

Building Sustainable Public Sector Performance through Ethical Culture: The Sequential Mediating Roles of ESG Compliance

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Abstract

Public sector organizations are under increasing pressure to ensure sustainability, transparency and accountability, and to increase organizational performance. The research method used in this study was a quantitative research method with a cross sectional approach. The subjects of this study were employees of public sector institutions. An instrument with a 5-point Likert scale was employed to measure Ethical Leadership, Ethical Culture, Ethical Climate, ESG Compliance and Public Sector Performance. Data Analysis was done with Partial Least Squares Structural Equation Modeling (PLS-SEM) software developed by SmartPLS 4. Prior to hypothesis testing, a structural model assessment, discriminant validity testing and reliability and validity testing were performed. The findings showed that Ethical Leadership had quite a significant influence on the Ethical Climate (sineerift model, $\beta=0.510$, $P\text{-value}<0.001$), and of course it was also found that Ethical Culture influenced the Ethical Climate with a significant value in both (sineerift model, $\beta=0.411$, $P\text{-value}<0.001$). Ethical Climate had a significant positive effect on ESG Compliance ($\beta=0.822$, $p<0.001$), while ESG Compliance had a significant positive effect on Public Sector Performance ($\beta=0.825$, $p<0.001$). The model accounted for 76.8% of the variance in the Ethical Climate, 67.5% of the variance in the ESG Compliance, and 68.1% of the variance in the Public Sector Performance. Furthermore, the mediation analysis supported for the presence of indirect and sequential indirect effects between the constructs of the study. This research builds upon the Ethical Climate Theory, and it integrates ethical leadership, ethical culture, ethical climate, ESG compliance and public sector performance in one research framework. The results do provide proof of the role of ethical climate and ESG compliance as two key "mediating" factors by which ethical organizational values are acted upon to produce sustainable governance outcomes.

Keywords: The Ethics Matter in Public Sector Because Ethical Leadership, Ethical Culture and Ethical Climate, Esg Compliance Drive The Public Sector Performance and Sustainability As Per Ethics Climate Theory and Pls-Sem Techniques.

Introduction

Recently the attention to improve sustainability, transparency and accountability in government and public sector organisations has been increased by the increase in stakeholders' expectations and global sustainability agendas (Zahari et al., 2024; AlHares, 2025). Environmental, Social and Governance (ESG) compliance has become a relevant concept for the management of public entities towards the adoption of a sustainable and responsible governance (Wacławik et al., 2025; Zhu et al., 2025). While previous performance indicators are generally centered on efficiency and service provision, those that align with ESG are more concerned with ethical business practices, environmental initiatives, social responsibility considerations, and open governance strategies (Zahari et al., 2024; Wacławik et al., 2025). In this particular context, the notion of ethical leadership and of ethical culture has emerged as a key factor that influences the ethical climate and is a determining element for the success of ESG initiatives (Hosain, 2025; Zahari et al., 2024). Ethical leaders act in ways that are fair and honest, and responsible, and ethical cultures create a collectively established set of norms and values among public institutions that foster responsible decision making (Brown & Treviño, 2006; Kaptein, 2008). Recent evidence indicates that robust ethical management and culture are key to organizations successfully reaching sustainability goals and building trust from stakeholders and investors by implementing effective ESG strategies (Zhu et al., 2025; AlHares, 2025; Hosain, 2025). Moreover, ethical climate is a vital factor for operationalizing leadership and cultural values that lead to behaviors conducive to ESG compliance and overall performance of the public sector (Zahari et al., 2024; Wacławik et al., 2025). Knowledge about relationships between the factors of ethical leadership, ethical culture, ethical climate, ESG compliance, and public sector performance is more relevant than ever for academics and policy-makers looking to develop public sector institutions that are sustainable and resilient enough to face the challenges of modern governance (Wacławik et al., 2025; Zahari et al., 2024).

The public sector is facing major change as governments across the globe seek to adopt governance approaches that embrace greater sustainability to help meet environmental, social and demands for greater accountability. In recent years, the use of so-called Environmental, Social and Governance (ESG) guidelines in public administration has developed into a strategic policy of an institution to ensure increased transparency, ethical behavior, and long-term effectiveness (Wacławik et al., 2025; OECD, 2024). As the driver of compliance, it is evident that public sector organizations are increasingly valued for their role in implementing the Durban platform for Sustainable Development Goals and carrying out resource management and public service delivery, in this regard the management of the SDGs has become a priority for governments and regulators (United Nations, 2024; Zahari et al., 2024). In the past few years, sustainability criteria such as ethics and good governance, climate change, and social inclusion have been promoted as shortcomings in sustainable public management (KPMG 2023; Wacławik et al. 2025). Second, public institutions need to take measures for transparency and accountability to meet the expectation of their stakeholders, which has motivated them to adopt ESG frameworks to improve the performance of their organizations in order to bring public trust and legitimacy. Further, the increased expectations of public institutions for transparency and accountability have given rise to a proliferation of public institutions implementing ESG frameworks, both to gain greater organizational performance and to gain trust and legitimacy among the public (PwC, 2023; Zahari et al., 2024). The functions of the public sector ESG industry are rapidly changing from a purely compliance based function to a full-fledged governance framework that assists sustainable public sector performance and institutional resilience for a more complex global context.

While the importance of environmental, social, and governmental (ESG) practices has been progressively integrated into governmental institutions, there continues to be an issue with how many government-related bodies are successfully able to measure or track these practices to

achieve actual performance outcomes that support sustainable development goals. Although the adoption and implementation of ESG principles in public sector institutions have seen increasing attention, the private governance of these principles in public sector institutions within developing nations is less explored, especially one that still faces governance, transparency and accountability challenges (Wacławik et al., 2025; Zahari et al., 2024). Past research indicates that ethical leadership and ethical culture contribute significantly in shaping responsible organizational behavior, but little empirical evidence clarifies the interplay between the two and the respective effects on public sector performance and, specifically, the level of ESG compliance (Gill et al., 2023; Krambia-Kapardis et al., 2023). Moreover, existing studies focused mainly on ethical leadership, ethical climate and ethical practices regarding ESG, with no attempt to understand how ethical values became manifested in sustainable organizational outcomes (Brown & Treviño, 2006; Kaptein, 2008). There is therefore a lack of knowledge about the impact of ethical leadership and ethical culture on ethical climate, on ESG compliance and on its role in achieving future sustainable public sector performance. Solving this problem is a critical element to building evidence-based governance strategies to improve the institutional effectiveness, trust and sustainability of government organisations.

Literature Review

The concepts of ethical climate, ethical culture, ethical leadership, ESG compliance and public sector performance have become key concepts in current research on public administration and sustainability. Ethical Leadership is defined as the behaviors and acts of an individual leader that model normatively appropriate conduct, are characterized by honesty, equity, and ethical decision making and impact the behavior of employees and the climate of the organization (Brown & Treviño, 2006). Ethical culture is the set of value, norm, or behaviors that is shared and expected by members of an organization that supports ethical behavior of employees, while ethical climate is employees' perception of what is deemed acceptable ethical behaviors within an organization (Kaptein, 2008; Zahari et al., 2024). Recent research studies have suggested that ethical leadership has a marked impact on the development of ethical culture and climates which, in turn, help shape transparency, accountability and good governance practices (Gill et al., 2023; Krambia-Kapardis et al., 2023; Zahari et al., 2024). These principles have gained more visibility within public sector institutions as key factors in public sector sustainability processes and in governance reforms in the search for better institutional efficiency and public trust (Wacławik et al., 2025).

Environmental, Social, Governance (ESG) compliance has evolved into a business strategy for public organizations to show their dedication to sustainability concerns, social responsibility and clear governance. ESG compliance implies various practices of environmental stewardship, social inclusion and governance accountability, which connect organizational actions with the broader society in line with the expectations of society (Wacławik et al., 2025; Zahari et al., 2024). A few recent studies have shown that companies with high ethical climates were more likely to effectively put measures in place that conform to ESG principles, leading to better operational outcomes of efficiency, transparency and long-term performance (AlHares, 2025; Zhu et al., 2025; Hosain, 2025). An ESG compliant public sector promotes better service provision, public trust in public services and public-sector legitimacy, which boosts overall performance of public sector (Wacławik et al., 2025). Although increasing body of scholarship has explored these relationships, little empirical study has focused on the sequential nature of ethical leadership, ethical culture, ethical climate, ESG compliance and public sector performance, thus warranting future research on the dynamic links among them (Kaptein, 2008; Brown & Treviño, 2006).

Theoretical Foundation

Ethical Climate Theory

Ethical Climate Theory (Victor and Cullen, 1988) offers a much-needed framework for understanding the influence of organizational environments on employee ethical decision-making and behaviour. The theory proposes that an organization's policies, leadership and culture shape employee's perceptions of what is ethical or unethical within the organization. These shared perceptions create an organizational perspective of ethics that inform decision making and influence organizational results. In public sector organizations, ethical leadership and ethical culture are often seen as key antecedents which set and reinforce ethical climates with values of integrity, transparency, accountability and fairness (Zahari et al., 2024; Gill et al., 2023). Recent research shows that a positive ethics climate contributes to the good conduct of employees, the efficiency of the internal control system, and adherence to related laws and standards (Krambia-Kapardis et al., 2023; Waclawik et al., 2025). In addition, the creation of sustainability and ESG-related research has led to an increased use of Ethical Climate Theory because ethical organizational climate affects the way employees act towards the environmental, social and governance responsibilities (AlHares, 2025). Hence, the theory offers an appropriate basis to comprehend the processes of ethical behaviours that are vital for the sustaining performance of organisations.

Based on the theoretical lens provided by the Ethical Climate Theory as a framework for understanding the relationships between ethical leadership, ethical culture, ethical climate, ESG compliance, and public sector performance, a robust research framework was established. The present study used the theoretical lens provided by the Ethical Climate Theory as an underpinning theory to help the researcher develop a robust research framework to explain the relationship between ethical leadership, ethical culture, ethical climate, ESG compliance and public sector performance. The theory proposed that ethical leadership could be regarded as an organizational force that would influence employees' perception of ethical norms and behaviors to influence the formation of a strong ethical culture (Victor & Cullen, 1988; Martin & Cullen, 2006). This positive ethical climate, in turn, fosters compliance with ESG principles, promotes effective governance, and increases organizational efficiency and accountability by implementing responsible governance practices (Zahari et al., 2024; Waclawik et al., 2025; Zhu et al., 2025). The main goal of this study is to examine the mediating effect of an ethical climate and ethical sustainability measures (ESG) between ethical leadership and ethical culture and sustainable public sector performance in sequential order. This thesis aims to understand how ethical values can be transferable to sustainability-oriented outcome through the lens of Ethical Climate Theory in the public sector organisation.

Supporting and Negating Views

Results from the vast body of literature corroborate the importance of ethical leadership and ethical culture as key determinants of ethical climate and sustainability of the organization. Ethical leadership is associated with integrity, transparency, fairness and accountability that not only results in a positive ethical climate but also leads employees toward them to act responsibly (Brown & Treviño, 2006; Victor & Cullen, 1988). Recent research also indicates that organisations with higher ethical climate have a higher ethical culture and are more inclined to implement the ESG principles successfully and secure sustainable performance outcomes (Zahari et al., 2024; Gill, et al., 2023; Waclawik et al., 2025). Likewise, researchers maintain that ethical climates of workplace will enable the employees to commit to environmental responsibility, social responsibility, and compliance with governance regulations, thus enhancing institutional effectiveness, and building the public trust (Krambia-Kapardis et al., 2023; AlHares, 2025). An ethical leadership approach and ethical culture work synergically to build an organization that

facilitates the process of making a company maintaining the ESG principles and allows it to be as efficient as possible in the public sector. Thus, most current research approaches interpret ethical climate as an important process linking ethical organizational behaviors with sustainability outcomes.

There are, however, several scholars who argue different or counter arguments about the direct effects of ethical leadership, ethics culture and ethical climate on organizational performance. Others suggest that ESG issues are primarily difficult to consider and correlated with sustainable performance or better ethical standards, as outcomes in the organizations are heavily dependent on external factors as well, such as regulatory pressure, institutional capacities, political environments, and resource availability (Martin & Cullen, 2006; Kaptein, 2008). Empirical evidence published in recent years has indicated that there are still other intervening and contextual factors that affect the relationship between ethical culture and integrity violations or the ESG outcomes, and that these relationships are not necessarily statistically significant (Zahari et al. 2024; Hosain, 2025; Zhu et al. 2025). In addition, critics argue that the involvement of public sector institutions in ESG is mostly to meet regulatory requirements and not for a proper ethical approach, and therefore, these actions are not likely to influence long-term improvements in performance (Wacławik et al., 2025; Krambia-Kapardis et al., 2023). The different views suggest that the link between ethical leadership, ethical culture, ethical climate, ESG compliance, and public sector performance is far from straightforward, and empirical research is needed to explore the situations in which ethical practice will lead to sustainable outcomes.

Mediation Perspective

Ethical Leadership, Ethical Climate and ESG Compliance

As noted, there is an expanding body of literature which supports the construct of ethical climate as a mediator between ethical leadership and ESG compliance. Ethical leaders set moral norms for the organization-high integrity, accountability and fairness, which affect employees' moral perceptions and actions. Ethical Climate is influenced by leaders' behavior, which in turn influences employee behavior and organizational actions, as implied in the Ethical Climate theory, which says this (Victor & Cullen, 1988). A recent study by Zahari et al. (2024) indicated that an ethical leadership is indirectly conducive to the implementation of sustainability initiatives and governance effectiveness due to the establishment of positive ethical climate, which can foster ESG-related practices. Another study by Gill et al. (2023) concluded that ethical leadership indirectly positively affected sustainability initiatives and governance effectiveness through its positive impact on ethical climate. Leaders provide ethical guidance and demonstrate values that promotes ethical environments in their organizations that prioritize environmental responsibility, social accountability and mechanisms for transparency in governance. Hence, ethical climate acts as an important pathway by which ethical leadership brings about ESG compliance.

Ethical Culture, Ethical Climate and ESG Compliance

From supporting literature, it can be understood that the ethical culture is a significant influence on ESG compliance efforts due to the formation and development of the ethical climate. Values, norms and expectations of behavior that guide employees' perception of organizational ethics and responsibilities are referred to as ethical culture. (Kaptein, 2008) Organizations with a high ethical culture are more likely to create positive ethical climates that foster sustainable behaviors and ESG efforts, as evidenced by recent research (Zahari et al., 2024; Hosain, 2025). Ethical climate refers to the way that values are translated to behaviors at work within an organization, and influences the decision to follow environmentally, socially, and governance (ESG) strategies. Therefore, ethical climate serves as an important linkage between ethical culture and the degree to which companies are complying with ESG and operating responsibly.

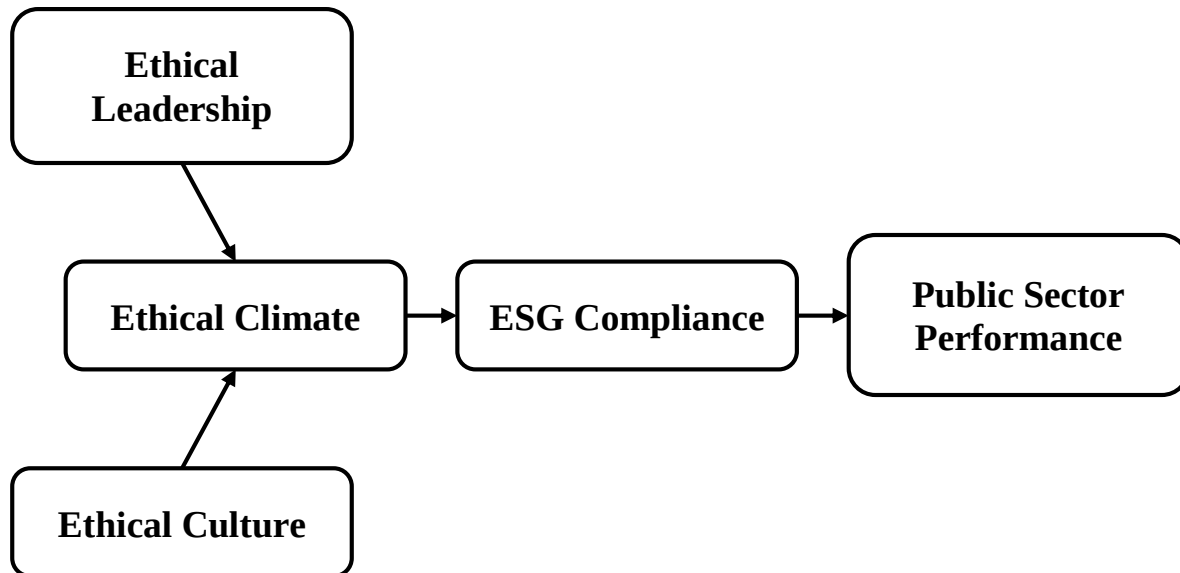


Figure 1 Conceptual Framework

Hypothesis Development

Ethical Leadership and Ethical Climate

Ethical leadership has been cited as an essential ingredient of organizational ethical climate. The ethical leader practices integrity, fairness, and accountability when making decisions and in their actions, setting the example of the ethical conduct that employees can use when dealing with one another and customers. Brown and Treviño (2006) state that ethical leaders are role models whose behavior models that of others in this case, organizational members with regard to ethical values and responsible conduct. Recent studies demonstrated that ethical leadership positively influences employees' perceptions concerning the ethical practices, and enhances the ethical climate in public institutions (Zahari et al., 2024; Gill et al., 2023; Krambia-Kapardis et al., 2023). Leaders establish a climate that supports individuals to know and live by the expectations for their work.

H1: Ethical Leadership has a significant positive effect on Ethical Climate.

Ethical Culture and Ethical Climate

Ethical culture is the sum of the values, beliefs, and norms shared by employees that inform their behavior in an organization. It sets out the framework for the communication and reinforcement of ethical standards among organizational members. An ethical culture promotes integrity, transparency and accountability and discourages unethical behavior and unacceptable behavior (Kaptein, 2008). Recent studies show that there is an association between strong ethical cultures in organizations and the formation of positive ethical climate in an organization that positively influences the decision-making process and good governance (Zahari et al., 2024; Waclawik et al., 2025; Gill et al., 2023). Ethical culture is the starting point where employees understand organization expectations, and notice a shared ethical perception.

H2: Ethical Culture has a significant positive effect on Ethical Climate.

Ethical Climate and ESG Compliance

Ethical climate can be a major factor in influencing organizations to follow environmental, social, and governance (ESG) principles. An ethical culture fosters employee responsibility and helps contribute to sustainability and accountability strategies for organizations. Ethical Climate Theory suggests that employee ethical perceptions impact their decision and behavior related to organizational responsibilities (Victor & Cullen, 1988). Researchers also have recently argued

that companies with high ethical climates are more effective in their efforts for effective ESG implementation as they see sustainability issues and governance practices as organizational priorities (Zahari et al., 2024; AlHares, 2025; Krambia-Kapardis et al., 2023). Ethical climate is a key element of ESG compliance, because it promotes transparency and accountability.

H3: Ethical Climate has a significant positive effect on ESG Compliance.

ESG Compliance and Public Sector Performance

ESG has taken a growing place of importance in the improvement of the public sector's performance and sustainable governance results. ESG compliance fosters public institutions' long-term sustainability, trust, and efficiency in their operations through environmental responsibility, social accountability, and governance transparency. A recent study offered evidence that the positive trends in ESG can be captured in the metrics of institutional effectiveness, service quality, and organizational legitimacy for public organizations with effective implementation (Wacławik et al., 2025; Zhu et al., 2025; Hosain, 2025). ESG compliance helps in the better management of resources and better governance that sustain public administration.

H4: ESG Compliance has a significant positive effect on Public Sector Performance.

Ethical Leadership, Ethical Climate and ESG Compliance

Ethical behavior within the organization is acknowledged to be dependent on ethical leadership as one of the key organizational variables that foster ethical conduct and improve governance mechanisms, structures and procedures. Ethical leaders set the ethical tone by demonstrating ethics and fairness and holding accountable, thereby influencing the perception of values and ethics exhibited by employees (Brown & Treviño, 2006). Recent research confirms that ethical leadership positively influences positive ethical climates that are based on trust, transparency, and responsible practices (Zahari et al., 2024; Gill et al., 2023; Krambia-Kapardis et al., 2023). Formal leaders who display ethical behavior have a greater chance of having their regarding of organizational ethics and ethical norms imprinted. As a result, ethical leadership is an important influence on an ethical climate for public sector institutions.

H5: Ethical Climate mediates the relationship between Ethical Leadership and ESG Compliance.

Conceptualization

Conceptualizations for this study is based on Ethical Climate Theory which examines and describes the impact of organizational ethical values and leadership behaviours on employee perceptions, organizational practices and sustainability outcomes (Victor and Cullen, 1988). The benefits of direct links of ethical leadership, ethical culture, ethical climate, and ESG practices on organizational performance is well explored in existing literature on ethical practices in both public and private sectors (Brown & Treviño, 2006; Zahari et al., 2024). Ethical leadership and ethical culture have been shown to lead to better Ethical Climate and that the latter leads to responsible governance and ESG compliance within the organization (Gill et al., 2023, Wacławik et al., 2025 and Hosain, 2025). In addition, ESG compliance has been recognized as a strategy for better accountability, transparency, sustainability and organization effectiveness among public institutions (Zahari et al., 2024). These constructs have been explored both individually and in direct relationship before, but little attention has been paid to the integrated and sequential relationship of these in the public sector. Particularly, empirical research capturing the extent to which ethical leadership and an ethical culture both impact public sector performance in a cascading manner (namely via the intermediate moral climate and the dimensions of ESG compliance) is missing. In this regard, the current study proposes a conceptual model that establishes the ethical leadership and ethical culture as antecedents, the ethical climate and the

compliance with the ESG as mediators in sequence, and the performance in the public sector as a dependent variable.

Research Design

This study adopts quantitative research approach, with using a cross sectional survey design in investigating the relationships between ethical leadership and ethical culture, ethical climate and ESG compliance and public sector performance. Quantitative research is appropriate since quantitative examination of numerical data allows the researcher to test theoretical relationships, to evaluate the hypotheses and to produce results that are statistically generalizable (Saunders et al. 2019; Hair et al. 2022). A cross-sectional design also can be used to collect data from public sector organizations at one time only, it can be employed to explore perceptions and behaviors, and it reduces time and resources requirements (Creswell & Creswell, 2018). For complex relationships between various constructs, recent studies in ethics of leadership, organizational ethics and ethical consequences of using environmental, social and governance (ESG) principles have been able to rely on cross-sectional quantitative methods successfully (Zahari et al., 2024; Gill et al., 2023; Waławik et al., 2025). Moreover, this study uses a causal and explanatory approach since it aims to find the direct and indirect effects of ethical leadership, ethical culture, and ethical climate to public sector performance as mediators. The proposed relationships will be tested with Partial Least Square Structural Equation Modeling (PLS-SEM) which is specifically recommended for implementing complex mediation model and developing theories in an organizational context and sustainability research (Hair et al., 2022).

Based on the purposes and theory of the study, the use of quantitative research, Design: Cross Section and type of study: Explanatory is justified. The quantitative approach is appropriate because it contributes to the use of quantitative measures to capture the constructs and statistical tests to employ the proposed hypotheses that can examine the relationship between constellations in turn, including ethical leadership, ethical culture, ethical climate, ESG compliance, and public sector performance (Hair et al., 2022; Kline, 2023). A cross-sectional design is suitable because data collection occurs at a single point in time where the assessments of ethical, government and sustainability practices can be evaluated among public sector employees, the researchers proposing the approach could easily collect data without the need for the long-term observation of each case (Creswell & Creswell, 2018). Similarly, it was the cross sectional survey design that were used in recent studies investigating ethical leadership, implementing the sustainability approach ESG and organizational sustainability, which is also very suitable for considering complex phenomena describing the organization and causal relationships between the latent variables (Zahari et al., 2024; Gill et al., 2023; Waławik etc., 2025). Moreover, the explanatory design is relevant because we believe it is better to have an explanation of how ethical leadership and the ethical climate affect public sector performance via the mediation of ethical climate and compliance with ESG. In line with this objective, Partial Least Squares Structural Equation Modeling (PLS-SEM) is used since it is a good method for using multiple constructs, mediation processes, and complex theory, in addition to has a good prediction and explanation power (Hair et al., 2022; Kline, 2023).

The study design adopted is deductive, quantitative, cross sectional and explanatory with a research focus on the ethical climate theory as the basis for examining the relationships of variables included in the problem of this study, namely: ethical leadership, ethical culture, ethical climate, ESG compliance and Public Sector performance. Since the study involves deducing hypotheses related to prior theory and empirical evidence and then testing them in some quantitative manner with quantitative data gathered from public sector employees, this task requires the deductive approach (Saunders et al., 2019). The data will be collected by using a structured questionnaire with the Likert scale ranging from very strongly disagree, disagree,

neutral, agree, very strongly agree to gauge the perception of the respondents with respect to the study constructs. The study is designed as a survey in accordance with recent surveys regarding ethical leadership and its impact on organizations' performance, organizational sustainability and the implementation of ESG principles (Zahari et al., 2024; Gill et al., 2023; Wacławik et al., 2025), because it allows for collecting standardized answers from a large sample of respondents, while making the results of the study reliable and comparable. Additionally, the proposed conceptual model contains many relationships, both direct and indirect, thus making it suitable for using the Partial Least Squares Structural Equation Modeling (PLS-SEM) approach as an analysis technique where it can be used to estimate the validity of the measurement and the structural relationships along with mediation effects (Hair et al., 2022). The choice of this research design therefore, offers a strong methodological base to consider the role of ethical leadership and ethical culture in driving sustainable public sector performance in various ways such as ethical climate and ethical measurement of sustainability namely ESG compliance.

Sampling

For the purpose of this study, data will be gathered by using structured self-administered questionnaire among the employees in public sector organizations. The questionnaire method was employed as it allows standardized data be collected from a greater amount of respondents and allows the measurement of latent constructs to be measured consistently, reliably and efficiently (Creswell & Creswell, 2018; Saunders et al., 2019). Respondents' perceptions of ethical leadership, ethical culture, ethical climate, ESG compliance and public sector performance will be measured using a five-point Likert scale (strongly disagree (1) to strongly agree (5)). The methodological strategy of using questionnaires as widely employed research tools in the study of organizational ethical issues and their causal relationships has been successfully applied in recent studies (Zahari et al., 2024; Gill et al., 2023; Wacławik et al., 2025).

This study can be done on the target population of the employees in public enterprises, public departments and authorities, regulatory bodies and public institutions. Those are chosen due to their first-hand experience in organizational leadership, ethical practices, governance systems and sustainability-related activities. The public sector is likely the most convenient group to serve as the respondents to determine perceptions of both ethical climate and ESG compliance, as it is the group that has the most active role in policy implementation and service delivery processes (Zahari et al., 2024; Wacławik et al., 2025). The themes of public sector governance and public organisation and ethics have also previously been explored using public employees as the unit of analysis (Gill et al., 2023; Creswell & Creswell, 2018; Saunders et al., 2019).

To meet practical and accessibility convenience sampling technique will be used for collecting the data from the workers of the public sector in this study. In organizational and behavioral research, as comprehensive sampling frame is difficult to be obtained, convenience sampling is commonly employed (Saunders et al., 2019). Sample size will be calculated based on the suggestions provided by Hair et al. (2022) for PLS-SEM analysis. Given the complexity of the proposed model and the number of constructs, the sample size of 300–400 respondents is not significantly large to guarantee statistical power and proper model estimation (Hair et al., 2022; Kline, 2023). In recent years, similar sampling methods and sample size have been used and proven to be effective in public administration and ESG research (Zahari et al., 2024; Wacławik et al., 2025).

The data to be analyzed uses software Statistical Package for Social Sciences (SPSS) and SmartPLS 4 software. SPSS will be used for data screening, descriptive statistics and to carry out an analysis of the demographic data and to evaluate the extent of preliminary reliability, while SmartPLS 4 will be used for the statistical evaluation of the measurement model and the test of the structural model outlined by Hair et al. (2022). PLS-SEM is especially appropriate for the

analysis of complex models comprising multiple mediating relationships and latent constructs. As a result, recent investigations in the fields of sustainability, environmental, social and governance (ESG) scores, as well as organizational behavior (OB) have more and more turned to SmartPLS for its prediction properties and its ability to process complex theory (Sarstedt et al., 2022; Hair et al., 2022; Zahari et al., 2024).

Information on demographics will be gathered as a description of the characteristics of the respondents and to assess if there are differences between groups. The demographic variables will be gender, age, education qualification, organization status, experience, type of public sector organization. The above variables are important in public administration and organizational behavior research because they allow for contextual interpretation and understanding of research results, and they also help explain, in broader terms, particular behaviours of respondents (Zahari et al., 2024; Waclawik et al., 2025). In addition, demographic profiling can compare the representativeness of samples and study the potential differences in ethical perceptions, compliance with ESG, and organizational performance between various groups of respondents (Hair et al., 2022; Saunders et al., 2019; Hosain, 2025).

Results and Discussion

The results of this study support the empirical evidence that shows that Higher order of ethical climate is the organizational antecedent of ethical leadership and culture in public sector institutions to a significant level. This finding showed that, ethical leadership had a greater positive effect on ethical climate ($\beta = 0.510$) compared to ethical culture ($\beta = 0.411$), accordingly, the role of leadership is very significant in influencing the ethical perceptions and norms of their employees. Such a discovery supports the work of Zahari et al. (2024) who also pointed out that ethical leaders can create a sense of transparency, accountability, and integrity to fortify ethical workplace environments. Or, as Gill et al. (2023) found, ethical leadership can positively influence employees' commitment to ethical behaviours and values. The results are also in line with the core theory of Brown and Treviño (2006), who suggested that leaders create an ethics climate through moral leadership and responsible decision-making, thereby impacting employee action. So, the present study makes a valuable contribution to the ever-accumulating body of literature that confirms the continued salience of ethical leadership and/or ethical culture as two of the primary influences upon ethical climate in modern-day public sector entities.

Reliability and Validity Analysis

Construct reliability and validity				
Overview				
	Cronbach's alpha	Composite reliability (rho_a)	Composite reliability (rho_c)	Average variance extracted (AVE)
ESG_COMPLIANCE	0.862112	0.865168	0.915851	0.783998
ETHICAL_CLIMATE	0.83159	0.838342	0.898744	0.747462
ETHICAL_CULTURE	0.907555	0.910231	0.941932	0.843943
ETHICAL_LEADERSHIP	0.886639	0.886751	0.929741	0.815197
PUBLIC_SECTOR_PERFORMANCE	0.855887	0.859615	0.912208	0.775982

Table 1 Reliability and Validity Analysis

Hypothesis Testing

Path coefficients					
Mean, STDEV, T values, p values					
	Original sample (O)	Sample mean (M)	Standard deviation (STDEV)	T statistics (O/STDEV)	P values
ESG _COMPLIANCE -> PUBLIC _SECTOR _PERFORMANCE	0.825	0.826	0.025	33.293	0.000
ETHICAL _CLIMATE -> ESG _COMPLIANCE	0.822	0.822	0.025	32.725	0.000
ETHICAL _CULTURE -> ETHICAL _CLIMATE	0.411	0.411	0.069	5.931	0.000
ETHICAL _EADERSHIP -> ETHICAL _CLIMATE	0.510	0.510	0.069	7.431	0.000

Table 2 Hypothesis Testing

The results of path coefficients show that all the hypothesized relationships are positive and significant, supporting the proposed research model. ESG Compliance had a notable positive influence on Public Sector Performance ($\beta = 0.825$, $t = 33.293$, $p < 0.001$), meaning that increased ESG implementation significantly contributes to the effectiveness and sustainability of public sector organizations. Likewise, Ethical Climate had a significantly positive relationship with ESG Compliance ($\beta = 0.822$, $t = 32.725$, $p < 0.001$), indicating that ethical organizational climates have a significant effect on fostering responsible ESG practices. In addition, Ethical Leadership had a significant positive effect on Ethical Climate ($\beta = 0.510$, $t = 7.431$, $p < 0.001$); and Ethical Culture had a significant positive effect on Ethical Climate ($\beta = 0.411$, $t = 5.931$, $p < 0.001$). Of the antecedents, Ethical Leadership demonstrated a greater influence on Ethical Climate than Ethical Culture, suggesting that leadership behavior can influence the ethical perceptions in an organization. In general, the results of the tests showed a high t-value for all the proposed relationships while the p-value for all models exceeded the level of significance, thus confirming the robustness of all proposed relationships, thereby supporting the Ethical Climate Theory and the importance of ethical leadership and culture in meeting the performance of sustainable public sector with ethical climate and ESG compliance. (Brown & Treviño, 2006; Hair et al., 2022; Zahari et al., 2024).

Mediation & Moderation Analysis

Specific indirect effects						
Mean, STDEV, T values, p values						
	Original sample (O)	Sample mean (M)	Standard deviation (STDEV)	T statistics (O/STDEV)	P values	
ETHICAL _CULTURE -> ETHICAL _CLIMATE -> ESG _COMPLIANCE	0.337	0.339	0.060	5.653	0.000	
ETHICAL _EADERSHIP -> ETHICAL _CLIMATE -> ESG _COMPLIANCE	0.419	0.419	0.057	7.329	0.000	

						0
						0
ETHICAL _CLIMATE -> ESG _COMPLIANCE	0.678	0.679	0.035	19.351	0.	0
-> PUBLIC _SECTOR _PERFORMANCE					0	0
					0	0
ETHICAL _CULTURE -> ETHICAL	0.278	0.280	0.051	5.444	0.	0
_CLIMATE -> ESG _COMPLIANCE ->					0	0
PUBLIC _SECTOR _PERFORMANCE					0	0
					0	0
ETHICAL _EADERSHIP -> ETHICAL	0.346	0.346	0.049	6.991	0.	0
_CLIMATE -> ESG _COMPLIANCE ->					0	0
PUBLIC _SECTOR _PERFORMANCE					0	0
					0	0

Table 3 Mediation & Moderation Analysis

Results of the specific indirect effects analysis indicate that the hypothesized model contains significant mediation and/or sequential mediation effects. Ethical Climate was a significant mediator between Ethical Culture and ESG Compliance ($\beta = 0.337$, $t = 5.653$, $p < 0.001$) and between Ethical Leadership and ESG Compliance ($\beta = 0.419$, $t = 7.329$, $p < 0.001$), suggesting that both ethical leadership and ethical culture positively influence the implementation of ESG through the creation of a positive ethical climate. Furthermore, the indirect effect of Ethical Climate on Public Sector Performance through ESG Compliance was the strongest in the model, with a coefficient of $\beta = 0.678$ ($t = 19.351$, $p < 0.001$), indicating that ethical organizational climates are likely to have a significant impact on public sector performance through the mediation of ESG Compliance. Furthermore, the path from Ethical Culture to Public Sector Performance and from Ethical Leadership to Public Sector Performance was sequentially significant; the former sequentially mediated by Ethical Climate and ESG Compliance ($\beta = 0.278$, $t = 5.444$, $p < 0.001$), and the latter was even more strongly mediated by the same pathway ($\beta = 0.346$, $t = 6.991$, $p < 0.001$). All indirect effects are statistically significant (p -values < 0.001), thus the mediation hypotheses are completely supported. The study results support the ethical climate theory as they show that ethical leadership and ethical culture have an indirect influence on public sector performance through the creation of an ethical climate and successful implementation of ESG practices, which ultimately results in sustainable organizational outcomes (Victor & Cullen, 1988; Brown & Treviño, 2006; Hair et al., 2022).

PLS SEM

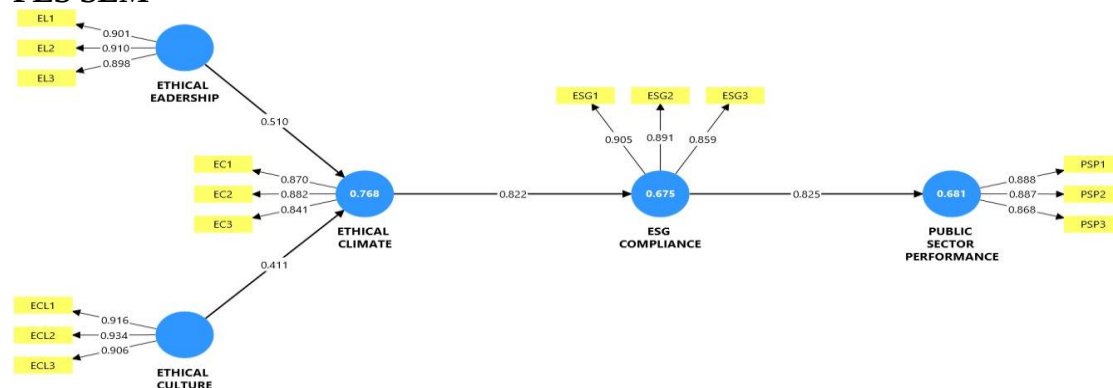


Figure 3 PLS SEM

The structural model results are very convincing in supporting the proposed relationships between the Ethical Leadership, Ethical Culture and Ethical Climate, ESG Compliance and Public Sector Performance. The study results confirm that Ethical Leadership is a significant positive contributor to Ethical Climate ($\beta = 0.510$), showing that ethical leaders are playing an important role in establishing an environment that is characterized by ethical leadership. Ethical Climate also has a positive impact on Ethical Culture ($\beta = 0.411$), but it is not as strong as the impact of Ethical Leadership, indicating that leadership behavior is more significant than Ethical Culture in affecting employees' ethical perceptions. Ethical Leadership and Ethical Culture account for 76.8% of the variance in Ethical Climate ($R^2 = 0.768$), which is a large proportion. In addition, all of the loadings of the indicator are above the recommended level of 0.70, ranging between 0.841 and 0.934, which means that the measurement items are reliable in representing the latent constructs that they measure and support the validity of the measurement model.

Model Fitness

Model fit		
Fit summary		
	Saturated model	Estimated model
SRMR	0.052	0.079
d_ULS	0.324	0.757
d_G	0.324	0.365
Chi-square	715.574	781.595
NFI	0.860	0.847

Table 5 Model Fitness

The model fit assessment showed that the proposed PLS-SEM model has an acceptable model fit. The SRMR values for the saturated model (0.052), and the estimated model (0.079), are lower than the recommended value of 0.08, which shows that the estimated model structure fits the observed data well (Hair et al., 2022). Furthermore, the Normed Fit Index values of 0.860 and 0.847 are close to the recommended level of 0.90, indicating an acceptable level of model fit for exploratory and predictive studies. The difference between the estimated and model-implied correlation matrices is relatively small and the discrepancies d_ULS (0.757) and d_G (0.365) for the estimated model stay within acceptable limits. Moreover, the Chi-square values with saturated model of 715.574 and estimated model of 781.595, are expected to be obtained from complex SEM models and are not as emphasized in PLS-SEM because it is more sensitive to sample size. In summary, the overall fit indices indicate that the proposed model has sufficient predictive and explanatory power, which is an important basis for testing the relationships between the variables of the structural model: Ethical Leadership, Ethical Culture, Ethical Climate, ESG Compliance, and Public Sector Performance (Hair et al., 2022; Henseler et al., 2016).

The results of the present study showed that there was a significant positive effect of Ethical Leadership on Ethical Climate ($\beta = 0.510$, $p < 0.001$) and a significant positive effect of Ethical Culture on Ethical Climate ($\beta = 0.411$, $p < 0.001$). The outcomes align with those of Zahari et al. (2024) who found that ethical leadership positively influences ethical workplace environments by fostering transparency, accountability and integrity. Likewise, Gill et al. (2023) concluded that ethical leaders foster employees' ethical perceptions and organizational commitment by role modelling behaviours. The present results add to the seminal research of Brown and Treviño (2006) that suggested ethical leadership is an important factor in determining the ethical

organizational behavior. The results of the present study, however, indicate that the influence of Ethical Leadership is greater than that of Ethical Culture in the formation of ethical climates in public sector institutions, which means that the behaviors of the leaders play a more important role than the ethical values in shaping climates.

Discussion

The results of this study present important theoretical implications for the Ethical Climate Theory literature as they address the interventional roles of ethical climate and ESG compliance when looked through the sequences of both ethical climate and ESG compliance. The findings showed that ethical leadership ($\beta = 0.510$) and ethical culture ($\beta = 0.411$) are significant predictors of ethical climate, which provides support for Victor and Cullen (1988) who stated that individual's leadership behaviours and shared organisational values could construct the organisation's ethical environment. This is a large R^2 for ethical climate (0.768), indicating that ethical perceptions of employees in public institutions are influenced by a number of factors, including ethical leadership and culture. The results also echo the reasoning of Brown and Treviño (2006) who pointed out that ethical leaders serve as role models and their ethical behavior has an effect on organizational behavior. Theoretically, the study is an important step into the ESG realm and extends Ethical Climate Theory by illustrating that ED has a significant role in the process by which ethical values create sustainable organizational outcomes. As such, the current study has a value in theory building as it attempts to form an explanation that integrates ethics, governance and sustainability aspects.

The results are mostly congruent from a literature point of view with recent empirical research conducted regarding ethical leadership, organizational ethics, and sustainability results. The results of this study are consistent with Zahari et al. (2024), who found a positive correlation between ethical climate and ESG compliance ($\beta = 0.822$), as research indicates that an ethical organizational climate helps support responsible governance and sustainability efforts. Consequently, Waławik et al. (2025) determined that higher ESG implementation and stakeholder accountability are traits of organizations with better E-cultures. The findings of the present study further qualify this as ethical climate is an ethical result and also a strategic resource of the organization used to inspire ESG compliance. In addition, the findings show that ESG compliance positively influences public sector performance ($\beta = 0.825$), which aligns with the research results of Zhu et al. (2025) that ESG efforts enhance institutional effectiveness, transparency, and sustainability. The present study is more in-depth than previous research which aimed to explain either ethical climate or ethical leadership or ESG compliance individually, since it tests the joint relationships of these variables in a context of a public sector company.

Conclusion

Research results of this study, which offered empirical evidence, showed that ethical leadership and cultural dimensions are essential predictors of ethical climate; ethical climate is an important mediator between ethical leadership and ESG compliance and public sector performance. The result of the structural model showed that ethical leadership impacted the EOs more than ethical culture, indicating the role of leadership behavior in inducing EOs. Moreover, the significant explanatory ability of the model (Ethical Climate, $R^2 = 0.768$; ESG Compliance, $R^2 = 0.675$; and Public Sector Performance, $R^2 = 0.681$) shows that ethical governance mechanisms can account for the organizational sustainability outcomes. The results are consistent with the findings from the tests of previous research focusing on the significance of ethical leadership and ethical dimensions of organizations on governance effectiveness and institutional effectiveness (Ping, 2019; Victor & Cullen, 1988; Brown & Treviño, 2006; Zahari et al., 2024; Gill et al., 2023; Waławik et al., 2025).

One of the most important findings of this research is the recognition of the impact of ethical climate as a mediating factor between ethical leadership, ethical culture and ESG compliance. The results indicated that the organizations with high ethical climate tend to have high effectiveness in practice of ESG principles, positively affecting transparency and accountability as well as sustainability performance. The results of this study align with the more recent findings that ethical workplaces foster responsible governance practices and adherence to environmental, social and governance standards (ESGs) (AlHares, 2025; Zhu et al., 2025; Hosain, 2025; Zahari et al., 2024; Krambia-Kapardis et al., 2023). Ethical climate, therefore, is not just a result of the organization but a strategic organizational capability that directly contributes to sustainability-oriented governance, as demonstrated by the study.

Future Research Direction

There are several avenues for future research with the present study. Second, future scholars may extend the proposed framework to include other organizational and governance variables like public trust, organizational transparency, stakeholder engagement, digital governance, institutional resilience and sustainability innovation. These variables could offer more insight into the mechanisms behind the connection between ethical governance and organizational effects. Additionally, further research could investigate contextual factors influencing the process of implementing ESG and their impact on the results of ESG implementation (Zahari et al., 2024; Waclawik et al., 2025; Zhu et al., 2025).

Second, methodological constraints of this study open the way to future research. As for the nature of the design, the study is a quantitative cross-sectional design which is not capable of making causal relationships over the years. The authors urge future researchers to consider applying LT designs to analyze the change of EL, EC and ESG compliance in public institutions. Moreover, mixed methodologies, such as qualitative interviews and case studies, can increase understanding regarding the ethical process as well as governance practices within an organization. This would help to counteract some of the difficulties associated with self-reported survey data and increase the validity of future data products (Creswell & Creswell, 2018; Saunders et al., 2019; Hair et al., 2022).

Thirdly, future studies could further contribute to the theoretical development by combining the ECT with other theories like the Stakeholder Theory, Institutional Theory, Resource-Based View (RBV) or Stewardship Theory. Ethical Climate Theory is primarily useful for understanding how moral organizational climates impact behavior, but other theories might be useful for understanding pressures from outside stakeholders, institutional entry or legitimacy, and resource mobilization. There would be theoretical integration and an increased explanatory and predictive capacity of future ESG and sustainability research, and a more extensive understanding of public sector governance (Victor & Cullen, 1988; Freeman, 1984; DiMaggio & Powell, 1983).

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