

Role of Ethical Leadership in Promoting Sustainable Business Practices

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Abstract

Ethical leadership is rapidly evolving and the concept of sustainable business practice transcending from mere financial metrics to a deep commitment of environmental, social and governance matters. It is gaining much research attention to creating social value, influencing organizational behavior, employee engagement/commitment, and environmental sustainability. Contemporary organizations face the challenge of maintaining profitability while embedding ethical principles into their core operations. On one hand, balancing economic, social, and environmental dimensions is crucial, yet on the other hand, implementation of consistent ethical leadership across diverse global contexts remains difficult. This often leads to unethical behavior and stakeholder distrust, resulting in legal and financial repercussions. This article aims to evaluate the role of ethical leadership in promoting sustainable business practices based on social learning theory, stakeholders' theory, and transformational leadership theory. A review of selected papers was employed from 2020 to 2024 to evaluate the role of ethical leadership and sustainability business initiatives. The findings showed pertinent characteristics of ethical leadership in support to sustainable business practices. Further, employee involvement in sustainability initiatives was very important. In conclusion, ethical leadership is a significant part of modern organization in developing sustainable business practices. Hence, this article contributes to knowledge from enhanced resilience of organizations through reputation to compliance according to set regulatory standards.

Keywords: ethical leadership, employee engagement, sustainable business practices

1. Introduction

Contemporary organizations operate within a very dynamic business environment that pressures for sustainability while remaining profitable. In the era where ethical leadership is rapidly evolving, the concept of sustainable business practice has transcended mere financial prosperity to a deep commitment of environmental, social and governance matters (Boeske, 2023; Jin, 2023; McGrath, 2023; Mulkhan, 2022). The modern business leader is increasingly recognising the fundamental connection between ethical leadership and sustainable business. According to Xiang (2023) define ethical leadership as a kind of leadership in which the leader tries to follow normatively appropriate conduct in his actions, communication and collaboration. Ethical leadership is also the demonstration of socially acceptable behaviour through one's behaviour, interaction with others, and disclosure of such behaviour or attribute to followers (Nwanzu & Babalola, 2024; Kim, Lee, & Lee, 2023). Ethical leadership ensures long-term sustainability by considering environmental, social, and economic impacts that boosts employee engagement and retention (Colson, 2024). Recent studies underline the huge role of ethical leadership on stimulation of business sustainability (Bazerman, 2020; Böhm et al., 2022; Goswami, Agrawal, & Goswami, 2020; Hassan, Kaur, Muchiri, Ogbonnaya, & Dhir, 2022). Further, comprehension of sustainable business practices requires a definition of which there is no single meaning. However, the consensus is that sustainable business practice is one that is economically viable, socially responsible and environmentally friendly (Chungyalpa, 2019). This implies that the business is financially sound, and self-reliant, champions equal opportunities, care for the community in its actions on all the stakeholders without adversely affecting the environment (Chungyalpa, 2019; Xie, Khan, Rehman, Arslan, & Kayani, 2024).

The challenge of ethical leadership is to be able to integrate ethical principles at the same time striking a balance between economic, social, and environmental dimensions. While ethical leadership is usually viewed as the underlying conditions for sustainability, it later turns out to be difficult in its implementation in a uniform way

within very diversified and global contexts (Forbes Business Council, 2023; Professional and Executive Development, 2024). Often, this results in unethical behavior and stakeholder distrust, which is usually accompanied by associated legal and financial repercussions (Böhm et al., 2022). Further, the outcome necessitates establishment of effective leadership strategies that could foster ethical behavior and sustainability in general (Ethico, 2023; McGrath, 2023). However, there is limited research on cultural differences regarding how ethical leadership impacts effectiveness of sustainability. There is also a shortage of long-term studies that assess the effectiveness of ethical leadership on business practices; or insufficient analysis that exists on the influence of ethical leadership upon sustainability across industries (Multidisciplinary Digital Publishing Institute, 2024).

The purpose of this article was to investigate the integration of ethical principles into the core activities of organizations. The specific objective was to evaluate the role of ethical leadership in the adoption of sustainable business practices within organizations. The findings of this article will inform organisations and firms on how to maintain a fine balance between profit-making, social and environmental responsibilities, as well as policy makers in drafting regulations that will ultimately encourage long-run sustainability (Smet et al., 2021). The article will contribute to awareness ranging enhanced resilience of organizations through reputation to compliance according to set regulatory standards. Additionally, the information from this article will be significant to scholars and learners in ethical leadership and business sustainability in spurring further empirical research.

The article is structured with section one giving the introduction. Section two, the theoretical and empirical review. Then, section three, role of ethical leadership and sustainable business practices. Section four, the findings and discussion and section five, conclusion and recommendations.

2. Theoretical Foundations

There are selected theoretical foundations that base ethical leadership and sustainable business practices in organisations due to their relevance. These are the social learning theory, the stakeholders' theory and transformational leadership theory.

2.1 Social Learning Theory (SLT)

Social learning theory, by Albert Bandura, argued that behavior can be learned through observation, imitation, and modeling. The theory merges behaviorism with the cognitive. It suggests that people can learn new behaviors simply through observation, even without direct reinforcement. Recent studies have expanded SLT's application to digital and online learning environments (Li, Yi-Chun Hong, & Craig, 2023; Proctor & Niemeier, 2020). Additionally, advancements in neuroscience and cognitive psychology have led to refinements in SLT, incorporating modern understanding of memory and learning mechanisms.

SLT remains highly relevant for many scholars, thus findings its foothold in areas such as education, psychology, and organizational behavior. That has become relevant because it provides a foundation through which the process of people incrementally acquiring new skills and behaviors from others (Edinyang, 2016). In educational contexts, SLT explains how students learn from both teachers and peers, basing strategies for good teaching and classroom handling. In organizational contexts, SLT explains how students learn from both teachers and peers, basing strategies for good teaching and classroom handling (Starratt, 2004). In organizational contexts, SLT can be applied to develop training programs and encourage live training activities for a culture of continuous learning and development (Edinyang, 2016).

Despite so much application, SLT deals with some criticisms. First, the passive integration of learning where participants simply imitate the facilitators. Second, the succumbing to the explanation of why some behaviors get imitated and why others are not. Third, failure to explain some internal cognitive happenings. However, some researchers believe that the SLT, in contrast, does need adaptations that make use of more current knowledge from cognitive psychology and neuroscience, thereby overcoming these shortcomings (Proctor & Niemeier, 2020).

Ethical leadership applies to SLT through the modeling of ethical behavior, which followers observe and then imitate. In response to those criticisms, it is advised that ethical leaders make sure the followers are involved in active ethical debates and go for reflective practices. The ethical leaders further should encourage ethical conduct through recognition and rewards; that creates an ethic of continuous learning and ethical development (Brown, Treviño, & Harrison, 2005).

2.2 Stakeholder Theory

The stakeholder Theory was introduced in 1984 by R. Edward Freeman. This theory posits that businesses should consider the interests of all stakeholders, not just shareholders. Stakeholders include anyone affected by the company's actions, such as employees, customers, suppliers, and the community (Bridous & Stoelhorst, 2022). The stakeholder theory highlights the interconnectedness of these groups and the importance of managing

relationships to create value for all parties involved (Eskerod, 2020).

Stakeholder theory has been extended to include concepts such as the behavioral stakeholder theory, stakeholder strategy theory, and stakeholder governance (Awa, Etim, & Ogbonda, 2024). Such developments demonstrate how ethical considerations and strategic management combine to balance the economic and moral focus of business relationships. More importantly, there is increased interest in stakeholder involvement and stakeholder dialogue in the light of recent interest in CRS and sustainability (Kujala, Sachs, & Laude, 2022).

Generally, stakeholder theory is very relevant in modern times of business operation and especially due to emergent emphases on sustainability and ethical business conduct. It provides a framework by which organisations can navigate through sophisticated social, economic and environmental challenges. This improves corporate reputation and fosters long-term success through building trust and loyalty in the stakeholders. Recent research asserts that firm follows stakeholder-oriented approaches more often attain the competitive superior financial performance and better firm's resilience (Langrafe, Barakat, Stocker, & Boaventura, 2020).

In many respects stakeholder theory has had various criticisms despite its many merits. The grievous criticism is the vagueness of the relativist and all-inclusive definition of stakeholders, which makes it implausible to identify and rank whose interest are more significant. Furthermore, the balancing of inconsistent interests of other stakeholders creates inefficiencies (Kujala, Sachs, & Laude, 2022). Critics also point out that the ethical bases of the theory can be relative and subjective; this can bring about inconsistency in its application. Other researchers have opposed that the focus on the stakeholder's interest can dilute the objective of maximizing shareholder value (Freeman, 2023).

2.3 Transformational Leadership Theory

Transformational Leadership Theory is a leadership approach where leaders collaborate with their teams to identify necessary changes, create a guiding vision, and execute it together (Ugochukwu, 2024). This theory focuses on inspiring and motivating followers to achieve extraordinary outcomes while developing their leadership capacity. Key characteristics include acting as role models (idealized influence), communicating a compelling vision (Inspirational Motivation), encouraging innovation (Intellectual Stimulation), and providing personalized support (Individualized Consideration). This style is particularly effective in environments requiring significant change or innovation, aligning team goals with the organization's vision and boosting morale and performance (Ugochukwu, 2024).

A recent study by Lancefield and Rangen (2021) highlighted the importance of transformational leadership in fostering innovation and adaptability within organizations. For instance, that transformational leaders are crucial in developing a deeper sense of purpose, repositioning core business strategies, and creating new growth opportunities. Also, that transformational leadership significantly enhances employee's intrinsic motivation, work performance, and psychological empowerment. It remains highly relevant in today's dynamic and complex work environments. It is particularly effective in driving organizational change, improving team cohesion, and boosting morale. Studies have demonstrated that transformational leadership positively impacts work performance and reduces burnout. This leadership style is also seen as essential for navigating the challenges of the modern business (Talvitie, 2021).

Despite its many benefits, transformational leadership is not without its critics. Some argue that it can lead amoral self-promotion by leaders due to its reliance on impression management. Additionally, the theory is considered difficult to train or teach because it encompasses various leadership styles (Gracia, 2024). Critics also point out that transformational leadership may not be suitable for all organizational contexts, particularly those requiring quick decision-making or mechanized tasks (Chaplin-Cheyne, 2021). There is also a risk of power abuse if leaders lack moral responsibility, potentially leading to dictatorship-like scenarios (Lancefield & Rangen, 2021).

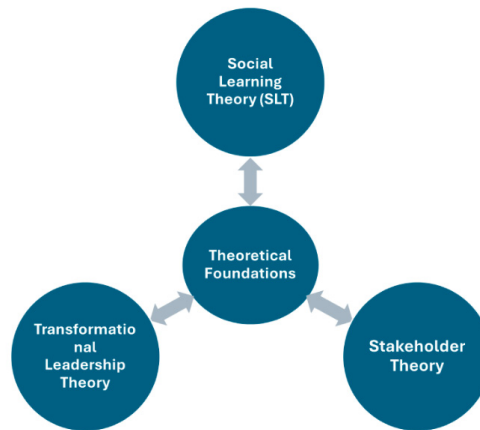


Figure 1. Theoretical foundation diagram

Source: (Kanyamukenge & Kagwaini, 2024).

Figure 1 reflects the article's theoretical foundations of the role of ethical leadership in promoting sustainable business practices. Ethical leadership has been seen through the concept of leadership styles – specifically the transformational leadership. This is because transformational leaders inspire their followers to look beyond self-interests to working together in achieving organizational success. Moran (2023) argues that there has been a debate about various leadership styles. Nevertheless, ethical leadership is about demonstrating acceptable behaviour as backed by social learning theory, interpersonal relationship reflected by the stakeholder and impacting followers through two-way communication as founded in the transformational leadership theory (Brown, Treviño, & Harrison, 2005).

3. Empirical Review

Selected journal article on the importance of ethical leadership in achieving sustainable business practices were reviewed. According to Nwanzu and Babalola (2024) study was to investigate the *impact of ethical leadership and psychological ownership on employee's voluntary pro-environmental behaviour: A case study of selected organisations in Delta State Nigeria*. The study selected 163 employees from the public and commercial organisations in Nigeria. Social learning theory and stakeholders' theory were used as a basis of the literature review with a self-administered questionnaire. The participant's data was ($M=36.34$, $SD=7.88$). The results showed there was a positive association between ethical leadership and voluntary pro-environmental behaviour ($\beta = 0.64$, 95% *C.I* [0.46 – 0.68], $t = 10.53$, $p < 0.001$). The study concluded that ethical leadership and psychological ownership energized voluntary pro-environmental behaviour of employees, but their interaction did not. The study seems to provide significant impact of ethical leadership on employee pro-environmental behavior. However, for future research on private and public participants drawn from service and manufacturing sectors would have provide better results for generalization.

Abouelenien, Abd-Elhady, Tahon, and Al Asrag (2024) based their study on *the relationship between green work engagement and green organizational citizenship behavior in hotels and travel agencies: The moderating role of environmental organizational culture*. The objective was to investigate the effect of green work engagement (GWE) on green organizational citizenship behavior (GOCB) taking into account the moderating role of environmental organizational culture (EOC). The study used 417 participants sourced from five-star hotels and travel agencies operating in Egypt. Results revealed that a positive correlation exists between green work engagement (GWE) and green organizational citizenship behavior (GOCB) [$\beta=0.28$, $p<0.01$]. In addition, EOC has a positive correlation with GWE and GOCB. The study seems to enhance social exchange theory and green organizational behaviors by demonstrating organizations that promote green work engagement encouraged employees to reciprocate by adopting green citizenship behaviors. However, investigations into industrial sector or the cultural element would inform the need for further research to the construction of a more comprehensive understanding of these interdependencies.

In order to integrate the element of culture Zahari, Said, Muhamad, and Ramly (2024) conducted a study on *Ethical culture and leadership for sustainability and governance in public sector organisations within the ESG framework*.

A survey of 155 government employees was conducted in the Central region of Malaysia, with a validated questionnaire to gather data on ethical leadership behaviour, ethical work culture, and integrity violations related to environmental, social, and governance (ESG) issues. The findings showed that ethical leaders adherence to a culture with ESG principle was prioritised. However, the study did not statistically direct link between ethical culture and integrity violations related to ESG.

Xie, Khan, Rehman, Arslan, and Kayani (2024) study on *Ameliorating sustainable business performance through green constructs: A case of manufacturing industry* aimed to identify the role of green construct in creating sustainable business performance through a survey from 449 employees in manufacturing organizations in Pakistan. Their findings indicated that green capabilities significantly enhanced sustainable business performance by fostering value co-creation and green innovation. The study contributed a comprehensive moderated mediation framework that highlights the importance of top management support and knowledge sharing in driving sustainability. However, the research was limited to the manufacturing sector in Pakistan, suggesting a need for broader industry and geographic representation to generalize the findings.

Zhang et al. (2023) purposed to explore the role of organizational identification in the relation between the two concepts of ethical leadership and employee engagement in sustainability practices. In relation, the research applied the structural equation modeling approach among a data pool generated from 250 employees working in the manufacturing sector. The findings indicated that organizational identification mediated the relationship between ethical leadership and employee engagement in sustainability practices, inferring that organizational identification was one mechanism through which ethical leadership influenced employee engagement. This research reflected evidence of the critical role of organizational identification in fostering employee involvement in sustainability initiatives as being important. However, the research had a focus on the manufacturing sector, and this meant similar studies would be required in other industries before the findings could be generalized across industries.

Finally, Chege and Wang (2020) conducted a study on *impact of sustainable business practices on corporate financial performance* from companies with sustainability initiatives. Their findings revealed that companies with robust sustainability practices experienced improved financial performance over time, providing empirical evidence that linked sustainability to profitability. However, the study highlighted the need for more diverse industry representation and a consideration of non-financial benefits to fully understand the broader impacts of sustainable practices. This was supported by Nejati, Salamzadeh, & Loke (2020) examined how *ethical leadership impacts employee engagement in Corporate Social Responsibility (CSR) activities* through an investigation based on survey studies among 142 employees sampled from multinational companies. Their analysis indicated that ethical leadership was positively related to employee engagement in CSR activities, due to increasing the organizational commitment and trust of an employee. This research illustrated potential ethical leadership in improving employee involvement in sustainability initiatives. However, it focused on CSR activities and hence need for further exploration to incorporate other forms of sustainability initiatives.

4. Role of Ethical Leadership and Sustainable Business Practices

To evaluate the role of ethical leadership on sustainable business practices, Table 1 shows some selected studies that reveal characteristics of an ethical leader.

Table 1. Selected studies that reveal ethical leadership characteristics on sustainable business support

SRN	Author	Characteristics of Ethical Leader	Sustainable Business Practice Support	Support from Theory
1	Harvard Division of Continuing Education, (2024).	Integrity, fairness, accountability, and respect for people.	Hallmark of ethical leaders that bring about a stable and productive workforce.	Stakeholders' theory
2	Ugochukwu (2024).	Role models communication, encouraging innovation and providing personalized support.	Demand for followers to have transformed thinking for enhancing organizational performance.	Transformational leadership theory.
3	Edevbie & McWilliams (2023)	Shared communication, decision making and reinforcement	Positive association to employee job motivation and performance in the organization.	Social learning theory and stakeholders' theory
4	Kim, Lee, & Lee (2023 cited also in (Nwanzu & Babalola, 2024)	Altruism, caring for sustainability, morality, compassion and fairness.	Many employees get to mimic by observing their supervisors that can produce same results from the employees.	Social learning theory and Stakeholders' theory
5	Kujala, Sachs, & Laude (2022)	Trust, and loyalty	Employees who have these characteristics tend to thrive in face of integrity violation.	Stakeholders' theory
6	Bazerman (2020)	Fairness, honesty, and principled behavior	Such ethical leadership creates value in the society.	Stakeholders; theory

Note: SRN to mean serial numbering.

Table 1 show pertinent ethical characteristics that support sustainable business practices. Fairness, and communication are repetitively stated by the selected authors. This implies that ethical leadership is imperative and unavoidable in complex moral dilemmas (Bazerman, 2020). The adoption of these characteristics in ethical leadership is not only a driver of organizational success but also creates societal well-being (Minja, 2017). This agrees with Shapiro and Stefkovich (2016) explained that an ethical leader must be emotional with followers to ensure an adequate flow of work through the organisation guided by their ethical characteristics. An ethical leader's role is based on a precept of doing what is right in practice for the common good rather than for profit or personal gain. These kinds of individuals are the ones who shape the organizational culture with ethical behavior and decision-making that could instill the same quality in others. Ethical leaders must establish a culture in the organization with respect to ethical conduct and decision-making (Santa Clara University, 2024).

Conversely, sustainable business practices are the new business trends that have changed the demands of organizational leaders. If these strategies and processes that underline environmental/economic, social, and governance (Simon, 2023), are achieved then these practices could provide opportunity for long-term growth and financial viability in global competitive market (Van Quaquebeke, Becker, Goretzki, & Barrot, 2019). For example, use for renewable energy, recycling, responsible sourcing, and development of sustainable supply chain management, are all key models of sustainable business practices (Solis, 2024). It is in this light that business will be able to reduce their impact on the environment while enhancing their social accountability in creating value over a long period. This is besides strengthening the business with such an integrated approach that will not only serve the planet but also enhance its reputation and resilience within the market (Shields, 2024).

However, not all green business practices are embraced in the same manner as the term sustainable suggests. There are criticisms chief among them is whether these green business practices are necessary for the world to be viable and scalable (Kieren, Tom, & Luk, 2021). Take, for instance, the circular economy that is heavy on recycling and renewable resources; the fact remains that it comes with immense challenges in terms of viability and cost. According to Pucker (2022), the concept of sustainability itself is rather ill-defined and variable, thereby providing

a very good basis for greenwashing. For example, when companies lie about their green credentials so that they can appeal to consumers. These criticisms reflect the fact that stronger bases and more realistic approaches are called for in the implementation of business sustainability. That is still not it, leadership styles can be both ethical or unethical – the choice is left to the leader to determine whether to implement ethical or unethical leadership. However, prior research advocate for the effect of sustainable business practices as so huge on organizational success (Chladek, 2019, Solis, 2024; Suriyankietkaew, Krittayaruangroj, & Iamsawan, 2022; Xie et al., 2024). In the same line, majority of consumers and investors have accepted premium pricing points if products are sustainable (Deloitte Insights, 2016). Overall, if the intention is to have economically resilient positive output in the society, impacts on environment must be integrated into business strategies (Jin, 2023).

5. Findings and Discussion

Integrating ethical leadership with sustainable business practices is essential for fostering a holistic approach to corporate responsibility. Ethical leaders establish the organizational values and behavior that set the right tone, so that the initiatives on sustainability permeate the very framework of the entity and are not only skin-deep (Smet, Henderson, & Hundertmark, 2021). Transparent, accountable, and stakeholder-engaged leadership can serve as a guide to drive forward genuine efforts on sustainability that seek to address ESG concerns (Colson, 2024). The result is business strategies that align with the values of society and improve long-term resilience and profitability. In the end, the interface between ethical leadership and sustainable practices brings a robust platform to build ethical integrity and growth together.

Ethical leadership inculcates an ethical value within the organizational culture and ensures integrity, fairness, honest and shared communication in all activities. Ethical leaders set organizational culture wherein sustainability is heavily valued through the practice and posture toward sustainability (Bhagat, 2022). This cultural change leads the employees to practice sustainable principles, and further enable the organization to become a responsible one. Besides, ethical leaders relate to their stakeholders on issues of sustainability for the perfect alignment expectations to strengthen reputation and the relationship. All these comprehensive measures ensure that there are indeed sustainability initiatives meeting the concerns and interests of the parties (Mulkhan, 2022).

Ethical leadership has substantial impact on sustainability economically, environmentally, and socially. On the economic front, it sustains and enhances transparency and accountability. It provides better financial performance and stability through the avoidance of litigation and fosters customer loyalty and investor confidence (Simon, 2022). Environmentally, ethical leaders put into action measures to reduce the ecological footprint by introducing energy-efficient technologies and the use of resources sustainably, thereby helping in the preservation of natural resources (Chladek, 2019). The positive climate system can contribute socially to ethical leadership by any given organization, improving the welfare of the employees and community relations. In essence, ethical leadership, if integrated with sustainability, enables an organization to reach comprehensive sustainability, benefitting the economy, environment, and society to achieve a fair world (Smet, Henderson, & Hundertmark, 2021).

6. Conclusion and Way Forward

Ethical leadership is the significant part of modern organization in developing sustainable business practices. It plays a vital role in organizational culture in order to develop sustainability. However, putting ethical leadership into practice more uniformly in different contexts, often in global settings, gives way to unethical behavior of leaders which may result in losing stakeholders' trust and lead to very serious legal and financial implications. Ethical decision-making is core in creating societal value and positively influences organizational behavior, employee commitment, and environmental sustainability. Although there are such benefits involved, the application of ethical standards consistently shows gaps, hence calling for further empirical research.

Therefore, through addressing the challenges and the power of comprehensive ethical leadership programs, embedding a culture of transparency and accountability, and engaging employees in the sustainability agenda, business will be better positioned to build resilience, maintain a good reputation, and ensure long-term success. This way, sustainability becomes one of the core business strategies, while further research ensures that ethical leadership keeps on promising good results for society and the environment.

7. Caveat of the Article

Theoretical framework has emphasized on the relevance of ethical leadership and sustainable business practices together with their criticism. However, the empirical review has mixed results based on the methodology used. This article used a review methodology to evaluate the role of ethical leadership in promoting sustainable business practices. However, researchers and scholars could further engage in a meta-analysis across various countries to see the trend of the subject.

Informed consent

Obtained.

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Data sharing statement

No additional data are available.

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