ABSTRACT. Recently, Hosmer (1994a) proposed a model linking “right,” “just,” and “fair” treatment of extended stakeholders with trust and innovation in organizations. The current study tests this model by using Victor and Cullen’s (1988) ethical work climate instrument to measure the perceptions of the “right,” “just,” and “fair” treatment of employee stakeholders. In addition, this study extends Hosmer’s model to include the effect of “right,” “just,” and “fair” treatment on employee communication, also believed to be an underlying dynamic of trust.

More specifically, the current study used a survey of 111 managers to test (1) whether “right,” “just,” and “fair” treatment influences trust, both directly as well as indirectly via communication, and (2) whether trust influences perceptions of commitment and innovation. Strong support for the study’s hypotheses and Hosmer’s (1994a) model was found. Such findings support those who argue that moral management may be good management.

KEY WORDS: commitment, ethical climate, innovation, stakeholder theory, trust

Introduction

In the private sector, particularly in the high technology segment, half of today’s revenues flow from products and services which are less than five years old (Mechling, 1995). The importance of innovativeness to competitiveness is also suggested by the fact that resource-generated wealth is being supplanted by innovation-generated wealth (Pinchot and Pinchot, 1996). Hosmer (1996) suggests that innovativeness is essential for a company to remain competitive. Much of the popular literature, as well as some academic literature, stresses the importance of an innovative climate to the success of an organization (Mechling, 1995; Pinchot and Pinchot, 1996; Nicholson, 1990). In addition, the popular press has suggested that the corporate climate and managers’ sense of trust impact the adoption of some technological innovations (e.g., Davidow and Malone, 1993; Handy, 1995; Peters, 1995). Yet little empirical research exists to confirm or refute this suggestion.

Recently, Hosmer (1994a), also noting a dearth of empirical research to confirm this relationship, proposed a testable model which links “right,” “just,” and “fair” (ethical) treatment by corporate owners and managers to trust, commitment and innovation. The basis of this...
link is the organization’s dependency on extended stakeholders, such as technical and administrative staff, for creative thinking and commitment in suggesting and implementing innovations. Simple cooperation by employees is no longer sufficient for attaining the flexibility necessary to meet the increasingly competitive environment of today (Hosmer, 1994a). Commitment, together with diligence and persistence, are essential to innovation efforts and are required before talent, ingenuity and knowledge come into play (Drucker, 1998). Similarly, others (e.g., Jones, 1995; Winbush and Shepard, 1994) have proposed models that link organizational policies and practices to ethical climate to trust and then to firm performance. Jones (1995), using agency, transaction cost and team production theories, persuasively argues that such enhanced firm performance occurs through solving commitment problems.

According to Hosmer (1994a), a challenge in testing his model is to measure whether managers can build trust over time by treating the members of the stakeholder groups in ways that are “right,” “just,” and “fair.” However, Hosmer (1994a) himself, as well as others (e.g., Mayer, Davis and Schoorman, 1995), offer insights into how such trust might be built and measured, for they suggest that trust is confidence that the self-interests of the company owners and managers will not necessarily take total precedence over the self-interests of the other stakeholders. In addition he suggests that a pattern of such equitable acts over time leads to trust (Hosmer, 1996). We suggest that a corporate climate oriented around either extreme, management self-interests or extended stakeholder interests, is a manifestation of managerial attitudes and actions regarding various stakeholder interests. Klein and Sorra (1996) argue that all of these policies appear as a blur lacking clarity and suggest that climate is an overarching construct which collectively describes the variables. Similarly, Wyld and Jones (1997) suggest that ethical work climate, as conceptualized by Victor and Cullen (1988), is a “holistic construct which encompasses the catalogue of organizational socio-moral factors” (p. 466). Organizational policies and practices are manifestations of moral decision making processes that are closely linked to an ethical climate (Winbush and Shepard, 1994). In sum, climate, and particularly ethical work climate, is an appropriate indicator of the implementation policies of executive managers and whether executive managers have protected the interests of extended stakeholders, or only those of owners and managers.

The use of climate as well as communication as antecedents of trust is also consistent with Whitener et al. (1998). Their list of factors that impact employee trust in management includes behavioral integrity, demonstration of concern along the dimensions of perceived self-interests, joint interests, or universal principles, consistent with Kohlberg’s moral reasoning standards (Cullen, Victor and Bronson, 1993). These shared perceptions not only evolve over time but are important to the creation of trust, which leads to commitment; commitment, in turn, leads to effort, innovation and creativity (Hosmer, 1994a; Ring and Van de Ven, 1989). Similarly, Strutton, Toma and Pelton (1993) found that managers can shape the perceptions of trust through shaping their organization’s climate.

The role of climate is also discussed by Klein and Sorra (1996) who point out that the research on the implementation of innovations in the workplace has been based on a myriad of independent variables. These variables, all of which can be described as implementation policies, include such things as training, user support services, time to experiment with the innovation, praise from supervisors for innovation, financial incentives, etc. These policies are related to beliefs concerning the employee’s role in implementing innovations and, therefore, are a manifestation of managerial attitudes and actions regarding various stakeholder interests. Klein and Sorra (1996) argue that all of these policies appear as a blur lacking clarity and suggest that climate is an overarching construct which collectively describes the variables. Similarly, Wyld and Jones (1997) suggest that ethical work climate, as conceptualized by Victor and Cullen (1988), is a “holistic construct which encompasses the catalogue of organizational socio-moral factors” (p. 466). Organizational policies and practices are manifestations of moral decision making processes that are closely linked to an ethical climate (Winbush and Shepard, 1994). In sum, climate, and particularly ethical work climate, is an appropriate indicator of the implementation policies of executive managers and whether executive managers have protected the interests of extended stakeholders, or only those of owners and managers.

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