Contribution of Human Resource Management in Creating and Sustaining Ethical Climate in the Organisations

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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 major issue and objective of managing ethical culture and climate and examining the state of human resource management in the same context. This review indicates different forms of ethical issues that still widely exist in the organisations and also reveals limited literature that examines how ethical culture and climate can be managed in organizations through effective HRM. The findings of this review present the contribution of functional dimensions of HRM in creating and sustaining ethical culture and climate at all levels in the organisations. This review also discusses the implications for practice and further research in relation to creating HRM-based ethical climate in organizations.

Key Words: Ethics, Ethical Culture, Ethical Climate, Human Resource Management

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.

Changing the unethical behavior of organisational members through ethical culture and climate may have significant effect on organizational performance and reputation. Ethical climate has been defined as the shared perceptions of what ethically correct behavior is and how ethical issues should be handled (Victor and Cullen, 1987). According to Olson (1995) and Schluter et al (2008), organisational ethical climate represents the organization’s policies, procedures and practices on ethical issues, and it influences employees’ attitudes and behaviour and serves as a reference for employee behaviour. In 1998, Olson defined ethical climate as individuals’ perception of how ethical issues in their work environment are handled. According to Johnson (2008), ethical climate means how an organization responds to ethical issues. He also stated that ethical climate determines right or wrong of what members believe and shapes their ethical decision making and behavior.

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; Grensing-Pophal, 1998; Hatcher, 2002; Shultz and Bender-Ilan, 2004; Wright and Snell, 2005; Vuuren and Eiselen, 2006; Sloan and Gavin, 2010; Thite, 2013; Parboteeaha, 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.

On the other hand, research by Vuuren and Eiselen (2006) showed that human resource (HR) practitioners on average believe that they indeed have an ethics management competence and should involve in ethics management. Progressively, HR managers take the lead in recognizing the need for the programs of ethics and making them happened (Driscoll and Hoffman, 1998). The reasons they pointed out that those who are in the leadership positions in HRM are highly respected within their organizations for integrity. All and above, they have the capacity to solve complex ethical dilemmas, understand the organization’s culture and communicate it at all levels in the organisation.

HR is increasingly seen more as a strategic business partner than ethical steward in the strategic HRM (Sloan and Gavin, 2010). The role of HRM in promoting ethics and ethical behaviors in organizations is undeniable (Caldwell, Truong, Linh and Tuan, 2011). Parboteeaha et al (2014) indicate that from the HRM perspective, ethical climates represent an important window to understand the ethical orientation in an organisation. Understanding the existence of ethical climate in an organization can therefore be very much helpful as a basis for developing HRM practices to foster an ethical culture.

Thite (2013) shows that how the human resource development (HRD) or HRM can play a pro-active role in embedding ethics and values throughout the organizational and HR architecture. Wright and Snell (2005) noted that the ethical climate raises a real challenge for HR in balancing business and ethical values. According to Thite (2013), studies on ethics in HRM and HRD are still limited, thus urging for further empirical investigations. Many scholars agree that HRM plays a critical role in promoting ethics. The HRM functions can
play an instrumental role in creating an ethical culture and climate in the organisations (Parboteeaha et al, 2014).

It is specifically and clearly notable that HRM has a significant contribution in creating and sustaining ethical culture and climate in an organisation. Ethical status is nowadays seen as one of the key determinants of an organization’s ability to attract and retain talents; and HR professionals play a key role in institutionalizing ethical culture and climate into the organizational systems in terms of ethics-related decision-making processes, audits, training, whistle-blowing mechanisms and disciplinary procedures (Foote and Ruona, 2008). Winstanley and Woodall (2000) emphasized that all areas of HRM policies and practices must have an ethical perspective. The HR functions can play a vital role in embedding ethics into HR philosophy, policies and procedures (Thite, 2013).

By reviewing literature relating to HRM and ethics in the organizations, this review concludes that HRM can contribute to create and sustain ethics, ethical culture and ethical climate by embedding ethical orientation in each and every functional dimensions of HRM in organizations, since ethical climate has an impact on the extent to which the organization experiences serious ethical problems. This review also indicatively explores that attention should be focused on changing the organization’s ethical climate through recruitment and selection, training and development, performance appraisal, pay and reward management, and employee relations. The rest of this paper is organized with methodology, major issues and objective of ethics in organizations, HRM and organizational ethical climate, and conclusion.

**Methodology**

As this paper explores the contribution of Human Resource Management in creating and sustaining ethical culture and climate in the organizations, this paper uses Tranfield et al (2003) for reviewing literature with an archival method, which enables the reviewer to structure research and build a reliable knowledge base in this field. The analysis of the review process includes classifying the literature in a functional model of HRM and using collected publications from the relevant books, journal articles, edited works, and other research papers. This review considers the works on the ethical aspects of HRM appeared in the literature.

**Major Issue and Objective of Ethics in the Organisations**

Ethical organisational culture and climate are necessary to guide employees to behave ethically to achieve organizational goals and objectives. Generally, the fundamental issues in ethics in organizations are: creating and sustaining positive ethical culture and climate against discrimination, favoritism or inequality. Shen et al (2009), with a comprehensive review of literature with empirical investigation, show that inequality and discrimination still widely exist in the organisations. There are many scholars who have emphasized the same view in the literature (Rynes and Rosen, 1995). These are fundamental issues in ethics in an organization. As a result, ethics has increasingly become a ‘burning issue’ in political, legal, corporate and educational arenas. In an organizational context, creating and sustaining a strong ethical culture and climate are highly an ever challenging task for organizations.
Organizational ethical culture and climate include broader values and normative patterns that guide employee behavior. An organization culture is the set of beliefs, norms and practices that are shared by an organization’s members. In general, positive organisational climate encourages and enforces the employee to have appropriate ethical behaviour in the organization. Ethical behaviour of the employee is crucial to achieve optimum organisational goals and performance. As performance management and ethics have intimate relationship (Winstanley and Hartog, 2002; Brown and Stilwell, 2005), it is not clear whether existing achievement of an organization is reached with ethical behaviour of its employees. This study urges that extended studies should widely investigate the relationship between organizational performance and employees’ ethics, since Brooks and Selley (2008) argue that creating and sustaining an ethical climate is a key determinant of stakeholder support and success. It also emphasizes that such studies should crucially consider HRM functions as the tools for their investigations.

The objective and purpose of creating and sustaining good ethical culture and climate are to be a good business or good organisation in the society. If an organization can successfully inculcate an ethical culture and climate into the way it does business, it is highly likely that the organisation will be more successful than an unethical counterpart (Brooks and Selley, 2008). Hence, this paper critically argues that the successful creation of ethical culture and climate is highly possible through HRM functions and practices, since HRM mostly concern with employees’ behaviour, individually.

**HRM and Organisational Ethical Climate**

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.

The HR function has grown substantially over the past few decades and now covers the whole gamut of people management processes. There are different views about the nature of HRM and the existing variety of HR practices adopted by various organizations (Boselie, Dietz and Boon, 2005). Nevertheless, it is widely recognized that the key practices of HRM include recruitment and selection, training and development, performance management, pay and reward management and employee relations (Shen and Edwards, 2006). The ability of HRM to influence ethical behaviour is highly dependent on the status of the functions within the organisation (Foote, 2001). HR professionals’ competence in resolving ethical dilemmas is critical to the success of a business (Wiley, 1993). Some primary functions or activities of HRM (e.g. staffing, performance evaluation, compensating, and training) have a direct impact on society (a sense of social responsibility or directly affect the quality of life of people in a country). Each of these primary activities influences people in ways that are outside their control (Hosmer, 1987). Particularly, within the discipline of HRM, it has been argued ‘raising ethical awareness and sensitivity is the main task for both HR academics and professionals’ (Winstanley and Woodall, 2000). The role of HRM with regards to ethics owes more to cloudiness than clarity. Its role can be considered in two dimensions: the ethics of the function of HRM itself and the ethics of HRM activities (Maxwell and Beattie, 2004).
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.

**Recruitment and Selection**

According to Opatha (2009), “recruitment is the process of finding and attracting suitably qualified people to apply for employment”. In the HRM literature, “selection is the process of making the choice of the most appropriate person from the pool of applicants recruited to fill the relevant job vacancy (Opatha, 2009)”.  

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 behaviour 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.

However, despite several decades of equality legislation and declared commitment to equal opportunities, there still exists a systematic discrimination in the recruitment and selection process (Shen et al, 2009). A study conducted by Bennington and Wein (2000) in the Australian context found that there is widespread discrimination in employment. The Equal Opportunities Review (1995) and Holly (1998) presented the evidence of discrimination in recruitment and selection processes in the public sector of UK, thus appealing for ethical concern in recruitment and selection process.

Therefore, recruitment and selection functions of HRM in the organisations can address ethics in the same process. HRM must ensure active and energetic practice of equal employment opportunities, generally in recruitment and selection, and more specifically in employment interviewing and psychometric testing (Spence, 2000; and Baker and Cooper, 2000). In this context, this paper argues that less attention has been paid to valuing, creating and sustaining ethical culture and climate in the recruitment and selection functions of HRM. This implies exploring the importance of HRM functions and practices to bring sustainable ethical culture and climate in organizations.

**Training and Development**

Opatha (2009) defines “Training and development is a formal process of changing employee behaviour and motivation in the way that will enhance employee job performance and then organisational overall performance”.

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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). High quality ethical training is one of the HR training functions that enhances the effective integration of ethical behaviour and actions among the employees. Awareness training related to ethics builds a common understanding of the value of ethics and assists in creating ethical behaviour for improving individual and organizational outcomes. Roberson, Kulik and Pepper (2003) recommended that companies must clarify training objectives and systematically conduct a training needs assessment. Hence, participants in the training programme related to ethics should know whether the training programme can improve ethical awareness and develop skills related to create and sustain ethical climate within organizations.

In creating and sustaining ethical climate, a top down training strategy may be important for providing awareness training to top level managers first and then to others. Education and training should be tailored to the specific needs of the organization, division, level, team or individuals. Vuuren and Eiselen (2006) argue that HRM can develop ethics management competence among the organisational members through training and development, thus exploring the need for considering training and development to create and sustain ethical climate in organizations. Consistently, Brown (1995) also indicates that on-the-job training is playing a significant contribution in creating and sustaining ethical culture and climate in an organization. He cited an example that an experienced employee can help or support a new employee to resolve an ethical problem in the organisation.

HRM can ensure that members of an organization, including leaders, throughout the organization have the knowledge and skills to make ethical decisions through continuous education, learning, training and development. Ethics education and training must be a part of employees’ professional developments (Paine, 1996). Incorporating ethics into HRD through appropriate organizational interventions and developing more humanitarian ways of organizing task, duties and responsibilities are seen as new approaches in leading responsible organizations, beyond considering organizational earnings (Hatcher, 2002).

In this context, this paper highlights many avenues for valuing, creating and sustaining ethical culture and climate through different training and development programmes in HRM. Therefore, organisations and HR professionals must take energetic and active steps to create and sustain ethical culture and climate through training and development functions of HRM. This study also emphasizes that a systematic and continuous ethical training is needed at all levels to ensure the positive ethical culture and climate in organisations.

**Performance Appraisal**

In accordance with Opatha (2009), “*performance evaluation is defined as a systematic process of identifying, measuring, influencing and developing job performance of the employees in the organisation in relation to the set norms and standards for a particular period of time in order to achieve various purposes*”. Ethics can permeate through employee performance evaluation and management (Winstanley and Hartog, 2002).
Many organizations 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.

**Pay and Reward Management**

According to Opatha (2009) ‘pay management is the HRM function that deals with development, implementation and maintenance of a base pay system that is fair’. In an organisation, reward management is concerned with the formulation and implementation of strategies and policies, the purposes of which are to reward people fairly, equitably and consistently in accordance with their value to the organisation and thus help the organisation to achieve its strategic goals (Armstrong, 2006). These two definitions emphasize the importance of ethics in pay and reward management functions of HRM.

Inadequate rewards and pay inequality are main causes of job dissatisfaction and demotivation among the employees. In this context, pay management can play a critical role in creating and sustaining positive ethical culture and climate in organisations. Organizations must encourage ethical behavior by rewarding it monetary and non-monetary ways. At the same time, pay and reward system of an organisation must eliminate unethical behaviour and activities by punishing them (James, 2002).

Fair pay based on concepts of equity distributive justice, autonomy and respect (Rowan, 2000) is important to ensure the ethical concern and climate in the organisations. In order to improve the ethical concerns of organizational members, attention should be focused on changing the organization’s ethical climate through reward systems (Jansen and VonGlinow, 1985).

Thus, there may be incentives and rewards for members of the organisations who try to better manage ethical behavior in the organisations. Hence, this review indicates certain avenues for creating and sustaining ethical climate through pay and reward management functions of HRM. HR professionals must design, develop and implement innovative best practices which should reflect ethical orientation in pay and reward management functions of HRM.

**Employee Relations**

Arthur (1992) defined “employee relations as commitment-maximizing systems that enhance employee participation and involvement in decision-making processes”. Good employee relations also contribute to an environment that enhances competitive advantages through positive employee attitudes and commitment (Judge et al, 2001) and increased customer satisfaction (Koys, 2001). Employee relations refer to systematical organizational governance
that provides fair and consistent treatment of employees (Gomez-Mejia et al, 2001). 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. Based on these evidences, it is clear that employee relations function of HRM is another basis to create and sustain ethical climate in the organisations. Thus, this paper argues that organisations can develop and practice ethical oriented employee relations practices to create and sustain ethical climate in the organisations.

**Implementation of Ethical Policies and Code of Ethics**

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).

It is specifically and clearly notable that the above discussed functions of HRM have many avenues for valuing, creating and sustaining ethical climate in an organization. To materialize the functional potentials and in-built nature of HRM in creating and sustaining ethical climate, HR professionals must also work with top management of their organizations. Top management commitment to ethical behaviour should be reflected in the organizational vision, mission and business strategy in order to remove psychological and operational barriers to managing ethics within the organizations.

If such commitment is inconsistent with the current organizational culture, then a significant ethical climate change may be necessary in order to create an ethical climate within the organisation. At all levels, a range of ethical policies through HRM can be formulated in order to support the ethical management philosophy. Measuring the employees’ perception of the existing organisational ethical climate and culture and their expectations may be conducted to facilitate policy development.

Ethical policies at the operational level are implemented at the workplace, involving mainly educating employees, identity-based networking groups, targeting communications to different affinity group members, flexible employment and support for generating a work-life balance. If HR practices do not effectively reflect workplace ethics and justice, employees will develop a poor impression or perception of the whole process (Richard and Kirby, 1999). A study conducted by Bergström and Diedrich (2011) is really a good example to show, how HR can work in a highly ethical manner even in the downsizing context of Swedish High-Tech Company, without affecting the ethical and social responsibility image and reputation of the organization.
Conclusion

Embedding ethics into HRM functional dimensions through suitable organizational interventions and developing more benevolent ways of organizing work is seen as a new approach to the responsible organizations. Through this process, HRM can contribute to create and sustain ethics, ethical culture and ethical climate in the organisations. Embedding ethical orientation in each and every functional dimension of HRM is indispensable for every organization.

Ethical climate has an impact on the extent to which the organization experiences serious ethical problems. In order to improve the ethical responses of organizational members, attention should be focused on changing the organization’s ethical climate through recruitment and selection (Bennington and Wein, 2000; Spence, 2000; and Baker and Cooper, 2000; Shen et al, 2009), training and development (Delaney and Sockell, 1992; Brown, 1995; Paine, 1996; Hatcher, 2002; Roberson, Kulik and Pepper, 2003; Vuuren and Eiselen, 2006), performance appraisal (Useem, 1998; Winstanley and Hartog, 2002; Brown and Stilwell, 2005), pay and reward management, (Jansen and VonGlinow, 1985; Rowan, 2000; James, 2002), and employee relations (Erdlen,1979). These studies imply that changing the unethical behavior through ethical climate may have a significant effect on organizational performance and reputation.

The existing literature does not indicate how ethics, ethical culture and climate have actually been managed through functional dimensions of HRM. As this study considers various HRM functions and attempt to explore the linkages of improving the ethical climate in organizations through HRM functions and practices, it perceives that there is a meaningful contribution to the literature as additions to the existing literature. In this context, this study can be a base for forthcoming research contextually and empirically in the same context, and the significance of this study can be taken into account to that extent.

Further, future research can examine ethics, ethical culture and climate from multiple perspectives. Moreover, previous studies seem more or less usually prescriptive in exploring the link between HR and ethics. As a result, there is, so far, no study statistically examining the contribution of functional dimensions of HRM in creating and sustaining ethics, ethical culture and climate within organisations and its impact on organizational performance. Empirical research can be extended to explore the contributions of HRM in creating and sustaining ethics, ethical culture and climate in organizations.

References


