



Leading with Integrity: CEO Transformational Leadership as a Driver of Ethical Culture and Organizational Success

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Abstract

In rapidly evolving and highly competitive business environments, it is crucial for top leaders to steer organizations towards success while maintaining high ethical standards. This study examines the impact of CEO transformational leadership on organizational ethical culture and firm performance. Specifically, it explores how transformational leadership by CEOs fosters an ethical culture, thereby enhancing overall firm performance. Using a convenience sampling method, data were collected via questionnaires from 64 executives and managers across 20 companies in industries including air express transportation, freight forwarding, pharmaceuticals, contract manufacturing, and automotive manufacturing.

The findings reveal a significant positive relationship between CEO transformational leadership and organizational ethical culture ($\beta = 0.797$, $p < 0.001$, $R^2 = 0.672$), indicating that visionary and ethical leadership is pivotal in cultivating an ethical organizational environment. Moreover, the study demonstrates a positive correlation between organizational ethical culture and firm performance ($\beta = 0.543$, $p < 0.001$, $R^2 = 0.618$), suggesting that a culture characterized by shared norms, values, and ethical practices enhances firm performance by improving employee satisfaction, reducing misconduct, and strengthening reputation. Mediation analysis confirms that organizational ethical culture significantly mediates the relationship between CEO transformational leadership and firm performance (indirect effect = 0.176, $p < 0.001$), highlighting the indirect effect of transformational leadership on performance outcomes through the establishment of an ethical culture.

These results provide practical implications for managers, underscoring the importance of investing in leadership development and fostering an ethical organizational culture to achieve sustainable performance.

Keywords: transformational leadership; ethical culture; CEO, firm performance

Introduction

In the landscape of business today, leaders play important roles in shaping organizational culture and driving performance by setting the tone, establishing values and norms, creating a supportive climate, aligning goals and objectives, driving accountability, adapting to change, and managing relationships with stakeholders (Cameron & Quinn, 2011). Effective leadership is essential for creating and cultivating ethical culture, innovation, and performance excellence that enables organizations to compete and survive in today's competitive business environment (Brown & Treviño, 2006). According to Lamsam and Charoensukmongkol (2022), mentioned that building an ethical environment for work is an important strategic agenda that management should consider strengthening firm competitiveness. Whilst Brown and Treviño (2006) mentioned that upholding ethical principles and fostering a culture of integrity and accountability are essential for organizations to protect the dilution of their reputation, maintain and enhance stakeholder trust, and sustain long-term success. On the contrary, the organizations which are not complied with ethical standards can have far-reaching consequences, ranging from reputational damage and legal liabilities to financial losses and operational disruptions (Treviño & Nelson, 2021).

In the Thai context, recent corporate governance challenges highlight the practical implications of ethical leadership failures. For instance, the case of the Stark Corporation accounting scandal in 2023, involving misstated financial reports and a significant loss of investor confidence, underscored the importance of ethical oversight at the top management level (“Stark finds B15.6bn of irregular transactions in audit,” 2023). Similarly, the collapse of the Finnish Fund-backed renewable energy project in Chaiyaphum Province revealed governance lapses and lack of transparency in managerial decisions, leading to public scrutiny and regulatory interventions (Akarapongpisak, 2019).

However, in the agile and dynamic business environment, rapid technological advancements, globalization, and increasing stakeholder expectations, it is very challenging for organizations to maintain ethical standards while pursuing competitive advantage. To address these challenges, it is a role of the leaders to set the tone for ethical behavior and foster a culture of integrity and accountability within organizations (Brown & Treviño, 2006).

There are diverse leadership styles which could create positive impacts on overall firm performance such as transactional leadership focuses on rewards and penalties (Northouse, 2021), servant leadership focuses on serving the employees rather than commanding (Greenleaf, 2002), autocratic leadership focuses on controlling all decisions, requires minimal input from the members (Daft, 2021), democratic leadership involves employee(s) in the decision-making process (Northouse, 2021), laissez-faire leadership empowers employees to make decisions to solve the problems (Northouse, 2021), situational leadership style is flexible and adaptive to decision making based on capability of the team (Blanchard, 2018) and, charismatic leadership focuses on motivating the team, inspire enthusiasm (Antonakis & Day, 2020). However, one of the prominent styles which is known for the ability to inspire and

motivate the followers in achieving extraordinary outcomes is transformational leadership (Bass & Riggio, 2014). Transformational leadership is a characteristic of the leaders who carry potential in promoting ethical environment in the workplace (Lamsam & Charoensukmongkol, 2022). The transformational leaders would articulate a compelling vision for future of the organizations, at the same time resonate employees' values and aspirations (Bass & Riggio, 2006). By inspiring a shared vision of ethical conduct and organizational goals, transformational leaders foster a sense of purpose and direction that motivates employees to uphold ethical standards and work towards common objectives (Bass & Riggio, 2014).

Chief Executive Officers (CEOs) are the highest-ranking executives in a company or organization, responsible for making major corporate decisions, managing the overall operations and resources of the company, and acting as the main point of communication between the board of directors and corporate operations (DeCenzo et al., 2016). The CEOs who embrace transformational leadership principles can inspire trust, commitment, and engagement among employees, leading to improved organizational outcomes and long-term success (Bass & Avolio, 2000). In addition, Lamsam and Charoensukmongkol (2022) suggested that the transformational leadership practiced by the CEOs could promote the building of an ethical culture in the organizations.

Despite prior research has examined the impact of leadership on organizational outcomes, there remains a lack of empirical studies specifically investigating the influence of transformational leadership on organizational ethical culture and firm performance. In addition, prior research focused on the application of transformational leadership to all management levels in the organizations but not at the CEO level. In addition, very few studies have explored how transformational leadership practiced by CEOs would promote ethical work environment in the organizations and subsequently enhance firm performance.

This research seeks to address this gap by exploring the relationship between CEO transformational leadership and the development of organizational ethical culture, as well as assessing the impacts of CEO transformational leadership on key indicators of firm performance, including financial performance, sales revenue, and market share. From a theoretical perspective, Hambrick and Mason (1984) explained in the upper echelons theory that top executives' values, personalities, and experiences influence their evaluations and choices, which in turn affect organizational outcomes. Therefore, this research will assess the mediating effect through which organizational ethical culture influences the relationship between CEO transformational leadership and firm performance.

Understanding the dynamics among CEO transformational leadership, organizational ethical culture, and firm performance holds significant implications for theory, practice, and policy. Firstly, an ethical organizational culture is increasingly recognized as a source of competitive advantage, fostering trust among stakeholders, enhancing reputation, and reducing the risk of ethical misconduct (Treviño et al., 2014). Secondly, by focusing on the role of CEO transformational leadership in shaping ethical culture, this research can inform leadership development initiatives aimed at cultivating ethical leadership behaviors within

organizations. Thirdly, in a business environment where corporate activities and social responsibility are closely observed and reported simultaneously and promptly, ethical leadership is essential for organizations to navigate complex ethical dilemmas, mitigate risks, and build sustainable relationships with stakeholders (Brown & Treviño, 2006). Furthermore, studying how transformational leadership influences organizational ethical culture can provide valuable insights for organizational leaders seeking to foster a culture of ethics and integrity. The assessment of the relationship between organizational ethical culture and firm performance contributes insights into the connection between an ethical environment and organizational success. By empirically testing these relationships, the research aims to enhance our understanding of the mechanisms through which CEO transformational leadership translates into tangible business results.

Research Questions

To close the knowledge gap, this study seeks to answer the following questions:

1. How does CEO transformational leadership affect organizational ethical culture in the context of dynamic and competitive business environments?
2. Does organizational ethical culture mediate the relationship between CEO transformational leadership and firm performance?
3. Which organizational and environmental factors influence the strength or direction of the relationship among CEO transformational leadership, ethical culture, and firm performance?
4. To what extent do organizational ethical culture and firm performance contribute to economic, social, and environmental outcomes in the context of corporate sustainability and competitiveness?

Research Objectives

1. To examine the relationship between CEO transformational leadership and organizational ethical culture in the context of dynamic and competitive business environments.
2. To test the mediating role of organizational ethical culture between CEO transformational leadership and firm performance.
3. To evaluate the effect of CEO transformational leadership and organizational ethical culture on firm performance outcomes at the organizational level.
4. To compare differences in these relationships under moderating conditions such as firm size, industry sector, and technological adoption levels.

Concepts and Related Theories

Transformational Leadership

Transformational leadership has become a prominent leadership theory, especially in today's challenging and agile business environment. According to transformational leadership

theory, originally proposed by Bass (1985), there are four key components: idealized influence, inspirational motivation, intellectual stimulation, and individualized consideration. Specifically, idealized influence refers to the leader serving as a role model and gaining followers' respect and trust; inspirational motivation involves inspiring and motivating followers through a clear vision and direction for the organization's future; intellectual stimulation refers to encouraging creative and innovative ideas among followers; and individualized consideration involves addressing the unique needs and development of each follower. This theory has been the focus of researchers, practitioners, and organizational leaders due to its characteristics and its ability to inspire and motivate employees to achieve outstanding outcomes. Khan et al. (2020) argued that transformational leadership creates positive outcomes for organizations, including employee satisfaction, commitment, and performance. Studies have consistently found that transformational leaders are associated with higher levels of employee satisfaction, commitment, and performance compared to other leadership styles (Judge & Piccolo, 2004).

Even though there is a consensus on the positive effects of transformational leadership, there are still some debates in the literature. One argument focuses on the underlying mechanisms through which transformational leadership influences organizational outcomes. While some researchers argue that transformational leaders create a supportive climate that fosters employee engagement and commitment, others suggest that transformational leaders may be more effective in certain contexts or with certain types of followers (Walumbwa et al., 2008).

CEO transformational leadership builds on Bass's (1985) concept of transformational leadership, which emphasizes a leader's ability to motivate and inspire followers through influence, inspiration, intellectual stimulation, and individualized consideration. In the context of CEOs, transformational leadership involves exhibiting a compelling vision, empowering employees, fostering innovation, and promoting ethical conduct (Avolio & Bass, 1991). Transformational leadership theory suggests that CEOs who demonstrate transformational behaviors positively influence organizational outcomes such as employee engagement, satisfaction, and performance (Bass & Avolio, 1994). In addition, transformational CEOs create a shared vision that aligns with the goals and values of the organization, motivating employees to perform at their best and achieve extraordinary results (Judge & Piccolo, 2004). Empirical research supports the effectiveness of CEO transformational leadership on organizational performance. Several studies have found that organizations led by transformational CEOs tend to exhibit higher levels of innovation, employee satisfaction, and financial performance compared to those led by transactional CEOs (Waldman et al., 2001). For example, a study by Zhang and Bartol (2010) found a positive relationship between CEO transformational leadership, employee creativity, and organizational innovation.

Ethical Organizational Culture

Ethical organizational culture refers to the shared values, beliefs, norms, and practices within an organization that promote ethical behavior and decision-making (Treviño et al., 1998). It involves the organization's commitment to ethical principles, the importance of integrity

and accountability, and the integration of ethics into company policies, best practices, and decision-making processes.

An ethical culture is crucial for fostering trust, enhancing employee morale, and ensuring compliance with legal and regulatory standards. Ethical organizations tend to enjoy higher employee satisfaction, reduced turnover, and improved organizational reputation. Kaptein (2008) highlighted that ethical cultures mitigate risks associated with unethical behavior, thereby enhancing organizational sustainability. For example, organizations with strong ethical cultures tend to have better reputations and greater trust from stakeholders (Kaptein, 2008). In terms of engagement, employees are more likely to feel valued and committed when they perceive that their organization conducts business ethically (Valentine & Fleischman, 2008). Moreover, Treviño et al. (2006) stated that ethical cultures promote an environment where innovation is encouraged, as employees feel safe to take responsible risks.

Apart from the benefits mentioned above, developing and maintaining an ethical culture can be challenging. Factors such as differing personal values, diverse employee backgrounds, and external pressures can hinder efforts to maintain consistent ethical standards (Cambridge Core, 2023). Organizations must continuously reinforce ethical training, transparent communication, and consistent enforcement of ethical policies to sustain their ethical culture (Ferrell et al., 2015).

Theory and hypotheses development

Upper echelon theory.

This research is grounded in upper echelons theory, viewing CEO transformational leadership as an important factor in fostering an ethical culture within organizations. The theory explains that the characteristics of top executives significantly influence the organization's direction, corporate strategies, and performance outcomes (Hambrick & Mason, 1984). It further posits that senior executives' interpretations of situations and their choices in problem resolution are filtered through their experiences, values, and personalities (Hambrick, 2007). In addition, CEOs have the authority to issue and implement corporate policies and make critical strategic decisions that guide organizational members' actions (Lamsam & Charoensukmongkol, 2022). Based on these statements, it can be implied that CEOs serve as key drivers in leading and shaping the organization's direction. Therefore, the strategies and policies initiated by top executives tend to align with their values and cognitive styles (Lamsam & Charoensukmongkol, 2022).

By articulating the concepts of both upper echelons theory and CEO transformational leadership, these theories suggest that the personal characteristics of top executives not only determine their own leadership style but also set the tone for leadership throughout the organization (Waldman et al., 2001). For example, transformational leadership exhibited by CEOs fosters an organizational culture that promotes innovation, ethical behavior, and a commitment to achieving common goals (Banks et al., 2016). Furthermore, transformational CEOs are effective at driving performance not only through direct influence but also by empowering middle managers and other employees (Smith & Doe, 2023). Empowerment is a

key success factor in improving organizational adaptability and responsiveness for sustainable performance (Chen & Huang, 2024). In this research, the integration of upper echelons theory and CEO transformational leadership explains how top executives' leadership styles can help build an ethical organizational culture.

Effect of chief executive officer transformational leadership and ethical organizational culture.

Referring to upper echelons theory, Hambrick and Mason (1984) argued that there is a linkage between the characteristics of top executives and the behaviors of employees within an organization. Therefore, it can be implied that when top executives cultivate ethical behavior, they help establish a culture that employees are likely to follow and practice (Lamsam & Charoensukmongkol, 2022). Research conducted by Brown et al. (2005) further supports the linkage between leadership and culture, indicating that transformational leadership is strongly correlated with ethical behavior and can promote an organizational culture that prioritizes morality over performance outcomes. In addition, Schein (2010) argued that one of the most important roles of top leaders—CEOs in particular—is creating and managing organizational culture. CEOs who demonstrate transformational leadership behaviors can directly influence the cultivation of an ethical culture within the organization (Schein, 2010). Therefore, based on the upper echelons theory and supporting evidence, the following hypothesis is proposed:

H1. Chief executive officer transformational leadership is positively associated with organizational ethical culture.

Effect of organizational ethical culture on firm performance.

Ethical culture is a set of norms, practices, and values that individuals within an organization use to guide ethical behavior and decision-making (Johnson, 2024). It includes principles of ethics, ethical standards, codes of conduct, and the ethical culture perceived by employees. For example, Valentine and Barnett (2003) found that awareness of an ethics code within an organization enhances employees' perceptions of ethical values, which in turn positively impacts their organizational commitment. The practice of ethical culture within an organization often reduces the likelihood of exposure to legal and regulatory violations, thereby lowering costs and enhancing organizational reputation (Smith & Chen, 2024). McKendall et al. (2002), for instance, found that robust ethical programs reduce instances of noncompliance and illegality, preserving firm reputation and performance. Ethical organizations attract talented and high-caliber candidates, enhance employee satisfaction, and improve customer loyalty (Johnson, 2024). As a result, such organizations remain competitive in the market and gain a sustainable advantage through superior financial performance. Kaptein (2008) also indicated that organizations with strong ethical cultures experience less

misconduct, higher productivity, and better financial returns. After considering all supporting evidence, the following hypothesis can be proposed:

H2. Organization ethical culture is positively associated with firm performance.

Mediating effect of organizational ethical culture on the link between chief executive officer transformational leadership and firm performance.

By considering upper echelons theory, it is suggested that top management can influence firm performance by shaping organizational culture and establishing policies that support the organization's core values (Hambrick & Mason, 1984). By integrating upper echelons theory with transformational leadership, organizational ethical culture, and firm performance, this comprehensive framework explains the mediating effect of ethical culture on firm performance. Therefore, it is logical to anticipate a positive relationship between CEO transformational leadership and firm performance through the mediating effect of organizational ethical culture. Prior research conducted by Bass and Riggio (2006) suggests that transformational leaders positively influence organizational performance through various mechanisms, including increased innovation, enhanced motivation, and improved employee morale. Treviño et al. (1998) defined organizational ethical culture as a collection of practices and values that promote ethical behavior among employees. Empirical research has demonstrated that organizations with strong ethical cultures achieve higher performance levels, greater trust, lower litigation costs, and better compliance with regulations (Simha & Cullen, 2012). Research conducted by Groves and LaRocca (2011) found that the influence of leadership on organizational outcomes can be mediated by organizational ethical culture, suggesting that ethical culture may serve as a bridge that enhances the impact of transformational leadership on firm performance. Transformational leadership appears to cultivate an ethical culture, which in turn positively influences firm performance. This mediating relationship highlights the importance of fostering ethical values within organizations to fully leverage the benefits of transformational leadership. Therefore, it is logical to propose the following hypothesis:

H3. Organization ethical culture mediates the positive association between chief executive officer transformational leadership and firm performance.

All hypotheses are summarized in the conceptual model, as shown in Figure 1.



Figure 1: Conceptual Model

Research Methodology

Sample and Data Collection

The sample group was selected using a nonprobability sampling method. A list of 20 companies across various industries was compiled based on the researcher's close professional network, which included firms in the air express transportation, air freight forwarding, pharmaceutical, contract manufacturing, and automotive manufacturing industries. A convenience sampling method was applied to purposely select respondents at management levels, as they possess direct insights into their CEOs' leadership styles, the ethical culture of their organizations, and the overall performance of their firms. The survey was conducted through a questionnaire developed on Google Forms and distributed via email to 300 recipients. A cover letter was attached to the questionnaire, explaining the purpose of the study, assuring respondents of data confidentiality, and emphasizing that participation was anonymous. One week after the initial email was sent, a follow-up email was distributed to ensure the questionnaire was received. A total of 66 responses were collected over the two-week survey period. However, after data auditing, two responses were deemed unusable due to inconsistencies. Therefore, 64 usable questionnaires remained, representing a 21.33% response rate. While the sample size of 64 meets the minimum requirement for regression analysis, its relatively small size may limit the generalizability of the findings. Future studies should consider stratified or random sampling to ensure broader representation across industries and firm sizes, thereby improving external validity. A summary of the sample characteristics is presented in Table 1.

Table 1: Descriptive statistics of samples

Variables	Mean	Standard Deviation (SD)
Age of respondents (years)	41.1	9.25
Year of Service	15.86	9.60

Source : Rojanasuwan (2024)

Measures

The scale developed by Carless et al. (2000) was used to measure CEO transformational leadership. The scale consists of nine items. A five-point Likert scale ranging from 1 (strongly disagree) to 5 (strongly agree) was applied. These items include:

1. Communicates a clear and positive vision of the future.
2. Treats staff as individuals, supports and encourages their development.
3. Gives encouragement and recognition to staff.
4. Fosters trust, involvement and cooperation among team members.
5. Encourages thinking about problems in new ways and questions assumptions.
6. Is clear about his/her values.
7. Practices what he/she preaches.
8. Instills pride and respect in others.
9. Inspires staff by being highly competent.

The scale developed by Goebel et al. (2012) was used to measure organizational ethical climate. The scale consists of thirteen items. A five-point Likert scale ranging from 1 (strongly disagree) to 5 (strongly agree) was applied. These items include:

1. Top managers in our organization regularly show that they care about ethics.
2. Top managers in our organization guide decision-making in an ethical direction.
3. Top managers in our organization are models of ethical behavior.
4. Top managers in our organization represent high ethical standards.
5. Management in our organization disciplines unethical behavior when it occurs.
6. Penalties for unethical behavior are strictly enforced in our organization.
7. Unethical behavior is punished in our organization.
8. People of integrity are rewarded in our organization.
9. Ethical behavior is rewarded in our organization.
10. Employees in our organization are required to acknowledge that they have read and understood the code of conduct.
11. The code of conduct is widely distributed throughout our organization.
12. Employees in our organization are regularly required to assert that their actions are in compliance with the code of conduct.
13. The code of conduct is well formalized in our organization.

The scale developed by Siepel and Dejardin (2020) was used to measure firm performance. The scale consists of five items. A five-point Likert scale ranging from 1 (strongly disagree) to 5 (strongly agree) was applied. These items include:

1. Overall profit level achieved.
2. Profit margin achieved.
3. Return on investment achieved.
4. Sales volume achieved.
5. Market share achieved.

Control Variables

This research gathers basic demographic data and control variables to account for potential effects resulting from respondents' age and years of service. Age diversity is generally seen as contributing positively to firm performance by bringing a variety of perspectives and experiences, thereby enhancing decision-making processes and innovation (Nadeem et al., 2019). Experience is measured by years of service; longer tenure can provide stability and in-depth organizational knowledge, which are beneficial for performance (Wang et al., 2018). However, excessive tenure without corresponding performance improvements may lead to stagnation (Wang et al., 2018).

Statistical Analysis

Descriptive statistics were used to summarize the demographic characteristics of the sample and the distribution of responses for each variable. The mean and standard deviation

were calculated for the variables of age and years of service. In addition, Cronbach's alpha was computed to assess the internal consistency of the scales used in the questionnaire. Ordinary Least Squares (OLS) regression analysis was employed as the analytical tool to test the hypothesized relationships among the variables. OLS regression is suitable for estimating linear relationships between the independent variable (CEO transformational leadership), the mediating variable (organizational ethical culture), and the dependent variable (firm performance). IBM SPSS Statistics version 29 was used for data analysis.

Summary of Findings and Discussion

Results

Prior to conducting the analysis, the internal consistency and reliability of the scales used in this study were tested using Cronbach's alpha coefficients. Cronbach's alpha is a measure of internal consistency that assesses how closely related a set of items are as a group. According to Nunnally (1978), a Cronbach's alpha value above 0.70 is considered acceptable for social science research, values above 0.80 are considered good, and values above 0.90 indicate excellent reliability.

The results of the reliability test presented in Table 2 reveal that all three variables in this study have Cronbach's alpha values exceeding 0.90. The scales used are therefore considered to have excellent reliability. These high values provide confidence that the items within each scale are measured consistently and represent the same underlying construct.

Table 2: Results from reliability test

Variables	CEO Transformational Leadership	Organizational Ethical Culture	Firm Performance
Cronbach's alpha (α) coefficient	0.946	0.936	0.951

Source : Rojanasuwan (2024)

The model was tested to examine the correlations among the variables, and the results are presented in Table 3.

Table 3: Correlations among variables

Variables	CTL	OEC	FP	AGE	YOS
CTL	1	.760**	.542**	-0.095	0.073
OEC		1	.570**	-0.032	0.008
FP			1	-0.134	0.111
AGE				1	0.694**
YOS					1

Notes:

** Correlation is significant at the 0.01 level (p -value < .01) (2-tailed)

* Correlation is significant at the 0.05 level (p -value < .05) (2-tailed)

CTL=CEO Transformational Leadership, OEC=Organizational Ethical Culture, FP=Firm Performance, AGE = Age, YOS = Years of Service.

Source : Rojanasuwan (2024)

The results from the model estimation using OLS regression are summarized in Table 4. The results of the hypothesis testing are presented as follows:

Table 4: Multiple regression results

Independent Variables	Beta coefficients and the level of significance	VIF
Regression 1 (CTL→OEC)		
Main independent variables		
CEO Transformational Leadership	.760***	1,270
R-square	.672	
Regression 1 (OEC→FP)		
Main independent variables		
Organizational Ethical Culture	.570**	1.207
Control variables		
Age	-.321	2.290
Years of Service	.264	3.432
R-square	.618	

Note: *** <.001, Standardized beta coefficients are reported

Source : Rojanasuwan (2024)

Hypothesis 1: The results of the regression analysis indicate a strong and statistically significant positive association between CEO transformational leadership and organizational ethical culture, as evidenced by the beta coefficient ($\beta = 0.797$, $p < 0.001$). This finding suggests that firms led by CEOs who demonstrate higher levels of transformational leadership tend to exhibit higher levels of ethical culture compared to firms led by CEOs with lower levels of transformational leadership. Therefore, Hypothesis 1 is supported.

Hypothesis 2: The results of the regression analysis indicate a strong and statistically significant positive association between organizational ethical culture and firm performance, as evidenced by the beta coefficient ($\beta = 0.543$, $p < 0.001$). This finding suggests that firms exhibiting higher levels of organizational ethical culture tend to achieve better performance than those with lower levels of ethical culture. Therefore, Hypothesis 2 is supported.

Hypothesis 3: The mediating effect of CEO transformational leadership on firm performance through organizational ethical culture was calculated by multiplying the beta coefficients of the direct paths ($0.797 \times 0.543 = 0.176$), as recommended by Preacher and Hayes (2004). As a result, the mediation analysis ($\beta = 0.176$, $p < 0.001$) confirms that organizational ethical culture significantly mediates the relationship between CEO transformational leadership and firm performance. Therefore, Hypothesis 3 is supported.

Regarding the control variables, the results from Regression Analysis 2 (OEC → FP) reveal that age ($\beta = -0.321$, $p = 0.021$) is negatively associated with firm performance. This indicates that older CEOs are more likely to be associated with lower firm performance. The result is supported since the p-value is below the 5% significance level. For years of service ($\beta = 0.264$, $p = 0.117$), there is a positive association with firm performance, suggesting that

CEOs with longer tenure tend to be associated with higher firm performance. However, since the p-value exceeds the 5% significance level, this result is not statistically supported.

The issue of multicollinearity was assessed using the Variance Inflation Factor (VIF), which should be lower than 10. According to the results, the highest VIF value was 3.432, which is below the acceptable threshold. Therefore, there is sufficient evidence to conclude that multicollinearity is not a major concern in this study.

Finally, the R^2 results from the regression analyses are 0.672 and 0.618. This indicates that all variables in the models—including CEO transformational leadership, organizational ethical culture, firm performance, age, and years of service—explain 67.2% and 61.8% of the variance in organizational ethical culture and firm performance, respectively. The remaining 32.8% and 38.2% of the variance can be attributed to other factors not included in the regression analysis.

Figure 2 depicts the results of the OLS regression, summarized in the conceptual model as follows:

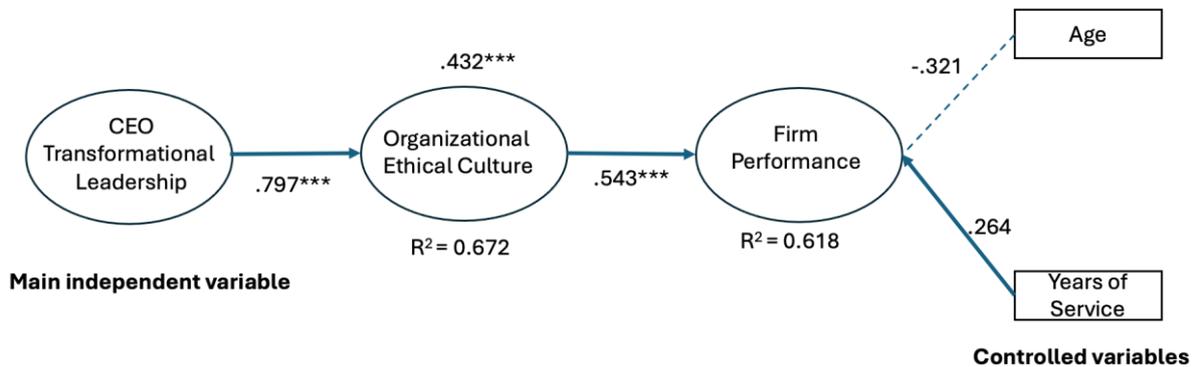


Figure 2: Results from OLS Regression

Notes: $*** <.001$

- Standardized beta coefficients are reported
- Dash lines represent non-significant results

Source : Rojanasuwan (2024)

Discussion

The primary objective of this study was to explore the mediating effect of organizational ethical culture on the relationship between CEO transformational leadership and firm performance. The results obtained from the OLS regression analysis reveal a strong relationship among CEO transformational leadership, organizational ethical culture, and firm performance.

In particular, the results confirm a significant positive association between CEO transformational leadership and organizational ethical culture ($\beta = 0.797$, $p < 0.001$). This indicates that transformational leaders, through their visionary and ethical conduct, play a crucial role in shaping and fostering an ethical culture within organizations. This finding is

consistent with previous research that has highlighted the role of transformational leaders in promoting ethical values and behaviors (Bass & Avolio, 1994; Treviño et al., 2000).

The analysis also shows a significant positive relationship between organizational ethical culture and firm performance ($\beta = 0.543, p < 0.001$). This suggests that organizations with strong ethical cultures tend to perform better both financially and operationally. The findings from this research align with previous studies conducted by Kaptein (2008) and Valentine and Fleischman (2008), which explained that organizational ethical culture promotes trust, reduces misconduct, and enhances employee satisfaction, thereby contributing to improvements in firm performance.

The mediation analysis also supports the hypothesis that organizational ethical culture mediates the relationship between CEO transformational leadership and firm performance. The indirect effect, calculated by multiplying the beta coefficients of the direct paths (0.797×0.543), confirms the mediating effect of ethical culture. This indicates that transformational leadership significantly influences firm performance through its impact on organizational ethical culture (Mayer et al., 2009; Huhtala et al., 2013).

Considering upper echelons theory alongside the findings of this research, the study provides a theoretical framework for understanding the relationship between CEO transformational leadership and firm performance, with the mediating role of organizational ethical culture. The upper echelons theory explains that organizational outcomes are heavily influenced by the characteristics and values of top executives (Hambrick & Mason, 1984). This study extends the theory by demonstrating how transformational leadership, which reflects a core value of executives, can promote an ethical culture that enhances firm performance.

Transformational leaders embrace values such as integrity and ethical behavior, which are crucial for fostering an ethical culture. This aligns with the cognitive and value dimensions of upper echelons theory (Hambrick & Mason, 1984). Consistent with Smith and Chen (2004) and Kaptein (2008), the study also shows that the practice of ethical culture within an organization can reduce the likelihood of exposure to legal and regulatory violations, thereby lowering costs and enhancing the organization's reputation.

Recommendations for Future Research

Research on transformational leadership in Thailand remains limited, particularly within the small and medium enterprise (SME) sector. Future studies could focus on owners or top management in SMEs. Similarly, the scales used for measuring firm performance could be adapted to better fit the SME context (e.g., customer satisfaction, employee innovation, and employee satisfaction). In addition to organizational ethical culture, future research may also consider other mediating variables (e.g., innovation climate, employee engagement) to gain broader perspectives on the relationship between transformational leadership and firm performance.

While this study provides clear quantitative evidence of the relationships between CEO transformational leadership, organizational ethical culture, and firm performance, it has certain

limitations in capturing the underlying mechanisms and contextual nuances that quantitative data alone may not fully explain.

Future research could incorporate qualitative approaches, such as in-depth interviews or focus group discussions, to gain richer insights into the experiences, perceptions, and decision-making processes of executives and employees. Additionally, employing a mixed-methods design that integrates both quantitative and qualitative data could provide a more comprehensive understanding of how transformational leadership shapes ethical culture and organizational outcomes. Such an approach would not only deepen the findings but also contribute to the development of new theoretical perspectives and practical implications for leadership and organizational ethics.

Limitations

Although this research provides additional contributions to the study of transformational leadership, several limitations must be acknowledged. Firstly, the sample of firms that contributed data for analysis was limited in both scope and number. Specifically, this study relied on a convenience sample due to time constraints and limited access to other firms, which may restrict the generalizability of the findings to industries not represented in the sample. In addition, the use of a questionnaire survey for data collection, along with the application of subjective measures of firm performance, may make the data susceptible to response bias. Lastly, there may be other control variables influencing firm performance that were not included in the analysis.

Managerial Implications

The findings of this study have pivotal implications for organizations, particularly in promoting and endorsing transformational leadership among top management. The results indicate that top management who embody transformational leadership serve as key change agents in fostering and nurturing an ethical organizational culture. Consequently, this leadership approach significantly enhances overall firm performance, aligning with broader organizational goals and strategic imperatives. The following are the key implications from this study:

First, organizations need to consider implementing development programs to promote transformational leadership. They should invest in comprehensive leadership development initiatives that focus on cultivating transformational leadership qualities. These programs should emphasize the core competencies required to become effective transformational leaders. Moreover, senior executives can play a crucial role in mentoring newly onboarded leaders within the organization. By serving as role models, they can instill transformational leadership qualities in their successors, thereby ensuring a consistent leadership style across different levels of management.

Second, organizations must endeavor to cultivate an ethical organizational culture. Such efforts should extend beyond top management and encompass all managerial levels.

The management team should collectively develop and enforce clear ethical standards and guidelines, including the establishment of codes of conduct, ethical training programs, and mechanisms for reporting and addressing unethical behavior. Establishing a well-defined ethical framework is instrumental in embedding a culture of integrity and accountability. Moreover, conducting regular ethical audits can help managers assess the current state of the organizational culture and identify areas for improvement. During these audits, management should communicate the importance of ethics to employees, emphasizing the organization's commitment to reinforcing ethical practices rather than creating the impression of an investigative procedure.

Last but not least, it is recommended that organizations align their ethical culture with strategic goals. An ethical culture that supports the company's mission and objectives can enhance overall performance by improving employee morale, customer satisfaction, and organizational reputation. Additionally, recognizing and rewarding employees who demonstrate ethical behavior and contribute to organizational goals can reinforce positive behaviors and drive performance.

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