

# Ethical Leadership and Employee Turnover Intention in Private Organizations in Kathmandu Valley: Mediating Role of Organization Culture and Work Stress

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Received: 25 March 2026

Revised: 27 April 2026

Accepted: 28 April 2026

Published: 30 June 2026

## How to cite this paper:

KC, P., & Adhikari, K. (2026). Ethical Leadership and Employee Turnover Intention in Private Organizations in Kathmandu Valley: Mediating Role of Organization Culture and Work Stress. *Quest Journal of Management and Social Sciences*, 8(2), 460-481. <https://doi.org/10.3126/qjmss.v8i2.96190>

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## Abstract

**Background:** Ethical leadership has a significant influence on organizational performance and employee turnover, especially by minimizing work stress. In Nepal, ethical leadership is very much essential for improving work conditions and enhancing the culture of an organization.

**Purpose:** This study examines how ethical leadership influences turnover intention through work stress and organizational culture in Nepalese private organizations.

**Design/methodology/approach:** The research design is explanatory in nature, and the sample size is 399 private employees, selected through purposive and random sampling. The theoretical framework of this study is based on Herzberg's Two-Factor Theory. Data are analyzed using Structural Equation Modeling (SEM), along with descriptive and inferential statistics.

**Findings:** Ethical leadership decreases the intention of employee turnover and work stress significantly, thus creating a friendly work environment. The findings confirm that ethical leadership is negatively related to turnover intentions and stress while it positively shapes the organizational culture. A strong ethical leadership framework strengthens the retention of employees and their well-being in the workplace.

**Conclusion:** The study confirms that ethical leadership significantly reduces turnover intention by improving organizational culture and reducing work stress. While there is an increasing awareness of ethical leadership, its implementation still varies across sectors. Fairness and transparency in leadership are the major factors for improving employee retention. The study also provides practical recommendations for how to overcome challenges in the application of ethical leadership.

**Keywords:** Herzberg's two-factor theory, ethical leadership, employee turnover, structural equation modeling, Nepalese private organizations

# 1. Introduction

Ethical leadership is more of a perception of the followers and are examined from their viewpoint (Stouten et al., 2012). According to Brown et al. (2005), ethical leadership is defined 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”. This leadership has become key focus in recent times as it influences organization performance and employee behaviour positively. Ethical leaders are considered as principled, fair decision makers who are concerned about the society and are ethical in their professional as well as personal life (Brown & Treviño, 2006). Work engagement is high when the leaders are ethical and they are trusted by the employees as well (Islam et al., 2023). Ethical leadership is more concerned about what kind of person they are rather than what they do (Lawton & Páez, 2015). The effective leaders should demonstrate ethical leadership along with task achievement, relations and adaptation to the change (Yukl et al., 2013).

Employee turnover has become a serious issue in organizations all around the world and there is also significant cost associated with recruitment of new employees, training and loss of talent as well (Al-Suraihi et al., 2021). Employee turnover not only increases the cost of the organization but also hampers the operational effectiveness and motivation of the employees. Whenever an employee leaves the job the productivity of the organization decreases due to the learning curve that is formed while understanding the job and organization (Ongori, 2007). Much research has been conducted regarding impact of leadership on employee turnover, but ethical leadership is not explored as it should have been. Moreover, this relation can also be mediated with other factors like organization culture and work stress. In recent times, work stress has been challenging in many of the organizations. Balancing work life along with meeting the challenges of everyday target and performance create stress. Stress has positive and significant relation with job satisfaction which has negative and significant relation with employee turnover intention (Kurniawaty et al., 2019). If stress is not balanced well then it creates dissatisfied employees and the performance of the organization also decreases. Similarly, organization culture which is values and belief of the company also impacts work stress. To encourage employees to remain in the organization ethical organization culture should be promoted (Kangas et al., 2018). Understanding how ethical leadership interacts with organization culture and work stress helps us to understand employee turnover causes in organization.

While leadership has become common topic and is extensive studies, there is lack of research on ethical leadership and how it affects the turnover when mediated by organization culture and stress. Ethical leadership improves trust of employees and job satisfaction enhancing employee engagement (Junaidi, 2024). Cultural differences, background, religious belief and psychological factors suggests that there is difference in the perception of leadership between eastern and western perception (Dodamgoda et al., 2024). Almost all the research is done in the western context which limits its application to the private sectors of Nepalese context.

In the context of Nepal, one of the significant problem that service sector are facing today is employee turnover (Sharma et al., 2024). High level of work stress which is prevalent in Nepalese private organizations which can be managed through ethical behaviour. Positive relationship with the supervisors, better working condition and recognitions promote job satisfaction which shape the turnover intention (Khadayat et al., 2024). In Nepal, impact of ethical leadership on employee turnover is yet to be explored properly. A literature review by Dhakal et al. (2024) demonstrates that responsible and ethical leadership reduces the employee turnover intention. Hence, ethical leadership can help the Nepalese private organizations to manage work related stress as well which minimize employee turnover in the organization. Work stress and burnout which is also another significant factor for the turnover is controlled through effective leadership approaches (Pandey, 2024).

This study comprises various key components like ethical leadership, work stress, organizational culture and employee turnover intention which all are significantly impacting the organizations. The impact of ethical leadership on turnover intention of the employees is studied through the mediating role of work

stress and organization culture. The leadership style appreciated by the employees minimize employee turnover (Lin & Liu, 2017). The work stress impacts the turnover intention directly while organization culture also has indirect effect to the turnover in nurses (Lee & Jang, 2020). This research aims to understand interplay between the variables like ethical leadership and employee turnover with the mediating role of organization culture and work stress specially focusing on Nepalese private organizations. This study can help us understand how ethical leadership helps to minimize the employee turnover in the organizations offering practical implications to the Nepalese business and HR personnel.

## 2. Literature Review

Employee turnover and recruitment have become a global concern for many firms. Having a high turnover rate can be costly and disruptive to a business. Losing good personnel may harm an organization's competitive edge by lowering morale, decreasing productivity, and degrading work quality (Sulamuthu & Yusof, 2018). Understanding the factors that influence employee turnover is crucial since it can negatively affect both the company and the labor market as a whole (Lazzari et al., 2022). According to the literature review on employee turnover by Ait Alla and Rajaa (2019) voluntary turnover can be understood as the activity taken by an employee to voluntarily leave the firm that employs him. This phenomenon has a detrimental impact on employee psyche and productivity, as well as the company's overall success. According to the idea of planned action, the intention to rotate becomes effective when people believe they have influence over the decision to depart. Indeed, scholars have paid more attention to the goal of voluntary turnover. This emphasis on the part of academics may be explained by the fact that the role of this desire as an instant predictor of voluntary turnover is validated by various research. Most startups that have not yet achieved commercial stability may experience a setback due to employee turnover (Kanchana & Jayathilaka, 2023). Employees' attitudes and views about their work and company may have an impact on their intention to leave (Nguyen et al., 2023). Michaels and Spector (1982) reveals that's turnover is ultimately caused by organizational and human variables such as confirmed expectations, which impact work satisfaction, organizational commitment, and intents to quit. Santripty Shukla (2013) concludes that job satisfaction and work environment are the major factors for employee turnover in the banking sector. Regardless of pay remuneration, employees have a strong desire to pursue new initiatives that offer a better work environment and job satisfaction. Career development is less important than the other two factors, but it is still significant.

The success of a company is dependent on its human resources. Because of the changing nature of human resources, maintaining talent becomes increasingly difficult (Santripty Shukla, 2013). More specifically, retention of talent has become the most crucial area of concern in the globalized world since every firm competes with others to acquire talents with more appealing benefits and chances. While career advancement is a key indicator of employee turnover, leadership and cultural values are greater indicators of excellent employee satisfaction.

## 3. Theoretical Framework and Hypothesis Formulation

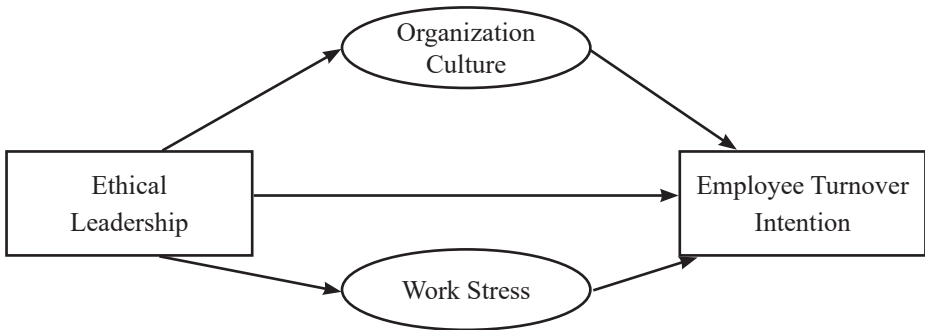
Understanding numerous ideas that are pertinent to comprehending employee turnover intention is the main goal of this area of research. Hence, several theories such as Maslow's Theory of Hierarchical Needs, Herzberg's Two-Factor Theory, Equity Theory, Theory of Organizational Equilibrium and Theory of Planned Behavior (TPB) were discussed for this study. Herzberg's two-factor theory proposed that company policy and administration, job security, salary, supervision, interpersonal relationships, supervisory relationships, physical working conditions, benefits, and hygiene factors as a preventative measure against job dissatisfaction as well as elements like achievement, advancement, recognition, responsibilities, growth, and the work itself (Thant & Chang, 2021). An organizational theory called equity theory (ET) looks into how fairly individuals believe they have been treated (Ahmadpour-Samani et al., 2022). Maslow created a hierarchy of requirements for the five levels which are survival, safety, love and belonging, esteem, and self-realization in the form of a pyramid (Shi & Lin, 2021). The organizational

equilibrium theory holds that contributions and inputs must be balanced for an organization to survive (Subramony et al., 2008). According to the Theory of Planned Behavior (TPB), attitudes, subjective standards, and perceived behavioral control influence ethical customers' purchase intentions (Djafarova & Foots, 2022).

Among all of these, Herzberg's Two-Factor Theory is most suitable for this research. Thus, Herzberg's Two-Factor Theory is utilized in this study. Herzberg's Two-Factor Theory has been used for many years to gauge people's motivations for achieving their professional goals (Ibrahim et al., 2023). Frederick Herzberg developed the Two-Factor Theory, which distinguished between hygiene factors that avoid job dissatisfaction and motivators that build job satisfaction. Keeping an eye on the motivation and hygiene variables from Herzberg's Two-Factor Theory is a common method of figuring out what factors affect employee motivation and satisfaction (Koncar et al., 2022). Theories such as that of Herzberg provide the base on which it's possible to grasp how stress-the hygiene factor-and organizational culture-the likely motivator-might exert some influences over both employee satisfaction and turnover intention. With its ability to combine work satisfaction and motivation into a single paradigm, the Herzberg Two Factor Theory is a key content theory of motivation (Siruri & Cheche, 2021). In terms of ethical leadership, this would show how ethical practice has contributed to an organizational culture that is supportive and minimizes work stress by affecting an individual's decisions in either remaining in or quitting employment. By addressing both hygiene and motivators, firms may increase employee engagement and retention (Ngo Henha & Pauline E, 2017). Figure 1 shows the conceptual model that focus on the influence of ethical leadership on turnover intention through the mediating roles of organizational culture and work stress.

**Figure 1**

*Conceptual Framework*



Source: Adopted and Modified from Elçi et al. (2012)

## Ethical Leadership

Ethical leadership behavior may be defined as the leading person's signaling behavior directed towards stakeholders, such as a client, group of followers, or individual follower, comprising the expression of moral emotions together with the practice of prosocial principles (Banks et al., 2021). Employees' ethical behavior can be significantly influenced by their ethical leaders which plays a critical role in shaping the culture of the company (Al Halbusi et al., 2021). In order to reduce employees' desire to leave and to create an individual-type ethical atmosphere in the company, ethical leadership is essential (Saleh et al., 2022). According to Zaim et al. (2021), scholars claim that ethical leadership has emerged as a crucial element because of its profound impact on both organizational and personal results. Transformative organization culture is strongly linked to ethical leadership which provides optimistic outlook for innovation (Ullah et al., 2022). In one of the study by Haque and Yamoah (2021) employee perceptions of more ethical leadership were associated with less occupational stress. Various studies has shown that ethical leadership style may lessen the chance that workers may leave a company (Jian et al., 2022). Furthermore, the effect of ethical leadership on the intention for turnover can be explained in the light of different hypotheses.

These hypotheses are going to analyze the direct and indirect impact of ethical leadership on turnover intention mediated by organizational culture and work stress.

*H01: Ethical leadership has a significant impact on employee turnover intention.*

*H02: Ethical leadership has a significant impact on organizational culture.*

*H03: Ethical leadership significantly impacts work stress.*

## Organization Culture

Organizational culture means the values, beliefs, shared norms, and habitual behaviors accepted and implemented by all members of an organization which may be reflected through some indicators such as values, beliefs, rules, tolerance, result orientation, attention to people, cooperation, teamwork, identity, stability, and communication patterns (Nabella et al., 2022). Employees who work for companies with a strong, positive culture that promotes teamwork, creativity, and employee development are more likely to be loyal (Kuswati, 2020). Organizational culture plays an important role influencing employee turnover intention and shaping work environment and overall employee experience. A positive organizational culture, fostered by ethical leadership, promotes trust, respect, and a supportive atmosphere, enhancing job satisfaction and reducing turnover intentions. The relationship between employee turnover causes is highly mediated by company culture (mohammad et al., 2022). On the other hand, a toxic culture can cause increased stress and discontent, which may even force employees to quit. Ethical leadership influences organizational culture by implementing principles of ethics and fairness; it engenders a culture in which employees feel valued and committed. Study by Faeq and Ismael (2022) revealed that culture acts to mediate the influence of ethical leadership on turnover intentions and further supports that a healthy workplace culture is essential in employee retention.

*H04: Organizational culture has a significant impact on employee turnover intention.*

## Work Stress

Workplace responsibilities and pressures that are too much for an individual to handle can lead to work stress, which is significant factor influencing an employee's well-being and intention to leave. It may be brought about by many aspects, including excessive workload, meeting strict deadlines, interpersonal conflict, lack of support, and insecurity in the job (Yu et al., 2021). This can result from a number of factors, including an overwhelming workload, meeting deadlines, problems at work, a lack of support, and job concerns. In addition, workplace stress increases turnover intentions, which negatively impacts employees' physical and psychological health (Hakro et al., 2022). Long-term work stress negatively influences employees' morale, productivity, and health; it usually results in burnout and increased turnover intention. Burnout and work-related stress eventually lead to poor job performance and a high intention to leave their position (Salama et al., 2022). Research indicates that leaders significantly contribute to the management and reduction of workplace stress through the establishment of a supportive atmosphere, the promotion of work-life balance, and the appropriate addressing of employee concerns in the context of ethical leadership. Excessive work-related stress leads to voluntary turnover among employees (Ramlawati et al., 2021). Employees' desire to quit will significantly decrease in situations where ethical leadership reduces job-related stress, indicating the leadership role in ensuring a sustainable and healthy work environment.

*H05: Work stress has a significant impact on employee turnover intention.*

## Employee Turnover Intention

Turnover intention is an employee's stated desire to leave the organization in a given period; it is often used to study actual employee turnover (Lazzari et al., 2022). Therefore, turnover intention of employees can be defined as an intentional and conscious decision to leave the organization (Gan & Voon, 2021). Several factors affect turnover intention, which include job dissatisfaction, occupational stress, lack of scope for professional growth, an unsupportive organizational culture, and leadership style. Cognitive distraction,

unpleasant work environments, and autocratic leadership may all contribute to higher employee turnover intentions (Iqbal et al., 2022). Employee turnover is extremely costly for a business since it will negatively impact it, particularly in terms of spending (Ali & Anwar, 2021). Ethical leadership can help a great deal to reduce turnover intention by creating a positive working environment, addressing employee needs and grievances, and ensuring fairness and transparency. By reducing such turnover intention factors, ethical leaders are able to increase employee retention and improve organizational performance.

*H06: Organizational culture mediates the relationship between ethical leadership and employee turnover intention.*

*H07: Work stress mediates the relationship between ethical leadership and employee turnover intention.*

**Table 1**

*Variable Construct*

| Construct                   | Observed variables | Indicators | Explanation                                                                      | Source                    |
|-----------------------------|--------------------|------------|----------------------------------------------------------------------------------|---------------------------|
| <b>Ethical leadership</b>   | Discipline         | EL1        | My manager disciplines employees who violate ethical standards                   | (Islam et al., 2023)      |
|                             | Integrity          | EL2        | My manager conducts his/her personal life in an ethical manner                   |                           |
|                             | Fairness           | EL3        | My manager makes fair and balanced decisions                                     |                           |
|                             | Communication      | EL4        | My manager discusses business ethics or values with employees                    |                           |
|                             | Role Model         | EL5        | My manager sets an example of how to do things the right way in terms of ethics  |                           |
| <b>Organization Culture</b> | Clarity            | OC1        | At my work, clear goals are set for employees                                    | (Kaur Bagga et al., 2023) |
|                             | Teamwork           | OC2        | At my job, people work like they are part of a team.                             |                           |
|                             | Adaptability       | OC3        | My organization is ready to accept new changes                                   |                           |
|                             | Consistency        | OC4        | In my organization, we practice what they preach                                 |                           |
|                             | Collaboration      | OC5        | Employees coordinate projects across different parts of the organization.        |                           |
|                             | Purpose            | OC6        | My organization sets clear mission that gives meaning and direction to our work. |                           |
|                             | Development        | OC7        | Organization concerns the individual development of employees.                   |                           |
| <b>Work Related Stress</b>  | Exhaustion         | WS1        | I feel fed up after work.                                                        | (Elçi et al., 2012)       |
|                             | Anxiety            | WS2        | I worry about problems after work.                                               |                           |
|                             | Unwinding          | WS3        | I find it difficult to unwind after work                                         |                           |
|                             | Stress             | WS4        | I frequently experience work-related stress and tensions.                        |                           |
|                             | Demanding          | WS5        | I regard my job very strenuous and demanding                                     |                           |
|                             | Fatigue            | WS6        | I feel exhausted after work                                                      |                           |
| <b>Turnover Intention</b>   | Quitting           | TI1        | I often think about quitting my job                                              | (Lin & Liu, 2017)         |
|                             | Departure          | TI2        | I seriously think about moving to another firm                                   |                           |
|                             | Job Change         | TI3        | I have intention to change my job to another firm.                               |                           |
|                             | Resignation        | TI4        | As soon as I can find a better job, I'll leave this firm                         |                           |
|                             | Job Search         | TI5        | I will likely actively look for a new job soon                                   |                           |

## 4. Research Methods

This study adopts explanatory research design. The design helps to explain how a certain event came to be and why it happened. This approach helps to take into consideration how independent factors affect dependent variables, according to the claim (Siaw et al., 2022). Some of the contradicting findings in explanatory research may be explained by inconsistencies in the "theoretical design" or a mismatch between the "theoretical design" and the "design of data collection (Bentouhami et al., 2021).

### 4.1 Study Area and Population

The study was carried out in the Kathmandu Valley, which is home to three of the biggest cities in Nepal, including the capital. The area is characterized by high density of private entities; thus, it is a good setting for studying the influence of ethical leadership on employees' intention to quit their jobs. The target population for the study includes people working in private organizations within the Kathmandu Valley. This population was sampled because the valley is listed as the chief commercial center in Nepal, hosting various forms of private businesses, from small startups to large multinational firms. The population represents multiple sectors, including finance, information technology, manufacturing, and services, hence serving the purpose of studying in-depth the effect of ethical leadership on employee turnover intentions, mediated through organizational culture and work-related stress. Researchers may properly identify the interest group and determine the relevance range for their findings by having a thorough understanding of the population (Ahmad et al., 2023). The selection of Kathmandu Valley as the research area and private employees as the population provides better chances to get the relevant results and better exploration of the topic.

### 4.2 Sampling Technique

Since the number of private employees in Kathmandu Valley is unknown, this research has chosen non-probability techniques and because the sample comprises individuals who are relevant to the study. The study employed purposive sampling techniques to target private employees in Kathmandu who have the highest potential to have faced turnover intention and organizational stress. Purposive sampling, often referred to as judgment sampling, is a technique used in research to efficiently reduce the number of possible participants (Lawaju et al., 2024; Yoon et al., 2012). As the population is unknown following formula can be employed which was developed by Cochran, 1977 i.e.  $n = \frac{z^2 \cdot p \cdot q}{e^2}$  (Amatya et al., 2023; Chuanan et al., 2021) =  $\frac{(1.96)^2 \cdot 0.5 \cdot 0.5}{0.05^2} = 384.16$ . Where,  $n$  is the sample size,  $e$  is the desired level of precision/ confidence interval/margin of error and  $z$  is the abscissa of the normal curve that cuts off an area  $\alpha$  at the tails ( $1 - \alpha$  equals the desired confidence level, e.g., 95%). The value for  $Z$  is found in statistical  $Z$ -tables, which contain the area under the normal curve (Bostele & Peters, 2023). Non-response error 5%, i.e.,  $384.16 \cdot 5/100 = 19.21$ . Thus, appropriate sample size needed to be taken for study for best result was  $(384.16 + 19.21) = 403.36 (\approx 403)$ .

### 4.3 Data Collection and Analysis Technique

As questionnaires can be distributed to large samples and make quantitative analysis easier, they are seen as a practical and economical approach (Sekhon et al., 2022) and have been used in large range of empirical studies (Harper & Rhodes, 2021). This research combines online and offline data collection methods, where the former includes online questionnaires by using KOBO toolbox platforms and the latter consists of distributing printed questionnaires to private employees residing in the Kathmandu valley and collecting their responses through a mobile application in an offline mode. A structured questionnaire was designed to capture answers that align with the turnover intention theories and variables. Systematically set questions were accompanied by Likert-scale options, making it easy for respondents to complete the survey quickly. Data analysis was done using MS Excel for descriptive analysis, and inferential analysis was carried out using Smart PLS 4.0.

## 5. Results

### 5.1 Socio Demographic Characteristics

Table 2

*Socio Demographic Characteristics*

| Title           | Category      | Number | Percentage |
|-----------------|---------------|--------|------------|
| Gender          | Male          | 240    | 60.150     |
|                 | Female        | 158    | 39.599     |
|                 | Others        | 1      | 0.251      |
| Age             | 18-30         | 256    | 64.160     |
|                 | 30-40         | 119    | 29.825     |
|                 | 40-50         | 20     | 5.013      |
|                 | 50-above      | 4      | 1.003      |
| Marital Status  | Married       | 153    | 38.346     |
|                 | Unmarried     | 245    | 61.404     |
|                 | Others        | 1      | 0.251      |
| Education level | Below +2      | 5      | 1.253      |
|                 | +2            | 20     | 5.013      |
|                 | Bachelor      | 185    | 46.366     |
|                 | Masters       | 189    | 47.368     |
|                 | Above masters | 0      | 0.000      |
| Monthly Income  | Below 20000   | 87     | 21.805     |
|                 | 20000-50000   | 184    | 46.115     |
|                 | 50000-100000  | 104    | 26.065     |
|                 | 100000 above  | 24     | 6.015      |

Table 2 shows the socio-demographic characteristic of the respondents. The sample comprises a relatively young population of males. Males constitute 60.15%, and females are only 39.60% and 0.25% are labelled as "Others". The population is primarily composed of people between the ages of 18 to 30 years, 64.16%, and decreases as age advances. Unmarried ones in the sample stand at 61.40%, while 38.35% are those who are married and 0.25% falls under "Others". Education levels are quite high: 46.37% of them have a bachelor's degree and 47.37% a master's, while only 1.25% have less than +2. The income distribution suggests that 46.12% receive an income of between 20,000 and 50,000, indicating a middle-income group, while 26.07% have between 50,000 and 100,000. It has been revealed that most respondents were quite young, well-educated, and middle-income earners, indicating a certain socioeconomic segment.

### 5.2 General Awareness of Ethical Leadership

The study reveals a high level of awareness of ethical leadership among the respondents. Out of 399 participants, 344 respondents (86.22%) reported that they had heard about ethical leadership, while only 13.78% were unfamiliar with the concept. This indicates that ethical leadership is a well-recognized topic among the study population. Education emerged as the primary source of knowledge, with 65.12% of respondents learning about ethical leadership through academic institutions. Workplace experience was the second most common source (20.35%), followed by media or news (8.72%) and friends or colleagues (5.81%). These results highlight the significant role of educational institutions in shaping awareness of ethical leadership. The respondents also demonstrated a clear understanding of the concept. The most

common interpretation was leading by example with integrity and fairness (24.56%), followed closely by treating employees, customers, and stakeholders with respect and dignity (23.81%). Additionally, 21.05% viewed ethical leadership as prioritizing ethical values over profits. Other respondents associated ethical leadership with transparency, accountability, honesty, trust, and empowering others to act ethically. This suggests that respondents perceive ethical leadership as a multidimensional concept centered on moral values and responsible behavior.

Furthermore, nearly all respondents (97.74%) agreed that ethical leadership is important for organizations. The most frequently identified benefit was increased employee trust and loyalty (62.66%), followed by improved teamwork and collaboration (47.12%) and better decision-making and problem-solving (45.87%). Respondents also recognized its role in enhancing organizational reputation, customer satisfaction, and talent retention. Overall, the findings indicate that ethical leadership is widely understood, highly valued, and perceived as essential for fostering positive organizational outcomes and long-term success.

### 5.3 Perceived Challenges and Managerial Solutions

It has been observed from the data that 74.94% of the respondents believe the implementation of ethical leadership in private organizations is challenging, which shows that most people consider that ethical practices may not be viable considering business needs. Furthermore, 68.42% reported having experienced a situation where ethical leadership had to be compromised for financial or operational reasons, showing how ethics and business imperatives come into conflict frequently. Further, 66.17% felt that ethical leadership conflicts with operational goals, which again supports the continuing dilemma of maintaining ethical standards versus achieving organizational objectives. Despite all these challenges, 67.17% show optimism that these issues can be resolved, thus indicating a belief in the potential of managerial solutions in effectively integrating ethical leadership into private organizations. The study highlights several significant obstacles to establishing moral leadership in businesses. According to 29.10% of respondents, the biggest obstacle is a lack of knowledge or instruction on ethical behavior, indicating the need for more thorough education and training initiatives. At 19.73%, pressure to reach short-term financial objectives comes next, suggesting that short-term financial needs frequently trump long-term moral considerations. Another significant problem, at 17.39%, is a lack of organizational support, which emphasizes the necessity of dedicated leadership in creating an ethical culture. The organization's 14.72% resistance to change problem illustrates how challenging it is to alter ingrained behaviors and attitudes. This has resulted in unclear ethical standards definitions at 7.36% and competing interests among stakeholders at 11.71%. Thus, the complexity of ethical leadership implementation is based on clear guidelines and alignment between all parties.

**Figure 2**  
*Challenges*



The findings show that pressure coming from all sides is one of the primary reasons for ethical leadership compromise in organizations. The highest rated pressure comes from senior management: 81.69% of respondents indicated that profit over ethics is a major reason. Unrealistic performance targets/deadlines also constitute a significant issue, affecting 57.51%, which suggests that the drive for ambitious goals often leads to ethical lapses. Competition within the market as well as loss of customers brings pressure to 55.31% of the respondents, who illustrate external market pressures on ethical values. Peer group influence to accommodate the unethical trends results in effects to 41.76% of the people who depend on the nature of organizational culture and peer-group behavior. Client demands and the pressures from the investment communities account for 32.97%. Thus, even outside the organizations, there would be pressure building on ethical judgments. Thereafter, the fear of whistle-blowing or retaliatory fears stands at 21.61%. This insinuates an effective deterrence to the reportage of unethical practices. Together, these demands show the intricate setting in which ethical leadership needs to be upheld.

Managerial solutions for enhancing ethical leadership highlight a few key strategies: the establishment of a clear code of ethics and policies is the most recommended solution, with 59.70% of the participants emphasizing that it sets a firm foundation for ethical behavior in organizations. This is followed by the provision of regular training on ethical leadership practices, supported by 52.24%, showing a strong belief in continuous education to reinforce ethical standards. 51.12% think that open communications and feedback mechanisms should be promoted to voice views on ethical issues. 39.55% believe it is aligning organizational objectives with ethics, indicating that the conflict between operational goals and ethical practices can be avoided through embedding ethics as part of the strategic objectives of organizations. 36.57% ensure accountability through audits and monitoring. The importance of oversight to maintain ethics is underlined. The promotion of leadership modeling ethical behavior was cited by 40.67% and points to the role of exemplary leadership in fostering an ethical culture. These solutions cumulatively offer a multi-level approach to establish ethical leadership within organizations.

#### ***5.4 Inferential Analysis***

**Common Method Bias (CMB):** The full collinearity test is used to screen for common method bias. According to Fernando et al. (2021), the VIF value must be less than 5 in order for the score to be deemed acceptable. Table 3 above makes it clear that all of the VIF values are less than 5. The data appears to be free from typical method bias and appropriate for additional investigation.

**Measurement Model Assessment:** In this study, a reflecting measuring paradigm was employed. The reflective model mentions internal consistent reliability, convergent validity, and discriminant validity. Internal consistency is tested using Composite Reliability (CR) and Cronbach's Alpha (CA). For the data to demonstrate internal consistent reliability,  $CA > 0.7$  must be met (Ahmed et al., 2022). Similarly, there are requirements that composite reliability must fulfill. Higher CR readings are often indicative of higher reliability levels. Composite dependability scores of 0.60 to 0.70, for instance, are regarded as "acceptable," and scores of 0.70 to 0.90 are regarded as "satisfactory to good." However, as they suggest that the items are unnecessary, values of 0.95 and above are troublesome (Purwanto & Sudargini, 2021). Cronbach's alpha (CA) and composite reliability (CR) meet all of the requirements (See Table 3). Consequently, this study's model has internal consistency reliability.

According to Maskey et al. (2018), researchers should monitor indicators with loadings between 0.4 and 0.7 if CA, CR, and AVE values above the recommended level (Sharma et al., 2024). However, removing markers from a construct should only be done if doing so results in higher-than-expected CA, CR, and AVE scores. But it's common to accept AVE values higher than 0.5 (Aburumman et al., 2023). The strength and validity of four constructs, which are Ethical Leadership, Organizational Culture, Turnover Intention, and Work Stress, can be deduced using the outer loadings and AVE. In table 3, the case of Ethical Leadership, outer loadings range from 0.66 to 0.82, while an AVE of 0.58 indicates adequate convergent validity. Loads ranging from 0.743 to 0.826 with an AVE of 0.624 for organizational culture indicated a strong indicator loading between the construct and its indicators, which means that the construct explains well the

variance in the indicators. Loads ranging from 0.841 to 0.897 and an AVE of 0.754 for Turnover Intention showed excellent convergent validity. Work Stress has medium validity with outer loadings ranging from 0.589 up to 0.814 and AVE of 0.5, which satisfies the minimum accepted standard for convergent validity. Overall, the constructs have adequate convergence validity except for Turnover Intention, which has the highest reliability among them.

**Table 3**

*Cronbach's alpha (CA), Composite Reliability (CR), Factor Loading (FL), AVE & VIF*

| Construct              | Indicators | FL    | CA    | CR    | AVE   | VIF   |
|------------------------|------------|-------|-------|-------|-------|-------|
| Ethical leadership     | el1        | 0.7   | 0.817 | 0.873 | 0.58  | 1.422 |
|                        | el2        | 0.66  |       |       |       |       |
|                        | el3        | 0.796 |       |       |       |       |
|                        | el4        | 0.82  |       |       |       |       |
|                        | el5        | 0.818 |       |       |       |       |
| Organizational culture | oc1        | 0.815 | 0.899 | 0.921 | 0.624 | 1.712 |
|                        | oc2        | 0.826 |       |       |       |       |
|                        | oc3        | 0.806 |       |       |       |       |
|                        | oc4        | 0.804 |       |       |       |       |
|                        | oc5        | 0.743 |       |       |       |       |
|                        | oc6        | 0.79  |       |       |       |       |
|                        | oc7        | 0.743 |       |       |       |       |
| Turnover intention     | ti1        | 0.841 | 0.918 | 0.939 | 0.754 | 1.877 |
|                        | ti2        | 0.89  |       |       |       |       |
|                        | ti3        | 0.897 |       |       |       |       |
|                        | ti4        | 0.854 |       |       |       |       |
|                        | ti5        | 0.857 |       |       |       |       |
| Work Stress            | ws1        | 0.679 | 0.782 | 0.848 | 0.5   | 1.422 |
|                        | ws2        | 0.589 |       |       |       |       |
|                        | ws3        | 0.633 |       |       |       |       |
|                        | ws4        | 0.808 |       |       |       |       |
|                        | ws5        | 0.814 |       |       |       |       |
|                        | ws6        | 0.623 |       |       |       |       |

The HTMT ratio and Fornell and Larker criteria were used to assess cross-loading discriminant validity. This calculates cross-loading by showing that the loading indicators on the chosen construct should be higher than all loading on other constructs (Ab Hamid et al., 2017). In this study each loading are higher in their own constructing suggesting there is no issue of discriminant validity.

To establish discriminant validity through Fornell-Larcker criterion, the square root of AVE for each construct should be higher than its correlation with any other construct within the framework while the cross-loadings method require that each items outer loading on its respective associated construct will be higher than its loadings on the other constructs. The Fornell-Larcker Criterion (see Table 4) has shown that most constructs have satisfied the discriminant validity because the square root of AVE is greater than the

correlation of other constructs (diagonal values). Further validation using HTMT ratio or cross-loadings is recommended to confirm discriminant validity. HTMT is applied to test the discriminant validity of the measures. HTMT below 0.85 are considered much more conservative and way below 0.9, as indicated by Sen and Lawaju (2026). If the values of HTMT are greater than 0.9, then bootstrapping is applied. The HTMT ratio results (See Table 5) indicate that most constructs meet the threshold for discriminant validity, generally considered to be 0.85 or, in some instances, 0.90. The HTMT ratio and Fornell and Larker criteria shows that there is no issue of discriminant validity.

**Table 4**  
*Fornell-Larcker Criterion*

|    | el     | oc     | ti    | ws    |
|----|--------|--------|-------|-------|
| el | 0.762  |        |       |       |
| oc | 0.549  | 0.79   |       |       |
| ti | -0.41  | -0.522 | 0.868 |       |
| ws | -0.367 | -0.545 | 0.667 | 0.697 |

**Table 5**  
*HTMT Results*

|    | el    | oc    | ti    | ws |
|----|-------|-------|-------|----|
| el |       |       |       |    |
| oc | 0.64  |       |       |    |
| ti | 0.469 | 0.573 |       |    |
| ws | 0.449 | 0.651 | 0.789 |    |

**Goodness of Fit:** The SRMR was examined to make sure the model appropriately matches the data. A SRMR score of less than 0.08 often indicates a good match and an adequate fit, claim Cangur and Ercan (2015). In this study the SRMR value is 0.065 which is less than 0.08 indicating the model is fit.

**Structural Model**

The study's hypotheses were tested using a structural equation analysis. Evaluating the model's capacity to forecast and account for changes in endogenous variables brought on by outside influences is the primary objective. Furthermore, in order to ensure a decent model fit, Hair et al. (2011) suggested an R<sup>2</sup> value of 0.20 or greater (see Table 6).

**Table 6**  
*Coefficient of Determination (R<sup>2</sup>) and VIF*

|                | el    | oc    | ws    | ti    |
|----------------|-------|-------|-------|-------|
| VIF            | 1.445 | 1.778 | 1.435 |       |
| R <sup>2</sup> |       | 0.3   | 0.134 | 0.488 |

The VIF and R-squared (R<sup>2</sup>) values describe the relations of the constructs and the power of explanation. In the case of Ethical Leadership, the VIF value is 1.445, which shows low multicollinearity, while for Organizational Culture, it is 1.778, higher but still within the threshold, reflecting moderate collinearity. Work Stress (ws) has a VIF of 1.435, reflecting a low level of multicollinearity similar to Ethical Leadership. In terms of explanatory power, Organizational Culture (oc) explains 30% of the variance in its dependent variables (R<sup>2</sup> = 0.3), indicating a moderate level of explanation, while Work Stress (ws)

accounts for 13.4% of the ( $R^2 = 0.134$ ), suggesting weaker explanatory capacity. Turnover Intention (ti) exhibits the highest explanatory power with ( $R^2 = 0.488$ ), explaining nearly 49% of the variance in its dependent variables.

Figure 3

Path Analysis

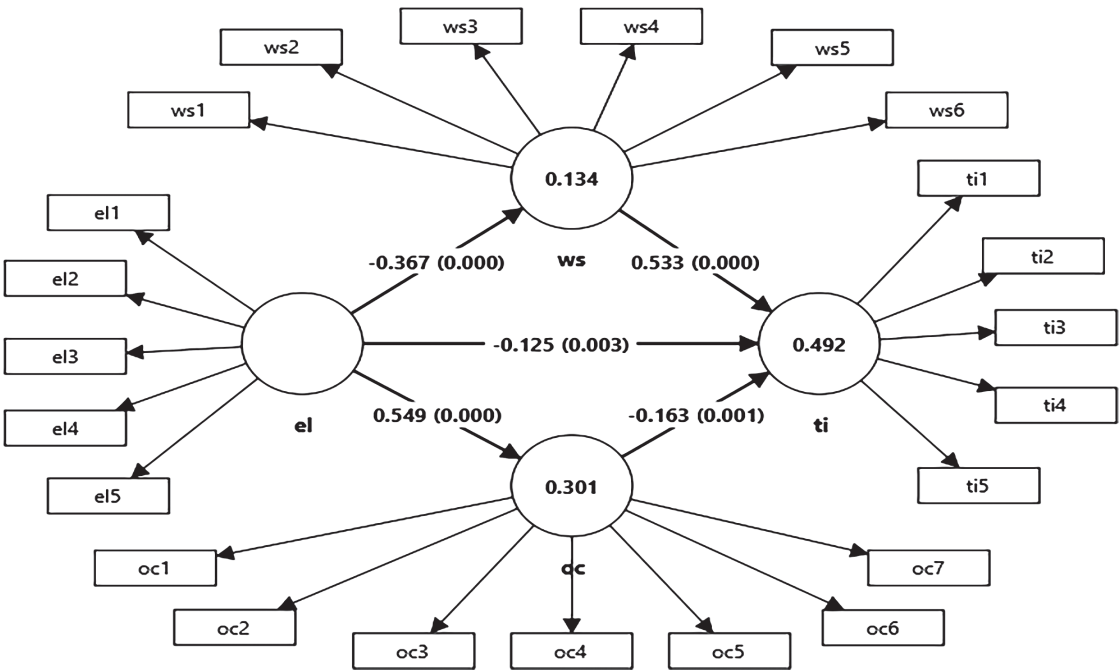


Figure 3 and Table 7 confirm that ethical leadership is significantly influencing all kinds of organizational outcomes. It has a positive effect on organizational culture, which means ethical leadership promotes an enabling and ethical environment. In addition, it has a negative effect on work stress, meaning ethical leadership decreases work stress to contribute to a healthier workplace. It also has a negative impact on employee turnover intention, which means ethical leadership can reduce the possibility of employees leaving the organization. Apart from that, positive organizational culture reduces turnover intention very significantly, while work stress increases turnover intention; hence, managing stress is very important to retain the workers. These findings bring into focus the importance of ethical leadership in shaping organizational dynamics and employee retention.

Table 7

Hypothesis Test

| Hypothesis | Beta   | SD    | T Values | P values | LLCI  | ULCI   | Decision  |
|------------|--------|-------|----------|----------|-------|--------|-----------|
|            |        |       |          |          | 2.50% | 97.50% |           |
| el -> oc   | 0.549  | 0.049 | 11.268   | 0        | 0.446 | 0.637  | Supported |
| el -> ti   | -0.125 | 0.042 | 2.98     | 0.003    | -0.21 | -0.045 | Supported |
| el -> ws   | -0.367 | 0.043 | 8.514    | 0        | -0.45 | -0.274 | Supported |
| oc -> ti   | -0.163 | 0.049 | 3.349    | 0.001    | -0.26 | -0.063 | Supported |
| ws -> ti   | 0.533  | 0.039 | 13.667   | 0        | 0.45  | 0.603  | Supported |

The indirect effect is bootstrapped to test the mediation hypothesis (see Table 8). Following examination of the direct and indirect path coefficients in Smart-PLS, the suggested mediations are verified and examined using the T-values. The mediation analysis revealed that organizational culture and work stress were significant mediators in the relationship between ethical leadership and employee turnover intention. Specifically, the findings revealed that organizational culture mediates the relationship between ethical leadership and turnover intentions; ethical leadership has an indirect effect on reducing turnover intention by positively influencing organizational culture. Furthermore, work stress mediates the relationship between ethical leadership and turnover intention. In that case, ethical leadership decreases work stress, while the latter contributes to decreasing turnover intention. Both are mediated and supported by significant findings, which mean that ethical leadership influences employee turnover intention not only directly but through these mediating factors.

**Table 8**

*Mediation Analysis*

| Hypothesis     | Beta   | SD    | T Values | P values | LLCI   | ULCI   | Decision  |
|----------------|--------|-------|----------|----------|--------|--------|-----------|
|                |        |       |          |          | 2.50%  | 97.50% |           |
| el -> oc -> ti | -0.089 | 0.027 | 3.302    | 0.001    | -0.144 | -0.037 | Supported |
| el -> ws -> ti | -0.195 | 0.025 | 7.892    | 0        | -0.244 | -0.148 | Supported |

**f<sup>2</sup> Effect Size**

According to Cohen's criterion,  $f^2 \geq 0.02$ ,  $f^2 \geq 0.15$ , and  $f^2 \geq 0.35$  indicate modest, medium, and high effect sizes, respectively (Selya et al., 2012). Ethical leadership impacts organizational culture quite strongly ( $f^2 = 0.431$ ) and impacts work stress at a moderate level ( $f^2 = 0.155$ ), while it impacts turnover intention at a minimal level ( $f^2 = 0.021$ ). Organizational culture very weakly influences turnover intention ( $f^2 = 0.029$ ), whereas work stress impacts turnover intention at a moderate level ( $f^2 = 0.39$ ). The above findings indicate that ethical leadership influences organizational culture and work stress most, while work stress fairly influences turnover intention. Q<sup>2</sup>predict values will evaluate the predictive relevance of each construct due to the model. Where  $Q^2 > 0$  means model has predictive relevance for corresponding constructs (Bilal et al., 2021). Based on Table 9, organizational culture ( $Q^2=0.293$ ), reflects the model having predictive relevance moderately; the model is relatively good for prediction. The employee turnover intention, with  $Q^2$  equal to 0.163, has a moderate predictive relevance while work stress has a  $Q^2$  of 0.129, showing lower predictive relevance and meaning that the model is less precise to predict work stress compared with organizational culture and turnover intention.

**Table 9**

*f<sup>2</sup> Effect Size and Q<sup>2</sup>predict*

| Factors  | f <sup>2</sup> | Constructs | Q <sup>2</sup> predict |
|----------|----------------|------------|------------------------|
| el -> oc | 0.431          | oc         | 0.293                  |
| el -> ti | 0.021          | ti         | 0.163                  |
| el -> ws | 0.155          | ws         | 0.129                  |
| oc -> ti | 0.029          |            |                        |
| ws -> ti | 0.39           |            |                        |

## 6. Discussion

This research is focused on the analysis of the factors affecting employees' turnover intention, organizational culture, and work stress in the light of ethical leadership. In this context, several variables such as ethical leadership, organizational culture, work stress, and turnover intention have been tested with the help of SEM. Past studies, such as Elçi et al. (2012), depict that ethical leadership has a great influence on work stress and employee turnover. The results of the study have indicated that ethical leadership has significantly and negatively influenced turnover intention and work stress, while organizational culture shapes these outcomes importantly. The study by Haque and Yamoah (2021) in which employee perceptions of more ethical leadership were associated with less occupational stress was also supported. All the hypotheses were supported, with *p*-values less than the significant level, showing a strong relationship between the variables.

Hypothesis 1 proposed that ethical leadership would affect intention to turnover. Accordingly, it was found that ethical leadership influences employees' intentions to quit significantly and negatively ( $\beta = -0.125$ ,  $p = 0.003$ ), indicating the inverse relationship between increased ethical leadership behavior and lesser intent to vacate the firm. As stated by Zaim et al. (2021), ethical leadership provides a supportive environment that develops trust and commitment, thus reducing turnover intention. In this regard, Jian et al. (2022) note that the concern for fairness and integrity in ethical leadership can substantially reduce employees' intentions to seek other employment.

Hypothesis 2, which states that ethical leadership has a significant effect on organizational culture, is thus supported through the analysis, as  $\beta = 0.549$ ,  $p < 0.001$ . The very strong positive relation supports the fact that ethical leadership acts as a significant enabler in bringing about and reshaping organizational culture. Al Halbusi et al. (2021) note that leaders acting ethically set a moral benchmark for followers, hence promoting integrity and a sense of responsibility throughout the organization. This transformative culture also helps align with the values of ethical leadership and boosts optimism for innovation and employee engagement, according to the study by Ullah et al. (2022).

Hypothesis 3 is supported which claims to have significant influence of ethical leadership on work stress; the effect is very strong and negative ( $\beta = -0.367$ ,  $p < 0.001$ ). Thus, it might be concluded from the result that ethical leadership will effectively reduce employees' work-related stress. Haque and Yamoah (2021) corroborate this by suggesting that occupational stress is lower for employees who perceive their leaders to practice ethical leadership. If an organization ensures a work environment that is conducive and supportive, with ethical practices, it will reduce stressors and therefore improve the well-being and productivity of employees.

Hypothesis 4, explaining that organizational culture is significantly related to turnover intention, is supported through analysis, where  $\beta = -0.163$  and  $p = 0.001$ . This shows that when the culture in an organization is good, then the turnover intention in employees will be considerably low. Nabella et al. (2022) explained that a strong positive culture fosters teamwork, creativity, and loyalty, while Kuswati (2020) showed such a culture helps retain employees through the development of better working conditions. Further, Faeq and Ismael (2022) underline the role of culture as a mediator in the relationship between ethical leadership and turnover intentions, suggesting that a healthy workplace culture is vital for retaining employees.

Hypothesis 5, which states that work stress significantly influences employee turnover intention, is very strongly supported by the result ( $\beta = 0.533$ ,  $p < 0.001$ ). This means that higher levels of work stress significantly raise the chances of employees intending to quit. Yu et al. (2021) cite excessive workload, strict deadlines, and lack of support as some of the main reasons for turnover intention. Hakro et al. (2022) and Salama et al. (2022) also noted that long-term work stress would make burnout occur and decrease the well-being and performance of the employees, further increasing their intention to quit. Ramlawati et al. (2021) indicated that ethical leadership could mitigate work stress through encouragement toward a supportive working environment and concern about the needs of employees.

On the other hand, mediation analysis has confirmed Hypothesis 6: organizational culture is a mediator in the relationship between ethical leadership and employee turnover intention,  $\beta = -0.089$ ,  $p = 0.001$ . That indicates that part of the influence of ethical leadership on turnover intention comes from its positive impacts on organizational culture. Ethical leaders influence organizational culture through fairness and supportiveness that dampens job dissatisfaction and occupational stress. Iqbal et al. (2022) established this, thus ethical leaders shape the organizational culture. In this respect, Hypothesis 7 is supported by the fact that work stress mediates between ethical leadership and turnover intention with  $\beta = -0.195$ ,  $p < 0.001$ . Ethical leaders handle stressors by making the atmosphere supportive; hence, turnover intentions are reduced. For Gan and Voon (2021), reducing work stress can substantially lessen turnover rates, while improving organizational stability and performance, a precept also held by Ali and Anwar (2021).

This study underlines the crucial direct and indirect role-through the mediating effect of organizational culture and work stress-of ethical leadership in relation to employee turnover intention. The findings confirm that ethical leadership significantly enhances a positive organizational culture and reduces work stress, thus decreasing turnover intention among employees. This is in line with the existing literature that supportive and fair leadership practices create a favorable work environment, which in turn enhances the retention of employees. The implications are clear: organizations interested in turnover reduction should focus on the development of ethical leadership to establish a more supportive, respectful, and stress-reducing work culture. These insights provide a useful guide to organizational strategies aimed at improving employee satisfaction and loyalty.

## 7. Conclusion

This study has therefore fully addressed the primary objective of the study, which is to investigate the influence of ethical leadership on employee turnover intention in Nepalese private organizations. The study has made significant step in understanding how ethical leadership influences employee behavior, specifically turnover intention, through the mediating roles of organizational culture and work stress. Testing the hypothesized propositions, this study finds that the ethical leadership factor is core to employee retention since there is reasonable assurance of a congenial organizational culture that minimizes work-related stress. In this regard, the findings have been consistent with the proposed hypotheses that ethical leadership directly influences organizational culture, work stress, and finally employee turnover intention.

Among the key objectives of this research were to assess the general understanding of employees concerning ethical leadership in Nepalese private organizations. In fact, as indicated by the result, awareness of ethical leadership has gone high, although it is not satisfactorily practiced in the various sectors. The employees who view their leaders as ethical tend to exhibit relatively lower levels of work stress and an enabling organizational culture that positively influences the intention to remain with the organization. The above-identified situation has helped in increasing education and sensitization on principles underlying ethical leadership; in particular, about leading styles, huge variations may exist among Nepalese firms. The study also aimed to find out how ethical leadership affected the intention to quit among workers. The outcome strongly proved that ethical leadership impacts turnover intention with critical significance since employees remain in organizations when valued, treated with respect, and equitably served. It gives meaning to the low rate of turnover that creates a mediating influence of organizational culture and work stress as an avenue for ethical leadership and atmosphere nurturance. It is about fairness and transparency that are characteristic of ethical leaders in cultivating an enabling work culture; stresses are minimized as employees are dedicated to their commitments.

In short, this study helps add knowledge on understanding ethical leadership in Nepalese private organizations and its impact on employee turnover intention. The findings add weight to the fact that ethical leadership is crucial for developing a positive organizational culture and, in turn, reducing work stress. Even as the study identifies challenges in implementing ethical leadership, it also provides useful recommendations on how to overcome such barriers by strengthening ethical frameworks and promoting

leadership development programs. The findings from this study provide a foundation for further research and practical application that will enable organizations in Nepal to handle employee retention better and develop an ethical and supportive work environment.

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