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Ethical culture and leadership for sustainability and governance in public sector organisations within the ESG framework

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ABSTRACT

Purpose: The purpose of this study is to explore how ethical leadership behaviours within government organisations impact the development and sustainability of a positive organisational culture, which, in turn, has implications for ESG alignment.

Design/methodology/approach: A survey was conducted with 155 government employees in the Central region of Malaysia, utilising a validated questionnaire covering ethical leadership behaviours, ethical culture, and integrity violations related to ESG compliance. The collected data were subjected to analysis using Smart PLS to examine the hypothesised relationships and assess the model fit.

Findings: The study's findings established the role of ethical leadership in reducing integrity violations, particularly in the context of ESG compliance. Ethical leaders contribute to a culture where adherence to ESG principles is prioritised. However, the analysis did not find a statistically significant direct link between ethical culture and integrity violations related to ESG compliance, suggesting the need for further exploration of this relationship in future research.

Research limitations/implications: The study faces limitations related to sample representativeness and self-reporting bias. The findings are context-specific to the Malaysian public sector, and generalisation to other settings should be approached with caution. Nevertheless, the implications of these limitations have broad relevance for understanding the interplay between ethical leadership and ESG alignment.

Practical implications: The results of this study offer practical insights for public sector leaders and policymakers in Malaysia who aim to enhance their ESG performance. Understanding the role of ethical leadership in shaping organisational culture not only fosters a more ethical and positive work environment but also guides leadership development programs and strategies geared towards ESG alignment.

Originality/value: This study adds value to the existing literature by examining the specific context of the Malaysian public sector and by emphasising the relationship between ethical leadership and organisational culture within the ESG framework. The use of Smart PLS as an analytical tool enhances the robustness of the analysis, making the findings especially valuable for public sector organisations looking to enhance their ESG alignment through ethical leadership.

Introduction

The investigation of ethical dimensions within organisational culture remains a persistent area of research subject, representing the impact across diverse domains including organisational management, ethics, and the increasingly emphasised Environmental, Social, and

Governance (ESG) principles. Research into organisational culture has played a pivotal role in shaping the fields of organisational management, business ethics, sustainability, and Environmental, Social, and Governance (ESG) principles (Trevino, 1986; Victor and Cullen, 1988; Trevino et al., 1998; Linda K et al., 2006; Metwally et al., 2019; Cano and Londoño-Pineda, 2020; Ferine et al., 2021; Puerta et al., 2021;

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Yuana et al., 2021; Jinhyo Joseph Yun et al., 2023). The influence of ethical culture on the decision-making process is of particular relevance when considering sustainability and ESG integration and finds theoretical support in models of ethical decision-making within organisations (Brown and Treviño, 2006; Brown and Treviño, 2013; Pichlak and Szromek, 2021). Ethical culture encompasses an organisation's contextual factors that either promote or deter ethical and unethical behaviours, a factor of immense significance within the sustainability and ESG framework (Brown and Treviño, 2006; Huberts et al., 2007; Kaptein, 2008b).

The motivation for this study comes from the need to delve into the significant dynamics of ethical culture and its influence on decision-making within organisations, especially in the context of sustainability and ESG integration. Treviño's conceptualisation of ethical culture emphasises the interplay between an organisation's formal and informal systems, which either reinforce or contradict ethical behaviours (Treviño, 1986). The components of Treviño's ethical culture questionnaire encompass the role of top management, the presence of organisational incentives for ethical behaviour, penalties for integrity violations, and adherence to rules and regulations (Treviño et al., 1998). This has spurred further research exploring the distinctions between ethical culture and ethical climate in subsequent studies (Treviño et al., 1998; Vardi, 2001; Bello, 2012; Silvija and Ksenija, 2012; Morales et al., 2014).

The leadership style encompassed by ethical leadership is believed to have an impact on organisational behaviours (Shin et al., 2015; Erakovich and Kolthoff, 2016; Özden et al., 2019). The charisma of leaders and their influence from the top also play a role in shaping organisational behaviour (Staicu et al., 2013; Free, 2015; Alblooshi et al., 2021).

Prior research has been conducted to assess and validate the constructs of ethical leadership in organisations to determine if this leadership style has any impact on organisational development (Bolden, 2016; Alblooshi et al., 2021). Their underlying assumption was that leaders serve as a crucial source of ethical guidance for employees, and they noted a dearth of empirical research focusing on the ethical dimensions of leadership during that era. A different perspective has explored the influence of ethical leadership on social behaviours, positing that the presence of ethical leadership within organisations fosters positive social behaviours among employees (Mayer et al., 2010; Le and Nguyen, 2023).

Building upon the recognition of the research gap evident in the literature, this study's core objectives revolve around exploring the profound impact of ethical culture and ethical leadership, especially within the context of sustainability and Environmental, Social, and Governance (ESG) principles, on organisational behaviour. It specifically aims to unravel their influence on decision-making processes, employee conduct, and the overarching development of organisations, all while considering the broader framework of sustainability and ESG.

In today's global landscape, the public sector stands as a key point for achieving sustainability and governance objectives, particularly within the Environmental, Social, and Governance (ESG) framework. This is because governments are the governing entities responsible for determining which policies to implement, and whether they prioritise industrial development or emphasise sustainable practices. The employees within these organisations play a crucial role in how they respond to the adoption of ESG frameworks and the establishment of sustainable working conditions (Singhanian and Saini, 2023). However, despite growing recognition of the critical role played by the public sector in these domains, challenges persist in fostering an ethical work culture and leadership that align with the principles of sustainability and ESG. This problem statement seeks to address the fundamental issue of how public sector organisations can effectively integrate ethical work culture and leadership into their operational frameworks, with a clear focus on ESG criteria. The crux of the problem lies in understanding the barriers, gaps, and potential solutions that can propel public sector organisations towards a more sustainable and ethically responsible future, in line with

global ESG standards.

One of the primary challenges facing public sector organisations is the establishment of ethical leadership that champions sustainability and governance within the ESG framework (Kristijono et al., 2022). The absence of clear guidelines and strategies for cultivating ethical work culture and leadership in these organisations hampers their ability to drive environmental responsibility, promote social equity, and enhance governance structures. This problem statement aims to delve into the core issues of this challenge, shedding light on the need for tailored approaches and practical solutions that can bridge the gap between the public sector's potential impact on sustainability and ESG and its current state of practice.

Additionally, while the private sector has made significant strides in ESG integration, the public sector lags behind in harnessing the full potential of ethical work culture and leadership to foster sustainability and governance. There is a pressing need to identify the specific obstacles that public sector organisations face and uncover the strategies and practices that can facilitate their alignment with ESG criteria. By doing so, public sector organisations can not only fulfil their role as responsible stewards of public resources but also lead by example, influencing the broader community and private sector to adopt more sustainable and ethical practices. This problem statement aims to guide research efforts toward unveiling the critical factors and solutions necessary to bring public sector organisations closer to the ideals of ESG and sustainability while emphasising the central role of ethical work culture and leadership in this journey. This study, employing a quantitative approach, examines ethical leadership, organisational culture, and integrity violations within the ESG framework based on data collected from government employees. Subsequent sections will present empirical findings and discuss practical implications, offering an overall comprehensive exploration for readers.

Literature review

Research on organisational culture has played a significant role in shaping the fields of organisational management and business ethics (Staicu et al., 2013; Free, 2015; Shin et al., 2015; Erakovich and Kolthoff, 2016; Özden et al., 2019; Alblooshi et al., 2021). Ethical culture's impact on decision-making processes is rooted in theoretical models of ethical decision-making within organisations. Ethical culture encompasses an organisation's contextual factors that influence ethical and unethical behaviours. Treviño's conceptualisation of ethical culture underscores the interplay between formal and informal systems within organisations. These components include the role of top management, organisational incentives for ethical behaviour, penalties for integrity violations, and adherence to rules and regulations.

Research has also examined the distinction between ethical culture and ethical climate in subsequent studies (Shin et al., 2015; Erakovich and Kolthoff, 2016; Özden et al., 2019). Additionally, ethical leadership, characterised by its leadership style and charisma, has been investigated for its influence on organisational behaviours, with a focus on its potential impact on organisational development and positive social behaviours among employees. In conclusion, these studies collectively highlight the significance of ethical culture and leadership in organisational settings, shedding light on their potential implications for ethical decision-making and improved organisational behaviour.

There is a research gap related to the need for a comprehensive investigation into the combined impact of ethical culture and ethical leadership on organisational behaviour within the context of the Malaysian public sector. While existing studies have explored the individual effects of ethical culture and ethical leadership, there is limited research that delves into how these two factors interact and jointly influence employee conduct and overall organisational development in this specific setting. Therefore, the research gap lies in the absence of a holistic understanding of the interplay between ethical leadership and organisational culture and their collective impact on shaping

organisational behaviour, which is crucial for promoting transparency, integrity, and ethical practices in government departments (Zahari 2019a; Zahari 2019b; Asencio, 2019). Similar studies that were conducted on these areas were done in Western region nations, while this study attempts to examine Eastern values and the landscape of a developing nation (Kolthoff et al., 2010).

Ethical leadership and organisational culture play interconnected and important roles in the cultivation of Environmental, Social, and Governance (ESG) alignment within public sector organisations (Gill et al., 2023; Krambia-Kapardis et al., 2023). Ethical leadership, characterised by trustworthiness, active listening, and ethical decision-making, sets the tone for a more positive organisational culture (Said et al., 2018; Asencio, 2019; Zainal et al., 2022). This, in turn, influences the values, norms, and behaviours of employees, creating an environment that embraces ESG principles. Leaders who practice ethical conduct are able to inspire a culture where sustainability and responsible governance directly and indirectly become integral components. Consequently, the alignment with ESG standards is not merely a strategic objective but becomes integral in the organisational ethos, guided by ethical leadership practices and a culture that values ethical considerations, transparency, and social responsibility.

Organisational based theory

Organisational culture is related to the culture practised in the organisation, whether it has a normative culture, aggressive culture, or ethical culture (Denison, 1996; Free et al., 2007; Toor and Ofori, 2009; Kimemia, 2013; Campbell and Göritz, 2014). Organisational theory, discussed in the literature, seeks to comprehend the functioning of organisations within their operational environments (Jones, 2007; Jones and Jones, 2013). Organisational culture, on the other hand, encompasses the core values, beliefs, and attitudes shared among an organisation's members, as described by other researchers (Rashid et al., 2004; Serpa, 2016).

Ethical culture, a facet of organisational culture, plays a pivotal role in shaping an organisation's ethical principles and norms (Trevino et al., 1998; Key, 1999; Brown and Treviño, 2013). Organisational culture and climate, constitute the fundamental domains through which organisational members perceive and experience their workplace (Schein, 2010; Schneider et al., 2013). Their literature stated that characterised organisational culture as the collective perception of employees, which in turn shapes patterns of beliefs and expectations within the organisation. The identified weaknesses in existing literature, particularly the lack of clarity on the collective perception of employees regarding ethical culture within organisations, shows and conform that the current study's research questions by directing a focus on understanding how organisational members perceive and experience their workplace in the context of ethical culture. The study's objectives aim to address these gaps by investigating the dynamics between ethical leadership, organisational culture, and integrity violations, specifically within the realm of Environmental, Social, and Governance (ESG) compliance.

The overall interpretation of dictionaries state that organisations are defined as structured groups of individuals with a specific purpose, encompassing government entities, business organisations, or departments (Oxford, 2017). Effectiveness is a broad term denoting the extent to which an organisation succeeds in achieving its intended outcomes. Organisational ecology, a theoretical framework frequently employed in organisational studies, was pivotal in early research on organisational effectiveness, underscoring the notion that an organisation's effectiveness hinges on the context in which it operates (Hannan and Freeman, 1977, 1989; Rowlinson et al., 2014). Of significance is the relationship between organisational effectiveness and improved overall organisational performance. Studies on organisations are indispensable for identifying effective approaches to managing employees and enhancing their attainment of organisational objectives (Koh and Boo, 2001, 2004; Pfister, 2009; Demirtas and Akdogan, 2015).

The utilisation of appropriate and effective methods within a challenging operational context may yield superior results compared to organisations operating in less demanding environments. Previous researchers have scrutinised organisational behaviours to discern the factors that drive their functioning (Hannan and Freeman, 1989; Hannan and Carroll, 2000). An organisation's structure stands as one of its primary components. These researchers' explanation of the theory posits that organisational variations, influenced by the surrounding environment, will invariably affect an organisation's outcomes, leading to differing results. The concept of organisational effectiveness pertains to whether the agency, represented by its public servants, effectively fulfils its designated tasks, whether its personnel exhibit diligence, and whether their actions and adherence to procedures align with the achievement of organisational goals and missions (Lawrie et al., 2016).

Ethical leadership

Studies in ethical leadership towards organisational is an area of significant interest as it is important as a catalyst for improving and enhancing organisational effectiveness (Toor and Ofori, 2009; Mitonga-Monga and Cilliers, 2016; Mohammed Sayed Mostafa and Shen, 2020). Leadership encompasses the actions undertaken by leaders within an organisation, exerting influence on followers and organisational activities (Onyeneke and Abe, 2021). It involves a set of processes through which individuals within an organisation influence groups in the pursuit of their missions and objectives (Northouse, 2012).

Prior research on ethical leadership has traditionally emphasised its impact on efficiency and performance, with limited exploration of its effects on its impact in the organisation (King et al., 2010; Muresan et al., 2010; Asencio, 2019). Effective and robust leadership has frequently been linked to improved organisational performance (Covey, 2016). Moreover, previous studies, conducted within the context of leadership analysis, have underscored the role of inculcated values in shaping behaviour and overall management effectiveness (Faraz et al., 2021).

Research on ethical leadership's impact on organisational effectiveness is a subject of substantial interest, recognising its pivotal role as a driver for enhancing organisational performance (Mohammed Sayed Mostafa and Shen, 2020). Leadership, encompassing leaders' actions that influence followers and organisational activities (Onyeneke and Abe, 2021), represents a set of processes through which individuals within an organisation shape groups towards fulfilling their missions and goals (Northouse, 2012).

Previous studies have predominantly focused on the link between ethical leadership, efficiency, and performance, with the need to improve on its exploration of its influence on overall ethical culture (Lasthuizen et al., 2011; Metwally et al., 2019). Notably, effective leadership has consistently been associated with improved organisational performance, and earlier research, within the context of leadership analysis, has highlighted the pivotal role of instilled values in shaping behaviour and enhancing overall management effectiveness. In conclusion, ethical leadership emerges as a critical element in driving organisational success, particularly in terms of performance and the cultivation of values that influence behaviour and management effectiveness.

Ethical culture

Researchers have been actively studying the influence of ethical culture within organisations on their overall performance (Thoms, 2008; Kaptein, 2009, 2011). Ethical culture serves as a critical component of organisational culture, focusing specifically on the organisation's approach to encourage open innovation cultures and managing deviant behaviours, integrity violations, and both ethical and unethical conduct (Paine, 1994; Robinson and Bennett, 1995; Kaptein, 2011; Matricano, 2018; Zahari et al., 2019; Zahari et al., 2019; Nestle et al., 2019).

Studies on organisations have implemented surveys related to ethical culture and ethical climate to assess these two dimensions (Silvija and Ksenija, 2012). Their findings indicate that organisations with a stronger ethical culture tend to exhibit higher levels of ethical climate compared to those with weaker ethical cultures. Another investigation focusing on ethical culture, involving a group of accountants, demonstrated its potential influence on their anticipated moral behaviours and decision-making (Douglas et al., 2001). There are also established connections between a negative ethical culture and undesirable outcomes, such as indifference to wrongdoing and detrimental behaviours within a community (Kaptein, 2011; Kangas et al., 2015). The study involving public sector employees revealed that a heightened ethical culture enhances organisational effectiveness in deterring breaches of integrity (Kangas et al., 2015). In scenarios where a strong level of ethical culture appears, it discourages negative behaviours that could lead to integrity violations (Shafer and Simmons, 2011; Liu et al., 2017). This underscores the significant impact of ethical culture levels on the moral compass of both individuals and groups within an organisation.

Ethical culture pertains to the collective organisational values that are upheld and reinforced through ethical principles (Key, 1999; Douglas et al., 2001; Vardi, 2001; Suh et al., 2018). Prior research has indicated that maintaining strong levels of ethical culture is integral for ensuring the efficiency of an organisation (Bowrin, 2004; Smith et al., 2018; Waheed and Zhang, 2022). Similarly, a high prevalence of ethical cultural values exerts a positive influence on the organisational climate, subsequently enhancing the working conditions for employees (Silvija and Ksenija, 2012; Al Halbusi et al., 2022). This highlights the significance of studying ethical culture, as previous research has shown that a more robust ethical culture is associated with a reduced occurrence of integrity violations within the organisation (Kangas et al., 2015).

Research on the impact of ethical culture within organisations has been the subject of extensive investigation in the context of ESG (Environmental, Social, and Governance) and sustainability (Saha et al., 2020; Sarwar et al., 2020; Lu and Wang, 2021). Ethical culture plays a crucial role in shaping organisational conduct, particularly in managing deviant behaviours, integrity violations, and ethical conduct (Webb, 2012; Martin et al., 2013). Studies conducted on various organisations have employed surveys to evaluate both ethical culture and ethical climate, revealing that organisations with strong levels of ethical cultures tend to exhibit higher levels of ethical climate (Key, 1999; Douglas et al., 2001; Vardi, 2001; Suh et al., 2018). Additionally, research involving accountants has highlighted the potential influence of ethical culture on their anticipated moral behaviours and decision-making, indicating its relevance within ESG and sustainability frameworks. Furthermore, there is a well-established link between negative ethical cultures and undesirable outcomes, including indifference to wrongdoing and detrimental behaviours within the organisational community. In the public sector, strong levels of ethical culture have been shown to enhance organisational effectiveness in preventing integrity violations, emphasising its relevance within ESG and sustainability efforts. The prevalence of ethical cultural values also positively impacts the organisational climate, improving working conditions for employees. These findings highlight the importance of investigating and promoting ethical culture within organisations to align with ESG and sustainability goals, as it has been associated with a reduced occurrence of integrity violations.

Integrity violations (ESG compliance)

This study focuses on integrity violations that are related to ESG-related areas. Integrity violations within organisations are a part of the range of unethical behaviours, including those related to ESG (Environmental, Social, and Governance) principles (Bach et al., 2017; Sultana et al., 2018). This study hypothesises that ethical leadership, which includes the promotion of ethical values and ESG principles, negatively influences integrity violations. In other words, as the level of

ethical leadership increases, the incidence of Integrity Violations (including ESG-related violations) decreases. Ethical leaders are expected to set a moral tone, promote fairness, and demonstrate integrity, which should discourage unethical behaviours, including ESG-related violations.

H1. There will be a significant and negative relationship between ethical leadership and Integrity Violations (including ESG-related violations).

Ethical Culture represents the overall ethical values and practices within an organisation (Kolthoff et al., 2010; Webb, 2012; Kangas et al., 2015; Metwally et al., 2019). This hypothesis reflects that a strong ethical culture has a negative impact on integrity violations, including those related to ESG. Ethical culture fosters an environment where ethical conduct is valued and unethical behaviour is discouraged. As a result, organisations with a strong Ethical Culture are expected to have fewer integrity violations, including ESG-related violations.

H2. There will be a significant and negative relationship between ethical culture and integrity violations (ESG compliance).

This conceptual framework aims to investigate the relationships between ethical leadership, ethical culture, and integrity violations, including violations related to ESG principles. By examining these relationships, the study seeks to shed light on the role of leadership and organisational culture in shaping ethical behaviours and ESG compliance within organisations.

Method

The research design provides the systematic framework through which data will be collected, analysed, and interpreted, bringing the researchers to the findings of the research questions and test the hypotheses effectively (Clark et al., 2008; Creswell and Creswell, 2017; Bloomfield and Fisher, 2019). In this particular study, a quantitative research method will be employed, utilising surveys and statistical techniques to gather, analyse and bring forward the interpretation of the data. Quantitative research is chosen for its ability to provide structured, numerical data that can be statistically examined, offering valuable insights into the relationships between variables. This method allows us to explore the impact of ethical leadership and ethical culture on integrity violations (including those related to ESG principles) with a focus on understanding the strength and direction of these associations. The use of quantitative research methods enables the study to generate empirical evidence and contribute to the existing body of knowledge within the field of organisational ethics, leadership, and ESG compliance. The investigation of the study's variables, including ethical leadership, organisational culture, and integrity violations related to ESG compliance, requires a quantitative approach to establish statistical relationships and patterns as aligned with prior works using similar research approach (Derecskei, 2016; Tuurnas et al., 2019; Zhang et al., 2021).

The questionnaire developed for this cross-sectional study comprised items from studies that had thoroughly established the grounds for defining ethical leadership and ethical culture. This study's distinctiveness lies in its creation of frameworks for assessing overall integrity violations while also highlighting the organisations' capacity for ESG compliance. In other words, this research uniquely developed structured frameworks that not only measure the extent of ethical breaches but also shed light on the organisations' ability to adhere to ESG (Environmental, Social, and Governance) standards. This dual focus allows for a comprehensive evaluation of an organisation's ethical behaviour, encompassing both traditional integrity violations and those related to ESG principles. By doing so, the study provides a holistic view of an organisation's ethical performance and its alignment with broader ESG objectives. Tables 1–5.

Ethical leadership values are argued to be an always-developing area of research and development (Treviño and Brown, 2007). This would be

Table 1
Measurements.

Variables	Description	Reference
Ethical Leadership	Dimension: Role Modelling (The leaders in my organisation....) <ul style="list-style-type: none">• can be trusted• listen to everyone's opinion (moral tone)• communicates the values and principles that are ethical• acts in an ethical, responsible way	(Linda KlebeTreviño and Brown, 2007;Schaubroeck et al., 2012;Kasemsap, 2016)
	Dimension: Ethical decision making (The leaders in my organisation....) <ul style="list-style-type: none">• listen to employees• are fair and just decision-makers• takes ethical and fair action when there are unethical conducts• makes ethical, just and fair decisions	
	Dimension: Supportability (In my organisation...) <ul style="list-style-type: none">• everyone is committed to the (stipulated) norms and values of the organisation• an atmosphere of mutual trust prevails• everyone has the best interests of the organisation at heart• the mutual relationship of trust prevails between employees and management	
Ethical Culture	Dimension: Transparency (In my organisation...) <ul style="list-style-type: none">• If a colleague does something which is not permitted, my manager will find out about it• If a colleague does something which is not permitted, I or another colleague will find out about it• If I criticise other people's behaviour, I will receive feedback on any action taken as a result of my criticism• adequate checks are carried out to detect violations and unethical conduct	(Kaptein, 2008a; Kaptein, 2008b;Kalshoven et al., 2011;Schnackenberg and Tomlinson, 2016)
	Dimension: Environment focusing on climate change(In my organisation...) <ul style="list-style-type: none">• there are attempts to promote carbon emissions-reducing activities• the people are practising environmental management• has performance management and evaluation system for environmental management• people use eco-friendly products	
	Dimension: Integrity violations (ESG compliance)	

Table 1 (continued)

Variables	Description	Reference
	Dimension: Social focusing on human rights(In my organisation....) <ul style="list-style-type: none">• there is strong employment stability.• Social governance and performance are linked together• Promotes and carries out social donation• There are social responsibility (CSR) activities for communities	
	Dimension: Governance focusing on bribery and corruption(In my organisation...) <ul style="list-style-type: none">• There exist activities of accepting bribes• There is an abuse of power• There are people using organisational resources for personal benefits• There are people using organisation's funds without proper process	

Source: Author's own creation based upon prior works of literature. Brief Description:The table represents the measurements used within the study. Source(Authors):(Linda Klebe Treviño and Brown, 2007; Kaptein, 2008a; Kaptein, 2008b; Kalshoven et al., 2011; Schaubroeck et al., 2012; Kasemsap, 2016; Schnackenberg and Tomlinson, 2016)

Table 2
Factor Loadings.

	Ethical Culture	Ethical Leadership	Integrity Violation (ESG Compliance)
ECS1	0.716		
ECS2	0.828		
ECS3	0.864		
ECS4	0.86		
ECT1	0.84		
ECT2	0.801		
ECT3	0.815		
ECT4	0.855		
ELEDM1		0.755	
ELEDM2		0.838	
ELEDM3		0.711	
ELEDM4		0.833	
ELRM1		0.852	
ELRM2		0.884	
ELRM3		0.884	
ELRM4		0.825	
IVBRI1			0.838
IVBRI2			0.822
IVBRI3			0.724
IVBRI4			0.824
IVCLI1			0.731
IVCLI2			0.77
IVCLI3			0.74
IVCLI4			0.691
IVHR1			0.789
IVHR2			0.725
IVHR3			0.691
IVHR4			0.634

Source: Authors estimation.

due to ever-changing conditions and the environment of the practices of social acceptance within the society. There are times when social responsibility was the overall focus, that had shifted to social governance in organisations especially involving ESG areas of interest. Items used in

Table 3
Construct reliability and validity.

Variable	Cronbach's alpha	Composite reliability (rho_a)	Composite reliability (rho_c)	Average variance extracted (AVE)
Ethical Culture	0.932	0.937	0.944	0.679
Ethical Leadership	0.933	0.949	0.944	0.68
Integrity Violation (ESG Compliance)	0.929	0.938	0.939	0.563

Source: Authors estimation.

Table 4
Heterotrait Monotrait (HTMT) ratio.

	Ethical Culture	Ethical Leadership	Integrity Violation (ESG Compliance)
Ethical Culture			
Ethical Leadership	0.765		
Integrity Violation (ESG Compliance)	0.386	0.457	

Source: Authors estimation.

Table 5
Path Analysis.

Relationship	Beta	T-statistics	P values
Ethical Leadership -> Integrity Violation (ESG Compliance)	-0.079	3.943	0.000
Ethical Culture -> Integrity Violation (ESG Compliance)	-0.401	0.644	0.520

Source: Authors estimation.

supportability and transparency were adaptations of prior research constructs. These items were selected as compared to other dimensions such as congruency between management and supervisors as these were items focused on private entities or corporate ethical virtue (Kaptein, 2008a; Kaptein, 2008b). The study was focused on public sector values as these items of supportability and transparency are relevant to the discussed topic at hand.

The measurement of the ESG construct is part of various stages and multi-level demands, this study divided it into three dimensions: employee integrity violations in the environment, employee integrity violations in society, and employee integrity violations in governance. Selected items in the dimensions were selected for this study, such as prior studies on ESG compliance and practice stating that the environment consisted of climate change, social would be on human rights and governance would be consisted of bribery or corruption (Jin and Kim, 2022). Establishing these values was important in further developing the scale of evaluating this level of application in the employee as presented in the table. Prior studies had used such an approach to evaluate employee's compliance and acceptance of ESG practices (Wang and Esperança, 2023). The items are then modified and adapted to answer the inquiries brought forward by the research study integrating aspects of climate change, human rights, and bribery and corruption that are based on strong levels of integrity violations (Zahari and Said, 2019; Jin and Kim, 2022; Wang and Esperança, 2023).

Study approach

The paper investigates the impact of ethical leadership and ethical culture on integrity violations (ESG compliance). The questionnaires were adaptations as presented in the prior section which is based on

primary data from selected respondents. The study used purposive sampling of government employees from the central region or developed areas of Malaysia. The states used in the study area consisted of Kuala Lumpur, Selangor and Wilayah Persekutuan Putrajaya. These areas are considered densely populated areas that are concentrated regions of economic growth for the nation. Government organisations are widely established in these areas of development making the purpose of collecting these samples relevant and as well as objective-based (Tongco, 2007).

The government employees are respondents selected based upon purposive sampling. They are government officers who hold professional and executive positions. Focusing on government employees in these areas ensures a targeted and relevant sample for studying public sector dynamics. This enhances the study's external validity and allows for specific insights into the context of Malaysian public sector organisations. Their grades are between level 41 to level 54 and above based on the national constructs of public sector services (Publics Service Department of Malaysia, 2011; Supramaniam and Singaravelloo, 2021). The research project was first evaluated on the needed sample size, this was based on using the software G*power. Sample size determination was based on statistical power analysis to achieve adequate representation and statistical significance. The study used purposive sampling, a deliberate selection of specific participants. The use G*Power as the software was substantiated to determine the minimum required sample size.

Following established research recommendations, the study aimed for a statistical power of 0.8 and an effect size of $f^2 = 0.15$. Additionally, the predictor variable with the highest impact had a value of 3, which led to a calculated minimum sample size of 43 (Faul et al., 2007). To enhance the reliability of the research model, the researchers were strongly inclined to increase the sample size significantly, with a recommendation of between 80 and 100 respondents (Al-Subaihi, 2003). There were around 300 surveys that were sent out to government employee's email and 155 responded representing a return rate of 51.6 per cent. Thus achieving the needed minimum sample size for the study. Fig 1.

The selection of PLS as the modeling technique is strategic. PLS is well-suited for studies with smaller sample sizes and complex models, offering flexibility in handling latent variables and capturing the context of the relationships. Given the research objectives, PLS allows for a thorough examination of the interdependencies among key variables. This methodological choice aligns with the study's goal of providing an overall understanding of the dynamics within the public sector's ethical landscape and its implications for sustainability and governance. The most recent software, Smart-PLS version 4, was employed to assess the reliability of the data and establish connections between the variables. This software is a powerful tool known for its ability to conduct in-depth data analysis, even with substantial sample sizes, using complex frameworks (Wong, 2013b; Wong, 2013a; Ringle et al., 2015). In this study, the dependent variable is integrity violations with a specific focus on ESG (Environmental, Social, and Governance) Compliance, while the predictors considered are ethical leadership and ethical culture. Prior studies had used PLS as an approach to evaluate ethical culture and relevant context on organisational behaviours (Zahari et al., 2019a; Zahari et al., 2019b; Mostafa and Abed El-Motalib, 2020; Wang and Esperança, 2023).

Though there are limitations that are addressed within the research approach and population sampling. The sample consisting of government employees in the targeted region, may introduce potential selection bias, limiting the broader applicability of findings beyond this specific region, this was addressed by the minimum sample and statistical tests required to conduct the overall study and its results acceptance (Faulet et al., 2009). The cross-sectional nature of the study poses a challenge in establishing causality, as temporal changes in ethical leadership, organisational culture, and integrity violations cannot be tracked over time. This of course connects to the reason of the

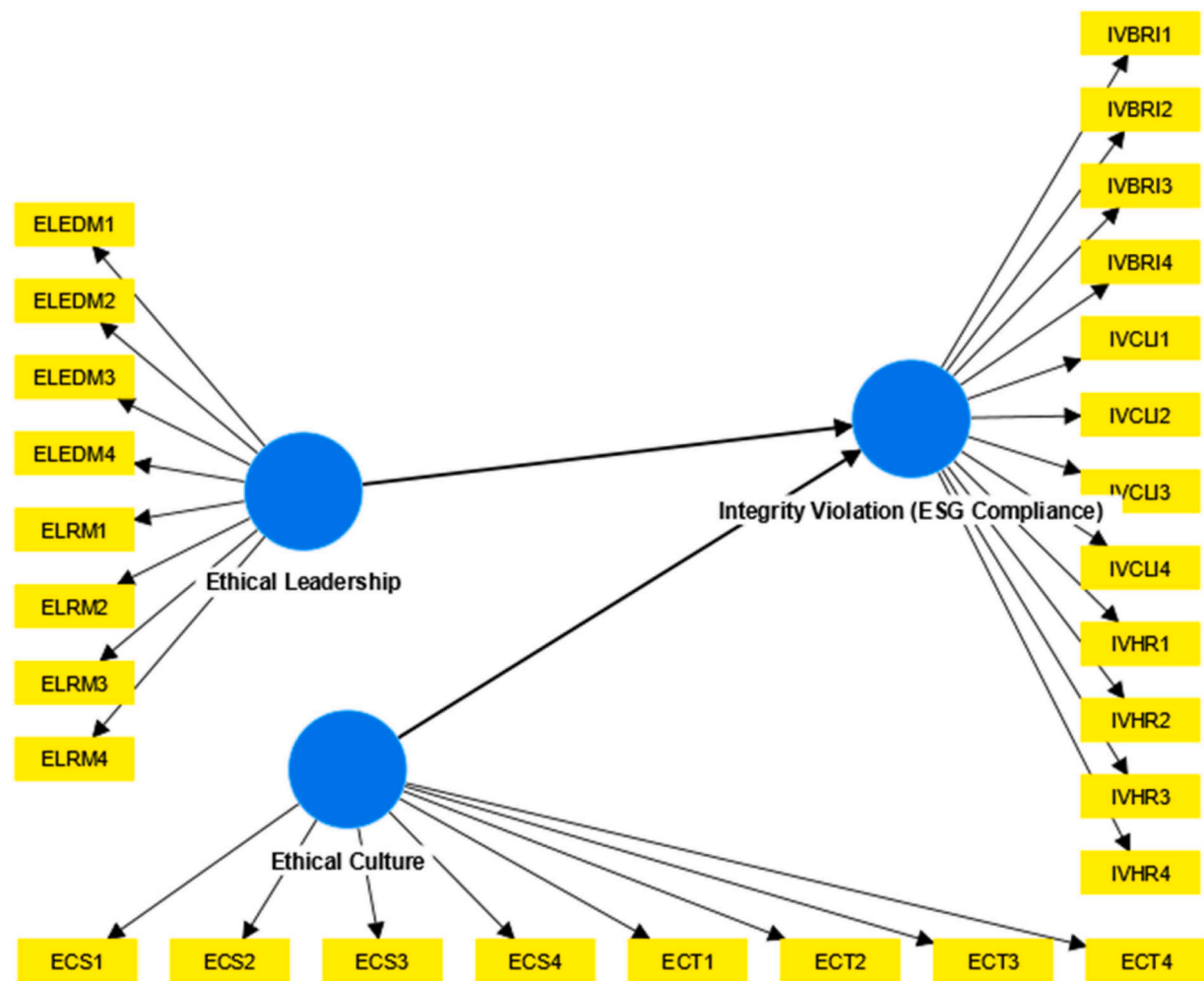


Fig. 1. Designed structural modelSource : Authors own assessment.

justifications of such areas of study as organisational behaviour would and always be a matter of current and future discussions. Transparency about these limitations ensures more clarity in the interpretation of the study’s results and guides future possible research.

Study findings

The data obtained shows sufficient results in order to ascertain the research hypothesis. The factor loadings in the table show that it has a value of above > .40 which has sufficient representation of the underlying construct (Ringle et al., 2015). The following table of construct reliability and validity shows that Cronbach’s alpha (>.70), composite reliability (>0.40) and average variance extracted (AVE) (>0.50) satisfy the overall data reliability and validity constructs (Wong, 2013b; Wong, 2013a). The evaluation of the discriminant validity related to the correlations based on the Heterotrait Monotrait (HTMT) ratio in the table shows that it has a value of lower than 0.90 indicating that it has low levels of correlation between variables and valid discriminant validity.

The results in the table related to the path analysis revealed that ethical leadership has a negative and significant linkage with integrity violations (ESG compliance) leading to the acceptance of H1. Other than that, ethical culture has a negative but insignificant linkage with integrity violations (ESG Compliance) resulting in the rejection of the second hypothesis H2.

Discussion and conclusion

The findings from the path analysis of the data presented in the table presented valuable insights into the relationship between ethical leadership, ethical culture, and integrity violations, particularly in the context of ESG (Environmental, Social, and Governance) compliance. The first significant result is the negative linkage between ethical leadership and integrity violations (ESG compliance). This result aligns with the accepted hypothesis (H1) and suggests that organisations with strong ethical leadership practices tend to exhibit lower levels of integrity violations related to ESG compliance. Ethical leaders, characterised by trustworthiness, active listening, and ethical decision-making, contribute to an organisational culture where adherence to ESG principles is prioritised. They lead by example and communicate ethical values, fostering a climate where unethical behaviours, especially those about ESG issues, are discouraged. This finding importantly highlights the role of ethical leadership in promoting ESG compliance and ethical behaviour within organisations that are in line with findings of previous studies (Krambia-Kapardis et al., 2023; Páez Gabriunas, 2023). The study was able to show empirical results in such a relationship between ethical leadership and fostering positive ESG practices.

On the other hand, the analysis reveals a negative but statistically insignificant linkage between ethical culture and integrity violations (ESG compliance). This outcome contradicts the second hypothesis (H2), suggesting that while ethical culture is associated with various dimensions such as supportability and transparency, it does not have a

significant impact on reducing integrity violations related to ESG compliance. It's important to note that a lack of statistical significance does not negate the importance of ethical culture as prior studies have highlighted the importance of ethical culture (Lasthuizen et al., 2011; Silvija and Ksenija, 2012; Gill et al., 2023). A strong ethical culture, characterised by trust and adherence to organisational values, may still contribute to overall ethical behaviour and ESG compliance. However, this result implies that the specific dimensions of ethical culture measured in this study may not be directly linked to ESG-related integrity violations. Further research may be needed to explore the nuanced relationship between ethical culture and ESG compliance in greater detail.

These findings underscore the significance of ethical leadership as a powerful driver in reducing integrity violations, especially those related to ESG compliance. Ethical leaders play an important role in the engagement of an ethical organisational climate where ESG principles are embraced, contributing to a more responsible and sustainable approach in organisations. While the results regarding ethical culture were statistically insignificant, it's essential to recognise the potential indirect influence of ethical culture on ESG compliance and explore the multifaceted nature of these relationships in future research.

The connections that can be observed align with the theoretical framework discussed in the study, particularly in the context of ethical behaviour, ESG (Environmental, Social, and Governance) compliance, and the interplay between leadership and organisational culture. Organisational Based Theory is concerned with understanding how organisational structures, practices, and culture influence behaviour within an organisation. In this study, the results shed light on how ethical leadership and ethical culture impact integrity violations, including those related to ESG compliance, thereby providing valuable insights into the dynamics of organisational behaviour and compliance with ESG principles similar to past studies approach (Markopoulos et al., 2020; Prakash, 2020).

The results of the study align with the core principles of organisational-based theory, which underscores the influence of leaders in setting the tone for ethical conduct within an organisation (Staicu et al., 2013). Ethical leaders, as identified in this study, are not only trustworthy but are also expected to promote ethical values and decision-making. Previous works of literature have highlighted the importance of having ethical leaders in the organisation (Paine, 1994; Dickson et al., 2001; Freire and Pinto, 2021). They serve as role models and communicators of these values, creating an environment where adherence to ESG principles is encouraged. This result underscores that leadership is a fundamental determinant of how an organisation responds to ESG challenges and responsibilities, in line with Organisational Based Theory's emphasis on the impact of leadership on organisational behaviour.

Conversely, the insignificance of the relationship between ethical culture and integrity violations (ESG compliance) raises questions about the impact and dynamics within organisational cultures. Organisational Based Theory often highlights the role of organisational culture in shaping behaviour, and the dimensions of ethical culture examined in this study, such as supportability and transparency, are considered essential in fostering ethical behavior (Kaptein, 2011; Shafer and Simmons, 2011; Webb, 2012). The lack of statistical significance suggests that the direct impact of these dimensions on ESG compliance may be more complex or may involve other mediating factors. This finding encourages further exploration within the context of the theory to understand how different aspects of organisational culture can contribute to ESG compliance, either directly or indirectly.

In conclusion, this study's results offer a significant contribution to the overall understanding of organisational behaviour by emphasising the central role of ethical leadership in promoting ESG compliance and reducing integrity violations. It underscores the importance of leadership in setting the ethical tone and behaviour within organisations, aligning with the principles of this theoretical framework. However, it

also underscores the need for a more nuanced investigation to fully grasp how various dimensions of organisational culture contribute to ESG compliance. These findings provide a valuable foundation for future research and offer practical insights for organisations seeking to foster responsible, sustainable, and compliant behaviour within the context of ESG principles.

Implications of the study

The implications of this study are significant for public sector organisations, policymakers, and the broader academic community. For public sector organisations, the findings underscore the critical importance of ethical leadership in reducing integrity violations, including those related to ESG compliance. Encouraging leaders to have open innovation dynamics and open innovation culture through the integration of ethical values, promote fairness, and maintain transparent communication can significantly contribute to fostering an ethical work culture and ensuring compliance with ESG principles (Prud'homme van Reine, 2015; Yun et al., 2020; Srisathan et al., 2020; Vinichenko et al., 2021). Public sector organisations should prioritise the integration of ESG principles into their core operations, as this not only aligns with global sustainability goals but also enhances governance and public trust. The absence of statistical significance in the direct impact of these dimensions on ESG compliance implies a complexity in their relationship or potential involvement of other mediating factors. This highlights the need for further potential exploration within the theoretical framework to unravel how various factors or input of organisational culture may contribute to ESG compliance, either through direct influence or mediated pathways. Further research can shed light on the components or framework ensuring a sustainable and responsible organisational practices.

Policymakers can draw valuable insights from this study to develop regulatory frameworks that would be able to reinforce ESG compliance. By offering rewards for ESG compliance and imposing penalties for violations, policymakers can create a supportive regulatory environment that encourages public sector organisations to prioritise ESG considerations. Additionally, investing in leadership and ethical training programs for public sector employees and leaders can further enhance ethical behaviour and promote ESG awareness within the sector.

For the academic community, this study highlights the need for more explored research into the relationship between ethical culture and ESG compliance. Future research should delve into specific dimensions of ethical culture to gain a deeper understanding of their impact on ESG-related integrity violations. Longitudinal studies can track the evolution of ethical leadership, ethical culture, and ESG compliance over time, providing insights into trends and long-term effects within public sector organisations. Overall, this study offers practical insights that can contribute to the creation of more responsible, sustainable, and compliant public sector organisations that align with ESG principles and societal expectations.

Policy recommendations

The study of ethical culture and leadership for sustainability and governance in public sector organizations within the ESG Framework serves as an important outlay for mitigating unethical behavior and fostering ESG values. This study highlights the strong role that represents ethical leadership towards influencing ESG compliance. While the current findings suggest a non-significant association between existing ethical culture and ESG Compliance, it is imperative for policymakers and managers to recognise the potential value of ethical culture in shaping the implementation and effectiveness of ethics programs and having strong ethical leaders (Ouakouak et al., 2020). Therefore, we recommend a strategic focus on enhancing ethical leadership practices and cultivating a robust ethical culture to improve the effectiveness of ESG governance. This not only aligns with sustainable development

goals but also calls for further research to explore the intricate contributions of ethical leadership and culture in fortifying ESG governance for a sustainable organisational development.

Study limitations

While this study provides valuable insights into the relationship between ethical leadership, ethical culture, and integrity violations (including ESG-related violations) in public sector organisations, it is essential to acknowledge its limitations. First, the research may face limitations related to sample representativeness. The study focused on a specific group of government employees in a developing nation such as Malaysia, which might not fully represent the diversity or complexity of public sector organisations. The findings can be argued to have relativity with the public sector organisations in different regions or those with distinct cultural and contextual backgrounds that can be further explored. The conditions or economic activities between nations or regions may vary.

The limitation of this study can be related to the use of self-reported data through questionnaires. While surveys are a common and practical method for data collection, they can be susceptible to self-reporting bias (Jones and Lang, 1980). Respondents may provide answers that they perceive as socially desirable or in line with organisational expectations, potentially leading to an overestimation of ethical leadership and culture, as this study tested the data and shows the level of data integrity. Additionally, the study relies on the respondents' subjective perspectives, and objective measures of integrity violations and ESG compliance were not directly observed as it is based on a survey. Future areas of research could consider incorporating more objective data sources, such as organisational records or third-party assessments, to provide a more comprehensive view of these variables and mitigate potential bias in self-reporting that can further provide triangulation of the information.

Ethical approval and consent to participate

Ethical approval is not applicable. Before taking part in the survey, participants signed a consent form giving permission to use their participation data for the analysis.

Statements on compliance with ethical standards

The author(s) would like to thank the Malaysian Ministry of Higher Education, the university (UiTM Shah Alam), department (Accounting Research Institute), government agencies that participated and supported this research. The author(s) declare that they have no conflict of interest. All procedures performed in studies involving human participants were in accordance with the ethical standards of the institutional and/or national research committee and with the 1964 Helsinki declaration and its later amendments or comparable ethical standards. Informed consent was obtained from all individual participants included in the study.

Statement of human and animal rights

This article does not contain any information on animal and human subjects under the Bioethics Act.

Statement of informed consent

Signed and agreed informed consent was obtained from the respondent (s) for their anonymised information to be published in this article.

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CRedit authorship contribution statement

Afzal Izzaz Zahari: Drafting, Conceptualization, Visualization, Software. Writing – original draft, Investigation. **Jamaliah Said:** Supervision, Methodology. **Nurisyah Muhammad:** Data curation, Writing – original draft. **Suhaily Mohd Ramly:** Software, Validation, Writing – review & editing.

Declaration of Competing Interest

The authors declare that they have no known competing financial interests or personal relationships that could have appeared to influence the work reported in this paper.

Data Availability

All data used for this project are available on request from the corresponding authors. The data are not publicly available due to involving sensitive information discussed during the interview. Selected sections can be requested in order to not compromise the privacy of the research participants.

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Ethical culture and leadership for sustainability and governance in public sector organisations within the ESG framework

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Abstract

Purpose: The purpose of this study is to explore how ethical leadership behaviours within government organisations impact the development and sustainability of a positive organisational culture, which, in turn, has implications for ESG alignment. **Design/methodology/approach:** A survey was conducted with 155 government employees in the Central region of Malaysia, utilising a validated questionnaire covering ethical leadership behaviours, ethical culture, and integrity violations related to ESG compliance. The collected data were subjected to analysis using Smart PLS to examine the hypothesised relationships and assess the model fit. **Findings:** The study's findings established the role of ethical leadership in reducing integrity violations, particularly in the context of ESG compliance. Ethical leaders contribute to a culture where adherence to ESG principles is prioritised. However, the analysis did not find a statistically significant direct link between ethical culture and integrity violations related to ESG compliance, suggesting the need for further exploration of this relationship in

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future research. Research limitations/implications: The study faces limitations related to sample representativeness and self-reporting bias. The findings are context-specific to the Malaysian public sector, and generalisation to other settings should be approached with caution. Nevertheless, the implications of these limitations have broad relevance for understanding the interplay between ethical leadership and ESG alignment. Practical implications: The results of this study offer practical insights for public sector leaders and policymakers in Malaysia who aim to enhance their ESG performance. Understanding the role of ethical leadership in shaping organisational culture not only fosters a more ethical and positive work environment but also guides leadership development programs and strategies geared towards ESG alignment. Originality/value: This study adds value to the existing literature by examining the specific context of the Malaysian public sector and by emphasising the relationship between ethical leadership and organisational culture within the ESG framework. The use of Smart PLS as an analytical tool enhances the robustness of the analysis, making the findings especially valuable for public sector organisations looking to enhance their ESG alignment through ethical leadership. © 2024 The Authors

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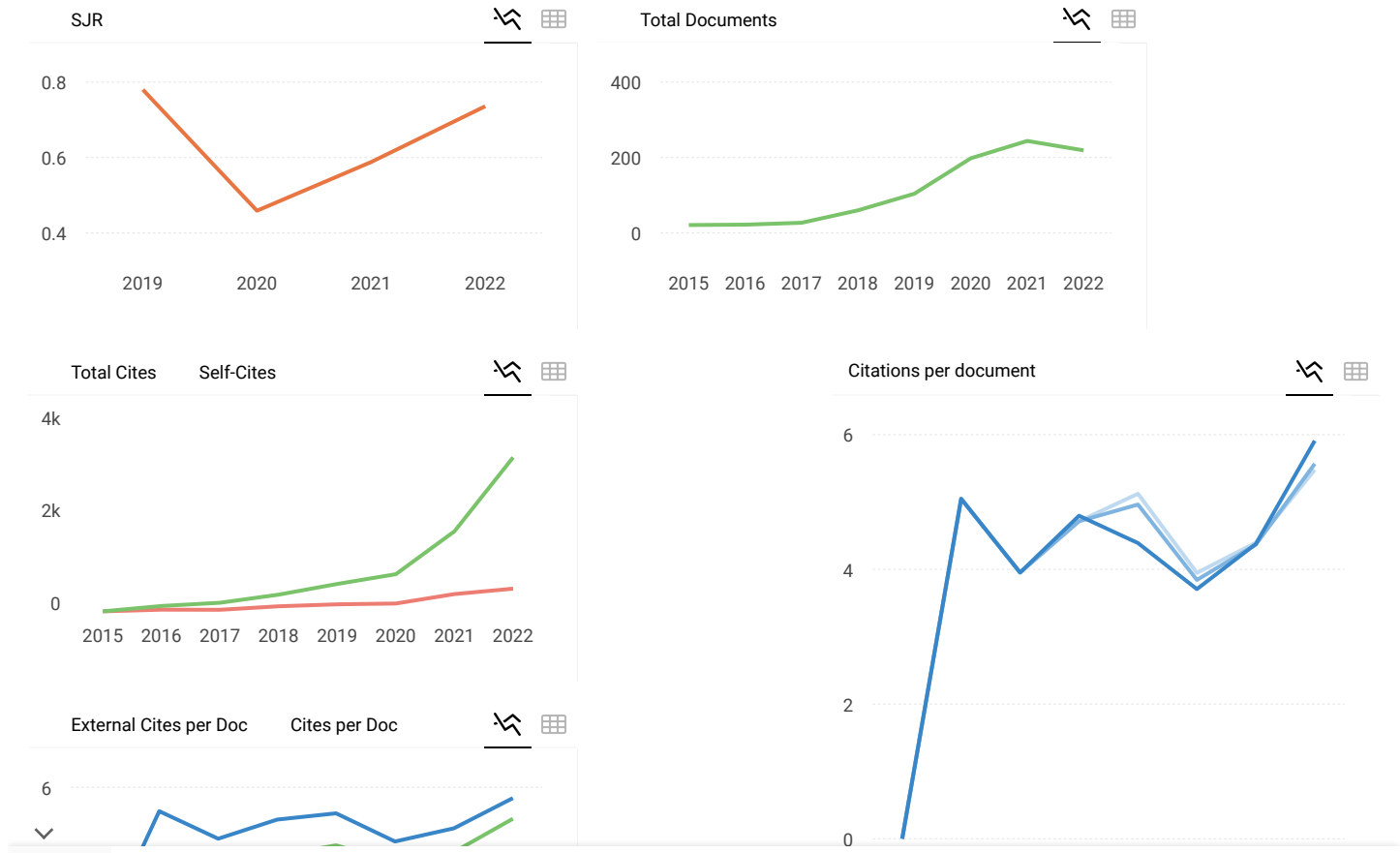
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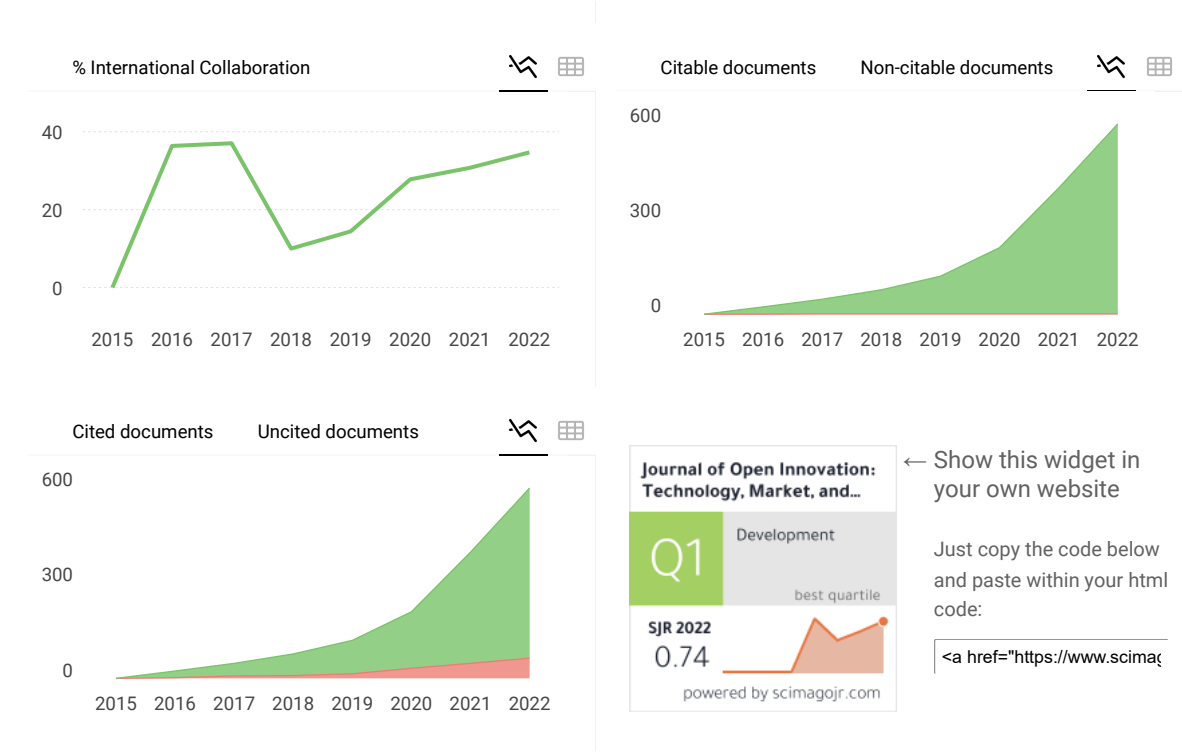
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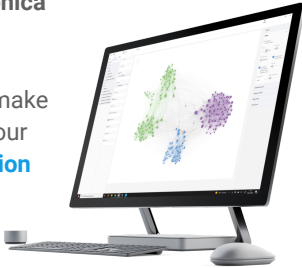
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