

**The Impact of Ethical Orientation of
Human Resource Management on
Employee Ethical Behavior: An Empirical
Study of Commercial Banks in Sri Lanka**

by

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Management on Employee Ethical Behavior: An Empirical
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**Thesis submitted to the University of Sri Jayewardenepura for
the award of the Degree of Doctor of Philosophy in Management**

on 18th June 2018

Declaration of the Candidate

“The work described in this thesis was carried out by me under the supervision of Prof. (Dr) H.H.D.N.P. Opatha (Principal Supervisor) and Prof. Aruna S. Gamage (Co-Supervisor), and a report on this has not been submitted in whole or in part to any university or any other institution for another Degree / Diploma.”


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Certification of the Supervisors

We certify that the above statement made by the candidate is true and that this thesis is suitable for submission to the University of Sri Jayewardenepura, Sri Lanka, for the purpose of evaluation.



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List of Abbreviations

AVE	Average Variance Extracted
CA	Cronbach's Alfa
CBSL	Central Bank of Sri Lanka
CIM Model	Composite Indicator Measurement Model
CR	Composite Reliability
CFA	Confirmatory Factor Analysis
DV	Dependent Variable
EA	Ethical Attitude
EB	Ethical Behavior
EC	Ethical Competence
EFA	Exploratory Factor Analysis
EOHRM	Ethical Orientation of Human Resource Management
et al.	and others
GST	General Systems Theory
HR	Human Resource
HRM	Human Resource Management
IOCE	Intensity of Organizational Code of Ethics
IV	Independent Variable
KMO	Kaiser-Mayer-Olkin
LCB	Licensed Commercial Banks
M	Moderator Variable
OB	Organizational Behavior
P-value	Probability Value
PC	Personal Character
PLS	Partial Least Squares

PLS-SEM	Partial Least Squares-Structural Equation Modeling
RBT	Role Behavior Theory
R^2	Coefficient of determination
SCT	Social Cognitive Theory
SE	Standard Error
SE_E	Standard Error of the estimate
SEM	Structural Equation Modeling
SET	Self-Efficacy Theory
SPSS	Statistical Package for the Social Sciences
TRA	Theory of Reasoned Action
VIF	Variance Inflation Factor

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The Impact of Ethical Orientation of Human Resource Management on Employee Ethical Behavior: An Empirical Study of Commercial Banks in Sri Lanka

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ABSTRACT

The present study is a novel approach through HRM, Organizational Behavior and Ethics, to address the growing unethical behavior of employees in organizations. ‘The role of ethics in HRM is crucial, thus HRM functions in organizations should have an ethical orientation’ is an extensively debated facet of the ethical dimension of HRM among scholars. The focus of ethical orientation of the above common notion is on the social/wellbeing aspect of the employee. In contrast, the researcher identified another connotation to the ethical dimension of HRM, coined Ethical Orientation of HRM (EOHRM). It is ‘to direct ethical criteria embedded HRM functions as a ‘bundle’ to create, enhance and maintain ethicality within employees towards ethical behavior, to make an ethical work force in the organization’. EOHRM appears to be a novel concept in HRM literature. A systematic literature review identified ten research gaps: Theoretical, empirical, methodological and contextual. The study explored the Problem Statement: “What is Ethical Orientation of Human Resource Management (EOHRM), and how does it impact on ethical behavior of employees through identified mediating factors in Licensed Commercial Banks operating in Sri Lanka?” An integrated conceptual model was developed with six variables, to investigate the impact of EOHRM on employee ethical behavior (EB) through three identified mediators: employee Ethical Attitude (EA), Ethical Competence (EC) and Personal Character (PC). The Intensity of Organizational Code of Ethics (IOCE) was examined as an antecedent to EOHRM.

Twelve hypotheses were developed on deductive approach, to test the relationships and effects among the six variables in the Model. The relationship and effects among variables were theoretically strengthened by established general theories (General Systems Theory etc.), scholarly arguments in text books of prominent authors, and established theories in past empirical research. The Conceptual model was tested in domestic Licensed Commercial Banks (LCBs) in Sri Lanka, as a quantitative, cross-sectional study, using a study sample of 500 senior and middle level managers. The 72% usable responses were analyzed using two contrasting data analysis techniques/methods: SPSS and PLS-SEM in SmartPLS-3 (technique triangulation). The 12 hypotheses tested in both methods revealed similar results and trends, validating the findings through ‘triangulation’. The study statistically established that EOHRM significantly and positively influence employee EB, through employee EA, EC and PC. Further, employee EA, EC and PC were significant partial mediators on the relationship between EOHRM and employee EB. The IOCE was identified as a significant positive antecedent to EOHRM. This study identified employees behave unethically at work: (i) when HRM functions of the organizations are not oriented towards enhancing ethicality of employees; (ii) when employees have negative attitudes towards ethics; (iii) when employees have poor EC, i.e., poor knowledge in organizational, societal and individual ethics and poor skills in handling ethical dilemmas at work and (iv) when employees have less virtues (good habits) and more vices (bad habits) in their PCs. The study made substantial original contributions to the existing body of knowledge in Ethics-HRM literature, presented valued theoretical and managerial implications, and directions for further research.

Keywords: EOHRM, Ethical Attitude, Ethical Competence, Personal Character, Ethical Behavior, Code of Ethics, Commercial Banks, Sri Lanka.