AN EMPIRICAL INVESTIGATION OF THE EFFECTS OF ETHICAL CLIMATES ON ORGANIZATIONAL CORRUPTION

Agata Stachowicz-Stanusch[1], Aditya Simha[2]

[1]Department of Management and Marketing,
Silesian University of Technology, Roosevelta 26, Zabrze, Poland
[2]Department of Management,
University of Wisconsin – Whitewater, Whitewater, WI 53190, USA
E-mails: [1]astachowicz@polsl.pl; [2]simhaa@uww.edu (corresponding author)

Abstract. This study investigates the effects of ethical climates on organizational corruption. Data from 200 employees from seven hospitals in Poland was used to test the specific relationships between the five empirically occurring ethical climate types (i.e. caring, instrumental, independence, law and code, and rules) and organizational corruption. Law and code climates were negatively associated with organizational corruption, while instrumental and caring climates were positively associated with organizational corruption.

Keywords: ethical climates, organizational corruption, Polish context, multiple regression, instrumental, law and code, caring.

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Introduction

Corruption has become endemic in a worldwide organizational context. The list of organizational offenders in terms of corruption are prominent – Enron, lGlobal Crossing, Adelphia, Quest, Tyco, and WorldCom – are but a few of the prominent organizations that have engaged in corruption (Ashforth *et al.* 2008: 670). The World Bank has suggested that corruption is a huge stumbling block for economic and social development (Aguilera, Vadera 2008; United Nations 2002, 2008; World Bank 2000), and Kayes (2006) also suggests that the growing number of organizational scandals has made the public aware about corruption. The very recent world crisis has also been a resultant of corrupt financial practices (Teather 2009; Voliotis 2011; Watkins 2003), which only goes to show that corruption is very much prevalent in a global context.

This growing epidemic of corruption has reduced confidence and trust in organizations and leaders (Ashforth *et al.* 2008; Colvin 2004; Nocera 2002). It also appears that corruption has existed since ancient times (Aguilera, Vadera 2008). Several studies have

documented the negative effects of corruption – these negative effects range from economic development to different measures of economic welfare (Dumludag 2009; Mauro 1995; Ogrean *et al.* 2008; Rose-Ackerman 2002; Rivera-Batiz 2001; Shleifer, Vishny 1993; Venard 2009).

As one can infer from the evidence, studying the causes and consequences of organizational corruption is quite an important cause! Aguilera and Vadera (2008) and Pelletier and Bligh (2008) state that research in organizational corruption is fairly recent, as most research efforts on corruption seem to have delved into political science and political philosophy, rather than organizational corruption.

One theory that could be useful to study the causes of organizational corruption is ethical climate theory (ECT) (Victor, Cullen 1987, 1988). Ethical climates play an important role in developing the context in which employees operate (Trevino *et al.* 1998), and it is likely that ethical climates will be related with organizational corruption.

 In this paper, we provide a literature review of organizational corruption, a theoretical background and hypotheses which are based on ECT. We present a methodology section followed by the results and discussion. Our main purpose in this paper is to explore the relationship between ethical climate types and organizational corruption.

1. Organizational corruption

Corruption and organizational corruption have been defined many different ways (Apaydin, Balci 2011; Venard 2009); however, the definitions proposed by Aguilera and Vadera (2008) are considered standard. Corruption is defined as an "*abuse of authority for personal benefit*" (p. 433) and organizational corruption is defined as "*the crime that is committed by the use of authority within organizations for personal gain*" (p. 433). These two definitions of corruption emerged from previous definitions propounded by other scholars – for instance, Ashforth and Anand (2003) defined organizational corruption as the "misuse of authority for personal, subunit, and/or organizational gain" (p. 2). Other definitions of corruption have also been presented by Habib and Zurawicki (2002); Luo (2004); Robertson and Watson (2004); Rodriguez *et al.* (2005); Sherman (1980); Theobald (1990); and Voliotis, (2011). In this paper, we will be relying on the framework provided by Aguilera and Vadera (2008) to define and work with the organizational corruption construct.

 Luo (2004) provided a model of organizational corruption that related the organization's environment to deviant behaviors within the organization, and then also addressed the consequences and potential anti-corruption actions. Aguilera and Vadera (2008) expanded Luo's framework and offered their version of an antecedent-effect framework. Aguilera and Vadera (2008) also connected the opportunity-motivation-justification model of crime with organizational corruption. Their framework relies heavily on Weberian concepts of authority (Weber 2002), as well as on Sedikides and Brewer's (2001) classification of motives (individualistic, collectivistic, and relational). With these two concepts, Aguilera and Vadera (2008) also introduced the notion of justification (rationalization, socialization, and ritualism).

Corruption is classified as either individualistic or collectivistic according to who accrues the benefits of corruption (Pinto *et al.* 2008; Voliotis 2011; Waite, Allen 2003). However, as both Ashforth *et al.* (2008) and Voliotis (2011) put it, organizational corruption is essentially meant to be studied in an interactionist way that transcends levels, and is instead multilevel in scope. Ethical climate theory has been used in multilevel studies earlier (e.g. Parboteeah, Kapp 2008; Parboteeah *et al.* 2005), and so it seems appropriate to study the effects of ethical climates on organizational commitment – thus meeting the interactionist approach that Ashforth *et al.* (2008) advocate. Now we present our theoretical background and layout our hypotheses.

2. Theoretical background and hypotheses

2.1. Ethical climates

Organizational climates have effects on many organizational variables (Martin, Cullen 2006; Simha, Cullen, 2012; Zukauskas, Vveinhardt 2011). Ethical climates are subsets of organizational work climates. Ethical climate theory was first proposed by Victor and Cullen (1987, 1988). Ethical climates refer to organizational practices and procedures that define what is considered right or wrong within an organization (Parboteeah, Kapp, 2008).

Victor and Cullen (1987, 1988) based their work off on Kohlberg's (1984) work on moral development and Schneider's (1983) work on sociocultural theories of organization. Their ECT framework consists of a two-dimensional model of ethical climate types, where one dimension is ethical philosophy and the other is a dimension based on the sociological theory of reference groups (Merton, 1968). The three ethical constructs are *egoism*, *benevolence* and *principle*. The other construct, locus of analysis, was categorized by Victor and Cullen (1988) as *individual, local,* and *cosmopolitan*. The crossing of these two criteria results in nine theoretical climate types which are as shown in figure 1.

From nine ethical climate types, research demonstrated that five ethical climate types are the most commonly occurring ones (Martin, Cullen 2006; Tsai, Huang 2008). These five ethical climate types are represented in figure 2.

LOCUS OF ANALYSIS

		Individual	Local	Cosmopolitan
Ethical Theory	Egoism	Self-Interest	Company Profit	Efficiency
	Benevolence	Friendship	Team-Interest	Social-Responsibility
	Principle	Personal Morality	Company rules and procedures	Laws and Professional codes

Fig. 1. Theoretical strata of ethical climate (Victor, Cullen 1987, 1988)

LOCUS OF ANALYSIS

Ethical Theory		Individual	Local	Cosmopolitan
	Egoism	Instrumental	Instrumental	
	Benevolence	Caring	Caring	
	Principle	Independence	Rules	Law and code

Fig. 2. Five common empirical derivatives of ethical climate (Victor, Cullen 1987, 1988)

Instrumental

Employees perceiving instrumental ethical climates in their organizations tend to see their units as encouraging ethical decision-making from an egoistic perspective (Martin, Cullen 2006: 178). Self-interest promoting behavior even at the cost of potential detriment to others is prevalent in instrumental ethical climates. Evidence exists that suggests that instrumental climates are associated with unfavorable outcomes. For instance, Wimbush and Shepard (1994) said that in instrumental climates, decision-making is made so as to serve one's self-interest or personal benefit. Cullen *et al.* (2003) found that instrumental climates have negative associations with commitment, as did Tsai and Huang (2008). Similarly, Bulutlar and Öz (2009) found that instrumental climates were associated with elevated levels of workplace bullying. Deshpande (1996), Joseph and Deshpande (1997), and Tsai and Huang (2008) all found negative associations of instrumental climates with job satisfaction. In case of corruption as well, the self-interest criteria that is so prevalent in this type of climate may well allow corruption to flourish – especially since corruption is associated with self-interest and personal gain. This suggests that instrumental climates will be positively associated with organizational corruption.

H1: Instrumental climates are positively related to organizational corruption.

Caring

The caring construct emerges from benevolence theory – the essence of benevolence theory is that behaviors yielding in positives for the greatest number of constituents are encouraged. Individuals operating in caring climates perceive that decisions should be based on an overarching concern for others (Martin, Cullen 2006). Caring climates are found to be associated with a lot of beneficial and positive organizational outcomes – for instance, Deshpande (1996), Joseph and Deshpande (1997), and Tsai and Huang (2008) found that caring climates were associated with elevated levels of job satisfaction. Cullen *et al.* (2003) and Tsai and Huang (2008) found that caring climates have positive associations with organizational commitment. Several other studies found positive outcomes associated with caring climates (Koh, Boo 2001; Parboteeah, Kapp 2008; Parboteeah *et al.* 2010; Sims, Keon 1997). This suggests that caring climates will be negatively associated with organizational corruption.

H2: Caring climates are negatively related to organizational corruption.

Independence

The independence climate is associated with independence of thought and action. In these sorts of climates, individuals believe that they need to act on deeply held, personal moral convictions to make ethical decisions. Decision making in independence climates emphasizes personal moral beliefs with minimal regard for outside influences (Martin, Cullen 2006). These individual principles are determined through careful consideration (Martin, Cullen 2006; Schminke *et al.* 2005). The deciding factor for people's actions is based on one's personal moral beliefs (Tsai, Huang 2008), and on a similar note, Ambrose *et al.* (2008) found that individuals with a post-conventional level of cognitive moral development work in independence climates.

That suggests that corruption incidences are likely to be low in an independence climate, as principles of deontology and utilitarianism are likely to dictate actions and behaviors there. Independence climates have also been associated with a lot of positive organizational outcomes, such as elevated levels of commitment and satisfaction, reduced turnover intentions, and reduced workplace bullying (Bulutlar, Öz 2009; Cullen *et al.* 2003; Deshpande 1996; Joseph, Deshpande 1997; Parboteeah *et al.* 2010; Tsai, Huang 2008). This suggests that independence climates will be associated with low levels of organizational corruption.

H3: Independence climates are negatively related to organizational corruption.

Law and code

The principle ethical criterion is the main construct behind the law and code ethical climate. The law and code climate fosters the expectation that people operating under it have to adhere to codes and regulations of their profession or other external codes. This climate, just like the caring and independence climates, has been associated with a lot of positive outcomes, such as elevated levels of satisfaction, commitment, reduced turnover, and reduced bullying (Bulutlar, Öz 2009; Cullen *et al.* 2003; Deshpande 1996; Joseph, Deshpande 1997; Parboteeah *et al.* 2010; Tsai, Huang 2008). Since in this climate, principled decision-making based on verifiable external codes is emphasized, it seems likely that law and code climates will be negatively associated with organizational corruption.

H4: Law and code climates are negatively related to organizational corruption.

Rules

This particular climate is based on the construct defined as company rules and procedures. In the rules climate, organizational decisions are perceived as being guided by a strong and pervasive set of local rules and standards such as codes of conduct (Appelbaum *et al.* 2005; Aquino, Becker 2005; Liu *et al.* 2004; Martin, Cullen 2006; Simha, Cullen 2012). Rules climates too have been associated with positive outcomes such as elevated levels of satisfaction, commitment, and reduced turnover (Cullen *et al.* 2003; Deshpande 1996; Joseph, Deshpande 1997; Parboteeah *et al.* 2010; Tsai, Huang 2008). People operating under the rules climate know that there is a verifiable code of

conduct within the organization, and therefore it seems likely that rules climates will be negatively associated with organizational corruption.

H5: Rules climates are negatively related to organizational corruption.

3. Methods

3.1. Sample

The sample was drawn from seven hospitals in Poland, and consisted of hospital administrators and management personnel. We translated all surveys into Polish first and then back-translated them into English to remove translation errors. After the survey was validated, we distributed 300 surveys in total, and received 200 completed and useable surveys back. Our useable response rate was 67 percent, and our sample was predominantly female (82%). 62.5 percent of our respondents had at least a college degree, and the average years of experience they had was 25.29 years.

3.2. Ethical climate

We measured ethical climate by using the Ethical Climate Questionnaire (ECQ) first developed by Victor and Cullen (1987, 1988). In the ECQ, respondents are asked to act as observers reporting on organizational expectations, not on their personal beliefs or their affective evaluations of the climates. The complete version of the ECQ is available in Cullen *et al.* (1993). This particular scale has demonstrated excellent validity and reliability (Martin , Cullen 2006; Tsai , Huang 2008).

3.3. Organizational corruption

We measured organizational corruption by using an adapted version of the scale provided by Balci *et al.* (2012). In this scale, respondents are asked to report on the corruption prevalent in their organization.

3.4. Control variables

We collected responses to the following items in order to control for potential confounding effects on the perceptions of ethical climate and organizational trust: age, gender, education level, and years of work experience.

3.5. Analytical procedures

Similar to previous research (Parboteeah *et al.* 2005; Parboteeah, Kapp 2008), we conducted separate factor analyses on items reflecting ethical climates. Factors were then constructed using the appropriate items. The five factors that emerged corresponded to the five ethical climate types – the factor loadings and coefficient alphas of the ethical climate scales are presented in Table 1.

Even though, it may appear as though our scales have low Cronbach alphas (i.e. lower than 0.7), what we obtained is very similar to what was obtained by other researchers (Cullen *et al.* 2003; Tsai, Huang 2008). There exists evidence that states that Cronbach alphas are lower than 0.7 especially if the scale has lesser than 10 items (Pallant 2004;

Wilson *et al.* 2008), so therefore the rule of thumb of 0.7 does not apply if scales have fewer than 10 items. Therefore, our scales can be considered reliable.

Similarly, a factor score was obtained for our measure of organizational corruption. Multiple regression analysis was the technique chosen by us to test Hypotheses 1 through 5.

Table 1. Factor loadings and coefficient alpha for ethical climate

Ethical climate types	Factor Loading	Cronbachs alpha
Caring		
In this company, our major concern is always what is best for the other person	0.627	
Our major consideration is what is best for everyone in this company	0.751	0.64
The most important concern is the good of all the people in the company	0.632	
Independent		
In this company, people are expected to follow their own personal and moral beliefs	0.74	0.609
In this company, people are guided by their own personal ethics	0.596	
Each person in this company decides for themselves what is right and wrong	0.688	
Law and code		
In this hospital, the law or ethical code of their profession is the major consideration	0.626	
In this hospital, people are expected to strictly follow legal or professional standards	0.859	0.604
People are expected to comply with the law and professional standards	0.757	
over and above other considerations		
Rules		
Successful people in this company go by the book	0.628	
Successful people in this company strictly obey the company policies	0.802	0.522
It is very important to follow strictly the companys rules and procedures here	0.655	
Instrumental		
People are expected to do anything to further the hospitals interests	0.892	
There is no room for ones own personal morals or ethics in this company	0.814	0.719
In this company, people protect their own interest above other considerations.	0.703	

4. Results

Table 2 shows a matrix of correlation and sample statistics of all variables included in the study. No abnormalities were detected through this matrix – we did find that work experience and age were significantly correlated.

Table 2. Inter-correlations and descriptive statistics

	Variables	Mean	SD	1	2	3	4	5	6	7	8	9
1	Gender	0.82	0.385	1								
2	Age	43.04	5.15	0.013	1							
3	Education Level	4.24	1.342	0.035	–0.007	1						
4	Work Experience	25.29	6.52	–0.066	0.738**	–0.002	1					
5	Caring	3.69	1.22	–0.034	–0.053	0.093	–0.063	1				
6	Independence	3.41	1.09	–0.115	0.099	0.033	0.164*	–0.085	1			
7	Law and Code	3.71	1.18	0.063	–0.049	–0.053	0.008	0.045*	–0.075	1		
8	Rules	3.57	1.12	–0.025	0.005*	0.091	–0.017	–0.003	0.087	–0.014	1	
9	Instrumental	3.66	1.103	0.205**	0.136	–0.039	0.037	0.161*	–0.103	0.007	0.026	1
10	Corruption	3.517	0.97	0.073	0.08	0.002	0.048	0.066	0.061	0.132	0.144*	–0.04

Table 3 presents the results of the regression. As expected, we found that the control variable of education level had a negative relationship with organizational corruption.

Table 3. Multiple regression results

Independent Variable	Beta	t	Model
Dependent variable: Organizational Corruption			
Gender	0.049	0.69	
Age	–0.021	–0.198	
Education Level	–0.132**	–1.874	R square = 0.087
Work Experience	0.082	0.789	F statistics = 2.86
Caring	0.111*	1.581	$p = 0.016$**
Independent	–0.113*	–1.593	
Law and Code	–0.116**	–1.663	
Rules	–0.074	–1.073	
Instrumental	0.159**	2.259	

Notes: *$p < 0.05$; **$p < 0.01$.

All our hypotheses from 1 through 5 were tested using multiple regression analysis. These hypotheses proposed relationships between the different ethical climate types and organizational corruption. As our regression results show us, our regression model was highly statistically significant ($p = 0.016$), and we obtained support for two of our five hypotheses, i.e. hypothesis 1 and hypothesis 4. Hypothesis 1 proposed that instrumental climates would be positively related with organizational corruption, and hypothesis 4 proposed that law and code climates would be negatively related with organizational corruption. We obtained support for both these contentions. We did not however, obtain any support for hypotheses 3 and 5, i.e. the ones pertaining to independence and rules climates. In terms of hypothesis 2, we obtained support, albeit in a different direction. We had proposed that caring climates would be negatively related with organizational corruption – however, we found evidence that suggests that caring climates are actually positively related with organizational corruption.

5. Discussions

The overarching objective of this study was to explore the relationships between ethical climate types and organizational corruption. Our study found support for two of our hypotheses, and found that another of our hypotheses was supported albeit in an opposite direction from what we had forecasted. In summary, we found that law and code ethical climates were negatively related to organizational corruption, whereas instrumental and caring climates were positively related to organizational corruption.

Our findings are similar to previous research findings to a certain extent – instrumental climates for instance have been found to be consistently associated with a lot of negative outcomes. The self-interest criteria and self-interest promoting behaviors that flourish in egoistic and instrumental climates make it easy to understand why instrumental climates would be positively associated with organizational corruption. In instrumental climates, self-interest values may end up getting internalized by employees. That sort of internalization would then end up having a cascading effect on organizational corruption.

Similarly, our findings in terms of law and code climates having a negative association with organizational corruption can be seen in the context of other research findings, where it was found that law and code climates were associated with positive outcomes. A reduction in corruption can very definitely be considered a positive outcome, and so it is not surprising to see that law and code climates are negatively associated with organizational corruption. Our sample consisted of professionalized workers from hospitals, and it is quite possible that the professional socialization during and after training would have made these employees internalize principled values. Adherence to professional codes is another factor that would help reduce organizational corruption. That in turn would help explain why organizational corruption would be reduced in law and code climates.

However, our findings in terms of caring climates having a positive association with organizational corruption are both unexpected and startling. To our knowledge, ours is the first study that has linked caring climates with a negative organizational outcome. One way of trying to explain this rather surprising result is by considering the key senti-

ment behind caring climates – the overarching concern for the well-being of others. It is quite possible that if this concern for the well-being of others gets to be overarching and the main raison d'être, then that may end up promoting a culture of corruption, wherein an attitude of 'everyone needs to benefit' ends up getting promoted. This could be one potential explanation for our finding that caring climates are positively associated with organizational corruption.

Conclusions

We must mention a few limitations of our study and findings – one limitation is that our study was conducted on a Polish sample. Other studies on other national and work contexts must be conducted in order to ensure that our findings are not context dependent. Another potential limitation could be due to common method variance, i.e. the variance attributable to the measurement method rather than the constructs which the measures represent (Tsai, Huang 2008: 578). Method bias is a common source of measurement error, which in turn threatens the validity of the conclusions about relationships between measures (Bagozzi, Yi 1991; Podsakoff *et al.* 2003; Tsai, Huang 2008). It is possible that this method bias is present in our study, because all our measures were obtained through self-report questionnaires. However, since a questionnaire approach is the only feasible way to collect ethical climate data, and all of the research conducted on ethical climates relies on the questionnaire approach, we believe that our findings are somewhat robust.

In terms of practical implications, our study essentially suggests that organizations and managers invest time to promote principled climates rather than egoistic climates. As a plethora of research evidence suggests, egoistic and instrumental climates have usually been associated with negative organizational outcomes (Martin, Cullen 2006). Managers should try to curtail the growth and flourishing of egoistic cultures which only result in negative and undesirable outcomes. Instead, managers should try and promote principled cultures and behaviors, which would yield in positive and beneficial outcomes. Principled climates, since they espouse explicit and unambiguous rules of employee conduct and expectations, can certainly be very useful in curtailing or reducing corruption. However, in terms of benevolent climates, our findings suggest some sort of balance be exercised with respect to benevolent climates. Perhaps, benevolent climates should be encouraged albeit with some sort of control mechanism, i.e. in combination with principled climates. Our findings suggest that if only benevolent climates exist, then some negative outcomes like organizational corruption could end up getting promoted – it is important that rules and principles be harnessed to combat that.

An interesting area for future research would be to re-examine the link between caring and benevolent climates to organizational outcomes, especially negative outcomes which involve collaboration (such as groupthink, for instance). More research on that front would help resolve whether or not benevolent and caring climates are always desirable climates to cultivate. Similarly, studies aiming to replicate our findings in different national and work contexts too could yield some benefit for furthering the literature base.

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Agata STACHOWICZ-STANUSCH is an Associate Professor of management at the Silesian University of Technology. She is the head of the Management and Marketing department. She has authored and edited several books in the domains of management education, organizational corruption, and humanistic organizations. She has also published several articles in journals such as the *Journal of Business Ethics*, *Organization and Management*, and *Journal of Intercultural Management*.

Aditya SIMHA is an Assistant Professor of management at the University of Wisconsin – Whitewater. He has research interests in the areas of organizational behavior, business ethics, and entrepreneurship. He has published several articles in journals such as *Academy of Management Perspectives*, *Journal of Business Ethics*, *Journal of Business Ethics Education*, and *Journal of Entrepreneurship.*