

DRIVING CORPORATE SOCIAL RESPONSIBILITY IN PAKISTANI BANKS: THE ROLE OF ETHICAL LEADERSHIP, EMPLOYEE ETHICS, AND ORGANIZATIONAL COMMITMENT

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Received: July 04, 2024

Revised: August 04, 2024

Accepted: August 19, 2024

Published: August 29, 2024

ABSTRACT

This study examined the influence of ethical leadership, employee ethics, ethical climate, and leadership styles on Corporate Social Responsibility Performance (CSR) in Pakistani banks, with organizational commitment as a mediating variable. Using a cross-sectional quantitative approach, data was collected from 234 top management employees across 33 banks listed by the State Bank of Pakistan. Structural equation modeling revealed significant positive relationships between ethical leadership, employee ethics, ethical climate, leadership styles, and CSR. Organizational commitment partially mediated these relationships. The findings contribute to the understanding of CSR drivers in the banking sector and offer practical implications for enhancing CSR through ethical leadership and organizational practices.

Keywords: ethical leadership, employee ethics, corporate social responsibility, organizational commitment, banking sector

INTRODUCTION

Corporate Social Responsibility (CSR) has evolved over recent years to be a critical component in any organization especially in banks as reputation and integrity are crucial attributes. The literature on the concept of ethical leadership and its relation to ethical employee standards and CSR has attracted a lot of interest in the past few years (Brown & Treviño, 2006). The purpose of this research is to explore the relationship between ethical leadership and organizational employee ethicalness on CSR of Pakistani banks by acknowledging the mediating variables of ethical climate, leadership style and organizational commitment.

The banking sector in Pakistan is well established and is considered to be an important component and essential to the success and growth of the economy of the country as well as the society. Consequently, identification of factors influencing CSR performance in this context is considered of both theoretical and practical value. The aim of this

research therefore is to meet this research gap by analyzing these relationships focusing on the case of Pakistani banks and the findings may be useful for both, the academics and practitioners.

Literature Review

Leadership ethical culture and corporate social responsibility performance

Ethical leadership has been described as the moral behavior and the modelling of the right standards of behavior among subordinates and the influencing of those standards through communication, affirmation and sanctions (as cited in Brown et al. , 2005). Some of the research findings have revealed that ethical leadership is correlated with CSR performance. For example, Wu et al. , (2015) proved that ethical leadership has a significant relationship with the employees' CSR performance, through which organizational performance is improved.

Other research work that has been conducted in the recent past has gone further in establishing a positive link between ethical leadership and CSR performance. According to Shen and Tang (2022), it was established that CEO ethical leadership has a positive relation with CSR moderation by organizational ethical culture. Analyzing the data from 242 Chinese firms they found that this relation is significant and higher in state-owned enterprises rather than non-state-owned ones.

Certainly, meta-analysis by Cordeiro and Tewari (2023) showed how ethical leadership can predict CSR. In agreement with their study, the positive results proved that ethical leadership played a vital for encouraging of CSR activities. Other moderating factors that was also revealed in the study entailed; national culture and the type of industry.

Some of the consultative literature looks at the relationship between employee conduct and CSR performance.

Organizational employee ethics entail the standards of the moral nature of the employees and their conducts in organizations or their area of work. Valentine and Fleischman (2008) made a discovery where Ethics possess by the employees were directly related to CSR perceptions and organizational commitment. This implies that the more the employee demonstrates ethical consideration, he or she is likely to participate in CSR programs.

The subject of employee ethics that are linked to the CSR performance of organizations has received attention in the past years. Bavik et al. (2021) discussed the relationships between the two mediators of building the relationship of ethical leadership and employee ethical behavior. Having established a positive link between organizational justice and employee voice, their study showed that both ethical climate and employee moral identity act as the moderators of this relationship while highlighting the need to create an ethical work environment.

In their study Mahmood et al. (2020) examined the moderating role of CSR on employees' negative behaviors due to abusive supervision. Through their multilevel analysis, they provided evidence that CSR activities can actually help reduce the negative impact of abusive supervision on people's behaviors at work that is perhaps one of the

undersigned values of employee ethics and CSR in creating a good working climate.

In this paper, ethical climate and CSR performance shall be compared and analyzed with the intention of presenting recommendations that may improve the ethical climate of organizations.

Ethical climate means the perception simultaneously of people within an organization with regard to what is and what is not ethical as well as how ethical dilemmas should be solved (Victor & Cullen, 1988). The study by Shin et al (2015) posited that ethical climate positively impacted on CSR performance because it created organizational feeling of everyone being on the same side.

Subsequent studies have also extended efforts in establishing the connection between ethical climate and CSR performance. The current study by Lee and Yeo (2022) investigate the role of ethical leadership in promoting employees' CSR participation, and the results showed that organizational identification is a mediator. More critically, they were able to establish that while ethical climate has a direct effect of on CSR participation, the effects of such climate depends on the degree of person-organization fit. Other studies conducted by Akram et al. (2022) observed the banking sector only and said that organizational ethics and CSR have a direct and significant relationship with the performance of the bank while organizational commitment acted as a mediator. In fact, this research highlights ethical climate as a key aspect in the CSR policy of the banking industry.

Leadership Patterns and CSR Outcomes

It is thus important for organizations to understand the kind of leadership that may influence or affect CSR performance. In this respect, it has been ascertained that a particular form of leadership, namely the transformational leadership, helps to improve CSR performance significantly (Du et al. , 2013). Decision-makers, who are able to urge their followers to look beyond mere selfishness, might be the best for driving the CSR agenda forward.

This paper seeks to analyze the effect of different leadership styles to the CSR performance. Wang et al. (2020) analyzed the meta-analytic review of the effects of ethical leadership on voice behaviors which play a significant role in bringing out CSR

problems. You are advised to read their work as it also confirmed the favorable impact of ethical leadership on voice behavior.

Zhao and Zhou (2021) examined the effect of responsible leadership on organizational citizenship behavior – environmental. In their study, adopting leadership identity perspective, it was revealed that responsible leadership has a positive correlation with environmental behaviors of the employees. A mediation model was tested in the current study with organizational commitment as the mediator.

Organizational commitment can be defined as the degree of an employee's emotional bond with the organization to which he or she belongs (Meyer & Allen, 1991). Prior research revealed that there is potential of organizational commitment to act as a moderator in the relationship between ethical leadership and a range of organizational factors, including CSR performance (Kim, Kim, & Shynu, 2017).

Subsequent research has extended knowledge regarding mediating effect of the organizational commitment in the context of CSR outcomes. Kim et al. (2021) identified the dual-mediation model of the relationship between ethical leadership and the female employee's ethical behavior where organizational commitment is established as a significant mediator along with moral identity.

Through a sense-making approach, it was determined that there was a positive relationship between CSR activities and employee engagement; this was determined by Nazir and Islam (2020). What they discovered is that meaningfulness and compassion act as moderators between CSR activities and engagement, with commitment taking middleman duties in the whole process.

Corporate Social Responsibility in the context of Banking Industry

There has been increased study on CSR mostly in the banking industry. csutheran_accteng (2021) corroborated this study when he undertook an empirical analysis on Indian banks by establishing that CSR activities do have positive impact on financial performance of firms. According to their study, the selected CSR programmes should be taken as strategic in the banking sector.

In Banking sector, Santoso and Feliana (2021) investigated the influence of CSR disclosure for growth financial performance using real earnings

management as a mediator. Therefore, according to their research, it is established that CSR disclosure can help to reduce the effect of Earnings Management on Financial Performance.

Trends in the Current CSR Research

A number of current papers have identified new directions of development in CSR research. Some of the recent systematic literature reviews include Farooq et al. 's (2021) systematic literature review which outlined thematic areas in the CSR literature and directions for future research. Its major findings related to more research studies on CSR in developing countries and how technology can help in implementing CSR.

Jamali and Karam (2020) concentrated their research on CSR in develop ingcountries as this topic is still under investigated. These authors described specific concerns and possibilities for CSR in these settings and highlighted the need for research that is contingent on the context.

The study by Liang et al. (2023) sought to assess the sustainability footprint of sovereign wealth funds around the world observing the rising role of sustainability factors in the decision making of financial institutions.

These recent researches give a clearer and accurate perspective of the interactions between ethical leadership, ethical employees, CSR outcomes, and organizational commitment in a more current banking sector. It also underlines the tendencies and development of potentials and prospects for further investigations in the concept of CSR.

Research Objectives

1. To investigate the influence of ethical leadership on CSRP of the banks operating in Pakistan.
2. To examine the role of employee ethics in determining CSRP in Pakistani banks.
3. To analyze the impact of ethical climate on CSRP in Pakistani bank.
4. To identify the relationship between the leadership styles and CSRP of the Pakistani banks.
5. Thus, the present study aimed to examine mediating role of organizational commitment in the proposed relationships between ethical leadership, employee ethics, ethical climate, leadership styles and CSRP within the context of Pakistani banks.

Research Questions

1. How does ethical leadership influence CSR in Pakistani banks?
2. What is the impact of employee ethics on CSR in Pakistani banks?
3. How does ethical climate affect CSR in Pakistani banks?
4. What is the relationship between leadership styles and CSR in Pakistani banks?
5. To what extent does organizational commitment mediate the relationships between ethical leadership, employee ethics, ethical climate, leadership styles, and CSR in Pakistani banks?

Hypotheses

- H1:** Ethical leadership positively influences the Corporate Social Responsibility Performance (CSR) of Pakistani Banks.
- H2:** Ethical climate positively influences the CSR of Pakistani Banks.
- H3:** Leadership styles positively influence the CSR of Pakistani Banks.
- H4:** Employee ethics positively influence the CSR of Pakistani Banks.
- H5:** Organizational commitment positively mediates between ethical leadership, employee ethics, ethical climate, leadership style, and CSR Performance of Pakistani Banks.

Research Methodology

Research Design

This study employed a cross-sectional quantitative analytical method to investigate the relationships between ethical leadership, employee ethics, ethical climate, leadership styles, organizational commitment, and CSR performance in Pakistani banks.

Sample and Data Collection

The sampling population consisted of top management employees from 33 banks listed by

the State Bank of Pakistan, totaling 557 employees. Using the Krejcie and Morgan Table, a sample size of 234 was determined. To ensure a higher response rate, 468 questionnaires were distributed via email using Google Forms. Follow-up calls and emails were made for non-responses within two weeks.

The sampling method used was probability sampling, including simple random, systematic, and stratified sampling techniques. The unit of study was top management of banks, including Presidents, CEOs, COOs, and Senior Executives.

Instrumentation

Data was collected using a structured questionnaire consisting of 72 items measured on a five-point Likert scale ranging from Strongly Disagree (1) to Strongly Agree (5). The questionnaire included items measuring ethical leadership, employee ethics, ethical climate, leadership styles, organizational commitment, and CSR performance.

Data Analysis

Data analysis was conducted using IBM SPSS version 25 and SmartPLS 3.3. The following analyses were performed:

1. Normality test
2. Descriptive analysis
3. Reliability analysis (Cronbach's Alpha and Composite Reliability)
4. Internal consistency
5. Correlation analysis
6. Structural equation modeling
7. Discriminant validity
8. Multicollinearity test
9. Factor analysis
10. Path coefficient analysis
11. Mediating effects analysis

Results

Descriptive Statistics

Table 1 presents the descriptive statistics for the main variables in the study.

Table 1: Descriptive Statistics

Variable	Mean	SD	Skewness	Kurtosis
Ethical Leadership	3.82	0.76	-0.54	0.12
Employee Ethics	3.95	0.68	-0.62	0.35
Ethical Climate	3.71	0.82	-0.48	-0.09
Leadership Styles	3.88	0.73	-0.57	0.21
Organizational Commitment	3.79	0.79	-0.51	0.05
CSR Performance	3.90	0.71	-0.59	0.28

The results indicate that all variables have mean scores above the midpoint of 3, suggesting generally positive perceptions among respondents. The skewness and kurtosis values fall within the acceptable range of ± 1 , indicating normal distribution of the data.

Reliability Analysis

Table 2 presents the reliability analysis results.

Table 2: Reliability Analysis

Variable	Cronbach's Alpha	Composite Reliability	AVE
Ethical Leadership	0.89	0.92	0.69
Employee Ethics	0.87	0.91	0.67
Ethical Climate	0.88	0.91	0.68
Leadership Styles	0.90	0.93	0.71
Organizational Commitment	0.86	0.90	0.65
CSR Performance	0.92	0.94	0.73

All variables demonstrated good reliability with Cronbach's Alpha and Composite Reliability values above 0.7. The Average Variance Extracted (AVE) values were all above 0.5, indicating good convergent validity.

Correlation Analysis

Table 3 presents the correlation matrix for the main variables.

Table 3: Correlation Matrix

Variable	1	2	3	4	5	6
1. Ethical Leadership	1					
2. Employee Ethics	0.62**	1				
3. Ethical Climate	0.58**	0.55**	1			

Variable	1	2	3	4	5	6
4. Leadership Styles	0.64**	0.57**	0.60**	1		
5. Organizational Commitment	0.59**	0.61**	0.56**	0.63**	1	
6. CSR Performance	0.67**	0.63**	0.61**	0.65**	0.69**	1

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

The correlation analysis revealed significant positive relationships between all variables, providing initial support for the hypotheses.

Structural Equation Modeling

The structural equation modeling results supported all five hypotheses:
 H1: Ethical leadership positively influenced CSRP ($\beta = 0.31, p < 0.001$) H2: Ethical climate positively influenced CSRP ($\beta = 0.25, p < 0.001$) H3: Leadership styles positively influenced CSRP ($\beta = 0.28, p < 0.001$) H4: Employee ethics positively influenced CSRP ($\beta = 0.23, p < 0.001$) H5: Organizational commitment partially mediated the relationships between the independent variables and CSRP
 The model explained 72% of the variance in CSR performance ($R^2 = 0.72$).

Mediation Analysis

Table 4 presents the results of the mediation analysis.

Table 4: Mediation Analysis Results

Relationship	Direct Effect	Indirect Effect	Total Effect
EL → OC → CSRP	0.31**	0.12**	0.43**
EE → OC → CSRP	0.23**	0.10**	0.33**
EC → OC → CSRP	0.25**	0.09**	0.34**
LS → OC → CSRP	0.28**	0.11**	0.39**

EL: Ethical Leadership, EE: Employee Ethics, EC: Ethical Climate, LS: Leadership Styles, OC: Organizational Commitment, CSRP: CSR Performance ** $p < 0.001$
 The results indicate that organizational commitment partially mediates the relationships between all independent variables and CSR performance, supporting H5.

Conclusion

This study provides empirical evidence for the positive impact of ethical leadership, employee ethics, ethical climate, and leadership styles on CSR performance in Pakistani banks. The findings also highlight the important mediating role of organizational commitment in these relationships. These results contribute to the growing body of literature on CSR drivers and offer practical implications for bank managers and policymakers seeking to enhance CSR performance.

Future Directives

Future research could explore these relationships in different cultural contexts or industries to assess the generalizability of the findings. Longitudinal studies could also provide insights into the causal relationships between these variables over time. Additionally, investigating the potential moderating effects of factors such as organizational size or industry regulations could further enhance our understanding of CSR performance drivers.

Limitations

This study has several limitations. First, the cross-sectional design limits causal inferences. Second, the focus on top management may not capture the

perspectives of all employees involved in CSR initiatives. Finally, the study's context is limited to Pakistani banks, which may limit the generalizability of the findings to other industries or countries.

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