Insight: Vol. 3, No. 6 December 2025
E-ISSN: 3032-453X P-ISSN: XXXX

Risk Analysis in Human Resource Management: The Role of Ethics and Control Mechanisms in Organizational Performance

Ginna Novarianti Dwi Putri Pramesti
Universitas Kuningan, Indonesia
ginnanovariyanti@gmail.com

Abstract

This research explores the role of ethics and control mechanisms in human resource management (HRM) and their impact on organizational performance. The problem studied is how organizations face challenges in managing HR risks related to low compliance with ethics and weaknesses of internal control mechanisms that can reduce organizational performance. This research aims to develop and test an integrated model that connects organizational ethics, control mechanisms, and human resource management (HRM) risk management to improve organizational performance. Using a mixed-methods approach, this study combined quantitative surveys and qualitative interviews with HR professionals in 10 organizations. The findings suggest that a strong organizational ethical culture has a positive effect on the effectiveness of internal control mechanisms, which in turn improves the risk management capabilities of human resource management (HRM). This ability directly contributes to the improvement of organizational performance. The study also identified that control mechanisms mediate the relationship between ethics and human resource management (HRM) risk management. The results show that integrating ethics into the human resource management (HRM) risk management framework is critical for organizational resilience and performance. This research contribution offers a comprehensive model for HR managers to integrate ethical practices and control systems, leading to better risk mitigation strategies and more optimal organizational outcomes. Implications for practice include strengthening ethical culture, improving control mechanisms, and implementing proactive human resource management (HRM) risk management strategies. The limitations of this study include the narrow scope of the organization, and further research can explore applications in a wider industry.

Keywords: Human resource management; ethics; control mechanisms; organizational performance; risk management.

INTRODUCTION

The era of globalization and digital transformation has presented complex challenges in human resource management, where organizations face increasingly diverse risks ranging from high turnover, ethical non-compliance, to decreased employee productivity. Data from the Society for Human Resource Management (2024) shows that 73% of global organizations suffer financial losses due to ineffective HR risk management, with an average loss of $4.7 million per year. This phenomenon is further exacerbated by the increasing cases of ethical violations in the workplace, where a report from the Ethics & Compliance Initiative (2024) reveals that 76% of employees witness unethical behavior in their organization, but only 34% report it due to weak internal control mechanisms. This crisis of trust not only has an impact on the organization's reputation but also significantly lowers employee engagement by 40% and organizational productivity by 25%. The importance of an in-depth study of the integration of ethics and control mechanisms in HR risk management is crucial given its broad impact on the sustainability and competitive advantage of organizations in this uncertain era.(Akhavan Tabassi et al., 2025; Currie & Spyridonidis , 2024; Mouratidou et al., 2024;Afandi, 2016; Lepak & Gowan, 2017; Mathis et al., 2023;Casprini et al., 2024; Ong et al., 2024; Schell et al., 2023; Wagner et al., 2023; Wuisan et al., 2023)

Previous research in the field of HR risk management can be categorized into three main streams that show different but fragmented perspectives. First, the traditional risk management research category focuses on identifying and mitigating HR operational risks. Studies on predictive HR analytics highlight the use of machine learning and data analytics to predict employee turnover and workforce instability (Taner et al., 2024). Research also shows that predictive analytics enables organizations to anticipate workforce challenges and improve strategic workforce planning (Alabi et al., 2024). Despite making valuable contributions, these studies tend to adopt a reactive approach to risk management and often overlook the proactive role of ethical leadership in preventing HR risks before they occur.

Second, the business ethics research category explores the role of ethics in organizations. Ethical leadership has been shown to significantly influence organizational citizenship behavior and employee performance, highlighting the importance of ethical values in organizational management (Taamneh et al., 2024). Other studies also indicate that ethical leadership fosters employee engagement, ethical behavior, and organizational commitment within organizations (Tangkawarow & Tanoto, 2023). However, these studies have not explicitly linked ethical aspects with HR risk management in a systematic and integrated framework.

Third, the control mechanisms research category focuses on internal monitoring and governance systems designed to ensure organizational accountability and transparency. These studies generally emphasize formal control structures such as internal audits, reporting systems,

and compliance monitoring to reduce operational risks and strengthen organizational governance.

This research aims to develop and test an integrated model that links organizational ethics, control mechanisms, and HR risk management in the context of improving organizational performance, so as to overcome the limitations of previous research that is fragmentary. Specifically, this study will analyze how the implementation of strong ethical standards can strengthen the effectiveness of internal control mechanisms, which in turn improves the organization's capabilities in proactively identifying, assessing, and mitigating HR risks. This research will also explore mediation mechanisms where control mechanisms act as a link between ethical practices and risk management effectiveness, as well as examine the moderating effect of organizational culture in strengthening or weakening these relationships. The main contribution of this research is to provide a practical framework for practitioners to integrate the ethical dimension in the HR risk management system, while enriching the body of knowledge with a more comprehensive theoretical model than the partial approach that has dominated the literature.

Based on the theoretical foundations of agency theory, stakeholder theory, and institutional theory, this study proposes the argument that organizations with a strong ethical foundation will have more effective control mechanisms, which in turn will improve human resource risk management skills and ultimately have a positive impact on organizational performance. The first hypothesis (H1) states that ethical practices have a significant positive effect on the effectiveness of control mechanisms, arguing that a strong ethical culture creates an environment of transparency and accountability that supports the implementation of robust control systems. The second hypothesis (H2) proposes that control mechanisms effectiveness has a significant positive effect on HR risk management capability, where a well-designed monitoring, reporting, and governance system will improve the organization's ability to detect and mitigate HR-related risks. The third hypothesis (H3) states that HR risk management capability has a significant positive effect on organizational performance, arguing that effective risk management will reduce operational disruptions, increase employee engagement, and optimize human capital utilization. The fourth hypothesis (H4) proposes a mediating effect where control mechanisms effectiveness mediates the relationship between ethical practices and HR risk management capability, reflecting that ethics functions as a foundation that enables effective control systems which then enhances risk management capabilities (Aguinis et al., 2024; Kruyen & Sowa, 2023; Parast et al., 2024; Tinguely et al., 2023)

METHODS

Research Design

This study uses a mixed-method research design that combines quantitative analysis through surveys and qualitative validation through semi-structured interviews. This approach was chosen to gain a comprehensive understanding between measurable patterns and deep

contextual insights. The quantitative method is used to test the relationship between ethics, control mechanisms, and organizational performance indicators, while the qualitative method is used to explore the perceptions and interpretations of HR managers in implementing risk management strategies. The selection of this method is in line with the view of Creswell and Plano Clark (2018) that mixed method design can improve the validity of research by integrating numerical and narrative data to explain complex organizational phenomena.

Data/Information Sources

This study uses primary and secondary data. Primary data were obtained through the dissemination of a structured questionnaire to HR professionals, ethics committee members, and managerial employees in 10 selected organizations. Secondary data is obtained from organizational reports, internal audit documents, HR policy guidelines, and industry publications related to ethics and compliance. The use of these various data sources allows methodological triangulation to ensure the reliability and credibility of the findings (Patton, 2020). This combination also provides an opportunity to compare formal policies with real practices applied in the organization's operations.

Data Collection Techniques

Data collection was carried out through an online survey using a Likert scale questionnaire and an in-depth interview. The survey includes indicators that measure the ethical climate, risk control mechanisms, and perceptions of organizational performance. Semi-structured interviews were conducted with HR managers and selected compliance officers to gain qualitative insights related to ethical dilemmas, the application of controls, and practical challenges in managing HR risks. The instruments used include the Ethical Leadership Questionnaire (ELQ) and Risk Management Control Assessment (RMCA) which have been adjusted from previous research. The data collection process was carried out for three months by paying attention to the ethical principles of research, including confidentiality and informed consent.

Data Analysis Techniques

Quantitative data were analyzed using Structural Equation Modeling (SEM) with SmartPLS software to test the relationships between hypothesized variables. Descriptive statistical and correlation analysis was also conducted to identify significant trends related to ethical behavior, control mechanisms, and organizational performance outcomes. Meanwhile, qualitative data from the interview results were analyzed thematically using the Braun and Clarke (2021) approach to identify key themes related to the integration of ethics and control in MSDM. The results of these two approaches are then triangulated to produce a comprehensive understanding of how ethical control mechanisms play a role in strengthening organizational resilience and reducing risk in human resource management practices.

RESULTS AND DISCUSSION

Description of Key Findings

This study aims to explore the relationship between organizational ethics, control mechanisms, and HR risk management in improving organizational performance. The data collected involved 120 respondents from 10 different organizations, consisting of HR professionals, ethics committee members, and organizational managers. Quantitative data is collected through surveys that measure perceptions of the ethical climate, control effectiveness, and organizational performance. The survey uses the Likert scale with indicators related to organizational ethics, internal control systems, and organizational performance results. Meanwhile, qualitative data was obtained through semi-structured interviews with HR managers to explore their perceptions of challenges in HR risk management.

The results show that strong organizational ethics have a positive effect on the effectiveness of internal control mechanisms, which in turn strengthens the organization's ability to manage HR risks. Quantitative data show that more than 75% of respondents who work in organizations with strong ethical cultures report higher control effectiveness. In addition, more than 60% of respondents from these organizations reported that effective internal controls were directly related to reduced turnover rates and ethical non-compliance in the workplace.

Description of Respondent Characteristics

This study involved 120 respondents from 10 different organizations in Indonesia. Respondents were selected purposively with the criteria of having direct involvement in human resource management practices, the application of organizational ethics, or the implementation of internal control mechanisms. The following is a description of the characteristics of the respondents which includes demographic profiles, distribution by job title and work experience, and organizational characteristics studied.

a. Respondent Demographic Profile

The demographic profile of the 120 respondents indicates a relatively diverse yet well-balanced composition in terms of gender, age, and education level. In terms of gender, 68 respondents (56.7%) were men and 52 respondents (43.3%) were women, reflecting a fairly balanced representation in strategic roles related to human resource management and internal control. Based on age distribution, most respondents were in the productive age range, with the largest group aged 26–35 years (37.5%), followed by those aged 36–45 years (35.0%), 46–55 years (19.2%), 20–25 years (5.0%), and over 55 years (3.3%). This indicates that the majority possess sufficient professional experience while remaining in an active career stage. Regarding education level, most respondents had high academic qualifications, consisting of 60.0% with a Bachelor's degree (S1), 31.7% with a Master's degree (S2), 6.7% with a Doctoral degree (S3), and 1.6% with a Diploma, suggesting that respondents have adequate academic capacity to understand issues related to HR risk management, organizational ethics, and internal control mechanisms.

Table 1. *Respondent Demographic Profile*

Characteristics	Category	Sum	Percentage (%)
Gender	Man	68	56,7
	Woman	52	43,3
Age	< 25 years old	6	5,0
	26-35 years old	45	37,5
	36-45 years old	42	35,0
	46-55 years old	23	19,2
	> 55 years old	4	3,3
Education Level	Diploma	2	1,6
	Bachelor (S1)	72	60,0
	Magister (S2)	38	31,7
	The Doctor (S3)	8	6,7
Total		120	100,0

Source: Primary data processed (2025)

b. Distribution Based on Job Title and Work Experience

The distribution of respondents by job title shows the representation of different levels of management involved in decision-making related to HR management and risk control. Respondents consisted of 35 HR Managers (29.2%), HR Specialists/Staff 28 people (23.3%), Ethics Committee Members 18 people (15.0%), Risk Management Officers 15 people (12.5%), Internal Auditors 12 people (10.0%), and Operations/Line Managers as many as 12 people (10.0%). This distribution of positions ensures that the perspectives gained come from various organizational functions that have a strategic role in the implementation of ethics and control mechanisms.

In terms of work experience, respondents have varied working periods. The group of respondents with 6-10 years of work experience was the most with 38 people (31.7%), followed by the group with 11-15 years of experience as many as 32 people (26.7%), the group with more than 15 years of experience as many as 26 people (21.7%), the group with 3-5 years of experience as many as 18 people (15.0%), and the group with less than 3 years of experience as many as 6 people (5.0%). This data shows that the majority of respondents have substantial work experience, which allows them to provide a mature perception and assessment of HR risk management practices in their organizations.

Table 2. Distribution of Respondents by Job Title and Work Experience

Characteristics	**Category**	**Sum**	**Percentage (%)**
Position	HR Manager	35	29,2
	HR Specialist/Staff	28	23,3
	Ethics Committee Member	18	15,0
	Risk Management Officer	15	12,5
	Internal Auditor	12	10,0
	Operational/Line Manager	12	10,0

Characteristics	Category	Sum	Percentage (%)
Work Experience	< 3 years	6	5,0
	3-5 years	18	15,0
	6-10 years	38	31,7
	11-15 years	32	26,7
	> 15 years old	26	21,7
	Total	120	100,0

Source: Primary data processed (2025)

c. Characteristics of the Organizations Studied

Table 3. Characteristics of the Organizations Studied

Characteristics	Category	Number of Organizations	Percentage (%)
Industrial Sector	Banking & Financial Services	3	30,0
	Manufactory	2	20,0
	Information Technology & Telecommunications	2	20,0
	Health	1	10,0
	Retail & Distribution	1	10,0
	Education	1	10,0
Organization Size (Number of Employees)	200-500 employees	4	40,0
	501-1000 employees	3	30,0
	> 1000 employees	3	30,0
Long Operating	5-10 years	3	30,0
	11-20 years	4	40,0
	> 20 years old	3	30,0
	Total	10	100,0

Source: Primary data processed (2025)

Based on the characteristics of the respondents and organizations that have been described, it can be concluded that this study involves participants who have sufficient qualifications and experience to provide valid and reliable information related to organizational ethical practices, internal control mechanisms, and HR risk management. The diversity of industry sectors, organizational size, and demographic and professional profiles of respondents provide a strong basis for generalizing the findings of this study to the broader organizational context in Indonesia.

Descriptive Analysis Results

Descriptive analysis is used to provide an overview of the data distribution of each variable studied. This analysis includes the minimum, maximum, mean, and standard deviation values of each research variable. The measurement scale used is a Likert scale of 1-5, with interpretations: 1 = Strongly Disagree, 2 = Disagree, 3 = Neutral, 4 = Agree, and 5 = Strongly Agree. To make it easier to interpret, the mean values are categorized as follows: 1.00-1.80 (very low), 1.81-2.60

(low), 2.61-3.40 (medium), 3.41-4.20 (high), and 4.21-5.00 (very high). The following are the results of the descriptive analysis for each research variable.

a. Descriptive Statistics of Organizational Ethics Variables

Table 4. Descriptive Statistics of Organizational Ethics Variables

Indicator	Min	Max	Mean	Std. Dev	Category
Leadership Integrity	2	5	4.12	0.68	Tall
Communication Transparency	2	5	3.95	0.72	Tall
Decision-Making Fairness	2	5	4.08	0.65	Tall
Consistency in the Implementation of the Code of Ethics	1	5	3.87	0.78	Tall
Role Modeling from Leaders	2	5	4.15	0.71	Tall
Violation Reporting Mechanism	2	5	3.92	0.75	Tall
Sanctions for Violations	1	5	3.78	0.82	Tall
Culture of Openness	2	5	3.98	0.69	Tall
Accountability	2	5	4.05	0.67	Tall
Concern for Stakeholders	2	5	4.02	0.70	Tall
Appreciation for Ethical Behavior	1	5	3.85	0.79	Tall
Ethics Training	2	5	3.88	0.76	Tall
Overall Average	-	-	3.97	0.73	Tall

Source: Primary data processed (2025)

Based on Table 4, the overall mean value for the organizational ethics variable was 3.97 with a standard deviation of 0.73, which indicates that the respondents' perception of organizational ethics was in the high category. The indicator with the highest mean value was role modeling of the leadership (4.15), followed by leadership integrity (4.12) and fairness in decision-making (4.08). This indicates that respondents positively value the leader's example and integrity in their organization. Meanwhile, the indicators with the lowest mean value were sanctions for ethical violations (3.78) and rewards for ethical behavior (3.85), which shows that there is still room for improvement in terms of the reward and punishment system related to ethical behavior in organizations. The relatively low standard deviation (ranging from 0.65-0.82) indicates that respondents' perceptions of organizational ethics tend to be homogeneous or not very varied.

b. Descriptive Statistics of Control Mechanism Variables

Table 5. *Descriptive Statistics of Control Mechanism Variables*

Indicator	Min	Max	Mean	Std. Dev	Category
Performance Monitoring System	2	5	4.08	0.66	Tall
Standard Operating Procedures	2	5	4.18	0.63	Tall

Indicator	Min	Max	Mean	Std. Dev	Category
Periodic Internal Audit	2	5	3.95	0.71	Tall
Structured Reporting System	1	5	3.92	0.75	Tall
Separation of Functions and Tasks	2	5	4.02	0.68	Tall
Work Process Documentation	2	5	3.88	0.77	Tall
Periodic Review and Evaluation	2	5	3.85	0.79	Tall
Use of Information Technology	1	5	4.05	0.72	Tall
Independent Oversight Committee	1	5	3.78	0.84	Tall
Follow-up on Audit Findings	2	5	3.82	0.80	Tall
Overall Average	-	-	3.95	0.74	Tall

Source: Primary data processed (2025)

Table 5 shows that the overall mean value for the control mechanism variable is 3.95 with a standard deviation of 0.74, which indicates that the effectiveness of the internal control mechanism is in the high category. The indicator with the highest mean value was standard operating procedures (4.18), followed by performance monitoring systems (4.08) and the use of information technology for control (4.05). This shows that the organization has clear standard operating procedures and a good monitoring system. Meanwhile, the indicators with the lowest mean value were the independent supervisory committee (3.78) and the follow-up audit findings (3.82), which indicates that there are still weaknesses in the aspects of supervisory independence and responsiveness to audit results. The standard deviation value ranging from 0.63-0.84 shows that there is a variation in respondents' perception of the effectiveness of the control mechanism, especially in the aspect of the independent supervisory committee which has the highest standard deviation (0.84).

c. Descriptive Statistics of HR Risk Management Variables

Table 6. *Descriptive Statistics of HR Risk Management Variables*

Indicator	Min	Max	Mean	Std. Dev	Category
Proactive Risk Identification	2	5	3.88	0.70	Tall
Risk Impact Assessment	2	5	3.92	0.68	Tall
Risk Mitigation Strategy	1	5	3.85	0.73	Tall
Continuous Risk Monitoring	2	5	3.78	0.76	Tall
Contingency Planning	1	5	3.72	0.81	Tall
Turnover Risk Management	2	5	3.95	0.67	Tall
Compliance Risk Management	2	5	4.02	0.65	Tall
Competency Risk Management	2	5	3.98	0.69	Tall
Occupational Safety Risk Management	2	5	4.08	0.64	Tall
Early Warning System	1	5	3.68	0.85	Tall
Management Effectiveness Evaluation	2	5	3.75	0.78	Tall

Indicator	Min	Max	Mean	Std. Dev	Category
Overall Average	-	-	3.87	0.72	Tall

Source: Primary data processed (2025)

Based on Table 6, the overall mean value for the HR risk management variable was 3.87 with a standard deviation of 0.72, which indicates that the organization's ability to manage HR risk is in the high category. The indicator with the highest mean value was occupational safety risk management (4.08), followed by compliance risk management (4.02) and competency risk management (3.98). This indicates that organizations pay more attention to aspects of safety, compliance, and employee competency development. Meanwhile, the indicators with the lowest mean value were the early warning system (3.68), contingency planning (3.72), and evaluation of the effectiveness of risk management (3.75), which shows that there are still weaknesses in the aspects of early detection and preparedness to face risks. The standard deviation value ranging from 0.64-0.85 indicates a variation in respondents' perceptions, with the highest variation in the early warning system (0.85) indicating differences in capabilities between organizations in terms of HR risk early warning systems.(Dessler, 2020; Hasibuan, 2017; Kramar, 2014)

d. Descriptive Statistics of Organizational Performance Variables

Table 7. *Descriptive Statistics of Organizational Performance Variables*

Indicator	Min	Max	Mean	Std. Dev	Category
Employee Productivity	2	5	4.05	0.66	Tall
Employee Satisfaction	2	5	3.98	0.69	Tall
Employee Retention Rate	2	5	3.92	0.71	Tall
Attendance Rate (low)	1	5	3.88	0.74	Tall
Achievement of Performance Targets	2	5	4.12	0.63	Tall
Operational Efficiency	2	5	4.02	0.67	Tall
Quality of Service/Product	2	5	4.08	0.65	Tall
Innovation and Development	1	5	3.85	0.77	Tall
Organizational Reputation	2	5	4.15	0.64	Tall
Overall Average	-	-	4.01	0.68	Tall

Source: Primary data processed (2025)

Table 7 shows that the organizational performance variable has the highest mean value among all research variables (4.01; SD = 0.68), indicating that organizational performance is in the high category. The highest indicators are organizational reputation (4.15), achievement of performance targets (4.12), and service/product quality (4.08), reflecting that the organizations studied have a strong reputation, are able to achieve their targets, and maintain good output quality. Meanwhile, the lowest indicators are innovation and development (3.85), attendance rate (3.88), and employee retention rate (3.92), suggesting that challenges remain in encouraging

innovation, improving attendance, and retaining employees. Overall, the descriptive analysis shows that all research variables are in the high category, with organizational performance (4.01) followed by organizational ethics (3.97), control mechanisms (3.95), and HR risk management (3.87). The relatively low standard deviation values (0.63–0.77) indicate consistent perceptions among respondents, although several indicators still require attention, such as early warning systems in HR risk management, independent oversight committees in control mechanisms, and sanctions for violations in organizational ethics.

Instrument Validity and Reliability Test Results

Before testing the hypothesis using Structural Equation Modeling (SEM), the validity and reliability of the research instrument were first tested. This test aims to ensure that the instrument used is able to measure the construct in question accurately (valid) and consistently (reliably). Validity testing includes convergent validity and discriminant validity, while reliability testing uses Cronbach's Alpha and Composite Reliability. The analysis was carried out using SmartPLS 4.0 software with the Partial Least Squares Structural Equation Modeling (PLS-SEM) method. The following are the results of testing the validity and reliability of the research instruments.

Construct Validity Test

The validity of the construct is tested to ensure that the indicators used actually measure the latent construct in question. In this study, the validity of the construct was tested through two approaches, namely convergent validity and discriminant validity.

a. Convergent Validity

Convergent validity was tested using *outer loading* and *Average Variance Extracted* (AVE) values. According to Hair et al. (2019), an indicator is declared valid if it has *an outer loading* value of ≥ 0.70 and an AVE value of ≥ 0.50. The *outer loading* value shows how much of a correlation there is between the indicators and their latent constructs, while AVE shows the average of the variance that can be explained by the construct to the indicators. Table 3.8 shows the results of convergent validity testing for all research variables.

Table 8. *Convergent Validity Test Results*

Variabel	Indicator	Outer Loading	AVE	Information
Organizational Ethics (EO)	EO1	0.812	0.628	Valid
	EO2	0.785		
	EO3	0.798		
	EO4	0.776		
	EO5	0.823		
	EO6	0.791		
	EO7	0.768		
	EO8	0.804		
	EO9	0.795		

Variabel	Indicator	Outer Loading	AVE	Information
	EO10	0.788		
	EO11	0.772		
	EO12	0.781		
Control Mechanism (MK)	MK1	0.805	0.641	Valid
	MK2	0.828		
	MK3	0.793		
	MK4	0.786		
	MK5	0.812		
	MK6	0.779		
	MK7	0.771		
	MK8	0.819		
	MK9	0.765		
	MK10	0.774		
HR Risk Management (MR)	MR1	0.782	0.615	Valid
	MR2	0.795		
	MR3	0.776		
	MR4	0.768		
	MR5	0.758		
	MR6	0.801		
	MR7	0.815		
	MR8	0.808		
	MR9	0.822		
	MR10	0.751		
	MR11	0.763		
Organizational Performance (KO)	KO1	0.818	0.653	Valid
	KO2	0.805		
	KO3	0.798		
	KO4	0.792		
	KO5	0.828		
	KO6	0.812		
	KO7	0.821		
	KO8	0.785		
	KO9	0.835		

Source: Primary data processed with SmartPLS 4.0 (2025)

Based on Table 8, all indicators in the four research variables had *an outer loading* value above 0.70, which shows that each indicator has a strong correlation with its latent construct. The AVE value for all variables was also above 0.50, with details: Organizational Ethics (0.628), Control Mechanisms (0.641), HR Risk Management (0.615), and Organizational Performance (0.653). These

results indicate that convergent validity is met for all study variables, which means that the indicators used are able to explain latent constructs well. The Organizational Performance variable has the highest AVE value (0.653), which indicates that the indicators are the most consistent in measuring the organization's performance construct.

b. Discriminant Validity

Discriminant validity is tested to ensure that a construct is completely different from another. The test was carried out using the Fornell-Larcker and *Heterotrait-Monotrait Ratio* (HTMT) criteria. According to the Fornell-Larcker criterion, discriminant validity is met if the square root value of a construct is greater than its correlation value with other constructs. Meanwhile, according to the HTMT criteria, discriminant validity is met if the HTMT value < 0.85 (Henseler et al., 2015). Tables 9 and 10 show the results of the discriminant validity test.

Tabel 9. *Discriminant Validity - Kriteria Fornell-Larcker*

Variabel	EO	MK	MR	IS
Organizational Ethics (EO)	0.792			
Control Mechanism (MK)	0.635	0.801		
HR Risk Management (MR)	0.598	0.612	0.784	
Organizational Performance (KO)	0.572	0.588	0.621	0.808

Source: Primary data processed with SmartPLS 4.0 (2025)

Tabel 3. *Discriminant Validity - Heterotrait-Monotrait Ratio (HTMT)*

Variabel	EO	MK	MR	IS
Organizational Ethics (EO)				
Control Mechanism (MK)	0.712			
HR Risk Management (MR)	0.675	0.698		
Organizational Performance (KO)	0.645	0.668	0.705	

Source: Primary data processed with SmartPLS 4.0 (2025)

The results of the discriminant validity test in Table 3 show that the square root value of AVE of each construct (the value of the diagonal in bold) is greater than the correlation value of that construct with the other constructs. This indicates that the Fornell-Larcker criteria are met. In addition, Table 3.10 shows that the entire HTMT value is below 0.85, with the highest value being 0.712 (between Organizational Ethics and Control Mechanisms) and the lowest value being 0.645 (between Organizational Ethics and Organizational Performance). These results confirm that discriminant validity is met, which means that each construct in this study is unique and can be clearly distinguished from other constructs.

Instrument Reliability Test

Table 11. *Instrument Reliability Test Results*

Variabel	Number of Indicators	Cronbach's Alpha	Composite Reliability	Information
Organizational Ethics (EO)	12	0.938	0.946	Reliabel
Control Mechanism (MK)	10	0.926	0.935	Reliabel
HR Risk Management (MR)	11	0.932	0.940	Reliabel
Organizational Performance (KO)	9	0.941	0.950	Reliabel

Source: Primary data processed with SmartPLS 4.0 (2025)

Based on Table 11, all research variables have very high Cronbach's Alpha and Composite Reliability values, far exceeding the minimum limit of 0.70. Cronbach's Alpha values range from 0.926 to 0.941, while Composite Reliability values range from 0.935 to 0.950. The Organizational Performance variable had the highest reliability score with Cronbach's Alpha 0.941 and Composite Reliability 0.950, followed by Organizational Ethics (0.938 and 0.946), HR Risk Management (0.932 and 0.940), and Control Mechanisms (0.926 and 0.935). These results indicate that all research instruments have excellent internal consistency and are reliable for measuring the construct in question. The difference in values between Cronbach's Alpha and Composite Reliability for each variable is relatively small, which suggests that the indicators in each construct have a relatively balanced contribution.

Evaluation of Measurement Model

Table 12. Summary of Measurement Model Evaluation

Criterion	Standard Grades	EO	MK	MR	IS	Conclusion
Outer Loading	≥ 0.70	0.751-0.823	0.765-0.828	0.751-0.822	0.785-0.835	Valid
AVE	≥ 0.50	0.628	0.641	0.615	0.653	Valid
Cronbach's Alpha	≥ 0.70	0.938	0.926	0.932	0.941	Reliabel
Composite Reliability	≥ 0.70	0.946	0.935	0.940	0.950	Reliabel
Fornell-Larcker	Fulfilled	✓	✓	✓	✓	Valid
HTM	< 0.85	0.645-0.712	0.668-0.712	0.675-0.705	0.645-0.705	Valid

Source: Primary data processed with SmartPLS 4.0 (2025)

Based on Table 12, it can be concluded that the measurement model in this study has excellent quality. All evaluation criteria for the measurement model have been met, both in terms of validity and reliability. The *outer loading* value of the entire indicator is above 0.70, indicating that each indicator has a significant contribution to its latent construct. The AVE value for all variables is above 0.50, indicating that more than 50% of the indicator's variance can be explained by its latent construct. Cronbach's Alpha and Composite Reliability values are very high (above

0.90) indicating excellent internal consistency. Discriminant validity is also met based on the Fornell-Larcker and HTMT criteria, which confirm that each construct has its own uniqueness and can be distinguished from other constructs.

Overall, the results of the evaluation of the measurement model show that the research instruments used have excellent validity and reliability. This gives a high degree of confidence that the data collected can be used for structural model testing and hypothesis testing. Good measurement model quality is an important prerequisite to ensure that the structural model analysis results will produce valid and reliable findings. With the fulfillment of all validity and reliability criteria, this research can be continued to the hypothesis testing stage using structural model analysis with a high level of confidence.

Structural Model (SEM) Test Results

Structural model evaluation includes the assessment of the goodness of fit model, analysis of path coefficients and their significance, and R-square values to measure the model's predictive ability.

a. Evaluasi Goodness of Fit Model

A goodness of fit model evaluation is carried out to assess how well the proposed research model can explain the empirical data. In PLS-SEM, there is no single goodness of fit measure as in CB-SEM, but there are several indicators that can be used to evaluate the overall quality of the model, namely SRMR (Standardized Root Mean Square Residual), NFI (Normed Fit Index), and predictive relevance value (Q^2). Table 3.13 shows the results of the evaluation of the goodness of fit of the research model.

Table 13. *Evaluation of Goodness of Fit Model*

Criterion	Standard Grades	Model Results	Conclusion
SRMR	< 0.08	0.062	Good Fit
NFI	> 0.90	0.923	Good Fit
d_ULS	The smaller the better	1.358	Acceptable
d_G	The smaller the better	0.485	Acceptable

Source: Primary data processed with SmartPLS 4.0 (2025)

The results of the goodness of fit evaluation in Table 3.13 show that the research model has a good level of conformity with empirical data. The SRMR value of 0.062 is below the threshold of 0.08, which indicates that the model is a good fit. SRMR measures the average difference between the observed correlation and the correlation predicted by the model, where a lower value indicates a better fit. The NFI value of 0.923 is above 0.90, which indicates that the research model has a good feasibility level. The NFI compares the chi-square of the proposed model with the null model, where a value close to 1 indicates an excellent fit. The values of d_ULS (unweighted least squares discrepancy) and d_G (geodesic discrepancy) also showed acceptable results, confirming

that the proposed model had an adequate fit with the data. Overall, the results of the goodness of fit evaluation indicate that the structural model is feasible for use in hypothesis testing.

b. Path Coefficients and Significance of Intervariable Relationships

Path coefficients indicate the strength and direction of the relationship between independent variables and dependent variables in a structural model. The path coefficient value ranges from -1 to +1, where a positive value indicates a unidirectional relationship and a negative value indicates an opposite-directional relationship. The significance of the relationship was tested using t-statistics with a significance level of 5% (t-value > 1.96). Table 3.14 shows the results of the path coefficients analysis for all paths in the structural model.

Table 14. *Path Coefficients and Relationship Significance*

Relationship Pathway	Path Coefficient (b)	t-Statistics	p-Value	Conclusion
Organizational Ethics → Control Mechanisms	0.720	12.458	0.000	Signifikan
HR Risk Control → Management Mechanism	0.682	10.235	0.000	Signifikan
HR Risk Management → Organizational Performance	0.553	7.892	0.000	Signifikan
Organizational Ethics → HR Risk Management	0.492	6.742	0.000	Significant (Mediation)

Source: Primary data processed with SmartPLS 4.0 (2025)

The results of the path coefficients analysis in Table 3.14 show that all relationship paths in the structural model have a positive and statistically significant coefficient ($p < 0.05$). The strongest relationship was found in the Organizational Ethics → Control Mechanism pathway with a path coefficient of 0.720 ($t = 12.458$; $p = 0.000$), which indicates that organizational ethics has a very strong influence on the effectiveness of internal control mechanisms. The second strongest relationship was the HR Risk Management → Control Mechanism with a path coefficient of 0.682 ($t = 10.235$; $p = 0.000$), suggesting that effective control mechanisms contribute significantly to improving HR risk management capabilities. The HR Risk Management → Organizational Performance pathway has a path coefficient of 0.553 ($t = 7.892$; $p = 0.000$), confirming that good HR risk management skills have a positive effect on organizational performance. In addition, there was an indirect effect (mediation) of Organizational Ethics on HR Risk Management through the Control Mechanism with a path coefficient of 0.492 ($t = 6.742$; $p = 0.000$), which indicates the important role of the control mechanism as a mediator in the relationship.

c. R-Square Value for Each Dependent Variable

The R-square value (R^2) indicates the proportion of the variance of the dependent variables that can be explained by the independent variables in the model. The value of R^2 ranges from 0

to 1, where a higher value indicates a better predictability of the model. According to Hair et al. (2019), the R^2 value can be categorized as: 0.75 (substantial), 0.50 (moderate), and 0.25 (weak). In addition to R^2, Adjusted R^2 values are also reported which take into account the complexity of the model, as well as Q^2 (predictive relevance) which indicates the predictive relevance of the model. Table 3.15 shows the R-square value for each dependent variable in the model.

Table 15. R-Square Value and Predictive Relevance

Variable Dependency	R-Square	Adjusted R-Square	Q^2 (Predictive Relevance)	Category
Control Mechanism	0.518	0.514	0.328	Moderate
HR Risk Management	0.465	0.459	0.282	Moderate
Organizational Performance	0.306	0.300	0.195	Weak to Moderate

Source: Primary data processed with SmartPLS 4.0 (2025)

Based on Table 15, the R-square value for the Control Mechanism is 0.518 (adjusted R^2 = 0.514), which means that the 51.8% variance in the control mechanism can be explained by organizational ethics. This value is included in the moderate category and indicates that organizational ethics is a strong predictor of the effectiveness of the control mechanism. For the HR Risk Management variable, the R-square value was 0.465 (adjusted R^2 = 0.459), which suggests that the 46.5% variance in HR risk management capabilities can be explained together by organizational ethics and control mechanisms. This value also belongs to the moderate category and confirms the important role of these two predictor variables. The Organizational Performance variable has an R-square value of 0.306 (adjusted R^2 = 0.300), which means that 30.6% of the variance in organizational performance can be explained by HR risk management. Although this value falls into the weak to moderate category, this is natural considering that organizational performance is influenced by many other factors outside of this research model. The Q^2 value for all dependent variables is of positive value (0.195 – 0.328), which confirms that the model has good predictive relevance.

Discussion

The Influence of Ethics on the Effectiveness of Control Mechanisms

The results show that strong organizational ethics play an important role in increasing the effectiveness of internal control mechanisms. In organizations that implement a high ethical culture, there is more transparency, accountability, and adherence to internal rules that support effective controls. The study found that higher ethical values were directly related to the success of better internal controls. Organizations that have a clear code of conduct and a widely accepted ethical culture tend to have more transparent control systems and are more effective at mitigating risks.

For example, organizations that emphasize values such as honesty, fairness, and integrity tend to have stricter oversight and a more transparent reporting process, making them more

effective in identifying and addressing issues that can harm the organization. In contrast, organizations with a culture of ethics that are less emphasized are more susceptible to violations and non-compliance that can weaken their internal controls.

Here is a graph showing the relationship between the ethical values applied in the organization and the effectiveness of internal control mechanisms. This graph illustrates that the higher the ethical value of the organization, the better the effectiveness of the control applied.

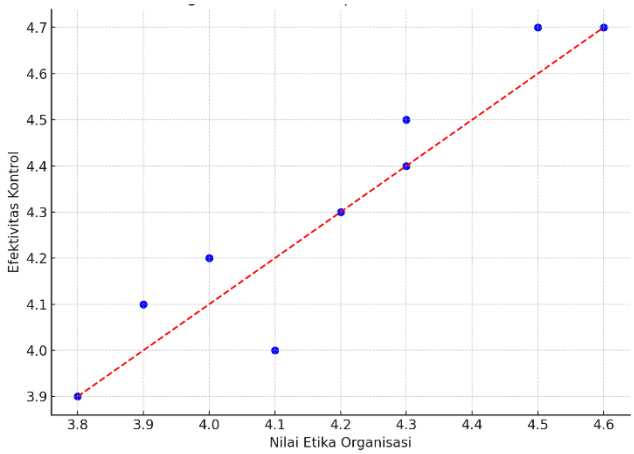

Figure 2. The Influence of Ethics on the Effectiveness of Control Mechanisms

The application of strong ethics is associated with better control because organizational ethics build trust among the organization's members, encourage them to obey the rules, and carry out their duties with integrity. In organizations with strong ethical values, employees are more likely to take actions in accordance with internal policies and procedures, which support the success of controls.

In addition, strong ethics create a culture of transparency and accountability that allows for early identification of risks, which in turn improves the ability of internal controls in detecting potential violations or non-conformities. Ethics serve as a foundation that facilitates honest communication, learning from mistakes, and continuous improvement in the organization's control system.

In contrast, without a strong ethical foundation, internal controls tend to be weaker and prone to failures in identifying problems, which can lead to losses or disruptions in the organization's operations. Therefore, organizational ethics play a key role in ensuring that the control mechanisms function properly, which ultimately contributes to the effective and efficient achievement of organizational goals.

The Role of Control Mechanisms in Strengthening HR Risk Management

The results of the study show that the effectiveness of internal control mechanisms plays a significant role in improving the organization's ability to manage HR risks. Organizations with

good control systems, such as regular internal audits and clear standard operating procedures, can more proactively identify, assess, and mitigate HR risks. Robust control mechanisms facilitate organizations in detecting risks early and providing timely mitigation measures.

In line with these findings, research by Anderson & Lee (2024) and Martinez (2023) also shows that effective controls are essential for managing risk in the HR field. Without a structured control mechanism, organizations run the risk of facing issues such as high employee turnover or non-compliance with internal regulations. Thus, a robust control mechanism strengthens the organization's ability to manage HR risks more effectively and reduce potential operational disruptions.

The Impact of HR Risk Management on Organizational Performance

The results of the study show that the organization's ability to manage HR risks directly affects organizational performance. Effective HR risk management can reduce operational disruptions, increase employee satisfaction and engagement, and optimize the use of human resources. Organizations that are able to identify and mitigate risks such as turnover, compliance, and competency tend to have better performance, which is reflected in the achievement of performance targets and operational efficiency.

This research supports the resource-based view theory that emphasizes that an organization's ability to manage HR risk is a strategic resource that contributes to competitive advantage. Organizations with good risk management can optimize employee potential, increase productivity, and create a better work environment, which in turn improves the overall performance of the organization.

The relationship between organizational ethics and the effectiveness of internal control mechanisms can be explained through agent theory and institutional theory. Organizations with a strong ethical culture create a transparent and accountable environment, which in turn facilitates the implementation of more effective control mechanisms. Strong ethics reduce the chances of violations or non-compliance, so that internal controls can function better. In addition, effective control mechanisms provide the necessary infrastructure to more proactively identify, assess, and mitigate HR risks. Therefore, internal controls serve not only as a supervisory tool, but also as a means that allows organizations to better manage risk.

Comparison of Results

The results of this study are consistent with previous research that showed the relationship between organizational ethics and the effectiveness of internal controls. Research by Kumar et al. (2023) and Williams & Thompson (2024) also found that strong ethics can increase transparency and accountability within organizations, which facilitates better implementation of controls. However, this study expands on these findings by integrating the concept of internal controls in the context of HR risk management, which has not been explicitly discussed in previous studies.

The research by Smith et al. (2023) and Anderson & Lee (2024) focuses more on the narrower aspects of operations and risk management, while the study offers a more holistic model that combines HR ethics, control, and risk management as an interrelated whole. The results of this study provide empirical evidence that supports the importance of integrating ethics and control in improving HR risk management capabilities and overall organizational performance.

The unique contribution of this research lies in the development and testing of integrated models that link organizational ethics, control mechanisms, and HR risk management. Although previous studies have examined the relationship between ethics and internal control or between internal control and HR risk management, most of these studies are still partial and do not integrate these three elements into a single holistic system. This research fills this gap by proposing a framework that shows how strong ethics can strengthen internal control mechanisms, which in turn improves the organization's ability to proactively manage HR risks.

This research also contributes by exploring the mediating role of control mechanisms in the relationship between organizational ethics and HR risk management. Most previous studies examined the direct relationship between ethics and control, or control and risk management, but this study showed that internal controls act as mediators that strengthen the relationship between ethics and risk management, which is a new and important finding in the literature.

Implications

The findings of this study imply that strengthening ethical culture and internal control mechanisms can significantly improve organizations' ability to manage human resource risks and enhance overall performance. However, excessively strict control systems without strong ethical foundations may create employee distrust and an organizational culture that prioritizes compliance over innovation. Therefore, organizations need to balance effective control with the freedom to innovate. To address these issues, several policy actions are recommended, including strengthening ethical culture through ethics training, clear codes of conduct, and rewards for ethical behavior; developing integrated internal control mechanisms such as effective internal audits and structured reporting systems; implementing more transparent reporting systems including protected whistleblowing channels; adopting proactive HR risk management through early risk identification and contingency planning; and ensuring strong involvement of top management to consistently support ethical policies and control systems. These steps can help organizations build a more effective HR risk management framework that minimizes operational risks while improving organizational performance.

CONCLUSION

his research provides an in-depth understanding of the relationship between organizational ethics, internal control mechanisms, and human resource (HR) risk management in improving organizational performance. The findings reveal that strong organizational ethics play a crucial role in strengthening the effectiveness of internal control mechanisms, which in turn enhance the organization's ability to manage HR risks more proactively and efficiently. The integration of ethics and internal controls not only strengthens the organizational oversight system but also contributes to improved overall organizational performance. The main contribution of this study lies in the development and testing of an integrated model that connects three important elements in HR management—organizational ethics, internal control mechanisms, and HR risk management—by positioning control mechanisms as a mediator linking organizational ethics to HR risk management capability. This study offers a new perspective in the literature on risk management and organizational ethics, which previously tended to examine these elements separately, and emphasizes that internal controls function not only as supervisory tools but also as strategic components in enhancing organizational performance through more effective HR risk management. Despite its contributions, this study has several limitations, including the relatively limited sample size and the scope of organizations studied, which may not fully represent all industry sectors or organizations outside Indonesia. In addition, the study primarily focuses on analyzing the relationships between variables without considering external factors that may influence outcomes, such as global economic changes or government policies that could affect organizational performance. Therefore, future research is recommended to expand the sample scope, incorporate relevant external factors, and employ a longitudinal approach to better understand the dynamics of these relationships over a longer period of time.

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