

## **The Practice of Ethical Leadership and its Impact on Employee Trust in the Private Sector of Timor-Leste**

### **A Prática da Liderança Ética e o seu Impacto na Confiança dos Empregados no Setor Privado de Timor-Leste**

**Ivo Martins Hi Da Silva<sup>1</sup>**

**ABSTRACT:** Leaders of organizations in the for-profit private sector play an important role in ensuring the successful execution of complex initiatives and organizational decision-making. This study examines how ethical leadership influences employee trust in Timor-Leste. Ethical leadership emphasizes the leader's responsibility to act as a role model, thereby gaining the trust and confidence of employees. Leadership lacking ethics and integrity can harm organizational stakeholders, particularly employees. The purpose of this study is to examine the relationship between the ethical practices of private-sector leaders and employees' level of trust. Ethical Leadership emphasises leadership as something demonstrated through action rather than merely through personal values or identity (Lawton & Gabriunas, 2014). This approach is essential for achieving both profitability in the private sector and the broader economic prosperity of Timor-Leste. Developing mutual trust and employee commitment is an effective way to reinforce trust, cultivate mutual understanding and cooperation, and increase job commitment and job satisfaction, ultimately leading to improved organizational performance. This study used a mixed-methods approach across multiple companies, employing a convergent mixed-methods design or an explanatory sequential design, to examine the relationship between ethical leadership and employee trust.

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<sup>1</sup> Ivo Martins Hi Da Silva is a Timorese citizen, holds a Master's degree in Business Administration from Ateneo Graduate School of Business, Manila, Philippines; now a frequent participant in courses as a PhD candidate in Business Administration at St. Joseph University, Macau, China. At the same time, works at Timorese Catholic University as a Permanent Lecturer for Catholic Business School, Dili, Timor-Leste. In 2015, participated in a training about "Capital Marketing" in Jakarta, Indonesia and in 2018-2019, attended a course about internal auditing in Jakarta, Indonesia.

**KEYWORDS:** ethics; ethical leadership; private sector; trust; stakeholder (manager and employee).

**RESUMO:** Os líderes das organizações do setor privado com fins lucrativos desempenham um papel importante na garantia da execução bem-sucedida de iniciativas complexas e na tomada de decisões organizacionais. Este estudo examina como a liderança ética enfatiza a responsabilidade do líder em agir como um modelo, conquistando, assim, a confiança e a credibilidade dos funcionários. Uma liderança que carece de ética e integridade pode ser prejudicial às partes interessadas da organização, especialmente aos funcionários. O objetivo deste estudo é compreender a relação entre as práticas éticas dos líderes do setor privado e o nível de confiança que os funcionários demonstram. A liderança ética enfatiza a liderança como algo demonstrado por meio de ações, em vez de meramente por valores pessoais ou identidade (Lawton & Gabriunas, 2014). Essa abordagem é essencial para alcançar tanto a lucratividade no setor privado quanto a prosperidade econômica mais ampla em Timor-Leste. Desenvolver confiança mútua e compromisso dos funcionários é uma maneira eficaz de reforçar a confiança, cultivar compreensão mútua e cooperação, além de aumentar o comprometimento e a satisfação no trabalho, levando, em última análise, a um melhor desempenho organizacional. Este estudo utilizou um método misto em várias empresas, incluindo um desenho sequencial explicativo para examinar a relação entre liderança ética e confiança dos funcionários.

**PALAVRAS-CHAVE:** ética; liderança ética; setor privado; confiança; partes interessadas (gerente e funcionário).

## **Introduction**

Ethical leadership is a style of leadership that emphasizes the importance of following ethical principles (Stavropoulou et al., 2023).

Ethical leaders embody the principles of honesty, integrity, respect, and transparency in every action, thereby inspiring employees to follow suit. Such leaders make decisions that prioritize both organizational success and employee well-being (Jones, 1991). Furthermore, ethical leadership must also align with the organization's culture, values and guiding principles (Bridges, 2018).

The actions and behaviors associated with ethical leadership can significantly influence employee trust (Monalisha, 2025). Monalisha's research indicates a strong correlation between ethical leadership and employee trust, demonstrating that ethical leadership practices help build trust within organizations.

This study hypothesizes that ethical leadership has a positive influence on employee trust because a symbiotic relationship between leaders and employees contributes to long-term organizational success.

In the context of ethics in business, organizations may face both opportunities and challenges. While some companies view ethics as a constraint on business growth, others recognize it as an essential framework for sustainable development. Svanberg contends that businesses exist to generate profit, but business ethics define the parameters for earning those profits (Svanberg & Svanberg, 2021). Ethical practices provide organizations with the opportunity to improve credibility, dignity, and employee trust.

Moreover, ethical conduct is valuable even when it does not directly contribute to financial profit (Audi, 2009). Therefore, ethical leadership should not be viewed solely as a tool for profit generation but also as a means of achieving broader organizational goals. In the increasingly competitive and globalized private sector, the role of leadership in promoting a culture of integrity, transparency, and trust is more critical than ever.

Employee trust is defined as a psychological state involving the intention to accept vulnerability based on positive expectations of the intentions or behavior of another (A. Engelbrecht et al., 2017). In the workplace, trust is typically directed toward two distinct targets: the immediate supervisor (trust in leader) and the organization as a whole (organizational trust) (Özgeldi & Hamitoğlu, 2019). High levels of trust are correlated with various positive outcomes, including increased work engagement and enhanced organizational commitment (Hakimi, 2025).

The private sector is the engine of economic growth and stability for a developing nation like Timor-Leste. However, the professionalization of management and the establishment of strong ethical standards remain ongoing challenges. The implementation of ethical leadership practices is particularly crucial in such contexts to build institutional credibility and promote a dedicated workplace. Despite its importance, there is a notable lack of empirical research specifically examining ethical leadership and trust within the Timorese private sector.

This report addresses this gap by synthesizing current scholarly knowledge to provide a theoretical and methodological foundation for local research. By exploring the dimensions of ethical leadership and the mechanisms through which it influences trust, this study serves as a guide for academics and practitioners interested in strengthening leadership and trust within Timor-Leste.

## **1. Literature Review**

This literature review examines the theoretical and empirical foundations of ethical leadership and its impact on employee trust, particularly within the private sector. It synthesizes existing research on ethical leadership practices, internal stakeholder perception, employee satisfaction, organizational trust and employees' willingness to support strategic decisions.

The review aims to establish a conceptual framework that supports the main research question: "What is the impact of ethical leadership on employees' trust in Timor-Leste for the private sector?" and the sub-questions: "What ethical leadership practices are currently implemented in the private sector companies of Timor-Leste? How do internal stakeholders (employees and managers) perceive ethical leadership within private-sector organizations? What organizational, cultural and structural challenges hinder the effective practice of ethical leadership in Timor-Leste's private sector? What strategies can strengthen ethical leadership practices in private-sector organizations? How does ethical leadership influence employees' willingness to support and implement strategic organizational decisions?". In addition, it explores prior studies addressing the relationship between ethical leadership and employees' trust, as well as the organizational, cultural and structural challenges that may hinder the effective practice of ethical leadership.

### **1.1 Defining Ethical Leadership**

Ethical leaders consider the needs of employees, customers, and communities when making business decisions, while also recognizing the importance of profits. Ethical leadership in decision-making is aimed at promoting the well-being of the employees, customers and communities and necessitates a commitment to long-term stewardship that prioritizes the health of the planet, sometimes even above short-term economic gains. Ethical leaders in this domain serve as "agents of change" (Modise, 2025), acknowledging the intrinsic value of nature and adopting a holistic "triple bottom line" approach, which is people, planet and profit (Omotosho et al., 2023).

Ethical leadership has been defined as the demonstration of normatively appropriate conduct through personal actions and interpersonal relationships, as well as the promotion of such conduct among followers through two-way communication, reinforcement and decision-making (Brown et al., 2005). Thus, ethical leadership focuses on influencing followers to do the right thing.

The interpretation of ethical leadership may vary across different contexts and periods. Some perspectives focus primarily on employees, others emphasize leaders, while some highlight organizational

norms and principles. Ethical leadership may also become controversial when universal ethical principles are challenged by cultural relativism (Österman, 2021) or when subjective judgments about right and wrong arise in complex dilemmas (Oppong, 2019).

However, the degree to which the following four ethical leadership characteristics—character/integrity, altruism, collective motivation, and encouragement—were regarded as critical for effective leadership across cultural boundaries was then examined using data from the Global Leadership and Organizational Effectiveness (GLOBE) project (Resick et al., 2006).

For the purpose of this research, ethical leadership is defined as leading by example and establishing standards that encourage others to follow ethical values, principles and beliefs based on widely accepted organizational norms.

## **1.2 Employees as Organizational Stakeholders**

Employees are considered internal stakeholders of an organization. They actively participate in daily operations and have a direct interest in the organization's performance and long-term success. Employees play a vital role in the private sector companies in strengthening human resource management, increasing labour motivation, improving corporate culture, supporting decision-making processes and contributing to economic growth (Davletgildev, 2003).

Stakeholders are any identifiable persons, groups of persons, organizations, or concerned constituencies that have an existential interest, rights, and/or ownership in an organization and its activities.

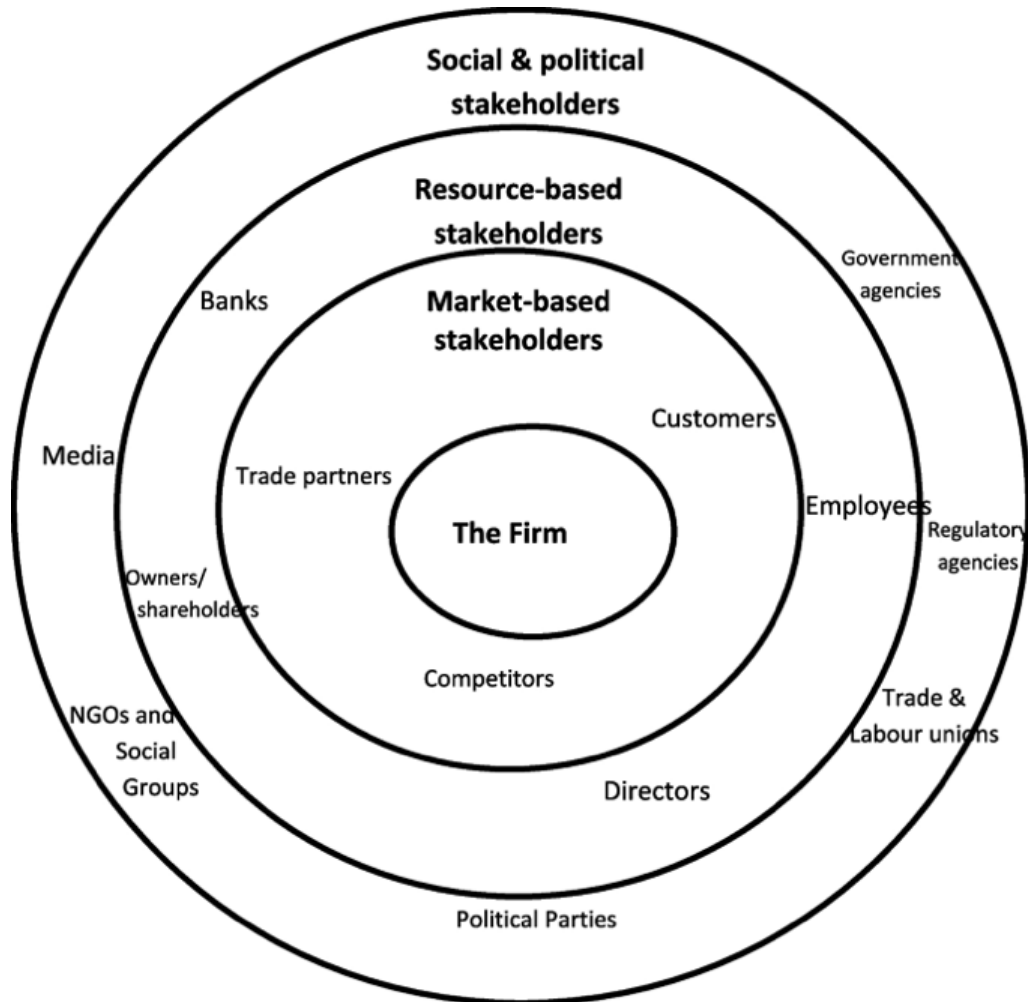


Figure 1. Stakeholder theory framework.

In *Figure 1*, stakeholders include any identifiable individuals, groups, organizations, or constituencies that have an interest, rights, or ownership in an organization and its activities. The firm or company is surrounded by market-based stakeholders such as customers, competitors and trade partners; by resource-based stakeholders such as banks, owner/shareholders, directors and employees; and by social & political stakeholders such as media, NGOs and social groups, political parties, trade & labour unions, regulatory agencies and government agencies (Awa et al., 2024).

In the context of Timor-Leste, the most prominent stakeholders typically include employees, customers, and community groups. This research focuses specifically on employees, as they play a critical role in determining the sustainability and development of organizations.

Sustainability and development of organization or companies need to be integrated into society. In alignment with the vision and mission of each company and guided by ethical principles such as honesty,

fairness, responsibility, and integrity, businesses should take responsibility for the earth, the environment, and society. In relation to social and political stakeholders, firms have an obligation to consider sustainable development and care for ecosystems as part of their Corporate Social Responsibility (CSR) towards society, Non-Governmental Organizations (NGOs), and the government as partners (Taghian et al., 2015).

As part of the socio-political stakeholders, every firm contributes to environmental sustainability by addressing issues such as climate change, specifically by reducing carbon dioxide emissions or eliminating carbon pollution. In terms of social sustainability, companies should focus on ensuring health and quality education, while for economic sustainability, the priorities include fostering innovation, responsible consumption and production, food security and infrastructure development. This commitment to sustainable development reflects the contributions of firms to the 17 United Nations Sustainable Development Goals (SDGs) (Biermann et al., 2017). The implementation of ethical leadership and the establishment of employee trust also have a broader impact on society.

In Timor-Leste, the challenges include implementing a zero-plastic initiative (Walker, 2021), managing water supply (Silva, 2024), and saving energy (Omer, 2008). Some Companies and NGOs are actively engaged in reducing plastic usage as part of their commitment to sustainable development (Lélé, 1991). Corporate Social Responsibility (CSR) is related to business strategy, global climate initiatives and the common good. A stakeholder approach to CSR is essential for achieving business sustainability and meeting sustainable development goals, all while prioritizing the well-being of employees (López-Concepción et al., 2022). Actions taken by firms in Timor-Leste include recycling plastics, minimizing plastic use, preventing water pollution, and conserving energy through solar panel initiatives, which need hard work and constant effort from all entities.

### **1.3 Ethical Leadership and Employee Trust**

Trust within the workplace should be cultivated both between leaders and employees and among employees themselves. Leaders and employees should serve as role models by demonstrating certain character and attitudes (Caldwell & Jamali, 2023).

Employee trust refers to the confidence employees place in their organization's policies, the integrity of leadership, the fairness of decision-making processes, and the organization's long-term stability. It reflects employees' belief that their organization and leaders are capable, honest and genuinely concerned about employee welfare.

Trust is essential for building a positive and productive work environment. When employees trust their leaders, they are more cooperative, committed, and dedicated to their work. Conversely, a lack of trust can lead to higher turnover rates, reduced productivity and a strained relationship between management and staff.

Ethical leadership involves guiding and influencing others while adhering to core ethical principles such as honesty, fairness, responsibility and integrity. Kim and Brymer (2011) found that ethical behavior among hotel managers significantly increases employees' emotional commitment.

Establishing ethical standards in the workplace is a key responsibility of organizational leadership. Clear organizational policies and codes of ethics can definitely influence employee engagement, job happiness and organizational commitment (Ramlawati et al., 2023).

Some scholars argue that ethical leadership promotes interpersonal relationships, supports personal development, and facilitates organizational stability and change. Ethical leadership encourages employees to feel valued and trusted, which in turn increases their commitment to the organization (Guinot et al., 2021).

Furthermore, ethical leadership contributes to creating a harmonious workplace environment or culture that attracts talented employees (Chakraborty & Ganguly, 2019). Organizations known for ethical and transformative leadership are more likely to attract high-quality talent (Schiuma et al., 2021). Ethical practices must become embedded in organizational culture. Every member of the organization, from senior management to operational staff, should recognize their importance in contributing to organizational success (Sharma et al., 2019). Ethical practice should be practiced consistently so that ethical behavior becomes a habitual part of organizational life or habit (Matthews, 2019). To establish effective ethical practices, organizations should develop a strong ethical framework, including a clear code of conduct, regular ethics training programs, and a reliable mechanism for reporting and addressing ethical issues.

Based on the reviewed literature, this study focuses on private-sector companies in Timor-Leste as the research context, given its unique cultural and geographical characteristics, to measure and validate employee trust as a variable determined by ethical leadership. Previous studies have often concentrated on outcomes such as job satisfaction, employee engagement, and job performance. However, this research emphasizes employee trust as a central factor influenced by ethical leadership.

Despite the wealth of global and regional research, a significant geographic gap remains in Timor-Leste. There is a total lack of peer-reviewed empirical studies focusing on the private sector of Timor-

Leste, and cultural specificity: most existing scales and theories were developed in Western or large Asian economies. The extent to which these dimensions translate to the specific cultural and historical context of Timor-Leste, characterized by its unique post-conflict development and small-scale private sector, is unknown.

## **2. Research Methodology**

This section outlines the methodological choices and procedures used to investigate the relationship between ethical leadership practices and employee trust in Timor-Leste's private sector.

This research seeks to analyse the practice of ethical leadership in private-sector companies and its impact on employee trust. This research poses the following question, as announced in section one: What is the impact of ethical leadership on employees' trust in the private sector in Timor-Leste? What ethical leadership practices are currently implemented in the private sector companies of Timor-Leste? How do internal stakeholders (employees and managers) perceive ethical leadership within private-sector organizations? What organizational, cultural and structural challenges hinder the effective practice of ethical leadership in Timor-Leste's private sector? What strategies can strengthen ethical leadership practices in private-sector organizations? How does ethical leadership influence employees' willingness to support and implement strategic organizational decisions?

In this study, a qualitative and quantitative design was used to address the above questions. This research method is defined as "grounded in certain philosophical beliefs about how we know or what the nature of reality is" (Donalek, 2004).

### **2.1. Interviews**

#### **2.1.1 Interview Method**

During the interview process, the author conducted a semi-structured interview approach (Mashuri et al., 2022) along with both formal and informal interviews to gather data for the research (Doody & Noonan, 2013) to ensure standardized and comprehensive data collection. In contrast, an unstructured interview was also utilized, where questions were not pre-scheduled, allowing for the development of questions in line with the flow of conversation and information from respondents.

Semi-structured interviews included some predetermined questions while also giving interviewers the flexibility to explore topics in depth based on the respondents' answers. This type of interview was

carried out with business owners and CEOs. In addition to face-to-face interviews, the author conducted interviews via Zoom.

The interviews took place in various settings, including the offices of business owners, CEOs, or supervisors/managers, as well as in cafes, restaurants, and occasionally, at their homes.

Regarding the duration of the interviews, sessions with owners, CEOs, and supervisors typically lasted between 1 and 2 hours. The author conducted interviews with leaders from 6 out of 13 companies, including CEOs, supervisors, managers, and owners.

Regarding research ethics, participants were informed about the purpose of the interviews and were assured that their personal information and identities would remain confidential if they preferred. A confidentiality statement was included at the bottom of each interview questionnaire. Additionally, consent for audio recording was sought from respondents. Field notes were also taken, primarily in the open and during the semi-structured interviews.

### **2.1.2 Population and Sampling**

This study explores ethical leadership from the perspectives of business leaders and examines how such leadership builds employee trust. The author conducted interviews with owners, CEOs, supervisors, and managers from six of the thirteen companies included in the research, which comprised both local and international companies located in Dili.

To assess employee trust, the author also considered employees' perspectives on their leaders' implementation of ethical leadership practices, which are crucial for cultivating trust in both the organizations and their leaders. The questionnaires were distributed to 179 respondents across the thirteen companies, complemented by a field survey. The questionnaires were disseminated both manually (hardcopy) and electronically (via Google Forms). The survey conducted at each company lasted between one and two hours.

Among the thirteen companies surveyed, interviews were conducted with representatives from seven, while all thirteen participated in the survey and questionnaire distribution. Notably, the largest number of participants comes from the commerce, telecommunications, finance, retail, construction, and service sectors. This distribution indicates that these sectors exert a significant influence on the findings related to ethical leadership and employee trust in this research.

### **2.1.3 Research Instrument**

This study utilized a bilingual questionnaire in English and Tetum, containing 21 multiple-choice questions and 27 checklist items, classified into three distinct groups.

The first group contained 21 questions related to characteristics of the company, including the implementation of ethical leadership in the company (research question number 1, 2 and 3), the influence of local culture on ethical leadership (research question number 4), the challenges associated with implementing ethical leadership and the attitude toward customers (research question number 5). The second group consisted of 26 questions that examined the leader's attitude, the company's code of ethics, and employees' attitudes towards customers (related to research questions 1, 2, 3, 4, and 5). The third group included a single question on the outcome of ethical leadership (aligned with the main research question). Participants rated their responses for the second and third groups using a 5-point Likert scale: 1-strongly disagree, 2-disagree, 3-neutral, 4-agree, 5-strongly agree.

The survey instrument was translated into Tetum, Indonesian and English, and it consists of the following sections:

Demographics: collecting information on age, gender, and company/firm.

Ethical leadership: this section utilized the 5-item ethical leadership scale (ELS) by Brown et al. (2005) or the multi-dimensional scale, which covers role modelling, transparency, and ethical management (Van Den Akker et al., 2009).

Employee trust: this section included scales that differentiate between trust in supervisor and trust in organization, with a recommendation to use the multidimensional trust scale by McAllister (1995), which encompasses aspects such as role modelling, transparency and ethical management (A. Engelbrecht et al., 2017).

### **2.1.4 Data Collection and Ethical Considerations**

Data was collected using structured online questionnaires distributed through Google Forms, as well as manually distributed questionnaires and interviews. The questionnaire consisted of the following sections: ethical leadership scales, the employee trust scale (McAllister, 1995), and the leadership perception scale (Yukl, 2012). Ethics: participation must be entirely voluntary. Anonymity and confidentiality are paramount, especially given the sensitive nature of evaluating leadership. Informed consent must be obtained from all participants.

### **2.1.5 Coding Process**

For qualitative data, the researcher transcribes the recorded interview. The coding category includes the dimension of ethical leadership (integrity, fairness, altruism, and transparency), examples of ethical practices (decision-making processes), and exploration of trust (transparency, encouragement or support, and collective motivation). Integrity: instances where leaders demonstrate honesty and ethical principles. Fairness: examples of equitable treatment of employees. Transparency: moments when leaders share information openly with employees. Support: testimonials regarding how leaders support their employees.

### **2.1.6 Data Analysis and Interpretation**

The study revealed two primary methods for analyzing qualitative data: content analysis and grounded theory (Khan, 2014). Content analysis involves establishing specific categories and selection criteria before beginning the analysis, while grounded theory does not require pre-defined criteria. Instead, all measures and themes emerge during the data collection and analysis process. This research used the grounded theory approach for data analysis. Grounded theory, as defined, is a theoretical framework that is discovered, developed, and provisionally validated through the systematic collection and analysis of data relevant to the phenomenon being studied (Rennie, 2006). Data were gathered using two primary methods: interviews and site visits. The responses were categorized based on the main research questions, which facilitated a better understanding of ethical leadership practices and their impacts on employee trust.

For quantitative research, this study will use ANOVA, linear regression, and correlation analysis in Jamovi. Jamovi was chosen to calculate the evidence numerically, to collect and to analyze the data, and to understand statistical inference.

The analysis indicates that employees in Timor-Leste prioritize trust as the most important outcome of ethical leadership. Trust strengthens the relationship between leaders and employees, among employees themselves, and between organizations and their customers or communities.

### **2.1.7 Validity and Reliability**

The concept of validity in the research has two dimensions: internal validity and external validity. Internal validity ensures that the author is indeed examining what they claim to study, while external validity concerns the extent to which research findings can be applied to a broader population (Whittemore et al., 2001). In this study, validity was established through interviews, site visits and distributed

questionnaires. Additionally, all questions in the interviews and questionnaires were written in English, Tetum (the native language), and Indonesian.

To enhance the reliability of this research, several measures were implemented. Most of the interviews were recorded to provide more credible evidence and to prevent any biases that could affect data interpretation. Reliability refers to the consistency and stability of a measurement. It is crucial because demonstrating reliability is the first step towards establishing the test's scientific validity and utility (Segal & Coolidge, 2018). High reliability is essential for ensuring the validity of a test.

In this research, questions were repeated and reformulated to clarify the respondents' understanding. During the interviews, respondents were allowed to express their thoughts freely without interference, such as comments or gestures, which could otherwise bias their responses to the questions. The study used software such as Jamovi to calculate means, standard deviations, and frequencies for all variables. For reliability and validity, conduct Cronbach's Alpha test for internal consistency and confirmatory factor analysis (CFA) to ensure the scales measure the intended constructs in the Timorese context.

## **2.2. Data Collection by Research Question**

### **2.2.1. The Impact of Ethical Leadership on Employees' Trust**

An interview was conducted with the owners and CEOs of six private sector companies in Timor-Leste. Each interview lasted about 1 to 2 hours and utilized both a semi-structured and a formal questioning technique. From the perspective of the owners and CEOs, the majority concurred that ethical leadership significantly influences employees' trust. For instance, the owner of Daeman Indo Agency emphasized that the company focuses on providing challenges to enhance employee skills and abilities, suggesting that personal development is more important than income. Employees are encouraged to pursue courses and improve their qualifications to obtain certification, which, in turn, motivates them to deliver excellent performance.

According to Mr. Daeman, profit should be regarded as a consequence rather than the primary objective; the fundamental aim should be to assist individuals and ensure future sustainability for employees and stakeholders. He cautioned that if profit is the sole focus, there is a risk of neglecting the importance of being beneficial and ethical towards others. Complaints should be resolved at no cost to those affected. The guiding principles of the company include relationship sustainability, which emphasizes the significance of maintaining a good reputation, trust, ethical behavior, and fairness in

employee treatment. To keep employees satisfied, the company provides a biannual incentive ranging from \$500 to \$10,000 USD. Additionally, a 13<sup>th</sup> salary is disbursed at the end of the year, in compliance with minimum wage laws.

### **2.2.2. Ethical Leadership Practices Currently Implemented in Timor-Leste's Private Sector**

Mr Daeman, the owner of Daeman Indo Agency (a logistics and delivery service), says that the business landscape in Timor-Leste is quite challenging. He addressed these challenges with integrity and is actively involved in educating employees with negative mindsets that conflict with ethical principles. Since effective leadership is based on action rather than words alone, business owners must consistently exemplify ethical conduct. All employees are required to sign an integrity pact, promising not to use drugs or engage in dishonesty or violations of ethical guidelines. The organisation also conducts annual performance reviews for all employees; those whose performance fails to meet the targets are provided with retraining opportunities.

To encourage trust between upper management and employees, Mr Daeman engaged directly with the workforce, welcoming employees personally and addressing individual concerns. Mr Frans, CEO of BTK Groups, said leaders monitor field attendance and reward employees who consistently demonstrate diligence with bonuses. Regular briefings for engineers, administrative personnel and employees further support teamwork and contribute to a positive work environment. Adhering to ethical standards enhances organizational performance, increases profitability and reduces instances of fraud.

Leaders are encouraged to share their knowledge with employees and clients to promote strong character and mutual understanding (Oyewole, 2024). Mrs Paula, CEO of Semilie Timor, observed that all companies should implement ethical leadership practices effectively. She emphasized that ethics are crucial in business operations and require integrity, something that is often lacking in Timor-Leste. Corruption is more likely when integrity is lacking. She believed businesses must operate with a purpose beyond profit, ensuring fairness and respect while promoting an inclusive workplace culture.

### **2.2.3. Internal Stakeholder (employees and managers) Perceptions of Ethical Leadership within Private-Sector Organizations**

Internal stakeholders perceive ethical leadership within organizations as cultivating a family-like atmosphere and showing mutual respect, particularly from general managers and department heads. To foster a bond among employees, a cooperative framework was established. While leadership cannot

predict employees' perseverance, loyalty or trust in upper management or the organizations, employees' dedication, resilience and heartfelt commitment can affirm trust in the organization.

Organizations that address employees' vulnerabilities, challenges, and grievances promote trust. Mrs. Connie Jape said that to satisfy employees, companies should offer training, competitive compensation, recognition, and clear communication about organisational systems. Celebrating achievements, providing weekly performance reviews and fostering open dialogue contribute to a conducive workplace.

The owner of the Blackcoffee company noted that to satisfy employees, offering good salaries above the minimum wage is crucial. Maintaining a high-quality local product is essential for customer satisfaction. Trust among employees and between employees and managers relies on honesty and transparency. Employees generally feel satisfied due to fair wages, cash bonuses and incentives. Ethical leadership emphasizes exemplary behavior and a positive attitude, cultivating a strong workplace culture and confidence among employees. Monitoring systems should be in place for remote work, alongside soft skills training and support for employee success.

#### **2.2.4. Organizational, Cultural and Structural Challenges Hinder the Effective Practice of Ethical Leadership**

Various challenges arise from differing cultural norms. Individuals often focus on self-promotion, avoid mistakes and shy away from assigning responsibility to others. Honesty remains a fundamental principle.

The challenges at Blackcoffee Company include difficulty finding employees with strong skills, such as those needed to make coffee; a lack of hospitality training; insufficient accounting expertise; and inadequate logistics, particularly regarding materials for product packaging. Additionally, buyers often have limited power, and many customers operate as freelancers.

There are also challenges related to a limited number of local and imported suppliers and a shortage of skilled labour. Obstacles in the business environments of Timor-Leste often stem from the government's lack of confidence in the abilities of Timorese workers.

#### **2.2.5. Strategies to Strengthen Ethical Leadership Practices in Private-Sector Companies**

The owner of BlackCoffee said that to implement ethical leadership effectively, there should be a focus on purchasing coffee directly from local producers to avoid price manipulation and monopolization.

Expanding the market and ensuring direct customer engagement while operating with pure intentions is crucial.

Customer satisfaction and trust can be enhanced by ensuring timely order delivery, offering discounts, and providing lower prices for larger orders. Providing complimentary coffee while customers wait for their orders can also enhance the customer experience. Improving product quality and customer service is vital.

Profit should not be the primary focus; rather, it naturally follows from the company's performance and efforts. Ethical leadership can help reduce employee turnover by increasing a sense of family among workers and eliminating barriers between management and staff.

Mrs Paula from Similie Company encourages her employees with the motto "Eat well, sleep well". However, she acknowledges that sometimes an individual must choose between the two. She believes that if one enjoys their job without pressure to meet targets, they can sleep well, even on a modest salary. Conversely, a higher salary often comes with stress, which can disrupt both mental and physical well-being.

The CEO of Similie stated that, to gain employee trust, it is essential to enhance employee satisfaction, which can be achieved through bonuses and workplace development initiatives. Monthly senior management meetings can improve coordination of work, while collaborative tools can promote personal development. The organization can also hold annual retreats that include team-building activities and celebrate successes with barbecues and dinners. Implementing an open-door policy, treating employees fairly, conducting performance reviews, establishing a code of conduct, and ensuring transparency and accountability in policies and procedures can further strengthen employee ethics. Additionally, an incentive policy that allocates 5% of profits back to employees is recommended.

#### **2.2.6. The Influences of Ethical Leadership on Employees' Willingness to Support and Implement Strategic Decisions**

Ethical leadership is increasingly important in reducing employee turnover. A clear vision, mission and development goals are essential for building trust among employees and stakeholders. Providing a platform for business discussion and tracking progress through key performance indicators (KPIs) is essential.

Ethical leadership embodies the company's spirit, enhancing organizational performance. For instance, in a WhatsApp group chat, employees may greet each other in the morning, fostering a sense of

community. Stakeholders, including transport owners, brokerage services, and local businesspeople, operate independently but understand the company's goals and are motivated to grow; those who do not adapt risk being phased out.

Furthermore, ethical leadership can significantly impact organizational performance through the contributions made by each employee on a daily, monthly and yearly basis.

In contrast, Mrs Connie Jape, CEO of Timor Plaza, expresses a different viewpoint, suggesting that for-profit private sector companies in Timor-Leste should focus on profitability alongside ethical leadership to establish themselves as reputable organizations. She acknowledges that the implementation of ethical leadership practices is still in its early stages and that their impact on people's lives may not be immediate but could develop over time.

### **3. Findings and Discussion**

The findings demonstrate a significant relationship between ethical leadership and employee trust within the private sector of Timor-Leste. The study confirms that when leaders demonstrate ethical behaviors such as fairness, integrity, and transparency, employees reciprocate with higher levels of trust and loyalty. The research results align closely with established theoretical frameworks, specifically Bandura's social learning theory, which suggests that employees model behavior after ethical leaders. Furthermore, the findings support the work of Brown et al. (2005) regarding normatively appropriate conduct and McAllister (1995) on multidimensional trust.

The context of Timor-Leste introduces unique cultural and structural dynamics: the structural challenges and barriers to implementing ethical leadership are the company regulations and systems (41%), followed by people (26%), culture (24%) and company policy (9%). Regarding the mechanism of implementing ethical leadership, the majority of respondents preferred "mutual respect among employees and with the top leaders" (45%) and then treating all people equally (24%). On the leadership perception scale, approximately 52% preferred visionary and transformational leadership because it was aligned with the Timorese culture. While many leaders emphasized "purpose beyond profit", some participants, like the CEO of Timor Plaza, argued that for-profit companies in Timor-Leste must prioritize profitability alongside ethics to remain reputable.

The study utilizes a mixed-method design to provide a holistic view of the workplace. Qualitative findings: gathered through semi-structured interviews with CEOs and owners, these findings emphasize leadership as action. Key themes include creating a "family-like atmosphere," the importance of "leading

by example”, and the use of “integrity pacts” to ensure ethical conduct. Quantitative findings: A survey of 179 respondents provides statistical evidence of the relationship. Notable metrics include an overall reliability of 0.958, an  $R^2$  of 0.445 (meaning 44.5% of variance in ethical conduct is explained by the model), and high agreement scores for leader “listening to employees” (77%) and “making fair decisions” (78%).

To create a comprehensive understanding, the study uses a convergent mixed-method or explanatory sequential design to triangulate data. Combining findings: qualitative themes (such as “family atmosphere”) provide the “why” behind the quantitative correlations. The researcher used grounded theory to let themes emerge naturally before validating them against numerical data. Validation: findings were validated through triangulation (interviews, site visits, and questionnaires) and Jamovi software for statistical inference. Translation and Adaptation: To ensure cultural relevance and accuracy, all research instruments were bilingual or trilingual, translated into English, Tetum, and Indonesian. This ensured that the scales accurately measured constructs in the unique Timorese context and allowed respondents to freely express their opinions. A comprehensive view of ethical leadership in Timor-Leste is provided by combining quantitative data from a survey of 179 employees with qualitative insights from leadership interviews.

Leadership as action and role modelling - the integration reveals that leading by example is the most critical component of ethical leadership. Qualitatively, business owners such as Mr Daeman emphasize that leadership is predicated on action rather than words, requiring the use of “integrity pacts” to ensure ethical standards. This is quantitatively mirrored by the fact that 83% of surveyed employees agreed that “the leaders give examples for the employees”, which was the highest-rated survey item.

Cultivating trust and mutual respect – the findings show a direct alignment between executives’ and employees’ perceptions of trust. Qualitatively, leaders aim to increase a “family-like atmosphere” and treat honesty as a fundamental principle. Quantitatively, this approach is validated by the regression analysis, which shows that ethical leadership explains 44.5% of the variance in employee trust ( $r^2=0.445$ ,  $p<.05$ ). Furthermore, 47% of employees specifically identified “mutual respect between leaders and employees” as the primary mechanism for implementing ethical practices.

Organizational predictors and satisfaction - the study integrates specific leader behaviors with overall statistical significance. Qualitatively, CEOs highlight the importance of clear communication and performance reviews to ensure organizational stability. Quantitatively, the regression model identifies that the leader “valuing the process” is the strongest predictor of perceived ethical conduct (estimate = 0.4284,

$p < .001$ ). This suggests that the transparency in decision-making processes emphasized by leaders in interviews is exactly what employees use to measure ethical integrity.

Challenges to implementation - both data types highlight significant barriers to ethical practice within the Timorese private sector. Qualitative interviews with owners revealed structural and cultural obstacles, such as difficulties finding skilled labor and the government's lack of confidence in local workers. Quantitatively, these barriers are ranked, showing that company regulations and systems (41%) are the primary hindrance, followed by people (26%) and cultural norms (24%).

Outcomes and reciprocity - the research concludes that ethical leadership triggers a cycle of reciprocity. Qualitatively, when leaders prioritize employee development and welfare over profit, employees are motivated to deliver better performance. Quantitatively, the data support this by showing that 78% of employees perceive their leaders as making fair and balanced decisions, which correlates with higher levels of commitment and a sense of obligation to reciprocate with loyalty.

A critical insight from recent literature is that trust is not only an outcome of ethical leadership but also a central mechanism by which leadership influences other variables. Studies have repeatedly shown that trust mediates the relationship between ethical leadership and various positive outcomes:

Work engagement: trust in the leader has been found to mediate the link between leader integrity and employee work engagement (Engelbrecht et al., 2014)

Employee attitudes: trust acts as a bridge between leadership behaviors and general employee attitudes such as satisfaction and commitment (Sarmawa et al., 2020).

Work-life balance: Ethically trusted leaders are more effective at supporting their employees' work-life balance (Haar et al., 2022).

### **3.1. Leadership's Characteristic: Integrity, Altruism, Collective Motivation and Encouragement**

The concept discusses leadership integrity, defined by the equation "alignment of values + actions = trust", emphasizing qualities of consistency, courage and transparency (Abdulai et al., 2025). Survey results: 45% of respondents agree with the alignment of values, and 41% actions, achieving an 86% cumulative trust rating. Altruistic leadership is highlighted for prioritizing followers' needs over self-interest, expressed as "Altruism = action > self-interest, with action at 41% versus self-interest at 23%. Ethical leadership combines respect, service, justice, honesty, and community, quantifying as 20% respect, 30% service, 15% justice, 25% honesty, and 10% community (A. Engelbrecht et al., 2018). Additionally, collective motivation in ethical leadership is framed as "ethical climate + collective team

identification + autonomous engagement” (Wang & Yen, 2021), while sustainable ethical encouragement involves “respect + accountability + authenticity) x psychological safety” (Qasim & Laghari, 2025).

### 3.2. Reliability and Validity

The reliability statistics for the research model indicate a high level of internal consistency across all measured variables. Below is the scientific presentation of the model’s reliability and its key tested relationship. The model utilizes a comprehensive scale consisting of 26 items covering leadership, organizational ethics, and employee trust and performance. The internal consistency of the entire scale is exceptional, as evidenced by the overall Cronbach’s  $\alpha$  of 0.958. The items are categorized into three core domains: ethical leadership, organizational ethics and trust and employee relations. The model is designed to test the relationship between ethical leadership/organizational trust (independent variables) and the quality of employee relations (dependent variable). The model evaluates a leader’s ethical conduct, the enforcement of ethical policies, and the resulting trust in the workplace environment.

Scale Reliability Statistics

	Mean	SD	Cronbach's $\alpha$
scale	3.8	0.71	0.958
	4	7	

Item Reliability Statistics

	Mean	SD	If item dropped Cronbach's $\alpha$
Leader conduct ethical manner	2.86	1.331	0.958
leader values process	3.75	1.130	0.955
Leader hears staff	3.98	0.968	0.956

Item Reliability Statistics

	Mean	SD	If item dropped Cronbach's $\alpha$
Leader enforces ethics	3.79	1.070	0.957
Fair Balanced Decision	4.02	1.057	0.956
Trusted Leader	3.70	0.988	0.956

Item Reliability Statistics

	Mean	SD	If item dropped
			Cronbach 's $\alpha$
<b>Leader communicates values</b>	3.91	0.950	0.956
<b>Exemplary Ethics Leader</b>	4.10	0.925	0.956
<b>Interest to Employees</b>	3.58	1.004	0.957
<b>Right Action Inquiry</b>	3.78	1.025	0.956
<b>Code of Ethics</b>	4.06	0.976	0.956
<b>Company Enforces Code of Ethics</b>	3.75	1.054	0.956
<b>Ethical Behavior Policies</b>	3.87	1.000	0.957
<b>Enforces Ethical Behavior Policies</b>	3.87	1.039	0.957
<b>Unethical Behavior Prohibited</b>	3.62	1.264	0.956
<b>Trust in Solving Ethical Problem</b>	3.77	1.021	0.955
<b>Trust in Ethics</b>	3.96	0.959	0.955

Item Reliability Statistics

	Mean	SD	If item dropped
			Cronbach 's $\alpha$
<b>Trust in Workplace Ethics</b>	4.07	0.916	0.955
<b>Trust in Ethical Business Practices</b>	3.92	0.965	0.956
<b>Employee Friendly and Helpful</b>	4.00	0.977	0.956
<b>Employee's Attention</b>	3.99	0.912	0.956
<b>Employee Listens and Understands</b>	4.02	0.971	0.956
<b>Employee Assists</b>	4.08	0.963	0.956
<b>Employee Highlights Features</b>	4.01	0.986	0.956
<b>Employee Recommends Products</b>	3.66	1.027	0.957
<b>Employee Addresses Objections</b>	3.69	1.143	0.958

### **3.3. Correlation Analysis**

The primary relationship being tested is the degree to which ethical leadership practices and a trusted ethical workplace environment correlate with positive, proactive customer service behaviors by employees. Specifically, the matrix measures how leadership factors, such as a leader's ethical conduct, their ability to hear staff, and their communication of values, relate to employee actions. The analysis reports several key statistical markers for these relationships, including Pearson's  $r$ , degrees of freedom ( $df=177$ ),  $p$ -values, and 95% confidence intervals. Some finding, like trust and workplace ethics: a high level of trust in the workplace and in ethical business practices also correlates strongly with positive customer service behaviors, such as employees being friendly and helpful ( $r = 0.546, p < .001$ ); Listening and understanding employees: this is positively correlated with a leader valuing the process ( $r = 0.491, p < .001$ ) and hearing staff ( $r = 0.472, p < .001$ ). Across the matrix, the majority of the tested relationships are statistically significant at  $p < .001$ , suggesting a strong positive link between ethical leadership and employee relations.

### **3.4. Regression Results**

The linear regression analysis evaluates the factors that predict whether a leader is perceived to conduct themselves ethically. Based on the provided source, the model used a sample size of 179. The  $R^2$  value of 0.445 indicates that approximately 44.5% of the variance in the leader's ethical conduct is explained by the model's predictors. While many variables were included in the regression, only a few emerged as statistically significant predictors ( $P < 0.05$ ). The strongest positive predictor was leader values the process (estimate = 0.4284,  $t = 3.456, p < .001$ ), suggesting that when a leader prioritises the process of decision-making, they are significantly more likely to be viewed as conducting themselves ethically. Trust in the leader also shows a significant positive relationship with ethical conduct (estimate = 0.3225,  $t = 2.527, p = 0.013$ ). The key relationship tested in this linear regression is the predictive power of organizational ethics, leadership traits, and employee trust on the perceived ethical conduct of the leader. The results highlight that valuing the process and being a trusted leader are the most critical factors among those tested to gain employee trust.

*Linear Regression*

Model Fit Measures

Model	R	R <sup>2</sup>	Adjusted R <sup>2</sup>
1	0.667	0.445	0.355

Note. Models estimated using sample size of N=179

Model Coefficients - Leader conduct ethical manner					Model Coefficients - Leader conduct ethical manner				
Predictor	Estimate	SE	t	p	Predictor	Estimate	SE	t	p
Intercept	-	0.4	-	0.16	Right	0.0328	0.1	0.2	0.77
	0.6868	93	1.3	6	Action		16	82	8
			93		Inquiry				
leader	0.4284	0.1	3.4	<.00	Code of	-	0.1	-	0.77
values		24	56	1	Ethics	0.0395	40	0.2	8
process								82	
Leader	0.1919	0.1	1.3	0.18	Company	-	0.1	-	0.26
hears staff		45	26	7	Enforces	0.1664	48	1.1	4
Leader	0.1674	0.1	1.6	0.10	Code of			21	
enforces		03	33	5	Ethics				
ethics					Ethical	0.2543	0.1	1.7	0.08
Fair	-	0.1	-	0.30	Behavior		47	34	5
Balanced	0.1514	48	1.0	9	Policies				
Decision			20		Enforces	0.0210	0.1	0.1	0.89
Trusted	0.3225	0.1	2.5	0.01	Ethical		58	33	4
Leader		28	27	3	Behavior				
Leader	0.0681	0.1	0.4	0.66	Policies				
communic		56	36	4	Unethical	-	0.1	-	0.53
ates values					Behavior	0.0658	06	0.6	6
Exemplary	-	0.1	-	0.02	Prohibited			21	
Ethics	0.3900	70	2.2	3	Trust in	0.1180	0.1	0.6	0.49
Leader			94		Solving		74	78	9
Interest to	0.0808	0.1	0.6	0.49	Ethical				
Employees		17	92	0	Problem				

Model Coefficients - Leader conduct ethical manner

Predictor	Estimate	SE	t	p
Trust in Ethics	0.0945	0.206	0.459	0.647
Trust in Workplace Ethics	0.0320	0.192	0.167	0.868
Trust in Ethical Business Practices	0.1325	0.163	0.814	0.417
Employee Friendly and Helpful	0.0459	0.154	0.298	0.766
Employee's Attention	0.1650	0.151	1.071	0.279

Model Coefficients - Leader conduct ethical manner

Predictor	Estimate	SE	t	p
Employee Listens and Understands	0.0749	0.164	0.458	0.648
Employee Assists	0.1354	0.151	0.898	0.371
Employee Highlights Features	0.2849	0.164	1.742	0.083
Employee Recommends Products	0.1893	0.126	1.501	0.136
Employee Addresses Objections	0.1093	0.103	1.063	0.289

### 3.5 Limitations and Recommendations

This study has several limitations. The research focuses specifically on organizations in Timor-Leste and relies primarily on self-reported data from respondents, which may introduce response bias.

Future research should consider larger and more diverse samples and incorporate additional objective organizational performance indicators.

The recommendation includes implementing mandatory ethics training programs, establishing clear organizational ethical policies, encouraging open communication between leaders and employees, and recognizing and rewarding ethical leadership behaviors.

### Conclusion

Ethical leadership is most effectively demonstrated when the leader gives a good example to followers or employees. Trust develops when leaders and employees have confidence in each other's actions and intentions. When trust exists, it promotes mutual understanding, cooperation, high job

commitment, job satisfaction and improved job performance, while also reducing employee turnover intentions. The analysis confirms that ethical leadership significantly influences employee trust. Ethical leadership manifests a distinctly advantageous influence on employee trust and the assessment of leadership. The advancement of ethical practices within leadership frameworks is paramount for building trust and credibility, enhancing leadership effectiveness, and ensuring long-term organizational success. This study provides a discussion on how the findings contribute to understanding ethical leadership and trust in the context of a private sector company in Timor-Leste and suggests practical implications for improving ethical leadership practices to enhance employee trust.

By identifying the specific dimensions of ethical leadership that most strongly resonate with Timorese employees, private sector organizations can develop targeted training and development programs. Ultimately, the cultivation of ethical leadership will not only improve individual and organizational performance but also contribute to the long-term professionalization and success of the Timorese economy.

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