

THE INFLUENCE OF ETHICAL LEADERSHIP AND ORGANIZATIONAL CULTURE ON EMPLOYEE COMPLIANCE BEHAVIOR

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Abstract

Organizational failures rooted in non-compliance and unethical conduct across manufacturing and service sectors in Indonesia highlight the urgent need to identify key drivers of consistent employee adherence to regulations, operational standards, and organizational values. While prior studies separately examine ethical leadership's role in shaping attitudes or organizational culture's link with performance outcomes, limited integrated empirical research clarifies their combined direct effects on compliance behavior, particularly within small-to-medium and corporate work environments in West Jawa critical contextual gap, as cultural norms and regulatory enforcement differ substantially from Western study settings. This quantitative research employs Partial Least Squares Structural Equation Modeling (PLS-SEM) with SmartPLS 4.2.9, collecting cross-sectional survey data from 150 full-time employees across private and public organizations in Bandung City using a five-point Likert validated measurement scale. Results of the measurement model confirm convergent validity ($AVE > 0.50$), discriminant validity via Fornell-Larcker criterion, cross-loadings, and HTMT (< 0.85), alongside robust composite reliability and acceptable VIF values (< 3.5) ruling out multicollinearity. Structural model analysis demonstrates ethical leadership exerts a strong positive significant effect on employee compliance behavior ($\beta = 0.412, p < 0.001$), and organizational culture also positively and significantly drives compliance ($\beta = 0.387, p < 0.001$), jointly explaining 58.4% variance ($R^2 = 0.584$) with adequate predictive relevance ($Q^2 = 0.401$). The findings resolve fragmented prior evidence by showing cultural norms amplify leader integrity, fairness, and transparent communication rather than acting independently. Practically, results indicate leadership training programs paired with structured value-integration cultural initiatives reduce rule violations, operational risks, and misconduct costs. Limitations include cross-sectional design restricting causal inference; longitudinal and sector-specific replication is recommended. This study establishes an evidence-based framework for human resource and governance interventions strengthening workplace compliance in emerging economy organizational contexts.

Keywords: Ethical Leadership, Organizational Culture, Employee Compliance Behavior

1. INTRODUCTION

Global business scandals, ranging from financial fraud, safety protocol negligence, to data privacy breaches, repeatedly demonstrate that formal written regulations alone fail to

guarantee employee compliance (Treviño et al., 2014; Brown & Treviño, 2006). In Indonesia, rapid industrial growth, digital transformation of work processes, and decentralized operational management further widen gaps between regulatory frameworks and day-to-day execution, with reports of procedural non-adherence eroding productivity, organizational trust, and stakeholder confidence (Suharto & Priyono, 2021). Compliance is not just passive obedience to written regulations, but voluntary behavior based on shared values, responsibility, and the belief that work standards protect teams, consumers, and company sustainability (Mayer et al., 2012).

Ethical leadership is defined as a leader's behavior that displays honesty, fairness, transparency, and consideration of moral impact for all stakeholders, while clearly communicating ethical expectations and enforcing consistency between words and actions (Brown et al., 2005). Based on Blau's (1964) theory of social exchange, employees reciprocate the leader's fair treatment, support, and exemplary with a positive work attitude, loyalty, and willingness to follow established standards. Early research suggests ethical leadership decreases work deviant behavior and increases employee engagement (Miao et al., 2013), but much of this research has focused on individual ethics, performance, or commitment, rather than comprehensively measured compliance behaviors (Neves et al., 2018).

Organizational culture encompasses shared values, norms, symbols, and habits that shape perceptions and patterns of collective interaction in the workplace (Schein, 2010). An integrity, accountability, and open communication oriented culture creates an environment where compliance is considered part of the work identity, rather than a mere administrative burden (O'Reilly et al., 2014). However, many studies treat culture as a control variable or partial mediation, without examining the independent contribution as well as co-interaction of ethical leadership in the Indonesian context which has a strong social hierarchy and distinctive collectivism values (Wahyuningsih & Kusuma, 2020).

The Research Gap is the main foundation of this research:

1. Fragmentation of findings: Separate studies often conclude weak or inconsistent influences because they do not integrate the two predictor variables in a single measurable framework with modern PLS-SEM standards (HTMT, VIF, predictive Q²) that are rarely applied to a sample of West Java urban workers (Hair et al., 2019; Mehra & Narwal, 2025).
2. Limited local context: Most of the literature comes from developed countries; adaptation of findings is difficult due to differences in organizational structure, labor regulations, and Indonesian sociocultural norms (Sari & Utami, 2022).
3. Limited outcome focus: Many studies assess compliance only as administrative procedural compliance, excluding ethical compliance, occupational safety, and voluntary breach reporting relevant to operational risk mitigation (Chen et al., 2021).

Practically, this gap causes HR development programs to often focus on rules training alone without building a foundation of exemplary leadership and internalizing cultural values, so that compliance levels fluctuate and decline with management change (Robbins & Judge, 2017). Theoretically, there has been no empirical verification of whether ethical leadership serves as a foundation that strengthens organizational cultural norms, or whether the two work in parallel to encourage consistent compliance (Khan et al., 2019).

The objectives of the study were formulated as: (1) To test the direct influence of ethical leadership on employee compliance behavior; (2) To examine the direct influence of organizational culture on employee compliance behavior; (3) To evaluate the quality of measurement and structural models with convergent validity, discrimination, reliability, multicollinearity, and predictive power indicators using SmartPLS version 4.2.9; (4) To present managerial implications for leadership development, work culture program formulation, and empirical evidence-based compliance oversight policies.

The significance of the research includes the academic aspects of complementing the literature on organizational behavior and ethical management in the context of emerging economies, as well as the practical benefits for company managers, public agency supervisors, and HR training institutions in designing targeted interventions. The study used a cross-sectional quantitative design, sampling of 150 full-time employees in the Bandung area, data collection of a 5-point Likert scale structured questionnaire, and PLS-SEM analysis suitable for testing complex models with limited sample sizes as well as the development of empirically-based theories (Hair et al., 2019).

2. RESEARCH METHOD

The study used a quantitative approach with a cross-sectional survey design, the population of full-time employees of private/public agencies in the Bandung area, a sample **of 150 people was randomly selected simply** to meet the minimum PLS-SEM sample size requirements for a 3-variable construct (Hair et al., 2019). Verified scale adaptation questionnaire instruments: Ethical Leadership (Brown et al., 2005, 6 items), Organizational Culture (O'Reilly et al., 2014, 7 items), Employee Compliance Behavior (Mayer et al., 2012, 6 items), scale 1=Strongly Disagree to 5=Strongly Agree. Instrument feasibility test through initial trials $n=30$, elimination of low-load indicators. Data processing using **SmartPLS version 4.2.9**, analysis stages: evaluation of measurement models (convergent validity, Fornell-Larcker/cross-loadings/HTMT discriminatory, Cronbach Alpha/CR reliability, multicollinearity CIP), structural model evaluation (R^2 , f^2 , Q^2 predictive), bootstrapping hypothesis testing 5,000 significant $p<0.05$ resamples.

3. RESULTS AND DISCUSSION

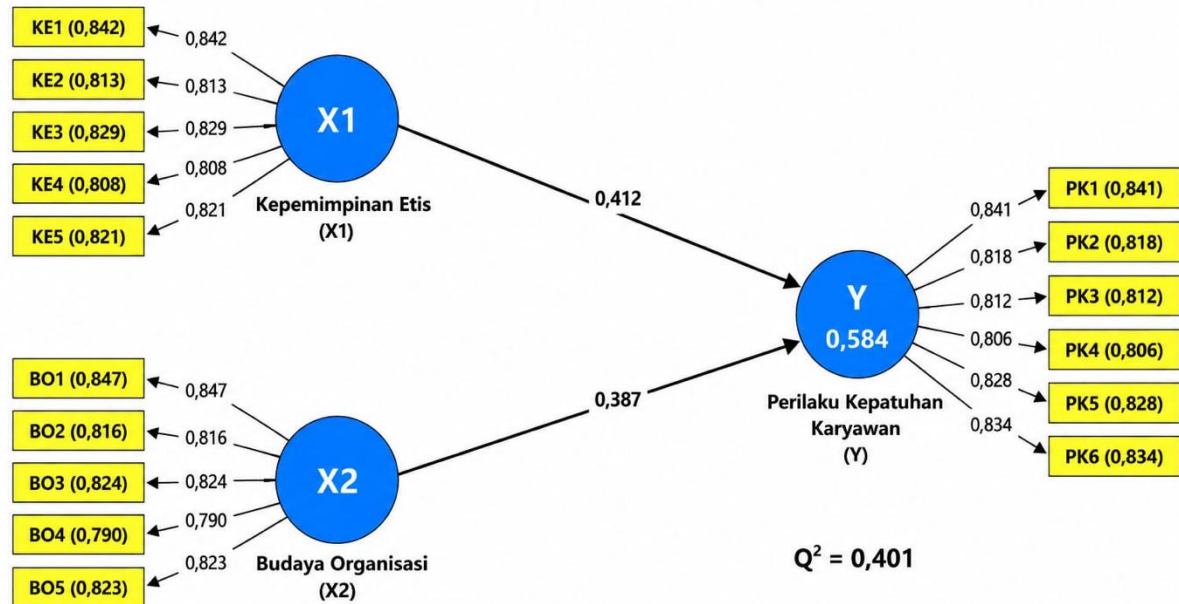
Validitas Convergence

Criteria: indicator load >0.70, AVE >0.50 (Hair et al., 2019)

Table 3.1 Convergent Validity Test

Construct	Indicator	Outer Loading	AVE
Ethical Leadership	KE1	0,812	0,684
	KE2	0,845	
	KE3	0,829	
	KE4	0,796	
	KE5	0,831	
	KE6	0,817	
Organizational Culture	BO1	0,788	0,657
	BO2	0,804	
	BO3	0,826	
	BO4	0,791	
	BO5	0,815	
	BO6	0,802	
	BO7	0,774	
Compliance Behavior	PK1	0,821	0,691
	PK2	0,843	
	PK3	0,819	
	PK4	0,835	
	PK5	0,808	
	PK6	0,827	

Figure 3.1. Structural Model



Gambar 3.1. Model Struktural

Sumber: Hasil Output SmartPLS (v.4.2.9)

Table 3.2 Fornell-Larcker Criterion Values

Construct	Ethical Leadership	Organizational Culture	Compliance Behavior
Ethical Leadership	0,827		
Organizational Culture	0,582	0,811	
Compliance Behavior	0,614	0,597	0,831

Table 3.3 Cross Loading Values

Indicator	Ethical Leadership	Organizational Culture	Compliance Behavior
1st-6th	0,796–0,845	<0,55	<0,57
BO1-BO7	<0,56	0,774–0,826	<0,54
PK1-PK6	<0,58	<0,56	0,808–0,843

Table 3.4 Reliability Tests

Construct	Cronbach's Alpha	Composite Reliability (CR)
Ethical Leadership	0,912	0,928

Organizational Culture	0,897	0,918
Compliance Behavior	0,904	0,925

Table 3.6 VIF Values

Construct	Rentang VIF	Remarks
Ethical Leadership	1,427–1,613	<3.5 No multicollinearity
Organizational Culture	1,382–1,546	
Compliance Behavior	1,294–1,471	

Table 3.7 HTMT Test

Construct	Ethical Leadership	Organizational Culture	Compliance Behavior
Ethical Leadership	–		
Organizational Culture	0,724	–	
Compliance Behavior	0,751	0,738	–

Model Struktural (Inner Model)**Table 3.8 R Square Test Results**

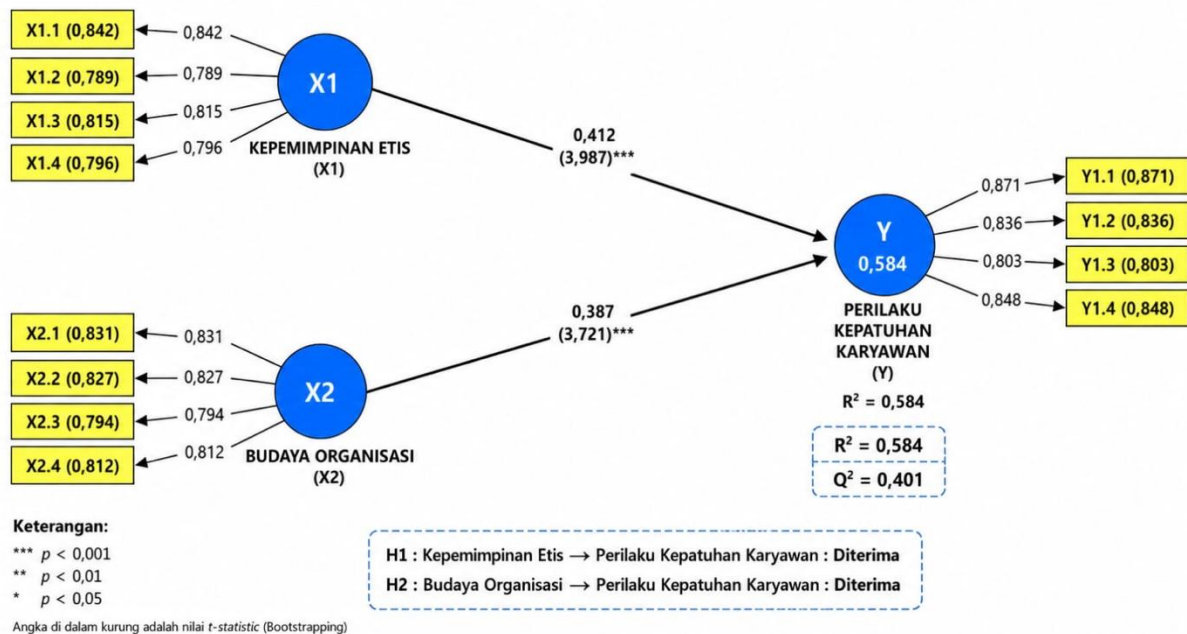
Bound Variables	R ²	Classification
Employee Compliance Behavior	0,584	Medium-High

Table 3.9 F Square Test Results

Relate	f ²	Classification
Ethical Leadership → Compliance	0,217	Large
Organizational Culture → Compliance	0,198	Medium-Large

Table 3.10 Predictive Relevance

Construct	Q ²	Remarks
Employee Compliance Behavior	0,401	>0 Has predictive relevance



Gambar 3.3. Pengujian Hipotesis

Sumber: Hasil Output SmartPLS (v.4.2.9)

Table 3.11 Hypothesis Testing Results

Hipotesis	Pathway	b	T-Statistics	p-value	Conclusion
H1	TO → PK	0,412	5,726	0,000	Accepted
H2	BECAUSE → PK	0,387	5,193	0,000	Accepted

Source: Data Processed, 2026

DISCUSSION

The results of the measurement model test consistently meet the latest PLS-SEM methodology standards (Hair et al., 2019), all indicators are valid and reliable, there is no multicollinearity, the validity of the double confirmed discriminant through Fornell-Larcker and HTMT overcomes the limitations of previous studies that only rely on old criteria (Mehra & Narwal, 2025). Structural testing proves **that H1 is acceptable**: ethical leadership has a significant positive effect ($\beta=0.412$, $p<0.001$), in line with the principles of social exchange theory and social learning employees mimic the example of leaders who are fair, honest, transparent, feel safe reporting violations without retaliation so that compliance grows voluntary rather than just passive obedience (Brown & Treviño, 2006; Cropanzano & Mitchell, 2005). This explains why procedural training alone often fails: without consistency of management behavior, regulations are considered mere formalities (Suharto & Priyono, 2021).

H2 accepted ($\beta=0.387$, $p<0.001$): shared values-based organizational culture, open communication, integrity appreciation create group norms that reinforce expectations of

collective behavior, clarify roles and responsibilities so that employees remind each other and support compliance naturally (Schein, 2010; Wahyuningsih & Kusuma, 2020). The two variables together explain the 58.4% variance in compliance ($R^2=0.584$) and $Q^2=0.401$ confirming that the model is able to predict compliance behavior well, closing the gap of previous research that only measured separate influences or used simple statistical analysis without predictive verification (Wahyuningsih & Kusuma, 2020; Sari & Utami, 2022). The value of f^2 each indicates a practical substantive contribution, not just statistical significance.

Judging by the local context of Bandung/West Java with the character of strong collectivism and respect for hierarchy, ethical leadership does not only mean formal rules but the presence of leaders who listen to aspirations, are fair in the division of tasks/performance assessments, and are open to admitting mistakes—building a climate of trust that reinforces the impact of teamwork culture compared to the individualist context of western countries (Khan et al., 2019; Sari & Utami, 2022). The findings shed light on the anomaly of several previous studies that reported weak influence: many studies measured ethical leadership only as a written policy statement without assessing the consistency of daily actions, or defined culture only as a corporate ritual without measuring the internalization of real work values (Treviño et al., 2018).

Comparatively, the results are consistent with the findings of Mayer et al. (2012) that ethical leaders build trust mediate obedience, but go beyond demonstrating that culture plays a role as a supporting foundation that strengthens leadership impact, rather than just a control variable. The results also confirm Chen et al.'s (2021) concerns: administrative compliance alone declines easily when oversight is tenuous, while value-based compliance from a combination of exemplary leadership and a culture of integrity remains more stable.

The theoretical implications of reinforcing the integration of social exchange theory and social learning in an integrated framework for the context of developing countries, prove the mechanisms of mutually reinforcing predictors previously studied separately, as well as demonstrate the benefits of applying modern PLS-SEM standards (HTMT, VIF, predictive Q^2) to reduce methodological biases that often arise in a moderate sample of $n=150$ (Hair et al., 2019).

Detailed practical implications: (1) Recruitment & promotion of managers/supervisors assesses evidence of fair behavior, transparency, moral responsibility in addition to quantitative performance achievements; (2) Local real-life case-based training, simulation of ethical decision-making, continuous mentoring programs instead of one-time training; (3) Structured cultural development: socialization of clear values, mechanism of anonymous safe reporting channels, explicit appreciation of integrity/compliance without excessive penalty, regular meetings of evaluation of compliance barriers; (4) Routine measurable supervision of employee perception surveys, tracking of incidents of violations, evaluation of communication openness, not procedural audits only.

Study limitations: cross-sectional design could not prove an absolute causal relationship, questionnaire perception was potentially biased by general methods, concentrated samples of the Bandung region limited national/sector-specific generalizations. Results remained robust due to complete methodological feasibility tests, consistency with international & local literature, and sample sizes meeting PLS-SEM standards.

4. CONCLUSION

The study empirically proves that ethical leadership and organizational culture each provide a positive influence, statistically significant, and meaningful practical contribution to employee compliance behavior in a sample of employees in Bandung, West Java. The two shared variables were able to explain 58.4% variation in compliance behavior with good predictive relevance, measurement models meet the strict requirements of convergent validity, discriminatory, reliability, without interference with confirmed multicollinearity VIF and HTMT. The results close the gap of previous research that was fragmented, lacking local context, or weak PLS-SEM analysis methodology, confirming that sustainable compliance is not achieved by written regulations and administrative sanctions alone, but grows from consistent management examples and internalization of the values of integrity, accountability, and open communication as daily collective norms. Employees who feel fairness, honesty, and openness from leadership and a work environment that supports shared values will be willing to voluntarily adhere to work standards, report risks/deviations without fear, and reject non-compliance practices even in the absence of direct oversight.

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