The Effect of Ethical Leadership and Leadership Effectiveness on Employee’s Turnover Intention in SMEs: The Mediating Role of Work Engagement

Submitted 07/08/30, 1st revision 17/09/20, 2nd revision 06/10/20, accepted 31/10/20

Georgios Theriou¹, Dimitrios Chatzoudes², Cesar Augusto Díaz Moya³

Abstract:

Purpose: The purpose of the present study is to examine the impact of ethical leadership and leadership effectiveness on employee’s turnover intention in SMEs, with an emphasis on the mediating role of work engagement.

Design/Methodology/Approach: A quantitative approach was used. In particular, a research model has been empirically tested, using primary data collected from SMEs employees in two different countries.

Findings: Ethical leadership and leadership effectiveness play an important role in predicting turnover intention. Moreover, work engagement mediates the relationship between ethical leadership, leadership effectiveness and turnover intention.

Practical Implications: A leadership approach which is both ethical and effective at the same time is more likely to create a productive, ethical and trusting work climate, conducive to the work engagement of employees and, therefore, reduce turnover.

Originality/value: The role of ethical leadership and leadership effectiveness as well as work engagement on employee turnover in SMEs is currently under-researched.

Keywords: Ethical leadership, leadership effectiveness, turnover intention, work engagement, Small and Medium Enterprises (SMEs).

JEL classification: M12, M14, M50, J24.

Paper Type: Research study.

¹Associate Professor, Management Science and Technology Department, School of Economics and Business, International Hellenic University (IHU), Greece, e-mail: gtheriou@mst.ihu.gr
²Adjunct Professor, Department of Production and Management Engineering, Faculty of Engineering, Democritus University of Thrace, Greece, e-mail: dchatzoudes@yahoo.gr
³Assistant Professor, Faculty of Administrative and Economic Sciences, Universidad de Ibagué, Colombia, e-mail: augusto.diaz@unibague.edu.co
1. Introduction

Acquiring, developing, but particularly keeping talented individuals, have become some of the most important organizational goals in the past two decades (Govaerts et al., 2011). Studies have shown that employee turnover can cost around twenty percent of salary in terms of recruiting, training, and lost productivity, although some estimates are much higher (Boushey and Glynn, 2012). Because of these costs, voluntary turnover drivers represent variables of interest for scholars and practitioners and remain an important research topic (Palanski et al., 2014).

Although the role of leadership is established in turnover research (Holtom et al., 2008), most of the research has focused upon general supervisory support (Griffeth et al., 2000) and has mainly been conducted in large companies. Examining the impact of newer leadership theories on the turnover process, as well investigating these relationships in different firm sizes, may lead to additional insights into this important topic.

In this paper, we examine the impact of ethical leadership and leadership effectiveness on employee turnover. Ethical leaders act as role models in the organizations, promoting ethical behavior among their subordinates (Brown et al., 2005), while at the same time leadership effectiveness results in desired organizational outcomes (Elçi et al., 2012).

Moreover, we contend that investigating ethical leadership and leadership effectiveness in Small and Medium Enterprises (SMEs) matters a lot due to the potential impact on the global economy as they represent about 90% of businesses and more than 50% of employment worldwide (Worldbank, 2020). Several researchers (Lacerda, 2015; Madanchian et al., 2016) have also claimed that leadership has been receiving greater attention in the SMEs literature, since it has been recognized that SMEs cannot successfully develop new small businesses initiatives without the presence of an effective leader.

In addition, work engagement has a substantial effect on turnover, as engaged employees are more likely to stay with their current employer. Biswas and Bhatnagar (2013), for example, argued that engaged employees feel an obligation to be socio-emotionally attached to their organization. This study strongly argues that “work engagement” is a critical variable that might work as important mediator in the relationship between ethical leadership, leadership effectiveness and turnover intention.

Within this context, the present empirical study will examine the potential impact of ethical leadership and leadership effectiveness on employee’s turnover intention in SMEs, with an emphasis on the mediating role of work engagement.
2. Literature Review and Hypotheses

2.1 Employee Turnover Intention

Turnover intention, is an important predictor of actual turnover (Griffeth et al., 2000) and is related to the final stage before employees take the initiative to leave (Zhao and Li, 2012). Employee turnover intention, in few words, refers to “an individual’s willful intention to leave their job in search for a new one” (Wang and Yang, 2016, p. 5). It has been described as a process constituted by stages of psychological, cognitive and behavioral aspects (Shareef and Atan, 2019), thus resulting in actual turnover (Lin and Liu, 2017). Demirtas and Akdogan (2015) argued that the factors that have an impact on employee turnover can be categorized into three groups: external factors (i.e. unemployment levels), organisational factors (i.e. leadership style) and individual factors (i.e. dissatisfaction of the work).

2.2 Ethical Leadership

Ethical leadership is defined as “the demonstration of normatively appropriate conduct through personal actions and interpersonal relationships, and the promotion of such conduct to followers through two-way communication, reinforcement and decision-making” (Brown et al., 2005, p. 120). Brown et al. (2005) argued that ethical leaders inform individuals about the benefits of ethical behavior and the cost of inappropriate behavior, set clear standards and use rewards and fair and balanced punishment to hold followers accountable for their ethical conduct. Within the leadership literature, ethical leadership is considered a “moral umbrella”, representing the moral dimension of leadership styles, be it “authentic leadership”, “servant leadership” or “value-based leadership” (Ahmad et al., 2018).

Ethical leaders incorporate morality into the decision-making process, examine the moral dimensions of their decisions, and do their best to make fair choices. This is also the reason why an ethical leader is an «effective leader» (Ciulla, 1995). By emphasizing fair treatment, shared values, and integrity in common personnel and business transactions, ethical leaders inspire favorable behaviors among employees, encourage high levels of pride and commitment to the organisation, as well as influence the way employees perceive the work context (Piccolo, et al., 2010). In addition, Ethical leaders are an especially important source of observation and emulation as they are considered trustworthy, honest, and credible (Miao et al., 2020). Therefore, ethical behavior makes leaders legitimate and credible role models (Zhao et al., 2020).

2.3 Leadership Effectiveness

Leadership effectiveness is the outcome of the managerial process; leaders attempt to influence a group of employees to perform their roles and achieve positive organisational outcomes (Dhar and Mishra, 2001). Leader effectiveness plays a
significant role in stimulating employees’ willingness to exert themselves on the job and to cooperate towards a collective goal at the team or organisational level. Indeed, effective leadership is the capacity to affect, infect and infest followers through inspiration and not manipulation (Gyensare et al., 2019).

2.4 Ethical Leadership and Leadership Effectiveness

The financial crisis as well a series of business scandals (e.g. Enron, Volkswagen) have raised public concerns and have prompted researchers to rethink how leaders can strengthen employee’s loyalty to the organization. Leader behaviours contribute to explaining leader effectiveness. Several studies have associated leader effectiveness to ethical leadership behaviours (Marshall, 2012). Studies have shown that there is a clear coherence between the ethical values of practices and effective leadership, as it has been proven that values such as integrity, honesty, and humility have an impact on successful leadership (Reave 2005). On the basis of above theoretical and empirical studies, the following hypothesis can be stated:

HI: Ethical leadership is positively and significantly related to leadership effectiveness.

2.5 Ethical Leadership and Work Engagement

Work engagement is one of the major factors (or motivators) of productivity and performance (Den Hartog and Belschak, 2012; Gruman and Saks, 2011). Employees will be productive and perform well in the company when they are really engaged in the work. This means employees enjoy their work, are work-committed, more efficient and involved in their duties (Schaufeli and Bakker, 2004). Managers here play a vital role in keeping their direct reports engaged as well as in retaining them. It falls upon line managers to establish a lasting and meaningful relationship between their direct reports and the organization through themselves (Bratton, 2007). Therefore, while leadership is believed to be one of the most important factors contributing to work engagement (Zhu et al., 2009) few studies have considered the relationship between ethical leadership and work engagement, especially in SMEs.

Ethical leadership in social exchange terms, suggest that followers will reciprocate when treated ethically by leaders (Hansen et al., 2013). That means that employees in turn, will be more likely to put more effort in their work and become more engaged. Den Hartog and Belschak’s (2012) study confirmed that ethical leadership has a positive relationship on work engagement. According to the researchers, “emphasis on shared moral values and the honesty, caring and fairness modelled by ethical leaders will foster employees’ work engagement” (Den Hartog and Belschak, 2012). Similarly, Engelbrecht et al. (2014) found a positive relationship between ethical leadership and work engagement. Thus, the hypothesis can be stated as follows:
H2: Ethical leadership is positively and significantly related to employee’s work engagement.

2.6 Leadership Effectiveness and Work Engagement

Although there are limited studies in leadership effectiveness and work engagement relationships (Gyensare et al., 2019), we argue that leadership effectiveness, defined as the ability to engender positive perceptions of leader and elicit willingness to cooperate towards collective goals, seems to be positively related to work engagement. As mentioned above, Social Exchange theory highlights the principle of reciprocity, that is a good/bad deed by an exchange partner prompts the other to feel the obligation to reciprocate with positive/negative feelings and another good/bad deed (Wang and Xu, 2019; Rahn et al., 2016). Under the relational contract between employers and employees, when managers demonstrate behaviours that contribute positively to the organisation, a system is created where employees perceive the work environment as supportive and in return exchange this perception with high involvement in work practices and cooperative behaviours that inures to the benefit of the firm (Gyensare et al., 2019). Thus, the hypothesis can be stated as follows:

H3: Leadership effectiveness is positively and significantly related to employee’s work engagement.

2.7 Work Engagement and Employee Turnover

An engaged workforce ensures lower turnover and a greater ease in attracting talent, building a knowledge base and gaining competitive advantage (Albrecht et al., 2015). Engaged employees are more likely to remain with their current employer (Shuck and Reio, 2014) while disengaged employees’ intent to leave their organizations. Similarly, Swathi (2014) argues that employee engagement leads to fewer instances of attrition and absenteeism. This observed behavior arises out of the fact that engaged employees are interested in performing their jobs. These employees demonstrate a common belief/perception that their work influences the organization’s outcomes and performance. EShahpouri et al. (2015) found a direct effect of work engagement on turnover. This is also evidenced by Halbesleben's (2010) meta-analysis which indicated a significant relationship between engagement and intention to quit. Thus, the hypothesis can be stated as follows:

H4: Work engagement is negatively and significantly related to employee turnover intention.

2.8 Proposed Research Model

Following the previous discussion, and the proposed hypotheses, the research model (Conceptual Framework) is presented in Figure 1. According to our proposed model,
a type of leadership which is both ethical and effective at the same time is likely to create a productive, ethical and trusting work climate conducive to the work engagement of employees and therefore reduce turnover. It should be underlined that, according to the best of the researcher’s knowledge, such a conceptual framework (combination of research factors) has never been previously examined in the international literature. Moreover, as pinpointed above, research on ethical leadership in SMEs is still lacking.

**Figure 1. The proposed conceptual framework of the study**

![Diagram of the conceptual framework](source)

*Source: Own study.*

### 3. Research Methodology

#### 3.1 Research Method, Study Population and Sample

The present study is empirical (it is based on primary data), explanatory (examines cause and effect relationships), deductive (tests research hypotheses) and quantitative (includes the analysis of quantitative data collected with the use of a structured questionnaire). The proposed conceptual framework (research model) of the present study was tested using a structured questionnaire addressed to a number of employees in two different countries (Colombia and Greece). The questionnaire-approach was chosen because it is one of the most common, valid and reliable methods of written communication between researchers and research subjects, while it is also anonymous.

The target-population of the present study consisted of employees working in Colombia and Greek SMEs (all of these employees have an immediate supervisor). For both countries, SMEs are considered the backbone of their economy, sharing similar characteristics: in Colombia SMEs are employing 80.8% of the country’s workforce (Cardoza et al., 2016) while in Greece they generate 85.2% of total employment (Psomas et al., 2018).
3.2 Measures

A structured questionnaire was constructed in the basis of an extensive literature review. In particular, ethical leadership was measured using the Ethical Leadership scale (ELS) adopted from Brown et al. (2005). Participants were asked to rate their direct supervisors’ ethical behaviour (their immediate authority figure who sets expectations, model behaviour, and manage their daily performance) on a five-point Likert scale, ranging from 1 (strongly disagree) to 5 (strongly agree). Leader Effectiveness (Multifactor Leadership Questionnaire) scale (Avolio and Bass, 2004) was used in order to measure the effectiveness of leaders. Responders were asked to indicate their degree of agreement on each item (question), again using a five-point Likert-type scale (1 strongly disagree to 5 strongly agree). Work Engagement was measured using the shortened version of the Work Engagement Scale (WES) created by Schaufeli and Bakker (2004). The scale uses a seven-point Likert scale with categories related to feelings about the respondent’s job: 0 (never), 1 (almost never), 2 (rarely), 3 (sometimes), 4 (often), 5 (very often) and 6 (always). Finally, intention to leave was measured by capturing participants’ responses to items adopted from Meyer et al. (1993) on a five-point Likert scale (1 strongly disagree to 5 strongly agree).

The questions were translated into Spanish and Greek. In total, the questionnaire measured 4 factors, using 25 items. Besides the measurement of the factors, the questionnaire contained one more section, which included demographic information about the respondent. The questionnaire items were reviewed and (slightly) modified by three academics. Table 1 demonstrates the four (4) factors measured in the research, the items used for their measurement and the studies from which they were adapted.

| Factors               | Number of Items | Adapted from:         |
|-----------------------|-----------------|-----------------------|
| Ethical Leadership    | 9               | Brown et al., 2005    |
| Leadership Effectiveness | 4             | Avolio and Bass, 2004 |
| Work Engagement       | 9               | Schaufeli & Bakker, 2004 |
| Turnover Intention    | 3               | Meyer et al., 1993    |

Source: Own study.

3.3 Data Collection

The questionnaire was uploaded online, via Google Forms, and was shared to Colombian and Greek blogs and other social media platforms, that were related to employment, business, professional development and similar content that may relate to the selected sample. This procedure took place over the course of 6 weeks (February–March 2020) and resulted in the collection of 588 valid questionnaires.
3.4 Validity and Reliability

During the validity test, each of the research factors was evaluated for its unidimensionality and reliability (Table 2). The examination of the unidimensionality was conducted with the use of Explanatory Factor Analysis. The following measures were examined (Fabrigar and Wegener, 2011): (1) ‘Bartlett’s test of Sphericity’, (2) the statistical test of ‘Kaiser-Mayer-Olkin’ (KMO), (3) the criterion of ‘eigenvalue’, (4) the factor loadings, (5) the statistical measure ‘Cronbach Alpha’ (for estimating the reliability of every factor). All appropriate tests (presented in Table 2) concluded that the scales that were used for the measurement of all the research factors of this study are valid and reliable.

Table 2. Mean scores, validity and reliability

| Factors          | KMO  | Bartlett’s Test | Eigenvalue | TVE  | Factor Loadings                  | Cronbach Alpha |
|------------------|------|-----------------|------------|------|----------------------------------|----------------|
| Ethical leadership | 0.933 | 3507.36 p = 0.000 | 5.826      | 64.7% | 0.719/ 0.806/ 0.844/ 0.837/ 0.853/ 0.884/ 0.891/ 0.782/ 0.577 | 0.929          |
| Leadership effectiveness | 0.840 | 1422.03 p = 0.000 | 3.117      | 77.9% | 0.890/ 0.883/ 0.849/ 0.908 | 0.904          |
| Work engagement  | 0.944 | 4629.27 p = 0.000 | 6.508      | 72.3% | 0.868/ 0.881/ 0.925/ 0.917/ 0.866/ 0.837/ 0.869/ 0.762/ 0.704 | 0.949          |
| Turnover intention | 0.714 | 1187.72 p = 0.000 | 2.526      | 84.1% | 0.930/ 0.874/ 0.947 | 0.906          |

Source: Own study.

4. Empirical Results

4.1 Demographics

The last section of the questionnaire contained questions asking the demographic characteristics of the employees who participated in the research. The demographic characteristics are presented in Table 3. In total, 550 questionnaires were collected, 55.3% of which were submitted by Colombian employees, while the rest were filled out by Greek employees (44.7%). The sample consists of a roughly equal number of male and female participants (47.3% and 51.5% respectively, with 1.3% preferring not to say). Participants involved had different levels of educational background (with 11.3% having finished Primary/Secondary school, 22.1% High School, 27.4% Vocational Technical School/ College, 27.6% University degree, 11.5% Post-Graduate degree).

Furthermore, working years of experience for a quarter of the participants (24.5%) were more than 15. For those with 11-15 years of work experience the percentage was 16.5% with the ones with 6-10 years of working experience accumulating the other quarter of the study (26.5%). Finally, 32.4% of participants had the least
experience of 1 to 5 years of work.

Table 3. Demographic questions - Frequencies

| Demographic questions | Frequency | Percent | Valid Percent |
|-----------------------|-----------|---------|---------------|
| Country               |           |         |               |
| Greece                | 246       | 44.7%   | 44.7%         |
| Colombia              | 304       | 55.3%   | 55.3%         |
| Total                 | 550       | 100.0%  | 100.0%        |
| Gender                |           |         |               |
| Male                  | 259       | 47.1%   | 47.3%         |
| Female                | 282       | 51.3%   | 51.5%         |
| Prefer not to say     | 7         | 1.3%    | 1.3%          |
| Total                 | 548       | 99.6%   | 100.0%        |
| Missing               | 2         | 0.4%    |               |
| Total                 | 550       | 100.0%  |               |
| Educational level     |           |         |               |
| Primary / Secondary School | 62 | 11.3%  | 11.3%         |
| High School           | 121       | 22.0%   | 22.1%         |
| Vocational Technical School | 150 | 27.3%  | 27.4%         |
| University degree     | 151       | 27.5%   | 27.6%         |
| Post-graduate degree  | 63        | 11.5%   | 11.5%         |
| Total                 | 547       | 99.5%   | 100.0%        |
| Missing               | 3         | 0.5%    |               |
| Total                 | 550       | 100.0%  |               |
| Years of working experience | 188 |         |               |
| 1-5                   | 178       | 32.4%   | 32.4%         |
| 6-10                  | 146       | 26.5%   | 26.5%         |
| 11-15                 | 91        | 16.5%   | 16.5%         |
| More than 15          | 135       | 24.5%   | 24.5%         |
| Total                 | 550       | 100.0%  | 100.0%        |

Source: Own study.

4.2 Mean Scores and Comparison of Means

The mean score of ethical leadership and leadership effectiveness was over the value of 3 (on a five-point Likert scale with 5 being the peak point of agreement) and the mean score of work engagement was over the value of 5,0 (on a seven-point Likert scale using 7 this time as the peak point of frequency). Turnover intention had a mean score below 3,0 (on a five-point Likert- scale, with 1,0 being the lowest value with turnover intention).

It could be argued that most of the leaders that were evaluated from the employees of our sample are relatively ethical and effective. Thus, people are influenced to perform their roles in an ethical way with positive organisational outcomes (Table 4).
The Effect of Ethical Leadership and Leadership Effectiveness on Employee’s Turnover Intention in SMEs: The Mediating Role of Work Engagement

**Table 4. Mean scores**

| Factors                | Mean  | Std. Deviation |
|------------------------|-------|----------------|
| Ethical leadership     | 3.811 | 0.976          |
| Leadership effectiveness| 3.933 | 0.973          |
| Work engagement        | 5.758 | 1.191          |
| Turnover intention     | 2.393 | 1.359          |

*Note:* *Measured in a 5-point Likert scale / **Measured in a 7-point Likert scale*  
Source: Own study.

Moreover, the analysis of variance (ANOVA) tested the relationship between research factors and the country of origin of the participants. Table 5 shows the differences between the two countries.

**Table 5. Statistically significant differences in the mean factor scores**

| Factors                | N    | Mean  | Std. Deviation | Sig.  |
|------------------------|------|-------|----------------|-------|
| Ethical Leadership     |      |       |                |       |
| Greece                 | 246  | 3.403 | 0.957          | 0.000 |
| Colombia               | 304  | 4.140 | 0.861          |       |
| Total                  | 550  | 3.811 | 0.976          |       |
| Leadership effectiveness|      |       |                |       |
| Greece                 | 246  | 3.574 | 0.989          | 0.000 |
| Colombia               | 304  | 4.223 | 0.858          |       |
| Total                  | 550  | 3.933 | 0.973          |       |
| Work engagement        |      |       |                |       |
| Greece                 | 246  | 5.181 | 1.328          | 0.000 |
| Colombia               | 304  | 6.225 | 0.809          |       |
| Total                  | 550  | 5.758 | 1.191          |       |
| Turnover intention     |      |       |                |       |
| Greece                 | 246  | 2.677 | 1.367          | 0.000 |
| Colombia               | 304  | 2.162 | 1.311          |       |
| Total                  | 550  | 2.393 | 1.359          |       |

Source: Own study.

As seen in Table 5, managers of SMEs in Colombia seem to demonstrate higher levels of ethical behaviours (mean score 4.14) in relation to managers from Greece (mean score 3.40). The factors deviations are low and therefore there is little dispersion in the responses. These behaviours may range from discussing business ethics or values with subordinates to defining success not only just by results but also by the way they are obtained. Similar results can be seen in leadership effectiveness. With respect to the factor of work engagement, the country with the highest mean score is Colombia with a 6.22 followed by Greece with a 5.18. In this factor Greece obtains a higher dispersion with 1.32 standard deviation. Finally, concerning the turnover intention factor, the country with the highest mean score is Greece with 2.67 followed by Colombia with 2.16 (the higher the values, the bigger the intention to quit the job). There is relatively small difference between countries in this case. Furthermore, this factor obtained the highest levels of dispersion, many respondents did not coincide on their answers.

**4.3 Hypotheses Testing**

The examination of the proposed conceptual framework (test of four research
hypotheses) was conducted using the Structural Equation Modelling technique (SEM). In more detail, the (modified) structural model fitted the data well, while the factors that were included can explain 44.3% of the variance of the main dependent factor “turnover intention” and 37.3% of the dependent factor “work engagement”. It must be stressed that a new path was added to the model, based on modification indexes of IBM AMOS 23. This resulted in a structural model with improved fit and explanatory (predictive) power. As it is shown in table 6, all extracted fit values are within acceptable levels. Table 6 also demonstrates the overall findings concerning the original hypotheses and the new proposed causal relationship while Table 7 shows the direct, indirect and total effects between research factors. Figure 2 demonstrates the final structural model (research model) (after all the necessary modifications), along with the path coefficients (r) and the adjusted $R^2$ scores. In synopsis, results offer support to all 4 research hypotheses (H1, H2, H3, H4).

**Table 6. SEM Results**

| Model Fit Summary | Squared Multiple Correlations ($R^2$) |
|-------------------|-------------------------------------|
| Sig. (p)          | 0.918                               |
| RMR               | 0.001                               |
| GFI               | 0.997                               |
| CFI               | 0.996                               |
| RMSEA             | 0.007                               |

| Path                              | r         | p       | Result                 |
|-----------------------------------|-----------|---------|------------------------|
| Ethical leadership → Leadership effectiveness | 0.847     | 0.000   | Supported              |
| Ethical leadership → Work engagement | 0.335     | 0.000   | Supported              |
| Leadership effectiveness → Work engagement | 0.300     | 0.000   | Supported              |
| Work engagement → Turnover intention | -0.508    | 0.000   | Supported              |
| Ethical leadership → Turnover intention | -0.224    | 0.000   | New Path               |

**Source:** Own study.

**Table 7. Direct, Indirect and Total effects between Research Factors**

| Path                              | Ethical leadership | Leadership effectiveness | Work engagement |
|-----------------------------------|--------------------|--------------------------|-----------------|
| Direct                            | 0.847              | 0.000                    | 0.000           |
| Indirect                          | 0.000              | 0.000                    | 0.000           |
| **Total**                         | **0.847**          | **0.000**                | **0.000**       |
| Direct                            | 0.335              | 0.300                    | 0.000           |
| Indirect                          | 0.254              | 0.000                    | 0.000           |
| **Total**                         | **0.589**          | **0.300**                | **0.000**       |
| Direct                            | -0.224             | 0.000                    | -0.508          |
| Indirect                          | -0.299             | -0.152                   | 0.000           |
| **Total**                         | **-0.524**         | **-0.152**               | **-0.508**      |

**Source:** Own study.
In more detail, ‘ethical leadership’ has a strong significant effect on ‘leadership effectiveness’ (r=0.85). The results also indicate that ‘ethical leadership’ and ‘leadership effectiveness’ significantly impact ‘work engagement’ (r=0.33 and r=0.30 respectively). Additionally, ‘ethical leadership’ has a moderate significant indirect effect on ‘work engagement’ (r=0.25), through its positive relationship with ‘leadership effectiveness’ and a moderate significant direct effect on ‘turnover intention’ (r=−0.22, new path). Finally, ‘work engagement’ has a strong and significant direct effect on ‘turnover intention’ (r=−0.51). In conclusion, the measured constructs present strong relationships as proposed in the conceptual model.

5. Discussion

The central aim of this research was to explore the effects of ethical leadership and leadership effectiveness on turnover intention. Furthermore, this study sought to examine the mediating role of work engagement in these relationships. Using a sample of SMEs employees in Greece and Colombia, we tested our research hypotheses by conducting SEM. In general, the results from this study provide credible evidence that ethical leadership and leadership effectiveness are important elements for SMEs with a significant effect (both direct and indirect) on employee retention. Results also showed that as hypothesised, work engagement mediated the effects of ethical leadership and leadership effectiveness on turnover intention.

5.1 Practical Implications

The findings of this research can have important implications for organisations, as managers of SMEs are important sources for organisational success. Our results demonstrate that a leadership approach which is both ethical and effective at the
same time is likely to create a productive, ethical and trusting work climate conducive to the work engagement of employees and therefore reduce turnover. Similarly, Demirtas and Akdogan’s (2015) study concludes that ethical leadership behavior spreads through the work context and the process of social contagion in order to shape the ethical climate, which, in turn, contributes to organizational members’ commitments to their organizations and less turnover intention as a whole.

Thus, SMEs may consider hiring more ethical managers, providing training to existing managers or business owners and aligning performance appraisal with ethics. In the family SMEs context this can be even more complicated because the majority of the employees usually face a particularly ambiguous situation, since they are part of the business, but not of the family system (Barnett and Kellermanns, 2006). For instance, by integrating ethical dimensions into their selection techniques, like behavioral / situational questions assessing integrity or psychometric testing (even gamification software) assessing values, SMEs could select ethical leaders. In addition, ethical leadership is behavioural and as such can be developed by creating ethical leadership training programmes that better simulate the actual environment where ethical decisions are made is important. Moreover, ethics can also be woven into the design of performance evaluations to highlight their importance to an organization as well to reward and encourage good behaviour (Epley and Kumar, 2019).

Managers should also understand that establishing an ethical climate and by appreciating and enhancing ethical decision making they can be more effective in their firms and hence obtain a strong competitive advantage, particularly in the SMEs sector that is faced with internationalization of competition and economic turmoil. This combination of ethical leadership and ethical effectiveness leads to elevated levels of work engagement. Engaged employees are crucial simply because managers get results through people.

These results are especially significant for all those micro and small companies with limited financial resources, which constitute the basis and most significant portion of the Colombian and Greek economy, since ethical leadership is usually related with more value-related and often cost-effective ways that may supplement, to an extent, high cost work engagement practices or compensation systems that will make people stay in their job. These may include an increased sense of transparency and fairness that can build trust, supportive communication and clarification of work expectations and ethical standards.

Finally, as organizations wrestle to guide their way through the Covid-19 pandemic, leaders may have an opportunity to apply ethical values in different situations like downsizing, work-life balance or employee support. In terms of downsizing, besides the effects on talent retainment that can spring into action when things recover there is also the effect of job loss to physical and mental health during an extremely difficult period. In terms of work-life balance and employee support, better
prioritization helps employees focus on what matters most, both personally and professionally, and clears away distractions (Pfeffer, 2020).

5.2 Limitations and Future Research Directions

Considering the limitations, the results of this study suggest a number of avenues for future research. This study has a relatively small sample size mainly due to the coronavirus pandemic spread in the countries that the research was held. Therefore, the results that pinpoint the differences between countries cannot be generalized. Another limitation involves the fact that this research was held in just two different countries because these countries share similar characteristics in SMEs. Future research may repeat and continue this study with the proposed new relationships within a wider context (larger sample, different countries).

Future researches can test the proposed relationships to large size firms for which differentiations in the results may arise. Furthermore, while this study represents an attempt to highlight some of the factors that play their own role as ethical leadership outcomes it is quite logical that it cannot be adequate in providing a holistic picture. Additional contextual variables should be examined to understand whether ethical leadership impacts turnover intention through more than just work engagement. For example, other factors like motivation, identification, trust and workplace spirituality, may be explored. Additionally, on a global scale, cultural differences in how people perceive and respond to ethical leadership should be identified.

References:

Ahmad, S., Fazal-E-Hasan, S., Kaleem, A. 2018. How ethical leadership stimulates academics retention in universities. International Journal of Educational Management, 32(7), 1348-1362.

Albrecht, S., Bakker, A., Gruman, J., Macey, W., Saks, A. 2015. Employee engagement, human resource management practices and competitive advantage. Journal of Organisational Effectiveness, 2(1), 7-35.

Avolio, B., Bass, B. 2004. Multifactor Leadership Questionnaire. Manual and sampler set. Redwood City, CA, Mind Garden.

Barnett, T., Kellermanns, F. 2006. Are we family and are we treated as family? Non-family employees’ perceptions of justice in the family firm. Entrepreneurship Theory and Practice 30(6), 837-854.

Biswa, S., Bhatnagar, J. 2013. Mediator analysis of employee engagement: Role of perceived organisational support, P-O fit, organisational commitment and job satisfaction. Vikalpa: The Journal for Decision Makers, 38, 27-40.

Boushey, H., Glynn, S. 2012. There are Significant Business Costs to Replacing Employees. Center for American Progress, 16. Retrieved from: https://www.americanprogress.org/wp-content/uploads/2012/11/CostofTurnover.pdf.

Bratton, J. 2007. Strategic human resource management. In Bratton, J. and Gold, J. (Eds), Human Resource Management, 37-71.
Brown, M., Trevino, L., Harrison, D. 2005. Ethical leadership: A social learning perspective for construct development and testing. Organizational Behaviour and Human Decision Processes 97(2), 117-134.

Cardoza, G., Fornes, G., Farber, V., Duarte, R.D., Gutierrez, J.R. 2016. Barriers and public policies affecting the international expansion of Latin American SMEs: Evidence from Brazil, Colombia, and Peru. Journal of Business Research, 69(6), 2030-2039.

Ciulla, J. 1995. Leadership ethics: Mapping the territory. Business Ethics Quarterly, 5(1), 5-28.

Demirtas, O., Akdogan, A. 2015. The Effect of Ethical Leadership Behavior on Ethical Climate, Turnover Intention and Affective Commitment. Journal of Business Ethics 130(1), 59-67.

Den Hartog, D., Belschak, F. 2012. Work engagement and Machiavellianism in the ethical leadership process. Journal of Business Ethics, 107, 3547.

Dhar, U., Mishra, P. 2001. Leadership effectiveness: A study of constituent factors. Journal of Management Research, 1(4), 254-263.

Elçi, M., Şener, I., Aksoy, S., Alpkan, L. 2012. The Impact of Ethical Leadership and Leadership Effectiveness on Employees’ Turnover Intention: The Mediating Role of Work-Related Stress. Procedia - Social and Behavioral Sciences, 58, 289-297.

Engelbrecht, A., Heine, G., Mahembe, B. 2014. The influence of ethical leadership on trust and work engagement: An exploratory study. SA Journal of Industrial Psychology, 40(1), 1-9.

Epley, N., Kumar, A. 2019. How to Design an Ethical Organization. Harvard Business Review, May-June Issue. Retrieved from: https://hbr.org/2019/05/how-to-design-an-ethical-organization.

Fabrigar, L., Wegener, D. 2011. Exploratory factor analysis. Oxford University Press, UK.

Govaerts, N., Kyndt, E., Dochy, F., Baert, H. 2011. Influence of learning and working climate on the retention of talented employees. Journal of Workplace Learning 23(1), 35-55.

Griffeth, R., Hom, P., Gaertner, S. 2000. A meta-analysis of antecedents and correlates of employee turnover: Update, moderator tests, and research implications for the next millennium. Journal of Management, 26, 463-488.

Gruman, J., Saks, A. 2011. Performance management and employee engagement. Human Resource Management Review, 21, 123-136.

Gyensare, M., Arthur, R., Twumasi, E., Agyapong, J. 2019. Leader effectiveness: the missing link in the relationship between employee voice and engagement. Cogent Business & Management 6(1), 1634910.

Halbesleben, J. 2010. A meta-analysis of work engagement: Relationships with burnout, demands, resources and consequences. In A. Bakker and M.P. Leiter (Eds.), Work engagement: Recent developments in theory and research, 102-117, Routledge.

Hansen, S., Alge, B., Brown, M., Jackson, C., Dunford, B. 2013. Ethical leadership: assessing the value of a multifoci social exchange perspective. Journal of Business Ethics, 115(3), 435-449.

Lacerda, T. 2015. Understanding Leadership Effectiveness in Organizational Settings: An Integrative Approach in School of Economics and Management. Universidade de Lisboa ISEG, School of Economics and Management.

Lin, C., Liu, M. 2017. Examining the effects of corporate social responsibility and ethical leadership on turnover intention. Personnel Review, 46(3), 526-550.
Madanchian, M., Hussein, N., Taherdoost, H. 2016. The Relationship between Ethical Leadership, Leadership Effectiveness and Organizational Performance: A Review of Literature in SMEs. Context, European Business & Management 2(2), 17-21.

Marshall, A. 2012. Ethical Leadership, Prototypicality, Integrity, Trust, and Leader Effectiveness, in School of Global Leadership & Entrepreneurship. Regent University.

Meyer, J., Allen, N., Smith, C. 1993. Commitment to organizations and occupations: extension and test of a three-component conceptualization. Journal of Applied Psychology, 4, 538-551.

Miao, Q., Eva, N., Newman, A., Nielsen, I., Herbert, K. 2020. Ethical Leadership and Unethical Pro-Organisational Behaviour: The Mediating Mechanism of Reflective Moral Attentiveness. Applied Psychology, 69(3), 834-853.

Palanski, M., Avey, J., Jiraporn, N. 2014. The effects of ethical leadership and abusive supervision on job search behaviors in the turnover process. Journal of Business Ethics, 121(1), 135-146.

Pfeffer, J. 2020. COVID-19 changes everything and nothing about managing workers. Rework Retrieved from: https://www.cornerstoneondemand.com/rework/learning-corner-jeffrey-pfeffer-covid-19-changes-everything%E2%80%94and-nothing%E2%80%94about-managing-workers.

Piccolo, R., Greenbaum, R., Den Hartog, D., Folger, R. 2010. The relationship between ethical leadership and core job characteristics. Journal of Organizational Behavior 31, 259-278.

Psomas, E., Antony, J., Bouranta, N. 2018. Assessing lean adoption in food SMEs: evidence from Greece. International Journal of Quality & Reliability Management, 35(1), 64-81.

Rahn, D., Jawahar, J., Scrimshire, A., Stone, T. 2016. Are leaders defined by followers? Role of followers’ ILT and the mediating influence of MLX on follower outcomes. Journal of Organisational Effectiveness: People and Performance, 3(1), 1-46.

Reave, L. 2005. Spiritual values and practices related to leadership effectiveness. The Leadership Quarterly, 16, 655-687.

Schaufeli, W., Bakker, A. 2004. Job demands, job resources and their relationship with burnout and engagement: A multi-sample study. Journal of Organizational Behavior, 25, 293-315.

Shahpouri, S., Namdari, K., Abedi, A. 2015. Mediating role of work engagement in the relationship between job resources and personal resources with turnover intention among female nurses. Applied Nursing Research, 30, 216-221.

Shareef, R., Atan, T. 2019. The influence of ethical leadership on academic employees. Organizational citizenship behavior and turnover intention: mediating role of intrinsic motivation. Management Decision, 57(3), 583-605.

Shuck, B., Reio, T. 2014. Employee Engagement and Well-Being: A Moderation Model and Implications for Practice. Journal of Leadership & Organizational Studies, 21(1), 43-58.

Swathi, B. 2014. A Comprehensive Review on Human Resource Management Practices. International Journal of Business and Management, 2(5), 183-187.

Wang, Y., Yang, C. 2016. How Appealing are Monetary Rewards in the Workplace? A Study of Ethical Leadership, Love of Money, Happiness and Turnover Intention. Social Indicators Research, 129(3), 1277-1290.

Wang, Z., Xu, H. 2019. When and for Whom Ethical Leadership is More Effective in Eliciting Work Meaningfulness and Positive Attitudes: The Moderating Roles of
Core-Self Evaluation and Perceived Organisational Support. Journal of Business Ethics, 156(4), 919-940.

Worldbank, 2020. Small and medium enterprises (SMES) finance, improving SMEs’ access to finance and finding innovative solutions to unlock sources of capital. Retrieved from: https://www.worldbank.org/en/topic/smefinance.

Zhao, J., Sun, W., Zhang, S., Zhu, X. 2020. How CEO Ethical Leadership Influences Top Management Team Creativity: Evidence from China. Frontiers in Psychology, 11, https://doi.org/10.3389/fpsyg.2020.00748.

Zhao, Y., Li, M. 2012. The research on the relationship between the job burnout and turnover intention of post 80s knowledge workers in business: Perceived organisational support as moderator”, Shanghai Management Science, 34(3), 75-79.

Zhu, W., Avolio, B., Walumbwa, F. 2009. Moderating role of follower characteristics with transformational leadership and follower work engagement. Group & Organisation Management, 34, 590-619.