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The Influence of Ethical Context on Social Performance of the Organisations – the Mediating Effect of Ethical Leadership

Živilė Latakaitė

Master in Human Resources Management and Organisational Consulting

Supervisor:
PhD Joaquim Eduardo Simões e Silva, Assistant Professor,
Iscte-IUL

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Department of Human Resources and Organisational Behaviour

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Resumo

Esta investigação expande o conhecimento da influência das diferentes componentes éticas encontradas no local de trabalho sobre a percepção dos empregados em relação ao desempenho social da organização. A investigação propõe, e testa empiricamente, um modelo conceptual que examina a relação entre o contexto ético existente da organização e a percepção do desempenho social desta. A investigação utiliza um único desenho de investigação transversal e os dados recolhidos (N = 182) são analisados utilizando análises de regressão e de *bootstrapping*. As hipóteses testadas confirmam que a liderança ética tem um efeito mediador entre o contexto ético e a percepção do desempenho social da organização. Além disso, através hipóteses testadas, foi descoberta uma relação directa entre o contexto ético da organização, os seus elementos, e a percepção das práticas de desempenho social implementadas. Duas dimensões do desempenho social foram identificadas no decurso deste estudo: práticas de comunicação transparentes e práticas éticas de tomada de decisão. Após a revisão das implicações teóricas e práticas destas descobertas, concluiu-se que para que as organizações sejam consideradas vanguardistas no que refere ao do local de trabalho, geridas de acordo com princípios de bem-estar social, é crucial que haja um contexto ético estabelecido com uma liderança ética proeminente.

Palavras-chave: Contexto ético, Infraestrutura ética, Desempenho social, Liderança ética, Meritocracia, Responsabilidade social corporativa

Códigos de classificação JEL: M14 (Cultura Corporativa; Diversidade; Responsabilidade Social) e M54 (Gestão do Trabalho)

Abstract

This research expands knowledge of the influence of different ethical components found in the workplace on employee perceptions towards the social performance of the organisation. The research proposes and empirically tests a conceptual model examining the relationship between the existing ethical context of the company and its perceived social performance. The research uses a single, cross-sectional research design and collected data (N = 182) is analysed using regression and bootstrapping analyses. Tested hypotheses confirm that ethical leadership has a mediating effect between ethical context and perceived social performance of the organisation. Furthermore, as hypothesised, a direct relationship is discovered between ethical context of the organisation, its elements, and the perception of social performance practices implemented. Two dimensions of the social performance were identified during the course of this study: transparent communication practices and ethical decision-making practices. After reviewing the implications for theory and practice of these findings, we conclude that for organisations to be considered the frontrunners of the workplace managed according to social well-being principles, it is crucially important to have an established ethical context with prominent ethical leadership.

Keywords: Ethical Context, Ethical Infrastructure, Social Performance, Ethical Leadership, Meritocracy, Corporate Social Responsibility

JEL Classification codes: M14 (Corporate Culture; Diversity; Social Responsibility) and M54 (Labour Management)

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1. Introduction

Unethical behaviour has devastating consequences for companies – it can lead to the loss of company's reputation, decreased amount of customers and profit (Lin et al., 2016); poor ethics might also enhance negative social norms (Ariely & Mann, 2013) and demotivate the workforce. Regardless of the negative connotations, the issue of ethical misconduct in companies is still common because illegal corporate behaviour is influenced by the pressure to achieve results, predisposition to act unethically, and opportunities to misbehave (Balch & Armstrong, 2009). Ethical issues also play an important role in the start-up and development phases of new business ventures, as entrepreneurial firms face challenges including financial funding, organisation culture, and ethical behaviour (Lin et al., 2016).

To eradicate the opportunities for improper conduct, companies tend to implement organisational control systems, commonly known as formal ethics programmes, aimed at standardising employee behaviour within the domains of ethics and legal compliance (Weaver et al., 1999). Practices, policies, and procedures with predominant ethical content include the normative beliefs and values about the moral issues that the employees of that organisation share (Halbusi et al., 2020). Most common formal tools implemented in order to maintain an ethical organisation are codes of conduct, trainings on appropriate workplace behaviour, ethics office(r) and report line, and other types of information and communications. Specific rewards and punishments for (un)ethical behaviour can also influence ethical context of the organisation (Fleischman et al., 2017).

Simply by existing, ethical programme elements cannot deter employees from cheating or getting involved in improper conduct, because regardless of the ethical context of the company, ethically marginal questions will arise. To bolster making ethically proper decisions, corporate leadership, being skilled at ethical reasoning and possessing ethical sophistication, can help by ensuring employees that marginal decisions are made with an ethical behaviour in mind and do not contribute to reputational risk for the company or cause harm to stakeholders (Balch & Armstrong, 2009). Therefore, ethical leaders play a key role in establishing the context for culture to develop and have the mediating power in imposing ethical norms on the employees while encouraging their proper conduct.

Remišová et al. (2018) has found that managers, not the entry level employees, tend to have a more positive perception of organisational ethics than lower-level employees do, largely due to their stronger identification with the company and the need to protect the organisation's image as well as their own identity. This situation happens because of the existing hierarchy within

the organisations, where employees earn higher positions mostly based on their merit. This means that every employee is provided with the *equality of opportunity* regardless of their social position, economic class, gender, and race (Kim & Choi, 2017). While private organisations are not the perfect examples of meritocracy, its ideology is also applied in companies in performance management and promotions based on individuals' contributions to the organisation (Kim & Choi, 2017), with merit-based evaluation reward systems having both accountability and transparency (Castilla, 2016).

A direct victim of the many reported ethical misconducts are the employees (Doh et al., 2011). To alleviate the unfortunate repercussions faced by workers, companies adopt socially responsible human resources (HR) practices and put bigger emphasis on the Corporate Social Responsibility (CSR). The goal of these social performance practices, other than to reduce the impact of the unethical behaviour on the employees, is fulfilling their social and personal expectations and enhancing different aspects of employees' life (Frangieh & Yaacoub, 2019). Companies need to involve three elements if they are to be considered operating under the socially responsible human resource practices: the legal compliance HR management component, the employee-oriented component, and the general CSR facilitation component (Frangieh & Yaacoub, 2019).

Corporate Social Responsibility is becoming an integral part of how business express themselves publicly and internally to their stakeholders (Waddock, 2008). While CSR covers a wide range of practices in the efforts to make a change, an important dimension of CSR is employee well-being, which is directly related to the HR management practices (Simões et al., 2019), and further help companies to address CSR and ethical challenges more efficiently. According to Simões et al. (2019), while there is little direct connection between CSR and ethical behaviour, internal CSR practices are important for maintaining the ethical quality of organisations' internal relationships. Therefore, considering the effect of CSR practices on the perceived company social performance is imminent in order to fully grasp the effect of the existing ethical context.

According to the research made by Farouk and Jabeen (2018), ethical climate, which can be described as a set of shared perceptions of procedures and policies, both codified and informal, that shape expectations for ethical behaviour within an organisation or a company (Victor & Cullen, 1987), and CSR induce positivity that improves organisational performance. Following their thought, ethical context encourages ethical leadership, as constructive competition between non-managerial employees, facilitated by meritocratic company practices and combined with employees faced with a workplace environment that encourages ethical

behaviour and condemns improper conduct, presents them with opportunities of being promoted due to merit-based and just performance evaluation. This leads to some managerial workers becoming ethical leaders that demonstrate role model behaviour. Then the organisation, given its ethical context, merit-based HR practices and prominent ethical leadership, is expected to establish and exert social HR practices, in order to maintain the ethical climate at a non-managerial level, by *rewarding* its employees and paying more attention to their personal needs that exceed the basic compensation & benefit package, and sustaining the reputation by involving the stakeholders in the decision-making. The relationship between the existing ethical context and the implemented social performance practices has not been previously widely studied in the literature, therefore, this dissertation will aim to explore the connection further.

The goal of this study is to evaluate how the existing ethical context of the organisation, influenced by the ethical leadership and individual perceptions of merit, affects how social performance practices within the company are perceived. First of all, we will analyse the direct effect of the ethical context towards the perceived social performance of the organisation. Secondly, we will evaluate that same relationship when mediated by the ethical leadership. Thirdly, we will analyse how preference for merit principle moderates the relationship between ethical leadership and perceived social performance, when evaluating the effect of ethical context on the latter.

The dissertation will begin with literature review that combines the relevant concepts and introduces the reader to the theoretical background of the topic. Methodology will be presented next, outlining the data collection procedure, and, consequently, results will be provided together with the analysis. Lastly, the findings will be discussed, followed by the theoretical and practical implications of the research, as well as its limitations and suggestions for future studies.

2. Literature Review and Hypotheses

As a standard practice, most existing companies operate with a goal to maximize profit. With technology becoming increasingly more advanced and powerful, higher expectations are set on employees in order to increase the overall efficiency and consistently beat the revenue target. One of the main corporate controls that help track and encourage the workers to perform at their best are the Key performance indicators (KPIs) that define a measurable value which demonstrates how effectively an employee is achieving company objectives.

Given the rebellious human nature, like any other applauded initiative, setting KPIs to track individual performance has its downsides. When pressured to meet high standards of efficiency or deadlines, a desire to excel or a fear of failure, people might cheat (van Yperen et al., 2011). Acting against this type of behaviour is important, because unchallenged, even minor ethical misdeeds can have a corrosive effect on an organisation's ethical climate (Balch & Armstrong, 2009) and even profit. According to Niven and Healy (2015), the cost to businesses of unethical behaviour is at 5% of annual revenue.

While organisations should monitor and implement controls against improper conduct of the employees, nurturing their social needs in the workplace is of similar importance. Equal opportunities for workers, emphasis on work-life balance, responsible recruitment, empowerment, better information flow, inclusion, superior pay, skill-enhancing practices and rewarding employees' participation in CSR activities are a bundle of practices and policies that are perceived to be socially responsible (Frangieh & Yaacoub, 2019) and is a benchmark for innovative HR in companies around the world.

Because the tendency of people to engage in improper conduct depend on both characteristics of the environment and characteristics of the individual (Lin et al., 2016), the goal of this dissertation is to understand if ethical context of the company, impacted by the individual's perception on merit principle and ethical leadership, has a positive effect on the way the social performance of the company is perceived.

2.1. Ethical Context

Individuals are not programmed to act ethically by default – whether they do depend on various internal and external factors, such as personal moral beliefs and values, pressure from the outside to behave (un)ethically, examples of others. As a result, organisations need to predict and define the preferred behaviour, as placing increased institutional importance on ethical conduct reduces employees' intentions to behave unethically (Lin et al., 2016).

Characterising ethical behaviour might take multiple forms: it can be exercised as ethics codes, ethics programmes, ethical climate, and ethical culture. All these aspects comprise ethical context (Treviño et al., 2014) of the organisation that impedes improper behaviour and promotes ethical conduct (Kaptein, 2008).

If the organisation has an integrated system of logically interconnected values and related norms as mandatory ethical standards and processes (Remišová et al., 2018) for its employees to act upon, it could be assumed that the company is applying the same requirements for itself and operating under a fair, transparent, and positive manner. This type of ethical organisation would be expected to implement social practices that consider increased health and safety in the workplace, non-discriminatory governance, demonstrate instances of adequate pay and reward systems. For these reasons, we predict that the more prevalent is the ethical context within the organisation, the more positive is the perceived social performance of the organisation by its employees.

2.1.1. Ethical Infrastructure

Understanding if company operates ethically requires identifying the specific items that makes an organisation ethical. Existing formal and informal elements that help an organisation to act ethically and avoid improper conduct (Simões et al., 2019) is the primary attribute for pinpointing ethical companies and is commonly known as *ethical infrastructure*. These formal corporate ethics programmes typically include at least some of the following components: 1) formal ethics codes, where company expectations regarding ethics are outlined; 2) ethics committees in charge of developing ethics policies, evaluating company and employee actions, and investigating policy violations; 3) ethics communication systems (e.g., *hotlines*) providing a means for employees to report abuses or obtain guidance; 4) ethics officers or ombudspersons charged with coordinating policies, providing ethics education, or investigating allegations; 5) ethics trainings, aimed at helping employees to recognize and respond to ethical issues, and 6) disciplinary processes to address improper conduct (Weaver et al., 1999).

Following this logic, we assume that if a perfectly ethical company exists, its ethical programme will consist of all elements it is comprised of, and the management of the organisation will *walk the talk* by reflecting the implemented ethical policies in their conduct in order to influence and strengthen the ethical behaviour of its employees. We can then expect that this type of company would care not only about mirroring the ethical norms expected of the workplace, but also will have its social performance towards workers emulate the primary example of the market,

ensuring that human resources practices of the organisation are innovative and meeting (and surpassing) the needs of the employees.

2.1.1.1. Code of Ethics

When implementing ethical infrastructure within a company, the common first step is the establishment of the code of ethics, as it is considered to be the key element of the ethics programme (Remišová et al., 2018). Its importance is weighted on the fact that the formalization of corporate values facilitates job and role clarity and is the key to influencing employee behaviour (Nwachukwu & Vitell, 1997). Without explicitly stated ethics codes, there is little hope of consistent ethical behaviour in a sizable organisation (Balch & Armstrong, 2009). According to Barsky (2007), people are most likely to form ethical intentions when they acknowledge that they have an agentive role in the ethical behaviour to which they engage. Code of ethics, defined as a written, distinct, formal documentation that consists of moral standards and which helps guide employees or corporate behaviour (Lin et al., 2016), act as a booster for sense of responsibility in the employee, because this set of rules helps employees understand the practical realisation of the ethical behaviour and sets expectations to adhere to it, leaving employees in charge to make independent ethical decisions that are aligned with the code of conduct.

Furthermore, code of ethics serves as a tool to improve how employees may deal with ethical dilemmas and to support their decision-making (Lin et al., 2016), which could extend beyond the workplace environment. By implementing this tool of ethical infrastructure, employees are removed from existing ambiguity and deterred from opportunistic behaviour when faced with ethically challenging situations. Their social norms, like fairness and reciprocity, are activated (Jannat et al., 2021), and they help to extend setting a positive tone in the organisation about the importance of ethical behaviour. Since practicing ethical conduct depicted in code of ethics of the organisation involves questioning the morality of one's actions, it suggests that the employee might become aware of the discrepancy in morality of the actions of the organisation outside of its ethical framework and affect their perception of its social performance. For this reason, we posit that the existence of the ethics code in the company positively affects the perception of organisation's social performance:

H1a: Existence of the code of ethics is positively associated with perceived social performance.

2.1.1.2. Scope of Ethics Programme

Another item that helps to ensure the effectiveness of the ethical infrastructure is the scope of the ethics programme, which refers to the range of measures or instruments incorporated into an ethics programme (EP) (Kaptein, 2014). According to Kaptein (2014), the greater the number of components incorporated in the EP, the more effective it will be in reducing unethical behaviour and sending the signal that ethics matter. This statement is based on the fact that no one component can encompass all functions of the ethics programme, meaning that adding an element to an existing programme can increase the total number of functions that this ethics programme fulfils and further reduce unethical behaviour (Kaptein, 2014).

The total number of elements that comprise the scope of the ethics programme is a topic of discussion with different researchers identifying between 6 and 8 varying components (Weaver et al., 1999; Kaptein, 2014). For the purposes of this dissertation, Weaver's six elements (code of ethics, having ethics training, rules of sanctions for misconduct, *hotline* for ethical issues, monitoring of the compliance with the formal ethics documents, and the supervision body for ethical matters) will be used to define the scope of the EP. Despite disagreeing regarding the total number of components that comprise the scope of ethics programme, it is commonly agreed that companies should adopt at least some essential control elements besides the code of ethics (Kaptein, 2014; Mostafa et al., 2019; Jannat et al., 2021), such as ethics training, an ethics office, anonymous internal reporting and disciplinary action in their ethics programme (Mostafa et al., 2019).

The scope of an ethics programme is one of the most important variables explaining the influence of ethical infrastructure (Kaptein, 2014; Simões et al., 2019). Since it is an easily quantifiable measure, it allows a more simplistic approach on how prominent the ethical infrastructure is inside the company. We have already argued that we assume ethical infrastructure to be positively related to the social performance of the workplace. As scope of the ethics programme is one of the three items that constitutes ethical infrastructure, we assume that, similarly, the scope of organisation's formal ethics programme will positively affect how the social performance of the company is perceived.

H1b: The scope of organisation's formal ethics programme is positively associated with perceived social performance.

2.1.1.3. Relevance of Ethics Programme

The fact that an organisation has an existing code of ethics and some other elements of the ethics programme, does not immediately mean that it is ethical – to be fully effective, employees must be aware that these ethical controls exist and that they are important. Simões et al. (2019) has found that the way organisations use their ethical infrastructure, for example, giving more or less importance to norms and proactively supporting the effectiveness of the organisations' ethics code, impacts individuals' ethical behaviours and awareness. If employees perceive a more ethical environment, they may not participate in behaviours that are harmful to the organisation (Lee & Ha-Brookshire, 2020). This means, the higher the perceived relevance of the existing ethics programme, the less probability there is that employees would engage in unethical conduct.

When (un)ethical actions of the employees are monitored and the unethical ones investigated and punished, workers are aware of the existing ethical programme elements within the organisation, and the management is ensuring that the behaviour of the employees is compliant with the code of ethics, it can be expected that the instances of unethical conduct will decrease as rules on expected behaviour, as well as the repercussions of misconduct, are known to the workers within the organisation. With high perceived importance of the ethics programme, it can be expected that companies would pose higher relevance not only towards the ethical behaviour of the employees, but also towards a proper social conduct of the organisation. Therefore, we further hypothesise the following:

H1c: Perceived relevance of ethics programme is positively associated with perceived social performance.

2.1.2. Corporate Social Responsibility

Nowadays the functioning of companies is not limited solely to producing/selling a service or goods to receive profit. With Millennials and Gen Z occupying larger fractions of today's workforce, the demand for adequate work-life balance, marked reaction against the climate change, implementation of diversity and inclusion practices, and other social initiatives has increased. Therefore, a construct under the name of Corporate Social Responsibility has been created to define firm's commitment to efforts that satisfy basic economic, legal, ethical, and philanthropic interests of its various stakeholders and society as a whole (Valentine & Godkin, 2016); CSR became an integral part of most companies' way of working.

Corporate Social Responsibility is a multidimensional construct that consists of a broad range of actions and practices, including the possibility to promote a framework that reinforces ethical behaviour by clearly signalling organisations' values system and ethical priorities, thereby inducing organisational members to pay more attention to ethical issues (Simões et al., 2019). While it is not usual to consider formal CSR statements a part of organisations' ethical infrastructure, however, how CSR practices are perceived may have similar effects on the way internal organisational actors judge ethical issues. Therefore, in this dissertation CSR will be considered a part of the organisation's ethical context.

The *social* factor in CSR is crucial when discussing the purpose of this construct; socially responsible practices are those that go beyond legal obligations and are seen to aid in the *humanization of the workplace* (Frangieh & Yaacoub, 2019). Acting towards the well-being of the employees might not be the centrepiece of Corporate Social Responsibility's as it captures a more global approach with a focus on the burning issues of the world or the location where the organisation is based on. Nevertheless, its workers still benefit from CSR practices if not directly, then by perceiving the company to take responsibility for its carbon footprint, or simply by playing an active role in making the world a better place. For the considerable importance CSR puts on the social issues and its role in forming ethical context, it can be assumed that the higher the awareness of the CSR practices is in the organisation, the more positively will organisation's social performance be perceived:

  H1d: Perceived CSR practices are positively associated with perceived social performance.

2.2. Ethical Leadership

When discussing ethical conduct of the employees, the relevance of the ethical infrastructure or the perception of CSR practices, highlighting the importance of ethical leadership is crucial given the impact it has on encouraging ethical behaviour of the workforce. As early as 1989, Benson and Brooks both found support for the idea that top level management needs to be supportive of ethical codes for there to be compliance by employees. Their findings were further backed by Nwachukwu and Vitell (1997), who emphasised that steps taken to improve ethical behaviour in the organisation, regardless of its type, must come from the management and consist of inspiring, stimulating, and visionary leader behaviours that make up transformational and charismatic leadership (Brown et al., 2005).

Ethical leaders tackle multiple roles when it comes to influencing employees to follow the formal ethical behaviour rules: for one, they set clear standards and boundaries, and hold

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employees accountable; second, ethical leaders are models of ethical conduct who become the targets of identification and emulation for followers (Brown et al., 2005); it is also their responsibility to effectively communicate the organisation's ethical philosophy and review ethics codes frequently (Valentine & Godkin, 2016). The impact of ethical leaders on their subordinates extends beyond the word *ethical* – this type of leadership can promote followers' prosocial behaviours (e.g., organisational citizenship behaviour) (Yang & Wei, 2017; Tan et al., 2019) and prevent deviant behaviours.

In order to achieve the benefits of ethical leadership, managers need to conduct behaviours that are normatively appropriate in the eyes of employees and thus build up credit as ethical role models - the more employees are exposed to ethical role models, the less they are morally disengaged (Hsieh et al., 2020). Ethical leaders are considered to be trustworthy, honest, and fair (Mostafa et al., 2019), with fairness seemingly fundamental to the concept as it appears in most ethical leadership frameworks; leaders must be fair in order to be ethical (Mitropoulou et al., 2020).

Ethical leaders are the catalyst for ethical context elements to become ingrained to the employees' behaviours and moral judgements. Observing how intrinsic ethical leadership is for relatively all ethical aspects of the organisation, we argue that this variable is a mediator between the ethical context and the perceived social performance of the organisation. Thus, our hypothesis is as follows:

> H2: Ethical leadership mediates the relationship between different aspects of the ethical context and the perceived social performance.

2.3. Meritocracy

Meritocracy is recognised to be an ideal justice principle, because only relevant inputs (e.g., abilities) should be considered and irrelevant factors (e.g., ethnicity, gender) should be ignored when distributing outcomes (Son Hing et al., 2011). In true meritocratic systems everyone has an equal chance to advance and obtain rewards based on their individual merits and efforts, regardless of their gender, race, class, or other non-merit factors (Castilla & Benard, 2010). At the workplace, merit-based efforts are usually placed on linking employees' rewards directly to their performance, creating employment strategies aimed at linking merit to employees' careers, such as *pay-for-performance* rewards system (Castilla & Benard, 2010). Distributive justice principle is encompassed by the meritocracy concept, in that the ratio of people's inputs to outcomes should be equivalent to the ratio of relevant comparison with others

(Son Hing et al., 2011). For example, in work environment, fairness could be represented by an employee who has met the pre-set key performance indicators for the previous year and thus receives a higher bonus than the employee who did not meet the expected standard of performance. If this situation would be reversed and the employee with poorer performance scores would have received a higher bonus, this would be labelled an organisational practice involving merit violation, and then employees with stronger preference for merit principle would respond more negatively to the situation (Son Hing et al., 2011).

In a broader sense, preference for the merit principle can impact more aspects of organisation's work environment: meritocratic management style helps human resource policies to address impartial recruitment, selection, and promotion in compliance with meritocratic premises rather than the arbitrary appointment and promotion of individuals; it acts as a vehicle for social mobility and encourages people to do their best to achieve the ultimate goals of society; it reduces corruption in organisations through transparent management (Kim & Choi, 2017). In meritocratic organisations, employees acknowledge the presence of transparency and impartiality in management's decision-making, healthy competition among employees and equality of opportunity (career or otherwise).

All things considered, meritocracy and ethics in companies seem to go hand in hand – if employees do not support the merit principle, and, for example, do not believe that those who work harder or perform better deserve to get promotions and salary increases, it can be assumed that ethical context, as well as ethical leadership, will be perceived less positively too, because, for instance, an ethical leader will not be considered to be one without him actually demonstrating the ethical qualities that show that he earned this status. Furthermore, just, and moral decision-making is a driving force of both concepts, with preference for merit principle considered to be a more individual notion than the commonly accepted ethical standard. Thus, in this dissertation we will test the hypothesis where the preference for merit principle is considered to be a variable that has a moderating effect between the ethical leadership and perceived social performance:

H3: Preference for merit principle moderates the relationship between ethical leadership and the perceived social performance.

2.4. Perceived Social Performance

Ethics management is a fundamentally inclusive process in relation to non-managerial employees as well as external stakeholders (Lašáková et al., 2020), meaning that ultimately the

ethicality of the organisation affects not only the employees, but suppliers and customers too, which further demonstrates its importance. Setting normative expectations for employee behaviour, monitoring and control, evaluating ethical behaviour, and being consequential in rewards and punishments are all the examples of the preferred ethics management (Lašáková et al., 2020) and the practical results of its profound integration with human resource management.

Lašáková et al. (2020) grouped the best practices of ethical management into 9 sub-categories: the ethical tone at the top, clarifying ethical norms, ethics education, monitoring and control of ethical behaviour, evaluating behaviour, drawing consequences, fostering leader–member interactions, empowering employees, and building trustful relationships with external stakeholders. Since all of the abovementioned components directly or indirectly affect the human factor of the company (employees, suppliers, customers), it can be concluded that these practices are primarily focused towards nurturing the social performance of the company.

Companies need to keep the perceived social performance high in order to have employees go above and beyond their prescribed work duties, leading to a number of positive outcomes, such as increased work-team effectiveness, increased quality and quantity of work, and elevated overall organisational performance (Podsakoff & MacKenzie, 1997; Podsakoff et al., 2000). Furthermore, in socially responsible organisations, employees feel the need to respond to the practices provided by the organisation by producing positive work-related behaviours (Frangieh & Yaacoub, 2019). Therefore, having a well-perceived social performance inside of the organisation means having the desired efficiency and quality of work, while keeping the employees and the external stakeholders happy.

As organisation's social performance derives from ethical management practices, it can be assumed that ethical context has a positive impact on how company's social performance is perceived. Ethical leadership should then have a mediating effect on this relationship, as it plays a critical role in establishing and enforcing ethics policy and modelling ethical behaviour (Balch & Armstrong, 2009). Lastly, we believe that preference for merit principle will have a moderating effect on ethical context's relationship with ethical leadership, as meritocratic principles cannot be implemented within the company without the active involvement of the management.

To conclude, this dissertation suggests a mediated moderation research model. In this model, ethical leadership mediates the relationship between ethical context and perceived organisation's social performance, while the relationship between ethical context and ethical leadership is moderated by preference for merit principle (Figure 2.1).

Figure 2.1. Research model
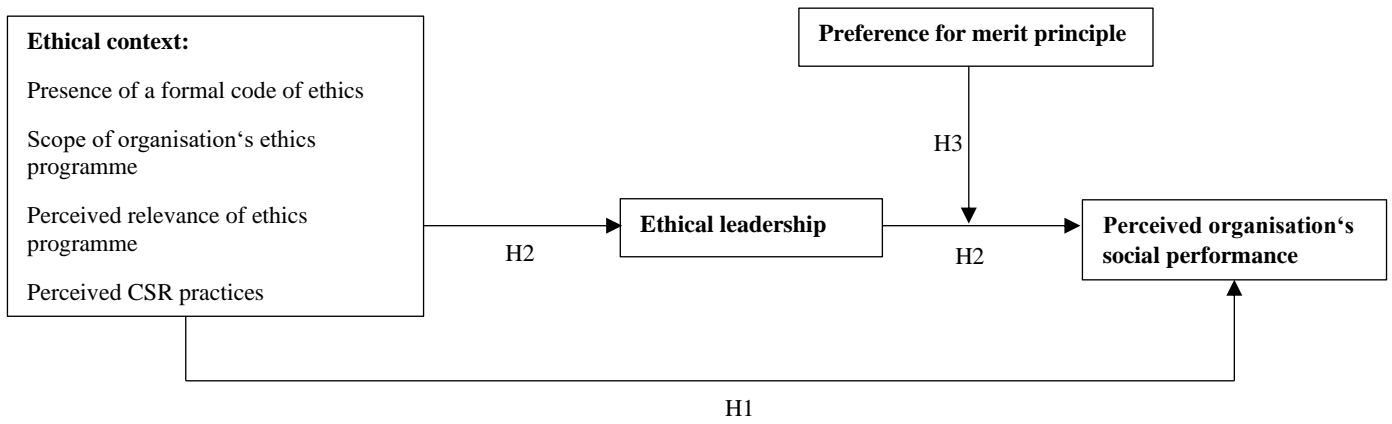
3. Methodology

3.1. Sample and Procedure

The research made use of a non-probability convenience sampling technique. The data for the survey was collected by means of an online questionnaire administered at a single time using an internet-based survey provider. To take part in the research, respondents needed to be over 18 years of age and they had to indicate that they were currently employed. Except for these two criteria, there were no further demographic constraints placed on participation, therefore, respondents were able to voluntarily self-select for inclusion in the research, provided they met the above criteria. A letter accompanied each questionnaire to explain the research goals and guarantee the maximum confidentiality of the data collected and anonymity of respondents. Of the 194 responses collected, 182 were fully completed and could be used in the study. To address the research objectives, the survey included instruments with questions about five main areas: ethical infrastructure, perceived CSR, ethical leadership, perceived social performance and preference for merit principle.

More than half (59.3%) of the respondents are women; the majority are between the ages of 26 and 33 (51.1%) and about a half (48.4%) are Lithuanian nationals. The education level of the respondents is high as vast majority (88.5%) hold a university degree (Bachelor's or higher). Regarding employment status, most (78%) of the survey participants are employed full-time. Concerning the number of years in their current position, 40.1% have been in their current position from one to three years, and 26.9% have held their current position for less than 6 months. More than two-thirds of the respondents are employed within a private (77.5%) for-profit (84.6%) sector and almost half (47.3%) work for small organisations that employs up to 250 workers. The business sectors that most survey participants are employed within are data, information, and technology (12.6%), financial services (11.5%), business and consultancy (both 8.8%). Most respondents (80.8%) occupy non-managerial positions, and more than half (57.7%) have their expected work results defined by pre-set performance goals (KPIs). A further 80.8 percent indicated that the organisation to which they belong have a code of ethics or a similar formal document (Figure 3.1).

Figure 3.1. Demographic information of respondents

Measure	Items	Frequency	Percent
Age	18-25	71	39%
	26-33	93	51.1%
	34-41	10	5.5%
	42 or older	8	4.3%
Gender	Female	108	59.3%
	Male	74	40.7%
Nationality	Lithuanian	88	48.4%
	Spanish	21	11.5%
	Portuguese	8	4.4%
	German	7	3.8%
	Italian	7	3.8%
	Other	51	28.1%
Education	High School degree	13	7.1%
	Some College but no degree	8	4.4%
	Bachelor's degree	84	46.2%
	Master's degree or higher	77	42.3%
Employment status	Employed full-time	142	78%
	Employed part-time	40	22%
Work experience	Less than 6 months	49	26.9%
	More than 6 months but less than 1 year	22	12.1%
	Between 1 and 3 years	73	40.1%
	Between 3 and 6 years	25	13.7%
	Between 6 and 10 years	7	3.8%
	More than 10 years	6	3.3%
Company type (profit/non-profit)	For-profit	154	84.6%
	Non-profit	28	15.4%
Company type (private/public)	Private	141	77.5%
	Public	41	22.5%
Company size	Up to 250 employees	86	47.3%
	Between 251 and 500 employees	17	9.3%
	More than 500 employees	79	43.4%
Sector	Data, information, and technology	23	12.6%
	Financial services	21	11.5%
	Business	16	8.8%
	Consultancy	16	8.8%
	Health	11	6%
	Other	95	52.3%
Position	Managerial	35	19.2%
	Non-managerial	147	80.8%
Existence of KPIs	Yes	105	57.7%
	No	77	42.3%

3.2. Predictor Variables and Measures

3.2.1. Existence of Ethics Code

The variable "presence of a formal code of ethics" was measured following a standard procedure universally used to assess this variable (Kaptein, 2008, 2014; Treviño & Weaver, 2001; Simões et al., 2019), that was evaluated via a dichotomous question to which respondents answered either "Yes" (1) or "No" (2). The standard deviation of the variable is .40 and mean value 1.19.

3.2.2. Scope of Ethics Programme

Similarly, the indicator for the variable "scope of organisation's ethics programme" was assessed by following the standard procedures of measurement of this variable (Kaptein, 2008, 2015; Treviño & Weaver, 2001; Weaver et al., 1999; Simões et al., 2019). The respondents had to evaluate the scope of the ethics programme by answering whether five additional elements (besides ethics code) of EP (ethics code training, clear rules for sanctions for misconduct, an anonymous and confidential *hotline* on ethical issues, monitoring of compliance with the ethics code, and a manager responsible for the code) exist in their workplace. The possible responses were either "No" (2) or "Yes" (1). A composite variable was then created by adding together the number of elements of the ethics programme indicated by respondents, including the existence of a code of ethics. The possible values of this composite variable ranged from 1 (mere existence of a code of ethics without any additional elements) to 6 (existence of an ethics code plus the five other elements). The mean value of this variable is 3.82 (SD = 1.69, min 1, max 6), indicating an above average level of ethics programme implementation within the organisations of the respondents. Only one ethics programme element – code of ethics – was present in 12 organisations, while four times more respondents indicated that their companies cover a full scope of the ethics programme.

3.2.3. Perceived Relevance of Ethics Programme

The variable "perceived relevance of ethics programme" was measured via three independent statements adapted from the relevant literature (Treviño & Nelson, 2006; Simões et al., 2019):
1. "Employees are aware of the existence of a code of ethics (or similar document) in the organisation" (Mean = 3.51, SD = 1.25).

2. "Workers who violate the standards established by the code are investigated and punished" (Mean = 3.36, SD = 1.07).

3. "The different department heads of the organisation play an active role in monitoring employees' compliance with the code of ethics" (Mean = 3.10, SD = 1.10).

Respondents were asked to indicate to what extent each statement was true of their organisation, using a five-point response scale (1 = "Strongly disagree," 5 = "Strongly agree"). A composite variable was then created by averaging the three items (M = 3.32, SD = .99, Cronbach's alpha (α) = .83) with higher scores representing higher perceived relevance of the ethics programme.

3.2.4. Perceived CSR Practices

The measure "perceived CSR practices" regarding their organisations' engagement in corporate social responsibility practices was evaluated using 14-items scale developed by Duarte (2011). The items relate to three dimensions of CSR: the first is *Employee CSR*, which includes practices such as promoting equality between men and women or a balance between family and professional life (α = .81; composite reliability (CR) = .85; average variance extracted (AVE) = .49, M = 3.94, SD = .88). The second dimension is *Community and environment CSR*, which includes practices such as supporting social causes or giving donations to nature protection associations (α = .85, CR = .82, AVE = .41, M = 3.19, SD = 1.08). The last dimension is *Economic CSR*, which encompasses practices such as striving to be profitable or being the best organisation in the relevant business sector (α = .77, CR = .82, AVE = .61, M = 4.30, SD = .90). These three dimensions revealed acceptable scores with adequate levels of reliability and convergent validity. The respondents were asked to indicate their level of agreement with each statement using a five-point response scale (1 = "Strongly disagree," 5 = "Strongly agree"). A composite variable was created for each dimension by averaging the applicable items - higher scores represent perceptions of higher engagement of organisations in CSR practices.

3.2.5. Ethical Leadership

The variable "ethical leadership" in the organisations of the respondents was measured by a set of ten items as depicted in the Ethical Leadership Scale (ELS), developed by Brown et al. (2005), where the focus is placed on direct supervisors, the immediate authority figures who set expectations, model behaviour, and manage employees' daily performance. This particular scale was used in current research as it is consistent with the proposed theoretical framework

and captures the essence of the ethical leadership construct. It included items such as "my direct manager can be trusted" or "my direct manager makes fair and balanced decisions". The respondents were asked to indicate their level of agreement with each statement using a five-point response scale (1 = "Strongly disagree," 5 = "Strongly agree"). Mean value of this variable is equal to 3.66, standard deviation to .88 and Cronbach's alpha to .94.

3.2.6. Preference for Merit Principle

"Preference for merit principle" variable was assessed via 15-item scale developed by Davey et al. (1999), an alternative justice measure that assesses individual differences in the preference for the merit principle as a basis for allocating resources to identify the determinants of attitudes toward social policies. Scale included statements such as "in organisations, people who do their job well ought to rise to the top" and "in life, people ought to get what they deserve". The respondents were asked to indicate the extent of agreement with each statement using a 7-point Likert scale (1 = "Strongly disagree," 7 = "Strongly agree"). After collecting the responses, negatively keyed items were reversed before proceeding to analyse the results. Mean value of this variable is 4.67, standard deviation .70 and Cronbach's alpha .73.

3.3. Criterion Variable

To assess the variable of "perceived organisation's social performance", an adequate measure had to be developed as this instrument was not yet available in the literature. Following the typical steps in the development of new measures, various examples of practices that demonstrate social performance in companies were collected from the relevant literature, particularly from the research on best practices in ethics management (Lašáková et al., 2020). The experimental scale of 14 items was then created, with respondents asked to indicate the degree to which they personally considered each social performance practice similar to their organisation's on a 7-point Likert response scale (1 = "Totally different," 7 = "Totally similar"). Exploratory factor analyses were conducted and identified a final set of 8 items (see Figure 3.2). The scale was then divided into two factors. First dimension referred to *Transparent communication practices* (α = .81, CR = .86, AVE = .61, M = 5.47, SD = 1.20) and included four items (e.g., "Takes customers' feedback into account when implementing organisational changes"). The second dimension was related to *Ethical decision-making practices* (α = .84, CR = .88, AVE = .64, M = 4.25 and SD = 1.39) including four items as well (e.g., "Splits decisional authority and competences"). Both factors revealed adequate levels of internal consistency with α and CR values above .80 (Fornell & Larcker, 1981; Awang, 2012). A

composite variable was created for each dimension by averaging the pertinent items with higher scores representing higher levels of acceptance of social performance examples. Confirmatory factor analysis indicated that these two factors showed a good fit for the data ($\chi2$ [19] = 60.19, p < .000, AGFI = .867, CFI = .931, RMSEA = .071), compared to a single factor solution ($\chi2$ [20] = 194.11, p = .001, AGFI = .535, CFI = .708, RMSEA = .226).

Figure 3.2. Factor analysis of social performance practices

Dimensions and items	Factor loadings
Transparent communication practices	
Responds to customer complaints or inquiries	.857
Informs customers about the proper use of their products/services and warn of potential risks	.844
Takes customers' feedback into account when implementing organisational changes	.761
Supports employees who wish to continue or upgrade their education/training	.636
Ethical decision-making practices	
Considers ethical profiles while nominating new leaders	.836
Rotates employees at ethically risky positions	.833
Appoints ethics ambassadors (employee ethical role-models)	.781
Splits decisional authority and competences	.752
Fit indices	
2χ	60.209
df	19
2χ/df	3.16
RMSEA	.071
AGFI	.867
CFI	.931

4. Results

The data was analysed using IBM SPSS software 26.0 version. Figure 4.1 represents the Ms, SDs, zero-order correlations and internal reliabilities of variables. Most of the indicators showed weak to moderate interrelation, except for ethical leadership, which has a strong positive correlation with perceived relevance of ethics programme (r = .58, p < .01) and two perceived CSR variables: employee CSR (r = .66, p < .01) and community and environment CSR (r = .50, p < .01). Furthermore, our criterion variable, transparent communication practices, is positively associated with employee CSR (r = .49, p < .01) and ethical leadership (r = .59, p < .01), meanwhile ethical decision-making practices show positive correlation with perceived relevance of ethics programme (r = .58, p < .01), community and environment CSR (r = .53, p < .01) and ethical leadership (r = .64, p < .01).

Figure 4.1. Means, standard deviations, Cronbach's alphas, and correlations between the variables

	Variables	M	SD	1	2	3	4	5	6	7	8	9	10
1.	Presence of a formal code of ethics (1= Yes, 2= No)	1.19	.39										
2.	Scope of ethics programme	3.82	1.69	-.40**									
3.	Perceived relevance of ethics programme	3.32	.99	-.42**	.49**	(.83)							
4.	Employee CSR	3.94	.88	-.16*	.22**	.45**	(.81)						
5.	Community and environment CSR	3.19	1.08	-.20*	.31**	.40**	.47**	(.85)					
6.	Economic CSR	4.30	.90	-.04	.13	.22**	.38**	.25**	(.77)				
7.	Ethical leadership	3.66	.88	-.18*	.29**	.58**	.66**	.50**	.42**	(.94)			
8.	Preference for merit principle	4.67	.70	.03	.05	.17*	.15*	.16*	.24**	.26**	(.73)		
9.	Transparent communication practices	5.47	1.20	-.19*	.20**	.34**	.49**	.30**	.38**	.59**	.28**	(.81)	
10.	Ethical decision-making practices	4.25	1.39	-.23**	.40**	.58**	.47**	.53**	.20**	.64**	.27**	.44**	(.84)

Notes: Cronbach's α between parentheses; *p < .05; **p < .01.

4.1. Hypothesis Testing

4.1.1. Effects of Ethical Context on Perceived Social Performance

The hypothesis testing provided the first indication of the direct effect, namely, that ethical context significantly predicts perceived social performance. Multiple regression analyses were performed to assess this relationship, including separate linear regression analyses for each of the predictor variables. As indicated in the Figure 4.2, ethical context has a statistically significant impact on both dimensions of perceived organisation's social performance.

Mere presence of a formal code of ethics had a statistically significant negative effect on both transparent communication practices (F [1,180] = 6.686, p < .05; Std. β = -.189, p < .05) and ethical decision-making practices (F [1,180] = 10.546, p < .01; Std. β = -.235, p < .01) of the perceived social performance (see Figure 4.2). Since we predicted the existence of a code of ethics to have a positive effect on perceived social performance, but the hypothesis testing revealed a negative statistically significant effect, we can conclude that *H1a* is not supported.

As depicted in the Figure 4.2, the scope of organisation's formal ethics programme is significantly positively associated with perceived social performance. That is, the higher the scope of the ethics programme, the better the perception of both dimensions, transparent communication practices (F [1,180] = 7.693, p < .01; Std. β = .202, p < .01) and ethical decision-making practices (F [1,180] = 34.134, p < .000; Std. β = .399, p < .000). The significant relationship concludes that *H1b* is supported by the data.

Regarding the direct effect of perceived relevance of ethics programme on the dimensions of the perceived social performance, statistically significant relationship was recorded once again (refer to Figure 4.2). This effect occurs both when exercising the practices that are related to transparent communication (F [1,180] = 24.246, p < .000; Std. β = .345, p < .000), as well as those that involve ethical decision-making (F [1,180] = 92.129, p < .000; Std. β = .582, p < .000). Therefore, *H1c* is supported.

Finally, multiple regression analysis revealed that perceived CSR practices have a statistically significant effect on perceived social performance of the organisations. More specifically, this impact is noted with transparent communication practices (F [3,178] = 24.489, p < .000), as well as with practices of ethical decision-making (F [3,178] = 31.477, p < .000). As per Figure 4.2, the highest effects were recorded when perceptions of Employee CSR (Std. β = .376, p < .000) influenced transparent communication practices, and perceptions of Community and

Environment CSR (Std. β = .399, p < .000) consequently impacted ethical decision-making. Thus, *H1d* was supported by the data.

Figure 4.2. Effects of ethical context on perceived social performance

		Perceived organisation's social performance			
		Transparent communication practices		Ethical decision-making practices	
Hypotheses	Predictors	R²adj	Std. β	R²adj	Std. β
H1a	Presence of a formal code of ethics	.036	-.189*	.050	-.235**
H1b	Scope of organisation's ethics programme	.036	.202**	.155	.399***
H1c	Perceived relevance of ethics programme	.114	.345***	.335	.582***
H1d	Perceived CSR practices — Employee CSR	.280	.376***	.336	.291***
	Perceived CSR practices — Community and Environment CSR		.073		.399***
	Perceived CSR practices — Economic CSR		.220**		-.014

Notes: R²adj = Adjusted R²; Std. β = standardised β. *p < .05; **p < .01; ***p < .000.

4.1.2. Mediating Effects of Ethical Leadership

H2 predicted that ethical leadership mediates the positive effect of ethical context on the perceived organisation's social performance. To evaluate this indirect effect, the method developed by Preacher and Hayes (2004, 2008), which involves bootstrapping the mediating effect, was used. Figure 4.3 presents the results obtained from the bootstrapping analysis made with Hayes PROCESS macro for SPSS. Preacher and Hayes (2008) have mentioned that when utilizing the 95% bias-corrected bootstrap confidence interval (CI) analyses with 5,000 bootstrap samples, we can examine the statistical significance of the mediation effect. The results of these tests showed that the 95% CI around the mediation effect of ethical leadership (e.g., Employee CSR indirect effect = .6096, 95% CI = [4242, 8082], p < 0.000) did not contain zero, indicating that the indirect effect of ethical leadership was significant. Hence, *H2* was supported by the data.

Figure 4.3. Effects of ethical context on perceived social performance via ethical leadership mediation

| | | Perceived organisation's social performance | | | | | | | |
| | | Transparent communication practices | | | | Ethical decision-making practices | | | |
Hypothesis	Predictors	Effect	LLCI	ULCI	R²	Effect	LLCI	ULCI	R²
	Presence of a formal code of ethics	-.3103*	-.6144	-.0552	.0358	-.3908**	-.7334	-.0608	.0553
	Scope of organisation's ethics programme	.1182**	.0532	.1910	.0410	.1368***	.0680	.2108	.1594
	Perceived relevance of ethics programme	.4103***	.2478	.5719	.1187	.3762***	.2285	.5282	.4808
H2	Perceived CSR practices — Employee CSR	.2264***	.1079	.2722	.3099	.6096***	.4242	.8082	.2228
	Perceived CSR practices — Community and Environment CSR	.3240***	.1962	.4765	.0916	.3255***	.2167	.4498	.2825
	Perceived CSR practices — Economic CSR	.2915***	.1564	.3160	.1460	.4450***	.0884	.2652	.0385

Notes: *$p < .05$; **$p < .01$; ***$p < .000$.

4.1.3. Moderating Effects of Preference for Merit Principle

H3 posited that preference for merit principle moderates the indirect effect of ethical context on perceived social performance via ethical leadership. To test the moderated mediating effect, we used Hayes PROCESS macro for SPSS, model 14. As can be seen from the results shown in Figure 4.4, we cannot definitively say (with 95% confidence) that the indirect effect between ethical leadership and perceived organisation's social performance depends on preference for merit principle, because the confidence interval for the index of moderated mediation for all ethical context predictors includes zero (e.g., Perceived relevance of ethics programme, indirect effect = -.0418, 95% CI [-.1638, .0408] for transparent communication practices and indirect effect = -.0095, 95% CI [-.0648, .1112] for ethical decision-making practices). Therefore, the hypothesis was not supported.

Figure 4.4. Indexes of moderated mediation

| | | Perceived organisation's social performance | | | | | |
| | | Transparent communication practices | | | Ethical decision-making practices | | |
Hypothesis	Predictors	Index	LLCI	ULCI	Index	LLCI	ULCI
	Presence of a formal code of ethics	-.0188	-.1067	.0279	-.0043	-.0483	.0701
	Scope of organisation's ethics programme	.0004	-.0116	.0131	.0001	-.0080	.0097
H3	Perceived relevance of ethics programme	-.0418	-.1638	.0408	-.0095	-.0648	.1112
	Employee CSR	-.0525	-.1879	.0450	-.0119	-.0879	.1235
	Perceived CSR practices — Community and Environment CSR	-.0188	-.0671	.0173	-.0043	-.0314	.0514
	Economic CSR	-.0230	-.0760	.0199	-.0052	-.0392	.0586

5. Discussion

This research proposed and tested whether the existing ethical context of the organisations positively influences the perceived social performance, when this relationship is mediated by ethical leadership, and the preference for merit principle moderates the effect between ethical leadership and perceived social performance. Three raised hypotheses tested three different relationships: first, we assumed that there is a positive direct relationship between ethical context and perceived social performance; second, we claimed that this direct positive relationship is strengthened when adding ethical leadership as a mediator; third, we supposed that adding preference for merit principle as a moderator of the ethical leadership effect on perceived social performance further improves this relationship.

After running the hypotheses we have found that there is a positive and significant direct relationship between ethical context, its elements, and perceived social performance practices implemented within the company. The strongest direct effect was recorded between perceived relevance of the ethics programme and both dimensions of perceived social performance. Therefore, we can conclude that the more importance an organisation sets on its ethics programme demonstrating its benefits and ways of working, the more likely are the employees to react positively towards the transparent communication and ethical decision-making practices implemented in the workplace. We can state that by dedicating resources to create an ethical environment at work, companies simultaneously build trust that passes on to positive perception of ethical management practices.

As expected, results have revealed that ethical leadership has proven to mediate the effects of elements of the ethical context on perceived social performance. These findings are in line with previous research (Den Hartog, 2015) that demonstrates how ethical leadership seems to be decisive in the promotion of ethical judgment in employees, making them to frame the scope and the perceived importance of the components of the organisation's ethical infrastructure. All ethical context items, except for code of ethics, revealed a significant positive effect when mediated by ethical leadership, which supports previous studies which suggested that ethical leaders are vital components in the development of the ethical climate and help enable the employees' perceptions of it within the organisation (Fleischman et al., 2017; Mitropoulou et al., 2020; Fu et al., 2020; Halbusi et al., 2020; Eriksson & Ferreira, 2021). By mirroring ethical elements through their behaviour, ethical leaders encourage employees to positively view social practices that further encourage proper ethical management.

The hypotheses that were not supported after running the analysis presented us with some valuable information too. First of all, when mediated by ethical leadership, existence of ethics code in organisations resulted in having a significant negative effect towards the perceived transparent communication and ethical decision-making practices in companies. These findings suggest that ethical leaders who have only one ethical programme element to follow and promote to the employees might unwillingly single-out and pose excessive amount of importance on one formal document. This can increase the likelihood of employees experiencing organisational citizenship anxiety, which would then reduce their general well-being at work (Fu et al., 2020) and thus can result in a negative perception towards social performance of the company. Secondly, preference for merit principle had no significant moderating effect on the relationship between ethical leadership and transparent communication practices, as well as ethical decision-making practices. As preference for merit principle is an individual perception that is intrinsically connected with one's moral values, it might be suppressed by ethical leaders when working, in order to not create bias towards the actions of the employees that might be ethical but otherwise not match with their preferred individual merit concept. This would explain why no significant moderation was recorded when preference for merit principle variable was introduced.

5.1. Theoretical Implications

The present study provides several implications for theory. First, the dissertation extends the research on positive effects of ethical context. Elements such as perceived relevance and scope of ethics programme proved to directly influence both the ethical decision-making and transparent communication practices of the company, meaning, that the more elements of the ethics programme exist in the company, and the higher the importance is placed on those tools, the more social performance practices are valued within a company. The dissertation has further found that CSR practices are perceived as shaping the acceptance of transparent communication and ethical decision-making practices, with Employee CSR having the highest impact. The study also revealed the surprising negative effect of mere existence of the code of ethics. Turns out, when only one element of ethical context is present – code of ethics – this has a direct negative impact both dimensions of perceived social performance.

As a second implication, a scale to measure perceived organisation's social performance was constructed. While Lašáková et al. (2020) has previously mapped the best practices in ethics management, there was no specific tool available in literature that could be used to evaluate the

perception of the employees towards the social performance of the company. The scale was developed by collecting the best social practices in ethics management available on scientific literature and then removing those that partially overlap, leaving the final 14-item list.

Third, the study further examined the mediating impact of ethical leadership in accelerating ethical culture in organisations. The findings demonstrate that ethical leadership functions as a bridge facilitating the link between existing ethical context of the organisation and its perceived social performance. This suggests that ethical leaders need to be surrounded by the ethical culture in order to then be able to communicate the existing social practices to the employees in turn increasing their perception regarding the transparent communication and ethical decision-making practices that the company is implementing. The significant mediating effects of ethical leadership on all predictors of the ethical context advance our understanding on how existing ethical elements influence the recognition of the social performance of the organisation.

Finally, the study discloses that there is no moderating effect of the preference for merit principle on the relationship between ethical leadership and perceived social performance of the organisation. This allows to further understand that how employees think about merit does not impact the ability of ethical leaders to influence how workers perceive the social practices within the organisations.

5.2. Practical Implications

The findings of this study have several important practical implications. First, code of ethics alone has a negative impact on the perceived social performance. This study supports the research of Nwachukwu and Vitell (1997), which stated that in organisations with a formal code of ethics, it may be the assumption of practitioners that *someone else* (e.g., top management) is mandating specific ethical considerations, and in turn tends to be less critical when faced with a situation where abiding code of ethics is necessary. In the case of this dissertation, the findings suggest that if an organisation does not possess other ethical infrastructure tools than code of ethics, employees will react negatively towards the social performance practices that the company is implementing. Therefore, it is important not to rely solely on a code of conduct and combine more elements of the ethics programme in order to increase the perceived social performance of the organisation.

Second, ethical leadership is a crucial factor increasing the effect that ethical context has on perceived social performance of the organisation. In other words, this dissertation has tested

whether introducing ethical leadership in companies would increase the positive impact of ethical context on perceived transparent communication and ethical decision-making practices. It proved to be the case in all instances but one, with perceived CSR practices and the relevance of ethics programme benefiting the most from this mediation. Therefore, managers should aim to be acknowledged as ethical leaders and focus on becoming the examples of individuals working according to company's ethical values. Organisations should also pay increased attention when recruiting new management positions and could implement additional hiring process steps that would demonstrate what are the personal moral beliefs of the candidate that would further help to predict if the candidate fits the expected ethical leader's model.

Lastly, individual preference for merit principle proved to have no significant effect on how ethical leadership affects perceived social performance of the organisation. This means that despite of how high the merit is regarded by the ethical leaders', this has no impact on how employees perceive ethical decision-making or transparent communication practices implemented within the company. One reason for no significant relationship between the abovementioned factors could suggest support for the idea of Park and Liu (2014), who stated that the concept of merit varies from nation to nation and institution to institution, and therefore could have different meanings for different respondents, as this dissertation included the data from people from different backgrounds. Varying understandings of the same concept might lead to the devaluated concept of merit within an organisation and thus it could be a good practice for a company to define what is merit on their own terms, creating a unified understanding about merit among their employees as a result. Simultaneously demonstrating how practicing merit principle in specific workplace situations can relate to the consolidation of ethical context of the company, might eventually result in employees having the perception about merit principle that positively affects organisation's social performance.

6. Conclusions

The purpose of this study was to understand what role ethics play in encouraging the well-being of employees at work that goes beyond basic benefits or, in other words, how *social* ethical companies are. As initially expected, we found that there is a positive relationship between ethical infrastructure elements, perceived CSR practices, ethical leadership, and perceived social performance in organisations. We discovered that more ethically established companies are going to have employees with a stronger positive attitude towards the transparent communication efforts and ethical decision-making within the workplace.

To conclude, the findings of the study suggest that there is evidence that support the mediation model that was used in this dissertation on the collected data. First of all, the research confirmed the direct positive relationship of ethical context and its elements on the two dimensions of social performance in the organisations. Perceived relevance of the ethics programme had the highest positive direct impact on the ethical decision-making dimension of the social performance, while perceived Employee CSR practices influenced the practices of transparent communication the most. Secondly, we could confirm the mediation of ethical leadership between ethical context and perceived social practices. The mediating relationship was significant with all elements of the ethical context and had the strongest effect for perceived Employee CSR practices on ethical decision-making, and for perceived relevance of the ethics programme on transparent communication in the workplace. We have also expected that this mediation model will benefit from preference for merit principle moderating ethical leadership's effect on social performance, however, this relationship was not supported by the results obtained.

6.1. Limitations and Future Research

The dissertation has some limitations that should be noted. First of all, using convenience sampling technique has its drawbacks. According to Mackey and Gass (2015), while this data collection method is one of the most efficient, it is prone to biases and could lead to the poor representation of the population. In this research, a vast majority of the surveyed respondents are aged from 18 to 33, thus accurately representing only the perception of young adults, recent graduates. Furthermore, even though survey participants are nationals of many different countries, almost a half identified themselves as Lithuanians, resulting in low representation of other localities. Then, the total number of respondents is slightly short of 200, which is a below average number for similar statistical measurements and could have impacted

the accuracy of the representation of the population. Therefore, a different study should use another sampling technique where a wider spectrum of the population could be accurately captured. Moreover, new research could compare the differences of ethical context effects on social performance between business sectors, age groups or nationalities, as some researchers have already noted that, for example, ethical leadership is more relevant to Eastern rather than Western cultures (Mostafa & Shen, 2019).

We cannot completely exclude the possibility of common method bias, as all the data used for the research was collected from the same participants at the same point in time. According to Podsakoff et al. (2012), when the source who provided the measure for both predictor and criterion variables is the same, this may result in an *artefactual covariance* between those two variables. This could lead to consistency motif, where respondents try to be consistent with their answers without carefully considering the content. However, a few of the scales presented to the respondents had reversed items in order not to suggest answer predictions and therefore reduced the impact of common method bias. To limit the possibility of these bias existing, future studies could collect data from different sources for each of the variables (e.g., dividing question between main stakeholders or departments of organisation).

Furthermore, as the participation in this study was voluntary, it could have attracted individuals interested in the specific outcomes of the research and thus creating social desirability bias by respondents choosing the answers without being completely honest. However, the initial page of the questionnaire ensured survey participants their anonymity and the confidentiality of the data, as well as encouraged them to answer truthfully, which should have reduced the social desirability bias of the current research (de Jong et al., 2010). Future studies could use different format scales to further combat social desirability bias, as the questionnaire of the current dissertation mostly included answer options based on a Likert scale, which, according to Podsakoff et al. (2003), could be one of the reasons for common method bias to appear.

Another potential source for common method bias is the fact that all data was collected at the same point in time, meaning that this research became a cross-sectional study, where the inference of causal relationships between variables is limited and systematic covariation appears (Podsakoff et al., 2003; Michel & Hargis, 2008; Park et al., 2011). Measuring variables simultaneously have a risk of the measurement being only a short-term memory product of the participants, thus impeding the establishment of causal relationships. For this reason, another research could test the same variables at different points in time, e.g., implementing a time lag between measurements. This longitudinal study would establish causal relationships that could give a deeper insight into ethical context effects.

Lastly, insufficient research literature surrounding the social performance practices within organisations limited our efforts in exploring the concept fully. At the time of completing this dissertation there was a lack of scientific articles discussing social practices used in companies to enhance social performance and evaluate employees and/or stakeholders' perception towards social practices implemented in the workplace. Therefore, for the current dissertation an experimental scale had to be used to collect the relevant data for the criterion variable, which could have reduced the accuracy of the results. Future studies could deeper explore the concept of social performance in companies, its main features, most common practices being implemented within the field. Furthermore, as current dissertation demonstrated a negative significant influence of existence of code of ethics on both transparent communication and ethical decision-making practices, it would be interesting to further investigate the causes of this negative relationship that stood out from all the other evaluated variables.

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Annex

Annex A. Questionnaire items

	Social demographic data							
No.	Question	Answer options						
1.	What is your age?	Under 18	18-25	26-33	34-41	42-49	50-57	58-64	65 or older
2.	What is your gender?	Female		Male		Non-binary/third gender		Prefer not to say
3.	What is your nationality?	*Open question*						
4.	What is your highest education level attained?	Did not complete High School	High School degree	Some College but no Degree	Bachelor's degree		Master's degree or higher

	Employment data							
5.	What best describes your employment status?	Employed full-time		Employed part-time		Not employed		
6.	How long have you been working in your current job?	Less than 6 months	More than 6 months but less than 1 year	Between 1 and 3 years	Between 3 and 6 years	Between 6 and 10 years	Between 10 and 15 years	More than 15 years
7.	What best describes your employer?	For-profit			Non-profit			
8.	What type of organisation do you work for?	Private			Public			
9.	How many employees does your organisation currently have?	Up to 250		Between 251 and 500		More than 500		
10.	What sector do you currently work in?	Accountancy and financial management Arts Banking and investment Business Charities and the voluntary sector Consultancy Data, information, and technology Economics Education and teaching Energy and environment Entrepreneurship Financial services Health International organisations Law and legal services Leisure Media and communications Public sector, politics, and government Regulation Research Other							
11.	What type of position do you currently work in?	Managerial (I have subordinate(s) that I manage directly)			Non-managerial			
12.	Are your expected work results defined by pre-set performance goals (e.g. Key Performance Indicators (KPIs))?	Yes			No			

	Code of Ethics existence	
13.	Does your organisation have a code of ethics or a similar formal document that articulates the organisation's values and standards of conduct?	Yes	No

	Scope of ethics programme	
14.	Is there a training for employees on the Code of Ethics (or similar) in your organisation?	Yes	No
15.	Are there clear rules on sanctions for alleged misconduct in your organisation?	Yes	No
16.	Does your organisation have an anonymous and confidential "hotline" on ethical issues?	Yes	No

| 17. | Does your organisation monitor the compliance with the Code of Ethics (or similar)? | Yes | | | | No |
| 18. | Does your organisation have a manager that is responsible for the Code of Ethics? | Yes | | | | No |

	Perceived importance of ethics program (Indicate to what extent each statement matches the reality of the organisation where you work)					
19.	Employees are aware of the existence of a code of ethics (or similar document) in the organisation	(1) Strongly disagree	(2) Disagree	(3) Neither agree nor disagree	(4) Agree	(5) Strongly agree
20.	Workers who violate the standards established by the code are investigated and punished	(1) Strongly disagree	(2) Disagree	(3) Neither agree nor disagree	(4) Agree	(5) Strongly agree
21.	The different department heads of the organisation play an active role in monitoring employees' compliance with the code of ethics	(1) Strongly disagree	(2) Disagree	(3) Neither agree nor disagree	(4) Agree	(5) Strongly agree

	Perceived CSR (Organisation where I work…)					
22.	Encourages the professional training of its workers	(1) Strongly disagree	(2) Disagree	(3) Neither agree nor disagree	(4) Agree	(5) Strongly agree
23.	Complies with the Labour Code	(1) Strongly disagree	(2) Disagree	(3) Neither agree nor disagree	(4) Agree	(5) Strongly agree
24.	Promotes equality between men and women	(1) Strongly disagree	(2) Disagree	(3) Neither agree nor disagree	(4) Agree	(5) Strongly agree
25.	Promotes a balance between family and professional life	(1) Strongly disagree	(2) Disagree	(3) Neither agree nor disagree	(4) Agree	(5) Strongly agree
26.	Supports the professional integration of people with disabilities	(1) Strongly disagree	(2) Disagree	(3) Neither agree nor disagree	(4) Agree	(5) Strongly agree
27.	Develops internal rules that guide workers' behaviour	(1) Strongly disagree	(2) Disagree	(3) Neither agree nor disagree	(4) Agree	(5) Strongly agree
28.	Ensures job security	(1) Strongly disagree	(2) Disagree	(3) Neither agree nor disagree	(4) Agree	(5) Strongly agree
29.	Gives donations to nature protection associations	(1) Strongly disagree	(2) Disagree	(3) Neither agree nor disagree	(4) Agree	(5) Strongly agree
30.	Develops nature conservation projects	(1) Strongly disagree	(2) Disagree	(3) Neither agree nor disagree	(4) Agree	(5) Strongly agree
31.	Supports cultural and educational events	(1) Strongly disagree	(2) Disagree	(3) Neither agree nor disagree	(4) Agree	(5) Strongly agree
32.	Supports social causes	(1) Strongly disagree	(2) Disagree	(3) Neither agree nor disagree	(4) Agree	(5) Strongly agree
33.	Supports sporting events	(1) Strongly disagree	(2) Disagree	(3) Neither agree nor disagree	(4) Agree	(5) Strongly agree
34.	Supports the creation and development of smaller companies	(1) Strongly disagree	(2) Disagree	(3) Neither agree nor disagree	(4) Agree	(5) Strongly agree
35.	Ensures timely payment of wages and benefits	(1) Strongly disagree	(2) Disagree	(3) Neither agree nor disagree	(4) Agree	(5) Strongly agree
36.	Strives to be profitable	(1) Strongly disagree	(2) Disagree	(3) Neither agree nor disagree	(4) Agree	(5) Strongly agree
37.	Strives to be one of the best organisations in its sector	(1) Strongly disagree	(2) Disagree	(3) Neither agree nor disagree	(4) Agree	(5) Strongly agree

	Perceived Leadership (My direct manager...)					
38.	Listens to what employees have to say	(1) Strongly disagree	(2) Disagree	(3) Neither agree nor disagree	(4) Agree	(5) Strongly agree
39.	Disciplines employees who violate ethical standards	(1) Strongly disagree	(2) Disagree	(3) Neither agree nor disagree	(4) Agree	(5) Strongly agree
40.	Conducts his/her personal life in an ethical manner	(1) Strongly disagree	(2) Disagree	(3) Neither agree nor disagree	(4) Agree	(5) Strongly agree
41.	Has the best interests of employees in mind	(1) Strongly disagree	(2) Disagree	(3) Neither agree nor disagree	(4) Agree	(5) Strongly agree
42.	Makes fair and balanced decisions	(1) Strongly disagree	(2) Disagree	(3) Neither agree nor disagree	(4) Agree	(5) Strongly agree
43.	Can be trusted	(1) Strongly disagree	(2) Disagree	(3) Neither agree nor disagree	(4) Agree	(5) Strongly agree
44.	Discusses business ethics or values with employees	(1) Strongly disagree	(2) Disagree	(3) Neither agree nor disagree	(4) Agree	(5) Strongly agree
45.	Sets an example of how to do things the right way in terms of ethics	(1) Strongly disagree	(2) Disagree	(3) Neither agree nor disagree	(4) Agree	(5) Strongly agree

46.	Defines success not just by results but also the way that they are obtained	(1) Strongly disagree	(2) Disagree	(3) Neither agree nor disagree	(4) Agree	(5) Strongly agree	
47.	When making decisions, asks "what is the right thing to do?"	(1) Strongly disagree	(2) Disagree	(3) Neither agree nor disagree	(4) Agree	(5) Strongly agree	

Perceived Social Performance (How similar to your organisation are each of the following characteristics)							
48.	Assesses employees' work environment on a regular basis	(1) Totally different	(2) Different	(3) Somewhat different	(4) Neither different nor similar	(5) Somewhat similar	(6) Similar	(7) Totally similar
49.	Takes customers' feedback into account when implementing organisational changes	(1) Totally different	(2) Different	(3) Somewhat different	(4) Neither different nor similar	(5) Somewhat similar	(6) Similar	(7) Totally similar
50.	Supports employees who wish to continue or upgrade their education/training	(1) Totally different	(2) Different	(3) Somewhat different	(4) Neither different nor similar	(5) Somewhat similar	(6) Similar	(7) Totally similar
51.	Informs customers about the proper use of their products/services and warn of potential risks	(1) Totally different	(2) Different	(3) Somewhat different	(4) Neither different nor similar	(5) Somewhat similar	(6) Similar	(7) Totally similar
52.	Responds to customer complaints or inquiries	(1) Totally different	(2) Different	(3) Somewhat different	(4) Neither different nor similar	(5) Somewhat similar	(6) Similar	(7) Totally similar
53.	Goes voluntarily beyond legal environmental regulations	(1) Totally different	(2) Different	(3) Somewhat different	(4) Neither different nor similar	(5) Somewhat similar	(6) Similar	(7) Totally similar
54.	Publicly acknowledges good conduct	(1) Totally different	(2) Different	(3) Somewhat different	(4) Neither different nor similar	(5) Somewhat similar	(6) Similar	(7) Totally similar
55.	Appoints ethics ambassadors (employee ethical role-models)	(1) Totally different	(2) Different	(3) Somewhat different	(4) Neither different nor similar	(5) Somewhat similar	(6) Similar	(7) Totally similar
56.	Considers ethical profiles while nominating new leaders	(1) Totally different	(2) Different	(3) Somewhat different	(4) Neither different nor similar	(5) Somewhat similar	(6) Similar	(7) Totally similar
57.	Rotates employees at ethically risky positions	(1) Totally different	(2) Different	(3) Somewhat different	(4) Neither different nor similar	(5) Somewhat similar	(6) Similar	(7) Totally similar
58.	Splits decisional authority and competences	(1) Totally different	(2) Different	(3) Somewhat different	(4) Neither different nor similar	(5) Somewhat similar	(6) Similar	(7) Totally similar
59.	Monitors employees only under informed consent	(1) Totally different	(2) Different	(3) Somewhat different	(4) Neither different nor similar	(5) Somewhat similar	(6) Similar	(7) Totally similar
60.	Pays suppliers on time	(1) Totally different	(2) Different	(3) Somewhat different	(4) Neither different nor similar	(5) Somewhat similar	(6) Similar	(7) Totally similar
61.	Chooses suppliers in a transparent and public manner	(1) Totally different	(2) Different	(3) Somewhat different	(4) Neither different nor similar	(5) Somewhat similar	(6) Similar	(7) Totally similar

Preference for the Merit Principle (Indicate the extent to which you agree with each of the following statements)							
62.	In work organisations, each employee ought to be named employee of the month at least once, even if he or she is not deserving	(1) Strongly disagree	(2) Disagree	(3) Somewhat disagree	(4) Neither agree nor disagree	(5) Somewhat agree	(6) Agree	(7) Strongly agree
63.	In organisations, people who do their job well ought to rise to the top	(1) Strongly disagree	(2) Disagree	(3) Somewhat disagree	(4) Neither agree nor disagree	(5) Somewhat agree	(6) Agree	(7) Strongly agree
64.	It is wrong for an employee to give a job to someone they know without advertising the job to other candidates	(1) Strongly disagree	(2) Disagree	(3) Somewhat disagree	(4) Neither agree nor disagree	(5) Somewhat agree	(6) Agree	(7) Strongly agree
65.	In life, people ought to get what they deserve	(1) Strongly disagree	(2) Disagree	(3) Somewhat disagree	(4) Neither agree nor disagree	(5) Somewhat agree	(6) Agree	(7) Strongly agree
66.	The effort a worker puts into a job ought to be reflected in the size of a raise he or she receives	(1) Strongly disagree	(2) Disagree	(3) Somewhat disagree	(4) Neither agree nor disagree	(5) Somewhat agree	(6) Agree	(7) Strongly agree
67.	When students are working on a group project, each member of the group ought to receive the same grade regardless of	(1) Strongly disagree	(2) Disagree	(3) Somewhat disagree	(4) Neither agree nor disagree	(5) Somewhat agree	(6) Agree	(7) Strongly agree

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	the amount of effort each team member puts in						
68.	Promotion decisions ought to take into account the effort workers put into their job	(1) Strongly disagree	(2) Disagree	(3) Somewhat disagree	(4) Neither agree nor disagree	(5) Somewhat agree	(6) Agree	(7) Strongly agree
69.	Members of a work team ought to receive different pay depending on the amount each person contributed	(1) Strongly disagree	(2) Disagree	(3) Somewhat disagree	(4) Neither agree nor disagree	(5) Somewhat agree	(6) Agree	(7) Strongly agree
70.	Sometimes it is appropriate to give a raise to the worker who most needs it, even if he or she is not the most hard working	(1) Strongly disagree	(2) Disagree	(3) Somewhat disagree	(4) Neither agree nor disagree	(5) Somewhat agree	(6) Agree	(7) Strongly agree
71.	Qualifications ought to be given more weight than seniority when making promotion decisions	(1) Strongly disagree	(2) Disagree	(3) Somewhat disagree	(4) Neither agree nor disagree	(5) Somewhat agree	(6) Agree	(7) Strongly agree
72.	Between two equally smart students applying for the same job, the one who is the harder worker ought to always get the job	(1) Strongly disagree	(2) Disagree	(3) Somewhat disagree	(4) Neither agree nor disagree	(5) Somewhat agree	(6) Agree	(7) Strongly agree
73.	When a bonus is given to a work team for good performance, the money ought to always be divided equally among the group members	(1) Strongly disagree	(2) Disagree	(3) Somewhat disagree	(4) Neither agree nor disagree	(5) Somewhat agree	(6) Agree	(7) Strongly agree
74.	It is never appropriate to choose which student to hire by how much the student needs the job	(1) Strongly disagree	(2) Disagree	(3) Somewhat disagree	(4) Neither agree nor disagree	(5) Somewhat agree	(6) Agree	(7) Strongly agree
75.	People ought to be able to get away with poor quality work under some circumstances	(1) Strongly disagree	(2) Disagree	(3) Somewhat disagree	(4) Neither agree nor disagree	(5) Somewhat agree	(6) Agree	(7) Strongly agree
76.	If every person in an office has the same abilities, the promotion ought to always be given to the person who puts in the most effort	(1) Strongly disagree	(2) Disagree	(3) Somewhat disagree	(4) Neither agree nor disagree	(5) Somewhat agree	(6) Agree	(7) Strongly agree