

Ethical Leadership and Employee Engagement: Psychological and Organisational Pathways toward Sustainable Organisational Effectiveness

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ABSTRACT

Ethical leadership has come to be an important leadership method in contemporary organisations as a consequence of its positive impact on employees' behaviour, organisational ethics and effectiveness of the workplace. Businesses need leaders who can support fairness, integrity, accountability, transparency and employee wellness in today's business landscape. At the same time, workers' involvement has become a major factor in the productivity, innovation, commitment, and sustainability of the organisation. Employees with high engagement are more committed, emotionally connected, motivated and actively involved in the organisation. This theoretical paper explores the correlation between ethical leadership and employee engagement through a literature review from the health care, hospitality, construction, education and corporate industries. The review suggests that the positive effect of ethical leadership on employee engagement is manifested through the development of ethical climates, trust-based relationships, psychological safety and supportive work environments. Ethical leaders demonstrate integrity, honesty, and ethical communication with employees, fostering their engagement and commitment to the organisation. This paper also highlights some of the key mediating factors, like workplace spirituality, organisational commitment, self-efficacy, ethical climate, and organisational trust. In addition, it discusses variables that need to be moderated, such as supportive supervision and organisational culture. Theories that support the study are Social Learning Theory, Social Exchange Theory and Self-Determination Theory. Conclusively, the study reveals that ethical leadership has a great impact on employee engagement and long term organizational effectiveness.

Keywords: *Ethical Leadership, Employee Engagement, Ethical Climate, Organisational Trust.*

Introduction

Today's business landscape is characterised by ethical dilemmas, fierce competition, rapid technological evolution, globalisation, and growing stakeholder demands for transparency and ethical business practices. The challenges have placed a greater emphasis on leadership practices that enhance organisational performance as well as ethical practices, employee wellbeing and sustainable organisational development. Given the multitude of leadership styles, ethical leadership has become one of the most important and relevant leadership frameworks in organisational behaviour research literature because of its positive influence on employees and organisational outcomes.

Ethical leadership is defined as the personal behaviour, interpersonal relationships, communication, reinforcement and ethical decisions of a leader that exhibit normatively appropriate conduct. Brown et al. (2005) defined ethical leadership as ethical behaviour that is promoted by its followers through role modelling, ethical guidance, and two-way communication. Ethical leaders are defined by their honesty, integrity, fairness, accountability, trustworthiness and concern for employees and stakeholders.

Ethical leaders are also moral persons who set ethical standards, and moral managers who lead others by their own moral action and their moral decision-making processes. (Treviño et al., 2000).

Increasing unethical organisational practices, corruption, organisational misconduct, lack of trust, and employee dissatisfaction have been of interest to scholars around ethical leadership. In recent years, numerous scandals and organisational failures have shown the adverse impact of unethical leadership on organisational sustainability and employee morale. As such, there is a growing emphasis in organisations on the need for ethical leaders to develop transparent, fair and supportive work environments.

Meanwhile, employee engagement is also a major issue for companies as engaged employees are a key asset to the company's productivity, innovation, creativity, and competitive edge.

Employees show up to their job and to their company's goals. Kahn (1990) defined engagement as an individual's psychological involvement in a job, and Schaufeli and Bakker defined engagement in terms of three dimensions: vigour, dedication, and absorption. When employees are engaged, they are more likely to be enthusiastic, motivated, committed, willing to go the extra mile, etc.

Leadership behaviour has been identified as one of the most significant factors influencing employee engagement in the existing literature. Ethical leadership, especially, builds psychologically safe and ethically sound work environments in which employees are respected, valued, trusted and supported. Employees of ethical leaders are likely to have a higher level of organisational commitment, trust, meaningful work experiences and emotional attachment towards organisations, thus increasing their level of engagement.

There are several empirical studies that corroborate the positive association between ethical leadership and employee engagement. Bhana & Suknunan (2019) concluded that ethical leadership has a positive impact on the engagement of employees in higher education institutions. Ashfaq et al. (2021) found that ethical leadership affects employee engagement positively, via self-efficacy and organisational commitment. Alam et al. (2021) also showed that supportive supervision positively mediated the relationship between ethical leadership and organisational commitment, which, in turn, positively mediated the relationship between ethical leadership and employee engagement.

Other mechanisms between ethical leadership and increased employee engagement have also been identified through the research. Adnan et al. (2020) suggested that workplace spirituality fully mediates between the relationship of ethical leadership and work engagement, providing a meaningful and value-based working environment. In the health and hospitality field, research also shows that ethical climate, organisational trust, communication skills, and psychological safety play a major role in enhancing employee engagement in the context of ethical leadership.

The COVID-19 pandemic also added to the importance of ethical leadership, as there was a lack of certainty, emotional challenges, decreased morale, and uncertainty in the workplace for organisations around the world. In these difficult times, ethical leadership has been vital in ensuring that employees continue to trust the organisation, feel good and have confidence in their colleagues. Previous research in the healthcare and construction industries during the pandemic demonstrated that ethical leadership had a positive effect on employee engagement through its role in fostering organisational supportive culture, ethical leadership guidance, and employee wellbeing. Earlier research in the construction and healthcare field during the pandemic showed that ethical leadership had a positive impact on employee engagement through supporting organisational culture, ethical leadership guidance, and employee wellbeing.

Although there is a lot of literature sources, they have been scattered across different industries, cultural backgrounds, and theoretical viewpoints. Previous studies have examined the direct relationship between ethical leadership and employee engagement without considering other variables that help explain and/or moderate the relationship, including but not limited to workplace spirituality, organisational commitment, self-efficacy, ethical climate, organisational trust, emotional regulation, and supportive supervision, and very few studies have examined these variables in one theoretical model.

Thus, the present study aims to critically explore and synthesise literature on the topic of ethical leadership and employee engagement. The study aims to look at ethical leadership and employee engagement from a theoretical standpoint by determining key antecedents, mediators, moderators, and organisational outcomes of the relationship.

The paper adopts the following major organisational theories: Social Learning Theory, Social Exchange Theory, Self-Determination Theory, Social Cognitive Theory, Conservation of Resources Theory, as well as the Job Demands–Resources model. Theories as a whole help to understand the effect of ethical leadership on employee attitudes, motivation, trust, employee ethical behaviour, and employee engagement by providing explanations for ethical role modelling, reciprocal relationships, psychological support, and organisational resources.

In general, the study adds to the current literature by synthesising scattered literature into a coherent theoretical framework and by offering greater insight into the importance of ethical leadership as a sustainable solution to enhance employee engagement and organisational effectiveness.

Literature Review

Ethical leadership has become a critical leadership style in organisational research due to its positive relationship with employees' behaviour, trust and organisational effectiveness. According to Brown et al. (2005) Ethical leadership is the modelling of ethically appropriate conduct through personal action, communication and decision making. Ethical leaders foster fairness, honesty, integrity and accountability in organisations.

Treviño et al. (2000) were able to describe the ethical leader as not only a moral person, but also as a moral manager who sets ethical norms and directs employees. The same, Walumbwa and Schaubroeck (2009) established that ethical leadership increase psychological security and voice actions of staff. Hansen et al. (2013) also found that ethical leadership has positive relationships with ethical climate and employee ethical conduct.

Employee engagement is described as the feelings, thinking and actions of employees related to their job. Kahn (1990) defined engagement as psychological presence in the work role, and Schaufeli and Bakker defined engagement as manifested in two components: vigour and dedication, and absorption.

There have been a few studies that confirmed that there is a positive link between ethical leadership and employee engagement. Bhana & Suknunan (2019) have revealed that higher education institutions are influenced positively by ethical leadership on employee engagement. Likewise, Ashfaq et al. (2021) found that self-efficacy and organisational commitment are the mediators between ethical leadership and the level of engagement.

Adnan et al. (2020) proposed that workplace spirituality has a mediating role between ethical leadership and work engagement as it fosters a meaningful and value-enhancing work environment. Alam et al. (2021) also discovered that employees' organisational commitment moderated the positive relationship between ethical leadership and supportive supervision with employees' engagement.

In addition, studies in the healthcare and construction fields suggest that ethical climate, organisational trust, communication competencies, and a positive organisational culture enhance employee engagement in the context of ethical leadership. The overall results of the literature review show that ethical leadership is an essential factor in enhancing employee engagement, organisational commitment, trust, and effectiveness of the workplace.

Reimagining Ethical Leadership in today's Organisations

Due to the changing dynamics of organisations, stakeholder demands, and workplace diversity, ethical leadership is a strategic competency and not just a moral leadership approach. Today, ethical leadership is seen as a complex, multidimensional concept that incorporates integrity, fairness, accountability, transparency, sustainability, and employee-centred decision making. Ethical leaders not only influence employee behaviour through moral guidance, but they also help set the tone of the organisation, psychological safety and long-term sustainability of the organisation.

Brown et al. (2005) defined ethical leadership as the manifestation of normatively appropriate interpersonal relationships and ethical decision making. Building on this, Treviño et al. (2000) suggested that ethical leaders are not only moral persons but moral managers as well, meaning they set the moral tone and discipline in organisations.

Ethical leadership has come to the fore as a response to workplace stress, low employee morale, dishonest organisational practices, and lack of employee engagement in recent years as a result of organisational development. When organisations are unstable, employees look for steady, honest,

caring, and ethical leaders. It is thus that ethical leadership has become a necessary condition to sustain employees' engagement, institutional trust and institutional legitimacy.

Furthermore, ethical leadership has been recently extended to situations related to sustainability. By combining ethical responsibility with environmental sustainability, Elkhweildi et al. (2025) highlighted the positive impact on communication competence, work engagement, and employee performance that environmentally specific ethical leadership has. This new perspective shows the way in which ethical leadership is shifting from a moral to a strategic asset for any organisation to develop sustainably.

Ethical Leadership as a SPUR for Employee Engagement

With engaged employees showing greater enthusiasm, innovation, productivity and organisational commitment, employee engagement has been identified as one of the most important factors to determine organisational effectiveness. There is considerable consistency across the literature that ethical leadership is a critical antecedent of EE, through positive workplace environments that develop supportive and transparent relationships and are psychologically safe.

Kahn (1990) defined engagement as being psychologically present in the job, while Schaufeli & Bakker described engagement in terms of vigour, dedication and absorption. Ethical leadership factors are more likely to foster these dimensions by establishing trust-based relationships and emotionally supportive organisational climates.

Bhana & Suknunan (2019) concluded that ethical leadership is positively associated with employee engagement in higher education institutions through fostering trust, empowerment and fairness. In a similar fashion, Ashfaq et al. (2021) found that self-efficacy and organisational commitment mediate the relationship between ethical leadership and employee engagement. Ethical leadership increases employee confidence, emotional attachment and organisational belongingness, which leads to increased work involvement.

Additionally, Alam et al. (2021) found that organisational commitment mediated the relationship between supportive supervision and employee engagement with ethical leadership. The results indicate that the more employees believe they are working in an ethical and caring organisation, the stronger their commitment, emotional involvement, and discretionary behaviours in the organisation will be.

All these findings indicate that ethical leadership is an effective motivational tool that can boost employee engagement in terms of workplace fairness, ethical communication, emotional support, and trust-building practices.

Workplace Spirituality and Meaningful Work Experiences

Organisations today have come to understand that employee engagement goes well beyond compensation, job duties, and other formal aspects of the job. Staff are looking for job placements that offer them rewarding experiences, emotional satisfaction, and that reflect their own values. In this regard, workplace spirituality has become an important tool that connects ethical leadership and employee engagement.

Adnan et al. (2020) suggested a mediating role between ethical leadership and work engagement, which is workplace spirituality. Ethical leaders establish work environments of empathy, trust, value congruence and quality work experiences that enhance employee emotional and psychological commitment.

By fostering a sense of purpose, belonging, and internal motivation, workplace spirituality can boost employee engagement and satisfaction. Workplace spirituality can contribute to greater employee engagement and satisfaction by fostering a sense of purpose, belonging, and internal motivation. Spiritually supportive workplaces have job satisfaction, employee emotional health, and organisational engagement among their employees. Ethical leaders, then, help to engage employees by building purposeful and value-based corporate cultures.

Spirituality within organisational practices is also a factor in the reduction of stress, psychological resilience and organisational commitment, which in turn leads to better long-term employee engagement and organisational sustainability.

Ethical Climate and Organisational Trust as a Strategic Organisational Resource

Two important organisational resources which significantly affect employee attitude and behaviour are ethical climate and organisational trust. The development of ethical climates is related to ethical leadership that sets up ethical standards in organisations, fair procedures, and transparent communication systems.

Hansen et al. (2013) maintained that ethical leadership has a positive effect on ethical climate, which in turn affects employees' ethical behaviour and organisational behaviour. Ethical climates foster justice, fairness, teamwork and respect, which boosts employee engagement. Organisational trust has likewise turned into an important result of ethical leadership. Employees who believe in organisational leaders have a higher level of emotional attachment, cooperation and commitment to work. Malaysian construction companies have identified trust as a factor that positively affects the engagement of employees due to the importance of ethical leadership that ensures integrity, transparency and good communication within the organisation.

Trust-based workplaces also foster emotional safety, as they minimise the fear, uncertainty, and emotional distress of employees. This translates into higher employee motivation to collectively work towards the organisation's objectives and increased engagement.

Ethical Leadership and Employee Psychological Well-Being

As the prevalence of stress, burnout, emotional exhaustion and psychological insecurity in the workplace has grown, it has become more crucial than ever that employees' well-being is taken seriously in organisational environments. Ethical leadership is important to the psychological health of employees because it can provide them with a conducive and emotionally safe workplace.

Ethical leaders show their concern for the welfare of employees by being sensitive, just, emotionally supportive and making responsible decisions. An employee's sense of psychological safety, emotional health, and job satisfaction are a result of having ethical leaders.

Studies in the healthcare, education and hospitality industries suggest that ethical leadership positively influences employee morale, emotional health and happiness in the workplace. Ethical leaders minimise workplace ambiguity and emotional stress by communicating openly and relating with others in positive ways.

Moreover, ethical leadership boosts the psychological resources of employees, including confidence, optimism, self-efficacy, and emotional resistance, which then increases the level of employee engagement and organisational performance.

Leadership and Organisational Resilience in a Sustainable Way

The modern organisational landscape demands leadership strategies that can address multiple organisational goals, including performance, well-being of workers, ethical standards, and sustainability. Thus, ethical leadership has become an integral and vital part of sustainable organisational development.

Studies of green ethical leadership in recent years have shown that ethical leadership impacts the behaviour of employees who are environmentally responsible, as well as the sustainable practices of the organisation and the effectiveness of the institution in the long run. Elkhweildi et al. (2025) highlighted that ethical leaders who incorporate environmental responsibility into organisational decisions have positive effects on employee engagement and performance.

Fostering employees' ethical conduct, social responsibility, and teamwork will contribute to long-term organisational resilience and sustainability. This means that ethical leadership plays a vital role not just in enhancing employee engagement but also in fostering adaptability, innovation and sustainability within the organisation.

Organisations that have excellent ethical leadership are able to deal with uncertainty, organisational crises and workplace transformation as they can trust their employees, have emotional stability and organisational cohesion during times of difficulty.

Strategic Implications for Organisations

The results of this study have significant implications for organisational decision makers, HR practitioners and policy makers who want to improve employee engagement and organisational sustainability.

- **Ethical Leadership Development**

It is essential for organisations to allocate resources for developing the leaders in the areas of integrity, ethical decision-making, fairness, accountability, and emotional intelligence. Leadership training should focus on practices of employee-focused management and ethical communication.

- **Sustainable Development and the Environment**

Ethical climates are necessary that are transparent, trustworthy, fair, and held accountable within the organisation. An organisation's culture fosters compliance, co-operation and a sense of safety for employees.

- **Promote Staff Mental Well-being**

Managers and employers should focus on the health of their employees through the encouragement of emotional support groups, work spirituality, organisational trust and work-life balance. Employers need to actively promote the mental health and emotional well-being of their employees.

- **Foster Sustainable Organisational Practices**

There is a need for ethical and sustainable leadership practices to be embedded in organisational strategies. Ethical leadership has the potential to enhance employee engagement, organisational resilience and long-term institutional effectiveness.

Future Research

While considerable research has been done on ethical leadership, there are still key areas that need to be explored. The impact of ethical leadership in digital workplaces, remote working environments, and technologically based organisational systems should be explored in future studies.

Comparing and contrasting different cultural viewpoints on the effectiveness of ethical leadership and employee engagement may also be considered. Long-term research that follows employees' behaviours over time to examine the impact of ethical leadership on employee health, organisational resilience and sustainability is also required.

Further, empirical research should explore new concepts like green ethical leadership, communication competence, emotional intelligence, psychological capital, and organisational resilience in the future using advanced analytical methods like the Structural Equation Modelling (SEM) and SmartPLS.

Conclusion

As a result of the positive impact of ethical leadership on employee engagement, organisational trust, well-being, and sustainable organisational development, the paradigm has become one of the most influential leadership paradigms in contemporary organisations. Ethical leaders create an environment of fairness, transparency, accountability, integrity and employee-focused organisational culture, which helps employees to feel attached and involved in their organisations.

Ethical leadership has a positive impact on employee engagement, as identified from the literature, and which is mediated by workplace spirituality, organisational commitment, self-efficacy, ethical climate, organisational trust, and psychological safety. Moreover, supportive supervision, organisational culture, emotional regulation, and leadership practices that are dedicated to sustainability make a significant contribution to the effectiveness of ethical leadership.

Taking a broad perspective, ethical leadership is a strategic organisational resource that can contribute to improved employee engagement, organisational resilience and the organisation's sustained growth in the ever more complex and ethically challenging business landscape.

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