# Effect of Ethical Climate on Turnover Intention: Linking Attitudinal- and Stress Theory

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ABSTRACT. Attitudinal- and stress theory are used to investigate the effect of ethical climate on job outcomes. Responses from 208 service employees who work for a country health department were used to test a structural model that examines the process through which ethical climate (EC) affects turnover intention (TI). This study shows that the EC–TI relationship is fully mediated by role stress (RC), interpersonal conflict (IC), emotional exhaustion (EE), trust in supervisor (TS), and job satisfaction (JS). Results show that EC reduces (RS) and increases TS. Lower stress levels result in lower EE, higher JS, and lower TI. Also, supervisor trust (TS) reduces IC and EE. The structural model predicts 53.9% of the variance of TI.

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## Introduction

Ethics has become a "hot topic" because of the unfolding of numerous business scandals. This has resulted in an increased awareness that unscrupulous behaviors ultimately compromise the long-term viability of the firm. Unethical practices affect businesses in a number of ways. First, consumers tend to shy away from products and services from organizations with unethical reputations (e.g., Gilbert, 2003; Babin et al., 2004; Román and Ruiz, 2005). This affects current and future business thus hurting the *value* of the firm. Second, some unethical practices are also illegal or fraudulent, consequently increasing the firm's liability, financial risk, and costs (e.g., Chan, 2002; Neese et al., 2005). Third, unethical climate has a pervasive effect on employees via high levels of workplace stress, lower job satisfaction (JS), low performance, and eventually turnover (e.g., Babin et al., 2000; Schwepker, 2001; Weeks and Nantel, 2004).

Ethical climate (EC) refers to an employee's perceptions about the organization's practices, procedures, norms, and values with an ethical context (Schwepker, 2001). Researchers have offered three distinct explanations for the EC and turnover intention (TI) relationship. First, attitudinal theory suggests that individual evaluations of an object lead to attitudes which subsequently explain behavioral intentions (Ajzen, 2001). Hence, positive evaluations of a firm's EC result in higher JS

and consequently lower TIs (e.g., Schwepker, 2001; Mulki et al., 2006). Second, researchers have noted that leadership plays a critical role in the EC–TI relationship (e.g., Grojean et al., 2004; Wimbush and Shepard, 1994). Mulki et al. (2006) report that employees who operate in an EC are more likely to trust their supervisor, are happier with their jobs, and are less likely to quit. Similarly, Valentine et al., (2006) found that the degree to which employees perceive that top management is supportive mediates the effect of ethical context on turnover. Finally, an EC provides employees with cues about behaviors that are appropriate in the organization, thus reducing role stress (RS, Schwepker and Hartline, 2005). A fundamental premise of RS theory is that lower RS leads to higher JS and lower turnover (Jex, 1998; Rizzo et al., 1970). Recently, a research study has shown that the EC–TI relationship is mediated by both RS and JS (Jaramillo et al., 2006a).

Previous research has shown that the EC–TI relationship is explained by the mediation of (1) RS (e.g., Jaramillo et al., 2006a), (2) trust in supervisor (TS) (Mulki et al., 2006), and (3) JS (e.g., Schwepker, 2001). However, research is needed to investigate whether RS, TS, and JS, hold in a single

framework. The present study makes an important contribution to our understanding of the EC–TI relationship by testing an empirical model that simultaneously tests the mediating role of RS, TS, and JS. In addition, this study shows that two additional mediators are present, interpersonal conflict (IC) and emotional exhaustion (EE). A better understanding of the mechanisms through which EC affects TIs has significant implications for both practitioners and academicians. In order to better understand these relationships, a structural model shown in (Figure 1) was tested with responses from 208 service employees who work for a county health department.

## Theoretical background and hypotheses

### Ethical climate

In organizations, employees perceive work climate to be framed by organizational norms and conventions that exits within the structure and procedures of the organization (Martin and Cullen, 2006). EC refers to a type of work climate that reflects organizational policies, procedures, and practices that
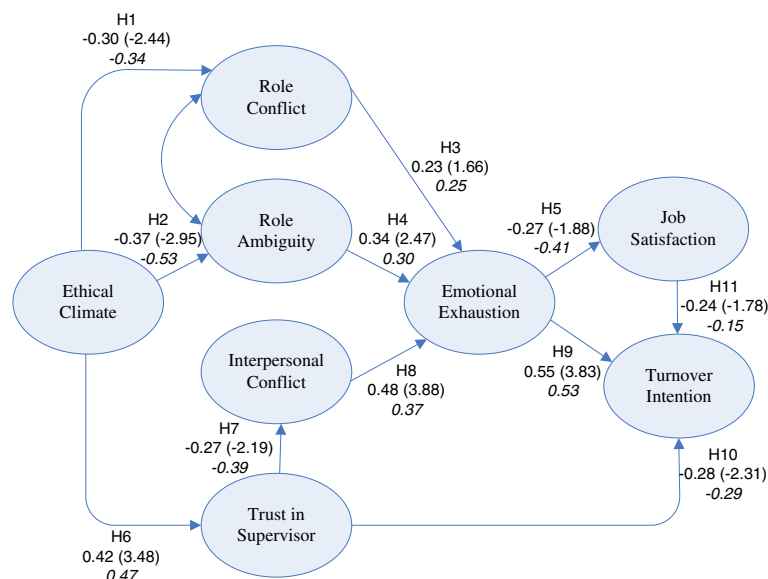


Figure 1. Ethical climate structural model. Notes: Standardized paths are shown in italics. All paths are significant at $\alpha = 0.05$ (1-tail test). Indirect effects can be obtained by multiplying the corresponding unstandardized paths. Fit indices: $\chi^2 = 530$ (d.f. = 312), RMSEA 0.066 (CI$_{90\%}$ 0.056–0.076), CFI = 0.91, NNI = 0.91. Model power $\pi = 0.99$ (at $\alpha = 0.05$, $0.08 \leq$ RMSEA).

have moral consequences. In their early research on EC types, Victor and Cullen (1988) propose that, in general, individual's ethical behavior is guided by three standards: (1) egoism- wishing to maximize own interest, (2) benevolence – desire to do good, and (3) principle – an abstract desire to do what is right irrespective of the outcome or the impact on others. In identifying the different dimensions of EC, Victor and Cullen (1988) also conceptualized three levels of analysis (local, cosmopolitan, and individual) used by employees in decisions guiding their ethical behavior. The local level refers to the organization, cosmopolitan level concerns society at large and the individual level relates to personal beliefs. Based on this, Victor and Cullen (1988) conceptualized five primary dimensions of EC in organizations which they named caring, independent, law and code, instrumental, and rules. These five dimensions govern ethical behaviors because employees are motivated to align their behavior consistent with the organizational values (Barnett and Vaicys, 2000; Cullen et al., 2003; Grojean et al., 2004). Others view EC as a uni-dimensional construct used to gauge employee's assessment of the presence and enforcement of a codes of ethics, communication of ethical expectations to employees, corporate policies on ethics, and top management actions related to ethics (c.f., Jaramillo et al., 2006a; Schwepker, 2001; Weeks et al., 2006).

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 and Cullen, 2006). Law and code climates are based on the belief that external codes (e.g., religious, professional codes) which guide ethical behavior. Finally, the rules dimension relates to a principled climate governed by rules and regulation that guide ethical behavior (Martin and Cullen, 2006). When employees perceive a rules climate and internalize company rules and procedures, their ethical decision making is likely to be guided by these rules (Schwepker, 2001). Researchers believe that when employees know that their ac-

tions are guided by rules and procedures, they perceive an absence of conflict within themselves, find work more meaningful, and display positive attitudes and behaviors in the organization (Martin and Cullen, 2006; Parboteeah and Cullen, 2003; Weeks et al., 2006).

*Role stress theory*

Job roles are defined as a pattern of behaviors that the organization requires from employees (Spector, 1997). In carrying out their jobs, employees often have to meet the behavioral expectations of other organizational members placing unique demands on each employee (Quick and Quick, 1984). Thus, job roles can lead to job strain primarily in the form of role conflict and role ambiguity (Rizzo et al., 1970). Role conflict relates to an employee's belief that his or her job requires meeting incompatible demands and expectations – e.g., exceeding customer expectations while reducing costs to serve the customer (Rizzo et al., 1970). On the other hand, role ambiguity reflects the degree to which employees are uncertain about their job functions and responsibilities – e.g., are service providers responsible for recruiting new customers? (Rizzo et al., 1970).

Researchers have noted that RS is strongly associated with EC (Singhapakdi and Vitell, 1991). EC helps to determine not only issues that are considered to be relevant by the organization but also the criteria to be used to evaluate and respond to these issues (Cullen et al., 1989). Also, EC demonstrates a firm's commitment to ethics and provides employees unambiguous information about the firm's ethical expectations (O'Dwyer and Madden, 2006; Wood and Rimmer, 2003). Since EC provides cues about acceptable behaviors, it constitutes an important factor in lowering RS (Schwepker and Hartline, 2005). In fact, recent studies have demonstrated that a strong EC reduces RS and consequently increases JS (e.g., Jaramillo et al., 2006a; Schwepker and Hartline, 2005).

Stress researchers have also noted that the effect of RS on JS is mediated by EE (e.g., Babakus et al., 1999; Jaramillo et al., 2006b). EE is a proximal consequence of stress characterized by employee feelings of being emotionally overextended by one's

work (Maslach and Jackson, 1981). Employees who are emotionally exhausted develop negative job attitudes and lower JS (e.g., Babakus et al., 1999; Jaramillo et al., 2006b). In addition, employees who do "people-work" are more likely to become emotionally exhausted (Maslach and Jackson, 1981). A premise of the conservation of resources (COR) theory is that EE occurs when employees believe that they do not have adequate resources to meet the job demands (Halbesleben and Buckley, 2004; Janssen et al., 2004; Wright and Hobfoll, 2004). Service employees experience high levels of exhaustion because they often believe that the organization requires them to serve customers without adequately providing the necessary means (Brewer and Clippard, 2002). In the next section, we explore the link between EC, job stress, and EE of service employees.

### Ethical climate, role conflict, and role ambiguity

Role conflict is viewed as an incompatibility in communicated expectations between management and employees (Yetmar and Eastman, 2000). Service employees are particularly prone to role conflict because they are boundary spanners trying to meet company requirements and customer expectations that are often in conflict. A positive work climate where organizational values are in line with employees' moral expectations has been shown to lessen potential conflicts and thus reduces stress (Babin et al., 2000). EC prompts employees to perceive that there is a consensus among the organizational members about the existence of practices and procedures to deal with ethical issues (Victor and Cullen, 1988). Schwepker et al. (1997) found that boundary spanning employees experienced a high degree of role conflict when dealing with ethical situations. Recent studies of marketing managers and employees have shown that reduced conflict among workers happen when they perceive the climate to be highly ethical (Babin et al., 2000; Tsai and Shih, 2005). Based on this we state that:

H1:   Ethical climate has a negative effect on role conflict.

Role ambiguity occurs when employees are confused about job expectations and responsibilities (Low et al., 2001). When service providers perceive that the organization lacks guidelines that help them deal with ethical dilemmas, they are likely to develop role ambiguity. In fact, a recent study of customer service representatives found that EC is negatively related to role ambiguity (Schwepker and Hartline, 2005). Based on this, we hypothesize that:

H2:   Ethical climate has a negative effect on role ambiguity.

### Emotional exhaustion

EE is described as a feeling of depleted energy resulting from excessive psychological and emotional demands on people working in helping professions (Jackson et al., 1987). Role conflict and role ambiguity are two of the most widely recognized sources of psychological strain (Low et al., 2001; Netemeyer et al., 2004). Employees face role conflict when they are subjected to multiple sources of incompatible demands (Rizo, House, and Lirtzman, 1970). Incompatible demands result in employees spending high levels of effort to satisfactorily meet them. Jackson et al.'s (1987) study of public service lawyers reported a positive correlation between role conflict and EE.

Role ambiguity results from confusion about job responsibilities (Rizzo et al., 1970) which can make the employees feel that they are not in control of their job situation and feel overwhelmed by demands. Karasek's (1979) study of employees in two countries found that individuals experienced exhaustion when faced with high job demands and lower decision latitude thus creating a minimum control situation. In boundary spanning situations, employees were found to experience EE when they perceived inconsistencies in management expectations and they lacked clarity about their job responsibilities (Babakus et al., 1999; Jaramillo et al., 2006b). Based on this we state that:

*H3:* Role conflict has a positive effect on EE.

*H4:* Role ambiguity has a positive effect on EE.

### Job satisfaction

JS is an attitude reflecting how well people like or dislike their job (Spector, 1985). Emotionally exhausted workers often feel helpless, lose self-esteem, and feel a lack of accomplishment (Cordes and Dougherty, 1993; Moore, 2000). This can make them anxious about going to work and create a sense of frustration about their inability to display enthusiasm for their work (Babakus et al., 1999). Emotionally exhausted employees develop negative attitudes about customers, the organization, their job, and even themselves (Cordes and Doughtry, 1993). This may explain why they become dissatisfied with their jobs (Abraham, 1998; Babakus et al., 1999; Lee and Ashforth, 1996). Therefore, we state that:

*H5:* EE has a negative effect on JS.

The foregoing discussion suggests that a double-mediation explains why a healthy emotional climate can lead to lower TI. First, EC reduces RS (RC and RA) and thus EE. Second, a lower EE translates into a higher JS and ultimately lower TI. Thus, the impact on employee TIs results from the chain of effects from EC to RA & RC to EE to JS and TI.

### Trust in supervisor

TS entails the positive affect which occurs when an employee believes that he or she has a fair exchange relationship with an honest supervisor (Dirks and Ferrin, 2002; Kwaku and Li, 2002). When supervisors communicate the firm's ethical expectations, they provide workers with a sense of shared values that enhance their beliefs that a supervisor and the organization have moral values and are fair (Ruppel and Harrington, 2000). When employees perceive that the organization is ethical, they feel less vulnerable and more willing to trust their supervisor (Strutton et al., 1993). Hence, an EC is likely to

result in higher supervisor trust (TS) as evidenced by a recent study which provides empirical evidence of a positive EC–TS relationship (Mulki et al., 2006). Therefore:

*H6:* EC has a positive effect on TS.

### Interpersonal conflict

IC is described as an employee's negative social interactions with co-workers and is characterized by a high frequency of arguments, verbal abuse, and nasty behaviors (Penney and Spector, 2005). Such behaviors are less likely to occur in an environment where employees trust their supervisor. TS enhances employees willingness to develop healthy working relationships and creates a teamwork mentality in which people seek and lend a helping hand (Abrams et al., 2003; Russ et al., 1998). Hence, TS is likely to reduce frictions with co-workers. Therefore:

*H7:* TS has a negative effect on IC.

Research has shown that IC is a major stressor and a leading contributor to EE (Jensen-Campbell Lauri and Graziano, 2005; Leiter, 1990). The importance of IC is evidenced by a study that investigated the frequency of stress complaints across multiple occupations which found that employees are more likely to complain about IC than other stressors, including role conflict and ambiguity or other conditions of employment (Narayanan et al., 1999). Moreover, researchers have noted that IC is an acute stressor that often results in negative emotions and feelings of frustration (Fox et al., 2001). These harmful emotions may explain the positive association between IC and EE (Giebels and Janssen, 2005). Based on this:

*H8:* IC has a positive effect on EE.

### Turnover intention

Extant research has consistently shown that three factors are significant predictors of TI: EE (e.g.,

Babakus et al., 1999), TS (e.g., Mulki et al., 2006), and JS (e.g., Jaramillo et al., 2006a). RS theory suggests that EE affects an individual's psychological well-being and has a pervasive effect on organizational variables (Cordes and Dougherty, 1993). EE occurs when employees believe that available resources are not enough for meeting job demands (Singh et al., 1994). Emotionally exhausted employees become dissatisfied with their jobs and eventually withdraw from them (Singh et al, 1994). This notion is well-supported in the literature (e.g., Babakus et al., 1999; Jaramillo et al., 2006b; Low et al., 2001). Thus, we state that:

*H9:*   EE has a positive effect on TI.

Researchers have shown that when employees trust their supervisor, they feel safer and become loyal to the organization, and therefore less likely to quit (e.g., Mulki et al., 2006). The negative relationship between TS and TI is supported by several studies in both sales and non-sales contexts (e.g., Brashear et al., 2003; Dirks and Ferrin, 2002). Based on this we state that:

*H10:*   TS has a negative effect on TI.

Finally, attitudinal research shows that behavioral intentions are a result of attitudes (Ajzen, 2001). Since JS is an attitude that results from an employee's evaluation of job conditions, it is associated with TI (Spector, 1997). The negative relationship between JS and TIs has been well-established in the literature (e.g., Mulki et al., 2006, Babakus et al., 1999). The above discussion leads to the following hypotheses:

*H11:*   JS has a negative effect on TI.

**Methods**

*Sample*

This study used a sample of employees that provide healthcare and social benefits to a large metropolitan county. This sample is appropriate for this study because healthcare employees operate under highly stressful conditions derived from excessive work demands, limited resources, and emotionally charged interactions with customers (Bergin and Rønnestad, 2005). Previous research suggests that healthcare workers are particularly prone to experience both *role stress* and *burnout* (Kalliath et al., 2000). For example, while coping with ever increasing problems of resource allocations, healthcare employees may empathize with customer requests while mangers find these requests unjustified from the organization's perspective (Vivar, 2006). Researchers also believe that healthcare workers are prone to RS due to their exposure to divergent management styles, demanding client base and varying customer requests while managing with limited resources (Janssen et al., 2004). Specifically, they have to balance the conflicting demands from customers and managers who hold conflicting perspectives. Health workers may also experience conflicting demands from sources within the organization due to power differentials, competition over scarce resources, and office politics. In addition, they may experience confusing directions due to ambiguity over jurisdiction in client situations (Hendel et al., 2005). Thus, the sample of healthcare employees used in this study constitute an adequate sample for examining ethics and EE since workers frequently face ethical concerns (Petry et al., 1998) and also deal with stressful situations in their job.

This research was conducted with active support from a county health department in the Southeastern United States. The organization serves about one million county residents. A survey questionnaire along with a letter signed by the researchers and a postage paid return envelope was sent to all 510 employees. The letter communicated the survey's purpose and assured full confidentiality of individual responses. Respondents were asked to return questionnaires directly to the university researchers. Ten days after the survey mailings, a reminder card was sent to all the respondents requesting participation and asking them to complete the survey if they had not already done so. A total of 212 surveys were returned indicating a 42% response rate. After discarding four incomplete surveys, 208 survey responses were coded for analysis. A test for non-response bias was conducted by responses and late

responses (Armstrong and Overton, 1977; Larson and Chow, 2003). All differences were statistically non-significant.

Respondents age ranged from 23 to 76 years with a mean of 45.7 years (SD = 11.0); 68.8% were females, 22.6% were males and 8.6% did not indicate gender. Employees' experience with the department ranged from less than a year to 30 years with a mean of 8.4 years (SD = 6.8). Their total work experience ranged from 2 to 47 years (mean = 22.0, SD = 11.2 years). Almost equal numbers of responses were received from all six divisions of the department and represented employees ranging from social workers to clinical staff.

### Measures

All constructs were measured with published scales that have been extensively used in organizational research. EC was measured using Schwepker's (2001) scale. This scale measures perceptions of a firm's ethical practices, enforcement of codes, and management actions governing ethical behaviors in organizations. Typical items from this scale include: "My company strictly enforces policies regarding ethical behavior" and "top management in my company has let it be known in no uncertain terms that unethical behaviors will not be tolerated." TS was measured using Robinson's (1996) 7-item scale, which has been extensively used in organizational research. This scale integrates both cognitive and affective views of trust (McAllister, 1995). Typical items for the TS scale are: "I am not sure I fully trust my employer (reverse scored)" and "I believe my employer's motives and intentions are good." EE was assessed with a 9-item scale (Maslach and Jackson, 1981). Sample items include, "I feel emotionally drained from my work" and "I feel fatigued when I get up in the morning and have to face another day on the job." IC was measured using Spector and Jex's (1998) 4-item scale. "How often do you get into arguments with others at work?" is an item from this scale. Role Conflict and Role Ambiguity were measured using (Singh et al., 1996) 3-item scales. Item examples include "I receive incompatible requests from two or more people" (RC), and "I know exactly what is expected of me"

(RA). TI was assessed using a single-item scale developed by Spector (1985) which asks, "How often have you seriously considered quitting your present job?" The use of a single-item scale for measuring this behavioral intention has been found appropriate for capturing the construct (Wanous et al., 1997). A reliability of 0.85 was used to set the factor loading value and error variance for this single item scale in the structural model (Donavan et al., 2004).

## Results

### Measurement model

A confirmatory factor analysis (CFA) was used to investigate the measurement properties of the scales used in this article (Diamantopoulos and Siguaw, 2000). The parameters of the model were estimated using the Maximum Likelihood Method, CALIS-Procedure of SAS 8.0. The resulting indices suggest an acceptable fit ($\chi^2$ = 472 with d.f. = 296; RMSEA 0.061, $CI_{90\%}$ 0.051–0.071; CFI = 0.93; Bollen's NNI = 0.93), especially given that power of the measurement model was high, $\pi$ = 0.99, RMSEA < 0.08 at $\alpha$ = 0.05 (Diamantopoulos and Siguaw, 2000; MacCallum et al., 1996; McQuitty, 2004). Evidence of convergent validity exists when all indicator loadings ($\lambda$) are statistically significant (Diamantopoulos and Siguaw, 2000). A scale purification process was conducted and all items with standardized factor loadings smaller than 0.40 were removed (Diamantopoulos and Siguaw, 2000). Reliability was assessed with the composite reliability ($\rho_c$) and average variance extracted statistics ($\rho_v$). As shown in Table 1, both indices suggest that the scales used are reliable (Diamantopoulos and Siguaw, 2000). Table 1 also shows that Cronbach ( is higher than 0.7 for all multiple-item measures.

A confidence interval test was conducted to assess the discriminant validity of the model constructs. The test provides evidence of construct discriminant validity since none of the 95% confidence intervals of the factor correlations included 1.0 (Fornell and Larcker, 1981). Also, a Harmon's CFA 1-factor test was used to assess whether common method variance (CMV) threatens the validity of our findings

TABLE 1.

Correlation matrix

| | EC | RC | RA | IC | TS | EE | JS | TI | Age | Gender | EXPC | EXPT |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Ethical climate (EC) | 0.90 | | | | | | | | | | | |
| Role conflict (RC) | −0.26★ | 0.73 | | | | | | | | | | |
| Role ambiguity (RA) | −0.40★ | 0.24★ | 0.73 | | | | | | | | | |
| Interpersonal conflict (IC) | −0.33★ | 0.27★ | 0.13 | 0.85 | | | | | | | | |
| Trust in supervisor (TS) | 0.41★ | −0.31★ | −0.45★ | −0.36★ | 0.91 | | | | | | | |
| Emotional exhaustion (EE) | −0.21★ | 0.36★ | 0.32★ | 0.41★ | −0.38★ | 0.89 | | | | | | |
| Job satisfaction (JS) | 0.32★ | −0.07 | −0.32★ | −0.27★ | 0.39★ | −0.39★ | 0.75 | | | | | |
| Turnover intention (TI) | −0.28★ | 0.24★ | 0.40★ | 0.27★ | −0.47★ | 0.60★ | −0.43★ | – | | | | |
| Age | −0.04 | −0.03 | −0.11 | −0.13 | 0.05 | −0.17★ | 0.11 | −0.19★★ | – | | | |
| Gender (male = 1) | 0.00 | −0.03 | 0.16★ | −0.01 | 0.04 | −0.02 | −0.02 | 0.01 | -0.02 | – | | |
| Experience in company (EXPC) | −0.01 | 0.06 | −0.07 | 0.06 | −0.06 | 0.10 | 0.03 | 0.02 | 0.30★ | −0.12 | – | |
| Total work experience (EXPT) | 0.06 | −0.14★★ | −0.15★★ | −0.20★ | 0.14 | −0.14 | 0.05 | −0.14 | 0.78★ | 0.02 | 0.27★ | – |
| Mean | 4.97 | 4.05 | 2.76 | 2.21 | 5.21 | 3.24 | 5.55 | 2.82 | 45.65 | 0.25 | 8.36 | 22.03 |
| Standard deviation | 1.38 | 1.50 | 1.15 | 1.32 | 1.46 | 1.40 | 1.35 | 1.35 | 11.05 | 0.43 | 6.84 | 11.18 |
| Composite reliability (ρc) | 0.84 | 0.62 | 0.68 | 0.76 | 0.88 | 0.82 | 0.69 | – | – | – | – | – |
| Average variance extracted (ρv) | 0.57 | 0.45 | 0.41 | 0.51 | 0.52 | 0.54 | 0.44 | – | – | – | – | – |

*Notes* Cronbach's alphas in matrix diagonal. ★Correlations are significant at $\alpha = 0.01$. ★★Correlations are significant at $\alpha = 0.05$.

(Podsakoff et al., 2003). CMV constitutes a serious threat to validity when the majority of the variance can be accounted by a single factor (Podsakoff et al., 2003). The 1-factor model yielded a $\chi^2$ of 2,169 with d.f. = 331 compared with $\chi^2 = 472$ with d.f. = 296 for the measurement model. Since the one-factor model is significantly worse than the measurement model ($\Delta\chi^2 = 1,697$, (d.f. = 35 vs. critical $\chi^2 = 49.8$ at $\alpha = 0.05$), CMV is not a serious threat to this study (Olson et al., 2005; Podsakoff et al., 2003).

*Structural model*

A structural model was used to test the relationships shown in Figure 1. The parameters of the structural model were estimated with the maximum likelihood (ML) method using a covariance matrix (Diamantopoulos and Siguaw, 2000; Hair et al., 1998). Results showed that the key fit index, RMSEA 0.066 (CI$_{90\%}$ 0.056–0.076), was in the acceptable range (Diamantopoulos and Siguaw, 2000; Hair et al., 1998). The acceptable fit was also confirmed by other indices ($\chi^2 = 530$, d.f. = 312, CFI = 0.91, and Bollen's NNI = 0.91). The statistical power of the structural model was high ($\pi = 0.99$, RMSEA $< 0.08$ at $\alpha = 0.05$). When power is high, the likelihood of not rejecting a *truly bad model* and *theory* is low (MacCallum et al., 1996; McQuitty, 2004). Given the satisfactory fit and power of the model, the signs of the significant structural paths were used to evaluate the hypotheses.

TABLE 2.

Hypotheses and structural paths

| Hypotheses | Parameter statistics | | Hypotheses testing[b] | Total effect[c] |
|---|---|---|---|---|
| | SP[a] | *t*-values | | |
| H1: Ethical climate → role conflict | −0.34 | −2.44 | Supported | −0.29 |
| H2: Ethical climate → role ambiguity | −0.53 | −2.95 | Supported | −0.37 |
| H3: Role conflict → emotional exhaustion | 0.25 | 1.66 | Supported | 0.23 |
| H4: Role ambiguity → emotional exhaustion | 0.30 | 2.47 | Supported | 0.34 |
| H5: Emotional exhaustion → job satisfaction | −0.41 | −1.88 | Supported | −0.27 |
| H6: Ethical climate → trust in supervisor | 0.47 | 3.48 | Supported | 0.42 |
| H7: Trust in supervisor → interpersonal conflict | −0.39 | −2.19 | Supported | −0.27 |
| H8: Interpersonal conflict → emotional exhaustion | 0.37 | 3.88 | Supported | 0.48 |
| H9: Emotional exhaustion → turnover intention | 0.53 | 3.83 | Supported | 0.61 |
| H10: Trust in supervisor → turnover intention | −0.29 | −2.31 | Supported | −0.36 |
| H11: Job satisfaction → turnover intention | −0.15 | −1.78 | Supported | −0.24 |

[a] Standardized coefficient.
[b] Significant at $\alpha = 0.05$, one tail test.
[c] Unstandardized effect.

*Findings*

This research brings additional evidence to the notion that EC has positive organizational outcomes (Jaramillo et al., 2006a, b; Mulki et al., 2006; Weeks and Nantel, 2004). As shown in Tables 1 and 2, all model hypotheses hold at the correlation and structural levels. This supports our claim that the effect of EC on TI is mediated by (1) RS, (2) IC, (3) EE, (4) TS, and (5) JS. The model shown in Figure 1 explains a significant amount of variance of role ambiguity ($R^2 = 0.28$), role conflict ($R^2 = 0.12$), IC ($R^2 = 0.15$), TS ($R^2 = 0.22$), JS ($R^2 = 0.17$), EE ($R^2 = 0.37$), and TI ($R^2 = 0.54$).

As shown in Figure 1, results indicate that EC plays a critical role in reducing role conflict (H1: $\beta = -0.34$, $t = -2.44$) and role ambiguity (H2: $\beta = -0.53$, $t = -2.95$). Also, RC and RA lead to a higher level of EE (H3: $\beta = 0.25$, $t = 1.66$ and H4: $\beta = 0.30$, $t = 2.47$). Taken together, the significance of H1 through H4 brings support to the assertion that RS mediates the effect of EC on EE. Also, consistent with H5, a higher level of EE leads to a lower JS (H5: $\beta = -0.41$, $t = -1.88$).

This study shows that EC has a positive effect on TS (H6: $\beta = 0.47$, $t = 3.48$) which in turn leads to lower IC (H7: $\beta = -0.39$, $t = -2.19$). In turn, IC is a significant antecedent of EE (H8: $\beta = 0.37$, $t = 3.88$). The findings show that TS and IC mediate the effect of EC on EE.

In line with previous studies, this research shows that service employees with high levels of EE become dissatisfied with their jobs and are more likely to quit (H9: $\beta = 0.53$, $t = 3.83$). However, their intentions to leave are lower when they trust their supervisor (H10: $\beta = -0.29$, $t = -2.31$). Another significant predictor of TIs is JS (H11: $\beta = -0.15$, $t = -1.78$).

*Discussions and implications*

Researchers have recognized that fostering a positive EC is not only the "right thing to do" but also a sound business practice (Joyner and Payne, 2002; Key and Popkin, 1998). This research provides additional empirical evidence in support of the notion that "good ethics" is "good business". By linking EC to important organizational variables, this study shows that an EC results in positive job attitudes, lower stress, and a lower TI.

This is the first study linking stress theory and attitudinal theory to explain the process through which EC reduces TI. Job stress theory suggests that

stressful job conditions lead to EE, and, in turn, lower JS and increased TIs (Babakus et al., 1999; Jaramillo et al., 2006b; Low et al., 2001). Our findings show that a strong EC can help firms reduce RS and its negative effects.

As boundary spanners, healthcare employees are prone to high levels of stress and EE (Lonne, 2003; Maslach and Jackson, 1981). During their interactions with customers, service employees face numerous ethical dilemmas (Schwepker and Hartline, 2005). Since an EC clarifies a firm's ethical expectations, it can help service provider's deal with ambiguous and sometimes conflicting expectations from organizational stakeholders (Jaramillo et al., 2006a). This study highlights the important role of managers in clarifying and communicating ethical standards to employees.

Schneider's (1987) attraction-selection-attrition (ASA) theory suggests that individuals are attracted to organizations that are in congruence with their values. This attraction and selection process results in similar types of people being attracted to, selected by, and retained by organizations (Schneider, 1987). When employees find a lack of fit due to differences between individual and organizational values, they leave. Employees learn what constitutes appropriate behavior through organizational socialization (Grojean et al., 2004). Research shows that unethical practices often involve tacit cooperation of other organizational members and reflects the values, attitudes, beliefs, and behavioral patterns defined by the organization (Tsahuridu and Perryer, 2002). Thus, workers in organizations do not function as highly individualistic ethical decision makers. Their actions reflect that they are subject to company rules and they are influenced by role expectations of the organization (Tsahuridu and Perryer, 2002).

The above highlights the critical role of organizational leaders in establishing a values based climate (Grojean et al., 2004) and influences conduct of employees by displaying ethical behaviors. In addition, it is critical that leaders make certain that neither the formulation nor the implementation of company policies undermines the ethical beliefs of employees. Leaders must make sure that the ethical standards are clearly communicated to the organization (Grojean et al., 2004). Previous research has shown that a positive EC leads to a positive work environment where employees are satisfied with

their jobs, committed to the organization, and are less likely to quit (Cullen et al., 2003; Koh and Boo, 2001; Mulki et al., 2006). The present study shows that EC promotes trust in the organization which subsequently helps to reduce IC. This is important because IC is considered one of the most frequently mentioned sources of stress in service occupations, even above role conflict and role ambiguity (Narayanan et al., 1999).

The chain-of-effects depicted in Figure 1 is consistent with attitude theory (Ajzen, 2001). Attitude theory suggests that attitudes are formed from evaluations of job conditions. Such attitudes are proximal antecedents of behavioral intentions. As shown in Figure 1, ethical evaluations of job conditions have a significant effect on JS which ultimately leads to TI. When the employees perceive the absence of a strong EC, they begin to feel that the organization is endorsing individual self-interests at the expense of others. This can make employees reluctant to identify with their organization and will lead to lower organizational commitment (Cullen et al., 2003). This is important because research has shown a strong relationship between organizational commitment and TIs (Mulki et al., 2006; Schminke et al., 2005; Wasti, 2003).

Research evidencing that EC is beneficial to an organization has important practical implications for managers since "EC is one of the most manageable factors that can be used to influence ethical behavior" (Weeks and Nantel, 2004, p. 202). Development of trust, commitment, and effort among all stakeholders is possible when an organization is seen as being ethical (Hosmer, 1997). In addition, EC positively influences the moral thinking of employees thus making them socially responsible corporate citizens (Vitell and Paolillo, 2004). This study adds additional support to the long held belief that supervisors can actually change employee attitudes by taking simple actions such as circulating a code of ethics and clarifying ethical expectations (Weeks and Nantel, 2004). Also, managers can create a positive EC by incorporating such expectations into the reward system (Murphy, 2004).

Finally, a strong EC occurs when supervisors and upper management actually "walk-the-walk" and hold themselves to high ethical values and behaviors (Grojean et al., 2004). Then, such behaviors will be emulated by the entire workforce. It is believed that

the perception of a principled-local climate that supports rules and laws encourages spirituality in organizations (Parboteeah and Cullen, 2003). This is because EC fosters trust and socially responsible ideas promoting a greater sense of community and belongingness. A positive EC that provides objective ethical guidelines makes employees feel good about their job and promotes meaningful work that goes beyond the descriptions of interesting and satisfying (Parboteeah and Cullen, 2003). Organizational climate also provides nourishment of the inner life aspects of spirituality which leads to productive outer life. The link between EC and spirituality can thus be an alternate explanation for employees' TIs. Consistent with Schneider's (1987) attraction-selection-attrition theory, when employees perceive a strong commitment to ethical behavior, they perceive alignment with their personal values. This alignment leads to a productive inner and outer life thereby reducing turnover. On the other hand, lack of implementation of ethical guidelines may make employees perceive their work as a meaningless and create an unproductive life experience, thus increasing the perception of an inappropriate person-job fit leading to increased TIs.

Research findings stress the importance of communicating organizational ethical expectations to employees. Communication is critical because it helps boundary spanning employees to objectively assess whether organizational ethical values are consistent with their own personal values (Dubinsky and Ingram, 1984; Jaramillo et al., 2006a). This assessment is likely to result in perceptions of congruency between organizational expectations and individual employee attitudes, thus leading to lower stress and positive job attitudes (Jaramillo et al., 2006a, Schwepker, 2001).

It is generally understood that compliance with law and regulations is a necessary but not sufficient condition for ethical business practice (Michaelson, 2006). Organizations can promote a culture that encourages conduct and commitment to comply with ethical codes. However, effective EC is possible when employees internalize ethical values, go beyond what the rules compel and voluntarily do what is right. Manager's success in aligning the ethical compliance expectations with employees' ethical values can create an effective ethical organizational climate.

## Limitations & future research

Although this study sheds light on the role of EC on employee's EE, it has several limitations. First, this study's design is based on a cross-sectional sample and hence causality of relationships cannot be claimed. This is because a SEM model can have an infinite number of statistically equivalent models that can provide equal fit (Hair et al., 1998; MacCallum et al., 1993). Hence, we relied on prior research and meaningfulness of the model to justify the hypothesized causal links provided to support the stated model (MacCallum et al., 1993). Further research using experimental designs or utilizing longitudinal data is recommended to investigate the causal links among the model constructs. Another limitation of this study is that data were collected from a city–county health department, a government organization where the decision latitude is low and job demands are high which could possibly be classified as a high strain situation (Karasek, 1979). It is possible that the findings could be different in settings where employees have greater decision latitude when confronted with complex ethical situations. Also, while we had a response rate of 42%, we cannot guarantee that respondents' perceptions are representative of the organization as a whole. Thus, future research could use different settings as well as multiple samples. In addition, the current research explored the influence of a rules-oriented climate. It would be interesting to explore how a benevolent EC where people look out for each other's good and do what is best for everyone in the company, might influence work stress.

Finally, survey-based research is subject to social desirability bias (SDB), a desire to present oneself favorably regarding social norms and standards (Zerbe and Paulhus, 1987). SDB is an important concern in ethics research since employees often fail to admit wrongdoing in an attempt to create a favorable image to managers (Giacalone and Payne, 1995). However, we do not believe SDB is driving the results of this study as we have taken several steps during data collection to minimize it. For instance, we guaranteed anonymity and confidentiality of individual responses, used some reversed scored items, and asked respondents to mail the surveys directly to the university researchers (Podsakoff et al., 2003). As shown in Table 1, there is no evidence

of ceiling- or floor-effects, which are likely to occur when SDB is present. A post-hoc analysis revealed that less than ten percent of the participants had ratings of seven on either the EC or the TS scales, which range from 1 to 7. As recommended by Zerbe and Paulhus (1987), we removed these responses to control for SDB and re-calculated Pearson's correlations. Results of this analysis indicate that the correlation structure of the constructs used in our model remains almost unchanged, with less than 5% differences in all cases. This is in line with the results of Moorman and Podsakoff's (1992) meta-analysis and with Spector's (2006) claim that "at best, social desirability accounts for a small amount of variance in a limited number of organizational variables" (p. 224).

As social animals, humans need standards of ethical behavior for harmonious existence in groups (Maheshwari and Ganesh, 2006). A positive EC is known to reduce deviant behavior and promote interpersonal helping and courtesy among employees thus creating a desirable workplace environment (Appelbaum et al., 2005; Martin and Cullen, 2006). Additional research could build upon these findings by exploring the link between EC and extra role performance behavior (helping, courtesy, sportsmanship, and civic) among various stakeholders (customer service employees, clients, board members, suppliers) in various service settings. In addition, the relationship between EC, social responsibility and corporate citizenship could also be an avenue for future research.

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