THE IMPACT OF ETHICAL LEADERSHIP ON FIRM PERFORMANCE IN BAHRAIN: ORGANIZATIONAL CULTURE AS A MEDIATOR

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Abstract

Ethical leadership (EL) has emerged as a critical driver of financial performance and competitive advantage in various industries, especially in the fast-paced technological world. The purpose of this study is to investigate the correlation between ethical leadership and the financial performance of non-financial companies in Bahrain, while considering the mediating role of organizational culture. To achieve this, a theoretical conceptual framework approach is used to analyze the intricate relationships between behavioral leadership, organizational culture, and firm financial performance. Data is collected from non-financial companies in Bahrain, which is an ideal setting due to its dynamic business community and diverse range of non-financial enterprises. The study reveals that ethical leadership significantly influences company financial performance and competitive advantage. It also emphasizes the vital mediating function of organizational culture in shaping the connection between ethical leadership and financial outcomes. In conclusion, the research emphasizes the importance of ethical leadership for non-financial companies in maintaining ethical standards while navigating challenges. Organizations can enhance their competitive edge by aligning business objectives with ethical principles and promoting ethical leadership practices. The study's findings contribute valuable insights to the understanding of ethical leadership in Bahraini non-financial organizations and its impact on firm financial performance, offering potential applications in leadership development, talent recruitment, and fostering a healthy organizational culture across diverse industries.

Keywords: Bahrain, Ethical Leadership, Financial Performance, Non-Financial Companies, Organizational Culture

1. INTRODUCTION

In today's rapidly evolving world of technology and innovation, the importance of ethics cannot be overstated when it comes to the success and sustainability of businesses spanning diverse sectors. The development of Ethical Leadership (EL) stands out as a pivotal factor in enhancing business performance and gaining a competitive edge. The influence of senior management is profound, shaping the trajectory and accomplishments of their organizations by integrating moral principles into their decision-making processes.

This study employs a theoretical conceptual framework to delve into the impact of ethical leadership on the financial performance of non-financial companies in Bahrain. The growing emphasis on the significance of ethical leadership in organizational settings has led to the adoption of a leadership approach that upholds behavioral principles, honesty, and prudent decision-making. Leaders who uphold ethical values not only enhance their firms' overall well-being but also nurture a positive workplace culture that
fosters trust among stakeholders and employees. As a result, businesses prioritizing ethical leadership tend to experience heightened profitability and an enhanced ability to thrive in the fast-paced modern business landscape.

Bahrain, renowned for its flourishing economic environment and diverse array of non-financial firms, provides the backdrop for this study. The nation’s strategic geographic location, supportive government policies, and investments in cutting-edge technology have contributed to substantial economic growth and transformation. In this dynamic context, ethical leadership assumes a pivotal role in guiding companies through challenges while remaining aligned with their ethical principles.

The primary objective of this study is twofold: to explore how senior management’s ethical leadership influences the financial performance of non-financial enterprises in Bahrain and to comprehend the impact of organizational culture on both ethical leadership and firm financial performance. By scrutinizing this relationship and accounting for organizational culture, the study sheds light on the significance of ethical leadership and its interplay with the organizational context as driving forces behind organizational performance in Bahrain.

To achieve its research goals, the study constructs a comprehensive conceptual framework encompassing essential aspects of ethical leadership, organizational culture, and firm financial performance. This framework serves as a guide for analysis and facilitates an in-depth exploration of how organizational culture, financial performance, and ethical leadership practices intersect within Bahraini non-financial firms. Employing a theoretical lens and considering the mediating role of organizational culture, the study strives to develop a profound understanding of the intricate connections between ethical leadership, organizational culture, and firm financial performance in Bahrain’s business environment.

The findings of this research are anticipated to carry substantial implications for both researchers and practitioners. It contributes to the growing body of knowledge concerning ethical leadership, particularly within the context of Bahraini non-financial businesses. The study's novelty lies in its focus on the Bahraini context of non-financial firms listed in the financial market and its examination of the impact of ethical leadership on firm financial performance. Despite the increasing recognition of ethical leadership's importance across various organizational settings, specific research investigating its influence on the financial performance of non-financial firms listed in Bahrain remains scarce. Thus, this study seeks to bridge this research gap and make a significant contribution to existing literature by exploring the influence of ethical leadership on the financial performance of non-financial firms within the Bahraini context.

2. LITERATURE REVIEW

While ethical behavior within corporations is gaining increasing importance (Uusitalo and Oksanen, 2004), there remains a lack of consensus on how to investigate this topic comprehensively. Despite being a primary focus, the concept of ethical leadership remains fragmented and unclear (Scheffler and Brunzel, 2020). Previous investigations have approached this subject from prescriptive, conceptual, practical, and theological angles. However, a precise definition of moral leadership is yet to be established. According to Piccolo et al. (2010), ethical leadership involves modeling
Appropriate behavior through one's actions and interactions, as well as promoting it among subordinates through communication, support, and decision-making.

A framework for ethical leadership has been established based on the 10-item "Ethical Leading Scale (ELS)." This construct combines attributes of a morally responsible manager, including engaging in discussions about ethical standards, implementing suitable rewards and penalties for ethical/unethical conduct, and those of a morally principled individual, including displaying consideration, honesty, and moral judgment. Integral aspects of other leadership elements like integrity are also encompassed within this framework. Due to its relational nature, ethical leadership distinguishes itself from other leadership theories by its emphasis on ethical considerations.

According to the social education approach, leaders can influence their subordinates' ethical behavior by setting an example. Various psychological processes, such as observational imitation, learning, and identification, contribute to the modeling process. Employees in a corporate environment acquire knowledge by emulating the values, attitudes, and behaviors of their leaders (Den Hartog and Belschak, 2012). Ethical leaders, leveraging their leadership style, position, success, and ability to enforce behavior and consequences, offer guidance and serve as role models (Yang, 2014). Ethical leadership is particularly crucial in non-financial organizations to enhance company success (Kanji et al., 2023).

According to Demirtas and Akdogan (2015), ethical leadership involves modeling behavior that aligns with accepted norms, promoting such behavior through effective decision-making, interaction, and personal conduct. It encompasses attributes such as honesty, integrity, compassion, and decisions rooted in moral principles. The significance of firm performance cannot be overstated, as it directly impacts a company's reputation, standing, and long-term viability (Gunasekaran and McGaughey, 2004; Ahmed et al., 2017). Ethical leadership contributes to improved business performance by fostering a supportive ethical environment, building trust and commitment among employees, and cultivating an atmosphere of integrity and ethical behavior. Ethical leaders, by their actions and interpersonal interactions, provide a clear sense of the company's identity and mission, inspiring staff to excel and adhere to the company's code of ethics. Numerous studies in the literature underscore the importance of enhancing business performance (Alabdullah et al., 2020; Alabdullah and Housain, 2023; Alfaadhal, 2016, 2013; Almashhadani and Almashhadani, 2022; Hosian et al., 2023). This coordination ultimately enhances company efficiency, employee engagement, customer satisfaction, and positively affects the reputation and overall success of non-financial businesses.

Recent literature reviews have stressed the need to refine theories related to leadership, particularly in terms of exploring the interconnections between ethical leadership and organizational performance. Waldman et al. (2006) emphasize that the theory of leadership, when seen through an ethical lens, bridges the gap between leadership and various stakeholders. Scholars like Waldman et al. advocate for the application of diverse leadership practices and dimensions to address the divide between corporate social responsibility literature and leadership theory. Resick et al. (2011) assert that ethical leadership involves honesty, integrity, enforcing high ethical standards among employees, and treating them with respect. Despite ethical leadership being recognized as a driver of organizational success, including improved employee performance, limited
literature delves into how ethical leadership affects corporate social responsibility's efficiency in generating positive business outcomes.

This research seeks to provide a comprehensive understanding of how ethical leadership practices, in conjunction with the organizational context, influence financial performance within Bahrain's unique socio-cultural and economic landscape. By focusing on this specific context and considering the mediating role of organizational culture, the study's findings can guide future investigations into ethical leadership's interactions with corporate culture across various countries and industries. For practitioners, the study's insights can serve as a valuable resource for senior management teams in Bahraini non-financial businesses. A clear understanding of how ethical leadership impacts firm financial performance, mediated by organizational culture, can aid organizations in making informed decisions about leadership development, talent acquisition, and cultivating a positive organizational culture. Prioritizing ethical leadership methodologies and fostering a healthy organizational culture (Warrick, 2017) can enhance competitive advantage, overall success, and alignment with strategic goals. Ethical leadership is indispensable in today's rapidly changing business landscape (Turyadi et al., 2023).

This study aims to propose a theoretical framework and empirically test how ethical leadership influences organizational performance within the context of Bahrain. Bahraini non-financial companies typically exhibit strong decision-making processes based on solid scientific foundations, supported by excellent senior management decision-making (Hilbert, 2016). Consequently, this study examines the impact of ethical leadership on the financial performance of non-financial enterprises in Bahrain while accounting for organizational culture as a mediating factor. Building on the aforementioned discussion, the following hypotheses are proposed:

1) H1: A significant positive relationship exists between ethical leadership demonstrated by senior management and the financial performance of non-financial companies in Bahrain.
2) H2: Ethical leadership practices by senior management positively influence the financial performance of non-financial companies in Bahrain.
3) H3: A significant difference in the financial performance of non-financial companies in Bahrain exists based on the level of ethical leadership demonstrated by senior management.
4) H4: The impact of ethical leadership on the financial performance of non-financial companies in Bahrain is mediated by organizational culture.

These hypotheses serve as a foundation for investigating the relationship between ethical leadership and firm financial performance, as well as exploring potential mediating factors like organizational culture. Appropriate statistical analyses will be applied to test these hypotheses and draw meaningful conclusions.

2.1. Social Exchange Theory:

The Social Exchange Theory is a theory that can be appropriate to support the selection of the variables for the present study. According to the Social Exchange Theory, people interact with others in hopes of reaping benefits from them both. According to a study of the literature on ethical leadership and business performance, this hypothesis contends that when leaders act ethically, it fosters favorable social interactions with their workforce. Employees respond with enhanced dedication, confidence, and loyalty.
because they value the ethical leadership. This beneficial interaction therefore improves the culture of organizations that in turn has an effect on business performance. Leaders that practice ethical leadership offer moral guidance, exhibit fairness, and act with integrity engage in social interaction. Employees might respond to moral leadership with increased effort, work satisfaction, and better organizational behavior. By encouraging moral principles, mutual trust, and teamwork among staff members, this constructive dialogue improves organizational culture. A mediating factor in this link is organizational culture. It includes the common viewpoints, standards, customs, and conduct inside a company. By creating moral standards, establishing ethical expectations, and promoting ethical behavior, ethical leadership has an impact on and molds the workplace culture. In conclusion, an effective culture of ethics can improve making choices, teamwork, staff engagement, and inappropriate conduct, all of which can have a favorable impact on a company's performance. Because organizational culture plays a mediating role in how ethical leadership affects business performance, Social Exchange Theory can offer a useful paradigm.

2.2. Conceptual Framework

The independent variable of the current conceptual study is ethical leadership as shown below in the conceptual framework with its measurements that are the leaders' ethical standards, leaders' integrity, leaders' moral values, and leaders' fairness. Also, the conceptual framework reveals the mediator variable which is organizational culture and its measurements that represented by shared beliefs within an organization, norms within an organization, values within an organization and behaviors within an organization. Finally, the dependent variable is firm performance and its measurements are financial performance represented by ROA, customer satisfaction, and market reputation.

Figure 1. Conceptual Framework
3. RESEARCH METHODS

To examine the interconnectedness of ethical leadership, organizational culture, and firm financial performance within Bahraini non-financial enterprises, this study employs a quantitative research design. A purposeful sample of non-financial businesses based in Bahrain will offer cross-sectional insights. The study establishes specific criteria for sample selection. It is recommended that the focus be limited to non-financial firms not engaged in financial sectors such as banking and insurance, as their performance and organizational dynamics may differ from other sectors. The chosen firms must operate within the geographical boundaries of Bahrain.

The sample should encompass diverse levels of non-financial firms from various sectors to ensure comprehensive insights into ethical leadership, organizational culture, and firm financial performance within the Bahraini context. A quantitative power analysis will determine the appropriate sample size. This analysis considers factors such as the desired level of significance, effect size, statistical power, and expected variability among the relevant variables. The aim is to ensure that the sample size is sufficient to detect significant associations and draw reliable conclusions.

Potential participating businesses will be identified and approached through multiple channels, including company directories, trade associations, and online networking platforms. The selected firms will be introduced to the study's significance and objectives by the researchers, who will then request their voluntary participation. It's important to note that due to the purposive sampling approach, the findings may not be universally applicable to all non-financial enterprises in Bahrain. The study deliberately selects a representative sample of Bahrain's non-financial businesses to illuminate the relationship between ethical leadership, organizational culture, and financial performance in this specific context.

To ensure relevance and insightfulness, a broad and appropriate representative sample of Bahraini non-financial enterprises will be thoughtfully chosen, allowing the study to gather pertinent data and insights while considering the unique attributes and dynamics of the Bahraini business landscape.

Data collection for this study will involve the use of a pre-designed questionnaire based on the conceptual framework and relevant prior research from the literature review. The questionnaire will encompass measurements of organizational culture, company financial performance, and ethical leadership. The survey will be administered to directors or top executives of the selected non-financial businesses.

Regarding data analysis, initial descriptive analyses will characterize the collected data and relevant statistical techniques, such as correlation analysis and regression testing, will be employed to assess the relationships between ethical leadership, organizational culture, and financial performance. Furthermore, mediation analysis will be conducted to explore how organizational culture influences the link between ethical leadership and financial performance. Control variables, such as firm size and industry type, may be incorporated to mitigate potential confounding factors.

In terms of variable measurement, the independent variable of Ethical Leadership in this study will be gauged by assessing a leader's ethical qualities, integrity, and sense of justice. Respondents will indicate their level of agreement or disagreement using a Likert scale. Organizational culture, serving as the mediating variable, will be evaluated through elements like shared values, norms, and behaviors. Participants will indicate their level of agreement or disagreement on a Likert-style scale.
For the dependent variable, firm performance, customer satisfaction, and market reputation will be utilized. Respondents will express their level of agreement or disagreement on a Likert-style scale. To ensure reliability and validity, established items from published research will be adapted for each variable.

4. RESULT AND DISCUSSION

The results of this study are applicable primarily to non-financial companies in Bahrain and should be interpreted with caution when extending them to other locations or industries, as cultural, economic, and legal factors may influence the relationship between ethical leadership, organizational culture, and financial performance differently in various contexts. The study's cross-sectional design limits its ability to establish causation or track changes over time. To gain deeper insights into the dynamic interplay between behavioral leadership, organizational culture, and firm financial performance, longitudinal or experimental approaches could be employed in future research. Furthermore, all variables were measured using self-report surveys, introducing potential bias and shared method variance. To address this limitation, future studies could incorporate objective measurements or utilize multiple data sources. The generalizability of the results may also be affected by the sample size and composition, and larger and more diverse samples could enhance the external validity of the result.

In order to better understand the causal relationships between ethical leadership, organizational culture, and financial performance over time, future research should employ longitudinal methods. Conducting comparative studies across different locations and industries would provide a comprehensive evaluation of the link between behavioral leadership, organizational culture, and financial performance, accounting for contextual variables that may influence or mediate this relationship. Additionally, supplementing self-reported data with objective measures of financial performance, such as financial statements or key performance indicators, would strengthen the reliability and validity of the results. Intervention studies could assess the effectiveness of initiatives aimed at promoting ethical leadership and fostering a supportive organizational culture, offering valuable insights for practitioners. By analyzing specific strategies, programs, or training efforts designed to enhance ethical leadership behavior and cultivate an ethical business environment, these studies could shed light on their impact on financial performance. Addressing the study's limitations and pursuing the recommended avenues for future research would advance our understanding of the intricate connections among behavioral leadership, organizational culture, and firm financial performance, providing practical guidance for businesses seeking to cultivate ethical behavior and achieve sustainable financial success.

5. CONCLUSION

This study delves into the impact of ethical leadership on the financial performance of non-financial enterprises in Bahrain, with a focus on the mediating role of organizational culture. The results highlight the crucial importance of ethical leadership in enhancing corporate performance and gaining a competitive edge in the rapidly changing business environment. Senior management's dedication to moral values fosters
a healthy workplace environment and boosts stakeholder and employee confidence, contributing to the overall well-being of the organization. The study acknowledges the significance of ethical leadership as a key resource for achievement and competitiveness. However, caution is advised when applying the findings to other locations or industries, as they are specific to non-financial businesses in Bahrain. The study suggests using longitudinal designs, objective financial metrics, and intervention studies to overcome limitations and advance research in this area.

In conclusion, this research adds valuable insights to the relationship between ethical leadership, organizational culture, and financial performance in Bahraini non-financial enterprises. Ethical leadership practices can align organizational objectives with ethical principles and enhance financial performance. The study's implications offer practical advice for both researchers and practitioners seeking to promote ethical leadership and achieve long-term financial success in diverse business settings and industries.

REFERENCES


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