

# THE IMPACT OF THE HUMAN RESOURCE PRACTICES ON THE ORGANIZATIONAL PERFORMANCE: DOES ETHICAL CLIMATE MATTER?

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## Abstract

The main objective of the current study is to examine the impact of human resource practices on organizational performance in the manufacturing sector in Indonesia. Additionally, the study has examined the moderated effect of the ethical climate in the relationship between human resource practices and organizational performance. The quantitative approach is one that follows the questionnaires for collecting the data. A total of 320 questionnaires were distributed. And a total of 260 were received back. So, the response rate was 81.25%. The previously mentioned empirical evidence indicates that several studies observed the role of ethical climate as a moderator and found positive outcomes. The studies also explained the ability of ethical climate to describe the nature of association among dependent and independent variables; these findings will be useful for the Indonesian bank's management. The HRM professionals' perception in Indonesian banks will be likely to be enhanced by having an understanding of the moderating effect of ethical climate on the linkage between organizational performance and HRM practices, thereby drawing the management's interest and attention towards further investigation.

**Keywords:** Human Resource, Ethical Climate, Organizational Performance

## 1.0. Introduction

Over the years, organizational performance (OP) has increasingly become important for the efficient management of the organization. Meanwhile, deregulation of markets, globalization, and change in investors' and customers demand have taken over the rapidly occurring changes in the economic environment, while for most organizations, product-market competition has now become a norm (Singh, Kumar, & Singh, 2018).

In order to achieve sustainable growth and remain competitive, an organization is required to identify its challenges and opportunities by evaluating its internal environment (Ahmed, Ahmad, & Joarder, 2016). Therefore, organizations tend to discover means for achieving competitive advantage and enhance their performance over their competitors (Carter, Kosmol, & Kaufmann, 2017; Denis, Day, & Smith, 2019). Nevertheless, even after

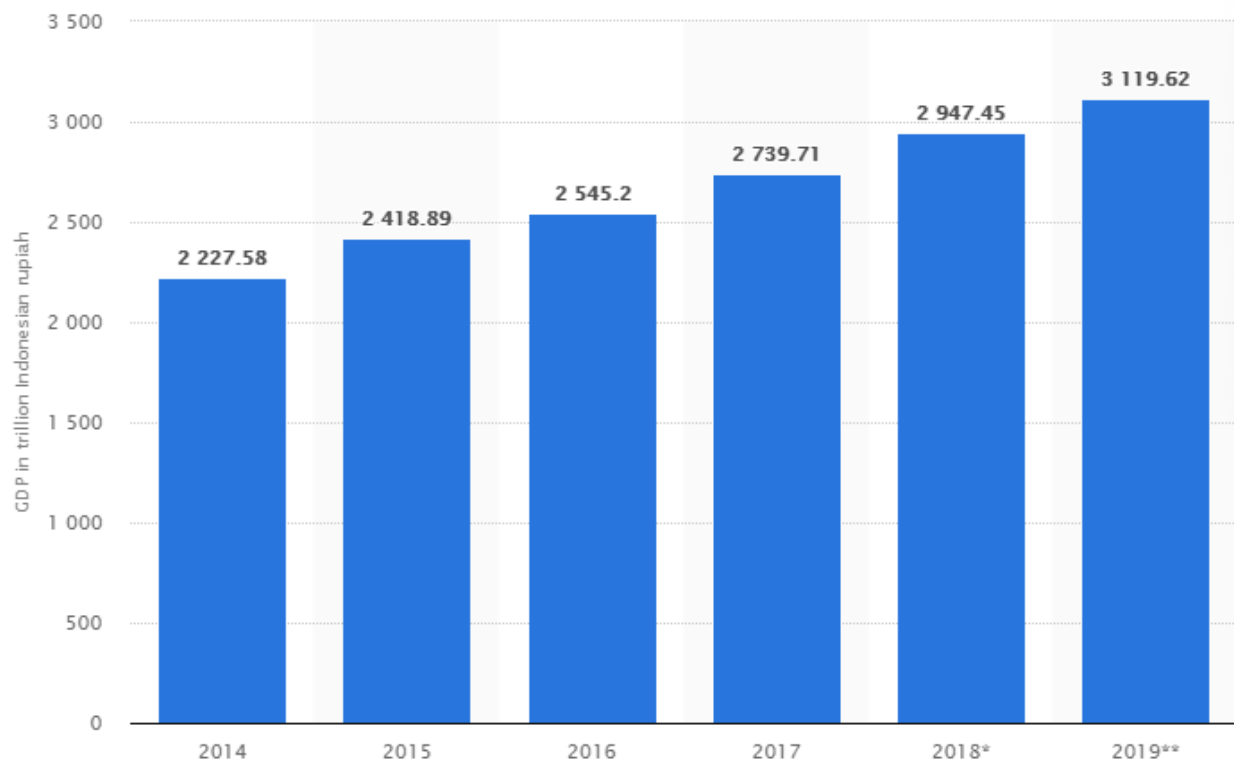
the successful achievement of organizational performance, the issue that how it can be achieved requires further investigation. Several empirical types of research have examined the factors which influence organizational performance. Various other researches (Alaarj, Abidin, & Bustamam, 2016; Ngah, Tai, & Bontis, 2016; Sabiu, Ringim, & Mei, 2019) from the fields of marketing, human resource management, information system, international business, and operation management have attempted to examine different variables, such as, total quality management (TQM), human resource practices, leadership styles, information technology (IT) and innovation, organizational capabilities and intellectual capital which may enhance organizational performance (Zahra, Hameed, Fiaz, & Basheer, 2019). However, human resource management (HRM) must be observed as an important factor to improve OP. In almost every organization, human resource management (HRM) is

imperative and involves everyone (Wright & Ulrich, 2017). Delery and Roumpi (2017) argued that HRM signifies those organizational activities which are associated with individuals' management and development. Flamini and Gnan (2019) define HRM practices as 'the functional practices which result in the improvement in organizational performance and success'. Furthermore, such practices supplement one another and work inter-dependently to ensure individual as well as organizational performance (OP). Putting differently, HRM practices are the organizational activities which are opted for utilizing the human resource in organization and also ensure maximum utilization of resources towards meeting the objectives of organization (Xie & Cooke, 2019). Hence, the human resource management (HRM) is related to the abilities and knowledge of an employee which allow improvement in the organizational performance as well as change in economic growth and development (Gómez Soler, Bernal Nisperuza, & Herrera Idárraga, 2020).

Moreover, another study SOLAJA and OLADIMEJI (2019), suggests HRM as an organization's human factor with intangible and valuable resources, like professionalism, skills, and intelligence which add distinctive personality to the organization and make the employees' stock of knowledge embedded in the collective capabilities of an organization to identify appropriate solutions (Zahra et al., 2019). In addition, an organization's resource-based view (RBV) explains that human resource management's additional value may contribute to the success and performance improvement of an organization (Carter et al., 2017). Sihite (2018) views HRM as the essential value and resources of the organization through which advantageous returns will be produced. Thus, organizational performance emerges from the ability of an organization to significantly contribute to the organizational activities. During the process of attaining OP, the organization's management must admit that

HRM is distinct among other organizational resources, making it reliable due to its quality of generating the required value (Busch & Barkema, 2020).

The main focus of the study is on the analysis of HRM practices such as recruitment & selection, training & development, compensation, performance appraisal, and promotion practices on organizational performance in the manufacturing industry of Indonesia (Ruiz, Peña, Navarro, & Grigorescu, 2014). The economy of Indonesia is the largest one in Southeast Asia. It is a developing upper-middle-income country. It is the world's 15<sup>th</sup> largest economy in terms of nominal gross domestic product (GDP) and the world's 7<sup>th</sup> largest country in terms of purchasing par parity. Its estimated nominal GDP is \$1.15 trillion in 2021, while GDP (PPP) is \$3.50 trillion in 2021. Indonesia has recently become the 10<sup>th</sup> largest manufacturing country across the world. It is the largest economic sector of Indonesia. Manufacturing production covers almost a quarter of the country's total GDP. It provides employment to one-fifth of the total working-age population of Indonesia. About 25 million workers are employed in the manufacturing industry in the Indonesian economy. Indonesian industry consists of textiles, garments, food & beverages, electronics, automotive, and chemicals. Because of its large contribution to the economic growth of Indonesia and a large provision of employment opportunities, this aims at analyzing the organizational performance in the manufacturing industry considering the role of HRM practices (Nikiforova, 2018). The majority of the leading manufacturing organizations in Indonesia have the efficient workforce and emerging performance because of the effective implementation of HRM practices (Migdadi, Zaid, Yousif, Almestarihi, & Al-Hyari, 2017). The contribution of manufacturing sector in GDP increases with time and some figures of this situation is mentioned in Figure 1.



**Figure 1: GDP from Manufacturing Sector in Indonesia**

However, organizational performance can be measured either as subjective or objective. The organization's subjective performance measures are regarded as the information which is obtained from the key informants or managers regarding organizational performance as a whole, such as innovation efforts, effectiveness, and efficiency (Benoy & Morley, 2019; Hafeez, Basheer, & Rafique, 2018), while the subjective performance measure is the popular OP assessing method which is particularly employed in the field of management. Researchers consider subjective measures as a suitable alternative and are more reliable in measuring OP (Cooke, Veen, & Wood, 2017).

Tabiu (2019) defined the public sector as 'the administration and governance institutions which are created for the effective and efficient provision of goods and services to the public or the society. Additionally, the public sector in contemporary governance is considered the main processing unit of government machinery (Olubunmi & Adesopo, 2017). Thus, the public sector's role in economic, political sectors and in the provision of goods and services and social welfare is crucial (Lydeka & Tauraitė, 2020).

The efficiency of the workforce and organizations' performance in the manufacturing

sector has a great significance to the economies which want consistent improvement in the economic growth rate. The manufacturing sector covers most of the industry sector; thus, if all the organizations in the manufacturing sector are making rapid progress, there is more opportunity for the economy to grow and expand (Snieska, Navickas, & Jegelaviciute, 2019). The consistent need for an efficient workforce and higher organizational performance requires that it should be investigated by researchers and academics. In order to meet this requirement, our study aims at examining the role of five HRM practices such as recruitment & selection, training & development, compensation, performance appraisal, and promotion practices on organizational performance. Its aim is also to analyze the moderating influences of ethical climate on recruitment & selection, training & development, compensation, performance appraisal and promotion practices, and organizational performance and their mutual association. In the previous literature, many researchers and academics have paid attention to the impacts of HRM practices like recruitment & selection, training & development, compensation, performance appraisal, and promotion practices on organizational performance. But, not all of these researchers or

academics have simultaneously discussed the influences nexus between recruitment & selection, training & development, compensation, performance appraisal and promotion practices, and organizational performance. Our study is an initiative to explore the recruitment & selection, training & development, compensation, performance appraisal, and promotion practices in relation to organizational performance. Moreover, the introduction of ethical climate as a moderator between HRM practices such as recruitment & selection, training & development, compensation, performance appraisal, and promotion practices, and organizational performance is also a great contribution to the literature as before this; not much attention has been given to the moderating role in this regard.

## 2.0. Hypothesis Development

Several researchers on human resource management (HRM) discovered that selection and recruitment practices enhance organizational performance (Meyer & Hamilton, 2020); in addition, several empirical pieces of research have investigated the role of selection and recruitment on the organizational performance and HRM practices relationship and revealed positive outcomes (Dalton, 2016; Nerstad, Dysvik, & Kuvaas, 2018; Troisfontaine, 2014). Besides, other studies also investigated this relationship; for instance, Dhiman and Dahiya (2016) employed the recruitment and selection process since it is a highly correlated HRM practice, and the findings suggest a significant association of recruitment and selection with organizational performance. Thus, the studies suggest that a significant relationship exists between OP and recruitment and selection. Chaturika and Dileepa (2016) also incorporated HRM practices in their study to observe their mediating effect on the OP and leadership style connection in organizations in KSA by collecting responses from 270 respondents and found a 92 percent response rate. The study also discovered recruitment and selection as the HRM practices, which significantly and positively influence the association among OP and leadership style. Similarly, another study, Selase (2018), attempted to examine recruitment and selection's influence on the manufacturing firms in Japan.

Thus, recruitment and selection refer to 'an internal organizational factor which, if utilized properly, may affect the organizational performance (Matthews & Mokoena, 2020). According to the theory, organizational resources act as the main determining factor for achieving competitive advantage and performance. However, recruitment and selection are essential means to achieve a competitive advantage, which ultimately leads to better organizational performance (Carter et al., 2017; Denis et al., 2019). Even though rich empirical evidence is available in the case of American, European, and Asian economies, there is still a lack of evidence concerning the OP and recruitment and selection relationship in countries like Indonesia. Hence, we hypothesize:

**H1:** RNS has a significant impact on the OPER

Several researchers have conducted empirical studies to examine the relationship between OP and training and development and reported a direct and significant positive association between organizational performance and training and development. Besides these studies, Sabiu, Kura, and Reni (2019) also conducted research on organizational performance and HRM practices in Pakistan by assuming that training and development served as the strongest predicting variable for higher education and developed a 50-item questionnaire. The result of regression analysis indicates a significant positive impact of training and development on OP.

In a similar vein, the study found supporting evidence regarding the association between OP and training and development (Cesarec, Mikac, & Spevec, 2020) and verifies that training and development is one of the greatest performance predictors in Malaysia. Meanwhile, in line with Marodin and Frank (2019) and Sabiu, Kura, et al. (2019) studies, also found similar results, i.e., a positive relationship exists between OP and training. Inconsistent with the above-mentioned arguments, training and development will likely bring better organizational performance and organizational effectiveness if utilized properly towards achieving effective employees' skills, expertise and knowledge.

In addition, the Resource-based View (RBV) offers theoretical reasoning on the relationship between organizational performance

improvement through training and development and how this theory stresses the effective use of an organization's internal resources (Carter et al., 2017). The RBV theory suggests that providing the required training and development opportunities to the employees shows that how concerned is an organization about employee development and will encourage employees to perform their best which in turn results in organizational performance (OP) (Yulong & Jing, 2020).

Thus, among the HRM practices, training and development activities as one of the performance determinants for the organizations. The RBV theory particularly emphasizes organizational resources that are the key performance determinants. A number of researchers claimed training and development as critical for enhancing OP and competitive advantage (Carter et al., 2017; Denis et al., 2019). However, regardless of the empirical pieces of evidence from European and Asian economies, there is a scarcity of literature on the association between OP and training and development in Indonesia. Thus, it can be hypothesized that:

**H2: TND has a significant impact on the OPER**

A number of researchers also examined the linkage between organizational performance and compensation practice. Meanwhile, the majority of the empirical studies reported a significant positive association between OP and compensation (Sabiou, Kura, et al., 2019; Sabiu, Mei, & Joarder, 2016). Furthermore, the study conducted by Chaturika and Dileepa (2016) investigated this linkage in the case of private organizations in Saudi Arabia. The study found a strong linkage between OP and compensation. Sabiu, Kura, et al. (2019) also supported the findings of Chieng, Arokiasamy, and Kassim (2019) study, which was conducted based on the case of insurance firms in Malaysia. The findings of the study revealed a significant relationship of compensation practice with performance. In a similar vein, also conducted a study in the context of the USA, by employing federal employees as sample respondents. The result of quantitative analysis suggests that positive relationship exist between compensation and performance. In short, the aforementioned studies have successfully established a linkage among OP and

compensation practice, which indicates that effective use of compensation system may result in organizational performance (Sabiou, Kura, et al., 2019; Sabiu et al., 2016).

**H3: CMP has a significant impact on the OPER.**

Prior researches have successfully linked OP and performance appraisal practice and also discovered a significant positive relationship between the two variables. In a recent study regarding the firm performance and HRM practices' impact on business strategy in Iraq, scholars integrated performance appraisal as the HRM practice and identified a linkage between HR practices and business strategy (Xie & Cooke, 2019). They also reported a significant positive linkage among firm performance and HRM practices and identified performance appraisal as the strongest OP predictor. Furthermore, a significant amount of empirical research (Sabiou et al., 2016; Tayeh, 2018) has been conducted to examine the relationship between OP and performance appraisal, and these studies revealed that the relationship between OP and performance appraisal is positive and significant. Therefore, in the present study, performance appraisal will be added in this study as a predictor of OP.

Furthermore, Chaturika and Dileepa (2016) examined the association between OP and leadership style by adding the HR practices as the moderating variable. The findings of this study explained the existence of a positive relationship between OP and performance appraisal. Similarly, in a study about the insurance firms in Malaysia, Chieng et al. (2019) confirmed Sabiu et al. (2016) findings, i.e., the OP and performance appraisal are positively related in Western and Asian economies. Moreover, another study found that firm performance and performance appraisal have a positive relationship in Malaysia (Hafeez et al., 2018). The above studies suggest that performance appraisal serves as a strong OP predictor if utilized properly by the organization.

Other than the aforementioned empirical researches, internal factors are also emphasized to be important to attain OP (Sabiou, Kura, et al., 2019; Sabiu et al., 2016). Thus, another important internal factor of the organization is performance appraisal which significantly affects the organizational performance. RBV

theory suggests organizational resources as the competitive advantage and performance determinants. However, limited studies are found concerning the relationship between OP and performance appraisal in Indonesia. Thus, we propose that:

**H4: PRA has a significant impact on the OPER.**

Many studies in the past have examined the relationship between organizational performance (OP) and promotion practice and reported a significant and positive relationship. In Marodin and Frank (2019), a relationship is attempted to establish between HRM practices and organizational performance in Spain. For this purpose, they employed a quantitative research method and found a 79.17% response rate by collecting information from Spanish firms which specialized in single-firing ceramic tiles. According to the study result, OP is significantly improved by promotion practice. In a similar vein, another study was conducted to explore OP and HRM practices' relationship, and also added promotion practice as a predictor of performance, and the results explained that the study variables are positively related (Xie & Cooke, 2019). Furthermore, Kunze and Menges (2017) conducted empirical research and obtained similar finding, i.e., positive relationship between OP and promotion opportunity, indicating that promotion opportunities are related to the development and career opportunity of an employee, and whenever it is intended to bring improvement in employee career, employees tend to perform better i.e. above average and shows courage and greater motivation towards their work in order to achieve superior organizational performance.

Promotion opportunities may significantly contribute towards OP and achieving competitive advantage (Carter et al., 2017; Denis et al., 2019). However, despite the significant set of literature in Asian and European economies, limited studies have examined the relationship between OP and promotional opportunity in the Indonesian context. Therefore, this study proposes that:

**H5: PROP has a significant impact on the OPER.**

The human resource management (HRM) system refers to the effective personnel management to successfully achieve

organizational goals (Kim, 2018). Thus, it refers to the management of personnel behavior, i.e., following values, rules, norms, procedures, regulations, and organization policies, based on ethical concern. Additionally, the HRM system's ability to influence employees' ethical behavior within the organization depends greatly on the effects caused by the organizational function. In a study by Kirsten, Wordsworth, and Plessis (2017), they revealed the HRM experts' thoughts, i.e., these experts possess the ethics management ability. HRM managers have been increasingly recognized the need to initiate ethics programs in organizations (Rodríguez-López & Souto, 2020). It is due to the fact that HRM professionals in organizations are highly respected because of their ability to comprehend the culture and then transfer it to the rest of the organization and solve ethical issues.

Thus, due to limited researches on the EC and HRM practices relationship, the study by Audenaert, Crucke, and Decramer (2019) investigated this linkage in the case of 6 European economies by employing 6000 employees' samples. The study attempted to analyze the influence of HRM practices on EC dimensions, such as egoism, principled, and benevolence. It is found that an organization's opportunity-enhancing practices, like job design, industrial relation, and employee involvement; and the organization's ability-enhancing practices, such as training and development and recruitment and selection, improve principled EC and benevolence, while the motivational practices, like compensation practice and performance appraisal, discourage the existence of a positive association between egoism EC and motivational practices. Thus, we hypothesize in the present study as:

**H6: ETHICAL has a significant impact on the OPER.**

It is indicated in the literature Tay, Tan, and Yahya (2017) that the HRM system encourages to the establishment of ethics in the organization. Therefore, HRM functions combined with adding ethics into the components through organizational involvement as well as identifying benevolent means to reshape work thus signify a new organizational management style, leading to mindful organizational operations. This procedure allows HRM to sustain culture, EC,

and ethics within an organization and also add value to the organization. Hence, implanting each HRM function with ethical orientation is essential for the smooth functioning of the organization. Thus, we hypothesize in the present study as:

**H7: ETHICAL moderates the relationship between PRA and OPER.**

In line with the literature, different studies suggest that HRM practices operate in a complementary manner by working collectively within the HRM system in order to achieve success (Xie & Cooke, 2019). Hence, in a system, the HRM practices do not function independently as a single practice rather as a group for yielding greater influence on the EC perceptions (Glaister, Karacay, & Demirbag, 2018). However, only a few studies were found in context to Asia, America, and Europe, and in Indonesia concerning the EC and HRM relationship. Thus, we hypothesize in the present study as:

**H8: ETHICAL moderates the relationship between RNS and OPER.**

Various scholars investigated the role of EC as a moderator in various disciplines. The previously mentioned empirical evidence indicates that several studies observed the role of EC as a moderator and found a positive outcome. The studies also explained the ability of EC to describe the nature of association among dependent and independent variables. Therefore, EC is used in this study to mediate the linkage between OP and HRM practices' in context to Indonesia, and these HRM practices include TD, RS, PRO, PA, & COMP. In addition, the organization's resource-based view (RBV) emphasizes making use of the organization's internal resources, which would result in performance and competitive advantage. Therefore, these above-mentioned five HRM practices are considered in this study as the internal resources which lead to the creation of other resources, such as, ethics and result in organizational performance (Xie & Cooke, 2019). Thus, we hypothesize in the present study as:

**H9: ETHICAL moderates the relationship between TND and OPER.**

In a similar vein, this argument that ethics act as the performance predictor and organizations

operate on the basis of ethics and cultural value was also supported by organizational theory. The cultural standards and ethics guide and control human behavior, and that employees' activities and behavior play a crucial role in determining the success of an organization. Thus, subject to the OCT and RBV theories, strong theoretical support was found from the literature for hypotheses development. Although the literature base is scanty in terms of how EC moderates the relationship between OP and HRM practices in Indonesia. Thus, we hypothesize in the present study as:

**H10: ETHICAL moderates the relationship between CMP and OPER.**

An ethical climate refers to the common perceptions among the personnel of an organization or parts of the organization as to what determines right behavior (Ali, Lei, & Wei, 2018). When there is an ethical climate, all the personnel, whether they belong to top management or lower employment, have a special concern for one another's well-being. In this case, the HR managers show ethical behavior towards the employees and pay heed to their well-being while making any decision. The HR managers ensure the promotion of employees and, thereby, the promotion of the organization. They design their policies in such manner that they can clarify the employees' career paths, sustains clear strategies, and keep workers engaged when they are on the stair to promotion. When the HRM promotion practices are efficiently implemented, the workers get efficient in their performance, and thus, the organization is able to get its goal of higher performance (Tzabbar, Tzafrir, & Baruch, 2017). Thus, we can hypothesize:

**H11: ETHICAL moderates the relationship between PROP and OPER.**

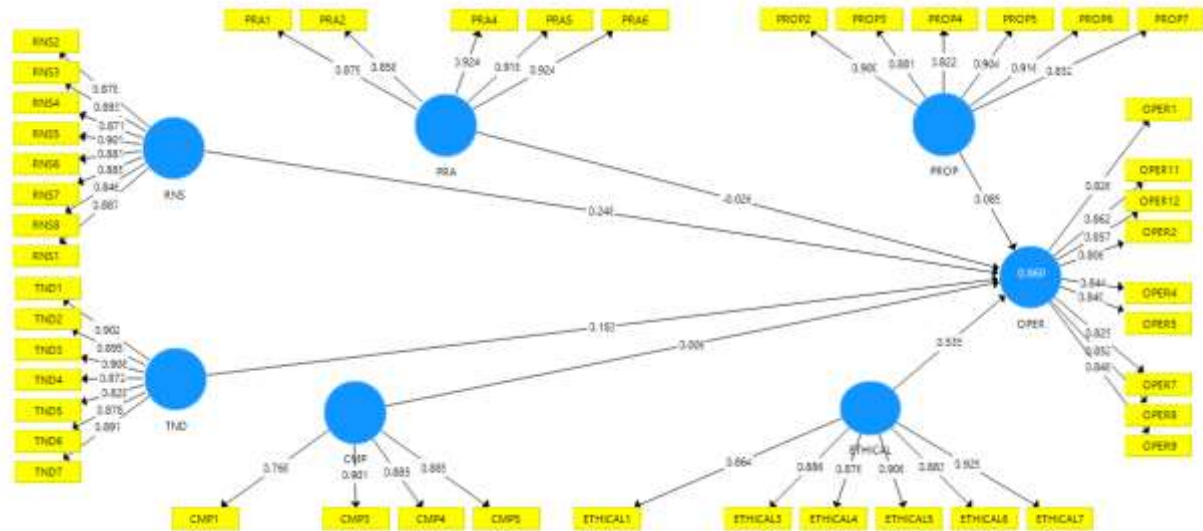
### 3.0. Methods

The degree of a phenomenon in the form of numbers is determined in quantitative research (Habtoor, Arshad, & Hassan, 2019). So, for analyzing the data, a statistical test is used by quantitative research. The quantitative approach is one that follows the questionnaires for collecting the data. A total of 320 questionnaires were distributed. And a total of 260 were

received back. So, the response rate was 81.25%.

**4.0. Results**

In the present study, the validity and reliability of items were determined by the measurement model (MM) (Hair, Sarstedt, Ringle, & Gudergan, 2017). For the measurement model, normally, there are two types of assessments that need to be carried out, 1) first-order reflective MM, 2) second-order formative MM.



**Figure 2: Measurement Model**

The correlations among the constructs and items are known as item loadings (Hair, Ringle, & Sarstedt, 2016). According to the study of Hair

et al. (2017), the loadings which are equal to or greater than .70 must be retained.

Table 1: Outer Loadings

	CMP	ETHICAL	OPER	PRA	PROP	RNS	TND
<b>CMP1</b>	<b>0.768</b>						
<b>CMP3</b>	<b>0.901</b>						
<b>CMP4</b>	<b>0.885</b>						
<b>CMP5</b>	<b>0.885</b>						
<b>ETHICAL1</b>		<b>0.864</b>					
<b>ETHICAL3</b>		<b>0.886</b>					
<b>ETHICAL4</b>		<b>0.876</b>					
<b>ETHICAL5</b>		<b>0.906</b>					
<b>ETHICAL6</b>		<b>0.883</b>					
<b>ETHICAL7</b>		<b>0.929</b>					
<b>OPER1</b>			<b>0.826</b>				
<b>OPER11</b>			<b>0.862</b>				



<b>OPER12</b>	<b>0.857</b>	
<b>OPER2</b>	<b>0.806</b>	
<b>OPER4</b>	<b>0.844</b>	
<b>OPER5</b>	<b>0.840</b>	
<b>OPER7</b>	<b>0.825</b>	
<b>OPER8</b>	<b>0.852</b>	
<b>OPER9</b>	<b>0.848</b>	
<b>PRA1</b>	<b>0.879</b>	
<b>PRA2</b>	<b>0.858</b>	
<b>PRA4</b>	<b>0.924</b>	
<b>PRA5</b>	<b>0.918</b>	
<b>PRA6</b>	<b>0.924</b>	
<b>PROP2</b>		<b>0.900</b>
<b>PROP3</b>		<b>0.881</b>
<b>PROP4</b>		<b>0.822</b>
<b>PROP5</b>		<b>0.904</b>
<b>PROP6</b>		<b>0.916</b>
<b>PROP7</b>		<b>0.832</b>
<b>RNS2</b>		<b>0.878</b>
<b>RNS3</b>		<b>0.893</b>
<b>RNS4</b>		<b>0.871</b>
<b>RNS5</b>		<b>0.901</b>
<b>RNS6</b>		<b>0.881</b>
<b>RNS7</b>		<b>0.885</b>
<b>RNS8</b>		<b>0.846</b>
<b>TND1</b>		<b>0.902</b>
<b>TND2</b>		<b>0.895</b>
<b>TND3</b>		<b>0.908</b>
<b>TND4</b>		<b>0.872</b>
<b>TND5</b>		<b>0.828</b>
<b>TND6</b>		<b>0.878</b>
<b>TND7</b>		<b>0.891</b>
<b>RNS1</b>		<b>0.887</b>

The extent to which the same constructs are measured by items is known as convergent validity. In PLS-SEM for the evaluation of convergent validity for reflective constructs, composite reliability (CR), items loadings, and average variance extracted (AVE) are used. The item loadings are known as the extent to which the items are correlated with constructs (Hair et

al., 2017). The internal consistency reliability of the construct is measured by the composite reliability, whereas AVE shows the extent to which item variance is explained by the construct (Hair et al., 2017). We can achieve a sufficient value of convergent validity when the value of AVE is more than 0.5 (Hair et al., 2017).

Table 2: Reliability

	<b>Cronbach's Alpha</b>	<b>rho_A</b>	<b>CR</b>	<b>(AVE)</b>
<b>CMP</b>	<b>0.883</b>	<b>0.883</b>	<b>0.920</b>	<b>0.742</b>
<b>ETHICAL</b>	<b>0.948</b>	<b>0.952</b>	<b>0.958</b>	<b>0.794</b>
<b>OPER</b>	<b>0.948</b>	<b>0.949</b>	<b>0.956</b>	<b>0.706</b>
<b>PRA</b>	<b>0.942</b>	<b>0.945</b>	<b>0.956</b>	<b>0.812</b>
<b>PROP</b>	<b>0.939</b>	<b>0.942</b>	<b>0.952</b>	<b>0.768</b>
<b>RNS</b>	<b>0.958</b>	<b>0.959</b>	<b>0.965</b>	<b>0.775</b>
<b>TND</b>	<b>0.952</b>	<b>0.953</b>	<b>0.961</b>	<b>0.779</b>

The level at which constructs are different from each other is known as Discriminant validity (Hair et al., 2017). The first-order construct

correlations and the square root of AVE values are compared by Tzempelikos and Gounaris (2017).

Table 3: Validity

	<b>CMP</b>	<b>ETHICAL</b>	<b>OPER</b>	<b>PRA</b>	<b>PROP</b>	<b>RNS</b>	<b>TND</b>
<b>CMP</b>	0.892						
<b>ETHICAL</b>	0.692	0.891					
<b>OPER</b>	0.768	0.861	0.860				
<b>PRA</b>	0.701	0.697	0.737	0.901			
<b>PROP</b>	0.879	0.683	0.735	0.822	0.877		
<b>RNS</b>	0.786	0.649	0.812	0.788	0.685	0.899	
<b>TND</b>	0.792	0.660	0.816	0.740	0.726	0.834	0.882

After the confirmation of formative and reflective measurements that are reliable and valid, we have analyzed the structural model (SM). Hypothesis testing, predictive relevance

(Q2), effect size ( $f^2$ ), and value of the coefficient of determination ( $R^2$ ) are involved in the examination of the structural model.

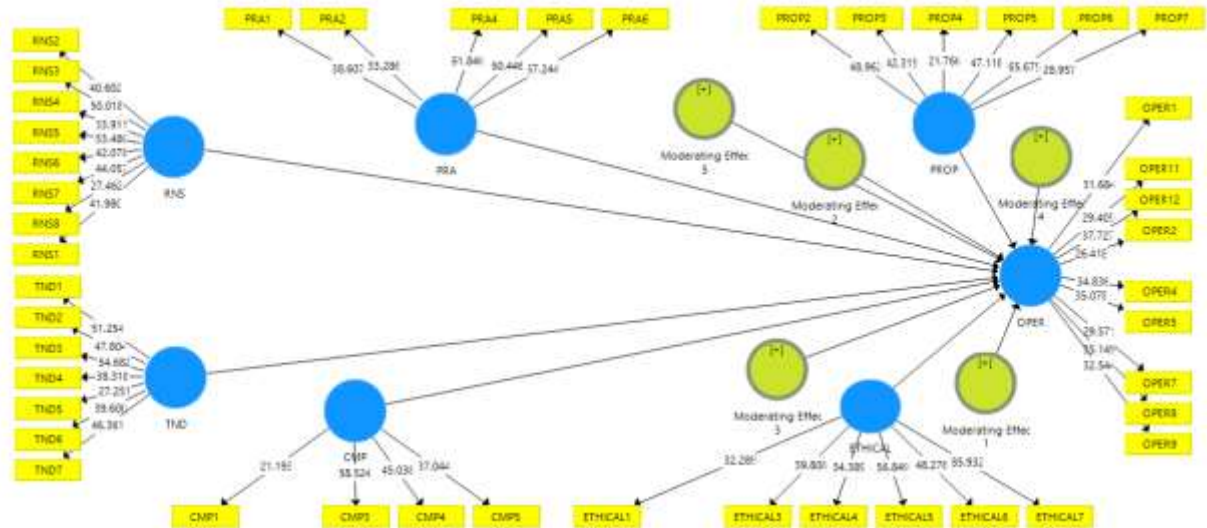


Figure 3: Structural Model

In the next step, hypotheses were tested by using the bootstrapping procedure. T values were generated through bootstrapping procedure. The

predicted relation between variables will be significant if the t-values are higher than 1.96.

Table 4: Structural Model

	(O)	(M)	(STDEV)	( O/STDEV )	P Values
<b>CMP -&gt; OPER</b>	0.005	0.016	0.074	2.071	<b>0.000</b>
<b>ETHICAL -&gt; OPER</b>	0.533	0.526	0.054	9.934	<b>0.000</b>
<b>ETHICAL*CMP</b>	0.096	0.087	0.122	2.784	<b>0.000</b>
<b>ETHICAL*PRA</b>	0.064	0.046	0.123	3.523	<b>0.000</b>
<b>ETHICAL*PROP</b>	0.040	0.018	0.106	3.378	<b>0.000</b>
<b>ETHICAL*RNS</b>	0.093	0.105	0.097	4.961	<b>0.000</b>
<b>ETHICAL*TND</b>	0.004	0.028	0.098	4.039	<b>0.000</b>
<b>PRA -&gt; OPER</b>	0.002	0.002	0.087	2.019	<b>0.000</b>
<b>PROP -&gt; OPER</b>	0.078	0.096	0.088	3.896	<b>0.000</b>
<b>RNS -&gt; OPER</b>	0.216	0.214	0.103	2.087	<b>0.018</b>
<b>TND -&gt; OPER</b>	0.199	0.185	0.114	1.737	<b>0.041</b>

We have assessed the coefficient of determination. It shows the percentage change

independent variable because of the independent variables (Hair et al., 2017).

Table 5: R-Square

	R Square
<b>OPER</b>	0.860

5.0. Discussions

The study results have indicated that RNS has a significant impact on OPER. These results are in line with the past study of El-Kassar and Singh (2019), which shows that when the HR recruitment and selection practices are effectively implemented, there is higher organizational performance. The study results have also indicated that TND has a significant impact on OPER. These results are also supported by the past study of Luu (2019), which states that the effective implementation of training and development practices ensures the rise in organizational performance. It has also been indicated by the results that CMP has a positive influence on OPER. These results are supported by the previous study of Blanco-Mazagatos, de Quevedo-Puente, and Delgado-García (2018), which implies that the provision of compensation creates work efficiency in the employees and thus, brings improvement in the performance. The results show that PROP has a significant impact on OPER. These results are supported by the study of Della Torre (2019). Moreover, the results show that ETHICAL plays a moderating role between RNS, TND, PRA, CMP, PROP, and OPER. These results are in line with the past study of Rao-Nicholson, Khan, Akhtar, and Tarba (2020), which shows the ETHICAL influences on the association between HR practices and a firm's performance.

### 5.1. Conclusion

The research findings on the moderating and direct effects have contributed to the existing set of OP and HRM practices literature. Two different theories were used as the theoretical base, these include OCT and RBV theories, and the result confirms that there exists a positive association between OP and HRM practices in Indonesia (Xie & Cooke, 2019). Since the majority of the prior studies were based on Western and Asian contexts, therefore, the findings of prior researches cannot be generalized even in the case of Indonesia. This study investigated that the Indonesian manufacturing industry effectively implemented the HR practices that enhance organizational performance and suggested that they should improve their focus towards HR practices that could effectively improve the organizational performance. This study also indicated that the ethical climate is the significant factor that improves the effectiveness of HR practices towards organizational performance and

recommended that the regulators of manufacturing companies should develop the policies related to maintain the ethical climate in the organization that enhances the organizational performance.

The theoretical contribution of the present research is its ability to explain the organizational performance in the public sector in Indonesia, especially BANKS. Mainly because most prior researches on organizational performance (OP) emphasize and examine the case of private manufacturing firms' efficiency (Benoy & Morley, 2019; Hafeez et al., 2018). Moreover, other theoretical contributions of this study are the expansion in theoretical base and empirical investigation of the effects of HRM practices on OP, as well as ethical climate's impact as a moderator in this relationship. In addition, the present study successfully developed a linkage between OP and HRM practices and ethical climate and HRM practices. It is a notable finding that EC is found to play the role of a moderator, which provides an explanation that in what way HRM practices influence OP (Xie & Cooke, 2019). Thus, the empirical evidence is provided in this research concerning the linkage between OP and HRM practices with the role of EC as a moderator. These findings will be useful for the Indonesian BANKS management. The HRM professionals' perception in Indonesian BANKS will be likely to be enhanced by having an understanding of the moderating effect of EC on the linkage between OP and HRM practices, thereby drawing the management's interest and attention towards further investigation. The study discovered that for the top level management, the HRM practices like TD, RS, PRO, and PA may improve organizational performance efficiency (Benoy & Morley, 2019; Hafeez et al., 2018). Therefore, for a better HRM system, HRM practices in the public sector must be improved in order to observe the real situation. Such as the performance appraisal, which concerns proper procedure, they were setting goals for personal development, fairness, and promotion policy, which concern with identifying and setting aspirations and career paths as well as emphasizing more on internal than external candidates while offering new positions.

### 5.2. Limitations and Future Directions

Like other studies in the past literature, this literary workout has some limitation and need to be carefully replicated and extended so that these limitations can be removed. First of all, this study focuses only on HRM practices like recruitment & selection, training & development, compensation, performance appraisal, and promotion practices while making an analysis of the organizational performance. Besides these HRM practices, financial factors, economic conditions, cultural and social factors also play a key role in determining organizational performance. This has made the scope of the study limited. For a more comprehensive study, the author should also pay attention to other factors along with these five HRM practices while dealing with the organization's performance. The numerical data to support the concepts presented by this study have been collected with the use of a single data collection source like the issuance of a questionnaire. The use of one source to acquire relevant data causes a lack of comprehensive study. That is why scholars in the future must turn to use more sources for the acquisition of data.

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