"Ethical Behavior and Employee's Performance of Commercial Bank in Butwal Sub-Metropolitan City, Nepal"

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Abstract

The study aims to explore the relationship between Respect, Teamwork, Reward and Punishment, Leadership Style, Racial Discrimination, Discipline, Corruption and Employee Performance. It seeks to identify how these different dimensions influence Employee Performance. The study adopted a quantitative approach, gathering responses from 218 employees of Commercial banks in Butwal Sub metropolitan City using a structured questionnaire, following a purposive sampling method. Data was analyzed using PLS-SEM software, employing tools such as measurement item assessment; Model fit evaluation, Importance Performance Map Analysis (IPMA) and bootstrapping techniques for hypothesis testing. The results revealed that discipline and teamwork, as aspects of ethical behavior are the key predictors of employee performance. It is evident that these factors are major contributors to employee performance. Therefore, the management of Commercial banks should prioritize these aspects to enhance employee performance. By understanding and reformulating policies based on these factors, there is greater potential to improve employee performance.

Keywords: *Employee performance, teamwork, corruption, leadership Style, reward and punishment.*

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I. Introduction

Ethical behavior in management has globally been the core concern of organizations for the last couple of years. As such it is the basis for trust, accountability, and sustainability in the long run that can be seen everywhere. In developed countries, strong laws, good corporate governance, and well-established regulatory bodies help maintain ethical standards. As a result, it is easier to make ethical decisions, corruption is reduced, and workplaces promote a culture where employees feel valued, motivated, and responsible (Trevino & Nelson, 2017). A range of empirical investigations carried out in the USA, Europe, and Australia are in agreement that the upholding of high ethical standards leads to job satisfaction, employee performance, retention, and loyalty (Martin & Cullen, 2006; Valentine et al., 2011) On the other hand, the developing countries have a harder time to establish ethical behaviors in the workplace as they suffer from a lack of support of their implementation by the regulatory authorities, are affected by politics, have rigid social structures, corruption, favoritism, and low awareness of professional ethics. These kinds of situations lead to

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discrimination, unfair rewards, limited opportunities, and the lack of professional development which in turn has a negative impact on employee motivation and performance (Acharya & Pant, 2020). In Nepal, it is true that Nepal Rastra Bank (NRB) has set very clear standards for corporate governance and professional ethics, still, the banking sector is going through issues such as nepotism, promotions that are biased, the use of authority for personal benefit, lack of transparency, and weak implementation of policies. These problems have a direct effect on employee motivation, job satisfaction, and productivity, especially in competitive commercial centers like Butwal where workforce diversity and socio-cultural factors influence employee interactions and organizational behavior (Bhandari, 2016; Nepal Rastra Bank, 2019).

Looking at Nepal, ethical conduct in the workplace has been a major factor that influences the success of the banking sector which has seen a rapid positive growth in the last few years. Despite the fact that Nepal Rastra Bank (NRB) has given clear instructions regarding corporate governance, professional conduct, and workplace ethics, many banks are still struggling with such problems as nepotism, biased promotions, misuse of authority, lack of transparency, and the weak enforcement of ethical policies (Kushwaha et al., 2025). The lack of the above not only destroys the internal organizational structures but also has a direct impact on the motivation, job satisfaction, and productivity level of the employees. To give an example, staff may face situations where they have less engagement, more pressure, and experience decision-making difficulties if ethical standards are applied inconsistently, thus resulting in a low work output and a high rate of turnover (Acharya & Pant, 2020). The financial sector of Nepal is getting more and more competitive with the rising customer expectations and demands for better services. Therefore, ethical behavior has become a key issue that shapes employee performance. It is very important to comprehend this in the case of an emerging commercial center like Butwal, which experiences workforce diversity, local socio-cultural norms, and the interaction between traditional values and modern banking practices that create unique challenges for ethical decision-making (Ramesh & Joshi, 2021). Realizing how the ethical behavior of each individual employee affects their performance in such situations is vital not only for the continuous functioning of the organization and maintaining customer trust but also for the overall stability and the trustworthiness of Nepal's banking system. As a result, examining these relationships sheds light on how bank management, regulators, and policymakers can encourage ethical cultures that lead to employee engagement, productivity, and organizational growth.

Conceptually,ethical behavior is the operation that follows the set of moral principles, organizational regulations, and social norms. Treviño and Nelson (2017) describe ethics as the making of right and wrong choices in the work environment which then is used to guide employees' decisions and actions. The change of ethical behavior in companies is linked to the adoption of classical ethical theories, such as Kantian ethics (ethics based on the concept of duty), Utilitarianism (ethics based on the consequences), and Virtue Ethics (behavior coming from the character) (Ciulla, 2004; Bowie, N. E. (2017). Besides that, contemporary management theories like Social Exchange Theory, Organizational Justice Theory, and Ethical Leadership Theory give reasons that attributes like fairness, respect, and ethical treatment of employees result in good employee's attitude, higher motivation, and increased work efficiency (Cropanzano& Mitchell, 2005; Brown &Treviño, 2006).These theoretical bases help current studies by providing a linkage between variables such as fairness, collaboration, discipline, reward and punishment systems, leadership style, and anti-corruption practices and employee performance indicators.

Research and literature reviews in different countries have led to the conclusion that ethical work environments are the driving forces behind good employee behavior, lessened organizational conflicts, increased job satisfaction, and better performance. The work of Valentine et al. (2011) and Demirtas and Akdogan (2015) has brought to the fore the coupling that exists between the ethical climate and employee productivity in developed economies. The studies in the South Asian region have mainly focused on the impact of corruption, favoritism, and discrimination on workplace efficiency, and the negative side of these phenomena has been stressed a lot. In Nepal, only a handful of researchers have delved into the issue of ethics in the banking sector. Khadka (2020), Ramesh, and Joshi (2021) have investigated the aspects of ethical leadership, service quality, and customer satisfaction but have not looked into the influence of employee ethics on their performance. Moreover, most of the Nepalese research works concentrate on the banks located in Kathmandu, thus an understanding gap about the ethical behavior dynamics in the midwestern commercial centers like Butwal has been created.

The study gap addressed in this research is the lack of empirical evidence on how individual employees' ethical behavior influences employee performance in commercial banks located in Butwal Sub-Metropolitan City, Nepal. At the same time, there is little information on how various factors such as respect, teamwork, leadership style, corruption control, discrimination, and reward systems can interplay to result in employee productivity and job satisfaction at the micro-level.

Furthermore, only a few studies have used advanced analytical models, such as PLS-SEM, to examine the structural relationship between ethics and performance in Nepal's banking sector.

The reason behind this research lies in the fact that it meets the demand for a clear understanding grounded on the evidence of the necessity for work ethics in the financial institutions of Butwal that are rapidly growing. As the banking sector becomes increasingly competitive and customer demands grow, ensuring ethical behavior among bank employees is essential to maintain customer trust, reduce operational risks, and enhance organizational effectiveness. The findings of this research will be valuable for commercial bank managers, policy planners, and regulators, particularly the Nepal Rastra Bank, in developing policies and initiatives that strengthen ethical culture, reduce unethical behavior, and improve employee performance. The study helps to broaden the understanding of ethics and performance in a developing urban context marked by cultural diversity like Butwal, hence, contributing to the academic literature on a larger scale.

Objectives of the Study

The objectives of the study are as follows:

- To analyze the perception of the respondents with regard to the attributes of ethical behavior Respect, Teamwork, Reward and Punishment, Racial discrimination, Leadership style, Discipline, Corruption on Employee's performance by examining their average response levels.
- To analyze the effect of Respect, Teamwork, Reward and Punishment, Racial discrimination, Leadership style, Discipline, Corruption support on Employees' performance.

II. Literature Review

This section presents a literature review, focusing on the theoretical and empirical aspects relevant to the current research being pursued. The theoretical review examines related theories that support the link between the variables mentioned in the framework. Moreover, the empirical review incorporates the findings of previous research conducted on the same topic. The following theoretical and empirical reviews support the contractual framework of the study and form the basis for the development of hypotheses.

Respect and Employees' Performance

The relationship between Respect and Employees' Performance is strongly supported by social exchange theory, which states that employers and employees develop their relationships through exchanging resources and values in an effort to maximize benefits and reduce costs (Blau, 1964). Furthermore, Psychological Contract Theory suggests that employees enter into implicit agreements with their employers regarding mutual expectations (Rousseau, 1989). When respect and ethical behavior are prioritized in the workplace, employees feel that their psychological contracts are fulfilled, leading to increased job satisfaction and performance. In the banking sector, managers who uphold ethical standards and show respect toward employees can enhance motivation and commitment, ultimately translating into improved performance outcomes (Naumann & Bennett, 2000).

According to a study by Saeed, Shakeel, and Lodhi (2013), employees who receive respect are more likely to uphold moral standards, which enhance job performance. By fostering a culture of respect, commercial banks may significantly improve employee engagement and performance metrics, the study found. Ramesh and Joshi (2021) found that employees who perceived ethical practices like respect, fairness, and transparency from their organization reported higher commitment levels and better performance. Their findings emphasized the need for integrating ethical values into daily management practices to achieve better outcomes in Nepalese financial institutions. Based on these studies, the following hypothesis can be formulated:

H_1*: There is a significance effect of respect on employees' performance.*

Teamwork and Employees' Performance

Teamwork is facilitated by transformational leadership, which encourages ethical behavior and motivates staff to strive toward shared objectives Bass, (1985). In commercial banks, managers who encourage cooperation and moral behavior inspire staff to work well together, improving productivity. Research indicates that when leaders model moral behavior and promote teamwork, employees' job happiness and performance improve Walumbwa et al., (2008).

According to Wang et al. (2014), there is empirical evidence that ethical leadership improves team dynamics, which in turn boosts performance. Leaders in commercial banks encourage cooperation by providing moral direction and assistance to build a culture that not only improves team performance but also motivates individual workers to act morally. Based on these studies, the following hypothesis can be formulated:

H_2: There is a significance effect of teamwork on employees' performance.

Reward, Punishment and Employees' performance

The relationship between ethical behavior, reward/punishment mechanisms, and employee performance can be explained through several organizational and behavioral theories. Among them, Reinforcement Theory of Motivation by B.F. Skinner is the most relevant. This theory posits that employee behavior can be shaped and maintained through appropriate reinforcement either positive (rewards) or negative (punishment) (Skinner, 1953). Additionally, Social Learning Theory (Bandura, 1977) suggests that employees learn appropriate behaviors by observing and imitating others in the organization, especially those in leadership roles. When ethical conduct is rewarded and unethical behavior punished, it sets a clear standard, influencing employees to align their behavior with the ethical norms of the organization

Empirical studies have consistently demonstrated a positive relationship between employee recognition and employee performance. For instance, a study conducted by Judge and Piccolo (2004), found that overall employee performance in a variety of organizational environments was positively correlated with the availability of rewards for moral behavior. This link is crucial in commercial banks because financial incentive programs can encourage staff members to uphold moral principles. Research conducted by Cohen (2019) demonstrated that punishment for unethical behavior effectively deterred such actions among employees. In the banking sector, this implies that implementing clear consequences for unethical conduct can lead to improved overall performance. When employees know they will face repercussions for unethical behavior, they are more inclined to perform ethically. Based on these studies, the following hypothesis can be formulated:

H_3: There is a significance effect of reward and punishment on employees' performance.

Racial discrimination and Employees' performance

John Stacey Adams' equity theory places a strong emphasis on workplace justice. It implies that workers' discontent and reduced productivity may result from perceived injustices, such as racial discrimination Adams, (1965). Racial discrimination at commercial banks erodes moral conduct because workers who feel they are being treated unfairly are less inclined to participate completely and work efficiently. Therefore, encouraging an equitable and productive workplace requires addressing and reducing prejudice.

According to research by Arnold et al. (2007), putting ethics training programs into place can greatly lower the number of racial discrimination cases that occur in businesses. These initiatives have a favorable impact on employee performance by fostering an inclusive culture and teaching staff members the value of acting morally. Such training can promote improved teamwork, communication, and general productivity in the banking industry. Based on these studies, the following hypothesis can be formulated:

H_4: There is a significance effect of racial discrimination on employees' performance.

Leadership style and employees' Performance

The relationship between ethical behavior particularly ethical leadership and employee performance is supported by several organizational behavior and leadership theories. One of the most relevant is Social Learning Theory (Bandura, 1977), which posits that individuals learn behavior by observing and imitating role models. In the organizational context, when leaders demonstrate ethical behavior, employees are likely to mirror those values and apply them in their own work. Ethical leaders serve as moral exemplars, influencing employees' attitudes, commitment, and performance through consistent and value-based actions.

Another relevant theory is Transformational Leadership Theory, which highlights the role of leaders in inspiring and motivating employees to achieve higher performance by aligning organizational goals with individual values (Bass & Avolio, 1994). Ethical leadership is considered a component of transformational leadership, as it promotes trust, fairness, and employee empowerment, which are essential for enhanced job performance.

Ramesh and Joshi (2021) conducted a study on Nepalese commercial banks and observed that ethical leadership significantly influenced employee satisfaction, commitment, and service delivery. Shrestha, N. D. (2023) found a strong positive correlation between ethical workplace practices and employee performance in private commercial banks in Nepal, highlighting that ethical guidance at the managerial level boosts productivity and reduces unethical conduct. Based on these studies, the following hypothesis can be formulated:

***H_5**: There is a significance effect of leadership style on employees' performance.*

Discipline and employees' Performance

The relationship between discipline and employee performance is grounded in several organizational and behavioral theories, most notably Reinforcement Theory proposed by B.F.

Skinner (1953). This theory asserts that behavior is a function of its consequences meaning disciplined behavior can be encouraged through reinforcement mechanisms such as rewards for compliance and penalties for misconduct. When applied to the workplace, it suggests that maintaining organizational discipline through consistent policies, codes of conduct, and ethical guidelines enhances desirable behaviors among employees, leading to improved performance outcomes (Robbins & Judge, 2019).

Empirical studies support the theoretical perspective that discipline positively influences employee performance. Mathur (2019) found that workplace discipline significantly contributed to employee productivity in Indian commercial banks, as it fostered punctuality, reduced absenteeism, and increased responsibility. Similarly, a study by Awan and Islam (2015) in Pakistan concluded that a well-disciplined organizational environment improved job satisfaction and employee performance, particularly in service-based industries like banking and education. Sharma and Shrestha (2021) highlighted that employees in disciplined work environments reported higher performance ratings and better teamwork. Their study of commercial banks in Kathmandu Valley indicated that disciplined organizational culture created psychological safety and accountability, which translated into measurable performance gains. Despite these findings, many institutions still lack structured disciplinary frameworks or fail to implement them uniformly indicating the need for further research on how discipline mechanisms impact performance in different banking contexts. Based on these studies, the following hypothesis can be formulated:

H_6*: There is a significance effect of discipline on employees' performance.*

Corruption and employees' Performance

The relationship between Corruption and Employees' Performance is strongly supported by (Blau, 1964), Theory of Social Exchange states that employees' performance depends on the quality of reciprocal relationships within the organization. When corruption is prevalent, it disrupts the social exchange by breeding mistrust and perceived injustice, ultimately reducing employees' willingness to perform effectively (Cropanzano & Mitchell, 2005). Furthermore**,** Agency Theory (Jensen & Meckling, 1976), which explains that corruption arises when agents (employees) pursue personal interests at the expense of principals (employers or organizations). Corruption behaviors undermine trust and organizational control, thereby negatively affecting employee performance and organizational outcomes (Eisenhardt, 1989).

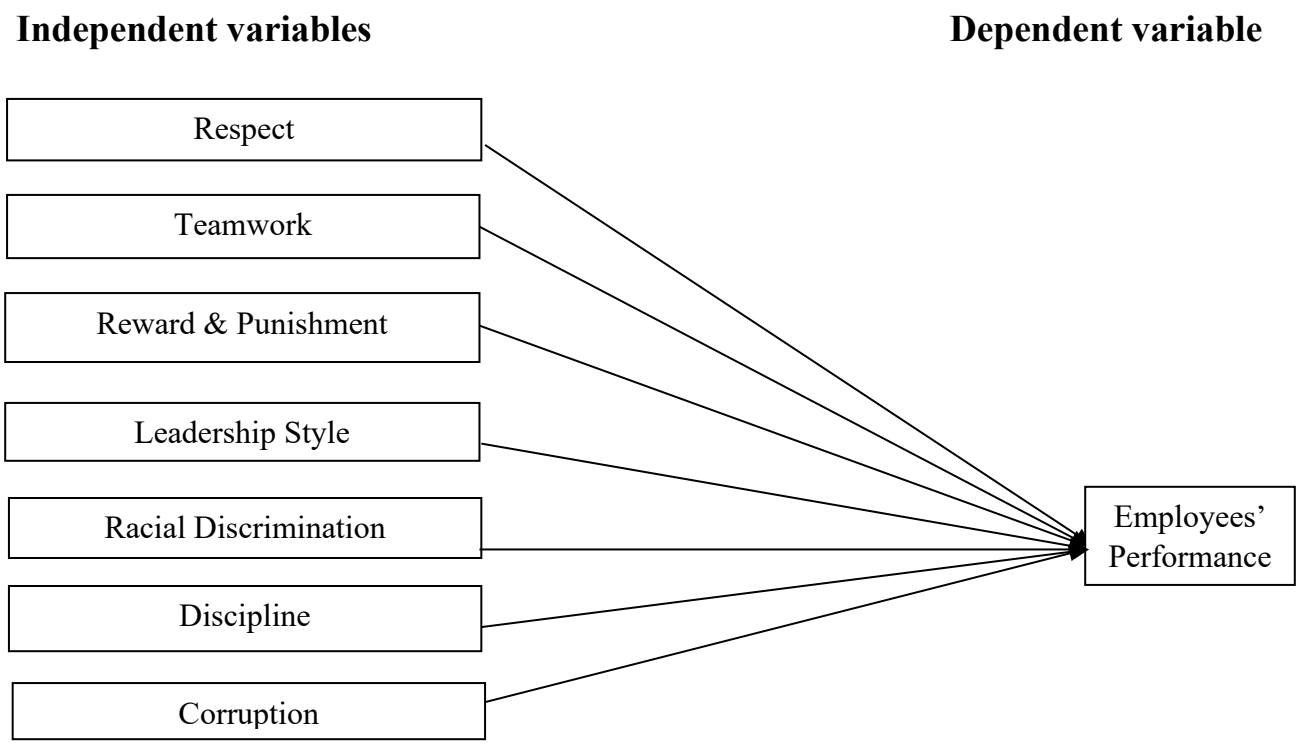
According to a study by Prasad and Adhikari (2021) found that ethical behavior significantly improves employee performance by fostering trust and a positive work environment. Similarly, Nejati et al. (2020, 2021) document that ethical leadership reduces corruption and enhances employees' engagement and performance. Specifically, within Nepalese commercial banks, promoting ethical behavior and robust ethical leadership have been linked with reduced corruption and improved employee outcomes (Lim et al., 2024; Jha & Singh, 2023). These findings support the view that ethical conduct and leadership are critical for enhancing employee performance amidst challenges posed by corruption. Based on these studies, the following hypothesis can be formulated:

H_7: There is a significant effect of corruption on employees' performance.

Research Framework

The research framework is the structure that illustrates the relationship among various variables. In this context, three variables are employed. Ethical behavior is measured by seven indicators, Respect, Teamwork, Reward and Punishment, Leadership Style, Racial discrimination, discipline, and Corruption as independent variables whereas, Employees' Performance serves as the dependent variable. The research framework of the study is outlined below:

Figure 1 - *Research Framework*



Note. Adapted From Prasad and Adhikari (2021)

Operationalization variables

***Respect*:** Respect in the workplace means treating all employees fairly, valuing their opinions, and acknowledging their contributions. It includes mutual trust, recognition, open communication, and a non-discriminatory environment (Podsakoff et al., 2000). A respectful workplace enhances job satisfaction, reduces conflicts, and improves employee morale, directly impacting performance (Cohen & Bailey, 1997).

Teamwork: Teamwork refers to collaborative efforts among employees to achieve organizational goals while maintaining ethical standards. It involves cooperation, shared responsibilities, and effective communication (Salas et al., 2008). A strong teamwork culture promotes ethical behavior by discouraging misconduct and fostering a supportive work environment (Katzenbach & Smith, 1993).

Reward and Punishment: Reward and punishment systems influence ethical behavior by either reinforcing positive actions or discouraging unethical conduct. A fair and transparent reward system promotes ethical behavior, while an inconsistent or biased punishment system can lead to unethical practices (Deci & Ryan, 1985).

Racial Discrimination: Racial discrimination refers to biased treatment of employees based on race, ethnicity, or cultural background, which negatively affects workplace ethics and performance (Pager & Shepherd, 2008). Unethical discrimination can lower employee motivation, increase turnover, and create conflicts.

Leadership Style: Leadership style determines how managers and supervisors influence employees' ethical behavior. Ethical leadership fosters integrity, accountability, and fairness, while unethical leadership can encourage misconduct and corruption (Bass & Avolio, 1994).

Discipline: Discipline refers to the enforcement of organizational rules, codes of conduct, and professional ethics in the workplace. A well-disciplined workforce adheres to organizational policies, reducing unethical behavior (Goleman, 2000).

Corruption: Corruption includes bribery, fraud, favoritism, and misuse of power**,** which can severely damage organizational integrity and employee morale. A corrupt workplace promotes unethical behavior, affecting employees' commitment and performance (Tanzi, 1998).

III. Research Methodology

This chapter deals with the research methods adopted by the researcher in conducting the research. It looks at the various methods and procedures of the research study adopted in conducting the study in order to address and answer the research problems and questions stipulated by the researcher. In this regard, it deals with different components of research design which guides researcher to decide the population and sample from the desired research area, techniques of approaching the sampled respondent, sources of data collection, research instrument used for data collection and different types of tools used to analyze the collected data. Thus, this section is organized in the following structure: research design, population, sample size, sampling technique, sources of data collection, data collection methods, tools used for data analysis.

Research design

A research design is a structured plan that guides data collection and analysis, shaping the study (Cooper & Schindler, 2003). This study adopts descriptive research design and explanatory research design to achieve its objectives. Descriptive Research Design systematically presents characteristics, behaviors, or phenomena without altering variables. It identifies trends, patterns, and relationships within a population (Creswell, 2014). Explanatory Research Design examines cause-and-effect relationships by comparing groups with existing differences, analyzing the impact of independent variables on dependent variables without direct manipulation (Fraenkel & Wallen, 2009). By combining descriptive and explanatory designs, this study effectively examines variable relationships and their impact (Kerlinger, 1986), ensuring a structured and systematic approach.

Population and sample size

The population of this research study comprises all respondents within the research area. In this study, the chosen research area is Butwal Sub-Metropolitan City, and the population consists of all employees working in different branches of commercial banks located in Butwal. The total number of employees in these branches is 600. Therefore, the population of the study is identified as 600. Sample is a part of a population or subset of population and denoted by n. The total sample size for this study has been obtained using the formula developed by yamane (1967). In case of population size is known, the Yamane formula for determining the sample size is given by:

n= N/1+Ne2 Where, n= sample size, N= Population size, and e= Margin of error (MOE), e=0.05 based on research condition. Thus, the sample size of the study is n = 240

The sampling method is chosen to select sample respondents from the overall population for data collection. In this context, the purposive sampling method is specifically employed to approach the sample respondents. Given that the study focuses on the ethical behavior and employees' performance in commercial bank with reference to Butwal sub metropolitan city, the purposive sampling technique is deemed appropriate. This choice is made because the number of employees is relatively low, allowing for the identification and purposive selection of individuals from the list of employees to mitigate bias among respondents.

Nature and Sources of Data Collection

This study primarily relies on quantitative data, which were collected from primary sources. A structured questionnaire was designed to gather first-hand information directly from respondents.

Survey Instrument

A self-structured questionnaire was used as the survey instrument for data collection. It was developed based on operational definitions from previous literature. The questionnaire employs a seven-point Likert scale (7 =Strongly Agree, 6 = Agree, 5 = Somewhat Agree, 4 = Neutral, 3 = Somewhat Disagree, 2 = Disagree, and 1 = Strongly Disagree) to gather responses from participants.

A set of questions was designed to measure each independent, dependent variable, totaling 40 items. To ensure clarity and accuracy, a pilot test was conducted by distributing the questionnaire to a sample of 40 respondents. Out of 240 distributed questionnaires, 218 were fully completed, yielding a response rate of 90.83%.

Statistical Tools

The study utilized various statistical tools based on the nature of the data. Descriptive statistics, including mean and standard deviation (SD), were computed to analyze and interpret customer responses. Additionally, a reliability test was conducted to assess the consistency of the research instrument. Furthermore, correlation analysis was used to measure the relationship between variables, while regression analysis examined the effect of independent variables on the dependent variable

IV. Results and Analysis

Measurement Items Assessment

Table 1 - *Assessment of measurement scale items (Measurement Items Assessment)*

Variables	Items	Outer Loadings	VIF	Mean	S.D.
CO – Corruption	CO1	0.703	1.472	2.848	1.736
	CO2	0.884	3.186	2.802	1.540
	CO3	0.792	2.186	3.207	1.806
	CO4	0.889	3.164	2.834	1.500
	CO5	0.859	2.634	2.853	1.673
DIS – Discipline	DIS1	0.838	2.026	5.622	1.526
	DIS2	0.797	2.299	5.770	1.525
	DIS3	0.864	2.885	5.613	1.544
	DIS4	0.870	3.720	4.954	1.730
	DIS5	0.779	2.703	4.618	1.754
EP – Employees' Performance	EP1	0.892	3.096	5.705	1.423
	EP2	0.901	3.462	5.198	1.705
	EP3	0.764	2.290	5.005	1.769
	EP4	0.853	2.632	5.134	1.888
	EP5	0.810	2.146	5.627	1.467
LS – Leadership Style	LS1	0.874	3.012	5.940	1.421
	LS2	0.912	3.863	5.820	1.533
	LS3	0.908	4.110	5.705	1.675
	LS4	0.724	1.812	5.088	1.754
	LS5	0.766	1.693	5.539	1.704
RD – Racial Discrimination	RD1	0.826	2.158	2.853	1.673
	RD2	0.767	1.988	2.811	1.828
	RD3	0.852	2.360	2.502	1.500
	RD4	0.789	1.955	2.194	1.530
	RD5	0.801	1.751	2.770	1.599
RES – Respect	RES1	0.721	1.503	5.152	1.736
	RES2	0.876	3.078	5.198	1.540
	RES3	0.790	2.184	4.793	1.806
	RES4	0.870	2.651	5.166	1.500
	RES5	0.679	1.452	4.834	1.791
RP – Reward & Punishment	RP1	0.808	2.893	4.465	1.981
	RP2	0.800	2.730	4.908	1.881
	RP3	0.904	3.913	4.235	1.931
	RP4	0.881	3.260	4.194	2.004

Variables	Items	Outer Loadings	VIF	Mean	S.D.
	RP5	0.832	1.877	3.263	1.922
TW – Teamwork	TW1	0.916	3.603	4.737	1.922
	TW2	0.909	3.969	4.332	1.996
	TW3	0.834	2.388	4.355	2.081
	TW4	0.805	2.262	3.917	1.998
	TW5	0.922	4.374	4.258	1.995

Table 6 presents the outer standardized loadings and Variance Inflation Factor (VIF) values of the items used to measure the variables of interest in this study. According to Sarstedt et al. (2017), an item's outer loading should exceed 0.708 to indicate a significant contribution to the measurement of the corresponding construct. However, an outer loading value slightly below 0.708 may still be acceptable if the Average Variance Extracted (AVE) of the respective variable is greater than 0.50. In this study, only one item, RES5, has an outer loading below 0.70. Nonetheless, the AVE values of the variables associated with all items, including RES5, are above the 0.50 threshold. Therefore, all 40 scale items were retained for further analysis. Additionally, the VIF values for all items are below 5, indicating the absence of multicollinearity among the scale items (Sarstedt et al., 2014). The mean value of items is more on the higher side of the scale which reflects most of the responses towards agreeable side. The standard values are small, which indicates less deviation in the responses. This indicates the data is suitable for further analysis.

Quality Criteria Assessment

Table2 - *Construct Reliability and Validity Assessment*

Variables	Alpha	CR (rho_a)	CR (rho_c)	AVE
CO	0.883	0.884	0.915	0.686
DIS	0.888	0.898	0.917	0.690
EP	0.900	0.910	0.926	0.715
LS	0.894	0.905	0.923	0.706
RD	0.868	0.880	0.904	0.652
RES	0.847	0.855	0.892	0.626
RP	0.905	0.970	0.926	0.716
TW	0.926	0.947	0.944	0.772

Note. Derived from IBM SPSS Statistics version 20@LBC digital library

Table 2 provides the values of Cronbach's Alpha, Composite Reliability (CR), and Average Variance Extracted (AVE) to confirm the convergent validity of the variables that were used in this research. For all the items, the values of Cronbach's Alpha are above the suggested limit of 0.705, which is an indication of the internally acceptable reliability as well as the sufficient contribution of each item to the measurement of the associated construct (Bland & Altman, 1997). Besides that, the CR values which are indicated by both rho_A and rho_C are higher than the cut-off value of 0.70, thus, showing a high degree of internal consistency (Saari et al., 2021; Hair et al., 2022). Moreover, each AVE value is larger than the determining value of 0.50 thus, it is telling that more than 50% of the variance for each construct is due to their indicators. That is to say, convergent validity has been confirmed (Hair et al., 2022). Accordingly, the findings represented in the table fulfill all the quality criteria measures requirements.

Discriminant Validity

Table 3 - *Heterotrait-Monotrait Ratio of Correlations*

Variables	CO	DIS	EP	LS	RD	RES	RP	TW
CO								
DIS	0.875							
EP	0.737	0.898						
LS	0.738	0.89	0.814					
RD	0.901	0.881	0.727	0.813				
RES	0.887	0.884	0.754	0.757	0.931			
RP	0.447	0.446	0.382	0.469	0.552	0.398		
TW	0.416	0.419	0.461	0.547	0.53	0.383	0.89	

Note. Derived from IBM SPSS Statistics version 20@LBC digital library

Table 3 contains the HTMT ratio of the correlation matrix, which evaluates the discriminant validity of the latent variables. The values of the HTMT ratio vary from 0.382 to 0.901.The HTMT ratio values need to remain below the critical threshold of 0.85; nevertheless, a range extending up to 0.90 is deemed acceptable, as posited by Henseler et al. (2015). Consequently, the presence of discriminant validity is confirmed among the reflective constructs (Hair & Alamer, 2022).

Table 4 - *Fornell – Larcker Criterion*

Variables	CO	DIS	EP	LS	RD	RES	RP	TW
CO	0.828							
DIS	-0.773	0.831						
EP	-0.666	0.857	0.846					
LS	-0.656	0.803	0.75	0.841				

RD	0.835	-0.785	-0.677	-0.73	0.808			
RES	-0.975	0.768	0.668	0.66	-0.802	0.791		
RP	0.418	-0.424	-0.39	-0.463	0.516	-0.373	0.846	
TW	-0.382	0.396	0.446	0.513	-0.494	0.351	-0.859	0.878

Note. Derived from IBM SPSS Statistics version 20@LBC digital library

Table 4 displays the Fornell -Larcker Criterion, an important discriminant validity assessment in a structural equation model (SEM) (Fornell & Larcker, 1981). This criterion is satisfied when the average variance extracted (AVE) for every construct is higher than the squared correlation between that construct and any other construct in the model. The diagonal entries, the square root of AVE of every construct, are to be higher than the off-diagonal values for their corresponding columns and rows. As evident in Table 5, diagonal values (in bold) of Corruption (0.828), Discipline (0.831), Employee's Performance (0.846), Leadership Style (0.841), Racial Discrimination (0.808), Respect (0.791), Reward & Punishment (0.846) and Teamwork (0.878) are all higher than their inter-construct correlations. This means the measurement model's discriminant validity is assured, implying that each construct is unique and taps into a distinct segment of variance (Hair et al., 2010). This ensures that the constructs do not overlap and that the measures are measuring what they should measure.

Table 5 - *Cross Loadings*

	CO	DIS	EP	LS	RD	RES	RP	TW
CO1	0.83	-0.60	0.85	0.72	-0.60	0.62	-0.35	0.41
CO2	0.80	-0.67	0.68	0.70	-0.68	0.65	-0.41	0.39
CO3	0.86	-0.69	0.75	0.73	-0.73	0.68	-0.40	0.37
CO4	0.86	-0.63	0.66	0.61	-0.65	0.62	-0.35	0.29
CO5	0.77	-0.62	0.60	0.50	-0.55	0.60	-0.20	0.12
DIS1	-0.60	0.70	-0.57	-0.53	0.64	-0.72	0.35	-0.25
DIS2	-0.66	0.88	-0.56	-0.54	0.70	-0.87	0.35	-0.34
DIS3	-0.56	0.78	-0.52	-0.49	0.54	-0.78	0.25	-0.31
DIS4	-0.66	0.88	-0.58	-0.53	0.71	-0.87	0.33	-0.30
DIS5	-0.69	0.86	-0.57	-0.55	0.83	-0.76	0.42	-0.35
EP1	0.72	-0.59	0.90	0.74	-0.63	0.60	-0.42	0.51
EP2	0.73	-0.56	0.89	0.62	-0.54	0.56	-0.31	0.35
EP4	0.67	-0.55	0.83	0.60	-0.51	0.54	-0.28	0.35
EP5	0.71	-0.65	0.84	0.73	-0.70	0.64	-0.43	0.44
LS1	0.67	-0.54	0.65	0.88	-0.59	0.55	-0.36	0.45
LS2	0.7	-0.57	0.70	0.92	-0.64	0.58	-0.42	0.49
LS3	0.73	-0.53	0.66	0.89	-0.56	0.56	-0.35	0.40

LS5	0.69	-0.59	0.70	0.79	-0.72	0.58	-0.49	0.52
RD1	-0.69	0.62	-0.57	-0.55	0.83	-0.76	0.42	-0.35
RD2	-0.53	0.64	-0.38	-0.45	0.77	-0.61	0.37	-0.28
RD4	-0.58	0.59	-0.55	-0.58	0.76	-0.60	0.42	-0.44
RD5	-0.7	0.63	-0.67	-0.69	0.81	-0.61	0.44	-0.46
RES1	0.60	-0.70	0.57	0.53	-0.64	0.72	-0.35	0.25
RES2	0.66	-0.88	0.56	0.54	-0.70	0.87	-0.35	0.34
RES3	0.56	-0.78	0.52	0.49	-0.54	0.78	-0.25	0.31
RES4	0.66	-0.88	0.58	0.53	-0.71	0.87	-0.33	0.30
RES5	0.52	-0.54	0.42	0.45	-0.50	0.67	-0.15	0.14
RP1	-0.25	0.28	-0.22	-0.27	0.46	-0.24	0.81	-0.60
RP2	-0.30	0.30	-0.26	-0.28	0.45	-0.27	0.8	-0.54
RP3	-0.39	0.40	-0.35	-0.39	0.60	-0.37	0.90	-0.69
RP3	-0.39	0.40	-0.35	-0.39	0.60	-0.37	0.90	-0.69
RP4	-0.33	0.31	-0.30	-0.35	0.49	-0.26	0.88	-0.70
RP5	-0.42	0.40	-0.50	-0.55	0.58	-0.37	0.82	-0.91
TW1	0.42	-0.40	0.50	0.55	-0.58	0.37	-0.82	0.91
TW2	0.38	-0.35	0.46	0.49	-0.52	0.32	-0.74	0.90
TW3	0.27	-0.26	0.35	0.40	-0.38	0.24	-0.70	0.83
TW4	0.29	-0.29	0.31	0.42	-0.47	0.25	-0.73	0.80
TW5	0.33	-0.33	0.43	0.47	-0.49	0.31	-0.75	0.92

Note. Derived from IBM SPSS Statistics version 20@LBC digital library

Table 5 presents the value of cross loadings for all items and variables used in this research. As per the common recommendation in measurement of cross-loading, it is advisable to make sure that an indicator variable loads not lower than 0.70 on its own construct and does not load any cross-loading on another construct in order to be used in the measurement model. This is as per the study by Hair et al. (2014). To establish the discriminant validity of the constructs in the measurement model, Table 5 indicates the loading values of each construct, which demonstrate that each construct has a loading value greater than 0.70 on the construct it is related to. Furthermore, the loading values of the items for variables are greater than other items that do not relate to it. Therefore, this table provides evidence of discriminant validity of the constructs of the measurement model.

Model Fit Assessment

The SRMR fit indices evaluate the model's explanatory efficacy. The model's SRMR value is 0.089, below the acceptable threshold of 0.10 (Bollen & Stine, 1992). Consequently, this finding suggests that the model exhibits adequate explanatory capability.

Moreover, the F-square value of Respect (0.036), Reward and Punishment (0.031), Leadership Style (0.032) and Corruption (0.088) are indicating small effect on employee performance. The f-square value of Teamwork is (0.581) and Discipline is (0.306) indicating substantial effect on employee's performance (Cohen, 1988). Finally, the R-square values corresponding to Employee's Performance is 0.786. This signifies that Employee's Performance possess substantial predictive power (Hair et al., 2013).

Structural Equation Model

Figure 2 - *Path Relationship Diagram*

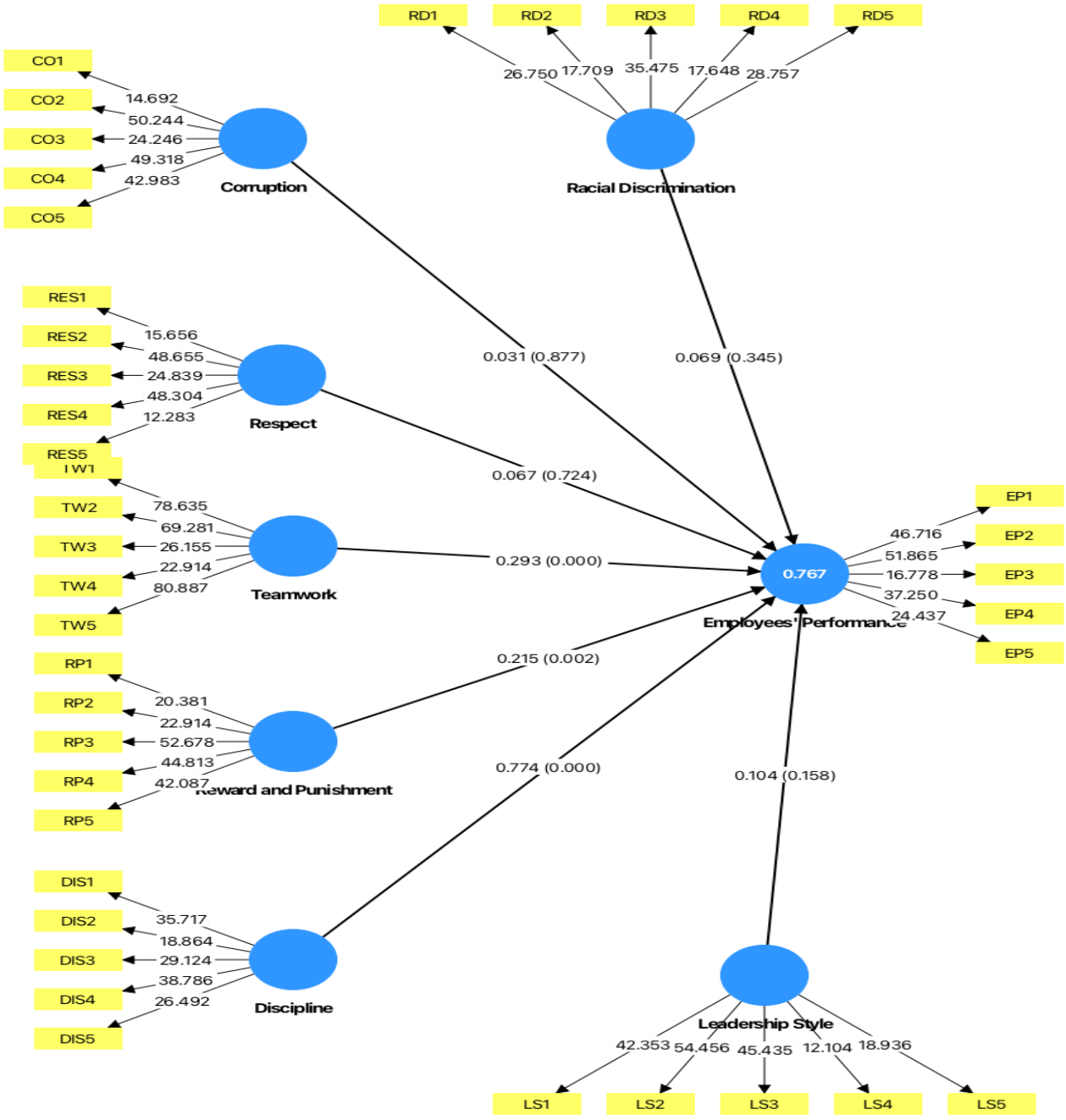


Table 6 - *Hypothesis Testing Using Bootstrapping*

Hypothesis	Beta	Sample mean (M)	S.D.	Confidence Interval		T statistics	P values	Decision
				2.50%	97.50%			
H7: Co -> EP	0.031	0.03	0.197	-0.377	0.397	0.155	0.877	Rejected
H5: DIS -> EP	0.774	0.77	0.079	0.604	0.912	9.807	0	Accepted
H4:LS -> EP	0.104	0.113	0.074	-0.013	0.275	1.413	0.158	Rejected
H6: RD -> EP	0.069	0.073	0.073	-0.071	0.213	0.944	0.345	Rejected
H1:RES-> EP	0.067	0.068	0.191	-0.314	0.426	0.353	0.724	Rejected
H3:RP -> EP	0.215	0.211	0.07	0.08	0.355	3.076	0.002	Accepted
H2:TW -> EP	0.293	0.288	0.072	0.151	0.433	4.092	0	Accepted

Note. Calculated from Smart PLS student version

Figure 2 and Table 6 report the results of a bootstrapping analysis performed with 10,000 subsamples, which examine decisions regarding the proposed hypotheses. Hypotheses H5,H6 and H7 have achieved acceptance at a significance threshold 0.05. However, H1, H2, H3,and H4 are rejected as their p-value is above 0.05. There is positive and significant impact of Teamwork, Reward and Punishment and Discipline on Employee's Performance. However, there is a positive and insignificant impact of Corruption, Leadership style, Racial Discrimination and Respect on Employee's Performance.

Table 7 - *Importance Performance Analysis*

Variables	LV Performance	Importance
Corruption	31.627	0.031
Discipline	72.881	0.774
Leadership Style	71.751	0.104
Racial Discrimination	26.865	0.069
Respect	67.531	0.067
Reward and Punishment	51.084	0.215
Teamwork	55.981	0.293
Mean	54.8171	0.2218

Note. Calculated from Smart PLS student version

Figure 3 - *Important Performance Map*

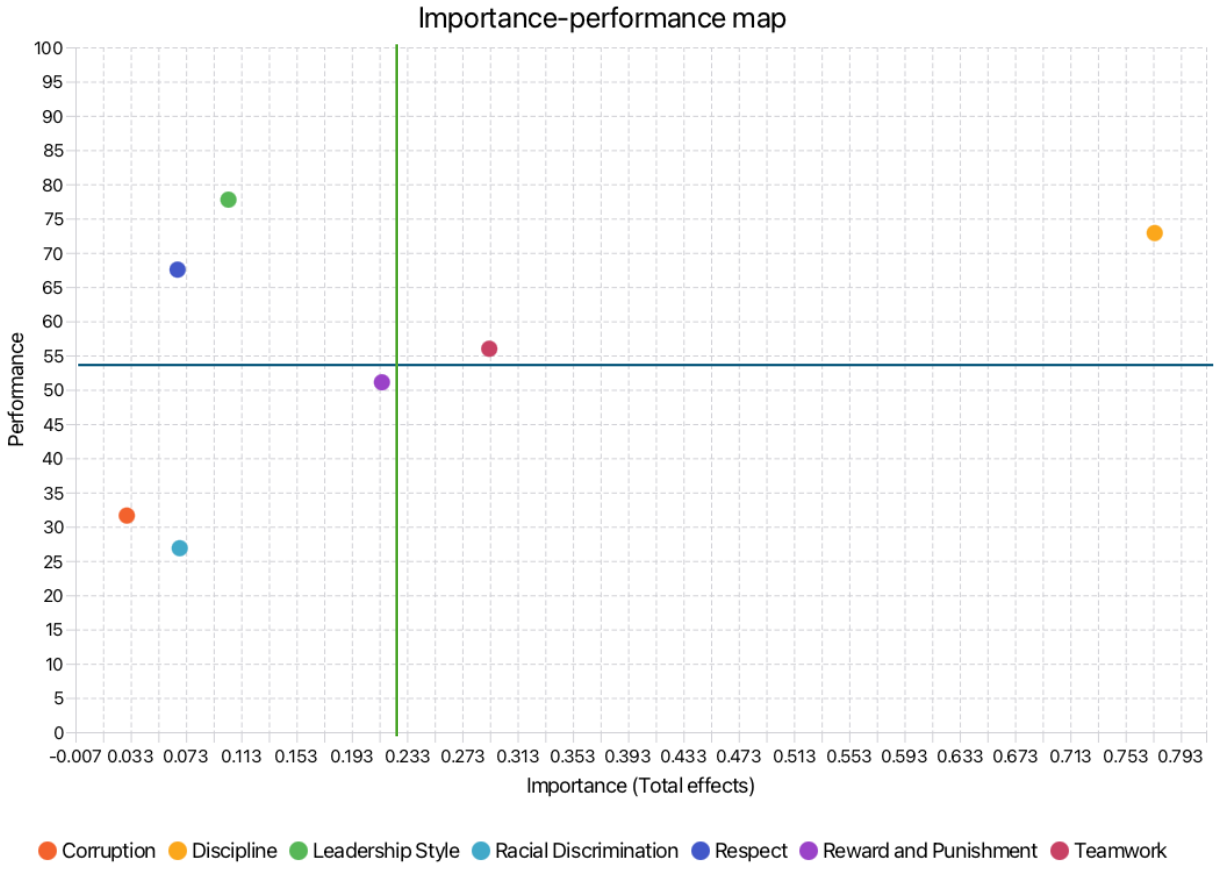


Table 7 shows the total effects of Corruption, Discipline, Leadership Style, Racial Discrimination, Respect, Reward and Punishment and Teamwork on Employee's Performance for the unstandardized effects. These effects are the same as the unstandardized weights of ordinary least square regression modelling (Hair et al. 2010). Furthermore, the performance of employees was calculated as 74.356.

Notably, we derived the four quadrants successfully based on the mean values of the constructs' importance and performance value. As per Fig. 3, if we increase 1 unit in Discipline from 72.881 to 73.881, Employees' performance increases from 74.356 to 75.11. Similarly, if we increased 1 unit in performance of racial discrimination from 26.865 to 27.865, then employees' performance grew to increase from 74.356 to 74.437. Therefore, out of the seven determinants of employee's performance, the most critical factor was noted to be discipline.

Table 8 - *Necessary Condition Analysis (NCA) – Bottleneck values*

	LV scores - Employee's Performance	LV scores - Corruption	LV scores - Discipline	LV scores - Leadership Style	LV scores - Racial Discrimination	LV scores - Respect	LV scores - Reward & punishment	LV scores - Teamwork
0.00%	18%	NN	NN	NN	NN	NN	NN	NN
10.00%	27%	NN	25%	NN	NN	NN	NN	NN
20.00%	35%	NN	25%	33%	NN	NN	NN	NN
30.00%	43%	NN	39%	35%	NN	35%	NN	NN
40.00%	51%	NN	46%	35%	NN	35%	NN	NN
50.00%	59%	NN	50%	35%	NN	35%	NN	NN
60.00%	67%	NN	50%	35%	NN	35%	NN	NN
70.00%	76%	NN	50%	35%	NN	35%	NN	NN
80.00%	84%	NN	50%	35%	NN	35%	NN	NN
90.00%	92%	NN	50%	35%	NN	36%	NN	23%
100.00%	100%	NN	50%	35%	NN	36%	NN	23%

Note. Calculated from Smart PLS student version

Table 8 represents bottleneck values of latent variable using necessary condition analysis. To achieve 18% of employees' performance, no factors are necessary. Further, to achieve 27% of employees' performance, 25% of discipline is necessary. Similarly, to achieve 35% of employee's performance, 25% discipline and 33% leadership Style is necessary. Similarly, to achieve 43% of employee's performance, 39% of discipline, 35% of leadership style and 35% of respect are necessary. To achieve 92% of employees' performance, 50% of discipline, 35% of leadership style, 36% of respect and 23% of teamwork are necessary. Similarly, to achieve 100% of employee's performance, 50% of discipline, 35% of leadership style, 36% of respect and 23% of teamwork are necessary.

Findings of the Study

The result of this study indicates that discipline has positive and significant impact on Employee's Performance. Similarly, Reward and Punishment have positive and significant impact on Employee's Performance. Alike, Teamwork has positive and significant impact on Employee's Performance. The result indicates that Corruption has positive and insignificant impact on Employee's Performance. Similarly, Leadership Style has positive and insignificant impact on Employee's Performance. Alike, Racial discrimination has positive and insignificant impact on Employee's Performance. Furthermore, Respect has positive and insignificant impact on Employee's Performance.

V. Discussion, Implication and Conclusion

The present study revealed that respect plays a meaningful role in shaping employee performance. When employees feel valued and respected by their supervisors and peers, they are more motivated to contribute positively to the organization. This result echoes the work of Valentine et al. (2011), who found that respect and fairness in the workplace directly enhance job satisfaction and performance. Cropanzano and Mitchell (2005) also argued that respect within the framework of social exchange builds reciprocal trust, which strengthens employee commitment. Similarly, Adams' (1965) Equity Theory highlights that fair and respectful treatment fosters motivation and efficiency. Taken together, these studies align with the present findings, confirming that respect is a cornerstone of ethical behavior that drives performance in commercial banks.

Teamwork emerged as one of the strongest predictors of employee performance in this study. Employees who collaborate effectively not only achieve higher efficiency but also demonstrate better problem-solving skills. This outcome is consistent with Demirtas and Akdogan (2015), who emphasized that teamwork within an ethical climate reduces conflicts and enhances productivity. Ramesh and Joshi (2021) similarly found that teamwork in Nepalese banks fosters service quality and employee satisfaction. Brown and Treviño (2006) further noted that ethical leadership encourages teamwork, which in turn improves organizational outcomes. The present findings therefore reinforce the idea that teamwork is indispensable for enhancing employee performance in the banking sector.

The study also revealed that reward and punishment systems significantly affect employee performance. Employees are motivated when ethical behavior is rewarded, while misconduct is discouraged through disciplinary measures. This finding resonates with Skinner's (1953) Reinforcement Theory, which explains that behavior is shaped by its consequences. Locke and Latham (1990) similarly argued that clear goals tied to rewards improve motivation and performance. Valentine et al. (2011) also reported that transparent reward systems enhance job satisfaction and productivity. The consistency between these studies and the present findings confirms that structured reward and punishment mechanisms are vital for sustaining ethical conduct and improving employee outcomes.

Leadership style was found to have a significant impact on employee performance. Ethical and transformational leadership styles, in particular, were effective in motivating employees and fostering trust. Bass and Avolio (1994) explained that transformational leaders inspire employees

to exceed expectations by promoting shared vision and moral values. Brown and Treviño (2006) also emphasized that ethical leadership reduces misconduct and enhances performance. Khadka (2020) found similar results in Nepalese banks, noting that leadership style directly influences service quality and employee satisfaction. The present findings are consistent with these studies, suggesting that leadership style is a critical determinant of employee performance in commercial banks.

Discipline emerged as another key predictor of employee performance. Employees who adhere to organizational rules and ethical standards demonstrated higher efficiency and accountability. Treviño and Nelson (2017) highlighted that discipline ensures ethical decision-making and reduces misconduct. Acharya and Pant (2020) found that disciplined work environments in Nepalese banks improve motivation and reduce turnover. Valentine et al. (2011) also noted that disciplined ethical climates foster employee loyalty and performance. The present findings align with these studies, confirming that discipline is essential for sustaining employee performance.

The study revealed that corruption negatively affects employee performance. Employees exposed to favoritism, nepotism, or misuse of authority reported lower motivation and productivity. Transparency International Nepal (2023) similarly highlighted that corruption reduces efficiency in financial institutions. Acharya and Pant (2020) found that corruption leads to dissatisfaction and ethical fatigue among employees. Kahneman et al. (2021) further argued that unethical practices increase fatigue decision and reduce performance. These findings are consistent with the present study, confirming that corruption undermines employee performance and organizational integrity.

Finally, the study showed that racial discrimination negatively influences employee performance. Employees who experienced discrimination reported lower job satisfaction and reduced productivity. This result is consistent with the International Labour Organization (2022), which reported that discrimination reduces productivity among marginalized employees. Adams' (1965) Equity Theory also suggests that perceived inequality leads to dissatisfaction and poor performance. Demirtas and Akdogan (2015) found that discrimination in workplaces increases conflicts and reduces efficiency. The present findings therefore align with past studies, confirming that racial discrimination is a major barrier to employee performance in banking institutions.

Implications

This study presents valuable insights with both theoretical and practical significance. On the theoretical side, the strong influence of discipline, reward and punishment, and teamwork on employee performance supports key concepts within organizational behavior. These findings are consistent with Reinforcement Theory, which asserts that outcomes influence behavior, and Goal-Setting Theory, which highlights the importance of clearly defined goals and structure in enhancing performance. Likewise, the Human Relations Theory reinforces the idea that teamwork boosts employee effectiveness through interpersonal relationships and collective effort. In contrast, the minimal effect of leadership style, respect, racial discrimination, and corruption raises questions about some commonly accepted theories in ethical leadership and organizational justice. Although these elements are often considered vital for employee morale and effectiveness, their weak impact in Butwal's banking sector implies that they may not yet be deeply rooted in institutional practices or could be shaped by specific cultural and contextual conditions. This suggests a need for developing theoretical frameworks that are better suited to the local realities of Nepalese organizations.

Practically, the findings suggest that commercial banks in Butwal should focus more on reinforcing systems of discipline and implementing performance-based reward and punishment mechanisms. Clear guidelines, fair enforcement, and effective incentives can significantly improve accountability and motivate staff. The significant role of teamwork further indicates the importance of encouraging collaboration, shared goals, and group-based incentives to enhance performance. While leadership style, respect, and discrimination did not have a statistically significant impact on performance, they still play a critical role in shaping organizational culture and employee satisfaction over the long term. As such, leadership training and awareness programs promoting fairness, respect, and inclusivity remain essential. Although corruption was not found to directly influence performance in this study, it remains a serious ethical concern that can gradually undermine trust and credibility. Therefore, banks must continue to enforce transparency, ethical standards, and strong internal monitoring systems. In conclusion, improving employee performance in Nepalese commercial banks requires focused HR strategies that strengthen discipline and teamwork, while also gradually fostering a culture of ethical leadership and fairness suited to the local context.

Conclusion

This research explored the connection between ethical behavior and employee performance within commercial banks located in Butwal Sub-Metropolitan City, Nepal. The results indicate that discipline, the use of rewards and punishments, and teamwork significantly and positively contribute to enhancing employee performance. The study has concluded that discipline, teamwork, and reward and punishment systems are the most significant predictors of employee performance. These variables demonstrated strong statistical relationships, confirming that structured organizational practices, collaborative culture, and fair reinforcement mechanisms directly enhance employee motivation, efficiency, and productivity. Conversely, leadership style, respect, corruption, and racial discrimination did not show statistically significant effects, suggesting that while these factors are conceptually important, their direct influence on performance in the studied context is limited or overshadowed by stronger organizational drivers. In conclusion, the study demonstrates that ethical behavior is not merely a moral concern but a practical necessity for enhancing employee performance in Nepal's banking sector. By focusing on discipline, teamwork, and fair reinforcement systems, banks in Butwal can build a more ethical, motivated, and high-performing workforce. These insights provide valuable guidance for managers, policymakers, and regulators in designing strategies that strengthen ethical culture and improve organizational effectiveness.

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