Moderating Role of Ethical Climates on HRM Practices and Organizational Performance:
A Proposed Conceptual Model

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Abstract

Based on the Resource Based View (RBV) perspective, HRM practices are the best way of utilizing vital internal resources that influence performance in organization. Some scholars used individual practice while others used bundles. Despite these studies, however, previous studies have attempted to consider the influence of HRM practices on organizational performance. Some of the studies, have reported mixed findings; therefore, a moderating variable is suggested. This paper proposes ethical climates (EC) as potential moderator on the relationship between HRM practices and organizational performance to enhance the relationship.

Keywords: HRM practices, Organizational performance, Ethical climates, Training and Development, Compensation

1. Introduction

According to Laitinen (2009) argued that performance is the ability of an object to produce results in a way of consistent with set system, in relation to a target. Performance measurement can help public organizations to establish organizational efficiency. Organizational performance can be critically explained as a function of the organization ability to possess, develop, and use physical and goals with an acceptable outlay of a resource while ensuring sustainability over the long term, and good performance in an organization always means the work done efficiently and effectively and remains much relevant to the stakeholders (Ali, 2011; Moulin, 2007). Similarly, Antony and Bhattacharyya (2010) debated that organizational performance is all about the process in which organizational success is measured with regards to the value it creates and deliver to internal as well as external clients. Even though a narrow meaning of organizational performance mainly focuses on efficiency- and Effectiveness-related matters, a comprehensive explanation covers, efficiency and effectiveness, equity, responsiveness, fairness, managerial expectations employee satisfaction, and the use of performance measurement and performance evaluation (Hijal-Moghrabi, Sabharwal, & Berman, 2015).


However, these studies help us to understand the factors influencing performance in organisation, literatures indicate that more attention should be paid to the HRM practices and performance more especially in public sector organisation. Although, there are inconsistencies and mixed reporting, some studies reported positive significant relationship (Akhtar, Azeem, & Mustafa Mir, 2014; Bourne, Pavlov, Franco-Santos, Lucianetti, & Mura, 2013; Karami et al., 2015). Others revealed negative relationship, such as (Beh & Loo, 2013; Kraimer, Wayne, Liden, & Sparrowe, 2005; Meier & O’Toole, 2013), while others show insignificant findings (Abdullah, Ahsan, & Alam, 2009; Vlachos, 2008; Wood,
Van Veldhoven, Croon, & De Menezes, 2012). As there is need for moderating variables to improve the relationship (Baron & Kenny, 1986), this paper is proposing the moderating role of EC. Though the paper is theoretical, if validated, the model would have important policy implications on organisational performance, more specifically in educational sector. Earlier, EC has simply explained by Victor and Cullen (1987) as perceptions of what ethically correct behavior is, and how ethical issues should be handle in an organization, it can be also seen as organization’s policies, procedures, and ethical conduct that guides an individual to behave with maximum level of ethics for organizational success (Schluter, Winch, Holzhauser, & Henderson, 2008). In other words, EC influences both decision making as well as performances in an organization (Martin & Cullen, 2006). Previous studies found EC as a good predictor on organizational performance (Hijal-Moghrabi et al., 2015; Manroop, Singh, & Ezzedeen, 2014).

Therefore, the objective of this paper is to examine the moderating effect of EC on the relationship between HRM practices (training & development, compensation, performance appraisal, promotion opportunity) and organisational performance. The paper is divided into six parts. The first part is introduction, the second part is literature review, part three is research framework, part four is theoretical underpinning, while, part five is methodology which comprises, the study population; sample; and techniques for data analysis, and the final part is conclusion.

2. Literature Review

Although organizational performance construct has gained a lot of momentum for several decades now, however, the reviews of the literature indicated that there is lack of agreement regarding not only the terminology used, but also the definition offered what is considered to be a similar construct (Ford & Schellenberg, 1982; Johannessen, Olaisen, & Olsen, 1999). For instance, the word organizational performance used interchangeably with firm performance (Kawshalya & Aruppala, 2014; Koufteros, Verghese, & Lucianetti, 2014; Velnapmy, 2013) while others considered organizational performance (Alsubayrir, 2014; Arshad, Azhar, & Khawaja, 2014; Carlos Pinho et al., 2014; Suthar et al., 2014; Trehan & Setia, 2014). Although different terminologies are used by organizational behaviour researchers, apparently they agreed that, it is a regular activity to achieve organizational goals and objectives, monitoring the progress toward the goals achieved, and continue making adjustment to achieve more goals efficiently and effectively (Burtonshaw-Gunn & Salameh, 2009). This study will use the term organizational performance as we focus on public sector.

Organizational performance is generally used as dependent variables in academic literature today. At the same time, it remains one of the most indefinite and important constructs that faced so much attention by different scholars (Shook, 2005). That is why academic researchers as well as practitioners gave much attention to discover the determinants of the organizational performance and what are the machineries that can influence, positively or negatively, the organizational performance (Jing & Avery, 2011).

Previous empirical studies were conducted using bundles of practices in determined performance in an organisation. For instance, the study conducted by Akhtar et al. (2014) on the impact of HRM practices and perceived organizational performance with fifty samples collected from different higher educational institutions in Pakistan. The study uses seven HRM practices like, staffing, training, compensation, performance appraisal, grievances procedure, empowerment and promotion. The result shows significant positive relationships among all items except promotion with organizational performance in that study. Similarly, Abdullah et al. (2009) conducted their study on the relationship between HRM practices and performance in Malaysian private firms where 153 managers participated as respondents. The composition of six (6) practices were utilized in the study (training & development, teamwork, HR planning, performance appraisal, employee security, & compensation). The result indicates that there is significant positive relation between the four HRM practices and performance. Compensation and employee security proves irrelevant in the study. Moreover, the study of Moideenkutty et al. (2011) look different where they used High involvement HRM practices as one, on the relationship between HRM practices and organizational performance in Oman. The regression analysis indicated that, high involvement HRM practices has positive relationship with subjective organizational performance and objective measure of performance. In addition, Akhtar, Ding, and Ge (2008) conducted a research on the strategic HRM practices and their impact on company & performance in Chinese enterprises where they used 465 samples, with Six (6) practices (Training, participation, performance appraisal, Career opportunities, Job descriptions, & Employment security). Quantitative findings shows that (4) practices related to both financial & service performance while employment security & job descriptions contribute exclusively.

However, other previous studies used moderating variables to clear the doubt in the literature on relationship between HRM practices and organisational performance, but still the moderation did not supporting some of the studies (Triguero-Sánchez, C. Peña-Vinces, & Sánchez-Apellániz, 2013; Vanhala & Stavrout, 2013). The present study will consider four HRM practices on performance to be moderated by EC as potential moderating variable. However, this
The paper chooses to study HRM practices as the internal factors that influence performance in an organization. According to Wernerfelt (1984) Resource Based View (RBV), human capital asset creates competitive advantage and improves performance through employees behavior. Therefore, employees can perform through effective utilization of internal resources based on HRM practices.

### 2.1 HRM practices and Organisational performance

The practices considered to discuss in the relationship on organisational performance are training & development, compensation, performance appraisal, promotion opportunity.

#### 2.1.1 Training & Development

Training and development practice is an essential element of human resource management (Vlachos, 2008). Tai (2006) argued that training and development plays a vital role for increasing ability, work adaptability, flexibility, motivating employees and maintaining necessary competence. Similarly, training and development is the vital area of HRM, it is the fastest growing part of personnel activities. Also, it is more understandable given the growing difficulty of the work atmosphere, the rapid change in organizations and improvement in technology, among others (Bature, Friday, & Mustapha, 2013; Obi-Anike & Ekwe, 2014; Salome & Rotimi, 2013). Again, training and development is considered as one of the most extensive human resource management practices (Boselie, Dietz, & Boon, 2005). The overall focus of training and development in an organization is improving the organizational, team, groups and individual effectiveness and efficiency (Kraiger & Ford, 2007). Similarly, training and development is an essential element why because, most of the country used it to develop the skilled and intellectual of its personnel to attain performance (Jauhar, Abdul Ghani, Joarder, Subhan, & Islam, 2015).

Previous studies on training and development and performance found positive significant result, for instance, the study conducted by Arshad et al. (2014). In Asian context Pakistan organization using HRM practices and organizational performance with training and development as one the highest predictor of performance. Again, one study by Islam and Siengthai (2010) in Bangladesh industries in DEPZ area with 53 samples 216 respondents, the result of the study revealed that training and development is significantly related to performance. While, some studies shown that there are indirect and insignificant relationship between training and development and organizational performance (Osman, Ho, & Carmen Galang, 2011; Vlachos, 2008). The present study hypothesizes that:

**H1:** Training & Development positively relates to organizational performance

#### 2.1.2 Compensation

According to Huselid (1995) compensation system is known as employee merit and it is commonly linked with organizational outcomes. Similarly, compensation simply refers to all economic payments and all commodities used in its place of monetary incentive employees (Islam & Siengthai, 2010). Thang (2004) argued that compensation and reward can be influential tools for attaining efforts from the personnel to fulfill the organizational objectives. In Malaysian context compensation is an important practice that increase job satisfaction (Jauhar et al., 2015) and job satisfaction leads to organizational performance (Rodrigues & Carlos M, 2010; Yousef, 2000). According to expectancy theory of Vroom (1964), reward is a form of direct and indirect compensation packages and it has potential to influence employee work motivation. However, compensation practice vary significantly across employing organizations and to some degree across jobs. From the side of employees, the compensation practice brings out job satisfaction and they feel motivated to do more in exchange. This is followed by low absenteeism, and low turnover (Quartey & Attiogbe, 2013). Similarly, compensation practice has found as an important determinant for job satisfaction and in return leads to organizational performance (Joarder & Sharif, 2012).

Many empirical studies were conducted between compensation and organizational performance and found links and positive significant relationships. The study conducted by Beh and Loo (2013) in Malaysian insurance firms with 312 respondents comprises of the top management, executives, non-executives and managers. The quantitative result revealed that compensation practice significantly relate to performance. Similarly, another study conducted by Ko, Huc, and Smith-Walter (2013) in USA using 2011 federal employees in survey study, the quantitative analysis finding shows that compensation is positively related to performance. However, the studies of Newton (2015) and Abdullah et al. (2009) contradict the result from the above studies; the two studies indicated that compensation has no significant relation with the organizational performance. This present study hypothesizes that:

**H1:** Training & Development positively relates to organizational performance
H2: Compensation positively relates to organizational performance

2.1.3 Performance Appraisal

According to Islam and Siengthai (2010) performance appraisal has attracted a countless deal of attention. For instance, Levin (1986) identified some importance of performance appraisal such as employee merit appraisal, assessment of employee training needs, determining of employee salary, response and suggestion of employee past performance and employee development for the organizational success. However, Performance appraisal is seeing as continuous process not just a year’s exercise. It is the official system of time to time evaluation and assessment of an employee or group’s job performance and make sure feedback is provided when due (Islam & Siengthai, 2010). Again performance appraisal practice is showing much relevance to organizational success as the goals of an organization is becoming specific through quantification and enumeration. Organizational goal is always set through performance appraisal and it has been revealed that it has done well a lot in the public service in spite of its subjectivity (Murphy & Cleveland, 1995). Performance appraisal enables organizations to amend with a view to improve on its services for the enhancement of its persistence and growth. Also, it supports management to establish whether their organizations are successful, declining or stagnant (Boyne, Farrell, Law, & Powell, 2003). According to Joarder and Ashraf (2012), performance appraisal is a key to provide incentive to the talented personnel to be satisfied with the organization.

Several empirical studies revealed that performance appraisal leads to performance. For instance, the study conducted by Islam and Siengthai (2010) in Dhaka Export Processing Zone (DEPZ) Bangladesh, using 53 samples of Enterprises with 216 respondents, a quantitative regression analysis findings revealed that performance appraisal is positively related to performance. Similarly, the survey research conducted by Osman et al. (2011) using Performance appraisal and firm performance in Malaysia with 800 different industry sectors, the regression result shows significant positive relationship on performance. However, one study explained contrary to the aforementioned studies, were insignificant relationship revealed in the findings (Meier & O'Toole, 2013). This present study hypothesizes that:

H3: Performance appraisal positively relates to organizational performance

2.1.4 Promotion Opportunity

Promotion opportunity system affects nearly all aspects of organizational circle, mostly evident from studies of HRM (Fuller, 1998; Katou & Budhwar, 2010; Phelan & Lin, 2001). Promotion opportunity simply be explained as the extent of professional upward flexibility within the organization. In the other hand, it is the kind of official appreciation or acknowledging of one’s performance from the top (Tan, 2008). Similarly, given the importance of promotion opportunity in an organization, it is considered to has significant influence on daily activities, for instance grievances filed associated to promotion decision and employee attitudes (Allen, 1997; Ferris, 1992). An important discussion on the promotion opportunity systems can be found in the organizational literature. According to Baker, Jensen, and Murphy (1988) a promotion system fills two vital determinations. To start with, it chooses more capable people for positions of more noteworthy obligation (the occupation task or coordinating capacity of the promotion system). Also, it motivates workers at one level to attempt harder to achieve the following one.

Previous studies found positive significant relationship between promotion opportunity and organizational performance. Bonavia and Marin-Garcia (2011) conducted the empirical study by using quantitative method and seventy six samples using SPSS. On their study, human resource management practices and their impacts on organizational performance in Spain, they found promotion practice have positive significant relationship on organizational performance. Similarly, Katou and Budhwar (2010) conducted study between HRM practices and organizational performance using promotion opportunity as one of the performance predictor and the result of the study explained significant positive relationship. However, some studies used promotion opportunity to predict organizational performance, but found it insignificant (Akhtar et al., 2014; Fey, Morgoulis-Jakoushev, Park, & Bjorkman, 2007). The present study hypothesizes that:

H4: Promotion opportunity positively relates to organizational performance

2.2 EC as a potential moderator on the relationship between HRM practices and organizational performance.

EC has been defined by Victor and Cullen (1987) as the sharing of perceptions of what is ethically correct behavior and how ethical issues should be handled. According to Schluter et al. (2008), EC represents the organization's policies, procedures and practices on ethical issues, and it influences employees' attitudes and behavior and serves as a
reference for employee behavior. Similarly, changing the unethical behavior of members in an organization through the help of EC may have important impact on organizational performance and entire system (Arulrajah, 2015). An ethical climate has an effect on the degree to which an organization encounters genuine ethical issues. With a specific end goal to enhance the ethical reactions of organizational members, consideration ought to be centered around changing the EC through recruitment and selection (Baker & Cooper, 2000; Shen, Chanda, D’Netto, & Monga, 2009), training and development (Roberson, Kulik, & Pepper, 2003), performance appraisal (Brown & Stilwell, 2005; Winstanley & Hartog, 2002), compensation and reward system (James Jr, 2000; Rowan, 2000) and employee relations (Erdlen, 1979). These studies infer that changing the unethical conduct with the help of EC may have a critical impact on organization performance and its reputation. Organizational ethics are thought to be one of the most imperative elements that influence organizational success as well as survival (Bartels, Harrick, Martell, & Strickland, 1998; Buller & McEvoy, 2000). Again, Martin and Cullen (2006) considered EC as related to established normative system of an organization.

Several studies were conducted to find the moderating role of EC in the various field of academic literature. It is very recent, the study conducted by Nafei (2015) using ethical climates as moderator on the relationship between job satisfaction and organizational commitment in Egyptian industrial companies, with distribution of 372 sample questionnaires where 295 were returned representing 79% as response rate. The multiple regression analysis result revealed that there is significant relationship between JS, EC and OC. That study found that it is good to give emphasis on EC because it is one of the key sources leads to competitive advantage in organization considering the positive relationship found between the JS and OC. Similarly, Zehir, Muceldii, and Zehir (2012) conducted study to explore the moderating effect of EC among the two variables, satisfaction and commitment in 192 large Turkish companies. The result revealed that EC positively moderate the relationship between job satisfaction and organizational commitment including the dimensions of JS. Other studies use EC and found positive results (Cheng & Wang, 2014; Oncer & Yildiz, 2012; Zehir, Muceldii, Altindag, Shehitoglu, & Zehir, 2014).

H5: EC relates to organizational performance

In general, from the above empirical evidences we got to understood that EC has been used as moderating variable and yield significant positive result. Based on this, the present study will employ EC to moderate the relationship between the four HRM practices and organizational performance, specifically in educational sector in Nigeria. So the moderating hypothesis will be develop as:

H6: EC moderates the relationship between training & development and organizational performance
H7: EC moderates the relationship between compensation and organizational performance
H8: EC moderates the relationship between performance appraisal and organizational performance
H9: EC moderates the relationship between promotion opportunity and organizational performance

2.3 Proposed Conceptual Model

The research framework will be framed to examine the moderating role of EC on the relationship between HRM practices and organizational performance, more specifically in educational sector performance to be tested in Nigerian educational sector. RBV theory suggested that internal resources leads to competitive advantage in an organization, HRM practices are considered the major internal resources as argued by Saleem and Khurshid (2014). Based on the above stated justification the researcher intended to employ HRM practices as Independent variables. While on the EC as the moderating variable, previous studies found EC as a strong predictor of organizational performance (Hijal-Moghrabi et al., 2015; Manroop et al., 2014), others prior studies tested EC as moderator on the relationship between job satisfaction and organizational commitment in Asian context (Zehir et al., 2012), African context (Nafei, 2015) result of the previous studies explained positive moderating effect. Based on the above empirical evidences, a proposed research framework for this study illustrating the moderating effect of EC on the relationship between HRM practices and organizational performance is depicted in Figure 1.
2.4 Underpinning Theory

The resource based view (RBV) will be an underpinning theory on the present paper. RBV of a firm has been around for more than a quarter century, source can be followed back to before inquire about the originators Barney and Penrose. RBV happened somewhere around 1983, 1984 and the mid-1990's (Barney, 1991). The RBV argued that organizations have resources, a subset of which empowers them to accomplish competitive advantage, and a subset of those that prompt predominant long haul performance. Again, RBV emphasized that human capital asset creates competitive advantage and improve organisational performance through employees behavior. Therefore, employees can perform through effective utilization of internal resources base on HRM practices. Similarly, In the opinion of Manroop et al. (2014) In RBV perspective, EC has been linked to add value to HRM practices and organizational performance in terms of playing a vital role to attain organizational success. EC Emphasizes on having strategic value for organization and how human resource systems may help that value to attain result. In general, based on the stated argument, the present study intends to use RBV to explain the research frame work.

2.5 Proposed Methodology

The present paper intends to use quantitative method, a primary data will be collected using questionnaire, and the focus of the study is educational sector performance in Nigeria using some selected states. Department are choosing as unit of analysis, as suggested by Gould-Williams (2003). The sample to be use is 169 from the total population of 297 based on Krejcie and Morgan (1970) determining sample size table. PLS SEM will be use in the data analysis, it is a second generation analysis technique which came to overcome the shortcomings of the first generation statistical techniques like of Manova, Factor analysis, Analysis of variance. It also considered important in testing measured, latent variables and complex model (Hair, Sarstedt, Hopkins, & Kuppelwieser, 2014).

3. Conclusion

This paper has proposed the moderating role of ethical climates on the relationship between HRM practices and organizational performance, as depicted in Figure 1. If the proposed framework empirically validated, finding will provide important insight to the policy makers, academics and practitioners into the significant direct effect of HRM practices on organizational performance as well as the indirect effect of EC on the relationship between HRM practices on organizational performance in Nigerian educational sector.

References


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