

Performance and Behavior Affected by Ethical Leadership, Study of a Moderated-Mediation in the IT- Industry of Pakistan

¹Saniya Fayaz, ²Rukhshinda Begum, & ³Dr. Sohaib-uz-Zaman

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Abstract

This study has been conducted with the purpose to investigate the relationship between the dimensions of ethical leadership and firm performance with mediating effect of intrapreneurial behavior among the employees and moderated mediating role of psychological capital. With a cross-sectional, quantitative analysis, this paper seeks to test the hypothesis by using the questionnaire survey technique with individuals serving in Pakistan's IT (design) industry. The data consists of 157 responses from individuals of the aforementioned industry. The study finds a significant positive relationship between ethical leadership and firm performance while employee psychological capital strengthens the relationship between ethical leadership and intrapreneurial behavior. The global economy is prone to significant changes that require the generation of new ideas and effective leadership in order to implement those ideas. This study will provide essential insights for leaders to develop an ethical attitude if they really want to compete in the growing markets and succeed. It will also help organizations while hiring new employees for a leadership role therein. The study contributes to the present knowledge of ethical leadership and firm performance conditional over psychological capital and intrapreneurial behavior.

Keywords: Ethical Leadership, Intrapreneurship, Entrepreneurial Behavior, Psychological Capital, Firm Performance.

1. Introduction

Leadership is one of the vital factors that bring positive change in organizations and without good leadership, it is impossible for organizations to realize the improved development they desire (Hao and Yazdanifard 2015). Benmira and Agboola (2021) studied the evolution and focus of leadership theories evident in the literature since the 18th century, such as The Great Man theory in 1840s focused on natural born leaders, Trait Theory in the period of 1930s-1940s emphasized on identifying traits and characteristics of effective leaders, Behavioral Theory in 1940s-1950s, underlined the actions and skills of leaders, while the era of 1960s discussed Contingent and Situational Theories with the leaders adapting to the changes in the environment. Bass (1990) presented the importance of transformational leadership from transactional and thus the leadership theories evolved during 1990s having their center over leadership as a cost-benefit exchange and an inspirational style, pushing followers to higher levels of achievement. The recent decades have proved to be the gigantic when the evolution of leadership theories is discussed. This is because it contains a wide array of progressed leadership styles and theories such as Shared, Collaborative, Collective, Servant, Inclusive, and Complexity theories and the focus of these theories is the followers leading and engaging each other (Benmira and Agboola 2021).

1,2. Research Scholar, Karachi University Business School University of Karachi.
email: fayzsaninya@gmail.com , rukshinda.b@uok.edu.pk

3. Assistant Professor, Karachi University Business School University of Karachi.
email: sohaibuzzaman@uok.edu.pk

Studying the evolving nature of leadership styles, the literature holds evidence of how specific leadership styles have helped shaped various management phenomenon. Various leadership styles have become an important area of study in management sciences (Yahaya and Ebrahim 2016). For instance, Nanjundeswaraswamy and Swamy (2014) studied that leadership styles, work satisfaction and resultant work commitment are interrelated, while Sethuraman and Suresh (2014) argue that understanding of particular situations may help decide an effective leadership style.

In the recent decades, one of the emerging topics in business leadership is Ethical Leadership (Martin et al. 2022; Cansor, Parlar, and Türkoğlu 2021; Strydom 2021; Cortellazzo, Bruni, and Zampieri 2019; Ko et al. 2018; Awad and Khalifa 2018; Wang, Feng, and Lawton 2017; Malik et al. 2016; Shin et al. 2015). The nature of ethical leadership seems somehow complicated when reviewing literature related to the same that is diverse and fragmented, therefore, arguments are still being made for an appropriate definition of the concept thus needing further research (Ko et al. 2018). Growing demand of business community has been observed for ethical considerations and leaders are expected to gain the trust of their followers and bring ethics in their acts (Ayaz et al. 2021).

The focus on organizational success, contrary to personal ego, is the fundamental dimension for ethical leadership, where policies and practices used by the leaders enhance their ability to guide subordinates and improve their efficiency (Alshammari, Almutairi, and Thuwaini 2015). Ethical leaders are more effective in transforming the attitudes and work-related behaviors of employees than those leaders who observe Machiavellianism (Hartog and Belschak 2012). An effective leadership style is very important when it comes to managing change positively (Hao and Yazdanifard 2015).

The global economy is susceptible to changes. Ghauri, Strange, and Cooke (2021) urge over the importance of new insights to tackle the recent global challenges. Discussing change, innovativeness and continuous production of new products are considered mandatory in order to allure new markets (Ref et al. 2021). This implies that change is a common denominator when it comes to operating a business with sustainability. Sustainability includes society, environment and is also considered a key economic growth factor and to achieve this all, intrapreneurial behavior plays a major role (Razavi and Ab Aziz 2017).

One of the main determinants of a successful business is performance. For example, according to Sonmez, Cakir and Adiguzel (2020) performance is the root of the outcomes of substantial organizational activities that are carried out by the employees under some supervision and leadership. Hisrich and Kearney (2012) studied the implementation of intrapreneurial practices within an organization benefits it by cultivating a healthy organizational culture as well as reducing employee turnovers, and motivating the employees to be creative with their tasks along with bringing positive profit and revenues. Intrapreneurs are expected to flow against the pre-defined boundaries of the corporate, create new limits and bring revolution through innovation at their workplace (Corbett 2018).

Haase et al. (2015) conferred that management styles and leadership particularly affect the intrapreneurial aspects within a firm by supporting employees' ideas of improvement, generating new ideas and recognizing the actions of the employees by providing the required resources and processes. When the leaders give intrapreneurs more autonomy, it results in their growth and this makes them think and perform beyond the walls of the organization, for the organization (Buekens 2014).

Various studies have been steered to uncover the relationship among multiple leadership styles and perceived performance (Madanchian et al. 2016) of the firm by adding some moderators or mediators including psychological capital (Pitichat et al. 2018), corporate social responsibility (Saeidi et al. 2021a), demographic variables (Khademfar and Amiri 2013) etc. Similarly, Katsaros et al. (2020) studied the impact of leadership on financial performance of

the firm with mediating effects of employees' willingness to change. Moreover, Cakir and Adiguzel (2020b) manifested the positive effect of leadership effectiveness and knowledge sharing behavior on work performance, firm strategy, and firm performance variables. Corroborating the benefits of an effective work performance and knowledge sharing, Özsahin, Zehir, and Acar (2011) found that both extents of learning orientation i.e., commitment to learning and shared vision and open-mindedness, mediate the effects of the relations-oriented and task-oriented leadership on the firm performance. Furthermore, Ince et al. (2015) discussed that participative leadership affects firm performance.

With the reference of the aforementioned studies, the significance of leadership, performance, intrapreneurial behavior and psychological capital is evident, however, the causal relationship and the conditional effects of these variables has been found missing in all these studies. The importance of intrapreneurship in organizational performance is evident from the discussed studies by Razavi and Ab Aziz (2017); Sonmez Cakir and Adiguzel (2020b); Haase, Franco, and Félix (2015); Hartnell, Ou, and Kinicki (2011). Hence, it is important to check if intrapreneurial behavior is mediating the relationship of ethical leadership and firm performance. Moreover, psychological capital is another variable that has been found to be playing vital role while testing performance of the firm in various studies, like (Chen et al. 2019) has taken psychological capital as a mediator to test the impact of high commitment work system over firm performance and came up with the positive contribution of psychological capital in the stated relationship. Grözinger et al. (2022) investigated the impact of psychological capital over organizational performance and creative innovation during the Covid-19 crisis and the positive results of the study highlight the importance of psychological capital in the firm performance at the time of prevailing crisis as well as to prepare for any similar future circumstances. Another study by Abbas and Raja (2015) is important with respect to this study in a way that they have worked over the impact of psychological capital on supervisory-rated innovative performance and job, the results indicate a positive relationship between psychological capital (PsyCap) and innovative performance while a negative relationship has been observed between PsyCap and job-related stress.

Considering the importance of ethical leadership with respect to job performance and the involvement of PsyCap and intrapreneurial behavior in this relationship, the current study has been conducted to contribute to the scientific knowledge.

Leadership possesses a very strong ability to influence their subordinates in a positive or even in a negative direction; they can use their influence to motivate employees to showcase their best selves or make the completely opposite happen using their dark side, creating dysfunctional environments that put people in stress (Harris and Jones 2018). Moreover, Steers and Shim (2013) studied that cultural differences may help form the extent of leadership quality and leadership practices may differ from one industry to the other and from one nation to the other nation. Therefore, different leadership styles may have different outcomes in two different countries. Discussing the services businesses in particular, quality of customer service is of prime concern yet how it is done is varied. For example, perception of what is to be considered a quality service differs from nation to nation (Agarwal et al. 2005).

Services sector is one of the growing sectors in Pakistan's economy as the share of services sector in GDP reached to sixty-two percent and posted a growth of four-point four percent in in the fiscal year 2021 (Pakistan Economic Survey 2021). However, the current COVID-19 crisis has badly affected this sector mainly because of social distancing and this is the reason why many service businesses including hotels, restaurants and wedding halls were forced to shut down their operations (Pakistan Economic Survey 2021). In such circumstances, the only sector that can survive and grow is the Information Technology sector because most of the activities and businesses move online (Zhao et al. 2021; Garfin 2020). Hence, the IT sector needs to be improved with effective leadership in order to maintain its share in the GDP of

Pakistan and in the share of other businesses as well where operations may continue through IT advancements.

Developing countries, (such as Pakistan), are comprised of almost eighty four percent of the world population (United Nations, Geneva 2021) and they have various characteristics in common that also affect the organizational performance therein (Aycan 2002). The ideal leader profile in developing countries is Empowering, Participative, Trustworthy, Paternalistic, Fair in interpersonal relationships, Diplomatic, Conscious of status differences and team integrator (Aycan 2002).

Shedding light on the importance of leadership in order to enhance the growth of an organization, ethical values and behaviors are an imperative characteristic of the leadership literature (Yukl et al. 2013). Through many studies, researchers have recognized ethical leadership as a distinct style of leadership (Engelbrecht, Heine, and Mahembe 2017). The ethical aspect of leadership cannot be ignored if the organizations seek to be successful in the long term. It is vital for the leaders to put forth a high ethical standard and conduct in their day-to-day actions (Toor and Ofori 2009). Toor and Ofori have also observed through literature that many loop holes in well-established management systems have been subjugated by toxic leaders; due to their unethical leadership practices, such leaders aim for personal gains, resulting in the loss of the organizations and employees. Moreover, ethical leadership serves as a critical factor to the credibility of the leader to have an influence on the followers (Hartog and Belschak 2012).

Intrapreneurship is becoming the lifeline to the survival of organizations (Corbett 2018). In today's era, taking the example of the episode of the Covid-19 pandemic, businesses have to come up with strategic renewals along with launching new products and services. To guide such activities, leadership plays an important factor (Puni, Hilton, and Quao 2021). Keeping this in mind, Brown and Treviño (2006) enjoin that it is imperative that the leaders possess the ethical dimensions of leadership like empathy, altruism, fairness, trustworthiness and fair treatment to ensure that their followers are willing to work and grow under their leadership. For a business to grow, it has to keep a healthy competition in the market. For example, Porter's model of five forces that are competitive rivalry, supplier power, buyer power, threat of the substitution and the threat of potential new entrants (Porter 1979) requires a business to have constant iterations of strategies, and make changes in the product and services as per the market demands. Hence, it is important for the employees to pertain an intrapreneurial behavior and spirit to endure and fight such forces (Pandey, Gupta, and Hassan 2020).

The above instances from literature provide indicating evidence that the studies that have been conducted on leadership styles and their influence on firms' performance pertain mainly to the west. However, studies relating to this relationship are lacking behind when it comes to the developing countries. Considering the distinctive characteristics of developing countries from the west (mainly because of cultural, psychological and religious aspects) and the significant share of services sector in the economy of Pakistan, there is a need to explore the intrapreneurial abilities and leadership for the improvement in performance of the Information Technology (IT) industry of the country. This study is being conducted to test the effect of ethical leadership on firm performance conditional over psychological capital and intrapreneurial behavior in the IT design industry of Pakistan. This geographical context and the specificity of the design industry (interface design) further enhances the originality of the research.

Ethics has been discussed for eons, across all kinds of literature and scriptures and only recently have the academics seen the subject being pondered over by the researchers in the disciplines of science and business and it is important to have an emphasis on the dimensions of ethical leadership (Toor and Ofori 2009).

This study will signify how ethical leadership is related to the phenomenon of intrapreneurial behavior which is a collection of strategic renewal behavior and venture behavior (Brown and

Treviño 2006). Walumbwa, Hartnell, and Misati (2017) studied that when ethical behavior is promoted by the organizations and fair treatment is established, a conducive environment is formed and this enables the employees to contribute to the success and competition of the organizations in the long run.

The study also seeks to measure the strengths of psychological capital as a moderated mediator for intrapreneurial behavior and organizational performance, thus adding another important insight to the substance of knowledge related to leadership.

With this in light, the object of this study is to bring forth the power and influence leaders can portray when they enable the ethical side to their leadership, to motivate and empower the intrapreneurial capabilities of the employees in order to enhance the firm performance. By doing so, organizations will be able to put forth a better competition in the local and, optimistically, the global market (Amisano and Anthony 2017).

2. Theoretical Background

2.1 Ethical Leadership

Ethical leadership is an essential management phenomenon in the contemporary business environment (Agarwal, Gupta, and Cooke 2022). According to Toor and Ofori (2009) leadership without ethical behavior can be dangerous and even toxic and through history, various philosophers, clerics, and intellectuals have stressed on the component of ethics when describing leadership. To define ethical leadership, the definition by Brown et al. (2005) has been extensively used throughout the literature and is defined as "the demonstration of normatively appropriate conduct through personal actions and interpersonal relationships, and the promotion of such conduct to followers through two-way communication, reinforcement, and decision making". This definition is segmented into two facets of ethical leadership: the 'moral person' and the 'moral manager' (Brown and Treviño 2006). The facet of the moral person reflects trustworthiness, care, honesty and fairness whereas the facet of the moral manager reflects the ethical leader's efforts to influence the followers by communicating ethics and managing their unethical behavior (Engelbrecht, Heine, and Mahembe 2017).

Ethical leadership, according to Bandura and Walters' (1977) social learning theory, is reciprocal, which means that the leaders' ethical behavior is learned by the followers through observing the behavior, retaining it and reproducing it (Huang and Paterson 2017). It was also found that ethical leadership enhances the learning behavior of a group of followers and this is done so by the ethical behavior of the leaders aiding in a just environment that results in the employees' inclination towards getting involved in group learning behavior (Walumbwa, Hartnell, and Misati 2017).

According to Kanungo (2009), ethical leaders avoid acts and behaviors that may bring harm to others all the while striving to adopt behavior that may bring benefit to everyone. The study by Yukl et al. (2013) supports this research by proving the premise that what leaders believe, value and how they behave contains moral principles and ethical leadership is based on the constructs of altruism, empathy, trustworthiness, fairness and justice. Furthermore, trust in the leaders can be developed via the prevalence of ethical functions and business activities in the organization which results in better work engagement by the employees, as the employees feel their interests being taken into account by the leaders in a fair, just and an ethical manner (Engelbrecht, Heine, and Mahembe 2017). Ethical leadership has a significant impact on the communication and interaction within the organization by regulating the behavioral aspects in accordance with the ethics preached by the leaders, also affecting the work culture (Huang and Paterson 2017). According to Otto, Geibel, and Kleszewski (2021) it's not possible to be a leader who is perfect in all scenarios, however, opportunities of progression are always there. For example, if a

person is forced to act in a particular manner, there is a chance that a leader may portray an unethical attitude, unconsciously; but letting them interact with the society themselves will probably uncover their plans over time because their ethical attitude improves continuously (Mostovicz, Kakabadse, and Kakabadse 2009).

Researchers have studied the effects of ethical leadership with various performance improving phenomenon in management. For instance, Eluwole, Karatepe, and Avci (2022) emphasized that ethical leadership cultivates trust and service recovery performance along with diminishing absenteeism. Moreover, significant positive relationship has been observed between ethical leadership and organizational identification (Awad and Khalifa 2018). Güçel et al. (2012) also discovered positive relationship of ethical leadership with affective commitment, organizational trust, and job satisfaction. Another research by Dinc and Aydemir (2014) supports these studies by identifying that ethical leadership and climate increase job satisfaction among university employees. According to Ayaz et al. (2021) ethical leadership positively affects the turnover intention of employees suggesting that employees are more loyal to the organization and extend their stay within the same if leadership is ethical. Leadership veracity is observed to be vital to make important business decisions as well as for their relationships with employees because employees want someone to follow whom they can trust (McCann, Sparks, and Kohntopp 2017).

Hence, ethical leadership leads to improved trust and enhanced commitment among employees that ultimately result in their satisfaction in the job.

2.2 Ethical Leadership and Firm Performance

Leadership is a topic that has been extensively studied as compared to various other topics in management (Steers and Shim, 2013). Several studies have been conducted that elaborate different leadership theories and styles like Yukl (1989); Amanchukwu, Stanley, and Ololube (2015); Khan, Khan, and Allah Nawaz (2016); Asrar-ul-Haq and Anwar (2018), to mention a few. Cakir and Adiguzel (2020) examined the relationship between leadership effectiveness, firm strategy, knowledge sharing behavior and firm performance, they inferred that employee performance is essential in the attainment of organizational objectives. The ultimate objective of any business is to achieve heightened firm performance (Brunswick and Vanhaverbeke 2015; Audretsch and Belitski 2021). Hence, the performance determines the result of organizational activities those are carried out by employees under some supervision and leadership.

Exploring different pathways to performance Colovic (2022) proposed that empowering leadership has been observed to be one of the key reasons behind the success innovative businesses especially when they are internationalizing. Özer and Tmaztepe (2014) studied how the leadership has an influence over firm performance by evaluating the impact of various leadership styles (transactional, transformational, and paternalistic) on organizational performance, they found relationship-oriented and transformational leadership styles to be in a significant relation to the firm performance. Since, their study has been conducted in Turkish environment using specific leadership styles, further studies with different participants and leadership styles may provide some more insights regarding the relationship between leadership and firm performance.

Another study by Al Khajeh (2018) has investigated the impact of six leadership styles (transactional, transformational, autocratic, bureaucratic charismatic, and democratic) on firm performance. The transformational, democratic, and autocratic leadership were found to have a positive effect while the transactional, bureaucratic, and charismatic leaderships had a negative impact on the firm performance.

Moreover, Lieberman and O'Connor (1972) uncovered the aspect that leadership influence may vary with the industry's characteristics, that helped in the advancement of further related contemporary studies. Flanigan et al. (2017) studied the demographic variables including age and experience in the respective industry, tenure as a leader in the current company, and the level of education in the relationship of leadership styles and firm performance. Flanigan observed that the demographics as moderating variables do not have any influence over this relationship. Saeidi et al. (2021) investigated how organizational leadership contributes to the firm's performance via the CSR strategies. They have observed partial mediation of CSR while testing for financial performance and full mediation for non-financial performance.

2.3 Intrapreneurial Behavior

In the research world of today, studies are focusing on the intrapreneurial behaviors of employees that are linked to innovation, renewal of strategies and risk-taking activities (Burgers and Covin 2016). The idea of intrapreneurship is considered as an essential aptitude of the employees especially belonging to dynamic and uncertain business settings (Woo 2018). The phenomenon of intrapreneurship is gaining precedence as businesses are adopting a more diverse environment. For example, studies have shown evidence that intrapreneurship increases workplace positivity and enhances work engagement of the employees (Pandey, Gupta, and Hassan 2020). Gawke and Bakker, (2019) also highlighted the evidence based on their study that intrapreneurship plays an important role in increasing the performance and productivity of the organizations.

Pandey et al. (2020) believe that intrapreneurship and leadership are the main building blocks on which a successful organization stands and see intrapreneurship as a means to pursue development that hones the employees' capabilities to meet the future demands. Moriano et al. (2014) has explained the concept of intrapreneurship by quoting Pinchot's (1985) definition that intrapreneurs are "The employees who are willing to take real risks in sharing and pushing innovative projects". The term innovation refers to the willingness of the employees to engage in activities that bring about new ideas and experiments that may create new products, services or processes; and this aids the employees to have a proactive demeanor that enables them to anticipate the needs of the future, opportunities and challenges (Moriano et al. 2014). A more structured definition by Gawke, Gorgievski, and Bakker (2017) states that "Intrapreneurship is an individual employee's agentic and anticipatory behaviors aimed at creating new businesses for the organization (i.e., venture behavior) and enhancing an organization's ability to react to internal and external advancements (i.e., strategic renewal behavior)".

Gürsoy (2016) discussed the importance of culture, by arguing that innovative culture determines intrapreneurship due to the prevalence of venture taking capabilities, creativity, proactiveness and autonomy are boosted due to the said culture. The study further discusses that intrapreneurship is affected by an innovative culture in order to achieve sustainability and have a competitive advantage. Lumpkin and Dess's (1996) dimensions of intrapreneurship include innovation, risk taking, proactivity, autonomy and extending individual networks. According to Haase et al. (2015), intrapreneurial behaviors within the organizations such as proper and transparent communication, help in creating a learning environment as they give rise to the sharing of knowledge and information; this also increases the leaders' and the subordinates' proficiency of the responsibilities in promoting intrapreneurship. Managers play a vital part in building an environment in the organization that fosters and promotes intrapreneurship (Abdelwahed, Soomro, and Shah 2022). They can motivate the subordinates to espouse intrapreneurial activities such as bringing innovative ideas to the firm or providing appropriate resources, and support to smaller projects (Kuratko et al. 2005). Intrapreneurs hold the skill to utilize the existing resources along with their personal and professional networking

to create prized assets for the organization and hence can be taken as an effective and an essential measure to hone human capital (Pandey, Gupta, and Hassan 2020).

Intrapreneurship not only benefits the employees by enhancing the wellbeing through incrementing and the personal resources but also enhances the work engagement which in turn benefits the organization as a whole (Gawke and Bakker 2019).

The above studies have provided evidence of the relationship of Intrapreneurial Behavior with employee's commitment to work Pandey, Gupta, and Hassan (2020), effect of Intrapreneurial Behavior over firm performance Gawke and Bakker, (2019), relationship between managers and intrapreneurship Haase et al. (2015) and Kuratko et al. (2005).

2.4 Psychological Capital

Psychological capital is the positive psychological state of the development of an individual and is described by optimism, self-efficacy, hope in order to succeed; and resiliency to attain success (Asbari et al. 2021). In today's era, places that assure long-term employment are no longer the point of interest for employees but the places that provide the resources, opportunities, and flexibility for continued learning, growth, and development are being preferred by them (Nabawanuka and Ekmekcioglu 2021). Today's uncertain environment is challenging for the employees as well as the leaders who have to make several personal and organizational decisions every day (Luthans, Youssef, and Avolio 2007)

Eid et al. (2012) have highlighted that both authentic leadership and psychological capital are making a base in positive organizational psychology and are well operationalized in order to get implemented in safety research. Niswaty et al. (2021) further studied the mediating effect of psychological capital in effect of authentic leadership and work engagement with the results being significant.

An interesting study by Chen et al. (2019) observes that the psychological capital of the employees depends on the psychological capital of their leaders and high-quality leader-member relationship can improve the leaders' psychological capital while fostering the employees'. Pitichat et al. (2018) evaluated that psychological capital for leadership development predicted leader development behaviors beyond other individual differences. Hence, promoting psychological capital may improve leader development in organizations.

Psychological capital may enhance a firm's capability to pertain a competitive advantage against other firms and this happens when a firm promotes innovation and intrapreneurship within the organization, it has been studied that the engagement of the employees increases, with psychological capital playing a mediating role (Pandey, Gupta, and Hassan 2020). Furthermore, psychological capital has been studied to be positively mediate organizational behavior and work engagement. (Gupta, Shaheen, and Reddy 2017).

There is evidence in the literature related to studies conducted on individual psychological capital an innovative or intrapreneurial behavior. For instance, according to Slåtten and Mehmetoglu (2015), innovative behavior is significantly affected by psychological capital among employees. Abbas and Raja (2015) also discussed the positive relation among psychological capital and innovative performance, with the psychological capital affecting all the facets of innovative behaviors including the generations, support and implementation of new ideas.

Furthermore, numerous studies have addressed the involvement of psychological capital in leadership and intrapreneurship. For example, Niswaty et al. (2021) has found psychological capital as a mediator in effect of authentic leadership on work engagement. Pitichat et al. (2018) argues the role of psychological in developing leadership behavior.

In view of the above mentioned roles of leadership, for instance, ethical leadership in managing employees' unethical behavior at job, Engelbrecht, Heine, and Mahembe (2017), their

commitment to work Güçel et al. (2012) and Engelbrecht, Heine, and Mahembe (2017), turnover intentions Ayaz et al. (2021) and improved work environment Walumbwa, Hartnell, and Misati (2017), and influence of leadership styles over firm performance as discussed by Özer and Tınaztepe (2014), Al Khajeh (2018), Saeidi et al. (2021) and Cakir and Adiguzel (2020); following hypotheses have been developed for the current study.

H1: There is a significant effect of Ethical Leadership on Firm Performance

H2: There is a significant relationship between Ethical Leadership and Intrapreneurial Behavior.

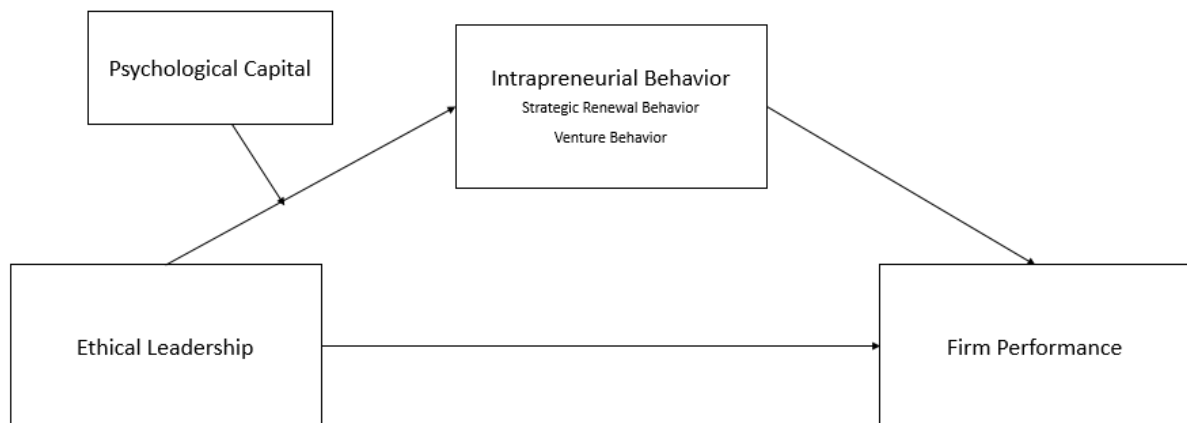
H3: Intrapreneurial Behavior mediates the relationship between Ethical Leadership and Firm Performance.

H4: Psychological Capital strengthens the relationship between Ethical Leadership and Intrapreneurial Behavior

2.5 Conceptual Model

Based on the above literature and the hypotheses highlighting the importance of the relationship among Ethical Leadership, Psychological Capital, Intrapreneurial Behavior and Firm Performance, following theoretical framework for this study has been designed and evaluated:

Figure 1: Conceptual Model



Where Ethical Leadership is the independent variable of the study. Intrapreneurial Behavior is the mediating variable, Psychological Capital is the conditional effect, serving as the moderator between the independent variable and the mediator, and Firm Performance is the dependent variable.

3. Method

The research is based on deductive approach as it has been executed on well-established theories. The research has followed the quantitative mono method for its analysis. Shedding light on the design of the research according to the ‘Research Onion’ format by Saunders, Lewis, and Thornhill (2019), this research follows the philosophy of positivism and a deductive approach. A cross sectional survey was conducted to gather primary data through close ended questionnaires and was analyzed through SPSSv26. Non-probability, convenience sampling technique was adopted.

Table 1: Research Design

Philosophy	Positivism
Approach	Deductive
Strategy	Survey
Choice	Mono Method
Time Horizon	Cross sectional
Technique and Procedure	Primary data collected through close ended questionnaires and analyzed through SPSSv26
Sampling	Non-probability, convenience sampling.

3.1 Participants and Procedures

This research has been conducted through a questionnaire survey of 157 individuals working in design industry of Pakistan. The research has adopted a non-probability sampling, convenience sampling, technique to select respondents. Questionnaires were sent to 300 individuals. Out of them, 157 individuals have recorded their complete responses. On average, the respondents (selected employees in the design industry of Pakistan) are found to be in the age bracket of 26-30 years (36.3%). The data comprises of 19 percent females and 81 percent males having an average experience of 2 to 10 years. Most of the participants (49.7%) were graduates with a 4-year degree followed by masters (31.2%) with a very few having only an intermediate degree (0.6%). Participants have been assured with full confidentiality of their responses. Therefore, no specific individual has been mentioned in the study.

3.2 Measures

The questionnaire comprised of five open ended questions based for demographic information and forty-nine close ended questions having an interval scale, with the manifest variables divided into four sections as per their latent variables. This was done to avoid Common Method Bias as suggested in the study by (Podsakoff et al. 2003a).

Ethical leadership has been measured with fifteen questions that were adopted from (Yukl et al. 2013) with the items like *My Boss: Shows a strong concern for ethical and moral values; Communicates clear ethical standards for members etc.* (Refer Appendix – A)

For Intrapreneurial Behavior, scale has been adopted from (Gawke, Gorgievski, and Bakker 2017). It was a higher order variable with two dimensions; Strategic renewal behavior (measured with nine questions scale) and Venture behavior (measured with eight questions scale). The items were like *“I undertake activities to realize change in my organization”* and *“I undertake activities to set up new business units”* etc. (Refer Appendix – A)

PsyCap dimensions have been tested with the twelve questions scale from (Luthans, Avolio, and Avey 2007). Some of the questions are *“I feel confident in representing my work area in*

meetings with management”, “I can be “on my own” so to speak at work if I have to” and “I’m optimistic about what will happen to me in the future as it pertains to work”. (Refer Appendix-A)

Scale for the Firm Performance has been adopted from (Powell and Dent-Micallef 1997) having five items including “Over the past 3 years, our financial performance has been outstanding”, “Over the past 3 years, our financial performance has exceeded our competitors”, “Over the past 3 years, our sales growth has been outstanding”, “Over the past 3 years, we have been more profitable than our competitors”, “Over the past 3 years, our sales growth has exceeded our competitors”. (Refer Appendix-A)

Demographic variables used are gender, age, education and years on job that were used in other studies of this type, for example by Pandey, Gupta, and Hassan (2020).

3.3 Validation in Measures

Findings of the statistical analysis show that Cronbach's Alpha for all the variables is above 0.7 (Ethical Leadership = 0.919, Intrapreneurial Behavior = 0.963, Firm Performance = 0.936, and Psychological Capital = 0.866), hence the same is ensuring reliability. The extraction method applied is Principal Axis Factoring. Measurement error (Common Method Variance or CMV) threatens the validity of the results regarding the relationships between the variables and have both a random and a systematic component (Bagozzi and Yi 1988). The possibility of CMB was assessed using Harman’s single-factor test and all the factors extracted were constrained to one and the total variance extracted (TVE) was <50% (Podsakoff and Organ 1986). The TVE is 37.6% indicating that the CMV is minimal in this research (Podsakoff et al. 2003b). The demographic data has been analyzed using descriptive statistics The hypotheses have been tested by Regression analysis through Process Macro (Hayes 2018).

4. Results

4.1 The Correlation Matrix

Pearson correlation between Ethical Leadership (EL) and Firm Performance (FP) is found to be 0.803, between EL and PsyCap 0.091 and between EL and Intrapreneurial Behavior (IB) 0.820, between FP and PsyCap, it is found to be 0.098, between FP and IB 0.820 and between PsyCap and IB, 0.097.

Table 2- Correlation

	EL	FP	PsyCap	IB
EL	1.000			
FP	.803**	1.000		
PsyCap	0.091	0.098	1.000	
IB	.673**	.820**	0.097	1.000

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

Bootstrap results are based on 5000 bootstrap samples

4.2 Regression Analysis

The moderated mediation analysis is done on the given model. According to Andrew F. Hayes Model 7 is opted as the model of the study follows the same structural relationships. The

independent variable is EL, mediating variable is IB, dependent variable is FP and the moderating variable to the mediator is PSYCAP. The sample size is 157.

4.2.1 Relationship between EI and IB (Partial Model):

Table 3- Relationship between EI and IB (Partial Model):

OUTCOME VARIABLE							
IB							
Model 1 Summary							
	R	R-Sq	MSE	F	df1	df2	p
	0.6738	0.4540	0.5395	42.4027	3.0000	153.0000	0.0000
Model 1							
	Coeff	se	t	p	LLCI	ULCI	
Constant	0.5105	1.0076	0.5066	0.6131	-1.4802	2.5012	
EL	0.7791	0.3105	2.5096	0.0131	0.1658	1.3925	
PsyCap	0.0080	0.3351	0.0238	0.9810	-0.6541	0.6701	
Int_1	0.0119	0.1021	0.1161	0.9077	-0.1899	0.2136	
Product Terms Key:							
Int_1:	EL	x	PsyCap				
Test(s) of highest order unconditional interaction(s)							
	R2-chng	F	df1	df2	p		
X * W	0.0000	0.0135	1.0000	153.0000	0.9077		

From the results it is evident that the regression model is significant with results as $F(3.00, 153.00)=42.403$, $p < 0.001$. The R-square value is identified as .454 highlighting that 45.5 % of variance is explained in the model by variables.

The second part of the result above shows that only EL as an independent variable is significant ($t=2.510$, $p < 0.001$), whereas the PSYCAP and the interaction term (EL x PsyCap) is not significant.

4.2.2 Conditional Effects of the Ethical Leadership at Values of the Psychological Capital

Table 4

Focal predict : EL (X)						
Mod Var : PsyCap (W)						
Conditional effects of the focal predictor at values of the moderator(s)						
PsyCap	Effect	se	T	p	LLCI	ULCI
2.2036	0.8053	0.1059	7.6030	0.0000	0.5960	1.0145
2.9687	0.8143	0.0730	11.1618	0.0000	0.6702	0.9585
3.7338	0.8234	0.1079	7.6341	0.0000	0.6103	1.0365

There are no statistical significance transition points within the observed range of the moderator found using the Johnson-Neyman method.

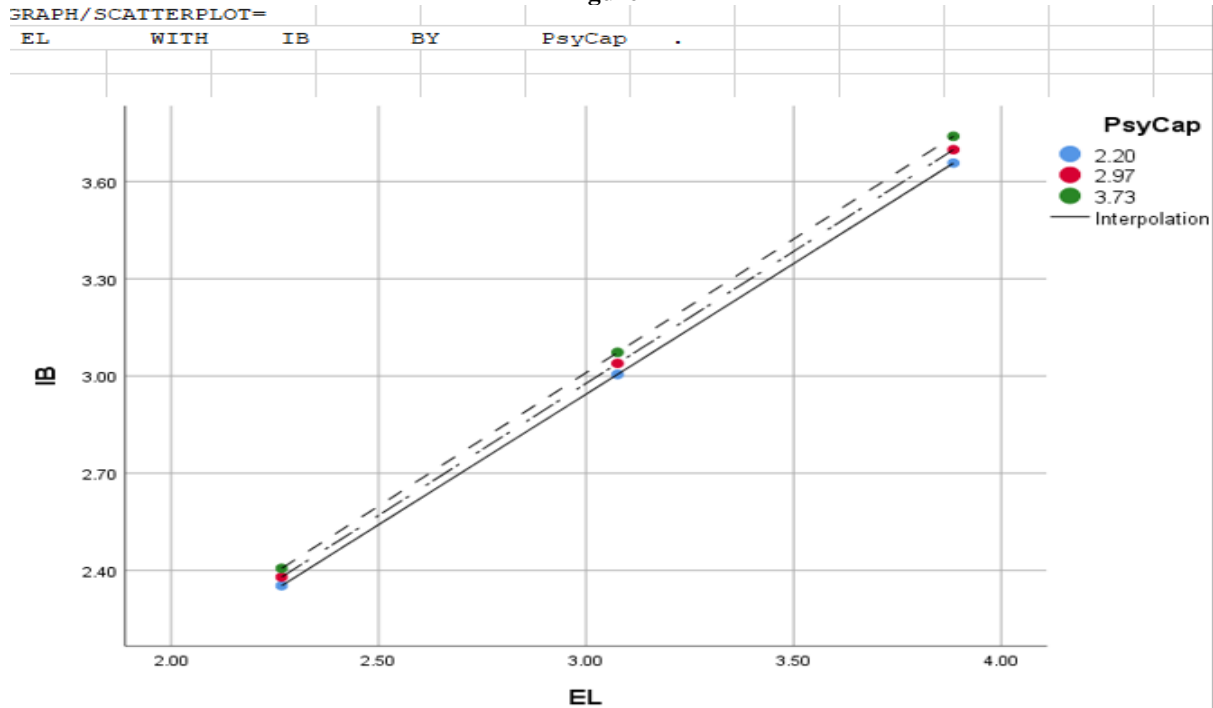
The results show that the three levels of moderator to the mediating variable (hence making the mediation conditional to these three levels of the moderator, i.e. PSYCAP) have an effect on the outcome variable (here it is IB or mediating variable). Albeit, these three levels of PSYCAP (-1SD, mean or average, and +1SD) are significant as evident from the result. It means that as far as EL as a predictor to IB is concerned, the relationship is significantly and positively moderated by PSYCAP but the difference between the effects is very close or in other words with the three levels of PSYCAP the differential effects are very low, which may be further visualized by the closeness of three levels of PSYCAP lines graph. Furthermore, since the transition from one level of the moderating variable to the next level is so small as there are not enough transition points visible so Johnson-Neyman could not be applied in its essence.

Table 5

Conditional effects of focal predictor at values of the moderator:						
PsyCap	Effect	se	T	p	LLCI	ULCI
1.0833	0.7920	0.2046	3.8707	0.0002	0.3878	1.1962
1.2625	0.7941	0.1876	4.2322	0.0000	0.4234	1.1648
1.4417	0.7962	0.1709	4.6583	0.0000	0.4585	1.1339
1.6208	0.7984	0.1546	5.1646	0.0000	0.4930	1.1037
1.8000	0.8005	0.1387	5.7704	0.0000	0.5264	1.0745
1.9792	0.8026	0.1235	6.4969	0.0000	0.5585	1.0467
2.1583	0.8047	0.1093	7.3620	0.0000	0.5888	1.0207
2.3375	0.8068	0.0965	8.3647	0.0000	0.6163	0.9974
2.5167	0.8090	0.0856	9.4490	0.0000	0.6398	0.9781
2.6958	0.8111	0.0776	10.4497	0.0000	0.6578	0.9644
2.8750	0.8132	0.0734	11.0780	0.0000	0.6682	0.9582
3.0542	0.8153	0.0736	11.0727	0.0000	0.6699	0.9608
3.2333	0.8175	0.0783	10.4454	0.0000	0.6629	0.9721
3.4125	0.8196	0.0866	9.4659	0.0000	0.6485	0.9906
3.5917	0.8217	0.0977	8.4138	0.0000	0.6288	1.0147
3.7708	0.8238	0.1107	7.4439	0.0000	0.6052	1.0425
3.9500	0.8260	0.1250	6.6070	0.0000	0.5790	1.0729
4.1292	0.8281	0.1403	5.9033	0.0000	0.5510	1.1052
4.3083	0.8302	0.1562	5.3153	0.0000	0.5216	1.1388
4.4875	0.8323	0.1726	4.8229	0.0000	0.4914	1.1733
4.6667	0.8345	0.1893	4.4078	0.0000	0.4604	1.2085

These results highlight the different conditional effects levels (of EL) with the different categorical values of PSYCAP (likert scale values). All the different vales of the moderating variable are significant and positive. Hence it could be said that the PSYCAP moderates the relationship at all levels between EL and IB.

Figure 2



The graph validates the result that differential effect is very low, and moderating variable has three levels (hence 3 different lines) and it is positive for all values of IB. It can be easily construed from the graph that for a low level of EL (between 2.00 and 2.50), IB is also low (almost at lower than 2.40). The PSYCAP values lines are parallel and are very close so it acts positively with EL to yield an output on IB which also increases as EL and PSYCAP increases.

4.2.3 Full Model:

Table 6

OUTCOME VARIABLE							
FP							
Model 1 Summary							
	R	R-Sq	MSE	F	df1	df2	p
	0.8874	0.7875	0.2656	285.4306	2.0000	154.0000	0.0000
Model 1							
	Coeff	se	t	p	LLCI	ULCI	
Constant	-0.4467	0.1647	-2.7112	0.0075	-0.7721	-0.1212	
EL	0.6298	0.0689	9.1416	0.0000	0.4937	0.7659	
IB	0.5768	0.0567	10.1807	0.0000	0.4649	0.6887	
Test(s) of X by M interaction:							
	F	df1	df2	p			
	0.2597	1.0000	153.0000	0.6110			

The full model depicts that when the FP is considered as the DV (for a full model), the model is significant, $F(2, 154)=285.43, p < 0.001$ with the variance of 78.75%. Rest of the values are

similar in fashion to the regression output highlighting the fact that both independent variables EL and IB are significant and predicts positively to the DV, FP.

The interaction effect of EL and IB is also not significant, hence it could be understood that considering the full model, IB is not mediating the relationship between EL and FP.

4.2.4 Direct and Indirect Effects:

Table 7. Full Model:

OUTCOME VARIABLE							
FP							
Model 1 Summary							
	R	R-Sq	MSE	F	df1	df2	P
	0.8874	0.7875	0.2656	285.4306	2.0000	154.0000	0.0000
Model 1							
	Coeff	se	t	p	LLCI	ULCI	
Constant	-0.4467	0.1647	-2.7112	0.0075	-0.7721	-0.1212	
EL	0.6298	0.0689	9.1416	0.0000	0.4937	0.7659	
IB	0.5768	0.0567	10.1807	0.0000	0.4649	0.6887	
Test(s) of X by M interaction:							
	F	df1	df2	p			
	0.2597	1.0000	153.0000	0.6110			

The results in table 7 show the direct effects and conditional indirect effects (moderated mediation) of EL, PSYCAP, and IB on FP (DV) in full model.

The results also show that for conditional indirect effects of PSYCAP as a moderator to the mediating variable (IB) is not significant when a full model is considered. The same could also be verified with the index calculations as '0' is falling between the Lower-Level CI and Upper-level CI.

Now the final verdict of the above results could well be summarized as when the full model is considered statistically, neither the mediation nor the moderated mediation is significant in the relationship between EL predicting the FP, but it is rather interesting to note that when the relationship between EL and IB is considered, PSYCAP significantly moderates the relationship.

5. Conclusion

This study has been performed with the objective to find interrelationships and conditional effects among ethical leadership, intrapreneurial behavior of the leader, psychological capital and firm performance.

Results section proves the first hypothesis H₁ in a way that significant relationship has been observed in between Ethical leadership and firm performance. These results are in line with the findings of some recent studies Ullah, Mirza, and Jamil (2021); Chamtitigul and Li (2021); Adeoye (2021); Bhatti et al. (2021); Dey et al. (2022) on ethical leadership and firm performance. The model is also in line with HRD research that stresses the necessity of examining the effects of both personal and situational factors on employee innovativeness (intrapreneurial behavior) (Egan 2005; Joo, McLean, and Yang 2013).

Moreover, the findings show that neither the mediation nor the moderated mediation is significant in the relationship between ethical leadership predicting the firm performance, thus rejecting H₂ and H₃. However, observing the psychological capital of the employees with its application as the moderator between ethical leadership and the intrapreneurial behavior of the employees, the results yield a significant impact in support of fourth hypothesis, H₄.

5.1 Theoretical Implications

Results of the study indicate significant relationships between ethical leadership and firm performance. In this way, this study adds a significant contribution to the studies performed by Cakir and Adiguzel (2020) evaluating the relationship among leadership effectiveness and firm performance; Özer and Tinaztepe (2014) and Al Khajeh (2018) mentioning the influence of various leadership styles over firm performance where some styles make a positive while others a negative influence on firm performance; Lieberman and O'Connor, (1972) uncovering that leadership influence may vary with the industry's characteristics; Flanigan et al. (2017) adding demographic variables in this relationship of leadership styles and firm performance. This research adds to the study by Yahaya and Ebrahim (2016) where ethical leadership may be included as one of the very important leadership styles. It also makes contributions to the study by (Alshammari, Almutairi, and Thuwaini 2015) where impact of ethical leadership has been tested over the performance of public sector organizations. This study unfolds that not only public organization as well the private sector firms are also affected by the application of ethical leadership.

5.2 Practical Implications

The global economy is prone to noteworthy changes that require the generation of new ideas and effective leadership in order to implement those ideas. This study at one end, provides important insights for leaders in the developing countries like Pakistan to develop their attitude if they really want to compete in the growing markets and be successful. The main contribution of this paper is to reveal the combined effects of situational and personal factors on employee intrapreneurial behavior moderated through psychological capital. The findings may be applicable to strategic HRD which has a role in stimulating and supporting creativity and innovation (Loewenberger 2013).

This study will also help organizations while hiring new employees for the leadership roles therein. These prospective employees can be tested for the four dimensions of psychological capital (optimism, self-efficacy, hope, and resiliency) in the pre-job tests and interviews considering their significant contribution to the intrapreneurial behavior and organizational performance. On the other side, this study highlights the need for trainings related to sound ethical leadership and intrapreneurial qualities allowing for a strong of psychological capital. Improvements, if made in the IT design industry of Pakistan, through the application of ethical leadership, will also strengthen other sectors and businesses that are dependent over information technology specifically after COVID 19 crises.

5.3 Limitations and future directions

Besides being significant in terms of its contribution to the existing array of knowledge, there are some limitations of this research. This research has been performed through a questionnaire survey technique hence could not avoid the involvement of individual preferences. Another study taking a sample from other developing countries, having characteristics akin to Pakistan, may help identify and handle this limitation.

In this study, we have included the variables of psychological capital and intrapreneurial behavior where the involvement of one variable as a moderator i.e. psychological capital produces significant results while insignificant results have been observed for the mediator i.e. intrapreneurial behavior, for the relationship of ethical leadership and firm performance. Future researchers studying leadership and employee behavior can further observe the areas of employee intellectual capital, growth mindset and organizational citizenship behavior as the moderators and mediators in the overall performance of the organization.

This study has been performed over a sample from only one industry (IT-design) in Pakistan. This study along with the addition of other variables as mentioned above (employee intellectual capital, growth mindset and organizational citizenship behavior) can be tested in a variety of geographical areas to cover a significant amount of gap. Comparative studies within the same region and with that of others may also bring some novel implications.

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