Enhancing Ethical Standards in Private Sector Banks: A Customer-Centric Analysis of Employee Behaviour

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ABSTRACT

This study investigates the role of customer perceptions in enhancing employee ethical behaviour and customer trust in the Indian private sector banks. It proposes a customer-centred framework linking customer perceptions, ethical behaviour of employees and trust of customers. Two hypotheses were considered; 'Customer perceptions have a positive effect on employee ethical behaviour in private sector banks' and 'Employee ethical behaviour has a positive effect on customer trust in private sector banks'. A quantitative, descriptive, cross-sectional design was used with convenience sampling. Data were collected from 280 customers of private sector banks using a structured Likert scale questionnaire. The questionnaire used three constructs, each with eight questions, relating to customer perceptions, employee ethical behaviour and customer trust. The measures showed acceptable reliability and convergent validity. The results indicate strong positive relationships among all three constructs. Structural equation modelling indicates that customer perceptions have a significant effect on employee ethical behaviour and employee ethical behaviour has a significant effect on customer trust. The indirect effect of customer perceptions on trust through employee ethical behaviour was also significant, thus supporting the sequential relationship and both hypotheses. The study finds that ethical behaviour at the frontline, such as honesty, transparency, fairness, confidentiality, responsible communication, accurate disclosure and procedural diligence, is not only a moral imperative but also a strategic driver of customer trust. Hence, private sector banks need to ensure that the feedback of customers is embedded into ethics audits, employee training, service standards, performance appraisal, incentive systems, complaint resolution, data privacy, and leadership oversight in order to develop an ethical culture that would enable them to retain the loyalty of customers.

Keywords: Ethical banking, customer perceptions, ethical behaviour of employees, customer trust, private sector banks, transparency, customer centered banking

INTRODUCTION

Bank customers in the emerging society expect efficient service, transparency, fairness, security, responsible conduct, and ethical standards in all banking services, and more so by the private sector banks. As financial transactions become more complex and customer expectations increase, banks need to ensure that employees demonstrate strong ethical values at every touch point. Therefore, ethical behaviour is not only an organisational wish but a strategic necessity that impacts customer trust, satisfaction, loyalty and institutional reputation (Boatright, 2014).

In a highly competitive banking environment, the employees are the link between the institution and the customer. Their behaviour has a major impact on how people see the integrity of the bank. Customers judge the ethical standards of people based on their behaviour, such as respectful language, transparency in financial reporting, disclosure, verification, and management of personal information (Johnston & Kong, 2011). Ethical behaviour is a signal of reliability and moral commitment, whereas careless or unethical behaviour can quickly erode trust and tarnish reputation (Malhotra & Malhotra, 2013).

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Banking services involve handling sensitive data, high value transactions and complex products and information asymmetries. Ethics in financial services is more critical because of this. Customers often do not fully understand the product terms, risks, fees or long-term consequences, and must often depend on employees for advice. This puts the bank employees in positions of significant influence. Misrepresentation, concealment of charges, aggressive selling, breach of confidentiality and failure to provide explanations may put customers at risk of financial losses (Crane & Matten, 2016). Strong ethical standards protect customers from being taken advantage of and ensure that advice, documentation, consent and service decisions are handled properly.

A customer-oriented analysis is useful because the customers are the ones who directly experience the application of ethical standards at the front line. Internal audits, compliance reports and management assessments provide important insight into the organization, but the perceptions of customers tell us if the principles of ethics are being actualized in service encounters. Customers see politeness, clarity, fairness, diligence, confidentiality, responsiveness etc, which influence their sense of security. Therefore, their assessments can be considered as operational measures for the consistency and effectiveness of the ethical conduct of the employee. According to research, perceived ethical conduct influences satisfaction, trust and the readiness to maintain a long-term relationship with a bank (Singh & Kaur, 2011).

Despite the rising attention on banking ethics, there is an important research gap. Previous research has focused on organisational ethics, regulatory compliance, leadership and formal controls, with relatively little attention paid to the customers perceptions of employees' ethical behaviour. Customer perceptions can assist in recognizing actions that are viewed as ethical or unethical such as clear disclosures of fees and risks, patience when responding to inquiries, rigorous verification, respect for customer decisions, confidentiality, proper documentation, and equitable resolution of complaints. A systematic analysis of these perceptions can assist banks to translate broad ethical values into concrete training, service guidelines, monitoring systems, performance measures and incentive structures.

Therefore, this study investigates the relationship between customer perceptions and employees' ethical conduct, and how this conduct develops customer trust in private sector banks. It takes a customer-focused approach where frontline behaviour is seen as the way that institutional values are made visible to customers. The purpose of this study is to provide evidence to improve ethical standards, reduce conduct risk, improve service quality and enhance durable customer relationships through the relationship between customer perceptions, employee ethical behaviour and trust.

REVIEW OF LITERATURE

Ethical behaviour in banking is important because financial institutions affect the welfare of customers, public trust and economic stability. In private sector banks employees are the main interface with customers and their behaviour is a major determinant of the perception of institutional integrity. Banking ethics (Boatright, 2014) include fairness, transparency, confidentiality, responsibility and honest communication. These principles are especially important because sometimes customers may not have a full understanding of complex products, fees, risks or long-term consequences. This asymmetry of information provides much power to the employees and creates an obligation to explain correctly and advise responsibly (Crane & Matten, 2016).

Employee ethical behaviour is influenced by individual values, organizational culture, leadership, regulation and reward systems (Treviño, Weaver, & Reynolds, 2006). In competitive banks where demanding sales targets and performance incentives may encourage short-term results over customer welfare, maintaining high ethical standards can be difficult. Armstrong (2013) points out that wrong incentives can increase the likelihood of employees compromising ethical principles. Effective ethical management must therefore combine formal controls with supportive leadership, practical training, fair incentives and a culture that encourages responsible discretion.

Customer perceptions offer a convenient way of determining if ethical standards do appear in everyday service. Johnston & Kong (2011) suggest that customers make ethical judgments on observable actions such as politeness, clarity, diligence, confidentiality and fairness, as well as on how employees describe products and

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how they manage sensitive data. Empirical studies indicate that customers place high value on honest product descriptions, transparent disclosure of fees and risks, careful validation and respect for their decisions (Singh & Kaur, 2011). A bank that behaves ethically all the time appears to be trustworthy and responsible. In contrast, unethical behaviour leads to complaints from customers, switching banks and telling others of their negative experience (Malhotra & Malhotra, 2013).

One of the main outcomes of ethical banking is trust. Morgan and Hunt (1994) recognize that trust is critical for long-term relationships, especially in high-risk services. Honesty, competence, empathy, responsible advice, and protection of confidential information are elements of trustworthiness perceived by the customers (Dincer & Dincer, 2013). In private sector banking, where customers can choose between a range of providers, trust becomes an important competitive advantage. The more customers trust a bank, the more likely they are to stay with the bank, purchase additional services, and recommend the bank to others (Sahoo & Ghosh, 2016).

Regulation and compliance are helpful in setting minimum standards, preventing misconduct, and building customer confidence. However, rule-following alone may result in superficial compliance if employees do not internalise ethical values (Paine, 1994). Banks must back regulation with ethical leadership, scenario-based training, cultural reinforcement and accountability. Customer feedback is also useful in identifying gaps in ethics. Analysis of complaints, surveys and service interactions can identify recurring problems and inform improvements in employee behaviour (Parasuraman et al., 1988). Customer-centred practices based on transparency, empathy and responsible communication are correlated to higher satisfaction, trust and loyalty (Ladhari, 2009).

Much of the existing research concentrates on regulation, organisational culture, leadership or formal compliance, with fewer studies examining ethical behaviour from the customer's perspective in private sector banks. There is also limited evidence on how customer insights can be used to increase ethical standards of employees. The study fills these gaps by linking customer perceptions, employee ethical behaviour and customer trust and examining how customer feedback can inform training, service standards, performance systems and ethical oversight.

Conceptual Framework

The conceptual framework is drawn on the premise that customer perceptions are a strong external lens through which banks can review and improve the ethical behaviour of employees. Ethical behaviour leads to key customer outcomes such as trust, satisfaction and loyalty. The framework consists of three constructs; Customer Perceptions (Independent Variable), Employee Ethical Behaviour (Dependent Variable) and Customer Trust (Outcome Variable).

- Customer perceptions are interpretation of employee behaviour during service encounter which include honesty, transparency, politeness, diligence, confidentiality and fairness. These perceptions are real life measures of how ethical standards are implemented at the frontline.

- Ethical behaviour for employees includes compliance with ethical norms, responsible communication, transparency in financial explanations, adherence to verification procedures and protection of customer data.

- Ethical behaviour, ultimately, builds trust among customers. When employees act ethically customers feel safe, respected and confident in the integrity of the bank.

Hypothesis Formulation

H1: Customer Perceptions affect Employee Ethical Behaviour

Customer perception is the interpretation by customers of employee behaviour when interacting with them during service encounters which include characteristics such as honesty, transparency, politeness, diligence and confidentiality. Previous research has shown that customers will make balanced judgements based on observable behaviours such as clarity of communication, responsible management of information and fairness of financial dealings. Thus, a positive relationship is expected between customer perceptions and ethical employee behaviour.

H1: Positive customer perceptions influence ethical behaviour of employees in private sector banks.

H2: Customers trust you more when your employees behave ethically

One important result of ethical behaviour in banking is customer trust. Customers build up trust when they consistently receive honest, transparent and responsible behaviour from employees. Ethical behaviour decreases perceived risk, builds customer confidence and strengthens long term relationships. In the private sector banks, where customers have lots of choices, trust is a huge differentiator.

H2: Ethical behaviour of employees has a positive effect on customer trust in private sector banks.

METHODOLOGY

This study is designed as quantitative research and uses a descriptive research design. The study aims to explore the perceptions of customers of private sector banks regarding employee ethical behaviour and its impact on customer trust. A structured questionnaire was used to gather standardized responses using Likert-scale, which allows statistical analysis of relationships between variables. The study population consists of the customers of private sector banks in India. The respondents were required to have active banking relationship with at least one private sector bank like HDFC Bank, ICICI Bank, Axis Bank, Kotak Mahindra Bank or other private sector banks. The questionnaire had a screening question to know which bank the respondents are using (e.g. "HDFC Bank, ICICI Bank, Axis Bank, Kotak Mahindra Bank, Other Private Sector Bank").

The non-probability convenience sampling technique was used due to accessibility issues and the need to collect data from a broad spectrum of customers in an efficient manner. The study used inputs from 280 respondents. Data were collected using a Google Forms questionnaire developed specifically for this study. The instrument included four sections to obtain the required information.

- The Demographic Information collected the age, gender, bank used and the length of relationship with the bank of the respondents.
- Customer Perceptions (Construct 1) measured the perception of customers on employee behaviour in banking interactions. The items measured were clarity of explanation of products, sincerity, courtesy, verification procedures and information security.
- Ethical Behaviour of Employees (Construct 2) was the measure of the customers' perception of the ethical conduct displayed by the bank employees. The items included accuracy of information, disclosure of risks, documentation procedures, respect for customer decisions, professionalism, transparency and moral responsibility.
- Customer Trust (Construct 3) was a measure of the extent to which customers are confident about the reliability, integrity and security practices of the bank; items included honesty of employees, reliability of information, safety of transactions, fairness in problem resolution, security protocols and trust-based loyalty intentions.

All ethical protocols were followed, including voluntary participation, the right of respondents to withdraw at any time, no collection of personal identifying information and use of the data only for academic purposes.

Analysis of Data

Descriptive statistics indicated that respondents reported a positive perception across all three constructs. Construct 1 had the highest mean score (M = 3.59, SD = 0.94), followed by Construct 3 (M = 3.52, SD = 0.89), whereas the mean score of Construct 2 was slightly lower (M = 3.34, SD = 0.99). The median and mode values

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for all three constructs were 4.00, indicating that "Agree" was the most frequent response pattern among respondents. Overall, the results indicate a positive trend for the measured constructs with responses demonstrating moderate variation.

The three constructs show a satisfactory **internal consistency**, as confirmed through reliability analysis using **Cronbach's alpha**. The alpha value for the first construct was 0.868 which indicated good reliability and implied that the eight items within this construct are interrelated and measure the same concept consistently. Construct 2 showed an alpha value of 0.895, which indicating that the items of this construct are highly coherent and that the reliability is strong. Construct 3 had the highest alpha value of 0.922, which is an excellent reliability range and indicates a very high level of consistency amongst its eight items. All three alpha values were well above the accepted minimum level of 0.70; therefore, the scale was considered reliable for further analysis.

Composite Reliability (CR) values of Construct 1 = 0.897, Construct 2 = 0.916 and Construct 3 = 0.939 were well above the required value of 0.70, and confirmed the items are reliable and internally consistent. The values of **Average Variance Extracted (AVE)** for Construct 1 = 0.523, Construct 2 = 0.579 and Construct 3 = 0.659 were greater than 0.50 which indicated that each construct explains more than half of the variance in its items. All constructs were found to have the required criteria for convergent validity.

Correlation results show that all three constructs are strongly and positively correlated with each other. The relationship between Construct 1 and Construct 2 ($r = 0.786$) indicates that respondents who rated the items in Construct 1 higher also tended to rate the items in Construct 2 higher, implying that both constructs are highly correlated. The strongest relationship was between Construct 1 and Construct 3 ($r = 0.826$) indicating that Construct 1 is particularly closely related to Construct 3. In practical terms, improvement on the perceptions related to Construct 1 is also likely to bring about substantial improvement on perceptions related to Construct 3. Similarly, Construct 2 and Construct 3 were strongly positively correlated ($r = 0.787$) suggesting that favourable responses to Construct 2 were also related to favourable responses to Construct 3. The results indicate that the constructs are highly interdependent, with all correlation coefficients being positive and greater than 0.70.

Regression analysis further supports the contribution of Construct 1 and Construct 2 in explaining Construct 3. The overall regression model was statistically significant, $F(2, 277) = 378.129$, $p < 0.001$, indicating that the combined effect of Construct 1 and Construct 2 on Construct 3 is not due to chance. The R^2 value of 0.732 indicates that 73.2% of the variation in Construct 3 is explained by the two predictor constructs. The adjusted R^2 value is 0.730 which is close to R^2 indicating the model is still strong even after adjusting for the number of predictors.

SEM path analysis for the chained model, Construct 1 - Construct 2 - Construct 3, strongly supports the proposed sequential relationship among the constructs. The transition from Construct 1 to Construct 2 was positive and significant ($\beta = 0.786$, $p < 0.001$), demonstrating that higher scores on Construct 1 are strongly associated with higher scores on Construct 2. The R2 for Construct 2 was 0.618, showing that Construct 1 accounts for 61.8% of the variance of Construct 2, which is indicative of a significant predictive relevance. The second path from Construct 2 to Construct 3 was also positive and statistically significant ($\beta = 0.787$, $p < 0.001$) indicating that Construct 2 contributed strongly to Construct 3. The R2 value of Construct 3 was 0.620, which means Construct 2 explains 62.0 % variance in Construct 3. Moreover, the indirect effect of Construct 1 on Construct 3 via Construct 2 was 0.619, which means that Construct 2 plays an important mediating role in the model. This implies that Construct 1 influences Construct 2 directly, and Construct 3 indirectly through the reinforcement of Construct 2. In general, the SEM results support the proposed chained structure and show that the constructs are related in a meaningful and statistically significant sequence.

Hypothesis Testing

The results support H1, as customer perceptions exerted a positive and statistically significant influence on employee ethical behaviour with customer perceptions explaining 61.8% of the variance in employee ethical

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behaviour. H2 was also supported because employee ethical behaviour had a positive and statistically significant effect on customer trust, accounting for 62.0% of its variance.

In addition, the indirect effect of customer perceptions on customer trust through employee ethical behaviour was substantial indicating that ethical employee conduct acts as an important mediating mechanism. Thus, both proposed hypotheses are accepted, confirming the sequential relationship among customer perceptions, employee ethical behaviour, and customer trust in private sector banks.

DISCUSSION

The results provide strong empirical support for the proposed customer-centric framework linking customer perceptions, employee ethical behaviour and customer trust in private sector banks. The descriptive results show generally favourable evaluations across all three constructs, suggesting that customers broadly recognise positive service attributes.

The high **Cronbach's alpha** values demonstrate that the constructs possess strong internal consistency. Similarly, values of **Average Variance Extracted** and **Composite Reliability** indicate satisfactory convergent validity. These results provide increased confidence that the relationships observed reflect the intended constructs and not weakness in measurement. There are strong positive correlations between the variables, and this suggests that good customer experiences, ethical behaviour by employees and trust tend to go together. **SEM** results confirm the fact that customer perceptions and employee ethical behaviour are the key for understanding trust formation in the sampled banks.

These findings reinforce the view that banking ethics is not a matter of formal compliance alone. At contact points, customers judge the integrity of institutions by the conduct of their employees, especially when information asymmetry makes them reliant on the advice of staff. Transparency, honesty, confidentiality, fairness and responsible communication all help reduce perceived risk and signal that the bank's focus is on the customer's welfare over short-term sales results. Thus, repeated ethical interactions can transform procedural satisfaction into deeper relational trust, which supports retention, advocacy and long-term engagement. The study overall shows that strengthening frontline ethical behaviour is both a moral responsibility and a strategic means of building durable customer trust.

Implications for Private Sector Banks

The results indicate that customer trust is strongly determined by customer perceptions and employee ethical behaviour. Thus, the private sector banks need to treat frontline ethics as a strategic performance area rather than a compliance requirement. Senior management need to translate values such as honesty, fairness, transparency, confidentiality and accountability into clear service standards that include product explanations, disclosure of fees and risks, informed consent, document verification, complaint resolution, data protection and respect for customers' decisions.

Banks should incorporate customer feedback into ethics audits, training, service protocols and performance appraisal. Scenario-based training should cover inappropriate products, hidden charges, data privacy, documentation shortcuts, vulnerable customers, complaint handling and conflicts between sales targets and customer welfare. Role-play, ethical-dilemmas workshops, refresher modules, managerial coaching and confidential reporting channels can help employees exercise responsible judgment and report pressure to mis-sell.

Boards and senior leaders should track ethical-culture indicators, audit customer-centric ethics and set measurable responsibilities and timelines. Customer evidence that is aligned with training, incentives, controls and leadership oversight can help reinforce employee conduct, reduce reputational and conduct risk, and convert ethical service into lasting trust, loyalty and competitive advantage.

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Limitations and Future Research Directions

The study provides useful evidence on the relationships between customer perceptions, employee ethical behaviour and customer trust; however, the findings of the study should be interpreted with some limitations. First, the research employed non-probability convenience sampling method which allowed for 280 responses to be gathered within practical constraints, but respondents were selected based on accessibility rather than on known population probabilities. As a result, the sample may not represent all customers from certain regions, age groups, income groups, levels of digital literacy or types of private sector banks.

Second, the cross-sectional design captured customers' views at one point in time. Longitudinal studies should capture data at multiple time points to understand how ethical encounters, complaints, service recovery, and repeated interactions shape trust. Third, all constructs were measured with a single customer survey with Likert-scale responses. Though this design captures customer perceptions adequately, the responses may be subject to recall error, social desirability, agreement, recent experiences or general attitude of the respondents towards their bank.

Finally, digital technology, artificial intelligence, remote account opening and data-based marketing are changing banking practices and customer expectations, therefore any future research could look at the ethical aspects of these issues also.

CONCLUSION

This study examined the effect of customer perception on the ethical behaviour of employees in private sector banks and the effect of employees' ethical behaviour on customers' trust. The research was born out of a perspective that ethical standards in banking go beyond formal compliance and are experienced by customers in their daily service encounters. Employees are the most visible representations of institutional integrity in environments with complex financial products, information asymmetry, sensitive personal data and high sales pressure.

Findings demonstrate that ethical frontline behaviour is a moral imperative and a strategic source of trust. Private sector banks should convert customer feedback into measurable ethical standards, strengthen scenario-based training, align incentives with fairness and responsible selling, improve disclosure and complaint resolution, protect customer data and monitor ethical culture at senior-management and board levels.

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