
ECONOMICS

& Sociology

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THE MEDIATING ROLE OF LEADERSHIP RELATIONSHIP IN BUILDING ORGANISATIONAL TRUST ON ETHICAL CULTURE OF AN ORGANISATION

ABSTRACT The aim of this paper is to study the effect of leadership relationship on the interplay between ethical culture of an organisation and organisational trust, in particular, its affective and cognitive components in public and private sector organisations in Lithuania. The empirical data were collected with an electronic and paper survey using a standardised questionnaire in 2013-2014 ($n=1070$, seven private organisations, $n_{pr}=313$ and one public organisation, $n_{pub}=757$). A series of linear regression analysis established a mediating effect of leadership relationship on the interplay between ethical culture of an organisation and organisational trust in private organisations, without significant difference on its affective and cognitive components.

Keywords: ethical culture of an organisation; leadership relationship; Lithuania; organisational trust; socio-cultural context.

Introduction

Trust is important for individual well-being (Solomon and Flores, 2001), organisational performance (Connell *et al.*, 2003; Jones and George, 1998; McAllister, 1995; Whitener *et al.*, 1998; Wicks and Berman, 2004; Wicks *et al.*, 1999) and socio-economic development of the country (Fukuyama, 1995; Putnam, 1993; Uslaner, 2002). From an organisational perspective, trust is critical for minimizing uncertainty, risks and operating costs, enhancing employees' commitment and productivity, facilitating organisational learning, knowledge sharing and creation, organisational innovativeness and innovation (Chung and Jackson, 2011; Ellonen *et al.*, 2008; Perry, 2004; Tschannen-Moran, 2001; Zanini, 2007). Trust becomes an acute issue when it is missing. To compensate lack of trust, organisations implement monitoring and control measures, individuals engage in self-