

# Role & Importance of Ethical Orientation of HRM in Organizations

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## ABSTRACT

*This paper reviews the existent literature on creating and sustaining ethical culture and climate through human resource management (HRM) by discussing the Role & Importance of Ethical orientation of HRM in today's organizations. It is 'the extent to which HRM functions have been directed to create, enhance and maintain ethicality within employees, to generate an ethical work force in the organization' However, moral lapses continue to happen in business activities, leading academicians and professionals to rethink what is being done and reinventing new strategies to successfully manage ethics in business organizations. Thus, human resource systems and ethical corporate cultures should be considered partners in the process of creating competitive advantage for organizations. This review indicates different forms of ethical issues that still widely exist in the organizations. Thus, human resource systems and ethical corporate cultures should be considered partners in the process of creating competitive advantage for organizations.*

**Key words:** ethical orientation, ethical culture, ethical climate, ethical behavior, business ethics.

## I. INTRODUCTION

There has been an increasing concern about the prevalence of unethical behaviors within business organizations. Increased media attention has exposed numerous instances of abuses, scandals, fraud and corruption (Bartels et al, 1998). Hence, it is the main concern of all professionals and disciplines to explore all possible ways of creating and sustaining ethical behaviour and activities within the business organizations. Actually the issue of ethics in organizations dates back to first organizations (De George, 1987; Donaldson, 2001; Özgener, 2004). Accordingly, the concept of business ethics is relatively new compared to ethics (De George, 1987). Along with the process of globalization, business ethics has emerged as a hot topic both in the business and academic world (Bennington, 2007; Spence, 2000). Managers' belief that ethical policies would contribute to the long-term success of organizations have brought ethics to the fore (Tekinay, 2003).

Traditionally, most of the formal ethics programmes have exclusively focused on using codes of ethics, bulletins, memos and similar explicit/ formal practices. However, the use of such mechanisms is commonly associated with window-dressing purposes, surely due to the pressures/ demands of societal institutions such as government

agencies, the media and even trendsetting members of the business community (Weaver et al., 1999). Moral failure in companies is then a probable logical result (Sims & Brinkman, 2003) as these mechanisms might be easily decoupled from daily organisational activities (Weaver et al., 1999). As such, ethics programmes should not be focused exclusively on these mechanisms but should consider other organisational mechanisms through which employees truly perceive that ethics is taken seriously by top management. According to Schein (1992), the organisational culture is a key influential mechanism in transmitting values to employees and in influencing their daily organisational behaviour. Therefore, in order to promote ethics, the organisational culture factor becomes essential, as does the transmission of ethical values, which is usually accomplished through the use of certain mechanisms such as codes of conduct, memos, bulletins, trainings programmes, myths, histories and hotlines, among others. All of those mechanisms, when implemented in an orderly fashion, are said to constitute an ethics programme whose major function is to promote the awareness of ethical concerns among employees in order to enhance ethics at the workplace (E.R.C., 2001).

## **II. OBJECTIVES OF THE STUDY**

To explore the role and importance of Ethical Orientation of HRM (EOHRM) in creating, developing, retaining and motivating an ethical workforce in an organization.

## **III. LITERATURE REVIEW**

Understanding the ethical context of an organization to address the unethical issues has become crucial in the business world, and this need has been highlighted in many recent research papers (Palomina and Martinez, 2011; Debode et al., 2013; Arulrajah, 2015). However, despite increased attention on business ethics and ethical mechanisms implemented in business establishments to prevent unethical issues, moral lapses and high impact scandals continue to happen globally (e.g., Banesto, Enron, WorldCom, Arthur Anderson, Health South Corp, Countrywide, etc.). Unethical business activities and frauds have been identified as a growing concern in many countries throughout the world, in both developed and developing countries (Antonakas et al., 2014). The study by Bartels et al. (1998) with 1078 HR managers (members of Society for Human Resource Management-SHRM) explores statistically significant (a) negative relationship between the strength of an organization's ethical climate and the seriousness of ethical violations and (b) positive relationship between an organization's ethical climate and success in responding to ethical issues. As a result, interventions that strengthen an organization's ethical climate may help managing ethical behavior within the organizations. Hence, this re-emphasizes creating and sustaining ethical climate through HRM functions and practices. According to Victor and Cullen (1987), ethical climate has three primary dimensions: egoism, benevolence (utilitarianism) and principle (deontology) in terms of theories or ethical criterion. Similarly, with respect to every primary dimension, they also identified another three dimensions in

terms of locus of analysis (levels of analysis). They are individual level, local level (organisation itself) and cosmopolitan level (community or society at large). Alternatively, they defined the sets of primary dimensions and locus of analysis dimensions as two intersecting dimensions of ethical climate. Based on Victor and Cullen (1987), Arnaud (2010) has developed four dimensions of ethical climate of work: (1) “collective moral sensitivity” (moral awareness and empathetic concern), (2) “collective moral judgment” (focus on self and focus on others), (3) “collective moral motivation” and (4) “collective moral character”. However, these two approaches by Victor and Cullen (1987) and Arnaud (2010) do not have significant differences or contradictions. Notably, Victor and Cullen (1987) framework has gained most popularity among the researchers. Many scholars have stressed over time the importance of HRM in creating and sustaining ethical culture and climate in organisations (Smith and Carroll, 1984; Hosmer, 1987; Raelin, 1987; Koys, 1988; Lawler, 1988; Pocock, 1989; Johns, 1995; Flynn, 1995; Pickard, 1995; Arkin, 1996; Wehrmeyer, 1996; Caudron, 1997; Losey, 1997; Greengard, 1997; Compton, 1997; Bartels, Harrick, Martell and Strickland, 1998; Driscoll and Hoffman, 1998; Wiley, 1998; Gensing-Pophal, 1998; Hatcher, 2002; Shultz and Brender-Ilan, 2004; Wright and Snell, 2005; Vuuren and Eiselen, 2006; Sloan and Gavin, 2010; Thite, 2013; Parboteeah, et al, 2014). However, the clarity is needed in how functional dimensions of HRM can play an active role in this process. Therefore, the main objective of this review is to fill this gap in, and attempt to add knowledge to, the existing literature. In 1991, Society for Human Resource Management (SHRM) conducted a survey on “Ethical Issues in Human Resources Management”. As an extension, another survey conducted with 847 employment professionals and managers by Wiley (1993) has revealed five most serious unethical events: (1) hiring, training or promotion based on favoritism, (2) sexual harassment, (3) using discipline for managerial and non-managerial personnel inconsistently, (4) non-performance factors used in appraisals, and (5) allowing differences in pay, discipline, promotion, etc. due to friendships with top management.

#### **IV. ROLE & IMPORTANCE OF ETHICAL ORIENTATION OF HRM IN TODAY’S ORGANIZATIONS**

HRM is a set of unique activities, functions and processes that are aimed at attracting, directing and maintaining an organization’s human resources (Lado and Wilson, 1994). Opatha (2009) defines: “HRM is the efficient and effective utilization of human resources to achieve goals of an organization”. Greenwood (2002) argues that HRM involves the effective management of people to achieve organizational goals, thus implying managing of employees’ behaviour in consistent with organizational policies, norms, regulations and procedures and such employee behaviour is subject to ethical concern.

EOHRM (Ethical Orientation of HRM) is relatively a new concept and it had not been discussed until very recently (De Silva & Opatha, 2015; De Silva, Opatha & Gmage, 2016). There is an ethical dimension embedded in the HRM functions of an organization (Armstrong, 2012; Boxall et al., 2007; Greenwood, 2002; Winstanley & Woodall,

2000; Luthans, 2013). In order to maintain justice, fairness and well-being towards its stakeholders, an organization should perform its HRM functions ethically (Armstrong, 2012). This is to exercise social responsibility, or to be concerned with the well-being of employees, and take ethical decisions towards the needs of employees and the community (p. 100). In other words, to take ethical decisions and behave ethically in organizations.

In addition to being concerned on the above aspect, it is equally important to focus the scholarly attention on other possible aspects of the ethical dimension of HRM. This is vital to address the recurring global issues on corrupt behaviors of employees at work. The critical, yet to explore aspect of the ethical dimension of HRM is its novel aspect, EOHRM, or 'the extent to which HRM functions have been directed to create, enhance and maintain ethicality within employees, to generate an ethical work force in the organization'.

EOHRM is 'the extent to which HRM functions are directed to acquire, maintain and motivate employees who are ethical'. Based on the above understanding, authors developed a working definition for EOHRM. The working definition of EOHRM for this study is:

**“EOHRM is the extent to which HRM functions are directed to generate, maintain, retain and motivate an ethical employee force for the organization”.**

According to the above working definition, EOHRM is defined as the extent to which HRM functions incorporate ethical matters so as to make employees ethical. It is the extent to which ethics are incorporated into HR functions in order to acquire, develop, retain and motivate an ethical workforce.

Empirical evidence suggests that recruitment and selection functions of HRM have chances to hire highly ethical concerned people to the organization. By recruiting and selecting high caliber as well as ethical concerned people, an organisation can develop a positive organisational ethical climate within the organisation. Organization" s HR department must ensure that employment policies and practices provide more priority to hire highly ethical centered people to the organization, while blocking unethical people to enter into the organisations. HR managers usually tend to bring ethical concerned people into, and promote ethical employee behavior within, the organisations. Human resource professionals and line managers who recruit and interview job seekers must consider the ethical concern of the candidate as one of the major criteria in the employee selection process.

Secondly, there is anecdotal evidence showing that ethical training and managing ethics are receiving considerable attention from organizational management. To sustain positive ethical climate, training and development are very important within the organisation. An organisation must design specific training programmes to cater for all segments of the employees. With the intention of improving the ethical responses of organizational members, attention should be focused on changing the organization's ethical climate through training and development (Delaney and Sockell, 1992).

Many organizations also take account of ethical actions and behaviour in their performance appraisal systems. Performance evaluation processes must reflect the balance between means and ends. That means how people in the organisation achieve organisational goals and objectives. By monitoring both how and whether goals are achieved

ethically must be incorporated within the performance evaluation system. Ethically insensitive monitoring processes fail to detect illegal and immoral behavior and may actually make such practices more likely (Useem, 1998). Thus, this review indicates that organizations can create and sustain ethical climate through performance evaluation function of HRM by developing and implementing ethically oriented performance evaluation policy, procedures and practices. HR professionals must design and develop performance evaluation system with ethical concern. They also ensure the proper implementation of performance evaluation system in an ethical manner.

There is one more factor to be consider in this context : Inadequate rewards and pay inequality are main causes of job dissatisfaction and de motivation among the employees. In this context, pay management can play a critical role in creating and sustaining positive ethical culture and climate in organizations. Organizations must encourage ethical behavior by rewarding it monetary and non-monetary ways. At the same time, pay and reward system of an organization must eliminate unethical behavior and activities by punishing them (James, 2002).

Good employee relations provide employees with opportunities to voice their reactions to management decisions and policies (Gomez-Mejia et al, 2001) which lead to motivated, loyal, and performing employees (Daniel, 2003). By creating and maintaining good employee relations through HRM, organisation can poster the positive ethical culture and climate in the organisations. According to Erdlen (1979), ethics in employee relations is very much important to the organizational success.

Empirical evidence also suggests that managers, employees and different sub-groups within an organization often have different perceptions of ethical management. Therefore, every organisation must design appropriate ethical polices and implement those policies into the HRM functions and practices with the help of HR department. The HRM department often provides the means by which ethical practices are implemented to build an organization with an ethical culture (Miceli et al, 2009).

## **V. CONCLUSION**

A distinct side of the HRM termed EOHRM, which is a new concept in HRM, was explored. The paper discussed how EOHRM is directed to overcome the above unethical challenges, through the HRM functions. The authors constructed working definitions for the main variables in the study, EOC and EOHRM. According to the working definition, EOHRM is defined as ‘the extent to which HRM functions incorporate ethical matters so as to make employees ethical’. Thus, EOHRM is the extent to which ethics are incorporated into HR functions in order to acquire, develop, retain and motivate an ethical workforce. This study was limited to identifying the direct influence of EOHRM (acquire, develop, retain) on organization , with mediating or moderating effects of three variables only: Ethical Attitude, Ethical Competence and Personal Character of employees. There may be other individual, situational and external variables etc., directly or indirectly influencing the link, EOHRM and Organizations.

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