

Impact of Ethical Behavior on Employees' Performance in the Nepalese Commercial Banks

Jitendra Prasad, Pitri Raj Adhikari



Abstract: *Ethical behavior is a very important fact for the success of any organization because it influences its relations with numerous stakeholders for making certain the success of a business. This paper attempts to examine the impact of ethical behavior on employees' performance in Nepalese commercial banks. Descriptive research design has used to identify characteristics, frequencies, trends and categories of the impact of ethical behavior on employee performance and causal-comparative research design has also used to ascertain and understand the directions, magnitude and forms of the observed relationship between ethical behavior and employees' performance. Self-administered structured questionnaires were distributed to a total of 810 respondents (30 respondents of each 27 commercial banks) but only 575 usable responses are collected and has used to analyze the data. Employees' performance is dependent variable and respect, teamwork, reward and punishment, racial discrimination, leadership style, discipline and corruption are independent variables. It is found that respect, teamwork, reward and punishment, leadership style and discipline have a positive impact on the performance of employees, and however, racial discrimination and corruption hurt employee's performance in Nepalese commercial banks.*

Keywords: *Employees' performance, Respect, Teamwork, Reward and punishment, Racial discrimination, Leadership style, Discipline, Corruption*

Paper Type: *Research Paper*

I. INTRODUCTION

Employees' performance for organizational success is a researchable issue for practitioners and academicians for the last few decades. Prior research has linked employees' performance, a behavior which consists of directly observable actions of an employee, and also mental actions or products which result in organizational outcomes in the form of attainment of goals, with different predictors. Among them, ethical behavior is one of the important predictors that are popular in the banking sector. Behaving ethically is seen as part of the social responsibility of individuals in any organization to ensure its stability and survival (Abushal & Adenubi, 2000). Ethical behavior is important to run the organization smoothly and it is a key to achieve performance and for long life sustain. Every employee, starting with managers, must act ethically and have high moral principles (Adhikari, 2008). Similarly, Alzolo (2012) stated that ethical behavior is a very important fact for the success of a corporation because it

influences its relations with numerous stakeholders for making certain the success of a business. According to Booth and Schulz (2004), the business ethics based on the perception of the managers is associated with aspects like the ability to differentiate good and bad, proper manner etc. Likewise, ethics involves learning what is right or wrong and then doing the right thing (Ferrell *et al.*, 1998). According to Walker (2014), the success of organizations depends on the alignment of values between employee and organization. Besides, respect is a core value in organizations, and it plays a very important role in organizational recognition, engagement, and strong culture. The connection between perceptions of organizational respect and organizational culture is immeasurable, and the absences of these can severely detriment the organization. Respectful treatment increased individuals' perception that they are welcomed or accepted within a group in which they are a member (Huo & Binning, 2008). Phina *et al.* (2018) found that for teams to perform effectively, there is need for some team members to possess levels of skills such as technical expertise, problem-solving and decision-making as well as interpersonal skills. Similarly, Abdulle and Aydintan (2019) stated that organizations may achieve goals or objectives through individuals, but their major accomplishment remains in the goals achieved by teams (teamwork). Further, they found that teamwork, team trust, performance appraisal and rewards have a significant and positive impact on employees' performance. Reward and punishment in work situations as a gift to show their acceptance of the behavior and actions (Jesca, 2014). Likewise, Pratheepkanth (2011) stated that the company is expected to maintain qualified employees and keep them to continue to be motivated. This can be achieved by assigning a specific system or strategy to provide a balance between the expected contributions to what given in the form of a particular reward or award. Punishment is used by workplace supervisors to control or change employees' behavior. The punishment continues despite the call from management to eliminate punishment from organizational discipline because of victims' negative reactions to the administered punishment (O'Fallon & Butterfield, 2013). Likewise, Panekenan *et al.* (2019) found that employee positively takes punishment. Similarly, Noon (2001) revealed that the level of punishment may not be the most important influence on peoples' performance change. Putra and Damayanti (2020) concluded that punishment increases the performance of employees of the company. According to Babatunde (2015), to enhance the performance of an employee,

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workers will depend on a large event of leadership style that is operational within an organizational setting. A negative behavioral example from the leaders is like cancer to the ethics of an organization (Belas, 2013). However, Velthouse and Kandogan observed ethics has no significant impact on performance.

Ghaffari *et al.* (2017) investigated that there is a positive relationship between respect for employees and job satisfaction. Likewise, Lamar (2010) explained that the perceived lack of trust and respect leads to decreased job satisfaction and commitment to the organization's goals and activities. Abdulle and Aydintan (2019) concluded that all teamwork measures of the study which are; trust, cohesiveness, and knowledge sharing among members of the team have a positive and significant impact on employee performance. Employees' performance was positively correlated to teamwork and other indicators of team performance (Boakye, 2015). Hameed and Waheed (2011) revealed that gender discrimination in promotion and facilities hurt the level of employee performance. Similarly, Surji (2014) found that the leadership team has a positive impact on workforce performance within the organization and its workplace environment.

In the context of Nepal, Gautam (2018) concluded that there is a positive relationship between the effectiveness of the team and its impact on employees' performance. Similarly, Uprety (2016) observed that there is a positive relationship between the decisions of leaders and overall performance. Shrestha and Mishra (2011) revealed organizational performance is significantly related to leadership styles and employee's commitment to change. Yadav *et al.* (2016) found that shortcomings of ethical behaviors hurt cost as it affects the profitability of the organization and causes a loss for these organizations every year. Stephen (2012) concluded that the impact of disciplinary procedures on punctuality and performance is positive. Williams and Kedir (2016) found that corruption can bring a deadweight loss that is detrimental to firm growth, subsequently leading to a loss of welfare and social surplus. According to Kuncorowati and Rokhmawati (2018), discipline is a growing force in the body of the workers themselves that caused them to adjust to voluntarily submit to the decisions, regulations, and high values of work and behavior. In the modern competitive era, banks' activities must focus to promote public confidence and trust by infusing several ethical values like respect, trust, discipline, integrity, responsibilities, accountability etc. in every moment (John *et al.*, 2018). Therefore, it is an issue whether the Nepalese commercial banks are in this direction or not. These scandals and crises have led to a growing view that there is something fundamentally wrong with the banking industry. But the problem is that banking business is becoming more complex and the difference between what is legitimate and illegitimate becomes more blurred. It is found that, in the banking sector, professional and ethical norms and values are still not formally followed (John *et al.*, 2018). Therefore, the research on ethical behavior and employees' performance is of greater importance. Moreover, many research has been done regarding the area in the western context, however, some research has been done in the Nepalese context. Thus, this paper attempts to examine the

linkage between ethical behavior and employees' performance of the Nepalese commercial banks. The next section of this paper is concerned with the objectives of this research.

II. OBJECTIVES OF THE STUDY

The major objective of this paper is to examine the impact of ethical behavior on employees' performance and the specific objectives are as follows:

- To examine the impact of respect, teamwork, reward and punishment, discipline, leadership style, racial discrimination and corruption on employees' performance
- To assess the relationship of respect, teamwork, reward and punishment, discipline, leadership style, racial discrimination and corruption with employees' performance
- To determine the most influencing factors of ethical behavior that affect employee performance in Nepalese commercial banks

III. RESEARCH HYPOTHESES

This paper has set the following research hypotheses:

- H₁: There is a positive relationship between respect and employees' performance.
H₂: There is a positive relationship between teamwork and employees' performance.
H₃: There is a positive relationship between reward & punishment and employees' performance.
H₄: There is a negative relationship between racial discrimination and employees' performance.
H₅: There is a positive relationship between leadership style and employees' performance.
H₆: There is a positive relationship between discipline and employees' performance.
H₇: There is a negative relationship between corruption and employees' performance.

IV. LIMITATIONS OF THE STUDY

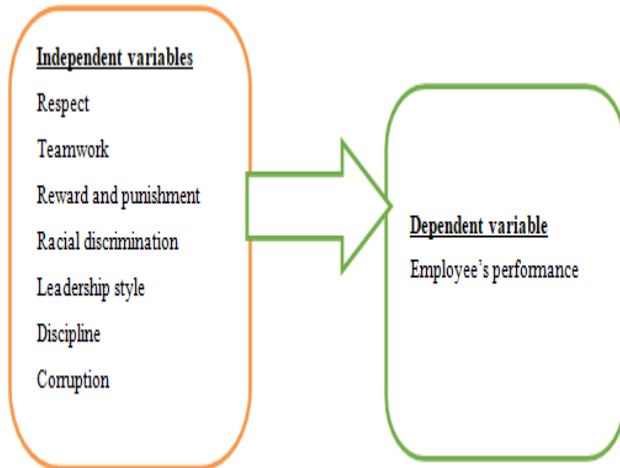
This paper has the following major limitations:

- This study focused only on Nepalese commercial banks. As the practice of ethical behavior such as teamwork, reward and punishment, discipline, corruption may differ between the diverse industries; the conclusions drawn from this study might not be suitable for other organizations.
- It is based on the primary sources of data regarding the impact of ethical behavior on employees' performance. Therefore, the reliability of the conclusion of the study depends upon the accuracy of the information provided by the respondents.
- This study assumes a level of homogeneity across banks which may not be true since the Nepalese commercial banks are of different sizes.
- The study is based on the assumption of the linear regression between the dependent and explanatory variable. It does not take consideration of the non-linear regression assumptions.

V. CONCEPTUAL FRAMEWORK

(This paper has been adopted the following conceptual framework, where, employee performance is the dependent variable. Similarly, respect, teamwork, reward and punishment, gender discrimination, leadership style discipline and corruption are the independent variables.

The main issue is an investigation of the impact of ethical behavior in employee's performance of commercial banks and each of the other explanatory variables that have been identified through literature and theory.)



Research methodology

Descriptive research design has used to identify characteristics, frequencies, trends and categories of the impact of ethical behavior on employee performance. Similarly, causal-comparative research design has also used to ascertain and understand the directions, magnitude and forms of the observed relationship between ethical behavior and employees' performance in Nepalese commercial banks. Self-administered structured questionnaires were distributed to total 810 respondents (30 respondents of each 27 commercial banks) but only 575 usable responses are collected and has used to analyze the data (the response rate is approximate 71 per cent). The questionnaire is divided into two sections where the first section is related to the basic information of the respondents and the second section is concerned with five-point Likert type questions about the quality variables that affect employees performance which scale ranges from 1 (Strongly disagree) to 5 (Strongly agree). Descriptive statistics, correlation and regression methods of analysis are used in the study. The descriptive statistics include mean value, standard deviations, minimum and maximum values of the variables are used to describe the characteristics of respondents. Correlation analysis is used to evaluate the direction of the relationship between the dependent and independent variables. Along with this, regression analysis is used to find out the influence of the independent variable over the dependent variable. It is assumed that the employees' performance depends on respect, teamwork, reward and punishment, racial discrimination, leadership style, discipline and corruption. Hence, this study has developed the following model.

Employees' performance = f (respect, teamwork, reward and punishment, racial discrimination, leadership style, discipline, corruption).

The model can be presented as follows:

$$EP = \beta_0 + \beta_1 RES + \beta_2 TW + \beta_3 LS + \beta_4 RP + \beta_5 RD + \beta_6 DI + \beta_7 CR + \epsilon$$

Where, EP = Employee performance; RES = Respect; TW = Teamwork; LS = Leadership style; RP = Reward and Punishment; RD = Racial discrimination; DI = Discipline; CR= Corruption; ϵ = error term; β_0 = constant; $\beta_1, \beta_2, \beta_3, \beta_4, \beta_5, \beta_6$ and β_7 are the beta coefficients of the explanatory variables to be estimated.

VI. RELIABILITY AND VALIDITY

Cronbach's alpha is used to test the reliability and validity of the primary data. The general rule is that a coefficient greater than or equal to 0.7 is considered acceptable and is a good indication of construct reliability. Table 1 represents the coefficient of Cronbach's alpha for all the data.

Table 1 Coefficient of Cronbach's Alpha

Variables	Number of questions	Cronbach's Alpha
Employees' performance	7	0.893
Respect	7	0.822
Teamwork	7	0.854
Reward and punishment	7	0.803
Racial discrimination	7	0.841
Leadership style	7	0.892
Discipline	7	0.847
Corruption	7	0.875
Overall	56	0.851

Source: Responses on Survey Likert Questionnaire

Table 1 shows the reliability test for all the component of a questionnaire regarding the impact of ethical behavior on employees' performance in Nepalese commercial banks which were computed by using SPSS. Cronbach's Alpha greater than 0.7 is considered as reliable data, the Cronbach's alpha of 56 quantitative data is 0.851, which means 85.1 per cent of the data taken for the study is reliable and 14.9 per cent of data is an error.

VII. RESULTS AND DISCUSSION

Demographic characteristics of the respondent

The respondents' profile reveals the personal characteristics of respondents combined based on different personal characteristics such as gender, age group, academic qualification, designation, and total years of services. Demographic characteristic plays a significant role in understanding behavior of the employees in the banking sector. This section, therefore, describes the demographic characteristics of the respondents of banking employees of different commercial banks. The demographic characteristics of the respondents of different 27 Nepalese commercial banks are shown in table 2.

Table 2 Demographic characteristics of respondents

Respondents character	Number of response	Percentage
Gender		
Male	280	48.7
Female	295	51.3
Total	575	100
Age group (in years)		
Under 25	154	26.8
26-35	241	41.9
36-45	122	21.2
46-55	48	8.4
56-65	10	1.7
Above 65	0	0
Total	575	100
Academic Qualification		
Intermediate and below	25	4.4
Bachelor degree	196	34.1
Master's degree	348	60.5
M. Phil\ Ph. D degree	6	1.0
Total	575	100
Job position		
Assistant level	248	43.1
Officer level	245	42.6
Manager level	78	13.6
Senior level	4	0.7
Total	575	100
Total year of employment		
Under 2 year	282	49.1
2- less than 5 years	198	34.4
5- less than 10 years	65	11.3
10 years and above	30	5.2
Total	575	100

Source: Field Survey, 2020-21

Descriptive analysis

The mean of the respect ranges from a minimum value of 3.81 to a maximum value of 4.07. Among them, the most significant observations of the respondents regarding respect are "I need to listen to others and try to understand their points of view" with a mean value of 4.07 whereas, the most insignificant observation are "Managers here deal with employees honestly" and "I feel respected by management in this organization" with a mean value of 3.81. The weighted average mean value for respect is 3.94, which indicate that respect is high in Nepalese commercial banks. Similarly, the mean of the teamwork ranges from a minimum value of 3.92 to a maximum value of 4.19. Among them, the most significant observations of the respondents regarding teamwork is "Teamwork encourages employees to broaden their skills and knowledge" with a mean value of 4.19 whereas, the most insignificant observation is "All members of the team have an equal opportunity for participation to develop confidence and skills" with a mean value of 3.92. The weighted average mean value for teamwork is 4.11, which indicate that teamwork is very high in Nepalese commercial banks. Likewise, the mean of the reward and punishment ranges from a minimum value of 3.63 to a maximum value of 4.14. Among them, the most significant observations of the respondents regarding reward and punishment is "Good prospects of obtaining reward motivate you strongly to do

some things." with a mean value of 4.14 whereas, the most insignificant observation is "You are troubled by punishments and work pressure during your office hours." with a mean value of 3.63. The weighted average mean value for reward and punishment is 3.87, which indicate that reward and punishment helps to improve the employee's performance during the working period in Nepalese commercial banks. Further, the mean of the racial discrimination ranges from a minimum value of 1.83 to a maximum value of 2.39. Among them, the most significant observations of the respondents regarding racial discrimination is "Discrimination does not increase motivation and job satisfaction" with a mean value of 2.39 whereas, the most insignificant observation is "Harassment has a positive effect on your work environment" with a mean value of 1.83. The weighted average mean value for racial discrimination is 2.11, which indicate that there is a lower existence of racial discrimination in Nepalese commercial banks. The mean of the leadership style ranges from a minimum value of 3.79 to a maximum value of 4.17. Among them, the most significant observations of the respondents regarding leadership style is "Leaders should act ethically" with a mean value of 4.

17 whereas, the most insignificant observation is “You do not need to follow an order if they appear unethical” with a mean value of 3.79. The weighted average mean value for leadership style is 4.05, which indicate that there is a higher existence of good leadership style in Nepalese commercial banks. Likewise, the mean of the discipline ranges from a minimum value of 3.81 to a maximum value of 4.15. Among them, the most significant observations of the respondents regarding discipline is “There is need of investigation of a violation of rules” with a mean value of 4.15 whereas, the most insignificant observation is “Our disciplinary system has a lot of rules specifying how to deal with the problem” with a mean value of 3.81. The weighted average mean value for discipline is 3.99, which indicate that there is a higher existence of discipline in Nepalese commercial banks. Additionally, the mean of the corruption ranges from a minimum value of 2.07 to a maximum value of 2.39. Among them, the most significant observations of the respondents regarding corruption is “Impact of corruption and political instability does not affect the activity of the organization.” with a mean value of 2.39 whereas, the most insignificant observation is “You can violate copyright laws.” with a mean value of 2.07. The weighted average mean value for corruption is 2.17, which indicate that there is a lower existence of corruption in and CR (Corruption).

Nepalese commercial banks. Further, the mean of the employee’s performance ranges from a minimum value of 4.07 to maximum value of 4.22. Among them, the most significant observations of the respondents regarding employee’s performance is “I believe respect to each other increases the employees-customer relationship.” with a mean value of 4.22 whereas, the most insignificant observation is “I believe that working with corrupt colleagues create disturbance in performing activities.” with mean value of 4.07. The weighted average mean value for employee’s performance is 4.14, which indicate employee’s performance is high in Nepalese commercial banks.

VIII. CORRELATION ANALYSIS

Table 3

Kendall’s Tau correlation matrix

This table shows Kendall’s Tau correlation coefficients between a dependent variable and independent variables. The correlation coefficients are based on 575 observations. The dependent variable is the EP (employee performance). The independent variables are RES (Respect), TW (Teamwork), LS (Leadership style), RP (Reward and Punishment), RD (Racial discrimination), DI (Discipline)

Variables	EP	RES	TW	RP	RD	LS	DI	CR
EP	1							
RES	0.148	1						
TW	0.256**	0.227**	1					
RP	0.137	0.299**	0.192*	1				
RD	-0.099	-0.138	-0.253**	-0.076	1			
LS	0.191*	0.144	0.239**	0.258**	-0.497**	1		
DI	0.328**	0.169*	0.326**	0.272**	-0.217**	0.339**	1	
CR	-0.067	-0.081	-0.078	0.024	0.157	-0.061	-0.225**	1

Notes: The asterisk signs (**) and (*) indicate that the results are significant at one per cent and five per cent level respectively.

Table 3 reveals that respect is positively correlated to employee’s performance which shows that higher respect in an organization leads to higher employee’s performance. Similarly, that teamwork is positively correlated to employee’s performance which implies that working among the peers and groups leads to a higher level of employee’s performance. The results also exhibit that leadership style is positively correlated to employee’s performance indicating that good leadership style leads to an increase in the employee’s performance. Likewise, reward and punishment are also positively correlated to the employee’s performance indicating that better the reward and punishment, better would be the employee performance. Further, the result shows that discipline is positively correlated to employee’s performance which proves that higher maintenance of discipline in an organization leads to higher employee’s performance. However, racial discrimination is negatively correlated to employee’s performance that indicates higher

the level of discrimination, lower would be the employee’s performance. Moreover, corruption is negatively correlated to employee’s performance indicating that higher corruption in an organization leads to a decrease in employee’s performance.

Regression analysis

Table 4

Regression results

[This table presents the results based on 575 observations using a linear regression model. The model is $EP = \beta_0 + \beta_1 RES + \beta_2 TW + \beta_3 LS + \beta_4 RP + \beta_5 RD + \beta_6 DI + \beta_7 CR + \epsilon$, where the dependent variable is EP (employee’s performance).

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The independent variables are RES (Respect), TW (Teamwork), LS (Leadership style), RP (Reward and Punishment), RD (Racial discrimination), DI (Discipline) and CR (Corruption).]

Model	Intercept	Regression coefficient of							Adj. R ²	SEE	F-value
		RES	TW	RP	RD	LS	DI	CR			
1)	3.511 (9.767)**	0.154 (1.81)							0.016	0.708	3.342
2)	2.897 (6.389)**		0.342 (3.20)*						0.067	0.764	10.245
3)	3.643 (10.01)**			0.153 (1.682)					0.017	0.754	2.897
4)	4.414 (24.78)**				-0.093 (1.206)				0.007	0.762	1.531
5)	3.415 (10.81)**					0.189 (2.365)*			0.046	0.761	5.765
6)	2.876 (8.508)**						0.341 (4.168)**		0.105	0.711	17.405
7)	4.343 (24.91)**							-0.059 (0.789)	0.004	0.704	0.634
8)	2.509 (4.92)**	0.111 (1.18)	0.311 (2.854)*						0.062	0.698	5.897
9)	2.342 (4.25)**	0.091 (0.92)	0.297 (2.78)*	0.082 (0.821)					0.061	0.705	4.102
10)	2.423 (3.75)**	0.085 (0.88)	0.296 (2.571)*	0.078 (0.827)	-0.024 (0.275)				0.054	0.702	3.143
11)	1.907 (2.51)**	0.090 (0.92)	0.282 (2.443)*	0.043 (0.445)	0.051 (0.527)	0.143 (1.522)*			0.062	0.691	2.934
12)	1.531 (2.031)*	0.083 (0.87)	0.204 (1.798)	-0.003 (0.026)	0.066 (0.661)	0.092 (0.972)	0.261 (2.853)*		0.109	0.671	3.911
13)	1.545 (1.976)*	0.08 (0.86)	0.204 (1.791)	-0.04 (0.029)	0.064 (0.647)	0.092 (0.974)	0.273 (2.787)*	0.004 (0.036)	0.098	0.672	3.333

Notes:

- i. Figures in parenthesis are t-values
- ii. The asterisk signs (**) and (*) indicate that the results are significant at one per cent and five per cent level respectively.
- iii. Employee's performance is the dependent variable.

Table 4 states that the beta coefficients for respect are positive with employee's performance which reveals that respect has a positive impact on employee's performance. It is consistent with the result of Ghaffari *et al.* (2017) and Walker (2014). Similarly, the regression results show that beta coefficients for teamwork are positive with employee's performance which indicates that teamwork has a positive impact on employee's performance and this finding is similar to the findings of Abdulle and Aydintan (2019) and Phina *et al.* (2018). Likewise, positive betas for reward and punishment with employee's performance indicates that reward and punishment has a positive impact on employee's performance. This finding is similar to the findings of Putra and Damayanti (2020) and Akafo and Boateng (2015). However, the beta coefficients for racial discrimination are negative with employee's performance that shows racial discrimination hurts employee's performance and it is similar to the findings of Verniers and Vala (2018) and Settles *et al.* (2013). Additionally, the beta coefficients for leadership style are positive with the employee's performance. It exhibits that leadership style has a positive impact on employee's performance. This finding is inconsistent with the findings of NawoseIng and Roussel (2017) and Iqbal *et al.* (2015). Further, positive beta coefficients for discipline with employee's performance

indicates that discipline has a positive impact on employee's performance. This finding is consistent with the findings of Ahiri *et al.* (2019) and Simatupang and Saroyeni (2018). However, the beta coefficients for corruption are negative with employee's performance. It states that corruption hurts the employee's performance. This finding is consistent with the findings of Saithibvongsa and JinKyo (2019)) and Williams and Kedir (2016).

After the entire analysis of the data, it can be concluded that the first hypothesis (H₁: There is a positive relationship between respect and employee's performance) has been accepted for Nepalese commercial banks. The second hypothesis (H₂: There is a positive relationship between teamwork and employee's performance) has been accepted. The third hypothesis (H₃: There is a positive relationship between reward and punishment and employee's performance) has been accepted. Likewise, the fourth hypothesis (H₄: There is a negative relationship between racial discrimination and employee's performance) has been accepted. The fifth hypothesis (H₅: There is a positive relationship between leadership style and employee's performance) has been accepted. Similarly, the sixth hypothesis (H₆: There is a positive relationship between discipline and employee's performance) has been accepted. The seventh hypothesis (H₇: There is a negative relationship between corruption and employee's performance) has been accepted.

IX. CONCLUSION

Ethical behavior is important factor to achieve the organization goals and objectives i.e. it is a key for long life sustain. Every employee must act ethically and have high moral principles. From the study it is observed that respect, teamwork, reward and punishment, leadership style and discipline have a positive impact on the performance of employees in Nepalese commercial banks. However, the study shows that racial discrimination and corruption hurt employee's performance in Nepalese commercial banks. The study also concludes that teamwork followed by discipline and racial discrimination is the most influencing factor that explains employee performance in Nepalese commercial banks.

X. IMPLICATIONS

It is observed that the independent variables (respect, teamwork, reward and punishment, leadership style, and discipline) have a positive relationship with employees' performance. Hence, the banks willing to enhance the employees' performance should have emphasized respect in their mission statement, or listed respect as a core value of their organizations; should focus on teams assist to inspire each other and to surge advantages from cooperative of working together as a team; should focus on providing better reward and punishment to employees; should focus more on good leadership style; should focus on maintaining the discipline to employees.

XI. SCOPE FOR FUTURE RESEARCH

There remains enough ground of scope in terms of data, models and methodology for studies in days to come. Further study may use secondary data as a sample for the more convenient result; may include other financial sectors such as development bank, finance companies and micro-finance companies; may use larger sample size and longer period; may use non-linear statistical tools and bidirectional causality tools.

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