

*Full Length Research Paper*

# Cross-level effects of ethical climate on the relationship between psychological contract breach and ethical decision-making intention

Gou-Fong Liaw

Department of Textile and Clothing, Fu Jen Catholic University, No. 510, Zhongzheng Rd., Xinzhuang District, New Taipei City, 24205, Taiwan (R. O. C.). E-mail: 046363@mail.fju.edu.tw.

Accepted 7 July, 2011

**This study explored the relationship between psychological contract breach and ethical decision-making intention. Previous studies analyzed the relation mainly from the Western cultural perspective, thus leaving the Eastern context. In this regard, the present study examined the cross-level moderating effect of ethical climate on variables at the individual level. Forty state-owned and private companies participated in the study. The findings suggest that organizational ethical climate is not a significant moderator of the relation between individual psychological contract breach and ethical decision-making intention. On the contrary, the findings indicated that individual psychological contract breach and organizational ethical climate significantly influence the ethical decision-making intention of employees.**

**Key words:** Ethical decision-making intention, psychological contract breach, ethical climate, hierarchical linear model.

## INTRODUCTION

Researchers in the field of organizational behavior have always been concerned about factors that affect employee achievement and efficiency. These factors may be viewed at the individual or organizational level. Leadership and organizational culture are among the organizational level elements that should be considered. These two elements further lead to the idea of the need to evaluate staff achievement. To date, several studies on staff evaluation suggest that staff achievement is affected by closely related variables. These factors include organizational citizenship behavior (Greenberg, 1988) and individual ethical decision making (Trevino, 1986). However, some scholars contend that variables with indirect effect upon staff achievement are more likely to affect employee performance. These indirect factors include employees' work attitude, their perception of the environment, organizational citizenship behavior, and workplace deviance. Organizational citizenship behavior is behavior that, although not a part of an employee's job, plays an important role in the functioning of the organization. This behavior is a result of individual ethical decisions of an employee. Meanwhile, workplace deviance pertains to employee behavior that goes against organizational norms. Numerous studies have focused on ways to

reduce workplace deviance; however, research on ethical decision-making is limited.

A great difference exists between workplace deviance and ethical decision-making. The former includes employee behavior that undermines organizations, such as theft and spreading rumors. On the other hand, ethical decision making is about doing the right thing; it promotes the interest of and the activities that will work best for the organization. When we refer to the factors related to employees' ethical decision-making, we normally consider individual factors such as psychological contract. Psychological contract refers to the actual expectations (written or unwritten) of employees toward the organization. Qualities such as trust, fairness, respect, and compassion characterize a psychological contract. Breaching a psychological contract does not affect only employees' ethical decision-making, but also their behavior in general. In this regard, organizational characteristics, such as its culture and ethical work climate, cannot be disregarded. From the sociological perspective, employees' ethical and moral differences reside not only in individual's thoughts and behaviors, but also in the group and social environment to which they belong (VanSandt et al., 2006; Mount-Remus and Erin, 2006). In addition,

organizational climate also influences the behavior of employees and hence their individual decisions.

Previous studies have often explored the attitudes and behaviors of employees at a single level; therefore, investigating other levels might allow us to refute previously reported findings (Klein and Kozlowski, 2000). The present study used the hierarchical linear model (HLM) and adopted the views of scholars on organizational behavior to learn more about the procedures and factors related to employees' ethical decision-making. The current study explored the effect of ethical decision-making intentions on the individual and organizational levels. To investigate this, cross-level research method was applied to analyze single-level data.

## LITERATURE REVIEW AND HYPOTHESES

### Ethical decision-making intention

Ethical decision-making intention refers to an individual's desire to uphold others' interests without threatening his own when making ethical decisions. Post et al. (2002) pointed out that utility (the benefits outweigh the cost), right (individual right), and justice (resources' distribution justice) should be considered when making an ethical decision. If the consequence of decision-making could comply with the three main principles, then the decision-making behavior can be recognized as an ethical one, and vice versa. Fang (2008) maintained that ethical decision-making intention indicates the subjective level of the individual's intention to perform some ethical behaviors, which are affected by the individual's attitude toward ethical decision-making, subjective norms, cognitive inhibition, and ethical norms. The process and sequence of ethical behavior vary from one person to another due to diverse individual ethical values (Harrington, 1997) and the conflict between individual ethical judgment and intention (Vitell and Grove, 1987). Therefore, ethical decision-making and judgment could partly account for individual ethical behavior (Harrington, 1997). Different ethical decision models have been adopted to explain ethical behavior with ethical intention. Rest (1994) proposed four stages of individual ethical decision behavior: moral cognition, moral judgment, forming the ethical decision-making intention, and ethical behavior. In other words, an individual perceives an ethical issue, evaluates the positive and negative effects of the issue according to his/her ethical standards, forges his/her intention, and executes the ethical behavior.

Meanwhile, Trevino (1986) has summarized the factors that affect individual ethical evaluation and behavior intention and spur ethical and unethical behaviors. These factors are individual, social environmental, organizational cultural (specifically organization's ethical norms), and political environmental. Trevino proposed that in-group individual ethical decision consists of individual and

contextual interaction models describing the influence of ethical perception, individual factors, and contextual factors on the individual's reaction to an ethical dilemma when confronted by it. He also emphasized the interplay among ethical perception, individual factors, and contextual issues, which affects the individual's decisions when facing an ethical dilemma.

However, in ethical decision-making, the sensitivity of the individual to the ethical issue and the individual's behavior cannot be monitored. As such, the present study investigated the factors affecting individual ethical decision-making intention from the psychological contract breach perspective as well as from the perspective of the contextual organizational ethical climate variable included in Trevino's ethical decision model. The framework for the current research (Figure 1) shows the effect of individual psychological contract breach on organizational ethical climate. It also demonstrates the moderating effect of organizational ethical climate on individual psychological contract breach and ethical decision-making intention.

### Psychological contract breach

Psychological contract refers to the mutual and reciprocal relationship between two parties in an employment setting. It provides a stable understanding of what to expect from each other and guides both parties to initiate efficient actions (Rousseau, 1990). Psychological contract consists of the commitment of the employer and the employee in a spoken or written form. It refers to the norms and mutual understanding achieved as the two parties fulfill promised obligations (Meckler et al., 2003; Thomas et al., 2003). Compared with ordinary contract, psychological contract emphasizes an individual's perception of the other party's obligation, which cannot be identified in any written form; thus, it has no restraint on the other party. However, it depends highly on the employee's perception. Individuals' perceptions of value and information differ; hence, the understanding of psychological contract and the perception of their obligations vary from person to person.

Research on psychological contract can be divided into two groups. One focuses on the positive effect of psychological contract on employees, such as enhancing their attitude and behavior, which suggests the acceptance of psychological contract (Turnley et al., 2003). The other one emphasizes factors that influence the inducement of psychological contract breach (Morrison and Robinson, 1997; King, 2000), the consequences (Turnley and Feldman, 1998), and the moderation of breach (Robinson, 1996). In other words, both perspectives are concerned with the employer's fulfillment of psychological contract. In general, fulfillment of the psychological contract has a positive effect on the employee's performance; in turn, employees contribute to the organization based on the reciprocal principle. Empirical research

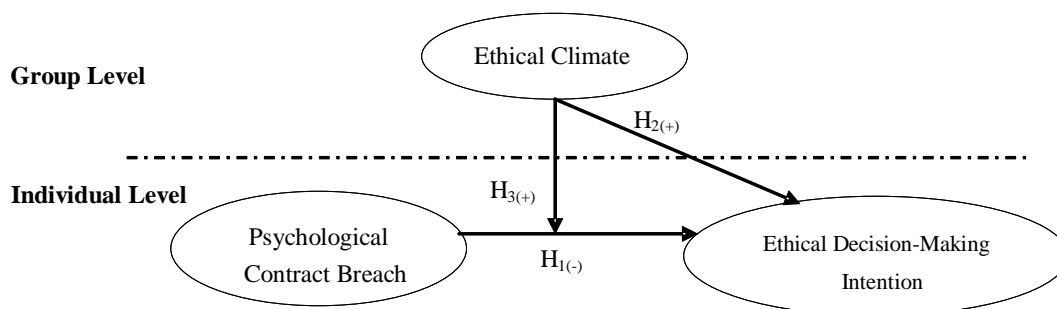


Figure 1. Research framework

shows that the fulfillment of the psychological contract will spur employees to volunteer for extra work, which has a positive effect on the employee's performance, organizational citizenship behavior, and organizational commitment (Turnley et al., 2003).

On the contrary, from the perspective of psychological contract breach, Morrison and Robinson (1997) pointed out that breach happens when one party in the exchange relationship fails to fulfill the promised obligations. Turnley and Feldman (1998) demonstrated that organizational psychological contract breach leads to the betrayal of the organization, intention to leave the organization, and actual turnover. Based on the Homans' (1961) exchange theory, individuals strive to exchange positive intentions with the organization fairly and reciprocally. When they perceive the organization's good intention, they are more likely to dedicate themselves to the organization. However, employees who perceive that the organization fails to fulfill its obligations are more likely to take corresponding actions to enforce fairness between the two parties. The present research proposes that when employees perceive psychological contract breach, they will tend to execute some unethical decision-making behaviors, such as private consumption of organizational resources, shielding errant co-workers, and bribery. The effect of these unethical behaviors will lower the efficiency of the organization and possibly undermine the image and reputation of the organization. The following hypothesis is then proposed:

$H_1$ : Employee's psychological contract breach will have a negative effect on individual Ethical decision-making intention.

### Ethical climate

Victor and Cullen (1988) defined organizational ethical climate as a shared perception of how ethical issues should be addressed. Dealing with issues is based on three ethical decision tenets, namely, egoism, benevolence, and principles associated with making right or wrong choices. In addition, issues are addressed at three levels, individual, organizational, and societal. The

hypothesis for nine types of organizational ethical climate was theoretically developed. Consequently, the ethical climate questionnaire (ECQ) was designed. After the empirical survey of 872 employees from different industries and scales of corporations, nine hypothetical ethical climate types were reduced to five: caring, law and code, rules, instrumentalism, and independence. Notably, independence was the most extensively applied climate type. According to Schneider and Reichers (1983), an employee's diverse psychological perception of the organization's attributes, which may constitute the specific organizational climate, defines organizational climate. Ethical climate, which is a specific type of organizational climate, can be perceived as the employee's subjective experience and shared perception over the procedure and process of executing organizational ethical standards and policies. The formulation of the ethical workplace climate depends on the norm system; thus, it can be said that the normative structure of ethical behavior affects the employee's moral behavior (Wimbush and Sheperd, 1994). Ethical climate has been considered a factor that dominates employees (Landekivh and Stemphen, 1989).

Previous research on the relationship between organizational ethical climate and ethical behavior showed that instrumental ethical work climate is positively linked to unethical behavior and that caring, law and code, and rules are negatively linked to unethical behavior (Deshpande et al., 2000; Markham et al., 1997). According to Western ethics, behavior is acceptable as long as it can yield the ideal effects, such as interest and utility, and bring the mutual and utmost benefits to the specific individual (Ferrell and Fraedrich, 1997). However, in the Eastern culture, ethics refers to the behavioral norms that comply with certain moral standards. In summary, whenever employees perceive the instrumental climate in an organization, they tend to respond with unethical behavior. The instrumental climate, as proposed by Victor and Cullen (1988), emphasizes the fact that employees care more about their own interests rather than the interest of the organization.

The present study suggests that instrumental climate should be part of the organizational climate. First, instrumental climate collides with ethics if the context involves

ethic climate. This is possible in the case of the present study, especially because it was conducted in Taiwan. Secondly, independence ethical climate is based on the employee's own ethical standards that the organization often utilizes as the norm. Ordinary employees in organizations participated in this study; thus, independence ethical climate cannot be excluded. Given these, the present study concentrates merely on the caring, law and code, and rules climate types in organizations. In addition, it explores the effect of climate on management.

### **Ethical climate and ethical decision-making intention**

According to the theory of planned behavior (TPB), subjective norms, which pertain to the expected social pressure as the individual decides to accomplish some behavior, affect behavioral intention. Important figures, especially a specific person or group, are the main source of the expected social pressure. The aforementioned organizational and contextual factors imply that the organizational setting during the decision-making process includes the organizational environment, organizational climate (Hunt and Vitell, 1986; Trevino, 1986), organizational culture (Ferrell et al., 1989; Trevino, 1986), organizational ethical value (Hunt et al., 1989), and other factors that serve as important variables in individual ethical decision-making and intention to act ethically. VanSandt et al. (2006) empirically investigated the effect of ethical climate on individual moral behavior from the perspectives of histology, psychology, sociology, ethical philosophy, and history. The findings show that organizational ethics affects individual moral behavior more profoundly than do individual ethics.

To summarize, the present study suggests that ethical climate should be defined as the shared employees' perception of the organizational ethical attributes that arises from personal interaction and interaction between the employee and the organization. Ethical climate should involve organizational variables related to the individual and the environment. As employees join the organization, they begin to acquire some recognized behavior principles in the process of formal or informal socialization; hence, the ethical climate in the organization will affect and guide the employee in executing organizational and individual decisions:

H<sub>2</sub>: Organizational ethical climate positively affects an employee's Ethical decision-making intention.

### **The moderating effect of ethical climate on the relationship between psychological contract breach and ethical decision-making intention**

In the employment setting, psychological contract is considers the exchange of interests and reciprocation between the individual and the organization (Hallier and

James, 1997). According to the exchange theory, if employees perceive that the organization fails to fulfill its obligations, they will take corresponding actions or carry out unethical behaviors, such as poor performance and bribery, to enforce fairness between the two parties. Consequently, the employee's negative behavior will undermine the corporation and society. In the social control theory, Hirschi (1969) proposed that the process of socialization and social learning interacts with the individual and the society; thus, self-control must be built to reduce the inclination to indulge in behavior recognized as antisocial.

The organization creates the ethical climate to guide the employees toward performing ethical behavior and maintain the bond of the society, inherently reducing unethical and negative behavior. Accordingly, the following hypothesis is proposed:

H<sub>3</sub>: Ethical climate weakens the negative effect of employees' psychological contract breach on ethical decision-making intention; thus, a positive ethical climate results in less negative effect.

## **RESEARCH METHODS**

### **Research subject and procedure**

In the pretest stage, this study collected data from 70 trial institutions to examine their reliability and validity. After deleting the invalid items, the formal questionnaire was distributed to 40 institutions, including public and private companies in Taiwan. Ten employees from each company were asked to complete the questionnaire. Of the 400 questionnaires, 317 were collected, but 45 of them were considered invalid; thus, 272 were retained as valid samples.

The questionnaire consisted of four parts measuring ethical climate, psychological contract breach, ethical decision-making intention, and personnel characteristics. The third part of the questionnaire contained confidential items. Assuming that respondents would have difficulty in answering this part, the researcher provided them with choices. After answering the questionnaire, the participants enclosed their accomplished survey sheets in an envelope to ensure validity.

### **Measures**

#### ***Ethical decision-making intention***

Ethical decision-making intention, measured by Fang's (2008) questionnaire, refers to the motive of the subject to make a decision between one alternative labeled as "ethical" and another one labeled as "unethical." The measure includes two contextual cases and four items. Subjects were required to evaluate the possibility of the decision-making described in the cases (Appendix 1). High scores on the scale, with Cronbach's  $\alpha$  of 0.75 or greater, signified a strong ethical intention.

#### ***Psychological contract breach***

Psychological contract breach occurs when employees perceive that the organization fails to fulfill one, or more of its obligations. In

this study, the subjective judgment of individual respondents estimated the degree of breach. The questionnaire developed by Morrison and Robinson (1997) contained 10 items measured on a 5-point Likert scale ranging from "strongly disagree" to "strongly agree." Cronbach's  $\alpha$  was 0.93. Taking one item as an example, "I think the likelihood of job security will be low," the respondents expressed their agreement with the statement based on their individual perception of the company.

### **Ethical climate**

Ethical climate is one branch of organizational climate. It refers to employees' shared perception of how ethical norms and policies should be addressed. In the present study, the extent of ethical climate (Victor and Cullen, 1988) was assessed with 13 items measured on a 5-point Likert scale ranging from "strongly disagree" to "strongly agree." Cronbach's  $\alpha$  was 0.88. Again, respondents were asked to indicate whether they agreed/disagreed with statements like "Majority of my colleagues think that it is important to obey the rules and procedures of the corporation."

### **Control variables**

With reference to previous studies on organizational climate (Hofmann et al., 2003), the present study set the following personal characteristics as the control variables: gender, education, marital status. During analysis, "gender" was coded as a dummy variable, with the value of 0 indicating females and value 1 indicating males. Married status was also coded as a dummy variable, with the value of 0 indicating unmarried persons and the value of 1 indicating married persons.

## **DATA ANALYSIS AND RESULTS**

### **Agreement analysis**

The current study viewed organizational ethical climate as a shared construct. As such, the questionnaire developed for the corporation employees was first tested on a smaller group to confirm the validity of the variables. George (1990) has stated that when  $r_{wg} > 0.7$ , the variable of organizational ethical climate has the continuum within the department. In the present study, the average value of the organizational ethical climate was  $r_{wg} = 0.95$ , indicating that the research data are reliable.

### **Reliability analysis and validity analysis**

A two-stage algorithm was applied to maintain the trustworthiness of the validity. In the first stage, the Cronbach's  $\alpha > 0.7$  for all the variable dimensions suggested that the validity of the scale. In the second stage, the study used the confirmatory factor analysis, which indicated a reliable fit of the model to the data, with goodness-of-fit index (GFI)  $> 0.9$ , adjusted goodness-of-fit index (AGFI)  $> 0.9$ , and root mean square error of approximation (RMSEA)  $< 0.05$  (Appendix 2). Confirmatory factor analysis was utilized to analyze discriminative validity, which was examined by the standard of  $\hat{\rho} \pm 2$ . As the confidence interval value of all the correlation

coefficient dimensions excluded 1, discriminative validity was perceived to be high.

### **Sample analysis**

Participants in this study comprised 152 females (56% of the total respondents), 168 (61%) persons with a bachelor's degree, 124 (46%) singles, and 118 (43%) individuals from the service and manufacturing industries. Meanwhile, departments with a total number of 111 respondents, accounting for 40% of all departments, consisted of more than 22 from each department; 73 respondents (27%) had more than one to three years' experience, and 39 (15%) worked in the marketing department.

### **Correlation analysis**

Items and dimensions in the present research consisted of psychological contract breach and ethical decision-making intention at the individual level and organizational ethical climate at the group level. The results of the analysis summarized in Table 1 show a negative correlation between psychological contract breach and ethical decision-making intention ( $r = 0.151$ ,  $p < 0.05$ ) and a positive correlation between organizational ethical climate and ethical decision-making intention ( $r = 0.252$ ,  $p < 0.01$ ).

### **Hierarchical linear model**

#### **Random effects ANOVA model**

Table 2 summarizes the results of analysis. The null model indicates that between-group effect is significant ( $\tau_{00} = 0.213$ ,  $df = 39$ ,  $X^2 = 147.692$ ,  $p < 0.001$ ) and that within-group effect is  $\sigma^2 = 0.521$ .

This means that organizations have a significant deviation effect on individuals in terms of ethical decision-making intention. Between-group effect ( $\tau_{00}$ ) and within-group effect ( $\sigma^2$ ), ( $ICC(1) = 0.29$ ), suggest that about 29% of an individual's ethical decision-making intention is affected by the organization; meanwhile,  $ICC(2)$  of 0.73 suggests that the sample mean value of the department is as reliable as the mean value.

#### **Regression analysis of the random coefficient between psychological contract breach and ethical decision-making intention**

The main-effect model of individuals in Table 2 indicates that the effect of employee's psychological contract breach on ethical decision-making intention is significant ( $\gamma_{10} = -0.174$ ,  $p < 0.05$ ). The result suggests that employee's psychological contract breach can be perceived as an effective variable in ethical decision-making intention. When the employee perceives that the psychological

**Table 1.** Correlation coefficients.

Variable	Average	Standard deviation	1	2	3
<b>Group</b>					
Organizational ethical climate	4.46	0.65	(0.88)		
<b>Individual</b>					
Psychological contract breach	4.11	0.91	-0.261**	(0.93)	
Ethical decision intension	4.69	0.85	0.252**	-0.151*	(0.75)

Cronbach's  $\alpha$  coefficient underlined with ( ) 2. \* $p < 0.05$ ; \*\* $p < 0.01$ .

**Table 2.** Results of HLM.

Variable	Null model (Step 1)	Individual main effect (Step 2)	Cross-level main effect (Step 3)	Cross-level moderating effect (Step 4)
Intercept, $\gamma_{00}$	4.663***	4.636***	4.641***	4.638***
Psychological contract breach, $\gamma_{10}$		-0.174*	-0.158*	-0.156*
Ethical climate, $\gamma_{01}$			0.422*	0.384
Psychological contract breach $\times$ Ethical climate, $\gamma_{11}$				-0.032
Within-group effect ( $r_{ij}$ ), $\sigma^2$	0.521	0.481	0.488	0.488
Between-group effect (U0j), $\tau_{00}$	0.213***	0.179***	0.165***	0.167***
Variation of slope( $U_{1j}$ ), $\tau_{11}$		0.084*	0.067 <sup>†</sup>	0.07*
<b>R<sup>2</sup></b>				
R <sup>2</sup> <sub>Level 1</sub> <sup>b</sup>		0.077		
R <sup>2</sup> <sub>Level 2</sub> intercept			0.078	
R <sup>2</sup> <sub>Level 1</sub> interaction				-0.045

1. A total of 40 departments have been involved; of the distributed questionnaires, 272 are valid. The value of the predictor is the estimated coefficient ( $\gamma$ ) within robust standard errors. 2.  $\dagger < 0.1^*$ ,  $p < 0.05$ , \*\* $p < 0.01$ , \*\*\*  $p < 0.001$ . 3.  $R^2_{\text{level } 1}{}^b = (\sigma^2 \text{ of Step 1} - \sigma^2 \text{ of Step 2}) / \sigma^2 \text{ of Step 1}$ , 4.  $R^2_{\text{level } 2}{}^c = (\tau_{00} \text{ of Step 3} - \tau_{00} \text{ of Step 2}) / \tau_{00} \text{ of Step 1}$ , 5.  $R^2_{\text{level } 3}{}^d = (\tau_{11} \text{ of Step 3} - \tau_{11} \text{ of Step 4}) / \tau_{11} \text{ of Step 3}$ .

contract has been violated, a negative effect also appears in the ethical decision-making intention, thus confirming the soundness of hypothesis 1. As to  $R^2 = 0.078$ , the result suggests that about 7.8% of the ethical decision-making intention can be attributed to psychological contract breach. In the sample, individuals from different departments vary from each other in terms of ethical decision-making intention,  $\tau_{00} = 0.179$ ,  $p < 0.001$ .

### Main effect of cross-level ethical climate on individual ethical decision-making intention

The cross-level main effect model in Table 2 indicates that the coefficient of departments' average ethical climate to individual ethical decision-making intention is 0.422,  $p < 0.05$ . The significant result suggests that ethical climate in all departments has a positive effect on individual ethical decision-making intention, thus confirming the validity of hypothesis 2.

### Moderating effect of cross-level ethical climate on individual psychological contract breach and ethical decision-making intention

From the cross-level moderating effect in column 4 of Table 2, the average ethical climate is expressed as  $\gamma_{11} = -0.032$ ,  $p > 0.05$ . By examining interaction effect, we tested the hypothesis 3; however, the effect is insignificant; thus, hypothesis 3 is not supported. This means that moderating effects hardly exist between the ethical climate and the individual psychological contract breach and ethical decision-making intention.

### CONCLUSIONS AND IMPLICATIONS

In terms of the main effect, the results ( $\gamma_{10} = -1.074$ ,  $p < 0.05$ ) mainly supported the hypothesis. Individual perception of psychological contract breach has a negative effect on ethical decision-making intention. When employees perceive that the psychological contract has been violated,

subsequently creating an ethical dilemma, they tend to make unethical decisions and behave unethically. Previous research on organizational behavior argues that more efforts are put into exploring the relationship between psychological contract breach and deviance. Empirical studies indicate that deviance, such as violence and anti-productive behavior toward colleagues as well as the organization, occurs when employees perceive the frequent violation of the psychological contract (Bordia et al., 2008).

The results of this research indicate that psychological contract breach has a positive effect on employees' unethical decision behavior. With regard to the multi-level effect on individuals, as proposed in the hypothesis, the result ( $\gamma_{01} = 0.422, p < 0.05$ ), suggests that organizational ethical climate has a positive effect on individuals' ethical decision-making intention. This implies that when organizations maintain a caring ethical climate or emphasize rules, laws, codes, and an ethical climate, individuals' ethical decision-making intention will be positively affected. According to the HLM analysis, random coefficient, and the moderating effect of ethical climate, the study get a negative value ( $\gamma_{11} = -0.032, p > 0.05$ ), suggesting that the interaction of ethical climate and psychological contract breach has the predicted effect on ethical decision-making intention, supporting the proposed hypothesis. The negative effect of ethical climate on ethical decision-making intention weakens individual psychological contract breach. Meanwhile, ethical decision-making intention has not been verified because other important variables have been excluded from the model.

As the environment undergoes profound changes, private organizations and government institutions must confront fierce competition and global challenges. Demand for a flexible workforce continues, and employment has been transformed from a long stable one, to a short, flexible form whose present systems affect employees psychologically. As the results of the present study demonstrate, psychological contract breach can be perceived as variable predicting ethical decisions. When employees perceive that the balance of interests and reciprocal exchange between the organization and the individual has been jeopardized, the ethical decision of the employees will likely be affected negatively, encouraging unethical behavior. In this case, it is suggested that organizations strive to deal with the issue, actively interact with the employee, and avoid employees' misunderstanding of information and policy. Empirical research shows that establishing good communication can reduce the possibility of psychological contract breach and promote a healthy exchange between the two parties.

The results of this study indicate that organizational ethical climate has a significant positive effect on individual ethical decision-making intention. Therefore, when organizations construct ethical standards and norms, evidence of caring, altruism, rules, laws, and codes should be taken into account to enhance the acceptance and practice of professional ethics. Organizational ethical climate

fails to moderate the individual ethical decision-making intention because psychological contract breach reflects a subjective belief; therefore, the employee perception of the violation of psychological contract could spur unethical decision-making intention. From the results of this study, it is evident that the organizational ethical climate has a primary effect on ethical decision-making intention; thus, strong emphasis should be put on the formation and execution of an ideal organizational ethical climate that would guide employees in their ethical decision-making.

## LIMITATIONS AND DIRECTIONS FOR FUTURE RESEARCH

This study has explored the effects of different factors on ethical decision-making intention from the cross-level perspective. However, it has some limitations. First, according to the interaction theory, individual behavior is interplay of individual and environmental factors (Lewin, 1951). The combined results of previous studies and the current study confirm this contention. As shown in the present study, organizational ethical climate has an effect on individual decision; however, the variables that have been applied may be limited, such as group cohesion and climate of trust, should be taken into account to extend the benefit of the research on the field of organizational behavior and human resources. Therefore, future studies should explore other variables. Second, with regard to the collection of data on ethical decision-making intention, the present study adopted self-evaluation. However, the items in the questionnaire were stated in the third person, and respondents were given only certain response options. This resulted in a high mean of 4.69 for ethical decision-making intention. To avoid this outcome, future research should consider the following:

- 1) The quantity and scale of the sample should be enlarged (Ehrhart, 2004).
- 2) The survey should be carried out within the same industry and department to maintain the validity.

Finally, the current research adopted a cross-level perspective, the department level and individual level, to collect the complete data and establish the comprehensive theory and model of ethical decision. It is advisable for future research to take a longitudinal research because it involves repeated observations of the same participants or variables over long periods a specific industry and function-similar organizations as one group for the sample. The levels can be extended to involve the individual, departmental, organizational, and industrial levels.

## ACKNOWLEDGEMENT

The author would like to thank the National Science Council of the R. O. C., Taiwan, for financially supporting

this research under Contract No.: NSC 99-2410-H-030 - 008.

## REFERENCES

- Bordia PR, Estubog S, Tang RL (2008). When employees strike back: Investigating mediating mechanisms between psychological contract breach and workplace deviance. *J. Appl. Psychol.*, 93(5):1104-1117.
- Deshpande SP, George E, Joseph J (2000). Ethical practices of Russian managers. *J. Bus. Ethics*, 23(2): 21-217.
- Ehrhart MG (2004). Leadership and justice climate as antecedents of unit-level organizational citizenship behavior. *Pers. Psychol.*, 57(1): 61-94.
- Fang ML (2008). The Impact of Moral Maturity, Perceived Moral Intensity, and Ethical Climates on Ethical Decision-making Intentions of Individual Employees. *C. Y. Manag. Rev*, 6(1): 127-152.
- Ferrell OC, Fraedrich J (1997). *Business Ethics: Ethical Decision Making and Cases*(3rd ed.). MA:Houghton Mifflin Company..
- Ferrell OC, Gresham LG, Fraedrich J (1989). A synthesis of ethical decision models for marketing. *J. Macromar.*, 9(2): 55-64.
- George JM (1990). Personality, affect, and behavior in groups. *J. Appl. Psychol.*, 75(2):107-116.
- Greenberg J (1988). Equity and workplace status: A filed experiment. *J. Appl. Psychol.*, 73(4): 606-613.
- Hallier J, James P (1997). Middle Managers and the employee psychological contract: Agency, protection and advancement. *J. Manage. Stud.*, 34(5):703-728.
- Harrington SJ (1997). A Test of Person-Issue Contingent Model of Ethical Decision Making in Organizations. *J. Bus. Ethics*, 16(4): 363-375.
- Hirschi T (1969). *Causes of Delinquency*. Berkeley and Los Angeles: University of California.
- Hofmann DA, Morgeson FP, Gerras SJ (2003). Climate as a moderator of the relationship between leader-member exchange and content specific citizenship: Safety climate an exemplary. *J. Appl. Psychol.*, 88: 170-178.
- Hunt SD, Vitell SJ (1986). A general theory of marketing ethics. *J. Macromar.*, 6(1): 5-16.
- Hunt SD, Wood VR, Chonko LB (1989). Corporate ethical values and organizational commitment in marketing. *J. Mark*. 53(3):79-90.
- King JE (2000). White-collar reactions to job insecurity and the role of the psychological contract: Implications for human resource management. *Hum Resour. Manage.*, 39(1):79-92.
- Klein KJ, Kozlowski SW (2000). From micro to meso: Critical Steps in conceptualizing and conducting multilevel research. *Organ. Res. Meth.*, 3(3): 211-236.
- Landekich S (1989). *Corporate Code of Conduct: An Examination and Implementation Guide*, New Jersey: National Association Accountants.
- Lewin K (1951). *Field theory in social science*. New York, NY: Harper & Row.
- Markham SE, Shepard JM, Wimbush JC (1997). An Empirical of Relationship Between Ethical Climate and Ethical Behavior From Multiple Level of Analysis. *J. Bus. Ethics*, 16: 1705-1716.
- Meckler M, Drake BH, Levinson H (2003). Putting psychology back into psychological contracts. *J. Manage. Ind.*, 12(3): 217.
- Morrison EW, Robinson SL (1997). When employees feel betrayed: A model of how psychological contract violation develops. *Acad. Manage. Rev*. 22 (1): 226-256.
- Mount M, Remus I, Erin J (2006). Relationship of Personality Traits and Counterproductive Work Behaviors. *Per. Psychol.*, 59(3): 591-622.
- Post JE, Lawrence AT, Weber J (2002). *Business and society: Corporate strategy, public policy, ethics* (10th ed.). Boston: McGraw-Hill Irwin.
- Rest J (1994). Background Theory and Research, in Rest J and Narvaez D (Eds.), *Moral Development in the Professions* (Erlbaum and Associates), In Gaudine, Alice and Thorne, Linda, (2001), Emotion and ethical decision-making in organizations. *J. Bus. Ethics*, 31(2): 175-187.
- Robinson SL (1996). Trust and breach of the psychological contract. *Adm. Stud. Q.*, 41(4): 574-599.
- Rousseau DM (1990). New Hire Perceptions of their Own and their Employer's Obligations: A study of Psychological Contracts. *J. Organ. Behav.*, 11(5): 389-400.
- Schneider B, Reichers AE (1983). On the etiology of climates. *Per. Psychol.*, 36: 19-39.
- Thomas DC, Au K, Ravlin EC (2003). Cultural variation and the psychological contract. *J. Organ. Behav*. 24 (5): 451-471.
- Trevino LL (1986). Ethical decision making in organizations: a person-situation interaction model. *Acad. Manage. Rev.*, 11(3): 601-617.
- Turnley WH, Bolino MC, Lester SW, Bloodgood JM. (2003). The impact of psychological contract fulfillment on the performance of in-role and organizational citizenship behaviors. *J. Manage.*, 29 (2): 187-206.
- Turnley WH, Feldman DC (1998). Psychological contract violations during corporate restructuring. *J. Hum. Res. Manage.*, 37(1): 71-83.
- VanSanddt CV, Shepard JM, Zappe SM (2006). An Examination of the Relationship between Ethical Work Climate and Moral Awareness. *J. Bus. Ethics*, 68(4): 409-432.
- Victor B, Cullen JB (1988). The organizational bases of ethical work climates. *Adm. Stud. Q.*, 33: 101-125.
- Vitell SJ, Grove SJ (1987). Marketing Ethics and the Techniques of Neutralization. *J. Bus. Ethics*, 6(6): 433-438.
- Wimbush JC, Shepard JM (1994). Toward An Understanding of Ethical Climates: It's Relationship to Ethical Behavior and Supervisory Influence. *J. Bus. Ethics*, 13(8): 637-647.



**APPENDIX**

**Appendix 1**

Read the following two cases and then answer the questions according to how they apply to you and your organization. The numbers ranging from 1 to 6 should be used to represent your answer. For example, in the first question, 6 stands for strongly possible, 1 stand for strongly impossible.

***Yiting and Junliang***

Yiting works in the marketing department as a representative, and he has been in charge of the annual report for the last three years. The annual report is considered to be faultless, earning him the praise of the department manager and the supervisor. Undoubtedly, Yiting is proud of his achievement. However, this year Junliang has been assigned to assist Yiting in doing the report; each of them is in charge of one part. As the annual report is about to be completed, Yiting sees several mistakes in Junliang’s part of the report. Yiting says to himself, “If I point out the mistakes, the manager will realize that Junliang is incapable of doing the job. Therefore, perhaps I have a chance to complete the annual report by myself. However, if I don’t point out the mistakes, I will be recognized as uncooperative and a non-team player.” After careful consideration, Yiting decided not to help him. If you were Yiting, what would you do?

1. What is the possibility that you will behave like Yiting?	Strongly possible	6	5	4	3	2	1	Strongly impossible
2. What is the possibility that you will help Junliang?	Strongly possible	6	5	4	3	2	1	Strongly impossible

***A subordinate deals with his supervisor’s wrongdoing***

Shi Ming works as a nutritionist in an infant food production company. The company’s products follow the principles of good health and nutrition, and the slogans, “Natural, no additives, no pigment,” and “No preservatives” are printed on the packaging. In fact, the firm strictly complies with quality standards. Last year, the former factory director retired; the new director, Cheng Fuguo, took over the job. Cheng Fuguo’s ambition and innovativeness gave his department a new image, and his leadership won the admiration of his colleagues. However, to reduce costs, Cheng Fuguo decided to put seasonings, pigments, sugar, and other additives into the company’s food products. He thought that consumers would not notice the change in the products, which continued to carry the “100% natural” slogan. Although Shi Ming considered Cheng Fuguo a generally competent director, he disapproved of the latter’s behavior, believing that it was a form of consumer deception and posed a health threat to infants. After several attempts to call Cheng Fuguo’s attention to his wrongdoing had failed, Shi Ming decided to report the matter to the general manager. However, if he would not be supported by the general manager, Shi Ming said he was likely to quit his job. If you were Shi Ming, what would you do?

1. What is the possibility that you will behave like Shi Ming?	Strongly possible	6	5	4	3	2	1	Strongly impossible
2. What is the possibility that you will reveal Cheng Fuguo’s wrongdoing?	Strongly possible	6	5	4	3	2	1	Strongly impossible

**Appendix 2**

***Confirmatory factor analysis.***

Measure scales	$\lambda$	t	CR
<b>Ethical climate (<math>\alpha=0.88</math>)</b>			
In organizations, behaving for the utmost benefit of each employee is everyone’s concern.	0.47	7.48	0.86
In organizations, everyone is more concerned about mutual benefits.	0.50	7.95	
In organizations, everyone is concerned about how to properly behave toward others.	0.54	8.75	
In organizations, colleagues are concerned about the others’ utmost interests.	0.51	8.24	
Organizations expect employees to do something beneficial to the public and the customers.	0.50	8.16	
In organizations, colleagues are expected to make law- and norm-based behavior a priority.	0.65	11.13	
In organizations, everyone attaches importance to law and ethics.	0.77	13.59	
Employees are expected to fully obey the law and ethics.	0.73	12.54	

**Appendix 2.** Contd.

In organizations, it is understood that decisions that will lead to law-breaking behavior will not be made.	0.60	9.95	
In organizations, it is vital to follow the principles and procedures.	0.55	9.13	
Organizations expect employees to follow the principles and procedures.	0.52	8.51	
In organizations, complying with the principles will guarantee the achievement of best results.	0.50	8.06	
In organizations, all employees can comply with the policy.	0.58	9.67	
<b>Psychological contract breach (<math>\alpha=0.93</math>)</b>			
I think the likelihood of job security will be low.	0.82	16.22	
I think the opportunity for promotion will be hindered.	0.47	14.00	
I think the benefits will be reduced.	0.85	17.28	
I think the salary will be negatively affected.	0.83	16.53	
I think the prospects will be handicapped.	0.82	16.33	0.92
I think training sponsored by organizations will be decreased.	0.62	10.93	
I think support from organizations will be decreased.	0.79	15.34	
I think support from supervisor will be less.	0.67	12.17	
I think the retirement specifications will become increasingly negative.	0.71	13.11	
I think the performance evaluation of employees has been improved.	0.71	13.25	
<b>Ethical decision-making intention (<math>\alpha=0.75</math>)</b>			
What is the possibility that you will behave like Yiting?	0.62	5.86	
What is the possibility that you will help Junliang?	0.60	5.74	0.67
What is the possibility that you will behave like Shi Ming?	0.55	5.52	
What is the possibility that you will not reveal Cheng Fuguo's wrongdoing?	0.55	5.49	
Chi-square=2.31; df = 2; GFI = 0.95; AGFI = 0.92; NFI = 0.96; RMSEA = 0.035.			