There is an increasing recognition that ethical work climate on part of organization is indispensable for good business. Organizations that strive for excellent in their business practices also tend to manifest a strong ethical culture. In order to ensure long-term viability, organizations must respond to both their economic and non-economic environments. This requires keeping high expectations for socially responsible and ethical behaviors. The ethical work climate is important indeed because workers need the ethical code and support to guide how to perform well in organization where they work. The ethical attitude must be institutionalized in organization.

Unethical practices affect business in a number of ways. First, consumers tend to be away from products and services of organizations with unethical reputations (Roman & Ruiz, 2005). Second, some unethical practices can increase the firm’s liability, financial risk, and costs (Neese, Ferrell, & Ferrell, 2005). Third, unethical climate has a pervasive effect on employees via levels of lower job satisfaction, low performance, turnover intention, and low organizational citizenship behavior (Leung, 2008). This conceptual article will highlight the importance of ethical climate that can be built by management for their employees including 1) the factors influencing ethical work climate: the role of leadership, socialization, and corporate ethical code; and 2) the impact of ethical organization climate: organizational citizenship behavior, organization commitment, and job satisfaction.

A. The Definition of Ethical Work Climate

EWC is defined as the shared perceptions of what ethically correct behavior is and how ethical issues should be handled within organization (Victor & Cullen, 1988). EWC is also defined as the prevailing perceptions of typical organizational practices and procedures that have ethical content. It may vary within a company due to differences in individuals, work groups, employment history, and individual’s position. It should be noted that EWC is not conceived as a normative construct for measuring how ethical an organization is; rather it is developed as a descriptive indicator of the prevailing mode of ethical thought within an organization.
Based on the conceptual framework, the ethical climate of the organization is designed as the following: caring, law and code, rule, instrumentality, and independence. This classification of ethical climates has been validated against various measures of organizational effectiveness. The descriptions that follow are derived from Victor and Cullen (1988).

1) Caring. This climate type focuses on the benevolence ethical criterion and is based on concern for others. In this atmosphere, individuals have a sincere interest in each other’s well-being, as well as that of others within and outside of the organization who might be affected by their ethical decisions.

2) Independent. This dimension entails the principle ethical criterion. According to this dimension of ethical climate, persons act according to their own personal moral belief based upon a set of well considered principles.

3) Law and Code. The law and code dimension is associated with the principle of ethical criterion. In decision making situations within a law and code climate, it is perceived that employees should make decisions based on the mandate of some external systems such as the law, or professional codes of conduct.

4) Rules. The rule dimension is associated with the principle ethical criterion. This dimension relates to the accepted rules of conduct determined by the firm. Organizational decisions are guided by a set of local rules or standards such as codes of conduct.

5) Instrumental. The instrumental climate involves the egoistic criterion and is primarily based on the maximization of self-interest. Individuals believe that decisions are made to serve the organization’s interests or to provide personal benefit.

When employees perceive a caring climate, they believe that the organization’s ethical policies and practices are based on an overarching concern for organizational members as well as society at large. Independent climate perceptions are based on deeply held personal moral convictions, whereas an instrumental climate prompts behaviors based on self-interest even at the expense of others (Martin & Cullen, 2006). Law and code climates are based on the belief that external codes guide ethical behavior. Finally, the rule dimension relates to a principled climate governed by rules and regulation that guide ethical behavior. These ethical climate dimensions have been arranged hierarchically from one with concern for universal
rights and humanity to self-interest standards. When considering the types of ethical criterion and level of analysis, an ordering of these dimensions would be from a cosmopolitan climate to individual interest climate in Table 1.1

### Table 1.1. Ordering of Ethical Climates

<table>
<thead>
<tr>
<th>Higher level of ethical climate</th>
<th>Principled cosmopolitan climate (Law and Code)</th>
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</thead>
<tbody>
<tr>
<td></td>
<td>Principled local climate (Rule)</td>
</tr>
<tr>
<td></td>
<td>Benevolent local climate (Caring)</td>
</tr>
<tr>
<td></td>
<td>Principled individual climate (Independence)</td>
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<tr>
<td>Lower level of ethical climate</td>
<td>Egoistic individual climate (Instrumentality)</td>
</tr>
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**B. Factors Creating Ethical Work Climate**

1. *The Role of Leadership*

   The role of leadership is important for instituting standards for ethical behavior and moral values that guide behavior and decision making of followers (Brown, Trevino, Harrison, 2005). When the standard and values are consistently enacted and supported with organizational process, rules, and procedure, they can become an integral aspect of the organization’s culture. Leaders have to create an atmosphere of fairness and trust because these aspects can result in positive organizational outcome such as reduced turnover and organizational commitment (Ambrose & Cropanzano, 2003).

   Leaders must show ethical stewardship and apply it as principle to build trust within their organizations, and improve employee commitment. Caldwell, Hayes, Karri, and Bernal (2007) argue that organization with leaders who adopt ethical stewardship model of governance will have employees who have higher trust in their leaders; organization with leaders that demonstrate a commitment to employee welfare and comply with principle of ethical stewardship are more likely to have employees who view their leaders as trustworthy.

   In terms of creating and establishing ethical norms in organization, the characteristic of leadership is a must to have. Leaders must be believable and competent. Leaders have been able to increase trust through behavioral and decision
making consistency. Research has shown that leaders who model ethical behavior are the primary influence on employees’ intent to behave ethically (Davis and Rothstein, 2006).

One kind of leadership who can show ethical model is transformational leadership. Transformational leadership has a promising trend in the future as the alternative of leadership style choice. Transformational leadership can determine organizational effectiveness (Bass, Avolio, Goodheim, 1987). They argue that transformational leaders have been characterized by four separate components. These four factors include idealized influence, inspirational motivation, intellectual stimulation and individualized consideration. Transformational leadership integrates creative insight, persistence and energy, intuition and sensitivity to the needs of others to forge the strategy. Transformational leadership is seen when leaders broaden and elevate the interests of their followers, when they generate awareness and acceptance among the followers of the purpose and mission of the groups and when they move their followers to transcend their own self interest for the good of the group.

Transformational leadership also have some characteristics as follows (Bass, et.al., 1987). First, they have articulated new systems and processes what they are hoping and expecting. Second, they have realized the need to replace old systems. Third, they have considered the needs of individuals at all levels, who are used to operating in a different way, and have taken the time to explain, justify, and ultimately reward operating in new and substantially different ways. In this regard, they have involved those being affected in the process of change, by including their ideas, needs, concerns and aspirations as part of the process of change. Fourth, they have made it worthwhile to change, motivating individuals to operate in line with the new system's requirements. Fifth, they have provided the necessary education to change rather than simply assuming that people know how to change. Sixth, they have demonstrated the courage to stay on course, regardless of the resistance to change, and have been patient, allowing for mistakes to occur along the way.

Leaders can be a role model of doing ethical behavior (Pelletier & Bligh, 2007). Leaders must model ethical both in word and deed and should very visibly encourage, support at every level. When top leaders behave contradictory to the organization’s ethic code, employees are likely to make attribution about why the leaders acted the way they did. From the follower’s perspective, the unethical conduct of leaders can create loss of trust in the leader. Leaders can be perceived hypocritical
and do not model espoused ethical values. In addition, employees might feel that leadership is no longer committed to ethics. Employees also question the values of leadership and attribute the unethical decision making to variety of internal causes such as leaders cannot be trusted, leaders have no moral value and external cause such as leaders need training, and leaders have to be changed.

2. The Role of Socialization

Socialization is the process by which a new member learns and adapts to the value system, the norms, and the required behavior patterns of an organization, society or group (Dose, 1997). Ethical work climate is work value that both new employees and existing employees must learn because ethical work climate is considered as shared values that represent a significant element of organization culture.

Socialization of ethical work climate can be in the form of organizational ethics programs. Organizational ethics program should be established as a means for employee to voice concerns in environment that is supportive of ethical inquiry (Pelletier & Bligh, 2008). Organizations have to establish programs that include some form of ethics hotlines for employees to report suspected ethical misconduct. This intervention will likely fail, however, if employees believe that nothing will come of their complaint. If the ethics hotline is to be successful in establishing a constructive environment for reporting, the organizations should make the commitment to investigate every complaint, follow up with the complaint and take every measure to ensure the reporter’s identity and continued employment is protected.

Organizations also provide ethical guidance to employees, organizations have to make structural and procedural changes such as creating new ethics positions such as ethics ombudsmen and ethics committee and have increased the formalization of ethics in the form of ethics newsletter.

3. The Role of Effective Corporate Ethical Code

Due to the increasing concern of the general public about ethical issues in business, organizations have to control the unethical issue through the institutionalizations of corporate ethics (Vitell & Singhapakdi, 2007). Stevens (2008)
argue that corporate ethical code is written documents which attempt to state the major philosophical principles and articulate the values by the organization.

Codes articulate ethical parameters of the organization—what is acceptable and what is not. Ethical code is primarily designed to defend organizations against illegal behavior. Ethical code can have no positive effect on organization if ethical code is only simply decorative artifact. Forced code compliance in organization is ineffective. Good ethics cannot be ordered by management (McKendall, DeMarr, & Jones-Rikkers, 2002). Code will work well if employees accept ethical code as part of the culture. Codes function not as a set of stand-alone rules but as an integrated, embedded part of a larger organization culture. Organization should build strong culture where employees embrace code, are supported and rewarded for the following the code, and observe managers and executives in the organization behaving consistently with the code.

Codes are communicated through orientation literature or posted on a company website. Codes are effective when they have features of readability, relevance, and are written with a positive tone. Formal communication is less effective than informal ways such as social norms. When managers set examples and live according to the code, other members can visualize the action. However, it is also important that managers openly discuss the principle with organizational members, engaging in both upward and downward communication about ethics. Discussion about values and debates over difficult dilemmas help organizational member realize that taking the right action often requires a long and thoughtful process (Adams & Rachman-Moore, 2004).

C. The Impact of Ethical Work Climate

1. Organizational Citizenship Behavior

According to Organ (1988) organizational citizenship behavior (OCB) is discretionary behavior on the part of individual that is believed to promote directly the effective functioning of an organization. OCB is believed to promote organizational goals and effectiveness. OCB helps employees work together and helps coordinate information and team activities. OCB enhances organizational functioning which leads to subsequent improved organizational performance.
MacKenzie, Podsakoff, Ahearne (1998) argue that there are various forms of OCB including sportsmanship, civic virtue, and helping behavior. Sportmanship is willingness on the part of an individual to tolerate less than ideal circumstances without complaining. Civic virtue is behavior that indicates the individual responsibly participate in and is concerned about the life of the company such as attending meetings or functions that are not required but that help the company, keeping up with changes in the organization, taking the initiative to recommend how company operations or procedures can be improved. Helping behavior is another form of OCB. It is a composite of several types of OCB-altruism, courtesy, peacekeeping, and cheerleading (Organ, 1988). Altruism consists of those voluntary actions that help another person with a work-related problem (sharing work strategies, voluntary helping to orient new workers); courtesy consists of actions that help prevent work related problems with other; peacekeeping consists of actions that help prevent, resolve or mitigate unconstructive interpersonal conflict; and cheerleading is defined as encouraging and reinforcing coworkers’ accomplishment and professional development which can be considered helping behavior when individual encourages a co-worker who is discouraged about his or her accomplishment or professional development.

OCB is not formally mandated by the organization. Such behavior is often influenced by informal forces within and around the organization, namely ethical work climate (Podsakoff, Mackenzie, Paine, Bacharah, 2000). OCB represents behaviors carried out by individuals at work that are discretionary in nature, and are not formally rewarded or sanctioned by the organization. The creation of a strong ethical work climate within an organization is important factor affecting employees’ perception about the nature of the relational contract between employees themselves and their employer. Such a relationship is a psychological contract between the employer and employee and a mutual covenant to the welfare of both parties. Members who feel bound to the organization and perceive that organization perform well and ethically, are more likely to reciprocate their goodwill in the form of OCB (Organ, 1988).

Social exchange theory is commonly used to explain why employees perform OCB (Cardona, Lawrence, Bentler, 2004). Social exchange theory suggests two criteria that categorize individuals’ organizational experiences as exchanges: (a) the extent to which individuals’ agreements with the organization is explicit defined and
enforceable by third parties and (b) the extent to which the agreements’ mutual expectations are specific and thus characterized by an articulated domain of behavior and a precise time span. In economic exchange, the individual and organization hold an explicit agreement defining reciprocal obligations that are specific in nature. Because these mutual obligations are explicit, they do not change unless the parties formally renegotiate the relationship. In contrast, in a social exchange, the individual and the organization hold an implicit agreement defining reciprocal expectation that are not specific in nature. Because these mutual expectations are implicit, they change as the relationship matures and as the socially shared beliefs or social norms defining the relationship evolve.

Practically, for example, whereas individuals’ positive perception of economic rewards primarily affect their economic exchange relationship with the organization, these perceptions also influence social and economic exchanges. Individuals are likely to interpret these positive perceptions as an implicit signal that the organization values their job. As a result, the job’s perceived importance increases with individuals’ increasing positive perceptions of their economic exchange relationship, even though no explicit or contractual adjustments have been made to the job’s definition. Thus, when individuals hold positive perceptions of their economic exchange relationship with organization, positive spillover effects to their work exchange relationship seem likely. Likewise, an individual’s positive perceptions of his or her social exchange relationship may spill over to positive perceptions of the economic exchange relationship (Cardona, et.al., 2004).

When individuals perceive that the organization values them through the support, encouragement, and help they receive, they develop positive perception of the social exchange relationship. The good perception of both economic and social exchange relationship can be in the form of good ethical work climate. The more individual perceives the good perception of ethical work climate, the more individuals engaged organizational citizenship behavior. Employees are expected not only to be individually productive, but they must also increase productivity by helping around them and exhibiting civic virtue. The practical importance of OCB is that it promotes organizational efficiency, innovativeness, and competitive advantage.
2. *Organizational Commitment*

Organizational commitment (OC) is commonly defined as employee’s interest in and connection to, an organization (Meyer & Allen, 1991). Employees who are committed to their firms tend to identify with the objectives and goals of their organizations and wish to remain with their organization. OC can be characterized by 1) a strong belief in, and acceptance of, the organization’s goals and values; 2) willingness to exert considerable effort for the organization, and 3) a strong desire to remain a member of the organization.

Meyer and Allen (1991) initially proposed that organizational commitment consists of three elements. First, affective commitment denotes emotional attachment to and involvement in the organization. Employees with a strong affective commitment continues employment with the organization because they want to do so. Second, continuance commitment denotes the perceived costs associated with leaving the organization. Employees whose primarily link to the organization is based on continuance because they need to do so. Third, normative continuance reflects a perceived obligation to remain in the organization. Employees with a high level of normative commitment feel that they ought to remain with the organization.

Ethical work climate is likely to influence the level of organizational commitment. Thus employees who are aware of an ethics code appear to perceive their organizations as more ethical. Because of this perception, they perceive a greater degree of fit between the organization’s values and their own. This conceivably leads to a greater degree of identification with the company objectives and principles and correspondingly, a greater degree of organizational commitment. Since employees who are highly committed to their organizations are probably less likely to turn over and more likely to engage in positive behaviors from the organization’s perspective.

3. *Job Satisfaction*

Job satisfaction (JS) is an attitude reflecting how well people like or dislike their job. Job satisfaction has been defined as a pleasurable emotional state resulting from the appraisal of one’s job; an affective reaction to one’s job. Job satisfaction is an attitude Koh and Boo (2001).

If related to ethical work climate, it is found that a significant and positive link between ethical work climate and job satisfaction. Professional standards, a caring environment, and collective good have a significant influence on the overall job
satisfaction measure. This suggests that individuals who believe that employees are expected to follow the laws and ethical codes of their profession and company rules and regulations are more satisfied with their jobs. Individual who believed that people working with other do not put the personal interest above everything else, if they find their jobs more satisfying.

D. Conclusion

Ethical work climate has earned a secure tool in organization. If ethical work climate is embedded in organization’s leadership, culture, socialization, communication, and corporate ethical code, it can shape ethical behavior and guide employees in ethical decision making. Leaders or (managers) must mode the desired behavior and employees need to see that sanctions occur if codes are violated. Employees must perceive ethical work climate therefore employee can participate in discussion about ethical work climate and have full understanding about the meaning. The establishment of ethical work climate should be encouraged because it can create the positive of side of worker attitude. Ethical reinforcement can result in greater job satisfaction, job commitment and organizational citizenship behavior.
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