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The Ethical Climate and Context of Organizations: A Comprehensive Model

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Traditional approaches to understanding the ethical context of organizations often focus on ethical work climate, which reflects the collective moral reasoning of organization members. However, such approaches overlook other components of the ethical environment that may influence how ethical judgments translate to ethical behavior. This study extends our understanding of the ethical context of organizations by considering how three distinct aspects of that context—collective moral reasoning (ethical climate), collective moral emotion, and collective ethical efficacy—interact to influence ethical behavior. Results from 117 work units support our hypotheses. Implications and suggestions for future research are discussed.

Key words: ethics; ethical context; ethical climate; affective tone; moral emotion; ethical efficacy; ethical behavior

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Introduction

Events involving broad-based ethical scandals at organizations such as AIG, Countrywide Financial, Lehman Brothers, and Siemens AG continue to garner significant attention. In nearly all of these cases, postmortem accounts point to dysfunctional ethical environments as the origin for illegal and unethical activity (e.g., Arbogast 2008, Lewis 2009). Collectively, these cases underscore the important role of the ethical context of organizations in understanding how and why unethical behavior occurs.

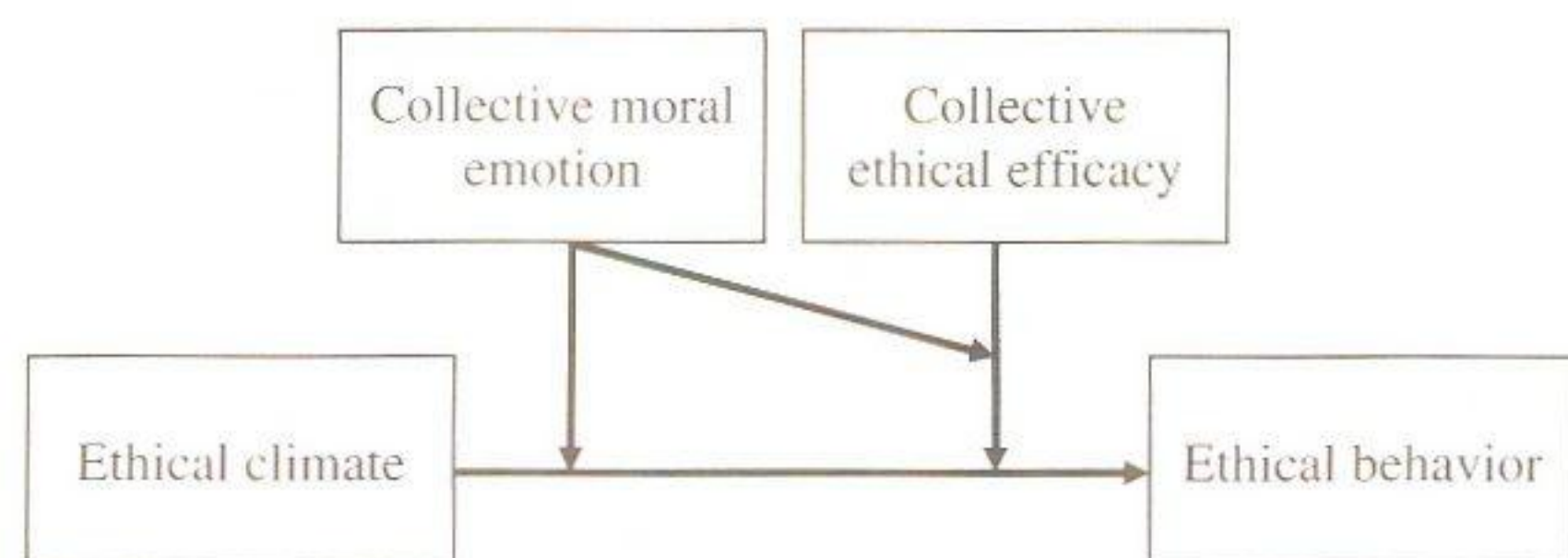
Research points to ethical work climate as an important component of an organization's ethical context, influencing ethical decision making and behavior (Martin and Cullen 2006, Treviño et al. 1998, Victor and Cullen 1988). However, we know little about the process by which its influence unfolds and the conditions under which this influence is enhanced or mitigated. In this paper we seek to understand more about when—and how—ethical climate will influence employee ethical behavior. In doing so, we propose and test a more comprehensive model of the ethical context of organizations.

Ethical work climates reflect the collective moral reasoning of organization members (Victor and Cullen 1988). Thus, ethical climates provide employees a foundation for thinking about moral issues. In this paper we argue that although ethical climates may provide work unit members with a foundation for reasoning effectively about the right thing to do, translating that reasoning into action depends on the moderating effect of two additional contextual factors: collective moral emotion (in

the form of collective empathy) and collective ethical efficacy.

In short, we suggest the moral reasoning reflected in ethical climate is more likely to translate into ethical behavior when work unit members (a) care about those affected by their actions (empathy) and (b) believe in their ability to successfully follow through on their decision (efficacy). That is, collective moral reasoning (ethical climate) will relate more strongly to ethical behavior when the collective reasoning is activated via collective moral emotion and the group is enabled by collective ethical efficacy to act in accordance with that reasoning. In all, we argue that ethical climate, collective moral emotion, and collective ethical efficacy interact to create an overall ethical context more strongly related to ethical behavior.

Our work takes the literature on ethical climate and context in several new directions. We seek to improve understanding of how ethical climate translates into ethical behavior by considering moderators of the relationship between ethical climate and ethical outcomes. We draw on the social intuitionist model of moral motivation (Leffel 2008) and the affect infusion model (Forgas 1995) in predicting that collective moral emotion provides an important moderator of this relationship. We build on behavioral plasticity theory (Brockner 1988) and social cognitive theory (Bandura 2001) to suggest that collective ethical efficacy also moderates the relationship between ethical climate and ethical outcomes. Finally, we hypothesize a three-way interaction between ethical climate, collective moral emotion, and collective ethical efficacy. In all, we present a comprehensive

Figure 1 Model of the Ethical Context of Organizations

approach to understanding the ethical environment of organizations by exploring the simultaneous impact of multiple contextual influences on ethical conduct. The model is illustrated in Figure 1.

The Ethical Context of Organizations

Ethical Work Climates

Organizational work climates reflect the shared perceptions employees hold regarding the policies, practices, and procedures that an organization rewards, supports, and expects (Schneider and Reichers 1983). Based on the patterns of experiences and behaviors individuals encounter in their organizations (Schneider et al. 2000), work climates influence employee decision making about what constitutes appropriate and desired behavior (Zohar and Luria 2005) by reflecting “the way things are done around here” (Reichers and Schneider 1990, p. 22). Ethical climate reflects the shared perceptions employees hold regarding the policies, practices, and procedures that an organization rewards, supports, and expects with regard to ethics. As such, ethical climates provide valuable guidance to employees by reinforcing the normative systems that guide ethical decision making and behavior (Victor and Cullen 1988, Vidaver-Cohen 1998).

Collective Moral Reasoning as the Foundation for Ethical Climate. Ethical climate influences employee behavior through its impact on ethical decision making (Gaertner 1991, Victor and Cullen 1988). Therefore, models of ethical climate are generally grounded in the moral reasoning processes individuals utilize when making moral judgments and decisions (e.g., Babin et al. 2000, Cullen et al. 1993).

The dominant approach to conceptualizing and measuring ethical climate is that of Victor and Cullen (1988). Victor and Cullen’s framework typifies the focus in the literature of ethical climate as reflective of collective moral reasoning. They argue that ethical climate influences decision making by reflecting prevailing norms of ethical reasoning in the organization and that these emergent ethical norms are distinct from both individual ethical propensities and individuals’ affective judgments about the work climate. Victor and Cullen describe a process by which work units within organizations develop unique and homogeneous ethical climate

types that reflect institutionalized ethical norms within the unit. These climate types influence member behavior by shaping which ethical issues are attended to in the organizational setting and what type of ethical reasoning is used in attempting to resolve those issues.

Empirical evidence demonstrates a consistent link between ethical climate and ethical outcomes. Ethical climate has been shown to relate to ethical decision making and behavior, including theft, lying, falsifying reports, accepting bribes, and employee deviance. A meta-analysis of 42 studies verifies that a consistent relationship exists between ethical climate and various measures of ethical behavior. In particular, egoistic (self-focused) climates relate negatively to ethical behavior, whereas nonegoistic climates relate positively to ethical behavior (Martin and Cullen 2006). This well-established relationship provides the foundation for our model of ethical context.

HYPOTHESIS 1 (FOUNDATIONAL HYPOTHESIS) (H1). *Ethical climate is related to ethical behavior such that self-focused climates are negatively related to ethical outcomes and other-focused climates are positively related to ethical outcomes.*

The focus of ethical climate research on the reasoning component of the ethical context is appropriate and accurate, so far as it goes. Organizational norms for appropriate forms of moral reasoning should, and do, influence behavior. However, research suggests that reason represents only part of the process by which ethical behavior emerges; emotion plays a critical role as well (e.g., Damasio 1994, Etzioni 1988, Pizarro 2000). In the next section, we explore the role of emotion as a part of the ethical context of organizations. In particular, we examine its relationship with reasoning and its role in activating and focusing attention and cognitive resources on ethical issues and events.

Moral Emotion

Evidence demonstrates that reason and emotion each play important roles in the emergence of moral judgments and behavior. For example, Greene et al. (2001) used functional magnetic resonance imaging to study differences in brain activity between subjects contemplating different types of moral dilemmas. The researchers presented subjects with the “trolley dilemma,” in which a runaway trolley car will kill five people in its path unless it is diverted. The five potential victims may be saved only if the participant is willing to throw a switch that will send the trolley onto an alternate track, where a single person who happens to be on the track will be killed instead. In a second version of the problem (the “footbridge dilemma”), the participant and a stranger are watching the runaway trolley from a footbridge directly above the tracks. In this case the five lives may be saved only if the participant is willing to push

the stranger off the bridge and onto the tracks below, thus derailing the trolley by sacrificing the stranger's life. Test coders evaluated the footbridge dilemma as a more personal—and thus more emotional—decision. Greene et al. (2001) hypothesized that differences in how personal the moral dilemmas are perceived to be would engage distinct brain centers, reflecting different degrees of emotion and reason associated with making judgments in the two dilemmas. Results of two experiments confirmed their predictions.

Substantial research supports the dual role of reason and emotion in making moral judgments, including evidence from neuroscience (Greene et al. 2004), psychology (Moore et al. 2008), organizational studies (Gaudine and Thorne 2001), business ethics (Connelly et al. 2004), and moral education (Morton et al. 2006). In all, reason and emotion each appear to play important roles in the formation of moral judgments that, in turn, relate to moral behavior. Ethical climate research provides a solid foundation for recognizing the importance of collective moral reasoning as part of the ethical context of organizations. However, research has been silent on the role of moral emotion.

Integrating moral emotion into our thinking about the ethical context of organizations requires that we address three questions. First, can moral emotion be properly construed as a collective construct? Second, which moral emotion represents the most appropriate starting point for conceptualizing collective moral emotion related to ethics? Finally, what role does moral emotion play in the process by which moral reasoning relates to moral behavior? We address each of these in turn.

Moral Emotion as a Collective Construct

The first issue relevant to considering moral emotion as part of the ethical context of organizations is whether collective perceptions of shared emotions exist in work units. Research reveals that emotion or affect may manifest itself as a group-level construct, and shared emotions represent a stable characteristic of groups (e.g., Barsade et al. 2000, George 1990).

George (1990) provided an attraction–selection–attrition (ASA) (Schneider 1987) rationale for the process by which collective emotion—which she termed “affective tone”—emerges in a work unit. George defined affective tone as “consistent or homogeneous affective reactions within a group” (1990, p. 108) and proposed that individuals with similar affective concerns would be attracted to, selected by, and retained in a particular work environment, leading to an identifiable affective tone in the group. Results demonstrated that affective tone was indeed present in groups and predictive of outcomes such as prosocial behavior. Other research has shown collective emotions influence other organizational outcomes as well, such as communal identity (Heise and O'Brien 1993), group boundary

identification (Frijda and Mesquita 1994), and group and organizational objectives (Hochschild 1983, Sutton 1991).

Empathy as a Collective Moral Emotion

Empathy, defined as an emotional reaction to another person's situation characterized by feelings of compassion, tenderness, and sympathy (Batson 1991), is the best candidate for exploring the impact of collective moral emotion for several reasons. First, with its focus on the welfare of others, empathy is an other-focused emotion (Mencel and May 2009), which is relevant to our interest in ethical behavior. Thus, it aligns with the definition of moral emotions as those that are “linked to the interests or welfare either of society as a whole or at least of persons other than the judge or agent” (Haidt 2003, p. 276).

Second, empathy is associated with a wide range of prosocial behaviors, rather than a specific behavioral response. It has been construed as a moral emotion by a broad range of scholars interested in the relationship between emotion and moral decision making. It has been identified by both developmental (Eisenberg 1986) and social psychologists (Batson 1991) as a necessary component of the cognitive functioning required in making moral judgments. It occurs regularly and reliably in situations involving moral issues and has been singled out as the most prototypic of the moral emotions (Hoffman 2000). Pizarro (2000, p. 359) argued that empathy represents “the clearest candidate for being a truly moral emotion.”

Finally, empathy is viewed as a foundational moral emotion, one on which other moral emotions rest, thus serving as a building block for other moral emotions (Hoffman 2000, Preston and de Waal 2002). For example, guilt and shame may be conceptualized as being derived from empathy in that they rest on empathy for their conceptual foundations (Baumeister et al. 1994, Eisenberg 2000). In all, we believe collective empathy provides the best option for representing collective moral emotion as a moderator of the relationship between ethical climate and ethical behavior.

George's work (1990) on affective tone provides a backdrop for understanding what collective empathy looks like in a work unit setting. Her work sets the stage for conceptualizing emotions at the collective level as “consistent or homogeneous affective reactions within a group.” Consistent with this, we view collective empathy as homogeneous empathic reactions within a work unit, which may be a work group, department, or even an entire organization. It defines a work environment where members make an effort to step into other people's shoes and understand how their decisions and actions affect others. In an empathic work environment, people engage in reflection and conversation with peers and broadly consider other members' input and thoughts when making decisions. A more empathic work unit is

characterized by employees who care for each other (and for other organizational stakeholders) and are concerned about others' feelings and welfare.

The Relationship Between Ethical Climate and Collective Moral Emotion

The third issue relevant to understanding the role of collective moral emotion is its relationship with ethical climate and the collective moral reasoning ethical climate represents. An ethical work climate reflects a work unit's collective norms of moral reasoning, the moral principles applied to emergent moral issues and dilemmas. However, these general norms must be activated before they can exert an influence on behavior. A collective sense of empathy—and the reactions it engenders toward others, such as compassion and sympathy—may serve as this activating agent. A moral emotion such as empathy acts as a catalyst, activating and focusing attention and cognitive resources on a particular issue or persons (Pizarro 2000). This suggests moral emotion interacts with moral reasoning to influence ethical behavior. Two theoretical perspectives provide insights into the processes by which this interaction occurs.

Leffel's (2008) social intuitionist model (SIM) of moral motivation (which derives from Haidt's 2001 social intuitionist model of moral judgment) suggests moral emotion amplifies (moderates) the impact of moral reasoning on behavior by placing actors in a heightened state of readiness for moral action and for following through on moral reasoning. Furthermore, the SIM framework suggests that individuals do not always respond to ethical situations with careful moral reasoning but rather sometimes invoke quick, automatic responses based on moral intuition. Leffel (2008) suggested that these moral intuitions motivate moral behavior through their impact on moral emotion, where moral emotion serves as an amplifier of judgment by putting actors into a motivational and cognitive state in which there is an increased tendency to engage in prosocial and moral actions. He explains that as an other-regarding virtue, empathy activates this action tendency for other-focused (ethical) behaviors because the self is psychologically placed in another person's situation. A work unit that experiences a collective sense of empathy will therefore be in a state of readiness for moral action, and the collective norms of moral reasoning present in the work unit's ethical climate will then propel that action.

The affect infusion model (AIM) (Forgas 1995, Forgas and George 2001) also speaks to the activating mechanisms by which moral emotion influences the relationship between moral reasoning and ethical behavior. Forgas (1995, p. 39) defined affect infusion as "the process whereby affectively loaded information exerts an influence on and becomes incorporated into the judgment process, entering into the judge's deliberations and eventually coloring the judgment outcomes."¹

Affect influences how individuals think via priming processes that determine how they encode and retrieve information and how that information is used in forming judgments (Fiedler 2000, Forgas and George 2001). Individuals often encounter large quantities of information but tend to focus on information congruent with their affective state. Thus, an empathic state focuses attention on information concerning the welfare of others. Furthermore, individuals spend more time and effort encoding affect-congruent (in this case, empathy-related) information, and this selective encoding makes these details more accessible in memory later on. Likewise, affect-congruent information is more easily recalled from memory, and this selective recall results in more affect-congruent information available for use when applying moral reasoning principles during the judgment process. Hence, emotion serves to strengthen the relationship between moral reasoning and action by shaping what information is encoded and retrieved from memory and how that information is used in reasoning through moral situations.

Both the social intuitionist model of moral motivation (Leffel 2008) and the affect infusion model (Forgas 1995) describe processes by which the presence of moral emotion will strengthen the relationship between moral reasoning and behavior. The ethical climate of one's work unit may support other-oriented reasoning. However, the presence of collective empathy activates that reasoning by placing individuals in a state of readiness for action and leading them to attend more closely to other-oriented information, to encode that information more carefully, to recall it more easily, and to be more likely to use it in making a moral judgment. Through these processes, collective empathy will strengthen the relationship between an ethical climate and ethical action. Thus, we predict the following.

HYPOTHESIS 2 (ACTIVATION HYPOTHESIS) (H2). *Collective moral emotion (collective empathy) moderates the relationship between ethical climate and ethical behavior such that the relationship between climate and behavior will be stronger when collective empathy is high.*

Collective Ethical Efficacy as a Moderator of the Relationship Between Ethical Climate and Ethical Behavior

We now turn our attention to collective ethical efficacy and its role in influencing the relationship between the ethical climate of an organization and ethical behavior. Collective efficacy reflects a work unit's shared belief in its collective ability to organize and successfully execute the actions required to achieve desired outcomes (Bandura 1997). We argue that collective ethical efficacy interacts with moral reasoning in influencing ethical behavior. That is, the collective moral reasoning

reflected in an ethical work climate may not be sufficient to elicit ethical behavior; individuals must also believe that they have the ability to successfully execute their desired course of ethical action. Members of a work unit may know the right thing to do, but if they feel confident in their collective ability to bring about the desired outcome, they are more likely to follow through with doing it. Collective ethical efficacy provides this confidence in the group's ability, thus enabling group members to follow through on their moral intentions.

Two theoretical perspectives describe the process by which collective efficacy interacts with collective moral reasoning (ethical climate) to enable ethical behavior. Behavioral plasticity theory (Brockner 1988) suggests that collective efficacy buffers groups from negative environmental influences that threaten to disrupt the link between moral reasoning (knowing the right thing to do) and moral behavior (doing it). Social cognitive theory (Bandura 2001) describes several specific cognitive processes by which that buffering occurs.

Behavioral plasticity theory (Brockner 1988) addresses the issue of why some actors are more plastic—more negatively influenced by detrimental conditions in their work environment—than others. Brockner suggested that self-esteem represents a major cause of observed variation in plasticity, and research has generally supported this assertion. Ganster and Schaubroeck (1991), for example, found firefighters with high self-esteem to be less negatively affected by the presence of role conflict in their jobs, and Mossholder et al. (1982) found nurses with high self-esteem to be less negatively affected by role stressors in their jobs. Likewise, Pierce et al. (1993) found electrical utility employees with high self-esteem to be less negatively affected by role ambiguity, conflict, and overload.

Subsequently, Eden and Aviram (1993), for example, argued that tests of plasticity theory could be extended from self-esteem to self-efficacy. That is, they theorized that self-efficacy, like self-esteem, is capable of buffering individuals from contextual influences on the job. The results of this work indicate self-efficacy does limit plasticity.

Jex and Gudanowski (1992) extended plasticity research further by considering the role of collective efficacy as a buffer against negative environmental factors. They found that collective efficacy buffered nonfaculty university employees from the harmful impacts of a variety of negative environmental factors, including role ambiguity, overloaded work hours, and situational constraints such as a lack of supplies, work interruptions, and faulty work instructions. Similarly, we anticipate that collective ethical efficacy will buffer organization members from the influence of negative environmental factors that may derail the relationship between their collective moral reasoning and ethical action. Social cognitive theory (Bandura 2001) addresses the processes by which this buffering may occur.

According to social cognitive theory, collective efficacy beliefs affect performance by activating group and individual processes that reflect strategic, operational, and motivational aspects. Strategically, collective efficacy influences decisions about what is important to the group, what challenges to undertake, the type of future the group seeks to achieve, and the plans and strategies the group develops to reach those achievements (Bandura 1997, 2001). With respect to ethics, higher levels of collective ethical efficacy will serve to focus members' attention on ethical actions as strategically important, providing a buffer from distractions that may lead to a focus on nonethical issues.

Operationally, collective efficacy affects how the group manages its limited resources. Collective efficacy may influence group decisions about where to apply resources that are required to perform well. Stronger efficacy beliefs also foster more efficient analytic thinking, which enhances the problem-solving process. Groups with strong collective efficacy beliefs also remain more task-focused, rather than being distracted by other intrusive thinking that may lead to stress, an emphasis on personal deficiencies, and a diversion of attention away from assessing how best to accomplish goals (Wood and Bandura 1989). With respect to ethics, higher levels of collective ethical efficacy will therefore lead the group to allocate sufficient resources to address ethical issues and to stay focused on those issues with sound problem-solving practices.

Motivationally, collective efficacy affects how much effort members put into the group activity. It therefore influences the group's staying power when collective efforts fail to produce quick results or when the group encounters forcible opposition, which may affect the group's vulnerability to discouragement. Efficacy beliefs may also influence whether members think optimistically or pessimistically, whether they are vulnerable to stress and depression, and whether they think in self-enhancing or self-hindering ways (Bandura 1997, 2001). Furthermore, collective efficacy beliefs affect goal-setting processes in that higher levels of efficacy motivate more challenging goals and a stronger commitment to reaching those goals (Wood and Bandura 1989). With respect to ethics in particular, higher levels of collective efficacy will lead members to be more committed to ethical outcomes and to follow through with ethical decisions and engage in ethical behaviors, even when doing so becomes difficult.

Collective efficacy beliefs therefore buffer groups from a variety of contextual factors that have the potential to disrupt the connection between knowing what to do (moral reasoning) and actually doing it. Collective ethical efficacy does so by activating strategic, operational, and motivational processes that influence whether ethics are deemed important, how resources are

allocated in pursuing ethical outcomes, and the motivation and effort exerted toward accomplishing those outcomes. As a result, high collective ethical efficacy enables group members to pursue outcomes consistent with their reasoning, thus strengthening the relationship between a work unit's collective moral reasoning (ethical climate) and ethical outcomes. Therefore, we predict the following.

HYPOTHESIS 3 (ENABLING HYPOTHESIS) (H3). *Collective ethical efficacy moderates the relationship between ethical climate and ethical behavior such that the relationship between climate and behavior will be stronger when collective ethical efficacy is high.*

To this point, we have suggested both collective moral emotion and collective ethical efficacy moderate the relationship between collective moral reasoning (ethical climate) and ethical behavior. In each case, we suggested that collective moral reasoning alone may not be sufficient to prompt ethical behavior. Rather, higher levels of collective empathy and collective efficacy beliefs each serve to strengthen the relationship between ethical climate and ethical behavior.

Our theorizing for Hypotheses 2 and 3 raises the possibility of a three-way interaction as well. Specifically, we expect the strongest relationship between ethical climate and ethical behavior to occur when both collective empathy and collective ethical efficacy are high. As outlined above, high levels of collective empathy may serve to activate the moral reasoning present in an ethical climate. That is, members of a work unit may know the right thing to do and be motivated to follow through if a collective emotional connection toward the target exists. However, they will be most likely to do so when the work unit also has a strong belief in its ability to do so. In other words, we are more likely to follow through on our moral reasoning if we care (as in H2), but even if we care, we *also* need to believe we will be successful. This interaction between ethical climate, emotion, and efficacy leads us to predict the following.

HYPOTHESIS 4 (INTERACTION HYPOTHESIS) (H4). *A three-way interaction between ethical climate, collective moral emotion, and collective ethical efficacy exists such that the interactive effect between ethical climate and collective moral emotion (as in H2) is stronger when collective ethical efficacy is high.*

Method

Sample

We contacted potential participants with the assistance of a team of alumni and students of a large university by using a snowball sampling technique (Tepper 1995). The team identified organizations willing to participate in a study of organizational work climate. Members of the team served as contact persons with participating departments in each organization.

We received agreement to participate from 117 departments across 103 organizations, which included a variety of product- and service-oriented firms, public and private organizations, and for-profit as well as not-for-profit organizations. Employees in each department worked in the same physical work environment and interacted on a consistent basis. The team members distributed surveys to the supervisor and five employees in each department. The 648 individuals who responded to the 702 surveys distributed represented a response rate of 92.3%. Respondents' mean age was 30.4 years, and 54% of the sample was male. Respondents averaged 4.2 years of tenure with their organization and 3.1 years of tenure with their department.

A contact person within each department received a packet containing surveys to be completed by the five department members and the department supervisor. This contact person also received specific written instructions regarding the completion of the surveys and procedures for returning them to the researchers. Participants had the option of returning the survey via regular mail or through the contact person.

Procedures

Surveys completed by employees included measures of demographic characteristics, ethical climate (collective moral reasoning), collective moral emotion (collective empathy), and collective ethical efficacy. Surveys completed by supervisors included these measures plus a measure of ethical behavior in the work unit (Treviño and Weaver 2001), although only their responses to the ethical behavior measures are used in the analyses below.

Measures

Ethical Climate. To measure the type of collective moral reasoning reflected in each work unit's ethical climate, we began with the Schminke et al. (2005) 16-item version of the Victor and Cullen (1988) ethical climate scale. Victor and Cullen's theory of ethical climate rests on Kohlberg's (1984) framework for classifying types of moral reasoning. Kohlberg describes three levels of moral reasoning: pre-conventional (self-oriented), conventional (other-oriented), and post-conventional (universalistic). Research shows few individuals ever reach the post-conventional level of moral reasoning (Rest and Narvaez 1994, Treviño et al. 2006, Weber 1990), and thus, shared climate perceptions are unlikely to develop at this level. Instead, shared perceptions are likely to develop at the self-focused (pre-conventional) and other-focused (conventional) levels at which most individuals engage in moral reasoning. We therefore conceptualize the moral reasoning component of ethical climate as including these two dimensions: self-focused and other-focused reasoning.

Pilot testing the 16 items on a separate sample revealed two factors that reflected the anticipated self-focused and other-focused dimensions of collective

moral reasoning.² We selected the five highest-loading items on each factor as measures of self-focused climate ($\alpha = 0.89$; sample item: “People around here are mostly out for themselves”) and other-focused climate ($\alpha = 0.82$; sample item: “People in my department are actively concerned about their peers’ interests”) dimensions of collective moral reasoning. (All items appear in the appendix.) Confirmatory factor analysis (CFA) of the current sample indicated that this two-factor model provided a good fit to the data ($\chi^2 = 1,371.77$, $df = 390$; root mean square error of approximation (RMSEA) = 0.06, comparative fit index (CFI) = 0.97, nonnormed fit index (NNFI) = 0.96) and a better fit than an alternative one-factor model in which the self-focused and other-focused items were combined into a single factor ($\chi^2 = 2,599.80$, $df = 399$; RMSEA = 0.11, CFI = 0.94, NNFI = 0.93; χ^2 change = 1,228.03, $df = 9$, $p < 0.01$).

Collective Moral Emotion (Collective Empathy). Collective moral emotion was measured with a seven-item scale ($\alpha = 0.80$) based on the empathic concern dimension of Davis’s (1980) interpersonal reactivity index, with items modified to reflect a department-level focus. (Sample item: “People in my department sympathize with someone who is having difficulties in their job.”) Employees indicated on a five-point scale the degree to which each item accurately describes their department (1 = describes my department very well, 5 = does not describe my department at all). Higher scores reflect higher levels of collective empathy.

Collective Ethical Efficacy. Collective ethical efficacy was measured with a three-item scale ($\alpha = 0.87$) adapted from Schwartz (1973). (Sample item: “Generally, people in my department feel in control over the outcomes when making decisions that concern ethical issues.”) Employees indicated on a five-point scale the degree to which each item accurately describes their department (1 = describes my department very well, 5 = does not describe my department at all).

Ethical Behavior. Ethical behavior was measured with Treviño and Weaver’s (2001) 10-item ($\alpha = 0.91$) ethical behavior scale. Supervisors indicated on a five-point scale how often they observed the various unethical behaviors in their work unit over the past year (1 = never, 5 = very frequently). (Sample items: Unauthorized personal use of company materials or services; padding an expense account; stealing from the company.) Responses were coded such that higher values reflected more ethical behavior.

Control Variables. Ethical decision making has been shown to be related to age (Kohlberg 1984), so we controlled for average age of department members. In addition, because shared perceptions of contextual factors are absorbed over time (Schneider and Reichers 1983), we also controlled for average tenure within the work unit.

Aggregation Analysis

Before aggregating individual responses into department-level variables, we assessed whether sufficient agreement exists among department members to justify aggregation of the measures of ethical climate and collective ethical efficacy to the unit level (James 1982, Kozlowski and Klein 2000). We did so by calculating average deviation (AD_M) scores (Burke and Dunlap 2002) for each work unit. AD_M scores have at least two advantages over alternative means of assessing agreement such as r_{wg} scores. First, unlike r_{wg} assessments, they do not require that the researcher generate, a priori, the form of the null response distribution and accurately allocate percentages to each response. Second, because they yield estimates of agreement in the same units as the original scale, they provide a more direct conceptualization and assessment of agreement (Burke et al. 1999).

The AD_M index reflects the degree of interrater agreement by measuring the dispersion of responses around the mean member response. Lower scores indicate greater agreement, and Burke and Dunlap (2002) identified 0.80 as the cutoff value for five-item scales. That is, values below 0.80 indicate that sufficient agreement exists to render aggregation appropriate.

We calculated AD_M scores for each department across each of the four collective variables that were assessed by employees (the two dimensions of ethical climate, collective moral emotion (collective empathy), and collective ethical efficacy). The overall mean AD_M for the four variables, across all departments, was 0.58. The mean AD_M values for the four aggregated variables (ethical climate: self-focused collective moral reasoning, ethical climate: other-focused collective moral reasoning, collective moral emotion (collective empathy), and collective ethical efficacy) were 0.53, 0.59, 0.62, and 0.60, respectively. All of these values are below the cutoff suggested by Burke and Dunlap (2002). In all, 93% of all departments had average AD_M scores across the five variables below the 0.80 cutoff. We therefore retained all departments in the analyses (Varela et al. 2008).

Results

Correlations, means, and standard deviations for all variables are presented in Table 1. Scale reliabilities (Cronbach’s α) appear on the diagonal.

Measurement Model

We conducted a series of CFAs on the items comprising the collective perception measures (ethical climate, collective moral emotion, and collective ethical efficacy). We first tested a four-factor model that corresponds with our conceptualization of the four collective variables as distinct from one another. This four-factor model provides a good fit to the data ($\chi^2 = 189.93$, $df = 224$;

Table 1 Means, Standard Deviations, and Intercorrelations

Variable	Mean	SD	1	2	3	4	5
Ethical climate: Self-focused reasoning	3.12	0.98	(0.89)				
Ethical climate: Other-focused reasoning	2.69	0.87	-0.26**	(0.82)			
Collective moral emotion	2.56	0.76	-0.46**	0.53**	(0.80)		
Collective ethical efficacy	2.52	0.89	-0.38**	0.55**	0.58**	(0.87)	
Ethical behavior	2.25	0.78	-0.33**	0.19*	0.20**	0.18**	(0.91)

Note. Scale reliabilities (Cronbach's α) are in parentheses on the diagonal.

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

RMSEA = 0.01, CFI = 0.99, NNFI = 0.99). Additional CFAs indicate the four-factor model is a better fit than a three-factor model that combines the two collective moral reasoning dimensions of ethical climate into a single dimension (χ^2 change = 499.79, $df = 3$, $p < 0.01$) or a one-factor model that combines all items into a single contextual dimension (χ^2 change = 587.84, $df = 6$, $p < 0.01$).

Hypothesis Testing

We tested our hypotheses via moderated regression using ordinary least squares. Results of the regression analyses are presented in Table 2.

Table 2 Results of Regression Analysis for Ethical Behavior

Model	<i>b</i>	SE	β
Constant	3.10**	(0.90)	
Mean department tenure	0.00	(0.00)	0.03
Mean age	-0.02*	(0.01)	-0.22*
Ethical climate: Other-focused reasoning	-0.07	(0.17)	-0.04
Ethical climate: Self-focused reasoning	-0.34**	(0.13)	-0.27**
Collective moral emotion	-0.03	(0.18)	-0.02
Collective ethical efficacy	0.44*	(0.19)	0.25*
Other-focused reasoning × Collective moral emotion	1.32**	(0.48)	0.29**
Self-focused reasoning × Collective moral emotion	-0.14	(0.26)	-0.05
Other-focused reasoning × Collective ethical efficacy	0.36	(0.36)	0.11
Self-focused reasoning × Collective ethical efficacy	0.49*	(0.25)	0.21*
Collective moral emotion × Collective ethical efficacy	1.66**	(0.38)	0.43**
Other-focused reasoning × Moral emotion × Ethical efficacy	1.15*	(0.67)	0.21*
Self-focused reasoning × Moral emotion × Ethical efficacy	1.59**	(0.46)	0.39**

Notes. $R^2 = 0.26$. *b*, unstandardized coefficients; β , standardized coefficients.

* $p < 0.05$; ** $p < 0.01$; one-tailed.

Hypothesis 1 (H1). Our foundational hypothesis predicted that ethical climate based on self-focused reasoning is negatively related to unethical behavior, and ethical climate based on other-focused reasoning is positively related to unethical behavior. As predicted, ethical climate based on self-focused reasoning was significantly and negatively related to ethical behavior, supporting Hypothesis 1. Ethical climate based on other-focused reasoning was not. In all, these results provide partial support for Hypothesis 1. However, both self-focused and other-focused dimensions of ethical climate are involved in significant higher-order interactions (see H4). Thus, these main effect results are qualified by the higher-order effects that follow.

Hypothesis 2 (H2). Our activation hypothesis predicted that collective moral emotion moderates the relationship between ethical climate and ethical behavior such that the relationship between climate and behavior is stronger when collective empathy is high. Because we have two measures of ethical climate (other-focused moral reasoning and self-focused moral reasoning), our model includes two interaction terms that provide tests of this hypothesis. Results of this lower-order interaction test are again qualified by the result of the higher-order interaction proposed in Hypothesis 4.

The first (*other-focused reasoning* × *collective moral emotion*) reveals a significant interaction effect in the predicted direction, thus supporting Hypothesis 2. The second (*self-focused reasoning* × *collective moral emotion*) was not significant. These results provide partial support for Hypothesis 2. Collective empathy strengthens the relationship between other-focused ethical climate and ethical behavior, but it does not moderate the relationship between an ethical climate of self-focused moral reasoning and ethical behavior.

Hypothesis 3 (H3). Our enabling hypothesis predicted that collective ethical efficacy moderates the relationship between ethical climate and ethical behavior such that the relationship between climate and behavior is stronger when collective efficacy is high. As in Hypothesis 2, we have two measures of ethical climate that result in two interaction terms providing tests of this hypothesis. As noted above, results of this lower-order interaction test are qualified by the result of the higher-order interaction proposed in Hypothesis 4.

The first interaction (*other-focused reasoning* × *collective ethical efficacy*) was not significant. However, the second interaction (*self-focused reasoning* × *collective ethical efficacy*) reveals a significant effect in the predicted direction. These results provide partial support for Hypothesis 3. They suggest that collective ethical efficacy strengthens the relationship between self-focused ethical climate and ethical behavior, but it does not moderate the relationship between an ethical climate of other-focused moral reasoning and ethical behavior.

Figure 2 Three-Way Interaction Between Ethical Climate (Other-Focused Moral Reasoning), Collective Moral Emotion, and Collective Ethical Efficacy

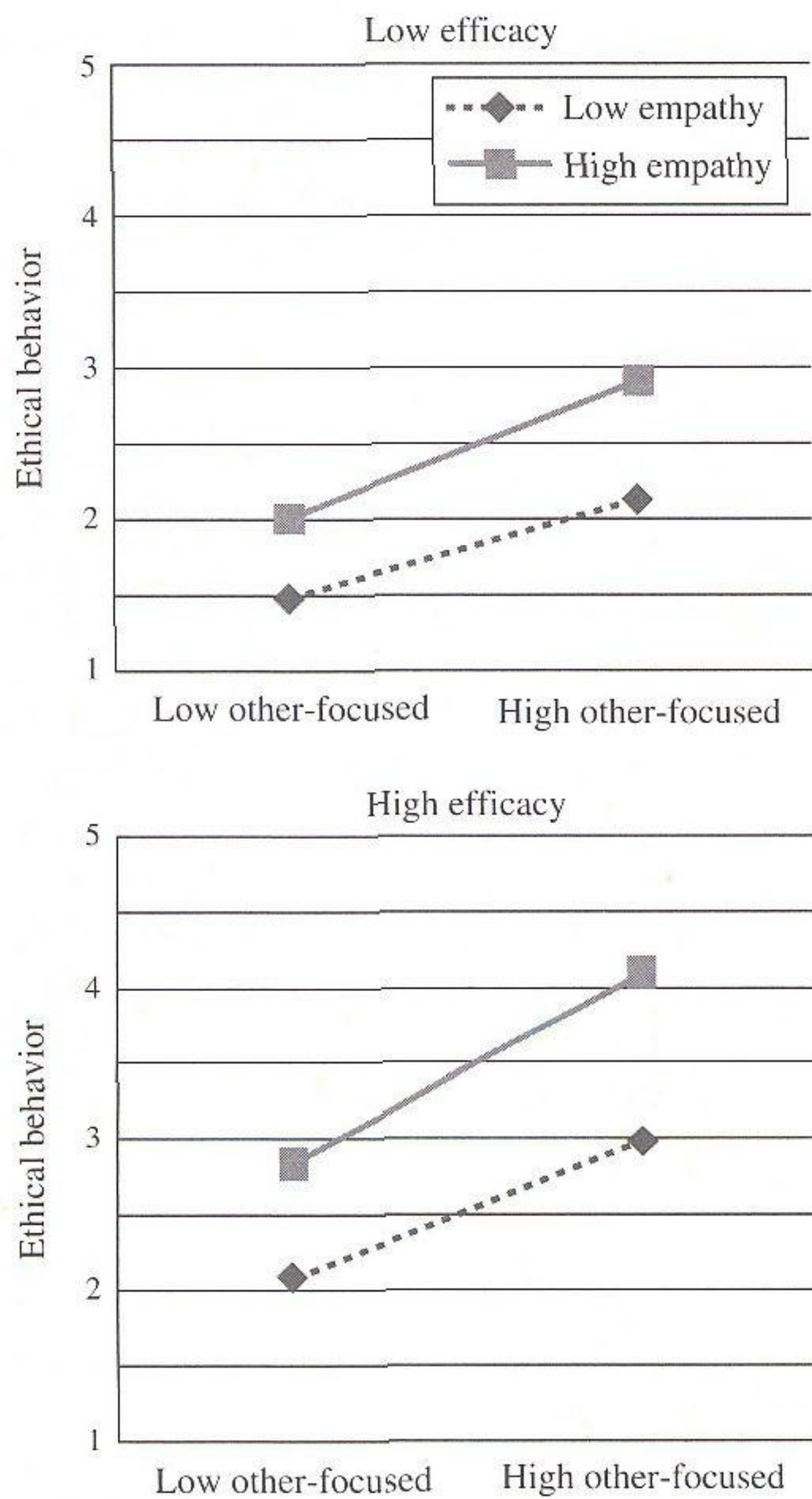
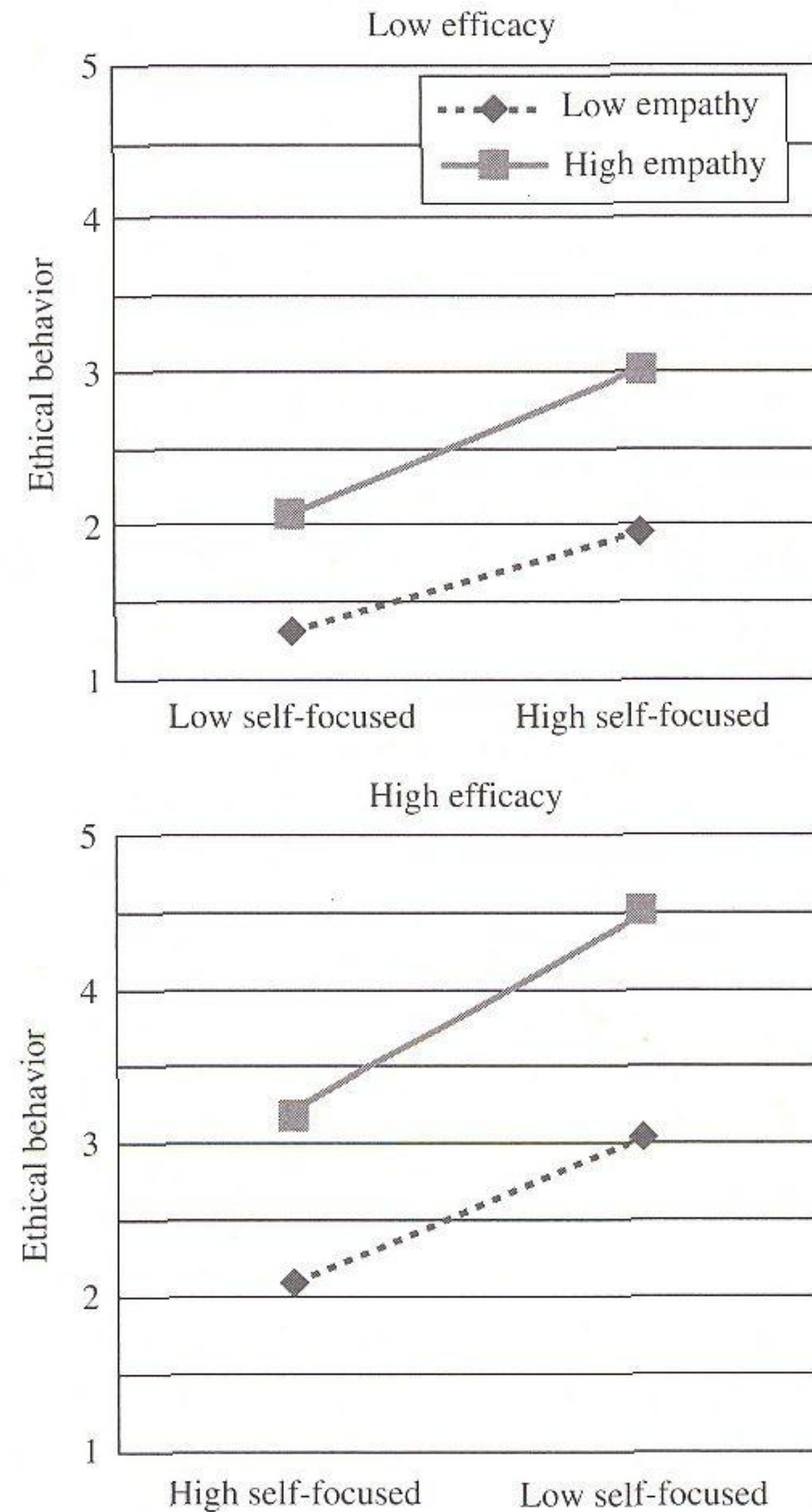


Figure 3 Three-Way Interaction Between Ethical Climate (Self-Focused Moral Reasoning), Collective Moral Emotion, and Collective Ethical Efficacy



Hypothesis 4 (H4). Our interaction hypothesis predicted a three-way interaction in which the moderating effect of collective moral emotion (its impact on the relationship between ethical climate and ethical behavior) is enhanced by the presence of collective ethical efficacy. Results in Table 2 show strong support for this hypothesis. Coefficients for both three-way interactions (*other-focused reasoning* × *moral emotion* × *ethical efficacy* and *self-focused moral reasoning* × *moral emotion* × *ethical efficacy*) are significant and in the predicted direction. In both cases, higher levels of collective efficacy strengthened the moderating effect of collective moral emotion. The two panels in Figure 2 illustrate the three-way interaction for an ethical climate of other-focused moral reasoning. The interaction effect in the bottom panel (high collective ethical efficacy) is more pronounced than the interaction effect in the top panel (low collective ethical efficacy). Similarly, the two panels in Figure 3 illustrate the three-way interaction for self-focused ethical climate. The interaction effect in the bottom panel (high collective ethical efficacy) is again more pronounced than the interaction effect in the top panel (low collective ethical efficacy).

In all, our results indicate ethical climate, collective moral emotion, and collective ethical efficacy interact to influence ethical behavior. In particular, the relationship between ethical climate and ethical behavior is strengthened by the presence of collective empathy and collective ethical efficacy, and it is at its strongest when both collective empathy and collective ethical efficacy are high.

Discussion

Recent scandals provide evidence of the influence organization environments have in sanctioning or promoting unethical behavior. However, our study suggests that an ethical climate—and the shared perceptions of appropriate moral reasoning it represents—may not, in and of itself, be enough to ensure ethical behavior. Organization members may agree on the right thing to do, but unless they also care about the targets of their behavior (collective empathy) and believe they have the capacity to carry out their desired actions (collective ethical efficacy), ethical behavior is unlikely to occur. By exploring the impact of all three contextual factors simultaneously,

our study provides a more comprehensive look at the impact of the ethical context of organizations on ethical behavior.

Implications for Research

Our research extends work on ethical climate in several ways. It suggests that ethical climate alone may be insufficient to ensure ethical outcomes. It explores the conditions under which ethical climate might be expected to relate more strongly to ethical outcomes. Moreover, it introduces collective moral emotion (in the form of collective empathy) and collective ethical efficacy as moderators of the relationship between ethical climate and ethical behavior. Each of these factors has implications for research.

The Relationship Between Ethical Climate and Ethical Behavior. Our results highlight the importance of adopting a more comprehensive view of how ethical climate affects ethical outcomes in organizational settings. Research shows that ethical climate is a consistent predictor of employee attitudes (Martin and Cullen 2006). However, its ability to predict ethical behavior has been less robust. Meta-analytic results indicate that the link between ethical climate and ethical behavior has been modest, with a mean correlation less than 0.16 (Martin and Cullen 2006). Our model, which proposes that the presence of collective moral emotion and collective moral efficacy will enhance the relationship, explained half again more variance in ethical behavior ($R^2 = 0.26$) than has been typical in previous work while utilizing a considerably shorter measure of ethical climate (10 items) than has been employed in previous research. Our results therefore suggest that understanding ethical climate and its influence requires a broader conceptualization of the organizational ethical context and how those contextual factors relate to and shape the impact of ethical climate.

The Role of Collective Empathy. Our results also highlight the importance of collective empathy in the process by which ethical climate relates to ethical behavior. Our study demonstrates that collective moral emotion—in the form of collective empathy—exists at the work unit level. It also suggests that collective empathy activates the moral reasoning principles of work units reflected in ethical climate, thereby increasing the likelihood that ethical behavior will emerge. Furthermore, it shows that the moderating effect of collective empathy is, in turn, contingent on the presence of collective ethical efficacy. In other words, collective empathy of the work unit matters more when the work unit also believes in its ability to execute the actions required to achieve desired ethical outcomes.

These results are consistent with research showing that empathy facilitates the ethicality of decision making at the individual level (Mencl and May 2009) and that it

enhances recognition of an ethical situation by raising moral awareness and improving people's evaluation of the possible adverse effects their actions and decisions may have on others (Vetlesen 1994). As such, our results lay the groundwork for establishing moral emotion as a key component of the ethical context of organizations. However, our results also raise additional questions.

For example, scholars have explored the impact of positive emotions such as excitement, enthusiasm, and pride on a variety of organizational outcomes. Positive emotions have been found to have an impact on positive organizational outcomes such as organizational citizenship behaviors (Joireman et al. 2006), teamwork, and prosocial behavior (e.g., Barsade and Gibson 2007). Such results suggest positive emotions may play a role alongside moral emotions in shaping ethical decision making and behavior and thus represent sound candidates for exploring other emotional influences on the relationship between ethical climate and behavior.

Similarly, research demonstrates that emotion may not always constitute a positive influence on ethical decision making and behavior. For example, Ratner and Herbst (2005) found that an unfavorable outcome of a good decision (defined as successful in the past or expected to perform better in the future) led individuals to shift away from that decision because of negative emotional responses to the outcome. Research has also shown that in some situations, empathy has the potential to bias decision making in a negative way. For example, Batson et al. (1995) demonstrated that empathy has the potential to overpower fairness rules, thus leading to unfair outcomes. At the collective level, results like these suggest that collective emotion, although influential, may not always represent a positive force. Further research is needed to understand when collective emotions in general, and empathy in particular, may serve to facilitate or hinder moral judgment and, in turn, ethical action.

The Role of Ethical Efficacy. Our results point to collective ethical efficacy as playing a three-tiered role in the ethical context of organizations. First, consistent with Hypothesis 3, efficacy strengthened the relationship between one dimension of ethical climate (self-focused moral reasoning) and ethical behavior. Following through on judgments about the correct course of action depends at least in part on an individual's believing in his or her ability to be successful in doing so.

Second, consistent with Hypothesis 4, collective ethical efficacy strengthened the positive moderating effect of collective moral emotion on the relationship between ethical climate and ethical behavior. Results suggest that moral emotion acts as a centralizing agent, activating and focusing attention and cognitive resources on a particular ethical issue or event. However, translating even this combination of collective moral reasoning and a

congruent collective moral emotion into ethical behavior is contingent on individuals' belief in their ability to successfully follow through on their intended course of action.

The Structure and Measurement of Ethical Climate. Building on previous research, our study conceptualized ethical climate as involving two dimensions, based on self-focused and other-focused reasoning. Our results corroborate that self-focused and other-focused climates are not simply two sides of the same coin. Rather, both are independently important in understanding the ethical context of organizations. Their distinctiveness is marked by the moderate degree to which they are correlated (-0.26), by the difference in their capacity to exert a direct effect on ethical behavior, and by the differences in their two-way interactions with collective moral emotion and collective ethical efficacy. Yet at the level of our hypothesized three-way interactions, each played a role in influencing ethical behavior, confirming their importance in understanding the structure and measurement of ethical climate.

Implications for Practice

Our research has practical implications as well. These involve a broad recognition of the multidimensional nature of ethical context—which has significant implications for its assessment—and identifying an explicit role for emotion as part of the ethical environment.

Ethical Context Is Multidimensional. Recognizing that ethical context consists of more than a single component (e.g., ethical climate), and that these components exert unique effects on one another and on organizational outcomes, presents additional challenges for practitioners. However, it also offers the opportunity to diagnose the organization's ethical context in more precise and useful ways. Consider an organization concerned about an unacceptable level of unethical behavior among its members. If a deficient ethical context is suspected as a cause, any attempt to diagnose the problem using a measure that taps only collective moral reasoning may fail on at least two counts. First, such a measure may be incapable of detecting deficiencies in collective moral emotion or collective moral efficacy. Second, any effects that do emerge may be inaccurately attributed to deficient collective moral reasoning. Diagnosing weaknesses in ethical context requires the ability to assess each component independently. Doing so paves the way for interventions aimed at improving specific problem areas.

Ethical Context Involves Emotion. In recent years, research has placed emotion at the center of practical discussions about managing organizations. Our work suggests those tasked with managing the ethical environment of organizations attend explicitly to the presence of

emotion. Managers can look to improve collective empathy by attending to the type of events that occur in the work setting. Research shows that events that occur in a group context have immediate affective consequences (Weiss and Cropanzano 1996), suggesting that engaging in collective experiences such as helping others, experiencing sorrow or joy for another person or group, or engaging in other collective experiential exercises with the purpose of fostering empathy may help to promote a more empathic work climate.

Limitations

Our study reflects several limitations. First, all data were collected by a single method (survey), thus raising the possibility of common method variance. However, our predictor variables were all collected from employees, whereas our criterion variable was collected from supervisors. Podsakoff et al. (2003) suggested this structure represents the prime procedural remedy for eliminating common method variance concerns, in that “it makes it impossible for the mind set of the source or rater to bias the observed relationship between the predictor and the criterion variable...” (p. 887).

Second, our data were collected in a cross-sectional fashion. Therefore, our analyses do not provide a strong test of the causal relationships implicit in our model, such as the foundational relationship between ethical climate and ethical behavior. Rather, they can only provide a test of statistical associations, including our hypothesized moderation effects that are supported by the theoretical foundations of the model.

A final limitation is that results were based on self-reports. However, studies of emotion and cognitive processes depend heavily on self-reports, and evidence generally supports their validity (Spector 1992), especially in work involving ethics-related issues. Meta-analysis of integrity measures, for example, suggests that self-report measures may even be beneficial in that they can improve criterion-related validity (Ones et al. 1993). In this study, we assured participants of their anonymity and did not ask them to disclose any conduct they may have personally committed but rather to share perceptions of the environment in which they work. However, we still need to be alert to the fact that self-reports may be vulnerable to self-enhancement biases.

Conclusion

The central goal of this research was to provide a more comprehensive view of how ethical climate influences ethical behavior. Our model does this, and it thereby represents a more comprehensive conceptualization of the ethical context of organizations, the relationships between its components, and its impact on ethical behavior. As such, we suggest that it provides a more sound theoretical footing for increasing our understanding of

the process by which ethical climates shape ethical behavior. In all, our results provide new insights about the structure of ethical climate and the contextual factors that enhance or mitigate its effects. However, the results also point to a number of important questions for researchers interested in understanding the structure and impact of the ethical context of organizations. Further research is needed to clarify these additional issues.

Appendix. Scale Items

Ethical climate: Self-focused moral reasoning

1. In my department people's primary concern is their personal benefit.
2. People in my department think of their own welfare first when faced with a difficult decision.
3. People in my department are very concerned about what is best for them personally.
4. People around here protect their own interest above other considerations.
5. People around here are mostly out for themselves.

Ethical climate: Other-focused moral reasoning

6. What is best for everyone in the department is the major consideration.
7. In my department it is expected that you will always do what is right for society.
8. People around here have a strong sense of responsibility to society and humanity.
9. People in my department are actively concerned about their peers' interests.
10. The most important concern is the good of all the people in the department.

Collective moral emotion (Collective empathy)

1. People in my department sympathize with someone who is having difficulties in their job.
2. For the most part, when people around here see that someone is treated unfairly, they feel pity for that person.
3. When people in my department see someone being treated unfairly, they sometimes don't feel much pity for them. (Reverse scored)
4. In my department people feel sorry for someone who is having problems.
5. Sometimes people in my department do not feel very sorry for others who are having problems. (Reverse scored)
6. Others' misfortunes do not usually disturb people in my department a great deal. (Reverse scored)
7. People around here feel bad for someone who is being taken advantage of.

Collective ethical efficacy

1. When necessary, people in my department take charge and do what is morally right.
2. Generally, people in my department feel in control over the outcomes when making decisions that concern ethical issues.
3. People around here are confident that they can do the right thing when faced with moral dilemmas.

Endnotes

¹Forgas (1995) used affect as a generic label that includes both emotions and moods. Forgas noted the principles underlying

the AIM apply to both types of affective states. However, emotions such as empathy, guilt, and shame are commonly conceptualized as having a moral foundation (McCullough et al. 2001), whereas moods are not.

²Two hundred sixty-four surveys were distributed among 173 MBA students from a large state university who were employed full time and 101 entrepreneurs and employees of start-up, high-tech companies, both in the southeastern United States. The 174 individuals who responded to the surveys represented a response rate of 66%. Fifty-eight percent of the sample was male with a mean age of 29 years (SD = 7.60). Respondents averaged 3.2 years of tenure with their organizations (SD = 3.6) and 2.0 years of tenure with their departments (SD = 1.7). Factor analysis (principal components with oblique rotation) yielded two factors with eigenvalues greater than 1. The first factor explained 46.0% of the variance and contained five items reflecting self-focused moral reasoning ($\alpha = 0.91$). Factor loadings ranged from 0.65 to 0.95, with no cross-loadings greater than 0.21. The second factor explained 11.8% of the variance and contained seven items reflecting other-focused moral reasoning ($\alpha = 0.89$). Factor loadings ranged from 0.63 to 0.71, with no cross-loadings greater than 0.25.

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