

Leadership and Ethical Decision Making among Mauritian Managers

Jennifer Ah-Kion
Uma Bhowon

Abstract

It is proposed that transformational leadership is likely to be associated with higher ethical decision making, while transactional leadership should be related to lower ethical decision making. However, little empirical research provides support for these claims. Using a structured interview schedule, data from 247 managers was collected from three established higher education institutions in Mauritius. Findings indicate that surprisingly, transformational leadership had a negative impact on ethical judgment and intention of subordinates in relation to ethical issues including bribery, nepotism, padding up of expenses' account and political favouritism, suggesting the possibility of pseudo-transformational leadership or the influence of cultural factors. Likewise, passive and laissez-faire leadership were also negatively related to subordinates' ethical judgment and intention with respect to the same scenarios. Implications for the study to researchers and managers as well as future research directions are discussed.

Key Words: Leadership, ethical decision making, ethical judgement, intention

Introduction

The study of organizational leadership over the past three decades has been largely dominated by new leadership models including charismatic and transformational leadership styles (Avolio & Bass, 1991; Bass, 1985; Conger & Kanungo, 1987; Kouzes & Posner, 2003). Several meta-analytic studies and qualitative reviews (e.g., Judge & Piccolo, 2004; Lowe, Kroeck & Sivasubramaniam, 1996) have successfully demonstrated the powerful effects of transformational leadership styles on critical behavioural and organizational outcomes such as motivation, commitment, performance and job satisfaction (Kirkpatrick & Locke, 1996; Lowe et al., 1996), leadership effectiveness (Groves, 2005), and organizational citizenship behaviours (Podsakoff et al., 1993; Schwepker & Good, 2013). Yet, research has been deficient in exploring attitudes and intentions towards ethical issues in relation to transformational and transactional leadership styles, in particular among managers (Bass, 1990; Brown & Trevino, 2006; Groves & LaRocca, 2011). As highlighted by Bass (1990), there is a "marked paucity of empirical research on managers' attitudes toward corruption and the ethics of their behavior" (p. 146). This dearth of research attention is of considerable concern given the recent spate of well-known scandals involving iconic corporations such as Enron, Arthur Andersen, WorldCom, AIG and Satyam that have threatened the moral fiber of the business sector and society as a result of a general disregard for ethics and integrity by organizational leaders. Clearly, more than ever, the role of leadership is critical in the ethical decision making process which has become more intricate with the unabated complexity of ethical dilemmas (Atakan, Burnaz & Topcu, 2008; Fang, 2006). Furthermore, with the challenge of expanding globalization and cut throat competition leading to ethical conflicts, organizational leaders are confronted with the responsibility of setting ethical standards that govern the behaviours of their subordinates within organizations (Northouse, 2007). Since the opening of this century, Mauritius, a multi-cultural

island state located in the middle of the Indian Ocean, has witnessed its share of stars on the business walk of shame as evidenced by a series of highly publicized fraud scandals involving large corporations and their senior executives

The purpose of this study is to examine the full range of leadership model (Avolio, Bass & Jung, 1999; Bass, 1998) and determine the hypothesized relationships between transformational leadership, transactional leadership respectively, and two aspects of the ethical decision making process, namely ethical judgment and ethical intention of managers. Specifically, the study attempts to shed more light on how perceived leadership styles of organizational leaders impact subordinates' ethical judgment and intention when faced with ethical dilemmas at work.

Literature review

While there are numerous leadership theories this study examines the constructs of one of the most influential models known as the full range of leadership model based on the work of Burns (1978) and Bass (1985) and colleagues (Avolio & Bass, 1991; Bass & Avolio, 2000). It aims at distinguishing between transformational and transactional leadership styles and delineating their relationship to ethical decision making. Whereas transactional leadership focuses on the exchange relationship between leaders and followers based on self-interest, performance-contingency rewards, and corrective measures within a context of economic stability (Bryant, 2003), transformational leadership motivates and inspires followers by emphasizing a collective vision of the future that surpasses the 'status quo' (Gellis, 2001), producing a profound and extraordinary effect on followers who transcend their own self-interests for the good of the organization (Bass, 1985, 1996; Bass & Avolio, 2000; den Hartog, van Muijen & Koopman, 1997). In fact, transformational leadership has emerged as a novel trend rather than a remedy approach (Bass 1990; Bryman, 1992) in response to a rapidly changing and increasingly unstable, competitive business environment in which

leaders face totally new sets of reality of organizational volatility. The most recent model (Avolio & Bass, 2002) comprises of nine subscales measured by a survey instrument known as Multifactor Leadership Questionnaire (MLQ).

Transformational leadership is measured by five subscales. Charisma/idealized influence involves the fashioning of values which inspire and give a sense of purpose in followers (Sarras & Santora, 2001) in order to encourage follower to use their leaders as role models (Muenjohn & Armstrong, 2008; Northouse, 2007). Idealized attributes refer to perceptions of the leader as being confident and focusing on vision, ideals and ethics, while idealized behaviours involve actions related to values and beliefs such as instilling respect and loyalty toward the leader centered on a sense of mission. Inspirational motivation is essentially concerned with leaders heightening motivation, and followers' commitment to the organization's vision (Bass, 1990) by communicating high expectations to followers (Northouse, 2007). Intellectual stimulation is demonstrated by the leader encouraging creativity and acceptance of challenges in followers through rational means of developing new problem solving skills to tackle old problems (Bass, 1985; Deluga, 1988). Leaders who exhibit individualized consideration treat followers as significant individuals to the organization by demonstrating consideration for their needs, coaching and mentoring them in the development of appropriate workplace behaviours (Bass, 1985), and acting as advisors in an attempt to assist them in attaining self-actualization (Northouse, 2007).

Transactional leadership has 4 subscales. Contingent reward is related to achievement of results whereby the leader promotes compliance of followers and motivates them to meet expected performance levels by appealing to their wants through the use of rewards. The 'active' management-by-exception dimension pertains to the leader observing and monitoring performance of followers in cases of deviations from rules and standards such as failures, mistakes and complaints (Harland, Harrison, Jones & Reiter-Palmon, 2005) and correcting them through the use of negative reinforcement and criticism before the behaviour leads to serious consequences (Howell & Avolio, 1992; Judge & Piccolo, 2004). The 'passive' management-by-exception dimension, on the other hand, is concerned essentially with the leader failing to intervene until problems have become serious, rules violated and performance standards unmet (Bass, 1985; Harland et al., 2005; Northouse, 2007). Basically, the rationale of this leadership style is "if it ain't broke, don't fix it" (Bass, 1985). The last dimension is laissez-faire leadership defined as the absolute absence of leadership and indicated by the leader's incapacity to get involved. Northouse (2007) ascertained that laissez-faire leadership is characterized by typical behaviours including avoiding confrontation and keeping personal interactions to a strict minimum. Laissez-faire leadership has been described as a non-transactional leadership type in which the leader avoids making decisions, foregoes responsibility and fails to use authority (Antonakis, Avolio & Sivasubramaniam, 2003).

Even though there is substantial empirical evidence for transformational and transactional leadership (e.g., Avolio, 1999; Bass & Avolio, 2000), some research has found different structures of the model across samples and cultures (e.g., Avolio & Bass, 1997; Avolio et al., 1999; Carless, 1998; Hater & Bass, 1988). While one category of studies have combined the five factors of transformational leadership into one dimension, and contingent reward and management-by-exception (active) into the transactional leadership dimension, and the laissez-faire included management-by-exception (passive) and laissez-faire

(e.g., Boerner, Eisenbeiss & Griessen, 2007; Firestone, 2010; den Hartog et al., 1997; Xirasagar, 2008), a second category has treated the factors of leadership separately, showing the effect of each style alone (e.g., Lowe & Kroeck, 1996; Muenjohn, 2009), and a third category has adopted an approach combining together the five factors of transformational leadership, the three factors of transactional leadership, and laissez-faire remained one factor (e.g., Eagly, Johannesen-Schmidt & Van Engen, 2003; Furtner, Baldegger & Rauthmann, 2013; Vidgoda-Gadot, 2007). Others (e.g., Bycio, Hackett & Allen, 1995) found a two-factor model Active-Passive model whereby all transformational scales combined with contingent reward into one factor.

Leadership styles and ethical decision making

Theoretical leadership literature documents transformational style as a construct that focuses on the moral development of followers (e.g., Burns, 1978) and makes a positive impact on the ethical performance of the organization (Carlson & Perrewé, 1995). It has been proposed that transformational leadership is positively related to the moral reasoning levels that are indicative of an individual's moral development in line with Kohlberg's claims (Turner, Barling, Epitropaki, Butcher & Milner, 2002). The organizational literature has also dealt with this relationship (e.g., Dukerich, Nichols, Elm & Vollrath, 1990; Graham, 1995; Kuhnert & Lewis, 1987; Lichtenstein, Smith & Torbert, 1995; Petrick & Quinn, 1997) by creating typologies that relate transformational leadership to cognitive moral development and spirituality. Similarly, Bass (1985) emphasized that transformational leaders are instrumental in elevating their followers' moral character. The most widely associated dimension of transformational leadership with ethics is the charismatic/idealized influence of leaders (Avolio et al., 1999; Bass & Steidlmeier, 1999; Brown, Trevino & Harrison, 2005) known for their demonstration of high moral standards and morally appropriate behavior (Avolio, 1999; Bass & Avolio, 1994; Bass & Reggio, 2006). Howell & Avolio (1992) proposed an ethical component in charisma by suggesting that whereas ethical leaders use their charisma in a socially constructive way to serve others, unethical leaders use it for self-serving ends. Thus, it seems that even if a charismatic style habitually supports ethical leadership, it also has the potential to lead to unethical behaviour. Furthermore, Odom and Green (2003) argued that the transformational leader through the factors of idealized influence and inspirational motivation seeks to be a positive role model and mentor in order to ensure the moral development of the follower in a manner consistent with the highest ethical standards.

However, a review of the empirical research literature on the relationship of transformational leadership and ethical decision making yields only a few studies. One study which comes close to addressing this issue is by Tracey and Hinkin (1994), finding evidence that transformational leaders within a major hotel-management firm possessed high ethical standards. Another study relating transformational leadership to ethical issues is an empirical investigation of one hundred pairs of marketing managers and subordinates from four multinational organizations in India conducted by Banerji and Krishan (2000) who examined the relationship between transformational leadership and the leader's preference for unethical behaviours represented by various scenarios. Findings indicated that inspirational leadership was negatively related to bribery and favouritism, and intellectual stimulation negatively related to bribery. On the other hand, charisma and individualized consideration were not relat-

ed to ethical behaviours. These findings suggest that managers do not perceive ethical issues generically, but respond to them in accordance to the nature of the issue (Fritzsche & Becker, 1983; Weber, 1990). Parry and Proctor-Thomson (2002) while drawing attention to the scarcity of empirical work regarding the relationship between the different leadership styles and integrity and ethics found that perceived leader integrity is most positively correlated with transformational leadership, however, no support was found for a relationship between the charismatic dimension and unethical leadership behavior. In contrast, management-by-exception (both active and passive) are negatively correlated with perceived leader integrity, and laissez-faire leadership is associated with the lowest perceptions of integrity. In a review of previous empirical studies on the antecedents and outcomes of organizational misbehavior, Vardi and Weitz (2004) also found no study that investigated the effects of leadership and organizational misbehaviour. Based on the findings of four surveys, they reported the significant and positive impact of transformational leadership on the incidence and prevalence of integrity violations. Likewise, Brown and Trevino (2006) also acknowledged the lack of empirical research in the area of leadership and ethics and found empirical support from a field study for the positive impact of transformational leadership on organizational integrity and its influence on integrity violations in the workplace. Similarly, in a major research investigating the relationship between the effects of leadership styles on ethics and integrity among the Dutch police force, while findings from Lasthuizen (2008) demonstrated a positive effect of inspirational leadership on favouritism by supervisors, surprisingly, they also showed a negative effect of inspirational leadership on bribing. Results also showed negative direct effects for passive leadership on waste and abuse as well as favouritism by supervisors. In a recent study, Groves and LaRocca (2011) found transformational leadership to be strongly associated with follower attitudes towards socially responsible actions.

Research on the relationship between transformational leadership and ethical behaviour also indicates that transformational leadership creates an organizational climate that is more conducive to ethical behaviour than transactional leadership (Ciulla, 1998). Gini (1998) also concurred that the transformational style of leadership is more likely to result in an ethical resolution to ethical dilemmas. While there is no doubt that transactional leadership can be highly effective in goal achievement based on contingent rewards, its primary focus is on the bottom-line. Consequently, transactional leadership may be more predisposed to amoral management because of its focus on productivity and profit maximization. In a study involving three samples of managers and subordinates from two countries including UK and Canada, Turner et al., (2002) identified a positive relationship between leader cognitive moral reasoning and transformational leadership but not transactional leadership, supporting the plausibility of differences in the impact of leadership styles on moral judgment. These findings are in line with the writings of Kanungo and Mendonca (1996) demonstrating that the influence style associated with transactional leadership is "highly offensive and therefore cannot be considered to be an ethical social influence process" (p. 73). Moreover, Hood (2003) found transformational leaders to exhibit significantly higher levels of morality-based values than both transactional and passive or laissez-faire leaders. On the other hand, other researchers have critically argued that relating transactional leadership to unethical leadership and transformational leadership to ethical leadership is problematic. Conversely, it is argued that transformational and charismatic leaders can be unethical

if they use power wrongly (House & Aditya, 1997) and are motivated by selfishness rather than altruism (Barling et al., 2008; Bass, 1985; Bass, 1998; Howell, 1998; Howell & Avolio, 1992). Authors such as (e.g., Conger, 1990; House & Howell, 1992; Howell & Avolio 1992) have noted the dark side of charisma', while Thomas (2002) has suggested the 'narcissistic' aspect of transformational leadership or the 'shadow side of charisma' (Conger & Kanungo, 1998), especially when the leader has a strong vision and demonstrates absolutist behavior (Giampetro-Meyer, Brown, Browne & Kubasek, 1998). Implicitly, this lack of consideration leads towards self-serving gains, producing unethical behavior in followers (Yukl, 2002). Consequently, researchers have distinguished between socialized (ethical) and personalized (unethical) charismatic leaders (Howell & Avolio 1992), and also between authentic and pseudo-transformational leaders (Bass & Steidlmeier, 1999), suggesting that transformational leadership is not imperatively similar to ethical leadership. However, Price (2003) contends that even when leaders are authentically transformational, they can still "fail ethically" especially when their mistaken behavior outweighs the moral costs of deviating from general moral requirements (p. 74-75). This assumption is supported by Giampetro-Meyer et al., (1998). As mentioned earlier, this was empirically confirmed by Lasthuizen's (2008) findings that inspirational leadership and result-oriented leadership styles proved to be ineffective in the area of ethics and integrity and had no influence on moral acceptability judgment across scenarios involving integrity violations in cases when leaders are inspirational but not ethical, pointing to the existence of a pseudo-transformational leadership, or the assumption that authentic transformational leaders can fail ethically. Similarly, Barling et al., (2008) found that pseudo-transformational leadership is characterised by a combination of transformational behaviours such as low idealized influence and high inspirational motivation. A study by Fitch (2009) reported that public school superintendents in the US who identified themselves as transformational did not respond ethically to the dilemmas most of the time in comparison with those identified as transactional.

Overall examination of the existing empirical research supported by the invaluable insights provided by studies such as (e.g., Lasthuizen, 2008; Parry & Proctor-Thomson, 2002; Turner et al., 2002; Odom & Green, 2003) suggests that it is logical to predict that different aspects of the full range leadership model will be related to different ethical dilemmas in different ways (Banerji & Krishnan, 2000). The following hypotheses are, therefore, posited in this study:

H1a: There is a significant positive relationship between transformational leadership and ethical judgment of subordinates.

H1b: There is a significant positive relationship between transformational leadership and ethical intention of subordinates.

H2a: There is a significant negative relationship between transactional leadership and ethical judgment of subordinates.

H2b: There is a significant negative relationship between transactional leadership and ethical intention of subordinates.

Methodology

Participants

A convenience sample of 247 managers enrolled in part-time business-related fields of study was drawn from three universities in Mauritius with the largest student populations. The

sample constituted 125 males (50.6%) and 122 females (49.4%) with an average age of 29.9 years. Just under half of the sample (42.9%) was employed in the private sector, while an almost equal number of the respondents were working in the public (28.7%) and parastatal sector (28.3%) with an average work experience of 4.5 years. The majority of the respondents, 94.7% were degree holders, (39.7%) represented middle level management.

Measures Used

Ethical judgment and intention

Two dependent variables, ethical judgment and ethical intention were measured by means of six scenarios. The use of scenarios or vignettes in business ethics research is well established in the literature (Erdener, 1996; Knotts, Lopez, & Mesak, 2000), allowing researchers to present concrete decision making situations that approximate real-life situations and standardize the social stimulus across respondents (Alexander & Becker, 1978). The scenario method has also been shown to elicit higher quality data from questionnaires (Hoffman, 1998) and recognized as suitable for ethics research (Hunt & Vitell, 1986). In this study, a series of vignettes portraying different situations of ethical dilemmas were identified from prior ethics literature and research (e.g., Barnett, Bass & Brown, 1996; Beu, Buckley & Harvey, 2003; Sharma & Bhal, 2004). After consultations and discussions with a panel constituting academic members with a psychology background, six scenarios were selected and adapted on the basis of their perceived salience within the local context. Consistent with literature and these studies (e.g., Singh, Vitell, Al-Khatib & Clark, 2007; Singhapakdi, Vitell & Franke, 1999), a single item with a 5-point rating scale of agreement was used to measure ethical judgment and intention respectively by asking respondents to indicate the extent to which they would regard the action described in the scenario as acceptable and the likelihood that they would perform the same action.

The scale for the questions for ethical judgment was worded such that a higher (lower) score indicates that the respondent rates the questionable action in each vignette as more acceptable (more unacceptable) and therefore has lower (higher) ethical judgment. Likewise, the scale for the questions for behavioural intentions suggests that a higher (lower) score indicates that the respondent's intention to engage into the questionable action in each vignette is very high (very low) and therefore has lower (higher) ethical intentions. Consistent with other studies (e.g., James & McManus, 2011; Marta et al., 2008; Singhapakdi, Vitell & Kraft, 1996; Valentine & Godkin, 2009), the scores was reversed before the analyses, so that a higher (lower) score indicates that the respondent rates the questionable action in each vignette as more unacceptable (more acceptable) and therefore, can be interpreted as higher (lower) ethical judgment and higher (lower) ethical intention. An example of vignette used in the study is given in Figure 1 (p. 31).

Multifactor leadership questionnaire

This study used the Multifactor Leadership Questionnaire-5X short form (MLQ-5X) developed by Bass and Avolio (1995) to measure followers' perceptions in regard to transformational and transactional leadership styles of their superiors. Transformational leadership consists of 20 items categorized in 5 subscales (Intellectual stimulation, Inspirational motivation, Behavioural Idealized influence, Attributed Idealized Influence, Individualized consideration). Transactional leadership consists of 12 items grouped in 4 subscales (Contingent reward,

a. A marketing executive in your company is showing very good results. He is the only one to meet the given monthly sales targets. His work involves entertaining clients. His manager comes to know that he has been padding/increasing ('gonfler') his entertainment allowance bills by claiming more than he is spending. However, he does not fire him because of his good performance. How would you rate the marketing executive's action?				
Strongly unacceptable	Unacceptable	Neutral	Acceptable	Strongly Acceptable
b. If you were the marketing executive, what is the probability that you would pad your entertainment allowance bills?				
Very high	High	Neither high nor low	Low	Very low

Figure 1. Example of Vignette Used

Active Management-by-exception, Passive Management-by-exception, Laissez faire leadership). Each subscale contains 4 items. Sample items of the scale are my superior "Provides me with assistance in exchange for my effort", "Goes beyond self-interest for the good of the group", "Fails to interfere until problems become serious", and "Is absent when I need." Respondents were requested to rate how frequently each statement fits the leadership style of their superior based on their perceptions.

The scale measures 36 items related to leadership styles rated by a Likert-type scale ranging from 0 'not at all' to 4 'frequently, if not always'. Consistent with the approach adopted by Brown and Trevino (2002), the response format of the scale was modified to the format of 1 to 5, that is, 1 'not at all', 2 'once in a while', 3 'sometimes, 4, fairly often, and 5 'frequently, if not always'.

An exploratory factor analysis of the 36 items revealed three extracted factors. The three-factor solution with eigen values of 1.00 explains 48.7 per cent of the total variance of the data. The KMO was high at 0.925, and the Barlett's sphericity test was significant. The first factor loaded significantly on twenty-two items, explaining 27.18 percent of variance. Eighteen items were from the 4 dimensions of transformational leadership with four items each from idealized influence - behaviour, inspirational motivation, and intellectual stimulation; three items each from the idealized influence - attributed charisma, and individual consideration subscales. The remaining 4 items were from the transactional leadership style's contingent reward subscale. In this study, the four components of transformational leadership and the one component of contingent reward merged together. This factor was similar to that of Avolio et al., (1999), Bass (1985), Bycio et al., 1995; and Xirasagar (2008). Factor 1 was named transformational leadership. The second factor loaded significantly on seven items, accounting for 13.70 percent of total variance. Four items from the laissez faire subscale and three items from management by exception - passive subscale were retained after dropping one item that has a value of 0.278 in the column labelled 'Corrected Total- Item Correlation' which was below the threshold of 0.30. This factor is consistent with that of (e.g., Den Hartog et al., 1997 and Xisaragar, 2008). It was named 'Passive/Laissez-Faire leadership'. All four items from the 'Management by Exception - Active' loaded significantly on the third factor accounting for 7.82 percent of the total variance. It was therefore named 'Active Transactional leadership' in accordance with (e.g., Xisaragar, 2008).

Mean values obtained for the factors obtained in this study are generally consistent with means reported in previous studies (e.g., Banerji & Krishnan, 2000). Cronbach co-efficient alpha was 0.95 for Transformational leadership, 0.86 for 'Passive/Laissez-Faire leadership' and 0.62 for 'Active Transactional leadership'. The reliability values were consistent with those reported in

Item No.	Items *	Factor		
		1	2	3
1		.529		
2		.461		
8		.473		
9		.496		
10		.710		
11		.670		
13		.522		
14		.540		
15		.643		
16		.719		
18		.664		
21		.707		
23		.591		
25		.477		.472
26		.674		
29		.564		
30		.694		
31		.803		
32		.752		
34		.626		
35		.771		
36		.738		
3			.661	
5			.743	
7			.742	
12			.798	
20			.754	
28			.697	
33			.599	
4				.707
22				.516
24				.686
27				.539
Mean		3.186	2.287	3.268
Standard Deviation		0.845	0.959	0.765
Eigen Value		12.165	3.123	1.757
Percentage Variance Explained		27.180	13.701	7.820
Cronbach's Alpha		0.95	0.86	0.62
*Items were not included in the table due to copyright restrictions Factor 1: Transformational Leadership; Factor 2: Passive/Laissez-Faire Leadership; Factor 3: Active Transactional Leadership Extraction method: Principal Component Analysis Rotation method: Varimax with Kaiser Normalisation Rotation converged in 5 iterations.				

Table 1. Factor Structure and Scale characteristics – Multifactor Leadership Questionnaire (MLQ)

EDM Stages	Ethical judgment						Ethical Intention					
	Scenario 1	Scenario 2	Scenario 3	Scenario 4	Scenario 5	Scenario 6	Scenario 1	Scenario 2	Scenario 3	Scenario 4	Scenario 5	Scenario 6
Transformational Leadership	-0.076	-0.064	-0.027	-0.093	.038	.013	-.129*	-.153*	-.081	-.023	.075	-.007
Active Transactional Leadership	-.025	.016	.003	.075	.068	.043	-.060	-.072	-.065	.058	.094	.050
Passive/Laissez-Faire Leadership	-.094	-.201**	-.030	-.075	-.098	-.060	-.134*	-.031	-.097	-.125*	-.103	-.025
Mean	3.6235	4.1382	3.247	3.8866	3.6559	3.2915	3.6316	3.8381	3.6721	3.9312	3.1174	3.247
Standard Deviation	1.00806	0.87901	0.9668	0.98118	1.0962	0.96063	1.15377	1.07356	1.06389	1.03167	1.17147	1.17897

Correlation is significant at the level 0.05 (2-tailed) ** Correlation is significant at the level 0.01 (2-tailed), EDM: Ethical Decision Making
 Scenario 1: Bribery, Scenario 2: Nepotism, Scenario 3: Padding up expenses' account, Scenario 4: Political favoritism, Scenario 5: Accounting tricks (Ethical Judgment), Peer reporting of Accounting Tricks (Ethical Intention), Scenario 6: Software Piracy

Table 2. Mean, Standard Deviation and Correlations

	Scenario 1			Scenario 2			Scenario 3			Scenario 4			Scenario 5			Scenario 6		
	SE	β	Sig t	SE	β	Sig t	SE	β	Sig t	SE	β	Sig t	SE	β	Sig t	SE	β	Sig t
Dependent Variable: Ethical judgment																		
<i>Independent Variables</i>																		
Transformational Leadership	.086	-.158	.029	.073	-.210	.003	.083	-.054	.461	.084	-.169	.020	.088	.012	.866	.083	-.021	.773
Passive/Laissez-Faire Leadership	.076	-.170	.019	.065	-.303	.000	.074	-.056	.446	.074	-.056	.032	.077	-.103	.156	.073	-.070	.335
Constant	.393		.000	.335		.000	.382		.000	.383		.000	.401		.000	.379		.000
Model Summary	R ² (F)=.028 (3.52*)			R ² (F)=.075(9.78**)			R ² (F)=.003 (.381)			R ² (F)=.027 (3.43*)			R ² (F)=.010 (1.19)			R ² (F)=.004 (.486)		
Dependent Variable: Ethical Intention																		
<i>Independent Variables</i>																		
Transformational Leadership	.096	-.253	.000	.091	-.219	.003	.091	-.167	.021	.088	-.108	.135	.101	.033	.654	.102	-.025	.728
Passive/Laissez-Faire Leadership	.085	-.256	.000	.080	-.136	.000	.080	-.177	.014	.080	-.136	.000	.089	-.087	.231	.090	-.037	.611
Constant	.441		.000	.417		.000	.414		.000	.403		.000	.461		.000	.466		.000
Model Summary	R ² (F)=.067 (8.78**)			R ² (F)=.038 (4.77*)			R ² (F)=.031 (3.87*)			R ² (F)=.025 (3.08*)			R ² (F)=.011 (1.409)			R ² (F)=.001 (1.36)		

*p < .05 ** p < .001

Table 3. Regression Results for Ethical Judgment and Ethical Intention

other studies (e.g., between 0.63 and 0.92 in Bass, 1985; Avolio & Bass, 1999). Estimates of internal consistency were, thus, above 0.70 for the transformational leadership and passive/laissez-faire leadership measures but slightly lower for the active transactional leadership subscale. Inter-correlations between the subscales ranged between .056 and .482. Consistent with previous studies (Avolio et al., 1999; Bass & Avolio, 1990, 1993), transformational leadership correlated negatively with passive/laissez-faire leadership (-.482) but positively with active transactional leadership (.411) and passive/laissez-faire leadership correlated negatively with active transactional leadership (-.056). There was no evidence of a multicollinearity problem as indicated by the VIF value being less than 5 and the tolerance value less than 0.1.

Analysis

Descriptive analysis

Table 2 displays the descriptive statistics and correlations of the study's variables. Ethical judgment mean scores for the six

scenarios indicate that responses on scenario 3 (padding up of expenses' account) yielded the lowest mean score (M = 3.25, p < .05), indicating that respondents perceived this action as more ethically acceptable, while responses on scenario 2 (nepotism) yield the highest mean score (M = 4.14, p < .05), indicating that more respondents perceived this action as less ethically acceptable. When it came to ethical intention, responses revealed lowest mean score (M = 3.12, p < .05) on scenario 5 (peer reporting on accounting tricks), indicating that respondents had lowest ethical intention to report their peers, and highest mean score (M = 3.93, p < .05), that is, highest ethical intention on scenario 4 (political favouritism).

Correlation results surprisingly indicate that transformational leadership was negatively associated only with ethical intention in scenario 1 (bribery) and 2 (nepotism), suggesting that managers who perceived their superiors as transformational leaders were significantly more likely to engage in such questionable actions. Consistent with research, passive/laissez-faire leadership was negatively associated with ethical judgment in scenario 2 (nepotism), and also with ethical intention in scenar-

io 1 (bribery) and scenario 4 (political favouritism). However, the correlation analysis showed no significant relationship between active transactional leadership and ethical judgment and intention in any of the six scenarios. Also notable is the significantly strong positive correlation between active transactional leadership and transformational leadership ($r = .411, p < 0.001$). Even if it is still possible to obtain a least-squares estimate of the regression coefficients, interpretation of the coefficients may be problematic (Singhapakdi & Vitell, 1990). Therefore, in line with the approach adopted by Singhapakdi and Vitell (1990), active transactional leadership was not included in the testing of hypotheses due to its failure to significantly correlate with ethical judgment and intention in any of the six scenarios, and also to avoid a potential multicollinearity problem between active transactional leadership and transformational leadership.

Hypothesis testing

Table 3 illustrates an overall model of multiple regression of Mauritian managers, indicating the impact of transformational and transactional leadership on ethical judgment and intention for all six scenarios. Several assumptions must be met in order to interpret and generalize the results of hierarchical multiple linear regression accurately. An initial assumption is that all predictors must be measured on a continuous scale such as interval or ratio or categorical scale (e.g., gender). In this study, all variables except for two categorical variables (gender and locus of control) were measured using a 5-point scale which has been generally treated as interval. The most important assumptions include ratio of cases to independent variables (sample size), normality, linearity, homoscedasticity, multicollinearity, singularity and independent errors. The ratio of cases to variables was 20:1 which is considered to be appropriate for hierarchical regression analysis. All the scatterplots revealed no failure of normality, no obvious evidence for curved shape in the relationship between criterion and outcome variables showing linearity, and also no obvious signs of the existence of heteroscedasticity as variances are equal. One initial way of identifying multicollinearity is to check if any of the predictor variables correlates above .90. This is clearly indicated by collinearity diagnostics in the form of Variance Inflation Factor (VIF) and Tolerance Value. VIF indicates whether a predictor has a strong linear relationship with other predictors. It is accepted that anything higher than the maximum acceptable VIF value of 5 would indicate a problem with multicollinearity. As for the Tolerance Value, it is the reciprocal of VIF ($1/\text{VIF}$). Values below 0.1 indicate a problem of multicollinearity.

Results for this study showed that there are no strong correlations of .90 or above among the predictors in this study. Also the VIF values for all predictors are less than 5, ranging between 1.085 and 3.116 and the range of Tolerance values is between .321 and .921. Thus, multicollinearity did not exist within the data.

Ethical judgment

Table 3 (p. 33) shows that this model accounts for 3% to 8% variance in ethical judgment in scenario 1 (bribery) and scenario 4 (political favouritism) ($p < .05$), and scenario 2 (nepotism) ($p < .001$). The model was significant for transformational leadership in scenario 1, 2, and 4 ($p < .05$), and for passive/laissez-faire leadership in scenario 1 and 4 ($p < .05$), and scenario 2 ($p < .01$).

H1a predicted that there is a significant positive relationship between transformational leadership and ethical judgment. The values of the standardized regression coefficient β depicted in

table 4.17 indicate that transformational leadership had a significant negative relationship with ethical judgment in scenario 1 (bribery) [$\beta = -.158, p < .05$], scenario 2 (nepotism) [$\beta = -.210, p < .05$], and scenario 4 (political favouritism) [$\beta = -.169, p < .05$], as opposed to the hypothesised relationship. H1 was therefore unsupported.

H2a predicted that there is a significant negative relationship between transactional leadership and ethical judgment. A look at the values of the standardized regression coefficient β depicted in table 4.18, indicates that passive/laissez-faire leadership had a significant negative relationship to ethical judgment in scenario 1 (bribery) [$\beta = -.170, p < .05$], scenario 2 (nepotism) [$\beta = -.303, p < .001$], and scenario 4 (political favouritism) [$\beta = -.156, p < .05$]. Thus, there was some support for H2a.

Ethical intention

Table 3 (p. 33) shows that this model accounts for 3% to 7% variance in ethical intention in scenario 1 (bribery) ($p < .001$), and scenario 2 (nepotism), scenario 3 (padding up of expenses' account) ($p < .005$), and scenario 4 (political favouritism) ($p < .05$). The model was significant for transformational leadership in scenario 1 ($p < .01$), scenario 2 and 3 ($p < .05$), and for passive/laissez-faire leadership in scenario 1 ($p < .001$) and scenario 3 and 4 ($p < .05$).

H1b predicted that there is a significant positive relationship between transformational leadership and ethical intention. The values of the standardized regression coefficient β depicted in Table 4.17 indicate that transformational leadership had a significant negative relationship with ethical intention in scenario 1 (bribery) [$\beta = -.253, p < .001$], scenario 2 (Nepotism) [$\beta = -.219, p < .05$], and scenario 3 (padding up of expenses' account) [$\beta = -.167, p < .05$], as opposed to the hypothesised relationship. H1b was therefore unsupported.

H2b predicted that there is a significant negative relationship between transactional leadership and ethical intention. A look at the values of the standardized regression coefficient β depicted in table 4.18, indicates that passive/laissez-faire leadership had a significant negative relationship to ethical intention in scenario 1 (bribery) [$\beta = -.256, p < .001$], scenario 3 (nepotism) [$\beta = -.177, p < .05$], and scenario 4 (political favouritism) [$\beta = -.177, p < .05$]. Thus, there was some support for H2b.

Discussion

Factor analysis results revealed three factors namely transformational leadership, active transactional leadership, and passive/laissez-faire leadership. Findings for transformational leadership based on a combination of the four transformational dimensions and the contingent reward dimension were consistent with those by Bass (1985), Bycio, Hackett & Allen (1995) and Xirasagar (2008). As reported by Bass (1997) and reiterated by Avolio et al., (1999), "one consistent problem raised by many authors using the MLQ survey was whether the components of transformational leadership should be considered independent of contingent reward leadership, and/or whether contingent reward should be viewed as a separate factor" (p. 443). Findings for both active transactional leadership and passive/laissez-faire leadership were somewhat consistent with results of (e.g., Alsayed et al., 2012; Avolio et al., 1999; Carless, 1998; Den Hartog et al., 1997; Tracey & Hinkin, 1998; Xirasagar, 2008). It appears that Mauritian managers did not distinguish between passive and laissez-faire leadership (Hinkin & Schriesheim, 2008).

Active transactional leadership was the strongest predictor

($M = 3.2682$, $SD = .76454$), followed closely by transformational leadership ($M = 3.1859$, $SD = .84547$) and passive/laissez-faire leadership ($M = 2.2869$, $SD = .959198$). This implied that more respondents perceived their superior using an active leadership style that focused primarily on monitoring the task execution and correcting problems with the ultimate purpose of maintaining the status-quo. Overall, our data provides evidence for the three-factor model that has received considerable empirical support.

However, as mentioned earlier, active transactional leadership style was excluded from the regression analysis due to its non-significant correlation with ethical judgment and intention in all four scenarios. The finding concerning this lack of significant association between active transactional leadership and ethical judgment and intention is in contradiction to results by (e.g., Parry & Proctor-Thomson, 2002; Atwater, Dionne, Camobreco, Avolio & Lau, 1998). Notwithstanding, it provided support to findings by Turner et al., (2002) that evidenced no relationship between transactional leadership and cognitive moral reasoning, and by Lasthuizen (2008) that also found result-oriented leadership (active transactional leadership) to have no impact on ethical acceptability judgment of integrity violations.

Two hypotheses (H1a and H1b) predicted that transformational relationship would have a positive effect on ethical judgment and intention. Findings demonstrate transformational leadership to have significant effects on ethical judgment in scenario 1 (bribery), scenario 2 (nepotism) and scenario 4 (political favouritism), and on ethical intention in scenario 1 (bribery), scenario 2 (nepotism) and scenario 3 (padding up of expenses' account). However, most remarkably and surprisingly, findings indicate a significant negative impact, that is, the more the leadership is transformational, the less likely the employees perceive actions related to these scenarios as ethically unacceptable. These findings are contradictory with results of (e.g., Banerji & Krishnan, 2000; Groves & LaRocca, 2011; Parry & Proctor-Thomson, 2002). However, they were in concert with results of Lasthuizen (2008) that also found inspirational leadership to have a negative effect on the incidence and prevalence of integrity violations with regards to corruption/bribing. Moreover Banerji and Krishnan (2000) found inspirational leadership and intellectual stimulation of supervisors to be negatively related to subordinates' bribery and favouritism. In fact, their study indicated that results for some unethical actions such as lying and personal gain showed a positive relationship with some of the components of transformational leadership.

The findings regarding the negative relationship between transformational leadership and ethical judgment and intention for bribery could be potentially explained by the consequences of not bribing which involves loss of revenue, and is detrimental to the vision and goals of the leader and the organization (Lund, 2000), hence, leading managers in this study to be more inclined to make unethical decisions. For many managers, bribery is viewed as the only way of doing business and ensuring financial viability given its justifiability on the basis of prevailing norms to the extent of being culturally condoned by authorities at the highest level. In fact, Napal (2006) found bribery to be a culturally accepted practice among managers in Mauritius. In this context, they may hold the perception that bribery is implicitly supported by direct supervisors or top management (Powpoka, 2002), even if the latter demonstrate a transformational leadership style.

Likewise, findings for nepotism and political favouritism indicate evidence of the strong predominance of cultural norms

over transformational leadership styles, significantly influencing ethical judgment and intention of Mauritian managers. The practice of soliciting external political influence or favouring a relative over a long-term employee for a job is known to be prevalent in smaller communities and is often condoned on the basis of prevailing norms although it is usually evaluated as a corrupt practice by larger and developed societies. In a study involving Mauritian managers, Napal (2005) found strong evidence of the relativistic and culturally driven dimensions of political favouritism and of its cultural acceptability as a predictor of ethical judgment. Hence, despite the transformational leadership style of the superior, Mauritian managers appear to have a strong reliance on cultural norms with respect to their judgment and intentions toward such unethical practices (Thorne & Bartholomew-Sanders, 2002).

Findings for the negative relationship regarding padding up of expenses' account could be attributed to the lack of systematic auditing expenses in smaller organizations in Mauritius leading to abuses of expenses, particularly when senior management turns a blind eye on such unethical action and covers up for the inflated expenses' bill on the basis of high performance.

Another possible explanation for the negative relationship between transformational leadership and the aforementioned unethical actions is that a transformational leader even when perceived as possessing vision and charisma in enthusing followers or subordinates may not necessarily be regarded as a person of ethical disposition directing followers towards ethical goals. The leaders' interactions and actions may not match their perceptions, leading subordinates to emulate the leader's unethical behaviour and move away from the trajectory of ethics (Banerji & Krishnan, 2000; Parry & Proctor-Thomson, 2002). In such cases, transformational leadership seems to have a negative or no influence on ethical judgment and intention (Lasthuizen, 2008). Indeed, this notion of vision and appeal in transformational leadership is the very factor that can contribute to its potential to be unethical (e.g., Bass & Steidlmeier, 1999; Conger, 1990; Howell & Avolio, 1992). As mentioned earlier, this alludes to the 'dark side of charisma' (Conger, 1990; Hogan et al., 1990; House & Howell, 1992; Kets de Vries & Miller, 1985; Yukl, 1989) or the 'shadow side of charisma' (Conger & Kanungo, 1998), which causes transformational leaders to become overly narcissistic and self-centered especially when their vision is overly strong, demonstrating absolutist behaviour (Giampetro et al., 1998), and leading to unethical behaviour of followers. Such leaders are labelled as 'pseudo-transformational' leaders (Bass & Steidlmeier, 1999). According to Howell and Avolio (1992), the differentiating factor between the ethical and the unethical charismatic leadership style is the intent behind the style. Given the patriarchal nature of the society in Mauritius, it is logical to assume that the vision is unilaterally set by top management in many organizations, which may, in turn, direct subordinates toward questionable goals.

The other argument supports the suggestion by Giampetro et al., (1998) and Price (2003) that even authentic transformational leaders can also fail ethically, particularly when they mistakenly justify their behaviour on the assumption that the good is achieved for the organization even when it clearly outweighs the moral costs of deviating from the normative ethical requirements.

Additionally, respondents did not distinguish between the different dimensions of transformational leadership in describing their superiors' leadership style. According to Bass and Avolio (1995, 2000, 2004), while 'charisma' includes a desire to identify with the leader and 'inspirational' leadership may

not, the same leaders frequently appear to score high on both. Therefore, leaders who are perceived as models in providing vision and purpose may or may not inspire motivation toward ethical conduct in their subordinates, depending on whether or not the leader is seen as demonstrating absolutist, self-centered behaviour and lacking in consideration. Hence, the results of this study do not offer theoretical or empirical support for the claim that “transformational leadership is viewed as the best approach for instilling ethical behaviour in organisations” (Carlson & Perrewé, 1995, p. 5), leading to the rejection of the hypotheses in regards to the relationship between transformational leadership and ethical judgment and intention.

Two hypotheses (H2a and H2b) predicted that transactional leadership style would have a negative effect on ethical judgment and intention. Findings demonstrate passive/laissez-faire leadership to be significantly and negatively related to ethical judgment in scenario 1 (bribery), scenario 2 (nepotism) and scenario 4 (political favouritism). When it came to intention, passive/laissez-faire leadership impacted significantly and negatively on scenario 1 (bribery), scenario 3 (padding of expenses) and scenario 4 (political favouritism). To date, the passive/laissez faire leadership dimension and its impact on ethical decision making has received very little empirical examination. However, these results provide evidence of a negative relationship between the passive/laissez-faire leadership style and ethical values and judgment as demonstrated by findings of Hood (2003) and Lasthuizen (2008). For instance, Hood (2003) found passive or laissez-faire leaders to exhibit significantly lower levels of morality-based values, while Lasthuizen (2008) reported the negative influence of passive leadership on waste and abuse. The results of this study, therefore, offer much needed empirical support for the impact of the passive/laissez-faire leadership style on ethical decision making. The passive/laissez-faire leadership is operationalized essentially as a non-response by managers to situations that merit attention (Hinkin & Schriesheim, 2008). It is typically used by managers who are appointed on the basis of their social, family, business and political affiliations (Iwata, 2004). Certainly, this is often the case across all sectors in Mauritius, albeit more prominent within the public and para-statal sector. Such managers may not be motivated to take responsibility to change the status quo for the sake of maintaining conformity and compliance to their mandates. In turn, this inaction may have prompted intentions among subordinates to engage not only in unethical practices such as bribery and padding up of expenses’ account that are perceived as opportunities for monetary gain with minimal risk of sanctions vis-a-vis a passive/laissez-faire leadership style, but also in nepotism and political favouritism which involve opportunities for career advancement. To the best of the author’s knowledge, this study is the first in Mauritius to investigate the relationship between transformational and transactional leadership and ethical judgment and intention. One of the major contributions of this research is providing insight and new evidence to the ethical decision making literature and its relationship to transformational and transactional leadership of organizational leaders in an emerging multi-cultural island economy that could also be used for future research in other developing countries or small state islands sharing similar characteristics to Mauritius. The unexpected results regarding the negative relationship between transformational leadership and ethical decision making

specifically confirms the fact that problems arise when leaders are seen as charismatic or inspirational but not ethical. They also suggest the potential influence of cultural factors on judgments and intentions of Mauritian managers to ethical violations including bribery, nepotism, padding up of expenses and political favouritism. Additionally, this study has been instrumental in providing more explicit empirical support for the negative relationship between passive/laissez-faire leadership and ethical decision making that has been previously lacking.

Limitations and directions for future research

The sampling frame for this study was drawn from a list of managers studying at three tertiary institutions in Mauritius. While they are practicing managers from different functional areas of the organization and sectors of the economy, it cannot be assumed that they are part of an exhaustive list of managers. However, attitudes and behaviours observed in this study may represent useful avenues for future research. Though efforts such as ensuring anonymity and explaining the importance of responding accurately and honestly prior to the distribution of the questionnaires were used to reduce the impact of the social desirability bias, respondents may still fall prey to providing socially desirable responses rather than being perceived to be politically wrong. However, the use of scenarios in ethics research has been well supported and is deemed suitable for the purposes of this study. It should be noted that unreliability of responses may also lead to inability to accurately measure actual moral behavior (Rest, Thoma & Edwards, 1997; Rest, Narvaez, Thoma & Bebeau, 1999) and behavioural intentions may, therefore, not be indicative of Mauritian managers’ actual ethical decisions.

The finding on the undesirable side effects of leadership in the area of ethical decision making highlights the critical need to test this leadership model using other samples of managers in Mauritian organizations. ‘Pseudo-transformational leadership’ (Bass & Steidlmeier, 1999) or the failure of ‘authentic’ transformational leadership (Giampetro et al., 1998; Price, 2003) therefore warrants further research in relation to unethical leadership, for example, using in-depth qualitative case study analysis to probe further into ways in which a number of managers can demonstrate transformational leadership and yet still be viewed by subordinates as unethical (Parry & Proctor-Thomson, 2002). Future research is also needed to determine the moderating or intervening variables that could potentially contribute to the negative relationship between transformational leadership and ethical judgment and intention. As suggested by Trevino et al., (2000), it might be hypothesised that inspirational or transformational leaders have double standards scoring low in the area of the moral person but high in that of the moral manager. Nash (1993) contends that most leaders have good intentions, but unethical behaviors often arise as a result of moral rationalization. Odom and Green (2003) suggest that in order to ensure that good intentions lead to ethical behavior, organizations must first have the kind of ethical leadership that is capable of identifying ethical issues when they arise, utilizing an ethical decision making process for resolving ethical issues and more importantly, having the courage to make the ethical decision. Finally, future research should also consider exploring the effects of cultural factors on ethical decisions with respect to different ethical issues.

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Authors

Jennifer Ah-Kion

Faculty of Social Studies and Humanities, University of Mauritius, Reduit. Her research interest are in the area of work stress, work ethics and ethical decision making. Email: jsahkion@gmail.com.

Uma Bhowon

Faculty of Social Studies and Humanities, University of Mauritius, Reduit. Uma Bhowon is Associate Professor and Dean of Faculty at the University of Mauritius. Her main research interests are in the area of ethics, work family conflict, identity and acculturation. Author for correspondence: Uma Bhowon, Email: ubhowon@uom.ac.mu.