

# Ethical leadership and firms' sustainability: mediating role of corporate social responsibility in Pakistan's banking sector.

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**Abstract**— The sustainability of businesses has emerged as a pressing concern in the competitive landscape. To tackle this issue, the present study aims to explore the role of ethical leadership in determining the sustainability of private banking institutions in Pakistan, with corporate social responsibility (CSR) serving as the mediator. The research utilized data from 232 middle and upper-level private bank employees in Pakistan. The statistical tools SPSS and SmartPLS were employed for data analysis, and a structural equation model was used to test the study hypotheses. The findings indicate a positive and significant impact of ethical leadership on firms' sustainability. Furthermore, CSR significantly and positively mediates the relationship between ethical leadership and firms' sustainability. This study provides valuable insights into the fields of organizational behavior, leadership, and sustainable business practices. The results shed light on the mechanisms through which ethical leadership influences CSR practices and the sustainability of private banking institutions in Pakistan. The study has implications for policymakers, practitioners, and academic researchers to promote sustainable and socially responsible business practices in the private banking sector of Pakistan.

**Keywords:** firms' sustainability, ethical leadership, corporate social responsibility, banking sector.

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## I. INTRODUCTION

The concept of firms' sustainability pertains to the execution of commercial activities in a financially feasible, ethically accountable, and ecologically sustainable way. In recent years, there has been a notable increase in the significance attributed to business activities, owing to the heightened recognition of their impact on the environment and society [1]. Firms prioritizing sustainability focus on best economic practices and environment-friendly activities, for example, reducing carbon emissions, green training employees, and advancing CSR initiatives. Recent studies have emphasized the imperative need to implement sustainable practices. [2] indicate a growing preference among consumers to seek out sustainable goods and services. Similarly, investors consider economic, social, and environmental aspects when evaluating investment opportunities.

Sustainable business practices are increasingly gaining popularity in the banking sector worldwide, including in Pakistan. The banking sector has a significant association with ethical leadership and the enduring sustainability of firms. The importance of ethical leadership has been increasingly acknowledged in recent times. Previous studies [3, 4] demonstrate that ethical leadership is associated with the cultivation of trust, loyalty, honesty, justice, and commitment among subordinates, which in turn leads to elevated levels of employees' loyalty and sustainability. Investigations such as [5] carried out in recent years have examined the influence of ethical leadership on firms' sustainability. However, banks have utmost importance to the economy as they are responsible for the management of financial resources and the provision of services to both individuals and businesses [4]. Ethical leadership believes in ethics and CSR initiatives implemented by firms to tackle their social, environmental, and ethical effects while achieving the firm's sustainability [6]. CSR encompasses different initiatives, such as charitable projects, environmental sustainability efforts, community development projects, employee welfare programs, and ethical business practices [7, 8]. The significance of CSR has experienced a substantial increase in recent times.

Employees' trust or loyalty is improved in the banking sector due to CSR practices, and there is potential for the sustainability of firms [9]. The Central Bank of Pakistan, known as the State Bank of Pakistan (SBP), has implemented a set of guidelines and regulations named Prudential Regulations (PR) aimed at fostering ethical behavior and enhancing corporate governance standards and CSR initiatives in the banking sector. Moreover, it holds considerable significance in the banking sector of Pakistan. Banking firms operating in Pakistan as well as those operating on a global scale understand the importance of ethics, firms' sustainability, and CSR. However, there are fewer studies available on ethical leadership and firms' sustainability with CSR, particularly those showing the background of the private banking sector in Pakistan. In the past, major collapses of financial institutions were caused by the unethical behavior of the firms' leadership [10], which resulted not only in financial losses but also in the firms' sustainability. It is also the social dilemma of the current situation. Moreover, aspects of ethical leadership are associated with CSR, and the concept of CSR has gained significant global attention, particularly in the private banking firms of Pakistan, where it is considered a fundamental driver of economic progress [11]. The adoption of responsible business practices is frequently deemed contingent upon the presence of ethical leadership. Insufficient understanding persists regarding the relationship between ethical leadership and CSR in the private banking firms of Pakistan. However, the precise impact of ethical leadership on CSR within the banking sector of Pakistan remains uncertain.

## II. LITERATURE REVIEW

### a. Ethical Leadership and Corporate Social Responsibility

Ethical leadership and CSR are two interrelated concepts increasingly receiving attention in the corporate world. Ethical leadership refers to the moral principles, values, and practices that guide an organization's leadership in decision-making. At the same time, CSR is the responsibility of a company to contribute to sustainable development beyond the scope of its economic interests. Research evidence suggests that ethical leadership has a positive impact on CSR. Ethical leaders set the track for the firm and play a vital role in promoting ethical behavior and values among employees [12]. Ethical leadership enhances employees' perceptions of the firm's CSR and reputation, resulting in positive outcomes for the organization [13]. However, it is worth noting that the relationship between ethical leadership and CSR is not unidirectional [14]. CSR initiatives can also promote ethical leadership by providing opportunities for leaders to act ethically and to promote ethical values within the organization. However, when leaders prioritize CSR, they are more likely to promote ethical behavior and values among employees, leading to improved CSR practices [15]. Therefore, firms should prioritize ethical leadership to promote CSR practices, which can positively impact the firm's sustainability and reputation. The following hypothesis is formulated based on evidence from existing research.

H1: Ethical leadership has a positive relationship with corporate social responsibility.

### b. Corporate Social Responsibility and Firms' Sustainability

Corporate social responsibility has become an increasingly important aspect of business operations, with many firms incorporating CSR into their strategy. One of the primary reasons for this is the belief that CSR can positively impact a firm's sustainability. It refers to a company's ability to achieve long-term economic, social, and environmental objectives while generating value for its stakeholders. There is significant research evidence to suggest that CSR can have a positive impact on firms' sustainability. Firms that engage in CSR initiatives outperform their peers regarding long-term financial sustainability [16]. The study also suggested that firms that invest in CSR initiatives are better positioned to identify and manage risks, which can help to protect and enhance their long-term financial sustainability.

Moreover, some evidence found that CSR can positively impact a firm's reputation, which can, in turn, positively impact firms' sustainability. Additionally, CSR initiatives can help to attract and retain employees committed to the company's values and mission [8, 9, 16]. This can increase employee satisfaction and productivity, which is positively associated with the firm's sustainability. Finally, CSR initiatives are helpful to build stronger relationships with stakeholders, including customers, employees, suppliers, and the local community. However, these relationships can be valuable assets for companies, providing them with policies and resources that can contribute to their long-term success [17]. For example, CSR initiatives can help build trust between a firm and its stakeholders, leading to increased policies for the firm's activities and improved financial sustainability [17]. There is significant research evidence that CSR can be positively associated with firms' sustainability. The following hypothesis is formulated based on evidence from existing research.

H2: CSR has a positive relationship with firms' sustainability.

### c. Ethical Leadership and Firms' Sustainability

Ethical leadership and firms' sustainability are two important concepts that are increasingly being recognized as critical factors for the success of any firm. Ethical leadership refers to leading with integrity, transparency, honesty, and fairness, while firms' sustainability involves achieving long-term success by balancing social, environmental, and economic considerations [18]. These two concepts may appear distinct, but they are closely interconnected. Firstly, ethical leadership establishes the framework for the long-term sustainability of the firm [13, 17]. Leaders who prioritize ethics in their firms are more likely to foster a culture of trust, honesty, and responsibility. Employees who believe their leaders are trustworthy and honest are more likely to be inspired, engaged, and committed to their jobs [19]. This, in turn, leads to increased productivity and innovation, and ultimately, the outcome is firms' sustainability. Ethical leaders also tend to be more transparent in their decision-making processes, involve employees in moral dilemmas, and promote open communication, fostering continuous improvement and learning.

Secondly, ethical leadership is closely aligned with the principles of sustainability. Sustainable performance requires organizations to consider their financial bottom line and social and environmental impacts [20]. Ethical leaders are more likely to prioritize social responsibility and ecological sustainability by following ethics, as they are guided by values and principles beyond short-term profit maximization. For example, they implement environmentally friendly practices, promote diversity and inclusion, and engage in charitable activities that benefit their communities. Furthermore, ethical leadership can help organizations navigate the complex and dynamic business landscape, which is increasingly influenced by ethical considerations.

Ethical leaders who proactively address ethical issues and make moral decisions can help organizations mitigate such risks and maintain a positive reputation, enhancing their prospects for long-term success and leading to the firms' sustainability. However, it is important to note that establishing a relationship between ethical leadership and sustainable performance is challenging because situations can be complex and subjective, and leaders face conflicting interests and pressures in their decision-making processes [14, 21]. Firms also encounter external challenges, such as competing priorities, regulatory changes, and resource constraints, impacting their ability to prioritize sustainability. Therefore, organizations must develop robust ethical leadership practices aligned with their strategic goals and values and provide ongoing training and support to their leaders to navigate ethical challenges effectively [16]. The following hypothesis is formulated based on evidence from existing research.

H3: Ethical Leadership has a positive impact on firms' sustainability.

### d. Mediating role of CSR

The relationship between ethical leadership and firms' sustainability has been widely discussed in academic literature. Ethical leaders promote ethical behaviors, attitudes, and principles in their decision-making, resulting in favorable outcomes for the organization and its stakeholders [22]. CSR has also been recognized as a key factor in promoting firms' sustainability. It involves the organization's voluntary actions and initiatives that aim to impact society and the environment positively. CSR mediates between ethical leadership and firms' sustainability by providing a framework for ethical leaders to implement their values and principles. Ethical leaders who focus on CSR are more likely to make long-term decisions that benefit the organization and its stakeholders, leading to firms' sustainability [4, 11, 22, 23]. CSR initiatives, such as environmental sustainability, social responsibility, and ethical governance, can help organizations reduce their negative impact on the environment and society, enhance their reputation, and improve stakeholder trust and policies, contributing to firms' sustainability (Kim & Lee, 2020).

However, establishing CSR as a mediator between ethical leadership and firm sustainability is difficult. One of the primary challenges is the potential for CSR initiatives to be viewed as a form of greenwashing, in which firms use CSR initiatives to improve their reputation without truly committing to ethical and responsible behavior [11, 24]. Furthermore, the influence of CSR on a firm's sustainability requires time and effort to produce results. It could be determined by factors such as industry, size, and competitive environment. Establishing a direct causal relationship between ethical leadership, CSR, and corporate sustainability might be difficult [25]. Furthermore, CSR strategies must be aligned with the firm's overall strategic objectives and integrated into its operations and decision-making processes before an ethical leader can achieve the firm's sustainability. Establishing a mediating role for CSR between ethical leadership and firms' sustainability is feasible but comes with challenges [14, 17, 19]. Moliner, et al. [26] argued that CSR can mediate between ethical leadership and firms' sustainability by providing a framework for ethical leaders to implement their values and principles.

H4: CSR plays a mediating role between the relationship of ethical leadership and firms' sustainability.

### e. Framework of the Study

Based on the literature the proposed framework of the study is given below in figure 1.

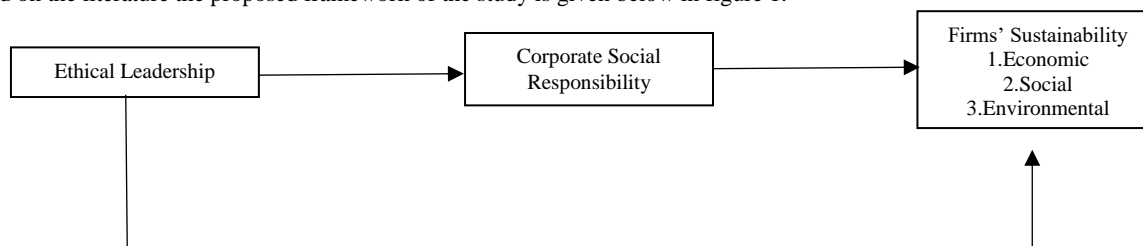


Figure. 1 Framework of the Study.  
Source: Own elaboration.

### III. METHODOLOGY

The convenient sampling method was used for data collection from the private banking sector of Pakistan. The banking sector of Pakistan is widely spread in all four provinces, including Punjab, Sindh, Khyber Pakhtun Khwah, and Baluchistan. A total of 11 private banks were involved in this study. Total 250 questionnaires were distributed among the middle and upper-level employees, such as branch managers, operations managers, head cashiers, and wing-in charges working in the private banking sector of Pakistan. After screening and deleting the incomplete questionnaires, a total of 232 responses were selected for final analysis. Moreover, due to rapid developments and a competitive environment, firms' sustainability is a fundamental issue to be discussed in the banking sector of Pakistan. Private banks must follow ethics and CSR initiatives to achieve economic, social, and environmentally sustainable goals.

#### a. Measures

Firms' sustainability was operationalized by the 12 items used by Suleiman [27]. A sample item is "This bank has grown in sales." The construct of ethical leadership comprises ten items developed by Brown, et al. [28]. A sample item is "My superior sets an example of how to do things the right way in terms of ethics." Corporate social responsibility was operationalized by six items utilized by Currás-Pérez, et al. [29]. A sample item is "This bank is concerned with improving the general well-being of society." These items were rated on a 5-point Likert scale with the range from "strongly agree" to "strongly disagree." Where 1 = Strongly Disagree and 5 = Strongly Agree.

### IV. RESULTS AND FINDINGS

Table 1 presents the demographic data of the sample. The information includes attributes like age, gender, experience, and education. According to the Table 1, 38.8% of respondents are men 61.2% of respondents are women which indicates that most of the women participate in the survey. Respondents in the survey came from a wide range of age groups. 34.1% of the participants were in the 30-39 age range, which comprised the vast majority.

Table 1: Demographic Profile of Respondents.

	Dimensions	N	%
Gender	Male	90	38.8%
	Female	142	61.2%
Age	20 – 29 Years	56	24.1%
	30 – 39 Years	79	34.1%
	40 – 49 Years	31	13.4%
	50 – 60 Years	66	28.4%
Working Experience (Years)	2 - 5 Years	32	13.8%
	6 - 10 Years	56	24.1%
	11 - 15 Yeas	72	31.0%
	Above 15	72	31.0%
Qualification	Graduation	52	22.4%
	Master	178	76.7%
	PhD	2	0.9%

Source: Own elaboration.

Regarding work experience, the data shows that there is variation among the categories. The largest group, comprising 31.0% of participants, had 11–15 years of experience. This was closely followed by those with over 15 years of experience, also at 31.0%. Moreover, 76.7% of the respondents had a master's degree, which was the most common level of education. 22.4% of the population held a bachelor's degree, while 0.9% of the population held a PhD. The measuring model is initially assessed for validity and reliability. The test yielded appropriate and very reliable factor loadings and convergent validity as indicated in Table 2. CSR factor loadings for each item range from 0.41 to 0.81 exceeding 0.4 limit [30]. EL factor loadings range from 0.50 to 0.76, which suggests how they relate to the EL concept in different ways. The FS factor loadings range indicates the degree of correlation between these items and the FS construct, which is 0.52 to 0.83. Alpha values show the constructions' internal consistency reliability. The alpha values, which fall between 0.74 and 0.86, are typically regarded as strong and trustworthy. Internal consistency is evaluated by composite reliability, which is comparable to alpha.

Table 2: Loading and Convergent Validity.

Items	CSR	EL	FS	VIF	Alpha	CR	AVE
CSR1	0.55			1.13	0.74	0.83	0.55
CSR2	0.60			1.26			
CSR3	0.78			1.90			
CSR4	0.79			2.77			
CSR5	0.81			2.53			
CSR6	0.41			1.19			
EL10		0.54		2.87	0.86	0.88	0.50
EL11		0.50		2.13			
EL12		0.71		3.84			
EL13		0.60		2.27			
EL3		0.63		2.32			
EL4		0.67		2.70			
EL5		0.63		2.65			
EL6		0.63		1.90			
EL7		0.76		3.11			
EL8		0.71		3.86			
EL9		0.55		3.00			

FS1			0.58	4.91	0.86	0.88	0.52
FS10			0.82	3.75			
FS11			0.67	2.21			
FS12			0.58	2.00			
FS2			0.55	4.47			
FS3			0.52	2.72			
FS6			0.59	2.39			
FS7			0.83	2.91			
FS8			0.64	1.86			
FS9			0.64	3.00			

Source: Own elaboration.

The dataset's internal consistency (CR) values, vary from 0.83 to 0.88, are above acceptable bounds. The variation that each construct captures in respect to the overall variance in the observed items is measured by AVE values. The range of AVE values, which is 0.50 to 0.52 in value, suggests strong convergent validity. Based on the available data, it appears that the measurement model exhibits good validity and reliability. The structures exhibit great internal consistency as seen by the substantial alpha and CR values. Additionally, the AVE values satisfy the requirement for strong convergent validity. Overall, this supports the validity of the measuring model and is consistent with accepted guidelines for exploratory research.

The method suggested by [31] was used to evaluate discriminant validity. The square roots of the AVE of the important constructs (shows the range from 0.34 to 0.673) are all over the equal bootstrapped correlation coefficients, as shown in Table 3.

Table 3: Discriminant Validity [HTMT and FL].

Constructs	CSR	EL	FS	CSR	EL	FS
CSR	-			0.673		
EL	0.569	-		0.469	0.634	
FS	0.669	0.454	-	0.606	0.473	0.648

Source: Own elaboration.

Additionally, all correlation coefficients are often smaller than the acceptability value of 0.70, and none of the single correlations (range from 0.469 to 0.673) are greater than their composite reliabilities (rise from 0.83 to 0.88). The major eligible discriminant validity is confirmed by these pieces of evidence. The Heterotrait–Montrait (HTMT) test was also employed [32]. According to Table 4, there is higher support for the discriminant validity of the test results as the HTMT values fall between 0.569 to 0.669, which is less than 1.00. Table 4 shows that four paths were performed to test the proposed hypotheses. Path 1 shows how CSR directly affected FS; Path 2 shows how EL directly affected CSR; Path 3 shows how EL directly affected FS; Path 4 was the complete model with one mediating variable—CSR—acting as a mediator between EL and FS.

Table 4: Hypothesis Testing

H.	Hypothetical Path	Estimate	SE	T value	P values
H1	EL → CSR	0.469	0.045	10.396	0.000
H2	CSR → FS	0.493	0.051	9.69	0.000
H3	EL → FS	0.242	0.053	4.551	0.000
H4	EL → CSR → FS	0.231	0.033	6.924	0.000

Source: Own elaboration.

An association between EL and CSR that is positive is suggested by the value of 0.469. It is evident from the low p-value (0.000) and high t-value (10.396) that this association is statistically significant. An association between CSR and FS that is positive is suggested by the estimate of 0.493. Given the high t-value of 9.69, it is highly likely that this link is statistically significant. The importance of this link is confirmed by the p-value of 0.000. An association between EL and FS that is positive is suggested by the estimate of 0.242. The p-value of 0.000 supports the significance of the t-value of 4.551. This EL → CSR → FS illustrates a process wherein CSR, which influences EL, influences FS. For this route, the estimate of 0.231 points to a favorable association. This entire route is statistically significant, as indicated by the t-value of 6.924 and the p-value of 0.000. The proposed model and hypotheses are shown in Figure 2.

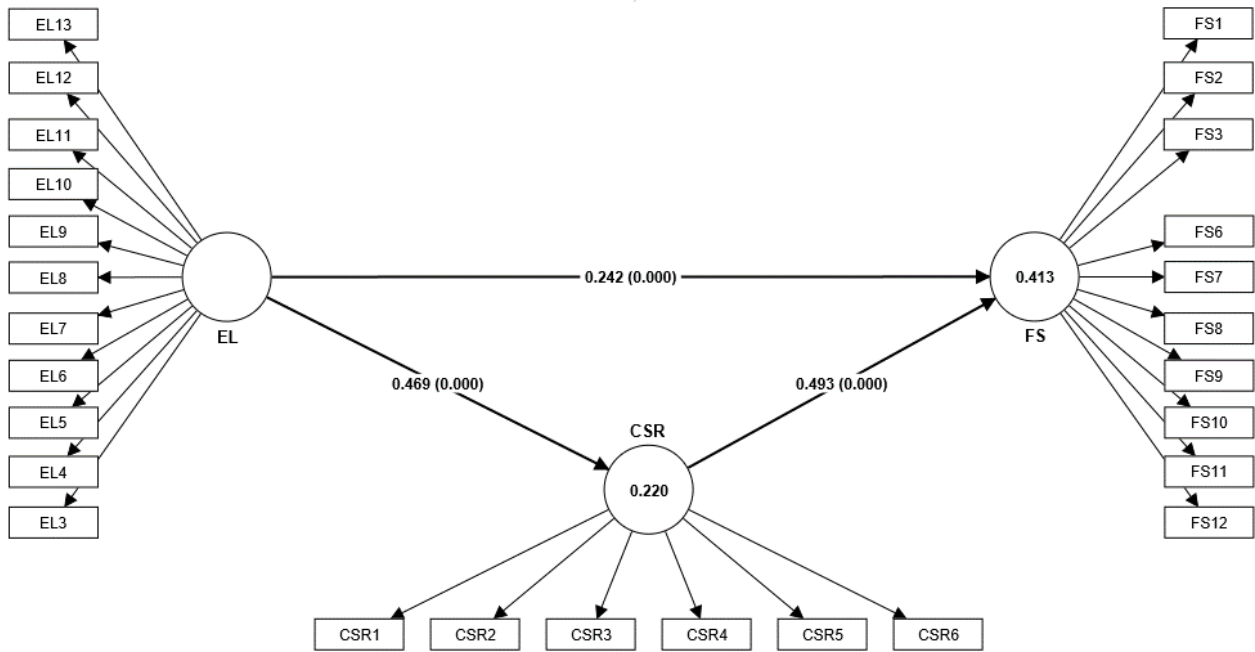


Figure 2: Structural Model.  
Source: Own elaboration.

## V. DISCUSSION ON RESULTS

The results are aligned with past studies discussed in literature review and enhance the understanding of how firms' sustainability can be improved through ethical leadership and CSR initiatives. While current literature has explored the causes and implications of CSR activities [3, 11, 22]. The function of CSR as a core mediator in the relationship between ethical leadership and firms' sustainability in the private banks of Pakistan is explored in this study. The results of correlation and SEM show the positive association between the variables with partial mediation of CSR between ethical leadership and firms' sustainability. It is suggested that leaders who organize ethical practices in a firm with honesty, justice, and implementation of laws with socially responsible activities create a favorable environment in any firm [15, 18, 28]. This environment benefits the firms economically, socially, and environmentally as well. The emphasis on bank managers is important due to their position and influence on initiating of CSR activities for firms' sustainability which require to develop and implement strategy and/or policy favorable for the banks [1, 16, 27]. Ethical and socially responsible practices implementation is now the important topic for banking sector. So, the results can be supportive for long term benefits of the private banking sector of Pakistan.

According to the findings, CSR initiatives positively influenced by firms' sustainability but with ethical leadership its impact can be stronger [7, 8]. For the banking sector, firms' sustainability depends upon different dimensions including economic, social, and environmental. With these dimensions banks must perform in different core areas such as operations, credit, business, investments and trade. By practicing CSR activities such as improving product and quality, complying with all policies and laws governing employee benefits and recruitment, establishing a comprehensive code of conduct, and contributing to local community enhancement may enable banking firms to enhance their sustainability in all areas by reduction of their expenses [13, 20, 29]. It also can create a positive image of the firm to society and stakeholders which also ultimately increases the firms' sustainability.

## VI. CONCLUSION

This study explores that ethical leadership significantly improves corporate social responsibility, which in turn positively influences firms' sustainability economically, socially, and environmentally. It is also determined that corporate social responsibility mediates the relationship between ethical leadership and firms' sustainability. The findings of this investigation give confirmatory evidence that our findings are consistent with earlier studies. The findings also highlight the necessity of ethical leadership in the private banking sector of Pakistan, which can lead to the achievement of the firms' targeted outcomes in an ethical manner for long run with a positive image to the society.

### a. Study implications

The findings of the study on the role of ethical leadership and CSR in determining the sustainability of private banking institutions in Pakistan offer significant theoretical and practical implications. The study contributes to the advancement of ethical leadership theory by empirically establishing its positive impact on sustainability, while also validating CSR as a mediator in this relationship. This adds depth to our understanding of how ethical leadership practices translate into organizational outcomes, particularly within the context of the banking sector. From a practical standpoint, the findings suggest that private banking executives can enhance sustainability by fostering ethical leadership qualities and integrating CSR initiatives into strategic planning. Human resource departments can play a role by designing training programs aimed at developing ethical leadership skills among employees. Overall, the study provides valuable insights for industry stakeholders seeking to enhance sustainability in private banking institutions through ethical leadership and CSR practices.



## b. Limitations and Recommendations

Although the study model clearly explains the role of CSR and ethical leadership for firms' sustainability, there are still areas for improvement. First, other relevant characteristics, such as bank portfolio, size, structure, and organizational culture, may alter the relative impacts of ethical leadership on CSR. Controlling these variables should be considered in future studies. Second, to operationalize the three domains of firms' sustainability (e.g., economic, social, environmental), this study considers it unidimensional. For future studies it can be investigated as multidimensional. Furthermore, while this study used an independent result for the domestic services of private banks of Pakistan. Future study could investigate the differences between banks which are providing their services domestically and overseas using multi-group analysis along with other firms' sustainability drivers. Thirdly, data were obtained in the setting of the private banking sector of Pakistan, which limits the findings' generalizability. Future research might be enhanced if it investigated a variety of contexts and countries for comparative purposes, as well as generalities of findings. Finally, sample size for this investigation is very less because it includes only private banks of Pakistan. So, in future to enhance the validity of the results sample size can be increased by adding all banking sectors with moderating variables as well.

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