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ETHICAL BUSINESS PRACTICES AND EMPLOYEE RETENTION IN NEPAL: INVESTIGATING THE MEDIATING ROLE OF EMPLOYEE LOYALTY

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ABSTRACT

Ethical business practices are pivotal in fostering employee retention by creating a positive work environment that nurtures trust, satisfaction, and loyalty among employees. Employee loyalty serves as a critical mediator, strengthening the connection between ethical business practices and retention by enhancing employees' commitment to staying with organizations they trust and respect. This study examines the role of employee loyalty in mediating the relationship between ethical business practices and employee retention within Nepal's hospitality sector, specifically focusing on restaurants and cafes. Data were gathered from 392 respondents through a structured questionnaire distributed

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using a convenience sampling method. The sample comprised support staff, assistant-level employees, and managerial personnel from various restaurants and cafes in the Kathmandu Valley. The data analysis was performed using Process Macro 4 with a 95% confidence interval and 5,000 bootstrapping samples. The results indicate that employee loyalty acts as a full mediator in the relationship between ethical business practices and employee retention. This study highlights the critical role of ethical business practices in cultivating trust and credibility with stakeholders, driving organizational success, and reducing employee turnover. By prioritizing ethical practices, organizations can strengthen employee loyalty, which significantly enhances retention rates and contributes to a more stable and committed workforce.

1. INTRODUCTION

Business ethics encompasses the principles and values that guide the actions and decisions of individuals and organizations within the corporate world. Core principles such as honesty, fairness, accountability, and respect for others are essential in cultivating a culture of integrity and ethical behavior. Adhering to these standards is vital for building trust among stakeholders including customers, employees, investors, and the broader community while ensuring transparency and promoting responsible practices across all facets of business operations.

When businesses operate ethically, they tend to experience heightened customer loyalty, improved employee engagement, and enhanced investor confidence. Ethical business practices are fundamental to building trust, safeguarding a company's reputation, and ensuring long-term success. Conversely, unethical actions, such as fraud or deception, can swiftly undermine trust and cause long-lasting harm to a company's reputation and credibility (Dacin et al., 2022). Ethical conduct plays a critical role in attracting and retaining key stakeholders, including customers, employees, and investors who prioritize integrity. Moreover, adhering to ethical standards helps organizations mitigate legal and financial risks, such as penalties or lawsuits stemming from regulatory violations. By fostering

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a culture of ethics, businesses create a robust framework for sustainable growth and resilience. In addition to fostering internal and external trust, ethical business practices encompass a commitment to social responsibility. This involves initiatives aimed at positively impacting society, such as reducing environmental footprints, promoting diversity and inclusion, and supporting charitable endeavors. Such actions not only enhance a company's public image but also strengthen its brand value and contribute to financial performance (Islam, 2022). By integrating social responsibility into their core strategies, businesses can achieve a harmonious balance between societal contributions and economic success, paving the way for enduring prosperity.

Ethical business practices involve operating in a manner that aligns with moral principles, promotes transparency, and considers the welfare of all stakeholders. Businesses that prioritize ethics build trust with customers, employees, and society, which can lead to enhance reputation and long-term sustainability. Ferrell et al. (2019) highlighted that ethical businesses often experience higher employee loyalty, satisfaction, and productivity which contribute to a positive organizational culture. Additionally, companies that demonstrate ethical practices increased customer loyalty and market share (Smith & Rönnegard, 2020). Ethical business also helps to mitigate risks associated with legal issues and enhances a company's ability to attract and retain top talent (Trevino & Nelson, 2021). Companies that prioritize ethical principles can strengthen their reputation, attract loyal customers, and cultivate a committed workforce. Additionally, ethical behavior helps organizations minimize legal and financial risks, creating a more secure foundation for growth. Ethical business practices are vital for fostering trust, ensuring sustainability, and achieving long-term success (Michelson et al., 2023).

Ethical business practices are linked to higher levels of employee satisfaction and productivity. An ethical organizational culture fosters an environment where employees feel valued, which can reduce turnover and increase morale (Trevino & Nelson, 2021). Moreover, businesses that demonstrate a commitment to ethics are more attractive to potential employees, especially younger generations who prioritize corporate social responsibility in their career choices (Graham & Harvey, 2021). Ethical business practices

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are increasingly important to consumers, who now favor brands that align with their values. According to Nielsen (2018), more than 70% of consumers are willing to pay a premium for products from companies that demonstrate a commitment to social and environmental responsibility. This trend highlights how ethical practices can contribute to a company's market share and profitability. Additionally, ethical businesses are often better equipped to handle crises, as they have established trust and credibility with their stakeholders (Crane & Matten, 2016). In today's interconnected world, where information spreads rapidly, companies that prioritize ethics are not only sustaining their own growth but also playing a critical role in promoting responsible business practices across industries. When companies prioritize ethical standards, they create a culture of trust and fairness, which can lead to higher levels of employee satisfaction and loyalty. According to Trevino and Nelson (2021), ethical workplaces help employees feel more secure and connected to the organization, reducing turnover and enhancing job satisfaction. Moreover, research indicates that employees are more likely to stay with companies that align with their personal values and demonstrate corporate social responsibility (Smith & Rönnegard, 2020).

Valentine and Godkin (2019) suggested that ethical leadership contributes to lower turnover rates, as employees perceive their organization as supportive and committed to ethical principles. In essence, ethical business practices not only benefit the company's reputation but also serve as a crucial factor in retaining talent by building a positive and supportive workplace culture. Additionally, the significant relationship between ethical business practices and employee retention is noteworthy. Companies that prioritize ethical behavior are more likely to attract individuals who resonate with their values and are committed to their mission. This alignment not only fosters employee loyalty but also leads to significantly lower turnover rates. As a result, organizations can reduce the costs associated with recruitment and training. Ethical business practices are increasingly recognized as critical drivers of employee retention, as they foster trust and a sense of belonging within organizations, particularly in dynamic industries like hospitality in Nepal (Gautam & Thapa, 2023). The employees in Nepalese companies are more inclined to stay with employers who prioritize ethical standards, transparency, and social

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responsibility, which enhances job satisfaction and organizational loyalty (Karki et al., 2024). Furthermore, ethical business practices not only improve employee retention but also contribute to a positive workplace culture, underscoring their strategic importance for sustainable business success (Shrestha & Bista, 2024). Embracing ethical practices is not merely a moral choice; it is a strategic investment that enhances employee satisfaction and contributes to long-term organizational success. In light of these considerations, this study aims to investigate the role of employee loyalty in the relationship between ethical business practices and employee retention within the Nepalese hospitality industry, specifically focusing on restaurants and cafes in the Kathmandu valley.

2. REVIEW OF LITERATURE

Theoretical Review

The theoretical foundation of this study is Herzberg's Two-Factor Theory, often referred to as the Motivation-Hygiene Theory. Introduced in the 1950s, this framework distinguishes workplace factors into two categories: motivators and hygiene factors (Herzberg, 1959; Herzberg, 1966). Motivators are elements that foster job satisfaction and drive intrinsic motivation. These include achievements, recognition, responsibility, and opportunities for growth and advancement (Herzberg et al., 1959). These factors promote intrinsic motivation and encourage employees to engage and invest in their roles (Bassett-Jones & Lloyd, 2005). Conversely, hygiene factors do not inherently motivate but can cause dissatisfaction if they are lacking or inadequate. These factors include salary, company policies, working conditions, and interpersonal relationships (Herzberg, 1968; Alshmemri et al. 2017). Although these elements are essential for maintaining a stable work environment, their presence alone does not drive job satisfaction; rather, they are necessary to prevent dissatisfaction (Herzberg, 1987; Robbins & Judge, 2013).

The previous studies revealed that employees are more likely to seek new employment opportunities if they feel undervalued or if there is a lack of trust in leadership, even if hygiene factors are adequately provided (Chiang & Jang, 2008; Smerek & Peterson, 2007).

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While hygiene factors might not be the primary motivators, their absence can severely impact organizational health. Therefore, they should not be overlooked, as neglecting them can lead to decreased employee morale and an unfavorable work environment (Hackman & Oldham, 1976; Hong & Waheed, 2011). For employees to experience true motivation, motivator factors must align with their qualifications, skills, interests, and personalities (Herzberg, 1987). This alignment underscores the importance of work ethics, which include accountability, respect, professionalism, and integrity (Trevino et al. 2006). Ethical practices are vital to creating a positive organizational culture and ensuring long-term business success (Valentine et al. 2002). When ethical standards are compromised, employees often cite poor ethics as a major reason for seeking alternative employment opportunities, indicating the critical role of ethical work environments in employee retention (Podsakoff et al.1996; Kaptein, 2011).

Empirical Review

Work ethics refer to the integration of standard codes of conduct, rules, and regulations into the daily operations of an organization. Essentially, they are a set of moral principles that guide employees in their job performance and decision-making (Odu, 2018). Heelas (2002) explains that work ethics assign value to one's work and performance. Stephen (2020) emphasized that work ethics embody values that emphasize the importance of work, shown through dedication and a strong work ethic. These values are grounded in moral guidelines that organizations and employees follow, ensuring adherence to existing laws and standards.

Lawrence (2020) proposed seven key work ethic practices, emphasizing that a strong work ethic is essential for an organization to achieve its goals. For both new and established businesses, maintaining certain values is crucial, as they contribute to maximizing customer satisfaction and, ultimately, increasing profitability. Lawrence identifies seven key practices that define work ethic: professionalism, accountability, respectfulness, dedication, determination, humility, and dependability. Similarly, Odu (2018) highlights

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work ethic as a blend of hard work, dedication, discipline, and productivity, further emphasizing attributes such as teamwork, integrity, responsibility, accountability, humility, dependability, and respectfulness. Lawton and Doig (2008) expand this perspective, describing work ethics through principles such as integrity, accountability, transparency, honesty, competence, commitment, respectfulness, fairness, equity, and the avoidance of conflicts of interest in interpersonal relationships. Furthermore, Kumara and Dutta (2019) asserted that work ethics significantly influence employees' behavior in the workplace, directly affecting the achievement of organizational objectives.

Oginni and Lanre-Babalola (2019) argued that employee retention is directly influenced by how employees are treated in the workplace, which reflects the actions or inactions of management. Positive treatment encourages employees to develop a favorable attitude and a long-term identification with the organization. According to Price (2021), employee retention involves a deliberate and systematic effort by employers to cultivate a work environment that encourages employees to remain with the organization, whether for a long-term or until the completion of a specific project. This supportive environment is fostered through human resource policies and practices designed to meet the needs and expectations of employees. Similarly, Lawrence (2014) suggests that the decision of employees to remain with an organization over time depends on the effectiveness of policies and practices employed in managing human resources. Akindele (2018) highlights that retention strategies are composed of various policies and practices that organizations implement to reduce employee attrition; a metric representing the percentage of employees who leave an organization within a specific timeframe, either voluntarily or involuntarily and to retain skilled employees. Akindele outlines three primary outcomes of retention strategies: retaining talented and productive employees, reducing employee turnover, and demonstrating appreciation to employees for reasons specific to the employer. Similarly, Van-Dyk and Coetzee (2013) argued that the purpose of a retention strategy is to foster long-term employee loyalty, as factors beyond salary significantly influence an employee's decision to remain with an organization.

Ethical business practices are increasingly recognized as vital to employee retention, as they

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significantly influence workplace culture and employee engagement. Ethical practices not only enhance job satisfaction but also promote employee loyalty by establishing a strong organizational identity. Employees are more likely to remain with organizations that reflect their personal values, particularly concerning ethical considerations (Valentine et al., 2011). Moreover, Mayer et al. (2009) emphasized the importance of perceived organizational support in fostering ethical behavior, which in turn enhances employee commitment and reduces turnover intentions. Employees who perceive that their organization is ethical and values their well-being are more likely to exhibit organizational citizenship behaviors, which further strengthen their connection to the company (Organ, 1997). Ethical business practices significantly enhance employee retention, primarily through the mediating role of employee loyalty. Organizations that prioritize ethical behavior cultivate a work environment characterized by trust, respect, and commitment among employees (Brown & Treviño, 2021). When employees perceive their organization as ethical, they report higher job satisfaction and organizational commitment, which directly correlates with increased loyalty (Meyer & Allen, 2022). This loyalty is critical, as it reduces turnover intentions and enhances retention (Albejaidi, 2021). Organizations that implement fair policies, transparent communication, and accountability lead employees to feel valued and respected, thereby strengthening their loyalty (Li, 2023). Additionally, ethical practices are more successful in attracting and retaining top talent, as prospective employees are increasingly drawn to organizations that align with their personal values (Luna-Arocas & Danvila del Valle, 2022). Consequently, integrating ethical practices within business strategies not only enhances employee loyalty but also serves as a strategic approach to improving retention rates and building a sustainable workforce (Glavas, 2016). Zhang et al. (2024) found that corporate ESG (Environmental, Social, and Governance) behaviors significantly enhance employee satisfaction, thereby improving retention rates. The study also emphasized the role of transparency and internal controls in fostering a positive work environment that encourages employee loyalty. Similarly, Hochschild (2024) revealed that ethical leadership and a commitment to fairness in business practices directly reduce employee turnover by building trust and organizational commitment. Khatri & Budhathoki (2023) focused on employee retention in commercial banks, emphasizing the role of

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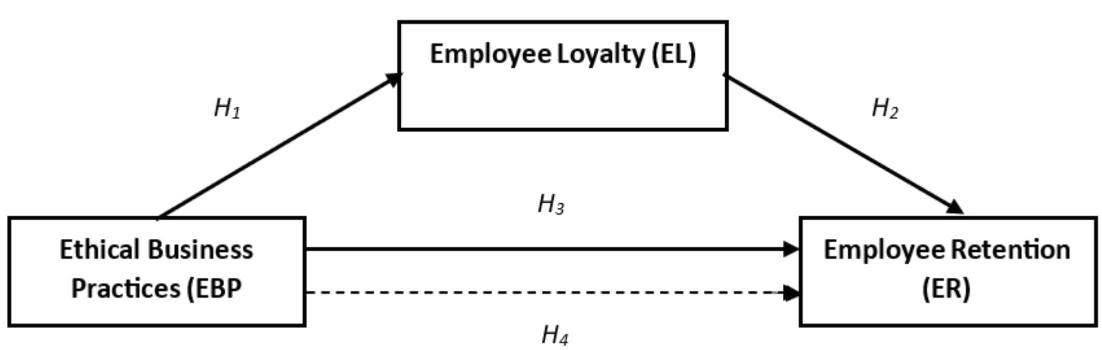
ethical leadership, compensation, and workplace environment. The findings revealed that career development and ethical leadership were a significant factor in retaining employees, with the highest ratings for its importance among bank employees, while factors like workplace environment were rated lower. Sharma & Thapa (2022) examined factors affecting employee retention in Nepalese banks, highlighting the importance of fair compensation, career development opportunities, and ethical leadership in ensuring long-term employee commitment. The study suggested that businesses with ethical practices that promote employee well-being and development tend to have better retention rates, as employees feel valued and supported. These findings align with broader research on the importance of ethical practices, such as fair treatment, transparent leadership, and the provision of professional growth opportunities, in enhancing employee retention. Ethical business practices help build trust, improve job satisfaction, and reduce turnover rates in Nepalese organizations. These findings demonstrate that integrating ethical values into organizational practices not only boosts employee morale but also contributes to long-term retention. Given this context, the study aims to explore the mediating role of employee loyalty in the relationship between ethical business practices and employee retention within the Nepalese hospitality industry specifically focusing on restaurants and cafes. Based on the theoretical and empirical foundations discussed above, a theoretical model is proposed, as illustrated in Figure 1, with the following hypotheses outlined.

Figure 1

Theoretical framework



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H1: Ethical business practices significantly influence the employee loyalty
H2: Employee loyalty significantly influence the employee retention
H3: Ethical business practices significantly influence the employee loyalty
H4: Employee loyalty mediates the relationship between ethical business practices and employee retention.

3. MATERIALS AND METHODS

This study utilized a descriptive and causal-comparative research design to address its objectives. The target population included employees across various roles in the hospitality sector, specifically focusing on restaurants and cafés within the Kathmandu Valley. A convenience sampling method was employed to select a sample of 392 employees. Data collection was conducted through a structured questionnaire designed on a five-point Likert scale, ranging from 1 (strongly disagree) to 5 (strongly agree). A total of 427 questionnaires were distributed, of which 408 were returned, resulting in a response rate of 95%. After excluding 16 responses due to multiple non-responses, 392 valid responses were retained for analysis. The study assessed three latent variables: ethical business practices (11 items), employee loyalty (10 items), and employee retention (8 items). The relationships among these constructs were analyzed using the PROCESS Macro version 4. To ensure the reliability of the measurement scales, Cronbach's alpha (Cronbach, 1951) was calculated for each variable. All variables demonstrated strong internal consistency, with Cronbach's alpha values exceeding the threshold of 0.7, as recommended by Taber (2018). These reliability values are summarized in Table 1.

Table 1: Reliability Analysis

Variables	Ethical Business Practices	Employee Retention	Employee Loyalty
Cronbach's Alpha	0.966	0.978	0.934
No. of items	11	8	10
Result	Reliable	Reliable	Reliable

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4. RESULTS AND DISCUSSION

4.1 Demographic Profile of the Respondents

Table 2 revealed the respondents' profile. Out of the total respondents 59.96% were male and 40.05% female. Marital status revealed that 52.3% were married while 47.7% were unmarried. In terms of age, 15.56% belongs to below 25, 41.84% belongs to age group 25-35, 35.2% belongs to 36-45 and 7.4% belongs to the age group above 45. Regarding academic qualification, 14.8% have literate, 30.87% passed 10+2 level, 42.85% have completed bachelor degree and 11.48% have above bachelor degree. In terms of job position, 42.86% of the respondents were working at supporting level, 31.89% at assistant level and 25.25% at manager level. Job experience table shows that, 31.89% had up to 5 years of experience, 47.19% had 5-10 and 20.92% had more than 10 years of Job experience. In summary, this demographic profile highlights a predominance of male individuals with supporting level employees.

Table 2

Respondents' Profile N=392

Variables	Frequency	Percent
Gender		
Male	235	59.96
Female	157	40.05
Marital Status		
Married	205	52.3
Unmarried	187	47.7
Age		
Below 25	61	15.56
25-35	164	41.84
36-45	138	35.2
Above 45	29	7.4

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Academic Qualification		
Literate	58	14.8
10+2 Level	121	30.87
Bachelor	168	42.85
Above Bachelor	45	11.48
Job Position		
Supporting Level	168	42.86
Assistant Level	125	31.89
Manager Level	99	25.25
Job Experience		
Up to 5 Years	125	31.89
5-10 Years	185	47.19
Above 10 Years	82	20.92

4.2 Descriptive Analysis

Table 3 presents the descriptive statistics and intercorrelations for the study variables. ethical business practices had a mean score of 3.58 (SD = 0.84), employee retention 3.52 (SD = 0.70) and employee loyalty 3.55 (SD = 0.67). Measured in a five points Likert scale ranging 1 as strongly dissatisfactory and 5 as strongly satisfactory, the results suggest that respondents perceive their organizations as moderately positive in terms of ethical business practices, employee retention, and employee loyalty.

The correlation coefficients reveal that Ethical Business Practices were significantly positively correlated with both Employee Retention ($r = 0.410$, $p < 0.01$) and Employee Loyalty ($r = 0.629$, $p < 0.01$). Furthermore, Employee Retention was also significantly positively correlated with Employee Loyalty ($r = 0.524$, $p < 0.01$). These interrelations suggest that higher ethical business practices are associated with greater employee retention and loyalty, and employees who exhibit greater loyalty are likely to remain in the organization longer.

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Table 3: Descriptive Analysis and Correlation Coefficients

	Mean	SD	1	2	3
1. Ethical Business Practices	3.58	0.84	1		
2. Employee Retention	3.52	0.70	0.410**	1	
3. Employee Loyalty	3.55	0.67	0.629**	0.524**	1

***. Correlation is significant at the 0.01 level (2-tailed).*

4.3 Test of Hypotheses

This study seeks to explore both the direct and indirect impacts of ethical business practices (EBP) on employee retention (ER), with employee loyalty (EL) serving as a mediator. Hence, EBP is the independent variable, ER dependent variable, and EL mediating variable. Table 4 shows that 39.51% of the variance in EL is explained by EBP. The statistical analysis reveals that the model is highly significant ($F(1, 198) = 129.30$, $p < 0.001$). The findings further demonstrate a significant positive relationship between Ethical Business Practices (EBP) and Employee Loyalty (EL), with a standardized coefficient (β) of 0.5041 ($p < 0.001$). The 95% confidence interval for this effect ranges from 0.4167 to 0.5915. These results provide strong support for hypothesis H1, confirming that EBP has a significant and positive influence on EL.

Table 4: Regression Analysis of EBP on EL

R	R Square	MSE	F	df1	df2	P
0.6285	0.3951	0.2745	129.3046	1.0000	198.0000	0.0000
Model						
	Coefficient	SE	t	p	LLCI	ULCI
Constant	1.7196	0.1625	10.5847	0.0000	1.3992	2.0400
EBP	0.5041	0.0443	11.3712	0.0000	0.4167	0.5915

Note: EBP – Ethical Business Practices, EL – Employee Loyalty.

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Table 5 displays the outcomes of regression where employee retention (ER) is the outcome variable, and ethical business practices (EBP) and employee loyalty (EL) are the predictors. EL had a significant indirect effect on ER (β = 0.4552, t = 5.6855, p = 0.0000, LLCI = 0.2973, ULCI = 0.6131). Since the confidence interval does not include zero, this path is significant, supporting H2, which states that EL significantly influences ER.

When Ethical Leadership (EL) is included in the model, Ethical Business Practices (EBP) no longer have a significant direct effect on Employee Retention (ER) (β = 0.1102, t = 1.7159, p = 0.0373, LLCI = -0.0164, ULCI = 0.2368). This leads to the acceptance of Hypothesis 3 (H3), which proposes that EBP has a direct and positive impact on ER. The analysis further demonstrates a significant indirect effect of EBP on ER via EL, as detailed in Table 6 (β = 0.2295, bootstrapped 95% confidence interval: LLCI = 0.1560, ULCI = 0.3089). These findings suggest that EBP influences ER predominantly through its impact on EL. This supports a full mediation model, confirming that EL fully mediates the relationship between EBP and ER. Accordingly, Hypothesis 4 (H4), which posits that EL mediates the relationship between EBP and ER, is accepted.

Table 5: Regression Analysis of EBP and EL on ER

R	R Square	MSE	F	df1	df2	P
0.5340	0.2851	0.3485	39.2875	2.0000	197.0000	0.0000
Model						
	Coefficient	SE	t	p	LLCI	ULCI
Constant	1.5482	0.2290	6.7597	0.0000	1.0966	1.9999
EBP	0.1102	0.0642	1.7159	0.0877	0.0164	0.2368
EL	0.4552	0.0801	5.6855	0.0000	0.2973	0.6131

Note: ER – Employee Retention, EBP – Ethical Business Practices, EL – Employee Loyalty.

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Table 6: Direct and Indirect Effect of EBP on ER

Path	Effect	Boot SE	Boot LLCI	Boot ULCI	Significance
Direct effect (t – 1.7159, p – 0.0377)	0.1102	0.0642	-0.0164	0.2368	Yes
Indirect effect	0.2295	0.0391	0.1560	0.3089	Yes

In conclusion, the analysis approves the hypotheses that ethical business practices (EBP) positively influence employee loyalty (EL) (H1), and that EL has a positive impact on employee retention (ER) (H2). Similarly, a significant direct relationship was found between EBP and ER (H3). Moreover, EL fully mediates the relationship between EBP and ER (H4).

Table 7: Summary of Hypotheses Testing

Hypotheses	Paths	Result
H_1	EBP → EL	Supported
H_2	EL → ER	Supported
H_3	EBP → ER (Direct)	Supported
H_4	EBP → EL → ER (Mediation)	Supported

The mediation analysis results reveal that EBP indirectly impacts ER through EL. The total effect of EBP on ER is mediated by EL, highlighting the importance of indirect effects in understanding the relationship between EBP and ER. These findings emphasize the significant role of EBP in influencing ER via EL and offer valuable insights for developing targeted interventions. Additionally, they underscore the need for further research to explore other potential mediators or moderators.

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4.4 Discussion

The findings of the study reveal that ethical business practices significantly enhance employee retention, with employee loyalty playing a mediating role in this relationship. When organizations engage in ethical practices such as transparency, fairness, and social responsibility, employees tend to develop a stronger sense of trust and satisfaction, which fosters a positive work environment and reduces turnover intentions (Kim & Thapa, 2018; Lee et al., 2020). These practices make employees feel valued, respected, and aligned with the organization's values, which enhances their attachment to the company (Mayer et al., 2012). Additionally, the mediation analysis emphasizes that employee loyalty is a key factor in this relationship, as it reinforces the impact of ethical practices on retention. Employees who perceive their organization as ethical are more likely to reciprocate with loyalty, which serves as an emotional anchor, solidifying their commitment to the organization (Ghosh & Gurunathan, 2014).

An organizational culture that promotes ethical standards not only fosters loyalty but also aligns employee behavior with the organization's core values, creating a sense of unity and shared purpose (Trevino et al., 2006). When employees perceive that their organization prioritizes ethical conduct, they experience increased job satisfaction and a deeper connection to their roles, which positively impacts their intention to stay (Sweeney et al., 2010). This relationship is particularly strong in environments where ethical practices are consistently modeled by leaders, as employees are more likely to exhibit loyalty when they observe ethical leadership behaviors (Brown et al., 2005). This finding aligns with the reciprocity theory, where employees reciprocate positive organizational practices with loyalty and long-term commitment. Thus, while ethical business practices alone create a solid foundation for retention, their impact is magnified when coupled with employee loyalty, which mediates and strengthens the relationship between ethics and retention. This suggests that organizations aiming to improve retention should not only implement ethical practices but also foster an environment that promotes loyalty, as this dual approach is essential for building a dedicated and resilient workforce (Valentine et al., 2011). Consequently, companies aiming to enhance employee retention should focus

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on fostering ethical business practices while also nurturing loyalty, as this dual approach can lead to a more resilient and dedicated workforce. Sharma & Thapa (2022) also suggested that ethical business practices, including transparent operations and a focus on corporate social responsibility, have a significant impact on employee retention. In Nepal, as in other regions, such practices create a sense of trust and alignment between employees and organizations, which fosters loyalty. Khatri & Budhathoki (2023) also highlighted that ethical practices like fairness, integrity, and transparent communication are seen to strengthen employee engagement and reduce turnover. This is particularly true when businesses integrate CSR into their core activities, showing a commitment to social good that resonates with employees' values.

5. CONCLUSION AND SUGGESTIONS

The findings of the study highlight the significant impact of ethical business practices on employee retention, illustrating that a commitment to ethical standards not only fosters a positive workplace culture but also enhances employee loyalty. When organizations prioritize ethical conduct, they create an environment where employees feel valued, respected, and motivated. This alignment between personal values and organizational practices leads to increased job satisfaction, which is critical in reducing turnover rates. Employees who perceive their organization as ethical are more likely to exhibit greater commitment and loyalty, ultimately translating into enhanced retention rates. The study demonstrates that ethical business practices, such as transparency, fairness, and accountability, establish a foundation of trust between employees and management, encouraging a strong emotional connection to the organization.

Moreover, the findings emphasized that employee loyalty acts as a crucial mediator in this relationship. When employees are loyal, they are more inclined to stay with the organization, even in the face of challenges. This mediating effect of employee loyalty suggests that organizations should not only focus on implementing ethical practices but also actively cultivate loyalty among their workforce. By doing so, they can leverage this

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loyalty as a strategic advantage, ensuring that ethical practices translate into tangible benefits for both the employees and the organization as a whole. Thus, fostering a culture of ethics and loyalty is not just a moral imperative but a strategic necessity for organizations seeking to retain talent and achieve sustainable success. The major limitation of this study is that it may not fully account for external factors like economic fluctuations or industry-specific challenges, which also play a significant role in influencing employee loyalty and retention. The further research could explore the impact of industry-specific factors, cultural differences, and the role of leadership styles in strengthening the relationship between ethical business practices, employee loyalty, and retention in Nepalese organizations.

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