The Impact of Ethical Leadership on Employees Turnover Intention: 
An Empirical Study of the Banking Sector in Malaysia

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Abstract

The purpose of this paper is to investigate the influence of ethical leadership in determining the organizations’ individual-type ethical climate (self-interest, friendship, and personal morality ethical climate) in reducing employee turnover intention. It seeks to identify the role of individual-type climate in mediating the association between ethical leadership and employee turnover intention. Moreover, the moderation effect of emotional exhaustion among employees on the relationship between ethical leadership and turnover intention has been researched to establish the ethical degree of leadership. Using a sample of 260 questionnaires from employees working full-time in the banking sector, the results were analyzed in PLS-SEM. The results of the social exchange theory indicated that ethical leadership is vital in shaping the workplace’s individual-type ethical climate and reducing employees’ turnover intention. The findings demonstrate that the relationship between ethical leadership and turnover intention is mediated by an individual-type ethical climate, which means that employees in a positive ethical climate do not wish to leave immediately. Furthermore, emotional exhaustion was found to moderate the association between ethical leadership and employees’ turnover intention under high emotional exhaustion, where low ethical leadership is experienced, reporting higher levels of turnover intention.

Keywords: Ethical Leadership, Ethical Climate, Employee Emotional Exhaustion, Employee Turnover Intention

JEL Classification Code: C83, D23, D91, J63

1. Introduction

Turnover in Malaysian workforces has been a major challenge for several decades (Sija, 2021; Memon et al., 2017; Juhdi et al., 2013), with staff voluntary turnover increasing every year, leaving companies in an unstable state. Since 2009, the country’s employee turnover rate has increased significantly, rising from 10.1% (Wee, 2013) to 27.9% in 2019 across all working sectors (Department of Statistics, 2020). According to Ali & Fei (2016) development of the Malaysian financial sector is the key determinant of economic growth. Nonetheless, it has been found that Malaysian banking has the highest employee turnover rate, which has surged from 7.4 percent in 2008 to 13.3 percent in 2013 (Willis et al., 2013). In addition, Letchumanan & Apadore (2017) reported that the turnover rate of the Malaysian financial sector has reached up to 18.3% over five years. Juhdi et al. (2013) emphasized that a well-functioning human resource management system would be impactful in creating a climate that would encourage employees’ productivity. However, the present study argues that the lack of leadership role in developing countries fails to bring positive outcomes from employees.

Leadership studies are becoming more relevant in the twenty-first century as western corporations have taken ethical issues to the forefront (Brown & Treviño, 2006;
Brown et al., 2005). Despite several experiments conducted in the development of ethical leadership management (Agrawal, 2017; Frisch & Huppenbauer, 2014; Brown & Treviño, 2006) yet important variables such as individual-type ethical climate where organization required to serve and promote positive outcomes (Freeman, 2019) remains limited. According to a recent financial study, organizations should prioritize their employees’ interests first (Sija, 2020), which is consistent with the ethical leadership study’s definition (Brown et al., 2005) of normatively appropriate action that increases chances of employee well-being (Yukl et al., 2013).

Elçi et al. (2012) previously demonstrated that leadership behaviors considerably impact employee job satisfaction and loyalty, affecting employee behavioral outcomes. Ethical leaders display professional leadership skills where employees can have more optimistic attitudes regarding their employment, reducing the likelihood of withdrawal tendency (Shafique et al., 2018). In addition, Suifan et al. (2020) addressed the importance of a leader’s ethical behavior and actions towards adopting ethical standards among employees, which in turn define the impact of organizations’ ethical climate. Inline, this study has identified three dimensions of individual-type ethical climate (self-interest, friendship, and personal morality type ethical climates) as the vital mediating variable to study the effect between ethical leadership and employees’ turnover intention among Malaysia’s financial sector. Furthermore, the study implements ethical leadership (Brown & Treviño, 2006; Brown et al., 2005) to address the issue of minimizing turnover intention among employees. Unexpectedly, negative organizational consequences such as employee turnover have gained little attention regarding implementing ethical leadership as the aiding factor and studying the mediating relationship between individual-type ethical climates in Malaysia’s financial sector.

The relationship between ethical leadership and employee turnover intention is investigated in this study in the following ways. First, the major failure of management demonstrating weak leadership skills (Arham et al., 2017; Jamali et al., 2017; Musa & Chinniah, 2016; Hassan et al., 2014) is assessed by employing ethical leadership. By implementing social exchange theory (Blau, 1964), this research explains how ethical leadership influences subordinate behaviors and demonstrates that this type of leadership style significantly affects employees’ withdrawal behavior. Secondly, to understand the turnover intention in the broader context, factors such as individual-type ethical climate were included in this analysis in accordance with social exchange theory (Blau, 1964). This assessment allows the extent of the effect of an individual-type ethical climate on the supervision of employees (O’Keefe et al., 2019; Demirtas & Akdoğan, 2015; Meyer et al., 2012; Mayer et al., 2010). Third, the study contributes to the body of knowledge by describing how a leader’s action influence subordinates’ moral judgments to resign. To address the above research gaps, drawing on the social exchange theory, the objective of this study is to investigate the effect of emotional exhaustion in the work unit as a moderator between ethical leadership and turnover intention.

2. Literature Review

2.1. Turnover Intention

To address the employee retention rate and increase organizational effectiveness, research has been performed to further the understanding of turnover intention (Hom et al., 2012). A turnover intention in employees is the probability of actual turnover as a result of a difference between the rationality of motivation and the rationality of working conditions (Ponomariov et al., 2020). Individual attitudes and behaviors are influenced significantly by how employees perceive their organizational climate and deal with work issues (Wen et al., 2020). Scholars have previously claimed that the relationship between an employee and their supervisor is one of the most important roles that significantly impact the attitudes and conduct of employees (Hirst et al., 2009). Another study posits that it is the positive association of employees being dissatisfied from the stressful job environment leading to withdrawal intentions (Amponsah-Tawiah et al., 2016). On the other hand, Kim and Vandenberghe (2020) highlighted that employee connection in a long-term company is often influenced by various elements, such as corporate ethical climate, which impacts whether an employee wishes to stay or leave the firm. Brown and Trevio (2006) indicated that ethical leaders’ influence on employee outcomes such as turnover intention could be reduced by implementing social exchange theory. As a result, it is vital to identify and comprehend potential predictors of employee turnover, as well as the impact of leadership in the context of a critical work environment component.

2.2. Ethical Leadership and Employee Turnover Intention

The impact of ethical leadership on organizational and employee behavioral outcomes have been studied by previous researchers such as Brown et al. (2005), indicated that the most important process in every business is the leadership style, further supported (Mehmood et al., 2021; Ruiz et al., 2011) that implying that managers’ ethical leadership practices have an impact on employees’ job outcomes. Likewise, ethical leadership is defined as “the demonstration of normatively performed behavior through two-way personal acts and interpersonal relations” (Brown et al., 2005, p. 120). Leaders of such kind encourage employees
to be more devoted to their companies by fostering a strong ethical climate (Loi et al., 2015). Furthermore, the ethical adoption of a leader in the work unit allows employees’ readiness to report ethical difficulties, which may be worked with by the leader and decrease the withdrawal condition among employees (Hassan et al., 2014).

Employees are more prone to leave their organization when their supervisors utilize coercive approaches towards their subordinates (Reina et al., 2018). This situation can be resolved if leaders act ethically and engage in acts and behaviors that benefit others while abstaining from actions and behaviors that may bring harm to others (Yukl et al., 2013). Grounding the social exchange theory, it has been studied that leaders can manage employees’ behavioral reactions by using a system of reciprocity and reward signals (O’Keefe et al., 2019; Cropanzano et al., 2017; Cropanzano & Mitchell, 2005; Blau, 1964). Furthermore, it has been noted that contribute toward the negative outcomes (turnover intention in employees), especially in developing countries like Malaysia are limited. Thus, the study hypothesizes that ethical leadership will have a lessening effect on employees’ intention to leave, resulting in a decreased withdrawal tendency:

H1: Ethical leadership is negatively related to employees’ turnover intention.

2.3. Ethical Leadership and Individual-type Ethical Climate

The ethical climate is a shared understanding of what constitutes ethically appropriate behavior and its impact on employees’ behavior (Brown & Treviño, 2014). It has been defined as the “prevailing perceptions of normal organizational activities and procedures with ethical meaning” (Victor & Cullen, 1988, p. 101). According to the ethical climate model (Victor & Cullen, 1988), only three types of ethical climates were chosen for this study: self-interest (egoistic moral judgment and individual locus of analysis), friendship (benevolent moral judgment and individual locus of analysis), and personal morality (principled moral judgment and individual locus of analysis), as the unit of analysis, is intended for individual understanding. It has been suggested by Bischak and Woiceshyn (2016) that leaderships’ action and their consequences are more evident in specific situations, such as in a particular organizational climate. For example, followers working under ethical leadership often align their behavior with the ethical codes communicated to them (Mayer et al., 2010). These employees attempt to imitate their leaders’ behaviors (especially optimistic behaviors) to reaffirm their inclusion in the workplace (Walumbwa et al., 2017).

According to Mihaylov and Perkins (2014), employees highly attached to their organizations are more likely to devote more time and resources to the organization than individuals with low organizational attachment. Furthermore, ethical leaders integrate ethical concepts with leadership practices and value achievement to promote ethical actions (organizational success) (Bischak & Woiceshyn, 2016; Frisch & Huppenbauer, 2014). The social exchange theory acts as the basis for this relationship (Blau, 1964) which explores how a leader and its subordinate’s relationship is ethical and causes equal behavioral effect (Walumbwa et al., 2017). As a result, it is possible to argue that employees who work under ethical supervision are less likely to be subjected to a hostile work environment because ethical leaders are more likely to encourage a strong ethical climate and behavioral outcomes. Therefore, the following hypothesis is proposed based on previous research findings and theoretical reasoning:

H2: Ethical leadership is positively related to individual-type ethical climates (self-interest, friendship, and personal morality ethical climates).

2.4. Individual-type Ethical Climate and Employees’ Turnover Intention

Previously, most of the ethical climate literature concentrated on the impact of ethical climates at the workgroup level (Demirtas & Akdogan, 2015; Kuenzi & Schminke, 2009). Given that the study is focused on the exchange relationships between individual employees and their leaders, the research investigates employees’ individual perceptions. It has been argued that organizational climate is one of the most important predictors of individual attitudes or behavioral outcomes (DeConinck, 2015; Garcia-Garcia et al., 2011). High ethical climates are related to positive outcomes such as job satisfaction, organizational dedication, and ethical decision-making, whereas negative outcome such as turnover intention is associated with low ethical climates (Mayer et al., 2009; Martin & Cullen, 2006; Cullen et al., 2003). Employees have a lower level of affiliation within the organization when the perceived ethical environment relies on an individualized and independent approach to organizational activities (Barattucci et al., 2021). For instance, David et al. (2020) explained that organizations are required to provide the requisite technological and knowledge resources for employees to develop seamless contact processes in order to build a good ethical climate. This is further validated by Wen et al. (2020), Effendi et al. (2021) that individual perceptions and actions can be significantly affected by how employees interpret their workplace environment to be positive, which helps them to cope with work challenges and mitigate turnover intentions.

Furthermore, setting laws, processes, and developing behavioral expectations provides the structure for an organization’s ethical climate (Newman et al., 2017;
DeConinck, 2015). As a result, the organizational ethical environment serves as a source of normative belief, causing employees to rely on cues from coworkers and supervisors to direct their behavior. In addition, Juhdi et al. (2013) estimate the main reason among the Malaysian employees working in the financial sector withdrawal is likely to be individuals’ restricted access to development programs. Consequently, it is important to recognize and comprehend factors that forecast employee turnover intention. Therefore, the study has tried to fill the literature of individual-type ethical climate relationship with employees’ turnover intention relation which has been reciprocated from the previous study (Elçi et al., 2012). Therefore, the following hypotheses are proposed:

**H3:** Individual-type ethical climate (self-interest, friendship, and personal morality ethical climates) is negatively related to employee turnover.

### 2.5. Mediation Role of Individual-Type Ethical Climate

The ethical climate is frequently regarded as a unidimensional construct denoting the relevance and reinforcement of ethical and professional standards and thus indirectly related to the law and code dimension (Kim et al., 2020). Scholars agree that top management is the primary facilitator, allowing managers to influence the organizational climate (Choi, 2009) readily. Nevertheless, the most crucial aspect required to build the team’s ethical climate is the ethical leader (Schaubroeck et al., 2012; Mayer et al., 2010). It is because managers establish ethical principles and a code of ethics and form the social and justice environment of the company (Shin et al., 2015). Furthermore, organizations typically try to create values of respect, consideration and maintain professional standards by conveying their corporate values, thereby establishing a climate of morality and ethics (Decoster et al., 2019).

The organizational climate creates expectations by consistently conveying information and norms where leaders influence employees’ perceptions of ethical climate for policies and practices (Gumusluoglu et al., 2020). Employees attempt to replicate leaders’ behaviors (especially positive behaviors) to reinforce their workplace participation (Walumbwa et al., 2017). Thus, the long-term relationship between an organization and its employees is influenced by the organization’s context, which determines whether an employee decides to remain or leave. Taking the social exchange perspective, this study fills in the literature gap of how leadership directly shapes employees’ turnover intention and proposes individual-type ethical climate perceptions as a mediating mechanism in this relationship. Therefore, in a strong ethical climate, people are more likely to follow ethical rules and behave ethically. The following hypotheses are proposed based on previous theoretical reasoning:

**H4:** Individual-type ethical climate mediates the relationship between ethical leadership and employees’ turnover intention.

### 2.6. Moderating Role of Employees’ Emotional Exhaustion

Burnout is an emotional condition caused by prolonged exposure to interpersonal demands at work (Leiter & Maslach, 2005), indicating a person’s psychological reaction to certain work-related measures. Emotional exhaustion is one of the three dimensions of burnout caused by work that can occur among individuals (Maslach & Jackson, 1981). An organizations’ employee turnover rate establishes considerable costs to the business (DeConinck, 2015), and emotional exhaustion is one of the crucial antecedents for this practice. If employees suffer from mentally strenuous work (Suifan et al., 2020), it appears to be one of the significant factors in job turnover intention (Upadyaya & Salmela-Aro, 2020). According to Yang et al. (2021), Serra and ErdilekKarabay (2018), work intensity is considered the cause of stress that leads to low job satisfaction and is highly associated with emotional exhaustion. Furthermore, when employees perceive a high individual-type climate (e.g., self-interest), not obtaining the required job tasks (Wen et al., 2020) could differ expectations depending on the individual. In addition, when employees are emotionally exhausted, they no longer can “give themselves at a psychological level” (Maslach & Jackson, 1981, p. 99) as they have fewer psychological resources to devote to social exchange efforts (Dust et al., 2018).

While this study expects employee emotional exhaustion as a moderator in the relationship between ethical leadership and turnover intention, it also seeks to expand on previous research focused on leaders’ role in influencing employees’ turnover intentions (DeConinck, 2015). It is because the negative relationship between ethical leadership and turnover intention may be increasingly obvious when employees are subjected to long-term interpersonal conflict as a result of organizational needs, resulting in emotional exhaustion. In addition, Bedi et al. (2016) posit that the ethical behaviors of leaders play a critical role in supporting constructive, value-driven actions in employees. Hence, as stated in prior research, ethical leaders are thought to develop a sense of belonging to the organization as a whole in its employees, inspiring them to accomplish their tasks efficiently and transferring the effects of ethical leadership to performance-oriented behaviors (Walumbwa et al., 2012). Therefore, the study suggests that emotional
exhaustion weakens employee social exchange processes, weakening the direct relationship between ethical climate and turnover intention. Hence, from the above considerations, the study posits the following hypothesis:

**H5:** The negative relationship between ethical leadership and employees’ turnover intention will be stronger when employees experience low emotional exhaustion.

3. Methodology

3.1. Sample and Procedure

The data used in this paper was collected from the employees working in the financial institutions of Malaysia. Eight locally owned banks were selected from the state of Selangor, namely AmBank Bhd, Affin Holding Bhd, Bank Islam Malaysia Bhd, CIMB Bank Bhd, Hong Leong Group Capital Bhd, Maybank Bhd, Public Bank Bhd, and RHB Bank Bhd. The banks were carefully chosen because of the positive response received from the management, who took responsibility for collecting the data from their respondents and appointed the date for returning it. Non-probability, the convenient random sampling method was applied for this research as it was cost-effective in obtaining responses concerning demographic profiles (Sarstedt et al., 2018). The questionnaire was assigned in softcopy form, with a cover letter emphasizing the confidentiality of their information. The final data consisted of 260 survey questionnaires per Krejcie and Morgan (1970), which were considered sufficient and returned throughout the two-month time frame of March-April 2021.

3.2. Demographic Profile

Individuals were asked to fill out the demographic questionnaire that included gender, age, ethnicity, the highest level of education, and a number of years under the current manager. The demographic profile noted in Table 1 consisted of gender where males made (40.4 %), while females (59.6%). It has been noted that the majority of the employees who responded to the questionnaires were from Chinese ethnicity (26.5%) and the highest responding age group was employees from 35 to 49 years (41.2%). In terms of educational background, people with a bachelor’s degree accounted for the biggest share (30.0 %) and a number of years working with their present managers scored from 2 to 4 years.

<table>
<thead>
<tr>
<th>Variables</th>
<th>Categories</th>
<th>Percentage</th>
<th>Mean</th>
<th>Std. Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gender</td>
<td>Male</td>
<td>40.4</td>
<td>1.6</td>
<td>0.492</td>
</tr>
<tr>
<td></td>
<td>Female</td>
<td>59.6</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Ethnicity</td>
<td>Malay</td>
<td>16.9</td>
<td>1.47</td>
<td>1.177</td>
</tr>
<tr>
<td></td>
<td>Chinese</td>
<td>26.5</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Indian</td>
<td>25.8</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Age</td>
<td>Below 25</td>
<td>24.6</td>
<td>1.23</td>
<td>0.863</td>
</tr>
<tr>
<td></td>
<td>26 to 34</td>
<td>30.8</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>35 to 49</td>
<td>41.2</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>50 above</td>
<td>3.5</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Highest education level</td>
<td>High School</td>
<td>10.4</td>
<td>1.89</td>
<td>1.064</td>
</tr>
<tr>
<td></td>
<td>Diploma</td>
<td>26.9</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Degree</td>
<td>30</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Master</td>
<td>28.5</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Doctorate</td>
<td>4.2</td>
<td></td>
<td></td>
</tr>
<tr>
<td>No. of years under present manager</td>
<td>2 years or less</td>
<td>40.2</td>
<td>0.82</td>
<td>0.839</td>
</tr>
<tr>
<td></td>
<td>2 to 4 Years</td>
<td>40.4</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>5 to 7 Years</td>
<td>13.8</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>8 or more</td>
<td>4.6</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
3.3. Questionnaires and Measurement

The questionnaire was composed of items rephrased to meet the study’s environment. As shown in Table 2, the turnover intention is the dependent variable consisting of a three-item scale adopted from Kelloway et al. (1999) with the Cronbach’s alpha at 0.806. The ethical leadership scale used in this research as the independent variable was adapted from a ten-item scale (Brown et al., 2005), and Cronbach’s alpha was found to be 0.868. From the 10 items, one item was removed due to the lack of reliability and validity in the Malaysian banking setting. The individual-type ethical climate scale comprised nine items (Cullen et al. 1993) studied as the mediating variable between ethical leadership and turnover intention. Initially, the scale comprised nine items related to the individual type ethical climate, and two items were removed from the study to meet the reliability and validity in the Malaysian financial institutional context. This scale had a Cronbach’s alpha of 0.704. Finally, employees’ emotional exhaustion was measured with the four-item scale adopted from Leiter and Schaufeli (1996), and the Cronbach alpha for this scale was 0.804.

4. Results

4.1. Descriptive Statistics

The present study uses SPSS 26.0 software for the data analysis, presented in Table 3 where the means, standard deviations, and correlations among the study variables
were studied. According to the findings presented in the
table below, ethical leadership was positively connected
with individual-type ethical climate \((r = 0.49, p < 0.01)\)
and negatively correlated with turnover intention
\((r = -0.27, p < 0.01)\) as well as emotional exhaustion
\((r = -0.21, p < 0.01)\). Furthermore, it was found that individual-type
ethical climate was negatively associated with emotional
exhaustion \((r = -0.09, p < 0.01)\) and turnover intention
\((r = -0.278, p < 0.01)\). Similarly, results revealed that
emotional exhaustion was positively and significantly
related to turnover intention \((r = 0.41, p < 0.01)\). These
findings offered preliminary support for the hypotheses.

**4.2. Results of Hypothesis Testing**

The study investigates the direct correlations between
ethical leadership, individual-type ethical climate, and
employees’ intention to leave. The total measurement model
was incorporated to assess the analysis’s validity. Convergent,
discriminant, and face validity must be evaluated in order to
establish the study’s construct validity. The majority of the
factor loadings were greater than 0.60, the average variance
extracted (AVE) was greater than 0.50, and construct
dependability was also found to be greater than 0.50.
Table 4 presented the convergent validity, where the
discriminant validity was confirmed with the positive
difference between AVE and squared correlation \((r^2)\) of the
constructs (Hair et al., 2017). The inter-correlations showed
in the discriminant validity as per Table 4 shows that no
value of 0.9 or higher was discovered, with the maximum
inter-correlation being 0.541. In addition, the square root
of each construct’s AVE (diagonal values) is higher than its
Correlation is significant at the 0.01 level (2-tailed).

**Table 3: Descriptive, and Correlations of the Study Variables**

<table>
<thead>
<tr>
<th>Variables</th>
<th>Mean</th>
<th>SD</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ethical Leadership</td>
<td>3.370</td>
<td>0.724</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Individual-type Ethical Climate</td>
<td>3.357</td>
<td>0.665</td>
<td>0.490**</td>
<td>1</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Emotional Exhaustion</td>
<td>3.011</td>
<td>0.914</td>
<td>-0.212**</td>
<td>-0.096</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>Turnover Intention</td>
<td>3.006</td>
<td>1.129</td>
<td>-0.274**</td>
<td>-0.278**</td>
<td>0.410**</td>
<td>1</td>
</tr>
</tbody>
</table>

Table 4: Discriminant Validity

<table>
<thead>
<tr>
<th>Constructs</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ethical Leadership x Emotional Exhaustion</td>
<td>0.712</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Emotional Exhaustion</td>
<td>0.758</td>
<td>0.784</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Ethical Leadership</td>
<td>0.383</td>
<td>-0.264</td>
<td>0.715</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Individual-type Ethical Climate</td>
<td>0.121</td>
<td>-0.161</td>
<td>0.541</td>
<td>0.629</td>
<td></td>
</tr>
<tr>
<td>Turnover Intention</td>
<td>0.256</td>
<td>0.439</td>
<td>-0.303</td>
<td>-0.294</td>
<td>0.849</td>
</tr>
</tbody>
</table>

Values on the diagonal (bolded) are the square root of the AVE, while the off-diagonals are correlations.

As predicted in H1, ethical leadership is negatively related
to employees’ turnover intention \((\beta = -0.346, t = 7.677, p < 0.001)\). This is because when employees are treated with
dignity and a leader’s ethical behavior is prevalent in the
workplace; an employee is more likely to stay committed to
their workplace, potentially reducing withdrawal intention.
Thus, the hypothesis of the study has been supported.
Next, in H2, the analysis found that ethical leadership in
the Malaysian financial sector strongly positively impacts
the workplace’s individual-type ethical climate \((\beta = 0.561, t = 14.643, p < 0.05)\). At the same time, it is evident that
ethical leaders’ action and their consequences are more
visible in particular organizational climate situations.
As shown in H3, a perceived individual-type ethical climate
was negatively correlated with employees’ turnover intention
\((\beta = -0.373, t = 7.615, p < 0.05)\), which has been found to
support the study. This is because when an organization
implements ethical climates such as self-interest, friendship,
and personal morality from the influence of an ethical leader,
it is evident that the withdrawal intention among financial
sector employees will be lowered.

Furthermore, the study contributed to the leadership
study that by utilizing a positive ethical climate as a mediator,
leaders’ ethical behavior is connected to employees’
withdrawal tendency. It has been supported by the statement
that this action leads to two-sided interdependence between

**Table 3:**

**Table 4:**
the leader and subordinates and the workplace’s ethical climate. In addition, communication exchange among these relationships generates organizational loyalty, dedication, and trust. Thus, as shown in Table 5, the hypothesis has been supported ($\beta = -0.099$, $t = 2.140$, $p < 0.05$).

This study hypothesized employees’ emotional exhaustion would have a moderation effect on the relationships between ethical leadership and employees’ turnover intention. The PLS product-indicator technique is used to evaluate moderation analysis. According to Chin et al. (2003), by accounting for error, PLS can yield more precise estimates of moderator effects, weakening the estimated correlations and improving theory validation (Henseler & Fassott, 2010). To test the possibility of the moderating effect, ethical leadership (predictor) and emotional exhaustion (moderator) were multiplied to create an interaction construct (ethical leadership $\times$ emotional exhaustion) to predict turnover intention (Figure 1). As shown in Table 5, the estimated standardized path coefficients for the effect of the moderator on the turnover intention ($\beta = 0.108$, $t = 2.339$, $p < 0.05$) were significant. This indicates that portraying emotional exhaustion among Malaysian financial institutions moderates the relationships between ethical leadership and turnover intention. Hence, H5 is also accepted.

5. Discussion

The findings of this study add to the body of knowledge by giving empirical support for the impact of ethical leadership on employees’ intention to leave in Malaysian financial institutions. Five hypotheses were investigated in light of the study’s goals and objectives. However, earlier studies depicted the antecedents of ethical behavior of employees that were examined to identify the characteristics that would increase ethical behavior in an organization while also improving the interaction between leaders and their subordinates (Mayer et al., 2009; Brown et al., 2005). The study has found two important components of the research model that were not included in earlier studies. First, individual-type ethical climate (self-interest, friendship, and personal morality) as mediation on the relationship of ethical leadership and employees’ turnover intention is the most important implication to the business’s ethics literature. Second, in accordance with Decoster et al. (2019), the study

<table>
<thead>
<tr>
<th>Hyp.</th>
<th>Relationship</th>
<th>Std. Beta</th>
<th>Std. Error</th>
<th>t-Value</th>
<th>p-Value</th>
<th>LL</th>
<th>UL</th>
<th>Decision</th>
<th>$R^2$</th>
<th>$Q^2$</th>
<th>$f^2$</th>
</tr>
</thead>
<tbody>
<tr>
<td>H1</td>
<td>Ethical leadership $\rightarrow$ Turnover Intention</td>
<td>$-0.362$</td>
<td>0.045</td>
<td>7.677**</td>
<td>0.001</td>
<td>$-0.419$</td>
<td>$-0.256$</td>
<td>Supported</td>
<td>0.119</td>
<td>0.079</td>
<td>0.034</td>
</tr>
<tr>
<td>H2</td>
<td>Ethical Leadership $\rightarrow$ Individual-type Ethical Climate</td>
<td>0.562</td>
<td>0.037</td>
<td>14.643**</td>
<td>0.001</td>
<td>0.453</td>
<td>0.607</td>
<td>Supported</td>
<td>0.300</td>
<td>0.109</td>
<td>0.429</td>
</tr>
<tr>
<td>H3</td>
<td>Individual-type Ethical Climate $\rightarrow$ Turnover Intention</td>
<td>$-0.373$</td>
<td>0.046</td>
<td>7.615**</td>
<td>0.001</td>
<td>$-0.427$</td>
<td>$-0.266$</td>
<td>Supported</td>
<td>0.123</td>
<td>0.082</td>
<td>0.141</td>
</tr>
<tr>
<td>H4</td>
<td>Ethical Leadership $\rightarrow$ Individual-type Ethical Climate $\rightarrow$ Turnover Intention</td>
<td>$-0.099$</td>
<td>0.046</td>
<td>2.140*</td>
<td>0.032</td>
<td>$-0.174$</td>
<td>0.012</td>
<td>Supported</td>
<td>0.292</td>
<td>0.076</td>
<td>0.413</td>
</tr>
<tr>
<td>H5</td>
<td>Ethical Leadership $\times$ Emotional Exhaustion $\rightarrow$ Turnover Intention</td>
<td>0.108</td>
<td>0.048</td>
<td>2.339*</td>
<td>0.019</td>
<td>0.001</td>
<td>0.192</td>
<td>Supported</td>
<td>0.267</td>
<td>$-1.160$</td>
<td>0.021</td>
</tr>
</tbody>
</table>

Note: Critical $t$-values. *1.96 ($P < 0.05$); **2.58 ($P < 0.01$).
explores deeper into how employee reactions to an ethical leader vary depending on how employees are impacted or even gain from the leader’s actions. The results of this study explain that the success of an organization is dependent primarily on the managers. At the same time, the findings demonstrate that ethical leadership has a significant influence on employees’ turnover intention as well as organizations’ ethical climate.

The research also recalls the gap from Dust et al. (2018) and Demirtas (2015), where the moderating role of emotional exhaustion in the relationship between ethical leadership and turnover intention has been further studied to measure the depth of ethical leadership in the financial workplaces. The moderating level of emotional exhaustion (M = 3.011) significantly affected employees’ turnover intention. However, it has also been observed that the correlation between ethical leadership and emotional exhaustion is found to be negatively related (-0.096). This analysis shows that in the presence of low ethical leadership, employees experience high emotional exhaustion leading to withdrawal intention. However, the extent of emotional exhaustion’s moderating effects may increase or decrease in sectors (such as financial) where emotional exhaustion usually is much higher. Previously, Sija (2021) studied turnover intention among financial employees working in Sarawak, Malaysia, which posits that employees prefer to lessen their withdrawal if the organization provides promotional opportunities. Keeping in line with the study, the current analysis showed that ethical leadership has a significant role in promoting a positive ethical climate and reducing employees’ emotional exhaustion as well as their turnover intention.

6. Conclusion

This study indicates that ethical leadership has a significant effect on turnover intention. As a result, ethical leadership is essential in instilling a sense of dedication and engagement among employees in the workplace. It was also observed that an individual-type ethical climate mediated the relationship between ethical leadership and intention to leave. Moreover, emotional exhaustion among employees was also seen to moderate between ethical leadership and turnover intention. The research contributes to a better understanding of the factors influencing employee turnover intentions in Malaysia’s banking sector. Organizational leaders need to ensure that a positive ethical climate exists in the workplace, which has been found in this study to be significantly negative towards employees’ withdrawal intention. This study also adds to the understanding that practicing ethical leadership and promoting an individual-type ethical climate can cause a significant reduction in turnover intention among members of financial institutions. This is because the ethical climate will establish an environment in which it will be feasible to distinguish between right or wrong conduct, resulting in the development of a perceptual mechanism that will address the ethical challenges.

References


Frisch, C., & Huppenbauer, M. (2014). New Insights into Ethical Leadership: A Qualitative Investigation of the Experiences of...


