The moderating effect of Transformational Leadership on the Relationship between Ethical Organizational Climate and Job Satisfaction

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Abstract: The context of ethical organizational climate refers to an organizational construct on how ethically employees perceive the policies, practices, and procedure within an organization. This perception if negative stems from a breach of psychological contract between the employee and leadership. Several studies postulate that employees were more dissatisfied when their ethical values were incongruent with an organizational ethical climate, and this metamorphosed into job dissatisfaction. Using these dimensions, the relationship between the two constructs would become the foundation of our study. After establishing through literature the strength of the relationship between job satisfaction and ethical organizational climate, a quantitative correlational research design was utilized to draw generalized inferences about the selected study population. The study further investigated the moderating effects of transformational leadership on both job satisfaction and ethical organizational climate. The test of correlation indicated a statistically significant positive correlation between the ethical organizational climate and job satisfaction. In predicting interactive effects of transformational leadership on the strength of the relationships between the constructs, the findings were statistically significant inferring that transformational leadership does moderate the relationship between ethical organizational climate and job satisfaction.

Keywords: *Ethical Climate, Transformational Leadership, Job satisfaction*

Introduction

The most powerful people in an organization are the employees, which mean they are the providers of service and often the front line contact with customers. If the goal is to satisfy customers and to maintain sustainability, then organizations must understand how the environment affects their employees. Job satisfaction is an antecedent of employee satisfaction leading to engagement and commitment. This is a condition where the demand of a job is less than its benefits. These benefits include trust, the opportunity for improvement, resource sharing and work autonomy (Ching, Kee, and Tan, 2016). It is imperative for organizations to provide a climate where employee job satisfaction becomes paramount. Victor and Cullen (1989) defined organizational climate as a psychosomatic moral portrait of systems and procedures of a work environment. Since then there has been an ongoing debate about what constitutes an ethical environment and the demand for job

satisfaction. There is the notion that ethical work environment will allow employees to trust the organization and their peers; thereby creating a positive work environment. Hence we suggest a positive correlation between ethical organizational climate and job satisfaction.

Many researchers have attempted to identify the relationship between job satisfaction and ethical organizational climate with limited consideration to the types of leadership that fosters such environment. This study not only offers insight into such relationships but it also analyzes the moderator effect of transformational leadership on strengths of the relationship. It is worth noting that transformational leadership is synonymous with great self-awareness, intellectual stimulation, and inspirational motivation and will mitigate any limitations in an ethical climate. Hoyt & Blascovich (2003) further suggested that developing transformational leadership in teams increased follower's performance when tasks were presented from a qualitative or qualitative perspective. Lending the view that a quantitative advantage enhanced by leadership increased the sense of intellectual stimulation. The question now becomes does ethical organizational climate affect job satisfaction and would a transformational leadership moderate such that relationship.

Literature Review

Ethical Organizational Climate

In 1988 Bart Victor and John Cullen in Administrative Sciences Quarterly conceptualized the notion of ethical work climate (EWC). It was argued that ethical climate played a significant role in job satisfaction because it gave employees a general overview of the day to day operations and code of conduct in an organization (Cullen, Parboteeah, and Victor, 2003). Victor and Cullen defined Ethical climate as the shared perception of employees view on organization's ethical criterion and locus of analysis. The ethical criterion was classified into three categories, Egoism which alluded to seeking pleasure and avoiding pain, benevolence, which related to satisfying employees within an organization and principle (deontology), which is a universal belief system within the organization. Table 1 shows the Ethical work climate types from (Cullen et.al, 2003).

Table 1: *Ethical Work Climate types*

ETHICAL CRITERIA	LOCUS OF ANALYSIS		
	Individual	*Organizational*	*Cosmopolitan*
Egotism	*Instrumental*	*Company Profit*	*Efficiency*
Benevolence	*Caring*	*Team Interest*	*Caring/ Social Responsibility*
Principle	*Independence*	*Rules And Procedures*	*Law& Professional Code (Professionalism)*

(Source: Victor and Cullen ethical climate matrix (1997, 1998. P.)

The fundamentals outlined in the table shown are the bedrock for setting the work atmosphere (Elci and Alpkan, 2009). When employees view these components as fair and pleasurable, their level of satisfaction increased and their attitude remained positive and was committed to their organization (Kang, Stewart and Kim, 2011). It was noted that the greatest concern for employees was the essence of trust. An organization that lacked trust would limit its employees to safety patrol officers rather than functioning in their assigned duties. DeConinck (2011) defined trust as a psychological state of not feeling threatened

by the actions of another based upon one's expectations. The rationale behind this perceived state is that employees performed better in environments leadership and fellow employees held themselves to higher ethical standards.

Job Satisfaction Employee attitude

The concept of job satisfaction has been a research topic since the early 19th century. Job satisfaction is a predictor of employee attitude and organizational citizenship behavior, and this translates into employee attitude and job performance (Katenova, Mahmood and Sharfaraz, 2011). Frederick Herzberg (1966) theorized that employee satisfaction could be categorized as either hygiene or motivation. The hybrid of both motivational and hygiene factors were viewed as characteristics of top performers. Considerable significance is affixed to this notion, and there is a reason to better understand its relativity to ethical organizational climate. Research further concluded that once hygiene issues have been addressed, employees often become more satisfied with their job. Some of these hygiene factors included salary, supervision, work policies, interpersonal relation, and work condition (Syptak, Marsland and Ulmer, 1999). DeConink (2011) asserted that the environment in which one worked played an immense role in how one's perception of self and how others view them. It was theorized that individual identification is a form of perceived external prestige. Lending to the belief that employee attitude will exhibit job satisfaction when they felt a sense of belonging to an organization. This self-identification produced a feeling of oneness based on the psychological connection to an organization. Given the importance of job satisfaction and employee attitude, an ethical organizational climate would yield a conducive and positive mindset that encourages productive attitude and job satisfaction (DeConink, 2011).

Transformational Leadership

In this study of the relationship between ethical organizational climate and job satisfaction, consideration is given to the effect of transformational leadership. We live in a transactional world, where management in many organizations is responsible for setting goals and employees are expected to follow, and if they don't, there are consequences. For decades academia has been inundated with several leadership theories. The leadership as the one that materializes according to particular organizational situation (situational), to how effective leadership fits into a particular circumstance (contingency) or how employees viewed the organization's incentive and their ability to perform their work and outcomes (path-goal theory) or how leaders and member work symbiotically to achieve a common goal (the leader-member exchange theory) (Lee, 2010). Among these theories is the emergence of transformational leadership. This is viewed as leadership that would create an amiable work environment where the focus shifts from production to job satisfaction.

The concept of transformational leadership was first introduced by presidential biographer James McGregor Burns. Burns believed that a transformational leader would stimulate their followers to achieve high levels of moral standards. It is also believed that they intellectually stimulate their members to a place of great motivation and efficacy (Bellamy, 2016). In understanding the transformational leadership, these four components must be explored:

- **Individual Consideration**: An understanding of the need and employees and motivating them to excel. This is crucial to the satisfaction of employees as they see themselves as part of a solution.

- **Intellectual Stimulation**: Challenging employees to have a creative disposition and to use cognitive abilities to devise new ways of addressing old issues. This is significant to process improvement and quality planning. Employees can embrace the vision of the organization and move the process forward.
- **Inspirational Motivation:** Encouraging employees to develop a winning attitude and to perform beyond expectations by exploring all the given opportunities. This plays a significant role in customer satisfaction. Performance includes understanding the needs of customers and working to meet those needs.
- **Idealized Influence**: Exhibiting a sense of purpose and having a vision of success. Eliciting trust, and dignity. The notion of trust helps the followers to receive the planned objective with enthusiasm.

These components are expected to create propellants for employee satisfaction and a change in employee perception. Brown and Michael (2009) suggested that effective leaders show the following Myers-Briggs personality styles: Extrovert, Sensing, Intuitive, and Perceiving. Also, Roush and Atwater echoed the same context and concluded that of the four paradigms, sensing and perceiving where most consistent with transformational leadership. This is because of the nature of awareness, and idealized influence transformational leadership has on their employees. This influence is only possible with leaders who can actively create an ethical environment built on trust and accountability. When effective leaders reward ethical behavior and punish unethical practices, employees feel a sense of security and trust for their superiors (DeConnick, 2011). With this in mind, it is believed that a transformational leader will most likely change the perception of employees to a more favorable notion of not only themselves but also of the inherent nature of an ethical organizational climate.

Research Methodology

This research proposal was based Descriptive *cum* Quantitative research methodology. The study was not meant to establish cause-and-effect relationships, rather develop a correlation and potentially draw generalized inferences about the selected population. After the data analysis, based on research findings, the strength of the relationship between the variables was established using this approach. The correlational study examines the extent to which differences in one characteristic or variable are related to differences in one or more other characteristics or variables" (Ormrod and Leedy, 2012).

Sampling Plan

The population (N=200) is a tier one automotive accessory manufacturer headquartered in Ann Arbor, Michigan, who has ten divisions across the United States. 100 employees were conveniently sampled, and the response rate was 78%. The respondents were 45 males and 33 females in this data set. The mean length of employment was 4.46 yrs. At current job. Ethnicity data was as follows: American White - 61, American Black - 9, Asians -5, American Indian - 2 and others - 1.

Hypothesis

1. A positive correlation is expected between the ethical organizational climate and job satisfaction.
2. Transformational Leadership moderates the relationship between ethical organizational climate and job satisfaction.

Dependent Variable

Job satisfaction

Independent Variable

Ethical Organizational Climate

Moderating Variable

Transformational Leadership (A leader who demonstrates individualized consideration, inspirational motivation, intellectual stimulation and attributed charisma)

Instrumentation

A paper questionnaire was utilized for this study. The Job Satisfaction Scale was measured by a four-item scale that measured the respondent's attitudes regarding their job, and peers. This scale was adopted from Bellamy (2016). This a five Point and anchor response scale with five anchors ranging from 5 -Agree to 1- Disagree. The Cronbach Alpha of this scale was .87.

The Ethical Organizational Climate Scale was measured by a 4 item scale that measured the employee's psychological impression of their organizational climate. A five point and five anchor scale ranging from 5-Agree to 1-Disagree. The Cronbach Alpha score for this scale was .82

The researcher adopted the Transformational Leadership scale from from a Multifactor Leadership Questionnaire (MLQ) originally developed by Bass and Avolio (1994). A five point and five anchor response scale has utilized that range from 1 "not at all" to 5 " frequently, if not always." The Cronbach Alpha of this scale .936.

Results

As summarized in table 2, above the descriptive statistics shows the percentage of female participants was 42% whereas the percentage of male participants was 58%. The results showed that 53% of the respondents were between the ages of 18-38 years of age, while 47% of the respondents were between the ages of 38-57.

Table 2: *Descriptive Statistics*

Variable	Percentage
Gender	
Male	58%
Female	42%
Age	
18-38	53%
38-57	47%

Hypothesis testing

1. A positive correlation is expected between the ethical organizational climate and job satisfaction.

In testing for hypothesis 1, multiple regression analysis was conducted. The result indicated a significant statistical relationship between ethical organizational climate and Job satisfaction. The result was significant @ alpha < 0.05. A value of R-square was .68 indicating that 68% of the variance in job satisfaction is accounted for in ethical organizational climate.

2. Transformational Leadership moderates the relationship between ethical organizational climate and job satisfaction.

In testing for hypothesis 2, a moderator analysis was employed using SPSS the result indicated that transformational leadership does moderate the relationship between ethical

organizational climate and job satisfaction. The result is also significant @ alpha < 0.05. A value of R-square from model 2 was .83 which was a significant change from model 1.(See Table.3)

Table 3: *Result of Moderator effect using SPSS*

Variable	Model 1	Model 2
Constant	.001**	.007**
C_FLL	.000**	.048**
Org. size	78	78
R-Sq	.681	.837
R^2 Change	.686	..833
T_FLL Sig	.000**	.000**

Limitation of the Study

The main limitation that is apparent in this study is the sample size and type. There was a total of 40% of the actual population studied (78 out of 200). It would also be beneficial to study other factors that contribute to these variables such as salary, average performance review score, etc. The study is limited to the basic information of the individuals, and the purposive sample may not be the best sampling method in a bigger future project.

Conclusion

This study found a significant correlation between job satisfaction and ethical organizational climate. Furthermore, there was insignificant statistical evidence to suggest that transformational leadership acts as a moderator between the two variables. All variables involved had reliable Cronbach's Alpha scores of .936, .870, and .819 for transformational leadership, job satisfaction, and organizational climate respectively. Subsequent research with a larger sample size may show the significance power of predictability of job satisfaction on ethical organizational climate. By analyzing the research and results presented in the study, It is clear that both employees and employers can better understand the relationship between the variables measured. The topics such as organizational climate, job satisfaction, and transformational leadership are widely applicable to nearly any industry. Following the manner in which leadership impacts employees' perception of their environment, as well as their satisfaction with their job, forms a fundamental basis for a successful working environment.

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