



The Impact of Ethical Leadership on Employees' Ethical Behavior through Ethical Climate

B.J.S.M.N. Jayasinghe¹ , L.R.M.A.U.S. Bandara^{2*} 

¹Rajarata University of Sri Lanka, ²University of Kelaniya, Sri Lanka

*Corresponding Author: lrmau241@kln.ac.lk

ABSTRACT

This study explores the impact of ethical leadership on employees' ethical behavior through ethical climate with special reference to the garment factories in the Katunayake free trade zone. The study employed a quantitative approach, and primary data was collected from 242 supervisory-level employees in the garment factories using a questionnaire. Structural equation modeling (SEM) was used to test the model and data analysis was carried out using structural equation modelling-partial least square technique (SEM-PLS). The results revealed a significant positive relationship between ethical leadership and the ethical behavior of employees. Further, the study found that ethical climate partially mediates between ethical leadership and employees' ethical behavior. Overall, this study concludes the crucial role of ethical leadership in fostering ethical behavior among employees and highlights the importance of nurturing an ethical climate within organizations. Moreover, this study responds to recent calls for more research to identify factors that may strengthen or mitigate the influence of ethical behavior in the workplace.

Keywords: Ethical leadership, Ethical climate, Employee's ethical behavior

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INTRODUCTION

Ethical and unethical behaviors have existed since the beginning of human civilization. According to research and analysis conducted worldwide, individuals with impaired ethical behavior are more likely to prioritize and fulfill their objectives and ambitions at the expense of organizations or enterprises (Williams et al., 2021).

In the Sri Lankan context, the government, institutions, various industries, and organizations face numerous leadership issues due to rising corruption, unethical behaviors, and a lack of policies promoting ethical conduct. The most prevalent problems today include fraud, deception, financial misconduct, and other unethical behaviors. (Gino, 2015). For instance, the Sri Lankan government loses 500 billion rupees annually due to corruption and inefficiency, as reported by Parliament Minister and others (Assassinator of the Economy, 2023). Further, the unethical practices are also prevalent across different industries, such as the insurance sector, construction field, and apparel organizations (O.c, Friedrich & Mifflin, 2005; Rathnayake & Karunasena, 2015; Sumanasiri, 2020).

Hence, the issue of ethical leadership in organizations is an essential topic to be discussed especially for the issue of unethical behaviors of the employees. (Mayer et al., 2010). Thus, unethical behavior among employees is one of the biggest problems facing several industries today. It affects all departments within a company, leading to significant financial losses and other negative consequences, and has become a major source of concern for many organizations. This behavior spreads like a contagious (Dimitriou & Ducette, 2018a). Unethical or deviant behavior has negative implications for individuals, groups, and organizations, prompting practitioners and academicians to focus more on ethics (Aryati et al., 2018).

Contrary, leaders play a crucial role in influencing employees' discretionary and extra-role behavior in their organizations (Mayer et al., 2009) Leaders should display

the highest moral standards and ethical conduct in their everyday discussions, actions, decision-making, and behaviors, hence providing a positive model for their subordinates to follow (Lu & Lin, 2014). Therefore, ethical leaders are significant to every organization (Wijesekera & Fernando, 2018). And also, organization's ethical atmosphere or climate has a substantial impact on the ethical behavior of its employees (Williams, et al., 2021).

Accordingly, this study aims to make an important contribution to understanding the relationship between ethical leadership, ethical climate, and the ethical behavior of employees in the apparel sector. The Sri Lankan apparel industry is highly significant to the country's economy, contributing substantially to export earnings, employment generation, and foreign exchange reserves.

As well as the garment industry is one of the largest employers in Sri Lanka, providing jobs to a significant portion of the workforce, it is estimated that the industry directly employs over 350,000 individuals (Sri Lanka Export Development Board, 2022). By providing employment opportunities, especially in rural areas, and empowering women with job opportunities and financial independence, the industry contributes to poverty reduction and social inclusion in Sri Lanka therefore ethical behavior of employees is significant to every organization, society, and to the country.

Also, most of the garments use ethical practices in their organizations and they survive with success through ethical practices. According to the Industry Capability report, The Sri Lankan garment industry has a strong commitment to the welfare of its workers. Guided by the visionary slogan: "Garments without Guilt", ethical practices are at the root of the industry's success. According to these reports, we can identify still practice ethical behaviors and practices in the apparel sector garments. (Sri Lanka Export Development Board, 2022). On the other hand, as prior research found that the apparel industry is in first place in the business sectors with ethical issues

because the garment manufacturing industry is among the most labor-intensive factory sectors, and the number of these factories in emerging nations has grown significantly in recent years. Therefore, Apparel industry employees often face unfair and unsafe working conditions with few rights (Rathnayake & Karunasena, 2015).

In the Sri Lankan context very few research articles are conducted under ethical leadership and employee's ethical behavior. Further, in Sri Lanka, research articles mostly consider transformational, transactional, and authentic leadership style influence on organizational employees' performance (Athukorala et al., 2016; Dodamgoda & Anthony, 2020) (Arulrajah, 2016; Kumari & Dat, 2021; Sumanasiri, 2020; Wijesekera & Fernando, 2023), shedding lights on under researched areas such as ethical leadership, ethical climate and employee ethical behavior.

Thus, this study hopes to provide fresh evidence from a different perspective to enable an increased understanding of the scope and type of misconduct affecting apparel organizations as well as to analyze the effectiveness of leadership and their employee's ethical behavior. Therefore, this study investigates the impact of ethical leadership on employee's ethical behavior through ethical climate with special reference to apparel sector organizations in Sri Lanka. This study will provide valuable insights for the relevant parties such as manufacturing sector leaders, employees, and future researchers and the Society.

LITERATURE REVIEW

Theoretical background of the study

Researchers try to discuss several theoretical explanations for how leaders influence ethical and unethical behavior. Mainly two primary theories can be used to understand the influence of ethical leaders on their followers. Social learning theory and social exchange theory provide valuable frameworks for understanding the mechanisms through which ethical leadership influences employee behavior and organizational outcomes

(Ozavize Ayodele et al., 2019). Additionally, Hsieh et al., (2023) reviewed the linkages between papers published over time and found that social learning theory and social exchange theory constituted the predominant foundation for the mechanisms behind the impact of supervisors' leadership on employee performance and behavior (Hsieh et al., 2023).

Social learning theory

Albert Bandura's social learning theory (SLT), developed in 1977, posits that individuals learn by observing, imitating, and modeling the behaviors of others, emphasizing the role of the social environment in shaping behavior (Al Halbusi et al., 2020; Alsarrani & Jusoh, 2019). In organizational settings, leaders serve as role models, and employees learn appropriate behaviors through a role-modeling process, observing and emulating the actions of credible and attractive figures (Cook & Rice, 2006; E.Grusec, 1992; Laland & Rendell, 2010). Employees are influenced not only by direct observation but also through vicarious learning, where they see the consequences of others' actions, such as rewards for positive behavior and sanctions for inappropriate behavior (Mayer et al., 2009). Ethical leaders, therefore, play a crucial role in shaping ethical behavior by serving as models of acceptable conduct and reinforcing organizational ethics (Mayer et al., 2010). Ethical leaders influence their followers to act ethically in at least two ways.

First, to the extent that the decision-making processes and actions of leaders are visible to others in the organization, by virtue of their position, leaders serve as legitimate models of behavior (ethical or otherwise) to followers. Leaders' behaviors are observed by subordinates and serve as cues for appropriate ethical behavior. In this context, leaders who demonstrate ethical behaviors provide examples of ethical behaviors that subordinates emulate. Likewise, leaders who display unethical behaviors are likely to have employees who also engage in unethical behaviors.

Second, to the extent that leaders reward helpful behaviors and/or punish unethical behaviors, they influence their followers to behave in ethical (or unethical) ways. When subordinates learn over time that positive behaviors are valued and rewarded, and unethical behaviors are punished, they are more likely to engage in, or refrain from, such behaviors (Brown et al., 2005).

Social exchange theory

Social learning theories provide a foundation for examining the effects of ethical leadership on employee behavior, such as increased organizational commitment and ethical behavior through perceived ethical climate and fair practices (Halbusi et al., 2021; Zhang et al., 2018)

An overview of ethical leadership. Ethical climate and employee ethical behavior

Ethics commonly refers to “just or right standards of behavior among individuals in a situation” These standards can be defined as “recognized social principles involving justice and fairness. (Engelke & Swegan, 2024). Ethics involves fundamental human relationships between parties in the exchange process, organizational members (superiors, peers, and subordinates), competitors, customers, and the public. Each of the parties in the exchange process is owed duties and responsibilities (Lu & Lin, 2014).

Ethical leadership and ethical behavior

Brown et al., (2005) proposed the concept of ‘ethical leadership behavior. (Brown et al., 2005). Brown and colleagues define ethical leadership as “the demonstration of normatively appropriate conduct through personal actions and interpersonal relationships, and the promotion of such conduct to the followers through two-way communication, reinforcement, and decision-making.” This definition emphasizes the importance of ethical leaders modeling and promoting ethical behavior within the organization. It incorporates both the “moral person” aspect, which focuses on the traits and behaviors of the leader, and the “moral

manager” aspect, which involves proactive behaviors that encourage follower ethical conduct (Al Halbusi, Williams, et al., 2021). They do this by utilizing the social learning and social exchange perspectives. (Brown et al., 2005). Trevino and colleagues contend that ethical leadership involves having both traits of a “moral manager” as well as a “moral person”(Brown et al., 2005)

Ethical behavior in organizations encompasses a spectrum of actions and decisions made by individuals within the organizational context that adhere to ethical principles and standards. It involves behaviors that are aligned with moral values, integrity, and social responsibility (Treviño et al., 2006). Ethical behavior is influenced by a combination of organizational and individual factors, including ethical leadership, ethical climate, and personal values (Al Halbusi, Williams, et al., 2021; Lu & Lin, 2014; Rabie & Abdul Malek, 2020; Treviño et al., 2006)

Ethical leadership is a crucial element for ethical behavior inside an organization (Mayer et al., 2009) (Al Halbusi, Williams, et al., 2021). The behavior of employees may change through the standards and guidance provided by their leaders. (Al Halbusi et al., 2020) Employees will not tend toward unethical behavior when they perceive their leaders treat them fairly and believe that leader behavior benefits the organization (Mayer et al., 2009) Brown & Treviño, (2006) revealed that leaders can strengthen employees’ ethical behaviors by continuously communicating with them. (Al Halbusi et al., 2020). Dimitriou and Ducette (2018) reported that most employees’ ethical concepts and behavior can be changed by accepting related ethical instruction from their supervisors. In any workplace, the institution or organization must be led by leaders of superior quality. Superior leaders need to display superior values and superior qualities, that is, they must possess high levels of ethical values, display ethical behavior, and also apply the highest ethical standards in their decision-making, actions, and behavior. Such a demonstration of leadership sets an ideal example for the followers (Ahmad et al.,

2017; Halbusi et al., 2021; Lu & Lin, 2014; Ruiz-Palomino et al., 2013, 2013).

Prior studies which focused on ethical leadership have stated that ethical leadership determines the ethical behaviors of the employees (Al Halbusi et al., 2023; Al Halbusi, Williams, et al., 2021; Fatima, 2020; Lu & Lin, 2014). Socio-emotional exchange is one of the components in which ethical leaders can have an impact on the subordinate (Al Halbusi, Williams, et al., 2021; Lu & Lin, 2014). Socio-emotional exchange is a behavior that establishes trust and fairness between leaders and employees (Al Halbusi et al., 2019) When employees perceive that their leaders treat them fairly, they will believe that the leader's behavior benefits the whole organization, hence less intent to behave in an unethical manner (Mayer et al., 2009)

Ethical leadership plays a crucial role in shaping employee ethical behavior by setting the tone for ethical conduct within the organization. Leaders who exhibit ethical behavior themselves and promote ethical values among employees can inspire ethical behavior among their team members (Aryati et al., 2018). Employees' behavior may change through the standards and guidance which were given by their leaders.

Mediating effect of ethical climate

Victor and Cullen defined ethical climate as "prevailing perceptions of typical organizational practices and procedures that have ethical content" (Al Halbusi et al., 2022). when an ethical leader's role-models appropriate behavior, it helps them set standards for an ethical climate that values doing the right thing. Consequently, it will help employees perceive the policies and procedures of an organization being of an ethical climate, which in turn is a motivation for them to display and act with better behavior (Lu & Lin, 2014; Brown et al., 2005; Mayer et al., 2009)

Al Halbusi et al., (2022) examined the relationship between a leader's moral development and ethical climate in organizations. They found that a leader's

moral development is associated with ethical climate variables such as caring orientation, regulation orientation, organization regulation, and independent judgment. Ethical leaders signal to employees that doing the right thing is expected, encouraged, and valued. Employees are more likely to perceive an ethical organizational climate. When ethical leaders, demonstrate to followers how to be skillful in recognizing ethical issues and equipped for handling ethical issues (Mayer et al., 2009)

Ethical managers possess positive personal attitudes and aim to influence their employees through the active management of ethical conduct (Al Halbusi, Williams, et al., 2021). Ethical leadership displays regulated conduct in personal relationships within the organization that is directed toward strengthening and improving the ethical behavior of employees. Socio-emotional exchange is a factor where ethical leaders can influence their employees. (Mayer et al., 2009).

Ethical leaders are vital components in the development of the ethical climate. Leaders can set an organization's ethical standards through procedures, processes, and policies that help enable the employees' perceptions of the ethical climate within the organization (Al Halbusi, Williams, et al., 2021) Ethical leadership is positively and significantly related to an individual's ethical behavior.

Presbitero & Teng-Calleja, (2019) according to these researchers, they found that ethical leadership decreases employees' propensity to morally disengage, with ultimate effects on employees' unethical decisions and deviant behavior as well as ethical leaders have the largest positive influence over individuals' morals and behaviors. Effective managers demonstrate their commitment to ethics by their behavior and daily actions. Managers establish the standard for the company's operations and expectations for its workforce. Thus, having a moral and ethical manager can motivate staff to behave morally (Dimitriou & Ducette, 2018).

Research indicates that ethical leadership, incorporating both the moral person and moral manager attributes, significantly influences employees' ethical behavior within organizations. Ethical leaders act as role models by showcasing ethical conduct themselves (moral person) and by instituting ethical norms and expectations (moral manager) (Teresi et al., 2019). Employees are more inclined to demonstrate ethical behavior when they view their leaders as ethical and when the organizational climate mirrors ethical values and practices (Al Halbusi, Ruiz-Palomino, Morales-Sánchez, et al., 2021). Brown emphasized the importance of ethical leadership in shaping organizational ethical climate and employee behavior (Brown & Treviño, 2006). Subsequently, the ethical climate is essential in influencing employee ethical behaviors (Path 3: Ethical Climate → Ethical Behaviors). Several reasons signify ethical climate as a mediator.

First, ethical climate involves ethical standards, practices, policies, and processes in a work environment, setting an essential objective and mission (Lu & Lin, 2014).

Second, it reflects what is right or wrong in organizations and encourages employees to behave ethically (Al Halbusi et al., 2022)

Third, ethical climate signals organizational expectations, rules, practices, and procedures, helping followers successfully recognize and resolve ethical issues. Hence, subordinates apply ethical climate as a point of view to frame their daily decision-making processes. Ethical climate serves as a lighthouse, shining in the darkness, guiding employees to achieve business objectives, and leading to excellent and honest behaviors (Al Halbusi et al., 2022)

In recent studies, (Lu & Lin, 2014), (Demirtas & Akdogan, 2015) (Al Halbusi, Williams, et al., 2021) studied the mediating role of ethical climate in the relationship between ethical leadership and the ethical behavior of employees. Leaders set the ethical standards for an organization by enacting practices, policies, and procedures that help to facilitate employee's perceptions of the organization's ethical climate (Mayer et al., 2009a) Thus, the

ethical leadership of immediate managers can shape ethical climate perceptions of direct reports, which in turn should make these employees perceive procedures and practices that initiate and reinforce the development of ethical behavior in the workplace. (Al Halbusi, Williams, et al., 2021; Lu & Lin, 2014)

In addition, Halbusi et al., (2021) commented that earlier studies have revealed that the unethical environment has disclosed that there are significant negative consequences in employees' behaviors within the organizations. To maintain the ethical behaviour of employees, the ethical climate is expected to enforce practices, policies, and processes. (Al Halbusi, Williams, et al., 2021). Thus, this study examined these relationships by recommending that an ethical climate is the primary mechanism between the ethical behaviour of employees and ethical leadership.

In this study, the Researcher therefore examines these relationships by suggesting an ethical climate as a key mechanism between ethical leadership and the ethical behavior of employees.

RESEARCH METHOD

The research hypotheses are based on similar research results. (Al Halbusi et al., 2019, 2020a; Al Halbusi, Williams, et al., 2021; Halbusi et al., 2021; Lu & Lin, 2014). Thus, the researcher has used this literature to create the conceptual framework and construct the hypothesis. Recent studies studied the mediating role of ethical climate in the relationship between ethical leadership and the ethical behavior of employees (Lu & Lin, 2014; Demirtas & Akdogan, 2015; Al Halbusi, Williams, et al., 2021). Leaders set the ethical standards for an organization by enacting practices, policies, and procedures that help to facilitate employee's perceptions of the organization's ethical climate (Mayer et al., 2009a). Thus, the ethical leadership of immediate managers can shape ethical climate perceptions of direct reports, which in turn should make these employees perceive procedures and practices that initiate and reinforce the development of ethical behavior

in the workplace (Al Halbusi, Williams, et al., 2021; Lu & Lin, 2014). After reviewing the relevant literature in the area, the following

conceptual framework and hypotheses were formulated for the present study.

Conceptual Framework

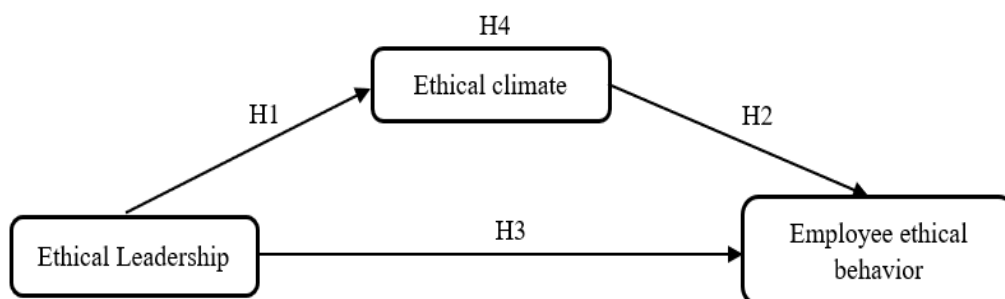


Figure 1: Conceptual Framework

Source: Developed by researcher

Hypothesis Development

Hypothesis 1: There is a positive impact of ethical leadership on ethical climate

Hypothesis 2: There is a positive impact of ethical climate on employee's ethical behavior.

Hypothesis 3: There is a positive impact of ethical leadership on employee's ethical behavior

Hypothesis 4: There is a positive impact of ethical leadership on employee's ethical behavior through ethical climate

This study adopts a quantitative research design to investigate the impact of ethical leadership on employees' ethical behavior through an ethical climate with special reference to the garment factories in the Katunayake free trade zone.

Design of survey instruments

A multi-section printed survey was designed for data collection, distributed physically and by contacting the respondents directly. The first section captured the demographic profile of the respondents (gender, age, job experience and level of education). The rest of the sections captured information about the

previous three variables: ethical leadership, employee ethical behavior, and ethical climate.

Measurement model of each variable

Ethical leadership

To measure ethical leadership, the Researcher adapted ten items, which were developed by Brown et al., (2005) The scale consists of ten items. An example item is, 'my supervisor listened to what employees have to say'. The response format is a five-Likert scale ranging from '1 = strongly disagree' to '5 = strongly agree'.

Ethical climate

To measure ethical climate, the Researcher adapted fourteen items which were developed by Victor and Cullen (1988) thus, these items have been chosen for use in this survey. An example item is 'what is best for everyone in the organization is a major consideration'. The response format is a five-Likert scale ranging from '1 = strongly disagree' to '5 = strongly agree'.

Employees' ethical behavior.

Ethical behavior pertains to the employees' perceived ethical behavior within their

organizations. Measurement of this variable was done using sixteen items adapted from previous studies (Lu & Lin, 2014). Ethical behavior has two dimensions, namely, normative ethical and juridical ethical behavior. Since there was a relationship between the items under normative ethical behavior and the activities, the factor was thus classified to be a normative ethical behavior dimension.

On the other hand, the juridical ethical behavior dimension was made up of six items. Because these items can be considered professional ethical-related activities, the factor was thus classified as a juridical ethical behavior dimension. Examples of an item include “I use company services appropriately and not for personal use”. The response is in the form of a 5-point Likert scale ranging from “1 Strongly Disagree” to “5 Strongly Agree”.

Questionnaire translation

Sinhala translations were made for the English-language questionnaire. Questionnaires are being distributed by the Sample in both English and Sinhala languages. Since most of the research population speaks and write Sinhala language, questionnaires written in that language are more effective at obtaining data that is relevant to the study.

Population, Sample, Data Collection

The population of the research was employees who work at the supervisory level in garment factories in the Katunayake Free Trade Zone. According to the census and statistics of the trade zone, (Eurostat et al., 2015) six (6) garment and six hundred thirty-one (631) employees working at the supervisory level, have been used as the population of this study. Sample of 242 supervisory-level employees, according to the Morgan table. The researcher collected data through convenience sampling from the apparel sector organizations in Katunayake free trade zone in Sri Lanka.

DATA ANALYSIS AND RESULTS

Data analysis and results This study utilised structural equation modelling via the partial least squares (PLS) method. The research model was then analysed using the SmartPLS 4 software (Al Halbusi, Williams, et al., 2021; Halbusi et al., 2021). This study utilised the two-stage analytical technique that Anderson and Gerbing (1988) and Hair et al. (2017) recommended. It begins with the measurement model assessment (constructs reliability and validity) and is followed by the structural model assessment (tests the hypothesised relationships).

Demographic profile of respondents This section includes the respondents' demographic information, which was gathered using SPSS version 23. As revealed, 59.1% of the respondents were males, and 40.9% were females. In terms of age, the majority of the employees (57.4%) ranged from years 25-30. With regard to their educational background, the highest percentage of 41.3% represented people who were passed advance level examination. In terms of job experience, 36.0% of the employees had been working for between 6-10 years.

Measurement model assessment

The measurement model was evaluated through construct validity (including discriminant and convergent validities) and construct reliability. In terms of construct reliability, the individual Cronbach's alpha values were tested to evaluate the reliability of core variables in the measurement model. Results indicated that all the individual Cronbach's alpha values, which ranged from (0.709–0.968), were more than the suggested 0.7 value (Nunnally and Bernstein, 1994; Hair et al., 2017). Additionally, the composite reliability (CR) was used by this study to test the construct reliability, which also gave the suggested value. Therefore, the values obtained, which ranged from (0.948–0.972), were seen to be more than 0.7 (Hair et al., 2017). This is an adequate signifier that the construct reliability was achieved.

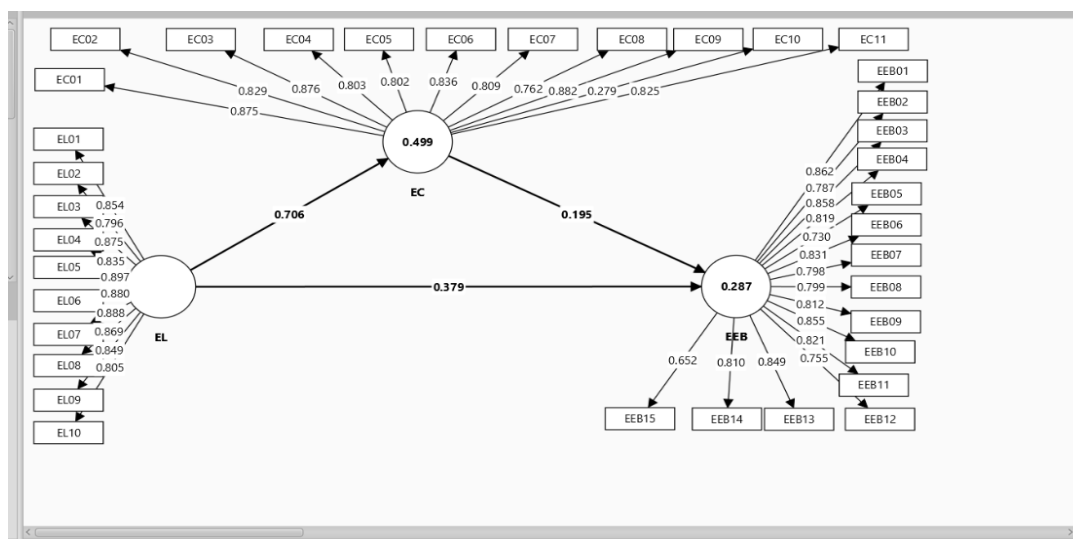


Figure 2: Measurement Model Assessment

Source: Smart pls 4

Therefore, the CR and Cronbach's alpha obtained for all the constructs can be classified as sufficiently error-free. To test the reliability indicator, factor loading was utilized. High loadings on a construct are indicators that the associated indicators would seem to have a lot in common, in such a way that the construct was able to capture them (Hair et al., 2017). For factor loadings, values

higher than 0.50 were classified as very significant (Hair et al., 2010, 2017). As seen in Table 2, the loadings for all the items were more than the suggested value of 0.5, except for items EEB15, EC10. These items were removed from the scale because of low loadings. For the remaining items in the model, the loading met all the requirements.

Table 1: Measurement Model Summary

Variable	Dimensions	Item	Factor loading (>0.709)	CA (>0.6)	CR (rho a)	CR (rho c) (>0.7)	AVE (>0.5)
Ethical leadership	Moral person Moral Manager	EL01	0.854				
		EL02	0.796				
		EL03	0.875				
		EL04	0.835				
		EL05	0.897				
		EL06	0.880				
		EL07	0.888				
		EL08	0.869				
		EL09	0.849				
		EL10	0.805	0.959	0.960	0.965	0.732

Ethical climate	Caring	EC01	0.875				
		EC02	0.829				
	Independence	EC03	0.876				
		EC04	0.803				
	Law and code	EC05	0.802				
		EC06	0.836				
		EC07	0.809				
	Rules	EC08	0.762				
		EC09	0.882				
	Instrumental	EC10	0.279				
		EC11	0.825	0.936	0.936	0.948	0.634
Employee's ethical behavior	Normative	EEB01	0.862				
		EEB02	0.787				
		EEB03	0.858				
		EEB04	0.819				
		EEB05	0.730				
		EEB06	0.831				
		EEB07	0.798				
		EEB08	0.799				
		EEB09	0.812				
	Juridical	EEB10	0.855				
		EEB11	0.821				
		EEB12	0.755				
		EEB13	0.849				
		EEB14	0.810				
		EEB15	0.652	0.961	0.965	0.970	0.647

Source: SMART PLS

For testing the convergent validity (the degree to which a measure is positively correlated to alternative measures of the same construct), the average variance extracted (AVE) was used in this study. This is an indication that all the values of AVE ranging from (0.634–0.732) were higher compared to the recommended value of 0.50 (Hair et al., 2017). For all constructs, the convergent validity was met successfully, and an adequate convergent validity was achieved, as presented in Table 2. This study assessed the discriminant validity (the extent of differentiation of items among constructs or the measure of individual concepts) using the heterotrait-monotrait (HTMT) ratio criteria. This criterion was selected instead of the Fornell-Larcker criterion because there have

been some criticisms with regard to the latter. According to Henseler et al. (2015), the Fornell-Larcker criterion fails to accurately reveal the absence of discriminant validity during common research situations. The heterotrait-monotrait (HTMT) ratio of correlations was proposed as an alternative technique based on the multitrait-multimethod matrix. Thus, the discriminant validity was evaluated by this study through the HTMT ratio of correlations. However, the discriminant validity encounters an issue when the HTMT value is more than the HTMT0.85 value of 0.85 (Kline, 2010). As shown in Table 3, all the values were less than the recommended value. This signifies that the validity of the discriminant had been determined.

Table 2: Measurement model assessment

Impact of variables	Heterotrait-monotrait ratio (HTMT)
EEB <-> EC	0.456
EL <-> EC	0.737
EL <-> EEB	0.513

Source: SMART PLS

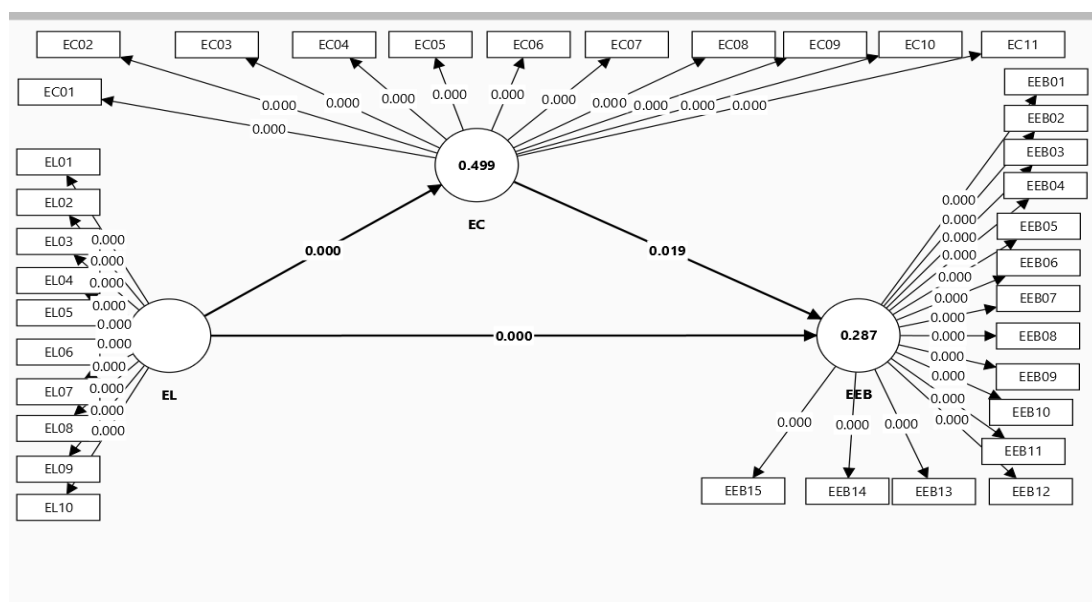
The discriminant validity analysis, as depicted in Table 19, showcases the correlation coefficients between the constructs of ethical leadership, Ethical climate, and Employee's ethical behavior. The results indicate that the correlations within each construct are notable (ranging from 0.456 to 0.737) than the correlations between different constructs. Specifically, the correlation between

Ethical climate and employee's ethical behavior is 0456, between Ethical leadership

and Ethical climate is 0.0737, and ethical leadership and employee's ethical behaviour has 0.513 discriminate validity. These findings affirm the discriminant validity, signifying that each construct measures a distinct aspect, and there is no significant overlap between the constructs. All HTMT values are below 0.85, indicating acceptable discriminant validity.

Structural model assessment

In Structural Equation Modeling (SEM), direct impact analysis is a statistical approach to investigate how each variables influence to other variables and how an independent variable (IV) influences a dependent variable (DV) by. This study employed the Bootstrap method, involving repetitive data sampling to estimate indirect effects. Bootstrap confidence intervals were then calculated to assess the significance of these indirect effects. The structural model's evaluation included an examination of structural paths, t-statistics, and the variance explained (R-squared value).

**Figure 3:** Structural model assessment

Source: Smart pls 4

Direct impact of Hypothesis testing**Table 3:** Structural model assessment

Direct impact	Original sample (O)	Sample mean (M)	Standard deviation (STDEV)	T statistics (O/STDEV)	P values
EC -> EEB	0.195	0.196	0.083	2.352	0.019
EL -> EC	0.706	0.710	0.027	26.034	0.000
EL -> EEB	0.517	0.521	0.038	13.704	0.000

Source: SMART PLS

H1 -The direct effect of Ethical leadership on ethical climate is examined. The original sample (O) indicates a value of 0.706, with both the sample mean (M) and standard deviation (STDEV) also at 0.710 and 0.027, respectively. The T statistics (|O/STDEV|) stands at 26.034, demonstrating a significant relationship. The p-value is reported as 0.000, further supporting the statistical significance of the direct effect, implying that Ethical leadership has a significant positive impact on ethical climate.

H2- The direct effect of Ethical climate on employee's ethical behavior is examined. The original sample (O) indicates a value of 0.195, with both the sample mean (M) and standard deviation (STDEV) also at 0.196 and 0.083, respectively. The T statistics (|O/STDEV|)

stands at 2.352, demonstrating a significant relationship. The p-value is reported as 0.019, further supporting the statistical significance of the direct effect, implying that Ethical climate has a significant positive impact on employee's ethical behavior.

H3-The direct effect of Ethical leadership on employee's ethical behavior is examined. The original sample (O) indicates a value of 0.517, with both the sample mean (M) and standard deviation (STDEV) also at 0.521 and 0.038, respectively. The T statistics (|O/STDEV|) stands at 13.704, demonstrating a significant relationship. The p-value is reported as 0.000, further supporting the statistical significance of the direct effect, implying that Ethical leadership has a significant positive impact on employee's ethical behavior.

Results of the Mediating structural Model**Table 4:** Structural model assessment

Mediating impact	Original sample (O)	Sample mean (M)	Standard deviation (STDEV)	T statistics (O/STDEV)	P values
EL -> EC -> EEB	0.138	0.139	0.060	2.291	0.022
EL -> EEB	0.517	0.521	0.038	13.704	0.000

Source: -SMART PLS

The mediating effect of ethical climate on the impact of ethical leadership on employee's ethical behavior is examined.

According to mediating impact, the original sample (O) indicates a value of 0.142, with

both the sample mean (M) and standard deviation (STDEV) also at 0.143 and 0.056, respectively. The T statistics (|O/STDEV|) stands at 2.515 and the p value is 0.012 demonstrating a significant positive relationship.

In Table 20, the direct effect of Ethical leadership on employee's ethical behavior is examined. The original sample (O) indicates a value of 0.530, with both the sample mean (M) and standard deviation (STDEV) also at 0.533 and 0.038, respectively. The T statistics ($|O/STDEV|$) stands at 13.961, demonstrating a significant relationship. The p-value is reported as 0.000, further supporting the statistical significance of the direct effect, implying that Ethical leadership has a substantial impact on employee's ethical behavior.

Both direct impact and indirect impact are significant. Therefore, ethical climate partially mediates on the relationship between ethical leadership and employees' ethical behavior.

DISCUSSION

This study investigated the impact of ethical leadership on employees' ethical behavior, with a specific focus on the mediating role of ethical climate within garment factories in the Katunayake Free Trade Zone. Using structural equation modeling via SmartPLS, the study confirmed that ethical leadership significantly and positively influences both ethical climate and employees' ethical behavior, while ethical climate partially mediates this relationship.

The direct and significant influence of ethical leadership on employees' ethical behavior ($\beta = 0.517, p < .001$) supports the social learning theory (Bandura, 1977), which posits that employees observe and internalize the ethical conduct modeled by their leaders. As argued by Brown et al. (2005), ethical leaders act as moral persons and moral managers, thus fostering ethical norms through their actions and communications. This trickle-down effect, highlighted in Mayer et al. (2009), illustrates how ethical leadership sets the tone for ethical conduct, leading to greater moral engagement among employees. This finding is further echoed by Al Halbusi et al. (2021), who emphasized that ethical leadership reinforces employees' ethical awareness and discourages deviant workplace behaviors.

The significant positive relationship between ethical leadership and ethical climate ($\beta = 0.706, p < .001$) corroborates earlier findings that leaders influence organizational climate through their values and behavior (Treviño et al., 2006; Lu & Lin, 2014). Further, ethical leaders promote fairness, transparency, and integrity; core components of an ethical climate (Victor & Cullen, 1988). According to Al Halbusi et al. (2022), leaders who actively encourage ethical practices and reinforce ethical policies shape employee perceptions of organizational climate. Such climates serve as cognitive frameworks guiding daily decision-making (Demirtas & Akdogan, 2015), suggesting that ethical leadership is not only about behavior modeling but also about structural influence on the work environment.

Furthermore, the study found that ethical climate positively influences employees' ethical behavior ($\beta = 0.195, p = .019$), aligning with prior studies that suggest ethical climates reduce moral disengagement and promote ethical decision-making (Presbitero & Teng-Calleja, 2019; Mayer et al., 2010). Ethical climate provides contextual cues and normative guidance, helping employees navigate ethical dilemmas with clarity (Lu & Lin, 2014). As supported by Teresi et al. (2019), employees are more likely to exhibit ethical behavior when they perceive the organization's values to align with ethical standards, thus reinforcing the cognitive-behavioral link between organizational context and individual conduct.

Most importantly, the mediating analysis revealed that ethical climate partially mediates the relationship between ethical leadership and employees' ethical behavior ($\beta = 0.138, p = .022$). This suggests that while ethical leadership has a direct influence, its impact is also channeled through the development of an ethical climate. This finding supports the dual-path mechanism proposed by Al Halbusi et al. (2021), in which ethical leadership enhances ethical behavior both directly and indirectly by shaping the ethical environment. The mediating role of ethical climate has been underscored by numerous researchers, including Mayer et al.

(2010) and Demirtas and Akdogan (2015), who argue that ethical climates translate leaders' ethical values into organizational norms that influence employee behavior.

In sum, the findings contribute to the growing body of literature that views ethical leadership as a foundational pillar in ethical organizational functioning. They affirm that ethical leadership does not operate in isolation

but interacts dynamically with contextual elements like ethical climate to shape employee behavior. These results provide empirical backing for theoretical models grounded in social learning and social exchange theories (Brown et al., 2005; Mayer et al., 2010; Al Halbusi et al., 2020), while also offering practical insights for organizational leadership and ethics-based interventions.

Table 5: Hypothesis Summary

Hypothesis	Acceptance or rejection	P values
There is a positive impact of ethical leadership on employee's ethical behavior	Accepted	0.000 Significant
There is a positive impact of ethical leadership on ethical climate	Accepted	0.000 Significant
There is a positive impact of ethical climate on employee's ethical behavior	Accepted	0.019 Significant
There is a positive impact of Ethical leadership on employee's ethical behavior through ethical climate	Accepted	0.022 Significant

CONCLUSION

Ethical leadership is an important factor in the Organization. This study explored the impact of ethical leadership on employees' ethical behavior, with a focus on the mediating roles of ethical climate in the apparel sector organizations within the Katunayake Free Trade Zone in Sri Lanka. The findings underscore the significant direct impact of ethical leadership on employees' ethical behavior, highlighting the importance of leaders who model ethical conduct and set a tone of integrity within the organization. Additionally, the results reveal that ethical climate serves as a partial mediator in this relationship, indicating that leaders who foster an environment of fairness and transparency can enhance employees' ethical behavior through this pathway. The research also shows a substantial impact of ethical leadership on ethical climate underscoring the role of leaders in shaping the organizational environment.

Overall, this study emphasizes the crucial role of ethical leadership in fostering ethical behavior among employees and highlights the importance of nurturing an ethical climate within organizations. By understanding these dynamics, organizations can better equip themselves to promote ethical standards and practices, ultimately contributing to a more ethical and responsible business environment.

IMPLICATIONS OF THE STUDY

Theoretical Implications

Mitchell et al. (2017), pointed out that there is limited research in the area of ethical leadership behavior as not many studies on ethical behavior were included previously. To be more precise, previous research only focused on ethical leadership behavior to influence the organization's outcomes such as commitment, work engagement, and satisfaction. Specifically, research on the ethical behavior of employees has been

neglected by previous studies. Therefore, this study examines the relationship between ethical leadership behavior and employees' ethical behavior.

The current study contributes to the new model by determining the new relationship through the mediating role of ethical climate on the interaction of ethical leadership behavior and the dependent variable of employees' ethical behavior. More precisely, the present study made a very significant contribution to the existing literature. First, this study contributes by expanding the set of positive outcomes that are expected through ethical leadership, ethical climate perceptions among employees. Most of the existing research has examined the relationship between ethical leadership perceptions and different types of positive responses (i.e., organizational commitment, job satisfaction, work performance, and organizational citizenship behaviors) (Treviño et al., 2014). Very few studies have addressed the influence of ethical leadership towards employees' ethical behavior through mediating roles such as ethical climate. Therefore, the current study suggested that ethical climate may constitute each other and play a significant role in the relationship of ethical leadership and employees' ethical behavior (Treviño et al., 2014).

Practical implications

In terms of management, the findings send a clear signal to those in the upper level that, without ignoring the issue of ethics in organizations, employees are a critical aspect to be taken into account to encourage ethical behavior at the workplace. This study has important practical implications. First, managers are considered as vital sources of ethical behaviour which contributes to organizational success. This study revealed that ethical leadership has a meaningful effect on the ethical behavior of employees. This study argued that as role models in their organizations who can engender relational attachments and model ethical leadership behavior, managers possess a moral authority that virtuously affects the behavior of the

organization's members. Furthermore, several important aspects can be drawn from the results of this study.

First, ethical leadership is a key factor that affects the employees' ethical behavior. Thus, this should be taken into consideration by other manufacturing organizations because apparel sector organizations kind of manufacturing organization. therefore, try to choose or train ethical leaders, given how ethical leadership can improve the ethical behavior of employees. Options that organizations may consider can include hiring more ethical leaders and offering existing leaders more training. Examples of training topics include supporting and rewarding employees who behave ethically, communicating the importance of ethics, and leaders acting as role models of ethical behavior (Lu & Lin, 2014).

Secondly, as noted earlier, the statistical results signified that ethical climate plays an important mediating role in the relationship between ethical leadership and employees' ethical behavior. According to Demirtas & Akdogan, (2015), an ethical work climate can be defined as the "predominant perceptions about the procedures and practices of the organization that have ethical content or the prevailing perceptions of typical organizational practices and procedures that have ethical content. The generation of ethical behavior depends on multifactorial entities. Manager behavior is one of the most influential and important factors in fostering the ethical behavior of employees. Therefore, it has been also demonstrated by the results that creating an ethical climate within the workplace is vital since an ethical climate has a positive relationship with the employees' ethical behavior. To enhance ethical conduct, organizations must have leaders who inspire and exemplify ethical behavior. Organizations should also implement systems that discipline unethical conduct and reward ethical behavior. It is suggested by this study that Iraqi organizations must focus on the development of an ethical climate that puts emphasis on the employees' ethical behavior by focusing on observing the law and

professional standards, and also emphasizing public interest instead of self-interest. Therefore, the vital indication given by the results of this study is that managers who possess and exhibit ethical leadership qualities such as fairness and integrity; emphasize ethical standards; support and reward employees who behave ethically; and become role models of ethical behavior are more capable of creating an ethical climate that values doing the right thing. When employees operate in an ethical climate, they are more likely to engage in ethical behavior (Al Halbusi, Williams, et al., 2021). Thus, this study revealed that within the apparel sector organizations, leaders can improve ethical behavior among employees by enhancing the ethical climate. This can be done by enacting ethical rules and standards, demonstrating the highest ethical behavior inside the organization, and establishing very clear ethical standards. Fundamentally, an ethical climate is an important key facilitator of the relationship between the ethical behavior of employees and ethical leadership which needs to be highly considered by the organizations, subordinates. More importantly, it is highly essential that the value congruence between an organization and its followers be considered.

Social implications

This study highlighted the notion of ethics and how it's essential for society. Ethics refer to the norms, standards, and values that direct the behavior of an individual. Ethical behavior is vital in society because we need to be treated with respect as human beings.

FUTURE RESEARCH DIRECTIONS

The first is to expand the understanding importance of ethical leadership on employee's ethical behavior engagement. The research topic, "the impact of ethical leadership on employee's ethical behavior through ethical climate. (With special reference to the apparel sector organizations of the Katunayake free trade zone in Sri Lanka)," aims to expand the understanding of ethical leadership importance to the employee behavior in every organization. The findings

of this research will add to the body of existing information and serve as a foundation for further studies. Thus, the following research fields are recommended. This researcher considers only ethical climate as mediator. Therefore, future research can try to investigate other potential mediating variables that might influence the relationship between ethical leadership and employees' ethical behavior, such as Organizational justice, organizational culture, employee engagement, or job satisfaction. as well future research should without ethical leadership what are the other variables impact to the employee's ethical behavior.

As well as this study data is gathered single period (used cross-sectional data). Future studies can conduct longitudinal studies to assess the long-term impact of ethical leadership on ethical behavior and organizational outcomes. This can provide insights into how these relationships evolve and This research only considers the apparel industry. In the future will extend the research to other industries beyond the garment sector to determine if the findings hold in different contexts. Comparative studies across sectors can offer a broader understanding of the influence of ethical leadership. Here data is collected through a structured questionnaire. In the future can incorporate qualitative research methods, such as interviews or focus groups, to gain deeper insights into the mechanisms through which ethical leadership affects employee behavior and to validate quantitative findings. While this study focused on the apparel sector organizations in the Katunayake Free Trade Zone, future research could extend to other sectors and regions. This would help ascertain whether the observed effects are specific to this context or generalize across different types of industries and cultural environments. as well as Check other external factors that were not considered by this study as it tried to explain ethical behavior. Ethics is a highly complex subject and is influenced by numerous variables at the organizational, individual and external environment levels. This research is cross-sectional nature of this study, future research could adopt a longitudinal design to

better understand the causal relationships and temporal changes between ethical leadership, ethical climate, and employee behavior. This approach would address the limitations related to establishing causality inherent in cross-sectional studies. Also

this study quantitative but combining quantitative methods with qualitative research could yield deeper insights into the mechanisms and perceptions that underlie the statistical relationships observed. Qualitative data, such as interviews or focus groups with employees and managers, could uncover nuances that surveys alone may miss. Conclusively, these recommendations will guide future researchers to advance our understanding of the impact of ethical leadership on employee's ethical behavior through ethical climate. By addressing these recommendations, researchers can further explore and refine the existing model and contribute to the development of effective interventions and strategies to increase the ethical practices in Organization.

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