

## Organizational Ethical Climates And Business Satisfaction (A Study Of Umkm In South Sulawesi)

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### Abstract

Organizational ethics play an important role in shaping a good climate for all members of the organization. These ethical points in question include social issues, protection of employee rights, the society (social responsibility) and consumers. The implementation of ethics in an organization improves employee satisfaction (see the organizational justice theory and cognitive dissonance theory). By taking the research objects on 350 Small and Medium Enterprises businesses in three districts namely Luwu Timur, Bone and Toraja in South Sulawesi, this research was analyzed by using Multiple regression method. This research focused on three dimensions of ethical climate egoism, benevolence, and principle. The research showed that organizational climates such as egoism and benevolence did not show positive results on employee satisfaction. However, the coefficient of egoistic ethical climate influence was negative for job satisfaction, whereas the principled ethical climate showed positive and significant influence on employee satisfaction.

**Keywords:** Ethical climate and job satisfaction

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### INTRODUCTION

Issues surrounding business ethics are quite complex as they include social expectations, honest competition, protection and legal rights, as well as social responsibility. The impact is related to consumers, employees, business competitors and the society (Vitell Scott J and Davis, 1990) (Vitell and Davis 1990a). The rapid globalization of business has increasingly led to questions about ethics in a new and different environment (Viswesvaran *et al.* 1998). Researches on business ethics generally investigate the forms and bases of moral judgments, also standards and ethics of behavior in situations involving business decisions (Vitell & Davis 1990a). Researches on business ethics are mostly normative with forms of empirical research which are now more dominating (Randall and Gibson 1990; Robertson 1993).

Currently, the empirical research is directed towards determining ethical behavior. The determining factors which are mostly researched include personal attributes (religion, nationality, gender and age), education and work experience, personality, values and beliefs (e.g. Machiavellianism, locus of control, ambiguity and role conflict), referent groups (such as influence of

professional groups, top management, also awards and sanctions), etc., such as codes of conduct, types of ethical decisions and organizational factors (Ford and Richardson, 1994).

Investigating the determinants of ethical behavior is an important step because it can add to our knowledge some factors related to business ethics and ethical decision making. In addition to these antecedents, the consequences of business ethics and ethical decision making are also areas of researches which should not be overlooked, especially ones results are concerned with business ethics organizations. At the corporate level, much can be gained by studying the relationship between the company's ethical behavior and its performance (e.g., financial performance). At the individual level, such consequences as job satisfaction, stress, motivation, commitment or work performance may affect the company significantly. Although the fields of research above are really useful, most researches have not been steered in that direction.

In addition, researches on business ethics are mostly carried out in developed countries (especially western countries) wherein the results of their research cannot be applied in developing countries (for example, Asian countries). As Asian

countries begin to open their doors for foreign trade and investment, interests to set out researches on business ethics in the region have set in (e.g., Zabid and Alsagoff 1993; Cyriac and Dharmaraj 1994; Honerycutt *et al.* 1995; Visweswaran and Deshpande 1996 & 1998). Nevertheless, there has not been any empirical research conducted on organizational ethics in Indonesia, a country which has a reputation as a high-profile Asian country and is included in the list of 10 most corrupt countries based on polls administered by Berlin-based Transparency International (Sim, 1998).

This research supported the focus of social and welfare research which carries the superior research theme: it is building human beings and institutions based on local wisdom. The general objective of the research is to map the value system which underlies business conduct related to social expectations, honest competition, protection and legal rights, and social responsibility as well as to understand the patterns of relationships between variables. The specific objective is to investigate the relationship between ethical behavior in organizations with job satisfaction in the Small and Medium Enterprises (SMEs) sector. The research may contribute to the mapping of the value system which underlies business ethics in SMEs. The urgency of this research is that it can be used as a policy model for formulating regulations and codes of ethics in businesses that are ethically legal, social and cultural. The output in the first year will be that of a mapping of the value system which underlies business conduct relative to social expectations, honest competition, protection and legal rights, as well as social responsibility of SMEs so as to help improve the corporate governance in SMEs.

## REVIEW OF RELATED LITERATURE AND HYPOTHESIS

Organizational ethical climate provides collective norms which become behavioral guidelines (Tevino, 1986). For employees who get personal satisfaction by behaving ethically, conflict or dissonance will arise if organizational norms require employees to override their ethical values in order to fulfill the organizational goals. The conflict involving employee ethical values and the organization's ethical climate will reduce the level of job satisfaction. From the standpoint of justice theory, employees who feel that their company is more concerned with the company's interests at the expense of employee interests and ethical values will feel that their fundamental values and personal rights have been violated. This will also diminish the level of job satisfaction.

Organizational Ethics Climate is the level of employee compliance with organizational standards and operating procedures. To measure the climate of organizational ethics, an ethical climate questionnaire was developed by (Cullen, 1993). There are three categories of ethical climate, namely (1) egoism, which emphasizes the interests of the company; (2) benevolence, which emphasizes the interests of employees; and (3) principle, which emphasizes compliance with regulations and standard operating procedures. The research, which was applied to managers in large nonprofit organizations, (Deshpande, 1996) found that organizations can influence employee satisfaction by manipulating their ethical climate. Similar results were also found by Joseph and (Deshpande (1997) in his research on the job satisfaction of nurses in non-profit hospitals.

Harris and Rabins (2005) stated that self-interest is one of the 'obstacles of responsible actions'. Williams (1993) stated that one cannot equate self-awareness and selfishness: "There is no problem (and should not exist) about why someone who cares for others may not care enough about himself either. Self-interest is as valuable as the person who has it: it can be very valuable, and it can be worthless and despicable (Bouville, 2008).

Individualism and masculinity lead to egoistic attitudes. Idealism is observed to have a positive relationship with fraud perceived by consumers, while selfishness is found to have a negative impact on perceptions of consumer fraud (Agag and El-masry, 2016). The ethical climate of selfishness does not play an important role in entrepreneurs in terms of leadership (Wang, 2015). The concept of justice theory states that employees who feel that their company is more concerned with company interests (egoistic) at the expense of employee interests and ethical values will feel that their fundamental values and personal rights have been violated. This will also reduce the level of job satisfaction. This happens in the implementation of egoistic ethics to companies because egoistic ethics determine the utility maximization from the agents (Sidgwick, 1981). However, when an entrepreneur confirms the concept of corporate sustainability, the egoistic concept is the answer (Bouville, 2008). This form of egoism is a special concern for self-interest (Harris and Rabins 2005). The argument of selfishness in business as a certain 'business ethic' is unacceptable, at least for practical and theoretical reasons (Debeljak and Krkac, 2008). Egoism is considered in ethical theory, stating that spontaneous reaction is unethical (Martin and Schinzinger, 2005). This type of climate of personal

interest seems to have a negative effect on job satisfaction (Meral Elci and Lutfihak, 2009). Based on the documents from previous studies, we propose a null hypothesis (H0) to examine the influence of the ethical climate of organizational egoism on employee satisfaction:

**Hypothesis 1:** *the climate of organizational ethical egoism does not have a significant effect on job satisfaction.*

The employees who believe that their organization has a caring climate are more satisfied with their supervisor (Deshpande, 1996a). Joseph and Deshpande (1997) stated that a caring climate significantly influences overall employee satisfaction and job satisfaction with salaries and supervisors. Benevolent and principled ethical climates contribute to forming a sense of team identification (Meral Elci and Lutfihak, 2009). Furthermore, (Meral Elci and Lutfihak, 2009) stated that benevolent ethical climate related to organizational norms can encourage employees to care for friends, teammates, stakeholders, or the environment. Based on the suitability theory of individual and organization, (Pervin 1968), (Sims and Kroeck, 1994) tested several hypotheses, one of which formulated that employees who achieve harmony between their ethical work climate and their expressions of preference tend to get positive job satisfaction. Unfortunately, they did not find significant results. Company leaders can foster employee satisfaction at various levels of employees through the perception of ethical climate except salary satisfaction (Deshpande, 1996b). Principled climate perception has a positive effect on job satisfaction (Martin and Cullen, 2006). Based on the documents from the previous studies, we propose a null hypothesis (H0) to examine the influence of the ethical climate of egoism on employee satisfaction:

**Hypothesis 2:** *the benevolent ethical climate has no significant effect on job satisfaction.*

An egoistic ethical climate causes a negative influence on all members' identities to the team, while benevolent and principled ethical climates contribute to the forming of a sense of team identification (Meral Elci and Lutfihak, 2009). Furthermore (Meral Elci and Lutfihak, 2009) stated

that at the level of individual analysis, decisions based on individual rules and principles can vary for each person. At the local level, individuals making decisions are in compliance with the company's standard rules and procedures. Ethical decisions are strongly influenced by a code of ethics which comes from outside of the organization (Upchurch, 1998). Koh and Boo (2001) stated that the principled ethical climate has a significant influence on job satisfaction. Rules on principled climate are not significantly related to aspects of job satisfaction (Deshpande, 1996a). Joseph and Deshpande (1997) reported that company rules and procedures are the only organizational climate of three having a positive impact on satisfaction. Employee satisfaction is at various levels of employees through perceptions of ethical climate except salary satisfaction (Deshpande, 1996b). Principled climate perception has a positive effect on job satisfaction (Martin and Cullen, 2006). Work ethics has a meaningful relationship with job satisfaction (Yousef, 2016). Based on the documents from the previous studies, we proposed a null hypothesis to examine the influence of the egoistic ethical climate on employee satisfaction:

**Hypothesis 2:** *the benevolent ethical climate has no significant effect on job satisfaction.*

In this research some additional statements were added so that each category was rated with a 5-point scale statement, ranging from 1 (strongly disagree) to 5 (strongly agree).

## RESULTS

The research results from organizational ethics consisting of egoism, benevolence, and principle, not to mention employee satisfaction in three districts in South Sulawesi. The three districts include Luwu Timur, Tana Toraja, and Bone Regencies, which are described as follows.

Table 1 The Description of research variables

	Job Satisfaction (Y)	Egoism (X1)	Benevolence (X2)	Principle (X3)
<b>Average</b>	<b>69.35</b>	<b>11.45</b>	<b>11.79</b>	<b>12.39</b>

Source: Research (Processed), 2018

The description of research variable provides a general description of the respondent's perception of the variable based on the answers to each statement submitted by the researcher. The choice of respondents' answers to the distributed questionnaires ranged from one (strongly disagree) to five (strongly agree). The assessment interval is used to make categorization from the average of the research variables by performing normal distribution for each interval. The result of this research showed that the egoistic ethical climate is Table 2. The comparison of average values based on the districts

11.45 with the agreed category, benevolence is 11.79 with the agreed category, the principled ethics is 12.39 with the strongly agreed category, and the working decision is 69.35 with the agreed category (satisfied).

The movement of research results data for each district which become the research location is carried out by comparing the average value. This step is carried out to see the data movement trend whose main target is job satisfaction. The results can be seen in table 2 below.

KAB	Research Variables			
	Egoistic (X1)	Benevolence (X2)	Principled (X3)	Job Satisfaction (Y)
Luwu Timur	11.75	10.99	11.56	67.28
Tanatoraja	11.40	11.71	12.54	67.63
Bone	11.19	12.68	13.08	73.14

Source: Research (processed), 2018

Based on the comparison of the average values for the districts which became the sample of the research, it was found that the average value of egoistic ethics in smaller organizations provides better job satisfaction (did not show an influence relationship), whereas for the benevolent and principled ethics, it proves the opposite. As can be seen in table 2 above, the smallest mean value of

egoistic ethics and the benevolent and principled ethics in the largest organization produce the highest value of job satisfaction with the average value (does not show an influence relationship).

The influence of ethical climates (egoistic, benevolent and principled) and working decision is as seen in table 3 below.

Table 3 The effect of organizational ethical climates on job satisfaction

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	
	B	Std. Error	Beta			
	(Constant)	55.566	3.760		14.778	.000
1	EGOISTIC (X1)	-.178	.241	-.055	-.741	.460
	BENEVOLENT (X2)	.369	.247	.113	1.494	.137
	PRINCIPILED (X3)	.926	.217	.282	4.258	.000

**a. Dependent Variable: Job Satisfaction (Y)**

Source: Research (processed), 2018

The results show that egoism has an influence coefficient of -0.178 with a significance value of 0.460 > 0.05, benevolent ethical variable of coefficient value is 0.369 with a significance value of 0.1376, and principled ethical variable has an influence coefficient of 0.926 with a value significance of 0.000. So that the egoistic variables and benevolent variables have no significant effect on job satisfaction (H0 is accepted). Egoism has a

negative coefficient sign and full of positive-signed policies. Principled ethics have a significant effect on job satisfaction (H0 is rejected).

**DISCUSSION**

Test results statistically showed that egoistic ethical climate does not affect employee satisfaction. However, in making ethical decisions, egoistic ethics can lead to employee rejection. This was indicated by a negative sign on the coefficient

of influence of egoistic ethical variables. Egoistic ethical climate is at least part of a special concern for business owners in developing a business. The existence results in a decrease in employee satisfaction, (Thomas et al., 2002) Unethical (egoistic) signals will dissatisfaction. The owner of the company who emphasizes self-interest cannot be well received by company employees, as stated by Debeljak and Krkac (2008) that in the study of egoistic literature it is not acceptable. However, when the owner of the company thinks about the company sustainability, it is clear that egoism is the real answer (Debeljak and Krkac, 2008). In addition, Bouville (2008) stated that when talking about the concept of corporate sustainability, the concept of egoism is the answer. Decisions and actions in the company are expected to contribute to the interests of organizational progress as the owner's interests will always be in the company. Harris and Rabins, (2005) called it *self-interest*.

The benevolence dimension of organizational ethics does not show significant results on job satisfaction. This climate focuses on good relationships between people in an organization, concern for the organization, the welfare of all teams in an organization and togetherness in running the company's operations. This indicator is the development result of Cullen (1993). Results that do not show significant significance does not mean that the benevolence dimension of ethical climate in an organization can be ignored. This is because the coefficient means a benevolent climate that is positive. In addition, this climate will provide stimulus through employee awareness in behaving in an organization. As stated by Yagil (2015), good emotions start from awareness of needs. Thus, benevolence has an effect on the awareness of an employee's needs and results in a sense of satisfaction. The concept of an ethical climate as a shared perception of organizational behavior (Victor and Cullen, 1987) makes the ethical climate must be a common understanding. The concept of justice theory provides a clear affirmation of the importance of shared understanding in organizational management. The application of corporate organizational ethical climates raises new challenges in terms of handling ethics and mutual alignment in an understanding of ethics. Managerial practice in the application of a company's ethical climate determines ethical relationships. Parboteeah *et al.* (2010) states that there is a relationship between managerial practices and organizational ethics. Employee's understanding of corporate sustainability is one of the factors relating

benevolent climate with job satisfaction. As explained by Giovanni *et al.* (2015), corporate sustainability strengthens the relationship of increased ability and work motivation in terms of ethical climates, especially benevolence and principle.

Principled ethical climate of organization (principle) statistically shows a significant influence on job satisfaction. Compliance with organizational rules and procedures is an inseparable part of the principled ethics climate. Company leaders make principled ethics (obedience to rules) as part of decision making. Then, (Martin and Cullen, 2006) stated that when leaders face dilemmas such as organizational ethics or norms, decisions based on compliance with rules, (Meral Elci and Lutfihak, 2009), principled climate such as legal climate and professional code. Compliance with the organizational climates requires employees or all company citizens to follow these rules. Corporate citizens who do not follow company rules and procedures are not viewed well in the organization. Organizational procedures which are institutionalized are considered right or wrong in the organization (Parboteeah and Kapp, 2008). Company leaders can foster employee satisfaction at various levels of employees through the perception of ethical climate except salary satisfaction (Deshpande, 1996b). Principled climate perception is considered to affect satisfaction (Martin and Cullen, 2006), (Yousef, 2016), (Vigoda-gadot, 2006) and (Vigoda-gadot, 2006). A company implements an ethical climate with an expectation its employees can adhere to company policies properly. Ethical climate principles have a partial mediating effect on the relationship between benevolent leadership and moral leadership and team identification, but the ethical climate of selfishness does not play an important role (Wang, 2015).

## CONCLUSIONS AND IMPLICATIONS

Employees who get personal satisfaction by behaving ethically, conflict or dissonance will arise if organizational norms require employees to override their ethical values to fulfill organizational goals. The conflict between the ethical values of employees and the ethical climates of the organization will reduce the level of job satisfaction. The results showed that such organizational ethical climates as egoism and benevolence did not show positive results on employee satisfaction. However, the egoistic climate influence coefficient is negative for job satisfaction, whereas principled ethical climate

shows a positive and significant influence on employee satisfaction. The influence of principled ethical climate will be special concern for the company owner in generating job satisfaction for its employees by not ignoring the climate of ethical egoism and benevolence. Improvement in the values of principled ethical climate can be carried out by upholding company rules or norms which are the reference for every company citizens in carrying out activities. Binding the rules as a whole gives a good and wrong picture according to the ethics implemented in an organization (company).

The results of this research contribute to the concept of justice theory which states that employees who feel that companies are more concerned with the interests of the company at the expense of employee interests and ethical values will feel that their fundamental values and personal rights have been violated. In this case, the application of an egoistic ethics climate from the justice theory point of view becomes a dilemma which must be resolved by the company: justice in the application of organizational ethics by paying attention to the interests of the organization, not in personal matters. An egoistic climate which emphasizes the importance of the company sustainability provides good information in justice and ethical climate. Ethical climate as a work subsystem consisting of work procedures provides a reference for all members of the organization in taking action. Alignment in the application of the organization's ethical climates demands harmony in the company. The harmony in the implementation of the organizational climates with employee perceptions will provide a better ethical atmosphere especially in improving job satisfaction.

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