

**INFLUENCE OF ETHICAL LEADERSHIP ON INNOVATIVE PERFORMANCE ON  
SME'S ORGANIZATION. THE EMPIRICAL STUDY THAT BASED ON MEDIATING  
ROLE OF ATTITUDE TOWARD PERFORMING WELL AND MODERATING ROLE  
OF TECHNOLOGICAL INNOVATION**

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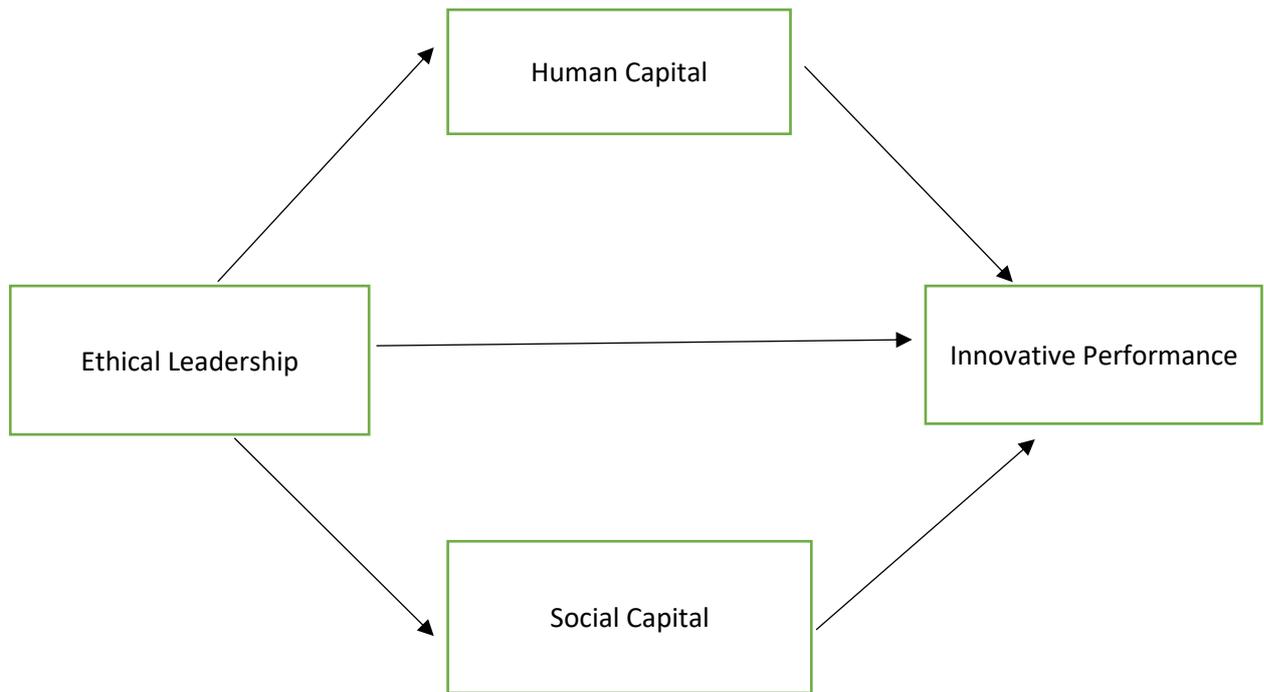
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## **ABSTRACT**

This study focuses on the impact of ethical leadership and technical innovation, specifically the mediating role of a positive attitude in fostering good performance. This study, which was done in the SME sector of Malaysia in the state of Selangor, used a convenience sampling technique for data collecting and reported that ethical leadership, technological innovation, and attitude greatly influence performance. The purpose of this study is to look into the direct and indirect effects of ethical leadership on employee innovative work behavior, as well as the intervening role of individual variables like job satisfaction and attitudes toward performance. This paper reports on the mediating role of attitude in regard to technological innovation and inventive performance, and it was discovered that attitude toward performance had no significant effect on ethical leadership and creative performance. Empirical studies that studied the influence of various leadership factors such as style and ethics on workers' inventive performance and uncovered the mechanism by which leadership exerts its impact on employees' innovative work behavior were limited. This paper reports on the mediating role of attitude in regard to technological innovation and inventive performance, and it was discovered that attitude toward performance had no significant effect on ethical leadership and creative performance. Empirical studies that studied the influence of various leadership factors such as style and ethics on workers' inventive performance and uncovered the mechanism by which leadership exerts its impact on employees' innovative work behavior were limited. Ethical leadership was observed to positively influence employees' inventive performance.



Conceptual model of the study

## 1. Introduction

This leadership should promote creative and innovative work behavior (IWB) among employees, which has been linked to ethical leadership. Ethical management (EL) refers to the "demonstration of normatively appropriate conduct through personal actions and interpersonal relationships and the promotion of such conduct to subordinates through two ways of communication, reinforcement and decision making". Ethical leaders maintain open and honest connections with their workforce. As a result, subordinates admire their leaders for making ethical decisions, and they try to perform more innovatively for the organization's success. There is evidence that ethical leadership improves employee job performance, reduces turnover intentions, and increases job satisfaction and employee work engagement.

Ethical leadership and intellectual capital have been identified as important aspects of innovative business practices in scientific literature; additionally, the knowledge economy has been identified as an important trait of innovative initiatives driving progress in the business sector. Organizations have emphasized the value of employee innovation, which is crucial in today's competitive business climate.

Firms must locate the best individuals for the right positions. However, organizations face a significant issue in finding the right person and maximizing his potential. This research has

helped to address some of the issues raised. The authors found several personality qualities, psychological states, and individual attitudes that have been linked to the success of employees in a business and their IWB. Individual employees can expand on their abilities in the workplace by receiving appropriate training, development, and experience. A company's existence and success are determined by both the efficient use of resources and the adequacy of the training and expertise that drive its operations. To that end, in today's international corporate climate, experts and practitioners emphasize the necessity of innovative behavior in employees, which is crucial to survival and success. While it is necessary to explore new ideas and evolving practices related to company operations at work, it is even more crucial to enable employees to express their opinions on topics that affect their performance.

Because of increased rivalry, globalization, and the rapid rate of technological innovation, business leaders are under a lot of pressure to find ways to increase their staff's inventive performance. Thus, inventive performance is regarded as a fundamental competency. Today, inventive performance is no longer regarded as an intrinsic talent that only some employees possess. On the other hand, it is increasingly being recognized as a competency that can be enhanced or developed in all individuals with appropriate training and experience. As a result, experts and practitioners now associate corporate success and survival with innovative work behavior among employees. As a result, business firms are focusing on introducing inventive performance among their staff, and they are especially paying consideration to discovering approaches to nurture innovative performance.

Previous research has explored the role of social capital, human capital, and ethical leadership in predicting creative performance. According to one article, human and social capital are important predictors of inventive performance, and ethical leadership has a substantial impact on innovation, informing organizational success and performance. Ethical leadership is achieved through the mediation of both implicit and explicit knowledge.

In the aforementioned study, the researchers incorporated ethical leadership, employee creativity, and knowledge sharing to predict organizational innovation. They also stressed the importance of knowledge sharing, intrinsic motivation, and psychological empowerment with regard to organizational innovation. The technological era and the presence of digital transformation have changed the business landscape in terms of operations, manufacturing, delivery, and management.

Several studies have highlighted the relationship between technological innovation and the success of a firm with the moderating effect of ethical leadership. It has been argued that technological innovation increases performance standards, while ethical leadership strengthens the association between technology and success. In this study, we intend to explore the relationship between ethical leadership and innovative performance, as well as that between technological innovation and innovative performance, in addition to the mediating role of attitude towards performance.

The service sector, in particular, confronts greater obstacles than the manufacturing sector, and as a result, it requires a more productive workforce than other sectors. Thriving individuals on their own have a competitive edge due to their intrinsic ability to manage stress and despair. A thriving workforce contributes to favourable organizational outcomes such as job satisfaction and dedication. Because thriving employees are more energetic and psychologically attentive, they are better equipped to manage with stress at work, resulting in improved health and performance. The impact of ethical leadership on IWB is significant. Furthermore, flourishing and positive attitudes toward performance may mitigate the claimed association. Employees' attitudes about performance are their evaluations of achieving all job requirements on a consistent basis. Attitudes are a collection of beliefs, appraised sentiments, and behavioural intentions toward an object, in this example, labour. The goal of this study is to determine whether ethical leadership has a direct effect on IWB and/or whether this relationship is mediated by thriving and a positive attitude toward performance.

The results of the present research study have promoted our understanding of the processes by which ethical leadership fosters innovative performance of organizational employees. Accordingly, the current research study has contributed to the knowledge gap by investigating the mediating mechanism of IC (human and social capital) in the association of ethical leadership and employees' innovative performance. The results of the present research study have promoted our understanding of the processes by which ethical leadership fosters innovative performance of organizational employees. Accordingly, the current research study has contributed to the knowledge gap by investigating the mediating mechanism of IC (human and social capital) in the association of ethical leadership and employees' innovative performance.

## **2. Literature Review**

We argue that ethical leadership has a favourable and direct influence on subordinates' innovative behavior. According to social exchange theory, subordinates notice their leaders' motivation and support, and they always respond positively based on the principle of reciprocity. Furthermore, social exchange theory argues that subordinates perform better when they have positive ties with their bosses. If ethical leaders give meaning to subordinates' roles in the workplace, make their work more meaningful, encourage them to be more innovative, and motivate them to be more adaptable to change, subordinates will perceive the leader's favourable treatment, form emotional bonds, and feel obligated to them. Ethical leadership is supposed to improve employee results. The level of innovative actions carried out in pursuit of such goals has been shown to influence an organization's success and a country's economic growth. As a result, experts have stressed the level of innovation that should be linked with the introduction, adoption, and implementation of technical improvements that will improve an organization's performance. We will discuss the roles of ethical leadership and technical innovation in forecasting inventive performance and creating attitudes toward performance. In doing so, we will ascertain the mediating effect of attitude in connection to ethical leadership, technical innovation, and innovative performance.

### **2.1 Ethical Leadership, Innovative Performance, and Attitude towards Performance**

Ethical considerations are becoming increasingly important in modern corporate processes. As a result, in order to create a desired working environment, a strong moral foundation must be established. Previous research has stressed the significance of holding firm and organization leaders to a high ethical standard; failure to do so can have serious ramifications in today's global business landscape. The term "ethical leadership" refers to a variety of dialogic methods, modes of action, and behaviors that stem from a wide range of norms. Furthermore, it has been defined as the behavior required to promote efficient communication, the reinforcing of social rules, and effective decision making. Team leaders' ethical concerns were found to have an impact on employee conduct and the creation of an ethical workplace environment.

Ethical leadership is described as maintaining an effective working environment while adhering to ethical norms that are unique to each organization. The current study included the ethical perspective of leadership because of its strong link with performance-related concerns, emphasizing candor and honesty, both of which are essential components of ethical leadership.

Ethical behavior in the workplace has grown in relevance due to both positive and bad outcomes. Finally, ethical leadership relates to demonstrating acceptable behavior through interpersonal interactions and personal acts.

Innovative projects can only be achieved by developing shared goals among stakeholders who have the highly driven mindset required to tackle such unique challenges. Employees from various backgrounds play an important role in enhancing their abilities to fit the changing markets, demonstrating a level of trust and a workplace culture that fosters innovative behavior through the adoption of an appropriate leadership style built on strong ethical grounds and concerns.

Leadership's ethical stance has an impact on employees' skill levels, improving performance through the effective execution of creative ideas. In doing so, it stimulates inventive behavior and encourages people to engage in creative activities that promote innovation. Leaders in such environments are needed to keep a close watch on their changing working environment, market demand, and creative process while supporting innovative activities to impact the market. Innovation has also been regarded a core talent, and the ethical stance has a significant impact on employee creativity, resulting in innovative work behavior.

Attitudes are a set of characteristics that determine an individual's behavior pattern. Attitudes are typically viewed as a quick appraisal of objects on a scale ranging from negative to positive. Behavioral and social psychologists believe that attitudes are a good predictor of behavior. The main parameters in professional life must be determined in order to understand an acceptable attitude toward work. Thus, job attitudes are critical in accomplishing corporate goals. Social factors and perceived behavioural control are also associated with attitudes. Social variables refer to the extent to which employees perceive that others want them to behave in a specific way. According to Fishbein and Ajzen, attitudes about performance are "employees' evaluation regarding always meeting all job requirements".

## **2.2 Technological Innovation to Innovative Performance**

This digital transition has heightened competition, notably in the use of social media and mobile applications to digitize numerous operations through artificial intelligence. The past literature has emphasized these technical improvements; nevertheless, further research is needed to determine the relationship and impact of the technological perspective in the digital

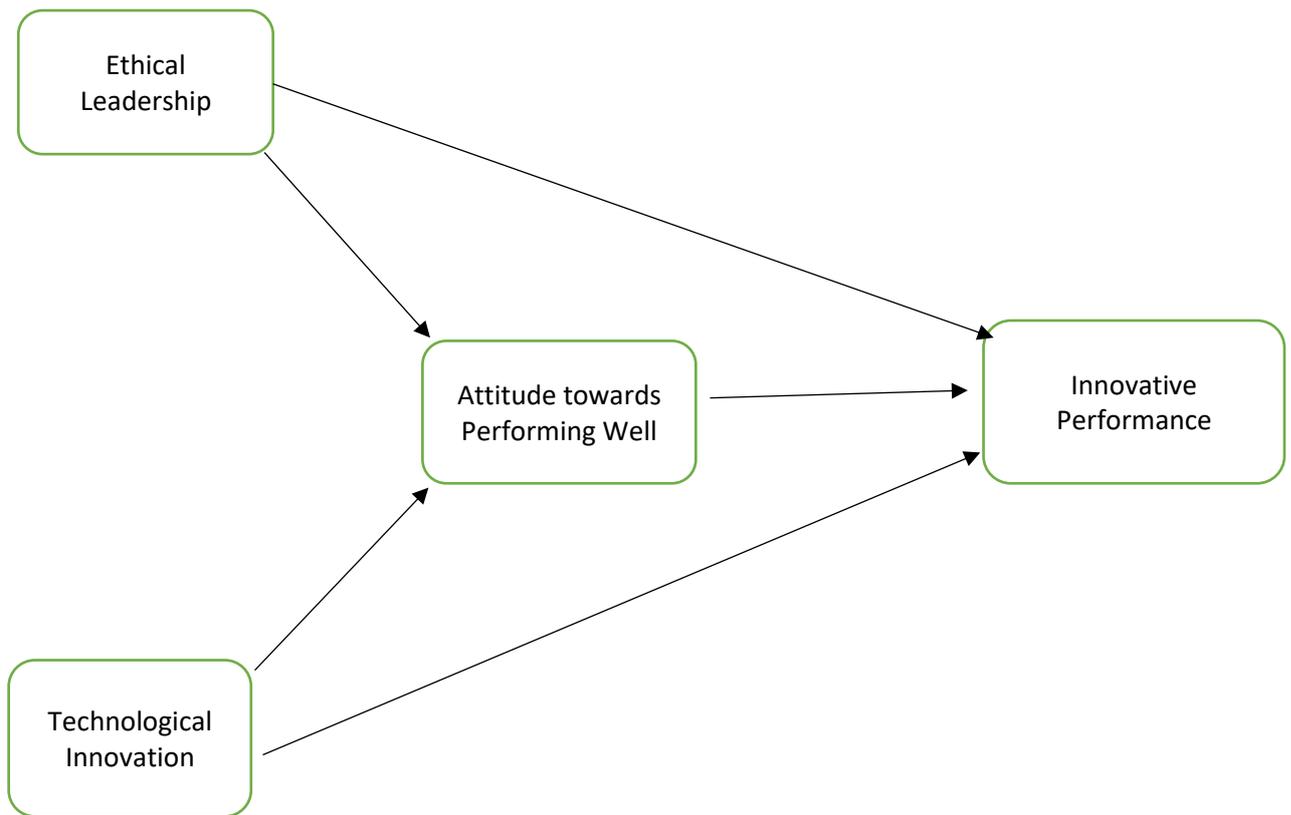
domain. In a study that evaluated the relationship between firm performance and technological innovation with the moderating role of ethical leadership, it was argued that the continued presence of technological innovation has the potential to influence organizational performance, and the ethical concerns of a leadership and organizational approach influence a firm's performance by strengthening the relationship between the adoption of technological innovation and the firm's performance. The researchers contended that business-to-business transactions are conducted via electronic media, which allows for good communication, making it easier for enterprises to meet their organizational demands and achieve their goals.

### **2.3 Attitude towards Performance**

According to one study, an ethical culture helps to moderate the relationship between ethical leadership and job engagement, employee well-being, and company performance. Another study attempted to explain the relationship and influence of ethical leadership on employee ethical behavior, using organizational justice as a mediator between dependent and independent factors. Another study looked at how psychological capital mediated the relationship between ethical leadership and service innovation behavior. In organizational behavior studies, three alternative mediation models exist, including an indirect influence model, which implies that a mediator is related with both dependent and independent factors. The partial mediator model demonstrates a direct relationship between independent and dependent variables in terms of efficacy, but the full mediator model, which previously shown a direct relationship, no longer exists after being introduced into the mediator model. Efforts have been undertaken to identify the radical and incremental innovations that arise as a result of the mediating effect of tacit and explicit knowledge exchange affected by ethical leadership. In other words, ethical leadership indirectly influences innovation through information sharing; innovation at the business level can only be achieved through effective ethical leadership and knowledge-sharing procedures. EL favourably influences attitudes toward performance, which enhances good work behaviors such as implementing innovative and creative ideas.

### **2.4 Research Framework**

Illustrates the key variables and hypothesized relationships investigated in this study. Innovative performance is determined by the influence of ethical leadership and technological innovation, according to the mediating effect of attitude toward performance.



### 3. Methodology

#### 3.1 Procedures

Two separate samples were used, one from the United Kingdom (U.K.) and another from Pakistan, both of which contained personnel from the service sector. Because this is a cross-sectional study, data were obtained from respondents at a single point in time using multiple sources. The data was collected utilizing two separate survey forms. The first questionnaire assessed employees' perceptions of ethical leadership, as well as their work experience and attitudes toward performance. The second questionnaire was used to assess the IWB of employees from managers. Individuals who arrived at their workplace within the time frame specified received the questionnaires in person. Before departing, respondents were requested to fill out questionnaires and deposit them in a box. After the two-week period was up, the boxes were sealed and retrieved.

In Malaysia, small and medium-sized enterprises play critical roles in economic and market development by increasing income and tax revenue, providing transportation for goods or services, creating new employment opportunities to improve the economy, reducing

unemployment and poverty, mitigating negative economic scenarios, contributing to economic empowerment, and maximising stakeholders' wealth. The Malaysian government has prioritized several projects to strengthen the country's economy and contribute to GDP, encouraging citizens to participate in and develop such companies to stimulate entrepreneurial activity. The economic downturn has resulted in a higher number of firm failures, and small businesses in Malaysia are frequently unable to continue operations due to a variety of issues. According to statistics, 76% of startups survive for several years, 47% for only four years, and only 38% for six years or more. Furthermore, 50 to 80% of small enterprises fail within a relatively short time frame. The SME sector makes major contributions to Malaysia's GDP and exports, as well as employment rates, in addition to supporting entrepreneurial activity and attracting new investors, researchers and academicians, trade organizations, and other associated agencies.

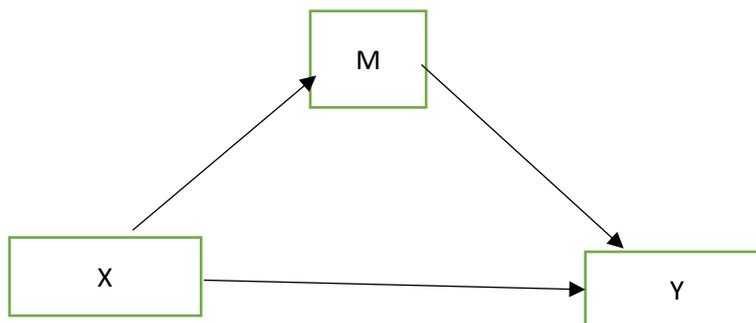
This research project is quantitative in character, meaning the correlations between variables will be investigated empirically. As a result, convenience sampling was used, and data were collected via questionnaires distributed to 209 SMEs in a variety of industries and cities across Malaysia. Malaysia has roughly 320,000 SMEs, which operate in a variety of sectors such as services and manufacturing. Innovation is critical in the manufacturing sector, hence this study focused on the manufacturing SME industry when analyzing innovative performance. It was discovered that creative activities in the SME sector help to achieve optimal business performance, and innovations in product, production, branding, promotion, pricing, and decision-making influence behaviour and awareness. Technological innovation and innovative initiatives have significantly enhanced production processes in Malaysia's SME manufacturing industry.

### **3.2. Measures**

The dependent variable of innovative performance consisted of nine statements, including "idea generation", "ideas promotion", and "idea realization", indicating that "our employees generate original solutions to problems", "our employees mobilize support for innovative ideas", and "our employees transform innovative ideas into useful applications". The measuring scale was derived from another study paper. The mediating variable "attitude toward performing well" was composed of three items taken from another research paper. All items

were rated on a 5-point Likert scale, with 1 indicating "strongly disagree" and 5 indicating "strongly agree." The gathered data were then analyzed using Smart-PLS v.3.3.4 software. Yukl et al. developed a 15-item measure to assess ethical leadership. The alpha dependability coefficient was 0.93. This scale was adopted for its established validity and reliability in a number of previous empirical studies, with alpha reliability reaching 0.80. Porath et al. created a 10-item scale to assess job satisfaction. The alpha reliability coefficient was 0.83. This scale was chosen for its demonstrated validity and reliability in a number of previous empirical research, with alpha reliability values of 0.85 and 0.88, respectively. Groen et al. devised a three-item scale to examine attitudes towards performing well. The alpha reliability coefficient was 0.75. This scale was chosen for its recognized psychometric features. IWB was measured using a 6-item scale created by Scott and Bruce. The alpha reliability coefficient was 0.81. This scale was chosen because it has been shown to be valid and reliable in a number of previous empirical research, with an alpha reliability of 0.74. All study factors were assessed using a five-point Likert scale ranging from never (1) to always (5).

The conceptual diagram has a direct impact on X on Y. Furthermore, in the diagram, X influences Y indirectly via M. The simple mediation diagram denoted in the form of a statistical model can be observed in diagram. As can be seen, in this diagram, eM and eY are error terms in the estimation of variable M and variable Y, respectively, whereas, a, b, and c are the regression coefficients indicated to the antecedent variables in the diagram.



Models	$\chi^2$	Df	$\chi^2/df$	TLI	IFI	CFI	SRMR	RMSEA	AIC
Full Measurement Model	873.446	452	1.9	0.91	0.91	0.91	0.02	0.05	229.4
Model a	2474.2	444	5.3	0.55	0.58	0.58	0.07	0.11	2512.2
Model b	1978.2	472	4.1	0.67	0.72	0.69	0.06	0.09	2158.2
Model c	1113.1	421	2.4	0.85	0.81	0.78	0.03	0.06	1273.1

(a) Model a; All constructs combined into one factor.

(b) Model b; EL and attitudes towards performing well combined into one factor, and thriving and IWB combined into one factor.

(c) Model c; EL one factor, attitude towards performing well and thriving combined into one factor, and IWB as one factor.

$\chi^2$  = chi-square; df = degrees of freedom; TLI = Tucker-Lewis Index; IFI = Incremental Fit Index; CFI = Comparative Fit Index; RMSEA = Root Mean Square Error of Approximation; SRMR = Standardized Root Mean Square Residual.

## 4. Data Analysis and Discussion

### 4.1 Model Assessment

The first phase of this study involves determining the reliability and validity of the variables. Cronbach's alpha and composite reliability coefficients were used to measure the reliability of all constructs. Cronbach's alpha values had to remain higher than 0.70, while CR values had to be higher than 0.70 in order to be considered acceptably dependable. The validity of the constructs was determined using the average variance extracted (AVE), which had to be greater than 0.50 to be considered acceptable. Furthermore, the validity was determined based on discriminant validity using previously stated criteria. The measurement model was evaluated using the PLS-algorithm approach from PLS v.3.3.4.

## **5. Discussion**

This study was carried out to determine the impact of EL on thriving and attitudes toward performing well. Previous research has indicated that EL influences IWB. Zhu et al. [38] stated that EL motivates followers to channel their energies and skills, which leads to IWB. Leaders' ethical behaviour has a favourable impact on staff inventiveness [43, 44], leading to IWB. The result from the Pakistani sample is consistent with previous studies that state that ethical leaders play a significant role in transforming the behavior of subordinates by exhibiting innovative behavior at work, whereas the U.K. sample yields a comparatively insignificant result in terms of the association between EL and IWB. This may be related to the multi-ethnicity in the United Kingdom.

The current study was conducted to investigate the influence of ethical leadership on employees' innovative performance through the mediating mechanism of two types of IC (human capital and social capital) in the ethical leadership-employees' innovative performance relationship in Pakistan's manufacturing industry. The current study investigated a positive and significant association between ethical leadership and inventive performance among employees. This study verified the mediation mechanism of two types of IC, namely human capital and social capital. This study claims to be a pioneer in analysing the mediating effect of attitude toward performing well in the relationship between technological innovation and innovation performance. It establishes that adopting and applying technology advancements in any industry promotes operational improvements and alters corporate processes, hence boosting overall performance.

### **5.1. Theoretical Implications**

There have been few research on ethical leadership, particularly in deciding subordinates' innovative work behavior and task performance, which require additional efforts for total organizational effectiveness. It is worth noting that ethical leadership is closely related to subordinates' innovative behavior. The fundamental contribution of this study is to explore and define how ethical leadership leads to innovative behavior. We identified critical variables in the process of ethical leadership that influence subordinates' innovative conduct, rather than solely focusing on the immediate impact. First, it was projected that voice conduct is important in the ethical behavior process and promotes innovative behavior. As a result, we researched and verified the relationship between ethical leadership and subordinates' voice conduct, as well as the effect of ethical leadership on voice behavior. This is the outcome of leaders setting

high ethical standards for their followers and encouraging them to communicate their opinions and ideas about methods and ethics for improving the workplace and procedures.

In this study, social capital was identified as a mediator of the relationship between ethical leadership and employees' inventive performance, which is a type of resource exchange (Brown, 2018). As a result, favourable associations among organizational followers are more likely to foster competence in asset utilization by speeding up synchronization. They also magnify the resource structure of work units by raising the need among employees to share information and skills that might otherwise be inaccessible. Hence, social capital may have a positive influence on employees' performance. As a result, social capital can create a flow and transfer of knowledge within the business that is obviously related to workers' inventive work behavior, business innovation, and firm success.

Finally, the vast majority of survey respondents were subordinates. The survey was done by self-reporting. We believe that the self-reporting method creates an issue in which the correlation between variables is excessively strong. Despite the fact that we did CMV testing, we believe that common method bias (CMB) exists. Future research is required to move forward and devise a method of data collection that avoids the CMB problem. As a result, leaders should report on subordinates' perspectives and innovative actions. Furthermore, subordinates should disclose their psychological safety to supervisors.

## **6. Conclusions**

This study aims to investigate how EL influences thriving at work and attitudes toward performance, as well as the impact of thriving and attitudes toward performance on IWB. It also sought to determine the effects of the mediating roles of flourishing and attitudes toward performing well between EL and IWB. This study was undertaken in a cross-cultural setting, encompassing both Pakistan and the United Kingdom. We found considerable evidence for our assumptions that EL had a major impact on thriving at work and attitudes toward performing well. Our findings also suggest the favourable mediating functions of flourishing and attitudes toward successful performance between EL and IWB. However, the link between EL and IWB in the UK sample was found to be less significant than that in Pakistan. The data results from both countries show virtually little change in the association between factors in a cross-cultural situation.

In this study, we employed the resource-based view theory to explain the phenomenon of innovative performance. Focusing on internal capabilities such as leadership perspective and the adoption of technological advancements, and encouraging employees to adopt more positive attitudes, this theory facilitates improved performance and, concurrently, the accomplishment of objectives and goals. In this study, we aimed to assess the influence of ethical leadership and technological innovation in order to predict performance innovations, considering the mediating role of attitudes towards performance. We determined that ethical leadership should be developed at the company level to provide suitable guidance, and that any ethical concerns should be handled to support innovative performance and achievement of relevant goals. We also determined that embracing the most recent technical breakthroughs promotes inventive performance.

Every study has limitations, and in this situation, we encountered problems due to a lack of resources and research approaches. This study was conducted in Malaysia's state of Selangor, and while we attempted to collect unbiased data from a large sample size, various categories of SMEs were excluded due to data collection difficulties (problems organizing meetings, for example), which may have impacted the generalizability of the findings. Future research on this topic should use a large sample size and collect data from SMEs in a variety of industries and categories across Malaysian states. This was a quantitative research study; in the future, mixed approaches should be used to explain inventive performance by taking into account emergent phenomena. Furthermore, future research may focus on country factors, which can influence a variety of outcomes. This study was cross-sectional, with data collected over a short period of time. Future research should be longitudinal, including diverse time periods, for a more comprehensive assessment of inventive performance.

However, numerous other moderating and mediating variables, such as openness to experience, self-efficacy, and internal locus of control, can also play an important part in the relationship between ethical leadership and innovative performance. As a result, future research should focus on these moderating and mediating variables.

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