



The Impact of Organizational Culture on Employee Ethical Behavior

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ABSTRACT: This study examines how dimensions of organizational culture influence employee ethical behavior in banking institutions. We conceptualize organizational culture in terms of shared values, norms, and leadership practices. A quantitative survey (simulated) was conducted with 100 bank employees, measuring perceptions of cultural values clarity, normative standards, and leadership support for ethics, alongside self-reported ethical conduct. Correlation and regression analyses of the simulated data reveal that all three cultural dimensions positively predict ethical behavior. For example, stronger alignment with organizational values was associated with higher ethical conduct. These findings suggest that a culture emphasizing clear ethical norms and ethical leadership fosters more responsible employee behavior. The study contributes to understanding how internal cultural factors shape ethics in banking, with implications for leadership development and policy design in financial institutions.

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INTRODUCTION

Organizational culture – the set of shared values, beliefs, and norms in a company – plays a critical role in shaping how employees behave at work[3]. In the banking sector, where trust and integrity are fundamental to customer confidence, culture is especially important. Shared expectations and unwritten rules (norms) can either encourage or discourage ethical decision-making. Research suggests that when organizational values explicitly endorse ethical conduct, employees are more likely to act in accordance with those norms[1]. Conversely, cultures that emphasize short-term financial goals without regard to principles may lead to misconduct (as seen in recent banking scandals). Despite this, many banking institutions struggle to translate ethical ideals into everyday practice. How do specific cultural factors – such as organizational values, established norms, and leadership behavior – impact employees' willingness to act ethically? This study investigates that question by simulating survey data from bank employees. We analyze the relationships between culture dimensions and self-reported ethical behavior, aiming to illuminate the internal drivers of ethics in banking.

PROBLEM STATEMENT

Although regulators have tightened rules in banking, ethical lapses persist, indicating that external controls alone are insufficient. A key problem is the lack of clarity about which cultural elements most strongly influence employee ethics in financial institutions. Prior work has largely focused on broad concepts like “ethical climate” or leadership style, but less is known about how concrete elements of culture (values statements, normative sanctions, and leadership practices) interact to shape behavior on the ground. For example, a bank may have a code of conduct (an espoused value), but if managers tolerate rule-bending to meet targets, unethical actions still occur. Thus, there is an important gap in understanding the *mechanisms* by which culture promotes or hinders ethical conduct. This study addresses that gap by examining how multiple facets of organizational culture correlate with ethical behavior outcomes in banking.

Purpose of the Study

The purpose of this study is to explore the impact of organizational culture on employee ethical behavior within banking institutions. Specifically, we aim to identify which cultural dimensions – including underlying values, accepted norms, and leadership practices – are most influential in promoting ethical conduct among bank employees. By using a quantitative survey approach, we seek to illustrate the relationships between cultural factors and ethics, providing guidance for how banks can cultivate integrity through internal culture.

Research Objectives

1. Identify and define cultural dimensions. Describe and operationalize key dimensions of organizational culture (e.g., shared values, norms clarity, leadership ethics) as they apply in banking.
2. Measure perceptions of culture. Assess employees' perceptions of these cultural dimensions in selected banking institutions.
3. Assess ethical behavior. Measure self-reported ethical behavior among employees (e.g., adherence to rules, honesty with clients).
4. Analyze relationships. Quantitatively evaluate how each cultural dimension relates to employee ethical behavior.
5. Provide recommendations. Based on findings, suggest organizational practices for strengthening culture to encourage ethical conduct.

Research Questions

- RQ1: What are the predominant cultural values and norms present in banking organizations, according to employee perceptions?
- RQ2: How do employees rate their leaders' commitment to and modeling of ethical behavior?
- RQ3: To what extent are organizational culture dimensions (values alignment, norms clarity, leadership ethics) predictive of employees' ethical behavior in banking?
- RQ4: Which cultural factors have the strongest association with employee ethical conduct?

LITERATURE REVIEW

Organizational Culture Defined

Scholars define organizational culture as the set of shared beliefs and expectations held by members of an organization[3]. Common norms, values, and perspectives create a unique cultural environment in each workplace[3]. For example, Schein's model highlights three levels of culture: *artifacts* (visible practices), *espoused values* (conscious beliefs), and *underlying assumptions* (implicit premises)[4]. In banks, these layers might include formal codes of conduct (artifacts), stated mission statements about integrity (espoused values), and underlying attitudes such as "profits above all" or "clients' interest first." Research indicates that a strong, coherent culture provides unity and clear expectations, which in turn can improve performance and commitment[5]. However, culture can be positive or negative: a culture that implicitly tolerates bending rules will erode ethics, whereas a culture that visibly rewards integrity will reinforce ethical choices.

Dimensions of Culture – Values and Norms. Values are the stated ideals or priorities of an organization (e.g., "customer trust" or "innovation"). Norms are the unwritten rules that guide day-to-day behavior (e.g., whether it is acceptable to work late to meet sales targets). Both are core to culture. Hofstede's work implies that aspects like *consistency versus flexibility* or *hierarchical versus egalitarian* orientation shape how values are enacted[6]. In banking, *ethical values* (fairness, honesty) and *normative practices* (clear ethical guidelines, consistent enforcement) are critical. For instance, Kaptein's Corporate Ethical Virtues model emphasizes *clarity* as a dimension: organizations that make ethical standards "concrete, comprehensive, and understandable" promote ethical behavior[7]. Conversely, when norms are ambiguous, employees may default to expedient choices. The literature suggests that an emphasis on ethics in formal statements must be matched by clear expectations and consequences in practice.

Leadership and Culture. Leadership practices are another dimension of culture. Leaders set the "tone at the top" by modeling behavior, reinforcing values, and holding people accountable. Ethical leadership research shows that when managers demonstrate integrity, followers are more likely to do likewise[8]. In banking, if executives openly reward aggressive sales with little oversight, employees infer that results matter more than ethics. By contrast, visible support for ethical decision-making (through policies, rewards, or speech) signals that integrity is a priority. Indeed, Mahurkar et al. (2024) argue that "shared values, beliefs, and practices" in an organization profoundly affect employee decision-making and behavior[1]. They emphasize that in banking – where trust is paramount – aligning culture with ethical principles "plays a pivotal role in influencing employee conduct"[8]. A tone of integrity from leaders embeds ethics into the everyday culture.

Ethical Culture and Climate. While related, ethical culture and ethical climate are distinct concepts. Ethical climate refers to employees' perceptions of what behavior is right or wrong in a particular setting (Victor & Cullen, 1987). Ethical culture encompasses both these perceptions and the organizational systems that support ethical actions. In practice, informal "soft" controls (values, assumptions, social expectations) combine with formal "hard" controls (codes of ethics, training, monitoring) to shape behavior[2]. For example, an organization may have a formal code, but if the informal climate tolerates norm violations, ethical lapses occur. The literature notes that a strong ethical culture provides resources (clear norms, support) that enable employees to act ethically[2]. In our context, we consider both the content of culture (values/norms) and the leaders' enforcement as parts of the ethical cultural framework.

Empirical Links Between Culture and Outcomes. Prior empirical work in banking underscores culture's impact. Barth and Mansouri (2021) used the Competing Values Framework to link bank culture types to financial outcomes. They found that banks with competition-oriented cultures (emphasizing results and bonuses) tend to have riskier compensation schemes, while those emphasizing stability/hierarchy showed lower bankruptcy risk[9][10]. This suggests that culture shapes risk attitudes and incentives beyond formal policies. In other words, culture drives decision-making priorities. Similarly, Ozcan and Ozturk (2020) studied a private bank and concluded that organizational culture significantly influences employee performance via its effect on leadership style[11]. Their regression findings indicated that different culture types had statistically significant effects on leadership and performance outcomes[11]. These studies, while focused on financial outcomes, illustrate that culture has concrete behavioral effects in banking institutions.

Culture and Ethical Behavior. Direct research on culture and ethical conduct in banking is more limited, but existing findings reinforce the connection. Mahurkar et al. (2024) specifically link workplace ethics to employee behavior: they argue that a strong ethical foundation influences organizational values and employee conduct, which in turn affects organizational success[1][12]. Their review emphasizes that “promoting workplace ethics” correlates with positive employee behavior and public reputation of banks[12]. Case examples also highlight the cultural roots of misbehavior: one analysis of the Wells Fargo scandal noted that employees simply followed a culture of aggressive sales targets and rule-breaking, rather than consciously considering ethics[13]. This underscores how deeply embedded norms can override formal rules. Collectively, the literature suggests that if banks cultivate clear ethical values, empower leaders who model integrity, and ensure that norms prioritize long-term trust, then employees will be more likely to act ethically. Building on these insights, our study quantitatively examines how perceptions of values, norms, and leadership relate to self-reported ethics among bank employees.

METHODOLOGY

A quantitative, cross-sectional survey approach was designed to assess the influence of organizational culture on ethical behavior. The study population was employees in the banking sector. In practice, data collection would involve sampling staff from various departments in multiple banks (e.g. retail, operations, management). For this simulated study, we assume a sample size of 100 respondents, consistent with a medium-sized bank sample. Respondents were asked to complete a structured questionnaire containing:

- **Organizational Culture Measures:** Multi-item scales assessing (a) *Values Alignment* (the extent to which organizational values promote ethics and are clearly communicated), (b) *Norms Clarity* (the extent to which formal and informal norms about acceptable behavior are clear), and (c) *Leadership Ethics* (the extent to which supervisors and managers demonstrate and reinforce ethical practices). Items were rated on a 7-point Likert scale (1 = strongly disagree to 7 = strongly agree). Higher scores indicate a stronger ethical culture dimension.
- **Employee Ethical Behavior:** A composite index of self-reported ethical conduct (e.g., frequency of honest decision-making, adherence to rules, and avoidance of misconduct). This was also assessed on a continuous scale. Respondents rated statements (e.g., “I act honestly even under pressure”) on the same Likert scale, yielding an overall *Ethical Behavior* score.

To analyze the data, Pearson correlation coefficients were computed among all variables, and a multiple linear regression model was estimated with Ethical Behavior as the dependent variable and the three culture dimensions as predictors. All statistical analysis used conventional significance levels ($p < .05$). Because this is a simulated dataset, we generated plausible values using random but structured methods to reflect expected positive relationships: in particular, higher culture scores lead to higher ethics scores. The analysis results are presented in tables below.

Data Analysis

Table 1 shows descriptive statistics and correlations for the simulated variables. On average, respondents rated Cultural Values Alignment, Norms Clarity, and Leadership Ethics around the mid-point of the 1–7 scale (means ≈ 3.9 –4.1), suggesting moderate positivity. The Ethical Behavior score mean was higher (≈ 5.7), reflecting social desirability. As hypothesized, all three culture dimensions were positively correlated with ethical behavior. Cultural Values had the strongest correlation with ethical behavior ($r = .68$, $p < .001$), while Leadership Ethics ($r = .53$, $p < .001$) and Norms Clarity ($r = .45$, $p < .001$) showed moderate correlations. Inter-correlations among the culture measures themselves were low to moderate, indicating they capture related but distinct aspects of culture.

Table 1. Descriptive statistics and correlations. Values above the diagonal are correlations (all $p < .001$), diagonal elements are variances (SD in parentheses).

Variable	Mean	SD	1	2	3	4
1. Cultural Values	4.09	1.48	1.00	0.12	0.08	0.68
2. Norms Clarity	4.10	1.25	0.12	1.00	0.06	0.45
3. Leadership Ethics	3.93	1.23	0.08	0.06	1.00	0.53
4. Ethical Behavior	5.66	1.02	0.68	0.45	0.53	1.00

A multiple regression (Table 2) further examined the joint effect of culture dimensions. The model ($R^2 = .82$) was highly significant ($F(3,96) \approx 145.5$, $p < .001$). All three predictors made significant unique contributions: Cultural Values ($B = 0.416$, $SE = 0.030$, $t = 13.91$, $p < .001$), Norms Clarity ($B = 0.287$, $SE = 0.036$, $t = 8.08$, $p < .001$), and Leadership Ethics ($B = 0.382$, $SE = 0.036$, $t = 10.62$, $p < .001$) all had positive coefficients. The intercept was also significant ($B = 1.279$, $p < .001$). In practical terms, this means that for each one-point increase in the Cultural Values score, predicted ethical behavior increases by about 0.42 points, holding other factors constant. The similarly positive coefficients for Norms Clarity and Leadership Ethics indicate that stronger clarity of norms and more ethical leadership are independently associated with higher ethical behavior.

Table 2. Regression of Ethical Behavior on Culture Dimensions. $R^2 = .820$, $F(3,96) = 145.5$, $p < .001$.

Predictor	B	SE	t	p
Cultural Values	0.416	0.030	13.91	< .001
Norms Clarity	0.287	0.036	8.08	< .001
Leadership Ethics	0.382	0.036	10.62	< .001
Constant	1.279	0.223	5.74	< .001

These results confirm the hypothesized positive relationships. Notably, Cultural Values – which capture the extent to which ethical values are embedded in the organization – had the strongest impact on ethical behavior. However, all dimensions were significant, implying that a multifaceted culture (clear values, clear norms, ethical leadership) is most conducive to ethical conduct.

DISCUSSION OF FINDINGS

The simulated results underscore that organizational culture is closely tied to employee ethical behavior, consistent with existing theory. The high correlation ($r = .68$) between Cultural Values and ethics suggests that when employees perceive the organization's values as ethically aligned, they are much more likely to behave ethically themselves. This aligns with Mahurkar et al. (2024), who assert that “shared values... have a substantial impact on employee... decision-making”[1]. In banking, where trust is key, such alignment likely reinforces employees' internal motivation to uphold integrity.

Leadership Ethics also showed a strong unique effect. This resonates with the notion that leaders who exemplify and reward ethical behavior create an environment where integrity is the norm[1][2]. When supervisors visibly support ethics (for example, by punishing corruption and acknowledging honest work), employees receive clear cues that ethical actions are valued. Our regression indicates that even after accounting for values and norms, leadership remains a significant driver. This implies that policies alone are insufficient without leaders who embody them. As Kaplan (2025) notes, formal “hard controls” (codes) must be supported by “soft controls” (values and leadership practices) to foster ethics[2].

The positive effect of Norms Clarity suggests that explicit ethical standards and enforcement procedures matter. This echoes Kaptein's concept of clarity: ethics programs should make standards understandable[7]. If norms are vague or inconsistently enforced, even well-meaning employees may drift into unethical choices (as one Wells Fargo case revealed, employees simply did “what they were told” regardless of ethics[13]). In our simulated bank scenario, greater clarity of rules correlates with higher ethics, implying that banks should invest in clear guidelines and training.

Our results also parallel findings by Barth and Mansouri (2021) on broader behavioral implications of culture. Although their work focused on risk-taking rather than ethics, they similarly found culture to be a powerful “soft” governance tool[9]. Culture type not only shaped compensation incentives but even affected bankruptcy risk[9]. By analogy, our analysis suggests that an ethical culture may reduce the “bankruptcy” of reputation – in other words, ethical lapses that damage trust. Finally, the overall variance explained (82%) indicates that these culture dimensions jointly account for most of the variation in ethical behavior in our model. This high figure (in a real study, one would expect lower R^2) reflects our intentional design, but it reinforces that culture factors dominate over random variance in influencing ethics.

CONCLUSION

This study illustrates the pivotal role of organizational culture in shaping ethical behavior among bank employees. By focusing on specific cultural dimensions – values alignment, norms clarity, and leadership ethics – we provide a granular view of how internal culture can foster or hinder ethics. The simulated data analysis shows that all these elements are important: a bank that clearly communicates ethical values, enforces consistent norms, and empowers leaders to act as ethical role models will likely see higher rates of ethical conduct. This has practical implications for banking management. For example, investing in ethics training and leader development can strengthen the underlying culture of integrity. Performance metrics might also be adjusted to balance short-term financial goals with long-term ethical considerations, as suggested by Barth and Mansouri's findings on compensation structures[9].

However, changing culture is a long-term endeavor. Anecdotal evidence (e.g., Wells Fargo's attempts at culture change) shows that superficial fixes like marketing campaigns are ineffective if underlying norms remain unchanged[14]. Thus, banks should

systematically review their cultural assumptions. Our findings support a holistic approach: crafting clear values and codes is necessary but not sufficient without supportive leadership and ongoing reinforcement.

In summary, enhancing ethical behavior in banking requires attention to the organization's culture. As this study indicates, when banks align their cultural values and norms with integrity and ensure leaders embody those values, employees are more likely to act ethically. Future research should empirically test these relationships in real-world bank settings and explore interventions to cultivate such a culture.

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