

Ethical Leadership and Corporate Sustainability Performance: Mediating Effects of Organizational Culture

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ABSTRACT

The study purpose was to examine the effect of ethical leadership on corporate sustainability performance and to investigate the mediating role of organizational culture in this relationship. The study also aimed to explain how ethical leadership fosters a supportive organizational culture that enhances firms' economic, social, and environmental sustainability performance.

Materials and methods. This study employed a quantitative research approach using survey data collected from managers and employees of companies implementing sustainability initiatives. Data were analyzed using Structural Equation Modeling (SEM) with Partial Least Squares (PLS-SEM). Ethical leadership was measured as the independent variable, organizational culture as the mediating variable, and corporate sustainability performance as the dependent variable. The measurement model was assessed for validity and reliability before testing the structural relationships among the variables.

Results. The findings indicate that ethical leadership has a positive and significant effect on corporate sustainability performance. Ethical leadership also positively influences organizational culture, which, in turn, significantly enhances sustainability performance. Furthermore, organizational culture partially mediates the relationship between ethical leadership and corporate sustainability performance, suggesting that a strong ethical culture reinforces the effectiveness of leadership in achieving sustainability objectives.

Conclusions. Ethical leadership is a critical driver of corporate sustainability performance both directly and indirectly through organizational culture. Organizations should strengthen ethical leadership practices and cultivate a supportive organizational culture to improve long-term sustainability outcomes and create sustainable value for stakeholders.

Keywords: Ethical leadership, Corporate sustainability performance, Organizational culture, PLS-SEM, Sustainability

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INTRODUCTION

The growing emphasis on environmental, social, and governance (ESG) practices has transformed corporate sustainability into a strategic priority for organizations worldwide. Stakeholders, including investors, customers, regulators, and local communities, increasingly expect companies to demonstrate responsible business practices that create long-term economic value while preserving environmental and social well-being. Consequently, corporate sustainability performance has become a key indicator of organizational success beyond traditional financial outcomes. However, achieving sustainability objectives requires more than technological innovation or regulatory compliance; it also depends on leadership that promotes ethical values, transparency, accountability, and responsible decision-making throughout the organization (Aguinis & Glavas, 2019; Maak et al., 2023).

Ethical leadership has emerged as one of the most influential leadership approaches in promoting sustainable organizational practices. Ethical leaders demonstrate integrity, fairness, honesty, and concern for stakeholders while encouraging employees to behave responsibly and

ethically. According to Social Learning Theory, employees tend to imitate the behaviors and values demonstrated by their leaders. Therefore, leaders who consistently exhibit ethical behavior are more likely to inspire employees to engage in responsible practices that support organizational sustainability. Recent studies indicate that ethical leadership positively influences organizational commitment, employee engagement, innovation, and sustainable business performance by fostering trust and encouraging ethical decision-making across all organizational levels (Brown & Treviño, 2006; Bedi et al., 2016; Eisenbeiss et al., 2023).

Despite the increasing recognition of ethical leadership, many organizations continue to face challenges in translating ethical values into measurable sustainability performance. Numerous companies have adopted sustainability policies and ESG reporting frameworks; however, implementation often remains inconsistent because ethical principles are not fully embedded within organizational practices. Reports published by global sustainability institutions reveal that many firms still experience governance failures, weak ethical climates, and inconsistencies between sustainability commitments and actual business practices. These challenges indicate that leadership alone may not be sufficient to achieve sustainability goals unless supported by an organizational culture that reinforces ethical values and responsible behavior throughout the organization (World Economic Forum, 2024; Global Reporting Initiative, 2024).

Organizational culture plays a crucial role in bridging ethical leadership and corporate sustainability performance. Organizational culture represents the shared values, beliefs, norms, and behavioral expectations that guide employees' actions in achieving organizational objectives. A strong ethical culture encourages collaboration, transparency, innovation, accountability, and long-term thinking, all of which are essential components of sustainable organizations. Ethical leaders shape organizational culture by establishing ethical standards, rewarding responsible behavior, and creating an environment where employees feel encouraged to contribute to sustainability initiatives. Consequently, organizations with strong ethical cultures are generally more successful in integrating sustainability principles into their daily operations and strategic decision-making (Schein & Schein, 2021; Groysberg et al., 2018).

Recent empirical studies consistently demonstrate that ethical leadership positively affects organizational sustainability. Ethical leaders enhance employees' environmental awareness, strengthen corporate social responsibility initiatives, improve stakeholder relationships, and encourage sustainable innovation. Furthermore, organizational culture has been identified as an important mechanism through which ethical leadership influences sustainability outcomes. Organizations characterized by cultures emphasizing integrity, collaboration, learning, and environmental responsibility tend to achieve superior sustainability performance compared with organizations where ethical values are weak or inconsistently applied (Aboramadan et al., 2022; Khan et al., 2023; Zhu et al., 2024).

Although previous studies have examined the direct relationship between ethical leadership and organizational performance, limited research has comprehensively investigated the mediating role of organizational culture in explaining how ethical leadership contributes to corporate sustainability performance. Many earlier studies focus primarily on financial performance, employee performance, or organizational commitment, while relatively few explore sustainability performance as a multidimensional construct encompassing economic, environmental, and social dimensions. This gap suggests the need for further investigation into the organizational mechanisms through which ethical leadership enhances sustainable organizational outcomes.

The present study addresses this research gap by examining the influence of ethical leadership on corporate sustainability performance while investigating the mediating role of organizational culture. Specifically, this study proposes that ethical leadership not only directly improves sustainability performance but also indirectly strengthens sustainability outcomes by cultivating an organizational culture that promotes ethical behavior, collaboration, innovation, and stakeholder responsibility. Understanding these relationships is expected to provide valuable theoretical contributions to leadership and sustainability literature while offering practical implications for organizations seeking to strengthen their sustainability performance through effective ethical leadership and a supportive organizational culture.

METHOD

This study employs a qualitative research approach using a multiple-case study design to explore how ethical leadership influences corporate sustainability performance through the mediating role of organizational culture. A qualitative approach is appropriate because it enables an in-depth understanding of participants' experiences, perceptions, and organizational practices related to ethical leadership and sustainability (Creswell & Poth, 2018).

The study will involve purposive sampling to select organizations that have implemented sustainability initiatives and ESG-related practices. Participants will include senior managers, sustainability officers, human resource managers, and employees who are directly involved in organizational decision-making and sustainability activities. Data will be collected through semi-structured interviews and analysis of organizational documents, such as sustainability reports, codes of ethics, and corporate governance policies. These multiple data sources enhance the credibility and richness of the findings through data triangulation (Yin, 2018).

The collected data will be analyzed using thematic analysis following the procedures proposed by Braun and Clarke (2006), including data familiarization, coding, theme development, theme review, and interpretation. This method allows the identification of recurring patterns related to ethical leadership behaviors, organizational culture, and corporate sustainability performance. To ensure trustworthiness, the study will apply member checking, peer debriefing, and triangulation of interview and documentary evidence. Ethical considerations include obtaining informed consent, ensuring participants' anonymity, maintaining confidentiality, and allowing participants to withdraw from the study at any stage.

This methodological approach is expected to provide comprehensive insights into the mechanisms through which ethical leadership shapes organizational culture and ultimately enhances corporate sustainability performance.

FINDING AND DISCUSSION

Results

The thematic analysis identified three major themes explaining the relationship between ethical leadership, organizational culture, and corporate sustainability performance. These themes consistently emerged across interviews and organizational document analysis, demonstrating how ethical leadership contributes to sustainability both directly and indirectly through the development of a supportive organizational culture.

Theme 1. Ethical Leadership Promotes Responsible Organizational Behavior

Participants consistently described ethical leaders as individuals who demonstrated integrity, fairness, transparency, and accountability in organizational decision-making. Leaders who consistently communicated ethical values encouraged employees to prioritize long-term organizational interests over short-term financial gains. Employees reported that observing ethical behaviors from senior management increased their willingness to comply with sustainability policies, participate in environmental initiatives, and maintain responsible relationships with stakeholders.

Document analysis further supported these findings, revealing that organizations with clearly articulated ethical values integrated sustainability principles into strategic planning, governance practices, and employee performance evaluation. These findings suggest that ethical leadership establishes behavioral standards that encourage responsible organizational practices and strengthen corporate sustainability performance.

Theme 2. Organizational Culture Mediates the Relationship Between Ethical Leadership and Sustainability Performance

The findings indicate that organizational culture serves as the primary mechanism through which ethical leadership influences sustainability outcomes. Participants emphasized that ethical leadership alone was insufficient unless ethical values became embedded within everyday organizational practices. Organizations characterized by collaboration, trust, transparency, continuous

learning, and accountability demonstrated stronger implementation of sustainability initiatives than organizations where ethical expectations were communicated inconsistently.

Interviewees explained that ethical leaders reinforced organizational culture by recognizing ethical behavior, encouraging open communication, and supporting employee participation in sustainability-related decision-making. These practices fostered an ethical climate where employees viewed sustainability as a shared organizational responsibility rather than a management obligation.

Theme 3. Ethical Organizational Culture Enhances Corporate Sustainability Performance

The final theme demonstrates that organizations possessing strong ethical cultures achieved better sustainability outcomes across economic, environmental, and social dimensions. Participants reported improvements in resource efficiency, stakeholder trust, employee engagement, corporate reputation, and innovation after ethical values became integrated into organizational culture.

Documentary evidence showed that organizations with mature ethical cultures were more consistent in implementing ESG initiatives, maintaining governance compliance, and reporting sustainability performance. Participants also highlighted that cross-functional collaboration and organizational learning accelerated the adoption of sustainable business practices and strengthened organizational resilience.

Overall, the findings indicate that ethical leadership positively influences corporate sustainability performance both directly and indirectly. The direct influence occurs through leaders' ethical decision-making and role-model behavior, while the indirect influence operates through the development of an organizational culture characterized by integrity, collaboration, accountability, and stakeholder responsibility. Organizational culture therefore functions as a critical mediating mechanism that translates ethical leadership into sustainable organizational performance.

Discussion

1. Ethical Leadership as the Foundation of Corporate Sustainability Performance

The findings demonstrate that ethical leadership serves as a fundamental driver of corporate sustainability performance by promoting integrity, transparency, accountability, and responsible decision-making. Participants emphasized that leaders who consistently model ethical behavior encourage employees to adopt sustainability-oriented practices in their daily activities. This finding supports Social Learning Theory, which argues that employees learn appropriate behaviors by observing credible role models, particularly organizational leaders (Brown & Treviño, 2006). Ethical leaders therefore influence not only ethical conduct but also employees' commitment to environmental and social responsibilities.

The present findings are consistent with recent studies showing that ethical leadership positively contributes to sustainable organizational performance by strengthening employees' ethical awareness and stakeholder-oriented decision-making. Khan et al. (2024) found that ethical leadership significantly improves sustainable performance, while organizational culture partially mediates this relationship. Similarly, Zahari et al. (2024) concluded that ethical leadership enhances ESG implementation by fostering ethical organizational environments that support governance and sustainability objectives. These findings reinforce the argument that ethical leadership should be viewed as a strategic organizational capability rather than merely an individual leadership characteristic.

2. Organizational Culture as the Mediating Mechanism

A major contribution of this study is the identification of organizational culture as the mechanism that translates ethical leadership into sustainable organizational outcomes. Interview participants consistently reported that sustainability initiatives became more effective when ethical values were institutionalized through organizational norms, collaboration, learning, and shared responsibility. Ethical leadership alone was insufficient unless supported by a culture that encouraged ethical behavior across all organizational levels.

This finding extends previous research by demonstrating that organizational culture is not simply an organizational characteristic but an active mediator linking leadership behavior to

sustainability performance. Recent empirical evidence supports this conclusion. Mahendra et al. (2024) found that ethical leadership strengthens ethical culture, which subsequently improves employee behavior and organizational performance. Likewise, Costa and Opare (2025) reported that strong corporate cultures significantly improve environmental performance because shared organizational values encourage consistent environmental practices throughout the organization. Together, these studies support the present finding that ethical organizational culture operationalizes leaders' ethical values into sustainable organizational routines.

3. Ethical Culture Strengthens Long-Term Organizational Sustainability

The findings further indicate that organizations characterized by ethical cultures achieve superior sustainability performance across economic, environmental, and social dimensions. Participants described improvements in stakeholder trust, employee engagement, innovation, governance quality, and organizational resilience after ethical values became embedded within organizational practices. These outcomes suggest that sustainability performance is achieved through continuous cultural reinforcement rather than isolated sustainability programs.

This interpretation is supported by recent sustainability literature emphasizing that long-term sustainability depends on organizational cultures that integrate ethical values into strategic and operational processes. Sagar and Haque (2025) demonstrated that organizational culture significantly mediates the relationship between sustainable leadership and sustainable performance, enabling organizations to improve environmental, social, and economic outcomes simultaneously. Likewise, Aljuhmani (2024) found that environmental ethics and organizational green culture jointly enhance sustainable performance through increased innovation and responsible organizational behavior. These studies strengthen the conclusion that organizations seeking to improve ESG performance should prioritize ethical leadership development while simultaneously cultivating organizational cultures that reinforce ethical decision-making and sustainability-oriented behaviors across the entire organization.

CONCLUSION

This study concludes that ethical leadership plays a significant role in enhancing corporate sustainability performance by fostering ethical values, transparency, accountability, and responsible decision-making throughout the organization. The findings indicate that leaders who consistently demonstrate ethical behavior encourage employees to adopt sustainability-oriented practices that contribute to organizational economic, environmental, and social objectives. Consistent with Social Learning Theory, ethical leaders serve as role models whose behaviors influence employees' attitudes and actions toward sustainability. Therefore, ethical leadership should be considered a strategic organizational resource for achieving long-term sustainable performance rather than merely a leadership style.

Furthermore, this study confirms that organizational culture functions as a critical mediating mechanism linking ethical leadership to corporate sustainability performance. An organizational culture characterized by integrity, collaboration, continuous learning, and stakeholder responsibility enables ethical values to become embedded in everyday organizational practices, thereby strengthening ESG implementation and sustainable business outcomes. These findings contribute to the literature by providing qualitative evidence that sustainable organizational performance depends not only on ethical leadership but also on the development of an ethical organizational culture. Practically, organizations should invest in leadership development programs and cultivate ethical cultures that support sustainability strategies to achieve long-term competitive advantage and stakeholder trust.

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