

Ethical Leadership Indicators for State-Owned Agencies: Evidence from a Qualitative Study

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 @ Isa

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

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Abstract

This study highlights the importance of ethical leadership to succeed in reviving state agencies that have experienced deep systemic governance crises in Sabah, Malaysia. With the continuous deficiencies in governance and under-performing financially pointed out in the state-owned entities as the main reasons, this research aims at finding out the causes of the deterioration of the leadership and the collapse of the fiduciary ethics in the public services. Through a qualitative approach, the authors held semi-structured interviews with seven senior human resource practitioners to elicit their views on which competencies are most important for managing the multiple principal problems and the differing moral hazards that are typically found in state capitalism. The results have led to a solid outline of 11 separate indicators of ethical leadership, which have been grouped into three broad aspects: moral bases, behavioural implementation, and leadership ability. Regarding theory, this research draws together Social Learning Theory and Agency Theory to argue that governance knowledge and a long-term strategic focus are key internal mechanisms that can help prevent managerial slack and the misappropriation of public assets for political ends. Importantly, the paper highlights the “Culture of Pity” as a major cultural obstacle to meritocracy and describes it as a symptom of “Office Politics Error” where performance evaluations are influenced by social pressures and paternalistic logics. These 11 indicators offer a practical way to institutionalize accountability and bring state-owned agencies in line with international Environmental, Social, and Governance standards. The study, by calling for moving away from political patronage towards a merit-based evaluation system, provides a strategic plan on how to restore public confidence and make state institutions financially sustainable in the long term. In the end, this study adds to the Global South view of ethical leadership by turning moral ideals into concrete governance instruments that help achieve regional development goals like Sabah Maju Jaya 2.0. This study applies an exploratory qualitative approach and aims to develop contextually grounded ethical leadership indicators based on practitioners’ viewpoints, instead of creating causal relationship.

Keywords: Agency Theory, Ethical Leadership, Office Political Error, State-Owned Agencies, Social Learning Theory

Introduction

Overview and Strategic Context

Ethical leadership constitutes a principal building block for good governance of organizations today. This is especially true for government-owned corporations which straddle the line between serving the public and operating as business agencies (Zahari et al., 2024). On one hand, state-owned agencies across the world have been entrusted with overseeing strategic sectors, providing critical infrastructure, and implementing national development plans (CuervoCazurra et al., 2014; Milhaupt & Pargendler, 2017). In this regard, ethics in leadership should not be seen as a mere preference for the right thing but as an essential element to sustain public confidence and to ensure that trusteeship actions are consistent with the give-and-take of public governance (Zahari et al., 2024). Besides, ethical leaders have to display a commitment to integrity, impartiality, and openness. In essence, they are the 'moral compass' guiding one through the management of public resources under political exposure that is fraught with various complex issues (Brown et al., 2005).

In the Malaysian state of Sabah, government-linked companies are the main drivers of economic development in the region. At the same time, these significant institutions are often caught up in a "Political-Business Complex" where the lines of public service and political patronage are so intertwined that it is difficult to separate them (Gomez, 2025; Zahari et al., 2024). Local leaders need a framework of leadership indicators that can resist the unique institutional pressures of the Global South, where the targeting of communities and patronage networks through a Western-centric leadership model is typically unaccounted for (Nguyễn et al., 2025; Suffian, 2024).

The Problem Statement: Leadership Decadence and Institutional Misgovernance

The state-owned agencies in Sabah play a key role in ensuring the state's economic resilience. Nevertheless, they have been facing a continual challenge with a perception of a "governance deficit" which greatly hinders their developmental efforts, according to the organizing bodies of OECD (2024) and Suffian (2024). According to the OECD Economic Survey released for Malaysia in 2024, it is highlighted that the Government-Linked Companies and agencies at the state level are often working with a lack of transparency, which results in large "accountability gaps" that endanger their commercial viability and hence, their operational performance (OECD, 2024).

In the case of Sabah, this situation gets worse due to a kind of "political-business complex," as Gomez calls it, in which the collusion of political factions and public administration leads to "grand corruption" and the systemic misappropriation of state assets (Gomez, 2025). Suffian's research concludes that these entrenched features of the institutions, manifested in incessant political patronage, are the main cause preventing the state from being industrialised and, at the same time, they inhibit the agencies from developing the kind of technical efficiency necessary to be able to compete at the global level (Suffian, 2024).

Such a systemic failure is a reflection of leadership decadence - a degradation of both the moral and technical standards necessary for effective fiduciary oversight (Enaifoghe et al.,

2023; Gomez, 2025). Being devoid of internalised ethical benchmarks of "Integrity" and "Accountability" makes agency heads vulnerable to political pressures, commonly resulting in "propping" up ill-fated political ventures or the manipulation of funds for patronage purposes (Apriliyanti et al., 2023; Milhaupt & Pargendler, 2018). Therefore, an Ethical Leadership Indicator Framework is needed to equip leaders with a "technical shield" that can withstand the pressures commonly found in the political arena, thus enabling the restoration of institutional legitimacy, which in turn is necessary for gaining continuous public trust (OECD, 2024; Satia, 2024).

Theoretical Gap: Institutional Logics in the Global South

Most of the current theories of ethical leadership centre on Western models that take for granted stable, fair institutional systems (Nguyễn et al., 2025). A major theoretical gap in the literature is the use of the Institutional Logics perspective to study leadership in the 'Global South' (Nguyễn et al., 2025). Leadership in Sabah is seen through this lens as a constant negotiation between two opposing 'logics' or models, i.e., the Bureaucratic Logic of professional efficiency vs. the Communal/Paternalistic Logic of social protection and patronage (Daud et al., 2023; Nguyễn et al., 2025).

A major cultural barrier that has been highlighted in this research is the "Culture of Pity" (Markah Kasihan) from which the "Office Politics Error" in the performance evaluation process often arises (Daud et al., 2023; Yahiaoui et al., 2021). In fact, within this collective logic, it is not uncommon for leaders to give higher and more lenient performance ratings to their team members, mainly to maintain social harmony or to please their political superiors. This, in turn, leads to the scenario where mediocrity is the norm and meritocratic accountability is completely ignored (Daud et al., 2023; Lucas et al., 2022). By creating and using localized performance measurement tools such as "Justice and Fairness" and "Ethical Awareness," this paper introduces the concept that would allow these different logics to be reconciled, and at the same time, it safeguards professional governance from being overridden by the communal values (Nguyễn et al., 2025; Zahari et al., 2024).

Therefore, in this study, "Culture of Pity" and "Office Politics Error" are not predefined variables imposed on the data, they function as sensitising concepts to aid interpretation.

Research Objectives and Methodology

This study employs a qualitative, multi-case study technique and conducts semi-structured interviews with senior human resource officers in seven different state-owned agencies. To maintain the validity and reliability of the results, a Structured Research Audit Trail was kept to show a transparent chain of evidence from raw data to final thematic development (Carcary, 2021; Mertens et al., 2025). Specifically, the research seeks to:

- Develop a list of 11 measurable indicators of ethical leadership that reflect the distinct institutional and cultural contexts of Sabah's public sector (Suffian, 2024; Zahari et al., 2024).
- Describe these indicators as "Management Controls" set to reduce agency costs and solve the "Multiple-Principal Problem," in which leaders get conflicting demands from political and commercial stakeholders (Apriliyanti et al., 2023; Cuervo Cazurra et al., 2014; Milhaupt & Pargendler, 2017).

- Define a method of moving from "loyalty-based" to "competence-based" leadership appointments and thus board professionalisation of state-owned agencies (Milhaupt & Pargendler, 2017; Satia, 2024)

Through this study, conceptual relationship between leadership indicators and governance mechanism is proposed. However, they are not empirically causal and remain exploratory. Although the study analysed the governance impacts; it is not intended to prove governance result or cause-and-effect relationship. Instead, it contributes in classifying ethical leadership indicators from participants' points of view.

Policy Significance: Alignment with Sabah Maju Jaya 2.0

Lastly, this study is in line with the Sabah Maju Jaya 2.0 (SMJ 2.0) plan, which is the main reference for industrial and economic development of the state (Suffian, 2024). The SMJ 2.0 plan highlights "Good Governance" and "Human Capital Development" as the main cornerstones of the state's continuous growth (Suffian, 2024).

By formalizing the 11 indicators unearthed in this research, the state government can be certain that the technical fiduciary capacity of leaders of agencies is adequate to lead the SMJ 2.0 implementation. "Governance Knowledge" and "Strategic Orientation" are just examples of such indicators (OECD, 2024; Suffian, 2024). This synchronization is not only a prerequisite for economic prosperity but also a key factor for the successful implementation of Environmental, Social, and Governance standards, thus making Sabah's state-owned agencies worthy of being perceived as transparent, accountable, and ethically raising their standard on a global scale (Ong et al., 2025; Satia, 2024; Zahari et al., 2024).

Literature Review

The governance of state-owned agencies in emerging markets is more and more shaped by the tension between the state-led developmental objectives and the need for fiduciary transparency (Apriliyanti et al., 2023; Milhaupt & Pargendler, 2017). In the Malaysian context, especially in the state of Sabah, the tension is even more brought about by the historical institutional rigidities and a political-business complex that is widely spread (Gomez, 2025; Suffian, 2024). This review combines the global and regional literature to explain the necessity of the development of an ethical leadership indicator framework as an essential instrument for institutional change.

The Political-Business Complex and the Governance Deficit

Historical Context of the Political-Business Complex

According to Gomez (2025), one of the main problems of the Malaysian public governance is the "political-business complex" that he pinpointed. This type of complex is the intertwining of party political interests with the holding and management of public assets and Government-Linked Companies. The 1MDB scandal in the past was a good example of how "large-scale corruption" gets institutionalized if leaders are not ethically responsible to the public (Gomez, 2025). In such cases, the difference between the use of state resources and the giving of political favors is not clear, and, as a result, political survival takes priority at the expense of professional competence (Gomez, 2025; Suffian, 2024).

The "Accountability Gap" in Modern Malaysia

The OECD Economic Survey: Malaysia 2024 points out that although the country has rolled out several anti-corruption initiatives, major "accountability gaps" still linger in the governance of state-linked companies (OECD, 2024). These accountability gaps are not only administrative but also result from the absence of clear and transparent leadership indicators, which could differentiate between professional stewardship and political agentic behaviour (OECD, 2024; Satia, 2024). As Enaifoghe et al. state, "leadership decadence" in the public sector is often a consequence of the failure to base governance on a solid ethical framework, which in turn gives rise to widespread breakdowns in service delivery and mismanagement of resources (Enaifoghe et al., 2023). For Sabah, the issue is even more serious, as the state's revenue goals are constantly disrupted by the "leakage" of resources into patronage networks (Gomez, 2025; Suffian, 2024).

Agency Theory and The "Multiple-Principal" Problem

The Agency Costs of State Capitalism

Agency Theory and, in particular, the "Multiple-Principal Problem" provides the theoretical basis for explaining ethical failure in state agencies (Apriliyanti et al., 2023; Milhaupt & Pargendler, 2017). While private sector companies are mainly accountable to their shareholders, leaders of government agencies have to cater to multiple "principals" whose ambitions might not accord with one another: politicians who desire patronage, commercial partners who are after profits, and the public who want social welfare (Apriliyanti et al., 2023; Milhaupt & Pargendler, 2018).

Tunnelling, Propping, and Managerial Slack

From an Agency Theory point of view, 'agency costs' in state-owned agencies are particularly high due to two main factors: 'tunnelling' (the conversion of resources for political or personal purposes) and 'managerial slack' resulting from a combination of weak external monitoring and the absence of market discipline (Milhaupt & Pargendler, 2017, 2018). Milhaupt and Pargendler's study further recognizes 'policy channeling' as a tertiary risk when state agencies are compelled to 'prop up' unsuccessful political projects or surplus investments, which are not commercially viable (Milhaupt & Pargendler, 2017, 2018).

The Competence-Loyalty Trade-off

According to Apriliyanti et al, research shows that CEOs of SOAs in emerging markets suffer from excessive moral stress if they have to deal with conflicting demands of different political principals (Apriliyanti et al., 2023). They further argue that this stress sometimes causes a "competence-loyalty trade-off," where political principals choose leaders only based on their partisan loyalty, disregarding their qualifications in governance (Apriliyanti et al., 2023; Gomez, 2025). As pointed out by Apriliyanti et al. Satia and Zahari et al. agency leaders without internalised ethical indicators 'Self-Regulation' and 'Moral Courage' are both psychologically and structurally inclined to follow such unethical political instructions willingly to stay in their jobs, thus sorting the governance deficit out like the institution (Apriliyanti et al., 2023; Satia, 2024; Zahari et al., 2024).

Institutional Logics and Cultural Dynamics

Negotiating Logics in the Global South

Identifying governance failures that are specific to the Malaysian context in a meaningful way entails understanding the foundational "institutional logics" of the Global South (Nguyễn et al., 2025). Ethical leadership in this part of the world is almost a constant battle between two conflicting logics: the Bureaucratic Logic, which values professional efficiency, and the Communal/Political Logic, which values social protection and patronage (Nguyễn et al., 2025).

The "Culture of Pity" and the Office Politics Error

In the public sector of Malaysia, the "Culture of Pity" (Markah Kasihan) is a clear reflection of this phenomenon, where performance appraisals based on merit are frequently overridden by interpersonal relationships and communal loyalty (Daud et al., 2023; Yahiaoui et al., 2021). Daud et al. have described the "Office Politics Error" as an important aspect of ethical decline, whereby leaders give more importance to political loyalty and personal "pity" rather than technical proficiency and fairness. Such cultural reasoning leads to meritocracy being a "glass ceiling", as individuals with strong political connections tend to replace high-performing employees (Daud et al., 2023; Suffian, 2024). Therefore, "Justice and Fairness" as an indicator discussed in this research, along with being a moral characteristic, is also a structural requirement for the conversion of state agencies to a meritocratic, high-performance culture (Daud et al., 2023; Zahari et al., 2024).

Institutional Rigidity and the Case of Sabah

Constraints of Industrial Development in Sabah

The need for an ethical framework in Sabah is even more supported by the fact that the state has its own "institutional rigidities" (Suffian, 2024). Suffian points out that Sabah's industrial development and the achievement of the Sabah Maju Jaya roadmap are mainly held back by these rigidities, which comprise weak institutional control and the continuation of patronage networks that hamper economic innovation (Suffian, 2024). These rigidities lead to the creation of a "low-trust environment" where both local and foreign investors are reluctant to invest their funds because of the governance risks that they perceive (OECD, 2024; Suffian, 2024).

Ethical Leadership as an "Institutional Lubricant"

Ethical leadership serves as the "institutional lubricant" that is indispensable for overcoming these limitations. By showcasing "Governance Knowledge" and "Institutional Loyalty", leaders can unveil a "technical shield" that insulates the agency's developmental mission from the ever-changing political environment (Suffian, 2024; Zahari et al., 2024). This is a must for the "Sustainability" governance component, as it guarantees that state-owned agencies in Sabah will bring in revenues to the state rather than being liabilities due to mismanagement or the "propping" of failed political activities (Milhaupt & Pargendler, 2018; OECD, 2024).

ESG Adoption and the Restoring of Public Trust

The ESG Mandate for Public Sector Organisations

The advocacy for Environmental, Social, and Governance (ESG) standards is seen as a modern, strong reason for ethical leadership (Ong et al., 2025; Zahari et al., 2024). According to Zahari et al., the groundwork of an "ethical culture" is the enabling factor for getting the ESG

successfully implemented in the public sector organizations (Zahari et al., 2024). Although if ESG is taken without the 11 indicators which are proposed in this research, it is simply a "tick the box" type of exercise and no real change in governance (Ong et al., 2025; Zahari et al., 2024).

Restoring Institutional Legitimacy

According to Satia, public trust cannot be restored simply by changing policies; it demands a demonstrable commitment to ethical leadership and the establishment of an accountability framework that the public can trust and check (Satia, 2024). This framework, which ties ethical leadership directly to fiduciary duty and public trust, brings Sabah's state government departments on the same page with the international community that follows the highest standards of transparency and accountability (OECD, 2024; Satia, 2024). Such conformity guarantees that the state government departments will be well-equipped to handle the "green" and "digital" changes that were described in the OECD 2024 report, thus enabling the state's economic sustainability in the long run (OECD, 2024; Ong et al., 2025).

Overall, these theoretical perspectives set a foundation for the analytical framework of this study. They navigate the analysis of data and the development of ethical leadership indicators grounded in Sabah context.

Summary

Table 1 below summarises the governance challenges faced in the form of theoretical mapping.

Table 1

Theoretical Mapping of Governance Challenges

Core Governance Concept	Academic Anchor / Source	Application to the Sabah Context
Political-Business Complex	Gomez (Gomez, 2025)	Entanglement of partisan interests leading to grand corruption (Gomez, 2025).
Multiple-Principal Problem	Apriliyanti et al. (Apriliyanti et al., 2023); Milhaupt & Pargendler (Milhaupt & Pargendler, 2017)	Conflicting demands between patronage and fiduciary duty (Apriliyanti et al., 2023; Milhaupt & Pargendler, 2017).
Institutional Rigidity	Suffian (Suffian, 2024)	The primary barrier to industrialisation in Sabah (Suffian, 2024).
Institutional Logics	Nguyễn et al. (Nguyễn et al., 2025)	Negotiation between bureaucratic efficiency and communal patronage (Nguyễn et al., 2025).
Agency Costs	Milhaupt & Pargendler (Milhaupt & Pargendler, 2018); OECD (OECD, 2024)	Misappropriation of resources for political or private gain (Milhaupt & Pargendler, 2018; OECD, 2024).

Methodology

Research Philosophy and Design

This paper uses a qualitative, multi-case research method, with an interpretivist paradigm as the philosophical basis (Najda-Janoszka & Daba-Buzoianu, 2018; Roberts et al., 2020). An interpretivist paradigm is the best fit for studying the "lived experiences" of leadership in Sabah's state-owned companies, where ethical decisions are not based on rules but are constructed through social interactions and influenced by various institutional pressures (Lucas et al., 2022; Nguyễn et al., 2025). Instead of looking for objective measurement, this method tries to understand the subtle meanings that organisational members associate with the idea of ethical leadership in a "political-business complex" (Gomez, 2025; Najda-Janoszka & Daba-Buzoianu, 2018).

The study uses a multiple-case study design to work on seven different state-owned agencies. Lucas et al. argue that qualitatively researched management should not only describe the surface features of management but also uncover the "underlying logics" of management behaviour (Lucas et al., 2022). Based on seven cases, this setup allows comparative work across cases; at the same time, it preserves the contextual richness of the individual organizations, which have to deal with hybrid tensions of keeping the business side commercially viable on the one hand and fulfilling the public developmental mandates on the other (Milhaupt & Pargendler, 2017; Zahari et al., 2024). Indeed, in the Malaysian "Global South" context, this is a significant issue where institutional logics are frequently the result of a bargain between professional bureaucracy and communal patronage (Nguyễn et al., 2025). For that reason, the interpretive depth and understanding on the context are the priorities of this study which is in line with the approach of interpretivist qualitative research.

Participant Selection and Organisational Context

The researchers in the study employed purposive sampling to pick seven senior participants, mostly those who are Heads of Human Resources in Sabah's state-owned agencies. Selecting "expert informants" is crucial for data saturation and depth in qualitative management research (Lucas et al., 2022; Roberts et al., 2020). These participants were recognized as strategic gatekeepers because they were responsible for designing performance appraisal systems and managing the leadership development for the Sabah Maju Jaya roadmap (Suffian, 2024; Zahari et al., 2024).

One of the respondents was also the Head of Human Resources and Chief Integrity Officer, which is not a common situation. It gave that person a unique insight into how the different elements in a business are aligned with and operate in accordance with the set of moral standards. The agencies that took part are some of our economy's most vital sectors:

- Oil and Gas Development: These agencies are often engaged in high-value contracts and will therefore be subject to international standards of compliance.
- Port Operations: Ports are vital trade infrastructure and, therefore, are a great concern to the government.
- Water Infrastructure: They are the ones who are most directly in touch with society because of their role in the provision of water, a basic necessity of human life. On the other hand, they also have to be commercially viable, and therefore, it is a constant struggle to find a balance between these two aspects.

- Manufacturing & Industrial Development: This sector is relatively less dynamic regionally because of system-level constraints (Suffian, 2024).

Such a wide range of sectors would clearly indicate that the results not only represent the major governance problems of state capitalism but also have implications for the "Multiple-Principal Problem," where a leader has to satisfy the contrasting needs of many political and commercial stakeholders (Apriliyanti et al., 2023; Milhaupt & Pargendler, 2017).

Data Collection and Researcher Reflexivity

Primary data came from face-to-face interviews that were semi-structured and conducted from October 2023 to March 2024. These "elite interviewing" sessions gave us a chance to thoroughly discuss delicate governance issues, which are usually hard to find in official reports, such as political patronage and the "Office Politics Error" that can lead to overstatements in Malaysian public service performance appraisals (Daud et al., 2023; Roberts et al., 2020).

Interview Protocol and Logistics

Interviews were done in neutral, safe places and each lasted about 45 to 90 minutes so that the respondents could open up freely. They have all been audio recorded with permission, and the participants have been de-identified by using codes (e.g., R1, R2) so as to prevent unwanted disclosure. Moreover, due to the semi-structured nature of the interview, the researcher could turn the conversation around as per the informant's responses, a method that is widely considered to be effective in eliciting "unanticipated insights" in qualitative management research (Najda-Janoszka & Daba-Buzoianu, 2018; Roberts et al., 2020)

Researcher as Instrument and Bracketing

Since the researcher is the main tool for collecting data, strategies like bracketing and reflexivity have been used to reduce the risk of biases and improve the objectivity of the analysis (Najda-Janoszka & Daba-Buzoianu, 2018; Roberts et al., 2020). Being an "insider" who is significantly familiar with the Malaysian administrative system, I kept a reflexive journal in which I recorded my biases and emotional reactions as I was collecting the data (Lucas et al., 2022; Najda-Janoszka & Daba-Buzoianu, 2018). This methodological approach was successfully implemented in such a way that the researcher's personal background played a significant role in establishing rapport and trust during the interviews, but it did not overly affect the thematic development of the 11 indicators (Najda-Janoszka & Daba-Buzoianu, 2018; Suffian, 2024).

Data Analysis Procedure: The Three-Stage Coding Process

The qualitative data were analyzed with ATLAS.ti 23 software, followed a hybrid analytical approach that incorporated thematic analysis as well as grounded theory techniques (Lucas et al., 2022; Mertens et al., 2025). To make certain the manuscript shows enough depth, our analysis adopted a step-by-step, three-level coding system:

- Open Coding: Open coding is a method of breaking down qualitative data into discrete parts and examining it line by line. By applying open coding to the anonymized transcripts, we were able to generate 361 raw codes. The codes were related to different aspects of leadership behaviour, governance tension, and specific examples of political interference or "managerial slack" (Daud et al., 2023; Milhaupt & Pargendler, 2018).

- **Axial Coding:** Related codes were combined progressively to form higher-level conceptual categories. During this phase, the analysis mostly looked at the strain between Bureaucratic Logic (efficiency/merit) and Communal Logic (patronage/pity) (Nguyễn et al., 2025; Yahiaoui et al., 2021). It also helped to highlight the "Office Politics Error" as a constant element in Sabah's governance (Daud et al., 2023).
- **Selective Coding:** These categories were merged to form the final model of eleven separate indicators of ethical leadership. These indicators were divided into three main groups: Moral Foundations, Behavioural Enactment, and Institutional Capacity.

The progress of raw codes until final indicators went through an iterative comparison process. Participants' quotes were repeatedly analysed to ensure that each indicator remains relevant in the original narratives. Each of the final indicators was only retained provided several participants mentioned it with regards to ethical or governance issues discussed in the interviews. With this, the framework is therefore grounded in real data rather than theory.

Methodological Rigour and the audit trail

The rigour in this study is built through confirmability, credibility and transferability rather than statistical validity and reliability, which is the core of qualitative research. In order to guarantee the legitimacy and reliability of the results, a Structured Research Audit Trail was conducted for the project (Carcary, 2021; Mertens et al., 2025). This audit trail thoroughly records each step of the investigation, starting with the first coding of data to the last thematic grouping, thus offering a significantly open "chain of evidence" which can be checked externally (Carcary, 2021; Mertens et al., 2025).

Data Triangulation and External Validation

In order to ramp up methodological rigour, more data layers were added. The research outcomes derived from the interviews were double-checked against highly reliable external governance documents, such as:

- **The Malaysian Code on Corporate Governance:** To make sure the indicators were consistent with the regulatory standards of the country (Zahari et al., 2024).
- **OECD Economic Survey: Malaysia 2024:** To help develop a conceptual framework that responds to the "accountability gaps" identified by international critics (OECD, 2024).
- **ESG Frameworks:** To cross-check if indicators such as "Sustainability" and "Ethical Awareness" represent modern Environmental, Social, and Governance (ESG) aspects

Studies have shown that by integrating a study's empirical results with existing frameworks, the 11 indicators of the study will be theoretically sound as well as practically relevant in the global public sector context (Ong et al., 2025; Zahari et al., 2024).

Ethical Considerations and Data Trustworthiness

According to the qualitative research standards for management (Lucas et al., 2022; Najda-Janoszka & Daba-Buzoianu, 2018), this research followed rigorous ethical measures. Since the topic of political patronage and "leadership decadence" in Sabah's public sector is highly sensitive, consent was properly informed and secured from all interviewees before the interviews (Enaifoghe et al., 2023; Roberts et al., 2020). To lower the chance of institutional

backlash, the seven participating agencies' names were substituted with generalized sectoral descriptions (e.g., "Port Operations, " "Water Infrastructure") (Gomez, 2025; Suffian, 2024).

Trustworthiness was mainly established through "Member Checking", whereby the initial thematic analysis of the 11 indicators was shared with three participants for them to confirm that the results reflected their "lived experiences" of governance pressure (Carcary, 2021; Mertens et al., 2025). Since the coding was performed by a single author, interactive coding cycles and reflexive validation were done consistently. There was no formal inter-coder agreement established. ATLAS.ti 23 was used during the axial coding, thereby facilitating the assurance that the sequence from 361 initial codes to 11 final indicators was logical and could be audited (Daud et al., 2023; Mertens et al., 2025). Such a degree of openness is paramount to eliminate the "Office Politics Error," which, unfortunately, may lead to the biased interpretation of leadership performance (Daud et al., 2023).

Findings: The Ethical Leadership Indicator Framework

The qualitative analysis of senior human resource practitioners of state agencies in Sabah identified 11 ethical leadership indicators through a qualitative analysis. The conceptual framework derived from the findings is summarised in Table 2 as follows:

Table 2

Ethical Leadership Indicator Conceptual Framework

No.	Conceptual Dimension		Constituent Indicators	Strategic Focus
1	Moral Foundations		Integrity, trustworthiness, accountability, prioritisation of organisational interests	Setting the ethical foundation of leaders who are able to stand against corruption and patronage pressures.
2	Ethical Behavioural Enactment		Transparency in decision-making, inclusive communication, empathy and supportive leadership, professional role modelling	Manifesting ethical principles through actual leadership behaviour at the organisational level.
3	Ethical Leadership Capacity		Leadership competence and performance, governance knowledge, long-term strategic orientation	Making sure that leaders have strong leadership and governance skills to run complicated state-owned agencies.

These indicators are a powerful empirical reaction to the deeply rooted underperformance and moral risks that are part of state capitalism (Gomez, 2025; Milhaupt & Pargendler, 2017; OECD, 2024). To maintain the coherence of the argument and the theoretical integrity, these

indicators have been divided into three categories: Moral Foundations, Ethical Behavioural Enactment, and Ethical Leadership Capacity.

The main purpose of this study was to develop a conceptual qualitative framework of ethical leadership indicators for state-owned agencies in Sabah only. The developed model has 11 unique indicators arranged in three main theoretical dimensions which connect the "Moral Person" with "Moral Manager" as per the works of Brown et al. (2005), Hsieh et al. (2023).

Dimension 1: Moral Foundations (The "Moral Person")

This dimension focuses on the internalised values and character traits of a leader that function as the internal 'moral compass' to steer through the challenging and stressful public sector environment (Brown et al., 2005; Hendrikz & Engelbrecht, 2019).

Integrity and Trustworthiness

Integrity, being the first and foremost signal, is explained as the level of agreement between the stated values of a leader and his/her behaviours, especially when the leader is under the influence of politics. In Sabah's "Political-Business Complex," integrity is the chief institutional weapon against grand corruption and the erosion of boundaries between public responsibility and private interests (Gomez, 2025). Trustworthiness moves one step further by making sure that the leader represents a faithful steward of the state's assets. This in turn helps decrease the agency costs related to "tunnelling" or the illicit appropriation of resources (Milhaupt & Pargendler, 2017, 2018). As a participant mentioned: "Integrity and honesty are both central to ethical leadership, which ensure decisions are made transparently and honestly " [P3].

Accountability

Accountability is a leader's readiness to be continually responsible not only for the financial results but also for the ethical misconducts of their agency. They should be the ones actively addressing the issues rather than blaming the political principals, the practice commonly known as "leadership decadence" (Enaifoghe et al., 2023; Ghanem & Castelli, 2019). In the absence of such a personal responsibility, institutional arrangements like the "Golden Share" might be used as a refuge for inadequacy instead of a means for supervision (Apriliyanti et al., 2023; Milhaupt & Pargendler, 2017). One participant addressed: "Ethical leaders must be accountable for their actions and those of their team members, without the tendency to blame others" [P5].

Prioritisation of Organisational Interests

Ethical leaders always choose to focus on the public mandate and the continuity of the institution rather than the party or personal interests. To do this properly, an ethical leader must have a strong ability to manage the "Multiple-Principal Problem," which means finding a middle ground between the agency's commercial viability and the government stakeholders' socio-political requirements (Apriliyanti et al., 2023; Milhaupt & Pargendler, 2017). This is discussed by one of the participants: "Ethical leaders are expected to prioritise the interest of the organization above their own, which is required for achieving objectives and long-term success" [P7].

Dimension 2: Ethical Behavioural Enactment (The "Moral Manager")

This dimension refers to the external and observable manifestations of leadership influence, through which leaders shape ethical standards and practices within the organisation.

Professional Role Modelling

Ethical leaders are role models with 'high status' whose public adherence to rules establishes the organizational culture (Brown et al., 2005). Acting as a good role model is crucial in lessening the harmful influences of Machiavellianism and unhealthy office politics, showing that merit without political favoritism is the key to promotion in the agency (Daud et al., 2023; Zainun et al., 2021). Participant specifically mentioned: "Ethical leaders should conduct themselves in ways that demonstrate their dedication to their responsibilities, hence making professionalism as a highly important characteristic" [P1].

Transparency in Decision Making and Inclusive Communication

Transparency helps to mitigate the considerable imbalances in the information held by government and its agencies (Milhaupt & Pargendler, 2017; Sinnadurai, 2018). Expanding the channels of communication allows the decision-making not only to be witnessed by the lower-level employees but also by their supervisors, which can serve as a means to reduce "managerial slack" and to make the agency activities consistent with ESG (Environmental, Social, and Governance) goals (Ong et al., 2025; Zahari et al., 2024). One of the interviewees said, "If a leader is not ethical, the decision of supplier recommendation would be influenced" [P2].

Empathy and Supportive Leadership

Ethical leaders who aim to set a good example should avoid at the same time the "Office Politics Error" and the local "Markah Kasihan" (culture of pity), which are detrimental to performance appraisal honesty as they are designed to maintain social harmony (Daud et al., 2023; Yahiaoui et al., 2021). Authentic justice and fairness call for the use of strict meritocratic benchmarks to safeguard an organisation's efficiency and ability to survive in the market (Abdi & Rahman, 2024; Zahari et al., 2024). Within this paradigm, one can understand empathy differently: it is not indulgence but rather an aspect of leadership that supports the institution's fairness (Yahiaoui et al., 2021). The participant said: "There is a big impact on team morale and performance created by leadership styles hence being empathy and supportive is expected from an ethical leader" [P4].

Dimension 3: Ethical Leadership Capacity (The "Technical Shield")

This aspect makes clear that it is not enough for a leader to only be moral; a leader should also have the technical capability of a fiduciary to be able to protect the organisation's integrity even when faced with unethical external pressures (Milhaupt & Pargendler, 2017; Nguyễn et al., 2025).

Leadership Competence and Performance

Ethical leadership cannot be seen separately from professional competence. For example, if a leader does not achieve the desired financial results, they have basically neglected their fiduciary duty to the state (Milhaupt & Pargendler, 2017). Professional competence is the basis of the "performance legitimacy" without which it is significantly difficult to resist unethical pressure from political masters (Apriliyanti & Kristiansen, 2019; Gomez, 2025). This

is emphasised by one participant: “Ethical leaders must possess the necessary knowledge and skills relevant to their industry, which are required for them to lead effectively and make important decisions” [P1].

Governance Knowledge as a Defence Mechanism

Knowing governance frameworks like Treasury Instructions and various regulatory codes is like having a "technical shield" when one is faced with unethical requests. A thorough understanding of governance equips leaders with the ability to present legal and procedural justifications when resisting attempts at political meddling, which is a good example of how the international community continues to call for increased supervisory-level knowledge (OECD, 2024; Zahari et al., 2024). One person even said, "If I am not aware of the rules, I cannot be fair" [P5].

Long-Term Strategic Orientation

Ethical leaders refrain from falling into the "political business cycle" trap, wherein resources are used for obtaining short-term political gains (Apriliyanti et al., 2023; Suffian, 2024). On the contrary, they give priority to sustainable growth and the consistent meeting of dividend obligations. Such a direction is vital for turning around the high agency costs and managerial slack that have, for a long time, underperformed the fiscal performance of Sabah's public institutions (Milhaupt & Pargendler, 2017, 2018; Suffian, 2024). As emphasized by one participant: “ On top of leading effectively, it is important for a leader to have clear vision for the future in order to be an ethical leader. They should focus on long term goals hence the resources can be used effectively to achieve objectives” [P6].

Strategic Capacity: Navigating the ‘Golden Share’ and the ‘Culture of Pity.’

The Strategic Orientation indicator was revealed as a vital capability to resist the 'Political-Business Complex' and the multiple-principal demands that usually lead to CEO compliance in emerging market state-owned agencies (Apriliyanti, et al., 2023; Suffian, 2024). A key observation was that in agencies where the state has a 'Golden Share', there is an ongoing danger that organisational resources might be diverted to achieving short-term political gains (Milhaupt, 2019; Milhaupt & Pargendler, 2017). An ethical leader, who is strongly strategically oriented, does not give in to the 'tunnelling' of assets, i.e., using the agency's resources solely to benefit the controlling shareholder, thereby harming the agency's health. Instead, such a leader would align the use of resources to the long-term regional development as specified in the Sabah Maju Jaya 2.0 roadmap (Milhaupt & Pargendler, 2018; Suffian, 2024).

At a macro level, this kind of strategic resistance is significantly a part of a down-to-earth redefinition of Empathy (Yahiaoui et al., 2021). Instead of the old-fashioned Culture of Pity (Markah Kasihan), which is the main cause of staff performance falsification and office politics errors, ethical empathy offers structural support and provides resources for employees to reach the challenging institutional standards (Daud et al., 2023; Yahiaoui et al., 2021). Such leaders with the strategic ability to provide Professional Role Modelling are also those who can bring a compassionate attitude while still upholding Justice and Fairness which is necessary to maintain a meritocratic organisational culture (Brown et al., 2005; Zahari et al., 2024). Just by telling good empathy from a tolerant culture of pity, ethical leaders will be able to unconditionally and effectively eliminate the managerial slack that has, to a greater extent, kept Sabah's public institutions from moving forward (Milhaupt & Pargendler, 2017, 2018).

The identified indicators provide a basis with empirical ground for theoretical interpretation in relation to ethical leadership theory and institutional logics.

Discussion: Reconceptualising Ethical Leadership for Sabah's Governance

The next section analyses the findings within existing theoretical frameworks and the interpretations are grounded in the qualitative data. The interpretations are directly translated from the empirically identified indicators without introducing independent construct which is not part of the data; it does not extend beyond empirical finding.

The creation of the Ethical Leadership Indicator Framework is a major empirical attempt to address the "governance deficit" that the Malaysian government-linked companies have been suffering from (Gomez, 2025; OECD, 2024). Reduced to 11 indicators, the results imply that ethical leadership in Sabah is not just an added value of a few desirable moral characteristics but a strategic weapon in the arsenal of the state's development, which institutional rigidities have historically blocked (Suffian, 2024). In other words, these indicators are a kind of governance technology that can be used to manage border situations, such as the issues of political patronage and the multiple-principal problem, in the state-owned agencies both theoretically and practically (Apriliyanti et al., 2023; Milhaupt & Pargendler, 2018). The three theories complement each other in this study. Firstly, Agency Theory explains governance conflicts and incentive misalignment, then Social Learning Theory defines how ethical behaviour is learned and reinforced, and finally Institutional Logics elaborated how competing values—such as efficiency and patronage—shape leadership decision-making, particularly in the Global South.

Neutralising the Political-Business Complex

The components pinpointed for "Integrity" and "Self-Regulation" are actually the main psychological and organisational hurdles to the political-business "complex" as described by Gomez (Gomez, 2025). The intertwining of political interests and government in Malaysia has been so intense that it has resulted in the "grand corruption" cases, where government bodies have, in fact, become instruments for the accumulation of political wealth rather than for the development of the region (Gomez, 2025; Suffian, 2024).

When agency leaders do not have a strong ethical foundation, they could be structurally exposed to the phenomenon of "policy channeling" - a situation when public resources are misdirected to cater to limited political agendas, for example, the financing of partisan social programs or supporting politically connected firms (Milhaupt & Pargendler, 2017, 2018). The 11 indicators act as a "normative baseline" that enables leaders to see themselves as custodians of public resources rather than as agents of political principals (Satia, 2024; Zahari et al., 2024). Service agencies can start to separate their mode of operation from the dominant patronage networks which Suffian identified as the major hindrance to Sabah's industrialisation by implementing "Integrity" in the form of particular behavioural indications (Suffian, 2024). This separation is the only method to revive the "Institutional Legitimacy" that is necessary for the achievement of long-term fiscal sustainability and by extension, the success of the Sabah Maju Jaya roadmap (OECD, 2024; Satia, 2024).

The "Technical Shield" and the Multiple-Principal Problem

A key element of this study is the introduction of the "Governance Knowledge" indicator. While most ethics and leadership studies almost exclusively focus on moral character, this paper identifies technical governance competency as a prerequisite to ethical behaviour (Apriliyanti et al., 2023; Zahari et al., 2024). Public agencies leaders are confronted with the "Multiple-Principal Problem, " which refers to their dilemma of having to meet the expectations of political stakeholders, business partners, and general public, often disagreeing among themselves (Apriliyanti et al., 2023; Milhaupt & Pargendler, 2017).

Apriliyanti et al. describe how CEOs of SOAs in emerging market countries frequently experience extreme "moral stress" when political directives like "tunnelling" resources to a certain group are at odds with their fiduciary duties to the agency's commercial viability (Apriliyanti et al., 2023; Milhaupt & Pargendler, 2018). The "Governance Knowledge" variable functions as a "technical shield"; it gives leaders the ability to refuse unethical political requests not based on personal moral reasons, but by referring to the legal frameworks, for example, the Malaysian Code on Corporate Governance or international ESG standards (Ong et al., 2025; Zahari et al., 2024). The above is consistent with the OECD's 2024 advice that Malaysian GLCs need to increase their level of openness and upgrade their board of directors professionally in order to reduce the "accountability gaps" that are at present a feature of these companies (OECD, 2024). Through the lens of ethical leadership as a technical skill, this dual-purpose tool cuts down on the "agency costs" arising from managerial slack and the misuse of state resources (Milhaupt & Pargendler, 2017, 2018).

Establishing and Sustaining Meritocratic Fairness

According to Daud et al.'s study, the "Office Politics Error" is so ingrained that it constitutes a major factor of performance appraisal distortion where the personal dimension and social protection in the community often prevail over professional competence (Daud et al., 2023). In such a system, leaders are likely to be put under pressure to award the higher grading to the staff who perform poorly on the basis of the communal loyalty that, in the end, causes the deterioration of the agency's technical capacity (Daud et al., 2023; Nguyễn et al., 2025).

Making "Justice and Fairness" as a core leadership indicator can help the agencies to change into a merit-based appraisal system that is not easily influenced by political and personal errors (Daud et al., 2023; Zahari et al., 2024). This transition is a key part of Sabah's strategic industrial policy that depends on a high-performance workforce to lead the regional growth (Suffian, 2024). As per the Institutional Logics point of view, it is a significantly important compromise between the traditional "Communal Logic" of the Global South and the "Bureaucratic Logic" of efficiency that is necessary for global economic competition (Nguyễn et al., 2025). The 11 indicators offer a way for the leaders to handle this situation without lowering the ethical standards that are necessary for public accountability (OECD, 2024; Satia, 2024).

Implications for Public Trust and ESG Adoption

The need for this framework is made more urgent by the drop in trust that the public has in "decadence of leadership" in their management of state-linked entities (Enaifoghe et al., 2023; Satia, 2024). Enaifoghe et al. state that the public will lose trust in the whole system of governance if SOA leaders are perceived to be more loyal to their political masters than to

the public good (Enaifoghe et al., 2023). According to Satia, building trust again is not only about making changes to policies; it is about committing to transparency so that the public can see and verify the accountability framework (Satia, 2024).

In addition, combining these indicators is significantly important if the Environmental, Social, and Governance standards are to be embraced (Ong et al., 2025; Zahari et al., 2024). When Malaysian state agencies are considered for worldwide sustainability reporting, the initial "Ethical Culture" formed by the leaders of the agency will decide if ESG is a deep reform or just a "box-ticking" exercise (Zahari et al., 2024). The "Ethical Awareness" and "Strategic Orientation" indicators highlighted in this paper perfectly ratify ESG's "Governance pillar, thus making sure that Sabah's state-owned agencies are set for the green and digital transitions as described in the OECD 2024 report (OECD, 2024; Ong et al., 2025).

Synthesis: A Framework For Institutional Reform

Summing up, the 11 indicators of ethical leadership present a versatile instrument for institutional change. This process allows us to refocus our attention away from the "unsubstantiated" financial figures cited in the previous analyses and move towards a fuller and deeper understanding of the governance loopholes at their roots and in their theoretical aspects (Gomez, 2025; Milhaupt & Pargendler, 2017; OECD, 2024).

Matching these indicators with the Structured Research Audit Trail method which was the basis of this paper, the ones who lead and the decision-makers will be able to check that the assessment of leadership is not only open and accountable but also in line with scholarly traditions (Carcary, 2021; Mertens et al., 2025).

The changeover from a patronage-based type of management to a professionalised, ethical leadership model is the only realistic way for Sabah to dispel its institutional constraints and believe that step would be the key for Sabah in turning its institutional rigidities around and finally, achieving sustainable regional growth (Satia, 2024; Suffian, 2024). As Suffian summarises, if it does not happen, that is, if the government does not change the program of development in Sabah, then the goals of development in Sabah will be limited by the institutions which were meant to deliver development (Suffian, 2024).

Managerial Implications for the "Global South"

The 11 indicators identified in this study serve as a helpful set of tools for human resource professionals in the Global South to promote ethical leadership in practical terms (Nguyễn et al., 2025). Using these indicators in a "Governance Scorecard," the state-owned agencies may be able to solve the problem of the "competence-loyalty trade-off" that usually results in the sidelining of technical experts in favor of political agents (Apriliyanti et al., 2023; Gomez, 2025). ESG standard adoption is one of the issues where this is extremely relevant. International investors are increasingly requiring a demonstration of 'internalized ethics' rather than mere regulatory compliance (OECD, 2024; Ong et al., 2025; Zahari et al., 2024), and this framework can provide the necessary proof, offering a "technical shield" that safeguards not only the leader but also the organisation's institutional legitimacy (Satia, 2024; Suffian, 2024).

The major contribution of this study is translating abstract ethical leadership concepts into practical and context specific indicators for state-owned agencies. The indicators, are developed empirically and interpreted through practitioners' perspectives. However, the study does not build a direct link between leadership actions and governance outcomes. Thus, by operationalising ethical leadership in this way, the study makes an important contribution by bridging the gaps between theory and practical governance in the state of Sabah's political environment.

As the 11 indicators are developed from the context of Sabah, they are highly relevant and applicable to similar governance and political environments in the Global South.

Conclusion and Recommendations

Synthesis of Findings

The original inspiration behind this study came from serious governance issues in Sabah's state-owned agencies, which were symbolized most of all by things like non-meritocratic accountability and the exposure of political-business links in the state-led economic model of the state (Gomez, 2025; OECD, 2024). By means of a qualitative study that included top human resource managers as participants, this paper has revealed a set of 11 ethical leadership indicators, which are understood as a direct empirical reaction to the problem of "leadership decadence" and the misgovernance of institutions on a large scale (Enaifoghe et al., 2023; Gomez, 2025). Thus, Governance Knowledge, Strategic Orientation, Empathy, and Accountability among others have become for these indicators a completely new standard against which leaders in the "Political-Business Complex" of Malaysia can be measured (Gomez, 2025; Zahari et al., 2024).

Results show that leading ethically in the public sector is not just a fixed trait of an individual but a living capability. It is the blending of the "Moral Person" (integrity and character) with the "Moral Manager" (using communication and reward systems to influence ethical conduct in a proactive way) that is required (Brown et al., 2005; Hsieh et al., 2023). In the case of Sabah's SOAs, the main challenge to the institutional reform is the walk from a "Culture of Pity" (Markah Kasihan) to a meritocracy, where appraisal is based on justice (Daud et al., 2023; Zahari et al., 2024). This research, through the formalisation of these 11 indicators gives the tool to lessen the "Office Politics Error" so that personal ties no longer overshadow objective performance and accountability (Daud et al., 2023).

Theoretical Contributions

This study contributes significantly to the two major theoretical frameworks: Agency Theory and Social Learning Theory. To begin with, it extends Agency Theory to the peculiarities of "State Capitalism" in the Global South (Milhaupt & Pargendler, 2017; Nguyễn et al., 2025). The study, through identifying the "Multiple-Principal Problem" a situation where CEOs are required to manage the competing political and commercial demands, introduces the concept of ethical leadership indices as crucial internal controls (Apriliyanti & Kristiansen, 2019; Milhaupt & Pargendler, 2017). These indices help mitigate the moral hazard resulting from government veto power (Golden Shares), a situation in which political leaders are often able to avoid commercial accountability as long as they remain loyal politically (Milhaupt, 2019; Milhaupt & Pargendler, 2017).

Secondly, the research expands Social Learning Theory by revealing that in order to model ethical behaviour in the public sector, one has to consider not only character and ethics but also technical Governance Knowledge (Brown et al., 2005; Zainun et al., 2021). For example, in a highly regulated environment such as Sabah's SOAs, a leader cannot be seen as a moral example if he/she does not have the technical knowledge to protect the organisation from unethical political interferences (Brown et al., 2005; Milhaupt & Pargendler, 2017). This "technical shield" is simply a condition of becoming morally brave. Besides that, the results suggest that Inclusive Communication is one of the ways to mitigate information asymmetry, which is the core agency cost that often results in "managerial slack" and "tunneling" of public assets (Milhaupt & Pargendler, 2017; Sinnadurai, 2018).

Policy and Practical Recommendations

These proposals are a response to the policy staleness and the structural financial shortages caused by the involvement of politics and the multiple-principal problem in Sabah's state-owned agencies (Apriliyanti et al., 2023; Milhaupt & Pargendler, 2017). The recommendations shift the research results from a conceptual model towards practical governance measures.

Standardisation of Ethical Performance Appraisals

The 11 indicators revealed in this study must be officially adopted as the required criteria for annual performance reviews of CEOs and top management of all Sabah SOAs. This overhaul of the system is crucial to remove the "Markah Kasihan" factor that presently undermines meritocracy (Daud et al., 2023).

Behavioural Enactment: Reframing performance appraisals from personal opinions to evidence-driven evaluations of "behavioural enactment" and "moral competence" is the way to go (Ghanem & Castelli, 2019; Zahari et al., 2024).

Mitigating Bias: When agencies base their assessments on clear indicators like Transparency and Accountability, they are able to lessen the "Office Politics Error" - a situation in which performance ratings are significantly and deliberately increased in order to preserve the social atmosphere at the expense of the health of the organisation.

Decoupling Appointments from Political Patronage

All the board and executive appointments made by the State Government of Sabah should be through a "Meritocratic Charter" that focuses on the technical fiduciary capability of individuals rather than their political alignment (Gomez, 2025; Milhaupt & Pargendler, 2017).

Governance Certification: A compulsory Governance Knowledge certification must be introduced for all senior appointees. Apart from ensuring that the leaders are well-versed with Treasury Instructions and regulatory codes, it will also equip them to act as a 'technical shield' against external interference (Milhaupt & Pargendler, 2017).

Resolving the Trade-off: Aligning with the OECD's suggestion for Malaysia, the country should enhance the level of independence among boards so as to solve the "Competence-Loyalty Trade-off" (Milhaupt & Pargendler, 2017; OECD, 2024). Minimizing the influence of the

political business cycles in the boardroom would be a first step to reviving the financial health of the failing agencies (Apriliyanti & Kristiansen, 2019; Gomez, 2025; OECD, 2024).

Therefore, for the State Government of Sabah to effectively decoupling appointment from political patronage, it is crucial to systematically implement OECD's suggestion by firstly ensuring the level of independence among boards to be supportive and motivated in safeguarding meritocracy over political appointments.

Institutionalising ESG and Global Sustainability Benchmarks

The 11 leadership indicators are in line with contemporary Environmental, Social, and Governance disclosure requirements, which are becoming more and more essential for public-sector bodies, including state-affiliated ones (Ong et al., 2025; Zahari et al., 2024).

International Alignment: Malayan agencies can take up these indicators as a tool to measure the adequacy of their leaders in terms of skills and knowledge at an international level, for instance, by using the GRI or ISSB standards (OECD, 2024; Zahari et al., 2024).

Investment Attraction: By reinforcing each of the 11 indicators as a means of internal check and balance, the state's reputation will be vastly enhanced, enabling it to draw in not only more but better quality, responsible investments coming to the industrial sectors that are at the heart of the industrialisation effort (Suffian, 2024; Zahari et al., 2024).

Establishing a Governance Audit Trail and Digitisation

In order to regain public confidence and foster greater transparency, government bodies should be shifting to a "Digital Governance" model (Carcary, 2021; Satia, 2024).

Structured Audit Trails: In line with the research methodology rigor of this article, SOAs should have a well-organised and clearly recorded account of all decisions regarding high-level administration and finances (Carcary, 2021; Mertens et al., 2025).

Digitised Appraisals: Going digital with the appraisal system will not only completely do away with the points of manual intervention that give rise to the "Office Politics Error", but also provide a clear, traceable path of evidence for future state audits and legislature reviews (Daud et al., 2023; Satia, 2024).

Strategic Alignment with Sabah Maju Jaya 2.0

Finally, the policymakers have to officially incorporate these 11 indicators into the core development areas of the Sabah Maju Jaya 2.0 (SMJ 2.0) roadmap (Suffian, 2024).

Catalyst for Development: Changing the frame of ethical leadership to no longer be "soft skill" but the main driver for human capital development will be a sign of the government's total rejection of patronage (Enaifoghe et al., 2023; Suffian, 2024).

SMJ 2.0 Results: The state can ensure that agencies only rely on practices that lead to economic progress, the main idea of the SMJ 2.0 framework, if they make sure that the leaders will be evaluated based on Long-Term Strategic Orientation and Leadership Competence (Suffian, 2024; Zahari et al., 2024).

Limitations and Future Research

This study offers a strong qualitative framework, but its limitation is the concentration on senior HR views in one regional setting. For their next studies, research using statistical strategies to check the validity of 11 indicators in the context of a greater variety of Malaysian government-linked companies should be planned. Also, the studies that follow the same sample over time to see the effects of ethical leadership on aspects that indirectly affect financial outcomes, like dividend yields and operational efficiency, should be carried out. Besides that, investigating the presence of Machiavellianism and other "dark" personality traits in leaders of the public sector will not only reveal the psychological reasons for ethical reform resistance in the Global South but also their hidden conflict with ethics (Nguyễn et al., 2025; Zainun et al., 2021). The results are context-specific which are applied for analytical generalisation instead of statistical generalisation, which is found in majority of the quantitative studies.

Final Word

The incessant underperformance coupled with the governance failures at the institutional level in Sabah are strong indicators that the political patronage system prevailing can no longer be stretched (Gomez, 2025; Suffian, 2024). The financial and moral revival of these agencies cannot be achieved simply by changes at the top; rather, it needs a complete overhaul of the concept of leadership—how it is defined, quantified, and exemplified (Enaifoghe et al., 2023; Satia, 2024). If Sabah chooses to adopt an ethical leadership paradigm that incorporates empathetic understanding while simultaneously enforcing accountability, it can realize a complete change of the state-owned entities that have been mere political-business vehicles into providers of authentic public value and promoters of sustainable development (Gomez, 2025; Zahari et al., 2024).

This study contributes to governance knowledge in both theory and context. From a theoretical perspective, it extends ethical leadership literature by showing how its principles can be applied within performance appraisal systems, bridging the gap between leadership theory and organisational evaluation practices. By combining social learning theory, organisational justice theory, and agency theory into one conceptual model, the study provides a structured framework for understanding how ethical leadership can be institutionalised as measurable performance criteria.

Contextually, the research offers insights specific to state-owned agencies (SOAs) operating in politically influenced environments, particularly in Sabah. Unlike earlier studies that focus mainly on private-sector governance or Western institutions, this study addresses the unique challenges faced by SOAs, including political appointments, accountability limitations, and institutional constraints. As such, it presents a context-sensitive model that can be adapted to similar public-sector environments across Southeast Asia and other emerging economies. The significance of this study lies in its ability to advance existing knowledge by moving beyond conceptual discussion of ethical leadership toward its practical application in organisational systems. While prior research has extensively examined ethical leadership as a behavioural and relational construct, limited attention has been given to its integration into formal performance evaluation mechanisms. This study addresses this gap by demonstrating how ethical leadership can be translated into structured appraisal indicators, enhancing its relevance in governance and organisational performance contexts.

Furthermore, the study reinforces the importance of aligning leadership behaviour with institutional accountability mechanisms, contributing to the broader discourse on governance reform, transparency, and meritocracy. In doing so, it positions ethical leadership not merely an abstract ideal, but a functional and enforceable component of organisational systems.

In the context of public-sector governance, particularly within state-owned agencies, this study plays a critical role in informing policy and practice by providing a viable pathway to strengthen leadership accountability. The proposed framework enables organisations to systematically evaluate ethical conduct alongside performance outcomes, thereby reducing the risks of politically driven appointments and weak governance structures. By embedding ethical leadership into performance appraisal systems, organisations can promote a culture of integrity, enhance decision-making quality, and restore public trust.

Ultimately, the study contributes to ongoing efforts in governance reform by offering a practical and scalable approach to institutionalising ethical leadership within complex organisational environments.

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