



Contents lists available at ScienceDirect

Journal of Business Research



Organizational ethical climates and employee's trust in colleagues, the supervisor, and the organization

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ARTICLE INFO

Article history:

Received 26 April 2016

Received in revised form 26 September 2016

Accepted 5 November 2016

Available online xxxxx

Keywords:

Organizational ethical climates

Organizational trust

Attribution theory

Social exchange theory

Partial least squares

ABSTRACT

Organizational ethical climate (OEC) is an important aspect of the organizational context that has generated a consolidated stream of research. However, the literature exploring its impact on organizational trust has three key limitations: scarcity, fragmentation, and under-theorization. In an attempt to address these limitations, we examine the effects of employees' perceptions of three types of OEC – benevolent, principled and egoistic – and organizational trust in different referents – colleagues, the supervisor, and the organization. We develop a set of baseline hypotheses on the effects of three types of OEC on trust in colleagues, in the supervisor, and in the organization. Drawing on Attribution Theory and Social Exchange Theory, we develop specific hypotheses on the relative strengths of those associations. The hypotheses are tested on a large-scale, probabilistic sample of 6000 employees in six EU countries. The paper concludes by discussing the findings, presenting their practical implications, and proposing avenues for future research.

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1. Introduction

Organizational ethical climate (OEC) reflects the shared perceptions held by employees regarding the organization's norms, policies, practices and procedures. According to the variety of these perceptions, Martin and Cullen (2006) distinguish among benevolent, principled, and egoistic ethical climates. Research efforts to understand the different outcomes associated with the three OECs have shown that OEC is associated with such desired organizational outcomes as job satisfaction (Wang, & Hsieh, 2012), organizational commitment (Erben, & Güneşer, 2008), and trust (DeConinck, 2011; Mulki, Jaramillo, & Locander, 2006). In an attempt to consolidate this substantial knowledge on the outcomes of OEC, several influential studies have recently pointed out a number of important theoretical gaps to be addressed by future research (Martin & Cullen, 2006; Mayer, Kuenzi, & Greenbaum, 2009; Simha & Cullen, 2012; Mayer, 2014).

In light of those studies, we highlight here the shortcomings of the extant literature on OECs' effects. Specifically, we focus on the effects of OECs on a key dimension of organizational life, that is, organizational trust. Indeed, even if organizational trust is increasingly recognized as an essential coordinating mechanism among colleagues, units, and

functions within organizations (e.g. Schoorman, Mayer, & Davis, 2007), and an important prerequisite for organizational success (Audi, 2008), the current evidence on its association with OEC has three basic shortcomings: the literature is scarce, fragmented, and (like other OEC-related studies) under-theorized. As evidence for its scarcity, the above-cited comprehensive reviews have identified only three articles that have studied organizational trust as a consequence of OECs (i.e., DeConinck, 2011; Mulki et al., 2006; Ruppel & Harrington, 2000). As evidence for its fragmentation, these studies are characterized by a focus on a specific type of OEC and on a specific trust referent. For instance, Ruppel and Harrington (2000) focus on egoistic and benevolent OECs as predictors of trust in the organization, while the studies of DeConinck (2011) and Mulki et al. (2006) show that benevolent OEC is associated with trust in supervisors. Such a narrow focus is a key limitation recognized by the recent research on trust, which today increasingly explores the effects of a single (trust) antecedent on trust in different referents (Fulmer & Gelfand, 2012, p. 1192). Moreover, the study by Ruppel and Harrington (2000) focused on IT managers, DeConinck (2011) studied salespersons, whereas Mulki et al. (2006) conducted their fieldwork among healthcare employees, which may constraint the impact of their findings to the specific occupational groups that they studied. The third shortcoming broadly attributed to OEC literature is that the consequences of ethical climates on various outcomes are often under-theorized. In this regard, Mayer, 2014 (p. 436) has recently argued that “there is little theory provided for why ethical climate should be associated with various outcomes”.

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In order to address the three above-mentioned limitations (i.e., scarcity, fragmentation, and under-theorization), we develop two sets of hypotheses. First, we develop a set of baseline hypotheses about the positive effects of benevolent and principled OECs, and negative effects of egoistic OEC on trust in colleagues, in the supervisor, and in the organization. Second, drawing on Attribution Theory (Weiner, 1986) and Social Exchange Theory (Cropanzano & Mitchell, 2005), we develop a set of specific hypotheses about the comparative effects that the three types of OEC (egoistic, benevolent, and principled) have on trust in three key referents, that is, colleagues, the supervisor, and the employing organization. We test the hypotheses on a large-scale and probabilistic sample – based on gender, age, area, industrial sector and occupation – of 6000 employees in six European countries. To this end, we have applied partial least squares (PLS) regression, which is a widely used structural equation modeling technique increasingly employed in management research (Carrión, Henseler, Ringle, & Roldán, 2016).

2. Theoretical background and hypothesis

2.1. The constructs under study: Organizational trust and organizational ethical climates

In this section we provide the basic definitions of first organizational trust and then organizational ethical climates in order to develop specific hypotheses on their relations.

Trust can be defined as “the willingness of a party to be vulnerable to the actions of another party based on the expectation that the other will perform a particular action important to the trustor, irrespective of the ability to monitor or control that other party” (Mayer, Davis, & Schoorman, 1995, p. 712). The individual level of analysis, which is the central interest of this study, denotes the degree of trust of an individual, which may differ among various referents (Fulmer & Gelfand, 2012). For example, an individual may trust his or her colleagues but distrust the supervisor at work. Accordingly, Vanhala, Puumalainen, and Blomqvist (2011) distinguished between lateral and vertical trust with respect to the hierarchical level to which the referents belong. In particular, lateral trust refers to trust relations among peers, whereas vertical trust refers to trust relations between employees and their supervisors and/or their organization as a whole (McCauley & Kuhnert, 1992). Previous literature has identified several individual-level antecedents of trust in the three referents. For example, voluntary help, as well as sympathy and cooperation (De Jong, Van der Vegt, & Molleman, 2007; Jap, Robertson, & Hamilton, 2011), have been found to be major factors stimulating trust in colleagues, whereas individualized support (Hernandez, 2008) and ethical leadership (Kalshoven, Den Hartog, & De Hoogh, 2011) have been identified as important predictors of trust in the supervisor. Trust in the organization, on the other hand, mirrors the employees' positive expectations about its capability and fairness (Vanhala et al., 2011). The above-cited line of inquiry suggests that a distinction among the different referents of trust is necessary. Accordingly, several recommendations have been made in the trust literature for simultaneous exploration and comparison of the diverse effects that the same antecedent exerts on trust in different referents (e.g. Fulmer & Gelfand, 2012).

The second construct under study in this paper is OEC, which reflects the shared perceptions held by employees regarding the organization's norms, policies, practices and procedures (Martin & Cullen, 2006). Therefore, an OEC determines “the shared perception of what is correct behavior and how ethical situations should be handled in an organization” (Victor & Cullen, 1988, p. 51). The seminal works by Victor and Cullen (1988), and later by Martin and Cullen (2006) suggest that a distinction can be drawn among benevolent, principled, and egoistic OEC. Indeed, an employee that perceives the organization as one that nurtures benevolent OEC behaves in a manner considered to be oriented towards common interest and well-being. As a result, the focal employee

is likely to strive to maximize the utility of the social community in which she or he is embedded. On the other hand, organizations that nurture a principled OEC induce individual behaviors of compliance with the rules and norms of conduct that have been formally or informally established within the organization. Finally, employees in organizations from which an egoistic OEC stems, engage in behaviors driven by self-interest. Contrary to the employees that perceive a benevolent OEC, these are driven by instrumental considerations in terms of maximizing their utility. This threefold distinction has obtained wide acceptance in the academic literature, and several authors have called for the study of the simultaneous effects of the three types of OEC (e.g. Mayer, 2014).

2.2. Baseline hypotheses: The relations between organizational ethical climates and organizational trust

2.2.1. Benevolent OEC and organizational trust

In this type of climate, employees observe that their colleagues make decisions based on an overarching concern for the well-being of all organizational members (Bulutlar & Öz, 2009). As has been shown in previous studies (e.g. Jap et al., 2011), a benevolent OEC stimulates social exchanges based on mutual obligations, where the treatment received from colleagues is expected to be reciprocated with trust. Similarly, the employees are likely to trust the supervisor if they perceive that the latter keeps her or his promises and serves as an ethical role model (Treviño & Brown, 2004). When supervisors communicate the organization's ethical expectations, they provide the workers with a sense of shared values, which in turn, enhance their beliefs that the supervisor has moral values and acts fairly (Ruppel & Harrington, 2000). Indeed, it is evident from previous studies that supervisors' fairness and support is associated with trust from employees (Kalshoven et al., 2011). Therefore, a benevolent OEC may stimulate exchanges in which employees receive a sense of well-being, and in return, recompense their supervisor with trust. This implies that employees who receive economic and socio-emotional resources from their organization tend to respond by placing trust also in the organization. The employees that perceive a benevolent OEC may consider the organization itself as responsible for such a climate, and consequently place more trust in this impersonal referent (Elangovan & Shapiro, 1998; Tyler & Kramer, 1996). Following this logic, we hypothesize that:

H1. A benevolent ethical climate is positively associated with trust in colleagues, trust in the supervisor, and trust in the organization.

2.2.2. Principled OEC and organizational trust

When an organization is characterized by a principled OEC, employees' behavior is driven by concerns for the well-being of others; but in this instance, it is so primarily through the application and interpretation of rules and codes (Martin & Cullen, 2006). Since the employees observe that all organizational members respect those rules and codes, giving rise to a positive OEC, they regard their imminent peers as directly responsible for such a positive climate. Accordingly, a principled OEC stimulates exchanges where obeying to the organizational rules and codes is exchanged with trust. Employees operating under strict rules of conduct are likely to be confident that the rules and codes will be followed by everyone within the organization, including the superiors (Parboteeah et al., 2010). The supervisors, in fact, are direct transmitters of organizational rules and codes; consequently, they are directly liable for a positive OEC. When the organization adheres to professional codes and regulations, the supervisor must adhere to the same professional codes and regulations as well (Colquitt, LePine, Piccolo, Zapata, & Rich, 2012). Finally, in a principled OEC, the decision-making process is based on solid and verifiable rules of conduct. When an organization is based on specific codes, employees feel “protected” by their organization and tend to reciprocate with trust (Cullen,

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