

# The Moderating Effect of Personal Character and Mediating Effect of Organizational Citizenship Behavior on Ethical Orientation of HRM- Ethical Behavior Linkage

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## **Abstract**

Ethical behavior of employees is an essential individual behavior for survival, success, and growth of any organization. Hardly theoretical arguments and empirical evidence are found with regard to the mediating effect of Organizational Citizenship Behaviour (OCB) on Ethical Orientation of Human Resource Management (EOHRM)-Ethical Behavior (EB) linkage, and the moderating effect of employees' Personal Character (PC) on EOHRM-EB linkage. An empirical survey study was carried out to achieve four specific research objectives established in respect of the network of relationships and effects occurring among the four constructs. A self-administered and structured questionnaire consisting of four instruments measuring the four constructs was used to collect data from 174 branch managers of Licensed Commercial Banks in Sri Lanka to conduct a cross-sectional study. The five hypotheses formulated by basing on two general theories (General System Theory and EDAP Model), arguments, empirical evidence, and logical beliefs of the researchers under the deductive approach were tested. It was substantiated that EOHRM significantly and positively related to EB of employees and this relationship was mediated significantly by OCB and was moderated significantly by PC. The implications were discussed.

**Key Words:** Ethical Behavior, Ethical Orientation of Human Resource Management, Organizational Citizenship Behavior, Personal Character

## Introduction

Each and every day the individuals who work for the organizations perform thousands of duties and responsibilities with accountability which may range from diminutive to enormous. Such an individual has the responsibility to perform their duties and responsibilities in an ethical manner because most of the organizations incorporate 'honesty and integrity' as their organizational value with the expectation that their employees should behave ethically. Demonstrating honesty and integrity in negotiating with one party and showing respect for the interests of the other party can help to create trust or deepen trust in existing relationships (Dasanayaka et al, 2020). Also, those who expect organizational excellence and well-being of stakeholders are now in the hope that human behavior at work becomes ethical (Opatha, 2019). Therefore, the EB in the workplace builds the trust and strengthens the business (Dasanayaka et al, 2020). In that manner ethics is dwelling within a workplace. Hence the result of unethical behavior even at the lowest level in the organization is like tossing a stone into a pond which creates a triple effect in the organization as a whole.

As demonstrated by the growing focus of newspaper and other open media coverage on cases of kickbacks, abuses, scandals, deception, insider dealing, misconduct and illegal use of funds by individuals and organizations, there is now a wider and more important interest in value judgments that lie behind corporate decisions (Gupta and Sulaiman, 1996; Bartels et al, 1998) which indicates that there has been an increase in attention about the frequency of unethical behavior within corporations. Consequently, all practitioners and professions should be concerned about finding new ways to establish and promote ethical behavior in businesses. Indisputably, ideal organizations also aim to drive performance and accomplishment through the EB of employees (Opatha, 2015).

In general, ethics deals with moral principles in respect of right or wrong human behavior (Opatha, 2019). Most of the individuals have their own moral direction to guide their behavior in the different context. Since the business is composed of varieties of individuals, it can be noted that within one organization there might be different range of directions to guide the people because what one employee considers being right or wrong might not be the same as what her coworker or superior thinks. Further, Dessler (2013) stated that individuals are important to organizations as individuals bring their own perspectives on ethically right and ethically wrong to the workplace. For that reason, it is important for businesses to establish a strong set of ethics guidelines or codes of ethics that it requires all of its employees to meet. Accordingly, EB in corporate organizations relies on both individual characteristics as well as contextual considerations (Ardichvili et al, 2010). Further, there are two key influencers of the contextual factors identified which are organizational culture and ethical guidelines which are communicated noticeably in the organizations (De Silva and Opatha, 2015).

The existing literature identified the positive aspects of the employee EB in organizations. Ethics contributes to the quality of life (Dvoráková, 2005), recognized as optimistic and advantageous for both organizational and global success (Baker et al, 2006), has a favorable impact on the company's ethical acts and behavior (Treviño et al, 2001), provide a sustainable consumer edge, increase employee satisfaction, draw more buyers, improve culture, improve employee efficiency and improve citizenship behavior (Baker et al, 2006).

Furthermore, a company's ethical image has been identified as one of the most important characteristics in attracting and retaining talent (Foote and Ruona, 2008). Thus, organizations should keep workers who behave ethically in order to achieve desired results (Askew et al, 2015).

On the other hand, handling EB of employees at work is a major problem that organizations are facing both locally and internationally (De Silva et al, 2018). Despite its significance, no single organization is exempt from corporate scandals (Trmal et al, 2015) and such malpractices have been observed in organizations that go beyond the legal and ethical background. Since the unethical behavior is normalized in the organizational context (Treviño et al, 2006), moral abuses continue to happen even organizations follow a higher rate of organizational mechanism (Palomino and Martínez, 2011). Over the last two decades such employee unethical behavior has become a universal issue and its harmful effect on the organizations, economy and culture (Khuong and Duc, 2015; De Silva and Opatha, 2015). Organizations are very cautious with the unethical behavior of workers due to the numerous negative effects (Askew et al, 2015) and decreased organizational performance, workers violating the widely recognized moral standards, high-cost burdens, brand image/reputation damage, loss of customer, loss of market share and financial losses (Long and Rao, 1995; Kaptein, 2011) are examples of such negative consequences.

Based on the report of the National Government Ethics Survey (2007) which was done by the Ethics Resource Center, the rate of misbehavior is already high, with approximately 57 percent of government employees in the United States having witnessed at least one form of misconduct in the previous year. Further the Ethics Resource Center (2013) found that the work misconduct was 41% in 2013 and managers were responsible for 60% of the misconduct, and they admitted that misconduct still exists. Hubbard et al (2018) found that workers are acutely aware of how leaders treat themselves and what kind of actions they admire. Consequently, instances of unethical conduct in industry (e.g., misappropriation of company money and other resources, falsification of records, fraudulent ads, fake facts, etc.) are being continually revealed and reported by the media (Palomino and Martínez, 2011). As reported by the Addady (2015), Toshiba Company Accounting deception – Over the last seven years, the company has exaggerated its earnings by about \$2 billion. Executive choices could not be questioned because of the company's corporate culture, and employees were expected to adopt faulty accounting methods. Recently, the US Department of Justice has secured more than \$3 billion in damages and rulings in court lawsuits alleging bribery and false charges against the government in the fiscal year ended September 30, 2019 (Department of Justice, 2020).

According to the Czech Republic's Ministry of the Interior (2007), the Czech Republic's police filed 138 criminal cases relating to corrupt practices and 160 cases of public officials were accused of abuse of power. Corruption practices have seen a significant increase like Fraud (119), Theft (51), Bribery – bribe acceptance (14), misrepresentation in supplying information on financial standing (23), and Tax evasion (47) (Ministry of the Interior of the Czech Republic, 2007). The report also identified that, there were 2517 criminal offences related to corruptions committed by police officers in 2016.

In 2007, the financial crash was a prominent example of the severe negative effects of the unethical behavior of workers of large worldwide banks in the West (Curtis, 2008). Based on the information from the Boston Consulting Group, Finch (2017) stated that since 2008, \$321 billion were charged by the banks globally because of the immoral behaviors of employees and organizational fraudulent activities. Since, organizations are very cautious with the unethical behavior of workers the unethical practices and fraud are recognized as an emergent threat in most of the developed and developing countries around the world (Antonakas et al, 2014).

The business context of Sri Lanka also faces these kinds of ethical/unethical issues as the above-mentioned global context. *“It has generally been observed in Sri Lanka that incidents such as giving promotions to unqualified persons, appointment of personnel for top positions on political influences, unnecessary foreign trips and local functions, sexual harassments, bullying behaviors, retaliations, evil conflicts, assassinations, character assassinations, assaults, abuse of public properties, receiving various gifts and incentives by awarding contract jobs to family, colleagues or acquaintances, receiving high commission on the basis of the acquisition of various assets or services at premium rates for government or organization, and misappropriation of public funds also existed”* (Opatha, 2019, p.90). Furthermore, the Sri Lankan government has launched a criminal investigation into systematic corruption at Sri Lankan Airlines, the country's state-owned national airline. Significant irregularities have recently revealed in the 2013 procurement of ten aircrafts for a total cost of USD 2.3 billion; inquiries into conflicts of interest, abuses of office, and claims of bribery are currently underway (BBC News, 2015). In comparison, it is reported in the media locally regarding the unethical conduct of workers which was the white-collar fraud of HSBC Bank, where five senior managers were sacked after investigating reports of misuse of incentive-related performance statistics (Sunday Times, 2016). In addition, the hedging trade between Ceylon Petroleum Corporation (CPC) and Standard Chartered Bank's Colombo branch totaled US\$800 million in 2008 (Transparency International Sri Lanka, 2020). Hence, if the organizations are not given serious attention on the organizational ethics it will lead to the distress and problematic Sri Lankan society in the future and also harm the natural environment (Opatha, 2019). It is possible to mention here that there is a performance gap with regard to EB. Therefore, this growing unethical behavior of employees and the fraudulent organizational practices led the academic professionals and researchers to concentrate on the strategies to deal with these organizational ethics (Palomino and Martnez, 2011). Further, it leads the organizations to conduct a deep analysis on their ethical structure and increasing attention to further theoretical and scientific studies on organizational ethics. With the existing literature, the researchers identified that in Sri Lanka perhaps globally, there are neither theoretical arguments nor empirical evidence on the moderating effect of PC on the relationship between EOHRM and EB in the banking industry in Sri Lanka. Further it was identified that there is a gap in the theoretical knowledge as well as empirical knowledge with regard to the mediating effect of OCB on EOHRM and EB linkage in the banking industry in Sri Lanka, perhaps globally. Palomino and Martínez (2011) stated that there has been a dearth of study done to analyze the effect of HRM activities on the virtues and ethical behavior of employees in the organization. Therefore, this study aims at adding theoretical and empirical contributions to the existing body of knowledge, particularly in the aspects of moderating effect of PC and mediating effect of OCB on EOHRM and EB linkage. From the

above observations the researchers identified the empirical and contextual research gap and focused to bridge the research gap in this study. The loaded problem addressed for this study is: Does EOHRM significantly and positively relate to EB of employees, and do OCB and PC affect the EOHRM and EB linkage? Deriving from the problem, following four specific research questions were formulated:

1. Does EOHRM significantly and positively relate to OCB of employees?
2. Does OCB of employees significantly and positively relate to their EB?
3. Does OCB of employees have a mediating effect on the relationship between EOHRM and EB?
4. Is there a moderating effect of PC of employees on the relationship between EOHRM and EB?

This study seeks to achieve the main objective of investigating whether EOHRM significantly and positively relates to EB of employees. And the four specific research objectives of this study are:

1. To investigate whether EOHRM and OCB of employees are significantly and positively related.
2. To establish the significant and positive relationship between OCB and EB of employees.
3. To investigate whether OCB has a significant mediating effect on the relationship between EOHRM and EB.
4. To investigate whether PC operates as a significant moderator on the relationship between EOHRM and EB.

## Literature Review

### Ethical Behavior

Scholars in the field of social psychology have shown a keen interest in researching EB-related issues (Ellemers et al, 2019) which are considered under the organizational behavior and identified as the behavior that organizations strive for achieving high levels of performance and success (De Silva et al, 2018). Even though a universally accepted definition is not available for EB (De Silva et al, 2018) various scholars have defined it in different ways. EB is *“the product of personal values, experiences, and the environment in which one works and lives”* (Donaldson and Dunfee, 1999). Bowie and Beauchamp (2000) defined the EB as a behavior that is considered right or wrong, and therefore directs what people should and should not do. Treviño et al (2006) defined the EB as *“the individual behavior that is subject to or judged according to generally accepted moral norms of behavior”*. Moreover, De Silva et al (2018) defined the EB as *“to act in ways consistent with what society and self usually think are morally accepted as ‘good’ and ‘right’, as opposed to ‘bad’ or ‘wrong’ behavior in a particular situation”*. Further, within their body of work the authors have focused some behaviors like lying, cheating and stealing as unethical behavior of the employees (Treviño et al, 2006). Such unethical behavior can be seen as functioning or actions of personnel which are unethical and contrasting to the EB (Opatha, 2019) which is variously referred to as organizational misconduct, misbehavior, deviance, and counter-productive behavior (Treviño et al, 2006). Jones (1991) pointed out that immoral conducts of corporate organizations are the behavior that is ethically unrecognized for the broader society. Unethical conduct entails violations of ethical

principles, convictions and laws that are used to control the behavior of workers when communicating with parties within and outside the company and when taking decisions personally and collectively (Opatha 2019). Such increasing of the immoral behavior should be highly monitored and eradicated in the organizational context. Accordingly, the working definition of EB for this study was developed as “*functioning of personnel which adheres to moral principles and rules of right conduct*”.

There are a considerable number of models and theories which indicate the dimensions of EB. Ferrell and Gresham (1985) described individual factors and organizational factors as contingency factors and concluded that an ethical dilemma results from a societal, cultural context. Rest (1986) identified four elements of EB: ethical sensitivity, ethical judgment, ethical motivation and ethical action. Trevino (1986) created an integrated person-situation model and added the person and situational aspect as an intermediate element. Ferrell et al (1989) summarized another model and established a more detailed five-stage EB model: awareness, cognitions, ethical evaluations, determination, and action. Since most of the studies were guided with the Rest (1986) model (Kish-Gephart et al, 2010), the researchers used this model in the present study. Thus, ethical sensitivity, ethical judgment, ethical motivation and ethical action were considered as the dimensions or indicators of EB.

### **Ethical Orientation of Human Resource Management**

Human resource management (HRM) is an imperative functional area in organizational management since human resources are the most crucial assets out of all other organizational resources which are usually handled by the HR department in the organization. HR department should lead in inculcating ethical principles since it operates as the core and central part of every organization. It has been focused by the several researchers on the HRM roles and the ethical framework within the organizational context since last three decades (Buckley et al, 2001; Foote, 2001; Palomino and Martinez, 2011; Thite, 2013; Parboteeaha et al, 2014). The HRM roles are critical in fostering an ethical culture and environment inside the organization (Parboteeaha et al, 2014). Most of the scholars considered the concept of ‘HRM ethics’ under the ‘social/well-being’ part of the ethical dimension of HRM (Greenwood, 2002; Wright and Snell, 2005). Hence, this is the ethical performance of HRM roles in organizations to uphold order, dignity and well-being for workers.

In addition, Ethical Orientation of HRM (EOHRM) was defined by De Silva et al (2016) as the “*degree to which HRM functions were intended to create, enhance, and maintain ethics within workers in order to produce an ethical workforce inside the firm*”. Moreover, the existing literature shows such ethical linkage in HR functions in many ways. Köster (2007) stated that ethical practices must begin by handling employees ethically and introducing the ethical principles at the time of recruitment while advertising for job opportunities in the organization. Since employee’s expectation of EB will be influenced by the fairness in the selection process, HR department should take to ensure that the hiring process is equitable and ethical (Saiyadain, 2009). Moreover, ethical framework is considered as most imperative factor of the HR practices like recruitment and retains the employees, and also the HR practitioners are considered to enhance the ethical practices within the organizational environment (Foote and Ruona, 2008). Further, Winstanely and Woodall

(2000) stressed that all part of HRM strategy and implementation should be ethical. This empirical evidence shows the HR functions and ethical linkage. Accordingly, the concept of EOHRM evolved and is viewed as a novel concept/topic in the HR field as previous studies were concerned with performing HRM functions ethically rather than creating and enhancing ethicality of employees through HRM functions (De Silva and Opatha, 2015).

A working definition for EOHRM was developed for this study purpose and it was: “EOHRM is the process of incorporating ethical dimensions into the HRM functions in order to acquire, develop and retain ethicality within the employees”. Three dimensions were selected from the study done by De Silva et al (2018) and they were: acquisition, development, and retention.

### **Organizational Citizenship Behavior**

The field of OCB has seen a steady growth in research interest. OCB is connected with the extra-role behavior which tends to be a functional phenomenon that is closely related to professional productivity and ethical actions (Turnipseed, 2002). The most popular companies have workers who go beyond their formal job description to willingly donate their time and resources toward the overall success of the organizations (DiPaola and Hoy, 2005). Such organizations can achieve competitive advantage in the dynamic business world. But if the organizations have employees who do not devote their time and energy for their organizations, cannot achieve it. Consequently, human behavior subjects have concerned with OCB (Alizadeh et al, 2012). The concept of OCB is defined in several ways. According to Barnard (1938) such behavior is viewed as “willingness of persons to contribute efforts to the cooperative system”. Based on the view of Katz (1964) OCB is “innovative and spontaneous behaviors”. The term ‘Organizational Citizenship Behavior’ was firstly coined by Organ and his colleagues (Bateman and Organ, 1983; Smith, et al, 1983). Further, the term OCB is defined by Organ (1988) as “individual behavior that is discretionary, not directly or explicitly recognized by the formal reward system, and that in the aggregate promotes the effective functioning of the organization”. Moreover, Opatha in 2009 defined the OCB as “the degree to which the employees are willing to engage in non-official behaviors that help the organization achieve its goals as they love or wish its success and progress”. Accordingly, the researchers developed a working definition of the OCB for the current study and it was: “an individual behavior which shows the willingness of the employees to engage in extra role behavior in an organization”.

Based on the view of Smith et al (1983) OCB is critical because it lubricates the organization's social machinery. Further, Organ in 1988 stated that OCB increases operational productivity: improve the efficiency of peers and supervisors, assist to organize work through working classes, recruit the smartest people to the enterprise, strengthen the organizational stability and the success, and lead the organizations to respond to the environmental changes promptly. It is therefore necessary to examine its interaction with other variables (Organ and Konovsky, 1989). According to Farh et al (2004) there are four dimensions of OCB which are self, group, organization, and society which were used in the present study.

### Personal Character

Personal Character (PC) is often considered as one of the most powerful motivators in the world (Opatha, 2007). The term PC is used widely with other related terms such as virtues, morality, ethos and values due to lack of conceptual clarity (Weragoda and Opatha, 2016). Character has no concrete meaning because it is an abstract concept (Opatha, 2007) and there is no commonly accepted definition of PC. Further, the character is a multidimensional phenomenon (Park and Peterson, 2006) that is inextricably linked to the individual which cannot be separated (Ricoeur, 1992). Further, character is defined as “*a complex set of relatively persistent qualities of the individual person, and generally has a positive connotation when used in discussions of moral education*” (Pritchard, 1988). Moreover, it is defined by Ricoeur in 1992 as “*the set of distinctive marks which permit the re-identification of a human individual as being the same*”. Further, Opatha (2007) defined the concept as “*the aggregate of all of the relatively persistent moral qualities he/she has that combines to form his/her real nature*”. Accordingly, the working definition developed by the researchers for the concept of PC in this study is: “*the quality of a person who engages in morally relevant conduct persistently and that combines to form his/ her real nature*”.

Since the PC is stated as the engaging in right behavior as well as not engaging in wrong behavior (Opatha, 2007) it can be viewed as PC of employees in the organizations is connected with the ethical and unethical behavior of employees. Also Cohen *et al.* (2014) proofed that there is a direct correlation between personal character and the ethical work behaviors. Chan and Leung (2006) suggest that the root of ethics is inside each of us, and we should just know the difference between right and wrong. Similarly, Satava *et al.* (2006) indicated that, where the available ethical advice is ambiguous or inconsistent, logic inevitably allows individuals to distinguish the right from the wrong, and professionals often have to rely on their own personal decision.

Virtues and Vices are the two sides of PC (Weragoda and Opatha, 2015). Virtues lead the people to think and act in a moral way and are conceptualized as morally driven psychological process (Lapsley and Narvaez, 2006). Virtues are favourable and civilized qualities which include honesty, patience, gratitude, humility, respect, benevolence, tolerance, self-discipline, loyalty and caring (Opatha and Teong, 2014). In order to cultivate good PC the vices should be identified and eradicated. Vices can be defined as “*serious moral faults in someone’s character that need to be eradicated or at least alleviated in order to develop a higher level of good character*” (Opatha, 2010). They include jealousy, deception, selfishness, anger, hate, greed, reprobation, retaliation, hostility, and desire for others’ things (Opatha, 2010). Moreover, Weragoda and Opatha (2015) stated that since the PC can be varied from individual to individual, most of the people like the good character apart from one’s economical or the social status. Such good character can be witnessed from the people who uphold virtues and abstain from vices. Accordingly, the researchers considered (1) upholding virtues and (2) abstaining from vices are the two dimensions of PC. The elements such as honesty, gratitude, respect, tolerance, self-discipline, and loyalty come under the first dimension and the elements such as retaliation, deception, desire for other's things, greed, selfishness, and jealousy come under the second dimension.

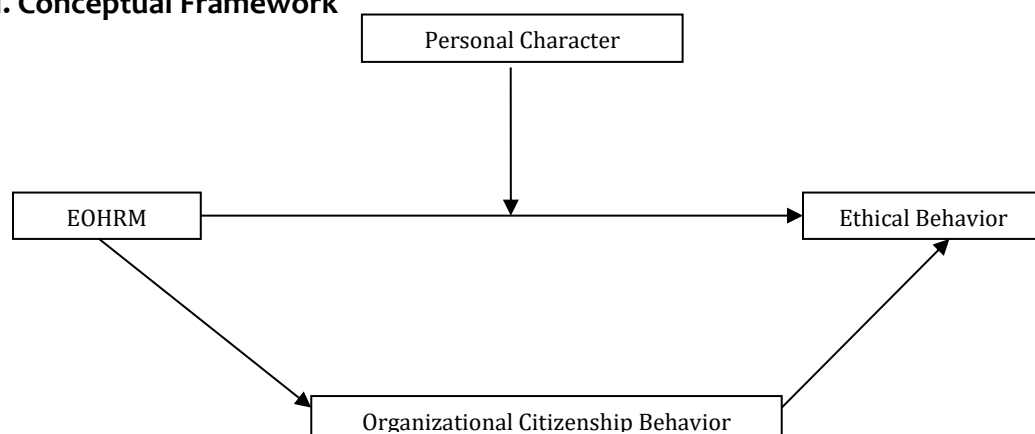


## Conceptual Framework

Based on the research gap identified, an integrated four-construct conceptual framework was developed for this study. The four constructs or abstract variables considered were: EOHRM, OCB, PC and EB. EB was considered as the dependent variable because it was the variable in which the researchers were primarily interested. EOHRM was considered as the independent variable because it was the variable which directly influenced the dependent variable (EB). OCB was considered as the mediating variable because of the reason that the relationship between EOHRM and EB occurred through OCB of employees. PC was considered as the moderating variable because of the reason that the relationship between EOHRM and EB of employees was modified by PC of employees. The schematic diagram of the conceptual framework is shown in Figure 1. In order to support the causal effects of the four variables, two general theories were utilized in this study. The first theory was General System Theory (GST) that explains how the things can be materialized through the inputs, processing and the outputs (Pouvreau, 2014). In application of the GST for the present research, EOHRM (independent variable) is treated as input, OCB is treated as a throughput or process which facilitates transformation of input into desired output and, EB of employees is treated as the desired output. PC is considered as a factor which exists in the environment having an effect on the linkage between the impact and the desired output. The second theory was a model that describes the process of ethical decision making developed by Wotruba (1990). The model was named as the Ethical Decision/Action Process (EDAP) which has a four-component moral decision structure as its central focus. The behaviors which take place within the moral decision structure are influenced by the decision maker's characteristics and decision outcomes, and can vary in light of situational moderators (Wotruba, 1990). This model basically comprised four components which are: Moral Decision Structure, Characteristics of the Decision Maker, Situational Moderators and Outcomes. According to this model, EB is treated as moral decision structure, PC and OCB are treated as characteristics of the decision maker, and EOHRM is treated as a situational moderator.

Accordingly, the research model of this study consists of four constructs and demonstrates possible linkages among the constructs. Hence, the four variables of this study were positioned in Figure 1 as below, i.e., EOHRM as the predictor (independent) variable, OCB as the mediating variable, PC as the moderating variable, and EB as the outcome (dependent) variable.

**Figure 1. Conceptual Framework**



## Research Hypotheses

Hypothesis is tentative, yet it is a testable logical statement which facilitates to predict expected relationships of the study (Sekaran and Bougie, 2016). Five (from H1 to H5) tentative hypotheses were formulated for the empirical investigation to test the relationships between those variables in the conceptual framework. Under the deductive approach, the aforementioned two general theories (General System Theory and EDAP Model), arguments, empirical evidence, and logical beliefs of the researchers were used.

### Hypothesis 1, Relating to EOHRM and EB of Employees

Since the HRM practices are considered as to have the direct influence on the employee's behavior, the studies related to HRM in the fostering of ethics and EB have become a significant research area (Palomino and Martinez, 2011). Moreover, Foote (2001) stated that the EB of employees exclusively depends on the organizational HRM functions. Winstanley et al (1996) indicated that one of the roles listed for HR is ethical stewardship, awareness-raising on ethical issues and the fostering of corporate ethics. Greengard (1997) has suggested that the underlying organizational principles and official declarations should necessarily be evident through recruiting, work interviews, induction sessions and performance evaluations in order to create a corporate atmosphere that genuinely stresses ethics. In addition, a recent study by De Silva et al (2018) showed that there is a strong and important interaction between EOHRM and EB employees. Hence, there is a strong linkage between the ethically embedded HRM functions and employee EB. When HRM functions are designed to create, enhance, and maintain ethicality within employees to generate an ethical employee force, relevant employees will understand ethical behavior and tend to behave ethically. As a result, EOHRM makes employees' behavior ethical. Hence, the researchers believed that there is a significant linkage between EOHRM and EB of employees. Accordingly, it is hypothesized that:

*H<sub>1</sub>: EOHRM is significantly and positively related to EB of employees.*

### Hypothesis 2, Relating to EOHRM and OCB

HRM practices had a significant impact on employee OCB (Taamneh et al., 2018) which has confirmed that the favorable HRM practices like recruiting, selection, training, education and career development can lead the people to express their OCB in their organizations (Chang et al, 2016). Gamage in 2014 stated that there is a linkage between HRM practices and the OCB of employees. Further it is identified that there is a strong positive correlation of the four HRM practices which are staffing, training, development & performance management, and compensation management towards the improvement of OCB of employees (Gamage, 2014). Under that study the HRM functions were normal functions not ethically embedded ones. Moreover, Fajar and Soeling (2017) indicated that the HRM practices relate significantly to OCB. Thus, EOHRM has a strong link with the OCB of employees. When HRM functions are directed to create, enhance, and maintain ethicality within employees, they tend to perform more than what they are supposed to perform officially for the success of the organization. Hence, EOHRM influences employees to contribute to the organization's survival and growth voluntarily. Therefore, the researchers believed that there is a significant linkage between the concept of EOHRM and OCB of employees in the organizations. Accordingly, it is hypothesized that:

*H<sub>2</sub>: EOHRM is significantly and positively related to OCB of employees.*

**Hypothesis 3, Relating to Organizational Citizenship Behavior and Ethical Behavior**

OCB appears to be a common phenomenon in the organizations that is significantly associated with individual productivity and EB of employees (Turnipseed, 2002). Usually, employees who have a positive view of organizational support are more likely to do well in their roles and extra roles, demonstrating EB at work (Chen et al, 2009; Tremblay and Landreville, 2015). In the workplace, employees who are engaged in OCB enhance the organizational functioning (Podsakoff et al, 1997; Dunlop and Lee, 2004), as well as reduce the counterproductive work behavior (CWB) which is considered as the behaviors that are unethical in nature, and frequently cause adverse effects to the employees and the organization. Employees who have OCB raise constructive suggestions and or speak up to prohibit harmful behavior to the organization and avoid pursuing personal power and gain with detrimental effects on others in the organization (Farh et al, 2004). These arguments and observations indicated that OCB of employees has correlated with EB of employees in the organization. Thus, we postulate that OCB of employees influences them to behave ethically. Accordingly, it is hypothesized that:

*H<sub>3</sub>: OCB and EB of employees are significantly and positively related.*

**Hypothesis 4, Relating to Mediating Impact of Organizational Citizenship Behavior on the relationship between Ethical Orientation of Human Resource Management and Ethical Behavior**

Iddagoda and Opatha (2020) stated that a mediating variable appears between the time the independent variable begins to influence the dependent variable and the time its impact is felt on the dependent variable. Here the researchers logically argued that EOHRM has a positive connection with EB of employees through OCB. Thus, EOHRM is the independent variable while EB of employees is the dependent variable. OCB plays the mediating role. It is believed that OCB of employees surfaces between the times EOHRM operates to affect EB of employees and its impact on EB of employees. Thus, OCB has a temporal quality and it works as a function of EOHRM and helps to explain how the EOHRM influences the EB of employees. This logical belief directed to formulate the fourth hypothesis of this study which is given below:

*H<sub>4</sub>: The relationship between EOHRM and EB is significantly mediated by OCB of employees.*

**Hypothesis 5, Relating to Moderating Impact of Personal Character on the relationship between Ethical Orientation of Human Resource Management and Ethical Behavior**

Based on the existing literature, it is possible to theorize that EB of employee will increase if the EOHRM is high in the organization. However, such theorized relationship does not hold true with regard to personnel who do not have a high level of PC. It can be true for those who have a high level of PC. The organization does increase the degree of EOHRM with an expectation of increasing EB of employees. However, it does not happen so if there is no morality within employees. The organizational effort is going to be in vain. Hence it is essential to make sure that employees have morality (high level of PC) for realizing the positive relationship between EOHRM and EB. Further, impact of PC of the employees in ethical decision making is highlighted by the attributes of virtues and vices (De Silva and Gamage, 2016). Hence, it could be argued that PC of the employees significantly moderates the EOHRM and EB linkage in the organization. This logical belief directed to formulate the fifth/final hypothesis of this study in the following manner.

*H<sub>5</sub>: The relationship between EOHRM and EB is significantly moderated by Personal character of employees.*

## Methods

### Study Design

The key aim of this analysis was explanatory in nature, as it included the quest for a relationship between the concept of EOHRM and EB of employees and the impact of PC and OCB on the EOHRM and EB linkage. In a deductive method, the researchers begin with an abstract, logical relationship between ideas and then progress towards concrete empiric proof (Neuman, 1997). Since the research was intended to explain linkages of EOHRM, PC, OCB and EB variables it was decided to apply the hypothetical deductive approach. In this approach, as the researchers commence the study on the basis of what is known about a relevant domain and or theoretical deliberations in relation to such domains and deductive hypotheses that must be subjected to empirical inquiry (Bryman and Bell, 2013). The most suitable approach for this analysis was thus quantitative testing methodology. As this study was based on positivism and quantitative methods, the survey approach was chosen as the most suitable research strategy. Since the study chose single data collection (Saunders et al, 2009) via questionnaire, the analysis followed the mono-method and the time horizon was cross-sectional. Further, the data collection technique was carried out by using a self-administered questionnaire. The copies of the questionnaire composed of four instruments measuring the four constructs were issued to all 212 branch managers in licensed commercial banks working in the Northern Province of Sri Lanka. The unit of analysis was individual: branch managers who were working in licensed commercial banks.

There has been a rapid growth over the past decades in the banking sector in Sri Lanka and the banking sector in Sri Lanka and licensed commercial banks play a critical role. There is an intense competition among the banks which are both local and foreign ones and this may result in encouraging their employees to engage in unethical practices to achieve growth targets. It is very important to establish an ethical culture in the licensed commercial banks in Sri Lanka to avoid incidents of corrupt and unethical behavior of employees. Hence the licensed commercial banks were selected for this study. The population of the study comprised the total branch managers (212) in the licensed commercial banks in Northern Province which are regulated and supervised by the Central Bank of Sri Lanka. In this study, the researchers selected total population sampling method which is more commonly used where the number of cases being investigated is relatively small (Etikan et al, 2016) and the cases were accessible to the researchers to conduct this study. The survey was administered with 212 branch managers, of which 177 responded to. Hence, the survey was completed with an 83.5% response rate. Saunders et al (2009) suggest that a response rate of 50% or above is acceptable for face-to-face interviews and self-administered surveys. After handling the missing data, the data analysis was done by the use of the completed 174 questionnaires.

### The Structure of the Questionnaire

The instruments were developed in accordance with the conceptual framework. Since there are four variables: EOHRM, OCB, PC and EB, in this study the researchers developed

four instruments. All variables in terms of dimensions, and elements were properly conceptualized and operationalized based on the existent literature, and they were measured by using multi-item interval scales established by the researchers. The variables, dimensions, and elements that were used to construct the multi-item individual measurement instruments are shown in Table 1. Accordingly, EOHRM had three dimensions: acquisition, development, and retention. OCB was measured under four dimensions: self-domain of OCB, group domain of OCB, organization domain of OCB, and society domain of OCB. The construct PC had two dimensions: Upholding virtues and abstaining vices while the construct EB had four dimensions which are ethical sensitivity, ethical judgment, ethical motivation, and ethical action. All items relating to aforesaid dimensions were measured on a five-point scale ranging from 1= “Strongly disagree” to 5= “Strongly agree”.

**Table 1. Dimensions and Elements of the Constructs for Development of Measurement Instruments**

| <b>Construct</b>          | <b>Dimension</b>    | <b>Elements</b>  | <b>Sources</b>  |
|---------------------------|---------------------|--|---|
| <b>EOHRM</b>              | Acquisition         | Job analysis, recruitment, selection, hiring, and induction.   | Jackson and Schuler, 1995; Opatha, 2019; Dessler, 2013; Armstrong and Taylor, 2014; De Silva et al, 2018. |
|                           | Development         | Performance evaluation and training.   |   |
|                           | Retention           | Pay management, incentives management, welfare management, management of promotions, discipline management, and grievance management.  |   |
| <b>OCB</b>                | Self                | Self-training, taking initiative, keeping workplace clean.   | Farh et al, 2004  |
|                           | Group               | Interpersonal harmony and helping coworkers  |   |
|                           | Organization        | Protecting and saving company resources, voice, and group activity participation.  |   |
|                           | Society             | Social welfare participation and promoting company image.  |   |
| <b>Personal character</b> | Upholding Virtues   | Honesty, gratitude, respect, tolerance, self-discipline, loyalty.  | Opatha, 2010; Opatha and Teong, 2014; Opatha, 2019  |
|                           | Abstaining Vices    | Retaliation, deception, desire for other's things, greed, selfishness, jealousy.   |   |
| <b>Ethical behavior</b>   | Ethical sensitivity | Identifying and expressing emotions and taking perspective of others.  | Rest, 1986; Kish Gephart et al, 2010; De Silva and Opatha, 2015; De Silva et al, 2018                     |
|                           | Ethical judgment    | Developing ethical reasoning skills, using codes and identifying judgement criteria, following ethical role models in decision-making and choosing a decision among several possible alternatives. |   |
|                           | Ethical Motivation  | Developing ethical identity and integrity and making peace and cooperating.  |   |
|                           | Ethical Action      | Developing courage, communicating well and Taking initiative as a Leader.  |   |

### **Validity and Reliability of the Instruments**

The content validity of an instrument refers to whether the scale comprises an acceptable and representative set of questions that tap the concepts, and the more the content validity, the more the scale items represent the domain of the concept tested (Sekaran and Bougie, 2016). The accurate conceptualization and operationalization of relevant construct ensured the content validity as recommended by Sekaran and Bougie, (2016). Moreover, the question statement of each element was developed based on the relevant existing literature. Thus, content validity and face validity of the four instruments were assured. According to Sekaran and Bougie (2016), a reliability of the measure is evidence of the instrument's stability and consistency in measuring the concept, and it assists in determining the goodness of measure. For each of the variables, the Cronbach's coefficient alpha was calculated, and the results revealed that all four instruments had a high degree of internal consistency reliability, with Cronbach's alpha over 0.70, indicating that the questions all deal with the same underlying construct (Spector, 1992). The Cronbach's alpha ranged from 0.846 to 0.928 (EOHRM= 0.846, OCB= 0.928, PC= 0.859, and EB= 0.903). All the four dimensions were retained as they presented adequate reliabilities (Nunnally and Berstein, 1994). The questionnaire that was composed of the four instruments representing the four constructs or variables under the study, consisted of 83 items.

### **Data Analysis Techniques**

Statistical Package for Social Sciences (SPSS) was used to analyze the primary data collected from the respondents. Missing values and outliers are frequently encountered while collecting data (Schlomer et al, 2010). Therefore, data cleansing is done to pursue raw data for errors, correct them and deal with missing data and it was identified with no any missing value and outliers. The study's first three hypotheses (H<sub>1</sub>, H<sub>2</sub>, & H<sub>3</sub>) focused on determining the relationships between the variables. Hence, the Pearson Product-Moment Correlation Technique was utilized. The fourth hypothesis was concerned with the mediating role of OCB on EOHRM and EB linkage the validity of which was tested by using multiple regression analysis and procedures based on the recommendations of Baron and Kenny (1986) and Frazier et al (2004). Moreover, the fifth hypothesis was with regard to moderation effect of PC of employees on EOHRM and EB linkage which was tested by using hierarchical multiple regression analysis and procedures based on the recommendations of Baron and Kenny (1986) and Frazier et al (2004).

## **Results**

The 174 usable responses of the sample were used in the final data analysis. There were 136 male branch managers and 38 female branch managers among the respondents. Majority of the branch managers (41%) were with the Master's Degree educational qualification. When it came to the respondents' work experience, half of the branch managers (52%) had more than ten years of experience in the current organization. For the study, five hypotheses were formulated and hypothesized relationships are shown in the following table.

**Table 2. Hypotheses (from H1 to H5) of the Study**

| No | Hypothesized Relationship                              | H <sub>A</sub>     |
|----|--|--------------------|
| 1  | EOHRM and EB of employees                              | H <sub>1</sub> (+) |
| 2  | EOHRM and OCB of employees                             | H <sub>2</sub> (+) |
| 3  | OCB and EB of employees                                | H <sub>3</sub> (+) |
| 4  | EOHRM and EB through the mediation of OCB of employees | H <sub>4</sub>     |
| 5  | EOHRM and EB by the moderation of PC                   | H <sub>5</sub>     |

Table 2 shows that H<sub>A</sub> denotes the alternative hypothesis and + denotes a positive relationship. Table 3 shows the results of Pearson's Product Moment Correlation, which was used to examine the null hypotheses for the three hypotheses (H<sub>1</sub>-H<sub>3</sub>). The level of significance is .05 as a 95 percent confident level was desired.

**Table 3. Pearson Correlation Coefficients for all the Variables**

| No | Variables                  | Coefficient | Sig   |
|----|----------------------------|-------------|-------|
| 1  | EOHRM and EB of employees  | 0.591**     | 0.000 |
| 2  | EOHRM and OCB of employees | 0.537**     | 0.000 |
| 3  | OCB and EB of employees    | 0.741**     | 0.000 |

\*\*p < .05 n = 174

According to Table 3, the correlation coefficients of EOHRM and EB of employees, EOHRM and OCB of employees, and OCB and EB of employees were significant at p < .05 and thus the null hypotheses pertaining to the three alternative hypotheses formulated for the study were rejected. The correlation analysis supported substantially to accept the three hypotheses (H<sub>1</sub>, H<sub>2</sub>, & H<sub>3</sub>). It is empirically and statistically evident that EOHRM has a positive and significant relationship with EB of employees; EOHRM and OCB of employees are positively and significantly related; and OCB and EB of employees are positively and significantly related.

The fourth hypothesis is that the relationship between EOHRM and EB is significantly mediated by OCB of employees. As there is only one mediating variable involved in the current research, it can be termed as simple mediation (Preacher and Hayes, 2008). The most common method for testing simple mediation effect is Barron and Kenny approach developed in 1986 (Frazier et al, 2004). According to this approach, four steps are to be performed in order to establish the role of the mediator between predictor variable and outcome variable (Frazier et al, 2004). The first step is to demonstrate that the predictor is significantly related to the outcome; the second step is to demonstrate that the predictor is significantly related to the mediator; the third step is to demonstrate that the mediator is significantly related to the outcome variable; and the fourth step is to demonstrate that when the mediator is included in the model, the strength of the relationship between the predictor and the outcome is significantly weakened.

**Table 4. Testing Mediator Effect of OCB on the Relationship between EOHRM and EB of Employees**

| Tested Steps  | Regression Coefficient | Sig.  |
|---|------------------------|-------|
| Step I (Path c)<br>Predictor: EOHRM, Outcome: EB                      | 0.591                  | 0.000 |
| Step II (Path a)<br>Predictor: EOHRM, Mediator: OCB                   | 0.537                  | 0.000 |
| Step III (Path b)<br>Mediator: OCB, Outcome: EB                       | 0.741                  | 0.000 |
| Step IV (Path c')<br>Predictor: EOHRM, Mediator: OCB, and Outcome: EB | 0.271                  | 0.000 |

The above table 4 shows the relevant results of the regressions. The statistical results of performing the first step produced a regression coefficient, i.e., 0.591 of the effect of the predictor variable (EOHRM) on the outcome variable (EB). This value was statistically significant at 0.05 (0.000). Accordingly, the first requirement was met. The performance of second step resulted that regression coefficient value associated with the relationship between the predictor variable (EOHRM) and the mediator variable (OCB) was 0.537 which was significant at 0.05 (0.000). The second requirement too was met. After performing the third step, the regression coefficient value was 0.741 which was significant at 0.05 showing that the mediator variable was significantly related to the outcome variable. The third requirement was met. Hence, as stated by (Carlson and Wu, 2012) the zero-order relationships among the variables exist here. Accordingly, the step four was performed. A multiple regression analysis was done with the predictor variable (EOHRM) and the mediator variable (OCB) predicting the outcome variable (EB). As the effect of the mediator variable (OCB) remains significant after controlling for the predictor (EOHRM) ( $p = 0.000$ ), it is evident that some form of mediation exists. Further, the results of the Sobel Test show that the relevant Sobel test statistics (7.21 at  $p < .05$ ) are higher than 1.96. Thus, the researchers identified that partial mediation exists with the relationship between EOHRM and EB of employees (B coefficient associated with the relationship between EOHRM and EB of employees was 0.271, sig.  $p = 0.000$ ). Hence, the mediation played by the mediator (OCB) is partial and significant. Thus, the fourth hypothesis is accepted.

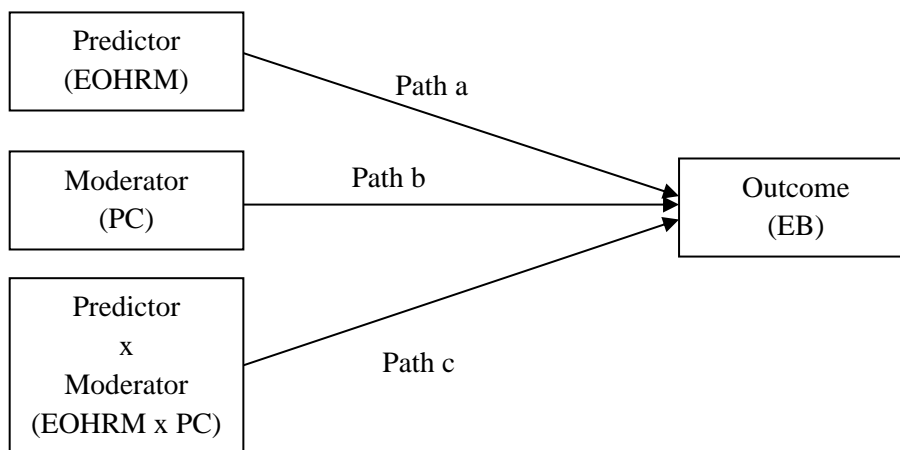
The fifth hypothesis of the study involves a moderation effect and it was that the relationship between EOHRM and EB is significantly moderated by PC of employees. The moderation model tests whether the moderator interacts with a predictor in such a way, in order to have an impact on the level of a dependent variable (Holmbeck, 1997). The term impact implies a change in the strength and/or direction of the association between the predictor and outcome variables (Baron and Kenny, 1986). It was decided to apply Baron and Kenny approach to test the moderator effect of PC on the relationship between EOHRM and EB in the research model. For this, the researchers used statistical tool compatible with SPSS called 'PROCESS' which was developed by Hayes in 2013. According to Baron and Kenny's approach, three steps are to be performed in order to establish the role of the moderator between predictor variable and outcome variable (Frazier et al, 2004). The first step is to demonstrate that the predictor variable has an impact (EOHRM) on outcome variable (EB): Path a; second step is to show the impact of moderator variable



(PC) on outcome variable (EB): Path b; and third step is to show the interaction or product of predictor (EOHRM) and moderator variable (PC) has an impact on outcome variable (EB): Path c.

The figure 2 below depicts how the predictor, moderator, and predictor-moderator interaction affect the outcome. Baron and Kenny (1986) stated that when the interaction (Path c) is statistically significant, the moderator hypothesis is supported. Furthermore, according to Baron and Kenny (1986), there may be strong main effects for the predictor and moderator variables, but these are not directly relevant to testing the moderator hypothesis theoretically.

**Figure 2. Moderation Model of the Research**



Source: Based on Baron and Kenny (1986)

When both the independent and dependent variables are continuous, the moderating hypothesis is examined by adding the product of the moderator and the independent variable to the regression equation, as advised by Baron and Kenny (1986). Accordingly, moderating effect variable was computed by multiplying the predictor variable (EOHRM) with the moderator (PC). As per the table 5, the p value for path c is 0.015 ( $P < 0.05$ ), and the found effect is statistically significant. Further, R square change associated with the interaction term is 0.562.

**Table 5. Moderating Effect of Personal Character**

|                          |             | coeff   | se     | t       | p      | LLCI    | ULCI   |
|--------------------------|-------------|---------|--------|---------|--------|---------|--------|
| <b>Step I (Path a)</b>   | EOHRM       | 1.3907  | 0.5234 | 2.6569  | 0.0086 | 0.3574  | 2.4240 |
| <b>Step II (Path b)</b>  | PC          | 1.9793  | 0.5065 | 3.9077  | 0.0001 | 0.9794  | 2.9791 |
| <b>Step III (Path c)</b> | Interaction | -0.3124 | 0.1276 | -2.4482 | 0.0154 | -0.5643 | 0.0605 |

The above table 5 depicts that the effects of independent variable (Path a, EOHRM), moderator (Path b, PC) and interaction of both (Path c, EOHRM x PC) on dependent variable (EB). It is observed that both constructs have significant effect on EB; EOHRM = 0.0086, PC = 0.0001, and interaction of both EOHRM and PC = 0.0154. Since the interaction

of variables has the significant value ( $p = 0.0154$ ), the researchers accepted the fifth hypothesis.

### **Discussion**

Based on two general theories, theoretical arguments, previous empirical evidence, and logical beliefs of the researchers, the conceptual model of this study was developed. Five hypotheses were formulated and they were tested by using a study setting of branch managers of the Sri Lankan licensed commercial banks. The first objective of the study was to empirically investigate whether EOHRM significantly and positively relates to EB of employees. The statistical results show that EOHRM is positively and significantly related to EB of employees. In other words, the higher EOHRM is, the higher the EB of employees will be. As theorized, EOHRM predicts EB of employees. Hence it is implied that it is very important for the organizations to consider their HRM practices with the ethical embedded systems. Such EOHRM is a vital part for the organizations to cultivate the EB of employees, particularly employees in the banking industry to ensure that their conduct is ethical. In this regard, organizations should consider ethical procedures and rules in each of the HRM practices specially acquiring, developing and retaining of employees in order to make their employees to behave ethically in the organization.

The second objective of the study was to empirically investigate whether EOHRM and OCB of employees are significantly and positively related. It was statistically evident that both EOHRM and OCB are related positively and significantly. When the HRM practices promote ethicality and ethics in an organization, employees also show their citizenship behavior in the organization in return. The more EOHRM is the more OCB of that employee is. The third objective of the study was to establish the significant and positive relationship between OCB and EB of employees. It was empirically found that a positive and significant relationship exists between OCB and EB of employees. When the employees desire to engage in the extra role behavior or show their citizenship behavior, they more likely behave in an ethical manner.

The fourth objective of the study was established to fill the gap in the empirical knowledge; dearth of studies on OCB as an intervening or mediating variable in the research. The fourth objective was to investigate whether OCB has as a significant mediating effect on EOHRM and EB linkage. The mediation analysis results revealed that OCB significantly and partially mediated EOHRM and EB linkage. Accordingly, OCB is a significant and partial mediator on EOHRM and EB linkage.

The fifth objective of the study also was established to fill the gap in the empirical knowledge; based on the existing literature examined by the researchers there are no studies conducted on PC as a moderating variable in the relationship between EOHRM and EB. The fifth objective of the study was to investigate whether PC operates as a significant moderator on EOHRM and EB linkage. The statistical results of the moderation analysis revealed that PC significantly moderated EOHRM and EB linkage. Accordingly, PC is a significant moderator on EOHRM and EB linkage.

### **Implications, Directions for Future Research and Conclusion**

An employee workforce which is ethical needs to be developed as a sustainability imperative and in this regard, to make HRM functions ethically oriented is necessary resulting in creating, maintaining, and increasing ethicality within employees. An organization that wants to realize ethical behavior of employees is required to turn towards HRM practices and make them ethically oriented. This is an important implication of the findings of this study, and another important implication is that the manager who wants to enhance his or her subordinates' citizenship behavior will be in a position of utilizing HRM practices which are ethically embedded. Another important implication is that an organization should make sure that its employees possess a high level of PC for the purpose of achieving EB of employees. To increase the degree of EOHRM in order to increase the degree of EB of employees becomes achievable when the relevant employees possess a high degree of PC. An organization that wants to improve EB of its employees first needs to be concerned with improving PC of its employees. Otherwise, the attempt to improve EB of employees through increased EOHRM goes unsuccessful or at least does not become very effective. We suggest a serious deliberate attempt be made in order to enhance virtues within employees and minimize vices from employees. Virtues do not grow within employees as nails and hairs grow within them. Employees themselves have to grow or build virtues and therefore they need to be trained and developed formally. Employees are indeed the lifeblood of the organization and it cannot perform more than its employees perform (Arulrajah and Opatha, 2012). If employees do not perform morally and ethically it is impossible for an organization to be moral and ethical.

Further, the study validates the measurements for moderating effect of PC and mediating effect of OCB on EOHRM- EB linkage and provides a framework or structure for future researchers and scholars who intend to investigate the impact/relationship between EOHRM and EB in the case of other emerging countries like Sri Lanka. The researchers' own working definitions were developed for the four constructs studied. For good research there must be a working definition for the construct being studied in order to avoid confusion and disagreement with regard to the meaning and it is the nominal definition for the construct (Babbie, 1986; Opatha, 2003). These developed definitions may be useful for future researchers for their conceptualizations. In addition to these theoretical implications, HR professionals and other managers also may get vital conclusions from the results of this study. HR professionals and other managers need to understand how their employees react about their ethical practices which are incorporated in HR functions and how they behave within the organization. Organizations may ensure that their employees believe and understand the good consequences and the real reason of their EOHRM practices. Furthermore, considering the competitive nature of the Sri Lankan banking industry, the findings of this study may contribute to practitioners and professionals by highlighting the importance of incorporating Ethical dimensions in their HR functions at strategic level along with other important aspects of the organization.

Since this study considered the value of the banking sector in the authors' native country, it was limited to the banking industry in Sri Lanka. It may limit this study in generalizing the findings. Hence the authors recommend that the future researchers consider in different settings like other industries or other organizational settings locally or globally. Further,

this study was limited by focusing on one moderating variable (PC) and one mediating variable (OCB). In order to explore EOHRM and EB linkage the authors would recommend considering other variables on that relationship which can be identified through qualitative or case study or mixed methods. The external aspect of reliability of the instruments was not dealt with limiting the reliability. A field experiment would be more useful in order to find the impact of a specially designed ethical system that includes a code of ethics and a relevant training *inter alia* on ethical behavior of employees in an organization.

The study was carried out to achieve the main objective of investigating whether EOHRM significantly and positively relates to EB of employees. The findings support the claim that EOHRM significantly and positively relates to EB of employees. Further, the relationship between EOHRM and EB of employees is significantly mediated or intervened by OCB and also is contingent upon PC.

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