

THE ROLE OF ETHICAL LEADERSHIP IN SHAPING EMPLOYEE ETHICAL BEHAVIOR: THE PARALLEL MEDIATING EFFECTS OF ETHICAL CLIMATE AND ISLAMIC WORK ETHICS

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Abstract

This study examines how ethical leadership influences employee ethical behaviour through two distinct but complementary mechanisms: ethical climate and Islamic work ethics (IWE). A quantitative cross-sectional survey was conducted with 320 full-time employees from public and private sector organizations in Pakistan who had at least six months of organizational experience. Data were analyzed using partial least squares structural equation modelling in SmartPLS 4, with bootstrapping based on 5,000 re-samples. The findings show that ethical leadership is positively associated with employee ethical behaviour, ethical climate, and IWE, whereas both ethical climate and IWE are positively associated with employee ethical behaviour. Both mediators significantly transmitted the relationship between ethical leadership and employee ethical behaviour, while the direct relationship remained significant, indicating partial parallel mediation. This study contributes to the literature by integrating Social Learning Theory, Social Information Processing Theory, and Ethical Climate Theory to explain how ethical leadership operates through both organizational context-and individual value-based pathways. The findings suggest that organizations should combine ethical leadership development with systems that reinforce ethical standards and support relevant work-related ethical values. The cross-sectional, self-reported design limits causal inference and generalizability.

Keywords: Ethical leadership; Ethical climate; Islamic work ethics; Employee ethical behaviour; Parallel mediation

INTRODUCTION

Ethical leadership is a key source of ethical guidance because leaders communicate acceptable standards through their conduct, decision-making, and reinforcement practices (Brown et al., 2005). Social Learning Theory explains this influence as a process in which employees observe credible leaders and model their

behaviours (Bandura, 1977; Brown et al., 2005). Al Halbusi et al. (2023) found a positive relationship between ethical leadership and employees' ethical behaviour, while cross-cultural meta-analytic evidence shows that ethical leadership outcomes can vary across contexts (Amory et al., 2024). These findings establish the relevance of ethical leadership while leaving scope to explain the mechanisms through which leader influence reaches employee conduct (Al Halbusi et al., 2023).

Despite the recognized importance of ethical leadership, organizations continue to face a practical workplace-ethics problem: ethical standards communicated and demonstrated by leaders do not automatically translate into consistent ethical behaviour in employees' day-to-day decisions and actions. Employees interpret leadership signals within the broader organizational environment, and the extent to which those signals guide actual conduct can depend on whether the workplace provides clear and consistent ethical expectations and whether employees possess work-related ethical values that support such conduct (Kuenzi et al., 2020; Topcan et al., 2025). Consequently, an organization may emphasize integrity, fairness, responsibility, and accountability at the leadership level while employees still differ in how consistently they understand and apply those standards in their workplace behaviour.

Within the public- and private-sector organizational context examined in Pakistan, the practical problem is therefore how organizations can translate ethical leadership into more consistent ethical employee behaviour rather than relying on leaders' ethical example alone. This study addresses that problem by examining two distinct mechanisms through which ethical leadership may be translated into employee conduct: ethical climate, which reflects shared organizational expectations concerning appropriate ethical behaviour, and Islamic work ethics (IWE), which reflects employees' work-related ethical values. Examining these mechanisms simultaneously is practically important because it can clarify whether organizations need to complement ethical leadership with a supportive ethical environment and with practices that reinforce employees' work-related ethical values.

One such mechanism is the ethical climate, defined as shared perceptions of the ethical principles and decision criteria that guide organizational practices (Victor & Cullen, 1988). Ethical climate is distinct from ethical leadership because it concerns the perceived ethical environment rather than the conduct of a specific leader (Brown et al., 2005; Victor & Cullen, 1988). Ethical climates are associated with employee and organizational outcomes across national settings (Parboteeah et al., 2024). More directly, Mehra and Narwal (2025) found that ethical climate mediates the relationship between ethical leadership and employees' ethical behaviour. Ethical climate can therefore represent an organizational-context pathway through which leadership-related ethical cues become shared standards for conduct (Kuenzi et al., 2020; Mehra & Narwal, 2025).

Islamic work ethics (IWE) represents a conceptually distinct mechanism. IWE is a work-related ethical orientation grounded in Islamic teachings that emphasizes productive effort, honesty, justice, responsibility, and socially beneficial work (Ali & Al-Oaihan, 2008). Unlike ethical leadership and climate, IWE concerns the ethical values individuals apply to work (Ali & Al-Owaihian, 2008). Recent research has linked IWE with ethical employee behaviour (Topcan et al., 2025), while studies in Pakistan and Indonesia have examined ethical leadership and IWE within broader models of employee outcomes (Mubarak et al., 2022; Hayati & Caniago, 2025). These studies support treating IWE as distinct from leader behaviour and a shared organizational climate.

The research problem concerns whether the ethical climate and IWE operate simultaneously as distinct mediating mechanisms. Studies directly informing these streams provide evidence for an

organizational context pathway through the ethical climate and an individual value-based pathway involving IWE. However, they do not establish whether both mechanisms simultaneously mediate the ethical leadership–employee ethical behaviour relationship within one parallel model (Kuenzi et al., 2020; Mehra & Narwal, 2025; Topcan et al., 2025). Therefore, examining both pathways together addresses a specific unresolved gap.

This study addresses this gap by integrating Social Learning Theory (SLT), Social Information Processing Theory (SIPT), and Ethical Climate Theory (ECT). SLT explains behavioural modelling by leaders, SIPT explains how employees interpret social cues, and ECT explains how ethical cues become shared organizational perceptions (Bandura, 1977; Salancik & Pfeffer, 1978; Victor & Cullen, 1988). Accordingly, RQ1 asks: How is ethical leadership directly related to employee ethical behaviour, ethical climate, and IWE, and how are ethical climate and IWE related to employee ethical behaviour? RQ2 asks: Do ethical climate and IWE mediate in parallel the relationship between ethical leadership and employee ethical behaviour among employees in public and private sector organizations in Pakistan? The corresponding objectives were to test the five direct relationships represented by H1–H5 and the two parallel indirect relationships represented by H6–H7. This model connects an organizational context mechanism and an individual value-based mechanism within one explanation of ethical employee behaviour.

LITERATURE REVIEW

Theoretical Framework

The relationship between ethical leadership and employees' ethical behaviour requires an explanation of both behavioural learning and the context through which ethical expectations are interpreted. Ethical leadership concerns the demonstration and reinforcement of normatively appropriate conduct by leaders through their actions, communication, and decision-making (Brown et al., 2005). Because employees encounter both leader behaviour and wider organizational ethical cues, no single theoretical perspective fully represents all the mechanisms proposed in the present model (Harahap et al., 2026). Therefore, this study integrates Social Learning Theory (SLT), Social Information Processing Theory (SIPT), and Ethical Climate Theory (ECT) to explain the direct and indirect relationships among ethical leadership, ethical climate, Islamic work ethics (IWE), and employee ethical behaviour.

SLT proposes that individuals can acquire behavioural standards by observing credible and salient models and the consequences of their behaviour (Bandura, 1977). Brown et al. (2005) applied this reasoning to ethical leadership, arguing that ethical leaders become attractive role models when they visibly demonstrate appropriate conduct and reinforce ethical standards. In the present model, SLT explains why employees may reproduce the behaviour demonstrated and encouraged by ethical leaders. This perspective provides a theoretical foundation for the direct ethical leadership–employee ethical behaviour relationship.

SIPT adds a contextual explanation by proposing that individuals use information available in their social environment to interpret situations and form work-related judgments (Salancik & Pfeffer, 1978). Therefore, employees respond not only to a leader's individual behaviour but also to the ethical meaning communicated by repeated organizational cues. In the present study, SIPT helps explain how leadership-related ethical signals can influence employees' interpretations of what the organization expects and considers appropriate. These interpretations provide a theoretical bridge between leader behaviour and employees' perceptions of the organizational ethical environment (Bawana et al., 2025).

ECT provides a more specific explanation of this organizational context mechanism. Victor and Cullen (1988) conceptualized ethical climate as shared perceptions concerning ethical reasoning and criteria that guide organizational decisions and practices. Consequently, ethical climate differs from ethical leadership because it concerns the perceived ethical environment rather than the behaviour of a particular leader (Tanny et al., 2025). Subsequent research has demonstrated that ethical leadership can contribute to an ethical organizational climate, which is associated with behavioural outcomes (Kuenzi et al., 2020).

The IWE introduces a distinct, individual value-based component to this theoretical structure. IWE reflects work-related moral values grounded explicitly in Islamic teachings rather than a perception of leadership or organizational climate (Ali & Al-Owaidan, 2008). Thus, the three theories and IWE serve different functions in the model: SLT explains behavioural modelling, SIPT explains the interpretation of social information, ECT explains the formation and relevance of ethical organizational perceptions, and IWE represents an individual ethical orientation through which employees evaluate their own work conduct. Their integration enables the model to examine organizational context and individual value-based mechanisms without treating these constructs as conceptually equivalent.

Ethical Leadership and Employee Ethical Behaviour

Ethical leaders influence employee conduct by making ethical standards observable and reinforcing appropriate behaviour through communication, decision-making, and interpersonal treatment (Brown et al., 2005). Under SLT, employees are more likely to learn from leaders who provide consistent behavioural examples and communicate the consequences of ethical and unethical conduct (Bandura, 1977; Brown et al., 2005). Therefore, ethical leadership provides employees with both a behavioural model and information about expected workplace conduct.

Empirical evidence supports this theoretical relationship, indicating that employee characteristics can affect its strength. Al Halbusi et al. (2023) found that ethical leadership was positively related to employee ethical behaviour, and this relationship became stronger at higher levels of employee moral identity and self-control. Their findings establish a direct connection between ethical leadership and ethical behaviour, while also showing that leadership influence is not independent of employee-level conditions. Based on the theoretical and empirical evidence, the following hypothesis is proposed.

H1. Ethical leadership has a positive and significant influence on employees' ethical behaviour.

Ethical Leadership and Ethical Climate

Ethical climate develops from employees' perceptions of the ethical principles and practices operating within their work environment (Victor & Cullen, 1988). Leaders are relevant to these perceptions because their decisions, communication, and responses to ethical issues provide visible signals regarding the standards that organizations support. From the SIPT perspective, employees use socially available information when interpreting organizational expectations (Salancik & Pfeffer, 1978). Consequently, ethical leadership can influence the ethical climate without being conceptually identical to it.

This distinction is supported empirically by Kuenzi et al. (2020), who examined ethical leadership, ethical organizational climate, and unit-level unethical behaviour. Their findings support the proposition that leadership contributes to the broader ethical organizational environment, while ethical climate constitutes a separate construct through which behavioural consequences can emerge. Therefore, this relationship concerns the transmission of ethical signals from leader behaviour to perceptions of the organizational context.

H2. Ethical leadership has a positive and significant influence on the ethical climate.

Ethical Climate and Employee Ethical Behaviour

Ethical climate provides employees with cues on how ethical issues should be interpreted and which principles are considered appropriate when making workplace decisions (Victor & Cullen, 1988). When organizational members perceive consistent ethical expectations, these perceptions provide a contextual reference for evaluating their conduct. Therefore, ECT predicts that differences in the perceived ethical climate are associated with differences in employee behaviour.

Accumulating evidence supports the behavioural relevance of ethical climate. Parboteeah et al. (2024), in a meta-analytical investigation across national contexts, showed that ethical climates are systematically associated with important employee and organizational outcomes while also identifying contextual variation in these relationships. More specifically to the present outcome, Mehra and Narwal (2025) found that ethical climate contributed to employees' ethical behaviour and mediated the effect of ethical leadership in a cross-sector Indian sample. These findings provide a direct basis for expecting an ethical climate to predict ethical employee conduct.

H3. Ethical climate has a positive and significant influence on employees' ethical behaviour.

Islamic Work Ethics

IWE is a work-related moral orientation rooted in Islamic teachings concerning the meaning, responsibility, and social consequences of work. Ali and Al-Owaidan (2008) describe IWE as incorporating economic, moral, and social dimensions and emphasizing productive effort, honesty, justice, responsibility, cooperation, and socially beneficial activity. Its distinctive feature is therefore not simply the endorsement of desirable workplace behaviour but the Islamic normative basis through which work and moral responsibility are understood.

This foundation distinguishes IWE from general work ethic approaches while recognizing that some ethical values may overlap across traditions. Kalemci and Kalemci Tuzun's (2019) content analysis found both common themes and distinctive orientations within Protestant and Islamic work-ethic scholarship, supporting the treatment of IWE as a specific work-ethic tradition rather than a generic label for positive conduct. Thus, the distinguishing feature of IWE lies in the normative framework through which work obligations are interpreted, not in the assumption that values such as honesty or effort occur exclusively in Islamic thought.

IWE must also be conceptually separated from ethical leadership and climate. Ethical leadership represents the behaviour and influence exercised by leaders (Brown et al., 2005), whereas ethical climate represents perceptions of ethical standards embedded in the organizational environment (Victor & Cullen, 1988). IWE, on the other hand, concerns employees' work-related ethical values (Ali & Al-Owaidan, 2008). Accordingly, this study treats IWE as an individual value-based construct, not as a leadership style, organizational climate, or independent theory.

Ethical Leadership and Islamic Work Ethics

Although ethical leadership and IWE are separate constructs, their relationship can be understood using SLT. Ethical leaders demonstrate behaviours such as integrity, fairness, and accountability that overlap with the ethical principles emphasized within IWE (Brown et al., 2005; Ali & Al-Owaidan, 2008). Employees exposed to consistent ethical role modelling may therefore perceive support for work-related moral standards that align with their Islamic ethical orientation. This argument concerns the reinforcement and enactment of ethical values rather than assuming that leaders create employees' religious values.

Recent empirical evidence supports this connection. Udin (2024), using data from Muslim employees in Indonesia, found that ethical leadership significantly influenced IWE, which contributed to employee performance. Hayati and Caniago (2025) similarly examined IWE as a mediating mechanism connecting ethical leadership to employee performance in Indonesian banking. Pakistan-based research has also treated ethical leadership and IWE as separate constructs, although Mubarak et al. (2022) examined IWE as a moderator rather than the mediator proposed in this study. Collectively, this evidence supports a relationship between ethical leadership and IWE while preserving their conceptual distinction. H4. Ethical leadership has a positive and significant influence on Islamic work ethics.

Islamic Work Ethics and Employee Ethical Behaviour

IWE provides moral criteria through which employees can evaluate how their work should be performed. The principles of responsibility, justice, honesty, and socially constructive effort have direct behavioural implications because they concern employees' obligations to carry out work rather than merely their satisfaction with employment (Ali & Al-Owaidan, 2008). Employees who strongly endorse these principles should therefore have a stronger internal value basis for conduct consistent with ethical workplace standards.

Recent evidence directly supports this association. Topcan et al. (2025), using two-wave employee–coworker data, found that higher IWE was associated with higher employee ethical behaviour and further identified moral identity and felt obligation as mechanisms explaining this relationship. Evidence from Pakistan also shows that IWE can shape constructive workplace behaviour through employees' felt obligation, although that study examined voice behaviour rather than ethical behaviour specifically (Rubbab et al., 2024). Therefore, the more directly relevant evidence from Topcan et al. (2025) provides the principal empirical basis for H5.

H5. Islamic work ethics positively and significantly influenced employee ethical behaviour.

Ethical climate and IWE are proposed as parallel mediators because they represent different ethical influence channels. Ethical climate captures an organizational-context mechanism through which employees interpret shared ethical expectations (Victor & Cullen, 1988; Kuenzi et al., 2020). IWE captures an individual value-based mechanism through which employees evaluate the moral meaning and obligations associated with their work (Ali & Al-Owaidan, 2008). One mechanism concerns perceptions of the organizational ethical environment, whereas the other concerns employees' work-related moral orientation.

Existing studies have established important parts of these pathways but have not resolved the parallel mediation question addressed here. Mehra and Narwal (2025) examined the ethical climate as a mediator between ethical leadership and employee ethical behaviour. Hayati and Caniago (2025) examined IWE as a mediator of ethical leadership effects, but their outcomes were task and contextual performance rather than ethical employee behaviour. Topcan et al. (2025) directly linked IWE with ethical employee behaviour but did not position ethical leadership as its antecedent, while Mubarak et al. (2022) treated IWE as a moderator in a Pakistan-based project model. Therefore, the unresolved issue is whether ethical climate and IWE simultaneously transmit the ethical leadership–employee ethical behaviour relationship when both pathways are estimated within the same model.

SIPT provides a theoretical explanation for ethical climate mediation because employees use information supplied by leaders and their broader social environment to infer expected workplace conduct (Salancik & Pfeffer, 1978). Repeated ethical signals from leaders can contribute to the perception that

ethical standards are embedded within organizational practices, which can subsequently provide guidance for employee behaviour (Kuenzi et al., 2020). Therefore, ethical climate explains how leadership-related cues can extend beyond direct leader–employee interactions and become part of the perceived organizational context.

Empirical research supports this indirect effect. Kuenzi et al. (2020) found that ethical organizational climate is part of the relationship between ethical leadership and unit-level unethical behaviour. More directly aligned with the present dependent variable, Mehra and Narwal (2025) reported that ethical climate mediates the relationship between ethical leadership and ethical employee behaviour. These findings provide both theoretical and empirical justification for examining the ethical climate as an organizational-context mediator in the present model.

H6. Ethical climate positively and significantly mediated the relationship between ethical leadership and employee ethical behaviour.

IWE represents a different indirect process because it concerns employees' internal work-related ethical orientation rather than their perception of shared organizational standards. SLT suggests that ethical leaders provide observable moral cues, while IWE provides a value framework through which compatible principles such as honesty, justice, and responsibility can be enacted in work behaviour (Bandura, 1977; Ali & Al-Owaidan, 2008). Therefore, the proposed mediation does not imply that leadership produces Islamic beliefs; rather, it proposes that ethical leadership can reinforce the work-related expression of ethical values that subsequently relate to employee conduct.

Recent evidence supports the individual components of this pathway. Udin (2024) found a significant relationship between ethical leadership and IWE among Muslim employees, and Hayati and Caniogo (2025) demonstrated an IWE-mediated pathway from ethical leadership to employee performance. Topcan et al. (2025) independently established a positive relationship between IWE and ethical employee behaviour. Taken together, these studies support both stages of the proposed indirect relationship, while the present study extends this evidence by testing IWE specifically as a mediator between ethical leadership and employee ethical behaviour alongside ethical climate.

H7. Islamic work ethics positively and significantly mediated the relationship between ethical leadership and employee ethical behaviour.

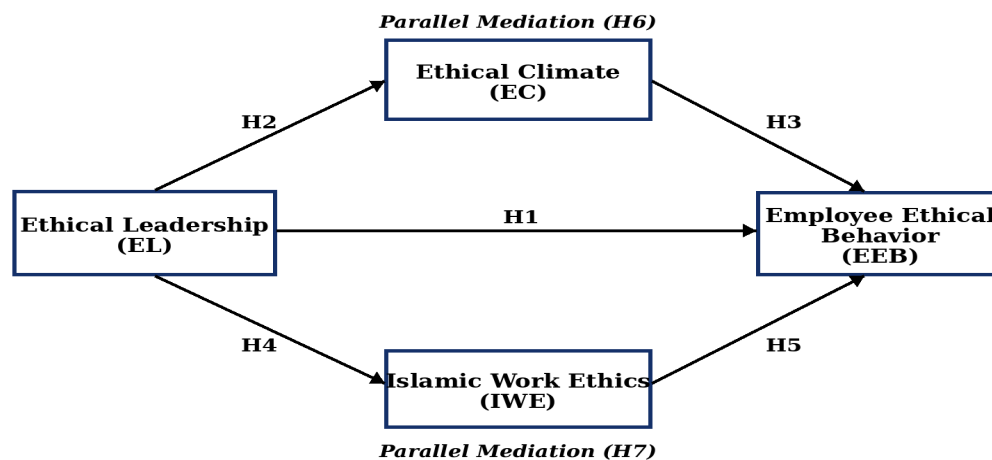


Figure 1: Conceptual Framework

RESEARCH METHODOLOGY

Research Design and Study Context

This study uses a quantitative approach with a cross-sectional survey design to explore the relationship between ethical climate, Islamic work ethics (IWE), and employee ethical behaviour based on ethical leadership. Data were gathered from 2026 FTOs of public and private sector organizations in Pakistan. The eligibility criteria for participants were that they had worked for a minimum of six months at their workplace. This criterion helped measure respondents' contact with their manager and workplace environment, which granted them sufficient opportunity to assess leadership behaviour, the ethical climate in their organization, and behaviour in the workplace.

Sampling and Data Collection

The sampling technique used was purposive sampling which is a non-probability sampling technique because the respondents were only those who met the set eligibility criteria. All full-time employees of public/private sector organizations in Pakistan with a minimum of 6 months of organizational experience were considered the target population. The survey was not restricted to any specific organization or sector to ensure that the data collected reflected a variety of workplace settings to allow a study to be based on the views of employees in a variety of settings.

In 2026, data were collected electronically using a structured questionnaire administered through Google Forms. A total of 361 questionnaire responses were initially received from participants. Before conducting the statistical analysis, all responses were screened for completeness, compliance with the eligibility criteria, and suitability for analysis. During this screening process, 41 responses were excluded because they were incomplete or otherwise unsuitable for inclusion in the analytical dataset. Consequently, 320 complete and usable responses were retained, representing a usable response rate of 88.6%. Therefore, the final analytical sample comprised 320 respondents.

The final sample comprised 182 men (56.9%) and 138 women (43.1%). The categories of employment were public sector (141/44.1 %) and private sector (179/55.9 %) groups. The participants' organizational levels were as follows: 128 (40.0%) junior, 115 (35.9%) middle, and 77 (24.1%) senior. Regarding education, 230 (71.9%) had undergraduate qualifications and 90 (28.1%) had postgraduate qualifications. The characteristics describing the employees analyzed and whose attributes are presented in this list should not be read as a representative sample of all employees in Pakistan.

Sample Size Adequacy

Sampling Adequacy was deemed to be considered the PLS-SEM needs. The inverse square root method proposed by Kock and Hadaya (2018) can be performed as a post hoc technical adequacy test, which can be seen as a test to determine whether a sample is large enough to reveal the smallest statistically significant structural relation. A review of the structural model with the smallest observed direct pathway coefficient ($\beta = 0.192$) indicates that the minimum number of observations needed is approximately 168 observations for a 5% significance level and 80% statistical power. The final sample size was 320, which was above the technical sample size. It is better to use the inverse square root method than the traditional 10 times rule, because the magnitude of the structural relationships detected is taken into account (Kock & Hadaya, 2018).

Measures

The questionnaire was composed of known instruments which were modified for this study. The 10-item scale for measuring Ethical Leadership was adapted from Brown et al.'s (2005) ethical leadership scale.

Five items from Victor and Cullen (1988) were adapted to measure the ethical climate. IWE items were adapted from Ali and Al-Owaihan (2008), and employee ethical behaviour items were adapted from Ferrell and Weaver (1978) and Newstrom and Ruch (1975). Table 1 reports the number of items and original sources that can be used to examine each construct.

The questionnaire was administered in English. Each construct used a five-point response scale. Ethical leadership and ethical climate items were rated on a scale of 1 = strongly disagree to 5 = strongly agree, whereas the items relating to IWE and employee ethical behaviour were rated on a frequency scale of 1 = never to 5 = always. The response anchors were also clearly written in the section of the questionnaires to help respondents use the relevant scale when completing each section of the questionnaire.

Ethical Considerations

The participants were asked to participate in the study, and informed consent was obtained during the questionnaire procedure. The respondents were informed about the purpose of the study, and their voluntary participation and acceptance of the questionnaire were the criteria for their willingness to participate. There was no requirement for the respondents to reveal information that would identify them personally in the analysis, and there was confidentiality of the information collected.

This study did not require formal institutional ethics committee approval. The study was a non-interventional voluntary questionnaire completed by adult workers. Maintenance of informed consent, voluntary participation, confidentiality, and lack of personally identifiable information in the analytical dataset during data collection and analytical process.

Data Analysis

Data were analyzed using partial least squares structural equation modelling (PLS-SEM) in SmartPLS 4 software (Ringle et al., 2024). The analysis was conducted in two stages. First, the measurement model was examined for indicator reliability, internal consistency, convergent validity, and discriminant validity. Cronbach's alpha, rho_A, and composite reliability were used to assess internal consistency, while indicator loadings and average variance extracted were examined for convergent validity. Discriminant validity was assessed using the Fornell–Larcker criterion and heterotrait–monotrait ratio (Henseler et al., 2015).

Second, the structural model was evaluated using path coefficients and coefficient of determination (R^2). Bootstrapping with 5,000 resamples was used to determine the statistical significance of direct and indirect relationships. Parallel mediation was assessed using the specific indirect effects of ethical leadership on employees' ethical behaviour through ethical climate and IWE. An indirect effect was considered statistically significant when the bootstrapped 95% confidence interval did not include zero.

Table 1: Construct Sources and Item Information

Construct	Abbreviation	No. of Items	Source
Ethical Leadership	EL	10	Brown et al. (2005)
Ethical Climate	EC	5	Victor and Cullen (1988)

Islamic Work Ethics	IWE	17	Ali and Al-Owaihnan (2008)
Employee Ethical Behavior	EEB	12	Ferrell and Weaver (1978); Newstrom and Ruch (1975)

Note. All items were measured using a five-point response scale.

RESULTS

Measurement Model Assessment

The measurement model was assessed before testing the structural relationship. As shown in Table 2, all four constructs demonstrated a strong internal consistency. Cronbach's alpha values ranged from 0.882 for ethical climate to 0.948 for employee ethical behaviour, while composite reliability values ranged from 0.913 to 0.955. The average variance extracted (AVE) values ranged from 0.538 to 0.674, indicating that each construct explained more than half of the variance in its indicators. These results provide satisfactory evidence of the reliability and convergent validity of ethical leadership, ethical climate, Islamic work ethics, and employee ethical behaviour.

Table 2: Internal Consistency Reliability and Convergent Validity

Construct	Cronbach's α	rho_a	rho_c	AVE	$\sqrt{AVE}$
Ethical Leadership (EL)	0.931	0.934	0.941	0.605	0.778
Ethical Climate (EC)	0.882	0.886	0.913	0.674	0.821
Islamic Work Ethics (IWE)	0.920	0.923	0.929	0.538	0.734
Employee Ethical Behavior (EEB)	0.948	0.951	0.955	0.637	0.798

Note. rho_a = Dijkstra-Henseler's rho; rho_c = composite reliability; AVE = average variance extracted.

Factor Loadings

The indicator loadings are presented in Table 3. The ethical leadership items ranged from 0.701 to 0.837, ethical climate items from 0.816 to 0.827, and employee ethical behaviour items from 0.751 to 0.857. The Islamic work ethics items ranged from 0.661 to 0.830. Although several IWE indicators were below 0.70, the construct retained an AVE of 0.538 and a composite reliability of 0.929, supporting its overall convergent validity and internal consistency. Taken together, the indicator loadings and AVE values provide adequate evidence that the indicators represent the intended constructs.

Table 3: Factor Loadings for Measurement Items

Constructs	Factor Loadings
EC1 <- Ethical Climate	0.816
EC2 <- Ethical Climate	0.823

EC3 <- Ethical Climate	0.818
EC4 <- Ethical Climate	0.827
EC5 <- Ethical Climate	0.822
EEB1 <- Employee Ethical Behaviour	0.834
EEB10 <- Employee Ethical Behaviour	0.821
EEB11 <- Employee Ethical Behaviour	0.786
EEB12 <- Employee Ethical Behaviour	0.751
EEB2 <- Employee Ethical Behaviour	0.769
EEB3 <- Employee Ethical Behaviour	0.797
EEB4 <- Employee Ethical Behaviour	0.759
EEB5 <- Employee Ethical Behaviour	0.762
EEB6 <- Employee Ethical Behaviour	0.857
EEB7 <- Employee Ethical Behaviour	0.805
EEB8 <- Employee Ethical Behaviour	0.790
EEB9 <- Employee Ethical Behaviour	0.837
EL1 <- Ethical Leadership	0.714
EL10 <- Ethical Leadership	0.837
EL2 <- Ethical Leadership	0.806
EL3 <- Ethical Leadership	0.819
EL4 <- Ethical Leadership	0.788
EL5 <- Ethical Leadership	0.814
EL6 <- Ethical Leadership	0.779
EL7 <- Ethical Leadership	0.755
EL8 <- Ethical Leadership	0.752
EL9 <- Ethical Leadership	0.701
IWE1 <- Islamic Work Ethics	0.699
IWE10 <- Islamic Work Ethics	0.739
IWE11 <- Islamic Work Ethics	0.763
IWE12 <- Islamic Work Ethics	0.793
IWE13 <- Islamic Work Ethics	0.672
IWE14 <- Islamic Work Ethics	0.738
IWE15 <- Islamic Work Ethics	0.769
IWE16 <- Islamic Work Ethics	0.754
IWE17 <- Islamic Work Ethics	0.715
IWE2 <- Islamic Work Ethics	0.679
IWE3 <- Islamic Work Ethics	0.830
IWE4 <- Islamic Work Ethics	0.716
IWE5 <- Islamic Work Ethics	0.681
IWE6 <- Islamic Work Ethics	0.752
IWE7 <- Islamic Work Ethics	0.661
IWE8 <- Islamic Work Ethics	0.685
IWE9 <- Islamic Work Ethics	0.749

Note. All loadings were significant ($p < 0.001$).

Discriminant Validity

Discriminant validity was assessed using the Fornell-Larcker criterion and heterotrait-monotrait ratio (HTMT). As reported in Table 4, the square root of the AVE for each construct exceeded its correlation with the other constructs. The HTMT values reported in Table 5 ranged from 0.226 to 0.530, all below 0.85. These results indicate that ethical leadership, ethical climate, Islamic work ethics, and employee ethical behaviour are empirically distinguishable constructs. This distinction is important for the proposed mediation model because ethical climate and IWE are tested as separate, parallel mechanisms.

Table 4: Fornell–Larcker Criterion for Discriminant Validity

Construct	EEB	EC	EL	IWE
Employee Ethical Behavior (EEB)	0.798			
Ethical Climate (EC)	0.438	0.821		
Ethical Leadership (EL)	0.453	0.479	0.778	
Islamic Work Ethics (IWE)	0.497	0.392	0.440	0.734

Note. The diagonal elements in italics represent the square root of the AVE.

Table 5: Heterotrait–Monotrait Ratio (HTMT)

	Original sample (O)
Ethical Climate <-> Employee Ethical Behaviour	0.420
Ethical Leadership <-> Employee Ethical Behaviour	0.526
Ethical Leadership <-> Ethical Climate	0.530
Islamic Work Ethics <-> Employee Ethical Behaviour	0.473
Islamic Work Ethics <-> Ethical Climate	0.226
Islamic Work Ethics <-> Ethical Leadership	0.465

Note. All HTMT values were < 0.85, confirming discriminant validity.

Structural Model and Path Analysis

The structural model was estimated using bootstrapping with 5,000 resampling. The model explained 22.9% of the variance in ethical climate ($R^2 = 0.229$), 19.3% of the variance in Islamic work ethics ($R^2 = 0.193$), and 37.8% of the variance in employee ethical behaviour ($R^2 = 0.378$). The corresponding adjusted R^2 values were 0.227, 0.191 and 0.374. The direct path results in Table 6 support all five direct hypotheses. Ethical leadership positively predicted employee ethical behaviour (H1: $\beta = 0.277$, $t = 4.775$, $p < 0.001$), ethical climate (H2: $\beta = 0.479$, $t = 11.101$, $p < 0.001$), and Islamic work ethics (H4: $\beta = 0.440$, $t = 9.377$, $p < 0.001$). Ethical climate positively predicted employee ethical behaviour (H3: $\beta = 0.192$, $t = 3.604$, $p < 0.001$).

0.001), and Islamic work ethics also positively predicted employee ethical behaviour (H5: $\beta = 0.292$, $t = 6.292$, $p < 0.001$). Thus, H1-H5 were supported.

Table 6: Direct Path Coefficients and Hypothesis Testing

Hypothesis	Path	B	SD	t-value	p-value
H1	EL $\rightarrow$ EEB	0.277	0.058	4.775	< .001
H2	EL $\rightarrow$ EC	0.479	0.043	11.101	< .001
H3	EC $\rightarrow$ EEB	0.192	0.053	3.604	< .001
H4	EL $\rightarrow$ IWE	0.440	0.047	9.377	< .001
H5	IWE $\rightarrow$ EEB	0.292	0.046	6.292	< .001

Note. EL = ethical leadership; EC = ethical climate; IWE = Islamic work ethics; EEB = employee ethical behaviour. β = standardised path coefficient. All *p*-values were based on bootstrapping with 5,000 resamples.

Mediation Analysis

Specific indirect effects were examined to test the two parallel mediation hypotheses. Ethical climate significantly mediated the relationship between ethical leadership and employee ethical behaviour (H6: $\beta = 0.092$, $t = 3.402$, $p = 0.001$, 95% CI [0.041, 0.148]). Islamic work ethics also significantly mediated this relationship (H7: $\beta = 0.129$, $t = 5.208$, $p < 0.001$, 95% CI [0.085, 0.181]). The total indirect effect through both mediators was significant ($\beta = 0.221$, $t = 5.953$, $p < 0.001$, 95% CI [0.153, 0.299]). Therefore, H6 and H7 were supported. Because the direct relationship between ethical leadership and employees' ethical behaviour remained significant, while both indirect effects were also significant, the findings indicate partial parallel mediation rather than full mediation.

Table 7: Mediation Analysis: Specific Indirect Effects

Hypothesis	Indirect Path	β	SD	t-value	p-value	LL 95%	UL 95%	Decision
H6	EL $\rightarrow$ EC $\rightarrow$ EEB	0.092	0.027	3.402	0.001	0.041	0.148	Supported
H7	EL $\rightarrow$ IWE $\rightarrow$ EEB	0.129	0.025	5.208	< .001	0.085	0.181	Supported
—	Total Indirect: EL $\rightarrow$ EEB	0.221	0.037	5.953	< .001	0.153	0.299	—

Note. LL = lower limit; UL = upper limit; CI = bias-corrected 95% confidence interval based on 5,000 bootstrap re-samples. An indirect effect was considered statistically significant when the confidence interval did not include zero.

DISCUSSION

The findings show that ethical leadership is associated with employees' ethical behaviour through several related pathways. This direct relationship supports the view that employees can use leaders as behavioural reference points when deciding what constitutes appropriate conduct at work. Social Learning Theory explains this process by suggesting that individuals learn by observing credible role models, while ethical leadership research shows that leaders can reinforce acceptable behaviour through their own conduct and communication (Bandura, 1977; Brown et al., 2005). This finding is also consistent with Al Halbusi et al. (2023), who reported a positive relationship between ethical leadership and employees' ethical behaviour. The second pathway operates through the ethical climate. Ethical leaders can shape employees' perceptions of their organization's ethical expectations by consistently communicating and demonstrating acceptable standards. Social Information Processing Theory explains that employees interpret social cues from leaders and their work environment when deciding how they should behave (Salancik & Pfeffer, 1978). Ethical Climate Theory further explains how these cues can contribute to shared perceptions of the ethical principles that guide organizational decisions and practices (Victor & Cullen, 1988). Therefore, the present findings support the view that ethical leadership can influence employee behaviour indirectly through the ethical environment perceived by employees. This interpretation is consistent with that of Kuenzi et al. (2020) and Mehra and Narwal (2025).

The IWE pathway represents a distinct mechanism. Ethical leadership was positively associated with Islamic work ethics, and IWE was associated with employee ethical behaviour. These findings should not be interpreted to mean that ethical leaders create employees' religious beliefs. Rather, leadership behaviours based on fairness, honesty, responsibility, and accountability may reinforce the workplace expression of ethical values that are compatible with IWE (Ali & Al-Owaidan, 2008; Brown et al., 2005). This interpretation is consistent with Udin (2024) and Hayati and Caniogo (2025), who linked ethical leadership with IWE. This is also supported by Topcan et al. (2025), who directly found a positive relationship between IWE and employee ethical behaviour.

Taken together, the mediation findings indicate that ethical leadership operates through two distinct but complementary indirect mechanisms: ethical climate represents an organizational-context pathway based on shared perceptions of ethical expectations, whereas IWE represents an individual value-based pathway based on employees' work-related moral orientation. Because the direct relationship also remained significant, while both indirect relationships were supported, the findings indicate partial parallel mediation. Therefore, ethical leadership is associated with employees' ethical behaviour through direct role modelling and organizational ethical perceptions and individual work-related values.

The findings also clarify the contributions of the three theoretical perspectives. SLT explains how employees learn from the behaviour of ethical leaders; SIPT explains how they interpret ethical information from their social environment; and ECT explains how organizational ethical cues are reflected in shared perceptions of appropriate conduct (Bandura, 1977; Salancik & Pfeffer, 1978; Victor & Cullen, 1988). Therefore, these theories are complementary explanations and not sequential phases of a single process. IWE is treated as an individual value-based mechanism, rather than an additional theory. Although the indirect pathway through the IWE was numerically larger in the statistical results, the

difference between the two indirect pathways was not formally tested. Therefore, it would be inappropriate to conclude that IWE is stronger or more effective than ethical climate.

Theoretical Implications

The main theoretical contribution of this study is the demonstration that ethical leadership can be associated with employees' ethical behaviour through simultaneous organizational and individual mechanisms. Previous studies have examined ethical climate mediation or IWE-related processes in separate models, whereas the present study considers both mechanisms within the same ethical leadership–employee ethical behaviour framework (Kuenzi et al., 2020; Mehra & Narwal, 2025; Hayati & Caniogo, 2025; Topcan et al., 2025). This provides a broader explanation of how ethical leadership translates into employee conduct.

This study also strengthens the conceptual distinction between ethical climate and IWE. Ethical climate concerns employees' shared perceptions of organizational ethical standards, whereas IWE concerns individual work-related ethical values grounded in an Islamic normative framework (Victor & Cullen, 1988; Ali & Al-Owaidan, 2008). The simultaneous significance of both mechanisms suggests that organizational context and individual ethical orientation can contribute independently to understanding ethical employee behaviour.

A further contribution is the integration of SLT, SIPT, and ECT into a process-based explanation. Their combined use distinguishes behavioural modelling, social information interpretation, and the development of shared ethical perceptions. Therefore, the theoretical contribution lies in what this integration explains about the different pathways of ethical influence rather than simply applying several theories.

Practical Implications

The findings suggest that organizations represented in the Pakistani sample should not depend solely on the personal integrity of their leaders. Ethical leadership should be supported by organizational systems that communicate and reinforce consistent ethical expectations. Clear ethical standards, transparent decision-making procedures, ethical communication, and HR practices that recognize appropriate conduct can help strengthen the ethical environment experienced by employees.

The IWE pathway also suggests that employees' work-related values are relevant to ethical conduct. In settings where Islamic values are meaningful to employees, leadership and employee development initiatives may acknowledge principles such as honesty, justice, responsibility, and socially beneficial work (Ali & Al-Owaidan, 2008). Such initiatives should remain inclusive and not assume that all employees hold identical religious beliefs or value orientations.

For HR practices, ethical considerations can be incorporated into leadership development, employee induction, training, and performance management systems. These practices should reinforce both organizational ethical expectations and individual responsibility, rather than treating ethics as a one-time compliance activity.

Limitations and Future Research

The cross-sectional design limits conclusions regarding the temporal sequence or causality of the relationships identified. Future research should use longitudinal designs to examine whether changes in ethical leadership precede changes in ethical climate, IWE, and employee ethical behaviour.

The study also relied on self-reported questionnaire data, which may have created common method concerns. Future studies could combine employee self-reports with supervisor ratings, peer assessments, behavioural records, or other independent sources of information. Such designs would provide genuine multi-source evidence rather than relying on self-ratings.

Respondents were selected from public- and private-sector organizations in Pakistan using non-probability purposive sampling. Consequently, the findings should not be generalized to all employees in Pakistan or other national contexts. Future studies could test the model across sectors, regions, and countries using probability-based or more clearly defined sampling frames where feasible.

The model also specifically focused on ethical climate and IWE as mediators. Future research should examine additional mechanisms, such as moral identity and ethical self-efficacy. Potential moderators, including religiosity, sector, and national culture, could also be investigated to determine whether the two mediation pathways vary across employee groups and organizational contexts.

CONCLUSION

This study indicates that ethical leadership is associated with employees' ethical behaviour through both direct and indirect mechanisms. Ethical climate provides an organizational context pathway through which employees interpret shared ethical expectations, while Islamic work ethics provides an individual value-based pathway through which work-related moral values are connected with ethical conduct. Simultaneously examining these mechanisms offers a more complete explanation of the ethical leadership-employee ethical behaviour relationship than a single-pathway model. The findings also show the value of integrating Social Learning Theory, Social Information Processing Theory, and Ethical Climate Theory to distinguish behavioural modelling, interpretation of social cues, and organizational ethical perceptions. Therefore, the contribution lies not simply in including several theories and mediators but in identifying the distinct mechanisms through which ethical leadership is associated with employee ethical behaviour. These conclusions are restricted to public- and private-sector employees included in the Pakistani sample. Broader conclusions regarding other populations, sectors, regions, or cultural contexts require further evidence.

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