



## **The Impact of Ethical Climate on Organizational Trust and the Role of Business Performance: If Business Performance Increases, Does Ethical Climate Still Matter?**

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### **Abstract**

The purpose of this study was to examine the relationship between ethical climate and organizational trust and to test whether increased business performance alters this relationship. Results indicate a positive relationship between three ethical climate types (caring, law, and rules) and organizational trust and indicate a negative relationship between one ethical climate type (instrumental) and organizational trust. Increased business performance did not moderate the ethical climate/organizational trust relationship, but post hoc analyses found ethical climate type to explain much more variance in overall organizational performance than for individual employee performance. For both organizational performance and individual employee performance, the ethical climate type of caring had the most explanatory power.

### **Introduction**

Individual ambitions to succeed are often the basis of unethical behavior in the workplace, and the desire to be successful can be very strong. Indeed, Lehman Brothers, AIG, Martha Stewart, and WorldCom are examples of organizations in which individuals acted in unethical ways to appear successful and increase individual wealth. If an individual experiences success in an organization, does the desire for continued success alter the individual's perspective on ethics? In 1973, Equity Funding Corporation collapsed financially after the company had generated more than \$2 billion of fictitious insurance policies and falsified company earnings. The ensuing investigation found that dozens of individuals within the organization helped perpetuate or conceal the fraud, and most were persuaded with monetary rewards (Woolf & Hindson, 2011).

Is it possible that successful business performance, real or imagined, alters ethical climate and trust within an organization? Individuals often have different answers to this question, but the answer generally is based upon some core definition of ethics and trust that is normatively set. For instance, people generally believe lying is ethically wrong and do not trust people who lie. However, organizations sometimes reward employees for lying and the employees are then motivated to continue the behavior. Equity Funding Corporation is one example and another example is Enron Corporation. Enron created hundreds of partnerships and financial entities to carry out questionable financial transactions that falsely inflated profits over a period of years. The more Enron's performance increased, the more Enron managers were encouraged to engage in illegal activities and the more managers were rewarded (Steiner & Steiner, 2012, p. 641-643).

In this type of environment, in which employee performance appears to skyrocket, along with the price of stock, of which Enron employees held thousands of shares, would employee trust of the organization increase during times of (seemingly) massive profitability?

The norm of reciprocity (Gouldner, 1960; Meeker, 1971), one of the rules in social exchange theory (Blau, 1964; Homans, 1961), suggests there is a societal norm such that when person A helps Person B, then person B is required to help person A or at least not harm person A. For example, organizational justice researchers have argued that when employees are treated fairly, they may feel obligated to reciprocate with increased performance and more positive attitudes, including trust (See Colquitt, et al., 2013. for a meta-analytic review of social exchange in justice). Likewise, research in organizational trust also includes expectations of reciprocity, such that individuals engage in trust behavior because they expect others to do the same (See Korsgaard, Brower & Lester, 2015, for a review of dyadic trust). If employees believe the organization will enrich them with bonuses or increased stock portfolio values, will employees reciprocate by increasing their trust in the organization to continue enriching them? Would the norm of reciprocity apply whether the organizational climate is ethical or unethical? The question must be answered in a broader sense because it is unlikely that profitability alone will cause an employee to trust the employer. Indeed, the research on ethical climate within organizations suggests that employee perceptions of the climate are based on a number of different factors such as concern for people, expectations of complying with rules, and expectations of doing what it takes to further the organization's interests (Victor & Cullen, 1988).

Ethical climate is part of the corporate culture, and as expected, studies have found that negative ethical climates are positively associated with unethical behaviors while positive ethical climates are negatively associated with unethical behaviors. (Smith, Thompson & Iacovou, 2009; Wimbush, Shepard & Markham, 1997). In addition, managers operating in a positive ethical climate perceived a positive association between success and ethical behavior while managers operating in a negative ethical climate perceived a negative association between success and ethical behavior (Deshpande, 1996). The purpose of this study is to examine the relationship between individual perspectives of organizational ethical climate and organizational trust within a social exchange framework of reciprocity, and to test whether an increase in perceived organizational performance (success) or an increase in individual employee performance (success) alters this relationship.

## **Literature Review**

### **Prior Studies on Ethical Climate, Organizational Trust, and Performance**

Researchers in the past have examined a relationship between ethical climate and performance, but not in the same way proposed in the present study. For example, some studies have used ethical leadership as an independent variable that is related to performance, with ethical climate used as a moderator (Schwepker & Schultz, 2015) or mediator (Shin, Sung, Choi & Kim, 2015). Other studies have examined ethical climate as a moderator between variables such as compensation or customer orientation on performance (Tanner, Tanner & Wakefield, 2015), while others have examined a specific relationship between ethical climate and performance and identified moderators (Schwepker, 2013) and mediators (Briggs, Jaramillo & Weeks 2012; Jaramillo, Mulki & Solomon, 2006) of that relationship.

The relationship between ethical climate and trust is less prevalent in the literature. A search on PsycInfo and Business Source Complete using the keywords ethical climate and organizational trust resulted in a total of five unique documents, two of which were dissertation abstracts which do not appear to have resulted in a journal publication. The three journal publications focused on a sales environment and found that an ethical work climate is related to supervisory trust (DeConinck, 2011; Mulki, Jaramillo & Locander, 2006; Simha & Stachowicz-Stanusch, 2015) and to organizational trust (Simha & Stachowicz-Stanusch, 2015).

### **Ethical Climate**

Ethical climate is a term referring to the set of norms in an organization that dictates how people in the organization decide what is ethical and what is not ethical. The ethical climate thus focuses on the process of making ethical decisions rather than the ethical decision itself. Victor and Cullen (1988) developed a typology of nine theoretical ethical climate types, and after a factor analysis of the nine types, discovered five ethical climate factors emerging from the data. Theoretically, all nine types are possible in organizations, but five types occur most often (Simha & Cullen, 2012). These five climate types have been studied by a number of authors and results show that a positive ethical climate is negatively related to ethical problems involving human resource management (Bartels, Harrick, Martell & Strickland, 1998), is positively related to job satisfaction (Tsai & Huang, 2008; Wang & Hsieh, 2012) and organizational commitment (Bulutlar & Oz, 2009; Shafer, 2009), and is negatively related to absence frequency (Shapiro-Lischinsky & Rosenblatt, 2009).

The five ethical climate types are labeled caring, law and code, rules, instrumental and independence. The caring climate is characterized by the organization being concerned about the good of all people in the company as a whole, and expecting each person to do what is right for the customers and the public. The law and code climate type is depicted as a climate in which people are expected to strictly follow legal and professional standards over and above other considerations. The rules climate type emphasizes company rules and procedures. Employees are expected to strictly obey company policies. The instrumental climate type is characterized by employees who are expected to do whatever it takes to further the company's interests, regardless of the consequences. Generally, people in the instrumental climate protect their own interests above all else. The last ethical climate type is independence. This climate type allows employees to decide for themselves what is right and wrong; thus, people are guided by their own personal ethics.

### **Organizational Trust**

Organizational trust is defined as an individual's belief that others (individual or group) will make a good faith effort to keep commitments, be honest, and not take advantage of another (Cummings & Bromiley, 1996). Trust is very important in ongoing relationships between individuals and organizations because without trust, the transaction costs of maintaining the relationship increase tremendously for both parties. Indeed, researchers have found that trust violations can lead to costly revenge in the workplace (Bies & Tripp, 1996) and a reduction in organizational citizenship behaviors (Wong, Ngo & Wong, 2006). On the other hand, high levels of trust in the workplace can lead to increased levels of job satisfaction (Tallman, 2007) and organizational commitment (Song, Kim & Kolb, 2009). Although

Both ethical climate and organizational trust are related to positive work outcomes that may benefit the organization, but to our knowledge, the two variables have rarely been combined in the research literature. Studies linking ethical climate with supervisor trust (DeConinck, 2011; Mulki, Jaramillo & Locander, 2006; Simha & Stachowicz-Stanusch, 2015), with co-worker trust (Ascigil & Parlakgumus, 2012), and with leader trust (Engelbrecht, Heine & Mahembe, 2014; Otken & Cenkci, 2012) have indicated that a correlation exists between these variables, but we found only two studies that addressed the linkage between ethical climate and organizational trust (Ruppel & Harrington, 2000; Simha & Stachowicz-Stanusch, 2015).

The Simha and Stachowicz-Stanusch study measured three ethical climates (egoistic, benevolent and principled) rather than the five types that most commonly occur in organizations, and we believe including additional climate types will offer more insight into the relationships between the variables. The Ruppel and Harrington study used a two-item scale to measure trust related to worker reliability, competency, and commitments, and one item to measure manager perception of atmosphere of trust. Because the two-item measure and the one-item measure in the Ruppel and Harrington study (2000) were correlated ( $r = .41, p < .001$ ), the authors considered the two measures to be representative of organizational trust. We believe a better measure of organizational trust would strengthen the research examining the relationship between ethical climate and trust. Thus, we address this gap by using a specific measure of organizational trust and test whether increased business performance alters the relationship between ethical climate and organizational trust.

## Hypothesis Development

Antecedents of organizational trust include institutional sources such as organizational structure, organizational culture, and organizational leadership. These three institutional sources of trust serve as a system of formal procedures, values, and leadership to influence employee behaviors (Li, Bai, & Xi, 2012); thus, the ethical climate evolving from these institutional sources should influence perceptions of trust. Indeed, DeConinck (2011) found that facets of ethical work climate are directly related to supervisory trust and organizational identification. The five facets, or types, of ethical work climate as depicted by Victor and Cullen (1988) are thus separated into individual hypotheses in the following paragraphs.

The ethical climate of caring depicts an organization concerned about everyone in the company. The norm of reciprocity suggests that when an organizational entity shows concern for an individual (or helps the individual), the individual is obligated to reciprocate in some way. We suggest the individual may reciprocate by behaving in ways that help the organization and by trusting the organization to continue being concerned for employees. In addition, studies of organizational trust find that antecedents of trust include demonstrating concern (Shaw, 1997), benevolence (Altman & Taylor, 1973) and helpfulness (Dwyer & LaGrace, 1986). Therefore, there should be a positive relationship between the ethical climate of caring and organizational trust.

H1: As ethical climate for caring increases, organizational trust increases.

The law and code ethical climate is concerned primarily with expectations to comply with the law and professional standards. We argue that organizations which comply with the law and professional standards tend to treat employees fairly and with respect; therefore, employees may reciprocate by behaving in a professional manner at work and by trusting the organization to continue complying with legal and professional standards. Since antecedents of organizational

trust include fairness (Alexander & Ruderman, 1987; Butler, 1991) and responsibility (Rempel, Holmes & Zanna, 1985), two variables closely tied to legal issues and professional standards, there should be a positive relationship between the ethical climate for law and organizational trust.

H2: As ethical climate for law increases, organizational trust increases.

The ethical climate of rules emphasizes a climate in which company rules and procedures are very important, and all employees are expected to strictly obey company policy. Policies and procedures are often a way of creating an atmosphere of dependability so that employees can reasonably predict what to do in certain situations. When organizations follow company policy in predictable ways that create a sense of certainty in the workplace, employees are likely to reciprocate by adhering to the policy themselves and by trusting the organization to continue acting in predictable ways. Studies of organizational trust show that reliability and dependability are antecedents of organizational trust (Johnson & Swap, 1982; Rempel, Holmes & Zanna, 1985); therefore, as ethical climate for rules increases, organizational trust should increase also.

H3: As ethical climate for rules increases, organizational trust increases.

The instrumental climate is depicted by an organizational atmosphere in which people protect their own interests above all else, and people are expected to do whatever it takes to further the company's interests. Since these actions generally do not fit in the categories of honesty, benevolence, and dependability, we expect an instrumental ethical climate to be negatively related to organizational trust. The norm of reciprocity suggests when employees are expected to help the company at all costs, the reciprocal action will mimic the same behavior. Therefore, the more the organizational climate encourages individuals to do whatever it takes to help the company, the more likely it is that employees will reciprocate by not trusting the organization to help them when their interests are not aligned with company interests.

H4: As ethical climate for instrumentality increases, organizational trust decreases.

The ethical climate type of independence refers to an organization in which people are expected to follow their own personal and moral beliefs, and each person decides for themselves what is right and wrong. In this type of climate, there is no consistency, and as a result, employees cannot depend on the overall organization being fair or reliable. For example, one employee may decide on a course of action based on the principle of "the end justifies the means," while a different employee may decide to act based on the golden rule of "do unto others as you would have them do unto you." The inconsistency inherent in such an organizational environment suggests that employees will reciprocate with distrust of the organization due to perceptions of uncertainty. Therefore, we expect a negative relationship between an independence ethical climate and organizational trust.

H5: As ethical climate for independence increases, organizational trust decreases.

Successful performance at the group level often enhances group cohesion (Lott & Lott, 1965) and group identity (Fuller, et al, 2006). It follows that successful performance will also enhance the perception of organizational trust since organizational success should lead to greater organizational identification and greater confidence in the organization as a whole. Successful performance at the individual level often enhances self-serving bias (Greenwald, 1980; Tetlock, 1985). As a result, individual success should enhance the relationship between the organizational ethical climate in which the individual participates and organizational trust. Essentially, the more successful the individual, the more likely the individual is to accept the ethical climate contributing to that success and the more likely the individual is to trust the organization to continue that success.

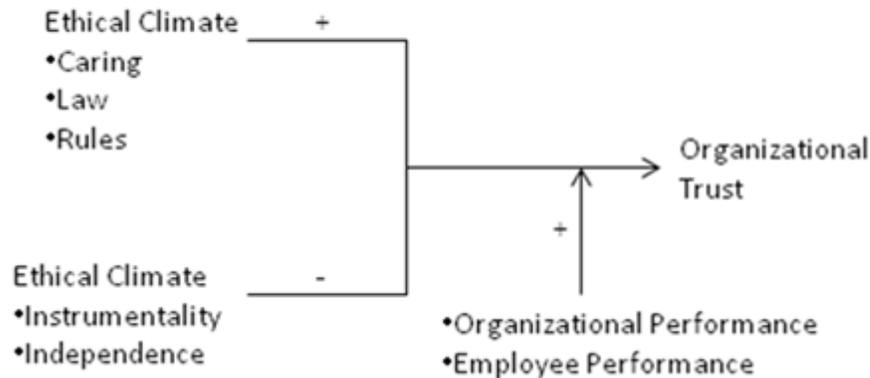
From a social exchange perspective, organizations providing an environment, or a situation, in which employees can experience success at the organizational or individual level should lead the employee to reciprocate in some manner. The reciprocation is most likely to take the form of positive employee behavior, one example of which is trusting the organization to continue to be successful and to continue allowing the employees to experience success. As such, we expect positive perceptions of business performance (employee performance and organizational performance) to moderate the relationship between ethical climate and organizational trust.

H6: Increased levels of employee performance will positively moderate the relationship between ethical climate (all subcomponents) and organizational trust.

H7: Increased levels of organizational performance will positively moderate the relationship between ethical climate (all subcomponents) and organizational trust.

Figure 1 depicts the model with all hypothesized relationships.

Figure 1. Model of Hypothesized Relationships



### Method

Subjects for the study were contacted through the alumni association of a university in the Southwest United States. Letters were sent to a random sample of alumni asking them to participate in a longitudinal study on work attitudes. The alumni who were interested returned cards stating that they would participate. The data in this paper were collected on the fourth survey in a series of four. There were 374 subjects who participated in this study. Respondents had an average age of 41.1 and represented fifteen different industries. Roughly half of the sample was male (49.7%) and half female (47.3%), with a few missing data points.

### Measures

Ethical climate was measured with a scale from Victor and Cullen (1988). All subscales are measured with a 7-point Likert scale with 1 = strongly disagree and 7 = strongly agree. The ethical climate subscales of caring and instrumental each have 7 items, while the ethical climate subscales of law, rule, and independence each have four items.

Organizational trust was measured with a 7-point Likert scale (1= strongly disagree and 7 = strongly agree) using an abbreviated version of the organizational trust inventory (Cummings & Bromiley, 1996). Seven items were used, with example items including, “I feel that my employer is reliable,” and “I feel that I can trust my employer.”

Employee performance was measured with 3 items. Respondents were asked to use a scale from 1 to 10, with 1 being the lowest and 10 being the highest, to answer the following three questions: 1) “How would you rate your overall performance at work?”; 2) “How would your supervisor rate your overall performance at work?”; and 3) “How would your coworkers rate your overall performance at work?” The three responses were added together and then divided by three for the overall employee performance score.

Organizational performance was measured with three items. Respondents were asked, “Compared to other organizations in your industry: 1) “How would you rate your organization in terms of being productive and efficient?” 2) “How would you rate your organization in terms of meeting its goals (e.g., profitability, creating a good learning environment, etc.)?” and 3) “How would you rate your organization’s performance overall?” Respondents used a 7-point Likert scale with 1 = awful, 4 = about the same as others, and 7 = excellent. All scores were added together and divided by 3 for the overall organizational performance score. Means, standard deviations, and coefficient alpha for all measures are shown in Table 1.

Table 1. Correlation Table of Measures

	Mean	SD	1	2	3	4	5	6	7	8
1. Caring	4.24	1.26	(.84)							
2. Law	5.84	1.21	.49**	(.80)						
3. Rules	5.15	1.29	.53**	.67**	(.87)					
4. Instrumental	3.41	1.16	-.31**	-.24**	-.20**	(.76)				
5. Independence	3.65	1.26	.18**	.01	-.017	.03	(.80)			
6. Org Trust	5.01	1.46	.59**	.40**	.45**	-.57**	.07	(.93)		
7. Org perform	5.18	1.29	.53**	.38**	.31**	-.33**	.13*	.58**	(.94)	
8. Employee perform	8.39	1.05	.31**	.20**	.20**	-.19**	.05	.29**	.24**	(.73)

Coefficient alphas are in parentheses. \*p < .05; \*\*p < .01; \*\*\*p < .001

### Results

Table 1 shows the correlations between the variables, with most correlations being significant. Table 2 shows the regression results of hypotheses one through five. The first hypothesis stated there will be a positive relationship between caring and organizational trust. This hypothesis was supported (F = 178.92, p < .001). Hypothesis two, stating there is a positive relationship between law and organizational trust, was supported (F=61.252, p < .001) as was hypothesis three, which stated there is a positive relationship between rules and organizational trust (F=87.833, p < .001). Hypothesis 4 was also supported, with the relationship between

instrumental and organizational trust being significant ( $F = 158.68, p < .001$ ) and negative ( $b = -.57, p < .001$ ). H5, postulating a negative relationship between independence and organizational trust, was not supported ( $F = 1.79, p < .18$ ) and was in the opposite direction of the prediction ( $b = .07, p < .18$ ).

Table 2. Regression Results of Hypotheses 1-5

Independent variable	Dependent variable	beta	F-value	p-value
H1: Ethical climate caring	Organizational Trust	.59	178.92	.000
H2: Ethical climate law	Organizational Trust	.39	61.25	.000
H3: Ethical climate rules	Organizational Trust	.45	87.83	.000
H4: Ethical climate instrumental	Organizational Trust	-.57	158.68	.000
H5: Ethical climate independence	Organizational Trust	.07	1.79	.18

Table 3 shows the regression results of hypothesis 6. Hypothesis 6 stated there will be a positive moderating effect of employee performance on the relationship between ethical climate and organizational trust. This hypothesis was not supported, as none of the interaction terms are significant. Table 4 shows the regression results of hypothesis 7 which stated there will be a positive moderating effect of organizational performance on the relationship between ethical climate and organizational trust. This hypothesis was not supported. Although none of the interaction terms were significant, the interaction between instrumental ethical climate and organizational performance was the strongest interaction at the .09 level of significance.

Table 3. Regression Results of Hypothesis 6

Independent variables	Dependent Variable	beta	t-value	Sig
Employee Performance	Organizational Trust	.12	.86	.38
Ethical climate caring		.56	1.72	.08
Caring x EE performance		-0.3	-.03	.98
Employee Performance	Organizational Trust	.26	1.29	.19
Ethical climate law		.44	1.29	.19
Law x EE performance		-.09	-.23	.82
Employee Performance	Organizational Trust	.24	1.44	.15
Ethical climate rules		.49	1.41	.16
Rules x EE performance		-.09	-.22	.82
Employee Performance	Organizational Trust	.30	2.13	.03
Ethical climate instrumental		-.24	-.69	.48
Instrumental x EE performance		-.29	-.82	.41
Employee Performance	Organizational Trust	.05	.38	.69
Ethical climate independence		-.56	-1.40	.16
Independence x EE performance		.69	1.6	.11

Table 4. Regression results of Hypothesis 7

Independent variables	Dependent Variable	beta	t-value	Sig
Organizational Performance	Organizational Trust	.46	3.98	.00
Ethical climate caring		.49	3.36	.00
Caring x Org performance		-.17	-.80	.42
Organizational Performance	Organizational Trust	.44	2.62	.00
Ethical climate law		.15	1.15	.25
Law x Org performance		.08	.36	.71
Organizational Performance	Organizational Trust	.35	2.54	.01
Ethical climate rules		.15	1.06	.29
Rules x Org performance		.22	.97	.33
Organizational Performance	Organizational Trust	.23	1.93	.05
Ethical climate instrumental		-.66	-4.42	.00
Instrumental x Org performance		.26	1.66	.09
Organizational Performance	Organizational Trust	.50	4.31	.00
Ethical climate independence		-.09	-.54	.58
Independence x Org performance		.12	.58	.56

Table 5. Post Hoc Analysis

Independent variable Ethical climate	Dependent variable	beta	F-value	p-value	Adj R <sup>2</sup>
Caring	Organizational Perf	.52	132.91	.00	.27
Law	Organizational Perf	.37	56.16	.00	.13
Rules	Organizational Perf	.32	41.13	.00	.10
Instrumental	Organizational Perf	-.33	44.12	.00	.11
Independence	Organizational Perf	.12	5.24	.02	.01
Caring Law Rules Instrumental Independence	Organizational Perf	.37 .14 -.02 -.19 .07	28.06	.00	.29
Caring	Employee Perf	.31	35.30	.00	.09
Law	Employee Perf	.19	13.47	.00	.03
Rules	Employee Perf	.19	13.9	.00	.03
Instrumental	Employee Perf	-.18	12.34	.00	.03
Independence	Employee Perf	.04	.722	.39	.00
Caring Law Rules Instrumental Independence	Employee Perf	.23 .05 .00 -.10 .01	6.85	.00	.09

### Discussion

There is a standard assumption that ethical individuals who act with integrity are generally considered to be trustworthy individuals, especially if the individual has given no past indication of behaving in an unethical manner. Organizations are often judged by the same assumption, such that organizations adhering to certain ethical standards will create an environment in which employees believe the organization to be trustworthy, especially if the organization has no past history of behaving unethically. This study has examined the relationship between ethical climate and trust, and has found the basic assumption to be supported by statistical analysis. Ethical climates depicted by concern for everyone in the organization along with expectations to comply with the law and with company rules do indeed have a significant positive relationship with trust in the organization. In contrast, ethical climates which emphasize employees protecting their own interests above all else have a significant

negative relationship with trust in the organization. This argument aligns with the norm of reciprocity as depicted in social exchange theory.

We hypothesized that individual success and organizational success will have a positive moderating effect on the relationship between ethical climate and organizational trust. Although neither of these hypotheses was supported, it does appear that increased organizational performance has a consistent, positive effect on organizational trust as a main effect. Thus, as organizational performance increases, trust in the organization also increases. This finding is not surprising given the literature on group success leading to higher levels of group cohesion and group identity (Lott & Lott, 1965), but the lack of interaction between ethical climate and organizational performance is unexpected. It would seem the ethical climate of caring, in particular, would interact with organizational performance to increase levels of organizational trust, but that did not happen.

The result showing no main effect of employee performance on organizational trust is a little unexpected. This finding suggests that employees may believe individual performance is determined more by individual actions than by organizational factors, which is good from a performance perspective and from a human resource perspective. However, if employees devalue organizational factors that do indeed enhance individual performance, such as abundant resources or employee-friendly policies, there is a risk the employee may give too much credit to themselves and not engage in positive organizational behaviors. This could result in a scenario in which the employee believes he or she knows best how to increase performance rather than trusting the organization to set ethical standards that lead to increased performance. In other words, the employee feels no obligation to reciprocate if he or she doesn't see what the organization is providing them to be successful.

Studies of business ethics often focus on performance outcomes as the dependent variable, as in studies which relate corporate social responsibility to profitability. Generally speaking, a majority of researchers have found a positive relationship between profits and corporate social responsibility, but the results are mixed (Griffin & Mahon, 1997; Margolis & Walsh, 2001). To better understand the data in the present study, we conducted a series of post hoc analyses to determine the relationship between ethical climate and performance to see how the results might compare to findings in studies of corporate social responsibility and profitability. The post hoc analyses consisted of regressing organizational performance and employee performance on all ethical climate types combined and on each ethical climate type individually. Results depicted in Table 5 indicate the ethical climate type of caring appears to be the most important overall in explaining performance (Adj.  $R^2 = .27$  for organizational performance and Adj.  $R^2 = .09$  for employee performance). In addition, ethical climate type has much more overall explanatory power for organizational performance (Adj.  $R^2 = .29$ ) than for individual employee performance (Adj.  $R^2 = .09$ ). Indeed, a cursory look at the adjusted  $R^2$  values in Table 5 depict much stronger relationships between each ethical climate type and organizational performance than between ethical climate and individual employee performance.

These results support the premise that high levels of ethical climate are perceived to result in both higher levels of organizational trust and in higher levels of organizational performance. A separate post hoc analysis regressing organizational trust on organizational performance and individual employee performance reveals that organizational trust explains almost 34% of the variance in organizational performance (Adj.  $R^2 = .336$ ), but only about 8% of the variance in individual employee performance (Adj.  $R^2 = .079$ ).

## Conclusion

This study has examined the relationship between ethical climate type, organizational trust, and performance. Results indicate: 1) there is a significant, positive relationship between the positive ethical climate types (caring, law, rules) and organizational trust; 2) there is significant, negative relationship between the instrumental ethical climate type and organizational trust; 3) there is a significant, positive relationship between the positive ethical climate types (caring, law, rules) and performance; and 4) there is a significant, negative relationship between the instrumental climate type and performance. The primary goal of this paper was to use social exchange theory to examine whether increased business performance alters the relationship between ethical climate and organizational trust. We found no interaction effects between ethical climate and performance, but we did demonstrate how ethical climate relates to organizational trust and organizational performance.

The most interesting finding of the study is the obvious difference of the impact of ethical climate on organizational performance and individual employee performance. Although respondents appear to clearly relate ethical climate with organizational performance, they do not seem to relate ethical climate as clearly with individual performance. One possible explanation could be the measures used to capture performance are simply inadequate to capture true performance, and measurement inadequacies are often a limitation in studies of work performance. Another explanation, however, concerns the separation of individual ethics versus company ethics. This explanation, if correct, suggests the organizational ethical climate applies to the organization overall, but not to the individual. In other words, the individual's performance is not impacted by organizational ethics, but everyone else's performance in the organization is impacted by organizational ethics. This explanation could mean two different things; 1) it could mean the individual believes it is acceptable to ignore organizational ethics to increase their individual performance or 2) it could mean the individual believes the ethical climate only helps the organization's overall performance, but not the individual's performance. In either scenario, the implications are that organizational ethics do not help the individual.

Another somewhat confusing finding concerns the post hoc analysis in which organizational trust is a much stronger predictor of organizational performance than of individual employee performance. Here again, the implication could be that the trustworthy organization helps the overall organization, but not the individual employee. As a result, the studies showing relationships between trust and increased organizational commitment (Song, Kim & Kolb, 2009) or between trust and increased job satisfaction (Tallman, 2007) may not reveal the full story. Just as the studies of corporate social responsibility found mixed results on the relationship between socially responsible behavior and profitability, perhaps more studies examining the relationship between trust and profitability will find mixed results.

There are certainly many limitations to the present study, and the threat of common method variance is always a potential limitation that could inflate some relationships in the study. However, Doty & Glick (1998) examined the prevalence of common-method variance in organizational research and concluded that, although common-method variance often influences the results, the level of bias is rarely large enough to invalidate study findings. Another limitation is that we collected data for this study at one time period only, and the sample consisted of all college graduates. The measures for ethical climate and organizational trust have been validated in numerous studies over the past several years, but the performance measures were constructed for the present study only. Although the reliability ratings for the performance measures were

acceptable (.94 and .73), the ability to capture true performance measures has proved elusive to organizational behavior specialists for years. Despite these limitations, however, we believe the variety of respondents in age, gender, and industry allow us to generalize the results to a wider population, and we believe the performance measures used in this study to be appropriate for the survey context.

Future studies should consider tracking ethical climate type, organizational trust, and performance over time to determine whether the relationships differ from the findings of the present study. In addition, future studies might develop solid performance measures and then examine whether ethical climate type still has a different impact on organizational performance and individual employee performance.

The public perception of business today is somewhat tarnished. Financial scandals, ecological disasters, and yielding to terrorist threats paint a picture that may be difficult to overcome. Historically, organizations practicing solid ethical standards have gained much recognition for their efforts. One example is the Tylenol poisoning case in which Johnson & Johnson immediately pulled all Tylenol products off the shelves at a cost of \$100 million while trying to figure out the source of the poisoning (Hogue, 2001). The assumption is that ethical standards will help the organization in the long run with increased performance and profitability because the public appreciates organizational integrity. The assumption continues with the idea that individual employees will also engage in the same ethical standards so that individual employee performance will increase along with the organization in accordance with the norm of reciprocity. The present study, however, suggests individual employees do not make a clear connection between ethical climate and individual performance. One common cause of confusion between employee and organizational goals is a faulty reward system (Kerr, 1995). If organizational reward systems do not encourage ethical decision-making by employees, organizations run the risk of individual employees perceiving ethical standards as something that is not their responsibility, but as something “everyone else” does.

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