2006; Eisenbeiß and Brodbeck, 2014). Our study extends and contextualizes

this mediation model by demonstrating that in the Indian organizational context – characterized by high power distance, collectivist values and hierarchical authority structures – the influence of ethical leadership on employee EB is fully mediated by ethical climate. These finding questions the universality of leader-centric models in ethical leadership theory and highlight the importance of structural and normative mechanisms in shaping EB in non-Western settings (Tsui *et al.*, 2007). Second, our study contributes to the theoretical literature by developing an IELM, which synthesizes three theoretical perspectives: SLT (Bandura, 1977), SIPT (Salancik and Pfeffer, 1978) and ECT (Victor and Cullen, 1988). While previous studies have primarily applied these theories in isolation, our study integrates them to offer a comprehensive process-based framework explaining how ethical leadership cues are perceived, processed and institutionalized through the ethical climate ultimately influencing employee behavior. This integration responds to prior calls for moving beyond fragmented theoretical approaches (Kuenzi and Schminke, 2009; Mayer *et al.*, 2009).

Third, our study advances the literature by adopting a group-level theoretical perspective. Existing research has largely focused on the individual-level outcomes of ethical leadership and ethical climate. In contrast, we conceptualize ethical climate as a shared group-level construct and demonstrate how it operates as a collective mechanism that mediates the relationship between ethical leadership and EB. This group-level theorization addresses an important gap in the ethical climate and leadership literature and provides insights into how ethical norms and values are socially constructed within organizational units (Kozlowski and Klein, 2000). Finally, our study contributes to the clarification of boundary conditions in ethical leadership theory. By demonstrating that ethical leadership's effect on employee behavior is indirect and context-dependent, our findings encourage scholars to reconsider the assumptions of direct and universal leadership effects. We argue that in culturally diverse, hierarchical settings, EB is shaped more by organizational systems and collective ethical norms than by the individual conduct of leaders. This perspective opens new avenues for future cross-cultural, multilevel and institutional research in ethical leadership.

Practical implication

The study underscores the importance of EB in organizations, as highlighted by the Ethics Resource Center (2012). It finds that ethical leadership does not significantly predict EB in Indian organizations. This is mainly due to widespread corruption and governance issues, which weaken the effectiveness of leadership. Additionally, a lack of ethical training leaves leaders unprepared for handling ethical challenges (Agarwal and Ghosh, 2018; Singh and Bhattacharya, 2018). To address these issues, Indian organizations need to focus on developing ethical leadership. This can be done by setting clear ethical guidelines, offering rewards like promotions to encourage EB and recruiting leaders with a proven ethical track record (Mayer *et al.*, 2009; Lu and Lin, 2014). The study also highlights the significant role of the ethical climate in shaping employee behavior. Dimensions like "rules," "instrumental" and "law" are key to influencing behavior through structured policies (Victor and Cullen, 1988; Schwepker *et al.*, 1997). In India, where hierarchical structures and power distance are prevalent (Hofstede, 2001), these dimensions are essential for creating a strong ethical framework. Additionally, organizations should place more emphasis on the "care" dimension, which focuses on trust and interpersonal relationships. Currently, this area contributes less to EB than other dimensions. To build a strong ethical climate, organizations should provide regular ethics training, promote open communication and ensure leaders set a good example by modeling EB (Treviño *et al.*, 2000; Kaptein, 2011). By prioritizing ethical leadership and a supportive ethical climate, Indian organizations can pave the way for sustainable business practices that are vital for long-term success.

Conclusion

This study reveals that EL does not significantly predict EB in Indian organizational contexts, primarily due to the prevalence of corruption and governance challenges in both public and private sectors. Such issues diminish the potential effectiveness of ethical leadership, as leaders often face resistance from individuals who benefit from unethical practices (Agarwal and Ghosh, 2018). Furthermore, many organizations in India fail to emphasize ethical training, leaving leaders inadequately prepared to address ethical dilemmas (Singh and Bhattacharya, 2018). On the other hand, the research found that the EC plays a critical role in influencing employee behavior, with the ethical environment fully mediating the relationship between ethical leadership and EB. By addressing this, the study contributes to existing literature, especially in the context of India's various sectors, by highlighting the importance of the ethical environment in shaping moral behavior in the workplace.

Limitations and suggestions for future research

The existing study possesses several limitations that could offer valuable insights for future researchers. Specifically, it has only explored two predictors, "Ethical Leadership" and "Ethical Climate" shaping EB. Future investigations could extend the model by incorporating potential mediator/moderator variables that impact or shape EB within organizations, such as ethical culture, organizational support, leadership style, ethics programs and organizational commitment. Moreover, the study has solely examined one predictor of ethical climate: ethical leadership; further research should conduct an additional effort to look deeper into other predictors of ethical environments, such as moral beliefs and moral-ethical growth. Furthermore, it is noteworthy that the study's findings are derived from Indian organizations. Subsequent research could narrow its focus to a specific sector to gain a more profound understanding of the phenomenon within Indian organizations. The current study focuses on a single leadership style, namely, "Ethical Leadership." Future researchers could investigate various leadership styles, such as leader humility, transformational leadership and transactional leadership, within the Indian context. However, exploring these dynamics in other countries or culturally diverse settings could provide valuable insights. Moreover, Future research could further explore how these dimensions interact with other contextual factors, such as cultural values and organizational types, to provide a more nuanced understanding of ethical climates across different cultural settings. Additionally, researchers could conduct comparative research between different countries to draw insightful comparisons.

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Corresponding author
Harpreet Mehra can be contacted at: HARPREETMEHRAPHD2122@KUK.AC.IN