

ETHICAL LEADERSHIP AS A PREREQUISITE FOR THE DEVELOPMENT OF INNOVATIVE BUSINESS

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Abstract: Ethical leadership has certain characteristics that are understood as a process of influencing and encouraging the ethical behaviour of the employees that is important for innovative business. A theoretical analysis has revealed that the leader's ethical behaviour creates preconditions for the growth of the employees' creativity and for the introduction of innovation. Our study has determined that the leaders usually act on the basis of the principles of ethical leadership and create conditions allowing the employees to express their views about innovative solutions.

Keywords: ethical leadership; ethical leader; innovative business.

JEL Classification: M10, M40

1. INTRODUCTION

The unique character of ethics in interpersonal (social) relations is manifested by the fact that it acts as an assessment of the moral rules of behaviour that emphasizes the priority of the behavioural reasoning over the behavioural objectives and consequences, that is, one evaluates the behaviour of people by expressing support or disapproval. When we speak about ethics we estimate what is just and what is unjust, what is right and what is wrong in public and personal relationships. The power of moral requirements lies in the fact that they we should always apply them to ourselves and then convey them to others through our life experience.

The leaders' actions and their behaviour influences the conduct of the employees in the organisation. However there has been not much empirical research about the influence of the leader's ethical management on the behaviour of the employees (Obicci, 2015:3). There are some works devoted to ethical leadership (Ciulla, 2004:304), and problems of ethical behaviour are discussed (Hansen et al., 2015:7; Brown, Treviño, 2006:596). Therefore the object of our research can be formulated in these questions: Is the leader's management always based on ethical principles? Does the leader's ethical behaviour make a premise for the development of the other employees' creativity and pursuit of innovation? Do the managers discuss business and work ethics or values with the employees? Object of the Research: In our research we have attempted to study ethical leadership in an organisation and to reveal the premises of ethical leadership for innovative business. Our research methods consisted in analysis of scientific literature, synthesis, comparison, summarisation, and logical abstraction. A questionnaire was used for survey, and the data were processed applying SSPS 18 ir Microsoft Office Excel 2010 software.

2. THE CONCEPT AND THE FEATURES OF ETHICAL LEADERSHIP

History knows many examples of leaders who were known for their strong moral authority (Fehr, Yam, Dang, 2015:182) and their attitude that embodied fair approach

and virtues, and who were able to motivate their followers to do good deeds. However, the ethical leadership theory is based on the need of the researchers to react to problems and troubles within an organisation and to improper behaviour of its leaders and change the existing situation (Stelmokienė, Endriulaitienė, 2013:116). Actually ethical leadership embraces the existing features, conduct and values (Nyukorong, 2014:56), and the types of the leaders and their merits and/or behaviour are described in numerous studies (Ciulla, 2004:304). Ethical leadership is associated with making ethical decisions at every stage; it makes positive influence on the employees and does not allow to compromise and break ethical standards (Pandey, Singh, Pathak, 2015:93); it convinces the employees that they are expected to act in this manner and that such conduct will be rewarded (Fehr, Yam, Dang, 2015:182).

When ethical leaders make moral decisions, they are appreciated for values (Chin, 2013:16), such as honesty, determination, justice, flexibility, tolerance, enthusiasm, courage and responsibility, that is why they should be an example for the employees. An ethical leader is a moral person (Stelmokienė, 2013:113) who has values, makes correct decisions and implements certain practices and is perceived as an example of ethical behaviour that should be followed. Ethical leadership is understood (Kalshoven, Den, 2009:104) as a process that influences - in a socially responsible manner - the activity of an organised group that is engaged in carrying out its objectives. Ethical leaders are an embodiment of many positive personal traits (Mayer, Kuenzi, Greenbaum, 2010:8), and they also seek to promote ethical behaviour among the employees. Ethical leadership is a style (Derr, 2012:67) that aims to promote ethical behaviour of the employees through the leaders' way of thinking, their values, views and appropriate conduct. Ethical leadership is a decisive factor (Chin 2013:16) in the creation of ethical business culture in organisations.

In scientific literature ethical leadership is defined as the rules of conduct of a certain leader in his personal actions and interpersonal relations (Obicci, 2015:2). It means (Mayer, Kuenzi, Greenbaum, 2010:8) that an ethical leader should be a moral person and a moral leader. Scientific

concepts show that there are three main components of ethical leadership (Chin 2013:16; Hassan, 2015:702): 1) fair treatment of people; 2) implementation of moral conduct serving as an example that allows an employee to learn from the leader how to behave in an ethical manner; 3) morality and its basic foundations are actively implemented. Thus the employees' beliefs, values and needs are recognised (Ciulla, 2004:307), and they are ready to cooperate (Kalshoven, Den Hartog 2009:103) because they are treated fairly and attentively.

Ethical leadership balances between altruistic and egoistic motives (Derr, 2012:66). Six separate areas of human morality are analysed (Fehr, Yam, Dang 2015:182), and it is the best illustration of how the employees perceive their leader's behavior: 1) care/harm; 2) honesty/deception; 3) loyalty/betrayal; 4) sacred/devaluated; 5) powerful/ineffective; 6) freedom/oppression. Ethical leadership must be evaluated by analysing a number of features (Ciulla, 2004:326): 1) an ethical leader as a person who combines such things as self-knowledge, discipline and intentions, etc.; 2) the ethics of the interrelations between the manager and the employee (that is, how they behave with each other); 3) leadership and ethics (i.e. management and control); 4) the ethics of what the leader does or does not do. Theoretically, ethical leadership may be characterised by different behaviour having a different effect in three dimensions (Kalshoven, Den Hartog, 2009:104): 1) honesty: just, reliable and virtuous being the main dimension; 2) power-sharing dimension; 3) role dimension.

The perception of trust and integrity plays a vitally important role in the formation of the employees' perception of their leaders' ethics (Hansen and others 2015:5). Ethical leadership is evaluated by the employees' perception of ethical behaviour (Piccolo, Greenbaum, Eisa, 2012:294) arising from the leader's normative behavior. Special attention (Kalshoven, Den Hartog, 2009:103-104) is paid to how the leaders use their power of decision making, to their actions and to the ways in which an impact on other people is made. P. A. Obicci (2015:2) states that ethical leadership has three main components: "clarity" between oneself and the existing situation, "consistency", or similarity between one's and the others' ideals, "rationality" as one seeks the acceptable goals. There are also factors that influence ethical leadership (Smith, 2014:83): justice, honesty, power sharing, morality and role clarity. It is believed that ethical leaders embody certain characteristics

(Yates, 2014:24) that are reflected in their activity. In Table 1 a number of ethical leadership attributes distinguished by different authors are presented.

Ethical leaders are engaged in activities (Nyukorong, 2014:56) that are useful to people and try to avoid things that can harm others. They set high standards of moral and ethical behavior (Zhu, 2008:64-65) and moral aspirations, they are open (Hassan, 2015:698), honest and reliable, and they act in the most useful way for the organisations and for the society. Ethical leaders (Mihelič, Lipičnik, Tekavčič, 2010:33), are true to their values and beliefs, they are always ready to compete in business, and they always ask themselves whether their actions are correct.

3. THE IMPORTANCE OF ETHICAL LEADERSHIP IN INNOVATIVE BUSINESS

Innovative work behaviour is defined (Yidomg, Xinxin, 2012:443-444) as a person's conduct directed at initiation and purposeful introduction of new and useful ideas, processes, products or procedures in the work activities, in groups or organisations, and its aim is to improve the organisation's activity. A person needs to find support for the implementation of these tasks. It is important for contemporary moral leadership to create a healthy work environment and mediate between the organisation and the person (or persons) who are interconnected and who are particularly valued and respected (Khodarahmi, Aghahoseini, 2014:281-282). Ethics becomes especially important for company managers (Nyukorong, 2014:56, Mathani, 2016.:236; 237) when attention is focused on the conduct of the company leaders in an effort to understand the consequences of leadership in business organisations. An ethical leader realises a promotion mission (Pandey, Singh, Pathak, 2015:94) paying special attention to long-term results, and his or her leadership style promotes ethical behaviour and moral values among his or her followers (employees) and creates a solid foundation for creativity, innovation and proper behaviour. Ethical leadership creates adequate (Obicci, 2015:3) interrelations between the employees and business that are based on common values and honesty and inspire acceptable behaviour among the employees, promotes pride and a stronger commitment to the organisation and helps the employees to better understand the essence of their work, embraces both personal and collective growth and professional excellence.

Table 1 Characteristics of ethical management

Authors	Features															
	Honesty	Justice	Reliability	Moral values	Convictions	Values	Ethical norms	Broadmindedness	Responsibility	Openness	Stimulation	Support	Respect	Altruism	Decisiveness	Tolerance
P. A. Obicci (2015)	+	+	+	+	+	+	+	+								
R. F. Piccolo, R. L. Greenbaum, G. Eisa (2012)	+	+	+	+	+	+	+	+								
P. Pandey, S. Singh, P. Pathak (2015)			+				+			+	+	+				
R. Nyukorong (2014)	+	+	+	+		+		+		+	+		+	+		
T. Chin (2013)	+	+							+		+				+	+
K. Kalshoven, D. N. Den Hartog (2009)	+	+	+		+					+	+	+		+		
W. Zhu (2008)	+	+				+	+				+					
E. E. Smith (2014)	+	+		+	+	+						+		+		
M. E. Brown, L. K. Treviño (2006)	+	+	+	+	+	+	+	+		+				+		

This table is compiled by the Authors.

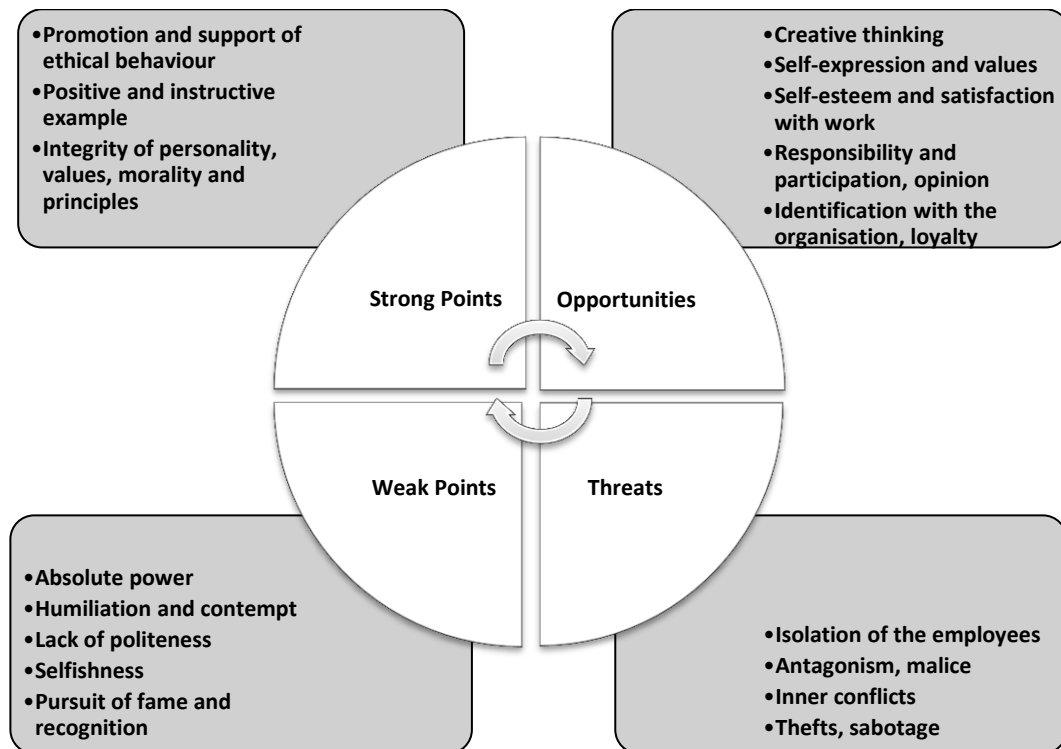


Figure 1 Ethical Management SWOT.

Compiled by the Authors according to Nyukorong R. (2014); T. Chin (2013); Kalshoven K., D. N. Den Hartog (2009); C. L. Derr (2012); Mr. E. Brown, L. K. Treviño (2006)

It is very likely (Zhu, 2008:65) that under the influence of ethical leadership the employees can step over their egos, their own interests and needs as they follow the existing moral identity (Mihelič, Lipičnik, Tekavčič, 2010:33; Stelmokienė, Endriulaitienė, 2013:115) imposed by the leader's selfless actions for the benefit of the employees and of the company. Ethical leadership has a significant impact on the employees (Nyukorong, 2014:57), on their emotional fulfilment and satisfaction with the job, and also on the commitment to the organisation (Yates, 2014:24), and it prevents people from unethical decision making (Pandey, Singh, Pathak, 2015:93). It is acknowledged (Chin, 2013:17), that the leader's personal moral conduct and ethics play a very important role in the formation and development of ethical culture in the organisation. The best way to manage ethical behaviour is to give it consistent support (Treviño, Brown, 2004:80) through formal and informal cultural influence and by correct actions.

The strong points of ethical leadership presented in Fig. 1 allow the employees to express their opinion about the possibility of innovation and to discuss the implementation of innovative ideas and solutions in the organisation. Absence of ethical leadership directs the employees' energy and ideas in the exactly opposite direction creating an atmosphere of hostility and antagonism. Organisations should choose an ethical activity direction (Derr, 2012:68) for improving the organisation's reputation and confidence of the employees. Ethical leaders (Zhu, 2008:64-65), with their inherent ethical standards of behaviour patterns and moral examples, encourage the employees to set their own internal moral principles and ideals, and they teach the employees to understand the ethical problems and to solve them (Mayer, Kuenzi, Greenbaum, 2010:8) applying high ethical standards to ensure the implementation of business

objectives, even in ambiguous situations (Mihelič, Lipičnik, Tekavčič, 2010:32) with contradictions between different interests, values and convictions when several parties are involved. Ethical leaders help the employees to focus on their work trying to reduce possible anxiety and stress caused by work and assuring them that they will succeed (Walumbwa et al., 2011:206). So we have come to the conclusion that ethical leadership contributes to the promotion of innovative business because workers feel safe and can be creative and innovative.

4. THE EFFECTS OF THE INFLUENCE OF ETHICAL LEADERSHIP ON THE INNOVATION PROGRESS IN ORGANISATIONS

To study the employees' opinion regarding the impact of ethical leadership on the development of innovation in an organisation we chose the method of questionnaire survey. This method was chosen because a questionnaire takes less time and is less expensive than an interview (Luobikienė, 2010:58). According to A. Giddens (2005:595; 599), surveys are widely used in sociological studies because it is easier to quantify and to analyse the answers in the questionnaires than to evaluate the material collected by most other research methods. The research mode applied was a short term study. According to K. Kardelis (1997:79), it is also known as cross-section, or an instant, one-time study. According to V. Pruskus (2004:175), a cross-section is performed once. Most research methods in social sciences are limited to this type of studies. This method was chosen as a control test for further studies of evaluation of ethical leadership. The selection of the respondents was accidental, and the questionnaire form was accessible to the general public online at www.apklausa.lt. The questionnaire consisted of closed questions, and the evaluations were carried out in accordance with Likert scale (1 = strongly

disagree, and 5 = strongly agree). The data were processed using SPSS 18 and Microsoft Office Excel 2010 software. The study was conducted in February-March 2016. The distribution of the questionnaire form was based on ethical principles. Each potential respondent was free to choose whether to participate in the study, and the data were only used to find out the general public's opinion, while preserving the anonymity of the respondents. There was a total of 50 respondents. Reliability was established by the most commonly used method: Cronbach's alpha reliability coefficient. The coefficient values of up to 0.60 indicate a low survey homogeneity (similarity of responses); from 0.60 to 0.70 it is adequate; from 0.70 to 0.90 there is high homogeneity.

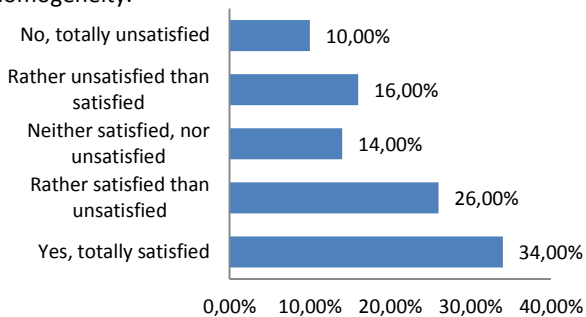


Figure 2 Satisfaction with the leader's ethical behavior (results). Compiled by the authors on the basis of the survey summary report.

The Questionnaire Cronbach alpha coefficient is 0,891, that is, high reliability. The data are presented in Table 2. The summarised demographic data of respondents are presented. Men made 28%, and women made 72% of the survey participants. The respondents belonged to different age groups. We tried to attract respondents from all types of organisations (according to Lithuanian statistical classification). The data are presented in Table 3.

The survey respondents were asked a question: "Can you say that you are satisfied with the ethical behaviour of your organisation's leader"? The data obtained are

Table 2 Questionnaire survey summary report (Cronbach's alpha)

Summary of the processed data				Statistical reliability	
Scale: All variables		Questionnaire sample	%	Cronbach's Alpha	Questionnaire samples
Data	Included	42	84		
	Not included ^a	8	16		
	Total	50	100,0		

a. The reason of non-inclusion: lack of response to all questions.

Compiled by the authors on the basis of the survey summary report

Table 3 Classification of the respondents according to the organisation type

	Organisation type	Frequency	%
Valid	Agriculture, forestry and fishing	2	4,0
	Industry	7	14,0
	Construction	1	2,0
	Commerce	4	8,0
	Services	7	14,0
	Finances and assurance	3	6,0
	Public administration	3	6,0
	Education	17	34,0
	Health and social work	2	4,0
	Other	4	8,0
	Total	50	100,0

Compiled by the authors on the basis of the survey summary report.

presented in Fig. 2 in percentage terms. As we can see, most of the respondents are fully satisfied with the leader's ethical behaviour, but unfortunately there are those that are absolutely not satisfied (representing 10%).

Having analysed the data with SPSS 18 software we made a comparison of the mean values (Independent-Samples T Test), and it allowed us to state that the questionnaire survey summary reliability level was higher than a statistically significant level ($p > 0,05$), that is, the respondents' gender did not influence the results. We also compared the significance of the results applying an univariate dispersion analysis (One Way ANOVA) to determine the satisfaction with the leader's ethical behaviour depending on such attributes as age, work experience, the organisation's size, capital and type. The summarised confidence level was higher than the statistically significant level of 0.05 (5%), i.e. these values did not influence the respondents' answers.



Figure 3 The results of the leader's behaviour on making innovative solutions. Compiled by the authors on the basis of the survey summary report.

The survey respondents were asked a question: "Does the behaviour of your organisation's leader encourage the promotion and the implementation of innovative solutions?" The results obtained are presented in Fig. 3 in percentage terms.

Table 4 Some most suitable statements describing the organisation's leader

Questionnaires Summary	Replied	Mean	Moda	Mediana
Statement				
Implements fair and mature decisions	50	3,56	4	4
Reliable (corresponds to the position, always keeps promises, assumes responsibility)	50	3,82	4	4
Evaluates the achievements not only by the results but also by the way in which they were attained	50	3,42	4	4
Behaves ethically also in private life	50	3,80	3	4
Each person is respected, no one is singled out or excluded	49	3,55	3	4
Creates conditions to express opinion about possible innovative decisions	50	3,86	4	4
Discusses business (work) ethics or values with the employees	49	3,43	4	4
Asks before making a decision: which is the correct behaviour?	48	3,33	3	3
Pays (gives) attention to the employees' needs	50	3,40	3	3
Stimulates, educates and helps the employees	49	3,53	3	4
Serves an example of correct behaviour (performing tasks) with regard to ethics	50	3,42	3	3
Has courage to defend what is ethical and correct	50	3,62	3	4
Is guided by clear and understandable ethical and moral attitude	49	3,63	4	4
Stimulates ethical behaviour, imposes sanctions on the employees who break ethical rules	50	3,54	3	3,5
Shows initiative in pursuing innovative aims, objectives and intentions	50	3,60	3	4
Valid responses (complete answers)	45			

Compiled by the authors on the basis of the survey summary report.

We can see that most of the respondents indicated that it rather encouraged than discouraged the innovations. It was found that the organisation's size had a statistically significant meaning of 0,015 (1.5%): the organisations that had between 20 and 99 employees more frequently chose these answers: "absolutely encourages", or "rather encourages than discourages". It allows us to make a conclusion that the leaders of the organisations of this size were more inclined to encourage the employees to make and to implement innovative solutions.

The respondents were given fifteen statements. They were asked to evaluate them from 1 to 5, where 1 means "very adequate to describe my organisation leader" to 5 that means "very inadequate to describe my organisation leader". The mean values that are presented in Table. 4 were obtained with the help of a descriptive statistics programme. The evaluation of the responses received shows that all statements were treated in a similar way. It was found that in only one statement ("is in favour of fair and balanced decisions") the responses were gender related. Women rated this statement at 3.42 ($p = 0.044$), i.e. their assessment of the responses was below the mean value. It was found that the statement: "can be relied on" ("corresponds to the position", "always carries out what he/she promises", "assumes responsibility") was affected by the size of the organisation with the reliability level of 0,005 (0.5%) and the type of organisation where it was 0,012 (1.2%). The employees of the organisations with 1 to 19 people evaluated this statement as "suitable" and "very suitable" in their description of the leader. The employees of the organisations engaged in finances and insurance as well as in health and social work rated this statement as "more suitable" rather than "unsuitable" to describe the leader. The respondents from industrial and commercial organisations evaluated this statement even more favourably as "more suitable" than "unsuitable" and " for the employees to express their opinion about possible innovative solutions" (3.86); "reliable" ("corresponds to the position", "always carries out what he/she very suitable" to describe the leader of their organisations, that is, the

leaders of smaller organisations accept more responsibility and meet the requirements necessary for their functioning. The reliability level of another evaluation in the summary confidence level was higher than the statistically significant value of 0.05 (5%) expression. The most adequate statements describing organisation leaders are as follows: "creates the conditions promises", "assumes responsibility" (3.82); "behaves ethically also in his/her private life" (3,8). To summarise the results, we can say that the employees evaluate their leaders' ethical behaviour positively, although there is certainly room for improvement.

5. CONCLUSIONS

Ethical leadership is defined as a set of rules applied to the leader in his personal behaviour and in interpersonal relations. Ethical leadership is important for innovative business because it promotes the employees' ethical behaviour and moral values in order to create the prerequisites for creativity, innovation and proper behaviour. Ethical leaders always stress the importance of work, its significance and potential impact on the members of the group, on the organisation and even on the whole society, so that the employees become more aware of the importance of their work and make more effort in developing new ideas contributing to the organisation' goals and feel committed to share their knowledge and skills with their co-workers.

Our study shows that the respondents have an opinion concerning ethical leadership in organisations, and there is a higher proportion of the respondents who are satisfied with it more than those who are unsatisfied. The majority of the respondents, especially from organisations with 20 to 99 employees, make more encouraging or very encouraging impact on the development of innovation in the organisation. The most acceptable leader's feature for the respondents is their approach to ethical behaviour, discipline and to the actual situation in the organisation. It was also established that the leader's just attitude (honesty, dignity) to himself and to others, as well as the leader's view of the ethical methods as regards order and discipline and

the way in which it is done, was more valued by men than by women. According to men, their leaders show an example of honest behaviour and convey this ethical approach to keeping order and discipline. We assume that women feel difference in the leader's attitude towards themselves and the others with respect to justice (honesty, dignity) and ethical conduct.

Although this study has revealed that essentially ethical leadership provides prerequisites for innovative solutions,

yet there are still areas where leaders have to improve their attitude. They can be recommended to follow ethical rules and to monitor how they are respected in their organisations; to organise workshops about the benefits of compliance with ethical standards; to develop and to observe the decision making procedures based on ethical principles; to try to make employees feel safe, so that they become more creative and innovative, and eventually it will help the organisations achieve better results.

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