

# THE IMPACT OF ETHICS ON ORGANIZATIONAL PERFORMANCE: THE CASE OF PRIVATE COMMERCIAL BANKS OF BANGLADESH

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## **Abstract:**

*The purpose of this article is to examine the impact of ethics on the performance of private commercial banks of Bangladesh. The research attempts to find the correlation between ethics and the performance of private commercial banks of Bangladesh. We used convenience-sampling method for this study. A 20-item questionnaire with 5-point likert-type scale was used for collecting data. Data for this study was collected from 395 employees who were serving in different private banking organizations and were assumed to have sufficient qualifications, knowledge and experience in their field of jobs. Collected data were analyzed by using the principal component analysis (PCA) and regression analysis. The study has revealed six dimensions of employee's ethical behavior based on factor loadings, all significantly correlated with banks' performance. The regression analysis indicates positive correlation of ethical behaviors to performance of banks.*

**Key words:** uberrimaefidei, convenience sampling, ethical behavior, performance, private commercial banks

**JEL classification:** M10, M19

## **1. INTRODUCTION**

The banking industry is the life blood of business and commerce in any economy with the consequences that can drastically change the economy and influence the personal finances of every people. Major events like the housing market crash in 2007 in the U.S. were attributable to poor ethics that led to a great recession which, in turn, caused severe financial crisis in 2008 in American economy affecting virtually the global economy. Ethics in the financial industry are crucial as investors intrinsically trust financial institutions with their money and expect them to invest it with integrity. All market risks considered, investors expect the highest return and put their faith in the hands of professionals. Upholding investors' confidence is vital to the success of the investment industry. High ethical standards are critical to maintaining the public's trust in financial markets and in the investment profession.

Ethics usually refers to what is morally good or bad, right or wrong. Ethics can be defined as standards of morality that guides individuals and organization in certain norms of conduct when dealing with each other. Ethical behavior is characterized by honesty, fairness and equity in interpersonal, professional and academic relationship. It respects the dignity, diversity and the rights of individual and groups of people.

In the banking business there is no option for strong moral philosophy. Ethics is part and parcel of human souls and can never be alone established by rules and regulations. Trevino (1986) defines ethics as the principles, norms and standards of conduct governing an individual or group. Our experience is that as bankers work within the financial system to supply loans, accept deposits and provide other services to their customers, they must do so within a climate of extensive regulation, designed primarily to protect the public interest. Though rules and regulations in

banking industry are there worldwide, unfortunately corruption prevails and it is rampant in Bangladesh.

Adam Smith in Book II of *The Wealth of Nations* (1776) laid down three essential conditions for confidence in banks. These are (1) the fortune (2) probity and (3) prudence of a particular banker. The fortune here denotes the capital of the banker, prudence refers to efficiency and probity means adherence to a code of ethics based on undeviating honesty, especially in commercial (monetary matters) and beyond legal requirements.

Banking business is based solely on *uberrimae fidei* (utmost good faith) An *uberrimae fidei* contract is a legal agreement, common to the banking and insurance industry, requiring the highest standard of good faith during disclosure. Needless to mention that banking business is absolutely based on trust. Utmost good faith is a relationship of mutual reliance. Usually, faith is placed on those who are expected to be ethical in the activities and thoughts. Trust creates a social environment of mutual cooperation. If this trust is broken, the social environment breaks apart posing a threat to the entire financial system. Banks, the citadels of material wealth in capitalistic system of production, are fragile without solid ethical foundation. This concept of ethics is explained as a set of moral principles that differentiate between right and wrong (Brass et al, 1998). Ethics in the field of banking business is concerned with understanding moral principles by which we evaluate an organization. Therefore, the system of moral and ethical beliefs that guides the values, behaviors, and decisions of a business organization and the individuals within that organization is known as ethics in the field of business.

### **1.1 ETHICAL BEHAVIORS IN PRIVATE COMMERCIAL BANKS IN BANGLADESH: A GLIMPSE**

Over the past 15 years or so the world economy has witnessed a series of financial crisis. Arguably, it is a widely held view that unethical conducts in the business of corporate world are accountable for these crises. In Bangladesh the failure of banks like Hallmark, Bismillah, BASIC etc are attributable to unethical conducts of the bank officials in collaboration with political muscles of the country. Several examples are available regarding banks' employees of Bangladesh engaging in unethical practices in connection with personal greed, sponsors, directors, politicians, bureaucrats, unscrupulous businessmen etc. Commerce and Investment bank tried to get huge deposits by offering usually high rate of interests on investment that led to the demise of the bank within seven years of its inauguration.

Banking as a sector in Bangladesh has always been an attractive target of fraud and embezzlement by the employees significantly. In many cases, top-level officials knowingly arrange disbursement against fake documents and stop the post-transaction monitoring (the daily Star, 2019). Bangladesh bank robbery that took place in February 2016 had thirty-five fraudulent instructions issued by security hackers via the SWIFT network to illegally transfer close to US \$1 billion from the Federal Reserve Bank of New York account belonging to Bangladesh Bank, the central bank of Bangladesh. This could not have been possible if the insiders were not involved in this cyber heist of Bangladesh bank (the Wall Street Journal, May 10, 2016). The 2016 cyber-attack on the Bangladesh central bank was not the first attack of its kind. In 2013, the Sonali Bank of Bangladesh was also successfully targeted by hackers who were able to remove US\$250,000. In both cases, the perpetrators were suspected to have been aided by insiders within the targeted banks, who assisted in taking advantage of weaknesses in the banks' access to SWIFT global payment network (Das and Paul, 2016).

In addition to this type of aforementioned fraud, loan scam has been adding fuel to the fire in Bangladesh Banking Sector. Hallmark and Sonali Bank (a government bank), loan scam (2010-2012) occurred when one branch of Sonali Bank (a government owned bank) illegally gave out USD454 million in loans, including nearly USD344 million to Hallmark Group, a textile business due to fraudulent letters of bank managers. In 2016 the finance minister of Bangladesh in a statement described the state of the bank as weak due to graft by top officials of the bank. (The

Daily Star, 2019). Banking frauds are mostly done through deposit accounts, loan accounts and various banking transactions through fraudulent papers, data or IT hardware/software. Frauds are usually committed by a group who are either bank employees (internal fraud) or a group at the customer's office or third parties such as IT service providers (external fraud). Whereas we believe banks are required to stick to their specified general principles in their operation. Political corruption is definitely the main reason for the terrible condition of the banking sector. There is a crisis of democracy in the country, and corruption and capital plundering have become the prime characteristics of politics in Bangladesh.

All these warrant that Bangladesh banking sector adopts and enforces a sound ethical code of conduct for encouraging ethical behavior and discouraging unethical behavior among the employees. As noted earlier in this paper, banks are the citadels of material wealth in capitalistic system of production. The banks are, therefore, fragile without solid ethical foundation.

In Bangladesh, currently, there are 41 local private commercial Banks (Bangladesh Bank, Nov, 2019). These commercial banks are financial institutions that normally perform four kinds of functions. First, it intermediates between savers and borrowers. Secondly, it extends maturity by taking deposits payable on demand and making it long term loan. Third, it allocates credits to different sectors and in the fourth, it facilitates payment flow being trustworthy partner of transactions. Depositors put their money in bank on trust that it will be returned on demand with promised profit. Borrowers borrow from bank on trust that employees of any level will not attempt to seek bribery and corruption of any kind. Unfortunately, however, commercial banks can be exposed to unethical practices by telling depositors ambiguous profit rate and hiding charges or seeking bribery under the table. Banks can do over-investment or under-investment in different projects and can also exercise nepotism and favoritism. Commercial banks can even fabricate its financial statements. In order to make banking business sustainable, we have to ensure that bank makes its decisions ethically. According to Islam (2012), commercial banks must comply with all laws, rules and regulations; must ensure fair and equitable treatment of all stakeholders; must ensure full, truthful and transparent disclosure of their financial health, and must behave as socially responsible corporate citizens. Therefore, in this paper, we attempt to identify ethical behavioral factors and their impact on banking performance.

#### OBJECTIVES:

The purposes of the paper are, therefore, two-fold, as noted below:

1. To identify the ethical behavioral factors
2. To identify the impact of ethical behaviors on organizational (bank) performance.

## 2. LITERATURE REVIEW

A progressive body of literature exists on ethical behavior and its impact on the performance of banking industry in Bangladesh. Some literature tried to identify the factors that constitute ethical behavior. Some other literature tried to identify the factors that affect ethical behavior in the organization. And others attempted to relate ethical behavior with organizational performance.

Banking industry is vulnerable to nefarious intentions (Bozovic ,2007) Hence it becomes more imperative to study ‘ ethics in banking industry. Integrity, honesty and responsibilities are the prerequisites for key banking personnel. Bank managers are the custodians of safeguarding the trust entrusted by the customers and government institutions to follow and strict adherence to morality. Questions of morality and ethics can be found at all levels of society. Ethical behavior is equally important in the workplace as it is in our personal lives. Everywhere business is conducted, ethics matters.

Following Bozovic , J (2007) several studies show trust as a variable with the greatest impact on customer emotional responses in the banking industry (Marinkovic and Obradovic, 2015; McNeish, 2015; Yu, et al., 2015). Even ethics appear inextricably connected to financial and

banking activities as it forms the basis for trust (Boatright, 2011), without which the banking system could become either dysfunctional or unstable (Monferrer-Tirado et al., 2016). A widely held belief is that an organization exists primarily to serve the needs of its members and customer. This objective which helps in improving organizational performance is defeated when the customers are badly served..

A popular and simple of view of ethics is “how things are done around here “. For example, organizational ethics may be explained as as reflecting the underlying assumptions about the way work is performed, what is acceptable and not acceptable, and what behaviour and actions are encouraged and discouraged. Maddux and Maddux (1989 ) observes that ethics is the name we give to our concern for good behaviors. We feel an obligation to consider not only our own personal wellbeing, but also of others and human society as a whole”. The performance of many organizations has been impaired due to non-adherence to ethical standards.

Mwita (2000) defined performance as a multi-factor characteristic that has major connection with the organizational objectives. It comprises of financial performance, product performance in market, and shareholder’s return (Richard et al 2009). Performance is evaluated comparing actual outputs with intended output. It is true that the success of the organizations are dependent on its employees, but one or two employee cannot change an organization’s destiny.

Literature review has elaborated that there are several factors that can influence ethical behavior and eventually can produce better organizational performance. Those factors were first examined to verify their use in the private commercial banks of Bangladesh. A factor analysis condensed those factors into six different distinct dimensions that impact ethical behavior. Ethical behavior of the commercial banks increase stakeholders trust on bank and trust will induce more depositors to deposit, more debtors to lend money, and more businessmen to extend their transactions with the bank. Therefore overall performance of the bank will improve when the trust prevails between the customers of the banks and the banks. Moreover, several researchers have found positive relationship between ethical behavior and organizational performance (Naude (2005); Daveninderak (2009); Mumtaz et al. (2011); Palomino and Martinez (2011); Kott (2012); Sabir, Iqbal and Reham (2012); Chun et al. (2013); Iqbal, Bhatti and Zaheer (2013); Msanze (2013); Saeed, et al. (2013); Thomas (2013); Salaudin et al. (2016); Moghrabi, Sabhurwal and Berman (2017)).

We have summed up all these and other literatures in table 1 and 2. Table shows the studies that relate ethical behavior to organizational performance. Table 2 consists of literature review on facors influecing ethical behavior.

**Table 1. Summary of Literature Review that found significant relationship between ethical behavior and organizational performance**

Authors (Year)	Field	Context	Tools used for Analysis
Naude (2005)	Overall	South Africa	Summarized literature
Daveninderak (2009)	Various industry	Malaysia	Correlation and Regression
Mumtaz et al. (2011)	Banking	Pakistan	Correlation and regression
Palomino and Martinez (2011)	Banking	Spain	Descriptive statistics & correlation
Kott (2012)	Manufacturing	USA	Correlation and Regression
Sabir, Iqbal and Reham (2012)	Overall	Pakistan	Correlation and Regression
Chun et al. (2013)	Various private companies	South Korea	Confirmatory Factor Analysis
Iqbal, Bhatti and Zaheer (2013)	Telecom Industry	Pakistan	Structural Equation Model (SEM)
Msanze (2013)	Utility	Tanzania	Descriptive statistics & correlation
Saeed, et al. (2013)	Education Sector	Pakistan	Regression
Thomas (2013)	Counselor	Iowa, Indiana,	Correlation and Regression
Salaudin et al. (2016)	Textile SMEs	Malaysia	Confirmatory Factor Analysis
Moghrabi, Sabhurwal and Berman (2017)	State agencies	Few states of USA	Percentile analysis and OLS regression

**Table 2. Summary of Literature Review on Factors influencing ethical behavior.**

Authors (Year)	Factors
Trevino (1986)	Employee's ego, locus of control, moral development, immediate job context, organizational culture, and characteristics of the work performed
Bommer et al. (1987)	Social, governmental, legal, professional, personal, and work environments.
Trevino and Youngblood (1990)	Cognitive moral development, locus of control, outcome expectancies, explicit reward
Painter Morland (2001)	Individuals moral decision- making skills, religion, culture, peer in group pressure, personality, of a person's position in an organization
Kaptein (2007)	Organizational culture, reward ethical conduct
Daveninderak (2009)	Moral awareness, top management support, ethical climate in the organization,
Hendriks (2011)	Interactional justice and ethical leadership
Mumtaz et al. (2011)	Top management ethical behavior
Palomino and Martinez (2011)	Ethics training
Suresh (2011)	Human resource practices
Khan (2012)	Institutionalize ethical practices
Chun, et al. (2013)	Organizational commitment, organizational citizenship, code of ethics
Iqbal, Bhatti and Zaheer (2013)	Freedom to make ethical decisions, ethical values, clear code of conduct, proper ethics training, open communication
Saeed, et al. (2013)	Ethical guidance and ethical values
Thomas (2013)	Personal values, organizational values, and the congruence of these value
Moor and Moor (2014)	Organizations ability to meet the stakeholder's expectations
Huang and Paterson (2017)	Ethical leadership, ethical culture and group ethical voice efficacy
Moghrabi et al. (2017)	Ethical standards, environment of trust and commitment, providing leadership

In general, literature review revealed that there were various reasons for ethical behavior in the organization and the results of the ethical behavior were found to have a positive relationship with organizational performance. However, in most of the cases, the research works were not focusing on banking industry. The few that focused on banking industry were not done in Bangladesh context. Therefore, this literature survey indicates that no comprehensive and detailed study has yet been made in order to identify, analyze and interpret the factors of ethical behavior in private banking industry of Bangladesh and their impact on organizational performance. In this study we have attempted to address this gap and this study would hopefully add new dimensions to the literature with regards to the important aspects of ethical behavior in banking industry of Bangladesh.

### 3. FRAMEWORK AND RESEARCH HYPOTHESES

Generally ethical behavior is measured based on the morality of human being. In a commercial bank, ethical behavior of employee's is measured on the basis of code of conduct, professional rules, regulations and individual personal moral belief. In order to measure the ethical behavior of employees in an organization, Trevino et al (1986) adopted twenty questions for his study. Some of the questions were - "It is important to follow strictly the organization's rules and procedures, People of integrity are rewarded in this organization, The code of conduct is widely distributed throughout the organization, and each person in this organization decides for himself/herself what is right and wrong".

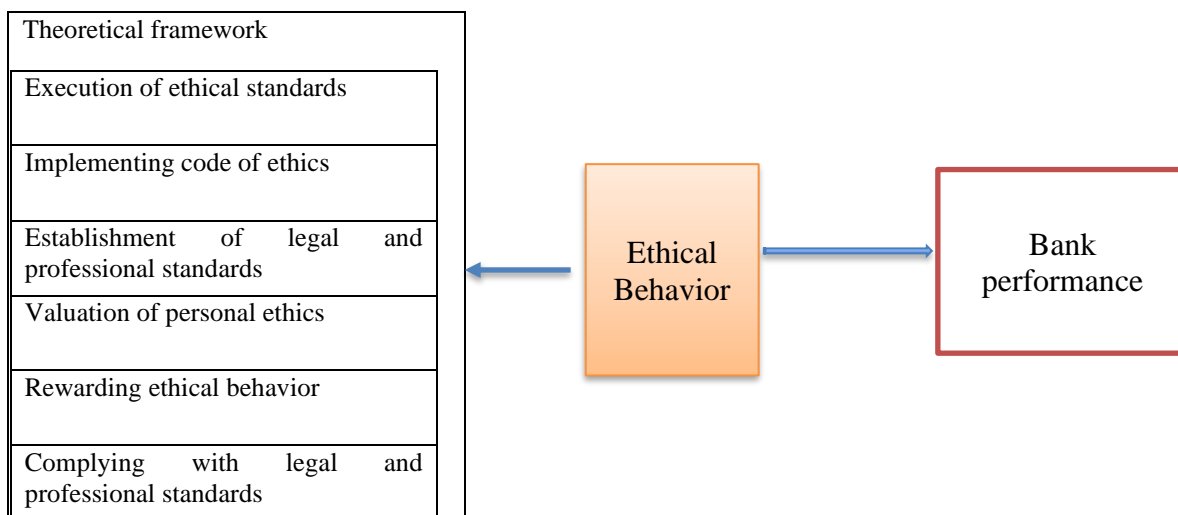
Literature review has elaborated that there are several factors that can influence ethical behavior and eventually can produce better organizational performance. Those factors were first examined to verify their use in the private commercial banks of Bangladesh. A factor analysis condensed those factors into different distinct dimensions that have impact on ethical behavior. Ethical behavior of the commercial banks increases stakeholders trust on bank and this trust will induce more depositors to deposit, more debtors to lend money, and more businessmen to extend their transactions with the bank. *Ceteris paribus*, this is expected to result in better performance.

In this paper we, following Trevino et al (1986) and literature review as well, we have developed six components of ethics consisting of 20 ethical factors in all. Table 3 shows six components and their operational definitions.

**Table 3. Components of Ethics and their Operational Definitions**

Execution of ethical standards	Ethical standards of top management, rewarding people for integrity, top managers’ care for ethics, success depends on ethical behavior, rules and procedures
Implementing code of ethics	Obedience to authority, penalties for unethical behavior, reading and understanding ethical code, wide distribution of ethics code to all stakeholders.
Establishing legal/professional standards	Establishment of norms, procedures, and rules and regulations
Valuation of personal ethics	Own sense of right and wrong, deciding one’s own right and wrong, guided by one’s own ethics
Rewarding behavior	Respecting established rules and procedures, rewarding ethical behaviors
Compliance of legal/professional standards	Compliance with professional standards, boss (superior) is always right

Source: authors



**Figure 1. Theoretical Framework and Hypothesis**

**3.1 RESEARCH QUESTION (S)**

The research question that we seek to answer in this article is:

To what extent do the components of ethical behavior affect overall bank performance?

Research Hypothesis:

There exists a significant relationship between ethical behavior and bank performance.

**4. RESEARCH METHODOLOGY**

In this research, researchers first tried to identify the factors influencing ethical behavior in the private commercial banks of Bangladesh. That was done by collecting pool of potential factors found in literature review and then by Principal Component Analysis (PCA) in terms of ethical

behavior. Later, the ethical behavior was related with organizational performance using correlation and regression analysis.

### *Sample population and study area*

In this research, the respondents are those, who were serving in different private banking organizations in Chittagong city, who have sufficient qualification, knowledge and experience in their job fields. There are 41 private commercial banks operating their business in Bangladesh. Out of them only 30 banks were selected for this study. Most of the banks have branches situated in Chittagong division. Judgment sampling method is applied for this study in order to get best responses within a short time. 395 respondents were selected comprising both male and female.

#### *Description of the sample:*

Full demographic data is given in **Table 4**. The respondents were among from lower, middle, and the top level managers. Relevant data essentials for analyzing employees' behavior have been collected in a short period of 9 months to 1 year.

**Table 4. Demographic Characteristics of the Respondents**

Characteristics	Categories	Percentage
Age distribution	Between 25 to 35	49.4%
	Between 35 to 45	39.5%
	Below 25 or above 45	11.1%
Education Qualification	Diploma Holders	4.6%
	Bachelor Graduate	5.3%
	Masters Graduate	89.6%
	Others	0.5%
Experience	Between 1 to 5 years	15.9%
	Between 5 to 10 years	40.0%
	Between 10 to 20 years	34.4%
	Above 20 years	5.3%
Gender	Female	7.6%
	Male	92.4%
Marital Status	Married	84.6%
	Single	14.9%
Managerial Position	Top level	2.8%
	Mid level	74.7%
	Lower level	2.8%
	First line employee	8.6%

#### *Variables*

For the PCA, the dependent variable was 'ethical behavior' and independent variables were twenty (20). The variables under six dimensions are chosen based on the literature review. List of those variables and their operational definitions are depicted in the theoretical model (see table 3 and figure 1). For the regression, the dependent variable was organizational performance and independent variable was ethical behavior.

### **4.1 DATA COLLECTION AND SURVEY INSTRUMENT**

Personal direct interviews and field investigation techniques were used with a structured questionnaire for collecting most of the information from primary sources. The participants were assured confidentiality on identity. The questions were designed in line with the objectives of the study. A 20-item questionnaire is designed by the researchers to gather primary data. The respondents were asked to rank each item on a 5-point Likert scale (ranging from 1 to 5 (1 for strongly disagree and 5 strongly agree) to identify key forces of employee's ethical behavior. The collected data and information are summarized and interpreted with the help of different statistical tools and techniques.

## 4.2 RELIABILITY OF THE SCALE

According to Hair et al., (2006), Cronbach's Alpha is one of the most common internal constancy (reliability) measures, to be used to test the items of measurements for research variables. According to Malhorta and Peterson (2006), when Cronbach's Alpha coefficient of variable is between 0.6 to 0.8, it is classified as moderate to strong. Nevertheless, if a variable's Cronbach's Alpha coefficient score falls between 0.8 to 1.0, this indicates that this variable has a very strong reliability. The Cronbach's Alpha reliability analysis for this study is shown in in **table 5**. The table clearly indicates that the scale is reliable (Cronbach's Alpha value = 0.692 at N=20).

**Table 5. Reliability of the scale**

Scale	Cronbach's Alpha	N of items
Ethical Behavior	0.692	20

## 5. FINDINGS AND ANALYSIS

First, we identify factors influencing ethical behavior using PCP and then we use regression analysis to justify the impact of ethical behavior on the performance of private commercial banks (PCBs) of Bangladesh.

### 5.1 VARIABLES INFLUENCING ETHICAL BEHAVIOR AT PCBS OF BANGLADESH (PRINCIPAL COMPONENTS ANALYSIS)

PCA is a statistical tool that converts a set of possibly correlated variables into a set of linearly uncorrelated variables called principal components. To collapse similar variables that influence ethical behavior and to reduce them to distinctive dimensions the researchers has conducted Principal Components 'Varimax Rotated Method' for data analysis.

We first tested data adequacy using KMO (Kaiser-Meyer-Olkin) and Bartlett's Test of Sphericity. KMO value closer to 1 indicates data are useful for PCA. In our data KMO indicator is 0.768 i.e. data is adequate. Bartlett's Test of Sphericity is used to test whether variables are unrelated, thereby creating an identity matrix. Small significance level (such as 0.05) for such hypothesis proves usefulness of data. Here, Chi-Square value of Bartlett's Test of Sphericity is 1927.402 with 190 degree of freedom at 5% level of significance. Hence the appropriateness is justified.

**Table 5: KMO and Bartlett's Test**

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.768
Bartlett's Test of Sphericity	Approx. Chi-Square	1927.402
	Df	190
	Sig.	.000

When six dimensions with 20 variables were analyzed by the PCA with varimax rotation. Six factors were extracted from the analysis with an Eigen value of greater than one. Those six dimensions (20 factors) explained 58.432 (**Table 6**) percent of the total variance. This implies that 41.568% variations could be explained by other factors, which are not included in the analysis model of this study. The Kaiser rule uses the rationale that there many reliable components as there are eigenvalues greater than 1. The six dimensions of employees' ethical behavior and results of the factor analysis is discussed as follows:



**Table 6. Principal Component Analysis with Rotated Component Matrix and Communalities**

Dimensions	Variables	Components						Communality
		1	2	3	4	5	6	
Execution of ethical standard	V5	.713						.558
	V6	.659						.509
	V8	.641						.556
	V7	.537						.554
	V4	.531						.495
	V11	.472						.521
Implementing code of conduct	V2		.712					.558
	V3		.653					.625
	V18		.637					.533
	V20		.617					.575
Establishment of legal and professional standard	V9			.762				.700
	V10			.699				.598
	V1			.432				.630
Valuation of personal ethics	V17				.745			.586
	V16				.737			.674
	V15				.607			.645
Rewarding ethical behavior	V19					.760		.652
	V13					.615		.621
Ethical role of top management	V12						.778	.662
	V14						.496	.434
Eigenvalues		4.598	1.978	1.605	1.277	1.126	1.101	11.685
% of Variance explained		22.991	9.892	8.024	6.387	5.632	5.506	58.432

**Dimension 1: Execution of Ethical Standard**

Dimension 1 was named as 'Execution of ethical standard' consisted of six variables. The variables (loading) are high ethical standards of top management (0.713), rewarded people for integrity (0.659), top managers are care about Ethics (0.641), success depends on ethical behavior (0.537), strictly follow the organization's rules and procedures (0.531), and making decision in an ethical way (0.472). The Eigen value of this factor is 4.598 and this factor is responsible for 22.991% variance in employee's ethical behavior (see Table 6). Thus, execution of ethical standard is very important for employee's ethical behavior in banking organization.

**Dimension 2: Implementing Code of Conduct**

Dimension 2 was named as 'Implementing code of conduct', which explain 9.892% of the variation in employee's ethical behavior. This principal component was constituted by four variables. Variables (loading) are obedience to authority (0.712), penalties for unethical behavior (0.653), employees can read and understood the ethics code (0.637) and code of conduct is widely distributed (0.617). Thus, implementing code of conduct is also very significant for employee's ethical behavior in banking organization. Eigenvalues is 1.97.

**Dimension 3: Establishment of legal and professional standard**

Dimension 3 was named as 'Establishment of legal and professional standard' which is formed by three variables such as strictly follow the legal or professional standards (0.762), ethical behavior is a norm (0.699) and disciplines of Management (0.432)). This factor accounts for 8.024% of the variance and Eigen value is 1.605 (see. Table 6).

**Dimension 4: Valuation of personal ethics**

Dimension 4 included three variables and was named as 'Valuation of personal ethics'. This factor is measured by each person's has own sense of right and wrong (0.745), decides for

themselves what is right and wrong (0.737), and guided by own personal ethics (0.607). This factor is responsible for 6.387% of the variance in ethical behavior. The Eigen value of this factor is 1.277.

#### **Dimension 5: Rewarding Ethical Behavior**

Dimension 5 named as 'Rewarding ethical behavior', which accounts for 5.632% variance of ethical behavior. This factor consisted of two variables such as organization has established procedures about ethics code (0.760) and rewarded ethical behavior (0.615). The Eigen value of this factor is 1.126.

#### **Dimension 6: Ethical role of top management**

The last dimension named as 'Ethical role of top management' which consisted of two variables such as comply with the law and professional standards (0.778) and boss is always right (0.496). The Eigen value of this factor is 1.101. This principle component accounts for 5.506% of variance in employee's ethical behavior in private commercial banks of Bangladesh.

#### **Ethical behavior and performance at PCBs in Bangladesh**

In order to verify and explain the relationship between ethical behavior and organizational performance a regression was run. The values of the impact were found significant and positive. **Table 7** explains the relationship between ethical behavior and organizational performance in private banking organizations in Bangladesh.

**Table 7. Regression Model Summary<sup>b</sup>, ANOVA<sup>a</sup> and Coefficients<sup>a</sup>**

Model	R	R Square	Adjusted R Square	Durbin-Watson	Sum of Squares	F	Unstandardized Coefficients		T	Sig.
							B	Std. Error		
<b>1</b>	.496 <sup>a</sup>	.246	.244	1.819	Regression = 27.114 Residual = 82.969	128.433	(Constant) 1.721. EB 0.625	(Constant) 0.216 EB 0.055	7.958	.000

a. Dependent Variable: Organizational performance

b. Predictors: (Constant), Ethical behavior (EB).

The coefficient of determination (The R square value) shown in the table is 0.246. That means 0.246 percent of the average organizational performance is explained by the ethical behavior. Durbin-Watson in the analysis is comes out to be 1.81, which is near to 2 proving the result is significant. The result of ANOVA shows that 110.083 (27.114+ 82.969) squared error will occur if the prediction for dependent variable only uses the mean of organizational performance. In other words, by using the independent variable ethical behavior the squared error will be reduced by 24.630 percent (27.114 ÷ 110.083). This is statistically significant since F ratio is 128.435 which is greater than 5 and a significance level of  $P=0.000 < 0.05$ . The values of beta shows the impact of independent variable on dependent variable. So, it can be interpreted that 1 unit change in ethical behavior brings 0.625 units positive change in employee's organizational performance. The t-value (7.958) should be greater than 1.96 and p-value (0.000) should be less than 0.05 to be significant. Considering both t-values and p-values of this analysis it can be commented that regression coefficient is also significant.

## **5.2 RECOMMENDATIONS**

The major challenges in promoting ethical behavior in Bangladesh includes concerned about survival uprightness, integrity, and competitiveness, removing fraud and forgery, enhancing investments in social sectors like agriculture, small enterprises, health, education, expanding sustainable banking activities and attainment of cost efficiency in service delivery. Based on this recommendation following policy options may be derived for promoting ethical behavior in Bangladesh.

**First**, banks must ensure that employees' values, norms and morality persist at all level of employees in organization at the time of making business decisions.

**Second**, banks must comply with all laws, rules and regulations to ensure soundness of operations and to enhance confidence of the society.

**Third**, banks must ensure fair and equitable treatment of all stakeholders- shareholders, depositors, borrowers and employees.

**Fourth**, the banks must ensure full, truthful and transparent disclosure of their financial health so that stakeholders get transparent picture of the true financial health and the risks that were being assumed.

**Fifth**, banks must behave as socially responsible corporate citizens. Banks social responsibility must include the impact of its activities on growth, employment and poverty alleviation.

**Sixth**, bank staffs need to be trained properly on fair pay and other incentives.

**Seventh**, Banks need to undertake measures for promoting welfare-oriented banking further.

**Eighth**, Top management should act as a role model for improving the ethical behavior in banking organizations.

**Finally** banking sector of Bangladesh should be free from illegal Government and political influence at the time of making banking decisions.

## 6. CONCLUSION/ LIMITATIONS

The primary objective of this study is to find out the factors that influence ethical behavior of employees at all level of private commercial banks located in Dhaka and Chittagong city. The research also proposed a hypothesis that such ethical behavior also improves bank's performance. The factors are identified, the hypothesis was proven and recommendations for better solutions are given as well. Therefore, in general, this study has achieved its objectives.

However, limitations of this research create new avenue for future research. Future research should extend coverage of sample area, sample size, should focus on diverse geographical areas, bank types (such as metropolitan city vs. rural, public sector banks, specialized banks, local vs. foreign banks etc.). The study can be expanded to other industries like health services sector, IT industry, hotel and catering industry, education sector etc. It will enhance the applicability and generalize ability of the findings for fruitful results.

### 6.1 FUTURE RESEARCH

Although in this research, we collected data all races, ages, and genders, the results can be different when studies exclusively for specific race, age range, religion or gender such as males or females employees. Besides, organizational culture can also affect the performance in the work place, ethics can influence culture and inversely culture can also influence ethics. Therefore those relationships should be studied further.

The main point here is to go to other areas in Bangladesh, which are far apart from this research study and where very few studies have been conducted. Any kind of advancement will definitely contribute towards research work.

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