

Transparency, Ethical Leadership, and Employee Trust: The Moderating Role of Collective Trust in Management

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Abstract: *In an increasingly complex business environment, trust plays a critical role in sustaining organizational systems and maintaining healthy relationships among employees. This study investigates how transparency and ethical leadership influence employee trust and examines the moderating role of collective trust in management (CTM) within the organizational context of Timor-Leste. This research based on survey data collected from 154 employees across 22 organizations. The findings reveal that both transparency and ethical leadership have a positive and significant effect on employee trust. However, collective trust in management negatively moderates these relationships. Practically, the findings emphasize the importance of consistent managerial practices particularly timely and transparent communication, as well as fair and ethical treatment of employees, in mitigating negative workplace perceptions and fostering sustainable organizational relationships.*

INTRODUCTION

In today's increasingly complex business environment, trust serves as a fundamental element for sustaining organizational systems and maintaining healthy relationships among employees. Previous studies indicate a historic decline in public trust toward business institutions, government, media, and politics (Bachmann et al., 2015). In the Timor-Leste context, issues of transparency, ethical leadership, and employee trust remain underexplored, with challenges such as weak labour standard enforcement and inconsistent managerial practices further exacerbating organizational integrity (Tatoli, 2025).

Therefore, a healthy organizational relationships and managerial practices play a crucial role in building employee trust, where transparency functions as a foundation for restoring relational commitment when trust declines (Ghimire, 2019; Jahansoozi, 2006). However, it cannot be effective without ethical leadership. Ethical leadership is also critical for maintaining integrity and preventing violations such as corruption, although prior research has predominantly focused on independent predictors rather than multi-level interactions (Fadilla, 2025).

While existing research largely conceptualizes trust as an individual-level perception, emerging studies suggest that trust may also operate as a collective organizational phenomenon. In this regard, Wang (2018) introduces the concept of collective trust in management (CTM), highlighting its potential role in shaping employees' responses to managerial practices. Despite its relevance, empirical studies examining CTM as a moderating mechanism remain limited,

particularly within emerging organizational contexts.

In Timor-Leste, organizations face labour practice issues and weak information disclosure, making the examination of trust-building mechanisms increasingly urgent (Tatoli, 2025). This study aims to test the influence of transparency and ethical leadership on employee trust, as well as the moderating role of CTM in Timor-Leste organizations. Its urgency lies in the institutional credibility crisis requiring sustainable trust-building mechanisms for healthy organizational relationships. The novelty lies in integrating multi-level trust theory frameworks with empirical evidence from developing economy contexts, enriching behavioural accounting and governance literature (Bachmann et al., 2015; Wang, 2018).

THEORETICAL BACKGROUND

This study is grounded in stakeholder theory, as proposed by Freeman (1998): organizations have responsibilities not only to shareholders but also to all parties who have an interest in organizational activities, including employees, to sustain legitimacy and trust. In addition, trust theory explains that mutuality emerges when individuals hold positive expectations regarding each other's welfare, and such trust may develop even in the absence of close personal relationships, provided that there is an expectation that trust will be honored (Deutsch, 1958). In this context, management plays a crucial role in prioritizing transparency, while ethical leadership serves as an important mechanism for fulfilling these responsibilities and fostering an environment of trust within organizations.

Transparency

According to Kundeliene and Leitoniene (2015), organizational transparency depends on the extent to which financial and nonfinancial information is openly disclosed through accessible communication channels. It has been defined as the clarity and accessibility of comprehensive and understandable information (Boiral et al. 2022; cited in Sandy 2025). However, (Bandsuch et al. 2008) argue that transparency is not simply a financial reporting programmer or procedure but rather a dynamic need that encompasses information disclosure, communication with stakeholders, and management interaction with broader constituencies. While prior study highlights the importance of transparent context. Internally, that communication serves as a key mechanism for conveying the organization's vision, mission, objectives, and activities, enabling employees to better understand managerial direction. Such internal communication practices contribute to perceptions of transparency and reinforce trust-building processes within the organization.

When an organization shares relevant information regarding specific job roles and workplace concerns to ensure that this information is accessible to employees, it can result in improved job performance, greater organizational loyalty, and increased trust (Gallicano et al., 2012; Kim and Rhee, 2011; Mishra et al., 2014; Walden et al., 2017; as cited in Kim et al., 2017). Building upon these theoretical foundations, transparency is expected to function not only as an information tool but also as a relational mechanism that strengthens employees' trust in management. Furthermore, a previous study found that communication strengthens organizational credibility and fosters stakeholder trust (Urionabarrenechea et al., 2019). Transparency has a positive and significant effect on employee performance (Moerrin and Priono, 2022) as well as on the quality of financial reporting (Zubaidah and Nugraeni, 2023). Transparency is an important foundation in building employee trust in management. Openness of information, honesty, and consistency are the key indicators of organizational integrity. Therefore, this study proposes the following hypotheses:

H1: Transparency has a positive and significant effect on employee trust.

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Ethical Leadership

Ethics can generally be understood as a set of principle values. Every individual possesses these values, although some are clearly aware of them and others are not. Various parties, such as philosophers, religious institutions, and community groups, have formulated various forms of values and morals that are considered ideal (Arens et al. 2017, p. 121); ethical values such as honesty, integrity, responsibility, and respect play a vital role in shaping organizational culture (Sajadi, 2019; in Yusuf, 2024). Furthermore, Bandura (1969) stated that identification does not occur solely through simple patterns formed early in life, as suggested by traditional approaches, but rather as an ongoing process. This process involves the acquisition of responses and the modification of existing behaviors through both direct experience and observation of various models, whether real or symbolic. These models represent attitudes, values, and social responses that can be imitated behaviorally or conveyed through verbal forms. A previous study explained that ethical leaders are perceived by followers as genuinely moral individuals and as moral managers who are able to influence employees effectively (Treviño et al. 2003; Hartman and Brown 2000; as cited in Ko 2017).

Therefore, ethical leaders function as behavioral role models whose integrity, fairness, and accountability are internalized by employees. Indicate that when leaders consistently demonstrate moral conduct, employees are likely to develop positive perceptions and build trust towards management, as they interpret such behaviors as a signal of organizational reliability and ethical commitment. A previous study (Sallem, 2024) found that ethical behavior directly and uniquely influences employee well-being. In addition, ethical leadership contributes to a significant reduction in employee work-related stress (Napitupulu et al., 2021) and has a positive and significant effect on employee performance. Based on these theoretical and empirical insights, this study proposes the following hypothesis:

H2: Ethical leadership has a positive effect on employee trust.

Collective Trust in Management

According to Bruning & Ledingham (1999) and Huang (2001), cited in Jahansoozi (2006), trust was recognized as an essential relational element for fostering a constructive relationship between organizations and stakeholders. When management earns employees' trust, it creates a sense of psychological safety. Employees feel more secure and confident in approaching their managers to seek clarification, request assistance, or obtain additional information without fear of negative judgment or retaliation, and this openness reduces communication barriers and encourages more transparent dialogue (Mayer et al. 1995; Zand 1972; cited in Garrett, 2024). Furthermore, the relevance of mutual trust and collective action in modern organizations is further supported by Hume's perspective cited by Kramer (2010), which emphasizes that shared expectations and norms remain central to coordinated behavior. Previous research has also highlighted that trust within organizations operates at multi levels, encompassing interpersonal trust, group-level trust, and organisational-level trust (Bachmann and Zaheer, 2006). Building on this multi-level perspective, CTM reflects a shared evaluation among employees regarding the trustworthiness of management, shaped through collective experiences and social interaction. Empirical evidence indicates that CTM plays a significant role in shaping employee outcomes, as it has been shown to moderate the relationship between objective job insecurity and organizational commitment (Wang, 2018). This suggests that collective trust functions as an important contextual mechanism that influences how employees interpret and respond to managerial practices. Therefore the following hypothesis are.

H3a: Collective trust in management positively moderates the relationship between transparency

and employee trust.

H3b: Collective trust in management positively moderates the relationship ethical leadership and employee trust.

RESEARCH METHODOLOGY

This study adopts a quantitative research design with a cross-sectional survey approach to examine the effects of transparency and ethical leadership on employee trust, as well as the moderating role of collective trust in management. A quantitative approach is appropriate because the study aims to test theoretically derived hypotheses and assess relationships among variables using statistical analysis. Data were distributed both online and offline. Participation was voluntary, and respondents were assured of confidentiality and anonymity to reduce social desirability bias and encourage honest responses.

The measurement of transparency using items adapted from Hossiep et al. (2021) and Schnackenberg et al. (2021), cited in Hossiep et al. (2024), covers five key dimensions: disclosures, clarity, accuracy, timeliness, and relevance. Following ethical leadership measurement using the ethical leadership questionnaires (ELG) developed by Yukl et al. (2006), as cited in Cumlat et al. (2023), conceptualizes ethical leadership as a unidimensional construct encompassing honesty, integrity, fairness, altruism, consistency of behavior, ethical communication, and ethical guidance provided to employees. Furthermore, employee trust was assessed using the employee multidimensional trust scale proposed by (Fischer et al. (2023), which captures trust in leadership through three dimensions: authentic behavior, interpersonal connection and care, and consistent communication.

In addition, CTM was measured based on the Workplace Employment Relations Survey (WERS) approach (Bryson, 2001; Timming, 2012; as cited in Cumlat et al., 2023), which reflects shared employee perceptions of management trustworthiness, focusing on fairness, integrity, and ethical guidance. Although CTM conceptually reflects a collective perception at the organizational level, it was measured at the individual level and then aggregated to capture shared organizational trust. This approach aligns with Schneider's (1975) and Kessler's (2019) perspective that employee attitudes and behaviors are primarily shaped by individual perception of the organizational environment (psychological climate), even though those perceptions arise from shared organizational experiences. It also follows prior studies that operationalized collective trust through the aggregation of individual perceptions (Alfes et al., 2012; Innocenti et al., 2011, as cited in Wang, 2018). Therefore, measuring CTM at the individual level is considered appropriate for capturing both personal evaluations and emerging shared perceptions within organizations. Finally, all items were measured using a five-point Likert scale (1 strongly disagree to 5 strongly agree).

RESULT AND DISCUSSION

This research includes 271 participants during the initial data-gathering stage. Following a process of verification and screening for the completeness and consistency of their responses, 154 participants were identified as valid for subsequent analysis. The sample comprised employees from 22 organizations, namely 9 public institutions, 8 private companies, 3 business ventures, and 2 non-profit entities. This diversity provides a comprehensive overview of organizational settings in Timor-Leste. In total, 154 respondents participated, with seven (7) individuals representing each organizations. The results of descriptive statistics indicate that the mean scores of all items across the four variables are relatively high, ranging between 3.97 and 4.35, with standard deviations between 0.71 and 0.92. This suggests that respondents generally expressed agreement with the statements measuring transparency, ethical leadership, employee trust, and CTM. Based on the

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result of statistics, it is descriptively categorized as valid based on the explanation by Bakar (1995; cited in Daud, 2018); a minimum correlation coefficient of 0.30 is considered sufficient for validating items. These descriptive findings suggest relatively stable shared perceptions of collective trust across organizational units, without extreme variations.

The results of the validity test reveal that all measurement items related to transparency, ethical leadership, employee trust, and CTM have corrected item-total correlation values that surpass the acceptable benchmark of 0.30 (Bakar 1995; cited in Daud 2018). Reliability was evaluated through Cronbach's alpha, with values exceeding the advised threshold of 0.60, indicating an adequate level of internal consistency and stability among the measurement items (Creswell 2005, 2010; Pallant 2001; Sekaran 1992; as cited in Daud 2018). The result shows that all variables were above the recommended limit of 0.60. Furthermore, residual analysis confirmed that the normality assumption was sufficiently satisfied. Multicollinearity was evaluated using VIF values, which remained below the acceptable threshold, thereby indicating no issues with multicollinearity. Lastly, the heteroscedasticity test showed no significant problems. Overall, the results of measurement and diagnostic tests demonstrate that the research instruments and regression model meet the required methodological standards. These findings confirm that the data and analytical model are statistically sound and suitable for subsequent hypothesis testing.

The result of the regression analysis test effect indicates that transparency has a positive and significant effect on employee trust, with a regression coefficient of 0.405, a significance value of 0.000 (< 0.05), and a t-value of 6.512. These findings demonstrate that transparency positively and significantly influences employee trust. Therefore, the first hypothesis (H1) is supported. Ethical leadership also shows a positive and significant effect on employee trust, which a regression coefficient of 0.206, a significance value of 0.001 (< 0.05), and a t-value of 3.283. Thereby, the second hypothesis (H2) is supported. Furthermore, the moderating effects, the interaction between CTM and transparency, yields a regression coefficient of -0.029, with a significance value of 0.001 (< 0.05), and the proposed moderation hypothesis (H3a) is not supported. Similarly, the interaction between CTM and ethical leadership shows a regression coefficient of -0.036, a significance value of 0.000 (< 0.05), and a t-value of -4.078. These results indicate that collective trust in management weakens the relationship between ethical leadership and employee trust. Therefore, the third moderation hypothesis is not supported.

Transparency was found to have a positive and significant effect on employee trust, supporting the study's objective of examining this relationship. These findings indicate that transparency plays a meaningful role in explaining variations in employee trust and is empirically supported. This result is consistent with stakeholder theory; organizations have a responsibility to provide transparent information to their stakeholders, including employees as internal stakeholders. The result also aligns with prior studies (Nurizkiana et al., 2017; Moerin & Priono, 2022; Khasanah & Marisan, 2022). However, they contrast with other findings suggesting negative effects of transparency when it is poorly managed (Rakhmawati, 2018; Walidah & Anah, 2020). Therefore, transparent and clear communication from management enhances employees' perceptions of managerial integrity, honesty, and competence. Transparency, therefore, functions not merely as a communication tool but as a strategic organizational mechanism that shapes workplace climate and employee behavior. Consistently practiced, such as delivering timely information and avoiding the concealment of critical issues, transparency fosters a more open and trustworthy organization environment.

The results further indicate that ethical leadership has a positive and significant effect on employee trust. This suggests that leaders who demonstrate honesty, fairness, consistency, and concern for employees are more likely to strengthen employees' trust in management. Increased

trust, in turn, enhances employees' positive evaluations of their supervisors and managerial practices. These findings are consistent with Cumlat et al. (2023), who found a positive relationship between ethical leadership and employee trust. However, the results differ from Napitupulu et al. (2021), who found that ethical leadership has negative effects on work stress, suggesting that ethical leadership may function more as a protective psychological factor rather than solely as a direct driver of performance or trust. Similarly, Sari et al. (2022) found no significant effect of ethical leadership on employee performance. Overall, the present findings reinforce the view that ethical leadership plays a crucial role in shaping employees' trust perceptions within organizational contexts.

Furthermore, the moderation analysis reveals that CTM weakens the relationships between transparency and ethical leadership on employee trust. This finding suggests that even when individual employees initially hold positive perceptions of transparency and managerial integrity, such perceptions may shift in response to negative evaluations circulating among colleagues. Inconsistent managerial behavior, such as demonstrating ethical conduct and integrity towards only certain employees, may contribute to divergent workplace experiences and shape collective perceptions of management. This interpretation aligns with leadership literature indicating that managers often develop differentiated relationships with subordinates, which influence how employees perceive managerial practices and the work environment (Avolio and Bass, 1995; Dansereau et al., 1975; Graen and Uhl-Bien, 1995; as cited in Kessler, 2019). Consequently, inconsistent or unfair managerial conduct can lead to varied employee experiences and assessments, contributing to heterogeneous collective perceptions of management.

In such contexts, when the collective is already well established, the marginal impact of transparency and ethical leadership on individual trust may diminish. Based on the trust theory perspective, collective trust reflects shared norms and beliefs formed through repeated interactions between employees and management. Once collective trust is established at a high level, it may function as a reference framework through which employees evaluate managerial actions, thereby reducing the relative influence of individual-level factors such as transparency and ethical leadership. This finding is consistent with Wang et al. (2018), who found that CTM operates as a weakening moderator in the relationship between workplace conditions and employee attitudes. Overall, the results suggest that collective trust can shape, and in some cases dilute, the direct effects of managerial practices on individual trust perceptions.

Overall, employee trust in this study appears to be primarily shaped by direct mechanisms stemming from transparency and ethical leadership. Both variables (transparency and ethical leadership) function as organizational signals that are directly observed and evaluated by employees in assessing managerial integrity, consistency, and goodwill. In contrast, CTM develops through social processes involving interactions among employees, where individual experiences and perceptions of management may spread and influence others within the organizations. When trust weakens among certain individuals, it may trigger a ripple effect that shapes collective perceptions of management. In this context, CTM reflects not merely the aggregations of individual trust but also the outcome of ongoing social dynamics within the workplace.

CONCLUSION

This study aimed to examine the role of transparency and ethical leadership in shaping employee trust in management and to analyze the moderating role of CTM. The findings indicate that employee trust is primarily influenced by direct managerial practices, particularly transparency and ethical leadership. Transparency, reflected in the clear, timely, and open communication of organizational information, and ethical leadership, demonstrated through fairness, consistency, and

adherence to ethical values, significantly contribute to the development of a positive organizational climate. However, the result also shows that trust within organizations is dynamic. CTM suggests that employee trust is not solely determined by individual perceptions but is also shaped by collective social processes within the organization. Consistent and fair managerial behavior is essential in preventing the formation and shared of negative collective perceptions that may weaken individual trust.

LIMITATION

Despite these contributions, this study has several limitations. The use of survey-based perceptual data may introduce subjective bias, and the cross-sectional design limits the ability to establish causal relationships or capture changes in trust over time. Additionally, the research context was limited to organizations in Timor-Leste, which may reduce the applicability of the findings beyond the studied context's cultural or organizational settings. Lastly, the measurement of CTM through the aggregation of individual perceptions captures shared values but does not fully explore the deeper interactional processes that shape collective trust.

RECOMMENDATION

Practically, organizations are encouraged to consistently implement transparency and ethical leadership through concrete managerial actions rather than merely normative statements. Fair and equal treatment of all employees is crucial to ensure that transparent and ethical practices are not perceived as selective. Furthermore, improving the timeliness of information delivery, particularly regarding operational and work-related matters, is essential. Delayed communication may reduce perceptions of transparency even when information is ultimately disclosed. Future research is recommended to incorporate broader organizational contexts, adopt longitudinal designs, and further explore the social mechanisms underlying the information and evolution of collective trust.

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