


## ETHICAL CLIMATE AS A DETERMINANT OF ORGANIZATIONAL COMMITMENT



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### ABSTRACT

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Ethical climate is a vital phenomenon in organizational ethics. It consists of two major components: benevolent climate and principled climate. Recent studies in this field highlight that the ability of employees to appropriately implement such ethical climates may have a significant impact on organizational commitment. Although many studies have been done, the role of ethical climate as an important determinant is little discussed in the organization ethic research literature. Therefore, this study is undertaken to examine the relationship between ethical climate and organizational commitment. A survey method was used to gather data from employees at public agencies in Peninsular Malaysia. The outcomes of the SmartPLS path model analysis showed two important findings: firstly, the benevolent climate was positively and significantly related to organizational commitment. Secondly, the principled climate was positively and significantly related to organizational commitment. This study offers discussions, implications, and suggestions for further research.

**Contribution/ Originality:** The paper's primary contribution lies in the finding that an ethical climate is found as a major factor that enhances organizational commitment in the context of the Malaysian public sector.

### 1. INTRODUCTION

Ethical climate is often seen as an important issue in organizational ethics because it helps the management in organizations to focus on building and providing the right and proper ethical works environment in order to warrant high level of commitment among the employees (Shafer *et al.*, 2013; Hung *et al.*, 2015; Kaur, 2017). Traditionally, the perception of ethical climate in organizational ethics was managed as a pre-requisite in maintaining long term relationships among the management, employees and organization in dealing with employee outcome. Then, the ethical climate's focus and approach changed when successful organizations adopted certain strategic paradigms especially in the organization management and administration to face new challenges and demands of post-globalization and the fourth industrial revolution (Cuterela, 2012; Suhaiza, 2015).

Under these strategic paradigms, the management was focused on building, practicing and establishing an ethical value system in the organization as the ethical climate has shown a predominant role in the development of employees' attitudes and behaviors (Weaver *et al.*, 1999; Schminke *et al.*, 2005). The formation of the ethical climate

is grounded based on the foundation of corporate ethical values and codes of ethics practices in the organization, and employees' (individual) perceptions of ethical climate may appear to affect their attitudes in the workplace (Jr, 2001; Barnett and Schubert, 2002). Hence, this may enhance the competitiveness of the organization to sustain the changes and challenges in the era of the global economy. Irrefutably, having successful and right organizational ethics is vital. According to recent organization ethics studies, successful ethical climate practices consist of two important climates: benevolent climate and principled climate. Benevolent climate emphasizes on caring as an ethical criterion where individuals show interest in the well-beings of others and decisions are made by considering the interests and concerns of others (Victor and Cullen, 1988; Cullen *et al.*, 1993). Principled climate focuses on the general acceptance of rules, law and codes determined by the organization and competent authorities (Victor and Cullen, 1988; Cullen *et al.*, 1993). Meanwhile, ethical climate generally emphasizes on common insights on ethically acceptable behaviors and in dealing with issues related to ethics through organizational practices and procedures (Victor and Cullen, 1988; Cullen *et al.*, 1993).

This phenomenon has been widely addressed in many studies related to organization ethics and the findings of these studies indicated that the capabilities of the management of the organization in administering proper ethical climate in the workplace increased positive attitudes and behaviors among the employees (Chye and Boo, 2004; Martin and Cullen, 2006; Kaur, 2017). In the perspective of organization ethics, organizational commitment is generally referred to as individual confidence and acceptance of the employees on the goals and values of the organization, and their willingness to continue their service with considerable effort and commitment to the organization (Jr, 2001; Kaur, 2017). Many scholars on ethical climate framework viewed and agreed that although the definitions of benevolent climate, principled climate and organizational commitment are different, they are strongly interconnected. For instance, the capability of the managing team to implement benevolent and principled climates in the workplace leads to higher organizational commitment. Regardless of the wide coverage on research literature on the nature of this interconnection, the functions of ethical climate related to organizational commitment were not harmonious (Tsai and Chun-Chen, 2008; Hung *et al.*, 2015).

## 2. LITERATURE REVIEW

### 2.1. Relationship between Ethical Climate and Organizational commitment

Ethical climate has two major elements: benevolent climate and principled climate (Tsai and Chun-Chen, 2008; Hung *et al.*, 2015). The role of ethical climate as an important predictor of employee outcome was strongly supported by several organizational theories. One of the theories is that of ethical climate proposed by Victor and Cullen (1988) which described the basis of ethical formation in an organization and assumed that employees' perception on ethical events, practices and procedures strongly invoked their outcomes, attitudes and behaviors. Similarly, the theory proposed by Rhoades *et al.* (2001) on organizational support also explained the connection between the performance of the members and organizational commitment. The theory implied that the general beliefs of the employees on the goals and values of the organization contribute towards their individual development to provide quality services for the benefit of the organization. Perceived organizational support through the practice and implementation of the ethical climate increases and develops a stronger organizational commitment. This notion was also supported by several findings of the past studies in examining the impact of ethical climate on different samples. These studies include the study conducted by Kaur (2017) on 266 employees in the banking sector in India, the study conducted by Shafer *et al.* (2013) on 293 auditors of international accounting firms in Hong Kong and Singapore, and the study conducted by Hung *et al.* (2015) on 508 military officers in Taiwan. These findings summarized that there was a significant influence of ethical climate of organizational commitment in the setting being studied. Hence, this led the current researcher to hypothesize that benevolent and principled climates are positively and significantly related to the organizational commitment in the setting of this study.

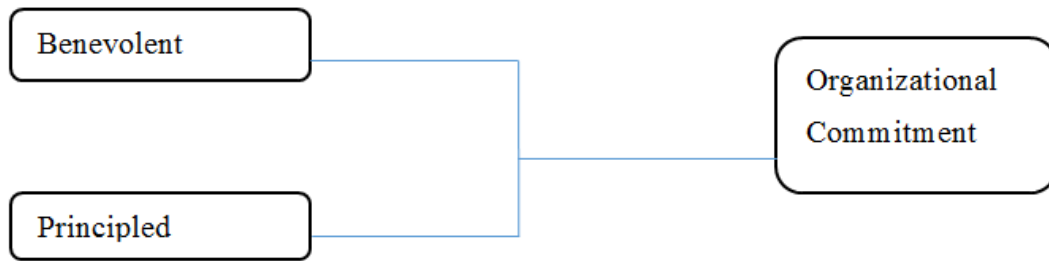


Figure-1. Conceptual Framework

Source: Suhaiza (2015)

### 3. METHODOLOGY

This study uses a cross-sectional research design which enables the researchers to assimilate the ethical climate literature and the actual survey as the main procedure for data collection. This integration was essential in increasing the possibility to collect the data accurately by reducing data bias and increasing the quality of data for research purpose (Creswell, 2014; Sekaran and Bougie, 2015). Data for this study were collected from a government agency in Putrajaya. Details on the agency will not be revealed on confidentiality reasons. A set of self-report survey questionnaires was drafted prior to the data collection based on the existing literature on ethical climate. The drafted questionnaires were then submitted for the back-translation technique where they were translated into Malay and English languages to ensure their validity and reliability in collecting the required information (Creswell, 2014; Sekaran and Bougie, 2015). The questionnaires were divided into three sections. The first section that consisted of 5 items to measure benevolent climate and the second section that contained 5 items to measure principled climate were adapted from the literature related to ethical climate (Victor and Cullen, 1988). Meanwhile, the third section which consisted of 8 items to measure organizational outcome was adapted from the literature on organizational commitment (Meyer and Allen, 1991). All items were included with a 5-item scale ranging from 1-strongly disagree/dissatisfied to 5-strongly agree/satisfied in assessing the perception of the respondents. Additionally, the details of the respondents were treated and used as controlled variables as this study focused on the attitudes of the employees.

#### 3.1. Sample

This study employed purposive sampling and distributed 150 sets of constructed questionnaires to the employees in the organization studied. However, the researchers were not able to get an access to the full list of registered employees due to confidentiality reasons, thereby limiting the researchers to conduct random sampling for this study. 100 sets of the distributed questionnaires were returned to the researchers and were calculated as 67% response rate from the total population. Therefore, it met the standard for probability sampling and the data collected were analyzed by using SmartPLS.

### 4. RESULT AND DISCUSSION

Most of the respondents were male (75%), between the age of 20 and 29 years old (46%), possessing Bachelor's Degree (34%), and had been working with the organization for 1-5 years (52%).

The tests conducted on the instrument for reliability and validity values of the average variance extracted (AVE) computed that the first section in measuring benevolent climate was 0.698, the second section on principled climate was 0.727 and the third section on organizational commitment was 0.695. All AVE values for the instrument were greater than 0.5, thus indicating that the constructs have fulfilled the accepted level for convergent validity (Hair *et al.*, 2017). The discriminant validity value for benevolent climate was 0.853, 0.778 for principled climate and 0.934 for organizational commitment. These values indicated that all constructs' values were larger than the correlations of other off-diagonal constructs. This indicated that all constructs exhibited sufficient or

satisfactory discriminant validity (Fornell and Larcker, 1981; Hair *et al.*, 2017). The loading factors for the items on benevolent climate were between 0.819–0.914, for items on principled climate the factors were between 0.754–0.816, and for items on organizational commitment they were between 0.727–0.919 organizational commitment. These values were greater in comparison to the items outside these features of different constructs. These values were greater than 0.70 thus they were deemed as sufficiently strong in respective constructs within the model (Hair *et al.*, 2017) and therefore indicated that the validity of the instrument was statistically proven to be accepted. The composite reliability value of all constructs was greater than 0.8, hence it indicated that the instrument contained high internal consistency. These statistical results confirmed that the instrument used for this study was valid and reliable.

**Table-1. Results on Direct Effect Models Test**

Relationship between ethical climate and organizational commitment	Beta	T-statistics	f <sup>2</sup>	R <sup>2</sup>
H1: Relationship between benevolent climate and organizational commitment	0.150	1.289	0.024	0.526
H2: Relationship between principled climate and organizational commitment	0.157	1.565	0.029	

Note: significant at \* $t > 1.65$  (one-tail testing)

Information in Table 1 indicated that benevolent and principled climates contributed 53% to the variance of organizational commitment. These results also statistically proven that benevolent climate was significantly related to organizational commitment ( $\beta=0.150$ ;  $t=1.289$ ), hence it failed to reject the first hypothesis of this study and it has statistically proven that that principled climate was significantly connected to organizational commitment ( $\beta=0.157$ ;  $t=1.565$ ) thus failing to reject the second hypothesis of this study. These findings confirmed that benevolent and principled climates were vital predictors of organizational commitment in the studied setting. The test to determine the effects size ( $f^2$ ) of independent variables was also conducted by using the Bootstrapping procedure. The test computed that the effect size value for benevolent climate was 0.024 and the principled climate was 0.029, signifying that these constructs provide medium effects as the values were between 0.02 and 0.15 (Hair *et al.*, 2017).

## 5. DISCUSSION AND IMPLICATIONS

The findings of this study thus confirmed that ethical climate was a vital predictor to organizational commitment in the studied setting. Based on the findings, the studied organization properly planned to build and develop adequate benevolent climate (such as caring) and principled climate (such as implementation rules, law and codes) in motivating and enhancing loyalty among the employees. This situation explained that the ability of the management to provide proper ethical climate will make the employee feel empowered, engaged, and committed to the organization. Three major impacts can be derived from the findings of this study which include theoretical contribution, research methodology and practical contribution. The findings of this study thus supported the idea as outlined in the theory of ethical climate which indicated that the ability of an adequate ethical climate led to an increase in organizational commitment. Additionally, the instrument constructed and used for this study has been statistically proven to be valid and reliable to produce accurate and reliable outcome, thus impacting the research methodology. The findings of this study make a practical contribution as they may be adapted as guideline for the practitioners in improving the management and the implication of ethical climate in the organization. Several aspects have to be considered in order to achieve such objective. Firstly, the skills and methods in promoting ethics are important as an addition to the setting of a certain standard to maintain the ethical climate in the organization. Secondly, it is necessary to provide the support and care to the employees (benevolent climate) along with the implementation of consistent policies, laws and regulations (principled climate) to regulate the organization's environment, culture and ethics. Finally, the structuring of both types of ethical climate may significantly affect desirable employee outcome. The implementation of these suggestions may motivate the employees to continue their services with high level of commitment to the organization.

## 6. CONCLUSION

This study revealed that ethical climate was significantly related as a major predictor in the studied organization therefore proposing future research and practices to consider ethical climate such as benevolent and principled climates as critical elements to improve organizational commitment among the employees. This study also suggests that the capability of the management to provide benevolent and principled climates in organization will enhance positive attitude and behavioral outcomes to the organization such as organizational commitment. As a result, this positive outcome may encourage the employees to maintain and increase their sense of responsibility and productivity in being competent to ensure their endurance in the era of the global economy. There were several limitations faced in conducting this study. One of them was the design employed for the study. This study employed the cross-sectional research design with one data collection session throughout the duration of the study and thus, limiting the researchers in capturing further details on the causal relationship among the variables. This study also did not stipulate the connections among specific indicators of the variables. Furthermore, the outcomes computed statistically by using Smart PLS merely focused on the level of performance variation explained by the regression equations; however there are a number of unexplained factors that should be explored and explained in order to determine the causal relationship among the variables of interest and relative explanatory. Another limitation faced was the sample as this study was only conducted on one organizational sector with the restriction of adopting random sampling, thus affecting the generalizability of the findings and in avoiding biased responses.

On the same note, this study offers a few suggestions to strengthen future research. The first suggestion is for the future researches to consider exploring into other elements of ethical climate and employee outcomes to provide a wider perspective and understanding on their impact in improving organizational commitment among employees. This study also suggests for future research to consider adapting a longitudinal research design as it enables the researchers to explore into the context further when describing the pattern of change and the direction and magnitude of causal relationships among the studied variables. This study also suggests that other dimensions of employee outcome such as job satisfaction, ethical behavior, turnover and job performance need to be given more attention in future works because their role is often discussed in extensive literature on ethical climate such as in the studies conducted by Vitell and Davis (1990); Deshpande *et al.* (2000); Jr (2001); Fu and Deshpande (2014). These considerations are suggested for future research for us to better understand the concept and to apply the findings that will benefit the employees and the organization.

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