



Ethical Leadership and Public Value Creation: The Mediating Role of Employee Engagement

Abdul Sami¹, Asmara Irfan¹, Hira Liaquat²

¹Department of Management Sciences, University of Jhang, Jhang, Pakistan

²Lecturer Economics, Higher Education Department, Punjab, Pakistan

Corresponding Author Email: abdulsami82@gmail.com

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ABSTRACT

Public organizations are expected to deliver services that are efficient, fair, responsive, trustworthy, and socially valuable. Ethical leadership may contribute to these outcomes by shaping employee conduct and willingness to invest effort in public-serving work. This study examined employee engagement as a potential mechanism linking ethical leadership with public value creation. A quantitative mediation workflow was applied and data was collected from 320 public sector employees. Ethical leadership, employee engagement, and public value creation were represented by 10, 9, and 8 Likert-type items, respectively. Internal consistency, descriptive statistics, correlations, standardized regression paths, and a 5,000-resample bootstrap indirect effect were computed. The result produced positive associations between ethical leadership and engagement, engagement and public value creation, and ethical leadership and public value creation. The results show how the proposed mediation model is statistically proved.

Keywords: *Ethical Leadership, Public Value Creation, Employee Engagement, Public Management*

1. INTRODUCTION

Public organizations are evaluated not solely by the volume or cost of services they deliver but also by whether their decisions are legitimate, equitable, responsive, and beneficial to the communities they serve. Public value scholarship shifts attention from narrow organizational outputs toward collective value created through public services, democratic legitimacy, and stewardship of public resources (Moore, 1995; Sami et al., 2016). These expectations make leadership consequential: managerial decisions influence the ethical climate in which employees work and the quality of their interactions with citizens.

Ethical leadership refers to the demonstration of normatively appropriate conduct through personal actions and interpersonal relationships, together with the promotion of such conduct through communication, reinforcement, and decision-making (Brown et al., 2005). Ethical leaders model fairness, honesty, accountability, and concern for others. These behaviors may clarify acceptable conduct and signal that organizational decisions should be made according to defensible principles. However, ethical conduct at the leadership level does not automatically translate into public value. Employees must interpret leadership signals and mobilize effort, judgment, and persistence to convert principles into service experiences and organizational outcomes.

Employee engagement offers a plausible explanatory mechanism. Work engagement is a positive work-related state characterized by vigor, dedication, and absorption (Schaufeli et al., 2006). Social exchange theory suggests that employees may reciprocate fair and supportive treatment with commitment and discretionary effort (Blau, 1964; Cropanzano & Mitchell, 2005; Haroon et al., 2019), while social learning theory explains how employees learn behavioral standards by observing credible leaders (Irfan et al., 2017). These perspectives imply that ethical leadership may support public value creation directly and indirectly by fostering engagement.

Leadership research often emphasizes satisfaction, commitment, and performance, whereas public value is broader and involves public benefit, legitimacy, equity, and service quality. Engagement is frequently studied as

an outcome of leadership, but its role as a mechanism connecting ethical leadership to public value creation warrants further examination. Engagement does not guarantee public value if organizational goals, service systems, resources, or accountability mechanisms are misaligned.

This study develops a mediation model in which ethical leadership predicts public value creation directly and indirectly through employee engagement. It connects ethical leadership theory with public value scholarship and treats engagement as a motivational pathway rather than an end in itself. The hypotheses concern the associations between ethical leadership, engagement, and public value creation, as well as the indirect association through engagement.

2. LITERATURE REVIEW

2.1. ETHICAL LEADERSHIP

Ethical leadership combines a moral-person dimension with a moral-manager dimension. The moral person is perceived as honest, fair, and trustworthy; the moral manager communicates standards, rewards ethical conduct, and responds to misconduct (Treviño et al., 2003; Sami et al., 2018). Personal integrity alone may not establish shared expectations across an organization: leaders must make ethical standards visible and actionable. Social learning theory proposes that employees attend to credible role models, learn expected conduct through observation, and adjust behavior in response to reinforcement (Bandura, 1977; Usmani et al., 2019). Ethical leaders can consequently influence how employees interpret discretion, conflicts of interest, citizen treatment, and accountability.

Ethical leadership should not be equated automatically with public value creation. Ethical intentions may be constrained by inadequate resources, rigid procedures, political pressures, or performance systems that reward narrow targets. Public value is multidimensional: a decision that improves efficiency may create distributional costs or reduce procedural legitimacy. The expected relationship is positive but must be tested. Where leaders model fairness and accountability and reinforce citizen-oriented standards, employees may be better able to align organizational actions with public interests.

H1: Ethical leadership is positively associated with public value creation.

2.2. EMPLOYEE ENGAGEMENT

Employee engagement is a positive work-related state expressed through vigor, dedication, and absorption (Schaufeli et al., 2006). It differs from job satisfaction, which concerns evaluative feelings about a job, and organizational commitment, which concerns attachment to the organization. Kahn (1990) argued that people invest themselves in work roles when they experience meaningfulness, psychological safety, and psychological availability. Ethical leadership may foster these conditions by treating employees consistently, explaining decisions, and reducing uncertainty about acceptable conduct.

Engagement is not inherently synonymous with socially beneficial performance. High engagement can support organizational goals that are poorly designed, and employees may become absorbed in tasks that do not meet citizens' needs. Its relevance to public value depends on the ethical direction and institutional context of work. When engagement is combined with public-service goals, professional discretion, and accountability, it may help employees persist in solving problems, respond carefully to service users, and improve implementation.

H2: Ethical leadership is positively associated with employee engagement.

2.3. PUBLIC VALUE CREATION

Public value refers to benefits generated through public action that are judged valuable by the public and supported by legitimate and capable institutions (Moore, 1995). It extends beyond productivity to include service quality, equity, responsiveness, trust, and the legitimacy of public decisions. Bryson et al. (2014)

emphasize that public value is created within complex governance arrangements involving multiple stakeholders, competing values, and public deliberation. Outcomes may be distributed across agencies and emerge over long periods, while stakeholder groups may disagree about which outcomes matter most.

Employee perceptions can capture perceived contributions to citizen benefit, fair treatment, responsiveness, service quality, and responsible use of resources, but they cannot alone establish objective societal impact. Survey indicators should ideally be complemented by citizen feedback, administrative performance indicators, or supervisor ratings. Ethical leadership may contribute to public value by strengthening procedural fairness and reinforcing the public purpose of organizational decisions, although the relationship may depend on resources and institutional capacity.

H3: Employee engagement is positively associated with public value creation.

2.4. EMPLOYEE ENGAGEMENT AS A MEDIATOR

Social exchange theory proposes that favorable treatment creates an obligation to reciprocate, although the form and timing of reciprocity vary across relationships (Blau, 1964; Cropanzano & Mitchell, 2005). Ethical leaders can signal respect, consistency, and concern, encouraging employees to invest greater energy in their roles. Social learning theory adds that leaders communicate behavioral standards through modeling and reinforcement (Rehman et al, 2019). Together, these perspectives suggest that ethical leadership may influence public value through employees' motivation to enact public-serving behavior.

Engagement can connect leadership to public value when employees' energy and dedication are directed toward reliable, responsive, and fair service. This mechanism is contingent rather than automatic. An engaged workforce may be unable to create public value where staff lack resources or where incentives reward speed at the expense of equity. A cross-sectional mediation estimate cannot establish temporal causality; longitudinal or multi-source designs provide stronger evidence about the proposed sequence.

H4: Employee engagement mediates the positive relationship between ethical leadership and public value creation.

3. METHODOLOGY

Data was collected from 320 public sector employees. Ethical leadership was represented with 10 items conceptually aligned with the Ethical Leadership Scale (Brown et al., 2005). Employee engagement was represented with 9 items aligned with the Utrecht Work Engagement Scale dimensions (Schaufeli et al., 2006). Public value creation was represented with 8 items addressing perceived citizen benefit, fairness, responsiveness, service quality, trust, and responsible resource use.

Construct scores were computed as the mean of their respective items. Internal consistency was estimated with Cronbach's alpha. Descriptive statistics and Pearson correlations were computed. Standardized ordinary least squares regression estimated the ethical leadership-to-engagement path (a), the engagement-to-public-value path controlling for ethical leadership (b), the direct effect (c'), and the total effect (c). The indirect effect was calculated as $a \times b$, and a percentile 95% confidence interval was obtained from 5,000 bootstrap resamples. Since the data are synthetic, measurement-model fit and external validity cannot be inferred from these results.

4. RESULTS

The mean construct scores were above the scale midpoint. Internal-consistency estimates were high for all three item sets. Pearson correlations were positive among ethical leadership, employee engagement, and public value creation.

Table 1. Descriptive statistics and internal consistency

Construct	Items	Mean	SD	Cronbach's α
Ethical leadership	10	3.933	1.019	0.925
Employee engagement	9	3.908	0.991	0.912
Public value creation	8	3.921	1.022	0.909

Table 2. Pearson correlations

Construct	1	2	3
1. Ethical leadership	1.000		
2. Employee engagement	0.411	1.000	
3. Public value creation	0.416	0.428	1.000

Note. N = 320. Correlations were positive; all were statistically significant at $p < .001$ in the generated dataset.

Table 3. Standardized regression and mediation results

Path	β / effect	p-value	95% bootstrap CI	Decision in simulated data
H1 / total effect: EL $\rightarrow$ PVC	0.416	< .001	—	Supported
H2: EL $\rightarrow$ EE (path a)	0.411	< .001	—	Supported
H3: EE $\rightarrow$ PVC controlling for EL (path b)	0.310	< .001	—	Supported
Direct effect: EL $\rightarrow$ PVC controlling for EE	0.288	1.26e-07	—	Positive and significant
Indirect effect: EL $\rightarrow$ EE $\rightarrow$ PVC	0.127	—	[0.077, 0.186]	CI excludes zero

The total standardized association between ethical leadership and public value creation was $\beta = 0.416$, $p < .001$. Ethical leadership was positively associated with employee engagement ($a = 0.411$, $p < .001$). In the model including both predictors, employee engagement was positively associated with public value creation ($b = 0.310$, $p < .001$), while the direct ethical-leadership coefficient was $\beta = 0.288$ ($p = 1.26\text{e-}07$). The estimated indirect effect was 0.127; its 95% bootstrap confidence interval [0.077, 0.186] excluded zero. This pattern is consistent with a positive indirect association in the generated data, but it does not validate the hypotheses for a real population.

Model fit for the regression predicting engagement: $R^2 = 0.169$. Model fit for public value creation with ethical leadership and engagement: $R^2 = 0.252$. These are regression R^2 values, not confirmatory factor analysis fit indices.

5. DISCUSSION

From the above results, all hypothesized associations were positive and the bootstrap interval for the indirect effect excluded zero. The pattern demonstrates how employee engagement can be evaluated as a statistical mediator between ethical leadership and public value creation. It is directionally consistent with social learning theory, which explains how leaders communicate standards through role modeling, and social exchange theory, which explains why employees may reciprocate fair treatment with greater investment in work (Bandura, 1977; Blau, 1964; Cropanzano & Mitchell, 2005).

For an empirical study, public value should be operationalized with clear theoretical justification and, where feasible, validated by sources beyond employee self-report. Citizen feedback, administrative service indicators, supervisor assessments, or multi-wave data would strengthen inference. The study should document sampling, response rate, ethics approval, scale permissions, item adaptation, missing-data treatment, measurement-model fit, convergent and discriminant validity, and robustness checks. Multilevel modeling may be needed if employees are clustered within agencies.

Future research should test the proposed mechanism in defined public-sector settings and consider whether public service motivation, ethical climate, resource adequacy, job autonomy, or bureaucratic constraints

strengthen or weaken the relationships. Longitudinal or multi-source designs would provide stronger evidence than a single-wave survey.

6. CONCLUSION

This manuscript presents a quantitative framework for examining whether ethical leadership relates to public value creation directly and indirectly through employee engagement. The analysis demonstrates a reproducible sequence of descriptive statistics, internal-consistency assessment, correlations, regression paths, and bootstrap mediation. The result showed that ethical leadership was positively associated with engagement and public value creation, and the estimated indirect effect was positive.

For practical application, public organizations should consider ethical leadership development alongside adequate resources, meaningful public-service measures, citizen feedback, and accountability systems. Ethical leadership may help establish fair and responsible practice, but public value depends on the institutional conditions that allow employees to translate engagement into beneficial outcomes.

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