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## Article

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## **Mediating effect of Ethical Climate between Organizational Virtuousness and Job Satisfaction**

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### **Abstract**

The purpose of this study is to examine the relationship between organizational virtuousness and job satisfaction with a mediating role of ethical climate. The study follows an explanatory research design. We hypothesized that increase in the perceived virtuousness in the presence of an improved ethical climate will lead to a greater job satisfaction. This hypothesized relationship is tested using data from 271 faculty members working with four universities in Pakistan. To collect the data, a questionnaire was developed using recognized scales. The internal consistency of the scale is checked through Cronbach's alpha. The data analysis was done using Pearson correlation coefficients and mediation analysis. Mediation analysis is done by applying PROCESS (Hayes, 2012).

The results show that ethical climate partially mediates the effect of organizational virtuousness on job satisfaction. This paper advances suggestions to the upper management in the education sector that how organizational virtuousness and ethical climate can increase the job satisfaction among academicians. When the employees experience compassion, love and forgiveness, they may have a stronger tendency to own the organization and the satisfaction with their jobs increases. The findings of this study have practical as well as policy implications. In addition, the empirical evidence provided in this study may open the future avenues of research in this domain. This paper has two major contributions. First, it introduces ethical climate as the mediator between organizational virtuousness on job satisfaction. Secondly, it provides a robust empirical analysis by using a relatively more sophisticated macro called PROCESS by Hayes (2012).

**Keywords:** Organizational virtuousness, ethical climate, job satisfaction, PROCESS.

## 1. Introduction

Higher education institutions are important and complex organizations. Due to rapid growth of private educational institutions, competition encountered by them can be of the same level as that of corporate sector (Moore, 2012). Organizations these days are infested with the concerns of moral dilemmas whether it is a corporate one or an educational institution. These circumstances have made the business community to emphasize on the ethics in the organizations (George, 2003) and highlight the significance of virtues in the organizations (Wright & Goodstein, 2007). Many research studies on ethical climate are conducted for business-for-profit and corporate sector (Kangas et al., 2016).

Nowadays, researchers are showing their inclination towards the study of ethical climate in the higher education institutions as well (Cornelius et al., 2007). Following this trend in the research on the educational institutions, it is imperative to further explain the factors that will have positive effect. Prevalence of the ethical climate within organizations fosters positive work place attitudes and behaviors such as job satisfaction (Peterson et al., 2005). Absence of ethical climate triggers the series of deviant behaviors of employees within an organization like absenteeism (Appelbaum et al., 2007). This research has put its emphasis on the role that organizational virtuousness play in enhancing the job satisfaction of the employees when the ethical climate is favorable. The topic of virtuousness has been studied empirically (Bright et al., 2006; Cameron, 2003; Cameron, 2011; Cameron et al., 2004; Chun, 2005). Wright and Goodstein (2007) highlighted the significance of studying virtues and ethics in private and public organizations (Rego et al., 2010). Martin and Cullen (2006) explained the significance of the role played by ethical climate. Although it has been accepted by the researchers that organizational virtuousness fosters hope, optimism, good habits, compassion and integrity among the employees in the organizations both at the individual and social levels (Cameron et al., 2004; Bright et al., 2006), this concept has not grabbed much attention of the researchers. The research in this area is still very thin (Abedi et al., 2014). It is imperative to study organizational virtuousness in the face of the growing financial embezzlements and ethical setback in the organizations to revamp the culture of virtuousness among the management (Cameron, 2010; George, 2003).

In this study, we contend that in the presence of an ethical environment in an organization, higher level of organizational virtuousness among the employees will lead to their increased job satisfaction. In other words, we investigate the mediating effect of ethical climate (Cheng & Wang, 2015; Elçi et al., 2015) on the relationship between organizational virtuousness and job satisfaction of the employees working in an organization. It is important to explain these relationships because it will help the experts of human resource management to develop effective strategies in improving the job satisfaction level of the employees. This study has a theoretical contribution also as it introduces ethical climate as the mediator between the organizational virtuousness and job satisfaction (See Fig. 1).

The next section presents the review of literature. Then the theoretical framework is presented. Theoretical framework is followed by the hypotheses testing. After this, the methodology followed is discussed. Data analysis, discussion of the results, conclusions and policy and academic implications are presented in the subsequent sections.

## 2. Literature Review and Hypotheses Development

### 2.1 *Virtuousness*

Virtuousness can be described as the supreme state of affairs of people working in an organization. This supreme state is specific to humans and it comprises the components of vigor, dynamism, verve, vibrancy and brawn (Lipman-Blumen & Leavitt, 1999). It provides meaningfulness to the job of an individual. Virtuousness is demonstrated in the practice, matters and desires that create personal and social betterment. (Aristotle, 1999; Cameron, 2003; Abedi et al., 2015). It pertains to individual's well-being and is associated with resilience and happiness including transcendence in behavior and liberty from the pressure and strain (Ryff & Singer, 1998). It also lends courage, constancy, preservation to defy the challenges in an organization (Emmons, 1999). Present day organizations need these characteristics for their survival in this era of competition (Seligman, 1999). Currently, organizations compete not only on the basis of the product or services (Chao et al., 2016) they offer to their customers but also on the footings of the positive impression they leave on the society. Consequently, ethics and virtues have become a focus of discussion (Manz et al., 2008). Virtues are prudent gestures that cause personal and social goodness (Cameron, 2003). Organizational virtuousness is the altruistic and magnanimous behavior exhibited by the members of the organization. It is exhibited in the actions of an individual and collective behavior of an organization. Virtuousness is characterized by moral goodness, human impact and social betterment (Cameron et al., 2004).

*Moral goodness* is linked to the Aristotle's good of first intent that implies that they are taken for their own sake. This goodness includes compassion, love and attainment. Good of second intent seeks something else instead of self-interest. This type of goodness includes authority, reputation and esteem. *Human impact* shows that virtuousness has an influence on an individual and social system. *Social betterment* is associated with improving social coordination among individuals. People help each other without having an expectation of being reciprocated. The relationship on reciprocity may include rewards and recognition (Cameron et al., 2004). Barge and Oliver (2003) stated that behavior is transformed to another bracket when we associate instrumental motive with the organizational virtuousness. Organizational virtuousness extends the concept of citizenship behavior. It is based on providing advantage to others with no connection to reciprocity or social exchange relationships. To explain the concept of *virtues*, Cameron, Bright and Caza (2004) presented *five-factor model of virtues* in the context of organization. These factors include integrity, compassion, forgiveness, trust, and optimism. Integrity is defined as the positive beliefs of employees about the transparency of the policies and procedures within an organization (Moberg, 1999).

Compassion is attentiveness towards others (Rego et al., 2010). Forgiveness refers to the clemency for mistakes and these are taken as opportunities to learn something new and are promptly forgiven. Tzafir and Dolan (2004) defined trust as the credibility of an individual or group upon each other. Optimism is the reliance of the employees in an organization which instills them with a belief of overcoming the hurdles and become triumphant. Seligman (1999) diverted the focus from the pathological psychology to the positive psychology. Previously, emphasis was on the study of the viciousness and self-interest of humans but later on interest of the researchers developed towards the positive aspects of human nature. Despite this, until today, it is observed that research studies

explaining the concept of organizational virtuousness are scarce. One significant contribution in this regard is made by Cameron et al. (2003). The authors have provided a systematic theoretical investigation of positive organizational psychology in their book.

## *2.2 Association between Organizational Virtuousness and Job Satisfaction*

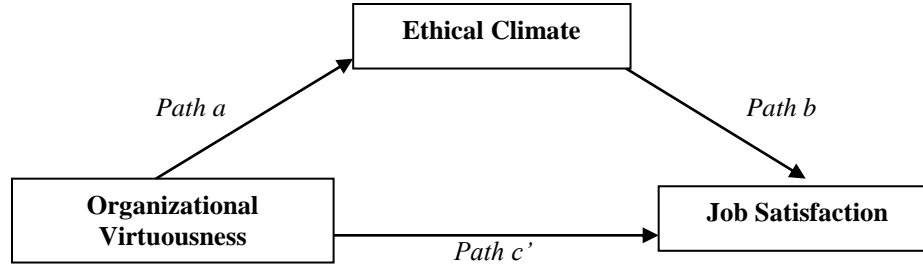
Job satisfaction has gained much attention over the last decade. Positive outcome in the organizations is the corollary of positive subjective experiences (Wright & Goldstein, 2007). Studies that explain job satisfaction show that it is important for the effective functioning of an organization (Wright, 2006). Locke (1976) stated that it is positive evaluation of employees about their work and organization. If an individual perceives that his job meets his or her expectations than a contented feeling of satisfaction will be experienced by that individual (Henne & Locke, 1985). Job satisfaction is an aggregation of all attitudes and behavior of an employee towards his or her work. An employee who has a positive attitude towards his job is satisfied with his or her job (Bonebright et al., 2000). There is a consensus among the social researchers that job satisfaction is a positive emotional response towards one's job (Oshagbemi, 2003). Job satisfaction is influenced by the way an organization treats its employees (Goldman & Tabak, 2010).

*Affective events theory* by Weiss and Cropanzano (1996) states that a series of positive happenings generate positive emotional responses which include job satisfaction as well. Positivity and virtuousness in an organization result in satisfaction with the job among the employees. Employees having positive experiences have higher levels of job satisfaction (Nikandrou & Tsachouridi, 2015; Abou-Hashish, 2017). On the basis of this link, it is hypothesized that the perceived organizational virtuousness is associated with job satisfaction. Organizational virtuousness creates a positive impact on humans. It will ensure positive aspect of job satisfaction among employees. Moreover, organizational virtuousness is a carrier of social capital (Cameron, 2003). Social capital endorses trust and unassailable relationships between an organization and employees. Thus, it can lower the employee turnover intentions and escalate satisfaction among employees regarding job (Martin & Cullen, 2006; Ruiz-Palomino et al. (2013).

## *2.3 Mediation: Organizational Virtuousness, Ethical Climate and Job Satisfaction*

A virtuous organization instills virtues in itself. Such organizations move ahead of the conventional moral codes. This study integrates the organizational virtuousness with ethical climate. Ethical climate has also acquired the focus of business ethics researchers (Martin & Cullen 2006). Ethical climate gauges the acceptable conduct in the organizations (Kelley & Dorsch, 1991) and explains how organizations differentiate wrong from the right (Wimbush & Shepard, 1994). Ethical climate of an organization includes ethical norms (Bartels et al., 1998). According to Qadeer and Jaffery (2014) the climate of an organization is an important determinant of psychological capital. Swift changes in organizations, have necessitated the stable reference points to deal with high pressure environments. The vulnerability of ethics as a stable reference prompted scholars to study the concept of ethos or organizational virtuousness. Virtuousness combined with ethical climate have an affirmative domination on behaviors and assists in boosting satisfaction related to job (Anaza et al., 2015) by eliminating apprehensions in facing ethically sensitive situations in the organizations (Schwepker, 2001). Social exchange theory is a citadel that provides a support for this mediating relationship. According to this theory, when employees burgeon positive beliefs about an organization,

they develop a tendency to reciprocate the just and fair treatment of their organization based on the rule of reciprocity (Blau, 1964). Following this theory, employees after observing the virtuous and ethical behavior of their organization, reciprocate this behavior in the disposition of a higher level of job satisfaction. Based on the above discussion, the theoretical model given in Fig. 1 is formulated.



**Figure 1: Mediation Model**

Considering the relationships presented in Fig. 1, following hypotheses have been conjectured.

#### 2.4 Hypotheses

- **H<sub>1</sub>:** A higher value of organizational virtuousness is associated with a greater level of job satisfaction.
- **H<sub>2</sub>:** Ethical climate mediates the relationship between organizational virtuousness and job satisfaction.

### 3. Research Methodology

Quantitative method is best suited for this study as we are testing the hypothesized relationships shown in Fig. 1. The respondents selected for this study were the permanent faculty members of the universities. Two public and two private universities were identified for data collection purpose. To draw a random sample, the lists of the names and contact details of permanent faculty members were obtained from the Registrar's offices of each university. To ensure randomness every fifth faculty member was contacted and requested to fill the questionnaire. A questionnaire was developed to collect data. Pilot study was done to test the questionnaire. Data from thirty respondents was collected to test the questionnaire. Some minor changes were made in the instrument before using it for the final data collection.

The questionnaires were distributed in four universities in Lahore, namely University of Engineering and Technology, Government College University, University of Lahore and University of Sargodha (Lahore campus). One hundred questionnaires were distributed among faculty members of each sampled university. Data from 289 respondents was collected (response rate = 0.72 percent). The researchers personally administered the questionnaires. After screening the data, 271 responses were considered to be complete and suitable for analysis.

For the development of the questionnaire, scales developed in several studies are combined. The construct developed by Cameron et al. (2004) was used to measure

organizational virtuousness. Ethical climate was measured by using the scale developed by Victor and Cullen (1987, 1988). Job satisfaction was measured by using the *job descriptive index* (JDI). This index was originally developed by Smith, Kendall, Lorne, and Hulin (1969). The latest version of this index was developed by King (2014). The version developed by King (2014) was used in this study to measure job satisfaction. Data was collected for three unobserved variables (ethical climate, organizational virtuousness and job satisfaction) and four demographic variables. The demographic variables include age, gender, education and organizational tenure. This information is not related to theoretical framework but it helped us in understanding the respondents.

#### 4. Data Analysis

First, the preliminary data analysis was done. It comprised testing for the missing observations, identification of outliers and testing the assumptions for the mediation analysis. The assumptions of normality, linearity and multicollinearity were tested using the appropriate tests explained below.

The responses with more than ten percent missing observations were dropped. Next, data was tested for outliers. No outliers were detected. Subsequent to this, the frequencies of the demographics of the respondents were analyzed. Table 1 shows the frequencies for age, gender, tenure (in years) and educational qualification of the respondents. Among the 271 respondents, most of the respondents were in the age bracket of 26 to 30 years. Majority of them were males (i.e. 52.4 percent). 113 respondents had a job experience of 1 to 5 years, whereas 115 respondents had an experience of six or more years. As far as the educational qualification of the respondents, 201 persons had Master's degree. Only fifteen respondents had a doctorate degree, whereas 55 respondents had an MPhil degree.

**Table 1: Demographics of the Respondents**

Age	Freq	Gender	Freq	Tenure (yrs)	Freq	Education	Freq
18-25	32	Male	142	< 1 year	43	Masters	201
26-30	148	Female	129	1-5 years	113	MPhil	55
31-40	64			6-10 years	68	Doctorate	15
>= 40	27			> = 11 years	47		
<b>Total</b>	<b>271</b>		<b>271</b>		<b>271</b>		<b>271</b>

**Table 2: Descriptive Statistics, Correlations and Reliability of the Constructs**

	Descriptive Statistics				Correlations			Reliability	
	Mean	Std. Deviation	Skewness	Kurtosis	EC	JS	OV	Items	Cronbach's Alpha
<b>EC</b>	3.361	0.728985	-0.53509	0.187017	1			10	0.785
<b>Std. Error</b>			0.147981	0.294904					
<b>JS</b>	3.189	0.976462	-0.20779	-1.06741	.559**	1		10	0.896
<b>Std. Error</b>			0.147981	0.294904					
<b>OV</b>	3.638	0.754874	-0.3683	0.877662	.601**	.512**	1	10	0.853
<b>Std. Error</b>			0.148524	0.295979					
**. Correlation is significant at the 0.01 level (2-tailed).									

Next, the descriptive statistics were calculated. The values of mean, standard deviation, coefficient of skewness and values for kurtosis are presented in Table 2. The mean values of each of the three constructs is greater than three with standard deviations smaller than 0.9. To check the normality of the data, the coefficients of skewness and kurtosis are calculated for each construct. The coefficients of skewness indicate that the mean score is slightly negatively skewed. If the coefficient of skewness is less than 1, the skewness is not strong enough and can be ignored. The values for kurtosis are also within the acceptable range. Next, the values of Pearson's correlation coefficients are presented in Table 2. It can be seen that job satisfaction shows a moderate positive relationship with ethical climate ( $r=.559$ ,  $p<0.01$ ). It is also seen that organizational virtuousness has a positive and significant relation with ethical climate ( $r=.601$ ,  $p<0.01$ ) and with job satisfaction. Hence, organizational virtuousness (OV) can be used as a predictor for job satisfaction (JS) and ethical climate (EC) can be used as a mediator on the relationship between OV and JS. There is only one explained variable namely job satisfaction, and the correlations coefficients among all the three variables are moderate so the possibility of multicollinearity is ruled out (Lee-Rodgers & Nicewander, 1988). Next, the reliability of the three constructs was calculated using Cronbach's alpha. The scale is said to be internally consistent when Cronbach's alpha value is larger than 0.7. In our case, the values of Cronbach's alpha for each of the three scales is greater than 0.78. Hence, the scales for the measurement of EC, JS and OV show internal consistency (see last column in Table 2). Next, to test whether the relationship between OV and EC and between OV and JS, deviation from linearity test was applied. The deviation from linearity test was insignificant for the relationship between OV and EC and for the relationship between OV and JS. This implies that the data shows that two theorized relationships are linear.

For mediation analysis, the macro PROCESS by Hayes (2013) is applied. The method involves estimations in three steps. First, the total effect of organizational virtuousness (OV) on job satisfaction (JS) (path c) is estimated. Table 3 shows the effect of OV on JS (without any mediator) is  $b = 0.6636$  ( $p < 0.001$ ). The model is significant with  $R^2 = 0.2625$ . In second step, ethical climate (EC) is regressed on organizational virtuousness (OV). The effect (path a) is  $0.5805$  ( $p < 0.001$ ). The estimated model is significant with  $R^2 = 0.3612$ . It indicates that OV significantly influences EC. In the third step, job



satisfaction is regressed on organizational virtuousness and ethical climate. It is seen that the effect of ethical climate has a positive and significant impact on satisfaction with job with  $b = 0.5232$ ,  $t = 6.7144$ ,  $p < 0.001$ . The effect of organizational virtuousness on job satisfaction is lessened upon introducing ethical climate as a mediator in this model. The coefficient of organizational virtuousness reduces from 0.6636 to 0.3598. Another important thing is that the value of R-squared without mediator was 0.24625 and with mediator it has increased to 0.359. The explanatory power of the model goes up by 9.6 percent after introducing ethical climate as the mediator. The indirect effect was tested using a bootstrap estimation approach with 1000 samples (Shrout & Bolger, 2002). The standard errors estimated are heteroscedasticity adjusted (HC3).

**Table 3: Regression Analysis (Hayes' Process) – Mediation**

<b>1. OV predicts JS =&gt; Path c</b>		
$B = 0.6636$ $t(269) = 11.630$ ; $p < 0.001$	$F(1, 267) = 135.270$ $P < 0.001$ $n = 269$	$R\text{-Sq.} = 0.2625$
<b>2. OV predicts EC =&gt; Path a</b>		
$a = 0.5805$ $t(269) = 10.9075$ ; $p < 0.001$	$F(1, 267) = 118.974$ ; $p < 0.001$ $n = 269$	$R\text{-Sq.} = 0.3612$
<b>3. OV and EC together predict JS</b>		
i. EC predicts JS – path b $b = 0.5232$ ; $t(268) = 6.7144$ ; $p < 0.001$ ii. OV is lessened predicting JS – path c' $b = 0.3598$ ; $t(268) = 4.807$ ; $p < 0.001$	$F(2, 266) = 109.3395$ ; $p < 0.001$ $n = 269$	$R\text{-Sq.} = 0.359$

## 5. Discussion

The results support the relationship between organizational virtuousness and job satisfaction with a mediating role of ethical climate which implies that when ethical climate is perceived positively by the employees along with the organizational virtuousness, job satisfaction of employees increases. When employees intuit the virtuousness of an organization, they readily deliver more than their job description and dispose of the fair and favorable action of their organization by being satisfied with what they do there. This finding reinforce the broaden and build theory by Fredrickson (2001) who expounded that organizational virtuousness evoke the positive emotions and

behaviors among the employees which widen the employees satisfaction level and resultantly the efficiency and effectiveness of an organization improves. The results infer that organizational virtuousness has a connection with a positive human state which makes the employees to go ahead the exchange relationships (Cameron, 2003). Presence of the positive impact makes the employees to feel satisfied with their jobs. Additionally, organizational virtuousness provides an aid in creating a social capital. Social capital nurture credence and reliance among employees (Leana and Van Buren, 1999; Watson and Papamarcos, 2002) and job satisfaction (Nikandrou and Tsachouridi, 2015). Previous studies supported the positive relationship between virtuousness and principled behavior (Moore and Beadle, 2006; Wright and Goodstein, 2007). Virtues play a vital role in developing an ethical climate of an organization (Wright and Goodstein, 2007). Rampant scandals and misconduct has grown in the today's business world that has made the presence of organizational virtuousness inevitable (Wright and Pandey, 2008). Ethical climate helps in developing positive perceptions of employees about their organization. This study supports the relationship between ethical climate and job satisfaction. Absence of ethical climate in an organization and job satisfaction among employees can play havoc for the organizations. Previous study found that benevolent organizational climate is conducive for higher levels of job satisfaction in comparison with egoistic and principled ethical climates (Moore, 2012).

The results supporting Hypothesis 1 and 2 show that this study contributes to literature by showing the indirect link between organizational virtuousness and job satisfaction through ethical climate. Results showed that ethical climate is a partial mediator for organizational virtuousness and job satisfaction. These findings extend the study of Cameron (2004) which states that virtuousness enhances the social capital of an organization which dilates the pro social behaviors and promote the positive emotions.

## **6. Implications for Management**

Business dynamics have changed a lot and only those organizations can survive which have virtuousness entrenched on their behaviors and practices and employees have the dedication to perform the job duties (Ruiz-Palomino et al., 2011). The employees are the blood of an organization especially in the service sector (Martinez et al., 2010). It is the responsibility of the managers to show the utmost concern about the beliefs and perceptions of the employees regarding the organization. The positive perceptions are needed to make the employees contented and productive (Haller and Hadler, 2006). Manager should cultivate the culture of forgiveness, integrity, compassion and trust which will provide momentum to the performance of an organization. It is suggested that it is better that control system should be anchored in behavior instead of being outcome-based in order to make the employees more committed and communal in an organization (Anderson and Oliver, 1987). It is the prime duty of managers to keep the track of the recent advancements in virtuous acts that can be practiced within an organization (Wortham & Wortham, 2007). If the manager is exerting his energies in creating a virtuous environment, it will infuse the positive behaviors in employees. for instance, when employees will experience love, trust, forgiveness and compassion , they will pay back in the form of the job satisfaction (Fineman, 1996). Virtuousness does not undermine negative experiences of employees such as downsizing but if the organization is "virtuous" frequency of negative emotions will be low as compare to the organization that is moderate in virtuousness. Relationships that exist within an organization not

needed to be always nice and possess positive feelings. It is the built in attribute of human relations that people become discourteous with one another. Forgiveness is one of the virtues that can mitigate the negative experiences of the people in the relationships. Virtuousness can eradicate the pernicious consequences of the negativity (Fredrickson et al., 2000). Virtuousness helps in the formulation of social capital. In this present era of turbulence, social capital delivers the resources to build a competitive advantage for an organization (Dutton and Ragins, 2007).

### 7. Limitations of the Study and Suggestions for Future Research

In this study relationship of organizational virtuousness and ethical climate is not taken into account with each dimension of the job satisfaction. So it is necessary to test the effect of organizational virtuousness and ethical climate on each dimension of job satisfaction. Secondly, this study test the relationship between independent, dependent variables and a mediating variable with no clue of causal relationships that can be present between them. It is hard to determine whether virtuousness causes job satisfaction or job satisfaction causes organizational virtuousness by developing social capital (Bolino et al., 2002). In the same manner, ethical climate can also cause organizational virtuousness. This study is cross sectional, it does not consider the process that positive emotions can vary or develop with the passage of time. Therefore, longitudinal study can be carried out in the future to get accurate results and explore reciprocal causal links between the variables. This study provides the evidence that there is a positive relationship between organizational virtuousness and job satisfaction directly and indirectly through the mediating variable, ethical climate. Hence, future studies can test and explore the management practices which culminates in building virtuous organization (Quinn and Rohrbaugh, 1983).

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