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The Relationship between Ethical Leadership and Creativity: The Mediating role of Psychological Capital

Sikander Hussain & Xiongying Niu

Abstract

The current research shed light on the relation between Ethical Leadership and Creativity. Specifically, this study examined the role of Ethical Leadership on creativity through the mediating mechanism of Psychological Capital. The current study is actually fulfilling the research gap by adding the Psychological Capital as a mediating variable between Ethical Leadership and Creativity. This further signifies the importance of employees psychological Capital to boost certain valued outcomes like creativity. To test the hypothesized model, data were collected from hospitality industry of Beijing, China (N=291). The findings supported our proposed hypotheses and showed that Psychological Capital mediated the linkage between Ethical Leadership and Creativity. This study holds a number of practical implications for the hospitality management industry like, it is pertinent to classify and categorize the accurate type of leadership, namely ethical leadership, within the organizations. Cultivating and retaining such leadership is of key significance in the present vibrant hospitality industry. The study discussed limitations and future research avenues.

Keywords: Ethical Leadership, Creativity, Psychological Capital, Hospitality Industry, China.

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1. Introduction

In the existing literature, more attention has been paid to the moral aspect of ethical leadership whereas limited efforts have been made to study and test the motivational aspect of ethical leadership (Tu & Lu, 2013). Leaders should be a key source of ethical guidance for employees. Yet, little empirical research focuses on an ethical dimension of leadership (Brown et al, 2005). To summarize, we conceptualize ethical leadership in terms of social learning. Ethical leaders are models of ethical conduct who become the targets of identification and emulation for followers. For leaders to be perceived as ethical leaders and to influence ethics-related outcomes, they must be perceived as attractive, credible, and legitimate. They do this by engaging in behavior that is seen as normatively appropriate (e.g., openness and honesty) and motivated by altruism (e.g., treating employees fairly and considerately). Ethical leaders must also gain followers' attention to the ethics message by engaging in explicit ethics-related communication and by using reinforcement to support the ethics message (Brown et al, 2005). For example, ethical leaders are likely to be honest, considerate of their followers, fair in their decisions, use rewards and punishments to promote ethical conduct, and make decisions based on ethical values. All of these come together to characterize ethical leadership, but none of these aspects, by themselves, constitutes all of what ethical leadership entails. (Brown et al, 2005). Previous research shows that positive leadership behaviors play an important role in enhancing employee creativity. For example, supportive leadership behavior (e.g. Amabile et al., 2004; Madjar et al., 2002) and effective leader–member exchange (LMX) relationships (e.g. Scot and Bruce, 1994; Tierney et al., 1999) can enhance employee creativity. Also transformational leadership (Gong et al., 2009; Shin and Zhou, 2003) and empowering leadership (Zhang and Bartol, 2010) also has a positive relationship with employee creativity.

The current study attempts to offer a new insight on the leadership– creativity relationship by investigating the impact of ethical leadership on employees' creativity through the mediating role of Psychological Capital. However, few studies has been conducted on the ethical leadership that increases creativity, but no study up to date has explored the impact of ethical leadership on employee's creativity (Chughtai, 2014). So, the main purpose of this study is to build and test a model that links ethical leadership to creativity. Moreover, in order to check the relationship between ethical leadership and creativity, current study also tried to find out the underlying mechanisms through which ethical leadership enhance the creativity. Based on theory and research, it is proposed that Psychological Capital will be the intervening variables that link ethical leadership to employee creativity.

2. Literature Review:

2.1 Ethical leadership and creativity

Creativity refers to "the creation of fresh & valuable ideas linking to products, processes, services &procedures" (Zhou & Shalley, 2003; Madjar et al., 2002; Amabile, 1997). Also, here it's a considerable point to distinguish among innovation and creativity, creativity is the invention of unique & valuable ideas, while innovation is the effective application of creative ideas in an organization. Creativity is mostly concern with personal level while innovation is mostly relevant or concerned at team or group level. Therefore, creativity is necessary but not conditional for innovations (Amabile, 1996). According to Oldham & Cummings (1996) when workers perceive supportive style of leadership in organizations employee's creativity upsurge. Other studies also proved that EL is having a positive association with employee creativity (Chughtai, 2014; Ma, Cheng, Ribbens, & Zhou, 2013). Truth be told, a few scientists

have detailed that legit leaders don't maintain a strategic distance from vulnerability by enabling their subordinates to go for broke, and thus, be increasingly imaginative (Kouzes and Posner, 2003; Javed et al., 2016; Gu et al., 2015; Caldwell and Dixon, 2010; Benni and Nanus, 2007). In view of the above speculations & research discoveries, we presume the accompanying hypothesis:

H1: *Supervisors' ethical leadership style has a positively significant linkage with subordinates' creativity.*

2.2 Ethical leadership and psychological capital

Ethical leadership is defined as "the demonstration of normatively appropriate conduct through personal actions and interpersonal relationships, and the promotion of such conduct to followers through two-way communication, reinforcement and decision making" (Brown et al., 2005: 120). Empirical research on ethical leadership is still in its infancy, yielding a number of pivotal questions that remain to be answered (Mayer et al. 2009). In this inquiry, we address one such key question, which is exploring the processes through which ethical leadership relates to employees' Creativity which further enhance job performance (Task performance and organizational citizenship behavior). A number of studies have demonstrated a link between ethical leadership and employee outcomes, including citizenship behaviors, deviant behaviors, and employees' ethical conduct and cognitions (Avey et al.2010; Piccolo et al. 2010; Schaubroeck et al.2012; Walumbwa et al. 2011). Brown et al. (2005), Piccolo et al. (2010), and Walumbwa et al. (2011) all suggest that through their "normatively appropriate" (Brown et al. 2005, p. 120) conduct and candid communication of ethical standards, ethical leaders render themselves as credible role models and important sources of information. This develops a shared understanding of acceptable behaviors among followers and makes them learn and emulate their leaders' conduct, thereby ultimately enhancing task performance (Piccolo et al. 2010; Walumbwa et al. 2011).

Research suggests leaders may have an impact on individual PsyCap (e.g., Avey et al., 2010; Gooty, Gavin, Johnson, Frazier, & Snow, 2009; Walumbwa & Schaubroeck, 2009). Like, Bouckenooghe, Zafar and Raja (2015) there is a positive relationship between a supervisors' ethical leadership style and followers' PsyCap. So on the basis of above argument and literature it is hypothesized that:

H2: *Supervisors' ethical leadership style is positively related to followers' PsyCap.*

2.3 Psychological capital and creativity

The regular hypothetical string going through the four segments of PsyCap (i.e., efficacy, optimism, hope, and resilience) is the "positive examination of conditions and likelihood for progress dependent on propelled exertion and determination" (Luthans, Avolio et al., 2007, p. 550). Reasonably (Luthans, Youssef, and Avolio, 2007) and experimentally (Luthans, Avolio et al., 2007) psychological capital has been distinguished as a moment request center factor. Because of the joined persuasive impacts being more extensive and having more effect than any of the individual develops independent from anyone else (Luthans, Avolio et al., 2007), PsyCap has additionally been exhibited to have a critical enhanced attractive results past socioeconomics, self-assessment qualities, and character measurements (Avey, Luthans and Youssef, 2010). In spite of the fact that the expectation here isn't to survey the quickly growing writing on PsyCap (Luthans and Avolio, 2009; Luthans and Youssef, 2007; and

Luthans, Youssef, and Avolio, 2007) an extending stream of research obviously bolsters a positive connection among PsyCap and execution/attitudinal results (Avey, Luthans, Smith, and Palmer, 2010; Avey, Wernsing, and Luthans, 2008; Luthans, Avey, Clapp-Smith and Li, 2008; Luthans, Avolio et al., 2007; Luthans, Norman, Avolio, and Avey, 2008) and proposes that PsyCap can be created (Luthans et al., 2010; Luthans, Avey, and Patera, 2008). The positive psychological resources such as hope, efficacy, optimism, and resilience may increase creativity (Luthans et al., 2011; Rego, Sousa, and Marques, 2012).

Together, these psychological resources have subjective, full of feeling, inspirational, and decisional parts (Bandura and Locke, 2003; Peterson, 2000) that help employees effectively create and actualize business related inventive thoughts. Moreover, high PsyCap people have the psychological limit of self-guideline (Bandura, 1991), which gives the activity, ace animation, and self-control important for achieving their objectives (Luthans and Youssef, 2007), we hypothesize:

H3: *PsyCap is positively associated to employee creativity.*

2.4 Psycap as a mediator between ethical leadership and creativity

Positive organizational behavior (POB) initiated an array of research undertakings in the near past. It shifted the attention of scholars from focusing on negative employees' behaviors to that on positive employee's behaviors (Saruhan, 2013). Luthans (2002) expressed POB as "the study and application of positively oriented human resource strengths and psychological capacities that can be measured, developed, and effectively managed for performance improvement in today's workplace". It is aimed at the betterment of employees' positive side of behaviors (Abbas & Raja, 2015). PsyCap is the offshoot of positive organizational behavior (Avey, Luthans & Jensen, 2009) because it fulfills the criteria for a construct to be counted in POB (Luthans & Youssef, 2007). Luthans, Avolio, Avey, and Norman (2007) coined a comprehensive definition of psychological capital which is presented below:

"An individual's positive psychological state of development and is characterized by:(1) having confidence (self-efficacy) to take on and put in the necessary effort to succeed at challenging tasks; (2) making a positive attribution (optimism) about succeeding now and in the future; (3) persevering toward goals and, when necessary, redirecting paths to goals (hope) in order to succeed; and (4) when beset by problems and adversity, sustaining and bouncing back and even beyond (resilience) to attain success)."

There are four facets of PsyCap including hope, resilience, optimism, and self-efficacy. Different scholars evaluated and endorsed these facets both individually and jointly (Luthans et al., 2007). They discovered that these four faces of PsyCap jointly offer better outcomes than its individual facets. This study also considers the joint benefits of these components. Hence this study incorporates PsyCap as a whole instead of its individual components to check its mediating role. Psychological capital is distinct from other kinds of resources. Luthans, Luthans, and Luthans (2004) made a distinction among traditional economic capital, human capital, social capital and psychological capital. From their point of view economic capital means 'what you have' such as money and other tangible assets; human capital implies 'what you know' and is about knowledge, education, experience and skills and ideas of employees; social capital refers to 'who you know' and includes things such as network contacts, friends and relationships; and psychological capital is 'who you are' and implies the

employees' development and growth. Based on prior work, Luthans, Norman Avolio, and Avey (2008) advocated that PsyCap is not something like fixed personality attributes and therefore it may be altered with training and experience. They found that organizational climate contributes to the development of psychological capital of employee. It is stable enough that it can influence the behaviors of employees but can be changed through some intervention (Luthans, Avey, & Patera, 2008). An experimental study conducted by Luthans, Avey, Avolio, and Peterson (2010) found that the psychological capital intervention (PCI) positively affected the job performance which initially confirmed that psychological capital can be nurtured via training and development programs. Participants who were given training in the experimental study, reported high level of PsyCap. Equally, with the passage of time, a change was observed in the psychological capital's level of employees (Peterson, Luthans, Avolio, Walumbwa & Zhang ,2011). High level of psychological capital substantially contributes in the positive outcomes (Luthans, et al., 2008) and especially hope and self-efficacy are the most important predictors of employee's attitude and behaviors (Bandura, 2011).

The majority of ethical management scholars usually describe the influence of ethical leadership on the outcomes of societal learning or societal exchange (Brown & Treviño, 2006., Brown et al., 2005; Chughtai, 2014). However, Tu and Lu (2013) used a different approach and explained the psychological mechanism between ethical leadership and creativity through cognitive evaluation theory (CET) based on the tenet that external factor enhances employees 'autonomy and competence, and therefore employees involve their selves in the process of developing new ideas. According to Bouckenooghe et al. (2015) on the basis of social learning theory Ethical leaders, through their role model behavior, provide constructive feedback to followers, which helps foster a positive work environment characterized by employees who are efficacious, hopeful, optimistic, and resilient. PsyCap, in turn, operates as an internal drive to employees to undertake activities that are desirable to the organization. To summarize, it's argued that supervisors' ethical leadership style serves as a favorable context for PsyCap to flourish. Also they hypothesized that positive leadership style is positively related to PsyCap and PsyCap leads to creativity (Avolio et al., 2004; Bandura, 1997; Rego, Machado, Leal, & Cunha, 2009; Rego, Sousa, Marques, & Cunha, 2012). So on the basis of above argument and literature it is hypothesized that:

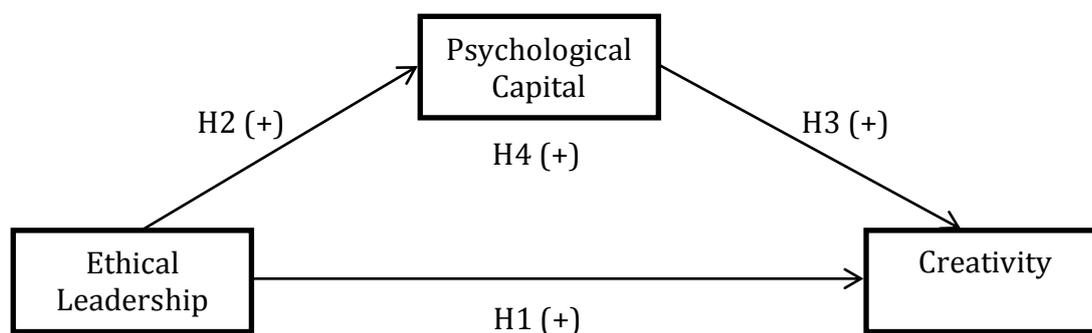**H4:** *Psycap mediates the relationship between Ethical Leadership and Creativity.*

Figure 1: Conceptual Model Showing Hypothesized Relationships

3. Methods
3.1 Sample and procedure
Data was collected from employees in hospitality industry in China. The employees and supervisors were contacted at various hotels in Beijing. Overall, we collected data from 40 hotels. We took face-to-face meetings with management officials of all hotels and explain them the key aims of this research work, and persuade them of potential benefits to their businesses from the research. Finally we select the hotels that were agreed to take part in our study and having same setting and groups and we asked for to give this information to their managers and employees. We guaranteed them that the detail they shared with us should be kept classified and will be only be utilized for research purpose. We also promise that research findings will be shared with them. Personally administered questionnaires were distributed among employees and their immediate supervisor to reduce the common method bias, and special codes were assigned to questionnaires that later we compare both responses properly. After completion subordinates were asked to hand over the questionnaire in the sealed envelope personally to scholars. We distributed total 400 questionnaires and got 291 valid responses, which have response rate of 72 %. Employees report their supervisors' EL and their PsyCap. Supervisors rate the employees' creativity at work. In survey instrument, questions pertaining to respondents' demographic information were also included. All the study variables were measured on a 5 point Likert scale from Strongly Disagreed=1 to strongly agree=5. *Ethical Leadership* was measured using a 10-items scale developed by Brown et al. (2005). The sample item includes: "my supervisor make balanced and fair decision" and "my supervisor disciplines employee who violates ethical standard". *Psychological Capital* was measured using a 24 items scale developed by Luthans, Youssef and Avolio (2007). One sample item of the scale is "I When things are uncertain for me at work, I usually expect the best". *Creativity* was measured by using Farmer et al., (2003) 4-item creativity scale, which replicates the Chinese view of employee creativity. Example items include is "this worker is an excellent role model for creativity" and "this worker strive for novel methods and ideas first".

4. Analyses and results
Table 1 shows the mean, standard deviations, intercorrelations, and internal reliabilities values for the entire main variables of the study. To examine Hypotheses 1 to 4 (Figure 2), we performed linear regression analyses; Table 2 shows the results. H1 anticipated that EL has a significant positive linkage with Creativity (β=0.21, p<.01). Thus, H1 is supported. H2 stated that EL has a significantly positive relationship with PsyCap. The results in Table 2 reveal that H2 is also supported (β=0.38, p<.01). H3 proposed that PsyCap has a positive linkage with Creativity (β=0.42, p<.01). The results indicate that those employees who have a higher level of PsyCap have high level of Creativity and vice versa. Hence, H3 is also cannot be rejected.

To test for the mediating role of PsyCap in the linkage between EL and Creativity, R. M. Baron and Kenny's (1986) procedure of establishing mediation was followed. This procedure involves the estimation of three individual regression equations. As mediation involves the continuation of direct effects to be mediated, the first step in the analyses here entailed regressing Creativity on EL, which is substantiated through H1. The results in Table 2 show that EL is significantly linked to Creativity, which provides support for the direct influence of EL on Creativity. The second step in the mediation analyses involved regressing mediator PsyCap on EL, which is confirmed through H2. The third and final step in the mediation analyses requires regressing Creativity on EL and PsyCap. In other words, the third equation

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contains independent variable combined with a mediator. The direct linkage of mediator Psycap and Creativity is confirmed through H3. In the third step, according to R. M. Baron and Kenny (1986) directions, the mediator PsyCap should be significant linkage with Creativity in the presence of independent variable EL. H4 proposed that PsyCap mediates the linkage between EL and Creativity. The results in Table 2 show that when PsyCap is added in the third step, the effect of EL on Creativity significantly decrease from 0.21 (p<.01) to 0.06 (p=0.241). Thus, H4 is fully accepted. The findings of H4 suggest that PsyCap mediates the linkage between EL and Creativity. Figure 2 also describes how PsyCap acts as a mediating role in the linkage between EL and Creativity.

**Table 1: Descriptive statistics, correlations, and reliabilities (N=291)**

	Variables	Mean	SD	1	2	3	4	5
1	Age	25.2	1.49	1				
2	Gender	0.52	0.51	0.02	1			
3	Ethical Leadership	4.02	0.57	0.04	0.07*	(0.88)		
4	PsyCap	3.88	0.77	0.09*	0.01	0.29***	(91)	
5	Creativity	3.96	0.82	0.08*	0.05	0.12**	0.33***	(92)

*p<0.05, **p<0.01, ***p<0.001

Table 2: Regression Analyses (Standardized)

Hypotheses	Effects	R	F	B	T	*P*	Acceptance
H1	EL → Creativity	0.19	72.23	0.21	6.97	0.000	Yes
H2	EL → PsyCap	0.35	154.96	0.38	9.39	0.000	Yes
H3	PsyCap → Creativity	0.43	165.42	0.42	11.02	0.000	Yes
H4	EL + PsyCap →	0.59	111.33	0.06	1.01	0.241	Full
	Creativity			0.35	9.97	0.000	Mediation

Note. EL=Ethical Leadership; PsyCap=Psychological Capital.
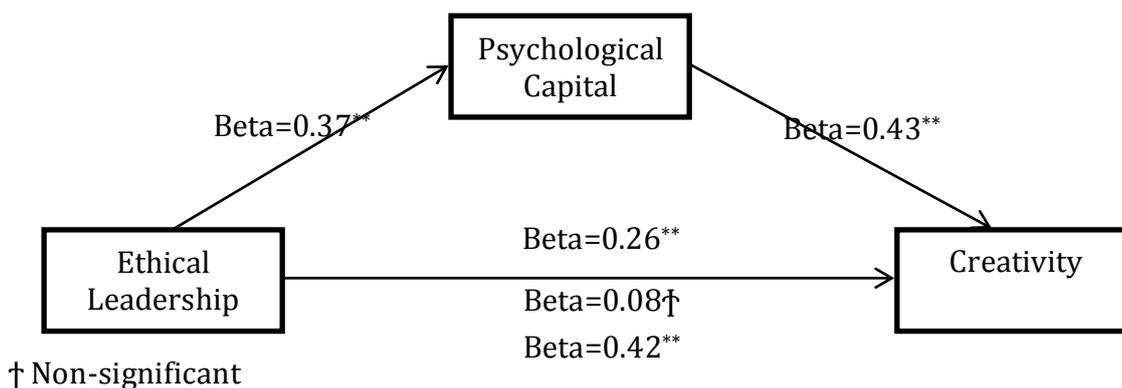
† Non-significant

** Significant

Figure 2: Mediating role of Psychological Capital (based on un-standardized beta value). When PsyCap is inserted in the relationship between ethical leadership and creativity, then beta value reduced from 0.26 (p = 0.000) to 0.08 (p = 0.241) indicating full mediation.

5. Discussion

The current research was conducted to check that how the EL leads to employee creativity through the mediating mechanism of PsyCap. In line with the (Tu & Lu, 2012; Dhar, 2016), the first significant findings of the current article is that EL is positively linked to creativity. It thus seems that the more employees perceive their environment is ethical, so their creativity will be increased. Furthermore, we checked the influence of the EL on PsyCap. We found a positive association between EL and PsyCap. These findings are in alignment with earlier researches (Bouckenooghe, Zafar and Raja, 2015). We also checked the relationship between PsyCap and employee creativity which has been proved by previous research like (Abbas & Raja, 2015). Moreover, this study checked that whether PsyCap mediates the link between EL and creativity. The results revealed that the full meditational framework is fitting the data very well. Thus, PsyCap show a full mediation of EL influence on creativity. In line with (Rego, Sousa, Marques, & Cunha, 2012), these findings provide evidence that individuals who experience more PsyCap are increasing creativity.

6. Conclusion

This study investigates the impact of ethical leadership of hotel industry managers in China on creativity; the role of psychological Capital as mediator in determining the above mentioned-relationship while collecting the data from both subordinates and leaders of hotel sector of Beijing, China. So far, to the best of our knowledge, this study is the first attempt to link ethical leadership with creativity through the mediating mechanism of PsyCap. Specifically, this study demonstrates that ethical leadership behavior can enhance the subordinate's creativity by enhancing the sense of psychological Capital. Hence, on the basis of our findings, we conclude that creativity can be enhanced if organizations make such strategies that enable them to develop ethical leaders. Also it is noted that if the organizations want to enhance their Creativity so they also need to create an environment with the positive styles of leadership (ethical leadership) and also that leaders need to give the opportunity to their subordinates where they can have the stock of Psychological Capital in that work environment which will further leads to enhance the employee Creativity.

6.1 Limitations and Future Directions

Although our research proposes many exciting findings, the study still has few limitations, which lead us to further studies. First, the current research used cross-sectional design, and all the measures were answered by the similar informants (from supervisors and subordinates). The findings of the research might be affected by common method variance (CMV) linked to EL, PsyCap, and Creativity data. So in the future other studies may be conducted which can collect the data from multiple sources to check the impact of ethical leadership on Creativity. Second, while the present sample only comprised employees from a single country (China). Future research would be interesting to include sociocultural variables in a variety of other populations to replicate and extend the present findings. Finally, the current study explored the role of mediating variable (psychological Capital). Although this variable fully mediated the effects of ethical leadership on creativity, it is accepted that there might be other variables, which may also serve as mediators in this relationship. Hence, it is suggested that future studies should try to consider other mediating and moderating variables (Frazier et al., 2004) that have the potential to explain linkages between ethical leadership and Creativity.

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