

## **Chapter 2: Literature Review**

### **2.0 Chapter Overview**

This chapter discusses the definition and concepts about Employee Misconduct, Human Resources Management Practices, Procedural Justice and Ethical Behavior. Reviews on past research findings on the relationship between HRM Practices and Procedural Justice will also be discussed. In short, review of existing literature to support the entire study will be discussed.

### **2.1 Misconduct or Unethical Behavior**

Unethical behavior is not a new issue as it has long existed and numerous terms have been used to describe it in organizations. A broad category of literature on unethical behavior focuses on organizational deviance (Robinson & Bennet, 1995; O'Leary-Kelly, Griffin, & Glew, 1996; Robinson & O'Leary-Kelly, 1998) or organizational misbehavior (Vardi & Weitz, 2004). In depth, it includes severe behaviors such as aggressive, violent or passive behaviors such as bullying, assault, harassment and includes embezzlement behaviors (Werbel and Balkin, 2010). Nevertheless, another category of research on unethical behavior focuses on employee misconduct (Kidder, 2005).

Ethics Resource Center (ERC, 2005) defined "misconduct as any behavior that violates the law of organizational ethics standards." According to Werbel and Balkin (2010) employee misconduct always includes limited range of unethical

behaviors that are related to corporate wrongdoing such as accounting irregularities, churning customer accounts, inappropriate management of overtime policies, having obvious conflicts of interests such as giving inappropriate gifts to a client, or using company property for personal purposes that often gets highlighted in the media. In addition, they justify that employee misconduct can often occur when employees are aiming at meeting expected performance objectives but decide to use questionable means to achieve those objectives.

Werbel and Balkin (2010) highlight that the court convictions of executives engaged in criminal behavior or misconduct occurred at companies such as Enron, Adelphia, Parmalat, and Samsung have broad social impacts associated with the collapse or decline of these firms. They further suggest that misconduct persists and appears to be a chronic problem based on the recent cases in the collapse of financial giants such as AIG and Merrill Lynch. The misconduct can adversely affect numerous stakeholders such as employees, stockholders, creditors, and customers (Hooker, 2009). This indicates that many innocent people will be affected by one's misconduct since the end result will contribute damage to the firm's reputation and survival such bankruptcy of Enron and WorldCom, US (Anand, & Joshi, 2004), customer boycotts (Nash, 1981), high employee turnover (Veiga, Golden, & Dechant, 2004) and public disaster (Gellerman, 1986).

Previous research suggests that individual differences including demographic variables such as gender (McCabe, Ingram, & Dato-on, 2006), personality traits and stages of moral development (Greenberg, 2002) may be among the factors that influence misconduct. Research also suggests that organizational contexts such as codes of ethics (Schwartz, 2001; Beu & Buckley, 2004), leadership and management (Grojean, Resick, Dickson, & Smith, 2004), and organizational culture or norms (Ashforth & Anand, 2003) may also be the factors to influence unethical behavior among employees.

Ermongkonchai (2010) and Veiga et al (2004) concluded that agency theory elements such performance-based judgment calls, faulty rules and socially embedded norms and psychological contract theory elements which is process loopholes are the reasons for employee unethical behaviors. According to them, employees justify their misconduct in order to improve performance which is linked to performance judgment calls element.

Misconduct is also possible due to process loopholes in obtaining transactional benefits such making exceptions on business travel policies as a form of recognition to get the job done for the sake of their organization (Ermongkonchai, (2010). According to him, employees commit misconduct as they belief that current organization policies are wrong or ambiguous and not applicable in emergency situations such in retaining qualified workforce by providing an exceptional salary increase. In terms of social embedded norms, employees are

portrayed as not to use legitimate means and have no respect for the rules such as falsifying hotel receipts to claim maximum permitted allowances.

## **2.2 HRM Practices and Employee Misconduct**

Most of the earlier studies on employee misconduct have been linked to many factors other than Human Resource Management (HRM) practices. However, according to Werbel and Balkin (2010) HR practices can unintentionally provide a context for employee misconduct to take root. This is supported by Ashforth, Gioia, Robinson, & Trevin (2008) which found that employee misconduct is a multilevel construct. Werbel and Balkin (2010) also highlighted that misconduct occurs in an organizational context which shapes individual behavior. Moreover, they highlights that organization factor contribute to the occurrence of misconduct.

A survey conducted by Society of Human Resource Management (SHRM) and Commerce Case Clearinghouse (CCH) (1991) identified more than forty ethical situation that are relevant to HRM practices. According to the survey, the ten most serious circumstances were, there is a favoritism in hiring or training or promotion, pay differences is being allowed, nonperformance factors used in appraisal, sex discrimination in promotion, promotion and others opportunities were based on friendship or relationship with top management, occurrence of sexual harassment activity, using discipline inconsistently, arrangements with vendors leading to personal gains, and sex discrimination in recruitment and

hiring. Another survey by Fusilier, Aby, Worley and Elliot (1996) that examined more than 900 organizations, found that six of ten most serious issues were related to HRM practices i.e workplace safety, employee theft, security of employee records, affirmative action, comparable work and employee privacy rights. Thus, accountability and ethical issues in HRM practices rouse basic problem of its reliability and credibility of its main roles.

According to Mathis and Jackson (1997), "...ethical issues in HRM practices pose fundamental question about fairness, justice, truthfulness and social responsibility." It indicates that HRM practices shall be upheld righteously and address equity to all parties involved. The focus of this study is to determine the decision that employee chose to act, ethical or unethical (misconduct) with the four important determinants of HR practices which are recruitment process, fairness of performance management and promotion, opportunities for training and development and compensation and incentives in order to further justify its relationship with procedural justice as these functions normally contributes dissatisfaction among employee that may lead some employees either to leave the organization or to behave unethically.

### **2.3 Recruitment and Selection**

Recruiting the right person is an important strategy for organization and the process of recruitment has never been easy especially in ensuring recruitment success. The attention given to the topic of employee recruitment by researchers

has increased considerably in recent years (Breugh, 2008; Billsberry, 2007; Breugh, Macan, & Grambow, 2008) which,

- Much of it focused on realistic job previews (i.e., providing accurate information about organization and job to applicants);
- Traditional recruitment methods (e.g., newspaper advertisements);
- And characteristics of recruiter (e.g., their behavior) as discussed by Saks (2005);
- Timing of recruitment actions, recruit site visits and on-line recruiting (Boswell et al. 2003; Dineen et al. 2007).

However, there is not much study that has been conducted on the reliability of the recruitment process itself. According to Heneman, Heneman and Judge (1997), organizations are being increasingly held responsible for employee recruitment decisions. Cropanzano and Wright (2003), stressed that most staffing decision will placed potential candidates or individual fit into certain position because they possess the right attributes after being assessed quantitatively. It indicates that others who do not meet the quantities of the attributes do not fit well with the job. Barrick and Mount (1991) supported the statement as they highlights that an individual who have high level of conscientiousness is apt to be a higher job performer than one who manifest a lower level. Both studies emphasize the typical reason of hiring.

Theoretically, to ensure process fairness, a person shall be given the same opportunity to be on the job, received necessary training and later being assessed for their performance on the job. The outcome of perceived hiring injustice were, when an individual result is lower than others, it may apt to arouse dissatisfaction (Stephina & Perrew, 1991) and it may trigger off a person to take retaliatory action, for example lowering job performance (Greenberg, 1988). Cropanzano and Greenberg (1997) highlights that the process injustice may lead a person to engage in theft and Giacalone and Greenberg (1996) stressed that it may possibly incline a person to commit acts of violence.

Thus, previous research findings proved that there is still existence of biasness in the recruitment process which leads to process injustice. Thus, this scenario indicates that human resources professional are yet to reach recruitment and selection process fairness as the concern is not what are they doing, but how are they doing (the process) it?

#### **2.4 Training and Development**

Training and development is the process of developing qualities in employees that will allow them to be more proactive and later contributes to the attainment of organization goals (Hashim, 2008). Favoritism issue is also linked to the opportunities for training and development. Hashim (2008) highlights that the decision on who should attend training is always subject to superior decisions as he is the one who have sound knowledge regarding employees performance and

potentials in recommending training for them. Obviously, only selected employee will be granted training opportunities, while some who unfortunate will assume their superior as bias and they are not being treated fairly which lead to injustice. It is very rare to find a study that focus on whether the process and procedures of training and development in an organization are strictly been follows, in short, whether procedural justice is been uphold. Similarly, employee might engage themselves in misconduct due to dissatisfaction and perception on biasness, favoritism and injustice.

## **2.5 Performance Appraisal**

Murphy and Cleveland (1995) highlights that Procedural Justice are associated with two types of measure, one concerns the Performance Appraisal process, the other concerns feedback, which is more likely to be accepted when the requirements of procedural justice have been fulfilled. Sparrow et al. (1994) proposed that performance management consists of performance evaluation and appraisal, followed by rewards for enhancing skills and knowledge, rewards for business needs and gains, merit philosophy, and flexible benefit schemes which may be considered as promotion.

Generally, performance appraisal (a method by which the job performance of an employee is evaluated) might contribute to employee misconduct as they will use all possible means to reach their goals (performance outcomes). This was supported by Werbel and Balkin (2010) as the rewards provided to those who



engage in misconduct while exceeding their performance goals send a symbolic message to other employees that legitimize the misconduct and make it more attractive to other individuals. According to them, the legitimating process also helps to reduce the fear of being caught as the organization has communicated at best an indifferent attitude towards misconduct. For example, Andrew Fastow, the CFO of Enron was 'rewarded' for his wrongdoing i.e. prepared innovative or 'creative' financial deals that enriched both the organizational and him; however, he was later received prison sentence for the misconduct done.

Werbel and Balkin (2010) highlights that employees engaged into misconduct rationally by considering the opportunities to be gained from misconduct (rewards/incentives) compared to the fear of being caught (performance assessment). They stressed, when the expected benefits exceed the expectations of being caught, individuals will be prone to engage in misconduct. The rational choice perspective pervades both ethical behavior and criminal behavior (Kidder, 2005; Chiou, Huang, & Lee, 2005; Smith, Simpson, & Huang, 2007).

In practice, most superior focus on outcomes rather than give attention to their employee behaviors, as such performance appraisal practices that focus on outcomes exclusively can intensify the information asymmetry between supervisors and subordinates (Werbel and Balkin, 2010). According to them, one of the disadvantages of supervisors in performance appraisal system is they

are unable to monitor or provide behavioral feedback to their employee as they (the supervisors) have limited knowledge on the approach that their subordinates prefer to achieve performance outcomes. Therefore, the employee can take advantage of their expertise on the job by engaging in misconduct or questionable work practices that lead to desired work outcomes. Werbel and Balkin (2010) concluded that performance appraisal are outcome based, it have supervisors' performance closely linked to subordinate performance and it rely exclusively on a supervisor as the source of assessments of subordinate performance in contributing an impetus for employee misconduct.

## **2.6 Compensation and Incentives**

Remuneration or compensation is one of the important contractual and implied agreements between an employer and an employee (Chew and Chan, 2007). Compensation and incentives serves as a motivation tool to reward employee who perform well in their job (high performer). As discussed earlier, in order to achieve certain performance outcomes that are associated with rewards, employee intentionally or unintentionally tend to behave unethically that lead to misconduct. This is supported by Werbel and Balkin (2010) that misconduct may lead to increased performance as it triggers desired rewards. In addition, incentive pay may lead to instances of employee misconduct (Jansen and Von Glinow, 1985) and it seems to be compatible with other researchers who also linked incentive paid to misconduct (Church, Gaa, Nainar, & Shehata, 2005).