The Relationship between Corporate Ethical Climate and Employee Attitudes

Erik Eddy, Richard Proctor, and Charles Seifert
Siena College
Loudonville, New York, USA

eeddy@siena.edu, **proctor@siena.edu**, **seifert@siena.edu**

Executive Summary

Ethical climate theory has been the subject of serious study for several decades (Victor and Cullen, 1987) and utilized as a framework to describe ethical decision making in organizations. The current research examines the relationship between ethical climate type and job satisfaction. Results suggest that ethical climate types that focus on lower level, "instrumental" ethical theories are negatively correlated to job satisfaction while ethical climate types that focus on higher-level ethical theories are positively correlated to job satisfaction. Interestingly, there were no differences in findings across a wide range of demographic variables. Implications for practice and future research are discussed.

Keywords: ethics, job satisfaction, ethical climate

Introduction

To say that ethics is a hot topic is an understatement. You don't have to look too hard to find examples of unethical business practices. As this research was being conducted, the Chief Executive Officer of General Motors Co. was testifying in front of Congress concerning allegations of a culture of cover up (Hughes, 2015). Most recently, 57 deaths have been attributed to the failed ignitions switch in General Motor's cars and the number of injury claims has risen to 97 (Bennett, 2015). Certainly, unethical business practices are not limited to the United States. Five of the largest global banks recently pleaded guilty to manipulating currency values in the foreign exchange markets, paying fines exceeding $5.6 billion (Corkery and Protess, 2015). The sports world is also not immune, as the top executives of FIFA, the international governing body of soccer, were recently charged by the U.S. attorney general with fraud, bribery, racketeering, and money laundering (Apuzzo, Clifford, and Rashbaum, 2015).

Moreover, unethical business practices aren't new. Ethical issues have been occurring for as long as organizations have been doing business. Thirty years ago, not reporting research findings concerning problems with the Dalkon Shield led to hundreds of stillborn children (Mintz, 1985). And, a cost-benefit analysis conducted at Ford Motor Company allowed defective Pintos to roll out of the production line even after it was identified that a rear end collision could result in the car bursting into flames (Speiser, 1980). Going back even further in time, the practices of the "robber barons" of the late 19th century were also certainly questionable from an ethical perspective. Given the unethical practices of these and other organizations, it would appear to be worthwhile to directly assess corporate ethical climate. The current research attempts to extend our understanding of ethical climate in a number of ways. First, we explore the relationship of ethical climate and job satisfaction. Second, we explore perceptions of ethical climate across a wide range of demographic variables. The overall goal of the current research is to gain a more focused understanding of the importance of ethical climate.

Literature Survey

Academicians have placed considerable effort on empirically examining the corporate ethical climate. Ethical climate theory (ECT) has been the subject of serious study for several decades. The original concept was developed by Victor and Cullen (1987, 1988) as a framework to describe "ethical decision making and actions within an organization based on philosophical and sociological theory. Ethical climate is the perception of what constitutes right behavior. Ethical climate influences both the decision-making and subsequent behavior in response to ethical dilemmas." (p. 176, 177; Martin and Cullen, 2006).

Arguably the most influential conceptual frameworks in the business ethics domain (Martin and Cullen, 2006) is the Ethical Climate Questionnaire ("ECQ")(Cullen and Victor, 1993). Figure 1 demonstrates that the ECQ develops a two-dimensional model of ethical climate types. The two dimensions are locus of analysis and ethical theories. Locus of analysis includes the individual level, the local level and the society at large (cosmopolitan). The three ethical theories examined by the survey include egoism, benevolence and principle. Egoism would be considered the most self-interested and principled would be adhering to universal principles. Combining these two dimensions leads to the ethical climate theory matrix. In general, the ethical climate improves as you move from the upper-left quadrant to the lower-right quadrant.

LOCUS OF ANALYSIS

		Individual	Local	Cosmopolitan
E **T** **H** **I** **C** **A** **L** **T** **H** **E** **O** **R** **Y**	**Egoism**	Self-Interest	Company Profit	Efficiency
	Benevolence	Friendship	Team Interest	Social Responsibility
	Principle	Personal Morality	Company Rules and Procedures	Laws and Professional Codes

Figure 1: Original Conceptualization of Ethical Climates

Recent research has found support for five common empirical derivatives of ethical climate (Martin & Cullen, 2006). In this research, individual/egoism and local/egoism loaded on a single factor named "instrumental" and individual/benevolence and local benevolence loaded on a single factor named "caring". There was no empirical support for cosmopolitan/egoism or cosmopolitan/benevolence. See Figure 2 for a visual depiction of the validated factors.

LOCUS OF ANALYSIS

		Individual	Local	Cosmopolitan
E **T** **H** **I** **C** **A** **L** **T** **H** **E** **O** **R** **Y**	**Egoism**	Instrumental		
	Benevolence	Caring		
	Principle	Independence	Rules	Law and Code

Figure 2: Validated Ethical Climates

Originally, the ECQ was developed to assess participants' beliefs regarding an assessment of their own ethical decision-making and the expected ethical decision-making behaviors of their organization. Subsequently, several researchers have suggested that perceptions of ethical climate are likely to an individual's reaction to work and organization (Martin and Cullen, 2006). Some of the hypothesized consequences of ethical climate include: organizational commitment, psychological well-being; dysfunctional behavior, and job satisfaction (Martin and Cullen, 2006). These relationships are important to examine because a positive relationship would indicate a tangible benefit associated with maintaining a positive ethical climate. Besides the clear moral implications, it would be beneficial to see if higher ethical climates led to more committed, engaged and satisfied employees.

In a meta-analysis, Martin and Cullen (2006) identified over 170 studies examining ethical climate that were conducted between 1987 and mid-year 2005. In addition to providing support for the Ethical Climate Questionnaire, validated by Cullen and Victor, the meta-analysis examined the structural relationships between the five most frequently identified ethical climate types, examined the consequences of perceived ethical climates, and identified areas for future research (Martin and Cullen, 2006). Building off of Martin and Cullen's work, an article on organizational climate and culture was included in the Annual Review of Psychology (Schneider, Ehrhart et al., 2013). A meta-analysis of 42 studies utilizing the ECT survey found that the cumulative evidence was consistent with the underlying theory. In addition, they found job satisfaction was positively correlated to the caring, independence, law and code, and rules climates, and negatively correlated with the instrumental climate (Martin and Cullen, 2006). Expanding and extending their findings would help provide support for the establishment and continuation of ethical climates.

Job satisfaction in the context of an organization's ethical climate has been extensively examined (e.g., Deshpande, 1996; Martin and Cullen, 2006; Elci and Alpkan, 2009; Wang and Hsieh, 2012.) Researchers have studied the relationship in a variety of occupations, industries and locales. Deshpande (1996), utilizing a sample of 206 mid-level managers at a national non-profit organization, studied the effect of ethical climate on various determinants of job satisfaction including employees' satisfaction with pay, promotion, coworkers, supervisors, and overall job satisfaction. The results showed that various ethical climates were related to all measures except for pay satisfaction. The professional climate type was significantly and positively related to satisfaction with promotion, supervisors, the work itself, and overall job satisfaction, while the caring climate was positively correlated to satisfaction with supervisors. As expected, the instrumental climate was negatively correlated with all job satisfaction measures.

These findings were also supported in other studies. Elci and Alpkan (2009) found evidence of all nine climate types in their survey of 1200 Turkish telecom staff and managers. The researchers also examined the relationship between ethical climate and work satisfaction. Using regression analysis, they concluded that egoistic climates were negatively related to work satisfaction. Along the benevolence dimension, team interest and social responsibility climates were positively related to job satisfaction. The law and professional code climate was the only one of the 'principle' measures to be significantly, and as expected, positively related to work satisfaction. Wang and Hsieh (2012) examined ethical climates at both the individual and organizational level in relation to job satisfaction. They surveyed almost 500 employees from a variety of Taiwanese industries. They found that at the individual level, instrumental climates were negatively related to job satisfaction, while caring climates and rules climates were positively associated with job satisfaction, confirming previous findings. At the organizational level, organizations with caring, independence, and rules climates had positive relationships with job satisfaction. Those with instrumental climates had a negative relationship to job satisfaction.

Yang, Tsai, and Tsai (2014) examined the relationships of ethical climate, emotional exhaustion, and turnover intention for a sample of 250 Taiwanese bank clerks. Testing three theoretical models, their

results supported their hypotheses that ethical climate negatively affected emotional exhaustion and job turnover. Schwepker (2001) surveyed a very different type of employee, salespeople, exploring the relationships of ethical climate, job satisfaction, organizational commitment and turnover intention. Research on 152 salespeople from 26 firms in the southern U.S. found support for the hypothesized positive relationships of ethical climate to job satisfaction and organizational commitment, respectively. However, their results didn't support the proposed negative correlation of ethical climate and turnover intention.

Studies have also incorporated demographic measures into the analyses of the ethical climate-job satisfaction relationship.. A study of nurses in Iranian hospitals (Borhani, Jalali, et. al., 2012) found confirming evidence of the positive correlation of the professionalism, caring, rules, and independence climates with job satisfaction. But they found no significant difference between men's and women's perceptions of the ethical climates. On another demographic dimension, the evidence suggested that those nurses with more experience preferred independence and, interestingly, instrumental climates.

Another study of hospital nurses (Goldman and Tabak, 2010), this one conducted in Israel, looked at a range of demographic variables and their relationships with perceived and ideal ethical climates and job satisfaction. The authors concluded that gender, job tenure and level of education partially influenced the perception of an ideal ethical climate. They found no significant relationships between the actual (as perceived) ethical climate and gender, work experience, or education. Incongruencies in perceptions of caring and independence climates were associated with a decrease in job satisfaction, while the perception of actual caring and service climates positively influenced job satisfaction measures. Again, it would be beneficial to see if these relationships were generalizable to other countries and to examine other sub-group differences.

Hypotheses

Based on the extant literature, the following hypotheses are presented:

Hypothesis 1 : Job satisfaction will be negatively related to lower level ethical climate types such as instrumental.

Hypothesis 2 : Job satisfaction will be positively related to higher level ethical climate types such as independence, rules, law and code.

Hypothesis 3 : The relationship between job satisfaction and ethical climate types will not vary based on demographic variables such as gender, age, level within current organization, years worked in current organization, years worked in current industry, total years worked, industry working in, and organizational size.

Method

Process

A questionnaire was created using an online survey tool (Qualtrics). Invitations to participate in the survey were sent to alumni at a small private college in the Northeast United States. The email invitation included a request to forward the invitation to other individuals (i.e., following a snowball sampling process). A total of 154 responses were received. However, after cleaning the data, there were 87 useable

surveys. Several participants started the survey but didn't complete it, or left too many questions blank to be useable.

Measures

Ethical Climate. Ethical climate was assessed using the ECQ developed and validated by Cullen and Victor (Cullen and Victor, 1993). All 36 items were included in the survey; four for each theoretical climate type. The climate types and resulting coefficient alpha reliability estimates were: self interest (.596), company profit (.636), efficiency (.747), friendship (.700), team interest (.848), social responsibility (.793), personal morality (.733), company rules (.782) and procedure, laws and professional codes (.668). A seven-point Likert-type scale was used with response alternatives ranging from "Completely False" to "Completely True."

Based on prior validation research, some of the factors were combined into larger factors (see Figure 2). The climate types and resulting coefficient alpha reliability estimates were: instrumental (.726), caring (.866), independence (.733), rules (.782), law and code (.668). Analysis was conducted on these larger factors.

Job Satisfaction. A 5-item measure was used to assess job satisfaction (Porter & Smith, 1981). Some examples of items are: "Generally speaking, I am satisfied with my job", and "I am generally satisfied with the kind of work I do in my job." A five-point Likert-type scale was used with response alternatives ranging from "Strongly Disagree" to "Strongly Agree". Coefficient alpha reliability estimate was .769.

Results

Correlational Relationships

Table 1 presents the correlations between job satisfaction and the various climate types. Of particular interest is that job satisfaction was negatively correlated with instrumental (r= -.442, p<.01). This suggests that those respondents who work in organizations that they view as having an egoism/individual or egoism/local ethical climate have lower job satisfaction, supporting hypothesis 1.

As you move from the top-left quadrant of the ethical climate matrix shown in Figure 1 toward the bottom-right quadrant, correlations between climate type and job satisfaction become positive. Of particular note, job satisfaction was positively correlated with caring organizations (r=.539, p<.01), and independence (r=.313, p<.01). These results partially support hypothesis 2.

Table 1: Correlation of Job Satisfaction and Ethical Climate Types

	Instrumental	Caring	Independence	Rules	Law and Code
Job Satisfaction	-.442*	.539*	.313*	.152	.078
Instrumental		-.353*	-.095	-.129	.077
Caring			.541*	.188	.302*

Independence				-.087	.064
Rules					.382*

* p<.01

Differences among Demographic Variables

As part of the data collection process, the researchers collected data on demographic variables (i.e., gender, age, level within current organization, years worked in current organization, years worked in current industry, total years worked, industry working in, and organizational size). The results suggest no differences in job satisfaction or climate type across any of the demographic variables, supporting hypothesis 3.

Discussion

The current study utilized the Ethical Climate Theory to assess individual reactions to organizational climate type and relate those reactions to job satisfaction. Findings generally support the three hypotheses. Specifically, hypothesis 1 was supported as an instrumental ethical climate was negatively related to job satisfaction. These findings suggest that organizations that focus on egoism with a self-interest or company profit locus of analysis will generate an ethical climate that is dissatisfying to employees.

Hypothesis 2 was partially supported as a caring ethical climate was positively related to job satisfaction and an independence ethical climate was positively related to job satisfaction. These findings suggest that organizations that focus on building "higher level" ethical climates with an emphasis on benevolence and principle over an emphasis on egoism with generate an ethical climate that is satisfying to employees. Interestingly, though, hypothesis 2 was not fully supported. The ethical climates of "rules" and "law and code" were not related to job satisfaction.

These findings have valuable implications for organizational practice. For instance, findings support the contention that organizations can impact employee job satisfaction through ethical climate. Therefore, leadership can "elevate" the ethical climate of their organization - moving from the top left quadrant in Figure 1 to the bottom right quadrant - to enhance employee job satisfaction. Similarly, organizational policies and procedures that support consideration of benevolence and principle rather than egoism will lead to enhanced employee job satisfaction.

Interestingly, these findings hold across a wide range of demographic characteristics. Findings suggest that there was no variation in results across demographic variables such as gender, age, level within current organization, years worked in current organization, years worked in current industry, total years worked, industry working in, and organizational size. Assessment of ethical climate, therefore, is fairly stable. No matter the organization, no matter the type of work employees engage in, no matter the type of people working in the organization, it is clear that employees are more satisfied with their jobs when higher level ethical climates exist.

Limitations of the Study and Recommendations for Future Research

There are several limitations in the current research that we would recommend be addressed in future research on this topic. First, rather than drawing a random sample of participants, researchers utilized a

snowball sample approach where individuals were contacted and asked to share the survey with their peers. This method restricts the ability to generalize to the broader population. While this type of research is generally accepted in the research community (Stone, 1978; Welch, 1975), it would be interesting for future research to explore different sampling techniques. For instance, future research might assess ethical climate within a single organization and explore whether the relationship between ethical climate and job satisfaction varied across levels of the organization.

Another interesting potential for future research would be to assess ethical climate over time. Whether the sample is a single organization or respondents from a number of organizations, research could explore whether the relationship between ethical climate and job satisfaction varies over time. Does this relationship vary as the organization encounters difficult business conditions? Will the relationship vary as general economic conditions change? These are interesting questions that can be addressed using time-series data.

A final limitation of the current study is the focus on a single dependent variable - job satisfaction. Future research should explore the relationship between ethical climate and other important dependent variables such as organizational citizenship behaviors, organizational commitment, and intentions to leave.

Conclusion

Ethical climate theory has been the subject of serious study for decades. Given the recent unethical actions of many organizations, the study of ethical climate seems just as important today as it was thirty years ago. It is clear from this research that, across a wide range of demographic variables, organizations with a "higher level" of ethics have more satisfied employees. Specifically, organizations should move away from an instrumental ethical culture that focuses on self-interest and company profit and towards an ethical culture that focuses on caring and personal morality to enhance employee job satisfaction.

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Erik Eddy is an Associate Professor of Management and the Douglas T. Hickey Chair in Business at Siena College, where he teaches human resource development, change management, and organizational strategy. His research activities center on ethics, team dynamics, higher education pedagogy, employee development, mentoring, and leadership. He holds a Ph.D. in Organizational Studies from the State University of New York at Albany.

Rick Proctor is an Assistant Professor of Finance at Siena College, where he teaches corporate finance, personal finance, and mergers & acquisitions. His research activities focus on managerial compensation, banking, and ethics. He holds a Ph.D. in Finance from the University of South Florida.

Chuck Seifert is the Dean of the School of Business and a Professor of Management. His teaching and research interests include: leadership effectiveness; multisource feedback programs, and influence strategies. He holds a Ph.D. in Organizational Studies from the State University of New York at Albany.