

Ethical Leadership, Governance Reform, and Merit-Based Appraisal: A Conceptual Analysis in State-Owned Agencies

Alwizan Mohd Ron

Department of Management, Universiti Teknologi PETRONAS, Malaysia
Corresponding Author Email: alwizan_21000053@utp.edu.my

Assoc. Prof. Dr. Ahmad Shahrul Nizam Isha

Department of Management, Universiti Teknologi PETRONAS, Malaysia
Email: shahrul.nizam@utp.edu.my

Dr. Haniza Abdul Khalid

HK Eliteminds Training, 31350 Ipoh, Perak
hanizarahmank@gmail.com

DOI Link: <http://dx.doi.org/10.6007/IJARBSS/v16-i4/27993>

Published Date: 24 April 2026

Abstract

This study aims to examine the relationship between ethical leadership and merit-based performance appraisal in the governance framework of state-owned agencies in Sabah, Malaysia. SOAs function in a political situation where there are frequent interferences, and the 'multiple principal problem', namely, that government-linked companies must answer to several superiors, is part of the key characteristics of the SOAs (Suffian, 2024). Hence, the main idea for this research is derived from existing problems related to governance in Sabah, wherein 90% of SOAs fail to pay dividends. This demonstrates a large issue with political individuals often being appointed and the SOAs not performing well. The examination of how leaders perform extends beyond standard HR practices, which is highly important to determine how the SOAs are governed. Using a combination of concepts, the current study demonstrates three aspects as the basis for improving the entire system, namely, the ways that ethical leaders create relationships that will be imitated by subordinates, evaluations based on how individuals perform as a way of understanding fairness in organisations, and reinforcing responsibility in the organisations as a key aspect for leaders to be perceived as legitimate. By using the social learning theory, agency theory, and organisational justice theory, the current study offers a model integrating multiple concepts, which considers ethical rules as a "moral compass" for dealing with political favouritism, yet also accepts that politics will continue its influential roles without being fully avoided. The main objective is to reduce the level of political influence in high-level appointments by using clearer

performance review systems, which is a key task for SOAs in Sabah to regain and sustain public trust over time. This study contributes to governance literature by presenting a context-sensitive conceptual model that integrates ethical leadership into formal performance appraisal systems. The findings offer practical ways to enhance accountability, limit political interference, and strengthen institutional trust in state-owned agencies.

Keywords: Governance Reformation, Ethical Leadership, Performance Evaluation, State-Owned Agencies

Introduction

After offering a thorough literature review on personnel selection and evaluation frameworks, the current authors discovered that the crux of the problem was the actual criteria used to define how well a person would perform, especially an incumbent leader. In state-linked entities, also known as state-owned agencies (SOAs), in Sabah, resolving the above problem remains the chief concern, as leadership evaluations may directly influence the governance and reforms of the SOAs. Hence, the important question will frequently be whether the current systems of performance appraisal can help promote more transparent and meritocratic assessments of leadership practices. With growing public attention on governance quality and accountability in state-owned agencies, it is now more important than ever to closely examine how leadership is evaluated. The performance of these organisations is not just about administration—it directly affects public trust, economic sustainability, and institutional legitimacy, especially in politically influenced settings like Sabah.

This study is driven by the ongoing disconnect between governance principles and actual leadership practices in state-owned agencies, where formal systems often fail to capture the ethical dimensions of leadership. Bridging this gap is increasingly urgent in contexts where political influence shapes organisational outcomes, making it necessary to build a stronger and ethically grounded evaluation framework.

The current investigation on ethical leadership focuses on its fundamental theories, namely, charting the progress from the first ideas to present day disciplines that have strongly shaped the development of this area (Brown et al., 2005). Therefore, it is indispensable to go beyond the theoretical discourse, as the disregard of ethical leadership in the evaluation of existing research can negatively affect the day-to-day operations of the public services. Although research on ethical leadership is growing, little focus has been placed on how it is applied in formal performance appraisal systems, especially in politically influenced public-sector settings. This gap highlights the need to integrate ethical leadership into evaluation processes so that governance reforms are not just symbolic but truly embedded in institutions. As such, examining the theoretical and historical aspects of the existing systems of job appraisal will help uncover problems that remain, such as prejudice and lack of ethics, even in places where the role of governance has often been emphasised. Thus, it is necessary to fill the above gaps to guarantee that ethical leadership can become more than a mere rhetorical domain and can transform into a primary constituent of performance reviews, especially among SOAs.

The ongoing research realm has often been concerned with the declining results of political appointments in public institutions and state-owned companies, which can lead to a reduction in effectiveness, accountability, and overall performance, particularly in developing

countries (Jaffar & Abdul-Shukor, 2016; Eryanto et al., 2022; Jones, 2022; Yap et al., 2020). The narrative is not solely about corruption, but rather, about how governance systems may deviate from meritocracy and eventually become normalised over time. As such, ethical leadership, merit-driven recruitment, and transparent performance reviews will emerge as key tools of reformation in this context. This paper, therefore, sought to examine key factors, including CEO evaluations and their roles in fostering more sound governance within SOAs.

The current research also explored the theoretical and practical dimensions of ethical leadership within the framework of organisational governance (Junaidi, 2024). Existing research has continuously suggested that ethics is not an accessory to governance but can also inform leaders' choices, influence performance appraisal practices, and frame accountability structures in public institutions. Sustainable governance and related implications are examined as well (Eryanto et al., 2022; Hamoudah et al., 2021). However, persistent gaps, such as insufficient empirical evidence and scarce theoretical articulation, necessitate bridging these gaps for academia and for relating knowledge about ethical leadership, performance appraisal, and governance more effectively in SOAs (Daud et al., 2023).

This study matters in both theory and practice. On the theoretical side, it connects ethical leadership with performance appraisal systems by bringing together social learning, organisational justice, and agency perspectives into one governance model. On the practical side, it offers policymakers and practitioners a clear way to evaluate leadership beyond financial results, making ethical accountability a central factor in organisational performance. The proposed model in the present study intricately ties ethical leadership to performance evaluation and governance outcomes within the context of SOAs in Sabah (Eryanto et al., 2022; Hamoudah et al., 2021), wherein the framework presented a case for the integration of ethical leadership in performance appraisals to contribute to improved governance and accountability. Essentially, ethical leadership would serve as the foundation of governance reform, and SOAs would be engaged in performance evaluations focused on merit alone (Daud et al., 2023; Eryanto et al., 2022).

This conceptual investigation was embedded within a thematic synthesis of global and regional research on state-owned enterprise governance. By utilising a multiple-case synthesis approach, this study referred to existing evidence from diverse locales, such as Africa, Indonesia, and Malaysia, to assist in pinpointing recurring themes of political patronage and leadership flaws. Specifically, the above comparative method employed replication logic, which helped identify similar governance failures across various contexts, thereby proposing a more robust, merit-based evaluation model for the SOAs in Sabah.

The findings of this study are expected to help many groups. Policymakers can use them to push governance reform, boards of state-owned agencies can strengthen leadership oversight, and human resource practitioners can design better appraisal systems. The wider public also benefits, since their trust depends on institutional integrity. This study adds to existing knowledge by proposing an integrative conceptual model that links ethical leadership with merit-based performance appraisal in politically influenced governance systems. It builds on earlier research by placing ethical leadership in the context of Southeast Asian SOAs and offers a new perspective on how ethical principles can be turned into formal evaluative

criteria for leadership assessment. In doing so, it provides context-sensitive insights for academia that apply to Southeast Asian governance environments.

Problem Statement

This reflective conceptual paper was informed by a holistic thematic review of worldwide and regional research on the governance of state-owned enterprises, in which it adopted a multiple-case synthesis methodology drawing upon empirical data from different parts of the world, including Africa, Indonesia, and Malaysia. Hence, it aimed to uncover recurrent themes of political patronage and leadership weaknesses. Besides comparing different cases, the method employed replication logic to lead to the identification of similar governance failures in different regions, namely, it suggested the design of a sound SOA evaluation model that would be merit-based as the outcome of its comparison of existing governance issues.

Normalised Political Interference, Appointments, and Patronage

Political appointments and patronage practices have often been, in fact, extending issues of concern in different SOAs in Sabah, apart from being, occasionally, mere incidents. In fact, the above practices have been highly normalised in filling leadership roles, sustaining locally as well as in Malaysia (Rashid, 2024; Suffian, 2024). The consequence of these practices, when accumulated over time, can become highly serious, as they have wrought governance decay, wherein transparency loss has become the norm, decision-making is riddled with opacity, and public trust is at a low level.

Furthermore, it is not only the number of politically motivated appointments that is at issue, as there is also a lack of proper mechanisms that can effectively monitor these appointments from an ethical perspective. At present, there have been limited instances in which the processes of leadership selection and evaluation are concentrated towards ethical accountability in a more systematic way. Although merit criteria have occasionally been referred to, the entire aspect continues to be a matter of lip service, in which this oversight has indicated a major loophole through which politically appointed leaders hardly undergo any ethical scrutiny or oversight at all. Consequently, integrity in governance will receive a major hit, and these methods have hardly shown that they should be exceptions, as they seem to become the norm.

Poor Governance and Erosion of Accountability

Political patronage has been notoriously destructive to the main values of sound governance, as prioritising loyalty over values may lead to a situation where, among others, whistleblowing, transparency, and accountability mechanisms would not function properly (Hoang et al., 2023), which serve as main safeguards that were initially developed to resist corruption and halt power abuse. However, their effectiveness can be profoundly diminished if leaders are not held to the highest ethical standards during evaluation.

When governance ethics are first of all acknowledged, the following problem from the appraisal systems of leadership in SOAs will be that these systems will not only be inefficient but also incapable of measuring whether leaders truly follow the standards. As such, this only deepens the problem when leaders have mostly purported to adhere to high moral standards; however, the means to enforce them are weak or entirely missing. Eventually, the

gap between principles and actual working of the system remains wide, in which governance failures remain, while major remedial actions are rarely implemented.

Insufficient Performance Appraisal Systems

A severe issue arises in formulating and implementing effective performance appraisal systems, as various present research and frameworks have been methodologically limited, in particular when measuring leaders instead of lower-level employees (Dolatabad et al., 2025; Pichler et al., 2015). In addition, ethical issues have often been only a smaller component of these systems of performance appraisals.

Leader evaluations have frequently been based on subjective decisions, personal viewpoints, or a small set of result indicators. Moreover, financial figures often have the greatest influence on the assessments, while there is less attention paid to ethical conduct, respect for governance standards, and accountability (Morrison et al., 2024). Hence, the situation is highly challenging, as a leader who is financially successful in the short-term may jeopardise the long-term reputation of the institution; however, the existing evaluation systems have been ineffectively developed to reflect the above situation.

As a result, the present systems only focus more on what can be measured rather than on what is truly needed for the changes in governance. Therefore, the ethical aspect of leadership is not getting enough attention, as, without it, the public sector cannot maintain its credibility.

Western-Centric Research Gap

Besides the above challenges, it is worth pointing out that a lot of work conducted recently to investigate ethical leadership and governance has mainly concentrated on Western institutions (Babalola et al., 2022; Dodamgoda et al., 2024). Hence, although such frameworks have been developed on a solid theoretical basis, they have largely been conditioned to the cultural and political environments, which differ substantially from those of Malaysia and other countries in Southeast Asia, where the situation is highly different.

Societies characterised by hierarchical collectivism, religious strongholds, and enduring patronage networks are likely to operate under normative expectations different from those of Western societies. Therefore, authority relationship, loyalty ideals, and justice conceptualisation might not be in line with Western models; however, such local dynamics have been mostly either ignored or considered less important.

Therefore, the above neglect has resulted in a critical disparity in the existing literature, and the existing models cannot effectively capture the culturally and politically sensitive environments related to the Southeast Asian context, especially SOAs dealing with complex political issues (Eryanto et al., 2022; Nguyn et al., 2025; Zahari et al., 2024). Although this research focused on Sabah, it supported the latest evidence from Indonesia, which indicated that political meddling could greatly diminish the trust in public-sector leaders (Eryanto Jones et al., 2022). Without models relevant to the Southeast Asian context, reform measures would continue to be theoretically attractive, but in practice, remain ineffective.

Research Rationale

After highlighting the key governance issues, it is also important to explain the rationale behind raising the issue of ethical leadership among SOAs in Sabah. Beyond its conceptual importance, ethical leadership is useful as a practical governance tool. It can shape decision-making behaviour, strengthen accountability mechanisms, and reduce opportunistic conduct in politically influenced organisations. When built into performance appraisal systems, ethical leadership becomes measurable, enforceable, and sustained within institutions. The distinctiveness of Sabah at the political and socio-economic level within the federal system of Malaysia may influence the approaches through which its state-owned entities typically function (Hutchinson & Onn, 2025). Generally, leadership ethicality in the above organisations extends beyond simple internal management issues, as it can profoundly affect public resources, developmental results, and the position of state-linked institutions.

In Sabah, SOAs have, over multiple years, been subjected to unwelcome political influences disrupting their merit-based operations. Problems such as patronage networks, nepotism, and corruption are not merely abstract risks; they are widespread and have clear negative consequences for the functioning of the above organisations (Tan & Wong, 2024). Hence, SOAs have often been observed with inefficiencies, loss of public confidence, and poor delivery of services, among other things, resulting from these problems not only being the issue of a few individuals but also indicating deeper-seated issues within the structures. Specifically, reports from the media as well as public debates have frequently drawn attention to these weaknesses and challenges in governance, thereby highlighting the ongoing nature of the aforementioned problems (Suara TV, 2024; Thien, 2025; Fong, 2023). Unfortunately, when SOAs entrusted with developmental roles fail, the socio-economic fallout for the state will tend to be both extensive and alarming.

Hence, measures aimed at preventing political meddling and enhancing transparency are important, as they can not only address the problems but also introduce the possibility of a renewed framework that can help reveal the moral issues of SOA leaders to the public. In fact, the geographical and political-economic importance of Sabah implies that the quality and trustworthiness of state-owned enterprises are a prerequisite for continued development. Besides that, the increased attention to environmental, social, and governance (ESG) criteria internationally has strengthened the argument, emphasising the importance of a leadership style grounded in the highest ethics, in which institutions can recover in the face of adversities (Tan & Chew, 2025; Chhuttani, 2024).

Sabah, to a large extent, is a living example of how governance change initiatives can be conducted in areas marked by profound political intricacy and cultural distinctiveness. What has been learned from the case of Sabah may well be of interest in other regions, especially for countries across the world struggling to strike the appropriate balance between political control and organisational independence. It therefore suggests the importance of formulating culturally relevant, scientifically substantiated methods of measuring ethical leadership, which will allow for further enrichment of the current discourse on reform in SOAs in Southeast Asia and beyond.

Importantly, this approach is not limited to theory—it can also be put into practice in real organisations. By turning ethical leadership into measurable appraisal indicators,

organisations can align leadership behaviour with governance expectations in a systematic way. This strengthens performance outcomes and builds institutional credibility. When the above factors are combined, seeking ethical leadership, especially in the SOAs of Sabah, is not only a profound statement but also a necessary step for regional revitalisation.

Specific Vulnerability to Political Influence. SOAs in Sabah have been highly prone to political influence. As a result, decisions performed by leaders often reflect the will of top external influences rather than the needs of the organisation. Therefore, discovering how ethical leadership can be the antithesis of such influence is highly important, especially in the context of defending governance integrity and determining decision priorities that consider organisational rather than individual interests.

Context-Sensitive Framework. The sociocultural norms of Malaysia, with their hierarchical collectivism, religious practices, and patronage politics, have been deeply rooted in existing systems, in which the models currently used should be substituted with those that recognise these realities and address them, rather than ignoring them. Therefore, it is vital to create a model specific to the context of Sabah rather than simply adopting models developed elsewhere.

Direct Relevance to Governance and Trust. Ethical leadership can fundamentally alter accountability and enhance public trust. If leadership evaluation criteria incorporate ethics-based standards, leaders will not be assessed solely by profit-making capability, but their leadership duties as a whole will also be considered. Thus, the combined approach will offer a more holistic examination of leadership effectiveness, adhering to values of transparency and truthfulness.

Ethical Appraisal for SOA Leaders. A conceptual framework incorporating ethical elements into assessment tools may guide not only decision-makers but also managers, especially those implementing leadership evaluation systems that promote and maintain integrity. It will help guarantee that leaders' actions adhere to organisational ethics standards more consistently.

Political Appointments and Governance Gaps. While SOAs have played an important role in driving development by the State, it cannot be overlooked that there is currently a lack of research on political appointments and their impacts on state-linked organisations in Sabah. As such, the current research is not merely academic but also has the potential to provide practical ways forward for the country.

The above discussion has demonstrated that ethical leadership in SOAs is more than a subject of scholarly interest; while shedding light on governance issues, it also contributes to institutional performance and public welfare.

Theoretical Framework

The present work is based on an integrative theoretical model that can help explain how ethical leadership might be an appropriate fit for performance appraisal systems when seeking to guarantee that governance reforms in SOAs will be successful. Rather than relying on a single theoretical viewpoint, this model combined social learning theory, organisational justice theory, and agency theory as the main theories to assist in addressing behavioural influence, cognitive interpretation, and structural constraints, respectively.

Social Learning Theory and Ethical Leadership

Ethical leadership can be primarily explained through the social learning theory (Bandura, 1977), which states that people learn what behaviour is correct by referring to credible role models and the consequences of their actions. In organisations, leaders are the role models who will indirectly, through their actions, exhibit what is allowed, commendable, or risky.

Brown et al. (2005) defined ethical leadership as the demonstration and promotion of morally acceptable conduct via one's personal actions, interpersonal relations, and communication. Accordingly, ethical leaders are not merely the individuals who act ethically but also set norms and standards through offering feedback, rewarding, punishing, and holding dialogue (Brown et al. 2005). The abovementioned aspects, in essence, will gradually determine the atmosphere and manner of decision-making within the organisation. In fact, in public-sector settings, where formal regulations are mixed with informal political pressures, the profundity of modelling behaviour becomes the centre of attention (see Fahed Sreih et al. 2022; Zainun et al. 2021), wherein, on most of the occasions, employees will refer to their leaders' behaviours to decide what to perform in ambiguous situations (see Cakir et al. 2022; Ralph & Barling, 2022). If leaders demonstrate integrity and fairness, both of the attributes will usually be adopted across the organisation (Adewale, 2019; Grobler & Grobler, 2024). On the contrary, formal rules can rarely replace the absence of ethical leadership in the above areas (Andreadakis, 2019; Heres, 2021).

Although the social learning theory can explain the individual-level mechanisms of ethical role-modelling (Brown et al., 2005; Dogbe et al., 2024), its governance value lies in its transition to the agency theory. In such a context, ethical leadership will act as a non-contractual, internal control mechanism (Kane, 2003). By institutionalising a "tone at the top" through visible ethical signals, leaders can help reduce the existing levels of information asymmetry and moral hazard inherent in principal-agent relationships (Jahja et al., 2020; Kane, 2003). Consequently, ethical leadership can lower agency costs by diminishing the temptation for the diversion of managerial focus towards political obligations, namely, the tendency for agents in SOAs to emphasise political patronage over institutional objectives, thereby aligning individual conduct with structural accountability (Jahja et al., 2020; Lopes et al., 2025).

Organisational Justice Theory and Performance Appraisal

Performance appraisal systems are not evaluated solely on technical accuracy, as employees will also interpret them through perceptions of fairness, which is a process that can be explained by the organisational justice theory, in which the framework demonstrates a distinction between distributive justice, procedural justice, and interactional justice (Ali & Ahmad, 2018; Na-Nan et al., 2022).

Distributive justice is mainly concerned with whether the outcomes are fair and the resources and rewards are distributed equitably. On the other hand, procedural justice focuses on whether the decision-making procedures are fair and transparent. Meanwhile, interactional justice refers to the treatment that individuals receive during the process of evaluation, with a higher focus placed on respect and kindness.

The three aspects above can substantially influence employees' perception of the fairness of appraisal systems. Existing research has also demonstrated that fairness has a pronounced effect on organisational performance and outcomes in a positive way. Specifically, when employees perceive that the procedures are fair, such as appraisal systems, they will tend to show higher levels of commitment, cooperation, and willingness to perform extra efforts. Conversely, perceptions of unfairness will often lead to withdrawal from work, anger, and even to behaviours that can be harmful to the organisation (Ghany, 2022; Morris, 2021). In public-sector organisations, procedural and interactional justice are also important, as, besides legitimacy and moral authority, material incentives will also play a role.

Agency Perspective in Politically Influenced SOAs

The SOAs are positioned within highly complex governance structures that comprise different groups of stakeholders, such as political leaders, regulatory bodies, and the public, each of whom has a certain level of influence. Therefore, agency theory can illuminate how the divergence of interests among the above stakeholders and organisational agents can contribute to inefficiencies and opportunistic behaviours.

In situations where politics will primarily determine the environment, performance appraisal systems can be manipulated through patronage or favouritism, thus leading public sector leaders to prioritise their political survival concerns at the expense of their organisational effectiveness. Hence, governance mechanisms must be relied on to guarantee that the actions of the managers are in line with the overall objectives of the public. Ethical leadership, in this case, could be perceived as the internal control that can assist in enforcing the norms of responsibility, as ethical leadership can help reduce agency costs and also limit the potential for opportunistic behaviours.

Integrated Theoretical Position

The above theories, when integrated, are capable of explaining governance dynamics in a more comprehensive way, where social learning theory can explain how leadership behaviour will become a norm in organisations; organisational justice theory can demonstrate how appraisal systems are aligned with employees' expectations, thereby guaranteeing fairness and legitimacy; and agency theory, on the other hand, will identify the structural impediments arising from the interplay of divergent interests and political pressures.

Ethical leadership is no longer viewed merely as a personal character trait by the above theories. Rather, it is regarded as a systemic element that can change behaviours, legitimise and hold to account, and thus it becomes the basis for the development of the conceptual model, which will be presented in the latter part of the study.

Literature Review

The current study reviewed the existing literature on ethical leadership, performance appraisal, and governance reform in government-linked companies (GLCs) and SOAs with reference to their Southeast Asian contexts. Rather than simply enumerating the studies, the intent of this paper was to uncover the major patterns in assumptions, techniques, and neglected aspects which shaped our knowledge of this subject before.

It is common that ethical leadership and performance appraisal only receive attention as separate topics. In fact, in organisations where the political influence is strong, this kind of separation may seem forced, as a leader's behaviour and the method that a leader is being evaluated can collectively have an impact on the level of accountability, the degree of institutional integrity, and the trust of the public, especially in places where resources are limited and there are immense pressures from external parties (Morris, 2021; Jamaudin et al., 2018; Satia, 2024). Therefore, it can be understood that the existing literature has been highly fixated on the Western context and has mostly used cross-sectional survey methods (Eryanto et al., 2022), which in turn might not be able to reflect sufficiently the reality of institutions in Southeast Asia that have frequently been characterised by hierarchy, collectivism, and political integration.

Key Constructs and Foundational Concepts

The Concept of Ethical Leadership: Theoretical Underpinnings, Empirical Evidence, and Future Trajectories

Ethical leadership most often indicates setting an example of ethically correct behaviour through one's actions and relations, and at the same time, through communication, reinforcement, and decision-making, seeking to encourage similar behaviours in the followers (Brown et al., 2005; Malik et al., 2022). This idea has its roots mainly in social learning theory, which posits leaders as the most accessible role models whose behaviours will communicate what are considered to be acceptable norms (Brown et al., 2005; Malik et al., 2022).

However, using only the social learning theory will not capture the idea completely. Therefore, virtue ethics is a feasible idea, as it concentrates on the leader's moral character as the foundation of ethical leadership. For example, qualities such as prudence, temperance, and justice are not only viewed as skills but also as stable traits (Riggio et al., 2010; Stavropoulou et al., 2023). Besides, one of the ethical dimensions of transformational leadership is through the idealised influence, wherein leaders can set an example for their followers by their high ethical standards (Moon & Christensen, 2022).

Collectively, the different viewpoints above have indicated the fact that ethical leadership is both external, namely, shaping followers' perceptions through visible actions, and internal, namely, legitimacy coming from a leader's moral integrity. In the public-sector, both aspects of ethical leadership matter profoundly, as ethical leadership can support accountability, help maintain the integrity of institutions, and assist in restoring public trust, which are all at risk in places where politics plays a profound role (Bashir & Hassan, 2019; Satia, 2024).

The Concept of Performance Appraisals: Historical Development, Challenges, and Significance for Governance

Over time, performance appraisal systems have shifted their focus from only using a few simple productivity measures to taking into account wider competency-based systems (Barbieri et al., 2021). Concerning public administration, the change is usually in tandem with the use of both competency and behavioural indicators (Barbieri et al., 2021; Bondarenko et al., 2021). However, even after the above developments, there have been several challenges in existing models in more accurately representing the complex objectives of the public

sector, which have often been vague, politically debated, and difficult to measure objectively (Barbieri et al., 2021).

Introducing appraisal systems used in the private sector to public organisations without performing suitable changes could produce undesirable results (Adcroft & Willis, 2005; Stoleroff & Vicente, 2018). Moreover, a lack of understanding between the profit-oriented logic of businesses and the values of public services may lead to confusion, resistance, or only a way of formal compliance (Marques, 2022; Mauro et al., 2019). Particularly, ethics may be ignored in the design of appraisal systems, even though public institutions are usually held to higher ethical standards than private corporations (Jamaiudin et al., 2018).

These issues are more salient in politically influenced SOAs. Hence, organisational justice theory, among other theories, has demonstrated why appraisal systems can become ineffective (Rossing, 2013; Warokka et al., 2012). Procedural and interactional justice can also be undermined by political interference or discretionary manipulation, even though the system and procedure formally seem to be well-structured (Jamaiudin et al., 2018; Sarwar et al., 2020; Na-Nan et al., 2022). In this case, personnel appraisals will be regarded as means of supporting patronage rather than tools to guarantee that governmental officials are answerable for their actions (Daud et al., 2023; Schuster, 2016).

This phenomenon is frequently referred to as the “office politics error” in the present Malaysian literature, whereby ratings will be altered to maintain personal relationships, acquire personal benefits, or wield power, rather than indicate real performance (Daud et al., 2024; Mouratidou et al., 2023). The above distortions are widespread and not rare cases, as revealed in the financial and public sectors (Daud et al., 2023). The consequences are also widespread, as they involve not only individual fairness but can also demoralise, exclude diversity, and render the appraisal less effective as a governance tool (Alharbi, 2018; Lin & Kellough, 2018; Na-Nan et al., 2022).

Existing literature that emphasises the evaluation of CEOs and top executives in SOEs and GLCs remains limited, as most models have been financially oriented and do not comply with the stakeholder theory, which highlights the importance of balancing various interests rather than the maximisation of short-term gains (Azungah et al., 2019; Zheng et al., 2022). Agency theory also illuminates additional conflicts, owing to the disconnection between state ownership and management control that may lead to opportunistic behaviours, particularly in the absence of more robust controls (Ismail et al., 2014; Said et al., 2020). Moreover, the political factions of the board of the company may weaken impartiality, hence allowing top executives the opportunity to manipulate their performance evaluation outcomes (Bussin et al., 2017).

In sum, there has been a lack of understanding about how appraisal systems can not only measure financial performance but also identify ethical leadership characteristics, such as honesty, fairness, and openness, and focus on the future. If the basic values of ethical leadership are not properly developed, at the same time, when appraisal systems continue to be merely ceremonial or routine, such appraisal systems can no longer serve as the robust normative defence against external pressures that would be expected from them (Norhayati & Siti-Nabiha, 2009) and this may lead to an institutional empty space, which is characterised

by the absence of principled performance data and that is usually filled with political patronage and personnel power being the main criteria for senior executive appointments (Krause & Lewis, 2026; Leutert & Vortherms, 2021; Ramli et al., 2018).

Governance Reformation in SOAs and GLCs

Transforming the governance of SOAs and GLCs has been perceived mainly as a matter of fighting corruption, limiting political meddling, raising accountability, and restoring the trust of the public (Bashir & Hassan, 2019; Satia, 2024). At the same time, the organisations are generally in an unusual and, at the same time, contradictory position. On the one hand, they are expected to be instruments of state development; however, on the other hand, they typically operate in settings where political priorities may be at variance with the efficiency of the organisation (Gomez, 2025).

However, stewardship theory suggests a more positive approach by arguing that leaders serve as caretakers of the public interest and not agents of their self-interests (Thabane & Deventer, 2018). Besides that, the commentary on the enabling role of ethical leadership for a stewardship perspective is generally the norm, provided that it is the leaders, who seem to be politically and morally neutral and hence more capable to resist undue pressures and to uphold institutional standards, that usually is able to deliver their ideas across more effectively (Enaifoghe et al., 2023; Zainun et al., 2021).

Yet, even strong values will not be sustained if they are only expressed verbally, indecisively, or loosely. Ethical leadership without being adopted by the institution will only become a sort of symbolism, as it lacks follow-through and substance. Nonetheless, the systems for employee evaluation can become key factors. Through the application of the concept of institutional logic, the models of evaluation can serve the purpose of translating the vague standards of ethics into specific measures that will encourage certain types of desirable behaviours (Jamaiudin et al., 2018; Nguyn et al., 2025).

Referring to the use of ethical leadership as one of the criteria within the employee evaluation systems, only on a superficial level can lead to situations where the governance frameworks will not only be weakened but will also lose their legitimacy. On the other hand, if the processes of evaluating the performance are corrupted by political considerations, the result is that the phenomena of failure will be repeated, wherein loyalty is the only criterion of performance, and no attention will be paid to their skills (Daud et al., 2023; Motswaledi & Maseng, 2024). The abovementioned point is a vital illustration of the need to consider ethical leadership, performance evaluation, and governance reform as three attaches to each other rather than separate entities.

Political Appointments and Governance Failures

Political appointments have frequently been the means through which governance problems in different SOAs become deeply rooted (Motswaledi & Maseng, 2024). Patronage networks in these cases may be used to manipulate oversight procedures, undermine the independence of the board, and alter the top priorities of the organisation in order to satisfy the political requirements (Jaffar & Abdul-Shukor, 2016; Szarzec et al., 2022). The grabbing hand theory captures the above circumstance as a typical behavioural pattern of political figures or those with political connections, which is to direct the usage of resources for their

personal ends, which are often harmful to the value creation in the long run (Jaffar & Abdul-Shukor, 2016).

The agency theory explains that having long chains of delegation can lead to a lack of accountability. As citizens are the ultimate stakeholders, their being distanced from managerial decision-making can result in a situation where self-serving behaviours are likely to persist (Magang & Kube, 2018; Thabane & Deventer, 2018). In fact, appointing individuals merely on the basis of their loyalty can result in the suppression of opposition and a decline of organisational professionalism (Gomez, 2025; Motswaledi & Maseng, 2024).

Cross-national studies have also confirmed the challenges mentioned above. For example, in Indonesia, political interference of auditing institutions has led to the loss of their autonomy, whereas in South Africa and Malaysia, appointments based on loyalty have been linked to the emergence of “cultures of impunity” (Devi et al. 2019; Sinnadurai, 2018). Simultaneously, signalling theory contributes an additional aspect by stating that politicians who have connections with leaders may conceal negative information from the public to maintain their popularity, thus compromising transparency (Mariam Abdullah et al., 2021; Bakar & Connaughton, 2022).

Besides the abovementioned viewpoints, there have been scarce studies on the use of ethical leadership as a means through which political interference in SOAs can be alleviated in more effective ways (Enaifoghe et al., 2023; Zainun et al., 2021).

Synthesis

The current literature review suggested that ethical leadership could be the driving force behind transformations in governance, with the process of performance appraisal being one of the key approaches in which leadership would be recognised and measured, and institutional transformations would be the intended results (Jamaiudin et al. 2018).

On the other hand, the majority of existing studies continue to fail in contextualising and methodological diversification that can fit the Southeast Asian SOAs more suitably. Therefore, by combining disconnected pieces of work through the perspectives of the agency and stewardship theories, this paper aimed to establish its conceptual framework as a theoretically-based method, aiming to tackle the current governance problems among SOAs in Sabah.

Research Gaps

Although a large number of studies have been performed on ethical leadership, performance appraisal, and governance reformation, there have been substantial gaps that have hindered the development of theory and the extent of practical application, especially among SOAs in Southeast Asia. The above gaps have mainly revolved around four mutually connected themes, such as ethical leadership, performance appraisal, political appointments, and CEO appraisal, with each of the themes reflecting areas where current knowledge is either incomplete or not well-contextualised.

Existing research on ethical leadership has largely focused on Western institutional settings (Dodamgoda et al., 2024). Furthermore, social learning theory (Lumpkin, 2023) and

transformational leadership (Engelbrecht et al., 2005) have been among the major pillars that have helped in advancing ethical leadership knowledge. Nonetheless, there has been limited knowledge about their relevance, especially in different cultural climates in Southeast Asia. For instance, the Malaysian social setting, which has often been characterised by respect for superiors, collectivism (Ahmad et al., 2020), and religious faith as core aspects of life (Abdullah et al., 2015), may also be transforming existing leadership practices in ways that cannot be entirely captured by models originating from the West. Furthermore, the studies have mostly considered the cultural differences only at face value without delving into a detailed analysis (Nguyen et al., 2021; Kia et al., 2019).

Therefore, there has been limited knowledge of how ethical leadership is understood, practised, and appraised in Asian business systems (Nguyen et al., 2025). The relationship of ethical leadership with political appointees is also a neglected issue. While patronage and nepotism have been implicitly presented in the current literature as factors that can lead to bad governance, there is little data proving that ethical leadership is able to neutralise their effects (Azmi & Zainudin, 2020). This concern is highly relevant to SOAs where, on certain occasions, the leaders are not selected based on their competency but on their political ties. As such, it continues to be an open matter whether ethical leadership can serve as a way to reduce these political interferences, or they will only be two separate phenomena existing at the same time.

Numerous studies on ethical leadership have methodologically used cross-sectional designs and self-reported data (Ahmad et al. 2017). These methods, although helpful for spotting relationships, do not perform effectively in explaining complicated cause-and-effect dynamics and can lead to limitations in the usability of the results in policy-oriented contexts, wherein leadership decisions are often changing. There is also a scarcity of ethnographic and longitudinal research in this field, although it could provide a more accurate picture of how ethical leadership unfolds over time, especially during periods of change or crises in organisations. In addition, the impact of key aspects, such as ethical climate, empowerment, and trust on ethical behaviour, has not been sufficiently investigated by qualitative research. As for developing ethical leadership models in Asia, the focus should also be on creating such models from the Asian cultural perspective instead of merely modifying the existing Western ones. In addition, mixed-methods research, when combined with longitudinal studies, can help reveal the nuances of how leadership behaviours and political-level frameworks interplay with one another.

Moreover, ethnographic approaches, for example, visual ethnography, may be useful in depicting ethical behaviour in live organisational contexts. Additionally, the inclusion of mediating factors alongside utilising mixed-methods research can help provide both theoretical and practical enhancements to the field. A great portion has been left out of the performance appraisal research; nevertheless, this area constitutes the bedrock of governance reformation. Since appraisal systems are often viewed as lacking in ethics, this observation can lead to the problem of corruption. Additionally, in practice, they have often been perceived as biased, partial, or non-transparent, which has resulted in a reduction in trust.

Despite the widely held perspective that ethical leadership is of utmost importance, it has rarely been directly factored into appraisal criteria. Consequently, there has been an incomplete understanding of how it might impact accountability, the development of leaders, or organisational outcomes.

From a methodological viewpoint, existing studies on appraisal systems have been highly quantitative and cross-sectional, which has limited the understanding of how appraisal attitudes will develop or how leadership styles might influence appraisal dynamics. Furthermore, most studies have been localised, usually focusing on developed countries or certain sectors. As such, it is difficult to apply existing results to SOAs in the developing regions. Besides, leadership characteristics, such as overconfidence, political sensitivity, and network affiliations, have not been properly theorised, even though they are perceived to be relevant. New technologies, such as AI-driven appraisal systems, have also contributed to problems of fairness and transparency, but only limited research has been conducted in this field.

Therefore, future research should consider participatory and continuous appraisal systems that can help support ethical values. Longitudinal methods will illuminate how appraisal systems evolve in organisational change, and sectoral and cross-country comparative studies might offer more relevant insights for SOAs. Furthermore, greater attention to executive characteristics and technological change is justified, particularly in political environments. Finally, assessing the impact of appraisals on morale, trust, and psychological safety can help deepen an understanding of their governance implications.

Political appointments are another area that has not been adequately researched. Although it has been a widely accepted characteristic of governance in numerous developing countries, the systematic study of their long-term effects remains scarce. Virtually all available evidence is also on Malaysia, rendering it difficult to extend the results to other contexts (Jaafar, 2024). Changing types of patronage through digital communications and the probable use of technology to improve transparency have also remained largely un-researched.

Most existing studies have mainly relied on cross-sectional designs that have been ineffective in recognising relevant moderating factors, such as personality traits, gender dynamics, or leadership style, which can influence how political activism will shape organisational behaviour. Besides, the evaluation of GLC performance has often been based on financial indicators only, while neglecting ethical conduct, social impact, and governance reform aspects. As GLC ecosystems contain large networks of subsidiaries, the omission of more holistic research has resulted in a major gap in understanding systemic effects.

Besides, comparative and interdisciplinary research can be performed in future studies in order to examine different countries simultaneously and identify both similarities and differences. Moreover, longitudinal studies can help demonstrate how certain leadership characteristics will influence the development of organisations over time. Exploring ethical leadership as a mediator between political control and organisational performance can also help reveal if value-based leadership can lessen politicisation. In addition, studying the wider workings of GLC networks for innovation, competition, and governance reformation will supply alternative perspectives.

CEO appraisal in the case of SOEs and GLCs represents one of the least researched areas, as the current models are frequently inflexible and not sufficiently tailored to the complexity of public sector organisations (Anderson & Kleiner, 2003). Besides, the link between the ways in which CEOs are assessed and results in important areas, such as ethical governance, strategic alignment, or institutional legitimacy, has not yet been explored in depth. Concurrently, the inclusion of independent third-party evaluators can help in ensuring fairness, but at present, it is rarely mentioned, even though it could be very important.

Traditional methods of appraising leaders mainly focused on financial results, overlooking essential aspects, such as leadership behaviours, communication styles, and vision. Occasionally, political ties among the board members can shape how independent the members are. Also, self-assessment only concentrates on a specific person who is to be assessed, while not factoring in the viewpoints of other subordinates and stakeholders.

Hence, there is a need to create new frameworks capable of balancing financial performance with ethical leadership. Developing more flexible, context-informed frameworks that can incorporate ethical considerations is essential. Further studies can also be performed to explore the effects of CEO appraisal on organisational performance, stakeholder trust, and reputation in the long run. In addition, the effectiveness of third-party mediators in politically charged environments is one of the critical areas that requires more research. Furthermore, by conducting country- and sector-specific case studies, future researchers can develop models that are especially suited to the situations of the Southeast Asian countries.

Overall, the existing research has shown that there is room for further improvement in all four areas. Filling these gaps will require views from different disciplines, analysis sensitive to the context, and the use of different methods. Focus on building ethical leadership performance appraisal systems, and future research can help increase transparency, accountability, and governance efficiency. Therefore, the deficiencies identified in this study can serve as the foundation for the conceptual model presented in the next chapter, in which ethical leadership and performance appraisal are recognised as the key components for the reform of SOAs in Sabah.

Emerging Findings

The main aim of this paper was to perform a conceptual exploration rather than an empirical analysis. For that reason, the results discussed in this section did not originate from conventional data collection. In fact, the results were based on a profound synthesis of theoretical exposition, previous research, and cases in Southeast Asia. The results were viewed in an interpretative light, as they would highlight the tendencies which are revealed when ethical leadership, performance appraisal, and governance reform are studied as a whole instead of separately. Therefore, the conceptual model presented in this paper would serve as a lens through which to focus on governance reforms in SOAs in a more structured manner.

Ethical leadership to usher in new governance

Leadership behaviour is often regarded in the current literature as the single most influential factor in determining what the outputs of governance are (Noor et al., 2022). In particular, ethical leadership, therefore, will become not only a desirable attribute but also a potential

instrument for institutional reform (Kgobe & Chauke, 2021). In the case of politically driven SOAs, where patronage networks and informal interactions mostly will cause a breakdown of accountability, a leadership based on ethical values can be a counteracting factor (Matsiliza, 2024).

Based on the interpretive framework above, ethical leadership extends beyond an individual's morality and thereby will be intertwined with organisational processes and norms. Leaders who will act with integrity, fairness, and openness will exhibit a set of behaviours that will ultimately become the norm for an organisation (Boardman & Klum, 2013; Nicolaides & Duho, 2019). These behaviours can be the accountability mechanisms, which are likely to be only procedural in the absence of this effect (Usman & Hameed, 2017).

Performance Appraisal as an Interpretive Lens

The current study discovered that there is room to rethink the performance appraisal systems, as the current appraisal processes in different SOAs have been mostly technical and compliance-oriented, wherein they have only focused on documenting and processing rather than on the real issues. Besides, ethical considerations have only been included to a small extent. Occasionally, such systems will tend to favour political loyalty or personal relations more than work performance.

The proposed framework perceived an appraisal system as a form of interpretive work that can connect the concept of ethical leadership with the actual conduct of a leader. If ethical dimensions serve as part of the appraisal system, appraisal tools, which normally are regarded as mere administrative mechanisms, will become moral compasses that can help direct leadership behaviours towards the fulfilment of governance goals. Ultimately, an appraisal will become a key instrument that can help translate ethical demands into measurable criteria.

Interconnected Pillars of Reform

The theoretical framework has identified ethical leadership, performance appraisal, and governance reformation as three distinct, albeit deeply interconnected and dependent, pillars. Ethical leadership, in particular, can serve as the guiding moral framework, shaping the ethical climate and steering the organisation towards the desired direction. However, performance appraisal will stand as a methodical device for monitoring and adjusting individual and team behaviour to help meet ethical standards, which renders it the main instrument for translating leadership direction into tangible actions through formal assessment.

The key point of this framework is that the three components are involved in a lively interaction; studying them individually as separate constructs might conceal their dependency on each other. Without appraisal systems that can support them, ethical leadership might only be a symbolic one, namely, it would only be a set of values without the vital mechanisms to translate these values into practice. Besides, appraisal systems lacking in ethical foundations may even facilitate the continuation of the unethical behaviour or misdeeds. Hence, genuine reformation can take place only if ethical leadership and performance appraisal jointly produce a single framework that will promote accountability, integrity, and systemic changes.

Reducing Political Interference

Matching ethical leadership with merit-based appraisal systems will represent a possible pathway to help prevent political interference. When merit includes ethical behaviour alongside professional skills, appraisal systems will have less opportunity to be manipulated. Concurrently, leaders who have their performance rated against clear and open ethical standards may become less vulnerable to temptations of patronage networks or, at least, they will be held more accountable in managing such influences.

These types of evaluation measures can encourage legitimate conduct in such key elements of legitimacy as transparency, fairness, and accountability. These characteristics are ones that will become highly important in public-sector organisations, wherein a higher degree of trust from stakeholders is highly dependent on the integrity.

Ethical Standards and Cultural Context

Putting ethical standards into practice in Malaysian SOAs or public organisations presupposes a deeper understanding of the local culture, laden with major norms, such as collectivism, respect for authority, and relational obligations, which have often been instrumental in determining the meaning of ethical standards. As such, performance appraisal mechanisms can provide key opportunities for leveraging ethical standards that are in line with the cultural dimensions of the society.

Organisations that embed ethics within their operating practices by introducing ethical leadership into their performance review systems will inoculate themselves with ethical values that will gradually contribute to promoting more ethics through transformations in awareness, acceptance, and legitimacy without the need to resort to an external imposition. The use of such a context-sensitive approach can, therefore, increase the odds of reformations being regarded as legitimate and not viewed as alien interventions at all.

Restoring Institutional Accountability

The current synthesis extended beyond the existing scope to demonstrate that integrating ethical leadership with merit-based systems of evaluations would contribute to higher levels of institutional accountability. Through making evaluation procedures transparent, these systems can, in the long run, help state-owned organisations to limit incidences of favouritism and corruption.

Additionally, regular exercising of ethical standards can lead to the development of more accountable and responsible conduct among leaders. Those leaders who are held accountable not only according to their integrity but also based on their performance are generally more predisposed to be open in their communication as well as in offering reasons for their decisions, and this, in turn, will help increase overall public trust. In governmental organisations, it is also essential to have reliability, and trust can be considered as a type of capital that is crucial for the existence of the organisation over a long period, as a lack of trust can increase challenges for organisations, even if they are competitively high-level in the technical aspects of their functioning, to maintain their legitimacy to the public.

Diffusion of Ethical Standards in Context

According to the existing studies, there has been no shortage of warnings about the risk of uncritically employing Western ethical models in Malaysian institutions, with the main reason being that a major element of the change of culture is dependent on the local people (Razali et al. 2025). Particularly, appraisal systems can be at the front line of delivering ethical standards and, by that, communicating them for acceptance. At the same time, by setting evaluation standards in line with the local cultural ethos, while not deviating from the insistence on universal fairness, justice, and accountability, organisations have a more positive chance of raising ethical conduct in a manner that is consistent with local culture.

Unique Governance Challenges in Sabah

The GLCs in Sabah have frequently faced political challenges that are inherent in the existing political landscape, and hence financial underperformance, governance instability, and leadership constraints are regarded to a larger extent as elements of the system rather than failures of individuals in the system (Suffian, 2024).

A. The Crisis of Dividend Failure

A major and clear indication of systemic fragility has been disclosed in different reports, revealing that about 90% of GLCs in Sabah failed to issue dividends to the state government (Suara TV, 2024). This pattern suggested these entities frequently functioned as means for political manipulations rather than as genuinely commercially motivated enterprises (Nordin, 2018). When decision-making prioritises social or political goals rather than business ones, the outcome is usually that agency costs will increase, leading to the wastage of resources without creating equivalent value (Jahja et al., 2020; Suffian, 2024). Boards of directors in several organisations can also become a target of political manoeuvring, as most of the political appointments are used to reward faithfulness rather than to emphasise actual qualifications (Khai, 2022; Suffian, 2024).

B. Quota Systems and Political Appointments

Moreover, quota arrangements can hinder the appointment of skilled professionals, as they will prioritise representation instead of proficiency (Fong, 2023), which reflects a factor that can diminish the efficiency of the organisation and limit the freedom of executives. Consequently, chief executives might have to handle the problem of fulfilling the requirements of a politically designated chairman whose interests may be different from those focused on the achievement of business or governance goals.

C. The Multiple Principal Problem

Operations of SOAs in Sabah have frequently been subjected to a variety of pressures, which have emerged from federal authorities, state politicians, and the public, who represent different sets of expectations. This eventually results in what is often described as the multiple principal problem, and it may lead to a sole focus on political obedience at the expense of organisational effectiveness (Apriliyanti et al., 2023; Khai, 2022). In such scenarios, systems for evaluation may no longer reflect actual merit-based judgement and as a consequence, patronage networks will be sustained in the long term instead of strengthening accountability.

Implications for Future Research

By considering all the interpretative results above, they have indicated the opportunity of the conceptual model, which was proposed in this paper, to be considered a key source of inspiration for the subsequent empirical investigations. Ethical leadership in a politically sensitive setting is not merely a matter of conceptual understanding, but rather, to a great extent, it is a research matter of methodology that will enable capturing the fragile subtleties and contexts in a more detailed manner. Qualitative approaches, such as ethnographic studies and mixed-method research designs, have the potential to lead to major revelations by facilitating the study of ethical practices, the level of their implementation, the extent to which they are challenged, and the degree of their negotiation that will occur in those contexts. Moreover, studies stretching over a period of time would disclose changes in appraisal systems and the increasing effects of governance reformation. Such inquiries are strongly called for, especially in those areas where informal networks and patronage have been the main causes for the degradation of accountability. Integrating ethical leadership within the frameworks of performance appraisals, various investigations will have the opportunity to find out how different organisations manage to institutionalise ethics in a way that is acceptable to the culture and can be sustained over time.

Contextual Evidence

The validation, which was based on empirical evidence, was of crucial importance to establish whether or not the conceptual framework that was introduced in this research paper would be capable of being translated effectively into a practical reform initiative. The paper, being conceptual and exploratory, was the reason why it did not use raw data. On the contrary, the paper referred to a base of previously established research, well-recorded governance cases, and recognised gaps in the area of research to set an interpretative basis for the model being suggested. The contextual material portraying the setting regarded, as a whole, the pending question of the importance and the criticality of the integration of ethical leadership in performance appraisal systems as a fundamental strategy for the successful governance reformation of SOAs.

Evidence of Political Interference

The extensive control of political figures over leadership appointments in Malaysian GLCs and SOAs is only one aspect of the contemporary issue that has far-reaching consequences. The interference has not only caused poor decision-making, but it can also lead to a lack of managerial skills, governance scandals, and the downfall of public trust to occur concurrently. Public trust in state-linked institutions, especially, was diminished after the public became aware of the 1MDB and BMF scandals (Abidin et al., 2023; Ali, 2023; Bruton et al., 2014; Wahab et al., 2020). If political loyalty were valued more than professional capability for making appointments, it would be the effectiveness of the organisation that would be severely impacted. Without having the suitable skills, the appointees would be incompetent in navigating complex operating and financial issues. Additionally, when leaders are viewed as politically invulnerable, the entire accountability system will be compromised, as in such circumstances, leaders will not be expected to uphold their professional standards (Khai, 2022; Suffian, 2024).

The above events have clearly demonstrated that leadership evaluation needs to be enhanced, in which the GLC transformation programme and the introduction of KPI-based

systems are two initiatives that can demonstrate a deeper understanding of the problems, even though their outcomes might not often be what was expected.

Political Appointments and Governance Norms

Existing research on statutory entities in Malaysia has demonstrated that political appointments can deliberately and systematically diminish key principles of governance, including transparency, accountability, and whistleblower protection (Demmke, 2020; OECD, 2024). Although formal institutional safeguards have been implemented, they typically do not convey actual effectiveness, particularly when the leaders have personal political interests (Chen, 2022; Jamil, 2017). Furthermore, existing studies on anticorruption strategies in the Asian context have highlighted that the most influential political figures can overpower the system of checks and balances of institutions, while also eroding existing structures of governance (Quah, 2020, 2021), implying that governance ineffectiveness are not only procedural but is also deeply rooted in the systems of appointment and evaluation.

Limitations of Existing Studies

Past researchers demonstrated that there was a high requirement for ethical leadership and effective systems of performance appraisal, which would be in line with the socio-cultural realities of Southeast Asia, including Sabah. The adoption of Western models constantly neglected the complex interaction of political, cultural, and historical factors, which could profoundly shape organisational behaviours in these areas. Therefore, it is essential to incorporate relevant approaches that concentrate on the influences of hierarchy, collective culture, and patronage networks, which can help develop more effective and culture-specific frameworks. To close the above gaps, future scholars should prioritise context-specific investigations and consider employing qualitative approaches, such as ethnography or longitudinal research, which can help produce key perspectives on unique organisational dynamics in the Southeast Asian setting.

Under-Explored Southeast Asian SOAs

The exclusion of Southeast Asian SOAs from the scope of governance studies has created a noticeable void in the field, as the majority of existing scholarly works have concentrated on national institutions or private companies, thereby overlooking the distinctive political factors that could influence the behaviour of SOAs. This gap is rather pronounced in the areas of leadership recognition and ethical administration.

SOAs in Sabah, as a case study, can contribute profoundly to theory development, as, in addition to revealing the effects of political turmoil on organisational behaviour, they can also help provide guidance to other areas dealing with similar issues. Analysing political factors, leadership recognition, and ethical administration in the SOAs, academics are capable of constructing relevant theories and methods that are partially based on the situation and, at the same time, can be understood across the globe.

Implications for Politicised Boards

The issues raised above have been supported by existing research in other developing countries, in which potential similarities with Malaysian SOAs have been pinpointed. For example, research in Tunisia has revealed that politically connected boards often suffer poorer financial results, less effective strategies, and opposition to change (EL Ammari, 2023).

Each setting has its peculiarities, but the main principles are similar, wherein the quality of supervision will usually suffer, and the organisational freedom will become limited when the board members are appointed on the basis of political convenience rather than their professional credentials.

Therefore, the knowledge gained from existing studies can serve as warning signs for Malaysian SOAs. If the capabilities and independence of board members are not truly secured with proper measures, even the reform of governance may eventually become superficial without yielding the desired enhancement in accountability and performance.

Synthesis and Rationale

In sum, the existing evidence above has set the foundation for the conceptual framework in the present study by directing the focus on structural issues, institutional frailties, and gaps in existing literature. Although the model would not fully resolve existing issues, it can provide a more theoretically informed method to address the current issues by introducing ethical leadership in existing systems of performance appraisal.

Conceptual Model

The current study developed an overarching conceptual framework, which not only incorporated ethical leadership, performance appraisal, and governance reforms as main pillars that could help support and reinforce each other, but also is sensitive to culture and politics. Specifically, the framework serves more as a tool for analysis, with the purpose of illuminating the approaches through which ethical leadership can be an integral part of the procedures of evaluation and appraisal. Hence, by including ethical standards in existing systems of performance evaluation, it can help reduce risks of patronage and undue influence. At the same time, it can be a valuable tool to different stakeholders, including policymakers, boards, regulators, and consultants, who are all committed to increasing the accountability of SOAs.

Theoretical Foundation

The conceptual model was grounded on a multi-theoretic foundation, which comprised social learning theory, agency theory, and organisational justice theory, each of which provided distinct viewpoints in governance dynamics:

1. **Social Learning Theory:** This theory demonstrates how leaders can influence organisational behaviours through role modelling, namely, through each employee's observation of leaders' actions in order to infer acceptable norms, with a focus on integrity and fairness (Brown et al., 2005; Zainun et al., 2021).
2. **Agency Theory:** This theory addresses the inherent structural problems that will emerge when managers in SOAs are confronted with conflicting demands from political authorities and professional stakeholders. The divergence may result in opportunistic behaviours and a drop in accountability, unless effective governance mechanisms are well-implemented (Apriliyanti et al., 2023; Jahja et al., 2020).
3. **Organisational Justice Theory:** This theory provides angles on the perception of fairness by employees about appraisal systems, considering that procedural justice is likely to have a greater effect on motivation and commitment than material rewards in public-sector contexts (Chen, 2018; Jacobs et al., 2013).

Collectively, the aforementioned theoretical viewpoints will transition ethical leadership from being merely one personal character trait to a systemic factor of organisational integrity.

Organisational Justice as an Important Connecting Factor

Organisational justice will be instrumental in explaining how leadership behaviours lead to performance outcomes. In fact, ethical leaders have the ability to foster fairness through transparent decision-making and respectful communication. If employees view existing systems of performance appraisals as just, they will be more prepared to be aligned with the outcomes and contribute personal efforts more to organisational objectives (Grobler & Grobler, 2024; Morris, 2021).

Core Constructs

The conceptual model in the current study focused on three main elements.

Ethical Leadership as the Basis

Ethical leadership can serve as the normative foundation, highlighting that leaders' evaluation depends not only on their achievements but also on their honesty, fairness, and ethical reasoning, which is important, especially when patronage practices are against the values of meritocracy. Accordingly, leaders can not develop ethical expectations alone, as these expectations will help define the organisational culture and behaviour in substantial ways. As such, ethical leadership can be regarded as a method of modification that can shift the focus of existing appraisal systems to promoting accountability and public service.

Performance Review as a Key Link

Performance appraisal can be a practical device that can help translate ethical expectations into measurable criteria and eventually become the foundation of reward and bureaucracy. Traditionally, appraisal systems were viewed as technical tools for evaluation, whereas in the current model, appraisal systems constituted tools for development and the ethics of guidance. Appraisal systems, by including key criteria such as transparency, respect for stakeholders, and orientation to governance, can not only support ethical behaviour but also shift it from compliance solely to a more effective culture-building process.

Governance Reformation as a Vital Outcome

Governance quality improvement is the ultimate goal, as ethical appraisal should be able to assist the governance in lowering the levels of favouritism and corruptibility among SOAs, thereby strengthening its legitimacy and resilience, which is in contrast with the traditional understanding and practice. As a result, organisational renewal will contribute to a higher degree of public confidence.

Contextual Influences

The current model perceives that leadership and appraisal are not isolated phenomena. On the contrary, they are profoundly shaped by a wider range of environmental conditions, such as political appointments, organisational culture, and institutional structures, which can be barriers to more ethical practices, despite simultaneously playing facilitating roles. For example, cultures that allow favouritism can weaken reform initiatives, whereas cultures that mainly focus on professionalism can support them. In areas such as Sabah, where political

factors often determine the situation, knowledge and understanding of contextual factors will be critical for the successful implementation of governance reforms.

Integrative Role of Ethical Leadership

Ethical leaders can serve as the foundation not only for the creation of appraisal systems but also for the selection of evaluation criteria. By incorporating ethical standards into performance evaluation, leadership actions will be in line with higher-level governance goals, which will shift focus from simple technical compliance to genuinely delivering public value.

Analytical Orientation

In maintaining the investigative nature of this research, the present framework would serve as an interpretative tool rather than being intended for hypothesis testing. Particularly, it aimed to highlight various relationships and processes while not restricting itself to strict causal assumptions, hence offering a more versatile way of interpreting the challenges involved in embedding ethical leadership in existing systems of performance appraisal.

Explanation of Model Relationships

Figure 1 illustrates the intricate interplay between ethical leadership, merit-based performance appraisal, and governance reform of SOAs in Sabah, demonstrating how the above aspects can continually circulate and strengthen one another while highlighting the essential function ethical leadership has in steering performance evaluation towards improved governance results.

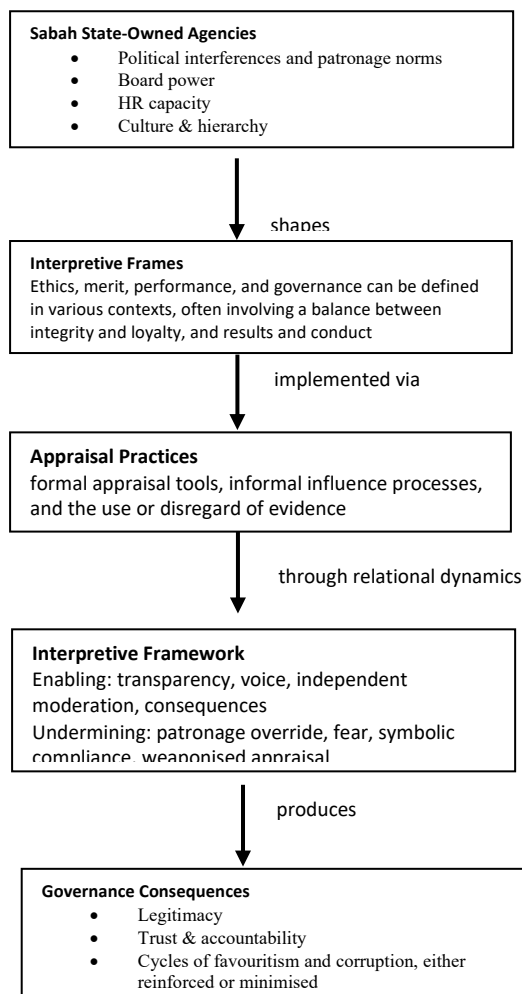


Figure 1: Conceptual Framework Associating Ethical Leadership, Performance Evaluation, and Governance Reformatations

In the context of enabling ethical leadership, the pathway to enhancing perceptions of appraisal legitimacy is through consistent role-modelling and effective communication, in which leaders who demonstrate ethical behaviour will set a standard for subordinates, thereby boosting the perceived legitimacy of appraisal systems.

However, the moderating effect of political interference presents a challenge to this relationship, as such interference can introduce competing incentives that can detract from the focus on merit and ethical standards, thus potentially weakening the positive impact of ethical leadership on appraisal legitimacy.

When ethical leadership is successfully incorporated with merit-based appraisal systems, the outcome is an increase in institutional accountability and public trust. This combined approach will ensure that both leaders and appraisal systems can work harmoniously to facilitate an environment of integrity, which is essential for long-term organisational credibility and public confidence.

Several interpretations have been drawn from the above propositions exploring the topic, which help guide it towards a deeper understanding:

1. Ethical leaders as moral referents: Ethical leaders can serve as moral exemplars and thereby enhance the perceived legitimacy of organisations. Through setting a moral standard for integrity and fairness, their presence is likely to help enhance the credibility of the institution in the eyes of stakeholders.
2. Impact of political patronage on meritocracy: Political patronage can undermine meritocracy by emphasising loyalty rather than competence. This can compromise the fairness of processes and decisions and will result in inefficiencies and governance problems.
3. Role of procedural justice: Procedural justice is central to whether people will accept appraisal results. When the processes are considered fair and open, the chances that people will respect and internalise the results will increase.
4. Institutionalising ethics for public trust: Making ethical practices a part of institutional frameworks is one of the ways to help build public trust and accountability. By consistently practising ethics, organisations can create a solid base of trust and legitimacy.

Contribution of the Model

The model can make theoretical as well as practical contributions. In a theoretical sense, it can serve as a link that will unite different fragments of governance and leadership studies into one overall framework that will recognise political dimensions of organisational settings. In a practical sense, it can demonstrate ways of designing performance appraisal systems aimed at reducing external interference and increasing institutional trust.

The model has identified a critical way forward for creating more transparent and resilient public institutions by presenting ethical leadership as a trigger for a thorough change in the system rather than an individual characteristic. This approach highlights the key role of ethical leadership in bringing about overall governance reform.

Discussion and Implications

The results of the current study have highlighted profound challenges in governance that have impacted SOAs in Sabah, as evidenced by a substantial 90% dividend shortfall. Accordingly, the conceptual model introduced in this study seeks to resolve the above issues by framing ethical leadership not just as an ethical choice but also as a structural tool to address agency costs within politically influenced public organisations (Jahja et al., 2020; Kane, 2003). By integrating the social learning theory with the agency theory, the model has indicated that financial underperformance among SOAs is one of the symptoms of managerial focus shifting from commercial objectives to political obligations, wherein resources are misallocated to support political patronage (Jahja et al., 2020; Suffian, 2024).

The above interpretation aligns with the concept of a multiple principal problem, which is relevant in politically complex state-owned enterprises. Contrary to private corporations with clear profit goals, SOAs in Sabah have overlapping mandates across political, economic, and social dimensions. Therefore, the management frequently acts as agents for multiple stakeholders with often conflicting priorities, complicating decision-making and promoting conservative strategies that will favour political obligations over long-term sustainability (Apriliyanti et al., 2023; Leutert & Vortherms, 2021).

The comparative analysis across different SOAs, including utility providers and infrastructure departments, in the present study has revealed that political patronage is a systemic issue rather than an isolated problem (Kopecký et al., 2016; Motswaledi & Maseng, 2024). For instance, there are deeply rooted patronage practices, which are a typical feature of various sectors, indicating the presence of a larger politico-business complex at work (Gomez, 2025; Kopeck et al., 2016). The fact that executive appointments are synchronised with political cycles has further demonstrated that patronage, on the one hand, continues to be a tool of political control and, on the other hand, serves as a means to reward loyalty (Colonnelli et al., 2020; Kopeck et al., 2016).

The present findings support the notion that the observed poor financial performance and the prevalent culture of pety within the SOAs in Sabah are not due to a lack of managerial skills but are a result of the long-established political patronage practices (Gomez, 2025; Szarzec et al., 2020). Therefore, reform programs that are only focused on improving managerial skills and do not consider the political factors will tend to fail.

Despite ethical leadership not being able to completely eliminate structural constraints, it can nevertheless provide some strategies that one can employ in order to lessen the impact of these constraints. As an example, ethical leadership can serve as an internal control mechanism without a formal contract, making it possible for leaders to maintain their professional integrity even in situations where there are substantial political sensitivities (Kane, 2003; Lopes et al., 2025). In addition, ethical leaders can be a positive example to the rest of the organisation by being transparent, fair, and accountable; this will make it harder for political interference to take over, and the institution will be on its way to regaining its legitimacy.

Navigating the Multiple Principal Problem

Ethical leaders in public organisations with political complexities have frequently adopted a number of major strategies to more effectively handle the challenges.

Anchoring in the Institutional Compass

Leaders have often referred to the main purpose of the organisation as a fixed point when dealing with conflicting political demands. Making decisions that are frequently in line with the public value objectives and the long-term success of the organisation can allow leaders to develop an even more convincing argument for resisting instant, politically-motivated pressures (Mahlala et al., 2022). This, although it may not necessarily fix conflicts, can be helpful in explaining organisational priorities and avoiding random decision-making.

Mediating Perceptions of Organisational Politics

Also, leadership means deciding how employees will interpret and cope with politics in the organisation. Ethical leaders who are devoted to openness and justice can help change people's minds from the thought that getting promoted is all about the people they know rather than personal skills, and that will help make the workplace internally more stable to the extent that employees will be driven to focus on reaching the organisational objectives rather than falling into power struggles (Abdi et al., 2024).

Implementing Check-and-Balance Mechanisms

Official working environment protection, such as a system for following rules, committees for monitoring, and consulting stakeholders, can function as a strong organisational means of defence against undue influence. These will be helpful in bringing ethical intentions down to the level of concrete organisational actions; in this way, accountability is being constantly upheld even when facing tough ongoing external political pressure (OECD, 2023; Mohamed et al., 2018).

Setting an Example as a Type of Resistance

Setting an example can work as an understated but extremely effective method of resisting something in organisations. Leaders who often stress that being excellent at the job is more important than simply being loyal will convey a clear message to their subordinates that doing a good job remains important even though external forces push for patronage. Such conduct will, over time, change what people search for in an organisation and thus diminish the need for patronage in acquiring career-related benefits (Bell et al., 2009; Mohamed et al., 2018).

Practical Implications

In order for governance reformation to have a lasting impact, the first step is to embed the ethical leadership principles deeply into the performance appraisal system of the organisation. Simply measuring leaders' financial performance will neglect their behaviours, which are crucial to the preservation of the culture and integrity of the institution. Hence, it is vital for the performance appraisal models to incorporate the criteria of the leaders' fairness, interactions with stakeholders, openness and following of the rules in the context of governance.

Chairpersons and human resources staff are instrumental in ensuring that the standards set above are adhered to. Besides training and workshops designed to enhance leaders' ability

to act ethically and with integrity, it is equally important to have a governance system that is aligned structurally and can support holistic reformation.

Theoretical Implications

The current study contributed to the fields of leadership and governance by incorporating ethical leadership and performance appraisal systems, which reflect two different aspects of the same issue with regard to governance transformations at the organisational level. One of the major contributions of this study was the emphasis on the political and cultural milieu characteristic of Southeast Asian public organisations, which was often ignored in the dominant leadership theories.

The current work redefined the role of performance appraisal systems as a means of ethical governance rather than mere instruments of administration and thereby expanded the scope of conventional performance management theory, where appraisal systems have not only become a medium for performance evaluation but also a conduit for nurturing and perpetuating organisational values and ethical standards.

Policy Implications

From a policy standpoint, one of the key steps towards governance reform is to incorporate ethics as a part of the entire process of determining suitable leaders, assessing them, and deciding on their promotions. In this process, it is important to stress appointing leaders who are not only competent but also have high moral standards rather than simply being politically loyal. These measures can assist in reducing political patronage and strengthening meritocracy in the long term.

Establishing strong regulatory frameworks is paramount if accountability is to be improved, and these frameworks should incorporate conflict-of-interest policies, whistleblower protection mechanisms, and independent oversight authorities. Nevertheless, the reform initiatives in Sabah, apart from meeting the policy requirements, must also be sensitive to the culture of the people. In fact, if a policy is regarded as being imposed on the community by external parties, the community will tend to resist the policy. On the other hand, policies that are in harmony with the indigenous cultures and at the same time can lead to transparency will be able to gain acceptance and success that will be sustained.

Methodological Implications

In fact, this paper also highlighted the methodological shortcomings of the leadership and governance studies in SOAs. Specifically, most of the time, traditional methods, such as cross-sectional surveys and self-reported data, were used to capture perceptions at a single point in time, which often limited the capability to describe the way leadership practices would develop over different political cycles.

One of the ways to overcome the above level of limitations is for future studies to use longitudinal designs, mixed-method approaches, and ethnographic investigations. These methods have the ability not only to provide deeper insights into leadership behaviours during institutional change but also to illuminate how governance reformations will interact with political dynamics over time, which will offer a more nuanced understanding of the intricacies involved.

Theoretical Interpretation: Moral Agency Framework

The real situations of Sabah confirm the existence of a moral agency model, which is a combination of the best elements of other theoretical lenses. For instance, dividend deficit, as per the agency theory, is an instance of how principal management can be distracted by their political loyalties, and such a diversion also occurs in the behaviour of managers. On the other hand, social learning theory would be that since ethical leaders get their behaviours scrutinised by others, the leadership in itself becomes a way of leading that both produces and reduces pressures. Further, organisational justice theory means that if proper procedures are put in place, a great part of the loss of faith or legitimacy of the institution can be reclaimed.

Together, the abovementioned theoretical ideas have pointed to the fact that ethical leadership is more than a person's moral attribute. It is, in fact, a process of intertwining relationships that has the potential to influence organisational behaviours and governance outcomes in ways that are not only more desirable but also more effective.

Restoring Justice in Appraisal Systems

Through the introduction of the term office politics error, the current authors have identified a major injustice manifestation in the performance evaluation systems (Daud et al., 2024), especially by differentiating procedural justice, such as fairness or rightness of the process, from distributive justice, including fairness of the outcomes, which has brought the problem to light. Therefore, a person who, as a result of being offered a negative outcome, may simply conclude that the evaluation was a fair one, while, on the other hand, a positive outcome may lead to dissatisfaction if the process is thought to be biased or influenced by politics.

Hence, ethical leadership is instrumental in not only helping to restore the legitimacy of appraisal systems but also in rebuilding trust by ensuring increased transparency, such as through disclosure of evaluation criteria, and consistency and impartiality in the evaluation processes. When employees have faith in the fairness of the evaluation, their willingness to work towards the attainment of the goals of the organisation will rise, which in turn will lead to better overall accountability.

Operationalising Ethical Appraisal

Implementing ethical appraisal is more than just a discussion. It means to set up measurable indicators that effectively mirror actual performance and not just political loyalty. Specifically:

1. Correlation Analysis - This is the method of checking to what extent the performance appraisal score truly reflects the performance level of employees and how much it is influenced by political affiliations or favoritism
2. Identification of Discriminatory Patterns - This is a suitable method that any pattern in checking may reveal the presence of discrimination or bias, and that will serve as a basis for ensuring fairness in all evaluations
3. Bias Detection - Recognising the general biases of raters, such as the halo effect, where an individual's good characteristics may overshadow other evaluations, and central tendency biases, wherein raters may avoid the use of extremes, thus leading to non-distinctive evaluations. In a nutshell, the above steps can help translate broad high-level ethical values into more tangible and observable organisational behaviours, thus enhancing the integrity and fairness of performance appraisal processes.

Contextual Specificity

The model proposed in this study acts as a conceptual framework designed to fit the socio-political environment of Sabah. This environment is characterised by unique institutional features, such as a quota system for board appointments. However, these may not be found in other jurisdictions and therefore may limit the generalisability of the model. The particularity of the case underlines the necessity of taking into account local context when formulating governance frameworks and reveals that changes may have to be made for the purpose of implementation in other regions.

Static Framework

As a conceptual framework, the existing model is capable of providing only a fixed view of governance activities at a certain point in time, not a lively depiction of how they change over time. One should realise that leadership cultures are not constant; they may sometimes change, and reforms may often produce unexpected consequences. This indicates a sign that governance mechanisms should be evaluated and modified regularly to become more efficient in dealing with changes and challenges.

Methodological Constraints

The interactions presented in the conceptual model are merely theoretical at this stage. Determining whether they are strong or weak and positive or negative remains the job of empirical research, which will require formulating and carrying out investigations using methods such as longitudinal studies, controlled experiments, or case studies to help collect relevant data and examine those relationships in real-world situations. Such empirical studies therefore have the potential to further shed light on ethical leadership, performance appraisal, and governance reform processes in different organisational settings.

Oversimplification of Performance Drivers

Concentrating only on leadership actions and appraisal mechanisms may mean missing out on major elements that could greatly affect organisational success, such as the external factors of the macroeconomic environment, the nature of the industry, and market changes that can together define the operational environment and set out the strategic path of the organisation. Accordingly, a more holistic method will be necessary for evaluating performance and developing leadership strategies.

Power Imbalances

In highly politicised settings, political pressures may be able to override ethical considerations even when formal governance mechanisms are in place. Therefore, if strong merit-based appraisal systems are not adequately supported by independent executive authority and personnel power within patronage networks, they might eventually become mere formalities (Leutert & Vortherms, 2021; Norhayati & Siti-Nabiha, 2009). It is a fact that when performance evaluations are viewed as mere bureaucratic box-ticking exercises rather than genuine governance tools, their integrity is likely to be compromised. This situation will result in the continuation of managerial survival and political discretion at the expense of objective assessment (Ramli et al., 2018; Silvester & Wyatt, 2017).

Conclusion

This paper refers to ethical leadership as not only a desirable characteristic but also a vital catalyst for governance reform in SOAs, especially in Sabah. Combining ethical leadership and merit-based performance appraisal has created a solution that can help reduce political interference, increase accountability, and enhance institutional legitimacy (Eryanto et al., 2022; Lopes et al., 2025).

The conceptual framework posits three related components, namely ethical leadership being the main infallible basis that imparts values, such as integrity and fairness, to organisational behaviour (Brown et al. 2005). On the other hand, performance appraisal acts as the medium through which aforementioned values are manifested as standards that can be used not only to judge results but also behaviour (Heffernan & Dundon, 2016; Walsh & Walsh, 2003). Lastly, governance reformation is what portrays the change of a system that uses appraisal methods to consistently endorse highly ethical conduct. Second, 90% dividend shortfall crisis was not merely a pure economic failure, but it was also a failure in governance, which called for a combination of both ethical role-modelling and structural accountability (Brown et al., 2005; Suffian, 2024). In fact, the present model can offer a theoretical guide to the change of political patronage to that of a merit-based institutional legitimacy (Abidin et al., 2023). In short, the embedding of ethical standards as a non-contractual form of control, existing SOAs in Sabah can more effectively narrow the distance between solely executive appointments and concrete measurable performance outcomes (Jahja et al., 2020; Kane, 2003).

This study has served to introduce a context-sensitive framework for working through governance issues, while, at the same time, it fills in the gaps of mostly Western-centric literature and addresses Southeast Asian cultural and political distinctions. More often, cultures have been ignored in ethical leadership studies, and ethical aspects have not been thoroughly incorporated in appraisal research; hence, political appointments and CEO evaluation systems in emerging markets remain a great challenge (Apriliyanti et al., 2023; Leutert & Vortherms, 2021).

In fact, the current model has, from a pragmatic standpoint, shown that the use of ethical criteria as part of staff selection and appraisal can work towards sustaining meritocracy and reducing patronage. Therefore, changes in policies should focus on making aspects more open, skilful, and responsible, while, at the same time, paying more attention to local cultures (Suffian, 2024). In terms of methods, future investigations could enhance their contribution more substantially and in a more precise way by adopting not only longitudinal but also mixed-methods research designs in capturing the continuously changing leadership practices (Naeem et al., 2023).

In sum, ethical leadership implicates more than a person's moral virtues, since it may play the role of a crucial link in the chain that ties leadership behaviour, appraisal processes, and governance outcomes within an integrated strategy of reforms. Organisations that include ethics in their performance appraisal can disclose their ceremonial or symbolic commitments as a mere facade and be perceived as moving towards actual institutional integrity (Norhayati & Siti-Nabiha, 2009). As far as Sabah and other similar areas are concerned, this is the gist that the current strategy may be equated to a more easily

implementable fiction for the construction of a public trust, on the one hand, and, on the other hand, for the assurance of a higher level of legitimacy and accountability of SOAs in their developmental roles.

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