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EXPLAINING ETHICAL CULTURE IN THE ORGANIZATION: A THEORY ON THE ROLE OF ETHICAL LEADERSHIP IN HUMANISTIC ORGANIZATIONAL CULTURE

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Abstract: It is no longer enough that an organization exists to earn profits: more than good numbers to show, companies are also now looking into adopting organizational culture that incorporates a humanistic approach. This paper seeks to identify the motivating factors that contribute in creating an ethical organizational culture. Ethical leadership plays an important role in setting the ethical climate of the company. On the other hand, organizational citizenship behavior (OCB) or the employees' voluntary commitment within an organization creates an avenue to sustain an ethical organizational culture. The practice of *kagandahang-loob*, a value ingrained in almost all Filipinos, moderates the effect of OCB on ethical organizational culture. This paper seeks to explain the constructs mentioned from positivist perspective.

Key Words: ethical organizational culture; ethical leadership; organizational citizenship behavior; kagandahang-loob; positivist theory

1. INTRODUCTION

The global economic crisis in 2008 exposed the need for the inclusion of ethical values in organizations. Ethical culture is linked to the ethical dimension of organizational management that affect the behavior of employees. Ethical organizational culture as a social phenomenon has captured the attention of researchers and organizations after the global incident. Ignoring ethical values proved to hamper the sustainability of business organizations, and create a negative impact on national economies and global development (Novelskaite, 2014).

Edgar Schein's definition of organizational culture is the most widely accepted; in his book, *Organizational Culture and Leadership* (3rd edition), he defined the culture of a group as "a pattern of shared basic assumptions that was learned by a group as it solved its problems of external adaptation and internal integration, that has worked well enough to be considered valid and, therefore, to be taught to new members as the correct way to perceive, think, and feel in relation to those problems" (Schein, 2010). Organizational culture, therefore, consists of a system of assumptions and shared beliefs based on

individual's learnings from problems; it is a complex mixture of values, conduct, structures, behavior, and missions that interact with each other in order to determine the culture fit for an organization.

1.1 Organizational Culture in the Philippines

Dr. Aliza Racelis (2005) identified the industries that belong to certain organizational culture types in Philippine setting. Based on the common characteristics of organizations, Racelis' exploratory study of organizational culture in Philippine firms yielded the following results:

1. Clan (industries: architecture, healthcare, pharmaceuticals, retail, social welfare) – organizations that are extremely cohesive, treats employees as family, leader acts as a parent figure, and develops a sense of family within the company
2. Adhocracy (industries: computer hardware/software, consulting, education, engineering, print/publishing) – organizations that are adaptable and creative, whose leaders are entrepreneurs, innovators, and risk takers



3. Hierarchy (industries: banking and finance, government, social welfare, transport) – organizations that emphasize order, uniformity, and regulations where leaders are seen as administrators or coordinators
4. Market (industries: architecture, chemicals/oils, distribution, food and beverage, manufacturing, property development, services, utilities) – organizations that are competitive and motivated by goal achievement, led by decisive and achievement-focused leaders

The results in Racelis’ study showed commonalities in the characteristics of organizational cultures among Philippine firms belonging in the same industry, emphasizing that culture can be shaped by the competitive environment, customer requirements, and the expectations of the society where the organization operates (Racelis, 2005).

1.2 Ethical Organizational Culture

Organizations may have different cultures that focus on different aspects such as product quality, selection of distribution channels, advertising content, and customer welfare, among others. At the core of these cultures lie organizational ethical culture (Chadegani & Jari, 2016).

Ethical organizational culture is the shared beliefs of the organization’s members about ethics. It incorporates promotion of ethical behaviors and conduct within the organization. It may be logically conceptualized on a continuum – on one end, unethical organizations, and on the other, highly ethical organizations.

In a proposed conceptual framework for humanistic entrepreneurship, Benito Teehankee (2010) hypothesizes that the level of ethical organizational culture development impacts employees’ integral human development positively. The culture can be traced back to the founding entrepreneur’s level of ethical development and virtues, which influence the whole organization’s culture (Teehankee, 2010).

2. METHODOLOGY

This paper adapts the positivist perspective in developing the interaction of variables on ethical organizational culture.

2.2 Data Collection

The researcher gathered literature of empirical observations and theoretical mechanism for each of the constructs and their interaction. A total of 120 articles were looked into, broken down as follows:

Table 1. Count of Articles Per Topic.

Topic	Count
Compassion, Altruism, Leadership	10
CSR, Fair Trade	6
Ethical Leadership	30
Ethical Organizational Culture	26
Kagandahang-Loob	11
Moral Judgment and Development	8
Organizational Citizenship Behavior	4
Organizational Culture	13
Organizational Culture in the Philippines	4
Shareholder Value, Competitiveness	8
TOTAL	120

2.2 Data Analysis

The articles were reviewed based on the topics related to each of the variables. This required looking into published materials that support or oppose the theorized interactions.

3. RESULTS AND DISCUSSION

The constructs identified in this theory are ethical leadership as the explanatory variable, organizational citizenship behavior as the mediating variable, *kagandahang-loob* as the moderating variable, and ethical organizational culture as the response variable.

3.1. Ethical Organizational Culture (Dependent Variable)

Organizational culture has been defined as learned responses based on basic assumptions shared by individuals within the organization to



solve problems of external adaptation and internal integration (Schein, 2010). It includes formal systems (leadership, structure, policies, reward systems, etc.) informal systems (implicit behavioral norms, role models, rituals, historical anecdotes and language), processes, and interactions that create and maintain a shared mixture of values, conduct, practices, and structure that dominate the organization's normative behavior (Ardichvili et al., 2009).

In order to sustain an ethical organizational culture, Mark S. Schwartz (2013) recommends the existence of three key elements: (1) the existence of a set of core ethical values ingrained in the policies and practices of the organization; (2) the establishment of a formal ethics program; and (3) the sustained presence of ethical leadership (Schwartz, 2013).

The 58-item Corporate Ethical Virtues (CEV) scale developed by Muel Kaptein (2008) is used to measure the practice of ethical organizational culture (Kaptein, 2008). It covers statements that measure eight virtues: clarity (10 statements), congruency of supervisor (6 statements), congruency of management (4 statements), feasibility (6 statements), supportability (6 statements), transparency (7 statements), discussability (10 statements), and sanctionability (9 statements) (Novelskaite & Pucetaite, 2014).

3.2. Ethical Leadership (Independent Variable)

The ethical tone in the organization must start at the top. Many suggest that ethical organizational culture is contingent upon the ethical guidance that employees see from the leaders. The most important demonstration of ethical leadership is to ensure that all decisions and actions adhere to the ethical values of the organization (Schwartz, 2013). Ethical leadership has been identified to influence ethical organizational culture, as well as less deviance of employees and high level of organizational behavior (OCB).

Survey researches on perceived effectiveness of organizational leadership have been

linked with perceptions of the leader's values such as honesty, integrity, and trustworthiness. In a number of exploratory studies using interviews, employees see ethical leaders as those that practice the moral aspect in their daily lives – being fair, principled decision-makers, and behaving ethically in their day-to-day activities (Demirtas, 2013).

The 10-item Ethical Leadership Scale (ELS) developed by Michael Brown, Linda Treviño & David Harrison (2005) captures the breadth of the ethical leadership construct, pointing out characteristics and behaviors that include demonstration of integrity and high ethical standards, fair treatment of employees, and making employees accountable for their ethical conduct.

3.3. Level of Organizational Citizenship Behavior (Mediating Variable)

An organization relies on the cooperation of its employees for it to function. Daniel Katz (1964) identified three basic types of behavior that are important in order to sustain a functioning organization: (1) employees must be induced to enter and remain within the system; (2) employees must carry out the requirements of their position dependably; and (3) presence of innovative and spontaneous activity beyond role prescriptions (Smith, Organ, & Near, 1983).

Dennis Organ (1997) offered a definition of organizational citizenship behavior (OCB) beyond "extra role" or "unrewarded by the formal system" as he previously prescribed in his earlier research (1988): "individual behavior that is discretionary, not directly or explicitly recognized by the formal reward system, and that in the aggregate promotes the effective functioning of the organization." Instead, in his research "Organizational Citizenship Behavior: It's Construct Clean-Up Time," he agreed with Borman and Motowidlo (1993) in treating OCB along the line of contextual performance, which covers "volunteering for activities beyond a person's formal job expectations, persistence of enthusiasm and application when needed to complete important task requirements, assistance to others, following rules and prescribed procedures even when it is inconvenient, and openly espousing and defending organization objectives" (Organ, 1997).



Using the OCB scale developed by P. M. Podsakoff, S. B. MacKenzie, R. H. Moorman, and R. Fetter (1990), a research covering 431 respondents from four countries (United States, Australia, Japan, and Hong Kong) conducted by Simon Lam, Chun Hui and Kenneth Law (1999) to compare perspectives of supervisors and subordinates on OCB. The five-point scale composed of altruism, conscientiousness, civic virtue, courtesy, and sportsmanship, showed emic (culturally-specific) and etic (universal) dimensions of OCB. Etic dimensions include altruism, conscientiousness, and civic virtue, while emic dimensions include courtesy and sportsmanship (Lam, Hui, & Law, 1999).

3.4. Level of *Kagandahang-loob* (Moderating Variable)

Filipino virtue ethics are based on two foundational concepts in Filipino culture – *loob*, which is translated as “relational will” and *kapwa*, which is better understood with the meaning “together with the person.” These virtues serve as foundational values for a special collection of virtues (*kagandahang-loob*, *utang na loob*, *pakikiramdam*, *hiya*, *lakas ng loob/bahala na*) which emphasize “preservation and strengthening of human relationships.” (Reyes, 2015)

Kagandahang-loob or shared humanity (Pe-Pua & Protacio-Marcelino, 2000) is a Filipino value that links the personal and the social value (Kalaw, 2015). It prompts the individual to act sincerely toward the other. It enables the person to give more of oneself, which can be interpreted as an expression of generosity and kindness (Kalaw, 2015).

The level of *kabutihang-loob* of employees, particularly the managers, can inspire a moral environment, thereby triggering the practice of ethical culture in the organization. *Kabutihang-loob*, or shared humanity, is a Filipino value that links the personal and the social value (Kalaw, 2015). It enables the person to act sincerely or give more of oneself toward the other (Kalaw, 2015).

3.5. Integrated Theory

Ethical leadership is seen as an influential factor in promoting organizational citizenship behavior (OCB). It predicts important organizational outcomes such as decreased deviance among employees and increased OCB. As the level of ethical leadership increases, the level of employee deviance decreases, showing a linear relationship. However, with organizational citizenship behavior, it showed a curvilinear relationship, whereby at high level of ethical leadership, followers perceive these leaders as looking down upon their morality, leading to moral reproach. Similarly, low level of ethical leadership is also perceived as frowning upon one’s own moral behavior because they do not care about morality (Stouten, van Dijke, Mayer, De Cremer, & Euwema, 2013).

A positive organizational citizenship behavior (OCB) influences the practice of ethical organizational culture. The moral values within the company flows down from the ethical leader, passed on to the employees by promoting an ethical climate in the organization, which then lead to sustaining an ethical culture in the organization. Corporate ethical culture is considered as a composite of individual ethical values of managers, along with the formal and informal ethics of the organization (Chadegani & Jari, 2016). Along with high incidence of organizational citizenship behavior, a system-wide ethical culture can be achieved through the guidance of the leaders.

The moderating effect of the Filipino value *kagandahang-loob* was hypothesized through a thought experiment. A thought experiment is a mental process to test the relationship of constructs before actual data are collected. It serves as a heuristic device to clarify a priori logic in construct relationships (Jaccard & Jacoby, 1958).

As can be seen in Table 1, the level of *kagandahang-loob* of the manager was assigned values (low = 1-3, moderate = 4-7, high = 8-10). The same values scale was also used on the level of organizational citizenship behavior. The thought experiment yielded the following:

Table 1. Thought experiment on the level of *kagandahang-loob* as a moderating factor.

	Low	High
Low OCB	2.0	4.0
Moderate OCB	5.0	8.0
High OCB	8.0	10.0

	Low	High
H OCB	8.0	10.0
M OCB	5.0	8.0

$(8-5) - (10-8) = 1$

	Low	High
H OCB	8.0	10.0
L OCB	2.0	4.0

$(8-2) - (10-4) = 0$

	Low	High
M OCB	5.0	8.0
L OCB	2.0	4.0

$(5-2) - (8-4) = -1$

Proposition 1: The effect of high organizational citizenship behavior versus moderate organizational citizenship behavior on the practice of ethical corporate culture is stronger for managers who have low level of *kagandahang-loob*.

Proposition 2: The effect of high organizational citizenship behavior versus low organizational citizenship behavior on the practice of ethical corporate culture is the same for managers who have low level of *kagandahang-loob* as those managers who practice high level of *kagandahang-loob*.

Proposition 3: The effect of moderate organizational citizenship behavior versus low organizational citizenship behavior is stronger for managers who have high level of *kagandahang-loob*.

3.6. Hypotheses

This paper aims to contribute to theory building in ethical culture in the organization. The hypothesized relationships are illustrated in Figure 1. The principal outcome proposed in the framework is ethical organizational culture:

H1: The level of organizational citizenship behavior positively impacts the level of ethical culture in the organization.

The level of organizational citizenship behavior depends on the level of ethical leadership in the organization (Stouten et al., 2013), which leads to the next hypothesis:

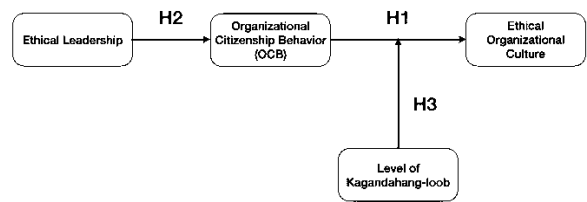
H2: The level of ethical leadership influences the organizational citizenship behavior in a curvilinear relationship.

Practice of *kagandahang-loob* impacts the relationship between organizational citizenship behavior and ethical organizational culture:

H3: The level of *kagandahang-loob* positively moderates the influence of organizational citizenship behavior and the practice of ethical organizational culture.

The relationship of the variables in the framework show the influences of variables towards creating an ethical culture in the organization.

Figure 1. Theoretical framework of ethical culture in the organization.



4. CONCLUSION

This study has explored the role of ethics in organizational culture, and how it impacts certain phenomena such as practice of corporate social responsibility and the incubation of social enterprises. It is proposed that the relationships in



the variables discussed in this paper be tested in future research in order to contribute to the knowledge and theory-building on humanistic management. Scales for *kagandahang-loob* must also be developed for future empirical testing.

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