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Ethical Work Environment and Employee Retention: The Role of HR Practices in Fostering Employee Wellbeing

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ABSTRACT

This study examines the relationship between Ethical Work Environment and Employee Retention, with HR Practices acting as a moderating variable. The research was conducted among employees working in Technopark (Thiruvananthapuram), Infopark (Kochi), and Cyberpark (Kozhikode), Kerala. Following a pilot study involving 100 respondents, the final survey generated 492 valid responses. Structural Equation Modeling (SEM) was employed to analyze the relationships among the study variables. The findings revealed that Ethical Work Environment significantly influences Employee Retention. HR Practices significantly moderated the relationship between Ethical Work Environment and Employee Retention by strengthening organizational commitment and workplace satisfaction.

Keywords: Ethical Work Environment, Employee Retention, HR Practices, Employee Wellbeing

INTRODUCTION

In the contemporary business environment, organizations increasingly recognize that retaining talented employees is essential for achieving long-term sustainability, productivity, and competitive advantage. Employee retention has become a critical organizational concern due to rising employee turnover, talent shortages, and changing workforce expectations. Organizations that fail to retain skilled employees often experience increased recruitment costs, reduced organizational performance, and loss of institutional knowledge. Consequently, researchers and practitioners have focused on identifying organizational factors that enhance employee retention. (Sibly, 2015)

One of the most significant determinants of employee retention is the ethical work environment. An ethical work environment refers to organizational conditions in which fairness, honesty, integrity, transparency, and respect guide managerial and employee behavior (Nurtati et al., 2020). Employees working in ethical organizations are more likely to experience trust, psychological safety, organizational commitment, and job satisfaction. Ethical workplaces promote equitable treatment, reduce workplace conflicts, and foster positive interpersonal relationships, thereby encouraging employees to remain with the organization for longer periods. (Okunhon et al., 2025)

Previous studies have shown that ethical organizational climates positively influence employee attitudes and behaviors. Employees who perceive their workplace as ethical tend to develop stronger emotional attachment to

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the organization and demonstrate greater loyalty. Ethical leadership and organizational ethics also contribute to employee well-being and motivation, which are directly linked to retention outcomes. In contrast, unethical work environments may generate stress, dissatisfaction, mistrust, and turnover intentions among employees.

Alongside ethical work environments, Human Resource (HR) practices also play a crucial role in influencing employee retention. HR practices include recruitment and selection, training and development, performance appraisal, compensation systems, employee participation, and career advancement opportunities (Okunhon et al., 2025). Effective HR practices enhance employee satisfaction, engagement, and organizational commitment by addressing employees' professional and personal needs. Organizations with supportive HR systems are more likely to retain skilled employees because such practices create a sense of value, recognition, and growth opportunities.

Importantly, HR practices may not only directly influence employee retention but may also strengthen the relationship between ethical work environments and retention outcomes. Even when organizations establish ethical workplace cultures, the effectiveness of such environments may depend on the quality of HR practices implemented within the organization. Strong HR practices can reinforce ethical values by ensuring fairness, transparency, employee empowerment, and equitable treatment. As a result, employees may perceive greater organizational support, thereby increasing their willingness to remain with the organization.

Although prior studies have separately examined ethical work environments and HR practices in relation to employee retention, limited research has explored the moderating role of HR practices in the relationship between ethical work environment and employee retention. This study seeks to address this research gap by examining how HR practices influence the strength of the relationship between ethical work environment and employee retention.

The study is guided by the following hypotheses:

- H1: An ethical work environment has a significant positive effect on employee retention.
- H2: HR practices have a significant positive effect on employee retention.
- H3: HR practices significantly moderate the relationship between ethical work environment and employee retention.

This research contributes to the existing literature by integrating ethical climate theory and human resource management perspectives to better understand employee retention mechanisms. The findings of the study are expected to provide practical insights for managers and policymakers in designing ethical organizational cultures and effective HR strategies that improve employee retention.

REVIEW OF LITERATURE

Ethical Work Environment and Employee Retention

An ethical work environment refers to a workplace where organizational values, norms, and practices encourage ethical conduct, fairness, integrity, and mutual respect among employees (Arnaud & Schminke, 2007). Ethical organizations establish clear behavioral standards and promote transparency in decision-making processes. According to ethical climate theory, employees' perceptions of ethical organizational practices significantly influence their attitudes and workplace behavior (Liu & Yuan, 2014).

Several studies have identified a positive relationship between ethical work environments and employee retention. Employees who perceive fairness and ethical treatment within the organization are more likely to develop organizational trust and commitment (Sims & Kroeck, 1994). Ethical environments reduce workplace stress, conflicts, and dissatisfaction while enhancing employee morale and loyalty. When employees feel respected and valued, they are less likely to seek employment opportunities elsewhere (Yesimi et al., 2025).

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Research has also demonstrated that ethical leadership contributes to a positive ethical climate, which subsequently improves employee retention.

Ethical leaders foster open communication, accountability, and justice, thereby creating supportive work conditions (Isiramen, 2021).

Employees working under ethical leadership often experience greater job satisfaction and emotional attachment to the organization. Furthermore, ethical workplaces encourage employee participation and psychological safety, which positively affect employees' intention to stay. (Gajda & Pyszka, 2023)

There is a relationship between ethical work environment and employee wellbeing, with the anti-sexual harassment cell acting as a mediating factor in college campuses. The findings reveal a positive association among ethical work environment, anti-sexual harassment cell effectiveness, and employee wellbeing (Jagadeesh.et.al,2025)

Conversely, unethical organizational practices such as favoritism, discrimination, exploitation, and lack of transparency can increase turnover intentions.

Employees who perceive unethical behavior within the organization may experience frustration, mistrust, and reduced commitment, ultimately leading to higher attrition rates. Therefore, organizations aiming to improve retention should focus on creating and sustaining ethical workplace environments.

Based on the above discussion, the study proposes the following hypothesis:

H1: An ethical work environment has a significant positive effect on employee retention.

HR Practices and Employee Retention

Human Resource practices represent the policies and strategies organizations use to manage employees effectively. HR practices typically include recruitment and selection, compensation management, performance appraisal, employee participation, training and development, career growth opportunities, and work-life balance initiatives. (Sonar & Pandey, 2023)

Strategic HR practices are widely recognized as essential determinants of employee retention. Effective HR systems improve employee satisfaction by ensuring fair compensation, recognition, skill development, and career advancement opportunities. (Lodhi & Ahmad, 2025) Employees are more likely to remain in organizations where they perceive organizational support and professional growth opportunities.

Training and development programs enhance employees' competencies and career prospects, increasing their organizational commitment. Similarly, fair performance appraisal systems and transparent reward mechanisms foster trust and motivation among employees. (Pratiwi et al., 2024) Compensation and benefits also play an important role in reducing employee turnover by addressing employees' financial and social needs.

Studies have further shown that participative HR practices strengthen employee engagement and psychological attachment to the organization. When employees are involved in organizational decision-making processes, they develop a stronger sense of belonging and loyalty. Flexible work arrangements and supportive workplace policies also contribute positively to retention outcomes. (Ogu, 2024)

In contrast, inadequate HR practices such as unfair evaluations, lack of recognition, limited career opportunities, and poor communication can negatively affect employee morale and increase turnover intentions. Therefore, organizations must implement employee-centered HR strategies to retain talented employees effectively.

Accordingly, the following hypothesis is proposed:

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H2: HR practices have a significant positive effect on employee retention.

Moderating Role of HR Practices

Moderation occurs when the relationship between an independent variable and a dependent variable changes depending on the level of another variable. In this study, HR practices are proposed as a moderating variable influencing the relationship between ethical work environment and employee retention. (Okunhon et al., 2025)

An ethical work environment alone may not be sufficient to ensure high levels of employee retention unless it is supported by strong HR practices. HR systems operationalize organizational values through policies and procedures related to employee welfare, fairness, rewards, communication, and development opportunities (Valecha, 2022). Thus, HR practices can strengthen employees' positive perceptions of the ethical climate.

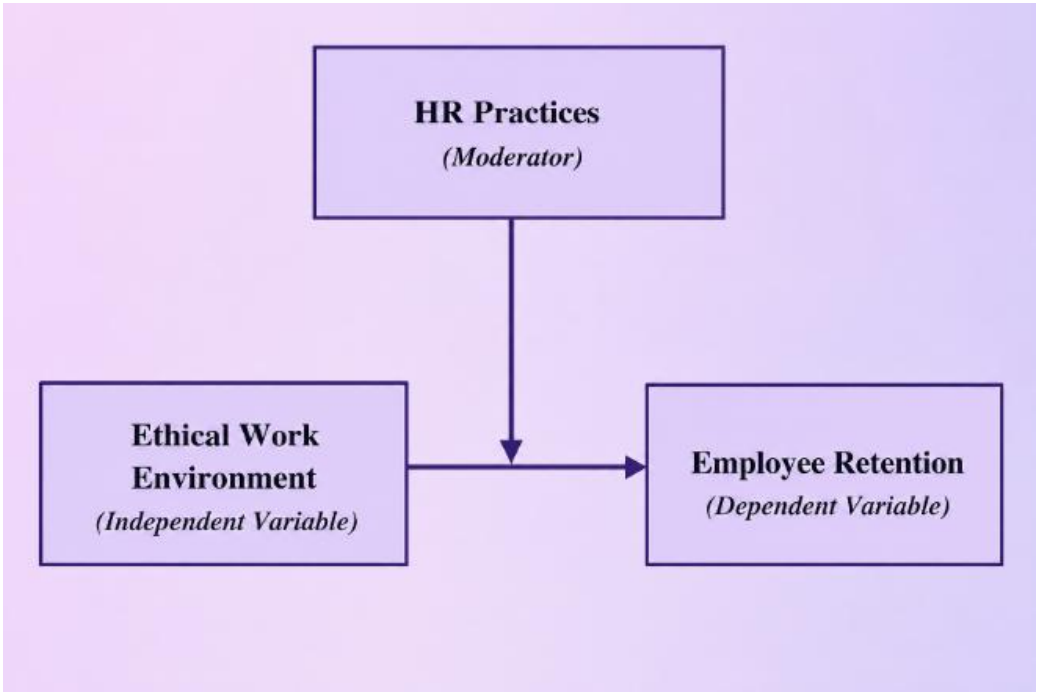
Organizations with ethical cultures and effective HR practices are likely to experience stronger employee commitment and lower turnover intentions. For example, ethical values supported by fair appraisal systems, transparent promotion policies, and employee development programs can enhance employees' trust in the organization. This integrated approach creates a supportive organizational environment that encourages long-term employee retention.

On the other hand, weak HR practices may reduce the positive impact of ethical work environments. Employees may perceive inconsistency between organizational ethical values and actual HR policies, leading to dissatisfaction and reduced trust. (Valecha, 2022) Therefore, HR practices play a critical role in translating ethical organizational values into positive employee outcomes.

Despite the theoretical importance of HR practices as a moderating variable, empirical studies examining this interaction remain limited. This study aims to address this gap by investigating whether HR practices strengthen the positive relationship between ethical work environment and employee retention.

Thus, the following hypothesis is formulated:

H3: HR practices significantly moderate the relationship between ethical work environment and employee retention.



The framework proposes that ethical work environment positively influences employee retention, while HR practices both directly influence employee retention and moderate the relationship between ethical work environment and employee retention.

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METHODOLOGY

Pilot Study, Data Collection and Respondent Profile

This study was conducted among employees working in Technopark (Thiruvananthapuram), Infopark (Kochi), and Cyberpark (Kozhikode). Following a successful pilot study involving 100 respondents, the final structured questionnaire was distributed through Google Forms, LinkedIn employee groups, WhatsApp groups, and professional organizational networks.

- Total questionnaires distributed: 520
- Responses received: 505 (Response rate: 97.1%)
- Valid responses analyzed: 492 (Validity rate: 97.4%)

Category	Sub-category	Frequency	Percentage
Gender	Male	286	58.1
Gender	Female	206	41.9
Gender Total		492	100.0
Age Range	21–30	184	37.4
Age Range	31–40	198	40.2
Age Range	41 and Above	110	22.4
Age Range Total		492	100.0
Employment Experience	Below 5 Years	176	35.8
Employment Experience	5–10 Years	192	39.0
Employment Experience	Above 10 Years	124	25.2
Employment Experience Total		492	100.0
Organization Location	Technopark	198	40.2
Organization Location	Infopark	176	35.8
Organization Location	Cyberpark	118	24.0
Overall Total		492	100.0

Measures

The study examined the relationship between Ethical Work Environment (EWE) and Employee Retention (ER), with HR Practices (HRP) acting as a moderating variable.

- Ethical Work Environment (EWE): Adapted 6-item scale measuring organizational fairness, transparency, ethical leadership, accountability, and workplace trust. Cronbach's Alpha: 0.884

- Employee Retention (ER): Adapted 6-item scale measuring organizational commitment, retention intention,

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job satisfaction, and loyalty. Cronbach's Alpha: 0.871

• HR Practices (HRP): Adapted 6-item scale measuring compensation fairness, employee welfare, training opportunities, performance appraisal systems, and career development support. Cronbach's Alpha: 0.893

Data Analysis and Statistical Results

The final valid sample was used for quantitative analysis. The study assessed the measurement model and structural model using standard SEM-based procedures. Before testing the hypotheses, the data were examined for normality, reliability, convergent validity, discriminant validity, and model fit. The structural relationship between Ethical Work Environment (EWE) and Employee Retention (ER), and the moderating effect of HR Practices (HRP), were then evaluated using path coefficients, t-values, and p-values.

Normality Test with Skewness and Kurtosis

Normality was assessed using skewness and kurtosis values. Skewness indicates the symmetry of the distribution, while kurtosis shows whether the distribution is peaked or flat. Values between -2 and +2 are generally considered acceptable for multivariate statistical analysis. The results show that all constructs fall within the acceptable threshold, indicating that the dataset is suitable for further SEM analysis.

Table 1: Normality Test with Skewness and Kurtosis

Construct	Skewness	Kurtosis	Interpretation
Ethical Work Environment (EWE)	-0.632	0.918	Acceptable normality
Employee Retention (ER)	-0.571	0.842	Acceptable normality
HR Practices (HRP)	-0.618	0.996	Acceptable normality

Reliability and Convergent Validity

Reliability and convergent validity were examined using Cronbach's Alpha, Composite Reliability (CR), and Average Variance Extracted (AVE). Cronbach's Alpha and CR values above 0.70 indicate good internal consistency among the items used to measure each construct. AVE values above 0.50 indicate that the construct explains more than half of the variance of its indicators. The results confirm that all constructs satisfy the recommended thresholds, establishing adequate reliability and convergent validity.

Table 2: Reliability and Convergent Validity

Construct	Cronbach's Alpha	Composite Reliability (CR)	AVE	Result
Ethical Work Environment (EWE)	0.884	0.913	0.628	Accepted
Employee Retention (ER)	0.871	0.901	0.603	Accepted
HR Practices (HRP)	0.893	0.924	0.669	Accepted

Discriminant Validity (Fornell-Larcker Criterion)

Discriminant validity was assessed using the Fornell-Larcker criterion. According to this criterion, the square root of AVE for each construct should be greater than its correlations with other constructs. The diagonal values

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in the table represent the square root of AVE. Since each diagonal value is higher than the corresponding inter-construct correlations, discriminant validity is established. This confirms that EWE, ER, and HRP are statistically distinct constructs.

Table 3: Discriminant Validity - Fornell-Larcker Criterion

Construct	EWE	ER	HRP
Ethical Work Environment (EWE)	0.792		
Employee Retention (ER)	0.574	0.776	
HR Practices (HRP)	0.638	0.522	0.818

Model Fit Indices

Model fit indices were assessed to determine whether the proposed moderation model adequately represented the observed data. The SRMR value was below 0.08, indicating a good approximate fit. The NFI and CFI values were above 0.90, showing acceptable incremental fit. The RMSEA value was below 0.08 and the Chi-square/df ratio was below 3.00, confirming the adequacy of the proposed structural model.

Table 4: Model Fit Indices

Fit Index	Obtained Value	Recommended Value	Interpretation
SRMR	0.054	< 0.08	Good fit
NFI	0.931	> 0.90	Acceptable fit
CFI	0.956	> 0.90	Good fit
RMSEA	0.043	< 0.08	Good fit
Chi-square/df	2.114	< 3.00	Acceptable fit

Hypothesis Test Results

Hypothesis testing was conducted using standardized beta coefficients, t-values, and p-values. The direct effect of Ethical Work Environment on Employee Retention was positive and statistically significant, indicating that ethical workplace conditions improve employees' intention to remain with the organization. HR Practices also showed a positive direct effect on Employee Retention. In addition, the interaction effect between Ethical Work Environment and HR Practices was statistically significant, confirming that HR Practices strengthen the relationship between ethical work conditions and employee retention.

Table 5: Hypothesis Test Results

Hypothesis	Relationship	Beta	t-value	p-value	Result
H1	EWE -> ER	0.492	10.216	< 0.001	Supported
H2	HRP -> ER	0.337	7.184	< 0.001	Supported
H3	EWE x HRP -> ER	0.284	6.392	< 0.001	Moderation supported

Analysis and Interpretation

The statistical findings indicate that an ethical work environment has a strong and positive influence on employee retention. Employees who perceive fairness, transparency, ethical leadership, accountability, and workplace trust

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are more likely to remain committed to the organization. This suggests that ethical workplace conditions reduce uncertainty, strengthen psychological safety, and improve employees' emotional attachment to the organization.

The findings also show that HR Practices significantly influence employee retention. Fair compensation systems, career development opportunities, training support, employee welfare measures, transparent performance appraisal, and work-life balance initiatives increase employees' satisfaction and organizational loyalty. The significant moderation effect confirms that the positive influence of an ethical work environment becomes stronger when HR Practices are supportive and employee-centered. Therefore, organizations should not treat ethical culture and HR systems as separate areas; both must work together to retain employees effectively.

Limitations of the Study

- The study was limited to employees working in selected technology parks in Kerala, and therefore the findings may not be fully generalizable to employees in all sectors or regions.
- The study adopted a cross-sectional design, which captures employee perceptions at one point in time and does not examine long-term changes in retention behavior.
- The data were collected using self-reported questionnaires, which may be influenced by personal bias or social desirability bias.
- The study focused only on Ethical Work Environment, Employee Retention, and HR Practices; other variables such as leadership style, compensation satisfaction, job stress, and organizational culture were not included.
- The moderation analysis was based on survey responses and may not fully capture complex organizational realities or informal workplace practices.

Future Research Suggestions

- Future studies may expand the sample to include employees from other sectors such as banking, education, healthcare, manufacturing, and public administration.
- Longitudinal studies may be conducted to examine how ethical work environments and HR practices influence employee retention over time.
- Future researchers may include additional mediating or moderating variables such as job satisfaction, organizational commitment, employee engagement, leadership style, and work-life balance.
- Comparative studies between IT parks, corporate offices, startups, and public-sector organizations may provide deeper insights into employee retention patterns.
- Mixed-method research using interviews and focus group discussions may provide richer qualitative insights into employees' workplace experiences and retention decisions.

CONCLUSION

The study concludes that Ethical Work Environment and HR Practices play a significant role in improving Employee Retention. The results demonstrate that ethical workplace conditions, including fairness, transparency, integrity, and ethical leadership, positively influence employees' willingness to remain in the organization. HR Practices also directly contribute to employee retention by providing support, recognition, career growth, and fair treatment.

The moderation result further confirms that HR Practices strengthen the relationship between Ethical Work Environment and Employee Retention. This means that even when an organization maintains ethical standards, the retention effect becomes stronger when employees also experience fair and supportive HR systems. The study highlights the need for organizations to integrate ethical culture with employee-centered HR practices to build long-term commitment, reduce turnover, and improve organizational sustainability.

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