

**UNIVERSITY OF KWAZULU-NATAL**

**ETHICAL LEADERSHIP AND FINANCIAL PERFORMANCE: A CASE STUDY OF  
HARRY GWALA DISTRICT MUNICIPALITY IN THE KWAZULU- NATAL  
PROVINCE**

**By  
Thobeka MAHLABA**

**213568467**

**A dissertation in fulfilment of the requirements for the degree of Master of Administration**

**School of Management, IT and Governance**

**College of Law and Management Studies**

**Supervisor: Professor TI Nzimakwe**

**June 2019**

## ABSTRACT

This qualitative phenomenological descriptive research study investigated the financial objectives of Harry Gwala District Municipality (HGDM) and the perceptions of leadership ethics at the municipality. The study also examined the contribution of unethical practices towards the financial performance of HGDM as well as the role of ethical leadership on the financial performance of a municipality. The research employed semi-structured interviewing of senior managerial staff at HGDM as a data collection method which involved the use of an interview guide which contained open-ended questions that allowed respondents to comprehensively provide explanations to the research questions. This allowed respondents the opportunity to explain themselves in detail. Purposive and convenience sampling was employed to select the research participants namely, the senior managerial staff at HGDM. Data for this research was analysed through thematic analysis and the findings presented using NVIVO style diagrams. The main findings from this research showed that the key financial objectives of the municipality are mainly achieving financial spending in accordance with authorised budgetary objectives and according to organisational policies and procedures. The findings further revealed that respondents had a predominantly positive perception of the existence of ethical leadership whilst unethical practices were blamed for contributing towards failure to achieve budgetary objectives, budget deficits and adverse audit reports whilst ethical leadership contributed to positive financial performance. The findings demonstrated that the effectiveness of ethical leadership is hindered by challenges such as the management being found to be monitoring and their subordinates in an effective way coupled supervising ineffective manner coupled with inconsistencies in the enforcement of disciplinary sanctions, low level employee skills, high immorality among staff, declining levels of employee motivation, inappropriate attitudes towards conforming to internal controls and the overriding of internal controls.

The implications of these findings for the senior management at HGDM are that there is a need to continuously strengthen the existing internal controls followed by consistent enforcement and compliance for the achievement of higher levels of financial performance.

## DECLARATION

I, **Thobeka MAHLABA**, declare that

- (i) The research reported in this dissertation, except where otherwise indicated, is my original research.
- (ii) This dissertation has not been submitted for any degree or examination at any other university.
- (iii) This dissertation does not contain any other person's data, pictures, graphs or other information, unless specifically acknowledged as being sourced from other persons.
- (iv) This dissertation does not contain any other person's writing, unless specifically acknowledged as being sourced from other researchers. Where other written sources have been quoted, then:
  - a) their words have been re-written but the general information attributed to them has been referenced;
  - b) where their exact words have been used, their writing has been placed inside quotation marks and referenced.
- (v) This dissertation does not contain text, graphics or tables copied and pasted from the Internet, unless specifically acknowledged and the source being detailed in the dissertation and in the References section.

Signature: \_\_\_\_\_



Date: \_\_\_\_\_

25 / 03 / 2020

## ACKNOWLEDGEMENTS

I would like to thank the following people for their input and support, in making this research project a success:

- My supervisor, Prof TI Nzimakwe, for his guidance, support, encouragement and professional advice, I thank him so much;
- My colleague and also PhD candidate in Public Administration Miss Nobuhle Nkabane for her unwavering support and motivation;
- My family for their unconditional love, motivation and support;
- My friends for their encouragement and moral support;
- All those who I may have accidentally omitted;
- All the people who assisted me in compiling this study;
- I am very grateful to the Lord, our Father, for the strength and courage that he has given to me which was very fundamental for the completion of this study.



## TABLE OF CONTENTS

ABSTRACT.....	i
DECLARATION .....	ii
ACKNOWLEDGEMENTS .....	iii
TABLE OF CONTENTS.....	iv
LIST OF FIGURES .....	ix
LIST OF ACRONYMS .....	x
CHAPTER ONE .....	1
INTRODUCTION AND BACKGROUND TO THE STUDY .....	1
1.1 Introduction .....	1
1.2 Background of the Study .....	1
1.3 Statement of the Problem .....	2
1.4 Purpose of this Study.....	2
1.5 Research Aims.....	3
1.6 Research Questions .....	4
1.7 Literature Review .....	4
1.8 Ethical Leadership and Financial Performance Conceptual Framework .....	5
1.9 Research Methodology.....	5
1.10 Significance of the Study .....	6
1.11 Justification of the Study .....	6
1.12 Structure of the Dissertation.....	6
1.13 Conclusion.....	7
CHAPTER TWO .....	8
LITERATURE REVIEW .....	8

2.1 Introduction .....	8
2.2 Key Concepts .....	8
2.2.1 Ethical Leadership .....	8
2.2.2 Financial Performance .....	9
2.2.3 Financial Objectives of a Municipality .....	10
2.3 Ethical Leadership and Financial Performance Conceptual Framework .....	10
2.3.1 Perceptions.....	10
2.3.2 Challenges .....	11
2.3.3 Effectiveness.....	12
2.3.4 Strategies .....	13
2.4 Ethical Leadership and Public Perceptions .....	13
2.5 Challenges Hindering the Effectiveness of Ethical Leadership at Harry Gwala District Municipality .....	13
2.5.1 Internal Control Deficiencies.....	13
2.5.2 Declining Employee Morale and Creativeness .....	16
2.5.3 Unfavourable Ethical Atmosphere .....	16
2.5.4 Limitations in the Public Finance Management Regulatory Framework.....	17
2.5.5 Budgetary Constraints .....	19
2.5.6 Lack of Organisation-Wide Commitment to Ethics .....	19
2.6 Contribution of Unethical Practices towards the Financial Performance of a Municipality .....	20
2.7 Effectiveness of Ethical Leadership in Terms of Achieving Positive Financial Performance .....	20
2.7.1 Leader Humane Orientation and Firm Performance .....	23
2.7.2 Ethical Leadership, Internal Controls and Financial Performance.....	24
2.7.3 Relationship between Ethical Leadership, Accountability and Financial Performance	25

2.7.4 Relationship between Ethical Leadership, Passion for Work and Organisational Performance.....	28
2.7.5 Relationship between Ethical Leadership, Psychological Capital and Organisational Financial Performance .....	31
2.7.6 Relationship between Ethical leadership, Passion for Work and Psychological Capital .....	35
2.7.7 Relationship between Ethical Leadership and Proactive Behaviour .....	36
2.7.8 Ethical Leadership, Employee Engagement and Organisational Performance .....	37
2.8 Strategies to Inculcate Ethical Practices in an Organisation .....	38
2.8.5 Performance Management Systems.....	42
2.9 Conclusion.....	42
CHAPTER THREE .....	43
RESEARCH METHODOLOGY.....	43
3.1 Introduction .....	43
3.2 Research Approach .....	43
3.3 Research Design.....	43
3.4 Research Strategy .....	46
3.4.1 Interviews .....	46
3.5 Adopted Research Strategy .....	46
3.6 Population and Sampling .....	47
3.6.1 Target population.....	47
3.6.2 Sampling.....	47
3.6.3 Sample Size .....	48
3.7 Data Collection Instrument .....	48
3.8 Data Quality Control (Reliability and Validity).....	49
3.9 Data Analysis Techniques.....	52



3.10 Limitations of the Study .....	53
3.10.1 Delimitation of the Study .....	53
3.10.2 Elimination of Bias .....	54
3.11 Ethical Considerations.....	54
3.11.1 Confidentiality and Anonymity .....	54
3.11.2 No harm to Participants .....	54
3.11.3 Informed Consent .....	55
3.12 Conclusion.....	55
CHAPTER FOUR.....	56
RESEARCH RESULTS, INTERPRETATION AND DISCUSSION OF FINDINGS .....	56
4.1 Introduction .....	56
4.2 Findings on the financial objectives of HGDM .....	57
4.4 Findings on Challenges at HGDM hindering the Effectiveness of Ethical Leadership .....	61
4.5 Findings on the Contribution of Unethical Practices towards the Financial Performance of HGDM.....	67
4.6 Findings on the Role of Leadership towards Ensuring the Financial Performance of HGDM .....	70
4.7 Conclusion.....	73
CHAPTER FIVE .....	75
CONCLUSIONS AND RECOMMENDATIONS .....	75
5.1 Introduction .....	75
Research Aims.....	75
Research Questions .....	76
5.2 Findings from the Study.....	76
5.2.1 Findings from Literature Review .....	76
5.2.2 Findings from Primary Study .....	79

5.3 Conclusions of the Study.....	81
5.3.1 Conclusions on the Financial Objectives of the financial objectives of HGDM.....	81
5.3.2 Conclusions on the Perceptions of Leadership Ethics at the financial objectives of HGDM.....	82
5.3.3 Conclusions on the Challenges at the financial objectives of HGDM Hindering the Effectiveness of Ethical Leadership .....	82
5.3.4 Conclusions on the Contribution of Unethical Practices towards the Financial Performance of HGDM .....	82
5.3.4 Conclusions on the Role of Ethical Leadership on the Financial Performance of a Municipality.....	83
5.4 Convergence and Divergence of the Literature and Qualitative Data .....	83
5.5 Overall Conclusions of the Study.....	84
5.6 Recommendations of the Study .....	84
5.7 Scope for Further Research .....	85
5.8 Chapter and Overall Study Conclusion .....	85
References.....	87



## LIST OF FIGURES

Figure 4.1: Findings on the financial objectives of HGDM .....	57
Figure 4.2: Findings on respondent perception of ethical leadership at HGDM.....	60
Figure 4.3: Findings on the Challenges at HGDM hindering the Effectiveness of Ethical Leadership.....	62
Figure 4.4: Findings on the contribution of unethical practices towards the financial performance of HGDM.....	67
Figure 4.5: Findings on the role of leadership towards ensuring the financial performance of HGDM .....	71

## **LIST OF ACRONYMS**

AG	Auditor-General
HGDM	Harry Gwala District Municipality
KZN	KwaZulu-Natal
MFMA	Municipal Finance Management Act
SA	South Africa

## **CHAPTER ONE**

### **INTRODUCTION AND BACKGROUND TO THE STUDY**

#### **1.1 Introduction**

This chapter provides an insight into the background development or context of ethical leadership and financial performance at HGDM. The chapter discusses the problem that has motivated this research under the statement of the problem. The aim of the study is highlighted in this chapter. The chapter also presents the research questions and research objectives related to assessing employees' perception of leadership ethics, examining how ethical leadership affects the municipality's financial performance, evaluating the challenges at HGDM hindering the effectiveness of ethical leadership, and examining the extent to which unethical leadership practices impact the financial performance of HGDM. The chapter further presents the research purpose, the significance and justification of the study.

#### **1.2 Background of the Study**

An analysis of the report released by the South African Local Government Association (SALGA,2015) revealed that there concerns surrounding the unethical conduct of certain individuals whose actions displayed unethical acts which had serious negative implications on the ability of HGDM to achieve its financial performance goals. The identified unethical acts negatively impacted on the ability of the municipality to adequately finance its service delivery programmes. This is despite the fact that office of the Auditor-General (AG) expressed satisfaction on the progress made by the municipality in the years spanning from 2014 to 2016 in terms of financial management and subsequent reductions in the magnitude of wasteful, irregular and unauthorized expenditure. However notwithstanding progress noted by the AG cases of financial impropriety and unethical practices by some people in management positions still exist albeit on a reduced scale than the previous years but they still pose a real and significant threat to the financial performance of the municipality hence the need for ethical leadership. Though there has been some extensive research regarding the causal link or correlation between ethical leadership as a leadership style and its effect on financial performance, this relationship has not yet been explored focused on HGDM. It is for this reason that this study has been consummated to gain detailed insights into the relationship between ethical leadership and financial performance of this municipality.

### **1.3 Statement of the Problem**

This research was motivated by the fact that some unethical practices are still being evident at HGDM resulting in undesirable and negative effects on the ability of the municipality to achieve desired financial performance and service delivery outcomes. Consequently the focus of this study is premised on a determination to examine the lack of leadership ethics and ethical leadership emanating from the 2015/2016 AG's report which revealed some unacceptable financial practices which resulted in wasteful, irregular and unauthorised expenditure. This is despite the fact the AG noted greater improvements in financial management. The ideal situation should be a scenario whereby financial malpractices and associated vices are completely eradicated in a municipality, unfortunately there still exists some traces of unethical practices among a few individuals. Notwithstanding the fact that some earlier research has been conducted on the role of ethical leadership on financial performance, the limitation of the researches was that there were heavily biased towards private sector and public sector institutions globally and other individual countries or blocks of countries. To date, no research was conducted to specifically focus on ethical leadership and its role on financial performance of HGDM as an institution. This study is therefore an attempt to bridge the gap in the literature by narrowing the research location to be specifically targeting HGDM so that the research findings can help to inform strategies that might help entrench ethical leadership or other forms of leadership in order to improve financial performance.

### **1.4 Purpose of this Study**

Welman, Kruger and Mitchell (2005:22), define the purpose of the research as a way to provide answers to research questions. Whilst Plooy-Cilliers, Davis and Benzuidenhout (2014:7) argue that the main purpose of a research is to get a deeper understanding on yet unknown phenomena, or unclear issues so as to add clarity to issues affecting humanity. According to Kothari (2012:8), research is conducted to serve the following purposes:

- To gain detailed insight into a research phenomenon;
- To come up with findings that help in managerial decision-making; and
- To empower societies with new knowledge or additional insight relevant for decision making.



Saunders, Thornhill and Lewis (2011:14) concur with Welman, Kruger and Mitchell (2005:22) and further explained that research adds as an additional purpose for providing answers to the research questions and adding to the existing body of knowledge. Singleton and Straits (2010:107) unpack the research purpose as a threefold phenomenon that tends to explore, describe and test relationships among variables. This research will serve the purpose of investigating the contribution of ethical leadership on the financial performance of HGDM. Undoubtedly this study has greater benefits to the leadership at HGDM because it will help to disclose areas that the management needs to give intensive and detailed attention that will ultimately result in the complete eradication of unethical practices. Furthermore the research findings are set to have an immense contribution towards crafting of appropriate strategies that will bring about an organisation –wide ethical culture and elimination of unethical practices at HGDM.

### **1.5 Research Aims**

The research aims to fulfill the following objectives:

- To investigate the financial objectives of HGDM;
- To assess employees' perception of leadership ethics at HGDM;
- To examine how ethical leadership affects the financial performance of HGDM;
- To evaluate the challenges at HGDM hindering the effectiveness of ethical leadership;
- To examine the extent to which unethical leadership practices impact the financial performance of HGDM; and
- To propose recommendations on strategies to inculcate ethical practices among the employees of HGDM.



## **1.6 Research Questions**

Linked to the research problem statement articulated above, the study will attempt to answer the following key questions:

- What are the financial objectives of HGDM?
- How do employees perceive leadership ethics at HGDM?
- How does ethical leadership affect the financial performance of HGDM?
- How are the challenges at HGDM hindering the effectiveness of ethical leadership?
- To what extent are unethical leadership practices impacting on the financial performance of HGDM?
- What strategies can be recommended in order to inculcate ethical practices among the leadership of HGDM?

## **1.7 Literature Review**

Given the exposure of prominent ethical scandals in virtually most of the organisations on a global scale, the importance of an ethical dimension of leadership has become very obvious. On the back of Enron and other recently reported ethical scandals in both South African and global business, government, sports, non-profit oriented organisations, and even religious organisations, there are pertinent questions being asked on what is wrong with our leaders nowadays. In a post-Enron world the USA, Gupta linked corruption scandals in South Africa, the ongoing Bosasa saga, people are more keen on coming up with strong impetus to develop ethical leadership in their organisations. Similarly, researchers are putting more focused attention on studying ethical leadership in order to understand its origins and outcomes. However, in order to get an understanding of this leadership type, dimension or phenomenon and its relationships with financial organisational outcomes, there is need to first get to know what ethical leadership is all about (Walumbwa and Schaubroeck, 2009). On the one hand, Wang, Feng and Lawton (2016) note that authors have focused more on defining and describing ethical leadership from a normative perspective in which emphasis was more on what an ethical leader had to or how he or she ought to behave. Nevertheless, Wang et al. (2016) further notes that the approaches by the likes of Brown and Trevino (2006); Wanberg and Kammeyer-Mueller (2010) as well as that of Engelbrecht, Heine, and Mahebe (2014), have by contrast shifted to become more of a social scientific approach focused on identifying the antecedents and consequences of ethical leadership, not only on employees but on the organisations they lead. The relationship between ethical

leadership and financial performance has been explored for some time by numerous researchers. Existing and current literature on ethical leadership portrays ethical leaders as considerate beings, persons who are trustworthy and morally upright (Brown and Trevino, 2006). Additionally, Brown and Trevino (2006) put forward that ethical leaders are leaders capable of making just decisions and of being in a position to candidly communicate acceptable ethical standards to their subordinates, thereby becoming excellent role models who also practice and conform to ethical standards themselves. By virtue of the qualities espoused by Brown and Trevino (2006), ethical leaders have been linked to positive financial performance in the organisations they lead. These issues are explored in more detail in the next chapter.

### **1.8 Ethical Leadership and Financial Performance Conceptual Framework**

The proposed study will adopt the conceptual framework depicted in Figure 2.1 which is discussed in chapter 2. The Ethical Leadership and Financial Performance conceptual framework depicts variables including employee perceptions of ethical leadership, the challenges hindering the effectiveness of ethical leadership and the strategies that are employed to overcome factors that affect the financial performance of an organisation.

### **1.9 Research Methodology**

This research was conducted through primarily a qualitative research methodology. A qualitative research design allowed for the collection of detailed information about how employees perceive leadership ethics and also about how ethical leadership affects the financial performance as well as on the challenges at HGDM. Similarly, a qualitative research design allowed for the collection of detailed information on factors hindering the effectiveness of ethical leadership and on the extent to which unethical leadership practices were impacting on the financial performance of HGDM. The data collection strategy involved the use of semi-structured interviews with all questions being derived from an interview guide. The rationale for adopting a qualitative phenomenological research methodology was necessitated by the need to acquire as much information as possible on the research questions. Purposive sampling was adopted for selecting research participants from the target population of managerial employees of HGDM.



### **1.10 Significance of the Study**

The importance of this research is based on the idea that the study will act as an impetus and motivation for HGDM management to act decisively than ever before to pay greater attention to creating an ethical organisation whereby ethics become the most visible and dominant culture. Upon creation of a sound ethical culture will be evident benefits such as greater compliance with set laws and internal controls resulting in better performance outcomes.

### **1.11 Justification of the Study**

Ethical leadership is in worldwide demand. There have been numerous reports of unethical practices globally and locally in South Africa. Unethical practices are not sparing any professions, for instance auditors, judicial officers, politicians, public office bearers, accountants, institutions of integrity such as banks, courts and many others have been found guilty. Such developments have led to an unprecedented demand for good governance and ethical leadership particularly in South Africa. The growing interest in ethical leadership nationally has necessitated the need to examine the effectiveness of ethical leadership towards attaining organizational financial performance goals of HGDM. The findings of the study will assist all stakeholders particularly the management of not only HGDM but also other South African municipalities and of other countries worldwide to adopt a leadership style that makes positive contributions towards the achievement of financial performance objectives of the municipalities they superintend. The findings of the study can also contribute to the academic fraternity in terms of adding onto already existing knowledge that can help institutions of learning and their students involved in research work.

### **1.12 Structure of the Dissertation**

The dissertation is structured as follows:

**Chapter One: Introduction** – This chapter includes the introduction, problem statement, research context and background, the aim of the study, research objectives, preliminary literature review, research methodology and an explanation of the significance of the study.

**Chapter Two: Literature Review** – This chapter looks at the theoretical background to the existing literature on ethical leadership and financial performance.

**Chapter Three: Research Methodology** – This chapter demonstrates the research methodology and research design and the methods of data collection, data analysis and ethical considerations to be used in the study.

**Chapter Four: Results, Discussion and Interpretation of Findings** – This chapter presents the research findings from the analysed data and further interprets and discusses the findings in relation to the underlying literature.

**Chapter Five: Conclusions and Recommendations** – This chapter summarises the findings, conclusions and recommendations from the study.

### **1.13 Conclusion**

This chapter provided an insight into the background development or context of ethical leadership and financial performance at HGDM. The chapter discussed the problem that has motivated this research under the statement of the problem. The aim of the study was also highlighted in this chapter. The chapter also presents the research questions and research objectives related to assessing how employees perceive leadership ethics, examining how ethical leadership affects the financial performance, evaluating the challenges at HGDM hindering the effectiveness of ethical leadership and examining the extent to which unethical leadership practices impact the financial performance of HGDM. The other highlights of the chapter were a preliminary literature review and a summary discussion of the research methodology adopted in the study. The chapter further presented the research purpose, the significance and justification of the study and finally the conclusion. The next chapter presents the literature pertaining to ethical leadership and financial performance as well as on the contribution of unethical practices towards the financial performance of public sector organisations.

## CHAPTER TWO

### LITERATURE REVIEW

#### 2.1 Introduction

The previous chapter provided an insight into the background development or context of ethical leadership and financial performance at HGDM. The chapter discussed the problem that has motivated this research under the statement of the problem, the aim of the study was also highlighted in the previous chapter. This chapter comprehensively defines ethical leadership and financial performance and examines the contribution of unethical practices towards the financial performance of public sector organisations. The chapter further examines the role of ethical leadership on the financial performance of a municipality and discusses strategies to inculcate ethical practices among the employees of an organisation.

#### 2.2 Key Concepts

##### 2.2.1 Ethical Leadership

Walumbwa and Schaubroeck (2009) argue that there is still disagreement as to what the correct definition of ethical leadership is. Walumbwa and Schaubroeck (2009), further put forward that though many people have attempted to define what ethical leadership is, a universally accepted definition is still elusive up to the present day. Notwithstanding, Wang *et al.* (2016)'s assertion that a clear definition of ethical leadership is yet to emerge, the authors note that, at present, there is a working definition that is widely used on the basis that it is sensible. Wang *et al.* (2016) adopt a definition of ethical leadership of Brown *et al.* (2015) that views "ethical leadership" as personal actions and the conduct of a leader in a manner that is normatively appropriate and involving the build-up of interpersonal relationships, as well as the promotion of ethical conduct to followers through two-way communication, reinforcement and decision-making.

Brown, Treviño and Harrison (2005) define ethical leadership 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. Ethical leadership plays a deterrent role in terms of discouraging people from doing the



wrong things and making them focus on doing the right or morally acceptable things. Freeman and Stewart (2006) and Yukl (2006) state that ethical leadership normally exudes itself by demonstrating acts of honesty, productive hard work, displays of integrity, virtues, morality, and other morally acceptable societal and national behavior for the ultimate benefit of both the leaders, the led and the employer organisations as well as the societies from which it will be practiced. In most cases, ethical leaders act symbolically or through actions as a way of demonstrating to subordinates the right behaviours. Ethical leadership deals with displaying actions or behaviours that are morally upright and of benefit to all organisational stakeholders such as the operational or lower level employees, the leader, the management and the organisation at large (Brown, Harrison and Treviño, 2005; Freeman and Stewart, 2006 and Yukl, 2006) and takes the form of non-verbal gestures to portray morally desirable behaviours to the subordinates (Brown, Harrison and Treviño, 2005 and Yukl, 2006). According to Freeman and Stewart (2006:2), executives of big companies define ethical leadership as a simple matter of having a leader or leaders demonstrating morally acceptable good character and right values that shows a leader as a person of strong character.

### **2.2.2 Financial Performance**

Groenewegen (1984) defines financial performance as a measurement of the organisational outcomes in relation to pre-set objectives and targets. Financial performance can also be used as an indicator of the financial sustainability of an organisation. According to Correia, Flynn, Uliana and Wormald (2012), financial performance can be defined as a demonstration of how well an organisation is utilising its capital assets to generate income from its operations.

Verschoor (2011) expresses that financial performance is a manifestation of an organisation's financial well-being or health. It can further be defined as a status quo that shows evidence of management's ability to allocate organisational financial resources in line with set objectives, company vision and mission (Groenewegen, 1984). However Milne (2009) opines that financial performance is a demonstration of allocative efficiency or lack of it and is a measurement that provides evidence to the effect that financial resources have been allocated efficiently and in a manner that leads to the ultimate realisation of financial, technical and operational objectives. Burger and Durcharme (2013) give a broader and all-encompassing definition by stating that financial performance refers to the successful completion of a given task in comparison with pre-

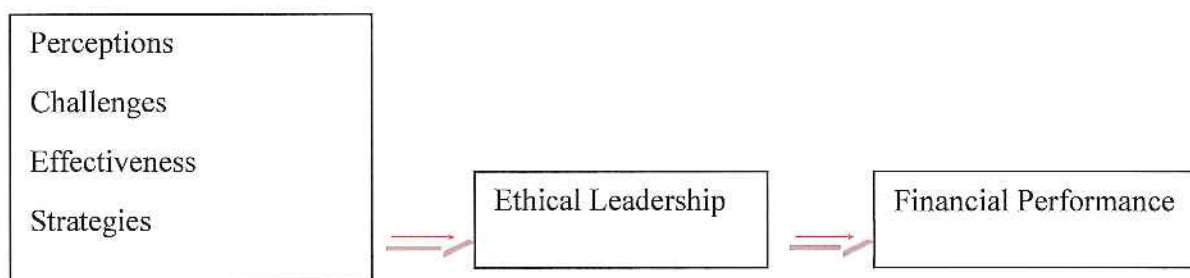
determined standards of financial accuracy, records and document completeness, cost, and effectiveness. The definitions given above have two things in common about financial performance. The first one being that it is measured by how well objectives of the organisation have been met and secondly, efficient resource allocation (Burger and Durcharme, 2013; Correia *et al.* 2012; Groenewegen, 1984; Trivedi, 2010; Milne, 2009).

### 2.2.3 Financial Objectives of a Municipality

Burger and Durcharme (2013) highlighted that organisational financial objectives are linked to a reduction of financial improprieties, achieving budgetary objectives and clean audit reports. Correia *et al.* (2012) also point out that the financial objectives of both private and public sector organisations are mainly to eliminate unauthorised expenditures, wasteful expenditure and irregular expenditure.

## 2.3 Ethical Leadership and Financial Performance Conceptual Framework

The proposed study will adopt the following conceptual framework as depicted in Figure 2.1 below.



**Figure 2.1: Ethical Leadership and Financial Performance**

Source: Baalen, 2017

The Ethical Leadership and Financial Performance conceptual framework depicts variables including employee perceptions of ethical leadership, the challenges hindering the effectiveness of ethical leadership and the strategies that are employed to overcome factors that affect the financial performance of an organisation. These variables are further discussed hereunder.

### 2.3.1 Perceptions

Perceptions about ethics and leadership refers to how well people see an organisation in terms of the morality, uprightness and commitment to act in accordance with accepted norms, principles



and values of an organisation (Kanungo, 2011). Normally perceptions arises from a disconformity between what society expects their leaders to act, perform and deliver compared to actual leader behaviours, performance, actions and delivery (Dlamini, 2015). Regrettably Kanungo (2011) noted that most South Africans perceive about ethics and morality of their leaders giving rise to low rating of the existence of ethical values and leadership among their leaders. A study conducted by Brown and Trevino (2010) reviewed ethical leadership and its future direction as well as on the emerging constructs of ethical leadership and compares this construct with related concepts that share a common concern for a moral dimension of leadership such as spiritual, authentic, and transformational leadership. Brown and Trevino (2010) drew broadly from the intersection of the ethics and leadership literatures and offered propositions about the antecedents and outcomes of ethical leadership. The study by Brown and Trevino (2005) also shed important light on how some elements of ethical leadership are perceived across the world. Brown and Trevino (2005) developed a ten-item instrument to measure perceptions of ethical leadership, the Ethical Leadership Scale (ELS) and then conducted multiple construct validation studies, finding that supervisory ethical leadership was positively perceived as being associated with both employee and organisational performance. The article further posited that ethical leadership is also positively related to affective trust in the leader and negatively related to abusive supervision, but it is unrelated to either greater demographics or perceived demographic similarity between leader and subordinate.

The strength of the article by Brown and Trevino (2005) lies in the fact that the authors were able to provide a convincing explanation of the contribution of subordinates' perceptions of ethical leadership on predicting satisfaction with the leader, perceptions of leader effectiveness, willingness to exert extra effort on the job, and willingness to report problems to management. The main limitation of the article by Brown and Trevino (2005) was that the authors failed to explain the essence of transactional elements of ethical leadership on improving organisational performance.

### **2.3.2 Challenges**

According to Aronson (2014), ethical leaders often beget their subordinate's confidence and loyalty during challenging periods. Aronson (2014) further posits that through ethical leadership employees are motivated to act positively, to remain resolute, hopeful, and unwavering in terms

of safeguarding ethical principles in the face of temptations and make ethical financial decisions that bring positive outcomes. Kanungo (2011) adds that challenges such as internal control deficiencies, lower employee motivation and lack of organisation-wide commitment to ethics lead ethical leadership to develop strategies that steer their organisation to embrace an ethical culture. Challenges often make ethical leadership transform their work situation, thereby contributing to its success. When the leader's moral integrity is in doubt, the leader will more likely fail to influence followers to achieve organisational goals (Kanungo, 2011).

### **2.3.3 Effectiveness**

Brown, Treviño and Harrison (2015) carried out a research with a view to expose the nature of relationship that exist between the two variables namely ethical leadership and financial performance. The idea was to determine the effectiveness of ethical leadership as a style of leadership in as far as its effectiveness in terms of bringing out desired financial performance. The outcomes of the Brown et al., (2015)'s study revealed that good financial performance was truly an outcome of the efforts of leaders high on implementation of ethical principles. Waggoner (2015) explained reasons why ethical leaders brings about good financial performance. One of the reasons cited by Waggoner (2015) was that ethical leaders are good at infusing ethical values into the teams that they create. Ethical leaders often goes on to clarify the vision and mission of the organisation to each team member. Undoubtedly ethical leaders coach their members to behave professionally, to work in unison as a coherent group with the sole purpose of achieving the organisation's performance goals.

Freeman and Stewart (2007) advance the notion that since ethical leaders are good at inviting input from employees regarding all pertinent issues in the organisation coupled with the fact that they exercise fairness in treating their subordinates makes them effective in terms of gaining employees' respect and trust. Freeman and Stewart (2007) further noted that the respect and trust that ethical leaders get from their subordinates makes it easy to easily influence employees to follow their word. This implies that it is becomes very easy for ethical leaders to influence their subordinates to exercise high moral standards, to act with integrity in al material respects and to work towards attaining organisational goals.



#### **2.3.4 Strategies**

Christoffel and Hendricks (2012) argued that one of the main reasons why ethical leaders are able to achieve better financial results is through their ability to develop strategies that makes their subordinates to adhere to organisational rules. Furthermore Christopher and Hendricks (2012) asserted that in practice ethical leaders do not compromise when enforcing organisational policies and rules.

Podsakoff, McKenzie, Moorman and Fetter (2014) expressed the view that leaders high on ethical principles often require their subordinates to work as a team rather than as individuals thereby helping to enhancing their capabilities to achieve better results in financial terms for their organisations.

#### **2.4 Ethical Leadership and Public Perceptions**

Brynard and Erasmus (2011) note the negative perception among the majority of South Africans regarding unethical leadership in municipalities. Dlamini (2015) attributes the predominance of negative perceptions to the existing trend of the qualified audit reports in South African municipalities. Mahlangu's (2016) research revealed that most respondents who happened to be respondents in the research were of the perception that some senior management often acted unethically and in a corrupt manner. This finding by Mahlangu (2016) exposed deep underlying negative perceptions regarding the existence of ethical leadership in municipalities. Mgimwa (2012) however, expresses the view that characterising all public sector management in a negative way is scandalous given that ethical leadership standards are a mixed bag

#### **2.5 Challenges Hindering the Effectiveness of Ethical Leadership at Harry Gwala District Municipality**

##### **2.5.1 Internal Control Deficiencies**

As alluded to earlier, ethical leaders have a high affinity towards strengthening and implementing internal controls as a way to reduce fraud, wasteful expenditure and all other manifestations of the corruption vice. Internal controls alone are not sufficient to enhance positive financial performance in organisations, posing a challenge to the effectiveness of ethical leaders who rely on their implementation for eradicating unethical business practice. Though ethical leaders are known for strict adherence to the law and compliance with internal controls, sometimes they face numerous challenges related to the inherent weaknesses that internal controls have. Beasley et al. (2009)



point out that certain subordinates under ethical leaders always take advantage of the inherent weaknesses in the internal controls which ethical leaders put in place to curb unethical behaviour. Boyd et al. (2013) explain that internal controls are not 100% fool proof. A disturbing amount of fraud still slips through these preventative measures, posing a strong challenge to ethical leaders in terms of effecting financial performance (Boyd et al., 2013). In part, these breakdowns in internal controls are the outcome of taking a calculated risk. An organisation may decide that certain controls are not worth the cost, which leaves the organisation vulnerable to certain types of fraud, thereby limiting the effectiveness of ethical leaders who desire to combat unethical behaviours through internal controls. Clever fraudsters can defeat even seemingly tight controls used by a business (Tabish, 2012).

There are a number of reasons why internal controls within an organisation may not impact positively on financial performance. The American Institute of Chartered Public Accountants (AICPA) (2015) argues that even though the internal controls over financial reporting in any given organisation may appear to be well-designed and effective, these can be overridden by the management that designed them, hence hindering their effectiveness. The organisation further contends that many frauds are perpetrated by the intentional override by senior management of what might otherwise appear to be effective internal controls. Zweighaft (2013) also argues that management override is very difficult to detect but oversight committees such as the Audit Committees and Risk Management Committees should be able to intervene and address the risk management override of internal controls should such situations arise. The same challenge facing ethical leadership is expressed by Beasley et al. (2009) who express the view that members of the Audit Committees in public companies appear to be in derelict of their oversight responsibility for overseeing the risk of fraudulent financial reporting by the Executive, citing difficulties in assessing management integrity. Hermanson, Smith and Stephens (2012) also conducted a survey on Internal Auditors and Chief Audit Executives to get their views on the strength of internal controls in the control environment and found that deviations from policy and management override of internal controls is very rife in those organisations selected. Beasley, et al. (2010) argue that nearly 90% of fraudulent financial reporting cases reported implicate Chief Executive Officers (CEOs) and Chief Financial Officers (CFOs) due to a reluctance of boards and audit committees to assess the Executives' responsibility on financial management and accountability.

It is inarguable that creating a sound internal control environment which leads to sound accountability and adequate performance necessitates significant investment. Public organisations, particularly in developing economies, are often financially constrained to implement such systems of internal controls, resulting in exposure to inadequate prudence and lack of performance, and in particular, financial performance. Bruce, *et al.* (2013) contend that developing countries have accepted that sound and effective financial management is crucial not only to the Executive but to policy makers in key sectors such as health, and that internal control is central to that. Cranston, Ehrich and Kimber (2002) however, contend that although the mandate for an implementation of sound internal controls is costly to organisations, it yields noticeable benefits through lower information risks that further translate into lower costs of equity. In public organisations, the costs of equity translates into the tax investments that the citizens contribute to the running of state engines which results in government being reluctant to increase taxation for fear of losing popularity.

In a study conducted by Edwards (2014) made an unusual observation, tested over a maximum of 43 countries, that corruption is beneficial in highly regulated economies. A default thesis is arguably that a properly articulated regulatory framework with associated internal controls limits access to public funds through corrupt mechanisms. The effects of over-regulation, as advocated by Edwards (2014), have not been sufficiently tested worldwide on the resultant exposure on organisations to fraud and corruption. Sparrowe's (2005) research results argued that corruption scandals relating to the abuse of public funds in municipalities and other public sector institutions through political bribes may still go unnoticed in highly regulated organisations, especially where civil society organisations such as reputational agencies, customer and citizens' rights organisations collude with management and staff. Research conducted by Blair (2011) also revealed how easy fraud can be perpetrated by internal staff by colluding with external people. Blair's (2011) findings were substantiated by evidence collated on procurement fraud where service providers colluded with officials to inflate construction overhead costs and invoiced local government institutions.

Success in the implementation of internal controls depends on the human factor and therefore subject to flaws in design error of judgement or interpretation, misunderstanding, carelessness, fatigue, distraction, collusion, abuse and override, thereby hindering the effectiveness of ethical leadership. Based on his research Morehead (2007) contends that organisations "operating in most



corrupt countries of the world are at greater risk of internal controls failure and have become victims of fraud and corruption". Bell (2010), in his article, contends that continual rising costs of living due to socio-economic changes can increase pressure on individuals to concoct fraud schemes to perpetrate through the manipulation of weaknesses in internal control structures. The risk of fraud being perpetrated is influenced by pressures/incentives, opportunity and rationalisation to commit fraud and compel management to design and implement a control environment that prevents, detects and deters fraudulent behaviours and also enforcing compliance beginning with 'the tone at the top'.

### **2.5.2 Declining Employee Morale and Creativeness**

Although ethical leaders were touted as being effective in terms of improving the financial performance of their organisations through enforcing strict compliance with organisational policies, rules and procedures, psychologists have expressed concern over this over-reliance on compliance. From the perspective of psychologists subordinate compliance under ethical leadership can be as a result of attempting to avoid consequences that can arise from doing the opposite and that this behaviour is due to fear of punishment or out of a desire to please the ethical leader (Kronk, 2016). Research conducted by Verschoor (2012) showed the issue of too much compliance management by ethical leaders to be a much weaker motivator for employees under them and can consequently result in ethical leaders who are more bent on compliance achieving less than other types of leadership styles. Following an ever-increasing list of rules can also diminish independence and proactive problem-solving, and end up creating more work for ethical managers who will eventually become ineffective. Ethical leadership's effectiveness is hindered by the unintended challenge of their subordinates developing what is termed "malicious compliance". This refers to a culture so bogged down in rules that employee morale takes a dip and often results in subordinates doing exactly what the ethical leaders ask them without putting in extra effort. The end result is that subordinates will end up thinking only about themselves, and not the broader organisation, which then cultivates a path to failure.

### **2.5.3 Unfavourable Ethical Atmosphere**

Cranston *et al.* (2012) note that some existing culture and operating environment within an organisation pose challenges to ethical leadership. Cranston *et al.* (2012) cite an example of an oppressive environment whereby ethical employees are afraid to report serious unethical issues

occurring within the organisation for fear of being reattributed or attacked as "whistle-blowers". This hinders the effectiveness of ethical leaders within an organisation as unethical practices such as the acceptance of bribes may go unnoticed. Khademfar *et al.* (2013) examined the challenges being faced by managers in practicing ethical leadership and concluded that there are some formidable and daring forces in organisations that often force managers to do unethical things. For instance some higher up managers in the top echelons of the organisation who are lower on ethics might exert unbearable pressure and coercion on their subordinates to do unscrupulous things in order to beat the competition at all costs failure of which might lead to dismissal. Since jobs are scarce some managers ends up complying. Also the existence of an unethical climate in an organisation coupled with the presence of a majority of employees who are high on unethical behavior also dilutes the effectiveness of ethical leadership (Khademfar *et al.*, 2013). The remedy to this problem is not that easy especially if top management is involved. However by having one stick to ethical values and practices in the face of adversity and mounting pressure will send a clear signal to the powers that be that one is prepared to go against the tide and stick to what is right. With time other employees will see the light and emulate and practice what is right because unethical practices will always be unearthed. (Khademfar *et al.*, 2013).

#### **2.5.4 Limitations in the Public Finance Management Regulatory Framework**

Since South African municipalities such as Harry Gwala are regulated by the Municipal Finance Management Act (MFMA), there have been some notable limitations in the regulatory framework and related internal controls. The identified limitations in the MFMA make it difficult for ethical leaders to achieve desired financial performance outcomes. The MFMA was derived from the Public Finance Management Act (PFMA) and from Section 216 (1) of the Constitution of the Republic of South Africa of 1996. The MFMA requires municipalities to have a treasury department and it also prescribes measures to ensure transparency and expenditure control in the municipal sphere of government. One of the interesting observations made by Stapenhurst *et al.* (2011) concerning the limitations of the regulatory framework pertains to the existence of an important implementation gap between government policies and their effective implementation by the employees in various municipal departments. Ethical leaders too have deficiencies in implementing certain policies (Stapenhurst *et al.*, 2011). The only effective way to bridge the implementation gap is to hire external independent auditors to carry out compliance testing on the system of internal controls and help expose the implementation gap and those areas that need strengthening in order to reduce financial embezzlement, impropriety or losses arising from any



form or manner (Stapenhurst *et al.*, 2011). Lencioni (2011) emphasises that any regulatory financial framework is effective when ethical leaders create more individualised cooperation with implementation of the laws as well as collaboration.

Frink and Ferris (2011) warn that organisational rules and policies are effective in as far as employees are cultured by their leaders to behave in an ethical way. Both internal controls and the regulatory are often susceptible to employee collusion despite the presence of ethical leaders in an organisation. A case in point is that of the National Cash Register (NCR), an electronics company that was known for producing cash machines in Massachusetts, USA (Frink and Ferris, 2011). Despite the existence of some ethical leaders within NCR, the company lost large sums of money and other assets through employee collusion which made it hard to detect up until the NCR's finances took a dip. Frink and Ferris (2011) further highlight that rules and regulations are often susceptible to management override, meaning that they are not 100 per cent effective in curbing financial impropriety and losses. Since it is not possible to have a complete complement of ethical leaders in an organisation, there will always be some unethical leaders in charge of certain functions who can override certain rules and policies.

Brynard and Erasmus (2011) opine that the regulatory framework is normally effective in achieving intended objectives when there is a strong control environment, whereby employees have been acculturated to be accountable, to comply with the rules of the organisation and to routinely perform their duties with strict adherence to organisational policies, rules and procedures. Frink and Ferris (2011) further note the regulatory framework is not effective in organisations where the management is weak and ineffective in as far as employee monitoring and supervision is concerned, because some unethical employees may often take advantage and circumvent the rules and internal controls for their benefit. Hermanson *et al.* (n.d) come up with another important dimension by arguing that the regulatory framework is often not effective especially if employees in an organisation lack commitment to perform their work as prescribed. This assertion by Frink and Ferris (2011) and Hermanson *et al.* (n.d) confirms that ethical leadership alone is not effective in bringing about superior financial performance. Much of the often cited effectiveness of ethical leadership depends on many other aspects such as employee commitment to ethical behaviour and the existence of strong internal controls that act as a deterrent to fraud. Hermanson *et al.* (n.d) further assert that a strong commitment to organisational goals and objectives is the mental affection that members have to an organisation. This commitment is essentially to psychologically streamline employees to fully comply with organisational rules, policies and procedures.

Krogstrup and Wyplosz (2010) also point that out employees display their commitment to their employer organisations in three main ways. The first involves goal alignment whereby employees align their goals and their values with those of the organisation. The second is when employees develop a high sense of belonging to the organisation. The third involves employees displaying a willingness to increase efforts that benefit the organization. Much of the literature on the relationship between commitment and job performance indicated that if workers are satisfied, they develop a stronger commitment to their work and the organisation

Thus ethical leaders have more work to do in nurturing and inspiring employees to be committed to their organisations, as this will go a long way in creating a matrix of strong employees which, will in turn, facilitate the easy implementation of the regulatory framework for the benefit of the organisations that they work for. Krogstrup and Wyplosz (2010) further noted that the regulatory framework is not enough on its own to improve financial performance without the presence of organisational commitment and the control environment.

#### **2.5.5 Budgetary Constraints**

Budgetary constraints often incapacitate ethical leaders from achieving desired financial performance. This leads to management imposing restrictions on travel budgets for supervisory and audit staff, something that effectively reduces the effectiveness of enforcing internal control. Gildenhuis (2010) points out that resource constraints often lead to restrictions on travel budgets or the ability to source technical skills, all of which have a negative impact on the scope of what internal audit staff plan to do i.e. carry out intensive tests of controls and substantive testing of transactions to detect and prevent acts of fraud. Budgetary constraints effectively mean that internal audits do not have an appropriate level of resources, sufficient to provide quality insight and foresight on the risks that matter now and will matter in the near future (Gildenhuis, 2010). The end result of budgetary constraints is that ethical leaders will be deprived of resources to adequately monitor resource usage and reduction of financial embezzlement.

#### **2.5.6 Lack of Organisation-Wide Commitment to Ethics**

Combating fraud and bribery requires commitment from leaders and their employees on an ongoing basis. Beasley et al. (2014) lament that, in most cases, ethical leaders in an organisation face the challenge that some managers and subordinates lack the much needed commitment to ethical behaviour, thereby explaining the reasons why some employees resist ethical directives.



## **2.6 Contribution of Unethical Practices towards the Financial Performance of a Municipality**

The financial performance of some municipalities has been far from satisfactory due to unethical practices by the management. Documentary evidence of this trend is contained in parliamentary portfolio annual reports, the Auditor-General's Annual Reports, ministerial, Member of Executive Council reports and Chief Financial Officer's reports. According to the then parliamentary committee chairperson on local government, Dlamini (2015) cited in the Parliamentary Hansard (September, 2015) that a total of eight municipalities of KwaZulu-Natal province got qualified audit reports, with major areas of concern being asset management, inaccuracies and unethical practice in terms of leave liability accounting and irregular expenditure, wasteful and fruitless expenditure covering the financial year ended 2014/15, which had almost the same concerns as those cited in previous Auditor-General's Annual Reports. Other areas of concern that the Auditor-General's Annual Report cited were that unethical practices were being performed around the conditional grants. Thus, one can be persuaded to believe that the often cited reasons by the Auditor-General's Annual Report 2014/15 have to do with poor ethics and a poor ethical environment, explaining the reasons why there are reports of poor asset management as well as wasteful, fruitless and irregular expenditure.

## **2.7 Effectiveness of Ethical Leadership in Terms of Achieving Positive Financial Performance**

The effectiveness of ethical leadership towards enhancing positive financial performance is unending. There are various views expressed by different authors. This section discusses the various view points regarding the contribution of ethical leadership towards positive financial performance. De Hoogh *et al.* (2008) took the step of assessing the connection between facets of ethical leadership on one hand and worker optimism, effectiveness of teams and firm performance. This is extended to sampling some known ethical behaviours in a bid to find out how they were connected worker optimism, effectiveness of teams and performance. A multi-score rating was utilised. The interviews that were conducted included a total of seventy three (73) chief executive officers and subsequently followed by a second batch of interviewees involving one hundred and nineteen (119) chief executive officers. The findings brought to the fore results which showed that leader morality, objectivity, fairness and role clarity had positive correlation with employee optimism, perceptions of leader effectiveness and positive firm performance. Despite the fact that

De Hoogh *et al.*'s (2008)'s research results helped to bring further enlightenment into the effects of ethical leadership on firm performance, the study had some inherent limitations which need to be put under consideration. The main limitation is that De Hoogh *et al.*'s (2008)'s study was punctuated by a low response rate which makes it impossible to generalise the findings. Also it is unfortunate that the study focussed primarily on chief executive officers of private companies hence it also excludes senior management of public sector organisations. Notwithstanding these weaknesses the findings are still useful because they help to provide some helpful insights into the effect of ethical leadership on the performance of firms/institutions.

Walumbwa, Avolio and Gardner (2008) dismiss the role of ethical leadership in terms of enhancing organisational financial performance, but suggest that authentic leadership has a more pervasive effect. Walumbwa *et al.* (2008) argue that authentic leadership produces more tangible positive organisational outcomes than ethical leadership. Walumbwa *et al.* (2008) examined the role played by authentic leadership on follower job satisfaction, individual job performance and organisational performance. However, Walumbwa *et al.* (2008) acknowledged that authentic leadership has its foundations and greater leanings on ethical values and leadership. In particular, the study examined the correlation between authentic leadership, subordinate job satisfaction and individual employee performance. Walumbwa *et al.*'s (2008) findings led to the conclusion that follower perceptions of the leaders' authentic leadership are positively related to individual follower job satisfaction, job performance and ultimately organisational performance. The main limitation of this is that the model most likely does not include all relevant or important constructs. It must be borne in mind that the theory pertaining to what authentic leadership is and its relationship with leader effectiveness is still in its infancy. Some of the theoretical propositions of the theory still need to be tested and proved. However it is important to note that assertions by Walumbwa *et al.*'s (2008) regarding effectiveness of authentic leadership has got some validity and usefulness in terms of helping academics to understand the role it plays in giving satisfaction to followers and improving subordinate performance.

Another study, comprising Avolio, Gardner, Walumbwa and Luthans (2014), posited that ethical leadership and authentic leadership have many things in common to such an extent that they also complement each other to a greater extent in as far as contributing towards achieving desired organisational performance. A more comprehensive definition of authentic leadership is the one put forward by Avolio *et al.* (2014) who defined it as leadership that displays the notion of being "true to one-self". Avolio *et al.* (2014) further posit that authentic leadership encompasses the



positive psychological capacities of confidence, hope, optimism, and resilience which helps towards the achievement of organisational goals. Avolio *et al.* (2014) further argue that positive financial performance in organisations alone goes beyond ethical leadership and transformational alone, but that authentic leadership too needs to be factored in when examining the contribution of leaders to organisational performance. However, the downside of Avolio *et al.*'s (2014) assertions is their assumption that authentic leadership always reflects positive performance. De Hoogh *et al.* (2008) argue that there are times when authentic leaders lack self-reflection and self-introspection, such that the fact of being "true to one-self" and the exercise of self-regulation will not always yield positive individual and organisational performance. Despite some misgivings regarding Avolio *et al.*'s (2014) views on authentic leadership, the findings of the research are useful in understanding the role of authentic and ethical leadership in enhancing both qualitative and quantitative achievements of an organisation. Avolio *et al.*'s (2014) point of view is further useful because it demonstrates how different types of leadership styles help organisations achieve their objectives. This helps to dispel the myth about ethical leadership's contribution to organisational performance. Further, it provides useful insight into the extent to which authentic leadership versus ethical leadership enhances positive financial and organisational performance by also pointing out some misconceptions in earlier theories on these constructs.

In the recent past, greater focus has been placed on ethical leadership in many fora such as the media and in management academic literature (Brown, Trevino and Harrison, 2015; Brown *et al.* 2005; Mayer *et al.* 2012; Trevino *et al.* 2006). Several scholars have written extensively on ethical leadership literature whilst some have explored antecedents of ethical leadership including making attempts to convince management scholars about how ethical leaders influence followers' ethics-related outcomes (Walumbwa and Schaubroeck, 2009). Wang, Feng and Lawton (2016) put forward that the conceptual framework underpinning ethical leadership and its extended effect and influence beyond the leader-follower relationship into a broader organisational realm, including a firm's performance and stakeholder perceptions, is still vague.

Drawing on a resource-based view of the firm as advocated by Wernerfelt (1984), Wang *et al.* (2016) assert that top level ethical leadership has the potential to enhance collective subordinate effort in as far as investment of personal resources, enhancing extra-role behaviour and organisational learning are concerned, ultimately promoting organisational performance. Blader and Tyler (2009) note that this process advocated by Wang *et al.* (2016) can only achieve success

if an ethical leader has got a justice orientation underpinned by an ability to engage subordinates, either as individuals or as group. Blader and Tyler (2009) further assert that the leader justice orientation and subordinate engagement is essential because employees' fairness perceptions often shape their group identity and also help contribute towards better employee engagement and performance in the workplace. This study fills the research gaps in three ways. The main strength of Wang *et al.*'s (2016) assertion is the authors' ability to identify various facets or dimensions of ethical leadership that individually or severally influence organisational performance via different mechanisms.

Drawing on the resource-based view of the firm and the group engagement model, Wang, Feng and Lawton (2016) proposed that ethical leadership consisting of leader humane orientation, leader responsibility and sustainability orientation and leader moderation orientation are beneficial to firm performance, and leader justice orientation plays moderating roles. Wang *et al.*, (2016) empirically tested this theoretical framework employing multi-source survey data collected from n=264 Chinese firms. Wang *et al.*, (2016)'s findings reveal that both leader humane orientation and leader responsibility and sustainability orientation have positive influences on both firm financial and social performance, while leader moderation orientation only has positive influence on firm financial performance.

In addition, leader justice orientation positively moderates the relationship between leader humane orientation and leader responsibility and sustainability orientation and financial performance as well as the relationship between leader moderation orientation and social performance. These findings provide theoretical and practical implications for understanding how different facets of ethical leadership jointly function to influence firm performance.

### **2.7.1 Leader Humane Orientation and Firm Performance**

In terms of an organisational environment, an ethical leader with a leader humane orientation is one who creates or introduces a supportive and caring environment at the workplace (Eisenbeiss, 2012). The other facets of a leader human orientation is that the ethical leader acts in a way that exudes characteristics such as recognising the rights of other employees and showing unquestionable and deep concern for the well-being and welfare of other employees (Eisenbeiss, 2012). Barrick, Thurgood, Smith and Courtright (2015) concur with the assertions by Eisenbeiss, (2012), by explaining that an ethical leader with a leader humane orientation treats their subordinates with a streak of respect and dignity and nurtures only a positive psychological mental state among employees, which enhances and improves subordinates' level of engagement and



commitment to their work. This assertion by Barrick *et al.* (2015) resonates with the tenets of the social exchange theory which states that a leader's subordinates feel an intrinsic need to reciprocate the favourable treatment which they get from their organisation through the leadership by adopting proper attitudes and appropriate behaviours that they know will benefit their organisation (Eisenberger, 2012). Kahn (2010) points out that subordinates who work under a leader with a humane orientation are more likely to be engaged fully at work through displaying positive psychical, cognitive, and emotional efforts. According to Kahn (2010), the implication of the finding regarding the effect of the humane orientation under ethical leadership is that the collective employee engagement that emerges is often able to enhance the organisation's dynamic capability for superior performance as measured in financial terms.

In a different dimension, Barrick *et al.* (2015) assert that ethical leadership displaying a humane orientation is beneficial to the financial performance of an organisation through both a cost and differentiation advantage. From the perspective of a cost advantage, Barrick *et al.* (2015) explains that under ethical leadership, a humane orientation will facilitate a higher level of employee engagement characterised by greater internal information sharing and functional work unit coordination which has the effect of reducing both internal and integration costs of the organisation. On the other hand, a differentiation advantage is said to ensue when fully engaged subordinates exploit existing resources of the organisation in a better way, resulting in the reconfiguring of the organisation's competencies to optimal usage levels (Barrick *et al.*, 2015). According to Eisenberger (2012), a differentiation advantage further extends into the development of capabilities by the firm towards responding to customer needs effectively and promptly. Eisenberger (2012) further notes that a differentiation advantage also allows employees to be in a much better position to provide customers with prompt feedback which undoubtedly leads to greater customer satisfaction.

### **2.7.2 Ethical Leadership, Internal Controls and Financial Performance**

Authors such as Khademfar *et al.* (2013); Yukl (2001); and Reddy, Singh and Moodley (2013) all concur that ethical leadership has a strong compliance orientation towards the enforcement of organisational controls which in turn helps to enhance financial performance. Reddy *et al.* (2013) assert that ethical leadership is the only form of leadership that enhances financial performance through strict enforcement of internal controls. Though authors such as Yukl (2001); Khademfar *et al.* (2013); and Reddy *et al.* (2013) express the view that enforcement of internal controls by

ethical leaders yield positive financial performance, authors such as Boyd et al (2013) express reservations. Boyd et al. (2013) examined the role of internal controls on enhancing financial performance and concluded that despite having a positive influence on financial performance, the authors argued that internal controls also have a weakness, especially if there is a weak ineffectual and ethical leadership which is unable to perform proper monitoring of subordinates. However, on a different note, Hermanson, Smith and Stephens (2012) posit that a management that is ethical is one that is able to take responsibility and accountability for fraud policies and procedures and one that adequately considers risks relating to information systems (i.e. adequacy of back-up systems, etc.). Hermanson *et al.* (2012) further argue that appropriate levels of internal controls are necessary for minimising identified risks and financial losses and also that there should exist a mechanism for capturing and reporting identified internal control deficiencies.

The strength of Hermanson *et al.*'s (2012) assertion lies in the argument that strong internal controls are a function of strong and effective management and that they help to spur organisational financial performance. However, the main limitation of Hermanson et al.'s (2012) assertion was that the authors did not establish a convincing link between internal controls and ethical leadership. However, their assertion is useful in as far as linking the perceived contribution of ethical leadership to financial performance with other literature on the link between internal controls and ethical leadership, in as far as enhancing financial performance is concerned.

### **2.7.3 Relationship between Ethical Leadership, Accountability and Financial Performance**

Eccles, Pillay and de Jongh (2011) posit that there is a direct positive correlation between ethical leadership, accountability and financial performance. According to Ciric, Kavran and Burrows (2012), accountability refers to the obligation of an individual or organisation to explain or report its activities to stakeholders, accept responsibility for them and to disclose results in a transparent manner. Accountability refers to the provision of information accompanied by a justification of actions such as disbursements, allocations, utilisation of financial resources using tools such as auditing, budgeting and accounting (Christoffel and Hendricks, 2012). According to Brynard and Erasmus (2011), accountability is an act of opening up and accounting to interested parties on issues pertaining to performance in the light of agreed upon performance targets in areas like finance, operations, marketing, and production and so on.

From the above mentioned, it is clear that accountability involves disclosure of activities to stakeholders (Ciric, Kavran and Burrows, 2012), justifying decisions taken to stakeholders



(Christoffel and Hendricks, 2012) and explaining progress in achieving pre-set targets to stakeholders. The above definitions demonstrate that accountability is an obligation that has to be performed in order to provide stakeholders with information related to progress in achieving set objectives.

The literature presented by Cable and DeRue (2012) suggests that on the basis of empirical research, ethical leaders often seek to be accountable and employ individuals who have similar values such as accountability. According to Frink and Ferris (2013), the interpreting of financial performance required accountability as a reference. Since head of department in the public service and Chief Executive Officers in the private sector are expected to be accountable for their actions they are most likely to perform well in both financial and operational terms because of the nagging and detestable fear of being labelled as failures. Eccles *et al.* (2011) emphasized that accounting often required reporting on one's own performance to the all stakeholders which in essence force accounting office bearers to perform to expectations for fear of criticism from civil society organisations, citizens or other interested parties. Accountability in organisations often implied that management behavior is influenced by pressure exerted by civil society and the regulatory frameworks. If the department of health is not accountable and transparent in its operations, it will find itself in conflict of interest with civil society organisations, the legal prescriptions and the politicians. This type of conflict is treated as risky to the organizational management, something which needed to be avoided.

According to Frink and Ferris (2013), gaining reputation and practicing accountability go hand in glove. Harrison, Rouse and De Villiers (2012), stated that the requisition by senior department officials on public officials to account for themselves promoted efficiency in the conduct of public officials when doing operations, thus helped in the maximisation of production outputs. In the human health services sector. Accountability can help minimize fraud, theft errors and financial mismanaging because of the distasteful fear of consequences of rebuttal, incarceration or reputational damage. The realisation of the significance of professional and business ethical conduct, allied with legislation (laws) pushing for more transparency and civil society pressure on public sector departments, has led to better financial performance and more accountability. Accounting officers, in that case leaders of departments (HODs) in the SA Department of Health, are forced to conduct their operations in an ethical manner by virtue of the fact that they will be under surveillance from various stakeholders (Eccles, Pillay and de Jongh, 2011).

Eccles *et al.* (2011) reported that a culture of strong accountability enabled the Westminster Department of Health to achieve finance performance outcomes which are positive because accountability prevented officials from abusing power, thereby ensuring that activities were carried out in a manner that was expected, with due regard to good stewardship, integrity and fairness. According to Harrison, Rouse and De Villiers (2012), accountability motivates efficient control, democratic legitimacy and effective performance. Harrison, Rouse and De Villiers (2012) further asserted that disclosing and accounting have contributed tremendously towards mitigating risks and has prevented deficiencies like financial fraud and other losses within organisations, ultimately leading to organisational financial health.

Christoffel and Hendricks (2012:8) list the following positive results of accountability:

- Improved performance;
- More employee participation and involvement;
- Increased feelings of competency;
- Increased employee commitment to the work;
- More creativity and innovation; and
- Higher employee morale and satisfaction with the work.

These positive results occur when the accounting officer views accountability as a helpful and progressive method of completing work. Furthermore, for accountability to be effective in terms of enhancing organisational performance, there needs to be a high degree of honesty, integrity such that data in accounting is free of material misstatements, is credible and free from any forms of manipulation or undue influence.

Katzenbach (2011) warns against the dangers of ignoring the critical difference between managers holding subordinates accountable and individuals holding themselves accountable in a work environment, as this would overshadow the bigger picture pertaining to the relationship between financial performance and internal controls. Katzenbach (2011) states that subordinate accountability is more important in enhancing organisation-wide accountability than managerial accountability and financial performance. Lencioni (2011) summarises subordinate accountability as involving earning the trust of work colleagues, team members, and the management; accepting public responsibility for individual mistakes and accepting any consequences that may arise; recognising that intent is not the same as performance; checking the progress of subordinates to obtain a deeper understanding of their commitment to duty; displaying openness and transparency;



and showing empathy for others. Lencioni (2011) argues that this will help to improve all types of organisational performance, be it operational, production or financial. This is because subordinates motivate employees to tow the organisational line because of the fear of scrutiny, sanctions or censure that often accompanies negative performance.

#### **2.7.4 Relationship between Ethical Leadership, Passion for Work and Organisational Performance**

According to the aforementioned definition of ethical leadership, it is clear that it is more focused on communicating desired actions that the ethical leader stands for such as high performance, integrity, moral uprightness, dependability, reliability and other positive virtues (Brown, Harrison and Treviño, 2005; Freeman and Stewart, 2006; and Yukl, 2006). Ethical leaders often seek to employ individuals who have similar individual and organisational values like them. On the other hand, passion for work is mainly about displaying strong inclinations to work arising from an internal drive or motivation. Ethical leaders drive moral uprightness, honesty and clearly spell out the virtues that they bring to both the individual employee and the organisation. This alone acts an impetus to drive employee passion to perform their work in a morally acceptable manner (Liden, Sparrowe and Wayne, 1997).

A study carried out by Engelbrecht, Heine and Mahebe (2014) focused on the relationship between ethical leadership and trust in the leader and the effect these constructs have on the work engagement of employees. The study used a sample ( $n=204$ ) of employees operating within various organisations in South Africa. The ethical leadership was measured by the 17-item Leadership of Ethics Scale (LES), which was developed for the purpose of this study. Employee passion for work or alternatively, work engagement, was measured by the original 17-item Utrecht Work Engagement Scale (UWES). The UWES contains three dimensions of work engagement, namely vigour, dedication and absorption (Spangenberg and Theron, 2005). The results indicated that ethical leadership and followers' work engagement has a magnitude to the effect of ( $n^2$ ) ( $t=2.27$ ;  $p<0.05$ ) (Engelbrecht, Heine and Mahembe, 2014: 4-9). The reliability and validity of the findings from this study were confirmed by the use of the Cronbach's alpha statistic whose coefficient of the scales exceeded 0.7. Thus, the findings by Engelbrecht, Heine and Mahebe (2014) confirm that ethical leadership and passion for work are positively correlated (Rothmann, 2003). Similar observations were made by Den Hartog and Belschalk (2012), through the performance of the Structural Equation Modelling (SEM), whose findings asserted that employees, who perceived their leaders as acting ethically, tend to report improved engagement in terms of



feeling more vigorous, dedicated and absorptive at work. It was also found that transformational, authentic and ethical leadership are positively related to work engagement because they all have the main drive of value-based leadership (Den Hartog and Belschalk, 2012; Tims *et al.* 2010).

Greguras and Ford (2006) examined the leader-member exchange (LMX) theory which was earlier on postulated by Liden and Graen (1977, 1980). The main tenets of the leader-member theory are that a leader develops a distinct relationship with each subordinate on either work related issues or on a personal level. If the relationship is work-based it will be premised on the contract of employment. Liden, Sparrowe and Wayne (1997) explain that ethical leaders are high on LMX relationships whilst despotic leaders are low on LMX relations. High LMX relationships, which ethical leaders are focused on, are characterised by high levels of mutual respect, liking and trusting something which increases employees' passion for work. Scandura and Graen (1984) highlight that the LMX theory emanated from the role and social exchange theories. The role dimension of the LMX theory posits that effective leaders communicate role expectations to their followers who are then expected to comply. The gist of Greguras and Ford's (2006) argument is that ethical leaders increase subordinates' satisfaction, subsequently increasing their passion and energy. The social exchange dimension of the LMX theory posits that effective ethical leaders arouse positive attitudes in their subordinates such that these subordinates experience feelings of increased obligation, gratitude and trust to the leader and in the process increasing subordinates' passion for work. Greguras and Ford (2006) examined the effects of high LMX on subordinates and discovered that ethical leaders were more effective in increasing subordinate satisfaction with supervisors, commitment to the job, affective organisational commitment and organisational citizenship behaviour than despotic or autocratic leadership. The logical conclusion from this finding from Greguras and Ford (2006) points to the fact that ethical leaders help increase employees' passion for work.

Greguras and Ford (2006) carried out a survey comprising n=422 designed to match supervisor-subordinate dyads. Two surveys were developed for this study: one version for the subordinate and another for the supervisor. Different hypotheses were developed and results were interpreted for each hypothesis. A good example is that of hypothesis 8 and 9 shown below

*Hypothesis 8. LMX-contribution will significantly predict subordinate affective organisational commitment.*

*Hypothesis 9. LMX-professional respect will significantly predict subordinate affective organisational commitment.*

One of the findings from hypothesis 8 and 9 shown above supported the assertion that the more passionate, that the more the subordinate respects an ethical leader, the harder the subordinate worked (LMX–professional respect). The findings further predicted that the more a subordinate likes a supervisor, the more committed the person becomes to both the task and the organisation, often leading to improvements in the performance of an organisation.

In a similar study entitled *Influencing the sales force through perceived ethical leadership: the role of sales force socialisation and person-organisation fit on salesperson ethics and performance*, Charles and Schwepker (2015) focused on the influence of ethical leadership and person-organisation fit on salesperson ethics and performance. The sample ( $n = 408$ ) focused on business-to-business salespeople. The study used three different scales to measure the constructs under investigation. The Ethical Leadership Scale was developed by Brown, Trevino and Harrison (2005), the work group socialisation (WGS) using a scale developed by Hartline, Maxham and McKee (2000) and the Ethics Training (ET) scale developed by the authors. Ethical values person-organisation fit was measured with the scale developed and validated by Netemeyer (1997) which assesses the fit between salespeople's personal ethical values and those of the organisation. The unethical intent was measured using a format developed by Reidenbach and Robin (1988) to assess unethical intent. Behaviour sales performance was measured using a four-item scale employed by Miao and Evans (2007), who adapted it from Behrman and Perreault (1984). In this study, Charles and Schwepker (2015) found correlations between each pair of study construct which do not contain the value of 1.0 at a 95 per cent confidence interval. The results suggest a positive relationship between ethical leadership and work-group socialisation is supported ( $B = .361, p < .01$ ) and positive relationship between ethical leadership, ethics training and organisational financial performance ( $B = .119, p < .05$ ). Ethical leadership is not associated with hours of ethics training. Charles and Schwepker (2015) further reveal that ethical leadership leads to greater ethical values-person-organisation fit which impacts positively on organisational financial performance ( $B = .240, p < .001$ ). The study further notes that, when salespeople's supervising manager demonstrates ethical leadership behaviours, greater work-group socialisation occurs. Also, when the occurrence of ethical values person-organisation fit is expected to be higher, so is the organisation's financial performance. Support is found suggesting that ethical values person-organisation fit is positively impacted by both work-group socialisations. The results indicated that there was a positive



relationship between ethical leadership and work engagement and work group socialisation. It is further stated that top management on ethical leadership was positively associated with ethical climate, confirming that top management ethical leadership is positively related to ethical climate.

### **2.7.5 Relationship between Ethical Leadership, Psychological Capital and Organisational Financial Performance**

Despite criticism from some quarters about the efficacy of ethical leadership in terms of enhancing organisational financial performance, Freeman and Stewart (2007) came up with some useful insight regarding how this type of leadership contributes directly towards employee psychological capital and organisational performance. Freeman and Stewart (2007) assert that ethical leadership directly contributes towards organisational performance through its direct influence on psychological capital. A definition of what psychological capital is and a description of its relationship with ethical leadership and organisational financial performance is discussed in the ensuing section.

Psychological capital refers to “states and traits along a continuum largely determined by the relative degree of stability in measurement and openness to change and development” (Avolio and Luthans, 2006). Psychological capital can be defined as A positive psychological resource made up of four main facets namely hope, resilience, self-efficacy, and optimism (Avey, Luthans and Avolio, and 2010). Positive psychology can be defined as “the conditions and processes that contribute to the flourishing or optimal functioning of people, groups and institutions” (Mullins, 2013:5). Luthans, Youssef and Avolio (2007) state that an employee can be said to have psychological capital provided characteristics displaying positive psychological development such as exuberance of confidence and self-efficacy are manifest. Luthans et al. (2007) further posited that an individual can have psychological capital on account of the fact that they put in the necessary effort to succeed at challenging tasks and have a determination to succeed at the workplace. From the aforementioned, it is clear that psychological capital deals with organisational change and development (Avolio and Luthans, 2006), internal motivation (Avey, Luthans and Avolio, 2010; Luthans, Youssef and Avolio, 2007) and group cohesiveness (Mullins, 2013). Freeman and Stewart (2007) assert that ethical leadership is, in essence, transformational in nature because it has a pervasive influence in transforming the behaviour of subordinates from being less



hopeful, less confident to be more hopeful, confident and optimistic. Thus, as individuals, members become more hopeful, optimistic, confident and resilient from the inspiration that they receive from their ethical leaders, Kozlowski and Klein (2000) assert the aggregate of individual members' hope, self-efficacy and optimism helps towards the achievement of organisational goals and objectives. Podsakoff, MacKenzie, Moorman and Fetter (2009) assert that there are four key behaviours that come out of ethical leadership that help drive psychological constructs namely, hope, optimism, resilience and self-efficacy. Podsakoff *et al.* (2009) assert that ethical leadership involves identifying and articulating a vision-behaviour on the part of the leader aimed at identifying new opportunities for his or her unit/division/company, and developing it, thereby positively impacting on individual hope, optimism and self-efficacy. Podsakoff *et al.* (2009) also insinuate that ethical leadership articulate, inspiring followers with his or her vision of the future. This also drives organisational energy. Additionally, Podsakoff *et al.* (2009) assert that ethical leadership provides an appropriate model-behaviour on the part of the leader that sets an example for employees to follow – one that is consistent with the values the leader espouses for the purposes of inculcating hope, optimism and resilience. Ethical leadership fosters the acceptance of group goals aimed at promoting cooperation among employees and getting them to work together towards a common goal and eventually helps towards increasing collective self-efficacy and ultimately the achievement of organisational goals (Podsakoff *et al.* 2009). Furthermore, Podsakoff *et al.* (2009) point out that ethical leadership communicates a high performance expectations-behaviour that demonstrates the leader's expectations for excellence; quality, and/or high performance on the part of followers. This clearly shows the close link between ethical leadership and the psychological constructs of resilience, self-efficacy, hope and optimism. Ethical leadership provides individualised support-behaviour on the part of the leader that indicates that he/she respects followers and is concerned about their personal feelings and needs. This helps to energise individual employees which in turn fosters confidence (self-efficacy), hope and resilience. Ethical leadership leads to intellectual stimulation-behaviour on the part of the leader that challenges followers to re-examine some of their assumptions about their work and rethink how it can be performed. This strongly influences positive psychological capital and leads to greater employee performance and improved organisational performance.

From the aforementioned key behaviours identified by Podsakoff, MacKenzie, Moorman and Fetter (2009) pertaining to the transformational role that ethical leadership plays in inducing behaviours in individuals, it is clear that they will collectively contribute to positive psychological

capital and positive organisational growth. Ethical leadership drives positive psychological capital through the ethical leader inspiring followers to achieve organisational objectives as a moral obligation. Freeman and Stewart (2007) came up with similar observations to that of Podsakoff, MacKenzie, Moorman and Fetter (2009) by articulating that ethical leaders see their constituents not just as followers, but rather as stakeholders striving to achieve that same common purpose through articulating and embodying the purpose and values of the organisation – a principle that brings about hope, optimism, self-efficacy and resilience.

A similar view was advanced by Yukl (2006) who posited that hope, optimism, self-efficacy and resilience are vitalised as a result of the ability of the ethical leadership to inspire, motivate, and empower their subordinates intellectually, and promote the development of passionate behaviours of their followers so that they become committed to their work for the purposes of achieving organisational objectives. Thus, there is a strong relationship between ethical leadership and psychological capital. Walumbwa *et al.* (2008) support this assertion by explaining that ethical leaders have idealised influence which tends to place followers' needs above those of their own. They share risks with followers and demonstrate devotion to a set of underlying principles and values. Yukl (2006) states that ethical leaders often achieve positive psychological capital through inspirational motivation. This involves motivating and inspiring followers by providing meaning, mutual understanding, and challenge to their work. Walumbwa *et al.* (2008) further point out that ethical leaders also induce hope and confidence through intellectual stimulation which entails stimulating followers to question assumptions, reframe problems and approach old situations in a completely new energetic and passionate way, thereby enhancing organisational financial performance. Podsakoff *et al.* (2009) posit that ethical leadership has a symbiotic relationship emanating from the fact that by acting as a coach or mentor, creating learning opportunities, and fostering a supportive intellectual stimulation it encourages followers to question assumptions, reframe problems and approach old situations in completely new ways such that positive psychological capital is formulated and organisational goals and targets are achieved.

De Hoogh, Hartog and Koopman (2008) carried out a multi-method study where they examined the relationships of the different aspects of ethical leadership (morality and fairness; role clarification; and power), organisational effectiveness, hope and optimism. In the study effectiveness was deemed to be a manifestation of psychological capital and optimism a vital ingredient of passion for work. De Hoogh *et al.* (2008) carried out the investigations using multiple-source ratings. Interviews with CEOs (n=73) were carried out and codes were created for



the existence of leaders' social responsibility and its various facets. De Hoogh et al. (2008) further issued questionnaires which required rating CEOs' leader behaviour (n=130) and another second group of direct reports (n=119), which was centered on rating effectiveness and optimism. The results showed that ethical leadership was positively related to perceived upper management team effectiveness as well as followers' optimism concerning the future of the organisation and their own place within it, which collectively led to positive psychological capital and enhancing organisational performance. However, criticism to the findings by De Hoogh et al. (2008) pointed to the fact that the sample sizes that they used were largely small even though they were a marked improvement from earlier samples of n=39 and n=34 by Cornelius and Lane (1984) and Winter (1987) respectively. This brought to the fore questions about generalisability of the findings in the broader international context. Future research is needed to further our understanding in this area.

In their article *Psychological capital: a new lens for understanding employee fit and attitudes* the authors Larson, Norman, Hughes and Avey (2013) focused their investigation on whether or not the similarities between employees' and their leaders' psychological capital adds up to the understanding of person-organisation fit, employee engagement and job satisfaction. The sample (n=1002) focused on working adults in the mountain states region who were recruited to participate in the two data collections.

In their article *Ethical leadership and employee voice: employee self-efficacy as mediators* the authors Wang et al. (2015) focused on explaining the mediating effect of self-efficacy on the relationship between ethical leadership and employee voice. The sample (n=354) comprises 59 supervisors and 259 subordinates employed in nine firms in China operating in the manufacturing, financial services and high-tech industries. The subordinates were required to assess ethical leadership, self-efficacy, and self-impact and provide information, including age, sex and tenure. The results indicate that the four-factor measurement model fit the data well. All indicator loadings ( $p < .01$ ) suggest convergent validity, thus suggesting that ethical leadership is directly related to psychological capital and organisational performance (Anderson and Gerbing, 1998). The study further tested the variables captured in distinct construct and the results showed that the four-factor measurement model was better than any alternative three-factor model. The results support the discriminant validity of these four measures (Wang et al. 2015).



From the aforesaid articles, it is evident that research regarding the relationship between ethical leadership and psychological capital is done in a variety of settings, thereby adding to the credibility of the findings. Larson, Norman, Hughes and Avey (2013) focused on working adults in the manufacturing, information technology, finance, marketing, and telecommunications industry. Wang *et al.* (2015) did it with a group comprised of professors, senior lecturers, lecturers and support professionals in the institution's College of Economic and Management Sciences. The average age of the sample population was 37 years on both samples, and was from manufacturing, financial, information technology services. The questionnaires were used to collect data. Larson, Norman, Hughes and Avey (2013) used the 24-item psychological capital questionnaires developed and validated by Luthans (2007) to measure psychological capital. Self-efficacy and self-impact was measured using Speitzer's (1995) three-item measure on self-efficacy and self-impact (Wang *et al.* 2015). Both results from the studies conducted by Larson *et al.* (2013) and Wang *et al.* (2015) proved that ethical leadership directly impacts positively on employee psychological capital, ultimately impacting positively both on employee and organisational performance.

#### **2.7.6 Relationship between Ethical leadership, Passion for Work and Psychological Capital**

Being positively psyched at work has far-reaching implications for employees and offers organisations a competitive advantage. Quinn and Dutton (2005) maintain that positive psychological capital is the “fuel that makes great organisations run,” describing it as a renewable resource that benefits both organisations and its members. For example, positive affect and emotional arousal inherent in feeling energised increases employees' creativity (Quinn and Dutton, 2005:36) and efficiency of thought (Fredrickson, 2001). Positive psychological capital allows employees to think constructively about work-related problems and concentrate on the tasks at hand in a passionate and resilient manner (Lykken, 2005). And finally, the intensity and volume with which “energised” employees invest physical resources support their desire to realise organisational objectives through resilience (Spreitzer, Sutcliffe, Dutton, Sonenshein and Grant, 2005). Consequently, passion at work resonates with the “positive movement” in psychological capital or with the ways in which organisational members facilitate extraordinary performance outcomes (Spreitzer and Sonenshein, 2004).

According to Avolio, Gardner, Walumba, Luthans and May (2004), the perceived relationship between psychological capital, passion and ethical leadership has not yet been fully established

because of the little attention given to this research topic. However, Avolio *et al.* (2004:810) points to the fact that an effective leadership is one that inspires hope and optimism among individual organisational members through articulating organisational goals and its vision and mission clearly in a manner that inspires followers to become passionate about their work in an ethical manner. Thus, an ethical leadership is expected to relate positively to effectiveness, instilling hope, confidence, optimism and a spirit of resilience that further creates passion among individuals to be persistently engaged in work activities that result in the achievement of organisational objectives and goals. Furthermore, De Hoogh and Hartog (2008:331) and Avolio *et al.* (2004:810) concur that ethical leaders “increase individuals’ passion in the work that they do through their openness to input and objective decision making concerning matters important to employees. The high moral standards, integrity and honesty that ethical leaders foster positive expectations among followers, enhancing levels of trust and willingness to cooperate with the leader for the benefit of the organisation”. This statement serves to confirm that, in reality, there is a positive and symbiotic relationship between ethical leadership, passion at work and psychological capital. As an ethical leader displays moral uprightness through objectivity in treating employees and through integrity, followers develop positive feelings of hope, confidence, optimism and resilience about the future of their organisation which are inculcated by their leaders. This results in a high likelihood to take instructions or to meet organisational objectives and targets in an energetic and passionate way so as to meet the expectations of the ethical leader.

#### **2.7.7 Relationship between Ethical Leadership and Proactive Behaviour**

Bindl and Parker (2010) assert that ethical leadership directly contributes towards organisational performance through its direct influence on employee proactive behaviour. A definition of what proactive behaviour is and a description of its relationship with ethical leadership and organisational financial performance is discussed in the ensuing section.

According to Mayseless (2010), ethical leaders provide both direct and indirect support to their followers. Direct support is provided through coaching, mentoring, providing guidance and counselling to employees so that they work towards achieving organisational goals in an ethical way (Mayseless, 2010). Indirect support is provided through symbolic gesturing whereby the leader communicates through actions his/her expectations. According to Bindl and Parker (2010), researchers have proposed that leader support makes employees behave proactively at work. Leader support can facilitate the opportunities for employees to bring about change, as well as



their motivation to do so which in itself is a clear demonstration of proactive work behaviour. According to Parker (2010), proactive behaviour is defined as a disposition towards taking action to influence one's environment and bring about change; proactive personality should positively predict all proactive behaviours. Proactive work behaviour involves creating change, not merely anticipating it (Bateman and Crant, 1993). LePine and Van Dyne (2006) state that proactive behaviour is focused on accomplishment, particularly on accomplishment with real impact driven by a motive to improve the business socially, economically and financially for the benefit of both the organisation and the proactive employee.

#### **2.7.8 Ethical Leadership, Employee Engagement and Organisational Performance**

Robinson, Perryman and Hayday (2014) argue that ethical leadership is the only type of leadership that is best disposed to practice employee engagement as opposed to other leadership styles. Coulter (2013) concurs by pointing out that ethical leaders often seek to engage their subordinates so as to ensure that they are well looked after and are committed to achieve positive outcomes for their organisation. There are more than 50 definitions of employee engagement (Vance, 2012). Organizations around the globe are striving to build a culture of engagement, yet the various definitions often cloud their efforts. Rewards and recognitions, learning and development, health and fitness, perks and benefits are all categories that commonly use employee engagement to describe their initiatives (Vance, 2012).

Kruse (n.d), a *Forbes* contributor and *New York Times* best-selling author defines employee engagement as the emotional commitment the employee has to the organisation and its goals. Podsakoff, MacKenzie, Paine and Bachrach (2013) define employee engagement as the art of getting people to believe what you want them to believe. Robinson, Perryman and Hayday (2014) view employee engagement as an emotional connection an employee feels toward his or her employment organisation, which tends to influence his or her behaviour and level of effort in work-related activities. Shaw (2012) defines employee engagement as a business management concept that describes the level of enthusiasm and dedication a worker feels toward his/her job. Shaw (2012) further posits that engaged employees care about their work and about the performance of the company, and feel that their efforts make a difference. Shuck (2015) defines employee engagement as an emergent working condition having positive cognitive, emotional and behavioural states directed toward organisational outcomes. Coulter (2013) provides a summative definition that captures the essential elements of employee engagement by referring to employee



engagement as an emotional state where employees feel passionate, energetic and committed towards their work, manifested through employees fully investing their best selves – their hearts, spirits, minds, and hands – towards the work that they do.

## **2.8 Emotional Intelligence and Job Performance**

Moorman, Blakely and Nichoff (2014) argue that organisational performance is sometimes enhanced by any leader who is good at emotional intelligence management. The main point advanced by Moorman et al. (2014) is that job and organisational performance is not solely a function of ethical leadership or any other form of leadership, but rather a function of leader actions such as the practice of emotional management. The management of emotional intelligence issues in the workplace is crucial in terms of influencing employee performance as well as the degree to which they help their organisations achieve organisational strategic goals. Moorman et al. (2014) posit that the proper management of emotional intelligence at the workplace is essential because it helps management to be in a position to maintain and stabilise interpersonal relationships between and among employees, reduce employee absenteeism and help to reduce withdrawal behaviours that employees have.

Sy and Cote (2014) provide another direct role played by emotional management intelligence by pointing out that managers who have high emotional intelligence are able to identify employees who have stress and help facilitate the reduction of stress prevailing in particular employees, so that the employee can cope with such as situation. Goleman (2013) also posits that through emotional management intelligence, effective leaders are able to understand how their subordinates feel, thereby being in a position to handle management-employee relationships in an effective manner with the ultimate result that employees are effectively motivated to complete their tasks creatively and perform well among their peers.

## **2.8 Strategies to Inculcate Ethical Practices in an Organisation**

According to Eccles, Pillay and de Jongh (2011), there is a close relationship between accountability and financial performance. Thus, ethical leaders are crucial in terms of playing the role of holding their employees to account. Frink and Ferris (2013) assert that one way by which leaders can make their subordinates perform to high ethical standards is to regularly communicate

the consequences that will befall employees for failing to perform ethically and according to expectations. This must then be followed by a consistent and unbiased application of consequences so that it acts as a deterrence to would be contemplators for engaging in unethical behaviour. Frink and Ferris (2013) draw parallels with the goings on in the private sector whereby Chief Executive Officers are forced to perform better and ethically due to strict oversight, supervision and strong controls due to the high need to protect shareholder wealth.

### **2.8.1 Promotion of Accountability**

Eccles, Pillay and de Jongh (2009) reported that a strong accountability culture enabled the Westminster Department of Health to realise positive finance performance because accountability deterred health officials from abusing power, thereby ensuring that activities were carried out in a manner that was expected, with due regard to good stewardship, integrity and fairness. According to Harrison, Rouse and De Villiers (2012), accountability motivates efficient control, democratic legitimacy and effective performance.

According to Kumar, Moodley and Reddy (2013), ethical leadership needs to ensure that government departments, like that of a municipality, ensure that their spending is in line with set budgets and provide reports on a 30 day and yearly basis, and honour the obligation to submit yearly financial statements 60 days after the financial year end and to publish annual reports on performance. Furthermore, they will need to ensure that those officers, who are responsible to account but are negligent to their duties such that they do not commit themselves to ensure compliance with organisational policies, are made to face strict disciplinary sanctions, including but not limited to dismissal. Similar disciplinary measures need to be meted on treasury employees and management who fail to discharge their responsibilities in a proper ethical manner. The new Public Service Act regulations and the trend towards performance contracts will complement this approach (Gildenhuys, 2010:64). Accounting officers are expected to appoint Chief Financial Officers as part of their senior management to enable them to fulfill these responsibilities.

One of the most important financial management reforms related to municipal financial governance has been the unbundling of South African departments and operations into responsibility centres. These responsibility centres help to assist not only ethical leaders but all manner of leadership to achieve positive financial performance (Kumar, Moodley and Reddy, 2013). A responsibility centre can be defined as any functional unit headed by a manager who is



responsible for the activities of that unit (Kumar et al., 2013). These enable managers to monitor organisational functions. The financial management reforms established four types of responsibility centres (Kumar et al., 2013). A revenue centre was identified as an organisational unit in which outputs should be measured in monetary terms but are not directly compared to input costs. Another responsibility centre is the expense centre where costs are measured and compared to monetary inputs. Although public sector institutions such as local authorities do not necessarily need profit centres and investment centres, knowledge of each unit's responsibilities and accountability goes a long way in strengthening internal controls and financial performance.

### **2.8.2 Consistent Enforcement of Municipal Laws**

The strict and consistent application and enforcement of the MFMA by ethical leaders can help in the achievement of positive financial performance. The MFMA confers specific responsibilities on accounting officers (Kumar, Moodley and Reddy, 2013). The strength of this lies in the fact that it clearly articulates who is responsible for each function, making it easier to enhance accountability and deter fraud and corruption. As alluded to above, the South African public service is regulated by the MFMA No.1 of 1999, as amended. The major purpose of this act is to eliminate incidences of fraud, financial misappropriation, wasteful expenditure, fruitless expenditure and irregular expenditure through gazetted various internal controls that help to improve financial performance and accountability (Kumar, Moodley and Reddy, 2013). The Act was amended and came up with added dimensions which vests four key responsibilities on accounting officers so as to ensure the proper operation of basic financial management systems, including internal controls in departments and any entities they control, which, according to Kumar, Moodley and Reddy (2013), are meant to ensure that government departments like, that of local authorities' departments, do not overspend their budgets. In addition, accounting officers are required to prepare reports every 30 calendar days and every 365 days cycle and needs to also submit yearly financial statements. The other requirement is that all the reports be it monthly or annual need to be published according to a format prescribed by the relevant government department. The strength of the MFMA No.1 of 1999 (as amended) lies in the fact that it emphasises that those accounting officers who are found not to be complying with the stipulated reporting conditions will be subjected to a disciplinary process with potential outcomes being demotion or outright dismissal. Thus, to be effective enough, ethical leader needs to strictly comply

with the provisions of the MFMA and need to inculcate strong compliance attitudes on the part of their followers.

Undoubtedly adherence to the dictates of the financial reforms being put forward in the public sector will contribute significantly to the realisation of better financial performance and accountability.

### **2.8.3 Instituting Disciplinary Procedures**

According to Botes, Brynard, Fourie and Roux (2012), Chapter Five of the amended MFMA of 1999, dated 30 April 2015, requires all national and provincial institutions and entities to have accounting officers. It further spells out their responsibilities and the disciplinary sanctions that will apply in the event of negligence in fulfilling these responsibilities (Botes, Brynard, Fourie and Roux, 2012). The success of these controls in enhancing financial performance depends on the commitment of officers at the National Treasury to carry through their threats of implement sanctions on violators of these internal controls. Otherwise, this Act becomes useless – good on paper but poor on implementation. Cases of poor implementation of enforcement mechanisms in the public sector help to explain reasons why certain government departments and entities continue to be victims of fraud, corruption and recipients of qualified audit reports. This chapter obligates accounting officers to produce monthly and annual financial reports for their political heads and accounting officers to prevent overspending on budgets (Botes, Brynard, Fourie and Roux, 2012).

### **2.8.4 Promoting Employee Engagement**

Soane (2014) advocated for the need for ethical leaders to undertake serious steps towards the promotion of an environment whereby ethics is tolerated, promoted and adhered to Sarti (2014) added on to this notion by advocating for the need for the creation of an environment whereby employees freely engage with their work in such a manner that the work brings about a sense of enrichment and fulfillment as opposed to scenario whereby employees view their job as just a mundane grid characterised by rigid routines. Soane (2014) further espoused the view that work needs to bring about a sense of meaning and a sense of purpose which ultimately brings about a sense of being. Sarti (2014) pointed out that various styles of leadership has a differential effect



on employee engagement. For instance Sarti (2014) asserts that authoritarian style of leadership is associated leads to dedicated and vigorous type of engagement whilst the participative leadership style is associated with both absorption and vigour type of engagement. The reason for the different outcomes on employee engagement lies in the sense that both authoritarian and participative leadership styles have different approaches towards treating their juniors. For example the participative type of leadership is one that heavily involves subordinates in making decisions whilst the authoritarian leadership style is characterised by giving orders to subordinates and focuses more on performance of routine roles. This explains why employees under the participative form of leadership become more dedicated to the cause of the organisation because they have a buy-in of the decisions of the organisation by virtue of having participated in arriving at these decision whilst with authoritarian leadership the level of dedication is lower but absorption in terms of doing the work is high.

### **2.8.5 Performance Management Systems**

According to Thompson, Strickland and Gamble (2012) it is imperative for ethical leaders to develop a performance based system where by employees are paid according to their level of contribution to the organisation's goals. Thompson et al. (2012) emphasised that the implementation of a performance based pay system often helps to improve productivity of employees and helps to insulate the organisation against competitors who are also busy developing and implementing strategies meant to outmanoeuvre their rivals. A performance based pay system uses a system of incentives and rewards in order to help motivate employees perform to the best of their ability. Thompson et al. (2012) posited that performance based system is useful because research has proven that it increases employees' commitment to the organisation and energise employee to perform and exceed expectations as employees will be attracted to the reward. Consequently incentives and rewards offered to employees greatly enhances employees' commitment towards executing an institution's strategy as well as leading to greater improvements in operating excellence.

### **2.9 Conclusion**

This section defined the concepts of ethical leadership and financial performance, the contribution of unethical practices towards financial performance, the role of ethical leadership organisational financial performance and strategies to improve financial performance. The literature review section concluded by examining strategies for inculcating and enforcing ethical values in organisations. The next chapter presents the research methodology.

## **CHAPTER THREE**

### **RESEARCH METHODOLOGY**

#### **3.1 Introduction**

The previous chapter defined the concepts of ethical leadership and financial performance, the contribution of unethical practices towards financial performance, the role of ethical leadership organisational financial performance and strategies to improve financial performance. This section presents the research design, research strategy, sampling strategies and techniques, data collection tools for primary- and secondary data that was employed in the study .The chapter further discusses aspects of data quality control, data analysis techniques (primary data), data analysis techniques (secondary data) that will be employed in the final research and finally the conclusion.

#### **3.2 Research Approach**

There are three main research approaches namely, quantitative, qualitative and the mixed methods research approaches. According to De Vaus (2011), a quantitative research approach is predominantly a mathematical and statistical quantification of research findings. A qualitative research methodology is wholly focused on human aspects in terms of getting a comprehensive understanding of what they believe in, what their perceptions on certain issues are, what their culture is and so on (De Vaus, 2011). A mixed methods research methodology utilises both aspects of quantitative and qualitative research approaches as a way to gain from the strength of the two approaches.

For the purposes of this research, qualitative research methodology as a research approach for collecting and analysing data was implemented. The rationale for choosing a qualitative research approach was due to the fact that it produces detailed descriptions, analyses and information about the role of ethical leadership on financial performance.

#### **3.3 Research Design**

A research design is a set of systematically and logically laid out procedures which have been planned in advance in order to enable the person carrying out the research to gather research



information that is sync with the research aims, objectives and problem statement (Plooy-Cilliers, Davis and Bezuidenhut, 2014). According to Cooper and Schindler (2015), a research design is a layout of research procedures that allows the person carrying out the research to carry out his/her research in such a manner that he/she is able to achieve the objectives for which the study was initiated to achieve. According to Welman, Kruger and Mitchel (2011), a research design can be described as a strategic framework which translates or leads to the successful execution of the research of a given research. Kothari (2014) defines a research design as a plan that can be described as formal in nature and which lays out how the researcher intends to conduct his/her study in order to collect information that one can later use to either prove whether a certain hypothesis is true or is false.

This research is purely qualitative and used qualitative research designs. According to Welman et al. (2011), qualitative research designs are predominantly interpretive in nature and they normally attempt to give an in-depth description of a research aspect. They also attempt to decode information and translate the same information in an attempt to come out with deeper meanings of people's experiences, people's beliefs, people's values and other phenomena that exists in the social and corporate world. According to Welman et al. (2011), there are several research methodologies but the main ones are discussed individually below, followed by a discussion and justification of the chosen research design.

- **Exploratory research** is defined as a preliminary investigation into a hypothetical or theoretical idea in order to discover something new (De Vaus, 2014). An exploratory research design attempts to get an understanding of an idea that has not been previously investigated in order to make sense out of it. It normally lays the foundation for future research. According to Wilson (2010), an exploratory research has two dimensions i.e. it looks at a new angle of a topic or it explores something from a theoretical perspective. The exploratory research design was not adopted for this research because of its inability to give an analytical perspective of the research topic.
- **Descriptive research.** The main objective of a descriptive research design is to explain the "who, what, when, where, and how" of a topic of interest. It seeks to portray the actual characteristics of a phenomenon of interest (De Vaus, 2014). The main advantage of a descriptive research design is that it helps create a fuller picture. Descriptive research

designs are concerned with the description of the current status of a phenomenon. The reason why the descriptive research design was not adopted for this study lays in the fact that it is not in conformity to the research topic, in the sense that it does not give analysis as to the nature of lecturer readiness to teach entrepreneurial courses.

- **Explanatory research.** Paul et al. (2012) points out that an explanatory research design is defined as an approach that brings about the connection of ideas that helps the researcher to understand cause and effect, explaining why things are what they are. Explanatory research looks at how things come together and interact. Explanatory research design is also variably known as the analytical research design because its focus is on the analysis of the cause and effect scenarios (Paul et al., 2012:12). It is the most suitable method to analyse and explain the factors affecting employee performance at HGDM.
- **Causal research designs.** According to Gorard (2013:43), causal research designs are concerned with establishing an empirical association or dependency between an independent and dependent variable. It is premised on scenarios that are based on conditional statements like “if X is like this, then Y will be like that”. Causal effect normally results when there are variations in one phenomenon that cause a change in the dependent variable. They are usually suited for scientific experiments as in quantitative research methodologies. However, this research was not adopted because of the realisation that not all relationships are causal; two unrelated events can appear at the same time by mere coincidence.

This study on the relationship between ethical leadership and financial performance adopted a qualitative descriptive research design. According to Plooy-Cilliers et al. (2014), the main purpose of a descriptive research design is to give the reader of his/her findings a detailed narrative and description of the characteristics or relationships that exist between research variables or the nature of a research aspect as accurately as possible. The rationale for adopting a descriptive research design lay in the fact that it helped to portray the current status of ethical leadership at HGDM and helped to give detailed descriptions which helped to create a fuller picture of employee perceptions regarding the existence of ethical leadership, challenges hindering the effectiveness of ethical leadership and the effectiveness of ethical leadership in terms of achieving positive financial performance at HGDM.



### **3.4 Research Strategy**

According to Welman et al. (2011), a research strategy is a tool or a method that a researcher utilises to collect data from primary research participants. According to Piergiorgio (2013), research strategies fall into three main domains, namely phenomenological qualitative research strategies, positivist quantitative research strategies and the mixed methods research strategies. When it comes to phenomenological qualitative research strategies, one can be exposed to a wide variety of different types, such as collecting research data through focus group discussions case study research, action research or through the aspect of grounded theory (Welman et al., 2011). On the other hand, a positivist research strategy solely employs questionnaire surveys or laboratory experiments to gather information about the research. The mixed methods approach employs a combination of phenomenological and positivist research strategies. However, there is a need to briefly explain aspects of phenomenological research strategies and positivist research strategies. Phenomenological qualitative research strategies are premised on the idea that there are multiple truths or realities to any given situation. As such, the research strategies need to be in a position to bring out several realities about employee perceptions regarding the existence of ethical leadership, challenges hindering the effectiveness of ethical leadership and the effectiveness of ethical leadership in terms of achieving positive financial performance at HGDM. On the other hand, positivist research strategies are premised on the idea that the strategies should bring about a single universal truth about ethical leadership and financial performance.

This study adopted a phenomenological research strategy. Although there are several phenomenological research strategies such as focus group discussions, case study research, action research strategy and grounded theory, this research adopted semi-structured interviewing as a research strategy of choice.

### **3.5 Adopted Research Strategy**

For the purpose of this research semi-structured face-to-face interviewing was adopted. The reason lies in the fact semi-structured interviewing allowed the researcher to extract a large amount of information pertaining to employee perceptions regarding the existence of ethical leadership, challenges hindering the effectiveness of ethical leadership and the effectiveness of ethical leadership in terms of achieving positive financial performance at HGDM. The research strategy involved meeting each individual respondent and asking the interviewee questions aligned to the

objectives. The interviewing was purely face-to-face. The rationale for adopting face-to-face interviewing of respondents lay in the fact that this research strategy provided an opportunity for the interviewer to probe further in order to get more clarity on any issue. This allowed for the collection of in-depth information about the research topic and research questions.

### **3.6 Population and Sampling**

This study was conducted at Harry Gwala District Municipality in KwaZulu-Natal (KZN) province. HGDM is a Category C municipality situated in southern KZN. UBuhlebezwe, uMzimkhulu, Greater Kokstad and Dr Nkosazana Dlamini-Zuma are local municipalities under the jurisdiction of Harry Gwala District Municipality. The municipality provides basic services to its residents such as water and sanitation. The municipality has 339 employees in various departments including finance from whose conduct ethics and ethical practices are expected for improved financial performance.

#### **3.6.1 Target population**

The sample size for this research included a total of 11 senior management employees at HGDM.

#### **3.6.2 Sampling**

Sampling is a science that originated from the realisation that not all items in a population can be examined given the time and resource constraints. Thus, the practicality of things in terms of time and resource limitations gave rise to sampling whereby a researcher only identifies a certain number of people or items in a population that need to be examined (Landerneau, 2013). As such, sampling gather views from a small number of people and those views are then generalised to be representative of the views of the remainder of the population that has not been examined (Wilson, 2001). Sampling however, does not involve humans as samples only; it also involves several other items like animals and soils.

Sampling types can be divided into two main domains namely, probability- and non-probability sampling. Under probability sampling respondents who are earmarked to participate in the research are selected from the total population using random selection as a method (Landerneau, 2013). Examples of probability sampling methods include random sampling, stratified random sampling, systematic random sampling and quota sampling (Landerneau, 2013). Non-probability sampling does not involve the random selection of respondents but uses the explicit judgment and experience of the researcher to decide who should be included in the research (Wilson, 2001). Examples of



non-probability sampling methods include purposive sampling, convenience sampling and snowball sampling.

For the purposes of this study, both purposive- and convenience sampling were adopted. Purposive sampling involved targeting a certain group of people who have the requisite knowledge about the role of ethical leadership on financial performance, namely senior managerial employees. In this particular research, senior managerial staff were purposively selected to provide information on employee perceptions regarding the existence of ethical leadership, challenges hindering the effectiveness of ethical leadership and the effectiveness of ethical leadership in terms of achieving positive financial performance at HGDM. Convenience sampling involved selecting any senior managerial staff that were available and willing to participate in the interviews as per appointment.

### **3.6.3 Sample Size**

Refers to a subset of the entire population selected to participate in the study. The sample size for this research included 11 senior managerial employees at HGDM, drawn from the entire target population presented above.

### **3.7 Data Collection Instrument**

The data collection instrument for this research was done through the use of an interview schedule. An interview guide is a research instrument used for data collection in qualitative studies whilst a survey questionnaire is a data collection instrument appropriate for quantitative studies. The main difference between a survey questionnaire and an interview guide lies in the fact that the former is predominantly made up of closed questions that have corresponding guided answers from which respondents can choose whilst the latter comprises open-ended questions which requires respondents to freely express whatever views they have on a question presented to them (Wilson, 2001). Since an interview guide was the sole research instrument used in this research, a detailed discussion about a questionnaire is deemed not necessary. The use of an interview guide was found necessary because the open-ended questions requiring unrestricted responses from respondents resonated well with the main objective of this qualitative research which sought to obtain a detailed understanding of the research objectives. An interview guide provides respondents with an opportunity to answer research questions in the manner in which they feel they have explained their views without any form of restriction (Strauss and Corbin, 2010). Tape recorders were employed to record information from respondents.

### 3.8 Data Quality Control (Reliability and Validity)

#### Reliability

Saunders *et al.* (2012) defined reliability as the extent to which results are consistent over time and an accurate representation of the total population under study. To ensure reliability of the study, only managerial employees working under HGDM were requested to participate and respond to questions, from a pre-compiled interview guide, which were derived from the research topic. To ensure reliability of responses difficult words were removed from the interview guide. Only simple and well-structured open-ended questions were used.

#### Validity

Saunders *et al.* (2012) defined validity as a determination of whether the research truly measures that which it was intended to measure or how truthful the research results are. The reliability of information collected was ensured by exercising extreme caution, so much so that only completed interview guides from bonafide respondents taken from the target population of managerial employees were included in the formulation of the findings. The validity of the findings was ensured through checking again whether data collected from primary research was correctly transcribed and included on the findings. Validity was also ensured by aligning the methods, approaches and techniques to which they would be measured and explored. Consequently, validity was ensured by streamlining the questions in the research instrument to the research aim, problem statement and research objectives.

Data quality control in qualitative research study involves ensuring trustworthiness of the research data and findings. Positivists in quantitative research methodologies generally question the trustworthiness of the findings from qualitative research and generally cites issues of subjectivity and manipulation to distrust whatever findings emanates from phenomenological research studies (Shenton, 2014). However, Silverman (2013), Guba (1981) and many other researchers have demonstrated that much of the terminology used by positivists to demonstrate reliability and validity of their findings have similar equivalence in qualitative studies. Guba (1981) in particular came up with corresponding constructs used in quantitative studies to their equivalence in qualitative studies.

Table 3.1:



Quantitative studies terminology	Equivalent qualitative studies terminology
Internal validity	Credibility
External validity	Transferability
Reliability	Dependability
Objectivity	Conformability

Source: (Shenton, 2014)

This research ensured trustworthiness and good data quality control by ensuring that the findings are credible, transferable, dependable and confirmable.

According to Welman et al. (2005), reliability refers to the extent to which a measure is consistently applied in a research. In this research, reliability was ensured by making sure the interview guide issued to respondents contained the same questions, so as to ensure consistency. Validity refers to the extent to which a question in the interview guide measures the intended constructs that is actually intended to measure (Strauss and Corbin, 2010). Thus, validity was ensured by making sure that the questions in the interview guide were in sync with the aims of the research, the statement of the problem and the objectives of the research. Validity of the research data was ensured by interviewing respondents working specifically in a senior managerial capacity at HGDM. The following forms of reliability and validity were ensured during the consummation of this research.

### **Credibility**

The credibility in qualitative research involves analysing what came out of the research in order to make an assessment as to whether the research findings are credible, sensible and understandable in the circumstances (Denzin and Lincoln, 2011). The first strategy that was conducted to ensure credibility of the findings was the adoption of appropriate, well-recognised research methods pertaining to a research of a qualitative nature. This encompassed the use of open-ended questions to allow the respondents greater latitude to express themselves, in addition to ensuring that the questions in the interview guide were aligned to the research questions, the problem statement and the objectives. Furthermore, the researcher ensured that a correct target population was identified and that only employees of HGDM were included in the study. One strategy employed in order to

gain satisfaction that the findings are credible was to perform ensure triangulation of data whereby the researcher compared the findings to findings from previous studies that were conducted under similar circumstances to a similar research topic, as well as comparing the research findings to other published works on the same topic, in order to look for the degree of deviation. Thus, the greater the deviation from the mentioned sources might put the credibility of the findings in question. This may require further corrective work or conducting repeat interviews. The results from triangulation showed greater similarities between the existing literature and the research findings. Credibility of the findings was ensured by conducting member checks, whereby a preliminary report of findings per respondent was prepared and given back to the respective respondents so that they could express an opinion as to whether the findings as presented truly reflected the views that they expressed in the interviews which they participated in. The purpose of conducting member checks on respondents was to make the researcher ensure credibility by making respondents consider whether the words they expressed during the interviews match what they actually intended (Bouma and Atkinson, 2005). After this process was undertaken, there were minor adjustments and further additions to what respondents had said before and these were factored into the research findings. Where the researcher felt that some responses were suspicious and devoid of truth, iterative questioning was adopted to enhance the credibility of the findings. Patton (1990) describes iterative questioning as referring to a method whereby the researcher does further probing and extracts related data through the rephrasing of questions with the sole purpose of trying to look for any form of contradictions, so that falsehoods are detected leading to the data being discarded and only truths adopted in the findings.

**Transferability** refers to the notion of how the research findings can be comparable with other research findings that were obtained under comparable similar conditions and circumstances. Should the findings bear close resemblance to earlier research findings, the conclusion that will be arrived at will say the findings are credible (Denzin and Lincoln, 2011). Marchionini and Teague (2011) point out that transferability is ensured by providing details about the context in which the research was undertaken and involves provision of background information encompassing aspects like boundaries of the study, the number of organisations taking place, restrictions in the type of people who contributed data, number of participants involved in the fieldwork and the data collection methods that were employed (Marchionini and Teague, 2011). In addition transferability encompasses other aspects like the number and length of the data collection sessions and the time period over which the data was collected.



Transferability of the research findings was ensured by providing background data that provides the context in which the data was gathered and findings constructed, so as to allow meaningful comparisons to be made about ethical leadership and performance within HGDM and other organisations. As a way to ensure transferability, the following information is provided to users of this research:

- The boundary of the study is restricted to employee perceptions regarding the existence of ethical leadership, challenges hindering the effectiveness of ethical leadership and the effectiveness of ethical leadership in terms of achieving positive financial performance at HGDM.
- That the study only involved 11 managerial employees as respondents in this study and that operational employees were excluded.
- That the findings were derived from semi-structured interviewing which were once off and involved individual one discussion utilising open-ended questions.
- A tape recorder was used to collect information from respondents and later transcribed.
- The average interview sessions lasted between 20 and 30 minutes.

**Dependability** ensures that the research findings are consistent and could be repeated (Denzin and Lincoln, 2011). The researcher ensured that there were to be no mistakes in the process of integrating data collected and the findings so as to enhance trustworthiness of the findings.

Trustworthiness will be ensured by ensuring that the research findings will be supported by the collected data (Denzin and Lincoln, 2011).

### **3.9 Data Analysis Techniques**

Data collected from respondents was put into classes or categories. This process was followed by the coding process which involved assigning numerical alpha codes to each identified theme. Data collected from respondents was analysed using thematic analysis. Ryan and Bernard (2012) posited that thematic analysis is a method for identifying, analysing, and reporting patterns (themes) within data. The most acceptable definition of what counts as a theme is given by Ryan and Bernard (2012) who opined that something counts as a theme if it captures something that is important and aligned to the research question and problem statement. This definition became the guiding principle in terms of determining what a theme was in this research. Thematic analysis

involved several steps (Mouton & Marais, 2012). The first step involved familiarisation with the contents of data collected. This was achieved by repeatedly reading the data collected. The second step involved generating initial codes, searching for themes, reviewing themes, defining and naming themes and the carrying out of the final analysis. Each key theme or idea was then coded and analysed. Codes, such as respondent names, were generated and themes such as, negative effects of unethical practices, effects of ethical practices on financial performance and strategies, were generated. Since the role of ethical leadership towards ensuring financial performance is available from three data sources such as organisational records, interview data and published works, it ensures compatibility of the information so that findings and conclusions are comparable and compatible among the various sources.

One of the benefits of thematic analysis is its flexibility. Through its theoretical freedom, thematic analysis provided a flexible and useful research tool, which potentially provided a rich and detailed, yet complex account of data.

### **3.10 Limitations of the Study**

This study focused on Harry Gwala District Municipality alone. This means that the findings of this study are limited to Harry Gwala District Municipality only and cannot be used to generalise on the role of ethical leadership on financial performance. This limitation extends to the fact that only a small sample of eleven participants, mainly senior management, in the research make the findings not generalisable to the entire population of HGDM. However, the results of the study might be a benchmark for other related institutions. Furthermore the researcher's presence during data collection was unavoidable, this might have affected interviewees' responses. Further the time and resources allocated for this study limited the number of research participants which might limit the amount of information gathered.

#### **3.10.1 Delimitation of the Study**

The following delimitations were imposed:

- Role of ethical leadership on financial performance only.
- The study was confined to HGDM only.
- The findings are limited to data collected from the 11 respondents.



### **3.10.2 Elimination of Bias**

The researcher avoided bias in conducting the research by ensuring that gender neutral words were used. Furthermore, the research instrument did not contain any questions that identified people by race or ethnic group. This also extended to the fact that language that suggested evaluation of people through stereotyping was avoided throughout the research. There was no attempt throughout this research to make assumptions about various age groups. Elimination of bias is one of the most important considerations that a researcher must take into consideration when undertaking a research. The research instrument also avoided using language that suggested or reinforced stereotypes. There were no attempts whatsoever to make assumptions. For the purposes of eliminating bias, the interview guide avoided questions that required respondents to identify themselves by race or ethnic group because this was deemed discriminatory and irrelevant. Therefore, it eliminated the potential of researcher bias

### **3.11 Ethical Considerations**

Ethical approval for this research was gained from the University of KwaZulu-Natal and written authorisation to conduct the study was granted from the Department of Human Settlements in KwaZulu-Natal province. These are the ethical considerations that the researcher upheld:

#### **3.11.1 Confidentiality and Anonymity**

According to Bhattacharjee (2013), anonymity is an act of protecting the identities of research respondents so that they are kept hidden from third persons. Bhattacharjee (2013) defined confidentiality in research as an act of ensuring that information obtained from respondents is kept secret and unavailable to third parties. Confidentiality and anonymity of research information was ensured by setting aside a room that was always securely locked so that unauthorised person would not have access to the completed questionnaires. Anonymity was guaranteed by ensuring that the personal information of respondents was not asked, and neither was it required anywhere on the survey. Additionally the information supplied was not be linked to any name for any reason except for the purpose of coding.

#### **3.11.2 No harm to Participants**

The need to protect respondents from any form of danger or harm during the interviewing process was observed and all necessary precautions were undertaken to ensure this objective. The security of respondents was ensured by asking respondents answer questions from the questionnaire at their homes or any places where they felt relaxed and free to respond.

### **3.11.3 Informed Consent**

Furthermore, the research participants were initially apprised of the research, aim, objectives and purpose of the research. Potential respondents were advised that their participation was voluntary and that respondents had the right to withdraw from participating in the research at any time they deemed necessary. Respondents were told in advance that their participation was highly confidential and anonymous and that no one was going to be accorded the right to know of their participation. Participants were further informed that the information they provided was going to be treated with strict confidentiality and was going to be analysed as aggregated statistics data strictly for academic purpose.

### **3.12 Conclusion**

This section presented the research design, research strategy, sampling strategies and techniques, data collection tools for primary data and secondary data that were employed in the study. The chapter further presented and discussed aspects of data quality control, data analysis techniques that were employed in the final research and finally, the conclusion. The next chapter presents the research results, interpretation and discussion of findings.



## **CHAPTER FOUR**

### **RESEARCH RESULTS, INTERPRETATION AND DISCUSSION OF FINDINGS**

#### **4.1 Introduction**

The previous chapter looked at the research methodology and data collection methods and other related topics. The results of data collected in Chapter Three are interpreted, analysed and discussed using statistical methods. As shown, the interview guide included questions aimed at answering the research questions, objectives, and ultimately achieving the aim of the study. The findings cover the contribution of unethical practices towards the financial performance of Harry Gwala Municipality and the contribution of unethical practices towards the financial performance of Harry Gwala Municipality identified in the literature. The findings presented in this chapter fulfil the main objectives of this research namely:

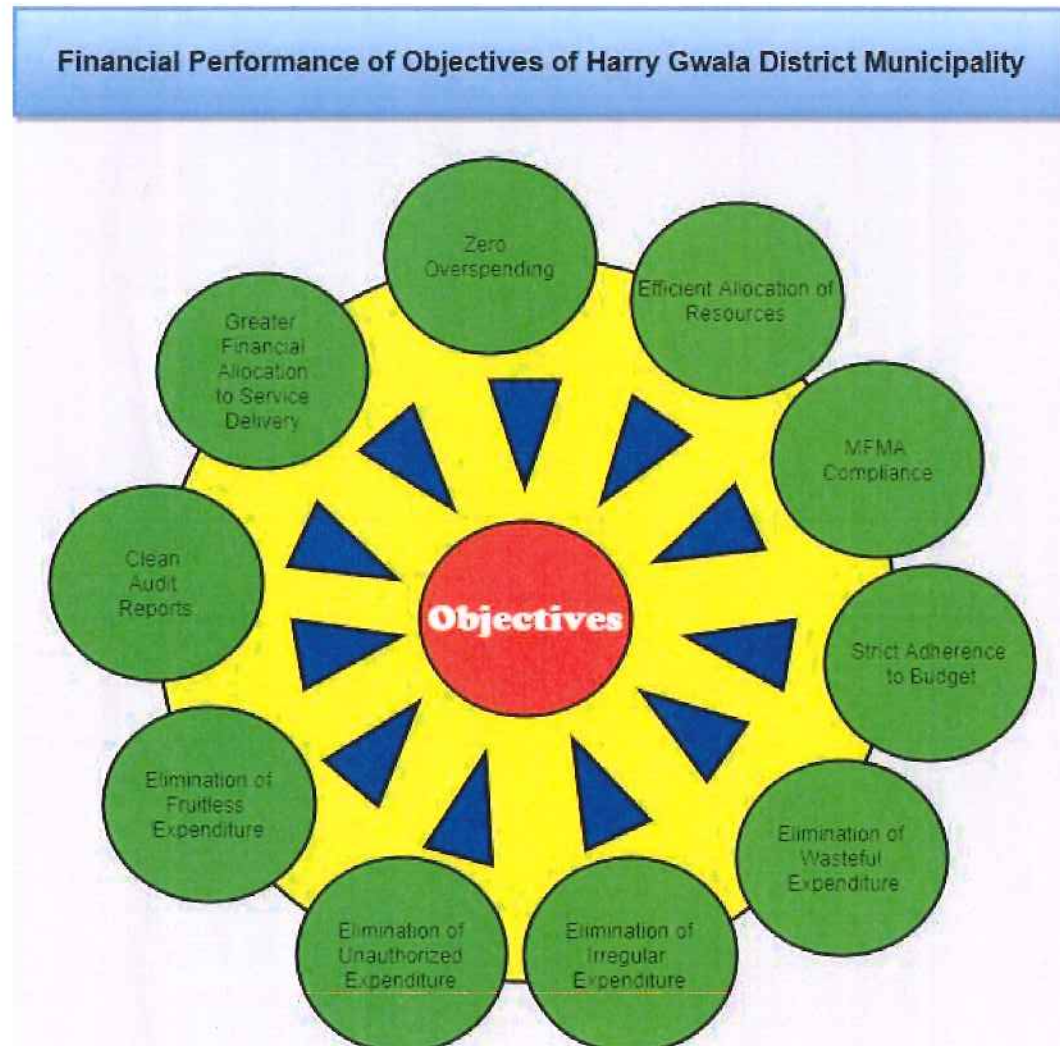
- To investigate the financial objectives of HGDM
- To assess the understanding of ethical leadership and financial performance in HGDM;
- To investigate the perceptions of leadership ethics at HGDM;
- To examine the challenges at HGDM hindering the effectiveness of ethical leadership;
- To examine the contribution of unethical practices towards the financial performance of HGDM; and
- To evaluate the role of ethical leadership on the financial performance of HGDM.

In general, the findings mainly point to the existence of several financial objectives which revolves along proper financial management and achievement of positive budgetary outcomes and spending at HGDM. The findings further point to predominance of positive perceptions regarding the level of ethical leadership compared to neutral or negative perceptions. The findings also revealed several negative effects of unethical practices that existed at HGDM in the remote past. Furthermore, the findings point to the greater importance of ethical leadership in terms of

enhancing positive financial performance. The next section presents the findings as per each research objective.

#### 4.2 Findings on the financial objectives of HGDM

Figure 4.1 below illustrates the financial objectives of HGDM. These financial objectives are discussed are corroborated interview excerpts from respondents and discussed below.



**Figure 4.1: Findings on the financial objectives of HGDM**

From the findings depicted in figure 4.1, one can establish that HGDM has got several financial objectives that it aims to fulfil all the time. Respondent AA and DD articulated that the municipality's primary objective is to reduce overspending and spend financial resources in line with what was budgeted for and authorised.



*Respondent BB explained that one of the financial objectives of the municipality is “to achieve clean audit reports”*

*According to the interview excerpt from respondent CC: “The budgetary objectives are aimed at eliminating fruitless and irregular expenditure.”*

*Respondent DD pointed out: “The major financial objective of the municipality has to do with combatting fraud, corruption and misappropriation of funds”. Respondent JJ also concurred with assertions by respondent DD by pointing out that “the primary objective of Harry Gwala District Municipality is to ensure that there is no fraud, misappropriation of funds or corruption”.*

*Respondent FF “basically we have two overriding objectives namely maintaining the integrity of our spending patterns to be in line with the MFMA prescriptions pertaining to spending public funds in line with the authorised budget and secondly achieving positive financial performance outcomes devoid of material misstatements, fraud and corruption”*

*Respondent KK pointed out that “the objective is that we must be united against corruption, fighting corruption in almost all its manifestations so that we manage the financial affairs of the municipality with integrity”*

Some respondents put more emphasis on asserting that the main financial objectives of HGDM objectives is to ensure better service delivery. This finding is corroborated from the following interview excerpts:

The interview excerpt from respondent EE revealed that another financial objective of the municipality is to *“ensure that more financial allocations are channelled towards service delivery”*.

Respondent AA expressed the view that *“the municipality aims to channel all its financial resources towards service delivery and improve living standards of our people”*. According to respondent HH, one of the municipality’s objectives is *“to allocate financial resources according to MFMA policy prescriptions to ensure better service delivery”*

Another respondent pointed out that *“elimination of unauthorised expenditure is another objective. This is evidenced by the interview excerpt below:*

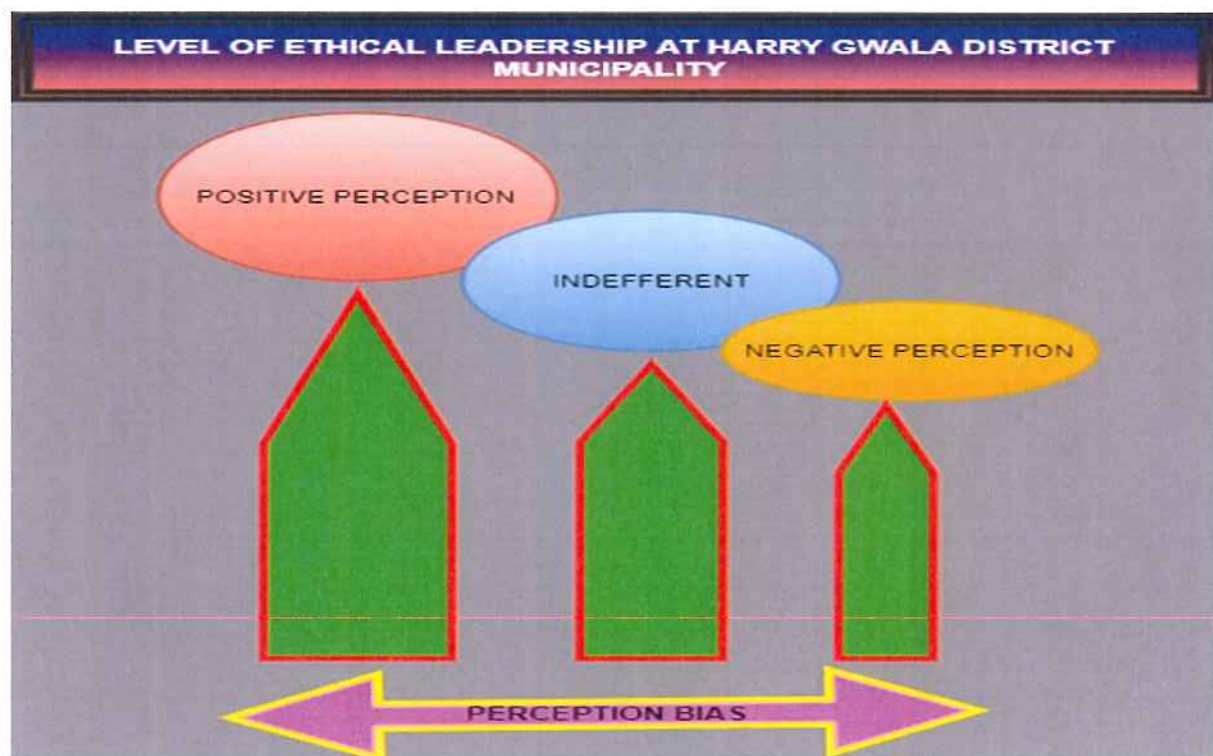
*Respondent GG: “The municipality aims to do away with incidences of unauthorised expenditure so that funds are spent solely for the improvement of service delivery”.*

*Respondent II alluded: “The municipality's other objective is to allocate financial resources efficiently, without bias and prejudice. So that funds are spend to improve service delivery in all areas”.*

This finding resonates with assertions by Burger and Durcharme (2013) and Correia *et al.* (2012). For instance Burger and Durcharme (2013) highlight that organisational financial objectives are linked to a reduction of financial improprieties, achieving budgetary objectives and clean audit reports. Correia *et al.* (2012) also point out that the financial objectives of both private and public sector organisations are mainly to eliminate unauthorised expenditures, wasteful expenditure and irregular expenditure.

#### 4.3 Findings on Respondent Perception of Ethical Leadership at HGDM

Figure 4.2 below illustrates the findings on respondent’s perception of ethical leadership at HGDM



**Figure 4.2: Findings on respondent perception of ethical leadership at HGDM**

The findings depicted in figure 4.2 reveal that a majority of respondents have a positive perception concerning the existence of ethical leadership, whilst a significant number were indifferent regarding the existence of ethical leadership, with a few having negative perceptions of ethical leadership at HGDM. This is evidenced by the following interview excerpts from respondents:



*Respondent BB: "Only a few of the leaders are unethical but a majority are ethical."*

*Respondent CC: "Most of them are ethically good."*

*Respondent EE: "Most of the leadership is ethical although there are some few who act unethically as pointed out in some audit reports the leadership is ethical as far as I know"*

*Respondent FF: "Ethical leadership genuinely exists at HGDM."*

*Respondent HH: "The leadership does not have bad issues on their back."*

*Respondent JJ: "yeah there is more of unethical leadership than ethical leadership here, the Auditors' reports can bear testimony to this"*

The following interview excerpts demonstrate that some respondents were indifferent as to whether ethical leadership exists at HGDM:

*Respondent AA: "You might never know really."*

*Respondent DD: "It's difficult to say because corruption happens in the dark."*

*Respondent GG: "Rumours are abound but there is no proof yet, so I can't give a clear response."*

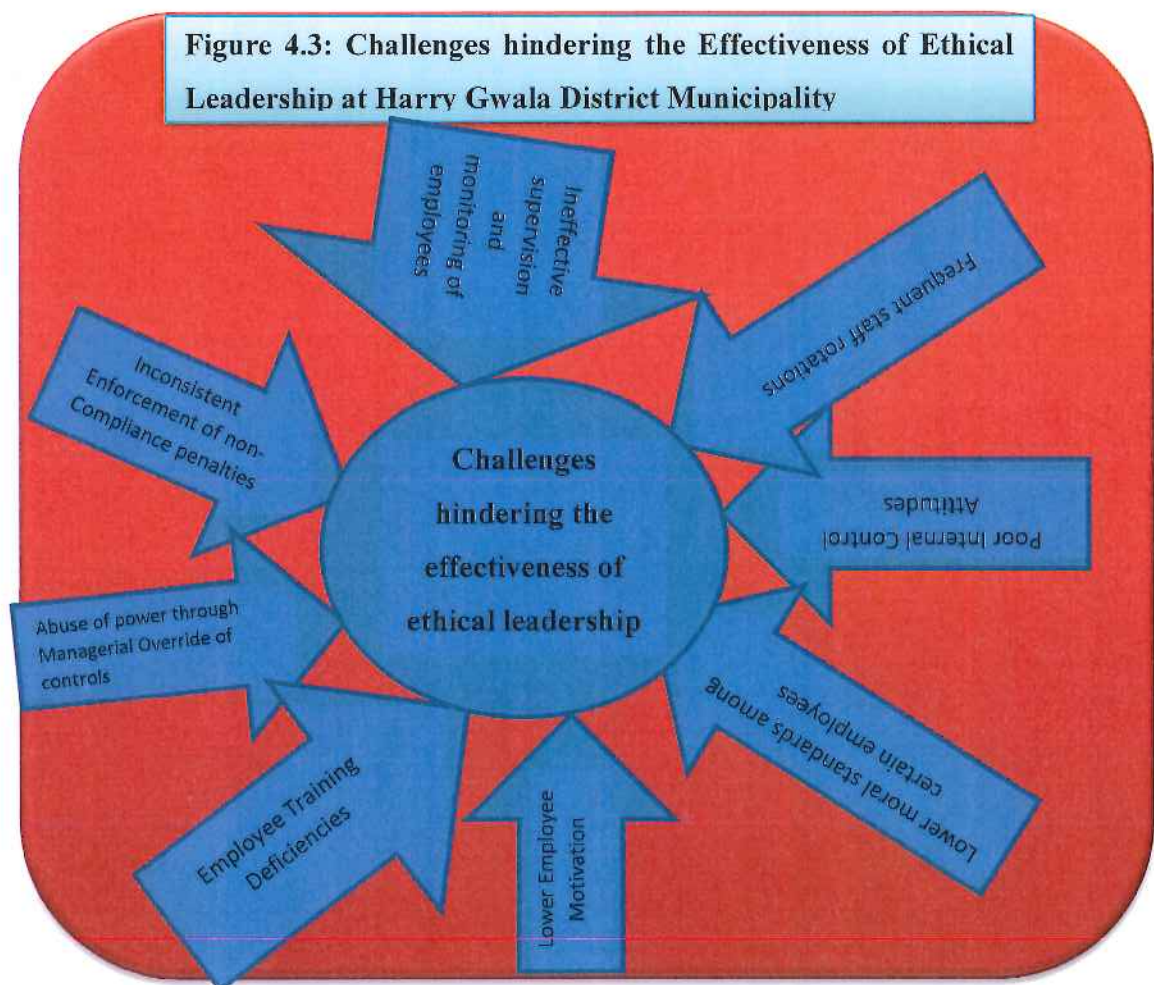
The following interview excerpts demonstrate that a few respondents had negative perceptions of the existence of ethical leadership at HGDM:

*Respondent II: "Corruption is inevitable in municipalities, some managers are corruptly enriching themselves, especially the ones I know; they will be caught soon."*

*Respondent KK: "generally there is a perception that some municipal officials lacks integrity in the manner they do things."*

#### 4.4 Findings on Challenges at HGDM hindering the Effectiveness of Ethical Leadership

Figure 4.3 below summarises the challenges hindering the effectiveness of ethical leadership at HGDM



**Figure 4.3: Challenges hindering the effectiveness of ethical leadership at HGDM**

As depicted in figure 4.3 above, the effectiveness of ethical leadership is being hindered by several factors which includes, among other things, ineffective supervision and monitoring of employees, inconstant enforcement of non-compliance penalties, employee training deficiencies, lower moral standards among certain employees, lower employee motivation, poor internal control compliance attitudes and abuse of power through managerial override of controls.



## **Ineffective Supervision and Monitoring of Employees**

Respondents BB and EE pointed out that ineffective supervision and monitoring of employees ranked among some of the challenges hindering the effectiveness of ethical leadership at Harry Gwala District Municipality. This finding is corroborated by the following interview excerpt from respondents. Respondent BB pointed out that:

*“The major challenge hindering the effectiveness of ethical leadership arises from the issue of weak supervision and monitoring of employees, [and] is related to the fact supervision of employees by some of the department heads, managers, supervisors at functional levels is not effective enough to have that [a] deterrent effect on unethical practices. In most cases, some people with a supervisory role are not visible enough to monitor how things are done. This weakness extends to monitoring of employees. Though there are other managers who are doing well in terms of supervising and monitoring their subordinates and instilling ethical practices in the organisation, their good work is often weighed down by some of them who do not adequately supervise and monitor their staff, thereby providing room for all manner of unethical practices which ends up prejudicing the municipality financially.”*

This finding demonstrates that some managers within the municipality are not doing enough to supervise and monitor an employee and this is being exploited by some unethical employees who do illegal things that prejudice the organisation.

A similar view was expressed by Respondent EE who pointed out that:

*“The bid by some leaders at the municipality to act ethically and promote good governance is foiled by some managers in various departments who do not perform their supervisory and monitoring roles effectively. Some managers rarely check their subordinates work; one doesn’t understand whether they are too trusting or they are downright unconcerned about how their subordinates perform their work. That’s why the municipality ends up receiving bad financial reports because some bad things are detected when it is too late to take corrective deterrent action.”*

The findings from respondents BB and EE, relating to ineffective supervision and monitoring of employees as one of the challenges hindering the effectiveness of ethical leadership at HGDM, is in line with views expressed by Harrison et al. (2012:244) who similarly point out that employees are highly likely to deviate from compliance with internal controls, especially in cases where

employee supervision and monitoring is highly weak and ineffective. Boyd et al. (2013) put forward the view that weak supervision by managers always creates a loophole that can provide an opportunity for unscrupulous employees within the organisation to do unethical things. Harrison et al. (2012:244) further posit that consistent failure by the management to monitor and check employees work in terms of compliance with internal control systems is a leading cause of explaining why employees do not often comply.

### **Inconsistent Enforcement of Non-Compliance Penalties**

Respondents AA and GG were of the view that some managers in the municipality are hindering the effectiveness of ethical leadership through their inconsistent application of penalties on those caught doing unethical things. This finding is corroborated by the following interview excerpts:

Respondent AA: *"The challenge is that there is selective application of the law, there are those ethical leaders who rule without fear or favour, they treat every case on its own merit but there are those leaders in the municipalities who investigate cases and apply disciplinary measures to certain employees but other employees are not touched at all by the management, despite having committed grave offences with glaring evidence."*

Respondent GG: *"There is this challenge that some managers fear prosecuting certain persons who have flouted organisational rules or acted unlawfully. So in the municipality we have ended up having certain persons "classified" as untouchables by virtue of the aura of invincibility around them and on other side there are those employees who are perceived as easy prey and they are the ones who are prosecuted. So, in effect, this has led to ethical leaders failing to rein in some people who are found on the wrong side of the law, whilst others are prosecuted and disciplined"*.

This finding demonstrates that some managers at the municipality do not consistently apply penalties to their employees. The findings confirm that there is selective application of the law, whereby consequences are applied inconsistently for the same offence. Stapenhurst et al. (2011:18) make similar assertions to those posed by respondent AA and GG who posited that inconsistencies in disciplining employees for their transgressions is a deviation from the norms and values espoused under ethical leadership. Also, views expressed by respondent AA and GG correspond to similar assertions made by Boyd et al. (2013:63) who point out that if the management of an organisation is weak in terms of enforcing the policies of the organisation and administering consequences of unlawful behaviour, then there is a greater likelihood that employees will exploit their weakness to undertake unethical practices.



### **Employee Training Deficiencies**

Respondents BB and FF were of the view that training deficiencies in the municipality are hindering the effectiveness of ethical leadership. This finding is corroborated by the following interview excerpts:

Respondent BB: *"Though our employees are trained in various capacities from tertiary institutions and are holders of various qualifications, the training they have received does not include ethics. In other words, most of the training that the employees received is deficient in terms of inculcating ethical and moral values among employees at the workplace."*

Respondent FF: *"None of our training programmes incorporate ethical training, so some of our employees do lack ethical values. That's why certain staff do wrong things and this needs to be corrected."*

Respondent KK: *"Comprehensive training on ethical conduct is what is lacking in our municipality".*

The findings can be interpreted to mean that the kind of training that employees at HGDM received from their tertiary training or receive from in-house training workshops do not incorporate ethics and instilling ethics among employees. This finding resonates with views expressed by Gendron et al. (2010:278), who assert that the lack of adequate training leads to the creation of employees who are not only incompetent but also unethical and who fail to understand their duties and responsibilities. Green (2013:2) points to a scenario whereby employees who are not clear about the limits to their powers, authority or responsibilities in an organisation give rise to unethical behaviour.

### **Lower Employee Motivation and Poor Internal Control Compliance Attitudes**

Respondents HH and II expressed the view that lower employee morale is among some of the challenges hindering the effectiveness of ethical leadership. This finding is corroborated by the following interview excerpts:

Respondent HH: *"Some unethical and corrupt practices are due to the fact that employee morale is lower because of being underpaid, so some of the employees end up doing unethical things to make ends meet."*

Respondent II concurred and posited that: *"Motivation to do things the ethical way is very low arising out of a number of organisational factors."*

Respondent FF also added the view that, *“Existing lower levels of employee morale have negatively led to poor internal compliance attitudes as some employees have developed a careless attitude to complying with organisational policies which is the ethical thing to do.”*

The views expressed by respondent II resonates with similar views raised by Cranston et al. (2012) who cite an example of an oppressive environments whereby ethical employees are afraid to report serious unethical issues occurring within the organisation for fear of being reattributed or attacked as “whistle-blowers”. This finding also resonates with views expressed by Verschoor, (1998) who posits that the issue of too much compliance management by ethical leaders tends to be a much weaker motivator for employees. That’s because following an ever-increasing list of rules can also diminish independence and proactive problem-solving, and end up creating more work for ethical managers who will eventually become ineffective. On a similar note, Beasley et al. (2014) lament that, in most cases, ethical leaders in an organisation face the challenge that some managers and subordinates lack the much needed commitment to ethical behaviour, explaining the reason why some employees in the organisations resist ethical directives.

### **Lower Moral Standards among Certain Employees**

Respondents CC and EE cited the existence of lower moral standards among some employees as among some of the challenges hindering the effectiveness of ethical leadership at the municipality. This finding is corroborated by the following interview excerpts:

Respondent CC pointed out that, *“Corruption is part of the DNA of some of the employees we have here. The level of morality is just disgusting and this takes a heavy toll on managers and other employees who want things done in an ethical way. This will further involve greater tenacity and effort in trying to bring these people to tow an ethical line.”*

Respondent EE concurred and mentioned: *“Lower moral standards are the devil incarnate scuttling all efforts of ethical leaders in the municipality and more needs to be done to bring about a new culture of ethics.”*

Respondent JJ also observed that *“some of our staff do not act with integrity well enough and they are sometimes caught on the wrong side of the law”*

From the views expressed by respondents CC and EE, it is apparent that Harry Gwala District Municipality has some employees among its ranks who are perceived to have lower moral standards, thereby hindering the effectiveness of ethical leadership at the municipality. Beasley et



al. (2009) similarly point out that certain unethical subordinates under ethical leaders always take advantage of the inherent weaknesses in the internal controls which ethical leaders put in place to curb unethical behaviour. Similarly, research conducted by Blair (2011) also revealed how easy fraud can be perpetrated by internal immoral staff by colluding with external people. Blair's (2011) were substantiated by evidence collated on procurement fraud, where service providers colluded with the officials to inflate construction overhead costs and invoiced local government institutions.

### **Abuse of Power through Managerial Override of Organisational Controls**

Respondents AA, EE and HH expressed the view that abuse of power through managerial override of organisational controls is one of the the challenges hindering the effectiveness of ethical leadership at the municipality.

Respondent AA was of the view that, *"Ethical leaders are also frustrated by receiving instructions from some higher ups who by pass them and offer instructions to some subordinates to do things in a certain unethical way."*

Respondent EE explained that, *"Doing things in an ethical way is sometimes complicated by some powerful people in top positions who pursue self-serving interests which are at variance with ethical values and in some cases, they are so powerful so as to make it risky to say no, with resignation left as the only option"*.

Respondent HH concurred by pointing out that, *"The issue of certain management overriding controls is a cause of concern because it is against ethical values."*

This finding confirms the views expressed by Morehead (2014) who makes similar assertions by pointing out that ethical leadership is often in conflict with incidences of abuse of power by those in high positions who issue instructions to override organisational policies and procedures.

#### 4.5 Findings on the Contribution of Unethical Practices towards the Financial Performance of HGDM

Figure 4.4 below summarises the findings on the contribution of unethical practices towards the financial performance of HGDM

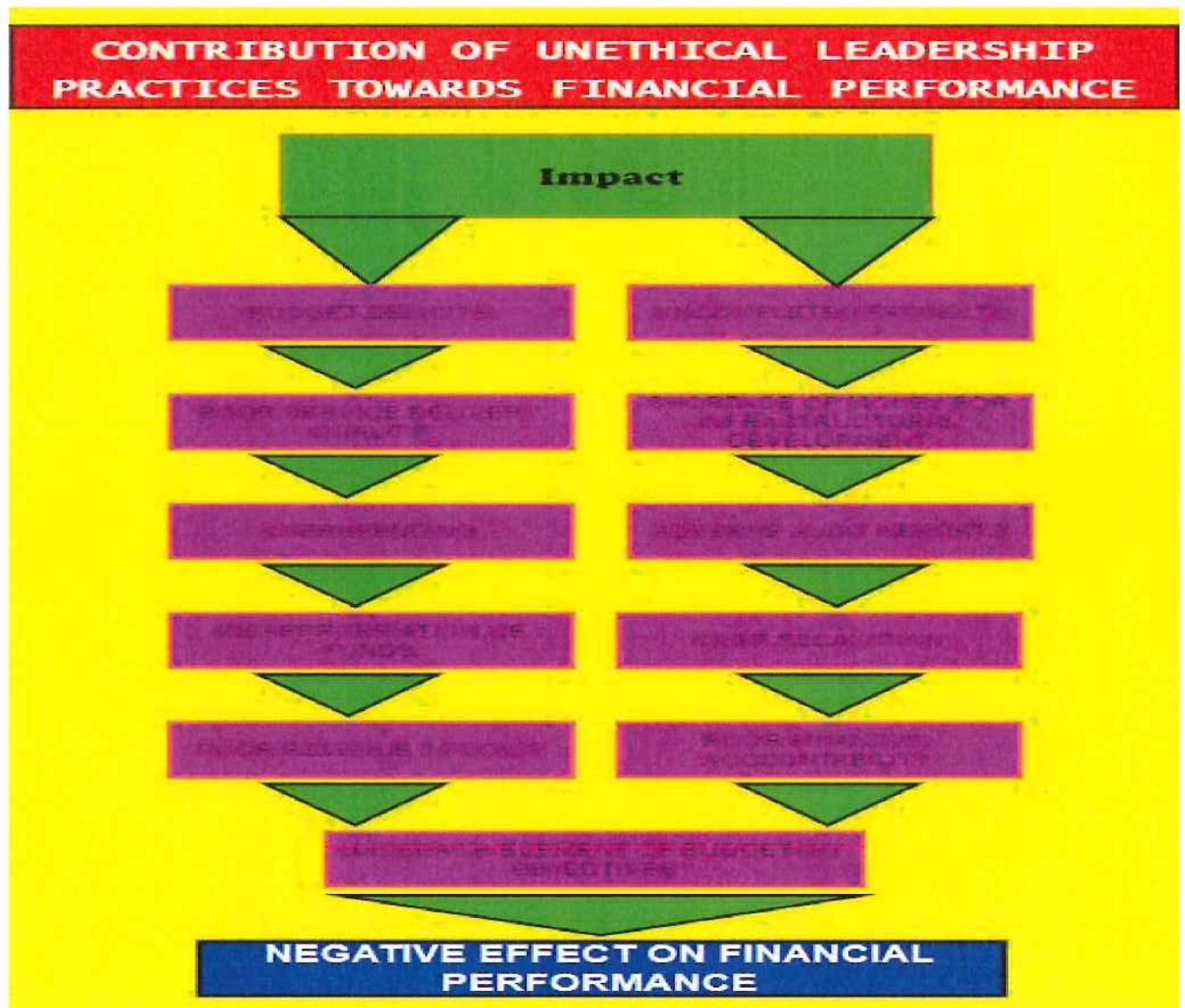


Figure 4.4: Findings on the contribution of unethical practices towards the financial performance of HGDM



According to findings presented in figure 4.4, several respondents were able to express their views regarding the contribution of unethical practices towards the financial performance of a municipality. However, given the predominance of positive perceptions of the existence of ethical leadership at HGDM, these findings reveal the views of respondents regarding what the consequences of unethical practices can be if unethical practices were to occur at HGDM. The following interview excerpts reveal the views of respondents regarding the contribution of unethical practices:

### **Budgetary Deficits**

The findings revealed that unethical practices may contribute to budgetary deficits as money will have been diverted to unauthorised uses. This finding is corroborated by the following interview excerpts:

*Respondent AA: "Unethical practices can lead to misappropriation of funds and financial shortages."*

*Respondent HH: "Theft of funds can occur resulting in budgetary deficits."*

*Respondent JJ "the end result is that funds are lost to thieves resulting in budgetary deficits"*

This finding correlates with the views expressed by Dlamini (2015) who points out that some budgetary deficits emanate from unethical practices.

### **Project Completion Failures**

The findings revealed that some respondents were of the view that unethical practices result in the failure of a municipality to complete set projects and infrastructure. This supported by the following interview excerpts:

*Respondent BB: "Failure to achieve budgetary objectives due to corruption."*

*Respondent DD: "Incomplete projects due to financial misappropriation."*

*Respondent CC: "They contribute to failure to complete infrastructural projects as money is diverted to personal use."*

This finding vindicates views expressed by Krogstrup and Wyplosz (2010) who expressed the view that unethical practices contributes significantly to project completion failures.

### **Adverse Audit Findings**

Some respondents expressed the view that unethical practices lead to adverse audit reports and reputational damage, something that points to the failure to spend financial resources in a proper

manner, resulting in poor service delivery and municipal performance. This finding is evidenced by the following interview excerpts:

*Respondent EE: "Unethical practices lead to qualified audit reports."*

*Respondent GG: "They result in cost escalation as missing funds needs to be replaced through further budgetary allocations."*

*Respondent II: "They lead to accountability failures as unethical leaders attempt to conceal unethical practices."*

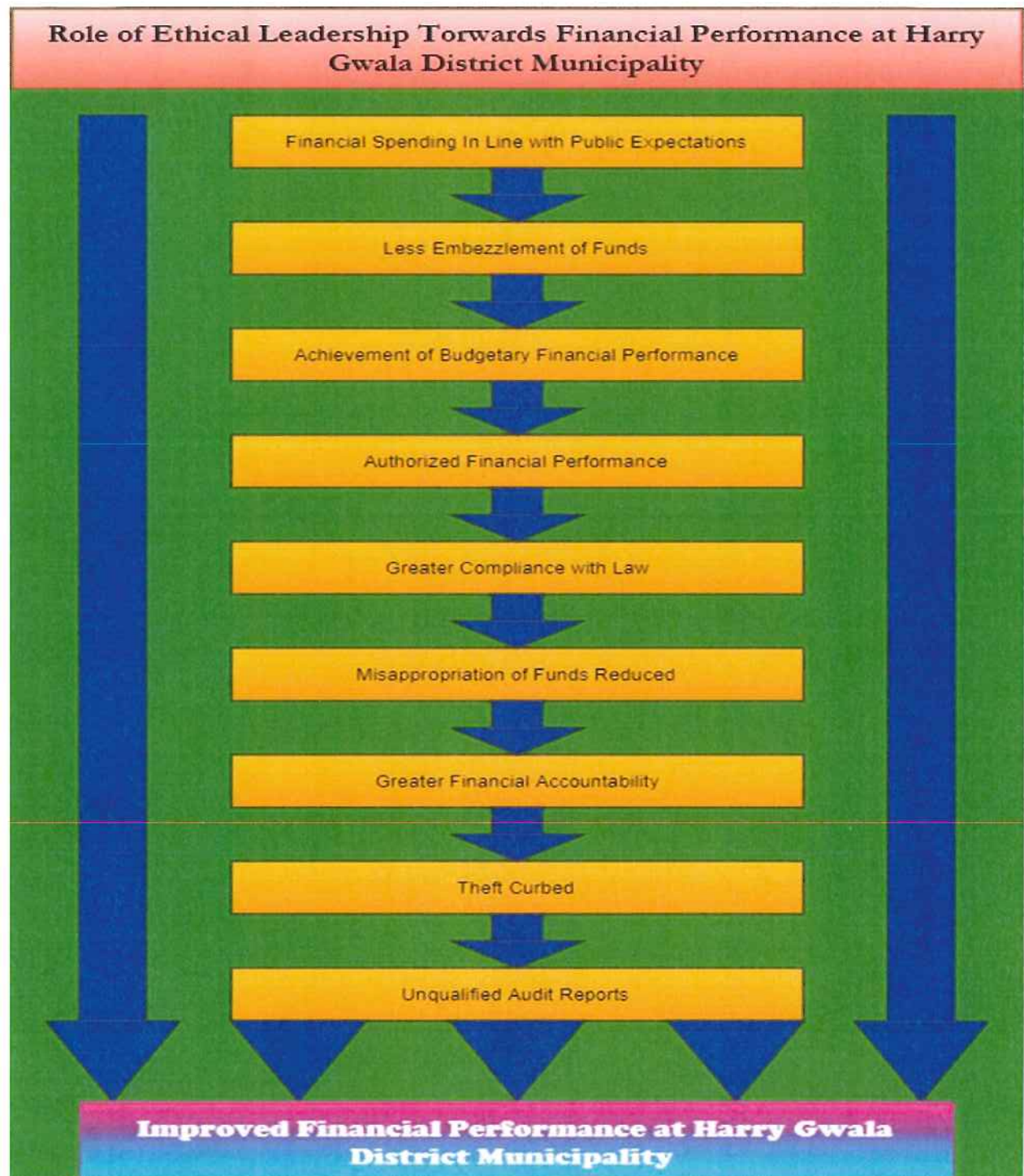
*Respondent KK: "unethical practices leads to adverse audit findings"*

This finding resonates with assertions by the Auditor-General Report of 2014/15 that cited that unethical practices in some municipalities is a major reason why there are growing numbers of material misstatements related to the recording of immovable assets, recording of intangible assets as well as moveable assets, accrued departmental revenue, employee related costs and accruals.



#### 4.6 Findings on the Role of Leadership towards Ensuring the Financial Performance of HGDM

Figure 4.5 below summarises the findings on the role of leadership towards ensuring the financial performance of Harry Gwala District Municipality.



#### **Figure 4.5: Findings on the role of leadership towards ensuring the financial performance of Harry Gwala District Municipality**

From the findings it is apparent that respondents viewed the roles of the leadership towards ensuring the financial performance of Harry Gwala District Municipality as being to:

- Ensure that financial spending is in line with public expectations;
- Ensuring there is less embezzlement of funds;
- Ensure the achievement of budgetary objectives;
- Ensure that spending is authorised;
- Ensure greater compliance with the law;
- Ensure reduction of misappropriation of funds;
- Ensure financial accountability;
- Ensure theft of public funds is curbed; and
- Ensure the attainment of favourable audit reports (unqualified audit reports).

##### **Ensure that Financial Spending is in Line with Public Expectations**

According to some respondents, the role of an ethical leader is to ensure that financial spending is in line with expectations of members of the community that were obtained from public participation forums during the budgetary preparation process. The following interview excerpts express the views of some of the respondents:

*Respondent BB: "They help to see to it that money is spent in line with community needs."*

*Respondent JJ: "Leaders are there to ensure financial spending goes to service delivery items which communities are expectant of."*

This finding is in accord with the views expressed by Christoffel and Hendricks (2012) who point out that ethical leaders ensure that financial spending is always directed towards fulfilling the objectives for which budgets were created for.

##### **Ensuring there is Less Embezzlement of Funds**

Respondents expressed the view that the leadership plays a role of ensuring that embezzlement of funds does not occur under their watch. This finding is corroborated by the following interview excerpts:

*A Respondent AA: "Ethical leader puts a stop to financial fraud."*



*Respondent DD: "They are strict on financial theft and quick to punish offenders,"*

*Respondent EE: "They are intolerant to financial dishonesty."*

This finding concurs with assertions by Boyd et al. (2013) who point out that ethical leadership plays a critical role in terms of putting in place internal controls to help improve financial performance of their organisations, so as to reduce the occurrence of unethical practices such as corruption and magnitude of poor financial performance. Harmanson et al. (2012) come up with similar assertions by pointing out that ethical leaders put in place internal controls that prevent and detect errors, fraud and mismanagement, thereby improving the financial performance of an organisation.

### **Ensure the Achievement of Budgetary Objectives**

Respondents also expressed the view that ethical leaders are focused on achieving budgetary objectives.

*Respondent CC: "They always ensure the achievement of financial budgetary aims."*

*Respondent II: "They are bent on achieving what was planned for."*

*Respondent GG: "Ethical leaders always strive to achieve the best with the resources they have."*

This finding resonates with views expressed by Freeman and Stewart (2012) who point out that ethical leaders often exude an unwavering commitment towards achieving budgetary objectives.

### **Ensure Spending is authorised**

One respondent pointed out that ethical leaders promote positive financial performance through ensuring that all the spending is authorised by appropriate persons. The following interview excerpt corroborate this view:

*Respondent DD: "Under ethical leaders, there is strict enforcement of the authorisation procedure for all transactions."*

This finding conforms to the views expressed by Pickett (2013) who opines that ethical leaders do not condone actions whereby transactions are carried out without authorisation.

### **Ensure Greater Compliance with the Law**

The findings from respondents reveal that they perceive ethical leaders as people who ensure that financial spending is done in compliance with the law such as the MFMA. The following interview excerpts corroborate this finding:

*Respondent AA: "They strictly abide by the law."*

*Respondent JJ: "Ethical leaders spend money in compliance with the municipal legislation."*

*Respondent EE: "They always ensure compliance with the MFMA."*

This finding concurs with Boyd et al. (2013) who express the view that ethical leaders always put in place internal controls and always strive to ensure compliance with applicable laws and regulations.

#### **Ensure Financial Accountability**

There were some respondents who expressed the view that ethical leaders are instrumental in ensuring financial accountability. The following interview excerpts provide evidence of this finding:

*Respondent KK: "Ethical leaders do not resist accounting for their financial spending."*

*Respondent GG: "They are very forthcoming when it comes to accountability."*

*Respondent FF: "They are very accountable."*

This finding resonates with views expressed by Eccles et al., (2011) who posited that leaders need to be always accountable because there is a direct positive correlation between ethical leadership, accountability and financial performance. Similarly Ciric et al., (2012) pointed out that leaders have an obligation to be accountable by means of explaining or reporting activities to stakeholders, accept responsibility for them and to disclose results in a transparent manner.

#### **Ensure the Attainment of Favourable Audit Reports (unqualified audit reports)**

Almost all respondents alluded to the fact that ethical leaders are very instrumental in ensuring that there is greater integrity, honesty, accountability and compliance with the law and this often results in the municipality attaining favourable audit reports (clean audit reports). This finding is in conformity with the views expressed by Christoffel and Hendricks (2012) who opine that ethical leadership often improves the reliability of financial reporting and credibility of financial statements, thereby leading to the attainment of clean audit reports.

#### **4.7 Conclusion**

This chapter presented, interpreted and discussed findings that covered the contribution of unethical practices towards the financial performance of Harry Gwala Municipality and the contribution of unethical practices towards the financial performance of Harry Gwala Municipality identified in the literature. The findings presented in this chapter fulfilled the main objectives of this research namely, the examination of the financial objectives of Harry Gwala District Municipality, assessing the understanding of ethical leadership and financial performance at



HGDM, examining the contribution of unethical practices towards the financial performance of HGDM and finally evaluating the role of ethical leadership on the financial performance of a municipality. The next chapter presents the conclusions and recommendations.

## **CHAPTER FIVE**

### **CONCLUSIONS AND RECOMMENDATIONS**

#### **5.1 Introduction**

In the previous chapter the research results from the study were presented, discussed and the findings interpreted. In this chapter, the researcher draws conclusions and examines whether the research aims and objectives were achieved. The findings and conclusions are based on the objectives and serve to answer the research questions. The five research objectives set for the purpose of this study were all fulfilled. These objectives were chosen with the aim of ascertaining the financial objectives of HGDM and investigating the perceptions of leadership ethics at HGDM. The other research objectives were to examine the contribution of unethical behaviour towards the financial performance of HGDM and determining the role of ethical leadership on the financial performance of a municipality. The last objective of this research was to make recommendations with regards to effective strategies to inculcate ethical practices among the employees of HGDM. Based on these findings, conclusions and recommendations are proposed in this chapter. The conclusions are followed by recommendations to the management of HGDM on strategies to inculcate ethical practices among the employees of the municipality.

#### **Research Aims**

The research aimed to fulfill the following objectives:

- To investigate the financial objectives of HGDM
- To assess the understanding of ethical leadership and financial performance in HGDM;
- To investigate the perceptions of leadership ethics at HGDM;
- To examine the challenges at HGDM hindering the effectiveness of ethical leadership;
- To examine the contribution of unethical practices towards the financial performance of HGDM; and
- To evaluate the role of ethical leadership on the financial performance of HGDM.



## Research Questions

Linked to the research problem statement articulated above, the study attempted to answer the following key questions:

- What are the the financial objectives of HGDM?
- How do employees perceive leadership ethics at the financial objectives of HGDM?
- How does ethical leadership affect the financial performance of the financial objectives of HGDM?
- How are the challenges at the financial objectives of HGDM hindering the effectiveness of ethical leadership?
- To what extent are unethical leadership practices impacting on the financial performance of the financial objectives of HGDM?
- What strategies can be recommended in order to inculcate ethical practices among the leadership of the financial objectives of HGDM?

## 5.2 Findings from the Study

This section presents key findings from both the literature and the primary research.

### 5.2.1 Findings from Literature Review

*Findings as per Research Question No.1:* What are the financial objectives of the financial objectives of HGDM?

From the literature, it was established that both private and public organisations have similar financial objectives. Assertions by Groenewene (1984) show that organisations' financial objectives are mainly centred on achieving the effective allocation of financial resources in a manner that ensures smooth operations and achievement of organisational outcomes. Burger and Durcharme (2013) highlight that organisational financial objectives are linked to a reduction of financial improprieties, achieving budgetary objectives and clean audit reports. Correia *et al.* (2012) also point out that the financial objectives of both private and public sector organisations are mainly to eliminate unauthorised expenditures, wasteful expenditure and irregular expenditure.

*Findings as per Research Question No.2:* What are the perceptions of leadership ethics at the financial objectives of HGDM?

Assertions by Brynard and Erasmus (2011) show that many South Africans are predominantly negative of the existence of ethical leadership in municipalities, as opposed to positive observations. Interpretations from the literature review reveals that Dlamini (2015) shows that there is a predominance of negative perceptions to the numerous qualified audit reports that have been attributed to several government departments in the recent past and this has been overly publicised by the media. Findings of the perceptions of municipal employees about management role on corruption by Mahlangu (2016) reveal that most employees of the municipalities, that were part of the research target population, blamed management for being at the forefront of perpetrating unethical practices such as corruption. However, the literature also highlighted the view by Mgimwa (2012) who states that characterising all public sector management in a negative way is scandalous, given that ethical leadership standards are a mixed bag.

***Findings as per Research Question No.3:*** How are the challenges at the financial objectives of HGDM hindering the effectiveness of ethical leadership?

Harrison et al. (2014:244) point out that employees are highly likely to deviate from compliance with internal controls, especially in cases where employee supervision and monitoring is highly weak and ineffective. Boyd et al. (2013) put forward the view that weak supervision by managers always creates a loophole that can provide an opportunity for unscrupulous employees within the organisation to do unethical things. Harrison et al. (2014:244) further posits that consistent failure by the management to monitor and check employees work in terms of compliance with internal control systems is a leading cause of explaining why employees do not often comply. Stapenhurst et al. (2011:18) suggest that inconsistencies in disciplining employees for their transgressions are a deviation from the norms and values espoused under ethical leadership. Boyd et al. (2013:63) point out that if the management of an organisation is weak in terms of enforcing the policies of the organisation and administering consequences of unlawful behaviour, there is a greater likelihood that employees will exploit their weakness to undertake unethical practices. Gendron et al. (2010:278) assert that the lack of adequate training leads to the creation of employees who are not only incompetent but also unethical and who fail to understand their duties and responsibility. Green (2013:2) points to a scenario where employees who are not clear about the limits to their powers, authority or responsibilities in an organisation gives rise to unethical behaviour.



Cranston et al. (2002) cite an example of an oppressive environment whereby ethical employees are afraid to report serious unethical issues occurring within the organisation for fear of being reattributed or attacked as “whistle-blowers”. Verschoor (1998) posits that the issue of too much compliance management by ethical leaders tends to be a much weaker motivator for employees. This is because following an ever-increasing list of rules can also diminish independence and proactive problem-solving and end up creating more work for ethical managers who will eventually become ineffective. Beasley et al. (2014) lament that, in most cases, ethical leaders in an organisation face the challenge that some managers and subordinates in the organisation lack the much needed commitment to ethical behaviour, explaining the reason why some employees resist ethical directives. Blair (2011) also revealed how easy fraud can be perpetrated by internal immoral staff by colluding with external people. Blair’s (2011) findings were substantiated by evidence collated on procurement fraud where service providers colluded with the officials to inflate construction overhead costs and invoiced local government institutions. Morehead (2014) makes similar assertions by pointing out that ethical leadership is often in conflict with incidences of abuse of power by those in high positions who issue instructions to override organisational policies and procedures.

***Findings as per Research Question No.4:*** What is the contribution of unethical practices towards the financial performance of the financial objectives of HGDM?

The financial performance of some municipalities has been far from satisfactory due to unethical practices by the management (Brynard and Erasmus, 2011). This has been manifested by the growing number of municipalities receiving adverse audit opinions. According to Ntongo (2012), unethical practices often lead to embezzlement of funds, overspending and failure to achieve budgetary objectives. Mills (2012) posited that unethical practices are the reasons why budgeted expenditures run into deficits since some financial resources end up in the personal pockets of officials mandated to oversee budget implementation through allocating money for project completion. Mills (2012) further posited that unethical practices such as corruption are the reason for unwarranted budget deficits and failure to complete projects against expectations. De Cosse and Wright (2013) posited that corruption is a major contributor to poor service delivery as money earmarked for service delivery infrastructure and projects is often diverted towards fulfilling personal interests leads to financial shortages, poor service delivery and failure to complete infrastructural projects.

***Finding as per Research Question No.5:*** What is the role of ethical leadership on the financial performance of the financial objectives of HGDM?

From the literature review, it is apparent that ethical leaders are responsible for communicating desired actions that the ethical leader stands for such as high financial performance, integrity, moral uprightness, dependability, reliability and other positive virtues (Freeman and Stewart, 2013). The literature presented by Christoffel and Hendricks (2012) asserts that ethical leadership has a crucial role to play in terms of putting in place internal controls to help improve financial performance of their organisations, so as to reduce the occurrence of unethical practices such as corruption and magnitude of poor financial performance. Assertions by Boyd et al (2013); AICPA (2005) and Harmanson, Smith and Stephans (2012) point to the fact that ethical leaders play a crucial role in to reducing financial losses and waste through their commitment to introduce and enforce internal controls, thereby preventing and detecting errors, fraud and mismanagement, ultimately improving the financial performance of an organisation.

### **5.2.2 Findings from Primary Study**

***Findings as per Research Question No.1:*** What are the financial objectives of the financial objectives of HGDM?

The first research question of this study focused on finding the financial objectives of the financial objectives of HGDM. From the research findings, it was established that the financial objectives of HGDM had the following financial objectives namely:

- Reducing overspending
- Financial allocation efficiency
- Eliminating fruitless and irregular expenditure
- Combatting fraud, corruption and misappropriation of funds
- Ensuring that more financial allocations are channelled towards service delivery
- Elimination of unauthorised expenditure
- Eliminating unauthorised expenditure
- Allocating financial resources according to MFMA policy prescriptions
- Allocating financial resources efficiently, without bias and prejudice.



***Findings as per Research Question No.2:*** What are the perceptions of leadership ethics at the financial objectives of HGDM?

The findings established that although there are mixed perceptions about the existence of ethical perceptions at the municipality, there is a predominantly positive perception of the existence of ethical leadership, followed by a non-committal neutral perception and a smaller number of respondents being overly negative.

***Findings as per Research Question No.3:*** To evaluate the challenges at the financial objectives of HGDM hindering the effectiveness of ethical leadership

The findings established that the effectiveness of ethical leadership is being hindered by several factors, including among other things, ineffective supervision and monitoring of employees, inconstant enforcement of non-compliance penalties, employee training deficiencies, lower moral standards among certain employees, lower employee motivation, poor internal control compliance attitudes and abuse of power through managerial override of controls.

***Findings as per Research Question No.4:*** What is the contribution of unethical practices towards the financial performance of the financial objectives of HGDM?

The fourth research question of this study focused on finding out the contribution of unethical practices towards the financial performance of the financial objectives of HGDM. Findings from respondents revealed that unethical practices contributed to:

- Embezzlement of funds
- Budgetary deficits
- Project completion failures
- Adverse audit findings

***Findings as per Research Question No.5:*** What is the role of ethical leadership on the financial performance of the financial objectives of HGDM?

The fifth research question of this study investigated the the role of ethical leadership on the financial performance of the financial objectives of HGDM. From the responses of the respondents, it was established that the role of ethical leadership on the financial performance of the financial objectives of HGDM was:

- Ensuring that financial spending is in line with public expectations
- Ensuring that there is less misappropriation of funds
- Ensuring the achievement of budgetary objectives
- Ensuring that spending is authorised
- Ensuring greater compliance with the law
- Ensuring a reduction of misappropriation of funds
- Ensuring financial accountability
- Ensuring that theft of public funds is curbed
- Ensuring the attainment of favourable audit reports(unqualified audit reports)

### **5.3 Conclusions of the Study**

#### **5.3.1 Conclusions on the Financial Objectives of the financial objectives of HGDM**

**Objective 1: To assess the understanding of ethical leadership and financial performance objectives of the financial objectives of HGDM.**

The research fulfilled the first objective by finding out that Harry Gwala District Municipality has several financial objectives. From the research findings, it can be concluded that the financial objectives of the financial objectives of HGDM are mainly to reduce overspending; achieve financial allocation efficiency; eliminate fruitless and irregular expenditure; combat fraud, corruption and misappropriation of funds; ensure that more financial allocations are channelled towards service delivery; eliminate unauthorised expenditure; allocate financial resources according to MFMA policy prescriptions; and allocate financial resources efficiently, without bias and prejudice.



### **5.3.2 Conclusions on the Perceptions of Leadership Ethics at the financial objectives of HGDM**

#### **Objective 2: To investigate the perceptions of leadership ethics at the financial objectives of HGDM.**

The research successfully identified the perceptions of leadership ethics at the financial objectives of HGDM. The identification of the perceptions of leadership ethics at the municipality is a successful fulfillment of the second objective of this study. From the research findings, this study concludes that a majority of respondents were of the perception that there is ethical leadership at the financial objectives of HGDM, compared to those who expressed neutrality and negative perception. Going by the majority perception, this research concludes that there is ethical leadership at the financial objectives of HGDM.

### **5.3.3 Conclusions on the Challenges at the financial objectives of HGDM Hindering the Effectiveness of Ethical Leadership**

#### **Objective 3: To evaluate the challenges at the financial objectives of HGDM hindering the effectiveness of ethical leadership.**

The research fulfilled the third objective by evaluating that the effectiveness of ethical leadership is being hindered by several factors. The research concludes that ineffective supervision and monitoring of employees, inconstant enforcement of non-compliance penalties, employee training deficiencies, lower moral standards among certain employees, lower employee motivation, poor internal control compliance attitudes and abuse of power through managerial override of controls are challenges at the financial objectives of HGDM hindering the effectiveness of ethical leadership.

### **5.3.4 Conclusions on the Contribution of Unethical Practices towards the Financial Performance of HGDM**

#### **Objective 4: To examine the contribution of unethical practices towards the financial performance of the HGDM.**

The research fulfilled the fourth objective by examining and determining the contribution of unethical practices towards the financial performance of HGDM. From the research findings, it is

concluded that unethical practices often lead to corruption, budgetary deficits, adverse audit reports and failure to complete infrastructural projects, leading to poor service delivery and a failure to achieve budgetary objectives.

#### **5.3.4 Conclusions on the Role of Ethical Leadership on the Financial Performance of a Municipality**

##### **Objective 5: To evaluate the role of ethical leadership on the financial performance of HGDM.**

From the research findings presented in figure 4.4, it is concluded that ethical leadership at HGDM is leading to positive financial performance by ensuring that financial spending is in line with public expectation and ensuring that there is less embezzlement of funds. The research also concludes that ethical leadership at HGDM is helping to ensure the achievement of budgetary objectives, ensuring that spending is authorised and that there is greater compliance with the law, thereby leading to a reduction in the misappropriation of funds and reduction in the theft of public funds, in turn leading to the attainment of favourable audit reports (unqualified audit reports).

#### **5.4 Convergence and Divergence of the Literature and Qualitative Data**

From the research findings the researcher concludes that there are areas of convergence between reviewed literature and the research findings. Both the reviewed literature and the research findings confirm that financial objectives of an organisation are mainly centered on the achievement of budgetary objectives through efficient and effective resource allocation, eliminating all unethical financial spending practices and spending money in line with approved budgets and organisational policies. However, there was some divergence on the perceptions of ethical leadership whereby the literature pointed to the predominance of negative perceptions regarding the existence of ethical leadership in municipalities, while the primary findings showed a predominance of positive perceptions of the existence of ethical leadership at HGDM. Another area of convergence between the literature and primary findings was on the contribution of unethical practices towards the financial performance of a municipality. Both the literature and the findings demonstrated that unethical practices contribute to the failure to achieve budgetary objectives, the failure to complete infrastructure projects, cost escalation, abandonment of projects and corruption, thereby leading to budgetary deficits, adverse audit reports, which all contribute to a negative financial performance. Finally, both the literature and primary study demonstrated that ethical leadership



plays a crucial role in fostering positive financial performance through strictly adhering to the law, reducing all forms of unethical financial practices and channeling financial resources towards the achievement of financial objectives. The findings demonstrated congruence between the literature and primary study by establishing that the effectiveness of ethical leadership is hindered by challenges such as ineffective supervision and monitoring of employees; inconstant enforcement of non-compliance penalties; employee training deficiencies; lower moral standards among certain employees; lower employee motivation; poor internal control compliance attitudes; and abuse of power through managerial override of controls.

### **5.5 Overall Conclusions of the Study**

This chapter presented the conclusions and demonstrated that the research aims and objectives were achieved. The findings and conclusions were based on the objectives and served to answer the research questions. The chapter fulfilled all five research objectives which were set for the success of this study. This chapter presented the conclusions drawn from the study i.e. ascertaining the financial objectives of HGDM and investigating the perceptions of leadership ethics at the municipality. The other research objectives were to examine the contribution of unethical behaviour towards the financial performance of HGDM and determining the role of ethical leadership on the financial performance of a municipality. The final objective of this research was to make recommendations with regards to effective strategies to inculcate ethical practices among the employees of HGDM. Based on these findings, conclusions and recommendations are proposed in this chapter.

### **5.6 Recommendations of the Study**

**Objective 6: To make recommendations on strategies to inculcate ethical practices among the employees of HGDM.**

The final objective of this research was to make recommendations with regards to strategies on how to inculcate ethical practices among the employees of HGDM. In line with one of the objectives of this study, the author makes the following recommendations:"

- More stringent internal controls need to be enforced in order to completely wipe out unethical practices by some unethical leaders.

- Strict and consistent enforcement of disciplinary procedures and processes in order to deter would be contemplators of unethical practices. This will help improve perceptions of ethical leadership at the municipality.
- There must be both monetary and non-monetary incentives for the achievement of budgetary objectives.

### **5.7 Scope for Further Research**

A study of the role of ethical leadership towards enhancing the financial performance in other municipalities apart from HGDM initiative could highlight trends and enable a comparative analysis of the budgetary objectives, perceptions of the existence of ethical leadership, contribution of unethical practices towards the financial performance of a municipality and the role of ethical leadership towards enhancing the financial performance of a municipality. There are a number of focus areas that this study was unable to examine. However, future studies could consider the following topics that arise from this study:

- Determinants of ethical leadership
- The relationship between ethical leadership and employee passion for work
- The relationship between ethical leadership and proactive work behaviour

### **5.8 Chapter and Overall Study Conclusion**

This chapter presented the conclusions from the study. The central findings from both the literature review and the primary research were presented, together with the main recommendation that senior management continuously strengthens and enforces compliance with internal controls.

Chapter one of the study presented the background to the research, the problem statement related to ethical leadership, the research aim, research questions and objectives. Furthermore, the chapter highlighted the significance of the study by explaining that it may not only help senior management of HGDM but also other senior managers of other municipalities on the importance of ethical leadership in terms of enhancing the financial performance of their municipalities.

Chapter two looked mainly at the scholarly views and arguments related to the study objectives. Thus, the literature review of this research was moulded around the main research questions and objectives which were mainly to determine the budgetary objectives of HGDM, perceptions of the



existence of ethical leadership, contribution of unethical practices towards the financial performance of the municipality, as well as the role of ethical leadership towards enhancing the financial performance of the municipality.

Chapter Three of the study defined and discussed the qualitative phenomenological explanatory descriptive research design which was used in the study. The interview guide was used as the primary research instrument. Primary data for this study was analysed using thematic analysis and results were depicted on diagrams.

The research findings were presented, interpreted and discussed in Chapter Four. The final chapter presented the conclusions and recommendations arising from the findings from Chapter Four.

The key findings from the literature review and from primary data were presented in Chapter Five. The research made conclusions and recommendations to improve and help inculcate ethical practices at the municipality. It is hoped that further research may be conducted, perhaps from other perspectives not adequately covered by this study.

## REFERENCES

Abedian, I and Biggs, M.2014. *Economic Globalisation and Fiscal Policy*. Oxford University Press, Cape Town.

ACFE .2014. Report to the Nations on Occupational Fraud and Abuse. *Global Fraud Study*.

Adedian, I. 2012. *Balancing the Nation's Books in Parsons*, R., Abedian, I., DuToit, P., Dykes, D., Friedman, S., Kantor, B., Mnyanda, L., Roux, A. and Steyn, G. Manual, Markets and Money. Double Story Books, Cape Town.

Agresti, A., and Kateri, M.2011. *Categorical data analysis* (pp. 206-208). Springer Berlin Heidelberg.

Ajam, T.2011. *Finance and Fiscal Commission: Proposals from the FFC Review of the Intergovernmental Fiscal Relations System*. Juta Publishing House, Midrand, Pretoria. American Institute of Certified Public Accountants, 2005.

Allen, R., Hemming, R. and Potter, B. 2013. *The international handbook of public financial management*, Springer.

Ashbaugh-Skafé, H., Kinney Jr, C.W. and Lafond, R, 2008. *The effect of SOX Internal Control Deficiencies on Firm Risk and Cost of equity*. LexisNexis, Cape Town 8000, South Africa.

Ashford, S. J., Blatt, R., and Vande-Walle, D. 2003. Reflections on the looking glass: A review of research on feedback-seeking behavior in organizations. *Journal of Management*, 29, 769–799.

Association of Certified Fraud Examiners, 2014. Report to the Nations on Occupational Fraud and Abuse: Global Fraud Study, 2014.

Atkinson, A. A., and McCrindell, J. Q.1997.Strategic performance measurement in government. *CMA Magazine*, 71(3), 20-23.



Auditor General South Africa, 2014. General Report on Audit Outcomes of KwaZulu Natal for 2013-2014. <http://www.agsa.co.za/reporting/mfmareports/mfma2013-2014.aspx>.

Auditor General South Africa, 2015. General Report on Audit Outcomes of KwaZulu Natal for 2015-16. <http://www.agsa.co.za/reporting/mfmareports/mfma2015-2016.aspx>.

Avey, J., Wernsing, T., and Palanski, M. 2012. Exploring the process of ethical leadership: The mediating role of employee voice and psychological ownership. *Journal of Business Ethics*, 107(1), 21–34.

Avolio, B., J., Gardner, W., L., Walumbwa, F., O., Luthans, F., May, D., R. 2004. Unlocking the mask: A look at the process by which authentic leaders' impact follower attitudes and behaviors. *The Leadership Quarterly*, 15, 810–823.

Awadh, A.M and Ismail, W.K.W .2014. The Impact of Personality Traits and Employee Work-Related Attitudes on Employee Performance with the Moderating Effect of Organizational Culture: The Case of Saudi Arabia. *Applied HRM Research* 8: 17-32.

Baalen, J., .2013. *Good Governance for People: Policy and Management*. Stellenbosch: School of Public Management and Planning, University of Stellenbosch.

Baloch, Q .B., Saleem., M ., Zaman, G and Fida, A. 2015. The Impact of Emotional Intelligence on Employees 'Performance, *Journal of Managerial Sciences*, Volume 209 VIII Number 2

Bandura, A. 2007. *Social learning theory*. Englewood Cliffs, NJ: Prentice-Hall.

Baron, R and Kenny, D. 2006. The moderator-mediator variable distinction in social psychological research: Conceptual, strategic, and statistical considerations. *Journal of Personality and Social Psychology*, 51, 1173-1182.

Barrick, M. R., Thurgood, G. R., Smith, T. A., and Courtright, S. H. 2015. Collective organizational engagement: Linking motivational antecedents, strategic implementation, and firm performance. *Academy of Management Journal*, 58(1), 111-123.

Bateman and Grant, J.M.2012. Proactive Behaviour: Meaning, Impact, Recommendations. *Business Horizons*, May/Jun99, Vol 42 Issue 3, p63, 8p, 1bw.

Beasley, M. S., Carello, J.V and Dana R. Hermanson, D.R .2009. "Preventing Fraudulent Financial Reporting". *CPA Journal* 70.12 (2000): 14-21.

Bekker, J. 2009.*Corporate Governance in the South African Public Sector*, LexisNexis, Cape Town 8000, South Africa.

Bhattacharjee, A. 2013. *Social Science Research: Principles, Methods, and Practices. Textbooks Collection*. Book 3. University of South Florida Tampa, Florida, USA [scholarcommons@usf.edu](mailto:scholarcommons@usf.edu)

Blair, D.R., 2011.Financial Management and Internal Control Challenges at the Department of Defence, 23 September 2011.

Bland J. and Altman D. 2009. Statistics notes: Cronbach's alpha. *BMJ* p314:275.

Botes, P. S., Brynard, P. A., Fourie, D. J. and Roux, N. L.2012. Financial Administration at Provincial Government level. In: *Public Administration and Management. A guide to Central, Regional and Municipal Administration and Management*. Pretoria: Kagiso Tertiary: Heinemann, pp. 240-244.

Bouma, G.D. and Atkinson, G.B.J.2015.*A Handbook of Social Science Research*, 5th Ed., Oxford: Oxford University Press.

Boyd, K. E., Holtzman, M.P., F., Loughran, M., Sampath, V.S John A. Tracy, J.A., Tager C. and Welytok,J.G.2013. *Limitations of Internal Accounting Controls*, Thousand Oaks: Sage, UK.

Brown, M. E. and Treviño, L. K. 2006. Ethical leadership: A review and future directions. *The leadership quarterly*, 17, 595-616.



Brown, M., E., Treviño, L. K., and Harrison, D. A. 2005. Ethical leadership: A social learning perspective for construct development and testing. *Organizational Behavior and Human Decision Processes*, 97: 117-134.

Bryman, A. 2010. *Research Methods and organization studies*. London. Unwin.

Brynard, P and Erasmus, K. 2011. *Public Management and Administration – Case-Study Resource Book*. JL van Schaik Publisher, Pretoria.

Burger, J., Durcharme, G. 2013. *Financial Management for Public Governance*. Stellenbosch University Press, Cape Town.

Cable, D.M & DeRue, D.S (2002) The Convergent and Discriminant Validity of Subjective Fit Perceptions *Journal of Applied Psychology*, Copyright 2002 by the American Psychological Association, Inc. 2002, Vol. 87, No. 5, 875–884

Cameron, K. S., Dutton, J. E., and Quinn, R. E. (2013). *Positive organizational scholarship: Foundations of a new discipline*. San Francisco: Berrett-Koehler.

Cameron, K. S., Dutton, J. E., Quinn, R. E. and Wrzesniewski, A. 2003. Developing a discipline of positive organizational scholarship. *Positive organizational scholarship: Foundations of a new discipline*, 361-370.

Campion, A., Medsker, G. J. And Higgs, C. 2006. 'Relation between work group characteristics and effectiveness: Implications for designing an effective work group', in *Personnel Psychology*, 46(4): 823-850.

Chamberlain, T. C., Catano, V. M. And Cuningham, D. P. 2015. Personality as a Predictor of Professional Behavior in dental School: Comparison with Dental Practitioners. *Journal of Dental Education* 69 (11) 1222-1237.

Christoffel J. and Hendricks C. J. 2012. *Integrated Financial Management Systems: Guidelines for effective implementation by the public sector of South Africa*, 12 December, 2012.

Ciric, J., Kavran, D and Burrows, N.2009. Financial Accountability as a Condition for EU Membership, 2009. *Accounting, Auditing & Accountability Journal*, Vol.15 No.2, 223 - 250.

Cline, G. B. and Luiz, J. M. 2013. Information technology systems in public sector health facilities in developing countries: the case of South Africa. *BMC Medical Informatics and Decision Making*, 13, 13.

Cloete, F., Wissink, H. and De Coning, C. 2006. *Improving public policy: From theory to practice*, Van Schaik Publishers.

Cloete, J.J.N. 2009. *Introduction to Public Administration*, van Schaik Publishers, Pretoria.

Cohen, S.G and Ledford, G.E (2012) The effectiveness of self-managing teams: A quasi-experiment', in *Human Relations*, 47(1):13-43.

Cole, M.S., Bruch, H and Vogel, B. (2011) Energy at work: A measurement validation and linkage to unit effectiveness, *Journal of Organisational Behaviour*, 33,445-447 (2012).

Committee. 2011. Financial and Fiscal Commission (FFC) on its Annual Strategic Plan Published online 27 May 2011 in Wiley Online Library (wileyonlinelibrary.com) DOI: 10.1002/job.759.

Connors, R. (2014). Rethinking Accountability. *T+D*, 68(6), 22.

Cooper, R. K., and Sawaf, A. 2014. *Executive EQ: Emotional Intelligence in Leadership and Organizations*. Penguin. Place

Cooper-Thomas, H. D., Van Vianen, A. and Anderson, N. 2004. Changes in person–organization fit: The impact of socialization tactics on perceived and actual P–O fit. *European Journal of Work and Organizational Psychology*, 13, 52-78.

Corbetta, P. 2003. *Social Research: Theory, Methods and Techniques*, Sage.



Correia, C., Flynn, D., Uliana, E. and Wormald, M. 2012. *Financial Management*. Juta Books, Cape Town.

Cosse, S. D. and Wright, I. 2013. *Anti-Corruption Regulation Survey of Select Countries 2013*: Jones Day.

Cranston, N, Ehrich, L and Kimber, M .2012. 'Ethics, ethical dilemmas and good government', *The Public Interest*, December, pp. 22-25.

Crawford, G.2012. *The World Bank and Good Governance – Rethinking the State or consolidating neo-liberalism* in Paloni, A and Zanardi, M; 2006.The IMF, World Bank and Policy Reform. Routledge Press, London and New York.

Creswell, J. W. 2013. *A Concise Introduction to Research Methodology*. First Edition, SAGE Publications, Inc.

Creswell, J. W. 2014. *A Concise Introduction to Mixed Methods Research*, Sage Publications, Inc

Gilbert, C.L., 2004. *The IMF and its Critics – Reform of Global Financial Architecture*. Cambridge University Press, Cambridge.

De Cosse, S.J. and Wright, I.M., 2013. Jones Day: *Anti-Corruption Regulation Survey of Select Countries 2013*.

De Hoogh, H,B,De Hoogh .D,N and Hartog,G.(2008). Ethical and despotic leadership, relationships with leader's social responsibility, top management team effectiveness and subordinates' optimism: A multi-method study. *The Leadership Quarterly* 19 (2008) 297–311.

De Jongh, D., Eccles, N. and Pillay, V. 2009. Correlates of corporate accountability among South Africa's largest listed companies. *Southern African Business Review*, 13, 21-38.

Dreher, H., Macha J., Mushi H. P. and Borgh.2011. Examining the links between accountability, trust and performance in health service delivery in Tanzania.

Dutton, J. E., Ashford, S. J., O'neill, R. M. And Lawrence, K. A. 2014. 'Moves that matter: Issue selling and organizational change', *Academy of Management Journal*, 44(4): 716–736.

Eccles, N.S., Pillay, V. and DeJongh,D. 2011. Correlates of Corporate Accountability, a Case of South Africa's largest listed companies. *Southern African Business Review Volume* 13(1)

Edwards. G 2014, 'Ethics in practice', *Canberra Bulletin of Public Administration*, vol. 11

Eisenbeiss, S. A. 2012. Re-thinking ethical leadership: An interdisciplinary integrative approach. *The Leadership Quarterly*, 23(5):791–808.

Eisenberger R, Fasolo P, Davis-Lamastro V .2013. Perceived organizational support and employee diligence, commitment and innovation. *Journal of Applied Psychology* 75: 51-59.

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

Engelbrecht, B. 2002. *Financial Management: An Overview and Field Guide for District Management Teams*. Health Systems Trust & Departmentt of Health, RSA. First article published on the 18 February, 2015. [www.thelancet.com/journals/olancet/article/PIIS0140-6736\(14\)61747-5/abstract](http://www.thelancet.com/journals/olancet/article/PIIS0140-6736(14)61747-5/abstract). Accessed on 27 June 2016.

Engelbrecht, B., Health, S. A. D. O. and Trust, H. S. 2002. *Financial Management: An Overview and Field Guide for District Management Teams*, Health Systems Trust, Sydney, Australia.

Ericsson, K. 2014. "Attaining excellence through deliberate practice: insights from the study of expert performance" in M Ferrari (ed.). *The Pursuit of excellence through education*, Erlbaum, Hillsdale, NJ, USA.



Fox, W. and Bayat, M. S. 2013. *A Guide to Managing Research*. 1<sup>st</sup> ed. Cape Town: Juta and Co Ltd.

Fredrickson, B.L.2008. *Positive Emotions and Upward Spirals in Organisations* in K.S. Cameron .J.E Dutton & Quinn, R.E (Eds.), Positive organizational scholarship. Foundations of a new discipline (pp. 163-175). San Francisco,CA: Berrett-Koehler.

Freedman, J. 1998. Internal Controls in Accounting Information Systems: *Demand Media*

Freedman, J. 1998. Internal Controls in Accounting Information Systems. Available: <https://smallbusiness.chron.com/internal-controls-accounting-information-systems-66659.html> [Accessed 25 November 2018].

Freeman, R., and Stewart, L. 2007. Developing Ethical Leadership Business Roundtable *Institute for Corporate Ethics, Quarterly*, and 17: 595-616.

Frijda, N,H, Mesquita,B., Sonnenmans, J and Van Goozen.2009.The Duration of Affective Phenomena or Emotions, Sentiments and Passions, in K.T Strongman (Ed)*International Review of studies in emotions* (vol I pp187-225) New York ;Wiley.

Frink, D. D. and Ferris, G. R. 1999. The moderating effects of accountability on the conscientiousness-performance relationship. *Journal of Business and Psychology*, 13, 515-524.

Frink, D.F. and Ferris, G.R.2013. The Moderating Effects of Accountability on the Conscientiousness-Performance Relationship .Vol. 13, No. 4, pp. 515-524, Stable URL: <http://www.jstor.org/stable/25092656>

Gardner, W. L., and Schermerhorn, J. R. 2004. Unleashing individual potential: Performance gains through positive organizational behavior and authentic leadership. *Organizational Dynamics*, 33:1

Gelman, A., Carlin, J. B., Stern, H. S., and Rubin, D. B. (2014). *Bayesian Data Analysis* (Vol. 2). Boca Raton, FL, USA: Chapman & Hall/CRC.

Giessner, S. R., Van Knippenberg, D., Van Ginkel, W. and Sleenbos, E. 2013. Team-oriented leadership: The interactive effects of leader group prototypicality, accountability, and team identification. *Journal of Applied Psychology*, 98, 658.

Gildenhuys, 2010. *Public Financial Management*. Pretoria: Van Schaik.

Grant, A. M., and Ashford, S. J. 2008. The dynamics of proactivity at work. In B. M. Staw and A. P. Brief (Eds.), *Research in organizational behavior* (Vol. 28). New York: Elsevier.

Greguras, G.J and John M. Ford, J.M.2006. An examination of the multidimensionality of supervisor and subordinate perceptions of leader. *Journal of Occupational and Organizational Psychology*, 79:433–465.

Griffin, M. A., Neal, A., and Parker, S. K. 2007. A new model of work role performance: Positive behavior in uncertain and interdependent contexts. *Academy of Management Journal*, 5: 327- 347.

Groenewegen, P.D.2011. Public Finance in Australia, Theory and Practice. New York, Prentice-Hall. USA. p79.

Groves, T. and Ledyard, J., 2009.The allocation of resources under uncertainty “PHD dissertation (University of California, Berkeley).

Guba, E.G. 2011. Criteria for assessing the trustworthiness of naturalistic inquiries, *Educational Communication and Technology Journal* 29 (1981), 75–91.

Harmanson, D.R., Smith, J.L., and Stephens, N.M.2012. How effective are organizations’ internal controls? Insights into specific internal control elements. *Current Issues in Auditing*, 6(1), A31-A50.



Harrison, A.J., Rouse, P. and De Villiers, C. J.2012. Accountability and Performance Measurement: A Stakeholder Perspective. The University of Auckland, Auckland, New Zealand. JCC: The Business and Economics Research Journal, Volume 5, Issue 2,243-258.

Helena D Cooper-Thomas, H.D, van Vianen,A and Anderson, N.2007.Changes in person–organization fit: The impact of socialization tactics on perceived and actual P–O fit *European Journal of Work and Organizational Psychology Publication details*, including instructions for authors and subscription information: <http://www.tandfonline.com/loi/pewo20>

Hermanson, D.R., Smith, J.L and Stephens, N.M, (n.d). How Effective are Organisations Internal Controls? Insight into Specific Internal Control Elements. Auditor General South Africa, 2013. Health 2012-13 PFM General Report.

Hoaglin, D. C., and Welsch, R. E. 1978. The Hat Matrix in Regression and ANOVA. *The American Statistician*, 32(1), 17-22.

Houlfort, N., Koestner, R., Jousmert and Taylor, C .2002. The impact of performance contingency, rewards on autonomy and competency. *Journal of Educational Psychology* 81, McGill University

Institute of Internal Auditors, 2013. Standards for the Professional Practice of Internal Auditing, 2013.

Kacmar, K. M., Bachrach, D. G., Harris, K. J., and Zivnuska, S.2011. Fostering good citizenship through ethical leadership: Exploring the moderating role of gender and organizational politics. *Journal of Applied Psychology*, 96(3), 633–642.

Kahn, W. A. 1990. Psychological conditions of personal engagement and disengagement at work. *Academy of Management Journal*, 33, 692–724.

Kalshoven, K., Den Hartog, D. N., and De Hoogh, A. H. B.2011. Ethical leadership at work questionnaire (ELW): Development and validation of a multidimensional measure. *The Leadership Quarterly*, 22(1):51–69.

Kanungo, R. N. 2001. Ethical values of transactional and transformational leaders. *Canadian Journal of Administrative Sciences*, 18:257–265.

Kappagoda, U. W. M. R. S, Othman, H. Z. F. F and De Alwis, G. 2014. “Psychological Capital and Job Performance: The Mediating Role of Work Attitudes”, *Journal of Human Resource and Sustainability Studies*, 2: 102-116.

Khademfar, M., and Seddigheh Arab Amiri, S.A .2013.The Relationship between Ethical Leadership and Organizational Performance (Small Review on Malaysian Studies) University of Putra Malaysia International Journal of Business and Social Science Vol. 4 No. 1; January 2013

Kothari, C, R.2012. *Research Methodology: Methods and Techniques*. Wiley, Eastern, New Delhi, India.

Landerneau, K.J. 2013. *Sampling strategies*. San Francisco: University of California.

Larson, M. D, Norman, S. M, Hughes, L. W and Avey, J. B. 2013. “Psychological Capital: a new lens for understanding employee fit and attitudes”, *International Journal of Leadership Studies*, 8 (1)

Liden, R. C., Sparrowe, R. T., and Wayne, S. J.1997. Leader-member exchange theory: The past and potential for the future. In G. R. Ferris (Ed.), *Research in personal and human resources management* (Vol. 15, pp. 47–119). Greenwich, CT: JAI Press.

Luthans, F.2002. The need for and meaning of positive organizational behavior. *Journal of Organizational Behavior*, 23, 695–706.

Luthans, F., and Avolio, B.2003. Authentic leadership: A positive development approach. In K. S. Cameron, J. E. Dutton, & R.E. Quinn (Eds.), *Positive Organizational Scholarship*. San Francisco: Berrett-Koehler.

Lykken, D. T.2005. Mental energy. *Intelligence*, 33, 331–335.



Macha, J., Mushi, H. and Borghi, J. 2011. Examining the links between accountability, trust and performance in health service delivery in Tanzania. *Research report*.

Mageau, G.A., Vallerand, R.J., Rousseau, F.L, Rattelle, C.F and Provencher, C.J. 2005. Passion and Gambling: Investigating the Divergent affective and cognitive consequences of gambling. *Journal of Applied Social Psychology*.

Mahlangu, S.2010. *The context of good governance* in Theron, F., Van Rooyen, A and Van Shokoohi, M., Saeidi, P., Malekmoudi,M., (2015). Investigating the relationship between Internal Control systems and financial performance of the telecommunications company of Golestan Province, Volume 3(2) pp 206-241.

Marchionini G. and Teague, J.2013. Elementary students' use of electronic information services: an exploratory study, *Journal of Research on Computing in Education* 20 (1987), 139–155.

Mayer, D. M., Aquino, K., Greenbaum, R. L., and Kuenzi, M. 2012. Who displays ethical leadership, and why does it matter? An examination of antecedents and consequences of ethical leadership. *Academy of Management Journal*, 55(1):151–171

Mayseless, O. 2010. Attachment and the leader—follower relationship. *Journal of Social and Personal Relationships*, 27: 271-280.

Meyer, J.P & Allen, N.J.1997. Commitment at the workplace, theory, research and applications. Thousand Oaks, CA: Sage.

Mgimwa, A., 2012. *Public Financial Management Reform Programme Strategy Phase 1V: 2012/13 – 2016/17 – Ministry Of Finance: The United Republic of Tanzania*, Volume 1, June 2012.

Mihelič, K.K., Bogdan Lipičnik, B and Tekavčič, M .2009. Ethical Leadership *International Journal of Management & Information Systems – Fourth Quarter 2010 Volume 14, Number 5*.

Mills, A.M. 2012. *Causes of Corruption in Public Sector Institutions and its Impact on Development: Turning What We Know Into What We Do*, 2012.

Moghadam, S. K., Jorfi, H., and Jorfi, S. 2010. Impact of Emotional Intelligence on Performance of Employees. *Postmodern Openings*, (04), 63-74.

Moorman R.H., Blakely G.L and Niehoff B.P. 2014. Does perceived organizational support mediate the relationship between procedural justice and organizational citizenship behavior? *Academy of Management Journal* 41: 351-357.

Morrison, B. W. and Phelps, C. C. 1999. Taking charge at work: Extrarole efforts to initiate workplace change. *Academy of Management Journal*, 42, 403-419.

Naylor, J.C., Pritchard, R.D., and Ilgen, D., R. 2010. *A theory of behavior in organizations*. New York: Academic Press.

Ntongo, V. 2012. *Internal Controls, Financial Accountability and Service Delivery in Private Health Providers of Kampala District*, February 2012. Unpublished Thesis. Makerere University.

Paloni, A. and Zanardi, M. 2012. *The IMF, World Bank and policy reform*, Routledge.

Parker, S.K. 2000. From Passive To Proactive Motivation: The Importance Of Flexible Role Orientations And Role Breadth Self-Efficacy. *Applied Psychology: An International Review*, 49, 447-469.

Parker, K, S and Collins, and C.G. 2010. Taking Stock: Integrating and Differentiating Multiple Proactive Behaviors. *University of Western Australia and University of Sheffield*, Vol. 36 No. 3, May 2010 633-662, DOI: 10.1177/0149206308321554, Southern Management Association.

Patton, M. Q. 1990. *Qualitative evaluation and research methods*, SAGE Publications, Inc. Pearson/Prentice Hall.

Peterson, C. 2000. The future of optimism. *American Psychologist*, 55, 44-56.



Piergiorgio, C. 2013. *Social Research. Theory, Methods and Techniques*. Thousand Oaks (California): Sage. [Chapter 11: “The use of documents”, pp. 287-308].

Podsakoff, P.M., MacKenzie, S.B., Moorman, R.H and Fetter, R. 2009. Transformational Leader Behaviors and Their Effects On Followers’ Trust In Leader, Satisfaction, And Organizational Citizenship Behaviors. *Indiana University Leadership Quarterly*, 1(2), 107-142. ISSN: 1048-9843, 373–385.

Quinn, R. W., and Dutton, J. E. 2005. Coordination as energy in conversation. *Academy of Management Review*, 30, 36–57.

Republic of South Africa. (1996). *The Constitution of the Republic of South Africa of 1996*. Pretoria: Government Printer.

Republic of South Africa. 1998. *Municipal Structures Act 117 of 1998*. Pretoria: Government Printer: Government Printer.

Republic of South Africa. 2000. *Municipal Systems Act 32 of 2000*. Pretoria: Government Printer.

Republic of South Africa. 2003. *Municipal Finance Management Act 56 of 2003*. Pretoria: Government Printer.

Richard, A., Hemming, R. and Potter, B. (2013). *The International Handbook of Public Financial Management*, London: Palgrave Macmillan.

Riivari, E., and LaMsa, A.-M. 2014. Does it pay to be ethical? Examining the relationship between organisations’ ethical culture and innovativeness. *Journal of Business Ethics*, 124(1):1–17.

Robinson, D., Perryman, S., and Hayday, S. 2014. *The drivers of employee engagement*. Institute for Employment Studies, report 408, ISBN: 978-1-85184-336-7.

Rogers, E. W., and Wright, P. M. 1998. Measuring organizational performance in strategic human resource management: Problems, prospects, and performance information markets. *Human Resource Management Review*, 8, 311–331.

Saks, A. M., and Ashforth, B. (1996). Proactive socialization and behavioral self-management. *Journal of Vocational Behavior*, 48, 301–323.

Salanova, M and Schaufeli, W.B. 2011. *A cross-national study of work engagement as a mediator between job resources and proactive behavior*, (Universitat Jaume I, Castellón, Spain)

Sarti, D. 2014. 'Leadership styles to engage employees. Evidence from human service organizations in Italy', *Journal of Workplace Learning*, 26(3/4): 202–16.

Saunders, MN, Lewis, P, and Thornhill, A. 2012. *Research Methods for Business Students*. 5<sup>th</sup> edn, Pearson Education Ltd, England.

Schwartz, T. 2007. Manage your energy, not your time. *Harvard Business Review*, 85, 63–73.

Scott .E, Seibert, Gang Wang, and Stephen H .2011. Court right Antecedents and Consequences of Psychological and Team Empowerment in Organizations: A Meta-Analytic Review, University of Iowa, *Journal of Applied Psychology* © 2011 American Psychological Association 2011, Vol. 96, No. 5, 981–100.

Seidman, D. 2010. Ethical leadership: An operating manual. *Bloomberg BusinessWeek, Companies and Industries [online] available from* < [http://www. BusinessWeek. Com/managing/content/dec2010/ca20101215\\_957125. html](http://www.BusinessWeek.Com/managing/content/dec2010/ca20101215_957125.html).

Seidman, D. 2014. *Ethical Leadership: An Operating Manual*. [online] Available at: [http://www.businessweek.com/managing/content/dec2010/Ca20101215\\_957125.htm#p1](http://www.businessweek.com/managing/content/dec2010/Ca20101215_957125.htm#p1) [Accessed: 2 Apr 2014].



Seligman, M., and Csikszentmihalyi, M. 2000. *Positive psychology: An introduction*. American Psychologist, 55, 5-14.

Shaw, K. 2012. *Employee engagement, how to build a high-performance workforce*. Melcrum Publishing Limited, ISBN: 0-9547741-3-2.

<http://www.emeraldinsight.com/Insight/ViewContentServlet?Filename=Published/EmeraldFullTextArticle/Articles/0500210701.html#b15>.

Shenton, A.K. 2012. Strategies for ensuring trustworthiness in qualitative research projects, Division of Information and Communication Studies, School of Informatics, Lipman Building, Northumbria University, Newcastle upon Tyne, NE1 8ST, UK Education for Information 22 (2004) 63–75 63 IOS Press

Shin, Y, Sung, S.Y, Choi, J.N and Kim, M.S. 2015. “Top management ethical leadership and firms performance: Mediating role of ethical and procedural justice climate”, *Journal of Business Ethics*, 129:43-57.

Shirom, A. 2010. Feeling energetic at work: On vigor’s antecedents. In A. B. Bakker, and M. P. Leiter (Eds.), *Work engagement: A handbook of essential theory and research* (pp. 69–84). New York: Psychology Press.

Shokoohi, M., Saeid, P. and Malekmahmoudi, S. 2015. *Investigating the Relation between Internal Control System and Financial Performance of Telecommunication Company of Golestan Province*. *SAUSSUREA*, 3, 206-211.

Silverman, D. 2010. *Doing Qualitative Research: A Practical Handbook*, London: Sage.

Slatter, S., Lovett, D and Barlow, L. (2016). *Leading corporate turnaround: how leaders fix troubled firms*, John Wiley and Sons Ltd.

Sparrowe, R. T. 2015. Authentic leadership and the narrative self. *The Leadership Quarterly*, 16, 419–439.

Spreitzer, G., Sutcliffe, K., Dutton, J., Sonenshein, S., and Grant A. M. 2005. A socially embedded model of thriving at work. *Organization Science*, 16, 537–549.

Strauss, A. and Corbin, J. 2010. *Basics of Qualitative Research: Grounded Theory Procedures and Integrating qualitative and quantitative approaches in socio-economic survey work*.

Tabish, S.M. 2012. Health Care: From Good to Exceptional Governance. Shahr-Kashmir Institute for Medical Sciences, Srinagar, J and K, India. *JIMSA* July – September, 2012. Volume 23 no.3.

Taylor, B., Sinha, G. and Ghoshal, T. 2006. *Research Methods: A Guide for Researchers in Management and Social Sciences*. New Delhi: PHI Learning

The International Organization of Supreme and Institutions (INTOSAI), 2004. *Guidelines for the Internal Control Standards for the Public Sector*, 2004.

Theron, F., Van Rooyen, A. and Van Baalen, J. 2000. *Good governance for people: Policy and management*, School of Public Management and Planning, University of Stellenbosch.

Thompson, A.A and Strickland, A.J. 2016. *Strategic Management Concepts and Cases Tata*, McGraw-Hill Publishing Company Limited, 16th edition, Sussex., UK.

Truss, C., Shantz, A., Soane, E., Alfes, E and Delbridge, R. 2013. 'Employee engagement, organisational performance and individual well-being: exploring the evidence, developing the theory', *The International Journal of Human Resource Management*, 24(14):.2657–69.

Vallerand, R.J and Blanchard, C.M. 2003. *Passion and psychological Adjustment*, Manuscript in preparation University of Quebec, Montreal.

Vallerand, R.J and Houliort, N. 2003. *Passion towards a New Conceptualization*. Thousand Oaks (California): Sage.



Verschoor, C. C. 2012. A Study of The Link Between a Corporation's Financial Performance and Its Commitment to Ethics, *Journal of Business Ethics*, Volume 17, Issue 13, pp.1509-1516

Walumbwa, F., O., Avolio, B., J., Gardner, W., I. 2008. Authentic Leadership: Development and Validation of a Theory-Based Measure, Published in *Journal of Management* 34:1 (February 2008), pp. 89-126; doi 10.1177/0149206307308913 Copyright © 2008 Southern Management Association, published by SAGE Publications.

Wanberg, C. R., and Kammeyer-Mueller, J. D. 2008. Predictors and outcomes of proactivity in the socialization process. *Journal of Applied Psychology*, 98(4),

Wang, D, Gan, C, Wu, C and Wang, D. 2015. "Ethical leadership and employee voice: employee self-efficacy and self-impact as mediators", *Psychological Reports: employment Psychology and Marketing*, 116: 751-767.

Wang, D., Feng, T and Lawton, A. 2016. Linking Ethical Leadership with Firm Performance: A Multi-dimensional Perspective. *J Bus Ethics* (2017) 145:95–109. DOI 10.1007/s10551-015-2905-9 Accessed 13 October 2015.

Welman, C. Kruger, S. J. and Mitchell, B. 2012. *Research Methodology*. 4<sup>th</sup> edition. Oxford University Press. Southern Africa, Cape Town.

Wilson, I. M. 2010. *Sampling and Qualitative Research*. Theme Paper for DFID project on NRSP (SEM) Project. [www.reading.ac.uk/ssc/](http://www.reading.ac.uk/ssc/). Accessed 28 March 2012.

Wu, C -H and Parker, S, K. 2014. *The role of leader support in facilitating proactive work behaviour: a perspective from attachment theory*. *Journal of Management*, online. ISSN 1557-1211 (In Press) DOI: 10.1177/0149206314544745, Southern Management Association

Yukl, G., A and Yukl, G. 2002. *Leadership in organizations*: Prentice Hall Upper Saddle River, NJ. 53.

Zabihollah, R.2012. Financial Statement Fraud: Prevention and Detection. New York: Wiley  
Sawyer's Guide for Internal Auditors. The Institute of Internal Auditors Research Foundation.  
2012. p. 36

Zanderer, D. G.1992. Integrity: An essential Executive quality. *Business Forum*, Fall, 12-16

Zweighaft, D.2013. Management Override: Common Tactics and How to Audit for Red Flags,  
14 November 2014. Available: [https://www.slideshare.net/FraudBusters/20131114-  
managementoverrideslides](https://www.slideshare.net/FraudBusters/20131114-managementoverrideslides) [Accessed 20 November 2018].





## HARRY GWALA DISTRICT MUNICIPALITY

"Together We Deliver and Grow"

### OFFICE OF THE MUNICIPAL MANAGER

40 Main Street, Private Bag X501, IXOPO 3276

Tel: (039) 834 8705 Fax: (039) 834 1701

Email: [jilin@harrygwaladm.gov.za](mailto:jilin@harrygwaladm.gov.za)

Enquiries: Ms N. Msomi

10 April 2018

To whom it may concern

Miss Thobeka Mahlaba, student number 213568467 is a Masters' degree of Administration (Public Administration) candidate at the University of KwaZulu-Natal- Westville campus. Harry Gwala District Municipality acknowledges and understand that her research project will contribute towards her Masters' Thesis project titled: **Examining the Effectiveness of Ethical Leadership towards Financial Performance: A case Study of Harry Gwala District Municipality**

The Municipality is aware that the study will take place during office hours for which she will be collecting data by means of interviewing key person(s) in the employ of the Municipality which she deems necessary to achieve the objectives of this research.

The Municipality supports and understands that this project involves accessing personal views and information from person (s) of Harry Gwala District Municipality. Such data will be provided to the researcher with all personally identifying information; however during the data presentation in the form of the final thesis e.g., names shall be removed so that the data cannot be traced to any individual.

I support and grant permission to conduct this research at Harry Gwala District Municipality.

Yours in service delivery,

**MRS A.N DLAMINI**  
**MUNICIPAL MANAGER**

## **Interview Guide**

I Thobeka Mahlaba am a student at the University of KwaZulu-Natal studying for my Master's Degree in Public Administration. Am conducting a research on the topic "Ethical Leadership and Financial Performance: A Case Study of Harry Gwala District Municipality". This study aims to investigate the effect of ethical leadership on financial performance at Harry Gwala District Municipality. Your participation through availing yourself and taking time to respond to interview questionnaire will be sincerely appreciated.

### **Section A**

#### **Demographics**

1. Gender: ☐ Female ☐ Male

2. Occupation.....

### **Section B**

You are kindly asked to give detailed explanations in your responses as much as possible.

1. In your own words describe the financial performance objectives of Harry Gwala District municipality
2. In your understanding describe the contribution of unethical practices towards the financial performance of a District Municipality.
3. In your opinion what are the challenges hindering the effectiveness of ethical leadership at Harry Gwala District Municipality
4. In your opinion how does ethical leadership assist in making it possible for Harry Gwala District Municipality to achieve its financial performance objectives?
5. In your opinion what strategies can be put in place by Harry Gwala District municipality to enforce ethical practices among its employees?
6. In your own opinion do you think ethical leadership alone can be able to enhance the achievement of Harry Gwala District municipality financial performance?



**UNIVERSITY OF KWAZULU-NATAL**  
**School of Management, IT and Governance**

Dear Respondent,

**M Admin Research Project**  
**Researcher:** TT Mahlaba (083 380 5058)  
**Supervisor:** Prof TI Nzimakwe (031 260 2606)  
**Research Office:** Ms M Snyman (031 260 8350)

I, Thobeka Thabile MAHLABA (213568467), I am an Master of Administration (Public Administration) student in the School of Management, IT and Governance, at the University of KwaZulu-Natal. You are invited to participate in a research project entitled "*Ethical Leadership and Financial Performance: A Case Study of Harry Gwala District Municipality*".

This study aims to investigate the effect of ethical leadership on financial performance at Harry Gwala District Municipality.

Through your participation I hope to evaluate the role of ethical leadership on the financial performance of Harry Gwala District Municipality;

Your participation in this project is voluntary. You may refuse to participate or withdraw from the project at any time with no negative consequence. There will be no monetary gain from participating in this research project. Confidentiality and anonymity of records identifying you as a participant will be maintained by the School of MIG, UKZN.

If you have any questions or concerns about participating in this study, please contact me or my supervisor at the numbers listed above.

This interview should take about 15-20 minutes to complete. I hope you will take the time to participate in the interview.

Sincerely

Investigator's signature \_\_\_\_\_ Date \_\_\_\_\_

*This page is to be retained by participant*

**UNIVERSITY OF KWAZULU-NATAL**  
**School of Management, IT and Governance**

**D Admin Research Project**

**Researcher:** TT Mahlaba (083 380 5058)

**Supervisor:** Prof TI Nzimakwe (031 260 2606)

**Research Office:** Ms M Snyman (031 260 8350)

**CONSENT**

I \_\_\_\_\_ (full names of participant)  
hereby confirm that I understand the contents of this document and the nature of the research project, and I consent to participating in the research project. I understand that I am at liberty to withdraw from the project at any time, should I so desire.

**I hereby consent / do not consent to have this interview recorded**

\_\_\_\_\_  
Signature of Participant

\_\_\_\_\_  
Date

*This page is to be retained by researcher*





A collaboration under the Wordweavers umbrella  
CK Reg. No. 2006/156780/23

Contact Catherine on [eberle@telkomsa.net](mailto:eberle@telkomsa.net) ([www.editatwordweavers.co.za](http://www.editatwordweavers.co.za))

5 March 2019

### **Letter Confirming Editing**

This letter serves to confirm that Gerard Peter, a member of the editing team of the above collaboration, EditatWordweavers, received and edited the dissertation of **Thobeka Mahlaba**. The dissertation was titled: *Ethical leadership and financial performance: A case study of Harry Gwala Municipality*.

The dissertation was edited in MS Word Track Changes with corrections inserted and comments and queries noted. The student was obliged to accept or reject changes made and address queries. The student was requested in many places to supply adequate referencing and also to address issues of repetition.

The edited document, together with a report by the editor commenting on errors or issues in the edit, as well as this letter will be copied to the co-supervisor of the student, Dr T.I. Nzimakwe on email: [nzimakweth@ukzn.ac.za](mailto:nzimakweth@ukzn.ac.za) to ensure that all relevant parties are informed of the process.

The editing process addresses grammar, spelling, language usage, syntax, tense and punctuation and, while comments are made regarding referencing; inappropriate headings and labelling, layout, design and formatting are not included in this process, nor is the content of the edit addressed by our editors, except in so far as obvious deficiencies are perceived.

Kind regards

**Catherine Eberle (Team Leader)**

10 October 2018

Ms Thobeka Mahlaba (213568467)  
School of Management, IT & Governance  
Westville Campus

Dear Ms Mahlaba,

**Protocol reference number: HSS/1608/018M**

**Project title:** Ethical Leadership and Financial Performance: A case study of Harry Gwala District Municipality

**Full Approval – Expedited Application**

In response to your application received on 07 September 2018, the Humanities & Social Sciences Research Ethics Committee has considered the abovementioned application and the protocol has been granted **FULL APPROVAL**.

Any alteration/s to the approved research protocol i.e. Questionnaire/Interview Schedule, Informed Consent Form, Title of the Project, Location of the Study, Research Approach and Methods must be reviewed and approved through the amendment/modification prior to its implementation. In case you have further queries, please quote the above reference number. **PLEASE NOTE:** Research data should be securely stored in the discipline/department for a period of 5 years.

The ethical clearance certificate is only valid for a period of 3 years from the date of issue. Thereafter Recertification must be applied for on an annual basis.

I take this opportunity of wishing you everything of the best with your study.

Yours faithfully



.....  
**Professor Urmilla Bob**  
University Dean of Research

/ms

Cc Supervisor: Professor TI Nzimakwe  
cc Academic Leader Research: Professor Isabel Martins  
cc School Administrator: Ms Angela Pearce

---

Humanities & Social Sciences Research Ethics Committee  
Professor Shenuka Singh (Chair) / Dr Shamila Naidoo (Deputy Chair)  
Westville Campus, Govan Mbeki Building

Postal Address: Private Bag X54001, Durban 4000

Telephone: +27 (0) 31 260 3587/8350/4557 Facsimile: +27 (0) 31 260 4609 Email: [ximbap@ukzn.ac.za](mailto:ximbap@ukzn.ac.za) / [snymanm@ukzn.ac.za](mailto:snymanm@ukzn.ac.za) / [mohunp@ukzn.ac.za](mailto:mohunp@ukzn.ac.za)

Website: [www.ukzn.ac.za](http://www.ukzn.ac.za)



100 YEARS OF ACADEMIC EXCELLENCE

Founding Campuses:  Edgewood  Howard College  Medical School  Pietermaritzburg  Westville