

**THE INFLUENCE OF ETHICAL LEADERSHIP AND ORGANIZATIONAL CULTURE
ON EMPLOYEE COMPLIANCE BEHAVIOR****Muhammad Fatkhurohman Albashori**

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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 previous 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 Java 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, the 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 limiting 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

INTRODUCTION

Global business scandals, ranging from financial fraud and 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 the gap 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 merely passive adherence to written regulations, but rather voluntary behavior based on shared values, responsibility, and the belief that work standards protect teams, consumers, and the company's sustainability (Mayer et al., 2012).

Ethical leadership is defined as leadership behavior that demonstrates honesty, fairness, transparency, and consideration of the moral impact on all stakeholders, while clearly communicating ethical expectations and maintaining consistency between words and actions (Brown et al., 2005). Based on Blau's (1964) social exchange theory, employees reciprocate fair treatment, support, and role models with positive work attitudes, loyalty, and a willingness to follow established standards. Early research suggests ethical

leadership reduces deviant workplace behavior and increases employee engagement (Miao et al., 2013), but much of this research focuses on individual ethics, performance, or commitment, rather than comprehensively measuring compliance behavior (Neves et al., 2018).

Organizational culture encompasses shared values, norms, symbols, and customs that shape collective perceptions and interaction patterns in the workplace (Schein, 2010). A culture oriented toward integrity, accountability, and open communication creates an environment where compliance is considered part of the work identity, not merely an administrative burden (O'Reilly et al., 2014). However, many studies treat culture as a control variable or partial mediator, without examining its independent contribution and interaction with ethical leadership in the Indonesian context, which has a strong social hierarchy and distinctive collectivist values (Wahyuningsih & Kusuma, 2020).

Research Gap is the main basis of this research:

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

In practice, this gap often leads to HR development programs focusing solely on training in rules without building a foundation of exemplary leadership and internalizing cultural values, resulting in fluctuating compliance levels and declining with management changes (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 research objectives are formulated as: (1) To test the direct influence of ethical leadership on employee compliance behavior; (2) To test the direct influence of organizational culture on employee compliance behavior; (3) To evaluate the quality of measurement and structural models with indicators of convergent validity, discriminant, reliability, multicollinearity, and predictive power using SmartPLS version 4.2.9; (4) To present managerial implications for leadership development, work culture program development, and compliance monitoring policies based on empirical evidence.

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

LITERATURE REVIEW AND HYPOTHESIS

Theoretical basis

Social Exchange Theory (Blau, 1964) explains the reciprocal relationship: fair treatment, transparency, and ethical role models from leaders trigger employees' sense of responsibility to reciprocate with compliant and responsible behavior (Cropanzano & Mitchell, 2005). Social Learning Theory (Bandura, 1977) reinforces this mechanism through imitation of the leader's exemplary behavior that is integrated into group norms and collective organizational culture.

Ethical Leadership : Measurable dimensions include honesty, fairness in assessments, listening to employee complaints, separating personal and organizational interests, and consistently communicating consequences for non-compliant behavior (Brown et al., 2005; Treviño et al., 2018). Miao et al.'s (2013)

study found that ethical leadership reduced deviant behavior by 27%, but did not measure the structured compliance dimension.

Organizational Culture : The dimensions of shared values, open communication, respect for integrity, role clarity, and team support create an environment where compliance becomes a collective expectation, not simply coercion (Schein, 2010; O'Reilly et al., 2014). Research by Sari & Utami (2022) in a West Java company showed that a strong work culture increases commitment, but joint testing of ethical leadership on compliance has not been verified.

Employee Compliance Behavior : Includes compliance with standard operating procedures, work safety rules, data confidentiality, voluntary reporting of violations, and rejection of corrupt/deviant practices (Mayer et al., 2012; Chen et al., 2021).

Summary Table of Previous Research

Researcher & Year	Main Variables	Location/Sample	Method	Key Findings	Limitations
Brown & Treviño (2006)	Ethical Leadership, Ethical Behavior	US, n=212	Regression	Ethical leadership leads positively to ethical behavior	Does not measure formal procedural compliance
O'Reilly et al. (2014)	Organizational Culture, Performance/Compliance	Multinational, n=389	Survey	Integrity value culture decreases violations	Not integrating leadership variables
Wahyuningsih & Kusuma (2020)	Culture, Employee Performance	Indonesia Central Java n=114	SPSS	Culture has a significant influence	Simple analysis, no HTMT/VIF validity test
Mehra & Narwal (2025)	Ethical Leadership, Ethical Climate	India n=247	PLS-SEM	Indirect influence through ethical climate	Lack of local Indonesian context, no focus on compliance
This research	Ethical Leadership, Organizational Culture, Employee Compliance	Bandung n=150	PLS-SEM SmartPLS 4.2.9	Tested convergent/discriminant validity, VIF, HTMT, R ² /Q ²	Closing the gap between local context and modern methods

Hypothesis Development

- **H1** : Ethical leadership has a positive and significant effect on employee compliance behavior (Brown et al., 2005; Mayer et al., 2012). Leaders who consistently display integrity, fairness, and transparency build trust so that employees internalize work standards and comply with regulations not only out of fear of sanctions but also out of a belief in values.
- **H2** : Organizational culture has a positive and significant effect on employee compliance behavior (Schein, 2010; Sari & Utami, 2022). Shared values, open communication, and accountability rewards create collective social control, clarify behavioral expectations, and support reporting violations without fear of retaliation.

RESEARCH METHODS

The study used a quantitative approach with a cross-sectional survey design, the population of full-time employees of private/public institutions in the Bandung area, a sample of **150 people was selected by simple random sampling** to meet the minimum sample size requirements of PLS-SEM for the 3-variable construct (Hair et al., 2019). The questionnaire instrument was an adaptation of verified scales: 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), a scale of 1 = Strongly Disagree to 5 = Strongly Agree.

The instrument's feasibility was tested through an initial trial of $n = 30$, eliminating low-load indicators. Data processing using **SmartPLS version 4.2.9**, analysis stages: evaluation of measurement models (convergent validity, Fornell-Larcker discriminant/cross-loadings/HTMT, Cronbach Alpha/CR reliability, VIF multicollinearity), evaluation of structural models (R^2 , f^2 , Q^2 predictive), bootstrapping hypothesis testing 5,000 resamples $p < 0.05$ significant.

ANALYSIS RESULTS AND DISCUSSION

A. Measurement Model (Outer Model)

Convergent Validity

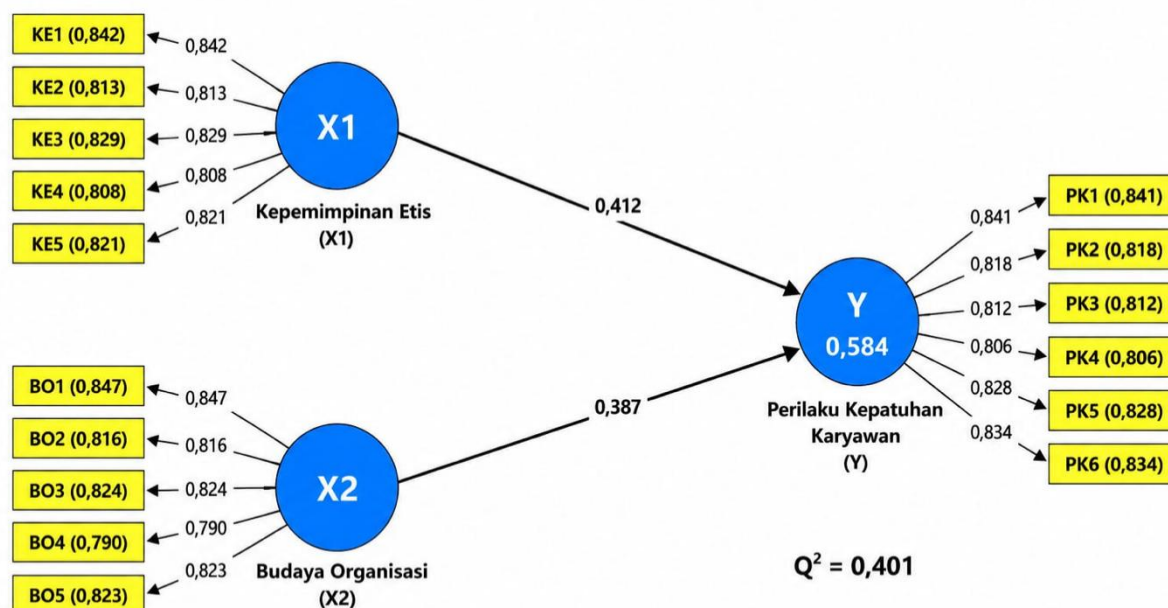
Criteria: indicator load > 0.70 , AVE > 0.50 (Hair et al., 2019)

Table 3.1 Convergent Validity Test

Construct	Indicator	Outer Loading	AVE
Ethical Leadership	KE1	0.812	0.684
	KE2	0.845	
	THE 3RD	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	

Discriminant Validity

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
KE1-KE6	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 Test

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	VIF Range	Information
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	–

Structural Model (Inner Model)

Table 3.8 R Square Test Results

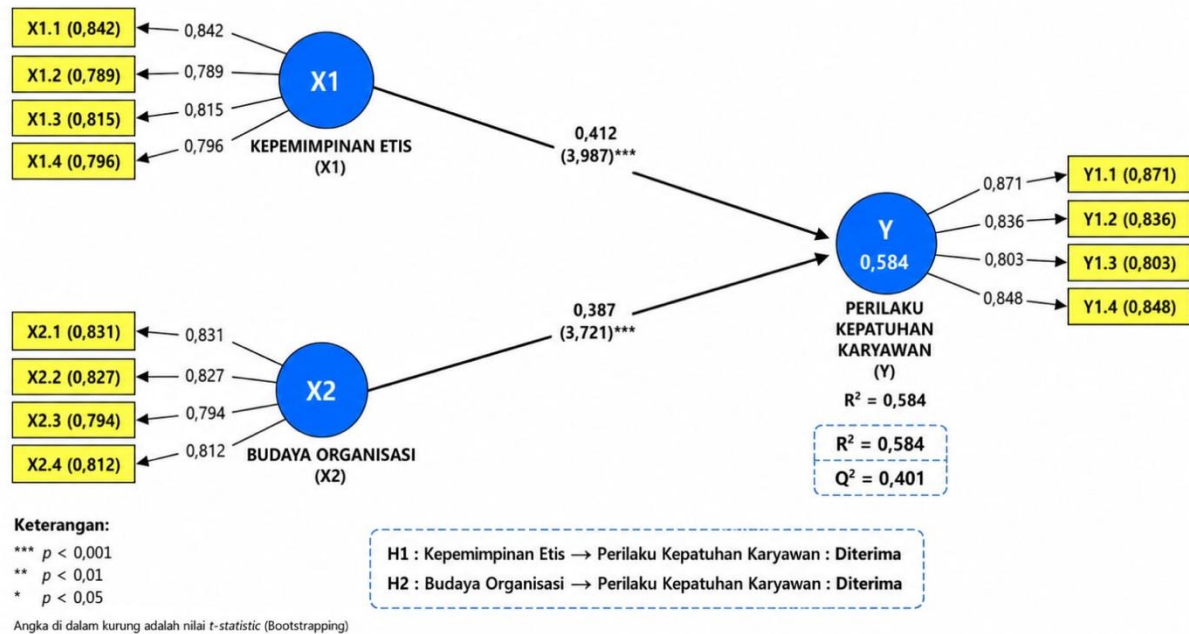
Dependent Variable	R ²	Classification
Employee Compliance Behavior	0.584	Medium-High

Table 3.9 F Square Test Results

Connection	f ²	Classification
Ethical Leadership → Compliance	0.217	Big
Organizational Culture → Compliance	0.198	Medium-Large

Table 3.10 Predictive Relevance

Construct	Q ²	Information
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

Hypothesis	Track	β	t-statistic	p-value	Conclusion
H1	KE → PK	0.412	5,726	0,000	Accepted
H2	BO → PK	0.387	5,193	0,000	Accepted

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, discriminant validity is double confirmed through Fornell-Larcker and HTMT overcoming the limitations of previous studies that only rely on old criteria (Mehra & Narwal, 2025). Structural testing proves that **H1 is accepted** : ethical leadership has a strong positive and significant effect ($\beta = 0.412$, $p < 0.001$), in line with the principles of social exchange theory and social learning employees imitate the example of fair, honest, transparent leaders, feel safe reporting violations without retaliation so that compliance grows voluntarily rather than merely passive obedience (Brown & Treviño, 2006; Cropanzano & Mitchell, 2005). This explains why procedural training alone often fails: without consistent management behavior, regulations are considered mere formalities (Suharto & Priyono, 2021).

H2 was accepted ($\beta=0.387$, $p<0.001$): an organizational culture based on shared values, open communication, and integrity rewards creates group norms that reinforce collective behavioral expectations, clarify roles and responsibilities, and naturally encourage employees to remind and support each other in compliance (Schein, 2010; Wahyuningsih & Kusuma, 2020). The two variables together explained 58.4% of the variance in compliance ($R^2=0.584$) and $Q^2=0.401$, confirming the model's ability to predict compliance behavior well, closing the gap in previous research that only measured separate influences or used simple statistical analysis without predictive verification (Wahyuningsih & Kusuma, 2020; Sari & Utami, 2022). The respective f^2 values indicate a practical substantive contribution, not merely statistical significance.

In the local context of Bandung/West Java, with its strong collectivism and respect for hierarchy, ethical leadership implies not only formal rules but also the presence of a leader who listens to aspirations, is fair in the distribution of tasks/performance assessments, and is open to admitting mistakes—things that build a climate of trust that strengthens the impact of a teamwork culture compared to the individualistic context of Western countries (Khan et al., 2019; Sari & Utami, 2022). The findings explain the anomaly of several previous studies that reported weak effects: many studies measured ethical leadership only as written policy statements without assessing the consistency of daily actions, or defined culture only as company rituals without measuring the internalization of real work values (Treviño et al., 2018).

Comparatively, the results are consistent with Mayer et al.'s (2012) finding that ethical leaders build trust and mediate compliance, but go beyond this by showing that culture acts as a supporting foundation that strengthens the impact of leadership, rather than simply a control variable. The results also confirm Chen et al.'s (2021) concern: purely administrative compliance is more likely to decline when oversight is lax, while values-based compliance resulting from a combination of exemplary leadership and a culture of integrity remains more stable.

The theoretical implications strengthen the integration of social exchange and social learning theories in a unified framework for the developing country context, prove the mutually reinforcing mechanism of predictors previously studied separately, and demonstrate the benefits of applying modern PLS-SEM standards (HTMT, VIF, predictive Q^2) to reduce methodological biases that often arise in medium samples of $n=150$ (Hair et al., 2019).

Detailed practical implications: (1) Recruitment & promotion of managers/supervisors assess evidence of fair behavior, transparency, moral responsibility in addition to quantitative performance achievements; (2) Local real-case based training, ethical decision making simulations, ongoing mentoring programs instead of one-time training; (3) Structured culture building: clear values socialization, anonymous safe reporting channels, explicit rewards for integrity/compliance without excessive penalties, regular meetings to evaluate compliance barriers; (4) Regular measured supervision of employee perception surveys, tracking of violation incidents, evaluation of communication transparency, instead of just procedural audits.

Research limitations: the cross-sectional design cannot prove absolute causal relationships, the questionnaire perception is potentially biased by common method, and the Bandung-area concentrated sample limits national/sector-specific generalization. The results remain robust due to thorough methodological feasibility testing, consistency with international and local literature, and sample size meeting PLS-SEM standards.

CONCLUSION AND SUGGESTIONS

Conclusion

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

Suggestion

1. For management & HR: Build an integrated program—ethical behavior-based recruitment/promotion, local case-based ongoing training, secure/anonymous reporting mechanisms, regular measurable integrity/compliance rewards, semi-annual employee perception evaluations for early detection of ethical climate/culture deterioration.

2. For further research: Use a longitudinal/time-repeated design to clarify causality, expand the sample across provinces/specific sectors (manufacturing, healthcare, education), add potential mediating/moderating variables (organizational trust, affective commitment, ethical climate, work stress), use mixed methods quantitative-qualitative in-depth interviews to explore implementation barriers.
3. For government agencies & supervisory bodies: Integrate ethical leadership and integrity culture indicators into organizational/work unit performance assessments, disseminate measurable practice guidelines, facilitate exchange of experiences between agencies/companies for the dissemination of best practices based on empirical evidence in the Indonesian context.

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