

The Moral Business Tone of Organizations and Its Impact on The Ethical Decision Making of Employees

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ABSTRACT

This study involves a first attempt to examine ethical climate types and corporate ethical values and their impacts on ethical decision-making of employees in the oil and gas industry in Australia. A survey methodology is used and results indicate that employees' perceptions about their organizations' extant moral tone and punishment systems significantly influence ethical judgments. However, there is no evidence that oil and gas company managers demonstrate unethical behaviour rather it appears that such behaviour is strongly admonished by management. Ethical climate types per se do not appear to be significantly different from expectations for mature industry firms and are not associated with decision-making.

Keywords: ethical climate, corporate ethical values, ethical judgment, Australia

INTRODUCTION

Ethical or unethical decisions in a business context may have particularly far-reaching implications as business involves countless transactions and impacts on a wide range of stakeholders, including shareholders, employees, suppliers, and customers. For example, consider the business decision to taint baby milk with melamine and toys with lead paint in order to cut costs in China. Enron, WorldCom, Martha Stewart Incorporation and Tyco are just a few of the examples of business scandals that have attracted considerable media and stakeholder attention in recent years. Fraudulent corporate activities that drain millions of dollars from firms have heightened concern about the quality of ethical climates within the corporate world (e.g., Arjoon 2005). When reviewing recent scandals one common issue dominates - unethical decision making of executive managers. Weaknesses of corporate governance, encouraged and dominated by the unethical behaviour of top management, are blamed for the collapses of Enron and HIH Insurance (Li 2010; Lipton 2003). Thus, major corporate scandals have faltered the financial markets and demoralized investor confidence. Executive management behaviour and the decisions they make set the tone for the rest of the organisation and filters down to employees at lower levels, creating an image that can be either emulated or rebuffed. These attitudes undoubtedly affect the views and perceptions of personnel responsible for promulgating management policies and practices.

Given the many ethical dilemmas confronted by individuals in organizations and the prevalence of negative stereotypes related to ethical standards in the corporate world, researchers and managers are particularly interested in employees' perceptions of their ethical environments and the way these perceptions impact ethical decision making. In the last decade, there has been a gradual increase in research examining business ethics in countries other than the United States. For instance, Vaiman et al. (2011) examined the business culture in Iceland, Waagstein (2011) investigated corporate social responsibility in Indonesia, Chu et al. (2011) and Fan et al. (2012) examined auditor independence in China, Shafer (2008) examined ethical climates in Chinese CPA firms, and Mathuri and Gilbert (2011) examined corporate social responsibility in Kenya. To date, limited research has been conducted in Australia, and none in is the area of emerging importance, notably the oil and gas industry.

Australia is a major importer and exporter of oil and gas and petroleum related resources. Throughout 2011, the oil and gas sector in Western Australia in particular, has helped establish a commodity based backbone substantially supporting national economic growth. The value of Western Australia's oil and gas industry alone reached a record high of \$107 billion in 2011, representing an increase of 16% over the previous year (Department of Mines and Petroleum 2012). The state has a prosperous oil and gas sector with more than \$100 billion worth of projects, leading the way as Australia's number one resources investment destination. Its success to date has been the result of effective and efficient management, fueled by the entrepreneurial zeal of skilled personnel. The time is now right to review the moral health of these companies in terms of their ethical climates and associated corporate values. Competition for markets within the industry is high and investment capital is directed to those firms that appear to take every opportunity to apply their entrepreneurial abilities in order to obtain lucrative long term contracts that will justify exploration and development, with the ultimate objective of maximizing returns to investors. Planning and budgeting needs to be strategic and innovative and involve the engagement of a wide variety of staff in regional locations and the CBDs of various capital cities. Employees are often attracted by the risky nature of the employment, where tenure depends on levels of demand and finance availability. Individual salaries

and benefits are relatively high, but require substantial input of effort without any certainty of long term contracts. These kinds of demands within an emerging and volatile industry type can result in climate types and policies that reflect competing demands and uncertainty and expose management at all levels to pressure likely to affect how they relate to staff and the ethical standards that are both formally and informally propagated.

The aim of this study is therefore administer a cross-sectional survey to examine the moral business tone of selected Australian based companies. In particular, the ethical climate and specific corporate values are examined using staff employed in the central administrations as proxies. How ethical climate and corporate values influence employee perceptions in terms of their ethical decision making will also be examined. Thus this study examines the above issues by addressing the following research questions:

1. What are the perceived ethical climate types and corporate ethical values (CEV) held by employees in selected firms?
2. What are the impact(s) of perceived ethical climate types and corporate ethical values on the ethical judgments of employees in selected firms?

LITERATURE REVIEW AND HYPOTHESES DEVELOPMENT

Ethics is referred to as “the rules or principles that define right and wrong conduct” (Davis & Frederick 1984 p. 76). In organizations, ethical decision making models typically assume that individuals are affected by internal and external influences when making judgments. For instance, Rest’s (1979) ethical decision making model describes how various cognitive structures and processes involved in the ethical decision making process combine to influence an individual’s ethical behaviour. Rest (1979) posited that a decision making process consists of four interactive elements: (1) recognizing an ethical issue, (2) making an ethical judgment, (3) forming an ethical intent, and (4) behaving in an ethical manner (character). In addition, Hunt and Vitell (1991; 1986) proposed that an individual’s ethical decisions are influenced by personal traits (e.g., beliefs, values, cognitive moral development etc.), organizational and cultural environments (e.g., legal and political norms and systems). A number of studies have provided evidence to validate the theory (e.g., Woodbine et al. 2012; Bernadi & Arnold 1997; 2004; Sweeney & Roberts 1997; Windsor & Ashkanasy 1995; Ponemon 1992a; 1992b).

Although personal characteristics are important in examining ethical judgment making, the role of contextual factors such as reward systems, regulations, and codes of conduct are relatively important from a practical perspective (Fan et al. 2012). Victor and Cullen (1988) also argued that organizations shape the moral behaviour of their employees. Managers exert significant control over the work environment compared to the control they may have over individual’s moral or values development (Shafer & Simmons 2011). Employees perceive organizational standards within the context of these contrived environments representing key situational factors affecting employees’ ethical decision making (Jones 1991; Hunt & Vitell 1986; Trevino 1986; Ferrell & Gresham 1985). Individual ethical decision making in organizations cannot be understood without considering the context within which decision processes take place (Barnett & Vaicys 2000). Liaw (2011) argues that the organizational setting during the decision-making process includes the organizational environment, climate, culture, ethical values, and other related factors. These serve as important variables in individual ethical decision making and intention to act morally. According to Trevino et al. (1998), the study of organizational influences on ethical decision making arguably has more practical significance than the study of personal characteristics (e.g., traits). In addition, it is commonly recognized that the ethical climate or culture in organizations can be managed effectively or ineffectively (Schminke et al. 2007; Grojean et al. 2004; Trevino et al. 1999).

Over the last two decades, contextual studies of moral tone in organizations have been represented primarily by two main dimensions in the business ethics literature, namely organizational ethical climate types (Victor & Cullen 1988; 1987) and organizational ethical culture or values (Trevino et al. 1998; Hunt et al. 1989). The moral tone within organizations has been variously termed as *ethical climate* (Victor & Cullen 1988; 1987), *ethical culture* (Trevino et al. 1998; Trevino 1986), or *corporate ethical values* (CEV) (Hunt et al. 1989). These phrases refer to aspects of an organization’s systems, policies and environment that that can be perceived by employees and which influence ethical behaviour. Denison (1996, p. 646) asserts that both organizational climate and organizational culture “address a common phenomenon: the creation and influence of social contexts in organizations”. Denison (1996, p. 646) also explains that “climate refers to a situation and its link to thoughts, feelings, and behaviours about organizations” whereas “culture refers to an evolved context” that is “rooted in history” and “collectively held” by members in an organization. Thus, climate includes individual perceptions of their work environment (AI Shammari, 1992) and culture focuses on common beliefs and values held by organizational members (Denison 1996) and provide collective norms that guide behaviour (Trevino 1986). AI Shammari (1992) suggests that climate types arise in all organizations but cultural norms take time to develop if commonly held beliefs and values do not

exist initially in those organizations.

Prior studies show that the contextual concepts ethical climate and corporate ethical values provide complementary triggers for enhancing critical employee decision making affecting organizational success (e.g., Shafer & Simmons 2010; Shafer 2009; Martin & Cullen 2006; Barnett & Vaicys 2000; Wimbush & Shepard 1994). However, these studies examine the two factors separately. In this study it is contended that a composite of employee perceptions of both ethical organizational working climate and corporate values provide a broader window into a company's workplace practices particularly its moral compass.

■ Ethical Climate Types

Victor and Cullen (1988; 1987) were the first to develop a theoretical model for measuring ethical climate types in an organization. They defined ethical climate as 'those aspects of work climate that determine what constitutes ethical behaviour at work' (1988 p. 101). As such, it represents the norm in regards to how ethical issues might tend to be resolved within an organization. Ethical climate theory was developed based on three ethical premises: (1) egoism, (2) benevolence, and (3) principle, corresponding to Lawrence Kohlberg's (1967) pre-conventional, conventional, and post-conventional stages of moral reasoning. The Ethical Climates Questionnaire (ECQ) was developed based on a conceptual framework for measuring individual perceptions of organisational ethical climate. Victor and Cullen (1988; 1987), developed a multi-dimensional conceptual model including five identifiable dimensions: *instrumental*, *caring*, *independent*, *law and code*, and *rules*.

The *instrumental* climate is identified based on the egoistic criterion and is associated with the pursuit of self-interest (Victor & Cullen 1988; 1987). Thus personal and organizational self-interest is the normative expectation that guides decision making. The *caring* type of ethical climate is based on the benevolence ethical criterion and concerns about the welfare of others, within or external to the organization (Victor & Cullen 1988; 1987). Managers operating within this ethical climate demonstrate a sincere interest in the well-being of others who might be affected by their ethical decisions. In the *independence* dimension, the principle ethical criterion is predominant (Victor & Cullen 1988; 1987). For this climate type, individuals perceive that they should act on personal moral convictions based upon a set of well-considered principles when making ethical decisions. In the *rules* dimension, organizational decisions are perceived to be influenced by a pervasive rule based mentality embraced in organizational policies, codes of conduct, standards, and regulations (Martin & Cullen 2006). The climate of *law and code* is identified in situations where individuals perceive that their organization supports principled-based decision-making regimes that place an emphasis on external codes such as the law and professional codes of conduct (Victor & Cullen 1988; 1987). It is perceived that these codes guide the ethical decision making of professionals and are reflected in organizational behaviour.

There is no evidence of any study that has examined climate types and corporate values within firms engaged in the oil and gas industry in Australia. The codes of ethical conduct for each of the selected international companies included in this study provide some idea of the relative importance they each give to the aforementioned climate types. There is evidence within their respective public websites that all companies are concerned about the wellbeing of employees and customers (local and foreign). Fair, equal and honest treatment is emphasised, with much attention being focussed on mutual respect, equal opportunity, health and safety issues (*caring climate*). At the same time, oil and gas companies appear particularly conscious of the need to conform to various legislation and regulations governing mining and related development and distribution activities that are subject to considerable political, social and environmental pressures in Australia and overseas. Employees are likely to identify closely with these concerns, which will be further reflected in the way companies organise their internal operations. For example, *rules* relating to occupational health and safety are thoroughly documented in online publications and closely administered.

In conformity with this, employees responding to the survey are expected to demonstrate that the corporate ethical climate is dominated by impressions about the need to follow *rules and regulations* associated with the proper conduct of business and professional activity within the industry, which will be similarly matched by a significant concern about meeting government *legal* requirements. These issues were strongly reinforced within all codes of conduct, providing employees with detailed guidelines and codes of practice. On the other hand, little information is provided in the codes that relate specifically to *independence* issues likely to impact employees. The extent to which employees believe they are free to form autonomous responses to moral situations can only be determined by the survey process. Online codes of conduct provide no information about training, appraisals, penalties or sanctions associated with the reinforcement of moral behaviour as indicators of management control over ethical decision making. *Instrumentalism* as a climate type will also not be identifiable within the codes, however the nature of the enterprises suggests that financial success demands the imperative to maximize returns for stakeholders immediately associated with the industry (i.e., reflected in good rates of executive compensation and returns to investors). Thus it may be construed that oil and gas companies operating in Australia are expected to be viewed as somewhat

instrumental by employees.

In the context of what has been discussed, four hypotheses are to be tested. As a group, employees in the oil and gas industry will:

H₁: Identify their firms as exhibiting strong *rules* and *law and code* climate type dimensions.

H₂: Identify their firms as being somewhat indifferent with respect to the *independence* climate type dimension.

H₃: Identify their firms as exhibiting a strong *caring* climate type dimension.

H₄: Identify their firms as exhibiting a strong *instrumental* climate type dimension.

Victor and Cullen's (1988; 1987) model is a widely used instrument in the business ethics research. For example, Wimbush and Shepard (1994) found there is a close link between the behaviour of employees and the climate types predominating within an organization. Wimbush et al. (1997) demonstrated that the perceived organizational ethical climate is positively related to individuals' ethical judgment, intention, and behaviour in their organizations. Similarly, Barnett and Vaicys (2000) found that individual perceptions of ethical climate types are positively related to their ethical judgments. Martin and Cullen (2006) also found the ethical climate influences both ethical judgment and subsequent behaviour in response to ethical dilemmas. Shafer (2008) also found that for Chinese auditors the ethical climate is significantly related to organizational-professional conflict and effective organizational commitment.

Among the five ethical climate types of Victor and Cullen's (1988; 1987) model, it is expected that the *instrumental* climate type will foster unethical decision making as it is based on egoistic decision-making criteria where management is more likely to be driven by self-interest motivations (e.g., short term benefits like bonuses) regardless of laws, rules, or the impact their actions on other stakeholders (Victor & Cullen 1988; 1987). On the other hand, it is expected that the *caring*, *independence*, *law and code*, and *rules* based climate will encourage more ethical decisions. These climate types are based on benevolent and principled criteria, which are claimed to encourage ethical decision making (Wimbush & Shepard 1994). Thus, it is expected that perceived ethical climate types characterized by both benevolent and principled criteria will be likely to be positively associated with ethical decision making of employees. This is supported by the prior studies such as Wimbush and Shepard (1994), Peterson (2002) and Shafer and Simmons (2011). Thus this study posits that,

H₅: Employee perceptions about the ethical climate types of *caring*, *independence*, *law and code*, and *rules* as being positively associated with their ethical judgments.

H₆: Employees' perceive the *instrumental* ethical climate type of as being negatively associated with their ethical judgments.

■ Corporate Ethical Values

Research on corporate ethical values is another stream of decision-making in business. Values are motivations of people's behaviours (Rokeach 1973) and give direction to their lives (Smith 1977). Hunt et al. (1989) asserts that values define the 'core' of people i.e., they help to explain the motivations behind individual decision-making. Collectively, these values help frame the central dimension of an organization's culture (Hunt et al. 1989; Schein 1985).

Hunt et al. (1989) defined organizational corporate ethical values (CEV) as "a composite of the individual ethical values of managers and both the formal and informal policies on the ethics of the organization" (p. 79). It primarily represents the employees' perceptions of the moral compass of management and includes organizational training, standard operating procedures, reward and punishment systems and formal statements of behaviour. These corporate concepts help identify a formal representation of the nature (culture) of the organization (Organ 1988) in addition to the experienced behaviour of management. CEVs may also be viewed having the support of employees and other relevant stakeholders.

A five-item CEV scale was developed by Hunt et al. (1989) based on two related considerations: (1) managers' unethical behaviour (*unethical workplace behaviour*) and (2) *punishment systems*. The first consideration is concerned with the extent to which employees perceive that managers act ethically in their organization and it also captures the extent of managers' concerns about ethical issues affecting their organization. The second dimension is concerned with how employees perceive that ethical behaviour is rewarded or punished in their organization. These constructs provide an independent assessment of employee views, given the nature of extant corporate concepts described above.

How employees view their company policies depend on the size, longevity and stability of the firm. The sample included in this study are major contributors within the oil and gas sector and are likely to provide policies and practices aimed at limiting moral misadventure by employees and will affect the way the latter view the associated climate type. Company success in this area is also likely to reflect positive employee impressions about the extent to which unethical management practices are being managed.

Employee perceptions about the extent to which they view management as supporting unethical

workplace practices amongst managers and its attitudes towards providing adequate deterrents, in the form of appropriate punishment and rewards systems are likely to be somewhat reflective of their views about the ethical climate. In this situation, their relationship to one another is also likely to be reciprocal and again reflective of the nature of the emerging industry. Thus employees are expected to present significant antithetical perceptions about the way they view management attitudes towards unethical workplace practices and the need for appropriate deterrents (punishment systems). Therefore the following hypotheses will be tested.

H₇: As a group, employees engaged in oil and gas industry firms will exhibit low expectations in the *unethical workplace behaviour* dimension.

H₈: As a group, employees engaged in the oil and gas industry firms will exhibit high expectations in the *punishment systems* dimension.

Prior studies show that by promoting a positive ethical tone at the top management level helps reduce ethical conflicts experienced by others within an organization (Finn et al. 1988) and influences employees' ethical decision making. For example, Finn et al. (1988) found that top management's actions had a significant influence on American marketers' and Certified Public Accountants' perceptions of ethical problems. Singhapakdi and Vitell (1991; 1990) also found that organizational ethical culture positively influences different components of a marketer's ethical decision-making process, including ethical judgment. Soutar et al. (1994) reported in their studies that the values of top management significantly impacted the ethical judgments made by employees. Besides, Valentine and Barnett (2007) reported that perceptions of ethical context positively influenced sales and marketing employees' ethical judgments and intentions to behave ethically. Shafer and Simmons (2010) found certain dimensions of ethical culture significantly affect the intention to engage in tax avoidance. Recently, Marta et al. (2012) found that CEV was positively associated with ethical intention based on a sample of business persons from Turkey, Thailand, and America. Furthermore, Fan et al. (2012) found Chinese auditors' views about their corporate ethical values are positively associated with their views about the importance of audit independence issues.

On the other hand, unethical behaviour may be more evident in organizations that lack moral support from top management. According to Hunt et al. (1989), punishment systems are often posited to regulate and encourage good behaviour. In other words, if unethical behaviour is punished explicitly by the organization, employees tend to take notice. This belief has been confirmed by some prior studies. For example, Chonko and Hunt (2000) reported that the ethical problems perceived by marketing managers seem to be reduced when top management reprimands unethical behaviour in the organization. Shafer and Simmons (2010) found that punishment systems have a significant negative effect on behavioural intentions of tax practitioners in China. Fan et al. (2012) provided evidence that Chinese auditors are more likely to believe in the need to comply with the Code of Professional Ethics when they perceive that their firms have punishment systems in place.

Again, it is anticipated that these management attitudes and punishment systems of organisations will influence the ethical behaviour of oil and gas Australian company employees as demonstrated in the following tests.

H₉: Employee perceptions about the existence of *unethical workplace behaviour* are negatively associated with their ethical judgments.

H₁₀: Employee perceptions about the existence of appropriate *punishment systems* are positively associated with their ethical judgments.

RESEARCH METHOD

■ Research Method and Sample

A survey methodology is used to conduct this study. As discussed in the introduction, the oil and gas industry in Western Australia continues to expand, and has been reaffirmed as a global resources hotspot – a top investment destination and positioning it as equal third in the world (Resourcestocks 2011). For these reasons, a sample of employees was drawn from selected oil and gas companies in Western Australia during 2011. Four international companies closely associated with oil and gas production, export and development were willing to participate in this survey. For confidentiality purposes the companies are denoted as Companies A, B, C and D in this study.

Company A is a worldwide oil and gas exploration and production company. With over 70 projects in 26 countries, it is among the top industry players globally. It has been part of the Australian business community since 1986 and is involved in a number of projects in Australia, mainly in Western Australia. Company B is one of the world's leading integrated energy companies and conducts business worldwide. It is involved in virtually every facet of the energy industry, including exploration, production and transportation of crude oil and natural gas. Company C is one of the world's premiere engineering, procurement and construction companies that offer a wide range of services, such as downstream, gas monetization, oil and gas, and minerals. As a leader in the oil and gas industry, it delivers onshore and offshore oil and gas production facilities as well as providing a

full-range of services for large complex upstream projects. Company D is a global provider of professional technical and management support services to a broad range of markets, including transportation, facilities, environmental, energy, water and government. In the oil and gas industry, it combines an extensive engineering and environmental management capability with the ability to deliver every stage of oil and gas projects in Western Australia.

The final useable number of respondents from both mail and online surveys was 92: Company A (13), Company B (35), Company C (22), and Company D (22). The sample consists of 50 males and 42 females. Forty (44%) respondents are aged between 20 to 30 years, thirty-eight (41%) are aged between 31 to 40, and fourteen (15%) are aged between 41 to 50 years. Furthermore, forty-six (50%) respondents hold a Bachelor degree, and forty-one (45%) a post-graduate degree. As for the positions held by the respondents, the majority are clerks (49%), supervisors (23%), managers (17%), and accountants (9%). Respondents are employed in the following departments, finance (38%), human resources (22%), operations (16%), and information technology (11%). Forty-nine (53%) respondents indicated that they had between one to five years of working experience, forty-one (47%) had between six to fifteen years. Individual company representation is limited therefore all subsequent analysis treats the groupings of employees as a single unit identifiable with large progressive companies operating in Australia.

■ Data Collection Procedure

The survey instrument for this study includes (1) a cover letter and (2) a self-administered questionnaire which includes demographics, the questions about corporate ethical values and ethical climate, and a short ethical decision making case.

Employees' perceptions of the ethical climate in their organizations are measured using the standard 26-item five ethical climate types Ethical Climate Questionnaire (ECQ) from Victor and Cullen (1988). Respondents were asked to indicate their level of agreement with each of the items describing the general ethical climate of their current organization on a seven-point Likert scale. Responses ranged from strongly disagree (1) to strongly agree (7). All five ethical climate types were identified by employees and after carefully reviewing individual response scores, resulting average scores reflected satisfactory to very good levels of statistical consistency (Cronbach alpha reliability scores vary from 0.7 to in excess of 0.9)

Employees' perceptions of the corporate ethical values were measured using Hunt et al. (1989) Corporate Ethical Values 7-point Likert scale instrument. Responses ranged from strongly disagree (1) to strongly agree (7). The Cronbach alpha reliability of unethical workplace behaviours was 0.74 and for punishment systems was 0.86 respectively. Both of the above instruments associated with measuring organisational behaviour have been utilised in numerous prior studies and it is not deemed necessary to apply confirmatory factor analysis.

Ethical judgment was measured by using an ethical case acquired from the *American Accounting Association* (1992). The case used in this study was modified to suit the subjects in a corporate environment. It deals with a common ethical dilemma faced by employees, which is suitable for the context of this study: (1) an employee accepts a top management's suggestion to misstate the company's financial statement; (2) an employee rejects the top management's suggestion and complies with accounting and professional standards; and (3) an employee agrees to a compromise. Respondents were required to read the case and answer three related questions using a 7-point Likert scale. The questions record an employee's ethical judgments about three stakeholder issues: the interest of bank and creditors, the employee's integrity, and his/her company's on-going prosperity. The coefficient of Cronbach's alpha for ethical judgments (3 items) in this study was 0.75, particularly good given only three related questions were used.

Before the distribution of surveys to the organizations, an online survey link was created for each company and the response rate from the respective companies was monitored. Following the creation of online survey, email invitations were sent to the companies to invite their participation in this survey. A covering letter, a sample of the questionnaire and the survey link were attached to each email for their perusal before accepting the invitation. Individual employees were informed that they would be given two participation options: (1) mail survey or (2) online survey.

RESULTS

■ Differences in Group Perceptions

The details of mean scores of ethical climates and corporate ethical values and their results of one sample t-tests are shown in Table 1 and relate to all responses as a somewhat representative group of local oil and gas company employees. Table 1 provides a comparative profile of the attitudes of employees to all five ethical climate types, in terms of their mean score values and their relationship to the mid-point of indifference (i.e., 4). Hypotheses H_1 to H_3 were tested and indicate that as a group, employees engaged in the oil and gas industry exhibit strong perceptions in the *law and code* and *rules* (H_1), *caring* (H_3), and *independence* (H_2) dimensions. All climate types are evident, but are

perceived differently.

TABLE 1. Descriptive and one-sample t-test -ethical climate types and corporate values

	Mean*	SD	t	Sig.	Hypothesis supported
Ethical climate:					
- Law and Code (H ₁)	6.13	.62	33.02	.000	s
- Rules (H ₁)	4.90	.53	16.43	.000	s
- Independence (H ₂)	4.17	.99	1.66	.100	ns
- Caring (H ₃)	5.34	.50	26.65	.000	s
- Instrumental (H ₄)	3.55	.55	-7.87	.000	ns
Corporate ethical values:					
- Unethical workplace behaviour (H ₇)	2.00	.84	-22.97	.000	s
- Punishment systems (H ₈)	6.24	.71	30.41	.000	s

*The grand mean of item scores for each component along a seven-point scale (1 = strongly disagree, 7 = strongly agree)

Hypothesis H₁ is supported in that employees strongly support the notion that their employers are concerned about following external *laws and regulations* affecting the mining industry in Australia and also reflect these in their internal *rules and guidelines*. In both instances mean scores are significantly higher than the mid-point of indifference (6.13 and 4.90 respectively sig. 0.000).

Following from the anticipated findings relating to hypothesis H₁, it is posited that oil and gas companies are likely to act to encourage employees to strongly conform to the business ethic of the need to support strictly imposed rules and regulations somewhat appropriate to the type of industry. As anticipated, employees appear somewhat indifferent and variant (sig 0.10, s.d. 0.99) in terms of their perceptions of the significance of the *independence* climate type. A mid-range score was required in order to meet H₂, and the group mean of 4.17 is not significantly different supporting H₂. The high mean score for the *caring* climate type (5.34) is significantly higher than the mid-point, providing support for hypothesis H₃ (sig 0.000).

Hypothesis H₄ that as a group, employees engaged in the oil and gas industry will exhibit strong agreement in the *instrumental* dimension (H₄), presents the case that oil and gas company management will be viewed as somewhat self-interested, aiming to satisfy the needs of a narrow range of influential stakeholders. However, the data fails to support this argument in that employees view management as appearing to strive to meet a wide range of stakeholder priorities and as a consequence the average perception is significantly lower than the mid-point of indifference for this ethical climate type (i.e., 3.55, sig 0.000). Hypothesis, H₄ is therefore not supported by the data.

Table 1 also provides mean scores for the two corporate values questions, which are expected to be closely aligned and correlated. Hypotheses H₇₋₈ that as a group, employees engaged in the oil and gas industry will exhibit low perceptions in the *unethical workplace behaviour* dimension (H₇) and high perceptions in the *punishment systems* dimension (H₈) are strongly supported by the perceptions of employees. They view their company management as standing for ethical practices and providing adequate disincentives (punishment systems) to discourage various misbehaviours. Average scores for both questions are significantly different from the mid-point of indifference.

Results of a one sample t-test show that the overall mean scores of employees' ethical judgments with respect to the survey business dilemma are significantly higher than the point of indifference (mid-point value 4) at the 1% significance level (6.41, s.d 0.52). Respondents demonstrate a strong concern about the ethicality of hypothetical issues. Ethical judgments were also compared where feasible using demographic information but no significant differences are found.

■ Relationships between Variables

The results of Pearson correlation coefficients between the variables (see Table 2) demonstrate some interesting potential relationships that need to be considered when formulating regression tests for hypotheses H₇₋₈ and H₉₋₁₀. Intercorrelations within theoretical constructs were anticipated however they appear to fall within acceptable levels. The relationship between *independence* and *instrumental* climate types is highly negatively correlated (-0.516). It may be surmised that the more respondents identify management as presenting a self-serving climate, the less likely they will perceive themselves possessing the liberty to express their own moral perspectives and ethical positions. Similarly, the strong inverse relationship between *unethical management practices and extant punishment systems* is also anticipated (-0.566) given the wording of the questions. Consideration will be given to these relationships when formulating parsimonious regression analyses.

TABLE 2. Correlations between ethical climate and ethical judgments

	1	2	3	4	5	6	7	8
Caring	1							
Law and Code	.268**	1						
Rules	.394**	.346**	1					
Independence	-.023	-.218*	-.199	1				

Instrumental		-.146	.196	-.037	-.516**	1		
Unethical behaviour	workplace	-.337**	-.201	-.106	.375**	-.039	1	
Punishment systems		.447**	.303**	.130	-.230*	.164	-.566**	1
Ethical judgment		.073	.093	-.057	-.124	.119	-.208*	.301**

**Correlation is significant at the 0.01 level.

*Correlation is significant at the 0.05 level.

The parsimonious regression analyses provided in Table 3 seek to establish whether particular workplace environmental issues are likely to influence the ethical judgments of oil and gas company employees. Hypotheses H₇₋₈ and H₉₋₁₀ propose rational behavioural responses in situations where attitudes are influenced by recognised environmental conditions. Employees are likely to mirror workplace conditions in the way they think, as in this situation, self-seeking behaviour at the top is likely to find its way down the workplace hierarchy and affect behaviour. The hypotheses have been organised to reflect this, however the regression results for the effects of employees' perceived ethical climate on ethical judgments show that none of the types are seen to influence ethical judgment. Thus, the hypotheses H₇₋₈ that employees' perceived ethical climate types of *caring, independence, law and code, and rules* are positively associated with their ethical judgments and employees' perceived *instrumental* ethical climate type is negatively associated with their ethical judgments cannot be supported.

TABLE 3. Regression results of the impact of ethical climates and CEV on ethical judgments

	Model	Std. Beta	t-Statistic	p-Value
Independent variables:				
Caring (H ₅)		-.056	-.456	.680
Law and Code (H ₅)		.002	.201	.983
Rules (H ₅)		-.098	-.965	.337
Independence (H ₅)		-.057	-.552	.582
Instrumental (H ₆)		.072	.703	.484
Unethical workplace behaviours (H ₉)		-.056	-.456	.650
Punishment systems (H ₁₀)		.301	2.996	.004
F-value	8.976			
Significance	.004			
R ²	.091			

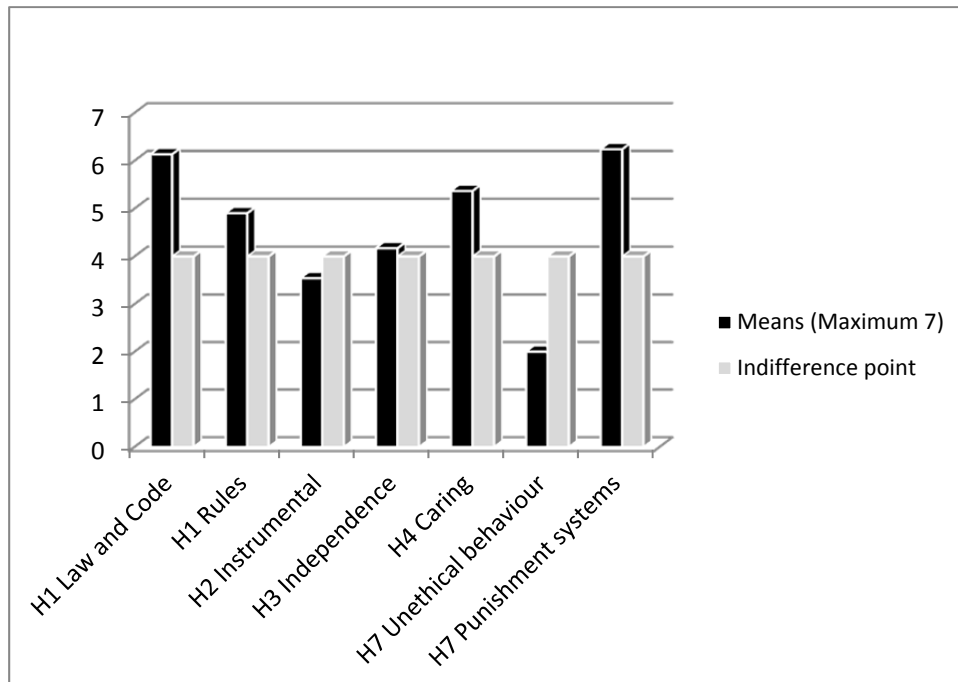
However, as identified in Table 3, employees' perceptions about their organizations' punishment systems are positively associated with their ethical judgment making. When this variable is removed from the regression model, its intercorrelational influence on the other corporate value, namely unethical workplace practices (variables strongly correlated, R = -0.566) is also seen to significantly influence ethical judgments. In this context, hypotheses H₉₋₁₀ are both supported. Although the model is significant, only slightly in excess of 9% of the variation in the dependent variable is explained by the relationship. Separate regressions including employee gender, age, education, position, current employment firm, and work experience were not found to be associated with ethical judgments.

DISCUSSION AND CONCLUSION

As mentioned in the introduction, the aim of this study has been to examine the moral business tone of Australian based oil and gas companies. Within an Australian context, mining industry firms are often described as entrepreneurial and somewhat dependent on the vagaries of overseas demand (especially from mainland China) as well as the vicissitudes of state and federal politics. In particular, firms in the early stages of development are likely to present their employees with evidence that their motives are directed by a need to survive in the short term (i.e., demonstrate potential profitability and efficient cash management), taking advantage of opportunities as they arise and displaying entrepreneurial zeal. These qualities can tend to permeate the organizational moral fabric and in the extreme affect employee morale if viewed as being directed to selfish ends. In this study Victor and Cullen's (1988) ECQ facilitates the examination of these issues along with specific corporate value constructs developed by Hunt et al. (1989).

The first research question of this study raises the issue as to how ethical climate types and corporate ethical values (CEV) are presently perceived by employees in the oil and gas companies in Australia and have been presented as hypotheses for the purpose of empirical analysis. The findings in relation to hypotheses H₁₋₄ and H₇₋₈ have been discussed and are summarized again in Figure 1 below.

FIGURE 1. Employee perceptions of climates types and corporate ethical values



In this instance, the companies represented in the sample are in the developed stage of their life cycles, providing a range of resources and services that are well differentiated and profitable. Employee responses indicated climate types and corporate values that suggest mature management policies and practice styles. Firms were viewed as being particularly concerned with meeting legal responsibilities and reflecting these policies within their internal management processes. At the same time, employees noted that their managements were interested in the welfare of staff, reflective of the nature of the industry and the demand for good quality personnel willing to take up employment in remote regional areas. These perceptions conform fairly closely with information provided in online statements of codes of conduct. Contrary to expectations, employees rejected the notion that their managements displayed instrumental climate types and this was matched by their perspectives on management practices. Employees agreed that management was concerned about deterring unethical practices by imposing appropriate punishment systems and these perceptions were matched by a strong belief in the integrity of their senior and executive personnel. Employees were generally indifferent with regard to the climate type independence. As a result, all related hypotheses were supported except for those relating to the climate type instrumentalism (refer Table 1).

Available demographics suggest that older and experienced employees were more likely to have a shared perception that decisions are guided by formal guidelines and concern for others is perceived to be valued by the organizations. They also are more likely to believe unethical behaviours will be punished in their organization. This result is consistent with the findings reported in Weeks et al. (1999), that older individuals express more lenient opinions regarding unethical issues in job-related scenarios compared to younger individuals.

The second research question of this study considers the impact(s) of perceived ethical climate types and corporate ethical values on ethical decision making of employees in the oil and gas companies in Australia. In terms of employees' ethical judgments, the empirical analysis of data suggests that respondents displayed relatively high agreement that changing the company's financial statement is unethical (grand mean agreement score 6.41 out of 7 maximum). The regression analysis indicated that employees' perceptions about ethical climate types had no impact on their ethical judgments. This result is inconsistent with the findings reported in prior studies. For instance, Wimbush et al. (1997) along with Barnett and Vaicys (2000) reported that organizational ethical climate is positively related to employees' ethical judgments in their organizations. Liaw (2011) also reported that organizational ethical climate has a positive effect on individual's ethical decision-making intentions.

The relationships between employee ratings with respect to unethical management practices and punishment systems are clearly delineated within the statistical findings, although their impact on employee ethical judgments is limited (refer to regression results in Table 3). As discussed earlier, both elements of corporate behaviour individually influence employee attitudes towards unethical behaviour. These findings support Chonko and Hunt (1985) who reported that employees tend to emulate their managers when they perceive that they appear to act unethically. Souter et al. (1994)



also found that the top management actions significantly impacted the ethical choices made by employees.

The results of this study have important implications for management and contribute to the body of research by providing further insights into how employees associate with ethical climate types and corporate ethical values and the effects of these have on their ethical judgments. Based on the results obtained from this study, it is apparent that the Hunt et al. (1989) CEV model acts best to identify relationships between employee attitudes to management behaviour and subsequent ethical judgment. These findings indicate that employees are somewhat sensitive to what they experience within the workplace and will either emulate or disdain management practices. Management needs to be aware of these predilections and continue to support appropriate policies.

It was interesting to be able to report that, somewhat contrary to expectations, oil and gas company employees are supportive of management attitudes that reflect positive aspirations (e.g., concern for strong internal rules and regulations and providing a caring atmosphere) and that there is no evidence that they identify senior management as being instrumental in their practices. In this respect, the use of Victor and Cullen's (1988) ECQ proved efficacious. The findings prompt a need to undertake a similar investigation of firms operating within the early stages of their development. A company's long term success might depend on its need to consider supportive management practices and policies in a manner similar to those mature firms included in this sample survey.

The results of this study should consider the following limitations. First, a limit to generalizability may exist as the sample size of this study was relatively small. In addition, the number of respondents from each company was not equally distributed. Had the samples been larger individual assessments would have been possible, as it was necessary to join the respondents into one group sample. Second, the cross-cultural generalizability of the findings of this study may be limited. This is because the sample collection of this study was restricted to four companies in Western Australia and they are mature firms with established international connections. As mentioned, it would have been better to include firms at different stages of economic development. Third, the results of this study should be considered in the light of the inherent limitations associated with questionnaire research. There is a potential non-response bias as approximately half of the mail surveys were not returned.

The results of this study provide some directions for future research. First, it could be worthwhile to re-examine the relationship between employees' perceived ethical climate and corporate ethical values and their ethical judgments in oil and gas industry in Australia again using a larger and more diversified sample. Second, a cross-cultural study could be conducted to examine the impacts of moral business tone on employees' ethical decision makings as the perceptions of employees from different countries and cultural backgrounds may differ.

In conclusion, despite increasing practitioner and academic interest in ethical decision making, many questions remain about the fundamental drivers of unethical decisions in the corporate world. To help fill in the gap of the literature in business ethics, this study examined employees' perceptions on the ethical climate and corporate ethical values in their organizations and the impacts of these organizational factors on their ethical judgments. Findings clearly demonstrate the role that ethical practices play in providing for a happy and satisfied workforce. Hence, this study provides further evidence for understanding of the impacts of moral business tone on employees' ethical decision making. With these findings and suggested future evidence, organizations should be better able to create and maintain a portfolio of selection, training, and management practices that ensure ethical decision making.

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