

**Ethical Leadership and Employee Commitment in Nepalese Co-operatives: Exploring the Mediating Role of Trust**

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**Abstract**

In today's fast-changing and competitive work environment, ethical leadership is very important. It can lead to positive results for employees. This study looks at how ethical leadership affects employees' commitment. It also examines how trust in leadership plays a role in this relationship, focusing on co-operative societies in Nepal. To achieve the objective, data were primarily collected through structured questionnaires using a convenience sampling technique from 391 employees of Nepalese cooperative societies. The data were analyzed with Process Macro 4, utilizing a 95% confidence interval and 5,000 bootstrapping samples. The results of this study indicate that ethical leadership has a significant impact on employee commitment. Additionally, leadership trust fully mediates the relationship between ethical leadership and employee commitment. This study also emphasized that leaders who demonstrate ethical behavior not only build their credibility but also cultivate a workplace culture that encourages employee loyalty and retention. It further contributes to the understanding of the ethical leadership in nurturing the employees' commitment in their organization.

*Keywords:* Ethical leadership, leadership trust, employee commitment, organizational culture, psychological safety

**Introduction**

Leadership is essential for creating and maintaining organizations, communities, and

societies. It involves creating a clear vision and effectively sharing it with dedicated followers. Leaders provide the necessary information to make the vision a reality and skillfully manage different stakeholder interests. They step up during crises, showing creativity and decisive action in tough situations. Even when they fail, they continue with enthusiasm and new ideas to achieve success. Leaders motivate their team members to work hard and stay committed to reaching goals (Mesick and Kramer, 2014).

Ethical leadership involves leading with integrity, honesty, and fairness while considering the well-being of others and the greater good. It's about making decisions and taking actions that are morally right (Al-Aidarous, 2021; Qing et al., 2020). Ethical leaders prioritize principles such as honesty, respect, responsibility, and transparency in their interactions with others and in their decision-making process. They adhere to a strong set of moral and ethical principles, and they consistently act in accordance with these principles, even when it's challenging (Chen et al., 2007). Ethical leaders treat all individuals fairly and impartially, without favoritism or discrimination. They make decisions based on merit and objective criteria rather than personal biases (Khuong and Nhu, 2015). Ethical leaders show respect for the dignity, rights, and opinions of others. They foster an inclusive and supportive environment where everyone feels valued and heard (Obicci, 2015). Ethical leaders are open and transparent in their communication and decision-making processes. They provide clear explanations for their actions and are willing to share information openly with their team members and stakeholders. They inspire their teams, fostering a culture of respect and cultivating a sense of psychological safety (Bello, 2012).

Ethical leadership is a leadership style grounded in respect for ethical principles, values, and the inherent dignity and rights of others. It encompasses essential qualities like trust, integrity, honesty, consideration, fairness, equal treatment, and charisma. The importance of ethical leadership has become increasingly clear in the wake of the recent credit crisis, the most severe global recession since the 1930s, and numerous high-profile corporate scandals. Notable companies like Enron, Arthur Andersen, WorldCom, Tyco, Parmalat, and HealthSouth have all faced ethical failures. These failures were often driven by immense pressures to achieve, perform, and succeed at any cost (Bello, 2012).

Employee commitment is more than just individual performance within an organization; it is the cumulative result of all interactions occurring within the organization. Commitment can be defined as the loyalty and attachment of individuals or groups to the organization. Specifically, organizational commitment refers to an employee's identification with the organization and its goals, coupled with a desire to maintain membership (Crane & Matten, 2014). Organizations view commitment as an indicator of desirable employee behaviors, such as performance, reduced absenteeism, and emotional attachment. The concept of organizational

commitment comprises three components (Meyer & Allen, 1993): Affective commitment makes employee feels emotionally connected to the organization. Continuance commitment is about weighing the financial costs of leaving versus staying. Normative commitment comes from a sense of duty or obligation to stay with the organization.

Ethical leadership is a critical component in fostering employee commitment and ensuring organizational success. It encompasses guiding employees with principles of integrity, fairness, and respect. Ethical leaders act as role models, establishing a culture of trust and accountability that significantly influences employees' attitudes and behaviors (Asif et al. 2020). It plays an important role in fostering employee commitment, influencing various aspects of organizational culture, trust, and overall employee satisfaction (Blomqvist & Ståhle, 2018). Ethical leaders demonstrate integrity, fairness, and honesty in their actions, which builds trust and respect among employees (Al-Aidarous, 2021). When leaders are consistent in their ethical behavior, employees feel secure and are more likely to be committed to the organization. Ethical leadership contributes to a positive work environment where employees feel valued and respected (Al-Aidarous, 2021). This enhances job satisfaction, as employees are more likely to be content and engaged when they perceive their leaders as ethical and fair. Ethical leaders ensure that policies and practices within the organization are fair and transparent (Brown et al. 2005). When employees perceive that decisions are made equitably and without favoritism, their commitment to the organization increases. Ethical leaders prioritize an open and honest communication culture. This encourages employees to voice their opinions, share concerns, and feel heard, thereby increasing their attachment to the organization (Islam et al. 2023). Ethical leaders invest in the growth and development of their employees' providing opportunities for professional development and career advancement. They show that they care about their employees' futures, which boosts company's performance (Kim & Brymer, 2011; Khuong & Nhu, 2015).

Ethical leadership is particularly crucial in co-operative organizations for several key reasons. Firstly, trust is the cornerstone of financial activities in these societies, as they handle people's finances and future security. Leaders must make ethical decisions to ensure fair treatment, transparency, and responsible risk management. A breakdown in trust can have catastrophic effects both at the individual level and across the wider financial system. Co-operative organizations operate within a framework of rules and regulations designed to uphold ethical conduct and prevent financial crises. Ethical leaders ensure compliance with these regulations, thereby reducing legal risks and promoting stability in the financial landscape. By fostering a culture of ethics, these leaders help minimize the risk of scandals, enhance the organization's reputation, and build trust among stakeholders. Ethical leadership in co-operatives nurtures trust, loyalty, and confidence by ensuring equity, transparency, and prudent risk management. This approach makes clients feel more secure, strengthens relationships, and

fosters brand loyalty. During challenging times, co-operative organizations led by ethical leaders are better equipped to overcome difficulties, rebuild trust, and minimize damage (Kim & Brymer, 2011).

As per the information of department of co-operative 34,837 cooperatives are-registered in Nepal with 6.5 million members and 68,400 employees. Despite the rapid increase in the number of cooperatives in Nepal, the co-operative sector continues to struggle with qualitative growth. The government has officially declared 20 co-operatives as facing a crisis ridden. A significant issue of this sector is the dual role played by many cooperative operators. These individuals exploit cooperatives for personal gain while simultaneously advocating for stricter regulations on co-operatives. All these situations underscore the shared necessity of striking the role of leadership and job commitment of employees in Nepalese co-operative organizations. However, within the context and serious issues of co-operative sectors of Nepal, a very few studies are conducted. Considering this fact, this study aims to fill this gap by exploring the role of ethical leadership for employee job commitment. The main objective of this research is to explore how ethical leadership influences employee job commitment in Nepalese cooperative organizations, with a focus on the mediating role of trust in leadership.

### **Literature Review**

A leader is someone who can guide and motivate a group toward achieving set goals. Northouse (2007) describes leadership as the process by which a leader influences individuals or groups to accomplish a shared objective. Integrity and honesty are critical factors in determining leadership effectiveness (Kirkpatrick et al., 1991; Deeb, 2023). To be truly effective, a leader must be honest and morally truthful, forming the foundation of ethical leadership. Brown et al. (2005) described ethical leaders as honest, trustworthy, fair, and caring. These leaders make principled and fair decisions, fostering a work environment grounded in ethics. Freeman and Stewart (2006) emphasize that ethical leaders are distinguished by their "right values" and "strong character," setting a standard for others to follow. These leaders actively support their employees and prioritize making decisions grounded in solid moral principles, which in turn provides a meaningful framework for employees' roles within the organization (Piccolo et al., 2010).

Brown et al. (2005) defined ethical leadership as "the demonstration of normatively appropriate conduct through personal actions and interpersonal relationships, and the promotion of such conduct to followers through two-way communication, reinforcement, and decision-making." Ethical leadership not only steers employees toward achieving organizational goals but also fosters positive outcomes for the organization, its members, stakeholders, and society as a whole (Kanungo, 2001). Ethical leadership has a beneficial impact on organizational conduct and performance (Aronson, 2009). Ethical leadership leads to numerous positive outcomes for employees, such as heightened optimism, a sense of task

significance, greater job autonomy, increased effort, job involvement, affective commitment, fairness in interactions, and satisfaction with leadership (Brown et al., 2005; Khuntia & Suar, 2004). Ethical leaders are known for their transparency and open communication, consistently encouraging and rewarding ethical behavior. Their fairness and trustworthiness strengthen their effectiveness and contribute to a positive ethical climate within the organization (Brown et al., 2005).

To build an ethical work environment, organizations should prioritize hiring and retaining employees who uphold strong ethical standards and moral values. Leaders play a crucial role in fostering this ethical culture by selecting and maintaining employees who align with these values, thus contributing to the creation of an ethical climate (DeConinck, 2015).

Elci et al. (2012) indicates that ethical leadership reduces employees' turnover intentions. Additionally, Huang et al. (2021) highlight that ethical leadership is positively correlated with subordinates' organizational citizenship behavior and job commitment. This suggests that ethical leadership not only enhances the ethical climate but also promotes greater loyalty and proactive behaviors among employees.

Liu et al. (2013) suggest that social learning theory provides insight into how leaders influence their subordinates' attitudes, perceptions, behaviors, and responses to changes in the workplace. The theory posits that individuals acquire behaviors by observing and emulating role models (Bandura, 1977 & 1986). When individuals observe ethical behaviors, they develop mental frameworks that guide their imitation of such behaviors. Ethical leaders, characterized by their honesty, accountability, fair treatment, consideration of others, and proper conduct, serve as attractive, credible, and legitimate role models within an organizational context (Brown et al., 2005). This modeling of ethical behavior by leaders fosters an environment where employees are more likely to adopt similar ethical practices.

Commitment is characterized by aligning oneself with the organization's goals, objectives, and core values. It reflects a willingness to invest energy and effort on behalf of the organization, coupled with a deep sense of belonging to it. This encompasses an employee's or individual's attachment to their tasks or job (Alam & Ramay, 2012; Tolentino, 2013). Additionally, commitment is understood as an employee's desire to align with and work towards the organization's beliefs and aims, striving for its success amidst competitors (Sharma et al, 2010). Allen and Meyer (1996) argued that commitment serves as a psychological bridge between a leader's influence style and employees, influencing their decision to remain with or depart from an organization. The significance of leadership in cultivating employee commitment is well-established (Gutierre et al., 2012). Several studies have examined the relationship between ethical leadership practices and employee commitment (Asif et al., 2019). Den Hartog and De Hoogh (2009) found a positive relationship between ethical leadership

behavior and employee commitment. Agha et al. (2017) confirmed a significant positive relationship between ethical leader and employee commitment towards the job.

Based upon the facts, the following hypothesis has been developed.

H<sub>1</sub>: Ethical leadership positively affects employees' commitment.

### **Ethical Leadership and Leadership Trust**

Trust represents an emotional connection between individuals, reflecting their expectation of reliability in an organization and its leadership (Darcy, 2010). It underpins constructive conflict resolution, commitment, personal accountability, and the achievement of shared goals (Collins, 2010). Trust is vital for organizational performance and employee engagement; its erosion can have severe negative consequences. High levels of trust in leaders can lead to greater adherence to organizational rules, smoother implementation of changes, and improved employee performance, commitment, and civic behavior (Robinson, 1996; Van & Lazeney, 2002; Ponnu & Tennakoon, 2009). Employees view ethical leaders as trustworthy and dependable (Javed et al., 2018), whereas leaders perceived as dishonest or unethical are less likely to gain employee compliance due to fears of exploitation (Rashed & Ashraf, 2020). Based on these observations, the following hypothesis has been formulated.

H<sub>2</sub>: Ethical leadership positively affects to leadership trust.

### **Leadership Trust and Employee Commitment**

Empirical studies indicates that employees' happiness is greatly affected by their trust in leadership and their sense of connection with colleagues, including their leaders (King & Grace, 2008; Johnson et al., 2003). Moreover, employees who find greater purpose in their work tend to exhibit higher commitment to the organization, which is closely linked to the level of trust that leaders establish with their team. The literature suggests that effective employees are the result of a blend of trust and support (Johnson et al., 2003). Therefore, it is crucial for leaders to foster and maintain employees' commitment by building trust, as employees are more likely to demonstrate strong organizational commitment when they view their leaders as trustworthy and dependable (King & Grace, 2008). Based on this discussion, the current study hypothesizes that:

H<sub>3</sub>: Leadership trust positively affects employees' commitment.

### **Leadership Trust Mediating Ethical Leadership and Employee Commitment**

Trust is integral to the norms and values of an organization, influencing goal setting, risk-taking, information exchange, decision-making, performance management, and collaboration. It emerges from a process of favorable social exchange. A high level of trust between subordinates and superiors fosters increased employee commitment (Yuan et al., 2021). Various strategies can help build trust between employers and employees and between employees and supervisors within an organization. Blomqvist and Stahle (2018) argue that trust

contributes to building credibility through honesty, competence, and inspiration, while fostering trust in integrity. Leadership trust strengthens beliefs and credibility within the organization, positively impacting employee performance and commitment (Robbins and Coulter, 2015).

Turner (2010) emphasizes that leaders and teams must recognize and promote positive behaviors to reinforce trust throughout the organization. Ethical leadership fosters trust-building behaviors such as honest communication, respect, transparency, accountability, and problem-solving. This includes correcting mistakes, apologizing when necessary, demonstrating loyalty, giving credit where due, delivering results, completing tasks accurately, and addressing issues directly. Such practices contribute to enhanced performance and job commitment among employees. Salamon and Robinson (2008) introduced the concepts of "felt ethical" and "felt trust," referring to employees' perceptions of their leaders' trustworthiness based on ethical behavior. A lack of trust in a supervisor can lead to psychological distress and negatively affect job attitudes, including affective commitment (Dirks and Ferrin, 2022). Based on these insights, the following hypothesis can be proposed:

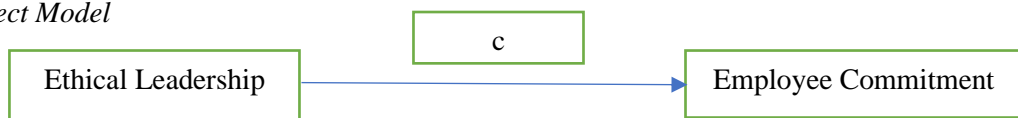
H<sub>4</sub>: Leadership trust mediates the ethical leadership and employees' commitment.

**Theoretical Model**

Figure 1 illustrates the hypothetical mediation model used in this study, based on Model 4 from the Process macro developed by Hayes (2022). This model features a single mediating variable leadership trust (LT) between the independent variable ethical leadership (EL) and the dependent variable employees' commitment (EC). Figure 1(a) shows the total effect (c-path) between EL and EC, while Figure 1(b) displays the indirect effects, including the indirect paths (a-path and b-path) and the direct effect between EL and EC when controlling for LT (c'-path).

**Figure 1 (a)**

*Direct Effect Model*



**Figure 1 (b)**

*Indirect Effect Model*

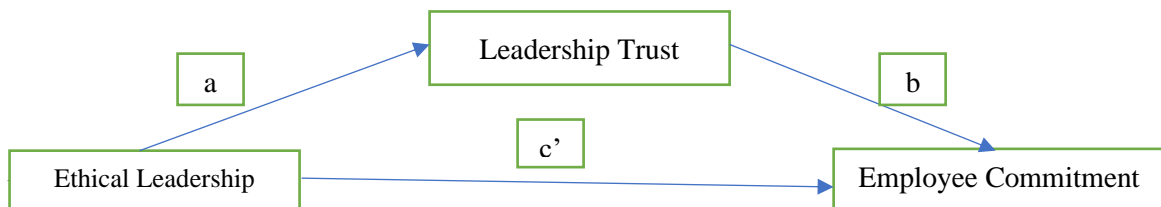


Figure 1: Hypothetical mediation model of the study.

The total effect of the independent variable on the dependent variable is represented by the c-path, indicating the regression coefficient that predicts the dependent variable based on the independent variable, as shown in Figure 1(a). Figure 1(b) depicts the indirect effects, calculated by multiplying the a-path and b-path (ab). The a-path represents the regression coefficient that predicts the mediating variable from the independent variable, while the b-path reflects the regression coefficient predicting the dependent variable from both the independent and mediating variables. Moreover, Figure 1(b) also displays the c'-path, which signifies the direct effect of the independent variable on the dependent variable, after accounting for the mediating variable.

### Materials and Methods

This study utilized a descriptive and correlational research design to address the outlined objectives. The target population included employees working in various positions within Nepalese co-operative societies in the Kathmandu Valley. A total of 391 respondents were selected as the sample for this research. Data collection was conducted using a structured questionnaire, which was distributed through personal visits, emails, and social media platforms. The study applied a convenience sampling technique. In total, 448 questionnaires were distributed, of which 398 were returned, yielding a response rate of 88%. After excluding 7 incomplete responses, 391 valid responses were used for analysis. To evaluate the internal consistency of the model, the researcher performed a Cronbach's alpha reliability test. This test was used to assess the degree of consistency among the items within each dimension. The Cronbach's Alpha values for all variables were greater than 0.7, indicating that the data is reliable for further analysis (Taber, 2018). The Cronbach's Alpha values for each variable are displayed in Table 1.

**Table 1**

*Reliability Analysis*

Variables	Cronbach's Alpha	No. of items	Remarks
Employees' commitment	0.889	7	Reliable
Ethical leadership	0.875	5	Reliable
Leadership trust	0.922	5	Reliable

All three variables meet the reliability threshold, with Cronbach's Alpha values ranging from 0.871 to 0.922 (Cronbach, 1951), indicating their consistency. This reliability indicates how consistently the items in the test assess the same underlying concept (Tavakol & Dennick, 2011). The research utilizes primary data obtained through structured questionnaires that encompass a wide range of variables. The initial section of the questionnaire focused on collecting demographic information from the respondents, including age, marital status,



educational background, job title, years of experience, and income. The second section addressed ethical leadership, employee job commitment, and leadership trust. A 5-point Likert scale was used to assess the various dimensions of ethical leadership and its impact on employees' job commitment in Nepalese co-operative societies. The research also explores the mediating role of leadership trust between job commitment and ethical leadership.

### Results and Discussion

The study explores the influence of ethical leadership on the job commitment of employees working in Nepalese co-operative societies. The sample consisted of 391 employees, with their demographic profile detailed in Table 2. Among the respondents, 63.94% were male, while 36.06% were female. Regarding marital status, 55.75% were married, and 44.25% were unmarried. The age distribution revealed that 62.66% of respondents were between 21 and 30 years old, 20.71% were between 31 and 40 years, 10.23% were below 20 years, and 6.4% were over 40 years old. In terms of education, the majority (70.33%) held a bachelor's degree, 24.8% had completed school education, and 4.9% had an education beyond the bachelor's level. Regarding work experience, 71.61% of employees had up to five years of experience, 23.53% had 5 to 10 years, and 4.86% had more than 10 years of experience. In terms of monthly earnings, 36.83% earned less than 25,000, 46.8% earned between 25,000 and 40,000, and 16.37% earned more than 40,000

**Table 2**

*Respondents' Profile*

Variables	Frequency	Percent
N	391	
Gender		
Male	250	63.94
Female	141	36.06
Marital Status		
Married	218	55.75
Unmarried	173	44.25
Age		
Below 20	40	10.23
21-30	245	62.66
31-40	81	20.71
Above 40	25	6.4
Academic Qualification		
School Level	97	24.8
Bachelor	275	70.33

Variables	Frequency	Percent
Above Bachelor	19	4.9
Experience		
Up to 5 Years	280	71.61
5-10 Years	92	23.53
Above 10 Years	19	4.86
Income per Month		
Below 25,000	144	36.83
25001-35,000	183	46.8
Above 35,000	64	16.37

Note. Field survey, 2024

Table 3 provides an overview of the descriptive statistics and correlation coefficients for the variables analyzed in this research. The average scores recorded for Ethical Leadership (EL), Employees’ Commitment (EC), and Leadership Trust (LT) were 3.60, 3.59, and 3.60, respectively. This suggests that all these factors are considered to be in a satisfactory state within their respective organizations. To assess the correlation among the variables under investigation, the Pearson Correlation Coefficient test was conducted. The results indicate a positive and significant relationship between EL, EC, and LT. Specifically, EL demonstrated a strong positive correlation with the mediating variable LT ( $r = 0.686, p < 0.00$ ) and the dependent variable EC ( $r = 0.734, p < 0.00$ ). Furthermore, the mediating variable LT exhibited an even stronger and more significant correlation with EC ( $r = 0.834, p < 0.00$ ).

**Table 3**

*Descriptive Analysis and Correlation Coefficients*

	Mean	SD	EL	EC	EC
EL	3.62	0.46	1		
EC	3.59	0.53	.734**	1	
EC	3.6	0.58	.686**	.834**	1

\*\* Correlation is significant at the 0.01 level (2 tailed)

Note. Field survey, 2024

**Test of Hypothesis**

The main objective of this study is to investigate both the direct and indirect impacts of Ethical Leadership (EL) on Employee Commitment (EC), with Leadership Trust (LT) serving as a mediator. In this framework, Ethical Leadership is the independent variable, Employee Commitment is the dependent variable, and Leadership Trust acts as the mediating variable. The

data were analyzed using the PROCESS macro (Model 4) for SPSS (Hayes, 2022), and the results are summarized in Tables 4, 5, 6, and 7.

**Total relationship effects between EL and EC (c path, IV to DV)**

Table 4 shows the total effect of EL on EC using the Process macro. EL has a significant total effect on EC ( $\beta = 0.2985$ ,  $p = 0.0000$ , LLCI = 0.1476, ULCI = 0.4493). Since the confidence interval does not include zero, the total effect of EL on EC (c path) is significant. Thus, H1, which states that EL affects EC, is accepted. This implies that employees trust their leaders when they perceive them as ethical.

**Table 4**

*Regression Analysis of Ethical Leadership on Employee Commitment (Total effects:c path)*

R	R-sq	MSE	F	df1	df2	P
0.2724	0.0742	0.4341	15.2326	1	389	0.0001

**Model**

	Coefficient	SE	t	p	LLCI	ULCI
Constant	2.0749	0.2938	7.0616	0.0000	1.4953	2.6545
EL	0.2985	0.0765	3.9029	0.0001	0.1476	0.4493

**Indirect relationship effects between EL and LT (a path, IV to MV)**

Table 5 displays the output from the Process macro for the indirect effect of ethical leadership (EL) on leadership trust (LT). EL has a significant effect on LT ( $\beta = 0.3967$ ,  $p = .000$ , LLCI = 0.2733, ULCI = 0.5202). Since the confidence interval does not include zero, the effect of EL on LT (a path) is significant. Therefore, H<sub>2</sub>, stating that EL significantly affects LT, is accepted.

**Table 5**

*Regression Analysis of Ethical Leadership on Leadership Trust*

R	R-sq	MSE	F	df1	df2	P
.6865	0.4178	0.2907	40.1796	1	389	0.0000

**Model**

	Coefficient	SE	t	p	LLCI	ULCI
Constant	1.9333	0.2405	8.0398	0.0000	1.4590	2.4077
EL	0.3967	0.0626	6.3387	0.0000	0.2733	0.5202

*Outcome Variable: Leadership Trust*

**Indirect Effects of LT on EC (b path, MV to DV)**

Table 6 presents the regression results with EC as the outcome variable and EL and LT as predictors. LT has a significant indirect effect on the relationship between EL and EC ( $\beta = 0.6441$ ,  $t = 8.5286$ ,  $p = .000$ , LLCI = 0.4952, ULCI = 0.7931). Thus, the b path is significant, and H<sub>3</sub>, stating that LT significantly impacts EC, is accepted.

**Direct Effects of EL on EC while controlling for LT (c' path, IV to DV controlling MV)**

When controlling for LT, EL shows no significant impact on EC ( $\beta = 0.0429$ ,  $t = 0.5986$ ,  $p = 0.5502$ , LLCI = -0.0985, ULCI = 0.1844). This suggests that the relationship between EL and EC is fully mediated by LT. The indirect effect of EL on EC through LT is significant ( $\beta = 0.2555$ , bootstrapped 95% CI: [0.1548, 0.3741]). This indicates that EL influences EC only through LT.

The findings indicate a full mediation model in which LT serves as the mediator between EL and EC. EL has a significant impact on LT, which subsequently exerts a significant influence on EC. Consequently, H<sub>4</sub>, which proposes that LT mediates the relationship between EL and EC, is confirmed.

**Table 6**

*Regression Analysis of Ethical Leadership and Leadership Trust on Employee Commitment*

R	R-sq	MSE	F	df1	df2	P
0.5758	0.3315	0.3151	46.8601	2	388	0.0000

**Model**

	Coefficient	SE	t	p	LLCI	ULCI
Constant	0.8296	0.2898	2.8624	0.0047	0.2579	1.4013
EL	0.0429	0.0717	0.5986	0.5502	-0.0985	0.1844
LT	0.6441	0.0755	8.5286	0.0000	0.4952	0.7931

*Outcome variable: Employee Commitment*

**Table 7**

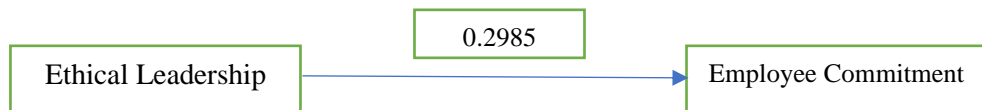
*Summary of Total, Direct, and Indirect Effects of EL on EC*

Effect Type	Effect	SE	t	p	LLCI	ULCI
Total Effect of EL on EC	0.2985	0.0765	3.9029	0.0001	0.1476	0.4493
Direct Effect of EL on EC	0.0429	0.0717	0.5986	0.5502	-0.0985	0.1844
Indirect Effect of EL on EC through LT			Effect	BootSE	BootLLCI	BootULCI
LT			0.2555	0.0558	0.1548	0.3741

The results indicate a full mediation model where EL affects EC through LT. EL significantly enhances LT, which in turn significantly boosts EC. Direct effects of EL on EC are negligible when LT is taken into account.

**Figure 2 (a)**

*Direct Effect Model*



**Figure 2 (b)**

*Indirect Effect Model*

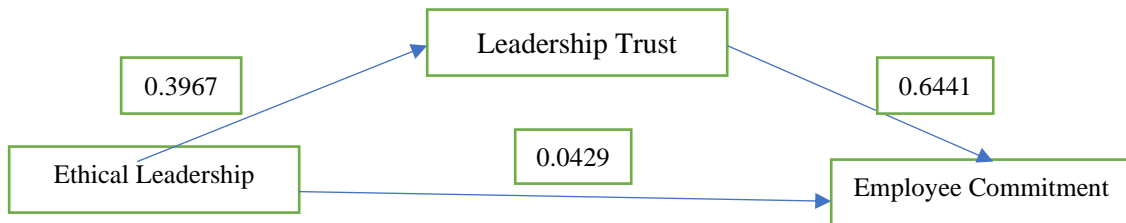


Figure 2: *Final mediation model*

The analysis reveals that leadership trust fully mediates the relationship between ethical leadership and employee commitment. Although ethical leadership does not have a significant direct effect on employee commitment when accounting for leadership trust, it significantly impacts employee commitment through its influence on leadership trust. This implies that the positive effects of ethical leadership on employee commitment are realized primarily through the enhancement of trust in leadership. Therefore, fostering ethical leadership is essential for building leadership trust, which in turn, enhances employee commitment.

**Discussion**

The present study aimed to explore the relationship between ethical leadership and employees' commitment with mediating effect of leadership trust. The findings reveal a strong positive correlation between ethical leadership behaviors and employees' commitment. This implies that when leaders demonstrate ethical conduct, employees are more likely to develop emotional attachment and exhibit loyalty to the organization. The study revealed that ethical leadership has a significant impact on job commitment of employees in Nepalese co-operative societies. A trusting and ethical relationship between leaders and followers positively contributes to employee job commitment (Engelbrecht et al., 2014). Employees are more loyal and committed towards the organizations and whose leaders are perceived as fair, trustworthy, and committed to disciplining unethical behavior (DeConinck, 2015). In addition to the direct

effects of ethical leadership, this trust-based process may help explain how ethical leadership translates into other desirable outcomes for employees and the organization. Specifically, ethical leadership may enhance employee commitment through the mediating mechanism of leadership trust. Employees who trust their leaders are more likely to feel a strong sense of attachment and loyalty to the organization (Zeng & Xu, 2019, Ko et al., 2017, Ilyas et al., 2020). Ethical leadership and leadership trust can jointly contribute to fostering employee commitment. (Brown & Treviño, 2006, Ko et al., 2017, Hoogh & Hartog, 2009, Huang et al., 2021, Zeng & Xu, 2019, Mweemba & Mauzard, 2020, Huang et al., 2021, Malik et al., 2022). Ethical leaders who are viewed as trustworthy can motivate employees to commit fully to the organization's objectives and achievements (Ilyas et al., 2020, Huang et al., 2021).

The mediation analysis confirmed that leadership trust fully mediates this relationship, meaning that while ethical leadership directly influences employee commitment, a major portion of this influence is channeled through the trust that employees place in their leaders (Dirks and Ferrin, 2022). The direct effect of ethical leadership on employee commitment was not significant. Employees who trust their leaders are more likely to be committed to their organization. Trust in leadership creates a sense of psychological safety and belonging, encouraging employees to invest more in their roles and stay loyal to the organization (King & Grace, 2008). These findings are consistent with prior research that emphasizes the role of ethical leadership in enhancing employees' commitment (Brown et al., 2005; Treviño et al., 2003). The results align with social exchange theory, which posits that employees reciprocate positive treatment from their leaders with higher levels of commitment (Blau, 1964). Moreover, this study supports the notion that ethical leaders serve as role models, thereby fostering a culture of integrity and accountability (Mayer et al., 2009). Furthermore, ethical leadership practices not only directly strengthen employee commitment but also achieve greater effectiveness by fostering a foundation of trust.

The findings of this study enhance the current understanding by demonstrating that while ethical leadership positively impacts all dimensions of commitment, its influence varies in strength across different types of commitment. This study suggests that ethical leadership is especially effective in boosting employees' emotional and moral engagement with their organization.

## **Conclusion**

The study on the impact of ethical leadership on employee commitment in Nepalese cooperatives, exploring the mediating role of trust, yields significant insights. Ethical leadership has a positive impact on employee commitment, as leaders who demonstrate integrity, fairness, and ethical behavior foster greater dedication and loyalty in their employees. This relationship is significantly mediated by trust, indicating that ethical leadership fosters

trust within the organization, which in turn enhances employee commitment, Trust acts as a crucial intermediary in this dynamic. When employees perceive their leaders as ethical, they are more likely to trust them, resulting in stronger emotional and professional bonds with the organization. This trust reduces uncertainty and fosters a positive organizational environment, reinforcing employees' willingness to stay committed and go above and beyond in their roles, In the context of Nepalese cooperatives, where community and cooperative values are central, ethical leadership and trust are even more critical. The cooperative model, built on mutual benefit and shared responsibility, aligns closely with the principles of ethical leadership. Therefore, promoting ethical leadership practices within these organizations not only boosts individual employee commitment but also strengthens the cooperative as a whole, enhancing its sustainability and success. In conclusion, the findings underscore the vital role of ethical leadership in cultivating a committed workforce in Nepalese cooperatives. By fostering an environment of trust, leaders can significantly enhance employee loyalty and engagement, ultimately contributing to the overall effectiveness and sustainability of the cooperative sector in Nepal.

### **Implication of the Study**

Very few studies have explored the relationship between ethical leadership and employee commitment within the Nepalese context. This research fills a significant theoretical gap relating to the study. Firstly, the study reinforces the significance of ethical leadership in organizational behavior research. Secondly, the mediating role of leadership trust highlights the importance of trust as a key mechanism through which ethical leadership translates into employee commitment. This study further enhances the understanding of how ethical leadership contributes to fostering a trusting organizational environment. Practically, the findings highlight the critical role of ethical leadership in nurturing a dedicated and committed workforce. Organizations should prioritize the development and reinforcement of ethical behaviors in their leadership training programs. Leaders who exemplify ethical behavior not only strengthen their credibility but also create an environment that cultivates employee loyalty and enhances retention. HR practices should include the evaluation of ethical behaviors as a core criterion in leadership assessments and promotions.

### **Limitation and Scope for Future Research**

This study provides valuable insights that are consistent with its established research questions. However, it is important to recognize its limitations and suggest potential areas for future research. One significant limitation is the reliance on a cross-sectional research design. Future studies could adopt a longitudinal approach, encompassing a more diverse employee base and extending the geographical scope to enhance the depth and applicability of the findings. Additionally, the study's focus on a specific cultural and organizational context may

constrain the generalizability of the results. Comparative analyses across varying cultural settings and industries could yield a more comprehensive understanding of the global impact of ethical leadership on employee commitment. Furthermore, future research could explore potential mediating and moderating factors, such as organizational justice and employee empowerment, to develop a more nuanced and integrative model of the relationship between ethical leadership and employee commitment.

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