

# **The Impact of Organizational Ethical Climate on Organizational Commitment and Job Performance.**

## **A case study of Japanese-funded manufacturing enterprises in China**

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**Abstract:** *The notion of organizational ethical climate, based on an application of Renato Tagiuri and George Litwin's theory of organizational climate to business ethics, has been receiving increasing attention in China primarily in the fields of psychology and management research. This paper analyzes the impact of organizational ethical climate on organizational commitment and job performance from a business ethics perspective, with a particular emphasis on its role in China's manufacturing industry. The goal is to provide theoretical and practical guidance for the development of organizational ethical climates in Japanese-funded enterprises in China.*

**Keywords:** *Organizational ethical climate; organizational commitment; organizational performance; human resource management; Business Ethics*

**JEL Classification** M12, M21, M54

## **1. Introduction**

### **1.1. Research Background**

China, the biggest socialist country in the world, has experienced profound economic reform that has greatly changed economic trends and company behavior. In terms of its economic development, what stages has Chinese economic reform experienced? What

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are its features? What are the ethical premises and behavioral rules of the reform? In terms of company behavioral trends, how does the value of economic ethics influence the behavioral methods of economic entities? These all have something to do with the original incentive aims of people when directing economic behavior, as well as cultivating the ethical atmosphere of companies. Japan is an important neighbor and investor to China, so what is the situation of Japanese companies when they are operating in China?

### **1.1.1. The practice and features of China's economic reform**

Since reform began in 1978, the transformation of China's economic system has taken many years. For decades, fundamental changes have been witnessed in the mode of existence and development of the whole country, as well as the social life of Chinese people. In general, the reform of China's economic system was gradual and can approximately be divided into four stages.

#### *1. Start-up and partial experiment (1978–1984)*

In 1978, the Third Plenary Session of the 11th Central Committee of the CPC put forward the ideological path of "emancipating the mind and seeking truth from fact", and the restoration and development of the economy became the focus of senior officials. In April 1979, the central conference of the CPC pointed out that the national economy should be regulated mainly by planning, while at the same time the supplementary effect of market regulation has to be taken seriously. In September 1982 the 12th Congress of the CPC confirmed the guiding principle that the "planned economy plays the main role while the market a supplemental one" in China's economic reform, after which the market began to play an important supplementary role. This principle achieved lots of positive results in the economic condition at that time. Under the instruction of the principle, China's economic reform took an incremental mode of decentralization of power in order to seek a type of reform combining planning and market. Ownership reforms emphasized public ownership but allowed individual, private and foreign-funded enterprises to exist and develop. The range of the state's mandatory plan was narrowed. Local governments were granted more autonomy. Though it allowed for many of these reforms to take place, the principle that the "planned economy plays the main role while the market a supplemental one" was still a derivative of China's traditional planned economy, and market regulation played a subordinate role in the national economy.

#### *2. Development in the system reform goal (1984-1992)*

As it implemented its initial economic reforms, the central government refined its idea of a socialist economy in China. In October 1984, the Third Plenary Session of the 12th

CPC Central Committee decided to reform the economic system, which was the first time for China to put forward the socialist planned commodity economy theory. The main idea of the reform was to build independent companies that are responsible for their own profits and losses, as well as a competitive market system. The management of the economy by the state was mainly indirect, and the range and extent of the plan was narrowed.

Enterprises, prices and macro management were further reformed. The reform of enterprises was focused on invigorating enterprises and building up an enterprise institution in which companies operate independently, shoulder the responsibility of their own profits and losses and participate in market competition. The main goal of price reform was to gradually eliminate price control, especially for consumer goods. In addition, control of production materials was gradually relieved, as was control of the prices of production materials, and then a double-track system was taken in the price of production materials. The reforms in macro management were meant to provide relative stability to the macro economy while simultaneously leading state-owned enterprises—especially big and medium-sized ones—to the market. The government also relaxed the power of investment approval and tried to cancel the mandatory plans in loans. The central and local governments began to take instructive plans on the investment by companies that accumulate capital on their own. The reforming measures taken in these three aspects rapidly transferred the focus of economic reform from the country to the cities, as well as from part of the country to the whole. The role the market played in the national economy was broadened.

In October 1987, based on the planned commodity economy, the 13th Congress of the CPC developed a new theoretical summary of the Socialist Market Economic System, and pointed out that the socialist planned commodity economy system should combine planning and market intrinsically. In the spring of 1992, a series of important conversations by Deng Xiaoping on his visit to the south further clarified the significance of the reform and opening up, and described the theory of the basic principles of establishing the socialist market economy. This had a great and far-reaching significance in Chinese reform and opening-up and socialist modernization construction.

### *3. Establishment of the socialist market economic system (1992–2002);*

With the promotion of Deng Xiaoping's conversation in the south, another theoretical discussion about the relationship between planning and market forces occurred, and a common view emerged that the market should play a leading role in the national economy. In October 1992, the 14th Congress of the CPC clearly put forward that the objective of Chinese economic reform was to establish a socialist market economic system, and further clarified that the connotation of a socialist market economy is that

the market in socialist countries plays a fundamental role in the allocation of resources under the macro control of the nation. It makes economic activities follow the requirements of the law of value and adapt to changes in the relationship between supply and demand. In addition, the market allocates resources efficiently via price leverage and competition, and gives enterprises pressure and incentives to achieve the survival of the fittest. Moreover, it uses the sensitivity of the market to economic signals to promote the coordination of production and demand. At the same time, the market has its own weaknesses and negative aspects, so we must strengthen and improve the national macroeconomic regulation.

In establishing its socialist market economic system model, China's economic development sped up and its enterprise performance improved significantly. The national macro-control was effective, and the reform in the market economy was deepened. However, when the reform stepped in to such an extent that it would shake the former institution, quite a few people became confused because of their understanding of socialist property, which was influenced by classic authors of Marxism. These people were worried that the pro-market reforms and the establishment of the market economy system would shake the foundation of the state-run economic system, and in a further step, change the nature of socialism. Clashing viewpoints on this issue raised frequent disputes in the society. Therefore, in order to consolidate the socialist institution as well as develop the economy and enhance productivity, the 15th Congress of the CPC put forward the basic economic system in which public ownership plays the main role.

#### *4. Deepening and improving the socialist market economic system (since 2002)*

By the end of 2001, China had joined the World Trade Organization, marking the entry of China into the tide of economic globalization. This greatly influenced Chinese politics, economics and society. After joining the WTO, the Chinese government sped up the pace of economic reform and changed the functions of the government. The government focused on the implementation of macroeconomic regulation to curb local protectionism and promote an open domestic market with fair competition. It also focused on creating a good market environment. The government strengthened supervision mechanisms, improved administrative efficiency, clarified the government's role as a public manager and owner of state-owned assets and improved its management of state-owned assets. It also further improved the tax, finance and foreign exchange management system, intervening mainly through economic and legal means rather than administrative means.

The government also accelerated the establishment of a modern enterprise system and an operation system of companies that was adapted from WTO rules, in order to enable enterprises to become juridical entities and market entities who operate independently

and are responsible for their own profits and losses. The institution also improved corporate governance structures, forming multiple investment entities whose stakes are shared by different ownerships. The state-owned enterprise system reform would act as the key, speeding up the pace of the strategic adjustment of the state-owned economy.

### **1.1.2. Ethical premise and rules of economic behavior in China's economic system reform**

In contrast with previous economic activities under the guidance of idealistic principles of ethics, after the third Plenary Session of the 11th CPC Central Committee, the standards of economic operations in China were practical. This was fundamentally different from the traditional political and economic mindset, which tried to encourage people to engage in economic activity using ethical preaching and the idea of creating an ideal future. Judging from China's economic reform, the influence of traditional political economic ethics in China is gradually decreasing. The main task of the research is to develop the productive forces and establish an economic operation system in line with China's actual conditions, so its ethical knowledge of economic activities is also practical.

#### *1. Economic activity is the social activity through which economic actors achieve material benefits*

In the third Plenary Session of the 11th CPC Central Committee, the Communist Party of China explicitly put forward the slogan of "allowing local and industrial and agricultural enterprises to have more management autonomy under the guidance of national unification." This was fundamentally different from the traditional political economy, which sought to encourage economic activity through ethical preaching and attempted to establish a production relationship that transcends reality. The new slogan was actually a recognition that the principle of economic interest in the socialist period is still the basic starting point for people to engage in economic activities. Actually, both in the past and currently, pursuit of labor surplus is the essence of human economic activities. Therefore, economic theories (except traditional political economics) regard human economic behavior as a rational behavior, because all people who engage in economic activities adjust their behavior according to their own interests, to achieve a greater economic gain. It is the rational characteristics of this activity that make economic theory possible.

#### *2. Independent economic agents are the key of economic behavior*

The basic premise of traditional political economics theory is that once the production agency belongs to the public, people will naturally become the material interests of the producers and users, and everything can be adjusted and allocated by the "visible hand"

to achieve social fairness. Under this premise, in the concrete distribution process, only the national organization is really related to the material benefit, the output and the assignment relations between units. However, the individual and the enterprise are attached to the central plan, and without the object of free will, desire and interest, all attempts to escape from the control and allocation of this hand will be a betrayal and attack on the overall interests of society. The first thing that is rectified by the reform and opening up policy is the ethical rationality of pursuing the interests of the people, and in practice it connects the relationship between the interests and the subjects of interest. The reform and opening up policy implementation has proved that in economic activities of individuals or organizations, when their ownership and management rights of assets are clearer, they have the initiative to start economic activity. Larger and clearer profits also tend to improve their economic efficiency. At the same time, the theory also gradually granted basic rights to the main economic actors, such as all natural and legal persons. Since they act as the main body of the market economy, they were granted power through the ability to legally own property or to increase their economic behavior. As individuals, they have the right to choose their own jobs according to their own capabilities. As economic legal persons, they have the right to decide what kind of staff they should employ. As natural individuals, they have the right to choose what kind of consumption style and lifestyle they have. At the same time, as economic legal persons, they also have the means to decide what kind of products they produce and how to operate effectively in the market. Naturally, these basic rights are also ethical prerequisites and basic rules of conduct for people to engage in economic behavior.

### *3. A market economy is the means and place for economic actors to realize their economic interests*

A market economy is the economic means to maximize the material interest principle of real economic activities. It is the most effective means to allocate resources and the fairest system of economic activities. When everyone seeks their own interests and competes in a market, in the micro they achieve the principle of the maximization of self-interest, but they also continuously and effectively adjust the allocation of resources and scale of the whole society. When the market achieves the highest efficiency, consumers also derive the greatest benefit from such competition and configuration. In the economic field, and in other social areas, the market economy also has undeniable positive significance. For example, identity status, rank and privilege are no longer decisive factors. In the practice of traditional political economics, there is a discrepancy between the surface ideals of ethical equality and the actual implemented system. However, in the market economy, the ethical ideals are reflected in the practice of equality and have ethical significance in reality.

### **1.1.3. The influence of Chinese economic ethic value to economic behavior subjects and its development**

After the nearly forty-year implementation of its reform and opening up policy, China's productive forces have been greatly developed and its standard of living has been greatly improved. However, at the same time, after the public realized it could pursue individual agendas, people began to try to maximize their own interests in the market economy. In this situation, the environment in which people engage in economic activities is constantly changing. The rules and ethical evaluation restraining people's engagement in economic behavior have also changed. From the beginning, the idea that making money is always right, as well as undertaking social responsibility led to finally discovering and creating the chance to make money by undertaking social responsibility.

#### *1. Making money is always right*

One of the major problems that was solved in China's opening up and reform was the debt incurred by state-owned enterprises. The method was to divest the strategic burden of state-owned enterprises through gradual market-oriented reform and to cultivate the viability of state-owned enterprises. However, enterprises in townships and villages were a precursor to the private enterprises created for making money. In 1987, Deng Xiaoping called the emergence of township enterprises as "the most unexpected harvest in rural reform." After a long period of reform, the responsibility of an enterprise is to make a profit and to ensure political security or political correctness at the same time. From the economic perspective, the primary task of the enterprise is innovation and production. As the creator of social material wealth, the main purpose of enterprises is to provide material products and spiritual products for society. As the basic economic unit supporting the existence of human society, if the enterprise loses the function of production and innovation, then it loses the basic value of its existence. Therefore, the priority of any enterprise is to do a good job in production and to create market benefits. If it does not, the enterprise will not be able to compete in the market. Moreover, the pursuit of profits by enterprises is actually an indirect contribution to society by creating jobs and increasing revenues. In conclusion, whether Chinese enterprises should undertake social responsibility in addition to their economic responsibility depends on the development stage and the specific practice of system reform. In the early stage of the reform and opening up policy, economic responsibility should be the main task.

#### *2. Shoulder the corresponding social responsibility while making money*

After entering the twenty-first century, Chinese enterprises are more deeply integrated into the global economic system. The economic responsibility in the previous stage that was

aimed at making profits has gradually revealed many problems, including enterprises ignoring their role in social security, trying to avoid taxes and social security contributions, caring less about social employment and placing the burden on society, caring less about environmental protection and gaining profits through the destruction and pollution of the environment. In addition, some enterprises are mercenary, selfish and provide unqualified service products or false information to deceive consumers. These enterprises make profits for their owners by taking the income and welfare of their employees. Other problems include a lack of the provision of public goods, public welfare and sense of fair competition. For example, some monopolies have survived the planned economy and strongly exclude market competition. This shows a lack of credibility and integrity. For example, state-owned enterprises are not trusted by the public, as they do fraudulent bankruptcy to avoid debts, while some private enterprises gain money through fake packaging. In this case, the government and the public constantly demand that the enterprise fulfill its social responsibilities. The enterprises themselves should also be aware that through the implementation of social responsibility, they will have a better relationship with consumers, take on a more responsible corporate image, reduce pollution, protect the environment while producing high-quality products, eliminate employment discrimination and mistreatment and give back to the community.

### *3. Discover and create opportunities to make money by taking on social responsibilities*

There are huge business opportunities in some areas of China. Some entrepreneurs use these market opportunities to indirectly earn profits by establishing and operating public platforms and social networks. In the beginning, Alibaba aimed to create a fair market environment. Whether it was Taobao, Alipay, Ali cloud, Rookie Logistics or other basic services, Ali embedded more and more applications in various business terminals. It provides a basic internet device and marketing platform for enterprises. Just as it claims, the service Ali will provide in the future will be the fourth essential business basic device resource for enterprises, in addition to water, electricity and land. Another example that is worth mentioning is the shared economy. A good example are bike-sharing programs. They all strive to provide the solution to 'the last three kilometers' dilemma in cities, and let people complete a short-distance trip conveniently while helping to reduce traffic jams and pollution. Bike-sharing programs succeed by attracting customers through extremely low rental prices, increasing users' participation and sharing, and then using advertising to indirectly make profits.

#### **1.1.4. Japanese-funded enterprises in China**

The start-up and operation of Japanese-funded enterprises (JFEs) in China illustrates a process of change, starting from China's reform and opening-up policy in the early 1980s, which can be divided into four stages.



The first stage of JFEs in China starts from the enforcement of China's reform and opening-up policy in 1978 through 1995. Although China possessed a large potential market, the low national income and market imperfections restricted Japanese investments. Most of Japanese investments focused on preferential policies and cheap labor to establish production centers in China, but paid little attention to the Chinese market.

The second stage was from 1996 to 2001, when Japanese-funded enterprises gradually shifted their focus from simple production to both production and entering the Chinese market. The initial establishment of market-oriented systems including production, promotion, pricing and trading channels laid the foundation for the development of the Chinese market.

The third stage, namely the market development stage, lasted from 2002 to 2008. In this stage, Japanese-funded enterprises continued to expand in the Chinese market. Factors such as product development for the Chinese market and nationwide networks to traffic commodities gradually became the focus of Japanese investment in China, which in turn formed an indispensable and large-scale market leading in the production of cars and electronic products.

In the fourth stage, starting in 2009, China's role as a production base began to decline due mainly to the global financial crisis and the increase of labor cost. However, with the development of logistics, transportation, and policy in China, the overall market for Japanese-funded enterprises is still expanding.

According to data from Japan's Ministry of Economy, Trade and Industry (METI), there were 5,878 enterprises with legal persons in 2011, accounting for 30.5% of Japan's overseas enterprises. In 2013, there were 7,700 enterprises with legal persons in China (including Hong Kong and Macao), accounting for 33% of Japan's overseas enterprises. Both the number and scale of Japanese enterprises experienced sustained growth.

At the time of the third stage, studies of Japanese-funded enterprises in China began to gradually increase. However, because the studies were only focused on strategy, technology, localization and diversification of enterprises in recent years, the problems Japanese-funded enterprises faced in China have not yet been solved. Under most circumstances, factors such as politics and Japan's economic slump have been the most commonly stated causes; however, not much attention has been focused on potential problems in organizational ethical climate.

Currently, in order to maintain sustainable economic development, China continues to carry out policy reforms in the areas of investment, resources and environmental

protection, scientific and technological innovation and foreign trade. Foreign enterprises in China are also actively adjusting their own strategies to adapt to these new changes.

## **1.2. Proposal of Research Question and Research Significance**

### **1.2.1. Proposal of research question**

In the above mentioned research context, the Japanese-funded enterprises in China should not only integrate Japanese management with Chinese culture, but also create a suitable organizational ethical climate reflecting traditional Chinese philosophy. This will help the enterprises win the approval of the Chinese government and the support of local Chinese employees. In order to understand what Japanese-funded enterprises must do to create a suitable organizational ethical climate in a Chinese cultural context, as well as considering Chinese–Japanese government relations, we must first clarify whether there are differences between the organizational ethical climate of Japanese-funded enterprises in China and that of local Chinese enterprises. In other words, clarifying the special organizational ethical climate of Japanese-funded enterprises in China is the first step to solving its problems.

As numerous studies have shown, organizational ethical climate also influences the organizational commitment and job performance of employees. However, Japanese-funded enterprises in China, as a special type of entity, not only have their own special organizational ethical climate, but also have different impacts on organizational commitment. In addition, the different organizational ethical climate of Japanese-funded enterprises in China may also have significant differences in job performance because of the differences of organizational commitment. Therefore, in order for Japanese-funded enterprises to realize sustainable development in China, they must study the above issues to provide theoretical support for business and human resource management, and lay a solid foundation for management practices.

### **1.2.2. Research significance**

The meaning of this study is mainly embodied in the three aspects below.

#### *1. Matching employees' ethical cognition with the organizational ethical climate*

First, the cultural differences between China and Japan cannot be ignored. Although separated by only a narrow strip of water, the two countries possess very different traditional cultures. Both Japanese-funded enterprises in China and their Chinese employees need to fully understand and properly navigate each other's cultures. Enterprises should provide employees with access to the original culture of the company, which will enhance employees' cultural sensitivity and adaptability. At the

same time, enterprises also need to understand the preferred organizational ethical climate of Chinese employees through business and culture training. Through mutual cultural understanding and recognition, employees' ethical cognition and preferences can be matched with the organizational ethical climate, thus enhancing the job satisfaction and organizational commitment of Chinese employees and reducing the employment turnover rate.

### *2. Fully encouraging Chinese employees*

Like China, Japan has a culture of collectivism, which has played an important role in the development and growth of Japanese enterprises. However, there is a huge difference in the degree of collectivism between China and Japan. Japanese employees are deeply influenced by the idea of collectivism, which asks for loyalty and dedication to the group. In traditional Chinese culture, however, work is only a means of subsistence, thus work hours should be strictly followed (Jin, 2011). In this sense, Japanese enterprises are more compelling in terms of a caring-oriented ethical climate, and Japanese employees experience more care in their working organizations. But because the caring-oriented ethical climate is based on Japanese employees' cognition of traditional culture, such encouragement is far beyond what is required for Chinese employees in Japanese-funded enterprises. Xue Jun and Nishimura Takao (2006) pointed out that dissatisfaction with income and welfare was the main reason for employment turnover of outstanding Chinese employees (62.8%) in a survey of 43 Japanese-funded enterprises affiliated with the Japanese Chamber of Commerce in China. Japanese-funded enterprises in China should take relevant measures to reform motivation policies for Chinese employees, with a combination of material and non-material approaches. These policies should meet employees' own interests, so that employees can feel the caring-oriented ethical climate and avoid instrumentalism-oriented ethical behaviors.

### *3. Instilling the same and correct ethical values*

At the strategic level, Yu Zhiyuan (2009) argues that an independence-oriented ethical climate has a significant positive impact on the organizational commitment of employees. However, the actual situation of Japanese-funded enterprises in China is that there is little promotion space for Chinese employees, as management teams are normally formed by Japanese managers. Yin Jinghui (2006) pointed out that the traditional Japanese culture of groupism leads to exclusion and mistrust of other cultures. Many studies have shown that Chinese employees find that it is difficult to be trusted by Japanese-funded enterprises (Song, 2006; Jin, 2007; Niu, 2008), which seriously hinders the career development of employees. Not given proper rights and

clear career paths, employees can neither experience the caring-oriented ethical climate nor easily form a strong commitment to the organization.

Enterprises should enhance education and training of employees, developing training systems in line with Chinese national conditions and promoting an organizational ethical climate that aligns well with employees' cognition.

In recent years, Japanese-funded enterprises in China have suffered from a series of business ethics failures, such as unqualified product recycling, employee strikes, long hours of overtime, unequal pay for work, etc. For example, the Toyota safety problems in 2010 and the TOTO strike events in 2014 were direct reflections of organizational ethics problems. Liu Songbo (2013) has pointed out that moral leadership can inhibit employees' self-interest orientation in organizations and reduce the non-moral behavior of employees. Therefore, in order to realize long-term development in China, Japanese-funded enterprises should establish and instill organizational ethics that are conducive to social development and enhance their education and training of employees.

### **1.3. Research Innovation**

The innovation of this research is mainly embodied in the four aspects below.

1. This research analyzes the type and impact of organizational ethical climate on organizational commitment and job performance from the perspective of economic ethics.
2. This research is an empirical study of the organizational ethical climate, organizational commitment and job performance of Japanese-funded enterprises in China.
3. This research systematically studies the relationship between organizational ethical climate, organizational commitment and job performance and studies the influence of different organizational ethical climates on organizational commitment and job performance.
4. This research studies the influence of organizational ethical climate within the manufacturing industry in China, which provides theoretical and practical guidance for the construction of organizational ethical climates of Japanese-funded enterprises in China.

### **1.4. Research Content and Roadmap**

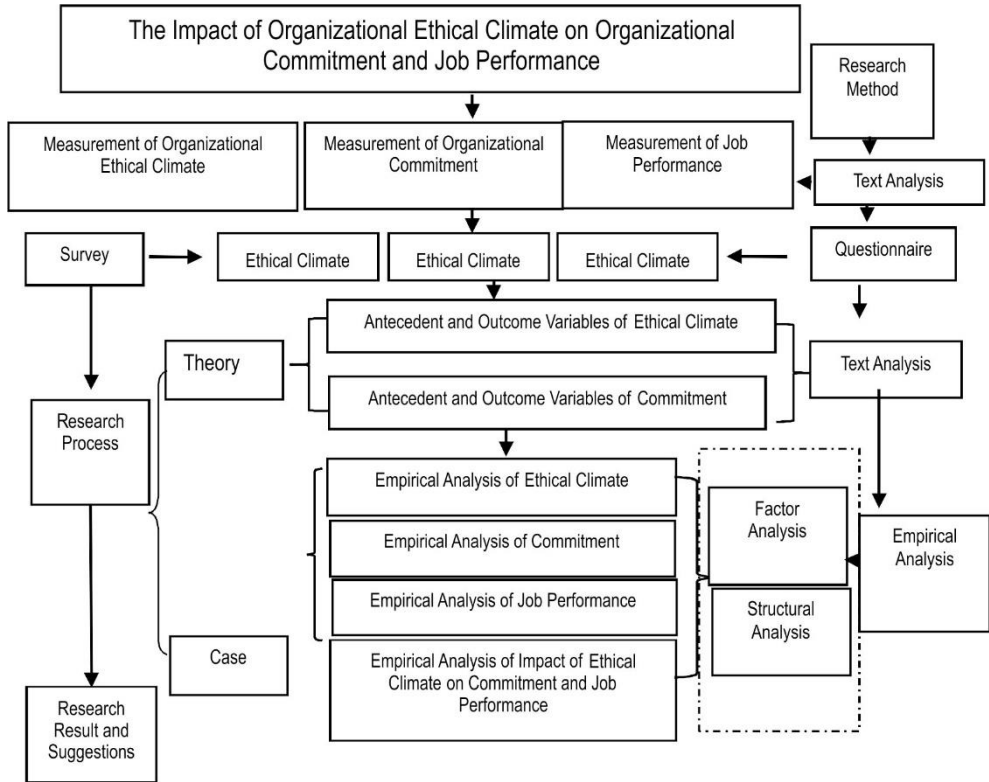
#### **1.4.1. Research content**

The major contents of this research include two aspects, namely human resource management and its specific activities from the perspectives of organizational ethical climate, organizational commitment, and job performance.

The main contents are as follows. First, this study refers to and sorts out previous research results to lay a solid foundation for later research. Second, it studies the types of organizational ethical climates of Japanese-funded enterprises in China. We use questionnaires to collect information on Japanese-funded manufacturing enterprises in China, and we then use principal factor analysis and load factor matrix to find the observed variables that could effectively measure different organizational ethical climates. Combined with structural equation modeling (SEM), we study the relationship between the observed variables and different organizational ethical climates. Third, we study the types of organizational commitments that exist in Japanese-funded manufacturing enterprises in China. We use questionnaires to collect information on these enterprises and use principal factor analysis and load factor matrix to find the observed variables that could effectively measure different organizational commitments. Combined with SEM, we study the relationship between the observed variables and different organizational commitments. Fourth, we study the types of job performances that exist in Japanese-funded manufacturing enterprises in China. We use questionnaires to collect information on these enterprises and use principal factor analysis and load factor matrix to find the observed variables that could effectively measure different job performances. Combined with SEM, we study the relationship between the observed variables and different job performances. Fifth, we study the impact of organizational ethical climate on organizational commitment. Sixth, we study the impact of different organizational ethical climates on organizational commitment and job performance. Finally, we combine the results of the above empirical research and propose corresponding countermeasures and suggestions to improve the organizational ethical climate of Japanese-funded enterprises in China.

#### **1.4.2. Research roadmap**

Firstly, after sorting out the previous research on organizational ethical climate, organizational commitment and job performance, we find out that most of them take a sociology or organizational behavior perspective in their research. Thus, this research mainly focuses on the perspective of economic ethics, which starts from the analysis of rational people. On the basis of the relevant studies, we designed three questionnaires—"Organizational Ethical Climate," "Organizational Commitment" and "Job Performance"—and evaluated the organizational ethical climate, organizational commitment and job performance of Japanese-funded enterprises in China. In order to clarify the influence of organizational ethical climate on organizational commitment and job performance, this research conducts an empirical analysis using the data obtained from the questionnaires. Ultimately, we recommend corresponding countermeasures and suggestions for developing conducive organizational ethical climates. The detailed research roadmap is as follows:

**Figure 1-1. Research roadmap**

## 2. Research Design

This study will use documentary analysis, empirical analysis and case analysis to study how the ethical atmosphere of organizations affects organizational commitment and job performance.

### 2.1. Research Methods

#### 2.1.1. Text analysis

As a starting point, literature review sheds light on the definition, structure and measurement of organizational ethical climate, along with the antecedent variables and outcome variables that affect it, and as well as the definition, types, and measurement

of organizational commitment and job performance. The study establishes a solid foundation for both the research itself and empirical studies that follow.

### **2.1.2. Empirical research methods**

This study largely deals with the quantitative analysis of data collected from questionnaires that are based on organizational ethical climate, organizational commitment and job performance. The research on such bases is principally driven by the PCA method, with SEM integrated as a following approach to figure out the relationship between observed variables and the bases—for example, how the influence that different types of organizational ethical climate exert on organizational commitment and job performance can differ in degree and scale. The results here lay a foundation for proposing certain measures for human resource management.

### **2.1.3. Case analysis**

After the documentary analysis and empirical analysis, this study will take cosmetic company A and electronic equipment manufacturing company B as examples to introduce how to cultivate the ethical atmosphere of organizations. Through two specific cases, we can analyze how the ethical atmospheres of organizations affect job performance in practice.

## **2.2. Empirical Research Design**

### **2.2.1. Definition and measurement model for the variables**

#### *1. Demographic variables*

The first part of the questionnaire comprises 9 demographic variables, including gender, age, education degree, work experience and job level.

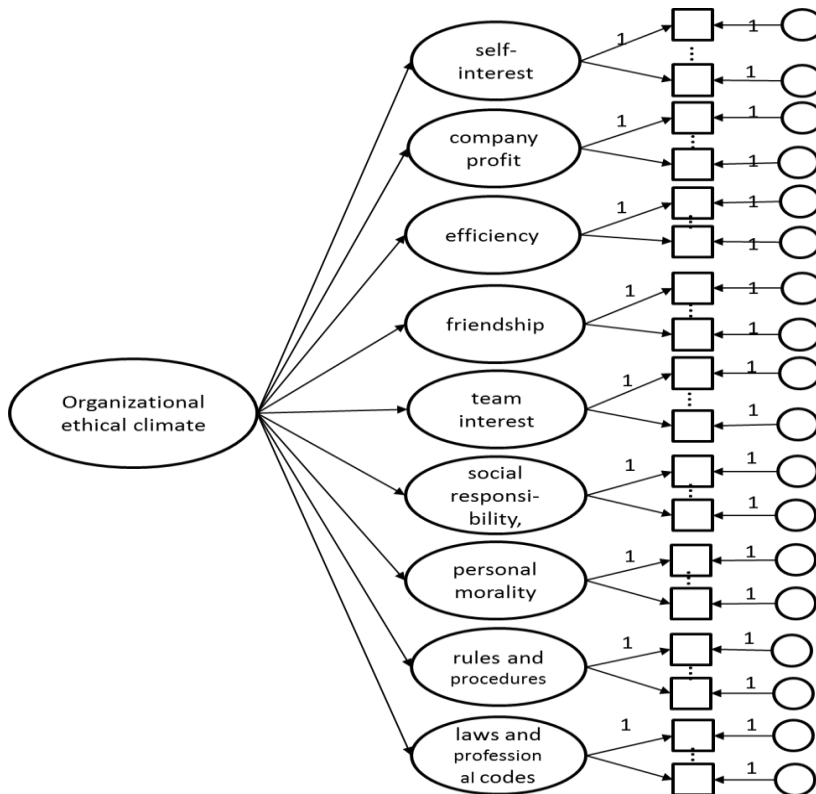
#### *2. Definition and measurement model for organizational ethical climate*

This study focuses on Japanese-funded manufacturing enterprises in China and adopts the presently influential definition by Victor of organizational ethical climate and of its dimensions. As one component of organizational climate, organizational ethical climate is the principle of judging ethical conduct and responding to ethical issues among employees in an organization. Organizational ethical climate consists of 9 dimensions: self-interest (instrumental), company profit (instrumental), efficiency, friendship (caring), team interest (caring), social responsibility, personal morality (independence), rules and procedures (rules) and laws and professional codes (law and code). Each dimension includes several indexes. The study uses Stata to reflect latent variables through observed variables and to conduct confirmatory analysis.

The tool for evaluating organizational ethical atmosphere is also the questionnaire about ethical atmosphere developed by Victor. This questionnaire consists of the 9 dimensions listed above. We describe extent using the five-point scale. Not fit at all: 1, partly not fit: 2, unsure: 3, partly fit: 4, totally fit: 5. The questionnaire is shown in Attached List 1.

The questionnaire is proved by many studies of high credibility and efficiency. Up to now, there are in total more than 170 studies that use the questionnaire they designed, which has great stability in different cultures, cultures, industries and organizations. (Martin & Cullen, 2006)

**Figure 2-1. Measurement model for organizational ethical climate**



### 3. Definition and measurement model for organizational commitment

In this study, the definition of organizational commitment is based on the research results of Wenquan Ling et al. The Organizational Climate Questionnaire for Chinese

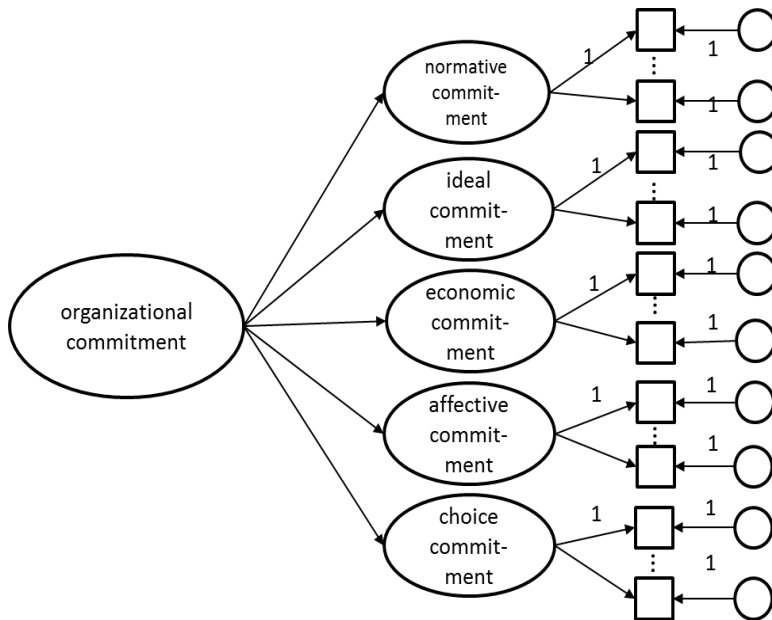


workers was created on the basis of interviews, item collection, pilot tests and scientific examination by Wenquan Ling, Zhican Zhang and Liluo Fang. Through the questionnaire method, they sum up five basic types of organizational commitment: normative commitment, ideal commitment, economic commitment, affective commitment and choice commitment. These are the five dimensions of organizational commitment, and each dimension includes several indexes. The study uses Stata to reflect latent variables through observed variables and to conduct confirmatory analysis.

There are five basic types of commitment in Chinese employees as confirmed via the questionnaire method: regulation commitment, ideal commitment, economic commitment, emotional commitment and opportunity commitment. The organizational commitment is made up of five dimensions, each of which includes several quotas. We describe extent using the five-point scale. Not fit at all: 1, partly not fit: 2, unsure: 3, partly fit: 4, totally fit: 5. The questionnaire is shown in Attached List 2.

The credibility analysis shows that the total alpha coefficient is 0.67, and the re-tested credibility coefficient is 0.87, which is near or over 0.7. That shows nice intrinsic credibility and re-tested credibility in the questionnaire. The efficiency analysis shows that the whole variance interpretation has reached 66.1%, so it is of high structural efficiency.

**Figure 2-2. Measurement model for organizational commitment**

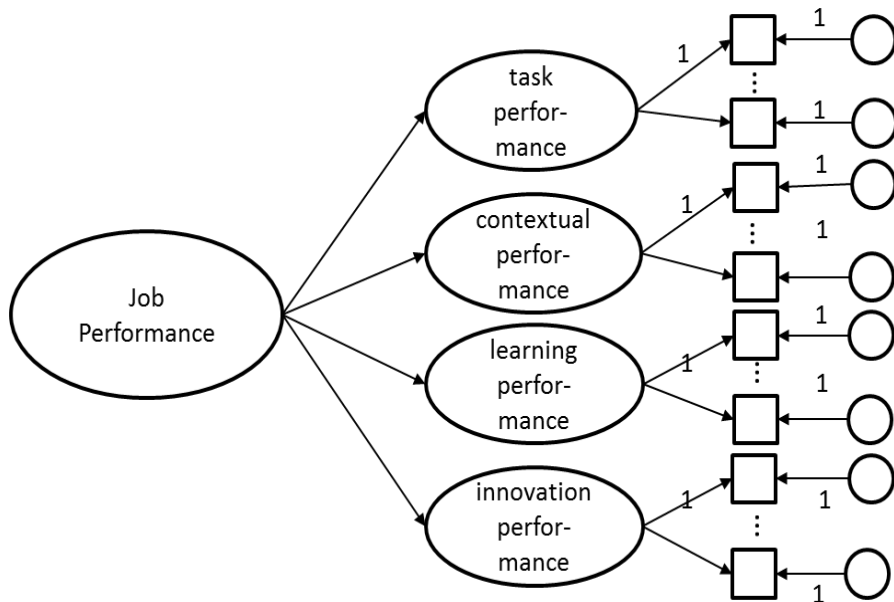


#### 4. Definition and measurement model for job performance

This paper adopts the definition and measurement model for job performance developed by Han Yi, Zhang Jing, etc. In this definition, job performance is the effective output realized by the working process of an organization or a person in the attempt of achieving business objectives within an organization. It consists of four dimensions: task performance, contextual performance, learning performance and innovation performance. In the calculation of job performance, we take Hanyi's four-dimension scale, which includes 12 questions with 4 quotas for each of the 4 aspects: task performance, relationship performance, learning performance and innovation performance. We describe extent using the five-point scale.. Not fit at all: 1, partly not fit: 2, unsure: 3, partly fit: 4, totally fit: 5. The questionnaire is shown in Attached List 3.

The credibility analysis shows that the total alpha coefficient is 0.844, and the re-tested credibility coefficient is 0.816, which are both over 0.7. That shows nice intrinsic credibility and re-tested credibility in the questionnaire. The efficiency analysis shows that the whole variance interpretation has reached 61.6%, so it is of high structural efficiency.

**Figure 2-3. Measurement model for job performance**



### **2.2.2. Empirical research hypotheses**

H1: Organizational ethical climate is positively correlated with job performance.

H1.1: The ethical climate of self-interest (instrumental) is positively correlated with all four performances.

H1.2: The ethical climate of company profit (instrumental) is positively correlated with all but contextual performance.

H1.3: The ethical climate of efficiency is positively correlated with all four performances.

H1.4: The ethical climate of friendship (caring) is positively correlated with all four performances.

H1.5: The ethical climate of caring is positively correlated with all four performances.

H1.6: The ethical climate of social responsibility is positively correlated with all but contextual performance.

H1.7: The ethical climate of personal morality (independence) is positively correlated with all four performances.

H1.8: The ethical climate of rules and procedures (rules) is positively correlated with all four performances.

H1.9: The ethical climate of laws and professional codes (law and code) is positively correlated with all four performances.

H2: Organizational ethical climate is positively correlated with organizational commitment.

H2.1: The ethical climate of self-interest (instrumental) is positively correlated with all five commitments.

H2.2: The ethical climate of company profit (instrumental) is positively correlated with all five commitments.

H2.3: The ethical climate of efficiency is positively correlated with all five commitments.

H2.4: The ethical climate of friendship (caring) is positively correlated with all five commitments.

H2.5: The ethical climate of caring is positively correlated with all five commitments.

H2.6: The ethical climate of social responsibility is positively correlated with all five commitments.

H2.7: The ethical climate of personal morality (independence) is positively correlated with all five commitments.

H2.8: The ethical climate of rules and procedures (rules) is positively correlated with all five commitments.

H2.9: The ethical climate of laws and professional codes (law and code) is positively correlated with all five commitments.

H3: Organizational commitment is positively correlated with job performance.

H3.1: The normative commitment is positively correlated with all four performances.

H3.2: The ideal commitment is positively correlated with all four performances.

H3.3: The economic commitment is positively correlated with all four performances.

H3.4: The affective commitment is positively correlated with all four performances.

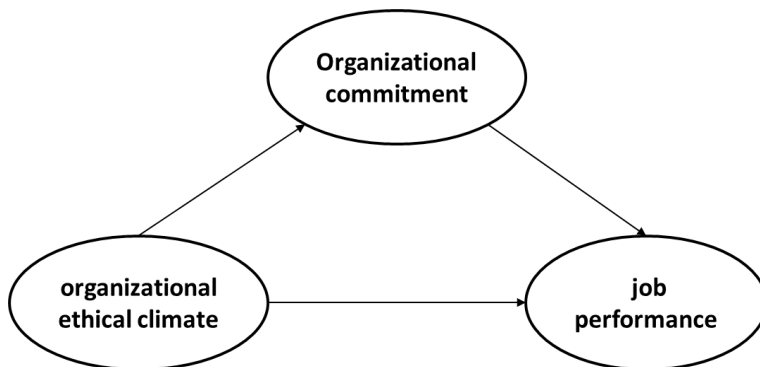
H3.5: The choice commitment is positively correlated with all four performances.

Considering the study's scope, we venture one more hypothesis regarding the influence of organizational commitment and organizational ethical climate on job performance:

H4: Organizational commitment positively influences job performance; organizational ethical climate plays a mediator role in influencing job performance.

The hypothesis model of this paper is drawn from H1, H2, and H3, as shown in Figure 3-4.

**Figure 2-4. Full hypothesis model for organizational ethical climate, organizational commitment, and job performance**



### **2.2.3. The design and distribution of organizational ethical climate questionnaires for JFEs**

Manufacturing is the industry typically studied for the corporate ethical climate of JFEs in China. There are two reasons for this. First, though a traditional one, China's manufacturing industry accounts for a major proportion of secondary industries. Second, JFEs in China also concentrate in the manufacturing industry. Therefore, the topic of the survey in this study is JFEs in China's manufacturing industry, or JFMEs (Japan-funded manufacturing enterprises).

The questionnaire is divided into 4 parts: basic employee information, the ethical atmosphere of organization, organizational commitment and job performance.

We will take the methods of division of ethical atmosphere by Victor and Cullen (1987) in the evaluation of ethical atmosphere. We categorize ethical atmosphere through two dimensions, the ethical standard and direction of analysis. Finally there are nine types of ethical atmosphere—self-interest (self-interest oriented), cooperation profits (self-interest oriented), efficiency, friendship (care oriented), team interest (care oriented), social responsibility, personal morality (independence oriented), rules of the company (rule oriented), law and regulations of occupations (law oriented)—and each dimension includes several quotas. We describe extent using the five-point scale. Not fit at all: 1, partly not fit: 2, unsure: 3, partly fit: 4, totally fit: 5. The questionnaire is shown in Attached List 1.

We will take the research findings of Ling Wenquan to evaluate organizational commitment. Ling Wenquan, Zhang Zhican and Fangliluo developed their questionnaire about organizational commitment in Chinese employees based on interviews, accumulation of projects, preliminary experiment and scientific examination. They also found five basic types of commitment in Chinese employees via the method of questionnaires: regulation commitment, ideal commitment, economic commitment, emotional commitment and opportunity commitment. The organizational commitment is made up of five dimensions, each of which includes several quotas. We describe extent using the five-point scale. Not fit at all: 1, partly not fit: 2, unsure: 3, partly fit: 4, totally fit: 5. The questionnaire is shown in Attached List 2.

In the calculation of job performance, we take Hanyi's four-dimension scale, which includes 12 questions with 4 quotas for each of the 4 aspects: task performance, relationship performance, learning performance and innovation performance. We describe extent using the five-point scale. Not fit at all: 1, partly not fit: 2, unsure: 3, partly fit: 4, totally fit: 5. The questionnaire is shown in Attached List 3.

The data in this study were collected anonymously via questionnaires that were distributed to the employees of JFEs in China's manufacturing industry by the HRM

departments in these enterprises. A full explanation of HRM-department-related questions, together with explanatory notes for FAQs, were given in the questionnaire to ensure the accuracy of the data. This research took 7 months, from January 2016 to August 2016. Of the 20,000 questionnaires given out, 11,084 were retrieved with validity (51% recovery ratio), providing the data for this research. The valid questionnaires are distributed as shown in Table 3-1.

**Table 2-1. The distribution of survey samples from JFEs in China's manufacturing industry**

	Freq.	Percent	Cum.
OMC, OSC	321	2.900	2.900
Flight Operation Center	1,652	14.91	17.80
Marketing Office	244	2.200	20
Domestic Airport Department	3	0.0300	20.03
Safety Promotion Center & Supervision Department of Safety and Quality	64	0.580	20.61
Reception Room Center	5,490	49.54	70.14
Deployment Center	1,175	10.60	80.75
HQ Departments	508	4.580	85.33
Overseas Branch/Asia & Oceania Office	434	3.920	89.24
Overseas Branch/China General Office	532	4.800	94.04
Overseas Branch/European Office	213	1.920	95.97
Overseas Branch/American Office	316	2.850	98.82
Airport Center	131	1.180	100
Total	11,083	100	

Among the samples investigated, there are 3533 males and 5782 females, accounting for 37.93% and 62.07% respectively.

**Table 2-2. The gender distribution of survey samples from JFEs in China's manufacturing industry**

var2	Freq.	Percent	Cum.
Male	3,533	37.93	37.93
Female	5,782	62.07	100
Total	9,315	100	

The samples also see quite a big gap in years of service: 664 are less than one year (5.99%), 1767 are 1–3 years (15.94%), 1055 are 3–5 years (9.52%), 2141 are 5–10 years (19.2%) and 2442 are 10–20 years (22.03%).

**Table 2-3. The distribution of years of service of employees in JFEs in China’s manufacturing industry**

var1	Freq.	Percent	Cum.
10-20 years of service	2,441	22.03	22.03
less than 1 year of service	664	5.99	28.02
1-3 years of service	1,767	15.94	43.96
over 20 years of service	3,015	27.20	71.17
3-5 years of service	1,055	9.52	80.68
5-10 years of service	2,141	19.32	100
Total	11,083	100	

There are three kinds of staff in the investigated samples: officiated managerial staff, operational managerial staff and general service staff. 1530 are officiated managerial staff (13.08%), 250 are operational managerial staff (2.26) and 9304 are general service staff (83.94%).

**Table 2-4. The distribution of staff positions of JFEs in China’s manufacturing industry**

var5	Freq.	Percent	Cum.
Officiated managerial staff	1,530	13.80	13.80
Operational managerial staff	250	2.26	16.06
General service staff	9,303	83.94	100
Total	11,803	100	

### **3. Empirical Analysis on the Influence of Organizational Ethical Climate On Organizational Commitment in JFMEs in China**

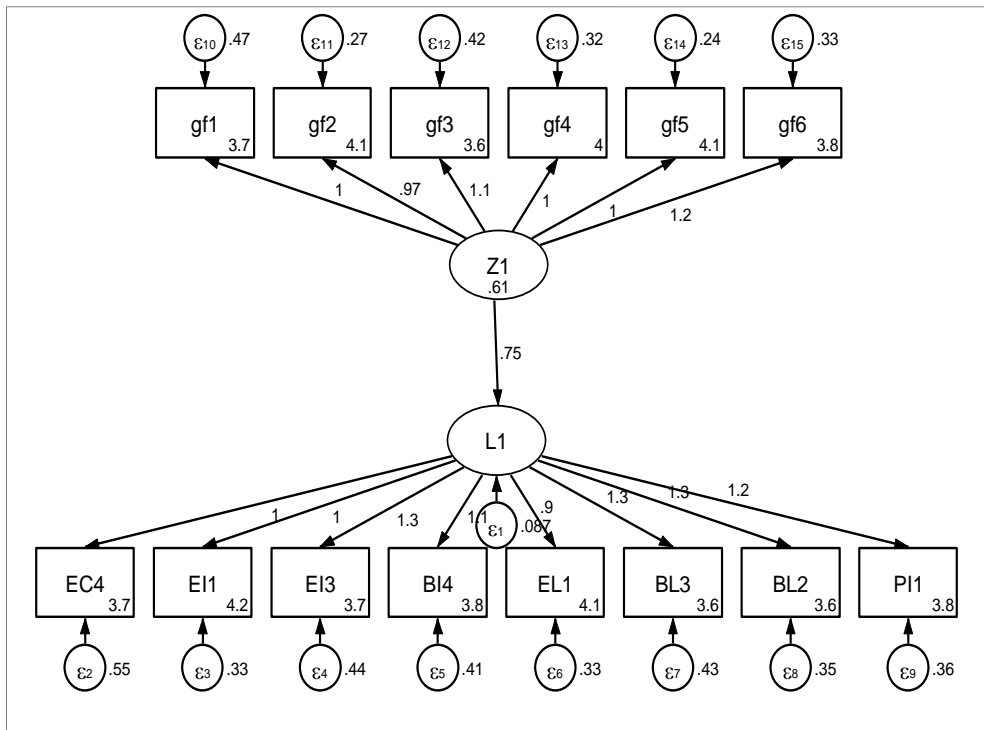
First and foremost, HRM is implemented in a certain organizational ethical climate; that is, HRM effectiveness is based on organizational ethical climate. The study of the relationship between the two will help improve corporate HRM. This chapter mainly studies the influence of ethical climate on organizational commitment in JFEs in China’s

manufacturing industry. Specifically, we analyze the interaction between types of organizational ethical climate and organizational commitment. To emphasize the importance of molding a good organizational climate, we begin with a study review.

### 3.1. The Influence of Golden Mean Style Organizational Ethical Climate on Normative Commitment in JFEs

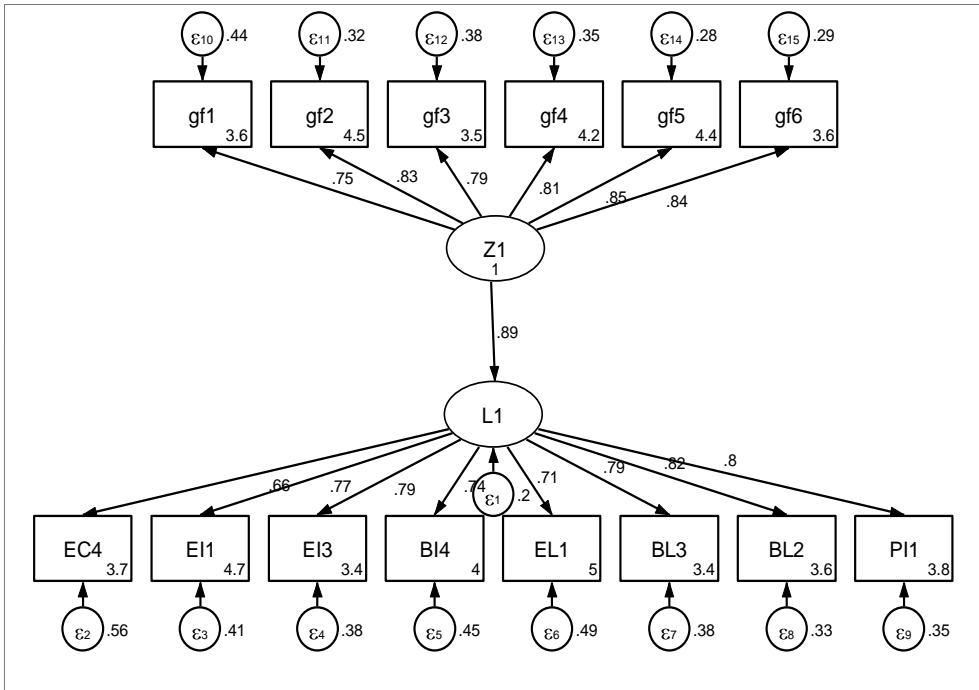
From the previous analysis, it is concluded that a Golden Mean style organizational ethical climate exists in JFEs in China's manufacturing industry. The main loading factors of this climate include EC4, EI1, EI3, BI4, EL1, BL3, BL2 and PI1. The main loading factors of normative commitment include gf1, gf2, gf3, gf4, gf5 and gf6. In this part, the SEM structural equation is used to figure out the degree and influence, of a Golden Mean style organizational ethical climate on normative commitment. As calculated by Stata, the structural figure of the influence of Golden Mean style organizational ethical climate in JFEs on normative commitment is shown below.

**Figure 3-1. The non-standardized structural figure of the influence of Golden Mean style organizational ethical climate in JFEs on normative commitment**





**Figure 3-2. The standardized structural figure of the influence of Golden Mean style organizational ethical climate in JFEs on normative commitment**



In the bottom half of the figure, the panes stand for observed variables of Golden Mean style organizational ethical climate, which are also the main loading factors of the loading matrix. The L1 in the oval stands for Golden Mean style organizational ethical climate, which is an endogenous latent variable. This climate is measured through observed variables (EC4, EI1, EI3, BI4, EL1, BL3, BL2 and PI1). In the upper half of the figure, the panes stand for observed variables of normative commitment. The Z1 in the oval stands for normative commitment, which is an exogenous latent variable. In addition, the circles next to the panes stand for the error terms of the observed variables.

From the figure, it can be observed that Golden Mean style organizational ethical climate has significantly positive influence on normative commitment with an influence coefficient valued 0.75 that passes the test by  $p < 0.01$ . In addition, the following regression table of the SEM structural equation makes a reflection on the significance of other observed variables and the significance of influence of endogenous variables on exogenous latent variables.

**Table 3-1. The influence of Golden Mean style organizational ethical climate in JFEs on normative commitment**

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
VARIABLES	L1	EC4	EI1	EI3	BI4	EL1	BL3	BL2	PI1
L1		1	1.049***	1.300***	1.080***	0.896***	1.281***	1.278***	1.244***
		(0)	(0.0149)	(0.0181)	(0.0156)	(0.0133)	(0.0175)	(0.0172)	(0.0168)
Z1	0.750***								
	(0.0114)								
Constant		3.658***	4.173***	3.659***	3.847***	4.126***	3.589***	3.637***	3.797***
		(0.00949)	(0.00860)	(0.0104)	(0.00917)	(0.00789)	(0.0102)	(0.00982)	(0.00972)
Observations	11,083	11,083	11,083	11,083	11,083	11,083	11,083	11,083	11,083

Standard errors in parentheses

\*\*\* p<0.01, \*\* p<0.05, \* p<0.1

**Table 3-2. (5-1 Cont.) The influence of Golden Mean style organizational ethical climate in JFEs on normative commitment**

(10)	(11)	(12)	(13)	(14)	(15)
gf1	gf2	gf3	gf4	gf5	gf6
1	0.969***	1.065***	1.004***	1.013***	1.154***
(0)	(0.0110)	(0.0125)	(0.0116)	(0.0111)	(0.0126)
3.704***	4.084***	3.631***	4.045***	4.060***	3.802***
(0.00996)	(0.00878)	(0.0101)	(0.00928)	(0.00893)	(0.0103)
11,083	11,083	11,083	11,083	11,083	11,083

Standard errors in parentheses

\*\*\* p<0.01, \*\* p<0.05, \* p<0.1

It is clear from the results of the SEM structural equation that Golden Mean style organizational ethical climate (the endogenous latent variable) has quite a significant influence on normative commitment (the exogenous latent variable). In addition, it also has significant influence on the measurement of the observed variables of Golden Mean style organizational commitment. The variances of the observed variables are shown in the next table, which also exhibits high significance in the variances of both the observed variables and latent variables.

**Table 3-3. (5-1 Cont.) The influence of Golden Mean style organizational ethical climate in JFEs on normative commitment**

(16)	(17)	(18)	(19)	(20)	(21)	(22)	(23)	(24)
var(e.EC4)	var(e.EI1)	var(e.EI3)	var(e.BI4)	var(e.EL1)	var(e.BL3)	var(e.BL2)	var(e.PI1)	var(e.gf1)
0.548***	0.330***	0.441***	0.411***	0.331***	0.433***	0.346***	0.362***	0.469***
(0.00792)	(0.00517)	(0.00693)	(0.00613)	(0.00486)	(0.00666)	(0.00563)	(0.00570)	(0.00705)
11,083	11,083	11,083	11,083	11,083	11,083	11,083	11,083	11,083

Standard errors in parentheses

\*\*\* p<0.01, \*\* p<0.05, \* p<0.1

**Table 3-4. (5-1 Cont.) The influence of Golden Mean style organizational ethical climate in JFEs on normative commitment**

(25)	(26)	(27)	(28)	(29)	(30)	(31)
var(e.gf2)	var(e.gf3)	var(e.gf4)	var(e.gf5)	var(e.gf6)	var(e.L1)	var(Z1)
0.266***	0.418***	0.322***	0.241***	0.335***	0.0869***	0.606***
(0.00432)	(0.00645)	(0.00511)	(0.00404)	(0.00557)	(0.00298)	(0.0135)
11,083	11,083	11,083	11,083	11,083	11,083	11,083

Standard errors in parentheses

\*\*\* p<0.01, \*\* p<0.05, \* p<0.1

There is significant positive correlation (influence coefficient = 0.75) between Golden Mean style organizational ethical climate and normative commitment. There are various explanations for this.

First, this influence stems from the culture of the two countries. Chinese ideology helps determine the operational philosophy of JFEs, and eventually, it shapes the corporate ethical climate that influences normative commitment. Ideology determines operational philosophy in enterprises, which then leads to different employee relationships. In China, traditional philosophy is influential, and present political and economic systems are also strong determinants. When dealing with relationships between employers and employees, the enterprise follows the principle of collectivism and the orientation of national interest. When the two sides are in conflict, the employers act on behalf of the organization (community). In state-owned enterprises (SOEs), where the employer's identity is all the people, employers act on behalf of the government. Therefore, whenever there is a conflict, national and collective interests always go first; employees' individual interests should be secondary to the interest of the majority. The government shows partiality to the owners of private enterprises because their performance deals

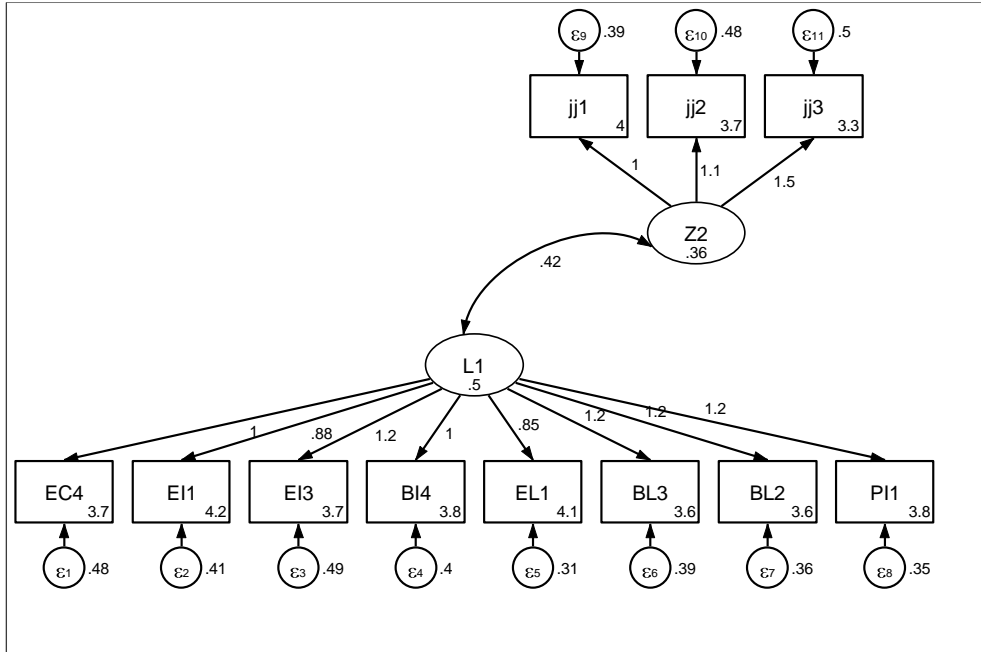
with the government's political achievement. Hence, in China's labor market, management has the upper hand, while labor has limited power. In Japan, however, management and labor depend on each other. In order for the enterprise to survive and develop, it must fulfill the interests of its employees. There is an implicit psychological contract between Japanese management and labor that helps to keep a cooperative attitude between the two sides. However, when JFEs are influenced by Chinese ideology and culture, their corporate culture evolves into Golden Mean style.

In addition, the influencing factors of normative commitment include the level of social equity among employees, the satisfaction level of employees' reliance on their colleagues and the collective working spirit in the organization—all key ethical factors for JFEs in China. From the aforementioned analysis of organizational ethical climate in JFEs, it can be concluded that JFEs pay much attention to team spirit and build up a caring organizational ethical climate. But there is no lack of self-interest factors in their operation philosophies as well, and this combination of factors eventually leads to a Golden Mean style of organizational ethical climate. Consequently, in business administration, JFEs usually take three factors into account: employees' satisfaction, team spirit and fairness in wages. These factors, being highly influential to JFEs, are closely related to the operation philosophies and business environment of JFEs in China. Firstly, for the sake of long-term development in China, the very first concern for JFEs ought to be the sense of fairness and belonging of their Chinese employees. If they fail in this, the Chinese employees are likely to be politically provoked and thus cause negative impact on the enterprise. In the end, the Golden Mean style of corporate ethical climate gradually shapes organizational commitment into a normative one.

### **3.2. The Influence of Golden Mean Style Organizational Ethical Climate on Economic Commitment in JFEs**

Due to data limitations, SEM is not applicable for analyzing the influence of Golden Mean style organizational ethical climate on economic commitment in JFEs. In this part, the relationship between the two is investigated through the covariance between endogenous latent variables of Golden Mean style organizational ethical climate and economic commitment. According to statistics, the covariance coefficient is 0.42, so the two are closely correlated and share the same direction of deviance. To some extent, this demonstrates that they are mutually reinforcing.

**Figure 3-3. The standardized structural figure of the influence of Golden Mean style organizational ethical climate in JFEs on economic commitment**

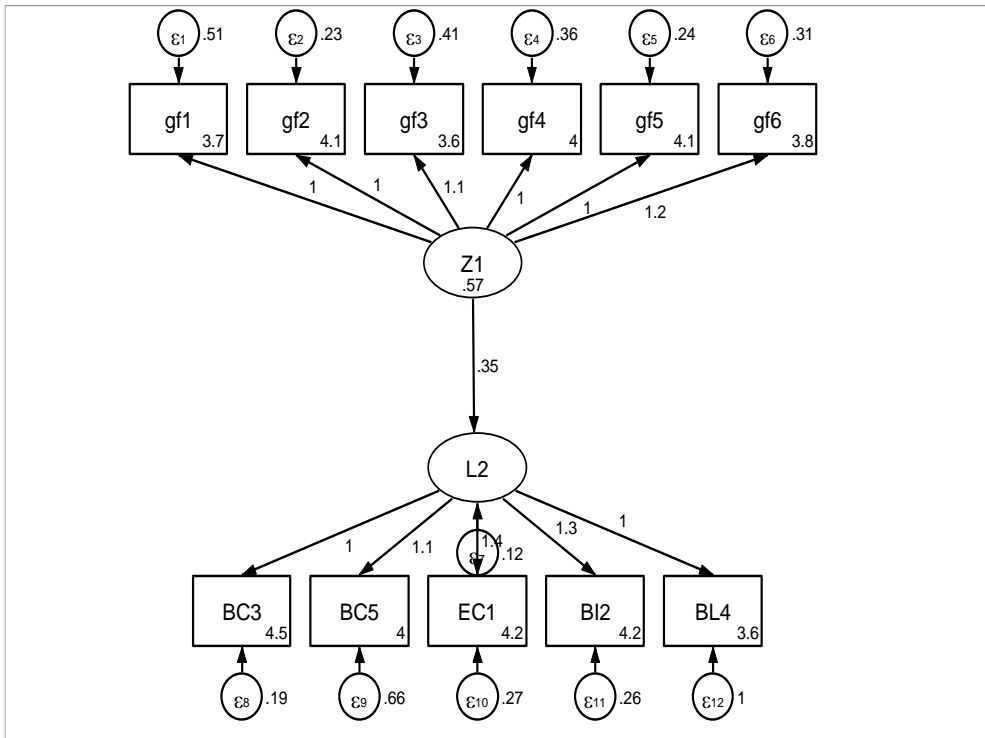


Golden Mean style organizational ethical climate reinforces economic commitment. Possible explanations for this include the following. In China, Taylor’s scientific management is adopted in enterprises. These enterprises, which follow the logic of “economic man,” have achieved great success. But front-line Chinese employees in JFEs find it hard to accept such a philosophy. As a result, JFEs that follow such a philosophy in China suffer from inefficiency. The self-interest style of leadership is not to blame; rather, historical stereotypes are. But climates under a completely altruistic leadership fail, too. At present, front-line employees in China, especially those in the manufacturing industry who are marginalized by the labor market, earn such low wages that they attach great importance to efficiency and rewards. Consequently, an altruistic management philosophy yields little efficiency. In addition, China has long been influenced by the Golden Mean concept, so a management philosophy that merges self-interest and altruism is expected to yield high efficiency. This can also be explained by Fiedler’s contingency theory of management. In conclusion, Golden Mean style organizational ethical climate is a strong support for economic commitment.

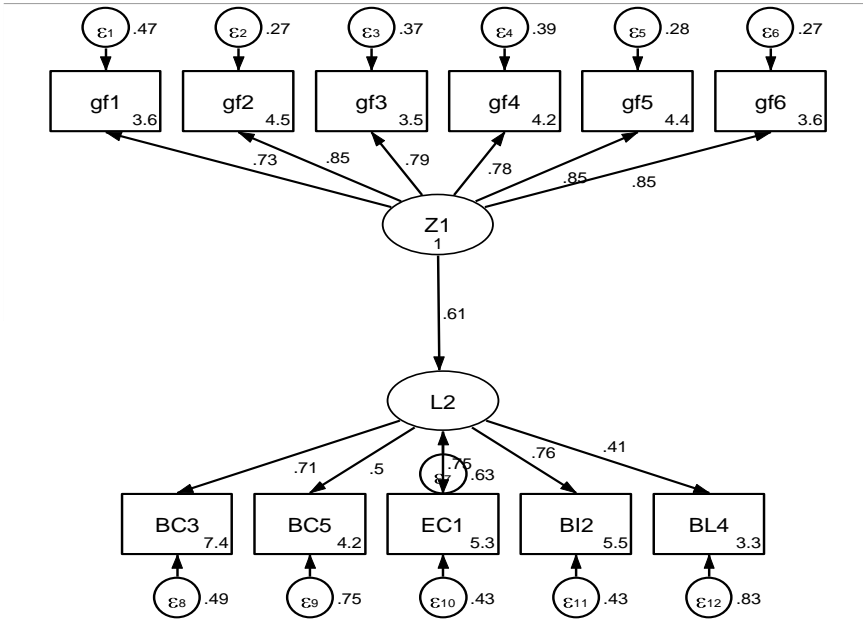
### 3.3. The Influence of Social Responsibility Style Organizational Ethical Climate on Normative Commitment in JFEs

From the previous analysis, it is concluded that a social responsibility style organizational ethical climate exists in JFEs in China's manufacturing industry. The main loading factors of this climate include BC3, BI2, BI3, EC2, BI1 and EC3. The main loading factors of normative commitment include gf1, gf2, gf3, gf4, gf5 and gf6. In this part, the SEM structural equation is used to figure out the influence, together with its degree, of a social responsibility style organizational ethical climate on normative commitment. As calculated by Stata, the structural figure of the influence of social responsibility style organizational ethical climate in JFEs on normative commitment is shown below.

**Figure 3-4 The non-standardized structural figure of the influence of social responsibility style organizational ethical climate in JFEs on normative commitment**



**Figure 3-5 The standardized structural figure of the influence of social responsibility style organizational ethical climate in JFEs on normative commitment**



In the bottom half of the figure, the panes stand for observed variables of social responsibility organizational ethical climate, which are also the main loading factors of the loading matrix. The L2 in the oval stands for social responsibility style organizational ethical climate, which is an endogenous latent variable. This climate is measured through observed variables (BC3, BI2, BI3, EC2, BI1 and EC3). In the upper half of the figure, the panes stand for observed variables of normative commitment. The Z1 in the oval stands for normative commitment, which is an exogenous latent variable. In addition, the circles next to the panes stand for the error terms of the observed variables.

From the figure, it can be observed that social responsibility style organizational ethical climate has significantly positive influence on normative commitment with an influence coefficient valued 0.35 that passes the test by  $p < 0.01$ . In addition, the following regression table of the SEM structural equation makes a reflection on the significance of other observed variables and the significance of influence of endogenous variables on exogenous latent variables.

**Table 3-5. The influence of social responsibility style organizational ethical climate on normative commitment in JFEs**

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
VARIABLES	L2	BC3	BC5	EC1	BI2	BL4	gf1	gf2	gf3	gf4	gf5	gf6
L2		1	1.060***	1.364***	1.342***	1.034***						
		(0)	(0.0232)	(0.0196)	(0.0201)	(0.0288)						
Z1	0.353***						1	1.037***	1.108***	1.004***	1.046***	1.212***
	(0.00716)						(0)	(0.0119)	(0.0135)	(0.0125)	(0.0121)	(0.0137)
Constant		4.520***	3.953***	4.165***	4.237***	3.594***	3.705***	4.083***	3.630***	4.046***	4.060***	3.799***
		(0.00590)	(0.00898)	(0.00760)	(0.00745)	(0.0105)	(0.00993)	(0.00876)	(0.0101)	(0.00925)	(0.00891)	(0.0103)
Observations	11,083	11,083	11,083	11,083	11,083	11,083	11,083	11,083	11,083	11,083	11,083	11,083

Standard errors in parentheses

\*\*\*  $p < 0.01$ , \*\*  $p < 0.05$ , \*  $p < 0.1$

It is clear from the results of the SEM structural equation that social responsibility style organizational ethical climate (the endogenous latent variable) has quite a significant influence on normative commitment (the exogenous latent variable). In addition, it also has significant influence on the measurement of the observed variables of social responsibility organizational commitment. The variances of the observed variables are shown in the next table, which also exhibits high significance in the variances of the observed variables and both latent variables.

**Table 3-6. (3-5 Cont.) The influence of social responsibility style organizational ethical climate on normative commitment in JFEs**

	(13)	(14)	(15)	(16)	(17)	(18)	(19)
VARIABLES	var(e.BC3)	var(e.BC5)	var(e.EC1)	var(e.BI2)	var(e.BL4)	var(e.gf1)	var(e.gf2)
	0.185***	0.661***	0.270***	0.257***	0.995***	0.507***	0.226***
	(0.00330)	(0.00966)	(0.00532)	(0.00495)	(0.0144)	(0.00759)	(0.00394)
Observations	11,083	11,083	11,083	11,083	11,083	11,083	11,083

Standard errors in parentheses

\*\*\*  $p < 0.01$ , \*\*  $p < 0.05$ , \*  $p < 0.1$

**Table 3-7. (3-5 Cont.) The influence of social responsibility style organizational ethical climate on normative commitment in JFEs**

	(20)	(21)	(22)	(23)	(24)	(25)
VARIABLES	var(e.EI4)	var(e.gf4)	var(e.gf5)	var(e.gf6)	var(e.L2)	var(Z1)
	0.412***	0.359***	0.244***	0.313***	0.122***	0.566***
	(0.00652)	(0.00563)	(0.00424)	(0.00547)	(0.00357)	(0.0132)
Observations	11,083	11,083	11,083	11,083	11,083	11,083

Standard errors in parentheses

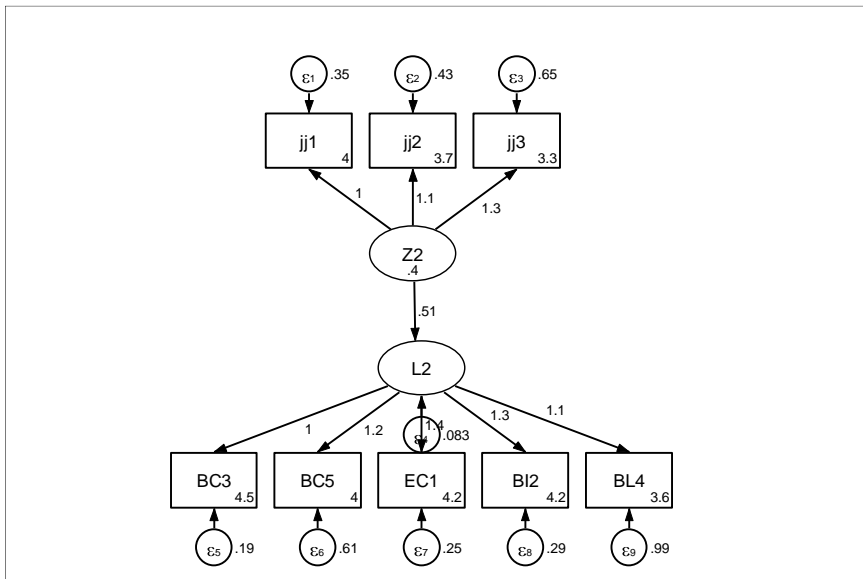
\*\*\*  $p < 0.01$ , \*\*  $p < 0.05$ , \*  $p < 0.1$



The social responsibility style organizational ethical climate in JFEs in China's manufacturing industry can, to a certain extent, develop a good social image and provide employees a sense of fairness, and thus create a good normative commitment among employees. Because the extra economic expenditures associated with social responsibility will have to come from the profit of JFEs, JFEs must set up good operational rules and normative regulations, and use company profits to create a social responsibility style organization ethical climate. In other words, they must adopt scientific management, build up regulatory systems of efficiency, run a smooth operation and finally raise efficiency by excellent operation to achieve a good social responsibility style organizational climate. In a nutshell, social responsibility style organizational ethical climate helps the enterprise strengthen normative commitment.

### 3.4. The Influence of Social Responsibility Style Organizational Ethical Climate on Economic Commitment in JFEs

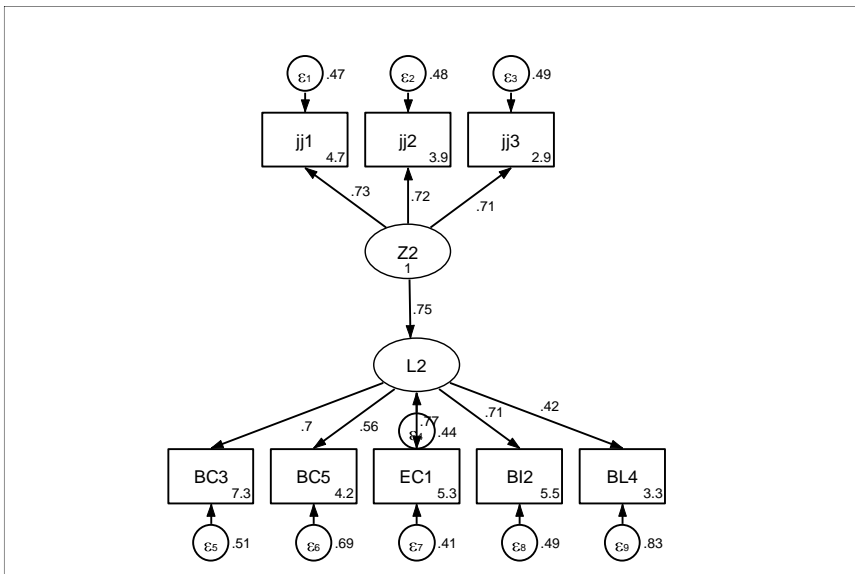
Figure 3-6. The non-standardized structural figure of the influence of social responsibility style organizational ethical climate in JFEs on economic commitment



From the previous analysis, it is concluded that a social responsibility style organizational ethical climate exists in JFEs in China's manufacturing industry. The main

loading factors of this climate include BC3, BI2, BI3, EC2, BI1 and EC3. The main loading factors of economic commitment include jj1, jj2 and jj3. In this part, the SEM structural equation is used to figure out the influence, together with its degree, of a social responsibility style organizational ethical climate on economic commitment. As calculated by Stata, the structural figure of the influence of social responsibility style organizational ethical climate in JFEs on economic commitment is shown below.

**Figure 3-7 The standardized structural figure of the influence of social responsibility style organizational ethical climate in JFEs on economic commitment**



It is clear from the results of the SEM structural equation that social responsibility style organizational ethical climate (the endogenous latent variable) has quite a significant influence on economic commitment (the exogenous latent variable). In addition, it also has significant influence on the measurement of the observed variables of social responsibility organizational commitment. The variances of the observed variables are shown in the next table, which also exhibits high significance in the variances of the observed variables and both latent variables.

**Table 3-8. The influence of social responsibility style organizational ethical climate on economic commitment in JFEs**

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
VARIABLES	L2	BC3	BC5	EC1	BI2	BL4	jj1	jj2	jj3
L2		1	1.208***	1.417***	1.285***	1.058***			
		(0)	(0.0251)	(0.0202)	(0.0197)	(0.0296)			
Z2	0.510**						1	1.088***	1.304***
	(0.00973)						(0)	(0.0182)	(0.0210)
Constant		4.519***	3.950***	4.164***	4.236***	3.592***	4.045***	3.683***	3.291***
		(0.00590)	(0.00898)	(0.00759)	(0.00743)	(0.0105)	(0.00831)	(0.00909)	(0.0110)
Observations	11,083	11,083	11,083	11,083	11,083	11,083	11,083	11,083	11,083

Standard errors in parentheses

\*\*\* p<0.01, \*\* p<0.05, \* p<0.1

**Table 3-9. (3-8 Cont.) The influence of social responsibility style organizational ethical climate on economic commitment in JFEs**

VARIABLES	(10)	(11)	(12)	(13)	(14)	(15)
	var(e.BC3)	var(e.BC5)	var(e.EC1)	var(e.BI2)	var(e.BL4)	var(e.jj1)
	0.194***	0.607***	0.255***	0.295***	0.994***	0.355***
	(0.00340)	(0.00931)	(0.00522)	(0.00520)	(0.0144)	(0.00689)
Observations	11,083	11,083	11,083	11,083	11,083	11,083

Standard errors in parentheses

\*\*\* p<0.01, \*\* p<0.05, \* p<0.1

**Table 3-10. (3-8 Cont.) The influence of social responsibility style organizational ethical climate on economic commitment in JFEs**

VARIABLES	(16)	(17)	(18)	(19)
	var(e.jj2)	var(e.jj3)	var(e.L2)	var(Z2)
Constant	0.431***	0.652***	0.0828***	0.398***
	(0.00828)	(0.0122)	(0.00319)	(0.0103)
Observations	11,083	11,083	11,083	11,083

Standard errors in parentheses

\*\*\* p<0.01, \*\* p<0.05, \* p<0.1

To JFEs, there are two rewards for shouldering social responsibility. First, it will reduce opposition from Chinese consumers, especially laborers in JFEs, and thus increase working efficiency. Second, it will win support from the local government for JFEs.

Government support is especially important, considering the present social system in China. Although the modern enterprise management system in China is built upon market economic system reform, China is ultimately still a socialist country, and state-owned enterprises take a dominant position. SOE operations are led by the party and the government, so government functions are not separate from enterprise management. Hence, corporate culture requires both efficiency and national policies which are not completely built up in light of enterprises' long-term development. Support from the government offers a higher plain for an enterprise to compete with other enterprises. Therefore, social responsibility style organizational ethical climate is effective in the operation of an enterprise. It also establishes a good foundation for fairness and team spirit and eventually helps to achieve economic commitment.

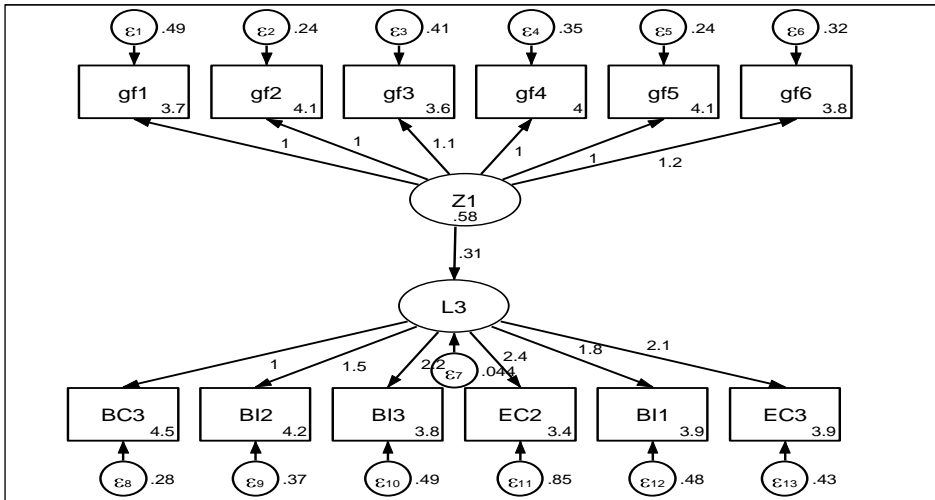
Such commitment is, to some extent, based on a sense of duty. By building a social responsibility style organizational ethical climate, the enterprise puts into philanthropy much time and money, which yields no direct rewards like that in R&D products, but yields many implicit and fruitful rewards, such as reputation, marketing platforms, new talents and, last but not least, employees' emotional identification, which helps to strengthen normative commitment.

### **3.5. The Influence of Friendship-Efficiency Style Organizational Ethical Climate on Normative Commitment in JFEs**

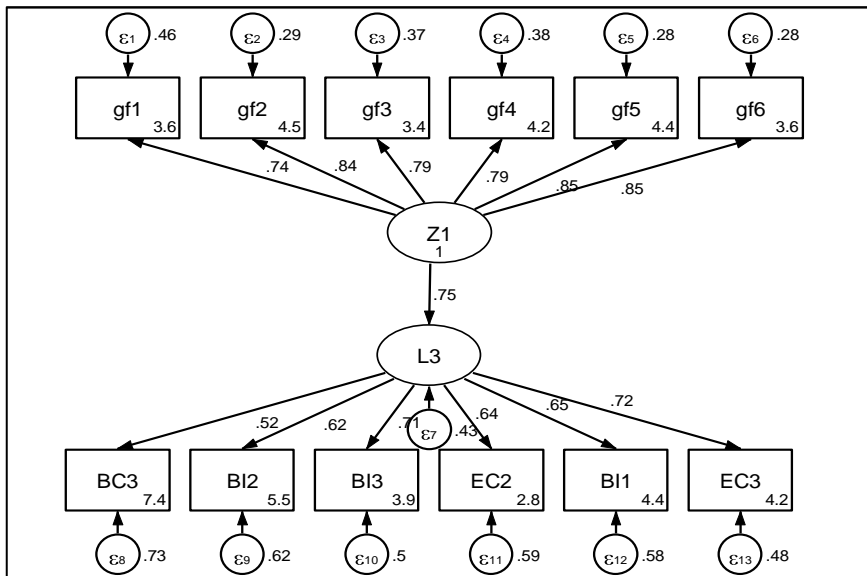
From the previous analysis, it is concluded that a friendship-efficiency style organizational ethical climate exists in JFEs in China's manufacturing industry. The main loading factors of this climate include BC3, BI2, BI3, EC2, EI4, BI1 and EC3. The main loading factors of normative commitment include gf1, gf2, gf3, gf4, gf5 and gf6. In this part, the SEM structural equation is used to figure out the influence, together with its degree, of a friendship-efficiency style organizational ethical climate on normative commitment. As calculated by Stata, the structural figure of the influence of friendship-efficiency style organizational ethical climate in JFEs on normative commitment is shown below.

In the bottom half of the figure, the panes stand for observed variables of friendship-efficiency style organizational ethical climate, which are also the main loading factors of the loading matrix. The L3 in the oval stands for friendship-efficiency style organizational ethical climate, which is an endogenous latent variable. This climate is measured through observed variables (EC4, EI1, EI3, BI4, EL1, BL3, BL2 and P11). In the upper half of the figure, the panes stand for observed variables of normative commitment. The Z1 in the oval stands for normative commitment, which is an exogenous latent variable. In addition, the circles next to the panes stand for the error terms of the observed variables.

**Figure 3-8. The non-standardized structural figure of the influence of friendship-efficiency style organizational ethical climate in JFEs on normative commitment**



**Figure 3-9 The standardized structural figure of the influence of friendship-efficiency style organizational ethical climate in JFEs on normative commitment**



From the figure, it can be observed that friendship-efficiency style organizational ethical climate has significantly positive influence on normative commitment with an influence coefficient valued 0.31 that passes the test by  $p < 0.01$ . In addition, the following regression table of the SEM structural equation makes a reflection on the significance of other observed variables and the significance of influence of endogenous variables on exogenous latent variables.

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