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## **Do It Well and Do It Right: The Impact of Service Climate and Ethical Climate on Business Performance and the Boundary Conditions**

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# Do It Well and Do It Right: The Impact of Service Climate and Ethical Climate on Business Performance and the Boundary Conditions

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Prior research has demonstrated that service climate can enhance unit performance by guiding employees' service behavior to satisfy customers. Extending this literature, we identified ethical climate toward customers as another indispensable organizational climate in service contexts and examined *how* and *when* service climate operates in conjunction with ethical climate to enhance business performance of service units. Based on data collected in 2 phases over 6 months from multiple sources of 196 movie theaters, we found that service climate and ethical climate had disparate impacts on business performance, operationalized as an index of customer attendance rate and operating income per labor hour, by enhancing service behavior and reducing unethical behavior, respectively. Furthermore, we found that service behavior and unethical behavior interacted to affect business performance, in such a way that service behavior was more positively related to business performance when unethical behavior was low than when it was high. This interactive effect between service and unethical behaviors was further strengthened by high market turbulence and competitive intensity. These findings provide new insight into theoretical development of service management and offer practical implications about how to maximize business performance of service units by managing organizational climates and employee behaviors synergistically.

*Keywords:* service climate, ethical climate, market turbulence, competitive intensity, business performance

To improve customer experiences and achieve financial success, service units must strategically manage the behavior of service employees (Bowen & Schneider, 2014; Hong, Liao, Hu, & Jiang, 2013). Service work is intangible, however, which makes it difficult to monitor or control employee behavior (Bowen & Schneider, 1988). Consequently, management researchers have suggested that organizations should create supportive organizational climates to guide service employee behavior (Schneider, White, & Paul, 1998), particularly service climate in which employees share perceptions of organizational expectations regarding service quality

and in which employees are rewarded for delivering good service (Schneider et al., 1998). Indeed, service climates have been shown to be important antecedents of critical service performance outcomes (Salanova, Agut, & Peiró, 2005; Schneider, Ehrhart, Mayer, Saltz, & Niles-Jolly, 2005; see Hong et al., 2013, for a meta-analytic review).

Despite the cumulated evidence on the importance of service climate, there remains important opportunities to further extend this line of research. First, organizational service climate studies have not specified the actual aspects of service quality that service climate focuses on (Bowen & Schneider, 2014; Schneider et al., 1998), even though the services marketing literature suggests that service quality is multifaceted and includes tangibles, reliability, responsiveness, assurance, and empathy (e.g., Parasuraman, Zeithaml, & Berry, 1988, 1991; Zeithaml, Parasuraman, & Berry, 1990). For example, Schneider and colleagues (1998) seminally proposed overall service quality as the target in both the definition and the measurement of generic service climate. Researchers widely adopted this approach but did little to explain the scope and the meaning of service quality. As such, Bowen and Schneider (2014, p. 10) have recently recommended "a combination of generic and customized approaches" to stress the specific aspects that have not been emphasized in generic service climate.

With service quality unclearly defined, service climate has been studied with regard to generic in-role and extrarole service behav-

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iors, such as being friendly and responsive toward customers, meeting customer requests when needed, and helping customers beyond formal obligations (for a qualitative review, see Bowen & Schneider, 2014; for a meta-analysis, see Hong et al., 2013). Such studies address calls for service responsiveness (through prompt service) and empathy (through individualized customer attention; e.g., Zeithaml et al., 1990), but fail to adequately consider reliability (by serving as promised) and assurance (by inspiring trust and confidence). Thus, both theoretical development and empirical measurements have failed to explicitly examine whether being reliable, honest, and ethical contributes to our understanding of service climate and to what extent ethics enhance service quality. We argue that management research has omitted a critical point: service quality should include doing things well through friendliness, responsiveness, and empathy along with doing things right through reliable and ethical behavior. Consequently, an intriguing and important follow-up question for service management research to more thoroughly explain the multifaceted nature of service quality might be whether another type of organizational climate with a specific focus on employee ethical behavior toward customers (i.e., ethical climate) will complement service climate.

Consonantly, the customer-orientation marketing literature also offers theoretical underpinnings for considering both service climate and ethical climate in understanding service outcomes. Customer-oriented selling should include two key aspects—offering products that satisfy customer needs (e.g., “offering products that will satisfy those needs”) and protecting them from potential harm (e.g., “avoiding deceptive or manipulative influence tactics”; Saxe & Weitz, 1982, p. 344). Service climate is known to encourage service employees to satisfy customers (e.g., Borucki & Burke, 1999; Chuang & Liao, 2010; Jiang, Chuang, & Chiao, 2015; Liao & Chuang, 2004, 2007; Schneider et al., 2005), but not explicitly prompt employees to protect customer interests. This gap may be filled by studies of ethical climate in which employees are rewarded and supported for their efforts to protect customers from harm (e.g., Ferrell, 2004; Jaramillo, Mulki, & Solomon, 2006;

Maignan, Ferrell, & Hult, 1999; Schwepker & Hartline, 2005). Thus, considering ethical climate may offer a potentially unique and pivotal perspective to explore the impact of protecting customer interests (through ethical behavior) in addition to satisfying customer needs (through service behavior) on business outcomes. The integration of these two organizational climates may also help depict a more complete picture of the influence of organizational climates on service unit outcomes.

Second, researchers have become increasingly interested in understanding the contingencies of the influence of organizational climates on desired outcomes of service units. For example, in line with the contingency perspective of service climate, Dietz, Pugh, and Wiley (2004) and Mayer, Ehrhart, and Schneider (2009) found that service climate was associated with more desirable customer outcomes in contexts characterized by high customer contact frequency, high service intangibility, and high task interdependence. Likewise, the marketing literature on customer orientation (e.g., Jaworski & Kohli, 1993; Kohli & Jaworski, 1990; Slater & Narver, 1994) also suggests that it is more important for service units to focus on customers in certain environments than in others. Thus, an important theoretical question that needs to be further understood is the conditions under which the effect of organizational climates on service unit performance will occur. Answers to this question can help service units to determine when they should focus more on service management to achieve optimal performance outcomes.

To address these research needs, we propose an overarching theoretical framework that integrates the multifacet (Carr, Schmidt, Ford, & DeShon, 2003; Kuenzi & Schminke, 2009; Schneider, Ehrhart, & Macey, 2013) and contingency perspectives (Dietz et al., 2004; Mayer et al., 2009) of organizational climates to examine how and when service climate works with ethical climate to jointly affect service units’ business performance (see Figure 1). We draw on the services marketing literature on service quality (Parasuraman et al., 1988, 1991; Zeithaml et al., 1990) and the marketing literature on customer orientation (e.g., Narver &

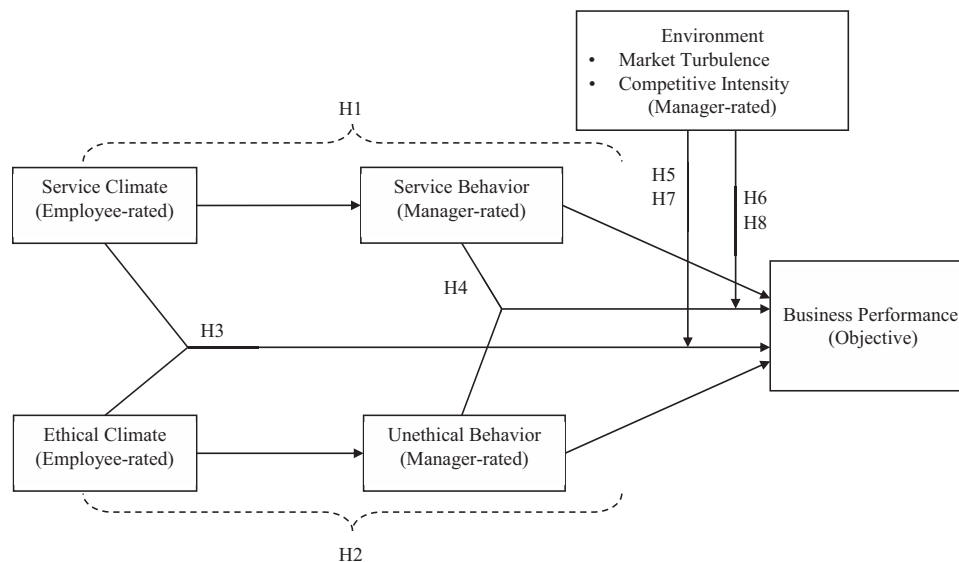


Figure 1. Theoretical model. H = Hypothesis.

Slater, 1990; Saxe & Weitz, 1982) to theorize that service and ethical climates work together and thus should be combined to offer a more complete understanding of the effects of organizational climates in service contexts than service climate alone. In addition, we enrich our theoretical model by examining market turbulence and competitive intensity as important but neglected environmental factors that may alter the interactive effects of organizational climates and employee behaviors on business performance. Combined, these contributions will help researchers and practitioners to understand *how* and *when* service climate operates with ethical climate to affect employee behaviors and improve business performance in service units.

## Theoretical Background and Hypotheses

### Service Climate and Ethical Climate in Service Contexts

Service climate refers to employees' shared perceptions of the policies, practices, and procedures in organizations that expect and reward employees to deliver high quality service (Borucki & Burke, 1999; Schneider et al., 1998). Service climate is "proposed to focus service employee efforts and competencies on delivering service quality" (Schneider et al., 1998, p. 150). Consequently, research has primarily examined how service climate develops capable and motivated employees to engage in service activities that help address customer needs. For example, Schneider et al. (2005) found that service climate encourages employees to frequently go out of their way to help customers, which further leads to customer satisfaction and sales performance of service units. Similarly, service behavior in accordance with service climate has been shown to positively relate to market performance (e.g., Chuang & Liao, 2010; Jiang, Chuang, & Chiao, 2015). Although service climate research has focused on responsive and empathetic aspects of service quality (Parasuraman et al., 1988, 1991; Zeithaml et al., 1990), the role of reliability and ethics in protecting customers from potential harm has been less emphasized.

Ethical climate is distinct from service climate in that the emphasis is on societal moral standards (Luria & Yagil, 2008; Schwepker & Hartline, 2005). Ethical climate reflects employees' shared perception of the organizational environment that guides them to be honorable, just, and virtuous in providing customer service (Ferrell, 2004; Mayer, 2014; Mayer, Kuenzi, & Greenbaum, 2010; Schwepker & Hartline, 2005). To study ethical climate in service contexts, it is essential to specify customers as the reference group because service employees often encounter multiple and conflicting demands from organizations, customers, co-workers, and themselves. Therefore, correct behavior for one reference group may be morally inappropriate for other groups (Kaptein, 2008; Mayer, Kuenzi, & Greenbaum, 2010). Ethical climate is also relevant to service units because service employees often interact with customers without close supervision (Bowen & Lawler, 1995) and may have ample chances for jeopardizing customer interests and causing long-term service unit losses (Schwepker & Hartline, 2005). Given the impact of ethical climate in guiding employee ethical actions (Ferrell, 2004; Mayer, 2014; Mayer, Kuenzi, & Greenbaum, 2010; Schwepker & Hartline, 2005), ethical climate is important to protect customer interest by reducing employee unethical behavior toward customers.

Taken together, service climate or ethical climate each focuses on aspects of service quality or customer orientation that are not explicitly emphasized by the other. Service climate is important to guide employees to exert high levels of service behavior, but it does not pay special attention to employees' general honesty and integrity when delivering service to customers. Employees working in a service climate may be capable and motivated to fulfill customer requests, answer questions, and meet demands, but still fail to act ethically. For example, employees in a theater service setting may cheerfully, pleasantly, and patiently respond to customers' questions about movies to help them make their best choice, but may hurt customers' long-term interests by failing to tell them about potential promotion or coupon information for future purchases. On the other hand, employees working in an ethical climate may have integrity and avoid deception when providing customer service, but may fail to provide friendly and pleasant service. In the theater setting again, employees may honestly share information about rewards such as free refills or added points to membership cards for purchases at the snack bar, but still be cold and unfriendly. Consequently, service and ethical climate should be combined in overall customer orientation to study their joint impact on business performance.

### The Influence of Climates on Employee Behaviors and Business Performance

The established organizational climate helps employees understand the appropriate behavior they must emphasize in the given work environment (Schneider, 1990). More specifically, targeted outcomes become most salient for guiding employee behavior (Kuenzi & Schminke, 2009). In keeping with the theoretical rationale discussed so far, we propose that service climate will make a unique contribution in promoting business performance through affecting service employees' service behaviors beyond ethical climate; and ethical climate will exert a significant influence on business performance through service employees' unethical behavior beyond service climate.

Consistent with the marketing literature on service quality (e.g., Parasuraman et al., 1988, 1991; Zeithaml et al., 1990) and customer orientation (e.g., Narver & Slater, 1990; Saxe & Weitz, 1982), we consider service behavior and unethical behavior toward customers two related, but distinct, behaviors that contribute to customer experience and business performance. More specifically, we define service behavior as service employees' primary responsibility for serving customers (Borucki & Burke, 1999; Liao & Chuang, 2004), such as helping customers assess their needs and providing service to satisfy their needs. We define unethical behavior as service employees' misconduct that enables them to benefit at the expense of customers (Kaptein, 2008; Schwepker & Hartline, 2005; Umphress, Bingham, & Mitchell, 2010), such as misrepresenting the nature of service, creating an unnecessary need for service, and withholding negative information.

We expect each behavior to be uniquely motivated by the particular climate focusing on such behavior. A positive service climate strongly signals that the unit expects, supports, and rewards excellent service (Schneider et al., 1998). The shared perception in turn motivates the expected service behavior which then creates positive customer experiences, prompts customers to spend more time and money, and directly generates service unit profits

(Heskett, Sasser, & Schlesinger, 1997; Pugh, 2001; Schneider et al., 2005; also see Hong et al., 2013 for a meta-analytic review). Likewise, ethical climate stresses company expectations regarding proper ways to deal with customer-related ethical dilemmas so that misconduct or unethical customer-related behaviors are less likely (Martin & Cullen, 2006). Customers will recognize that service employees righteously avoid unethical activities, and will have increased loyalty to the service units (Román, 2003; Román & Ruiz, 2005; Thomas, Vitell, Gilbert, & Rose, 2002), facilitating successful unit performance (Hong et al., 2013). For these reasons, we propose that:

*Hypothesis 1:* Service climate will have a positive indirect relationship with business performance of a service unit through service behavior, when controlling for ethical climate.

*Hypothesis 2:* Ethical climate will have a positive indirect relationship with business performance of a service unit through unethical behavior, when controlling for service climate.

Although prior research has examined the mediating processes of service climate and ethical climate separately, it remains unclear as to whether and how the service and ethics components may work together to influence business success. If service and ethics are both important for performance, exploring not only their concurrent influences, but also their interactive effects can give a fuller and deeper understanding of how the two climates influence performance outcomes through employee behaviors.

We propose that service climate and ethical climate positively interact to affect business performance because the two climates in combination capture a more complete meaning of service quality and emphasize the indispensable components of overall customer experience than each climate alone. More specifically, service climate encourages the ability and willingness to fulfill customer needs, whereas ethical climate encourages adhering to moral and ethical principles when providing service. If service units include both service and ethical climates, they are likely to send strong and consistent signals that customer needs and best interests are paramount concerns. Consequently, customers will be more likely to consider the service unit to be helpful and authentic, and the unit will show better business performance.

In contrast, customers are likely to have poor service experiences if service units have low service climates that fail to address customer needs or low ethical climates that tolerate unethical customer treatment. A poor service climate may suppress ethical climate's positive influence on business performance, and vice versa. Service climate or ethical climate cannot be emphasized alone without damaging long-term customer relationships and business performance as revealed in reported scandals regarding service unit abuse in the automotive service (e.g., Fisher, 1992; Hathaway, 2011), food service (e.g., Burkitt, Bunge, & Jargon, 2014), and financial service industries (e.g., Smith, 2012). Thus, we propose that service climate and ethical climate combined strengthen the effect of one another on business performance.

*Hypothesis 3:* There will be an interaction between service climate and ethical climate on business performance of a service unit, such that the effect of service climate on business performance will be more positive when ethical climate is higher rather than when it is lower.

Given that service climate and ethical climate are related to business performance through service and ethical behaviors, we can reasonably expect the two behaviors to have an interactive effect on business performance. Indeed, if we fail to consider the behavioral outcomes, theorizing the interaction between climates on performance outcomes may be too abstract. For example, in a study of department stores, McKay, Avery, Liao, and Morris (2011) found that service climate and diversity climate positively interacted to affect customer satisfaction. They acknowledged that the interaction was based on employee behavioral outcomes theorized to be affected by climates but not included in their study. Consistent with this argument, we expect service behavior and unethical behavior to have an interactive effect on business performance outcomes beyond service and ethical climates alone. As discussed, both high service and ethical behavior are essential elements of customer experience and business performance. Therefore, we expect the lack of either one to weaken the influence of the other.

*Hypothesis 4:* Beyond the interaction between service climate and ethical climate, there will be an interaction between service behavior and unethical behavior toward customers on business performance of a service unit, such that the effect of service behavior on business performance will be more positive when unethical behavior toward customers is lower rather than when it is higher.

### Moderating Effects of Environmental Factors

Although enhancing customer experience via frontline employees' behaviors improves general business performance, poor service or unethical behaviors do not always cause lost patronage (Boulstridge & Carrigan, 2000; Rogers, 1998; Smith & Alcorn, 1991). Instead, marketing scholars have suggested possible contingencies in the market environment that may amplify or weaken the influence of customer-oriented behaviors on business performance (Harris, 2001; Houston, 1986; Kirca, Jayachandran, & Bearden, 2005; Kohli & Jaworski, 1990; Jaworski & Kohli, 1993).

Specifically, Kohli and Jaworski (1990) proposed and demonstrated that market turbulence, competitive intensity, and technological turbulence are critical environmental contingencies that should be considered when studying market orientation behaviors primarily focused on customer needs and interests. Under market conditions of high market turbulence, high competitive intensity, and low technological turbulence, organizational climates that emphasize customer-oriented behaviors will be more effective for enhancing business performance than in other conditions. Combining a service climate that emphasizes doing things well for customers and an ethical climate that encourages doing the right thing to customers demonstrates such a customer orientation. Thus, drawing on Kohli and Jaworski's (1990) framework, we propose three-way interactions in which environmental factors serve as boundaries for the interactive effects on business performance of service and ethical climate and the accompanying employee behaviors.

We identify market turbulence and competitive intensity as moderators of the proposed interactive effects of organizational climates and employee behaviors on business performance. Although technological turbulence affects customer orientation—

performance relationships, it may be irrelevant to a single industry study, such as the movie theater industry in this study (e.g., Kumar, Subramanian, & Yauger, 1998; Tsai & Yang, 2013). Therefore, we focus on market turbulence and competitive intensity as moderators of organizational climate and employee behavior effects on business performance.

**Market turbulence.** When customer composition and preferences for products and services are highly changeable, markets are considered turbulent (Kohli & Jaworski, 1990; Slater & Narver, 1994). High market turbulence implies changing customer preferences and desires, whereas low market turbulence indicates known and stable customer sets and preferences (Kohli & Jaworski, 1990). Using the theater industry as an example, customers in more turbulent markets expect to have new experiences when they visit theaters. They also have diverse needs for movies, prices, merchandise and gifts, as well as theater equipment and setting. On the contrary, customers in less turbulent markets may share some commonalities in their individual characteristics (e.g., young frequent viewers) and have relatively homogeneous movie preferences.

Given that customers in turbulent markets have dynamic needs and escalating expectations regarding service (Jaworski & Kohli, 1993), frontline employees must do things well and do the right things (Jones, Brown, Zoltners, & Weitz, 2005) because customers with changing wants and desires tend to critically evaluate service and expect it to cater to their preferences (Cambra-Fierro, Hart, Polo-Redondo, & Fuster-Mur, 2012). Furthermore, they are more sensitive to employee-provided information, spend more time weighing their decisions, and scrutinize the fairness and ethicality of the service (Creyer & Ross, 1997). Consequently, even if customers receive good service, they are more likely to discern unethical behaviors and respond negatively and cynically. Thus, a turbulent environment triggers heightened desirability of both service and ethical behaviors so that service and ethical climates are more positively synergized for better business outcomes.

In contrast, under stable markets, customers have relatively fixed interests and needs. They may not need first-line employees to pay special attention to their preferences and may be less sensitive to ethical standards. Thus service and ethical climates are less essential. That is, in a nonturbulent market, customers have less need for high service and are less sensitive about unethical conduct. Consequently, high service or ethical climate alone may sufficiently influence service outcomes. Furthermore, as noted in the mediation hypotheses, employees' actual behaviors are more proximal predictors of performance outcomes relative to organizational climates. Therefore, we also expect that market turbulence will strengthen the interaction between service and unethical behavior.

*Hypothesis 5:* There will be a three-way interaction among service climate, ethical climate, and market turbulence on business performance of a service unit, such that ethical climate is more likely to strengthen the positive relationship between service climate and business performance when market turbulence is higher than when market turbulence is lower.

*Hypothesis 6:* There will be a three-way interaction among service behavior, unethical behavior, and market turbulence on business performance of a service unit, such that unethical behavior is more likely to weaken the positive relationship

between service behavior and business performance when market turbulence is higher than when market turbulence is lower.

**Competitive intensity.** Competitively intense markets feature many competitors offering similar products and services. As competition intensifies, organizational climates promoting service and ethical actions are particularly salient because customers have numerous provider choices (Kohli & Jaworski, 1990) and tend to be choosier about products and services (Jaworski & Kohli, 1993; Ofek & Sarvary, 2001). Given that customers can compare and choose the best service among many, service and ethical behavior are critical for gaining competitive advantage and improving profitability (Gans, 2002; Hunt & Morgan, 1996; Kohli & Jaworski, 1990; Reinartz & Kumar, 2000). Even under a high service climate, a strong ethical climate is also essential to inhibit unethical acts for short-term benefits and prevent customers from switching to other providers without hesitation (Keaveney, 1995). As a result, fostering both complementary climates is critical for enhancing business performance.

In contrast, under less-intense market competition, customers may have concerns about quality of service or morality but still purchase the products (Boulstridge & Carrigan, 2000; Rogers, 1998). The lack of available alternatives may account for the attitude—behavior gap between perception of unethical and/or low quality services and actual customer reaction (Aydin & Özer, 2005; Bitner, 1990; Carrigan & Attalla, 2001; Keaveney, 1995). Thus, when a company dominates the market and produces products or services that few other companies offer, service and ethical climates have a less-salient joint influence on customers' decisions and business productivity. Furthermore, actual employee behavior translates the effect of organizational climates on business performance, so we use reasons similar to those previously discussed to expect that intense competition will amplify the interactive effect of service behavior and unethical behavior on business performance.

*Hypothesis 7:* There will be a three-way interaction among service climate, ethical climate, and competitive intensity on business performance of a service unit, such that ethical climate is more likely to strengthen the positive relationship between service climate and business performance when competitive intensity is higher than when competitive intensity is lower.

*Hypothesis 8:* There will be a three-way interaction among service behavior, unethical behavior, and competitive intensity on business performance of a service unit, such that unethical behavior is more likely to weaken the positive relationship between service behavior and business performance when competitive intensity is higher than when competitive intensity is lower.

## Method

### Procedures and Participants

To test our hypotheses, we collected survey data from multiple sources (i.e., employees and managers) at two time points over 6 months at a major digital movie theater chain in China. We also

measured objective business performance outcomes of each theater using the company's archival data. Up to January 2014, the theater chain had a total of 222 theaters in different cities all over the country. All theaters have a similar organizational structure with theater managers and nonmanagerial service employees. The theater managers are responsible for the general day-to-day operations and service employees perform specific work activities such as selling tickets, selling food and beverage, checking ticket stubs, ushering customers, projecting films, repairing and maintaining equipment and facility, and marketing. Because of the small size of the theaters, all managerial and nonmanagerial employees work closely on a daily basis to provide services and products to customers. By sampling subunits of the same organization, we attempted to control for the potential influence of internal and external contextual factors (e.g., business strategies, organizational types) on the studied relationships. This approach has been used in previous research on organizational climate (e.g., Ehrhart, Witt, Schneider, & Perry, 2011; McKay et al., 2011; Schneider et al., 2005).

At Time 1, in January 2014, we solicited service employees from the 222 locations of the theater chain to assess service climate and ethical climate. Asking employees to report organizational climates is consistent with the definition of organizational climate and has been commonly used in prior research on organizational climates (e.g., Ehrhart et al., 2011; McKay et al., 2011; Schneider et al., 2005). Additionally, we asked theater managers to evaluate employee service behavior and unethical behavior in the past 3 months. The use of manager ratings of employee behaviors has been adopted in many studies to reduce the same-source bias (e.g., Chuang & Liao, 2010; Mayer, Aquino, Greenbaum, & Kuenzi, 2012; Schneider et al., 2005). This approach is appropriate for this study also because theater managers were responsible for evaluating employee performance and dealing with customers' feedback and complaints about service and unethical behaviors by employees. Therefore, theater managers were in a good position to observe employee behaviors during service encounters and their ratings would at least partially reflect how customers perceived service and unethical behaviors of employees. We also asked theater managers to rate the two environmental factors (i.e., market turbulence and competitive intensity) because they had better knowledge about external environments than employees. As a result, we obtained 2,515 employee responses from 208 units and 198 responses of theater managers. After matching the responses of employees and managers, we got a final sample of 196 theaters with 2,417 employee responses and 196 manager evaluations. The valid response rate of the sampled theaters was 88%. On average, these theaters had about 20 service employees ( $M = 19.66$ ,  $SD = 5.67$ ), 700 seats ( $M = 709.62$ ,  $SD = 224.41$ ), 5 screening rooms ( $M = 4.78$ ,  $SD = 1.36$ ), and had operated for more than 30 months by January 2014 ( $M = 31.92$ ,  $SD = 23.45$ ). At Time 2, 6 months after Time 1, the company provided us with archival data of business performance outcomes of the first half of the year 2014 for the 196 theaters. The time-lag design gave customers enough time and opportunities to experience service behavior and detect unethical behavior of theater employees, and thus, made it reasonable to study the influence of employee behaviors on business performance.

The 196 theaters were located in 120 cities with 85 cities having one theater, 35 cities having two or more than two theaters of this

theater chain. The wide distribution of the theaters makes it meaningful to study the moderating effects of market turbulence and competitive intensity. Even though the sampled theaters belonged to the same company, the external environment they faced could vary considerably in different regions. For example, in our interviews with 10 theater managers, we found that some theaters dealt with customers with similar characteristics and preferences (e.g., young frequent moviegoers) over time while others confronted with customers with diverse demands and changing needs. Similarly, some theaters operated in cities with many competitors in proximity while others dominated the local movie market (number of competing theaters within 20 km radius ranged from 1–146). These examples illustrate that there were reasonable variances among our sample of theaters in terms of market turbulence and competitive intensity.

## Measures

We followed Brislin's (1980) back translation procedures to translate the items that were originally developed in English into Chinese. A management researcher who is fluent in both Chinese and English translated the items from English to Chinese and then another scholar who is also bilingual translated them from Chinese back into English. Disagreements that occurred in the translation process were resolved through discussion. We measured service climate and ethical climate using a 5-point Likert scale (1 = *strongly disagree* to 5 = *strongly agree*), and assessed service behavior and unethical behavior and the two environmental factors with a 7-point Likert scale (1 = *strongly disagree* to 7 = *strongly agree*).

**Service climate.** We used Schneider et al.'s (1998) seven-item scale to measure generic service climate. This measure has been commonly used in the literature to assess service climate (e.g., Chuang & Liao, 2010; Mayer et al., 2009; Schneider et al., 2005). Sample items include "How would you rate the tools, technology, and other resources provided to employees to support the delivery of superior quality work and service?" and "How would you rate the effectiveness of communications efforts of the management to both employees and customers?" Because employees were asked to report their service climate perceptions, we also examined the interrater agreement and interrater reliability indices to justify data aggregation. The mean  $r_{wg(i)}$  for service climate was .93. ICC1 (intraclass correlation coefficient) and ICC2 for this measure were .23 ( $p < .01$ ) and .78. Overall, these statistics exceeded the cut-off points suggested by prior research dealing with aggregation (Bliese, 2000). Therefore, we aggregated individual ratings of service climate to the theater level. The Cronbach's  $\alpha$  of this measure was .96 at the theater level.

**Ethical climate.** We adapted four items from Schepker and Hartline (2005) to assess employee perceptions of ethical climate.<sup>1</sup> These items are "Top management supports ethical behavior toward customers," "I know of a customer who was cheated (reverse

<sup>1</sup> To validate our use of the ethical climate toward customers, we collected additional data from a sample of 242 full-time customer-contact employees and found that the four-item scale of Schepker and Hartline (2005) was highly correlated with the six-item global ethical climate measure of Mayer et al. (2010) with a correlation coefficient of .73 ( $p < .01$ ).

coded),” “I think our theater is more interested in making money than in meeting customers’ needs (reverse coded),” and “Our field is so competitive that we have to do some unethical things toward customers just to stay in business (reverse coded).” After examining the aggregation indices (mean  $r_{wg(j)} = .72$ , ICC1 = .19,  $p < .01$ , and ICC2 = .74), we aggregated employees’ ratings of ethical climate to the theater level. The Cronbach’s  $\alpha$  of this measure was .63 at the theater level.

**Service behavior.** We asked theater managers to evaluate their respective units’ employee service behavior using the seven-item scale from Chuang and Liao (2010). Sample items include “Our employees approach customers quickly,” “Our employees are able to help customers when needed,” and “Our employees are friendly and helpful to customers.” The Cronbach’s  $\alpha$  of this measure was .91.

**Unethical behavior.** We adapted five items of unethical behavior developed by Umphress and colleagues (2010) to assess employees’ unethical behavior toward customers, again evaluated by theater managers of each unit. Sample items include “Our employees exaggerate the truth about the theater’s products and services to customers,” “Our employees misrepresent the truth to make the theater look good,” and “Our employees withhold negative information about the theater or its services and products from customers.” The Cronbach’s  $\alpha$  of this measure was .90.

**Environmental factors.** We used the scales developed by Jaworski and Kohli (1993) to measure the two environmental factors by asking theater managers to consider the local environment of their theaters. Market turbulence was measured using six original items (e.g., “Our customers tend to look for new product and service all the time”) and competitive intensity was assessed using six items (e.g., “Anything that one competitor can offer, others can match readily”). The Cronbach’s  $\alpha$ s of market turbulence and competitive intensity were .65 and .90, which were similar to the reliabilities (.68 and .81, respectively) reported in Jaworski and Kohli (1993) and others (e.g., Lukas, 1999; Narver, Slater, & MacLachlan, 2004; Rose & Shoham, 2002).

**Business performance.** The company provided us with two objective measures of business performance outcomes of the first half of the year 2014 (from January to June). The first measure, customer attendance rate, was calculated using the equation of  $(T/M)/(S/R)$ , in which T represents the number of tickets sold, M represents the number of movie sessions played, S represents the number of seats, and R represents the number of screening rooms. The result of this equation reflects the average percentage of seats occupied in an individual screening room for a movie. The second measure was operating income divided by the number of labor hours for each theater. In this sample, operating income came from two major sources including ticketing revenue and food and beverage revenue. These two sources of income were combined together and measured in Chinese Yuan (1 Chinese Yuan  $\approx$  .16 U.S. dollar). The two objective measures are comparable among theaters. Because of the high correlation between the two objective measures,  $r = .77$ ,  $p < .01$ , we created an index to reflect overall business performance by averaging the standardized scores of the two objective measures and used the business performance index as the final dependent variable in this study.

**Control variables.** We considered several control variables that may influence the proposed relationships in this study. First, we controlled for theater age because the company first set up

theaters in more economically developed cities and thus, age may affect business performance outcomes. In this study, theater age was measured as the number of months since start-up. Second, we included three variables indicating theater size as control variables because unit size may also have an impact on organizational climate and unit performance (e.g., Jiang et al., 2015). The three variables were the number of employees, seats, and screening rooms. The service management literature has also suggested that service units’ performance may be influenced by the location of service units (Bowen & Schneider, 2014). A dummy variable was thus created to indicate whether a theater was located in a central commercial region of a city (0 = No, 1 = Yes). Additionally, we controlled for GDP per capita of the cities where the theaters were located because the economic status of the cities may influence the extent to which customers may purchase services and products of the theaters. GDP per capita in 2014 was collected from the National Bureau of Statistics of China and measured in the unit of 1,000 Chinese Yuan.

## Results

### Preliminary Analyses

Table 1 presents descriptive statistics and correlations of the variables for this study. Before we tested the hypothesized relationships, we conducted a confirmatory factor analysis (CFA) to evaluate whether the measures of different variables were distinct from each other at the theater level of analysis according to model fit indices (Hu & Bentler, 1999). The results show that a six-factor model separating service climate, ethical climate, service behavior, unethical behavior, and the two environmental factors fit the data reasonably well ( $\chi^2(545) = 998.59$ ,  $p < .01$ , root mean square error of approximation [RMSEA] = .07, comparative fit index [CFI] = .94, Tucker-Lewis index [TLI] = .93). We also compared the hypothesized model with several alternative models by constraining variables reported by the same sources and found that the baseline model fit the data significantly better than alternative models constraining service climate and ethical climate to be part of the same factor ( $\Delta\chi^2(5) = 79.20$ ,  $p < .01$ , RMSEA = .07, CFI = .93, TLI = .92), combining service behavior and unethical behavior ( $\Delta\chi^2(5) = 946.50$ ,  $p < .01$ , RMSEA = .11, CFI = .86, TLI = .85), and collapsing the two environmental variables into one factor ( $\Delta\chi^2(5) = 230.61$ ,  $p < .01$ , RMSEA = .08, CFI = .92, TLI = .92). These findings suggest empirical distinctions among the variables of this research.

### Hypothesis Testing

Hypothesis 1 predicts that beyond ethical climate, service climate is positively and indirectly related to business performance through service behavior. As shown in Table 2, consistent with our expectation, after including all control variables and ethical climate, service climate had a positive relationship with service behavior ( $b = .71$ ,  $SE = .14$ ,  $p < .01$ , Model 1 in Table 2) and service behavior was further related to business performance ( $b = .26$ ,  $SE = .07$ ,  $p < .01$ , Models 3 in Table 2) beyond the influence of control variables and service climate. We also calculated the indirect effects of service climate on business performance through service behavior by using a bootstrapping procedure provided by



Table 1  
Descriptive Statistics and Correlations of Variables

Variables	Mean	SD	1	2	3	4	5	6	7	8	9	10	11	12
1. Theater age	31.92	23.45												
2. Number of employees	19.66	5.67	-.04											
3. Number of seats	709.62	224.41	-.07	.41**										
4. Number of screening rooms	4.78	1.36	-.47**	.48**	.60**									
5. Location	.44	.50	.13	.28**	-.04	.02								
6. City GDP per capita	49.25	49.52	.16*	-.16*	.10	-.07	-.32**							
7. Service climate	4.00	.38	.08	.06	.11	.07	-.09	.04						
8. Ethical climate	3.84	.36	.14	-.07	-.01	.00	-.02	.03	.38**					
9. Service behavior	5.89	.74	.13	.08	.04	-.04	.04	-.09	.34**	.06				
10. Unethical behavior	1.92	1.20	-.09	-.25**	-.04	-.05	-.07	.07	-.08	-.18*	-.20**			
11. Market turbulence	5.51	.79	-.11	.18*	.20**	.22**	.05	-.03	.33**	.12	.33**	.02		
12. Competitive intensity	5.18	1.52	.11	.11	.06	.07	.09	-.04	.12	-.06	.23**	.07	.32**	
13. Business performance	.00	.94	.39**	.48**	.05	-.02	.25	-.14	.18*	.08	.35**	-.35**	.14	.23**

Note.  $N = 196$ .

\*  $p < .05$ . \*\*  $p < .01$ .

Preacher, Rucker, and Hayes (2007). Results from the SPSS macro created by Hayes (2013) showed that the indirect effect on business performance was significant based on 1,000 bootstrap samples for bias corrected bootstrap 95% confidence intervals (CIs; indirect effect = .19,  $SE = .06$ , bias corrected bootstrap 95% CI = .10–.34, excluding zero). Therefore, Hypothesis 1 was supported.

We used the same approach to Test Hypothesis 2, which proposes and indirect relationship between ethical climate and business performance through unethical behavior, when controlling for service climate. We found that after controlling for service climate, ethical climate was negatively related to unethical behavior ( $b = -.65$ ,  $SE = .25$ ,  $p < .05$ , Model 2 in Table 2), which was, in turn, negatively associated with business performance ( $b = -.12$ ,  $SE = .04$ ,  $p < .01$ , Model 3 in Table 2). The

bootstrapping results also suggest that the indirect relationship between ethical climate and business performance through unethical behavior was significant (indirect effect = .08,  $SE = .04$ , bias corrected bootstrap 95% CI = .01–.18, excluding zero), thus supporting Hypothesis 2. In addition, results in Model 1 and Model 2 in Table 2 show that ethical climate was not significantly related to service behavior ( $b = -.17$ ,  $SE = .15$ ,  $p = .26$ ), nor was service climate associated with unethical behavior ( $b = .04$ ,  $SE = .24$ ,  $p = .87$ ). These findings are consistent with our expectation that service climate and ethical climate are related to business performance through service behavior and unethical behavior, respectively.

Hypothesis 3 proposes that service climate and ethical climate have a positive interaction on business performance. We examined

Table 2  
Relationships of Service Climate and Ethical Climate With Business Performance

Variables	Service behavior		Unethical behavior		Business performance					
	Model 1		Model 2		Model 3		Model 4		Model 5	
	<i>B</i>	<i>SE</i>	<i>B</i>	<i>SE</i>	<i>B</i>	<i>SE</i>	<i>B</i>	<i>SE</i>	<i>B</i>	<i>SE</i>
Intercept	-.06	.27	.98*	.44	-1.53**	.26	-1.64**	.28	-1.43**	.26
Theater age	.00	.00	-.00	.00	.01**	.00	.02**	.00	.01**	.00
No. of employees	.01	.01	-.07**	.02	.08**	.01	.09**	.01	.07**	.01
No. of seats	.00	.00	.00	.00	-.00	.00	-.00	.00	.00	.00
No. of screening rooms	-.04	.06	.02	.10	-.00	.06	-.01	.06	-.02	.06
Location	.00	.11	.10	.19	.06	.11	.04	.12	.04	.11
GDP per capita	-.00	.00	.00	.00	-.00	.00	-.00	.00	-.00	.00
Service climate	.71**	.14	.04	.24	.16	.15	.35*	.15	.15	.15
Ethical climate	-.17	.15	-.65*	.25	.02	.15	.06	.16	.01	.15
Service behavior					.26**	.07			.25**	.07
Unethical behavior					-.12**	.04			-.10*	.04
Service Climate × Ethical Climate							-.18	.34		
Service Behavior × Unethical Behavior									-.20**	.07
$R^2$	.15**		.12**		.51**		.44**		.53**	
Adjusted $R^2$	.12**		.08**		.48**		.42**		.50**	
$\Delta R^2$	.11**		.04*		.07**		.00		.02**	

Note.  $N = 196$ . Unstandardized regression coefficients are reported. For Models 1 and 2,  $\Delta R^2$  was caused by the inclusion of service climate and ethical climate; for Model 3,  $\Delta R^2$  was caused by the inclusion of service behavior and unethical behavior; for Models 4 and 5,  $\Delta R^2$  was caused by the inclusion of the interaction terms.

\*  $p < .05$ . \*\*  $p < .01$ .

this hypothesis by grand-mean centering service climate and ethical climate and adding an interaction term of the two variables into the regression model predicting business performance (Aiken & West, 1991; Cohen, Cohen, West, & Aiken, 2003). As shown in Model 4 in Table 2, the interaction between the two climates was not significantly related to business performance ( $b = -.18$ ,  $SE = .34$ ,  $p > .05$ ). Therefore, Hypothesis 3 was not supported. In addition, Hypothesis 4 posits that service behavior and unethical behavior have a negative interactive effect on business performance. The results displayed in Model 5 in Table 2 show a significant interaction between service behavior and unethical behavior on business performance ( $b = -.20$ ,  $SE = .07$ ,  $p < .01$ ). To help interpret the pattern of the significant interaction, we plotted the relationship between service behavior and business performance at 1 *SD* above and below the mean of unethical behavior. As presented in Figure 2, the relationship between service behavior and business performance was more positive when unethical behavior was lower ( $b = .49$ ,  $SE = .11$ ,  $t = 4.57$ ,  $p < .01$ ) than when unethical behavior was higher ( $b = .01$ ,  $SE = .11$ ,  $t = .12$ ,  $p = .90$ ). Therefore, these results provided full support for Hypothesis 4.

Hypotheses 5 and 7 propose the moderating effects of market turbulence and competitive intensity on the interactive effect of service climate and ethical climate on business performance. We followed Aiken and West's (1991) approach to examine whether the three-way interaction term was significantly related to the dependent variable beyond all independent variables and two-way interaction terms. As shown in Table 3, the three-way interactions were not significantly related to business performance; thus, failing to support Hypotheses 5 and 7.

Hypotheses 6 and 8 propose the moderating effects of the two environmental factors on the interactive effect of service behavior and unethical behavior on business performance. As shown in Table 4, when the moderating effects of the two environmental factors were examined separately, market turbulence ( $b = -.21$ ,  $SE = .09$ ,  $p < .05$ ) and competitive intensity ( $b = -.20$ ,  $SE = .07$ ,  $p < .01$ ) significantly moderated the interactive effect of service

behavior and unethical behavior on business performance, thus supporting the three-way interactions proposed in Hypotheses 6 and 8.

To help interpret the results of the three-way interactions, we plotted the relationships between service behavior and business performance at 1 *SD* above and below the means of moderators. Figure 3 shows the results of the moderating effect of market turbulence. Consistent with our expectation, the interactive effect of the two behaviors on business performance was more significant when market turbulence was higher than when it was lower. For example, the interactive effect of service behavior and unethical behavior on business performance was statistically stronger (effect difference =  $.34$ ,  $SE = .17$ ,  $t = 2.01$ ,  $p < .05$ ) when market turbulence was higher ( $b = -.25$ ,  $SE = .09$ ,  $t = -2.88$ ,  $p < .01$ ) than when it was lower ( $b = .08$ ,  $SE = .15$ ,  $t = .53$ ,  $p = .60$ ). This suggests that unethical behavior significantly attenuates the positive relationship between service behavior and the business performance only in an environment characterized by high market turbulence. Moreover, Figure 3 indicates that service behavior had significantly positive relationships with business performance only when unethical behavior was low and market turbulence was high ( $b = .62$ ,  $SE = .13$ ,  $t = 4.81$ ,  $p < .01$ ).

Similarly, Figure 4 presents the findings of the moderating effect of competitive intensity. As we expected, unethical behavior was more likely to weaken the positive relationships between service behavior and business performance when competition was more intensive ( $b = -.44$ ,  $SE = .10$ ,  $t = -4.38$ ,  $p < .01$ ). In contrast, the moderating effect of unethical behavior became insignificant when the market was less competitive and customers did not have many alternatives ( $b = .16$ ,  $SE = .15$ ,  $t = 1.04$ ,  $p = .30$ ). Moreover, the significant relationship between service behavior and business performance existed only when unethical behavior was low and market turbulence was high ( $b = .80$ ,  $SE = .14$ ,  $t = 5.84$ ,  $p < .01$ ). Combined, these findings were consistent with Hypotheses 6 and 8.

We also conducted a supplementary analysis to examine the moderating effects of market turbulence and competitive intensity simultaneously. As seen in the Model 3 of Table 4, competitive intensity was the only factor that altered the interactive effect of service behavior and unethical behavior on business performance ( $b = -.17$ ,  $SE = .07$ ,  $p < .05$ ). This suggests that competitive intensity may be a more important moderator affecting the interactive effect of service behavior and unethical behavior on business performance.

## Discussion

The service management literature has provided convincing evidence that organizations derive benefits from cultivating service climate (Bowen & Schneider, 2014; Hong et al., 2013; Schneider et al., 1998), but lagging behind is an integrative investigation of whether service climate captures all key components of service quality and how service climate operates with other climates under different environmental conditions. We developed and examined a theoretical framework that more fully represents the key elements of service quality and organizational customer orientation: satisfying customer requirements through service behavior and protecting customer interest through ethical behavior. In addition to service climate in which employees help customers

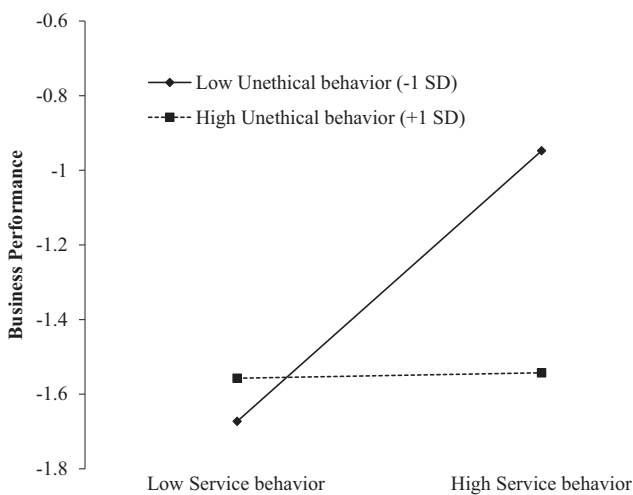


Figure 2. Interaction between service behavior and unethical behavior on business performance.

Table 3  
*Results for the Moderating Effects of Environmental Factors on the Interaction Between Service Climate and Ethical Climate on Business Performance*

Variables	Model 1		Model 2		Model 3	
	<i>B</i>	<i>SE</i>	<i>B</i>	<i>SE</i>	<i>B</i>	<i>SE</i>
Intercept	-1.54**	.28	-1.57**	.28	-1.45**	.28
Theater age	.02**	.00	.01**	.00	.02**	.00
No. of employees	.08**	.01	.09**	.01	.09**	.01
No. of seats	-.00*	.00	.00	.00	-.00*	.00
No. of screening rooms	-.01	.06	-.03	.06	-.03	.06
Location	.07	.12	.05	.12	.07	.12
GDP per capita	-.00	.00	-.00	.00	-.00	.00
Service climate	.23	.16	.34*	.15	.24	.16
Ethical climate	-.04	.16	.07	.16	-.03	.17
Service Climate × Ethical Climate	-.70	.40	-.18	.34	-.60	.41
Market turbulence	.06	.07			.02	.08
Service Climate × Market Turbulence	.30	.19			.28	.20
Ethical Climate × Market Turbulence	-.15	.22			-.27	.23
Service Climate × Ethical Climate × Market Turbulence	1.01	.53			1.08	.56
Competitive intensity			.05	.04	.05	.04
Service Climate × Competitive Intensity			.07	.11	.02	.11
Ethical Climate × Competitive Intensity			.06	.13	.16	.14
Service Climate × Ethical Climate × Competitive Intensity			.15	.26	-.15	.30
<i>R</i> <sup>2</sup>	.48**		.47**		.49**	
<i>Adjusted R</i> <sup>2</sup>	.44**		.43**		.44**	
$\Delta R^2$	.03		.01		.03	

Note. *N* = 196. Unstandardized regression coefficients are reported.  $\Delta R^2$  was caused by the inclusion of interaction terms including environmental factors.

\* *p* < .05. \*\* *p* < .01.

make satisfactory purchase decisions, we identified ethical climate that protects customers' best interests. As such, we examined a dual mediating mechanism for the relationships between service climate/ethical climate and business performance through employee service behavior/unethical behavior. Furthermore, drawing on the contingency perspectives of organizational climate (e.g., Dietz et al., 2004; Mayer et al., 2009) and customer orientation (Jaworski & Kohli, 1993; Kohli & Jaworski, 1990), we investigate how service climate/behavior and ethical climate/behavior operate synergistically to affect business performance, as well as the environmental contingencies. The combined results show *whether*, *how*, and *when* service and ethical climates operate to influence performance by shaping employee behaviors. Next we highlight a few theoretical and practical implications of the findings.

### Theoretical Implications

First, this study contributes to a more comprehensive understanding of how different organizational climates relate to overall customer experience and business outcomes. Although extant theoretical and empirical research on service climate was rooted in ideas for promoting service quality, it has not yet explicitly discussed the honest, reliable, and ethical components of service quality, and has insufficiently explored the concurrent influences of service climate and other types of organizational climate on service outcomes (e.g., McKay, Avery, & Morris, 2008; Schneider et al., 2005). By substantiating that employees should provide both high service quality and high ethical standards, we find that service climates versus ethical climates have disparate effects on employee behaviors. That is, service behavior mediates the effect of

service climate on customer attendance and financial returns; whereas reduced unethical behavior mediates the positive relationship of ethical climate and business performance. It is to note that the modest correlations between service climate and ethical climate and between service behaviors and unethical behaviors imply that employees do not perceive equality among the two types of climates, the behaviors, or their key emphases ( $r = .38$  for the service climate—ethical climate relationship; and  $r = -.20$  for the service behavior—unethical behavior relationship). Our research thus provides both theoretical and empirical evidence that high service climate and high ethical standards generate satisfactory customer experiences, and that the ethical component is not yet fully encapsulated in service climate. The integration of service climate and ethical climate accentuates different service quality components, responds to critiques that empirical studies of climates are often subsumed under each topic, offers an omnibus view of organizational climates (Kuenzi & Schminke, 2009), and answers Bowen and Schneider's (2014) call for adding more specific elements to the generic measure of service climate. We would encourage future research to explicitly measure service quality dimensions in relation with service climate and further consider the ethical component in conjunction with service climate.

Second, we found support for a significant interaction between service behavior and unethical behavior on business performance. Specifically, service behavior and unethical behavior interacted in such a way that service behavior was positively associated with higher customer attendance and financial returns at the unit level only in the absence of unethical behavior. This adds new insight to

Table 4  
*Results for the Moderating Effects of Environmental Factors on the Interaction Between Service Behavior and Unethical Behavior on Business Performance*

Variables	Model 1		Model 2		Model 3	
	<i>B</i>	<i>SE</i>	<i>B</i>	<i>SE</i>	<i>B</i>	<i>SE</i>
Intercept	-1.40**	.26	-1.40**	.26	-1.38**	.26
Theater age	.01**	.00	.01**	.00	.01**	.00
No. of employees	.07**	.01	.07**	.01	.07**	.01
No. of seats	.00	.00	.00	.00	.00	.00
No. of screening rooms	-.02	.06	-.01	.06	-.01	.06
Location	.02	.11	.04	.10	.04	.11
GDP per capita	-.00	.00	-.00	.00	-.00	.00
Service climate	.14	.15	.17	.14	.16	.15
Ethical climate	.03	.15	.04	.14	.03	.15
Service behavior	.23**	.08	.24**	.07	.23**	.08
Unethical behavior	-.06	.05	-.08	.05	-.06	.05
Service Behavior × Unethical Behavior	-.09	.10	-.14	.08	-.07	.10
Market turbulence	.03	.07			.00	.07
Service Behavior × Market Turbulence	.11	.09			.09	.10
Unethical Behavior × Market Turbulence	-.02	.06			-.04	.06
Service Behavior × Unethical Behavior × Market Turbulence	-.21*	.09			-.10	.10
Competitive intensity			.04	.04	.05	.04
Service Behavior × Competitive Intensity			.03	.05	.01	.06
Unethical Behavior × Competitive Intensity			.02	.04	.02	.05
Service Behavior × Unethical Behavior × Competitive Intensity			-.20**	.07	-.17*	.07
<i>R</i> <sup>2</sup>	.55**		.57**		.58**	
<i>Adjusted R</i> <sup>2</sup>	.52**		.54**		.54**	
$\Delta R^2$	.02*		.03**		.04*	

Note. *N* = 196. Unstandardized regression coefficients are reported.  $\Delta R^2$  was caused by the inclusion of interaction terms including environmental factors.

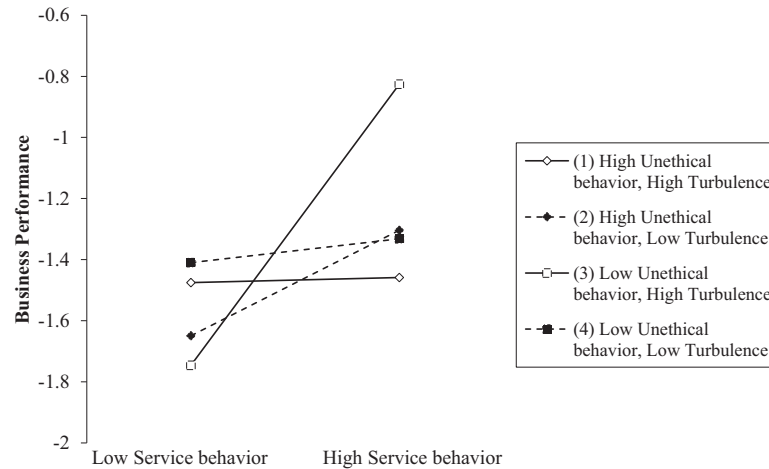
\* *p* < .05. \*\* *p* < .01.

the previous literature that looked at the influence of either service behavior or unethical behavior (e.g., Roman & Ruiz, 2005; Schneider et al., 2005), with scant attention paid to the synergy between the two. In the pursuit of service quality, employees may perform small unethical acts such as overcharging for services or padding bills with hidden charges (Schwepker & Hartline, 2005). If customers lack opportunities to expose unethical behavior, service providers may even amplify superior service behavior to distract customers from unethical acts. For example, an employee may pleasantly interact with a customer and help the customer purchase a product or service (e.g., popcorn in a movie theater) while intentionally withholding beneficial information (e.g., the fact that promotions or coupons are available or that the popcorn is stale). Our results offer insight into these intricate relationships showing that service behavior will contribute to ultimate business performance only when unethical behavior is avoided. Thus, future research on organizational climate should examine how multiple climates function either as boundary conditions or as foundations for one another to influence unit outcomes through effects on specific behaviors.

Although service and ethical climates had nonsignificant interactions with business performance, actual service and ethical behaviors may best translate the synergy between emphasis on service and ethical standards into business performance. Customers' direct experiences with these behaviors were shown to proximally relate to business performance. By examining the interaction effects between service and ethical climates and service and ethical behaviors, we complement previous studies that examined the

interaction between organizational climates but failed to include employee outcomes (e.g., McKay et al., 2011) and provide a richer understanding of how multiple climates interact to influence performance outcomes through employee behaviors. Therefore, we encourage future research to further extrapolate the intricate interactive relationships between organizational climates and their targeted behaviors.

Last, our research joins recent studies (Dietz et al., 2004; Mayer et al., 2009) to advance the understanding of the environmental contingencies that moderate the linkage between employee behaviors and business performance. Based on the customer-orientation marketing literature (Kohli & Jaworski, 1990), we found significant environmental contingency effects regarding service and ethical behaviors as they interact with business outcomes. Our results consistently suggest high service behavior and low unethical behavior significantly synergized with business performance only when the market was turbulent or competitive. We reason that under turbulent or competitive markets, customers will be more perceptive in evaluating employee behaviors; if they discover unethical behavior, they will be more cynical about the service. These findings suggest that using organizational climates to manage service behaviors is more critical for improving business performance in certain contexts than in others. Therefore, this study advances the literature that typically adopted a universalistic approach. Instead, we examine organizational climates and employee behaviors for their effects on performance and provide a more complete understanding of the need for synergy between employee behaviors. We call for more research to further tackle



Pair of slopes	<i>t</i> -value for slope difference	<i>p</i> -value for slope difference
(1) and (2)	-.86	.39
(1) and (3)	-2.95	.00
(1) and (4)	-.16	.87
(2) and (3)	-1.29	.20
(2) and (4)	.49	.62
(3) and (4)	2.99	.00

Figure 3. Moderating effect of market turbulence on the interaction between service behavior and unethical behavior on business performance.

the *how* and *why* questions of environmental contingencies on other organizational climates and employee behaviors.

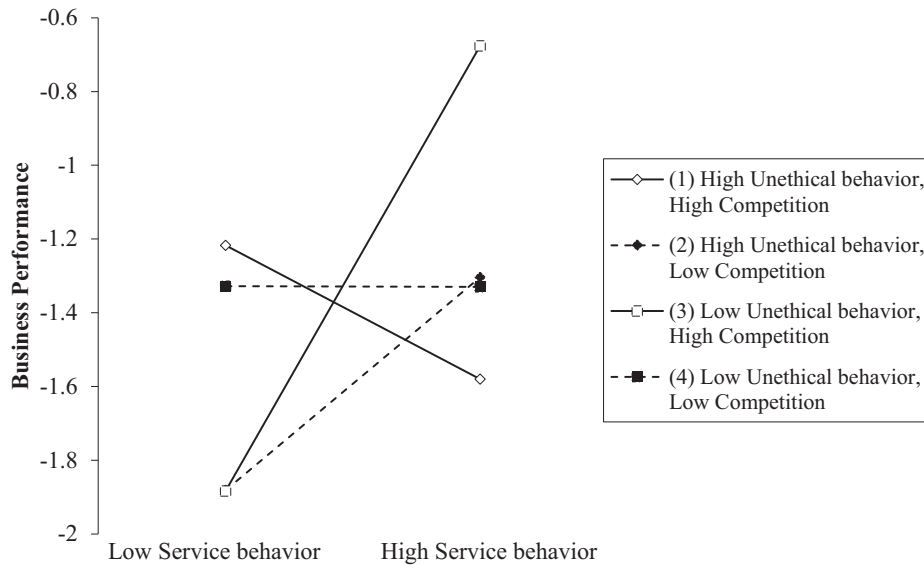
### Practical Implications

This research offers several practical implications for managers contemplating practices to balance service excellence and service ethics. First, organizations should instruct employees that good and ethical service are both indispensable. Several recent business scandals have prompted media outbreaks providing anecdotal evidence for the importance of both excellent service and ethical adherence. When Volkswagen installed illegal software to cheat emission tests for their 580,000 diesel cars sold in the United States, they faced hefty losses in recalling millions of cars worldwide and up to \$18 billion in fines in a lawsuit filed by the U.S. Environmental Protection Agency (Viswanatha & Spector, 2016). Likewise, following the footprints of JPMorgan Chase, Citigroup, and Goldman Sachs, Bank of America settled with the Justice Department by paying a record-breaking \$17 billion fine for allegedly misleading investors in mortgage-backed bonds (Grossman, Rexrode, & Fitzpatrick, 2014). While carmakers and banks strive to provide superior customer service, their unethical conduct and the resultant fines inevitably jeopardize customer trust and diminish long-run financial returns. In support, our empirical results showed that service units in 196 theaters needed both high service behavior and low unethical behavior for achieving success. Furthermore, the interactive effect suggested that service excellence was instrumental to customer and financial outcomes only when it was accompanied by low unethical behavior. Thus, we stress again that service excellence is a necessary but insufficient condition for success.

Another practical implication of this research is that creating ethical climate and service climate simultaneously is an important way to institute both high service and ethical standards. Given that service is often consumed and produced at the same time, management cannot closely monitor service delivery and misconduct in real time (Bowen & Schneider, 1988). Thus, managers are advised to build service and ethical climates that operate in tandem to guide service and ethical behaviors without close supervision. Based on the results of the mediation hypotheses, we can estimate that, holding all other variables constant, one point increase in both service climate and ethical climate will lead to about 200 million Chinese Yuan increase in the operating income of the entire company for 1 year,<sup>2</sup> which demonstrates substantial economic benefits in cultivating service and ethical climates. Whereas service climate guides employee behavior during service delivery, ethical climate gives directions when they are faced with ethical dilemmas. To effectively augment the perception of an ethical climate, managers must strictly punish ethical violations and promote international ethics codes (Schwepker & Hartline, 2005). Managers are also advised to take corrective actions before unethical behaviors occur by periodically measuring employee perceptions of ethical climate to ensure that they comply with ethical standards.

Finally, our results suggest that the synergy between employee service behavior and ethical behavior may not be equally important in all service contexts. Service and ethical behaviors are most

<sup>2</sup> This number was based on the unstandardized regression coefficients of service behavior and unethical behavior on operating income per labor hour.



Pair of slopes	<i>t</i> -value for slope difference	<i>p</i> -value for slope difference
(1) and (2)	-1.86	.06
(1) and (3)	-4.46	.00
(1) and (4)	-1.19	.23
(2) and (3)	-1.55	.12
(2) and (4)	1.09	.28
(3) and (4)	3.87	.00

Figure 4. Moderating effect of competitive intensity on the interaction between service behavior and unethical behavior on business performance.

essential under turbulent or competitive markets, with competitive intensity being the most important. This finding has important implications for organizations operating where it will be most fruitful to allocate resources to developing service and ethical climates.

### Limitations and Future Research

As with other studies, this study has several limitations, which also open opportunities for future research. First, the ethical climate measure had a reliability of .63, which is slightly under the suggested cutoff value of .70 (Nunnally, 1978). Multilevel researchers have suggested that besides interitem reliability, it is important to estimate the extent to which the mean rating assigned by a group of raters is reliable and considered ICC(2) an estimate of the reliability of the higher-level group means (e.g., Bliese, 2000; LeBreton & Senter, 2008). The ICC(2) of ethical climate in this study was .74 and higher than the commonly used cutoff point of .70 (LeBreton & Senter, 2008). This shows that employees provided reliable information for the mean ethical climate at the theater although Cronbach's  $\alpha$  was lower than .70. Similarly, the market turbulence measure developed by Jaworski and Kohli (1993) had a reliability of .65 in this study. To investigate this issue, we identified the first 50 published empirical articles from Google Scholar that used this measure and meta-analyzed their mean reliability using Hunter and Schmidt's (2004) approach and found a mean reliability of .697 (95% CI = .626–.769).<sup>3</sup> There-

fore, we encourage future studies to develop a better measure of market turbulence or use multiple raters to evaluate this variable.

Second, we focus on a single industry, movie theaters, to reduce the potential influence of other extraneous factors on the studied relationships. However, this may have limited the variance of market turbulence and competitive intensity reported by the theater managers. Nonetheless, given that our sample covers locations including developed cities such as Shanghai and Beijing and less-developed towns in China, it should allow sufficient variance in theater environmental conditions. To further understand this issue, we conducted phone interviews with 10 randomly selected theater managers and found qualitative evidence for the variance in the two environmental factors across theaters. Additionally, we conducted a supplementary coding of the number of competing theaters within a 20 km radius of each studied theater and found a range of 1 to 146. Furthermore, the logarithm of the theater numbers and manager-rated competitive intensity were positively related,  $r = .20$ ,  $p < .01$ . This evidence speaks to the variance and validity in the subjective measures of environmental conditions. That said, our findings are likely to be a conservative estimate of the true relationships in a more generalized service population. Having said so, we acknowledge that managers' subjective ratings may not perfectly reflect the actual environmental factors and may be affected by factors (e.g., managers' individual characteristics)

<sup>3</sup> The list of the 50 studies is available from the Kaifeng Jiang.

that are beyond our theoretical model. Therefore, we encourage undertaking future replications of this study in other service settings and using objective metrics of environmental factors.

Third, we attempted to reduce common-method bias by using a multisource, multiwave design (at Time 1, employees reported perceived service and ethical climates, and theater managers assessed employee behaviors and environmental factors; at Time 2, we obtained objective outcomes). The 6-month lag between Times 1 and 2 should allow sufficient time and opportunities for customers to detect that they have been victimized by unethical behavior and to take action. This design, however, prevents a causal inference of the proposed relationships. We encourage future research to use an experimental design or a longitudinal design using latent growth modeling to make causal inferences. Although beyond the scope of the current study, previous research has indicated that unethical behavior may damage organizational reputation (e.g., Kaptein, 2008), which further affects business performance (Orlitzky, Schmidt, & Rynes, 2003). Future research may further investigate how unethical behavior unfolds over time and translates to business success.

Finally, we collected our data from a theater chain in Mainland China, which may influence the generalizability of our research findings in two ways. First, China is gradually shifting its focus from a traditional emphasis on agriculture and manufacturing to service-oriented industries, among which movie screening is one of the fastest developing segments. According to the State Administration of Press, Publication, Radio, Film and TV, China's total box office revenue for 2014 was 29.6 billion Chinese Yuan (US\$4.76 billion), which makes it the second largest film market in the world. Approximately 1,015 cinema complexes were opened in 2014, and an average of 15 new screens were delivered per day (Frater, 2015). This indeed characterizes a very turbulent and competitive business environment, an ideal setting for testing the contingencies of market turbulence and competitive intensity on theater performance. Therefore, we encourage future research to replicate the study findings in other economies with a different range of market turbulence and competitive intensity. Second, the fast-growing economy also causes Chinese employees to be generally more economically oriented than their U.S. counterparts (Chen, 1995). In other words, Chinese employees are likely to display behaviors that will generate economic benefits. Our results suggest that the theaters will enjoy the best business performance by providing high-level service behavior and avoiding unethical behavior, a finding that has important implications for service management in China and should be replicated in other economies to enhance external validity. Nonetheless, given that the theoretical framework and measures were derived from Western literature, our Chinese sample can be considered a contribution in that it demonstrates the external validity of service management and organizational climate literatures in a non-U.S. setting.

In conclusion, service excellence has become a strategic imperative for service organizations, and prior research has established an unequivocal picture of the value in building a service climate that guides employees to satisfy customers and generate value. Our findings suggest another indispensable and complementary route to service success: in addition to emphasizing service excellence, organizations should highlight high ethical standards to uniquely inhibit unethical behavior. Additionally, both excellent service behavior and adherence to ethics functioned synergistically. Last,

our results showed that the synergy between service and ethical behavior was most salient when the market was turbulent or competitive. This suggests that future research on service quality should incorporate an ethical component to obtain a more complete picture of how service units succeed, particularly in turbulent and competitive market environments.

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