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## Article

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# **Impact of Ethical Leadership on Organizational Cronyism through Mediating Role of Ethical Culture and Moderating Role of Leader Member Exchange**

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## **Abstract**

The purpose of this study is to develop a mediation model for understanding how ethical leadership influences organizational cronyism via ethical culture. This study further investigates the role of leader-member exchange in moderating the effects of ethical culture on organizational cronyism. In contrast to previous research, which has examined the direct effects of ethical leadership on ethical culture, our study examined the underlying mediated and moderated mechanism. A representative sample of 306 employees was collected from organizations operating in private sector. Inferential statistics was applied with the help of descriptive, correlation, moderated and mediated regression analysis. Results confirmed all the direct hypothesis as well as the mediating role of ethical culture was substantiated between ethical leadership and organizational cronyism. LMX also moderated the inverse relationship between ethical culture and organizational cronyism such that the relationship was stronger for employees enjoying high leader member exchange relationship. Discussion and implications are presented based on the results of the study.

**Keywords:** ethical leadership, ethical culture, organizational cronyism, leader member exchange, private sector, Pakistan.

## **1. Introduction**

Organizational Cronyism (OC) has attained attention of scholars and practitioners for the past few years due to its wide prevalence in different sectors. OC is generally defined as an act of employer to favor few employees based on self-made criteria other than performance standards. It is taken as a kind of favoritism resulting from strong personal association and social connections (Turhan, 2014). It is also considered as a form of favoritism where employer's ambition is to build a group, who can be handled easily and support him on different work and non-work related issues (Khatiri & Tsang, 2003). In OC, meritocracy is deeply affected because decisions are based on informal relationships

(Arasli & Tumer, 2008). Recent researches have shown an inverse link between organizational cronyism and various employees related attitudinal outcomes such as job satisfaction, organization commitment, and morale (Arasli et al., 2006). Cronyism drastically affects the performance of the organizations because cronies take advantages other than merit criteria (Khatri & Tsang, 2003). The outcomes of cronyistic environment may emerge in the form of low job satisfaction, organizational loyalty, and individual performance (Keleş et al., 2011).

Keeping in view the adverse outcomes, few attempts have been made to know the causes of cronyism. According to Khatri and Tsang (2003), cronyism results because of unreserved personal loyalty to higher-ups and in group biases. It may rise when power concentrates at particular side (Khatri et al., 2006). Individual's lack of self-esteem can also be a predictor to favoritism (Crocker & Schwartz, 1985). Favoritism may also result because of subjective measures used to gauge various aspects of performance. Organizations lacking sound objective measures give a space to managers, to favor a particular group or employee (Prendergast & Topel, 1996). In nutshell, previous studies have shown that injustices and favoritism flourished in some specific types of culture and environment. To discourage discriminatory attitude and behavior, organizations need to establish ethically sound culture (Kaptein, 2011; Ruiz-Palomino et al., 2013). Ethical culture has proved to be a key cause to drive ethical behavior and moral transparency (Adams et al., 2001; Trevino & Brown, 2004). Organizational culture is defined as the set of shared values that help organizational members to understand organizational functioning and thus guide their thinking and behavior (Deshpandé & Farley, 2004). Following the same line of thoughts, ethical culture is defined as a specific set of organizational values that control immoral and unethical practices and conducts (Treviño & Weaver, 2003). Cronyism is a kind of friendly relationship which can be horizontally or vertically expanded where employees are set aside from the merit standards and follow partiality to accommodate their close associates (Khatri & Tsang, 2003). Considering the justice concerns vested in cronyism, we can reasonably assume that the relationship can be inverse between ethical culture and organizational cronyism which yet to be investigated in management literature.

Generally, leadership is perceived to be a driving force to develop and flourish respective type of organizational culture. For example, studies have shown that transformational leadership is a key cause to establish learning organization culture (Abbasi & Zamani-Miandashti, 2013), authentic leadership cause flexibility-oriented organizational cultures (Azanza et al., 2013), whereas servant leadership flourish servant culture (Liden et al., 2014). Following same analogy, studies have proved ethical leadership as a strong predictor to establish and sustain ethical culture in different environments (Ardichvili et al., 2012; Kolthoff et al., 2010).

Leadership literature posits that due to time constraints, leaders can never pay equal attention to all followers and establish special ties with a special group among all followers. The special group is termed as an in-group and receives more attention and privileges as compared to out-group, who are deprived of leader's trust and association. The narration is known as leader member exchange theory (Graen & Uhl-Bien, 1995b, 1998) which was well received in leadership and organizational behavior literature. Though the emergence of in-group and out-group are quite natural yet it may or may not be explicitly driven (Graen & Uhl-Bien, 1995a). Considering the nature of "in" and "out"

group, we can further assume that the inverse relationship between ethical culture and organizational cronyism would be optimized for in-group as compared to out-group. Employees enjoying close relations with leader may not think of any cronyism prevailing in the environment. To the best understanding of the author, no study has yet examined the influence of ethical culture on cronyism especially in the presence of contextually driven LMX.

Overall, this study attempts to investigate the role of ethical leader in establishing ethical culture. Secondly, the influence of ethical culture on organizational cronyism would also be studied, hence examining the ethical culture as mediator between ethical leadership and organizational cronyism. In addition, the moderating role of LMX on the ethical culture and organizational cronyism is also investigated in a way, how the relationship between ethical culture and organizational cronyism differs for two groups (i.e. inner group and outer group). Similarly, in developing countries, the practices such as cronyism and favoritism are reported to be common feature of organizational environment (Olken & Pande, 2012). Our study has extended the research on organizational cronyism into a new national and cultural context.

## **2. Literature Review**

### *2.1 Ethical Leadership*

The concept of ethical leadership (EL) is deep rooted (Bass, 1997) and has been operational in different ways. A lot of discussions and researches were held on this construct but majority remains in normative ways. Initially the concept was highlighted by Brown, Treviño, and Harrison (2005), who characterized it as normatively appropriate actions purposefully unclear and indistinctive; because evaluation of right or wrong depends on organizational environment and climate.

Ciulla (2004) stated that ethical leader is a person who performs their duty and obligation by considering the moral rights, respect and care of their followers and colleagues. Brown and Treviño (2006) contended that ethical leadership phenomenon consists of various characteristics such as loyalty, integrity, honesty, ethical behavior with employees and caring attitude toward his followers. Generally, ethical leader performs his duty with sincerity; they are straightforward and trustworthy with high values of morality and integrity (Li et al., 2017) as well as keen to develop constructive relationship with followers that encourages faith in their leader (Ng & Feldman, 2015). Similarly Zhu et al. (2004), stated in their study that ethical leaders are treated as role model of ethical actions, recognize their followers career growth needs, and motivate them to pursue positions following their latent qualities. Ethical leaders also assist in enactive mastery; they hand over responsibilities and motivate followers to think deliberately about how their decisions and everyday jobs contribute to the entire work objectives (De Hoogh & Den Hartog, 2008).

### *2.2 Ethical Culture*

Researchers in recent precedent have shown keen interest in establishing ethical culture of organization (Craft, 2018; Hodges, 2018). Schein (2010) stated that organizational culture (EC) holds the ingrained values, attitudes, norms, beliefs and perceptions of organizational members. Ethical organizational culture explicates the ethical standards of working environment, by integrating the practices, skills, anticipations and aspirations of job incumbents in ensuring the ethical climate and refraining from illegitimate practices

(Kaptein, 2009). Extant research shows that the ethical culture of an organization has increased positivity in the organization and helped to follow tactical and strategic goals (Huhtala et al., 2015; Kaptein, 2011)

For instance, some experiential researches has demonstrated that an organization's ethical culture raise its manager's professional interests (Huhtala et al., 2011) and their dedication to organizational objectives (Huhtala & Feldt, 2016). Under such culture, employees have been encouraged to report misconduct to concerned elites. Though; the findings about the ethical culture and employees related outcomes are quite consistence. However, space exists to know the role of ethical culture in stimulating organizational level outcomes (Kaptein, 2011).

### *2.3 Organizational Cronyism*

The term cronyism is derived from the word "crony"; implying deep friendship for long time. The term was first applied by the student of Cambridge university in the seventeen century (Khatri & Tsang, 2003). In recent studies, cronyism is generally treated as the major form of corruption and the word cronies are said to be companion, buddy, friend or a persons with similarity and getting preferential treatment. Turhan (2014) defined organizational cronyism (OC) as a process to give preferential treatment to any individual based on friendship, likeness and close association rather than based on merit.

Khatri et al. (2006) asserted that organizational cronyism is an exchange process where one person provides something of value to the other person at the expense of other. Fu (2015) stated that cronyism is basically a type of favoritism exhibited by the leader or manager to his followers or employees based on friendship or too long association. In response, all HR policies & procedures are bypassed and special incentives and benefits are only allotted to their favorites. Nearly same contention was made by Erdem and Karataş (2015) by stating that cronyism is a form of favoritism by hiring or rewarding the persons or employees on the basis of friendship, companionship and long lasting relationship by disregarding merit and transparency.

### *2.4 Leader Member Exchange*

Leader-Member Exchange (LMX) explicates the two-way relationships between the leaders and subordinates. LMX posits that due to time and other constraints leader pay attention to subordinates differently. Hence two groups emerge as in-group (High-Quality LMX) and out-group (Low-Quality LMX). In-group members are well trusted and enjoy more resources and receive better treatment. On the other hand, out-group members are deprived from special privileges, excluded and feel isolated (Graen & Uhl-Bien, 1995b). The emergence of group is natural and may base upon on different factors (Masterson et al., 2000).

High-Quality LMX are distinguished by great degree of reciprocal faith, dignity and commitment (Nie & Lämsä, 2015). LMX theory holds an exclusive position among other leadership theories due to the focus on dyadic association between the supervisor and his subordinates. In the beginning, LMX theory was known as theory of vertical dyad linkage (Dansereau et al., 1975). Dyad referred as the group of two communities engage one to one interface (Co-Co Seminar Series: Spring 2018 - Binghamton University). This sort of relationship between leader and subordinate takes much time to develop. Further since it refers to one to one interaction so very few people are involved in maintaining

high-quality LMX and remaining low-quality LMX who are more in quantity, feel restricted to employment contract only (Gerstner & Day, 1997).

### *2.5 Ethical Leadership and Ethical Culture*

Ethical leadership and ethical culture are the critical antecedents of various organizational outcomes. For leadership, constructing positive culture within the organization is a big challenge. In past, various efforts have been made to identify the possible antecedents of ethical culture (Ardichvili & Jondle, 2009; Peters et al., 1982). de Vries (1994), argued that leadership can have far-reaching effects on organizational culture through their personal characteristics and behavior. According to Brown and Treviño (2006), ethical behavior and ethical leadership are both interconnected with each other. Once ethical leadership starts playing its role, it directly influences the ethical behavior of all followers in return and vice versa. Leadership plays an important role to support or negate ethical doings in the work environment. Lu and Lin (2014) stated that ethical leadership has a considerable impact on ethical environment and ethical attitude of employees. Huhtala et al. (2013) examined the association between ethical leadership and ethical culture and found strong support. Huhtala et al. (2013) also found strong association between ethical leadership and ethical culture. Recently Walumbwa et al. (2017) contended that ethical leadership helps to enhance organizational performance by establishing the ethical culture. Based on all these arguments, we assume the following;

- **H<sub>1</sub>:** Ethical leadership has positive effects on the Ethical culture

### *2.6 Ethical Leadership and Organizational Cronyism*

Since last decade, the model of ethical leadership has acquired keen interest among practitioners and academics as organizations intend to satisfy responsibility linked with unethical practices and behaviors. Extant literature highlights the significant role of ethical leadership in encouraging positive outcomes at individual and organization level such as, raising voice against unfair treatment, helping ethical practices, and increasing job-performance, employee well-being, and modernism (Chughtai et al., 2015; Li et al., 2014; Miao et al., 2013; Ogunfowora, 2014; Walumbwa et al., 2011).

Various researchers stated that in spite of factors negatively influencing unethical behavior of employees, like training programs, ethical codes and standards (Treviño, Weaver, Gibson, & Toffler, 1999) and peer support and behavior (Zey-Ferrell & Ferrell, 1982); leadership role is considered as of paramount importance to control immoral practices. Sharif and Scandura (2014) concluded that employee's feel energized and engaged in their work when the leadership is ethical and responsible. To sustain employees' work motivation, leadership strives to develop ethical culture which eternally helps to control employee unethical behavior (Schaubroeck et al., 2012). Ciulla (1995) claimed that when leaders are empathetic and have care for the rights and feeling of employees, in return it helps to control different unfavorable and undesirable practices at work place (Treviño & Brown, 2005). On other hand, leadership with negative traits may have destructive influence on employees attitude, behavior and feelings (Schaubroeck, Walumbwa, Ganster, & Kepes, 2007). Explaining negative consequences of unethical leadership, Ünal et al. (2012) stated that unethical behavior of leadership may develop such types of negative practices in which employees are encouraged to act in unethical and unfair ways at their workplace.

The undue support by leader to some followers based on non-performance related elements that may comprise unjustifiable reward and incentive (Asunakutlu & Avci, 2010) may lead toward enhancing cronyism within organization. In sum, leader's fair treatment with followers and unfair treatment with rest of the employees may cause a perception of cronyism among employees (Furunes, Mykletun, Einarsen, & Glasø, 2015). Hence we may reasonably assume that;

- **H<sub>2</sub>:** Ethical leadership has negative effects on the organizational cronyism

### *2.7 Ethical Culture and Organizational Cronyism*

Past studies have consistently proved that any deviation from ethical standards may lead towards unfair, injustice and unequal practices within the organizations (Meyers, 2004). Such practices originate from the lack of will at top level management and may trickle down from top to bottom, hence all members and ultimately the whole system comes under the shed of unethical practices.

Organizational cronyism is one of the fundamental unethical practices which are mostly observed in organizational culture of developing world. Scholars and practitioners have linked culture and unethical practices in different ways. For example; According to Khatri and Tsang (2003), cultural parameters are linked with organizational cronyism by arguing that different cultural antecedents lead towards unfairness, favoritism and injustice practices. Mayer et al. (2010), reported that ethical climate put negative impact on misconduct and unethical behavior. Peterson (2002) also hypothesized in his study that when there is favorable ethical climate within the organization then organizational deviance is diminished. While on the other hand, if the organizational environment is not favorable then in turn employee behave unethically which further cause poor organizational commitment and job satisfaction (Shafer, 2002). Chen and King (2018) explored in their study that various ethical values and norms help to control deviance at work place. Based on foregoing, we may hypothesize the following;

- **H<sub>3</sub>:** Ethical culture has negative effects on the organizational cronyism

### *2.8 Leader Member Exchange to Organizational Cronyism*

As discussed above, LMX explains the unequal distribution of attention and resources by leaders due to various limitations. In-group comprising employees with high LMX whereas out-group employees are less trusted and low at LMX. Since employees with strong LMX are given more opportunities and resources, hence they lack any perception of injustices and favoritism. Reason being the added responsibilities and assigned tasks inclined them to rightly enjoy better and more privileges (Chang & Cheng, 2018). In case of any unfairness by leader therefore, hurts the loyalty concerns with leader and the job. At contrast, employees weak at LMX, have less expectation and inherently feel a sense of injustice (Rosen et al., 2011). Previous studies show that the unequal treatment to group members cause a sense of deprivation and unfairness to less privileged group which is accentuated when the task is highly interdependent (Han & Bai, 2014). This is the reason, existing empirical findings are consistent about the positive link between LMX and indiscriminate, injustice and partiality (Park et al., 2017; Sagas & Cunningham, 2004). Commonly, employees with high leader member exchange relation lack any perception of inequality and favoritism (Omillion-Hodges & Baker, 2013). Foregoing in view, we may hypothesize the following;

- **H<sub>4</sub>:** Leader member exchange has negative effects on the organizational cronyism

#### *2.9 Ethical Culture as a Mediator*

Ethical leader play a positive role in developing ethical culture which further helps to diffuse immoral, corrupt, dishonest and deviant practices within organization. Mugume (2012) concluded that top management has a critical role in developing and maintaining ethical culture to cope with various types of adversities. Kolthoff et al. (2010) stated that positive and ethical practices help to discourage amoral and devious practices. It is believed that, if the culture is positive it leads toward ethical practices and if the culture is unfair then it may cause unethical and unfavorable behavior (Zhang et al., 2009).

Previously, ethical organizational culture has mediated various relationships. Wu et al. (2015) investigated the effects of ethical corporate leadership on corporate social responsibility by considering ethical culture as mediator and found full support. Likewise Demirtas and Akdogan (2015), concluded ethical culture as a mediator between ethical leadership and turnover intentions. EL had a key role in developing ethical climate at work which could additionally diminish immoral, disreputable and dishonest practices in the organization (Erben & Güneşer, 2008). More recently, Yasir and Rasli (2018) reported that ethical leadership develops ethical climate at workplace which in turn diminish various unfair and unethical practices. Considering all these arguments, we may assume;

- **H<sub>5</sub>:** Ethical culture negatively mediates the relationship between ethical leadership and organizational cronyism

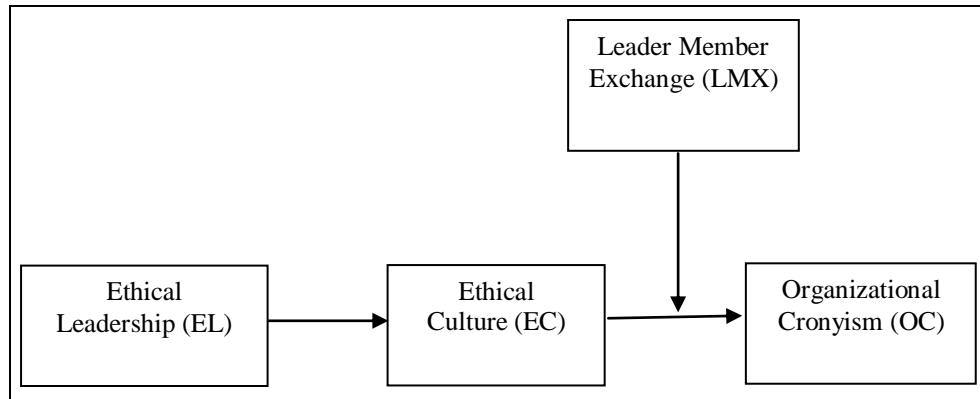
#### *2.10 Moderating Role of LMX*

A wide stream of research posits that culture has strong bearing on controlling or encouraging unsanctioned and undesirable practices. Organizational cronyism is widely prevalent nearly in all types of organizations depending upon organizational responsiveness (Özkul et al., 2009). Past studies have shown that ignoring ethical standards may cause unfair, prejudice and perception of inequality at workplace (Meyers, 2004).

We further contend that the linear relationship between ethical leadership and ethical culture varies depending upon the leader member exchange relationship. Employees' a part of in-group or enjoying high quality relationship with followers may not perceive any kind of cronyism prevailing in organizational life (Graen & Uhl-Bien, 1995b, 1998). Even apprehensively, they are the cronies and enjoy better relationship with leaders and secure substantial benefits. Hence the relationship would be augmented for followers with high quality exchange relationship. At contrast, employees lacking strong ties with leader may perceive the environment as thoroughly cronyistic and discouraging where interest group gets privileges even at the cost of group interest (Henderson et al., 2009). Hence, we further assume the following;

- **H<sub>6</sub>:** Leader member exchange moderates the relationship between ethical culture and organizational cronyism in such that the relationships will be inverse and strong when leader member exchange is high





**Figure 1: Research Model**

### 3. Methodology

#### 3.1 Sample and Procedure

##### 3.1.1 Sample and Data Collection Procedures

Organizational leadership and culture differs considerably from organization to organization. Hence, various private organizations were approached in Islamabad and Rawalpindi vicinity for data collection. Employees working across various hierarchical levels were approached using different means. A total of 500 questionnaires were floated using local postal services with return envelope. In some organizations, questionnaires were self-administered in sealed form. An effort was made to consider those employees with two years working experience in respective organization and the leader had performed at least one performance appraisal of them, for better understanding of leadership style and culture of the organization. Out of 500 floated questionnaires, 344 responses were received back. 38 responses were dropped on different grounds and finally an analysis of 306 questionnaires was conducted to come at reasonable conclusion.

Keeping in view the nature of study variables, the responses could have been contaminated by social desirability response. Therefore, a standard procedure recommended by Van de Mortel (2008) was followed to control any possibility of social desirability bias which may cause respondents to unveil anything that is socially appreciated.

At first, the survey instrument contained cover letter with detail about the nature of study, confidentiality measures and other necessary information. Respondents were briefed about the voluntary participation and may leave the survey if find conflict of interest or likewise. Cover letter also contained complete details about the author so that they could discuss any ambiguity and concern freely.

Among the 306 represented samples, 87.9% were males and 12.1% were females. In the age category, 19.6% were between 25 or below; 21.6% were between 26 and 30 years; 30.7% were between 31 and 35 years; 16.7% were between 36 and 40 years; 5.6% were between 41-45: and 2.6% were between 46 and 50; 3.3% were above 50 years. While specifying the level of position, 34.6% claimed them in junior level group; 45.1% in middle level group; and 20.3% were working in senior level group. 37.6% had less than 5

years working experience, 27.1% had 6-10 years; and 20.6% had 11-15 years; 7.5% had 16-20 years; 5.6% had 21-25 years and 1.6% had 26 or above years of working experience. In education category 42.8% had bachelor's degree, 39.2% had Master degree and 18% had MS/M.Phil level of education.

### *3.2 Instrumentation*

The data was collected through questionnaire comprising various tested measures.

### *3.3 Ethical Leadership*

A 10 items scale developed by Brown et al. (2005) was used to measure ethical leadership. The responses were obtained through 7 point Likert scale ranging from 1= strongly disagree to 7= strongly agree. Sample items include "senior leaders conduct their personal lives in an ethical manner", and "senior leaders listen to what employees have to say". The items set have been found reliable in various recent studies (Javed et al., 2017; Xia et al., 2013; Yidong & Xinxin, 2013)

### *3.4 Organizational Cronyism*

To measure organizational cronyism, 15 items scale developed by Turhan (2014) was used. Sample items comprise; "Our manager treats employees with whom he has a closer personal connection with more tolerance", and "our manager protects employees with whom he has a closer personal connection". Five point likert scale ranging from 1= strongly disagree 5= strongly agree were used to measure organizational cronyism.

### *3.5 Ethical Culture*

A modified version of 8 items scale was adopted from Ardichvili et al. (2012) to measure ethical culture. All the items were anchored on five point likert scale ranging from 1= strongly disagree 5= strongly agree. Sample items were "Ethical issues can be discussed without negative consequences" and "senior management supports and practices high ethical standards" etc.

### *3.6 Leader Member Exchange*

A 11 items scale developed by Liden and Maslyn (1998) was used to measure leader member exchange which was anchored on five point likert scale ranging from 1= strongly disagree 5= strongly agree. Sample items included "I like my supervisor very much as a person" and "My supervisor is the kind of person one would like to have as a friend" etc. The scale was previously found highly reliability by Burch and Guarana (2014).

## **4. Results**

### *4.1 Descriptive Statistics and Correlation Analysis*

Correlation results reveal significantly negative relationship between ethical leadership and organizational cronyism ( $r=-.334$ ,  $p<0.01$ ) and ethical culture and organizational cronyism ( $r=-.183$ ,  $p<0.01$ ). Ethical leadership also found significantly related with ethical culture ( $r=.171$ ,  $p<0.01$ ). A significantly negative relationship is also found between leader member exchange and organizational cronyism ( $r=-.139$ ,  $p<0.05$ ).

**Table 1: Descriptive Statistics, Reliabilities, and Correlations among Variable**

Predictors	Mean	SD	1	2	3	4
1. EL	4.76	0.9167	(.85)			
2. OC	3.77	0.7404	-.334**	(.95)		
3. EC	3.58	0.9588	.171**	-.183**	(.91)	
4. LMX	3.44	0.7968	.152**	-.139*	.152**	(.85)
<i>EL = Ethical Leadership; OC = Organizational Cronyism; EC = Ethical Culture; LMX = Leader Member Exchange</i>						
Note. N = 306; Reliability estimates in parentheses * $p < 0.05$ . ** $p < 0.01$ .						

Simple linear regression results show significant positive impact of ethical leadership on ethical culture ( $\beta = 0.18$ ,  $p < 0.01$ ) and significant negative impact on organizational cronyism ( $\beta = -0.27$ ,  $p < 0.001$ ). Ethical culture also showed significant negative effects of on organizational cronyism ( $\beta = -0.14$ ,  $p < 0.05$ ) whereas LMX was also found to have strong positive influence towards organizational cronyism ( $\beta = -0.13$ ,  $p < 0.01$ ), hence providing support to H<sub>1</sub>, H<sub>2</sub>, H<sub>3</sub> and H<sub>4</sub>.

To test mediation and moderation hypothesis, Preachers & Hayes Bootstrap method was employed which is considered easy, fast and reliable method to test hypothesis with some inherent advantages over conventional procedures. We ran model 14, with 95 % of 5,000 bootstrap re-samples (Hayes, 2015) considering the indirect effect of ethical leadership on organizational cronyism through ethical culture where LMX moderates the relationship between EC and OC. In case zero does not occur between LLCI and ULCI indicates significance of indirect effects. In other words mediating hypothesis is substantiated if zero doesn't occur between the low and upper CIs at the 95 percent significance level. The results of mediation analysis support the indirect effect (the indirect effect =  $-0.03$ , SE =  $-0.02$ , 95% CI =  $[-0.08, -0.01]$ ) as given in Table 2, with un-standardized indirect effects and their corresponding significance. Conclusively H5 is fully supported.

In order to examine the moderating effect of LMX on the relationship between ethical culture and organizational cronyism, PROCESS macro was employed with mean-centered products of ethical culture and LMX. As shown in table 3., the moderation effects of LMX are supported ( $\beta$  for LMXxOC =  $-0.17$ ,  $p < 0.001$ ) between EC and OC. The results further reveals significant change in R<sup>2</sup> due to LMX as moderator (R<sup>2</sup> = 0.11,  $p < 0.001$ ). Therefore, we concluded that LMX moderates between ethical culture and organizational cronyism.

**Table 2: Mediation Model: Indirect Effect of Ethical Leadership on Organizational Cronyism through Ethical Culture**

Mediator	Indirect effect of ethical leadership on Organizational cronyism			
	$\beta$	SE	Boot LLCI	Boot ULCI
Ethical Culture	-0.03	-0.02	-0.08	-0.01
<i>Note. Bootstrap Resample = 5,000. SE = Standard Error; CI = Confidence Interval. Estimates were calculated using the PROCESS Macro.</i>				

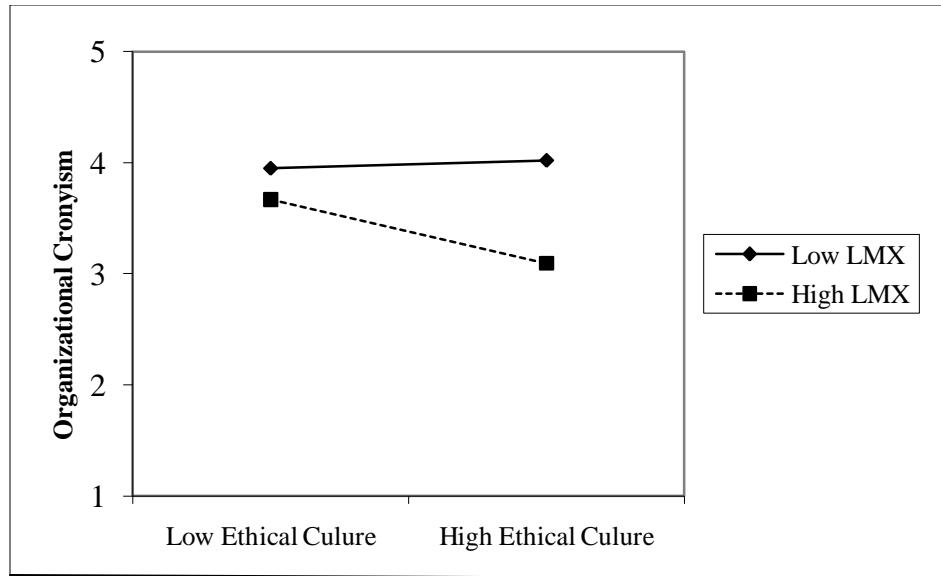
We also draw the simple slope to further examine the moderating effect of LMX. Results of the slope test reveals that the relationship between EC and OC is strongly negative for employees with strong leader member exchange relationship as compared to employee's with weak leader member exchange relationship. It provides support to H6 as well.

**Table 3: Interaction Effect**

	$\beta$	SE	T	p	Boot LLCI	Boot ULCI
Constant	3.194	0.537	5.939	.000	2.135	4.252
Ethical Culture	.493	.125	3.916	.000	.245	.740
Ethical Leadership	-.175	.044	-3.906	.000	-.263	-.087
LMX	.538	.133	4.049	.000	.276	.800
<i>LMX x Ethical Culture</i>	-.177	.036	-4.917	.000	-.248	-.106
<i>Outcome Variable: Organizational Cronyism</i>						

**Table 4: Moderation Mediation Model: Indirect Effect of Ethical Leadership on Organizational Cronyism through Ethical Culture Moderating by LMX**

Mediator	Conditional Indirect effect of Leader Member Exchange				
	Condition	$\beta$	SE	Boot LLCI	Boot ULCI
Ethical Culture	Low	.00	.011	-.012	.033
Ethical Culture	Medium	-0.02	.013	-.053	-.003
Ethical Culture	High	-0.05	.024	-.100	-.006
<i>Note. Bootstrap resample = 5,000. Conditions for moderator (LMX) are the mean and plus/minus one standard deviation from the mean. SE = standard error; CI = confidence interval. Estimates were calculated using the PROCESS macro.</i>					



**Figure 2: Interaction Effect of LMX on Ethical Culture and Organizational Cronyism**

**5. Discussion**

In recent years, organizational cronyism has got the attention of experts from across the world following the shift to address different types of adversities in organizational life (Khatri & Tsang, 2003; Khatri et al., 2006; Turhan, 2014). Building on this line of thoughts, we examined OC as an adverse phenomenon by incorporating EL as a controlling factor and the link between EL and OC was further assumed to be mediated by EC. This study further investigated the moderating role of LMX in such a way that the negative relationship between EC and OC would be strengthened when LMX is high.

Generally, all six hypothesis are accepted. Our findings support the idea asserting ethical leadership and culture are effective resources to discourage various unfair and prejudice practices. All it shows that when leadership behavior is ethical it helps to flourish ethical culture, it will encourage an environment to diffuse unfair and illegitimate practices (Babalola et al., 2017), discourage followers wrongdoing (Mayer et al., 2010) as well as reduce unethical and unfair behaviors (Schaubroeck et al., 2012).

Extant research is consistent about the leadership role in developing and sustaining specific type of culture (Chang & Lee, 2007; Sergiovanni, 2000). Destructive leadership gives rise to unhealthy culture (Schyns & Schilling, 2013) and innovative leadership promotes creativity and innovation (De Jong & Den Hartog, 2007). Therefore, one can reasonably assume the pervasive role of ethical leadership in flourishing ethical culture. Various previous studies have endorsed strong link between ethical leadership and ethical culture (Ofori, 2009; Toor & Ofori, 2009). Furthermore, our study also provides evidence about the dominant role of ethical culture to control organizational cronyism. Leaders high on ethical standards vested with transparency and sound virtues may go long way to flourish ethical culture which discourages partiality and preferential treatment. Our findings about mediating role of ethical culture between ethical leadership and

organizational cronyism are in line with previous studies (Kolthoff et al., 2010; Zhang et al., 2009).

In addition to direct and mediating hypothesis, our study further examined the moderating role of LMX on EC and OC relationship. LMX implies the kind of relationship followers have with supervisor which turns into “In” and “Out” group. Employees apart of in-group enjoys more attention and privileges whereas out-group employees are less trusted as well as deprived from all special benefits (Dienesch & Liden, 1986). In-group members lack the perception of cronyism prevailing in the organizational environment, conceived to be close to ethical leader and consider the working environment as transparent and even-handed. Likewise, our results show that the negative relationship between EC to OC is augmented for high LMX. The conditional indirect effect of ethical culture on organizational cronyism at different values of the moderator also show that the relationship between EC to OC is weak and insignificant at low LMX or for out-groups members whereas the EC to OC relationship is found strong and significant for medium and high LMX.

To keep up these positive feelings of employees, leadership should try to develop ethical culture in the organization which categorically helps to control employee unethical practices (Schaubroeck et al., 2012). Our findings about mediating role of ethical culture between ethical leadership and organizational cronyism are in line with previous studies (Kolthoff et al., 2010; Zhang et al., 2009).

#### *5.1. Practical Implications*

The study provides comprehensive model for managers to control organizational cronyism. Ethical leadership has emerged as the most important factor to flourish ethical culture and to further address organizational cronyism. It emphasizes the need to pay due attention on hiring processes. Individuals vested with true moral values should be employed in organizations especially at managerial levels. Employees already working at management positions may also be provided developmental opportunities with prime focus at ethical modules.

Leader member exchange (LMX) also showed strong moderating effects on EC to OC relationship. Employees high on LMX showed negative relationship with organizational cronyism. High LMX employees constitute in-group, hence invites attention of policy makers and managers to take all employees onboard at majority of instances in the organization. If in-groups are natural to emerge then the formation should be based on competency. All employees expect due care and attention that can help to discourage the feelings of discrimination and dejected.

#### *5.2. Theoretical Implications*

The study contributes to theory in the area of organizational behavior, particularly in the private sector of developing world. Conceptually the findings support the view that ethical leadership is an important cornerstone to flourish ethical culture which further helps to control organizational cronyism. The theoretical contribution rest with the indirect path followed from EL to OC with EC as intervening factor. In addition, the uniqueness of this study lies by testing the interacting effect of LMX on EC to OC relationship. The negative relationship between EC to OC is strengthened for high LMX only.

*5.3. Limitations of the Study and Future Directions*

The present study has a number of limitations that should be acknowledged. The population sample comprised respondents from private organizations from Pakistan. Hence the generalizability of the study is limited to private sector. The model may be tested in other sectors even in different cultural setting. Secondly, the study responses were cross sectional. A longitudinal design may be incorporated to know the consistency of results. Thirdly, questionnaire approach is criticized being over simplified and biased. Though the author took utmost effort to control social desirability responses; however, qualitative research design may also be followed to know the cronyism in more detail. Lastly, the moderating role of LMX is examined on the EC to OC relationship. Other optimizing factors such as social support, mindfulness, formalization, disposition factors, may also be examined in combination of ethical culture.

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