

# An Analysis of the Effects of Ethical Leadership and Organizational Learning on Innovation in the Hospitality Industry

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## Abstract

*During the last few decades, several researchers have established the positive effect of ethical leadership on organizational innovation. Still, there are very few research studies presenting a deeper understanding of the role of organizational learning in this relationship, which is the main objective of this research. For this purpose, two hypotheses were developed: the first predicts the positive relationships between ethical leadership and organizational innovation, and the second one is the moderating role of organizational learning in the effect of ethical leadership on organizational innovation. The respondents consisted of the staff members of the hospitality sector. The variables of the research scored high on the reliability tests. The results of the study supported all the hypotheses.*

**Keywords:** Ethical Leadership, Leadership Development, Organizational Innovation.

## Introduction

Ethical leadership might play a crucial role in developing and generating required outcomes by subordinates in their personal and professional context. Ethical leaders play an imperative role in enhancing innovative behavior. Through ethical leadership, organizations can achieve better employee performance by reducing their work stress with effective implementation and also retain employees to have the opportunity to work in a compassionate and responsible work environment. Along with ethical leadership practices on the part of the organization, organizational innovation has a significant influence on employee performance. As ethical leadership helps an executive develop and generate required outcomes from the subordinates, organizational innovation ensures that these subordinates who help generate required outcomes are confident and can creatively present new ideas with self-assurance and belief to face the change. It is noticed that innovation has long applications and practices in the field of business and management. Still, it is also evident that organizational innovation has a very short application for enhancing employee performance (Hoffman & Frost, 2006).

A firm's ability to create more value than its competitors helps it achieve a competitive advantage (Porter, 1985). One of the sources for greater value creation is the firm's ability to innovate successfully. Technological change and innovation pioneered this earlier theory of value creation (Schumpeter, 1934). In an increasingly changing and complex environment, strategic management literature has recognized the critical role of innovation for firms to create value and sustain competitive advantage (Madhavan & Grover, 1998; Subramaniam & Youndt, 2005). In the current

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era, organizational leadership has changed to more strategic partners concerned with creating value for the organization rather than performing purely administrative functions (Kaufman, 1999; Grant (1996) considers a firm a repository of knowledge, and Teece (2007) attributes all knowledge to organizational learning. Organizational learning involves unlearning obsolete capabilities and adopting new and innovative capabilities. Hence, innovativeness mainly relies on employees' capacity to transfer knowledge (Epple et al., 1996) on the one hand and organizational learning (Dasgupta & Gupta, 2009) on the other.

Organizational learning refers to acquiring new knowledge and skills that are crucial to accomplish organizational goals and, at the same time, to achieve sustainable competitive advantage. Organizational learning may be adaptive and generative (Ju et al., 2006). It involves converting knowledge into action (Škerlavaj et al., 2010) and creating new knowledge to change individual and organizational behavior (Murray & Donegan, 2003; Slater & Narver, 1995). Wijnhoven (2001) believes that organizational learning aims to develop the employees' expertise. Those organizations that foster the culture of learning are in a better position to understand the sensitivities of the market and, hence, are in a better position to react to changes in the marketplaces (Tippins & Sohi, 2003), thus maintaining sustainable competitive advantage (Dickson, 1996).

This research study examines the relationship between ethical leadership and organizational learning and how these variables impact innovation. A literature review revealed that although there is much support in declaring ethical leadership is an instrument in augmenting organizational innovation. However, very little literature on organizational learning moderates the role of ethical leadership and organizational innovation.

The questions that will guide the proposed study and will be addressed include the following:

1. What is the impact of ethical leadership on organizational innovation?
2. How does organizational learning moderate ethical leadership's impact on organizational innovation?

## **Literature Review and Hypothesis Development**

### **Ethical Leadership**

Ethical theories have two broad categories: the first relates to leaders' behavior, and the second belongs to leaders' character. Theoretical works associated with ethics are of two major types: one that is associated with a leader's behavior and consequences, and the second is those associated with the responsibility that suggests a leader's behavior. These theories are associated with the outcomes that are called teleological theories.

This theoretical literature emphasizes the positive consequences of a leader's behavior and actions. It shows that the outcomes of individual actions set up whether the action was moral or immoral. This literature focused on the events that lead to outcomes. Heifetz (1994) emphasized the responsibility and disagreement of leaders so that followers can adapt to dealing with disagreements and the changes effects that come from disagreements. According to Heifetz, an environment that contains trust and empathy helps the employees enhance their abilities and face situations critical to the organization (Northouse, 2013).

Ciulla (1998) explained that leadership is meant to facilitate the attainment of superior ethical values when dealing with contradictory disagreements, particularly when disagreements are confronted in complicated situations. It is insisted that leaders' and followers' ethical behavior and character should rise when interacting. Leaders support their followers and emphasize values like liberty, equality, and justice.

The heart of ethical leadership is the relationship between leaders and followers as focused by both perspectives. The ideas presented by these scholars are of the same kind and in conformity with Gilligan's (1982) caring ethic. It is considered a fundamental factor in an organization's accomplishment due to its significant value in the organization and conviction between influential persons and supporters.

In organizations, ethical leaders respect and show extreme care for others with honor. In their treatments and dealings with others, they value people as ends in themselves instead of giving value as a means to their ends. In this way, they show and demonstrate that the followers have goals and objectives that the organization acknowledges and that they have worth and significance in the organization. The caring acts include active listening to others, tolerance for conflicts, and empathic feelings for others in the organization.

Ethical leaders give preference to others. Their prime important concern is to care for and support their subordinates. They serve and care for others in the organization. They behave humanly instead of behaving in dominancy and authoritativeness. Their dealings with others include team building, giving power to others, mentoring, and guiding (Kanungo & Mendonca, 1996).

While making any decision, ethical leaders ensure that fairness, clarity, equal opportunity, and justice are prominent and central parts of their decisions. They take care of all subordinates in equivalent conduct, excluding only if there is a very apparent requirement for discrepancy management and there is exactness about why it is necessary. In addition to being clear, the reason for discrepancy dealing should be ethically logical.

Honesty is the main requirement of ethical leadership. Untruthfulness destroys belief. In contrast, truthfulness enhances trust and strengthens the leader-follower relationship. Honesty indicates openness by showing our way of thinking with others. This led to establishing a level of openness with others, and disagreements were only generated in rare scenarios.

Ethical leaders build community with others. This is a serious and critical chore because the leaders must influence the subordinates to help them accomplish the required task and achieve a common objective. For this reason, leaders have to establish goals that prove to be appropriate not only for the organization but also for their commitments. An issue whereby a person impacts a cluster of people to attain a distinctive goal is characterized as leadership (Northouse, 2007).

The description proposes that an ethical leader can place the model for subordinates and survive with several enticements that have a chance of occurring during the execution. The truth of ethical administration, the strength of great character, and the right values are much more complicated, and the risks are higher. In the same way, Freeman and Stewart (2006) explained that ethical leaders are individuals with accurate morals and personalities who position illustrations for others and endure enticements. It is to be noted that an ethical leader is a person who exhibits a personality having prominent qualities of strong and fair decision-making, considerable care and empathy for the people at large, and developing ethical behavior in their professional lives (Brown et al., 2005). Leaders must recognize that human undertakings can flourish and be managed by living in amicability with these essential standards (Berghofer & Schwartz, 2011). Ethical leaders must concentrate on good standards and justice in decision-making, take care of the effect of hierarchical choices, and convey to representatives how their activities will help achieve the organization's general objectives. Ethical leaders assist their subordinates in their work and guarantee that reliable choices are focused on good values. Ethical leaders attempt activities to join ethical standards in their convictions on continuous bases, qualities, and conduct; they are focused on higher reason, judiciousness, pride, tolerance, and perseverance (Khuntia & Suar, 2004).

### **Organizational Innovation**

Innovation refers to various connotations. In early definition, its role was seen as establishing the link between novel ideas and new markets and being considered at the core of the entrepreneurial role (Schumpeter, 1934).

Extensive research on innovation identified various and differentiated innovation types based on their characteristics and adoption of them influenced by some organizational and environmental elements (Light, 1998; Jansen et al., 2006).

Researchers in this area have classified many different domains of innovation. For example, one of the seminal works in this area identified almost 20 types of innovation grouped at the organizational level, and its consequences were also the focus (Zaltman et al., 1973, p. 31). Few types of research but widely recognized domains establish a difference between technical and organizational/management innovation, commonly known as technological and administrative innovations, respectively (Birkinshaw et al., 2008). Technological innovations are both product, process, and administrative and organizational innovations (Damanpour & Evan, 1984). Two other domains are widely identified and studied as the difference between product and process innovations (Light, 1998; Kotabe & Murray, 1990). Many studies defined the following domains of innovation:

1. The advancement in new products and services is known as product innovation.
2. Developing new production processes or service technologies is known as process innovations.
3. The advancement and development in structuring new organization or management practices are known as organizational innovations (Boer & Daring, 2001).

In another study, product and process innovation have been further classified and compared as two taxonomies that distinguished product innovations as and in goods and services and process innovations as technological and organizational innovation (Edquist et al., 2001). Hamel (2006) also argued that Meeus and Edquist (2006) identified the same difference between innovations in operational and management processes. Both are types of process innovation. It has been specified that service, technological, and administrative process innovations are three subcategories of innovation that can be employed in any service organization (Damanpour et al., 2009).

### **Organizational Learning**

Researchers have taken organizational learning as a process of acquiring fresh knowledge and skills and employing the same to accomplish organizational outcomes, thus making the organization competitive in the market. Organizational learning theories can be distinguished from those of intention, calculation, and analysis (Machina, 1987), conflict and bargaining (Pfeffer & Lammerding, 1981), and variation and selection (Hannan & Freeman, 1977). Ideas involving learning are distinguished from those of other processes (Grandori, 1997; Scott, 1987). The understanding of organizational learning constructs on three behavioral explanations, based on routines (Cyert & March 1963; Nelson & Winter, 1982), history (Steinbruner, 2002; Lindblom, 1959), and orientation to targets (Siegel, 1957; Simon, 1955). There can be two types of organizational learning: one is adaptive learning, and two is generative learning (Ju et al., 2006), which are meant to change not only individual behavior but also organizational behavior (Murray & Donegan, 2003; Slater & Narver, 1995).

### **Organizational Learning and Innovation**

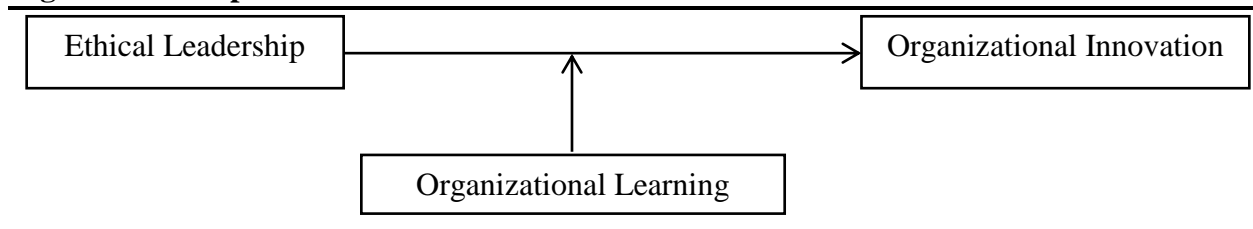
Innovation depends upon the ability of an organization to acquire knowledge (Sinkula et al., 1997), and Nonaka's concept of dynamic fractal organization makes an organization a continuous source

of knowledge as well as learning, ultimately resulting in innovativeness (Nonaka et al., 2014). Innovativeness is the outcome of organizational learning (Therin, 2003) because it presupposes the development of expertise, initiative, and creativity (Wijnhoven, 2001). Consequently, an organization with more learning is better equipped to introduce innovation in its products and processes (Therin, 2003). Organizational learning is positively related to innovativeness (Forrester, 2000). The greater the amount of organizational learning, the greater the degree of critical capacity, skill, and new and relevant knowledge, and the more innovations in products, services, or methods (Kim & Senge, 1994). Thus, organizational learning has an impact on a firm's innovativeness.

### Conceptual Framework and Hypothesis Development

Hospitality sector employees in Pakistan can be enhanced if organizational compassion is executed along with ethical leadership in organizations. The literature review made it clear that ethical leadership has a relationship with employee learning that moderates the role between ethical leadership and employee innovation. Therefore, ethical leadership practices are taken as independent variables in the theoretical framework, organizational Learning as the moderator variable, and organizational innovation as an outcome variable.

**Figure 1: Conceptual Framework**



The review of literature supports the first hypothesis as leadership practices has a positive relationship with organizational innovation by intervening organizational learning. Therefore, it is hypothesized that:

**Hypothesis 1:** Ethical leadership has a positive impact on organizational innovation (Ye et al., 2023).

**Hypothesis 2:** Organizational learning moderates the impact of ethical leadership on organizational innovation (Usman & Hameed, 2017; Ali et al., 2022).

### Research Methodology

This study aims to explain the phenomenon and hypothesis development through deductive reasoning. The data collected either to justify or falsify the hypothesis. This study is positioned in the positivist paradigm since it employs empiricism to organize and collect facts, form a hypothesis, deduce hypothesis consequences as testable predictions, test the hypothesis with collected data, and evaluate the outcome of testing. Therefore, this study also aims to use a quantitative research strategy. Another reason for the quantitative research strategy decision is that it seems most appropriate since the main objectives of this study are to investigate the relationships between ethical leadership, organizational innovation, and organizational learning and to determine if organizational compassion moderates the role between ethical leadership and employee performance.

The target population of the present study was the hospitality industry employees, as highlighted in the study by Rehman et al. (2017). The sampling frame of the study included employees from middle and top management. The data was collected from the hospitality industry in Lahore (all the restaurants will be included). Punjab Food Authority has the list of all the restaurants, and we will get the list from the department. The age range of the sample was from 20 to 60 years. The minimum education level of the respondent was intermediate (12 years of education) to participate in the study. The assessment measures used in the study are in English, and the respondents with minimum to intermediate education will be able to understand and respond to the questions easily. We can use both techniques: either we translate the questionnaire or exclude the less educated employees.

The sample size was calculated based on the rule of thumb proposed by Haier et al. (2004). So, the sample size was calculated based on the maximum number of items in the innovativeness variable, i.e.,  $21 \times 7 = 147$  ( $n = 147$ ). Considering Pakistan's low response rate (almost 20%), the questionnaire survey was sent to 530 respondents from the target population. Nevertheless, out of 530 questionnaires, only 152 responses were received. Of these 152 questionnaires, 12 were rejected because of incomplete responses.

The pilot test comprised 20 respondents employed in a hospitality sector organization. The instruments for measurement of ethical leadership, organizational innovation, and organizational learning were used after getting due permission from the authors through electronic mail. The validated and pre-tested Cronbach's alpha values were satisfactory for all the given measures.

This study intends to use the structured questionnaire as a primary tool for data collection. The questionnaire, consisting of three parts, namely ethical leadership, organizational learning, and organizational innovation, is adapted from previous researchers:

1. Ethical leadership adopted from Tandoh (2011).
2. Organizational learning adopted from Raj and Srivastava (2013).
3. Organizational innovation adopted from Ulrich and Brockbank (2013).

## Data Analysis

### Factor Analysis

The questionnaire for this research project was extracted from the measurements formerly developed by various researchers in other fields. So, an exploratory factor analysis was applied to check internal consistency as well as the validity of the constructs.

**Table 1: Exploratory factor analysis of organizational learning items**

OL items	Components		Cronbach's Alpha
	1	2	
Adaptive learning 1	.812		
Adaptive learning 2	.831		
Adaptive learning 3	.611		.801
Generative learning 1		.633	
Generative learning 2		.519	
Generative learning 3		.557	.758

Extraction: Principal Components

Rotation: Varimax with Kaiser Normalization

**Table 2: Exploratory factor analysis of organizational innovativeness items**

OI items	Components					Cronbach's Alpha
	1	2	3	4	5	
OI 1	.315					
OI 2	.626					
OI 3	.899					
OI 4	.845					
OI 5	.815					.671
OI 6		.536				
OI 7		.503				
OI 8		.859				
OI 9		.831				.812
OI 10			.842			
OI 11			.662			
OI 12			.910			
OI 13			.817			.720
OI 14				.802		
OI 15				.778		
OI 16				.376		
OI 17				.808		.559
OI 18						.811
OI 19						.630
OI 20						.972
OI 21						.798 .872

Extraction: Principal Components

Rotation: Varimax with Kaiser Normalization

**Table 3: Exploratory factor analysis of ethical leadership items**

EL items	Components		Cronbach's Alpha
	1	2	
EL Item 1	.782		
EL Item 2	.736		
EL Item 3	.682		.828
EL Item 4		.754	
EL Item 5		.842	
EL Item 6		.644	.741

Extraction: Principal Components

Rotation: Varimax with Kaiser Normalization

The factor analysis was applied on the organizational learning (6 items), organizational innovation (21 items) and ethical leadership (6 items) in order to see the validity of these constructs in the Pakistan context. In the factor analysis, principal components were used for extraction and Varimax with Kaiser normalization was applied for rotation. According to Hair et al. (2010) the decisions regarding the retention of the initial factor need to be taken on the basis of several

stopping criteria viz., for instance, keeping each factor with eigenvalues greater than 1.0 and establishing a predetermined number of factors in view the objectives of research and/or previous research conducted in the relevant field.

**Table 4: Correlation analysis**

	Variables	Innovation	EL Item 1	EL Item 2	EL Item 3	EL Item 4	EL Item 5	EL Item 6
<b>Dependent Variable</b>	Innovation	1						
	EL Item 1	.354**	1					
<b>Independent Variables</b>	EL Item 2	.333**	.633**	1				
	EL Item 3	.430**	.544**	.677**	1			
	EL Item 4	.189**	.439**	.493**	.618**	1		
	EL Item 5	.533**	.649**	.620**	.616*	.457*	1	
	EL Item 6	.710**	.453*	.449*	.478**	.392*	.525*	1

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

To find out the significant impact of ethical leadership on innovation, multiple regression analysis is used. First, the multiple regression analysis was run by taking ethical leadership items as independent variables and innovation as dependent variable.

**Table 5: Multiple regression analysis**

Independent Variable	Beta value	R Sq.	Adjusted R Sq.	Sig.
		.628	.606	
EL Item 1	-.074			.437
EL Item 2	-.190			0.049
EL Item 3	.115			.245
EL Item 4	-.073			.334
EL Item 5	.235			.018
EL Item 6	.749			.000

**Table 6: ANOVA table**

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	17.558	6	2.926	29.217	.000 <sup>b</sup>
	Residual	10.417	104	.100		
	Total	27.975	110			

a. Dependent Variable: Innovation

b. Predictors: (Constant) Ethical Leadership (EL) Items

The ANOVA table shows an F value of 29.217 (p, 0.01). It indicates that the combination of these variables (EL Items) significantly (p, 0.01) predicts the dependent variable (innovation), and the model is a good fit for the data and generalizable to the whole population. This analysis also obtained an R-squared value of 0.628. This means there is a strong correlation among the



independent variables. The adjusted R square of 0.606 indicates that 60% of the variance can be predicted from the independent variables.

Hence, for *hypothesis 1*, it is proved that ethical leadership significantly impacts innovation among all the items and our dependent variable, i.e., innovation.

### Moderator Test

SPSS has been used to run regression analysis for moderator testing. The analysis is done for hypothesis 2: Organizational learning significantly moderates the relationship between Ethical Leadership and organizational innovation. Regression tests were conducted one by one for each moderator to check their effect between the D.V and I.V models. The results show that hypothesis 2, organizational learning moderates the impact of ethical leadership on organizational innovation, has been accepted.

### Baron and Kenny (1986) method to establish moderation

**Table 7: Moderation test**

	Coefficients	Standard Error	T-Stat	P-value
Innovation	102.4757334	5.116978665	20.02660947	1.18685E-24
Ethical Leadership	-1.450775599	0.066064014	-21.96014916	2.35083E-26
Organizational Learning	-0.274744816	0.099575825	-2.759151805	0.008233102

Table 7 displays the values of coefficients and their standard errors, t-statistic and p-values for these variables. Using data generated in table 7 for hypothesis testing we draw the conclusion that coefficients of all the variables in multiple regression are significant. Hence it is confirmed that organizational learning (t-value = -2.759 & p-value = 0.008 < 0.01) is also significant and it moderates the effect of ethical leadership on innovation.

### Testing of Hypotheses

**Hypothesis 1:** Ethical leadership has a positive impact organizational innovation. **Accepted**

**Hypothesis 2:** Organizational learning moderates the impact of ethical leadership on organizational innovation. **Accepted**

### Conclusion

This study aims to identify the impact of ethical leadership on organizational innovation and whether organizational learning moderates the impact of ethical leadership on employees' work stress and performance. The correlation between ethical leadership and employee performance coefficient shows a fair, positive relationship between ethical leadership behavior and innovation. Thus, the purpose of this study is established and achieved.

The overall results of the statistical analysis of the empirical data supported all the hypotheses. The regression analysis findings address this gap in the literature and provide empirical evidence of the association and impact of ethical leadership with innovation. The results prove to be generalizable to the whole population along with significant R square value showing the strongest association between these two constructs, somewhat opening and expanding the door for further research in this area.

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