

2017

# Relationship Between Ethical Leadership and Sustainability in Small Businesses

David Amisano

*Walden University*, [chrisamisano@gmail.com](mailto:chrisamisano@gmail.com)

Peter Anthony

*Walden University*

Follow this and additional works at: [https://scholarworks.waldenu.edu/sm\\_pubs](https://scholarworks.waldenu.edu/sm_pubs)



Part of the [Management Sciences and Quantitative Methods Commons](#)

---

This Article is brought to you for free and open access by the College of Management and Technology at ScholarWorks. It has been accepted for inclusion in School of Management Publications by an authorized administrator of ScholarWorks. For more information, please contact [ScholarWorks@waldenu.edu](mailto:ScholarWorks@waldenu.edu).

# **Relationship between Ethical Leadership and Sustainability in Small Businesses**

**David Christopher Amisano**  
Walden University

**Peter Anthony**  
Walden University

*Since the 2008 financial crisis, business leaders have faced uncertainty regarding the impact of ethical leadership behaviors. Because small business leadership involves multiple facets of behavior and decision-making, small business leaders may have an insufficient understanding of the impact of ethical leadership behaviors on sustainability. The purpose of this study was to examine the relationship between ethical leadership and financial, social, and environmental sustainability in small businesses. The participants were 80 members of a Miami, Florida chamber of commerce. Correlation analysis and Bonferroni corrected calculation indicated significant relationships ( $p < .001$ ) between ethical leadership behaviors and social and environmental sustainability.*

## **INTRODUCTION**

As universities created business schools in the early 20th century, business ethics as a discipline began to move into the forefront of education and practice (Abend, 2013). Between 2008 and 2009, the Association of Certified Fraud Examiners found 1,843 fraud cases in the United States that cost businesses nearly 5% of their annual revenue (Austill, 2011). The causes of the 2008 U.S. market collapse are numerous, including a lack of ethical behavior on the part of financial institution leaders through secondary mortgage markets, derivatives, and unprincipled groupthink (Austill, 2011); increased risk-taking, even in conservative companies (Adelson, 2013); and perhaps decision-making under anxiety about the future in a speculative market (Parguez & Thabet, 2013). Companies involved in all of these events relied on their leaders to conduct business ethically while maintaining stakeholder interests and also to ensure the environmental, social, and financial well-being of the firm.

Recessions, such as the U.S. one that began in 2008, tend to generate more careful, more focused, and more price-concerned consumer behaviors (Hampson & McGoldrick, 2013). By the end of 2008, U.S. consumers brought spending on durable goods down by over \$200 billion as compared to the previous year (Bureau of Labor Statistics, 2014). However, reduced spending is not the only customer issue that businesses face in the wake of the 2008 recession. A greater perception of unethical business practice is problematic because it may lead to lower levels of consumer trust in a company (Leonidou et al., 2013). Trust in a company has a positive impact on both intent to purchase and word of mouth behaviors in consumers, and the perception of transparency can affect consumer trust (Kang & Hustvedt, 2014). If the

public cannot trust businesses, and by implication their leaders, and continues to reduce spending because of lack of trust, transparency, and income, businesses may face a long recovery from a recession.

Since the 2008 U.S. economic crisis, business leaders' ethical behavior has also been under scrutiny. However, business leaders face uncertainty about their ethical actions and responsibilities because few ethical leadership norms establish appropriate ways in which to act (Eisenbeiss, 2012). Recent studies have attempted to define ethical behaviors by classifying leader actions according to their own descriptions (Eisenbeiss, 2012). Bagdasarov et al. (2016) suggested adding a sensemaking dimension to existing ethical decision-making models to enable leaders to fine-tune ethical decisions. In addition, researchers linked supervisory failure to unethical management behaviors (Ladany, 2014). However, to augment ethical decision-making and unethical behaviors, researchers measured the relationship between ethical leadership and employee and organizational performance, including impacts on supervisory-rated performance (Walumbwa et al., 2010). Researchers have also investigated influences on employee satisfaction, commitment, and organizational citizenship (Ruiz et al., 2011). Other studies have linked employee perception of ethical leadership to their perception of strategy (Tutar et al., 2011) as well as ethical leadership to corporate social responsibility (Zhu et al., 2014).

Because of the connections between ethics and sustainability, as well as the impact of the unethical practice upon consumer behavior, an unethical culture could influence business sustainability. Small business leaders may be in a position to shape ethical culture and sustainability. However, some small business managers and owners lack an understanding of the correlation between ethical leadership behaviors and businesses' financial, social, and environmental sustainability.

## **LITERATURE REVIEW**

The literature regarding ethical leadership and financial, social, and environmental responsibility facilitates the examination of the relationship between ethical leadership and sustainability. The primary themes in the literature are individual and organizational outcomes of ethical leadership, as well as leadership influences upon the three sustainability factors. The literature themes also include ethical practices and their influences.

### **Individual and Behavioral Influences of Ethical Leadership**

The influences of ethical leadership are present in organizations via leader orientations to ethics, ethical decision-making, and individual behaviors in the workplace. Eisenbeiss (2012) identified four ethical leadership orientations through qualitative studies of organizational leaders. The four orientations were humane, justice, responsibility and sustainability, and moderation (Eisenbeiss, 2012). Eisenbeiss also suggested that moderation could be one of the key orientations, and that future research should focus on a contingency orientation. Brown et al. (2005) developed a measurement for ethical leadership through seven studies of MBA and doctoral students, employees, and employee groups in a financial firm. According to the Brown et al. (2005) measurement instrument, ethical leadership arose out of the perception that leaders measured success by its means and not solely the outcome, were fair in decision-making, were trustworthy, and acted with employee best interest in mind. Kalshoven et al. (2011) developed an ethical leadership at work instrument and determined that ethical leaders had orientations to people, fairness, sustainability, and integrity, while being open to sharing power and providing clear ethical guidance.

Individual behavioral outcomes of ethical leadership expand to employee perceptions and intellectual capital (Metz, 2013; Tu & Lu, 2013; Zoghbi-Manrique-de-Lara & Suárez-Acosta, 2014). In a study of Spanish hotel workers, perceptions of ethical leadership had a positive relationship with interactional justice towards peers, or perceptions of employee mistreatment (Zoghbi-Manrique-de-Lara & Suárez-Acosta, 2014). In relation to intellectual elements, Bouckennooghe et al. (2015) determined that supervisor ethical leadership had a positive relationship with follower psychological capital, including hope, resilience, self-efficacy, and optimism. For employees in a Turkish aviation firm, ethical leadership had a positive relationship with employee perceptions of organizational justice, and organizational justice was a

partial mediator between ethical leadership and organizational misbehavior (Demirtas, 2015). With front line workers in a Chinese auto manufacturer and technology company, ethical leadership had a positive relationship with innovative behaviors on the job (Tu & Lu, 2013). The indication from these studies is that ethical leadership behaviors can reduce cynicism and increase feelings of ownership, satisfaction, and innovation.

### **Organizational Performance Outcomes of Ethical Leadership**

The literature indicates that ethical leadership has an influence on (a) job satisfaction, (b) organizational commitment, (c) organizational citizenship, (d) turnover intent, and (e) stress (Çelik et al., 2015; Demirtas & Akdogan, 2015; Shin et al., 2015; Walumbwa et al., 2010; Yang, 2014). In a study of supervisors and their direct reports in a Chinese pharmaceutical company, ethical leadership had a positive relationship with performance (Walumbwa et al., 2010). Simultaneously, leader-member exchange, self-efficacy, and organizational identification were facilitators of the ethical leadership and supervisory-rated performance relationship (Walumbwa et al., 2010). In a study across Korean industries, management ethical leadership was a predictor of ethical and procedural justice climates, which were then mediators on organizational citizenship behavior at the firm level as well as firm financial performance (Shin et al., 2015). At the organizational level, ethical leadership behaviors may influence employee identification as well as performance.

In a related study of Romanian workers in construction and metal products companies, ethical leadership had a positive relationship with followers' relational identification with both leader and organization (Zhu et al., 2015). Relational identification was a mediator between ethical leadership and follower voice behavior, while identification with the organization was a mediator between ethical leadership and follower voice behavior, that is, follower willingness to speak up for the benefit of the organization (Zhu et al., 2015). Followers' identification with organization and identification with their relationship with the leader served as mediators between ethical leadership and job performance (Zhu et al., 2015). The literature on performance and ethical leadership indicate that ethical leadership may be a conduit between multiple factors and eventual performance and organizational behavior outcomes. In addition, ethical leadership in supervisors seems to lead to highly rated employee performance.

The literature also highlights links between ethical leadership and behavioral factors that could influence organizational performance, including job satisfaction, commitment, organizational citizenship, turnover, and stress. In a study of 391 Turkish hotel workers, ethical leadership had a positive relationship with job satisfaction and with employees' level of organizational commitment (Çelik et al., 2015). As a mediator, organizational commitment had a positive relationship with job satisfaction (Çelik et al., 2015). As a connection to previous studies, ethical leadership relates positively to organizational outcomes such as satisfaction and turnover.

Ethical leadership may increase satisfaction and commitment and reduce turnover and conflict. In the Spanish banking and insurance industries, ethical leadership at supervisory and executive levels had positive relationships with employee job satisfaction, organizational commitment, and organizational citizenship (Ruiz et al., 2011). Both ethical leadership levels had negative relationships with the intent to leave (Ruiz et al., 2011). However, supervisory ethical leadership was an intermediary between executive ethical leadership and the job-related factors (Ruiz et al., 2011). At another level of influence, Zhou and Shi (2014) found that ethical leadership was a moderator between leader-member exchange differentiation and team conflict. A stronger moderation relationship existed when ethical leadership was low (Zhou & Shi, 2014). The influence of ethical leadership seems to reduce conflict and potential turnover, but at the same time may make employees more committed to the organization. Although some links between ethical leadership and performance outcomes are indirect or moderated, the impact to organizational performance appears to be strong.

### **Influences on the Integration of Environmental and Corporate Social Responsibility**

Financial benefits may be one reason behind why firms adopt environmental sustainability programs. In a study of 51 U.S. manufacturing firms on the Dow Jones Sustainability Index (DJSI), on the average,

the financial payoff from high order sustainability initiatives was better than the payoff from low order sustainability initiatives, where high order initiatives generated new products or processes and low order initiatives only changed current products and processes (Kurapatskie & Darnall, 2013). In an analysis of corporate environmental and corporate financial performance reporting from 1970 to 2009, smaller firms received as much financial benefit as larger firms regarding environmental responsibility (Dixon-Fowler et al., 2013). In addition, the environmental performance element had the most consistent influence on financial performance, as measured by both short- and long-term indicators such as stock price, return on assets (ROA), and return on equity (ROE) (Dixon-Fowler et al., 2013).

Another element in the generation of environmental sustainability from the literature is the nonleadership rationale behind the integration of the environment into business practice. In a study of large German companies, Windolph et al. (2014) analyzed the company functional areas requiring increased sustainability management to determine the overall motivation for the implementation of sustainable practices. Key motivators were the creation of legitimacy and market success, while a less important motivator was the desire to improve internal functions (Windolph et al., 2014). This research indicates that some leaders view sustainability as an appropriate choice based largely on external factors as opposed to internal.

Other reasons for environmental sustainability seem to be less altruistic. At the organizational level, Zaman (2013) asserted that a reason for commitment to the environment other than altruism was due to the specific environmental risks of doing business. Risks included those related to general health, such as factory emissions, synthetic pesticides, and carbon monoxide (Zaman, 2013). Additional reasons included ecological risks that stemmed from the use of nonrenewable energy sources and land transformation, as well as economic risks caused by damage to people and physical property due to the health and ecological risks present in business processes (Zaman, 2013). Delmas and Pekovic (2013) determined that organizations with environmental practices in place had higher labor productivity as well as effective training and communication. However, in a study of Canadian manufacturing firms, managers' personal environmental values had a positive relationship with their organizational citizenship behaviors for the environment (Boiral et al., 2015). In this sense, environmental sustainability may arise from risk, compliance, and productivity concerns and not necessarily from altruism.

Corporate social responsibility appears in the literature as related to leadership, business processes, and even values. After a meta-analysis of the literature related to the connections between leadership and CSR, Christensen et al. (2014) contended that servant leadership was an important facet of the connections between leadership and CSR. Under this framework, leaders engender trust that can generate ethics and value creation, which are antecedents to CSR (Christensen et al., 2014). Follower rating of transformational leadership had a positive relationship with leader CSR values and follower stakeholder CSR values (Groves, 2014). The values of leader stakeholders were also moderators between transformational leadership and follower stakeholder values (Groves, 2014). Among 122 organizational leaders and 458 subordinates, the leadership style and thus a relationship with CSR was dependent on the perception of leader ethics (Groves & La Rocca, 2011). Subordinates rated their leaders as transformational if they perceived them as moral altruists but as transactional if they perceived the leader as utilitarian in ethical approach (Groves & La Rocca, 2011). In line with this conclusion, the study indicated that transformational leadership had a positive relationship with the value subordinates placed on CSR (Groves & La Rocca, 2011). From this perspective, transformational and transactional leadership influence CSR and its value, but leader ethics may also have an effect on that relationship.

A final element in the literature relates to the integration of business processes and frameworks as a support for CSR. Godkin (2015) proposed that mid-level managers should begin to recognize employee engagement behaviors and channel that engagement into long-term CSR. Under this model, mid-level managers should become aware of employees who are ethical champions or employees who simply tell the truth (Godkin, 2015). In a content analysis of the top 50 companies on the Australian Securities Exchange, Klettner et al. (2014) examined annual and sustainability reports as well as company websites and asserted that these companies were in the process of integrating CSR into core business strategy. This assertion arose from the fact that 36 of the top 50 included sustainability information as part of the annual

report and 27 issued a separate sustainability report, as well as from evidence that 22 companies had identified a board committee on sustainability (Klettner et al., 2014). Hahn et al. (2015) proposed an integration and understanding of the organizational, economic, and social tensions that arise due to CSR. Under the framework, business leaders can identify the tensions, define the rationale underlying the tensions, and generate solution strategies (Hahn et al., 2015).

### **Influences on Firm Financial Performance**

As with environmental sustainability, the discussion of the literature on ethics, ethical leadership, and financial performance involves the reasoning and subsequent impacts of unethical or illegal behavior on firm performance. Executives who displayed overconfident behaviors were more likely to be involved in manipulation of financial reporting (Plöckinger et al., 2016). An executive's age, length of service and education reduced tolerance for risk in financial reporting, although one executive with concentrated power appeared to generate lower quality reporting (Plöckinger et al., 2016). In 128 banks with 164 legal violations between them, legal violations had a negative impact on financial performance and that the negative effect increased with the level of violation seriousness (Zeidan, 2013). In addition, multiple violations had a higher negative impact on financial performance (Zeidan, 2013). Although an earnings restatement is not necessarily illegal or unethical, nor do legal violations have a proven link to unethical behavior, they do have potentially negative impacts on firm financial performance.

Ethics also has links to financial reporting. Chief Financial Officers (CFOs) with a low level of earnings management ethics were more likely to report larger discretionary expense accruals when an individual financial incentive conflicted with an organizational incentive (Beaudoin et al., 2015). In fact, the conflict in incentives was a moderator between the CFOs' tendency to become morally disengaged and decisions regarding discretionary accruals (Beaudoin et al., 2015). Working professionals and accountants were more likely to view questionable practices that affected reporting outcomes from an ethically situational perspective as opposed to an organizational outcome perspective (Walker & Fleischman, 2013). In the same study, ethical behaviors had a positive relationship with ethical judgment (Walker & Fleischman, 2013). The presence of audit functions as well as situational thinking and judgment could bring ethics into financial reporting decisions.

## **METHODOLOGY**

The purpose of this study was to examine the relationship between ethical leadership behaviors and financial, social, and environmental sustainability in small businesses. The sample consisted of 80 small business owners and managers who were members of a chamber of commerce in Miami, Florida. The objective of the study was to provide small business leaders information regarding the relationship of their ethical leadership behaviors with financial, social, and environmental sustainability. To achieve this objective, the following hypotheses were the focus of the study:

*H1<sub>0</sub>*: A significant correlation does not exist between manager and owner ethical leadership behaviors and financial sustainability in small businesses.

*H1<sub>a</sub>*: A significant correlation exists between manager and owner ethical leadership behaviors and financial sustainability in small businesses.

*H2<sub>0</sub>*: A significant correlation does not exist between manager and owner ethical leadership behaviors and with corporate social responsibility in small businesses.

*H2<sub>a</sub>*: A significant correlation exists between manager and owner ethical leadership behaviors and corporate social responsibility in small businesses.

*H3<sub>0</sub>*: A significant correlation does not exist between manager and owner ethical leadership behaviors and environmental responsibility in small businesses.

*H3<sub>a</sub>*: A significant correlation exists between manager and owner ethical leadership behaviors and environmental responsibility in small businesses.

The self-designed data collection instrument utilized a 5-point Likert scale with 1/Strongly Disagree as the lowest anchor and 5/Strongly Agree as the high anchor for ethical leadership items, along with

specific scales for sustainability questions. The scale and survey instrument design for the dependent variable, ethical leadership, followed the models utilized by Brown et al. (2005) and Kalshoven et al. (2011) and measured behaviors and orientations related to ethical leadership as indicated by those researchers. Ethical leadership concepts from the literature that appeared in the survey instrument included manager’s concern for the greater good and well-being of both employees and society in decision-making, the perception of fairness and ethics in administration and decision-making, concern for social and environmental impacts, the ability to be trustworthy, and concern for how successful results emerge (Brown et al., 2005; Eisenbeiss, 2012; Kalshoven et al., 2011). In addition, the survey instrument measured the independent variables, financial, social, and environmental sustainability, through questions targeting environmental and social involvement, as well as financial indicators such as ROA and net profit margin (Bondy & Starkey, 2014, Dixon-Fowler et al., 2013, Metcalf & Benn, 2013).

## DATA ANALYSIS

Participants submitted 95 surveys. After an initial review of raw survey data, we eliminated four records because the participants reported more than 99 employees. We also eliminated a further 11 records due to missing data, resulting in 80 records used in the final analysis. The average age of businesses in the survey was 21.83 years, while participants’ average length of time in the ownership or management position was 17.26 years. Business owners and managers reported an average of 9.35 employees. The primary industries for the businesses in the survey covered a wide range, with most industries or business types occurring only once. The most prevalent business types in the data set were agriculture, catering, construction, hospitality, insurance, law, and medical businesses, each of which were reported twice.

To determine the correlation between survey items measuring the dependent variable ethical leadership and survey items measuring social, environmental, and financial sustainability, we used the Pearson correlation in SPSS Version 21. To protect against Type I error, we applied the Bonferroni correction to obtain a revised significance level ( $p < .001$ ), by dividing the existing significance level ( $p = .05$ ) by the total number of 108 correlations. The conclusion from this analysis was that ethical leadership behaviors did not have a significant correlation with financial sustainability. However, some ethical leadership behaviors did correlate with environmental and social sustainability elements.

Mean (with standard deviations in parentheses) for the ethical leadership construct was 4.52 (.678), the CSR construct was 4.4 (.788), the environmental responsibility construct was 3.55 (1.15), and the financial items for current ROA, net revenue, and net profit margin was 2.58 (1.43). For financial items in which the participant indicated a decrease or increase in financial indicators over the previous year, 62.5% reported an increase in ROA, 60% reported an increase in net revenue, and 63.8% reported an increase in net profit margin. Tables 1, 2, and 3 show the descriptive statistics for the study variables.

**TABLE 1**  
**PARTICIPANT DESCRIPTIVE STATISTICS**

Description	<i>M</i>
Average business age (years)	21.83
Average number of employees	9.35
Average length of ownership or management (years)	17.26

*Note: n=80*

**TABLE 2**  
**VARIABLE DESCRIPTIVE STATISTICS**

Variable	<i>M</i>	<i>SD</i>
Ethical Leadership	4.52	.678
CSR	4.45	.788
Environmental Responsibility	3.55	1.15
Financial	2.58	1.43

*Note: n=80*

**TABLE 3**  
**FREQUENCY AND PERCENTAGE DISTRIBUTION OF YEAR OVER YEAR CHANGE IN FINANCIAL INDICATORS**

Indicator	<i>n</i>	%
ROA Decrease	30	37.5
ROA Increase	50	62.5
Net Revenue Decrease	32	40
Net Revenue Increase	48	60
Net Profit Margin Decrease	29	36.3
Net Profit Margin Increase	51	63.8

*Note: n=80*

**Hypothesis 1: Ethical Leadership and Financial Sustainability**

Table 4 contains Pearson correlations between ethical leadership behaviors and financial sustainability elements.

**TABLE 4**  
**CORRELATION MATRIX: ETHICAL LEADERSHIP AND FINANCIAL SUSTAINABILITY**

Variable	V17_ chgROA	V18_ Netrev	V19_ chgNetrev	V20_ netPM	V21_ chgnetPM
V2_success	.122	-.045	-.078	.176	.048
V3_fairpp	-.043	-.163	-.111	.134	-.030
V4_fairdm	.026	.042	-.008	.284*	.043
V7_promises	.025	-.015	.065	.142	.104
V8_trust	-.024	-.105	-.050	.095	.117
V9_subcomp	-.056	-.132	-.066	.035	-.032
V10_percomp	-.132	-.232*	-.196	-.071	-.084
V12_bestint	-.048	-.098	.063	.115	-.024
V13_right	-.032	-.141	-.025	.075	-.014

\* Correlation is significant at the 0.05 level (2-tailed)

None of the correlations between ethical leadership behaviors and financial sustainability items was significant at the corrected significance level ( $p < .001$ ). However, very small correlations at the .05 level existed between fair decision-making and net profit margin,  $r(78) = .284, p < .05$ , as well as between personal compliance with ethical codes and net revenue,  $r(78) = .232, p < .05$ . These correlations suggest



a small positive relationship between a leader's ethical decision making and compliance with ethical codes and net revenue and net profit margin levels. However, these correlations were not strong enough to be statistically significant. Given correlation values and the corrected significance level, we accepted the null hypothesis that a significant correlation between ethical leadership and financial sustainability did not exist.

**Hypothesis 2: Ethical Leadership and Corporate Social Responsibility**

Significant correlations existed between some ethical leadership behaviors and corporate social responsibility elements. Table 5 displays the Pearson correlation values between ethical leadership and corporate social responsibility items.

**TABLE 5**  
**CORRELATION MATRIX: ETHICAL LEADERSHIP AND CORPORATE SOCIAL RESPONSIBILITY**

Variable	V1_wellbeing	V6_society	V11_greaterg
V2_success	.245*	.285*	.243*
V3_fairpp	.426**	.399**	.258*
V4_fairdm	.455**	.412**	.294**
V7_promises	.073	.341**	.362**
V8_trust	.009	.276*	.410**
V9_subcomp	.060	.380**	.477**
V10_percomp	.045	.303**	.554**
V12_bestint	.155	.493**	.675**
V13_right	.052	.516**	.579**

\* Correlation is significant at the 0.05 level (2-tailed)

\*\* Correlation is significant at the .01 level (2-tailed)

Medium correlations existed between V3\_fairpp, fairness in business procedures and practices, and V1\_wellbeing, caring for stakeholder well-being,  $r(78) = .426, p < .001$ , as well as V6\_society, concern for the well-being of society,  $r(78) = .399, p < .001$ . Medium correlations existed between v4\_fairdm, fairness in decision-making, and V1\_wellbeing, caring for stakeholder well-being,  $r(78) = .455, p < .001$ , and V6\_society, concern for the well-being of society,  $r(78) = .412, p < .001$ . Trustworthiness (V8\_trust) had a moderate correlation with V11\_greaterg, consideration of the greater good in decision-making,  $r(78) = .410, p < .001$ . V9\_subcomp, ensuring subordinate compliance with ethical codes, V10\_percomp, personal compliance with ethical codes, and V13\_right, making decisions based on the right thing to do, had moderate correlations with V11\_greaterg, consideration of the greater good in decision-making,  $r(78) = .477, p < .001$ ;  $r(78) = .554, p < .001$ ;  $r(78) = .579, p < .001$ , respectively. V12\_bestint, acting with others' best interests at heart, and V13\_right, making decisions based on the right thing to do, also had moderate correlations with V6\_society, interest in the well-being of society,  $r(78) = .493, p < .001$ ;  $r(78) = .516, p < .001$ , respectively. A large correlation existed between V12\_bestint, acting with others' best interests at heart, and V11\_greaterg, consideration of the greater good in decision-making,  $r(78) = .675, p < .001$ . Given these correlations, we accepted the alternative hypothesis that a significant relationship existed between ethical leadership and social sustainability in small businesses.

**Hypothesis 3: Ethical Leadership and Environmental Responsibility**

Significant correlations existed between three ethical leadership dimensions and one environmental responsibility dimension. Table 6 presents the matrix for this series of correlations.

**TABLE 6**  
**CORRELATION MATRIX: ETHICAL LEADERSHIP AND ENVIRONMENTAL RESPONSIBILITY**

Variable	V5 envimp	V14 dialog	V15 envguide
V2_success	.486**	.227*	.085
V3_fairpp	.472**	.064	.203
V4_fairdm	.404**	.005	.155
V7_promises	-.017	.101	.122
V8_trust	.051	.074	.136
V9_subcomp	.282*	.198	.246*
V10_percomp	.324**	.255*	.304**
V12_bestint	.127	-.028	.174
V13_right	.186	-.030	.215

\* Correlation is significant at the 0.05 level (2-tailed)

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

Moderate correlations existed between V2\_success, leader does not enjoy success at the cost of others, V3\_fairpp, fairness in procedures and practices, and V4\_fairdm, fair in decision-making, and V5\_envimp, concern for the organization's impact on the environment,  $r(78) = .486, p < .001$ ;  $r(78) = .472, p < .001$ ;  $r(78) = .404, p < .001$ , respectively. This finding indicates that small business owners or managers who do not enjoy success at the cost of others, are fair in procedures and practices, and are fair in decision-making have concern for the impact their business makes on its environment. Given this evidence, we accepted the alternative hypothesis that a significant correlation existed between ethical leadership and environmental responsibility in small businesses.

## DISCUSSION

Themes from the literature confirm the findings for Hypothesis 1, as leadership and financial performance often have indirect relationships or mediators or moderators in the relationship (Beaudoin et al., 2015; Shin et al., 2015). Shin et al. (2015) determined that ethical leadership had links to overall financial performance through ethical climate, procedural justice, and organizational citizenship behaviors. For CFOs, conflicts in financial incentives were moderators in the relationship between being morally disengaged and making decisions regarding discretionary accruals (Beaudoin et al., 2015).

Leadership styles with indirect links to financial performance vary. Engelen et al. (2015) determined that transformational leadership moderated a relationship between CEO entrepreneurial orientation and achievement of financial goals. In a meta-analysis of leadership data, transactional leadership generated innovation, and transformational leadership increased overall organizational performance, but links between innovation and ROA were not present (Sethibe & Steyn, 2015). However, servant leadership had a positive relationship with financial performance in the Chinese hospitality industry (Huang et al., 2016). These findings could mean that a small business leader would need a leadership profile that combines the leadership styles that influence financial performance, whether mediated or not. In the current study, the leadership variables related directly to ethical leadership, but not to other styles or combinations of styles.

The literature on CSR and leadership provides support for the findings from hypothesis 2. A key supporting element from the literature review was that a general relationship with CSR depended on employee perceptions of leader ethics (Groves & La Rocca, 2011). To augment support, Christensen et al., (2014) developed a framework for CSR which included servant leadership. The servant leadership trait of engendering trust could create value and ethics for followers, which are preceding components of CSR (Christensen et al., 2014). Finally, follower perceptions of transformational leadership had a positive

relationship with a leader's CSR values, which moderated stakeholder values and transformational leadership (Groves, 2014). These studies support the current findings in that a relationship exists between leader ethics, sustainability values, and CSR. Although other leadership styles contribute to the development and integration of CSR, the clear connection seems to be leader ethics, trustworthiness, values, and even transformational leadership attributes. From these perspectives, small business owners or managers who recognize and demonstrate ethical leadership behaviors may work more closely with employees, society, and business communities, thus ensuring a culture of CSR.

Although a limited number of correlations existed between ethical leadership and environmental responsibility, the literature provides support to the findings for hypothesis 3. Pertaining to leadership and environmental concerns, Metcalf and Benn (2013) determined that leadership styles contributed to an organization's adoption of sustainability activity. In the same study, the leadership profile for environmental responsibility should match systems complexity, and would reflect multiple leadership styles, such as emergent, situational, ethical, and transformational (Metcalf & Benn, 2013). Based on this literature, and in support of the current findings, if a small business owner is a strong leader with ethical leadership traits, their business may gravitate naturally to a state of environmental concern or action.

Ethics decisions create uncertainty in management and leadership due to the lack of norms in ethical leadership (Eisenbeiss, 2012). For small business owners, uncertainty in decision-making can be costly in time and money, not to mention in the perception of ethics from employees or other stakeholders. In the current study, multiple leadership behaviors had correlations with sustainability, so these behaviors may add to the knowledge framework regarding ethical leadership for small business leaders.

Leaders that practice ethical leadership, generate trust, and have individual collectivist values also generate ethical climates and environments (Christensen et al., 2014; Shin et al., 2015; Wang & Young, 2014). The findings from this study indicate that a manager's fairness in procedures, practices, and decision-making correlate to concern for stakeholder and societal well-being as well as concern for the business's environmental impact. Also, trustworthiness, ensuring personal and subordinate compliance with ethical codes, decision-making based on the right thing to do, and acting with others' best interests at heart correlate with consideration of the greater good in decision-making. Findings also indicate that leaders who do not enjoy success at others' cost also have concern for environmental impact. Small business leaders can examine their leadership styles to determine if the correlated ethical leadership behaviors are present.

## REFERENCES

- Abend, G. (2013). The origins of business ethics in American universities, 1902-1936. *Business Ethics Quarterly*, 23(2), 171-205. doi:10.5840/beq201323214
- Adelson, M. (2013). The deeper causes of the financial crisis: Mortgages alone cannot explain it. *Journal of Portfolio Management*, 39(3), 16-31. Retrieved from <http://www.ijournals.com/toc/jpm/current>
- Austill, A. D. (2011). Legislation cannot replace ethics in regulatory reform. *International Journal of Business and Social Science*, 2(13), 61-71. Retrieved from <http://www.ijbssnet.com>
- Bagdasarov, Z., Johnson, J. F., MacDougall, A. E., Steele, L. M., Connelly, S., & Mumford, M. D. (2016). Mental models and ethical decision making: The mediating role of sensemaking. *Journal of Business Ethics*, 138, 133-144. doi:10.1007/s10551-015-2620-6
- Beaudoin, C. A., Cianci, A. M., & Tsakumis, G. T. (2015). The impact of CFO's incentives and earnings management ethics on their financial reporting decisions: The mediating role of moral disengagement. *Journal of Business Ethics*, 128, 505-518. doi:10.1007/s10551-014-2107-x
- Boiral, O., Talbot, D., & Paillé, P. (2015). Leading by example: A model of organizational citizenship behavior for the environment. *Business Strategy and the Environment*, 24, 532-550. doi:10.1002/bse.1835

- Bondy, K., & Starkey, K. (2014). The dilemmas of internationalization: Corporate social responsibility in the multinational corporation. *British Journal of Management*, 25, 4-22. doi:10.1111/j.1467-8551.2012.00840.x
- Bouckennooghe, D., Zafar, A., & Raja, U. (2015). How ethical leadership shapes employees' job performance: The mediating roles of goal congruence and psychological capital. *Journal of Business Ethics*, 129, 251-264. doi:10.1007/s1051-014-2162-3
- Brown, M. E., Treviño, L. K., & Harrison, D. A. (2005). Ethical leadership: A social learning perspective for construct development and testing. *Organizational Behavior and Human Decision Processes*, 97, 117-134. doi:10.1016/j.obhdp.2005.03.002
- Bureau of Labor Statistics. (2014). *Consumer spending and U.S. employment from the 2007-2009 recession through 2022*. Retrieved from <http://www.bls.gov/opub/mlr/2014/article/consumer-spending-and-us-employment-from-the-recession-through-2022.htm>
- Çelik, S., Dedeoğlu, B. B., & İnanir, A. (2015). Relationship between ethical leadership, organizational commitment and job satisfaction at hotel organizations. *Ege Academic Review*, 15(1), 53-63. Retrieved from <http://www.onlinedergi.com/eab/giris.aspx>
- Christensen, L. J., Mackey, A., & Whetten, D. (2014). Taking responsibility for corporate social responsibility: The role of leaders in creating, implementing, sustaining, or avoiding socially responsible firm behaviors. *The Academy of Management Perspectives*, 28(2), 164-178. doi:10.5464/amp.2012.0047
- Delmas, M. A., & Pekovic, S. (2013). Environmental standards and labor productivity: Understanding the mechanisms that sustain sustainability. *Journal of Organizational Behavior*, 34, 235-252. doi:10.1002/job.1827
- Demirtas, O. (2015). Ethical leadership influence at organizations: Evidence from the field. *Journal of Business Ethics*, 126, 273-284. doi:10.1007/s10551-013-1950-5
- Demirtas, O., & Akdogan, A. A. (2015). The effect of ethical leadership behavior on ethical climate, turnover intention, and affective commitment. *Journal of Business Ethics*, 130, 59-67. doi:10.1007/s10551-014-2196-6
- Dixon-Fowler, H. R., Slater, D. J., Johnson, J. L., Ellstrand, A. E., & Romi, A. M. (2013). Beyond "does it pay to be green?" A meta-analysis of moderators of the CEP-CFP relationship. *Journal of Business Ethics*, 112, 353-366. doi:10.1007/s10551-012-1268-8
- Eisenbeiss, S. A. (2012). Re-thinking ethical leadership: An interdisciplinary integrative approach. *The Leadership Quarterly*, 23, 791-808. doi:10.1016/j.leaqua.2012.03.001
- Engelen, A., Gupta, V., Strenger, L., & Brettel, M. (2015). Entrepreneurial orientation, firm performance, and the moderating role of transformational leadership behaviors. *Journal of Management*, 41(4), 1069-1097. doi:10.1177/0149206312455244
- Godkin, L. (2015). Mid-management, employee engagement, and the generation of reliable sustainable corporate social responsibility. *Journal of Business Ethics*, 130, 15-28. doi:10.1007/s10551-014-2149-0
- Groves, K. S. (2014). Examining leader-follower congruence of social responsibility values in transformational leadership. *Journal of Leadership & Organizational Studies*, 21(3), 227-243. doi:10.1177/1548051813498420
- Groves, K. S., & La Rocca, M. A. (2011). An empirical study of leader ethical values, transformational and transactional leadership, and follower attitudes toward corporate social responsibility. *Journal of Business Ethics*, 103, 511-528. doi:10.1007/s10551-011-0877-y
- Hahn, T., Pinske, J., Preuss, L., & Figge, F. (2015). Tensions in corporate sustainability: Towards an integrative framework. *Journal of Business Ethics*, 127, 297-316. doi:10.1007/s10551-014-2047-5
- Hampson, D. P., & McGoldrick, P. J. (2013). A typology of adaptive shopping patterns in recession. *Journal of Business Research*, 66, 831-838. doi:10.1016/j.jbusres.2011.06.008

- Huang, J., Li, W., Qiu, C., Yim, F. H., & Wan, J. (2016). The impact of CEO servant leadership on firm performance in the hospitality industry. *International Journal of Contemporary Hospitality Management*, 28(5), 945-968. doi:10.1108/IJCHM-08-2014-0388
- Kalshoven, K., Den Hartog, D. N., & De Hoogh, A. H. B. (2011). Ethical leadership at work questionnaire (ELW): Development and validation of a multidimensional measure. *The Leadership Quarterly*, 22, 51-69. doi:10.1016/j.leaqua.2010.12.007
- Kang, J., & Hustvedt, G. (2014). Building trust between consumers and corporations: The role of consumer perceptions of transparency and social responsibility. *Journal of Business Ethics*, 125, 253-265. doi:10.1007/s10551-103-1916-7
- Klettner, A., Clarke, T., & Boersma, M. (2014). The governance of corporate sustainability: Empirical insights into the development, leadership and implementation of responsible business strategy. *Journal of Business Ethics*, 122, 145-165. doi:10.1007/s10551-013-1750-y
- Kurapatskie, B., & Darnall, N. (2013). Which corporate sustainability activities are associated with greater financial payoffs? *Business Strategy and the Environment*, 22, 49-61. doi:10.1002/bse.1735
- Ladany, N. (2014). The ingredients of supervisor failure. *Journal of Clinical Psychology*, 70(11), 1094-1103. doi:10.1002/jclp.22130
- Leonidou, L. C., Kvasova, O., Leonidou, C. N., & Chari, S. (2013). Business unethicity as an impediment to consumer trust: The moderating role of demographic and cultural characteristics. *Journal of Business Ethics*, 112, 397-415. doi:10.1007/s10551-012-1267-9
- Metcalf, L., & Benn, S. (2013). Leadership for sustainability: An evolution of leadership ability. *Journal of Business Ethics*, 112, 369-384. doi:10.1007/s10551-012-1278-6
- Mete, Y. A. (2013). Relationship between organizational cynicism and ethical leadership behaviour: A study at higher education. *Procedia Social and Behavioral Sciences*, 89, 476-483. doi:10.1016/j.sbspro.2013.08.880
- Parguez, A., & Thabet, S. (2013). The twenty-first century world crisis: A Keynes moment? A true systemic crisis fitting Keynes's prophecy. *International Journal of Political Economy*, 42(1), 26-39. doi:10.2753/IJP0891-1916420103
- Plöckinger, M., Aschauer, E., Hiebl, M. R. W., & Rohatschek, R. (2016). The influence of individual executives on corporate financial reporting: A review and outlook from the perspective of upper echelons theory. *Journal of Accounting Literature*, 37, 55-75. doi:10.1016/j.acclit.2016.09.002
- Ruiz, P., Ruiz, C., & Martinez, R. (2011). Improving the "leader-follower" relationship: Top manager or supervisor? The ethical leadership trickle-down effect on follower job response. *Journal of Business Ethics*, 99, 587-608. doi:10.1007/s10551-010-0670-3
- Sethibe, T., & Steyn, R. (2015). The relationship between leadership styles, innovation and organizational performance: A systematic review. *South African Journal of Economic and Management Sciences*, 18(3), 325-337. doi:10.17159/2222-3436/2015/v18n3a3
- Shin, Y., Sung, S. Y., Choi, J. N., & Kim, M. S. (2015). Top management ethical leadership and firm performance: Mediating role of ethical and procedural justice climate. *Journal of Business Ethics*, 129, 43-57. doi:10.1007/s10551-014-2144-5
- Tu, Y. D., & Lu, X. X. (2013). How ethical leadership influence employees' innovative work behavior: A perspective of intrinsic motivation. *Journal of Business Ethics*, 116, 441-455. doi:10.1007/s10551-012-1455-7
- Tutar, H., Altinöz, M., & Çakiroğlu, D. (2011). Is ethical leadership and strategic leadership a dilemma? A descriptive survey. *Procedia Social and Behavioral Sciences*, 24, 1378-1388. doi:10.1016/j.sbspro.2011.09.073
- Walker, K. B., & Fleischman, G. M. (2013). Toeing the line: The ethics of manipulating budgets and earnings. *Management Accounting Quarterly*, 14(3), 18-24. Retrieved from [http://www.imanet.org/resources\\_and\\_publications/management\\_accounting\\_quarterly/issues.asa](http://www.imanet.org/resources_and_publications/management_accounting_quarterly/issues.asa)

- Walumbwa, F. O., Mayer, D. M., Wang, P., Wang, H., Workman, K., & Christensen, A. L. (2010). Linking ethical leadership to employee performance: The roles of leader-member exchange, self-efficacy, and organizational identification. *Organizational Behavior and Human Decision Processes*, *115*, 204-213. doi:10.1016/j.obhdp.2010.11.002
- Wang, X., & Young, M. N. (2014). Does collectivism affect environmental ethics? A multi-level study of top management teams from chemical firms in China. *Journal of Business Ethics*, *122*, 387-394. doi:10.1007/s10551-013-1761-8
- Windolph, S. E., Harms, D., & Schaltegger, S. (2014). Motivations for corporate sustainability management: Contrasting survey results and implementation. *Corporate Social Responsibility and Environmental Management*, *21*, 272-285. doi:10.1002/csr.1337
- Yang, C. (2014). Does ethical leadership lead to happy workers? A study on the impact of ethical leadership, subjective well-being, and life happiness in the Chinese culture. *Journal of Business Ethics*, *123*, 513-525. doi:10.1007/s10551-103-1852-6
- Zaman, M. D. K. (2013). Environmental ethical commitment (EEC): The interactions between business, environment and environmental ethics. *Procedia – Social and Behavioral Sciences*, *85*, 392-399. doi:10.1016/j.sbspro.2013.08.368
- Zeidan, M. J. (2013). Effects of illegal behavior on the financial performance of U.S. banking institutions. *Journal of Business Ethics*, *112*, 313-324. doi:10.1007/s10551-012-1253-2
- Zhu, Y., Sun, L., & Leung, A. S. M. (2014). Corporate social responsibility, firm reputation, and firm performance: The role of ethical leadership. *Asia Pacific Journal of Management*, *31*, 925-947. doi:10.1007/s10490-013-9369-1
- Zoghbi-Manrique-de-Lara, P., & Suárez-Acosta, M. A. (2014). Employees' reactions to peers' unfair treatment by supervisors: The role of ethical leadership. *Journal of Business Ethics*, *122*, 537-549. doi:10.1007/s10551-013-1778-z
- Zhu, W., He, H., Treviño, L. K., Chao, M. M., & Wang, W. (2015). Ethical leadership and follower voice and performance: The role of follower identifications and entity morality beliefs. *The Leadership Quarterly*, *26*, 702-718. doi:10.1016/j.leaqua.2015.01.004
- Zhou, M., & Shi, S. (2014). Blaming leaders for team relationship conflict? The roles of leader-member exchange differentiation and ethical leadership. *Nankai Business Review International*, *5*(2), 134-246. doi:10.1108/NBRI-09-2013-0036

**APPENDIX  
VARIABLE NAMES-SURVEY ITEMS**

Variable	Survey Item
V1_wellbeing	I have an interest in the professional development of my subordinates as well as myself
V2_success	I do not enjoy success at the cost of others
V3_fairpp	I am fair in procedures and practices
V4_fairdm	I am fair in decision-making
V5_envimp	I have concern for my organization's impact on the environment
V6_society	I have an interest in the well-being of society
V7_promises	I keep my promises
V8_trust	I am trustworthy
V9_subcomp	I personally ensure subordinates' compliance with ethical codes or rules
V10_percomp	I personally comply with ethical codes or rules in every situation
V11_greaterg	I always consider the greater good in my decision-making
V12_bestint	I act with others' best interests at heart
V13_right	I make decisions based on the right thing to do
V14_dialog	I am engaged in ongoing dialog with other small business owners regarding environmental issues
V15_envguide	I have developed a set of environmental guidelines (formal or informal) for my business operations
V16_currROA	The current ROA (Net income divided by average total assets) for my business is: <5% 5-10% 11-15% 15-20% >20%
V17_chgROA	The ROA for my business has (increased/decreased) over the past year.
V18_Netrev	The net revenue (gross sales minus the cost of sales including cost of goods sold) for my business as of the last full fiscal year is: <\$100,000 \$100,001-249, 999 \$250,000-499,999 \$500,000-999,999 >\$1,000,000
V19_chgNetrev	The net revenue for my business has (increased/decreased) over the past year.

---

V20_netPM	The current net profit margin (net profit divided by revenue generated) for my business is: <15% 16-20.99% 21-25.99% 26-29.99% >30%
V21_chgnetPM	21. The net profit margin for my business over the past year has (increased/decreased).

---