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Institutional Trust, Ethical Governance, and Public Sector Performance in Timor-Leste

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Abstract
Purpose: This study aims to analyze the influence of ethical governance and HRM practices on public sector performance, with institutional trust as a mediating variable, among public sector employees in Timor-Leste. Methods: This study employed a quantitative explanatory approach using purposive sampling, involving 150 respondents who work as civil servants across ministries and government agencies in Timor-Leste. Data were collected through a five-point Likert-scale questionnaire and analyzed using Partial Least Squares Structural Equation Modeling (PLS-SEM) with SmartPLS 3. Results: The results show that ethical governance and HRM practices have a positive and significant effect on institutional trust, while their direct effects on public sector performance are not significant. Institutional trust, in turn, has a positive and significant effect on public sector performance and fully mediates the relationship between both ethical governance and HRM practices toward performance. Implications: These findings suggest that public sector institutions in Timor-Leste should prioritize building institutional trust as a strategic mechanism to translate ethical governance and human resource practices into improved organizational performance, rather than relying on these practices alone.

INTRODUCTION

Public sector performance is one of the primary indicators for assessing the success of governance and the effectiveness of public services. Public sector organizations are required to provide high-quality, effective, efficient, transparent, accountable, and responsive services to the community. In the modern public governance paradigm, government organizational success is not only measured by administrative target achievement, but also by its capacity to create public value (*public value*), increase public trust, and support sustainable development (OECD, 2023; United Nations, 2023). Therefore, improving public sector performance is a strategic agenda in various countries, especially developing countries that still face challenges in terms of governance, institutional capacity, and quality of human resources (World Bank, 2023; Asian Development Bank, 2024).

As a developing country continuously striving to strengthen institutional capacity and public service quality, Timor-Leste faces complex challenges. Various administrative reform programs have been implemented; however, international reports indicate that the public sector in Timor-Leste still encounters obstacles related to institutional effectiveness, governance, and human resource capacity (World Bank, 2023; UNDP, 2023; Asian Development Bank, 2024). This situation places public sector performance improvement as a critical issue requiring in-depth academic attention, particularly regarding how to build institutional trust as the primary foundation of public service.

One factor believed to play an important role is *ethical governance.* Grounded in the principles of transparency, accountability, integrity, and fairness (OECD, 2023), ethical governance is capable of creating a credible organizational environment. Research by Demir et al. (2023) and Al Halbusi et al. (2022) confirms that organizational practices based on ethical values strengthen member trust and improve overall performance. In addition, human resource management practices (*HRM Practices*) through training, objective performance appraisal systems, and fair rewards have proven to be strategic factors in increasing motivation and organizational effectiveness (Armstrong & Taylor, 2023; Alatailat et al., 2024; Soares et al., 2024).

In recent public administration studies, *institutional trust* has emerged as a key variable. The OECD (2024) explains that trust in public institutions is a social asset that determines the legitimacy and effectiveness of policy implementation. Research by Iddrisu and Mohammed (2024) and Van de Walle and Migchelbrink (2022) shows that *institutional trust* is not only an *outcome* of organizational practices, but also serves as a mechanism that bridges organizational practices and performance.

Although previous studies have demonstrated positive relationships among these variables, inconsistencies in findings remain. Some studies show a direct effect (*direct effect*) *ethical governance* on performance (Demir et al., 2023), while other studies find that such effects must pass through a mediating variable (Iddrisu & Mohammed, 2024; Alatailat et al., 2024). Moreover, examination of the role of *institutional trust* as a mediating variable in the context of the public sector in Timor-Leste remains very limited. This study addresses this gap by integrating *Ethical Governance* and *HRM Practices* into a single model with *Institutional Trust* as a mediator.

This study aims to analyze the effect of *ethical governance* and *HRM practices* on *public sector performance* with *institutional trust* in public sector agencies in Timor-Leste. The research questions include the direct influence of each independent variable on *institutional trust* and performance, as well as the mediating role *of institutional trust*. The novelty of this study lies in the development of an integrated model that is contextually relevant for the Timor-Leste public sector. Furthermore, this study extends the application of *Social Exchange Theory* and *Institutional Theory* in explaining how institutional trust plays a key mechanism that links organizational management practices to improving public sector performance.

METHODS

This study employs a quantitative approach with an explanatory research design (*explanatory research*). The quantitative approach was chosen because the research aims to examine the causal relationship between ethical governance, human resource management practices (HRM practices), institutional trust, and public sector performance. Explanatory design was used to explain the influence between variables and test the role of institutional trust as a mediating variable in the proposed research model. This approach is considered appropriate because it allows researchers to test hypotheses empirically based on data obtained from respondents through structured research instruments (Hair et al., 2022).

The research population is public sector employees working in various ministries and government agencies in Timor-Leste. The research focuses on employees involved in administrative activities, public services, and the implementation of government policies. Given the breadth of the population and limited access to all public sector employees, this study uses purposive sampling techniques. The criteria for respondents include: (1) status as a public sector employee in a government ministry or agency in Timor-Leste; (2) have a minimum working period of one year; and (3) be directly involved in the implementation of organizational duties and public services. Based on these criteria, the number of samples used in this study was 150 respondents. This number has met the minimum recommendations in the *Partial Least Squares Structural Equation Modeling* (PLS-SEM) analysis, which was considered adequate to test research models involving several latent constructs and mediated relationships (Hair et al., 2022). The adequacy of the sample quantity can be justified through two approaches. First, based on *the 10 times rule*, the minimum sample size in PLS-SEM is determined as ten times the largest number of formative indicators pointing to a single construct, or ten times the largest number of structural paths leading to a single endogenous construct (Hair et al., 2022). In this research model, the maximum number of structural paths leading to one endogenous construct is three (toward Public Sector Performance), requiring a minimum sample size of 30 respondents. Second, based on the *minimum sample size* of PLS-SEM using a statistical power analysis table with a significance level of 5%, power of 80%, and an estimated minimum effect size of 0.15 (R^2 medium), the minimum recommended sample size for a model with a maximum of three predictors in one endogenous construct is around 59 respondents (Hair et al., 2022). Thus, the sample number of 150 respondents in this study has exceeded the two minimum thresholds, so it is considered adequate to produce stable parameter estimates and support the *statistical power* for hypothesis testing.

The data used in this study is primary data obtained through the distribution of questionnaires to respondents. The questionnaire was compiled based on indicators adapted from previous research that were relevant to each research variable. Before being used in the main data collection, the research instruments are first reviewed to ensure content validity with the public sector context in Timor-Leste. All statement items were measured using a five-point Likert scale, ranging from 1 = strongly disagree to 5 = strongly agree. The use of the Likert scale was chosen because it was able to measure respondents' perception and assessment of the phenomenon being studied more easily and systematically.

Variable *ethical governance* is measured through four main dimensions, namely transparency, accountability, integrity, and fairness adapted from the principles of public governance developed by the OECD (2023). Variable *HRM practices* are measured through the dimensions of training and development, performance appraisal, career development, and reward systems which refer to the concept of strategic human resource management put forward by Armstrong and Taylor (2023) and reinforced by the findings of Soares et al. (2024). Institutional trust is measured through the dimensions of institutional competence, reliability, institutional integrity, and institutional concern which refer to indicators of institutional trust in the public sector (OECD, 2024). Meanwhile, public sector performance is measured through the dimensions of effectiveness, efficiency, service quality, and organizational responsiveness which are widely used in public sector research (Walker et al., 2021).

The data collection process was carried out during the research period by distributing questionnaires directly or through electronic media to public sector employees who met the respondent criteria. Respondents were given an explanation of the purpose of the research and guaranteed confidentiality of the identity and answers given. All data collected are then checked to ensure the completeness and consistency of the answers before further analysis is carried out.

Data analysis was conducted using the Structural Equation Modeling–Partial Least Squares (SEM-PLS) with the help of SmartPLS software version 3. The SEM-PLS method was chosen because it has a good ability to test research models that are complex, involve latent variables, and accommodate simultaneous testing of mediated relationships. In addition, SEM-PLS is also considered suitable for research oriented to the development of theories and predictions with a relatively moderate sample size (Hair et al., 2022).

Analysis was conducted through two main stages: evaluation of the measurement model (*outer model*) and evaluation of the structural model (*inner model*). The evaluation of the outer model aims to assess the validity and reliability of the research construct. Convergent validity was evaluated through the outer loading value and *the Average Variance Extracted* (AVE), with the criterion that the *outer loading* was greater than 0.70 and the AVE value was greater than 0.50. Construct reliability was evaluated using *Cronbach's Alpha* and *Composite Reliability* with a recommended minimum value of 0.70. Subsequently, discriminant validity was evaluated using the *Fornell-Larcker Criterion* and *Heterotrait-Monotrait Ratio* (HTMT).

After the measurement model was confirmed to meet the required criteria, the next stage involved structural model evaluation (*inner model*). This evaluation was carried out through testing the values of the determination coefficient (R2), *predictive relevance* (Q2), and *effect size* (f2). Hypothesis testing was carried out using a bootstrapping procedure with 5,000 subsamples to obtain t-statistics and p-values. The hypothesis is stated to be accepted if the t-value is greater than 1.96 and the p-value is less than 0.05 at a significance level of 5%. In addition to direct influence, this study also examines the *indirect effect* to determine the role of *institutional trust* as a mediating variable in the relationship between *ethical governance* and HRM practices on *public sector performance*.

The proposed research model places ethical governance and HRM practices as exogenous variables, institutional trust as mediation variables, and public sector performance as endogenous variables. Through this model, this research is expected to provide a more comprehensive understanding of the factors that affect public sector performance and explain the role of institutional trust as a mechanism that links organizational practices to the achievement of public sector performance in Timor-Leste.

Table 3. Operational Definition of Research Variables

Variable	Dimension	Indicator	Statement Item	Scale	Source
Ethical Governance (X1)	Transparency	Information openness	EG1. My institution provides clear policy information.	Likert 1–5	OECD (2024); A CEPA (2019)
		Information access	EG2. Organizational information is easily accessible to employees.	Likert 1–5	OECD (2024)
		Open process	EG3. Decision-making is conducted transparently.	Likert 1–5	A CEPA (2019)
	Accountability	Work responsibility	EG4. Employees are accountable for their assigned tasks.	Likert 1–5	OECD (2024)
		Performance evaluation	EG5. Performance evaluation is carried out objectively and transparently.	Likert 1–5	A CEPA (2019)

		Decision accountability	EG6. Every organizational decision can be accounted for.	Likert 1–5	OECD (2024)
	Integrity	Honesty	EG7. Employees carry out their duties honestly and ethically.	Likert 1–5	OECD (2024)
		Anti-abuse	EG8. The organization prevents abuse of authority.	Likert 1–5	A CEPA (2019)
		Ethical compliance	EG9. Ethical rules are consistently applied within the organization.	Likert 1–5	OECD (2024)
	Fairness	Equal treatment	EG10. Employees are treated fairly regardless of background.	Likert 1–5	A CEPA (2019)
		Fairness promotion	EG11. Promotions are based on competence and performance.	Likert 1–5	OECD (2024)
		Non-discrimination	EG12. There is no discrimination in the work environment.	Likert 1–5	A CEPA (2019)
HRM Practices (X2)	Training and Development	Training Program	HRM1. The organization provides training programs on a regular basis.	Likert 1–5	Armstrong & Taylor (2023)
		Competency improvement	HRM2. The training provided improves my work competency.	Likert 1–5	Armstrong & Taylor (2023)
		HR development	HRM3. The organization supports	Likert 1–5	Armstrong & Taylor (2023)

			continuous employee capability development.		
	Performance Appraisal	Objectivity	HRM4. Performance appraisals are conducted objectively.	Likert 1–5	Dessler (2020)
		Clarity of indicators	HRM5. Performance appraisal criteria are clearly communicated to employees.	Likert 1–5	Armstrong & Taylor (2023)
		Periodic evaluation	HRM6. Performance evaluation is carried out periodically.	Likert 1–5	Dessler (2020)
	Career Development	Promotion opportunity	HRM7. The organization provides equal opportunities for promotion.	Likert 1–5	Armstrong & Taylor (2023)
		Clear career path	HRM8. Career development pathways within the organization are clearly defined.	Likert 1–5	Armstrong & Taylor (2023)
		Career equality	HRM9. All employees have equal career opportunities.	Likert 1–5	Armstrong & Taylor (2023)
	Reward System	Fairness awards	HRM10. The reward system is administered fairly.	Likert 1–5	Dessler (2020)
		Incentive appropriateness	HRM11. Incentives provided are commensurate	Likert 1–5	Armstrong & Taylor (2023)

			with employee performance.		
		Work motivation	HRM12. Rewards given increase employee work motivation.	Likert 1–5	Armstrong & Taylor (2023)
Institutional Trust (Z)	Competence	Institutional capability	IT1. Institutions are able to carry out their duties and functions well.	Likert 1–5	Mayer et al. (1995); OECD (2024)
		Problem solving	IT2. Institutions are able to solve the problems faced effectively.	Likert 1–5	OECD (2024)
		HR capacity	IT3. Employees have adequate competence in carrying out their duties.	Likert 1–5	Mayer et al. (1995)
	Integrity	Institutional honesty	IT4. The organization carries out its duties honestly and reliably.	Likert 1–5	Mayer et al. (1995)
		Anti-corruption	IT5. The organization works to prevent abuse of power.	Likert 1–5	OECD (2024)
		Political credibility	IT6. The policies made by the organization are trustworthy.	Likert 1–5	OECD (2024)
	Reliability	Service consistency	IT7. The organization provides services consistently.	Likert 1–5	OECD (2024)
		Institutional dependability	IT8. The organization can be relied upon in carrying out its duties.	Likert 1–5	OECD (2024)
		Commitment fulfillment	IT9. The organization	Likert 1–5	OECD (2024)

			fulfills its established commitments.		
	Benevolence	Public orientation	IT10. The organization demonstrates concern for public needs.	Likert 1–5	Mayer et al. (1995); OECD (2024)
		Responsiveness	IT11. Employees are responsive to public needs and complaints.	Likert 1–5	OECD (2024)
		Public service orientation	IT12. Organizational policy is oriented towards the interests of the community.	Likert 1–5	OECD (2024)
Public Sector Performance (Y)	Effectiveness	Target achievement	PSP1. The organization is able to achieve its established work targets.	Likert 1–5	OECD (2023); UNDP (2022)
		Goal alignment	PSP2. Programs implemented are aligned with organizational goals.	Likert 1–5	OECD (2023)
		Work output	PSP3. Organizational work outcomes are in accordance with established plans.	Likert 1–5	UNDP (2022)
	Efficiency	Resource utilization	PSP4. The organization uses resources optimally.	Likert 1–5	OECD (2023)
		Work timeliness	PSP5. Work can be completed on time.	Likert 1–5	UNDP (2022)
		Work process	PSP6. The work process takes place efficiently.	Likert 1–5	OECD (2023)

	Service Quality	Public satisfaction	PSP7. The public is satisfied with the services provided.	Likert 1–5	OECD (2023); UNDP (2022)
		Professionalism	PSP8. Employees provide services professionally.	Likert 1–5	OECD (2023)
		Service Standards	PSP9. Services provided comply with established standards.	Likert 1–5	UNDP (2022)
	Responsiveness	Response speed	PSP10. The organization responds to public needs promptly.	Likert 1–5	OECD (2023)
		Complaint handling	PSP11. Public complaints are handled quickly and appropriately.	Likert 1–5	UNDP (2022)
		Change adaptation	PSP12. The organization is able to adapt to environmental changes.	Likert 1–5	OECD (2023)

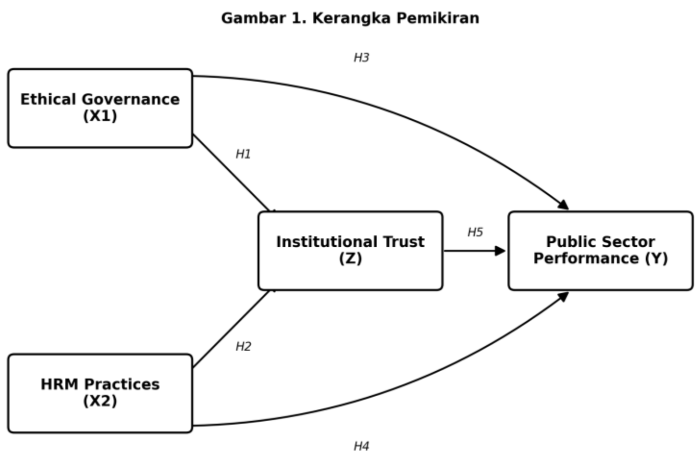

Figure 1. Research Framework

RESULTS AND DISCUSSION

Respondent Characteristics

This study involved 150 respondents who were employees of various public sector agencies in Timor-Leste. Characteristic respondents were analyzed based on gender, age, last education, length of employment, agency, position, and field of work. The distribution of respondents shows that most of the respondents are in the productive age range with adequate work experience so that they have a good understanding of the implementation of ethical governance, HRM practices, institutional trust, and public sector performance.

Table 1. Respondent Characteristics (n = 150)

Characteristic	Category	Frequency	Percentage (%)
Gender	Male	75	50,00
	Female	75	50,00
Age	<25 years old	27	18,00
	25–34 years	37	24,67
	35–44 years	50	33,33
	≥45 years	36	24,00
Education	High School/Vocational	41	27,33
	Diploma	17	11,33
	Bachelor's (S1)	56	37,33
	Master's (S2)	36	24,00
Length of Employment	1–3 years	33	22,00
	4–6 years	45	30,00
	7–10 years	38	25,33
	>10 years	34	22,67
Institution	Ministry	62	41,33
	Government Agency	48	32,00
	Others	40	26,67
Position	Section Head	70	46,67
	Supervisor	42	28,00
	Staff	38	25,33
Work Area	Administration	52	34,67
	Policy	49	32,67
	Public Service	49	32,67

Based on Table 1, the study respondents have diverse characteristics based on gender, age, education, working period, agency, position, and field of work. The majority of respondents were 35–44 years old, had a Bachelor's (S1) education, had a working period of 4–6 years, came from a ministry agency, and held the position of Section Head. The distribution of characteristics that is not completely uniform indicates that the data used are the final result after the questionnaire collection, examination, and validation process, thus better reflecting the actual condition of the respondents involved in the study. In addition, the identities of specific ministries or institutions were not collected in the research instruments to maintain the anonymity and confidentiality of respondents. Therefore, the characteristics of the agency are presented in the form of organizational categories, namely ministries, government agencies, and other agencies. The diversity of respondents' characteristics is expected to provide an adequate picture of the implementation of ethical governance, HRM practices, institutional trust, and public sector performance in public sector organizations in Timor-Leste.

Measurement Model Evaluation (Outer Model)

Evaluation of the measurement model is carried out to ensure that the indicators used are able to measure the research construct in a valid and reliable manner. Testing includes convergent validity, discriminant validity, and construct reliability.

Convergent Validity

Convergent validity was evaluated through outer loading and Average Variance Extracted (AVE) values. According to Hair et al. (2022), the indicator is declared to meet the convergence validity if it has an outer loading value greater than 0.70 and an AVE value greater than 0.50.

Table 2. Outer Loading Values

Construct	Outer Loading Range
Ethical Governance	0,707 – 0,880
HRM Practices	0,648 – 0,860
Institutional Trust	0,609 – 0,804
Public Sector Performance	0,595 – 0,792

Based on the test results, most indicators have an outer loading value above 0.70. Several indicators show a loading value between 0.60–0.70, namely HRM2 (0.648), HRM5 (0.658), HRM10 (0.653), IT3 (0.627), IT10 (0.609), PSP3 (0.595), and PSP4 (0.619). However, these indicators are still maintained because the AVE value and overall reliability of the construct have met the required criteria. Thus, the research construct still has adequate convergent validity.

Table 3. Average Variance Extracted (AVE)

Construct	AVE
Ethical Governance	0,642
HRM Practices	0,614
Institutional Trust	0,535
Public Sector Performance	0,505

Based on Table 3, all constructs have AVE values above 0.50. This indicates that each construct is able to explain more than 50% of the variance of its constituent indicators. Therefore, convergent validity in this study is confirmed to be satisfied.

Construct Reliability

Table 4. Reliability Test Results

Construct	Cronbach's Alpha	Composite Reliability
Ethical Governance	0,949	0,955
HRM Practices	0,941	0,950
Institutional Trust	0,920	0,932
Public Sector Performance	0,901	0,918

Based on Table 4, all constructs have Cronbach's Alpha and Composite Reliability values which are above the minimum limit of 0.70. These values show that the research instrument has a very good level of internal consistency. Therefore, the entire construct is declared reliable and feasible for use in structural model testing.

Discriminant Validity

Table 5. Fornell-Larcker Criterion

Construct	Ethical Governance	HRM Practices	Institutional Trust	Public Sector Performance
Ethical Governance	0,801			
HRM Practices	-0,001	0,783		
Institutional Trust	0,463	0,533	0,732	
Public Sector Performance	0,333	0,331	0,650	0,711

Based on Table 5, the square root value of AVE in each construct is greater than the correlation value with the other constructs. For example, the square root value of AVE Ethical Governance of 0.801 is greater than its correlation with Institutional Trust (0.463) and Public Sector Performance (0.333). Similar conditions are also found in other constructs so that the Fornell-Larcker criteria are met.

Table 6. Heterotrait-Monotrait Ratio (HTMT)

Construct	Ethical Governance	HRM Practices	Institutional Trust	Public Sector Performance
Ethical Governance	-			
HRM Practices	0,075	-		
Institutional Trust	0,488	0,562	-	
Public Sector Performance	0,350	0,348	0,707	-

Based on Table 6, the entire HTMT value is below the maximum limit of 0.90. The highest HTMT value was found in the relationship between Institutional Trust and Public Sector Performance of 0.707, which is still below the recommended threshold. Thus, the validity of the discrimination in all research constructs is declared fulfilled.

Overall, the results of the evaluation of the measurement model showed that the entire construct met the criteria of convergent validity, construct reliability, and discriminant validity. Therefore, the measurement model is declared feasible to proceed to the evaluation stage of the structural model (inner model).

Structural Model Evaluation (Inner Model)

Coefficient of Determination (R^2)

Table 7. R^2 Values

Endogenous Variable	R^2	R^2 Adjusted
Institutional Trust	0,499	0,492
Public Sector Performance	0,423	0,412

Based on Table 7, the R^2 value for the Institutional Trust variable is 0.499. This shows that the Ethical Governance and HRM Practices variable was able to explain the variation in Institutional Trust by 49.9%, while the remaining 50.1% was explained by other variables outside the research model. Furthermore, the R^2 value for the Public Sector Performance variable is 0.423. These results show that the variables Ethical Governance, HRM Practices, and Institutional Trust are able to explain the variation in Public Sector Performance by 42.3%, while the remaining 57.7% is explained by other factors that were not included in the research model. According to Hair et al. (2022), an R^2 value of 0.75 indicates a strong category, 0.50 a moderate category, and 0.25 a weak category. Therefore, the R^2 value of Institutional Trust of 0.499 and Public Sector Performance of 0.423 can be categorized as moderate, which indicates that the model has quite good explanatory ability.

Predictive Relevance (Q^2)

The Q^2 value is calculated using the formula:

$Q^2 = 1 - [(1 - R^2_1)(1 - R^2_2)]$

$Q^2 = 1 - [(1 - 0.499)(1 - 0.423)]$

$Q^2 = 1 - (0.501 \times 0.577)$

$Q^2 = 1 - 0.289$

$Q^2 = 0.711$

Table 8. Q^2 Values

Description	Value
R^2 Institutional Trust	0,499
R^2 Public Sector Performance	0,423
Q^2 Model	0,711

A Q^2 value of 0.711 (> 0) indicates that the model has good predictive ability in explaining the endogenous variables studied. Thus, the research model has adequate predictive relevance and is suitable for further analysis.

Effect Size (f^2)

Table 9. Effect Size Values (f^2)

Relationship Between Variables	f^2	Category
Ethical Governance with Institutional Trust	0,429	Large
HRM Practices with Institutional Trust	0,567	Large
Ethical Governance with Public Sector Performance	0,002	Very Small
HRM Practices with Public Sector Performance	0,000	Very Small
Institutional Trust with Public Sector Performance	0,352	Large

Based on Table 9, the Ethical Governance variable has a great influence on Institutional Trust with an f^2 value of 0.429. Variable HRM Practices also had a big influence on Institutional Trust with an f^2 value of 0.567. These results show that these two variables are important factors in forming institutional trust. Furthermore, the Institutional Trust variable has a great influence on Public Sector Performance with a value of f^2 of 0.352. These findings indicate that increased institutional trust contributes significantly to improved public sector performance. On the other hand, the direct influence of Ethical Governance on Public Sector Performance has an f^2 value of 0.002, while HRM Practices has an f^2 value of 0.000. Both values are well below the 0.02 limit so they can be categorized as very small or negligible. This indicates that the influence of these two variables on Public Sector Performance occurs more through the Institutional Trust mediation variable than through direct influence.

Overall, the results of the structural model evaluation show that the model has good explanatory and predictive capabilities. In addition, Institutional Trust has proven to play an important role as a variable that bridges the influence of Ethical Governance and HRM Practices on Public Sector Performance.

Hypothesis Testing

Hypothesis testing was conducted using the bootstrapping procedure with 5,000 subsamples.

Table 10. Hypothesis Testing Results

Hypothesis	Relationship	β (Original Sample)	t-statistics	p-value	Decision
H1	Ethical Governance on Institutional Trust	0,464	7,982	0,000	Accepted
H2	HRM Practices on Institutional Trust	0,533	9,884	0,000	Accepted
H3	Ethical Governance on Public Sector Performance	0,038	0,479	0,632	Rejected
H4	HRM Practices on Public Sector Performance	-0,008	0,100	0,921	Rejected
H5	Institutional Trust on Public Sector Performance	0,636	7,763	0,000	Accepted

Based on Table 10, the Ethical Governance variable has a positive and significant effect on Institutional Trust with a path coefficient value of 0.464, a t-statistics value of 7.982, and a p-value of 0.000. Thus, the H1 hypothesis **is accepted**.

Variable HRM Practices also had a positive and significant effect on Institutional Trust with a path coefficient value of 0.533, a t-statistical value of 9.884, and a p-value of 0.000. Therefore, the H2 hypothesis **is accepted**.

On the other hand, the influence of Ethical Governance on Public Sector Performance showed a path coefficient value of 0.038 with a t-statistic of 0.479 and a p-value of 0.632. Since the p-value is greater than 0.05, the H3 hypothesis **is rejected**.

The effect of HRM Practices on Public Sector Performance resulted in a path coefficient value of -0.008 with t-statistics of 0.100 and p-value of 0.921. These results show that the effect is not significant so the H4 hypothesis **is rejected**.

Meanwhile, Institutional Trust had a positive and significant effect on Public Sector Performance with a path coefficient value of 0.636, a t-statistical value of 7.763, and a p-value of 0.000. Thus, the H5 hypothesis **is accepted**.

The test results show that Ethical Governance and HRM Practices are able to improve Institutional Trust, but neither has a significant direct influence on Public Sector Performance. In contrast, Institutional Trust proves to be an important factor that directly improves the performance of the public sector.

Indirect Effect Testing

Table 11. Mediation Test Results

Relationship Mediation	β (Indirect Effect)	t-statistics	p-value	Results
The Influence of Ethical Governance on Public Sector Performance through Institutional Trust	0,295	5,810	0,000	Significant Mediation

The Influence of HRM Practices on Public Sector Performance through Institutional Trust	0,339	5,937	0,000	Significant Mediation

Based on Table 11, the indirect influence of Ethical Governance on Public Sector Based on Table 11, the indirect influence of Ethical Governance on Public Sector Performance through Institutional Trust has a coefficient value of 0.295 with a t-statistics of 5.810 and a p-value of 0.000. These results show that Institutional Trust is able to significantly mediate the influence of Ethical Governance on Public Sector Performance. Furthermore, the indirect influence of HRM Practices on Public Sector Performance through Institutional Trust has a coefficient value of 0.339 with a t-statistic of 5.937 and a p-value of 0.000. Thus, Institutional Trust has also been proven to mediate the influence of HRM Practices on Public Sector Performance significantly. Because the direct influence of Ethical Governance on Public Sector Performance and HRM Practices on Public Sector Performance is not significant, while the indirect influence through Institutional Trust is significant, the type of mediation that occurs is full mediation. Overall, the results of the study show that Institutional Trust is a key variable in improving Public Sector Performance. Ethical Governance and HRM Practices are not able to improve the performance of the public sector directly, but they can improve organizational performance through increased employee trust in institutions. These findings indicate that the success of public sector organizations depends not only on ethical governance and good human resource management practices, but also on the organization's ability to build and maintain institutional trust.

DISCUSSION

The Influence of Ethical Governance on Institutional Trust

The results of the hypothesis test show that Ethical Governance has a positive and significant effect on Institutional Trust with a path coefficient value of 0.464, *a t-statistical* value of 7.982, and *a p-value* of 0.000. These findings show that the better the implementation of governance based on the principles of ethics, transparency, accountability, integrity, and fairness, the higher the level of trust of employees in public sector institutions.

Theoretically, ethical governance creates the perception that the organization exercises authority and decision-making fairly and can be accounted for. When employees see that the organization's policies are implemented consistently and transparently, they will be more confident that the organization acts in accordance with the values that they share with them. This situation encourages the formation of stronger *institutional trusts.*

The findings of this study are in line with the research of Abun et al. (2023) which found that leadership and organizational practices based on ethics contribute significantly to increasing employee trust in management. These results also support the research of Hassan et al. (2022) who stated that organizational integrity and ethical leadership are important factors in building *institutional trust.* Organizations that consistently apply ethical principles tend to gain a higher level of trust because employees view the organization as being able to carry out functions and policies in a fair, transparent, and responsible manner. In addition, Bentzen's research (2023) explains that the development of trust in public organizations is greatly influenced by leadership and governance practices that emphasize integrity, transparency, and accountability as the foundation of the relationship between institutions and employees. Thus, improving the quality of ethical governance is one of the important strategies for public sector organizations to strengthen employee trust and increase organizational legitimacy.

The Influence of HRM Practices on Institutional Trust

The results showed that HRM Practices had a positive and significant effect on Institutional Trust with a path coefficient value of 0.533, *a t-statistics* value of 9.884, and *a p-value* of 0.000. The value coefficient is even greater than the influence of Ethical Governance on Institutional Trust, which shows that human resource management practices have a very important role in building employee trust on institutions.

Good HR practices, such as fair recruitment, competency development, an objective performance appraisal system, and transparent awarding, create a positive perception of organizational commitment to employees. When employees feel valued and treated fairly, they tend to develop higher trust in the organization.

These findings support *Social Exchange Theory* which explains that the relationship between an organization and employees is built through a mutually beneficial exchange. Organizations that provide support through quality HR practices will get a positive response in the form of increasing employee trust in the institution.

The results of this study are consistent with the research of Albrecht et al. (2020) which shows that effective human resource management practices contribute to increased attachment and positive relationships between employees and organizations. In addition, Miah et al.'s (2022) research found that various HRM practices, such as training, performance appraisals, fair rewards, promotions, and job security, have a positive effect on employee trust in the organization. These findings are also strengthened by Kong et al. (2026) who through a systematic review concluded that HRM practices consistently contribute to increasing employee trust in management and organizations.

Thus, public sector organizations need to ensure that all human resource management practices are carried out professionally and transparently in order to build strong *institutional trust.*

The Influence of Ethical Governance on Public Sector Performance

The test results showed that Ethical Governance had no significant effect on Public Sector Performance with a path coefficient value of 0.038, *a t-statistics* value of 0.479, and *a p-value* of 0.632. These results show that the implementation of ethical governance has not been able to improve the performance of the public sector directly.

These findings indicate that the existence of a good governance system does not necessarily result in an improvement in organizational performance. In the public sector, governance principles such as transparency, accountability, and integrity function more as organizational oversight and control mechanisms than as factors that directly increase productivity and service quality.

The results of this study are in line with the research of Khaltar & Moon (2020) which shows that ethical management practices in public organizations do not always have a direct impact on organizational performance, but work through organizational factors such as *organizational commitment* and *ethical performance.* In addition, research by Jo & Bae (2025) found that the application *of ethical management* in public organizations affects performance achievement through various organizational mechanisms, including leadership, policy systems, and internal communication, so the relationship between organizational ethics and performance is not always direct.

In this study, the influence of Ethical Governance on Public Sector Performance was proven to be more effective through increasing Institutional Trust. In other words, ethical governance needs to first build employee trust before it can result in an improvement in organizational performance.

The Influence of HRM Practices on Public Sector Performance

The results showed that HRM Practices had no significant effect on Public Sector Performance with a path coefficient value of -0.008, a t-statistics value of 0.100, and a p-value of 0.921. The very small and insignificant value coefficient shows that the HR practices implemented by the organization have not been able to improve the performance of the public sector directly.

This condition can be explained by the fact that the impact of HR practices on organizational performance generally requires a process that is not instantaneous. Training programs, competency development, performance evaluation systems, and reward policies take time to form productive work behaviors and are ultimately reflected in organizational performance.

These findings are different from several previous studies that found the direct influence of HRM Practices on organizational performance. However, the results of this study support the view that the relationship between HR practices and organizational performance is often influenced by psychological and social factors within the organization. Research by Zamzam et al. (2023) shows that HR practices provide a more effective influence on organizational performance through employee engagement as a mediating variable. In addition, Sharif et al. (2024) found that various HRM practices contribute to increased work engagement which further strengthens organizational commitment. These findings indicate that the benefits of HR practices are not always directly reflected in organizational performance, but often have to go through changes in employee attitudes, attachments, and behaviors first. In the context of this study, the mechanism is reflected in the role of Institutional Trust as a mediating variable that bridges the relationship between HRM Practices and Public Sector Performance.

Thus, public sector organizations need to ensure that the implementation of HR practices is not only oriented to the administrative aspect, but also able to increase employee trust in the organization so that the benefits can be translated into improved performance.

The Influence of Institutional Trust on Public Sector Performance

The results of the study show that Institutional Trust has a positive and significant effect on Public Sector Performance with a path coefficient value of 0.636, *a t-statistics* value of 7.763, and *a p-value* of 0.000. The value coefficient is the largest in the structural model that affects Public Sector Performance, showing that Institutional Trust is the dominant factor in improving the performance of public sector organizations.

Institutional trust encourages employees to work more effectively, increases commitment to the organization, strengthens cooperation between employees, and increases willingness to support organizational goals. Employees who have high trust in the institution tend to show more productive work behavior and are oriented towards achieving organizational goals.

These findings support *the theory of Institutional Trust* which states that trust is a very important social asset for the effectiveness of an organization. A high level of trust will improve coordination, reduce internal conflicts, and strengthen the organization's ability to achieve public service goals.

The results of this study are in line with the research of Keefer & Vlaicu (2024) which found that employee trust in public sector organizations contributes to increased collaboration, information sharing, support for innovation, and the reduction of various obstacles that can disrupt organizational performance. In addition, Härenstam et al. (2024) show that strong trust relationships between employees, managers, and organizational leaders contribute to improved work unit performance as well as the effectiveness of public sector organizations. The findings confirm that institutional trust is an important factor that can increase organizational effectiveness and support the achievement of better public sector performance.

Thus, increasing employee trust in institutions is a strategic factor that needs to be considered by public sector organizations in an effort to improve organizational performance in a sustainable manner.

The Role of Institutional Trust Mediation in Relationship Ethical Governance and Public Sector Performance

The results of the mediation test showed that the indirect influence of Ethical Governance on Public Sector Performance through Institutional Trust had a coefficient value of 0.295, a *t-statistics* value of 5.810, and *a p-value* of 0.000. These results show that Institutional Trust is able to significantly mediate the relationship between Ethical Governance and Public Sector Performance.

These findings explain that the implementation of ethical governance does not directly improve organizational performance, but first increases employee trust in the institution. This trust then becomes a factor that encourages the improvement of the effectiveness and quality of public sector performance. These findings are in line with the views of Keefer and Vlaicu (2024) who show that trust in public organizations is able to strengthen collaboration, information exchange, and support on the achievement of organizational goals, which ultimately has an impact on improving performance. Thus, institutional trust serves as an important mechanism that translates ethical governance values into better organizational outcomes.

Because the direct influence of Ethical Governance on Public Sector Performance is not significant ($p = 0.632$), while the indirect influence is significant ($p = 0.000$), Institutional Trust plays the role of full mediation. Thus, the success of the implementation of *ethical governance* in improving organizational performance is highly dependent on its ability to build institutional trust.

The Role of Institutional Trust Mediation in Relationship HRM Practices and Public Sector Performance

The test results showed that the indirect influence of HRM Practices on Public Sector Performance through Institutional Trust had a coefficient value of 0.339, *a t-statistics* value of 5.937, and *a p-value* of 0.000. These results prove that Institutional Trust significantly mediates the relationship between HRM Practices and Public Sector Performance.

These findings indicate that effective HR practices are able to increase employee trust in the organization. Furthermore, this trust is a mechanism that encourages improvement in the performance of the public sector. In other words, the benefits of HR practices on organizational performance can only be optimally felt when the practice succeeds in building *institutional trust*.

These findings are in line with the research of Zamzam et al. (2023) which shows that the influence of human resource management practices on organizational performance becomes more effective through *employee engagement* as a mediating variable. In addition, Sharif et al. (2024) found that HRM practices contribute to increased *work engagement* which further strengthens *organizational commitment*. These results show that HR practices often do not result in direct performance improvements, but work through psychological mechanisms that influence employee attitudes and behaviors. In the context of this research, the mechanism is reflected in the increase in *institutional trust* which then has an impact on improving the performance of the public sector.

Because the direct influence of HRM Practices on Public Sector Performance is not significant ($p = 0.921$), while the indirect effect is significant ($p = 0.000$), Institutional Trust also plays a role as full mediation.

The results of this study confirm that institutional trust is the main mechanism that bridges the influence of human resource management practices on public sector performance. Therefore, public sector organizations need to develop HR policies that not only focus on administrative aspects, but also be able to strengthen the relationship of trust between employees and institutions to achieve better organizational performance.

CONCLUSION

This study aims to analyze the effect of *Ethical Governance* and *HRM Practices* on *Public Sector Performance* with *Institutional Trust* as a mediating variable in public sector organizations in Timor-Leste. The results of the study show that *Ethical Governance* and *HRM Practices* Positive and significant effect on *Institutional Trust*. These findings indicate that the implementation of governance based on ethics, transparency, accountability, and integrity, as well as fair and professional human resource management practices, is able to increase employee trust in institutions.

On the other hand, *Ethical Governance* and *HRM Practices* not proven to have a significant direct influence on *Public Sector Performance*. Instead, *Institutional Trust* proven to have a positive and significant effect on *Public Sector Performance* and became the most dominant factor in the research model. These results show that improving public sector performance does not occur automatically through the implementation of ethical governance and good HR practices, but requires the trust of employees in the organization as a mechanism that connects these factors with organizational performance.

Furthermore, the results of the mediation test showed that *Institutional Trust* mediate significantly the relationship between *Ethical Governance* and *Public Sector Performance* and the relationship between *HRM Practices* and *Public Sector Performance*. Because the direct influence of the two independent variables on *Public Sector Performance* insignificant, while indirect influence through *Institutional Trust* significant, then it can be concluded that *Institutional Trust* acting as a full mediator (*Full Mediation*). These findings confirm that institutional trust is the main mechanism that translates ethical governance and effective HR practices into improved public sector performance.

Theoretically, this study contributes to the development of the public administration and organizational governance literature by showing that *Institutional Trust* Not only is it the result of good organizational practices, but it also serves as an important mechanism that links organizational factors to public sector performance. These findings reinforce the view that institutional trust is a strategic asset that can increase organizational effectiveness in achieving public service goals.

Practically, the results of this study show that public sector organizations need to pay greater attention to efforts to build and maintain employee trust through the implementation of transparent, accountable, and integrity governance, as well as human resource management practices that are fair, professional, and oriented towards employee development. With increasing institutional trust, organizations will be better able to improve their effectiveness, efficiency, and quality of performance.

This research has several limitations. First, the research uses the design *Cross-sectional* So it has not been able to explain the causal relationship between variables in depth. Second, data was obtained through questionnaires *self-report* which has the potential to cause a bias in respondent perception. Third, the research was only conducted on public sector organizations in Timor-Leste, so the results of the study still have limitations in terms of generalization.

Based on these limitations, further research is recommended to use longitudinal design to gain a more comprehensive understanding of the causal relationships between variables. Future research may also add other variables, such as *organizational commitment*, *employee engagement*, *Organizational Culture*, *Leadership Effectiveness*, or *Digital Governance*, to explain the variation in public sector performance more broadly. In addition, expanding the scope of research in different types of public and cross-country organizations can be done to increase external validity and enrich understanding of influencing factors *Public Sector Performance*.

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