



Investigating The Role Of Sustainable Leadership In Driving Organizational Sustainability

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ABSTRACT

Sustainable development is a burgeoning field that addresses the challenges of sustainable growth. Sustainable leadership, a novel approach to effective management, is crucial for integrating sustainability into a company's strategy. While leaders play a pivotal role in driving change, there remains a gap in understanding the relationship between leadership and sustainable practices, warranting further research. This gap is particularly evident in SMEs, where sustainable practices, sustainability performance, and leadership skills of employees are interconnected but not fully understood. To bridge this gap, a survey questionnaire was developed, and Structural Equation Modeling (SEM) was employed to analyze the moderating effect of leadership abilities on the relationship between sustainable practices and sustainability performance. The findings indicate that sustainable leadership practices, including labor relations, valuing employees, and shared vision, positively influence firm performance, highlighting the importance of integrating sustainable leadership into SMEs' operations.

Keywords: Sustainable leadership, sustainable performance, SMEs

1. Introduction

Small and Medium Enterprises (SMEs) play a significant role in the economy, contributing to employment generation, innovation, and economic growth. However, SMEs also face challenges related to sustainability, including resource constraints, regulatory requirements, and changing consumer preferences. Sustainable leadership has emerged as a critical factor in addressing these challenges and driving organizational sustainability in SMEs. This paper aims to investigate the role of sustainable leadership in promoting organizational sustainability in SMEs, focusing on how leadership practices can influence sustainability outcomes.

The speed at which their surroundings are changing directly makes today's businesses more complex. Financial scandals, bankruptcies, natural disasters, and pressure from the public, government, and non-governmental organisations will keep forcing companies to include more complexity in their operations if they hope to be long-term viable. Sustainable leadership (SL) promotes evidence-based management techniques as a component of a whole approach to leading a company that aims to balance people, profits, and the environment. Sustainable leadership practices that support a firm's long-term performance include, among other things, good labour relations, a common vision, a dedication to social responsibility, and treating people with respect (Suriyan Kiet & Avery, 2016).

All management scholars of today concur, to some degree, that organizational learning is essential to long-term success. Realigning an organization's structures and processes considers the social, economic, and environmental viewpoints that emerge from organisational learning. Its hallmarks are dedication to process, emphasis on teamwork, and attention to the aims and foundations of company.

2 Literature review and hypothesis development

Sustainable leadership has emerged as a critical concept in driving organizational sustainability, particularly in the context of Small and Medium Enterprises (SMEs). Sustainable leadership is defined as a leadership

approach that integrates environmental, social, and economic considerations into decision-making processes to create long-term value for all stakeholders (Sharma & Nicolopoulou, 2013). This approach recognizes the interconnectedness of these three dimensions of sustainability and seeks to balance them in a way that promotes the well-being of the organization, society, and the environment.

Organizational sustainability, on the other hand, refers to the ability of an organization to meet its present needs without compromising the ability of future generations to meet their own needs (Elkington, 1997). It encompasses a broader view of sustainability that goes beyond financial performance to consider social and environmental impacts. In the context of SMEs, organizational sustainability is crucial for long-term success and competitiveness in an increasingly complex and interconnected global economy.

Several leadership theories and models support the concept of sustainable leadership in SMEs. For example, transformational leadership theory emphasizes the importance of leaders inspiring and motivating followers to achieve common goals, which aligns with the idea of sustainable leadership in promoting a shared vision for sustainability (Bass, 1985). Similarly, the servant leadership model emphasizes leaders' focus on serving the needs of others, which is consistent with the idea of sustainable leadership in considering the needs of all stakeholders, including employees, customers, and the community (Greenleaf, 1977).

This managerial framework places an emphasis on the importance of a company's strategic resources and competencies in building the foundation for long-term competitive advantages. However, firms that incorporate nature into their operations cannot use the NRBV framework (Hart, 1995). It is often not possible for modern businesses to deal with sustainability issues without factoring in the state of the environment (Hart & Dowell, 2011). A source of competitive advantage, according to NRBV theory, is having access to resources and capabilities that promote environmentally sustainable economic activity (Hart, 1995). In order to effectively address the environmental concerns of their many stakeholder groups, organisations with unique resources must respond to the external environment with ambitious initiatives (Berrone et al., 2008). To maintain a competitive edge, businesses can capitalise on leadership's rarity, uniqueness, value, and non-replaceability (Harris & McMahan, 2015). Leadership that is sustainable considers the interests of the organisation as a whole and encourages the incorporation of social, economic, and environmental considerations (Iqbal, Ahmad, Nasim, & Khan, 2020). This study took advantage of this source, which is apparent in the way NRBV theory is defined.

Leadership is crucial to sustainable growth because it shapes the attitudes and actions of a company's workers (Hallinger & Suriyankietkaew, 2018). Sustainable leaders, as argued by Iqbal et al. (2020), foster a climate that encourages people to open up to one another at work and share information (LeRoy, 2012). Therefore, successful learning inside an organisation is driven by a psychologically safe environment. In addition, sustainable leadership emphasises creativity, foresight, growth, morality, a willingness to share information, and accountability to the community and the environment (Kantabutra & Avery, 2013). Sharing long-term goals facilitates organisational development, as stated by Sharma and Lenka (2019). Furthermore, sustainable leaders encourage the sharing of information within their businesses by encouraging free flow of information (Park & Kim, 2018). Managers may view unions as a detriment to productivity, which has led to union avoidance, suppression, and substitution, according to some data (Bryson, 2005; Chen, 2007; Kochan et al., 1986). Yet other studies show that unions can help an organization become more competitive by promoting the adoption of High-Performance Work Practices (HPWP) (Gill, 2009). Shared value solutions are one way to address societal issues, according to Porter (2019).

Sustainable and authentic leadership aid in achieving technical support, effective strategic policies, and joint efforts to uphold the learning of the organization and permit the iris employees to enhance their abilities, share knowledge, and boost the organization's performance. The connection between sustainable leadership and genuine leadership that leads to long-term success in reaching development goals is mediated by the presence of a learning organisation (Guinotetal.,2020). However, Saleem et al. (2020) argue that leaders' morality alone is not enough to sway employees' pro-environmental actions. Ethical and sustainable leadership has a little direct effect on employees' pro-environmental behaviour, but this effect is amplified when specific variables act as mediators (Raihan & Uddin, 2021). Therefore, variables like employee passion to protect the environment and motivation are necessary for ethical leaders to impact employee behaviour (Peng et al., 2020), as well as a psychological green climate (Khan et al, 2019; Saleem et al, 2020). From what has been said above, however, it is clear that this perspective only applied to the actions of employers in the workplace.

Shared value, however, allows businesses to take the lead in social change by making use of their expertise, resources, and management capacity in ways that even the most well-intentioned governmental and social sector organizations can seldom equal. Businesses can regain the public's trust in this way.

The literature suggests that sustainable leadership is essential for driving organizational sustainability in SMEs. By integrating environmental, social, and economic considerations into their decision-making processes, SME leaders can create value for all stakeholders while ensuring the long-term viability and success of their organizations. However, more research is needed to understand the specific leadership practices and strategies that are most effective in promoting sustainability in SMEs and to identify barriers and challenges that SME leaders may face in adopting sustainable leadership practices.

2.1 Research objectives

1. To identify and analyse the factors that influence sustainable performance in SMEs.
2. To investigate the direct impact of sustainable leadership practices on sustainable performance in SMEs.

Hypotheses:

- H1: Sustainable leadership practices have a significant influence on the sustainability performance of SMEs.
 H2: Labor relations directly and significantly impact sustainability performance in SMEs.
 H3: Valuing employees directly and significantly impacts sustainability performance in SMEs.
 H4: Shared vision directly and significantly impacts sustainability performance in SMEs.

3. Research methodology:

The study was conducted using survey on a sample of SMEs in Bangalore. The respondents of the poll were chosen at random and were all top executives or business owners with in-depth knowledge of the workings of their organisations. Questions on the study variables and the respondents and the company make up the two sections of the semi-structured questionnaire. Using a 5-point Likert scale (with 1 strongly disagreeing and 5 strongly agreeing), opinions were sought from respondents. After 300 questionnaires were returned by responders, 282 samples were chosen for additional investigation after missing value data were excluded during the data screening phase. Using AMOS version 26 and SPSS, descriptive and inferential statistical tests were run on the data. An overview of the data is given by descriptive statistics, as table 1 and 3 indicate.

Table 1 Details of respondents from selected SMEs (N=282):

Measures	Items	Percentage
Gender	Male	55
	Female	45
Age	Below 24	0.74
	25-30	18
	30-35	29.1
	35-40	41.7
	40 & above	10.4
Education	Secondary	0.03
	Undergraduate	52.2
	Postgraduate	34.3
	Others	15.29
Type of business	Micro	20
	Small	36
	Medium	44
Industry	Food and beverages	11.5
	Durables, consumer electronics and machinery	25
	Chemicals, pharmaceutical and plastics	6.7
	Textile, leather and clothing	7.8
	Other manufacturing	48.8

Source: Primary survey

The study sample comprised of 582 participants, with a gender distribution of 55% male and 45% female. In terms of age, the majority fell within the 30-40 age range, with 41.7% between 35-40 years old and 29.1% between 30-35 years old. Participants' educational background varied, with 52.2% holding undergraduate degrees, 34.3% having postgraduate qualifications, 15.29% having other educational backgrounds, and only 0.03% with secondary education. Regarding business size, 44% were from medium-sized enterprises, 36% from small enterprises, and 20% from micro-enterprises. The participants represented a range of industries, with 48.8% from other manufacturing sectors, 25% from durables, consumer electronics, and machinery, 11.5% from food and beverages, 6.7% from chemicals, pharmaceuticals, and plastics, and 7.8% from textile, leather, and clothing industries.

Table 2: Cronbach's alpha, Mean, Std. deviation and Correlation of the variables

	Labor relations	Valuing employees	Shared vision	Sustainability Performance
Reliability (Alpha value)	0.923	0.885	0.869	0.846
Mean	4.2378	4.2935	4.3118	4.4676
Standard deviation	.91231	.75436	.80938	.68831
Labor relations	1	.397**	.454**	.542**
Valuing employees	.397**	1	.428**	.535**
Shared vision	.454**	.428**	1	.493**
Sustainability Performance	.542**	.535**	.493**	1

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

. The table provides the reliability coefficients (Cronbach's alpha values), means, and standard deviations for the variables of interest: labor relations, valuing employees, shared vision, and sustainability performance. The reliability coefficients indicate high internal consistency for all variables, with alpha values ranging from 0.846 to 0.923. The means suggest that respondents generally perceive their organizations positively in terms of labor relations (M = 4.2378), valuing employees (M = 4.2935), shared vision (M = 4.3118), and sustainability performance (M = 4.4676). The standard deviations indicate relatively low variability among responses for each variable.

The correlation matrix reveals significant positive relationships between all pairs of variables. Specifically, labor relations, valuing employees, and shared vision are positively correlated with sustainability performance, suggesting that organizations with strong labor relations, employee valuation, and a shared vision tend to perform better in terms of sustainability. The strongest correlation is observed between labor relations and sustainability performance (r = 0.542, p < 0.01), indicating that a positive relationship exists between the two variables.

4 Hypothesis testing using Structural Equation Modelling:

The study employs structural equation modelling (SEM) analysis, specifically using the maximum likelihood method, to examine the causal relationship between research constructs. The study evaluated the influence of three external variables (independent variables) on the sustainability performance, which served as the internal dependent variable of the study. The acceptance or rejection of a study hypothesis is determined by a critical ratio value of 1.96 and a p value lower than 0.05 at a significance level of 5%.

Figure 1: Casual model

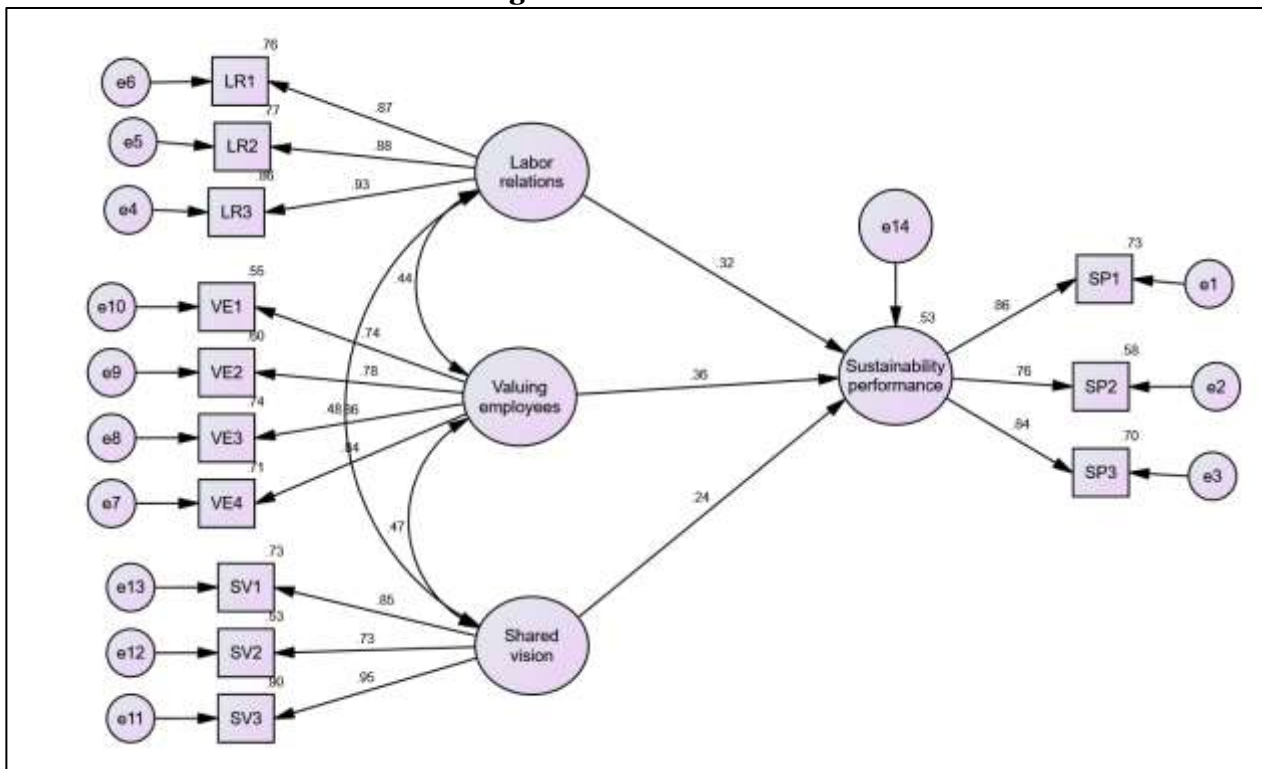


Table 4: Path coefficients of the Structural model

Hypotheses	Outcome variables		Causal Variables	SE.	CR.	P	Path coefficient	Result
H1	Sustainability Performance	←	Labor relations	.050	4.945	***	.316	Accepted
H2	Sustainability Performance	←	Valuing employees	.060	5.371	***	.357	Accepted
H3	Sustainability Performance	←	Shared vision	.051	3.707	***	.239	Accepted

Note: SE; Standard error, CR; Critical ratio, Path coefficient: Standardized regression weights and p; probability of significance. *** indicates p<0.000.

The results of the Structural Equation Modeling (SEM) analysis revealed several important findings regarding the impact of sustainable leadership practices on sustainability performance in SMEs. Firstly, concerning the relationship between labor relations and sustainability performance, the path coefficient was found to be 0.316, with a standard error (SE) of 0.050. This indicates a significant and positive effect of labor relations on sustainability performance, which was supported by a critical ratio (CR) of 4.945, significantly greater than the

threshold for statistical significance (000). Thus, Hypothesis 1, proposing a direct positive relationship between labor relations and sustainability performance, was accepted.

Secondly, the analysis indicated a significant and positive relationship between valuing employees and sustainability performance, with a path coefficient of 0.357 and a SE of 0.060. The CR value of 5.371 further supported this relationship, indicating strong statistical significance (000). Therefore, Hypothesis 2, suggesting that valuing employees has a direct positive impact on sustainability performance, was also accepted.

Lastly, the relationship between shared vision and sustainability performance was found to be significant, with a path coefficient of 0.239 and a SE of 0.051. The CR value of 3.707 indicated statistical significance (000), supporting Hypothesis 3, which proposed a positive relationship between shared vision and sustainability performance.

Overall, these findings suggest that sustainable leadership practices, specifically in the form of strong labor relations, valuing employees, and shared vision, have a significant positive impact on the sustainability performance of SMEs. These results underscore the importance of incorporating sustainable leadership practices into SME management strategies to enhance overall sustainability outcomes.

Table 5: Overall Model Fit

Indices	Recommended criteria	Model values
Normed chi square (χ^2/DF)	$1 < \chi^2/df < 3$	2.742
Goodness-of-fit index (GFI)	> 0.90	0.906
Adjusted GFI (AGFI)	> 0.80	0.863
Comparative fit index (CFI)	> 0.95	0.937
Root mean square error of approximation (RMSEA)	< 0.05 good fit < 0.08 acceptable fit	0.067
Tucker-Lewis's index (TLI)	$0 < TLI < 1$	0.931

(Source: Researcher's calculation based on primary survey). Threshold criteria suggested by Hair et al., (2010) study.

Table 5 presents the overall model fit indices for the Structural Equation Modeling (SEM) analysis conducted in this study. The model fit is evaluated based on several recommended criteria, including the normed chi-square (χ^2/DF), goodness-of-fit index (GFI), adjusted GFI (AGFI), comparative fit index (CFI), root mean square error of approximation (RMSEA), and Tucker-Lewis index (TLI).

The normed chi-square value of 2.742 falls within the recommended range of 1 to 3, indicating an acceptable fit between the proposed model and the observed data. The goodness-of-fit index (GFI) value of 0.906 exceeds the recommended threshold of 0.90, suggesting a good fit between the model and the data. Similarly, the adjusted GFI (AGFI) value of 0.863 is above the recommended threshold of 0.80, indicating an acceptable fit. The comparative fit index (CFI) value of 0.937 is slightly below the recommended threshold of 0.95 but still indicates a relatively good fit between the model and the data. The root mean square error of approximation (RMSEA) value of 0.067 falls within the acceptable range of less than 0.08, indicating an acceptable fit.

Finally, the Tucker-Lewis index (TLI) value of 0.931 is close to the recommended range of 0 to 1, further supporting the overall model fit.

The model fit indices suggest that the proposed SEM model adequately fits the data, indicating that the relationships between sustainable leadership practices and sustainability performance in SMEs are statistically significant and meaningful.

5. Discussion and Implications:

The discussion of the study's findings and their implications reveals the importance of sustainable leadership in driving organizational sustainability in SMEs. The literature review highlighted the critical role of sustainable leadership in integrating environmental, social, and economic considerations into decision-making processes. The study's results confirmed the positive impact of sustainable leadership practices, including strong labor relations, valuing employees, and shared vision, on sustainability performance in SMEs. The findings support the idea that sustainable leadership is essential for SMEs to thrive in the long term, as it enables them to balance the needs of various stakeholders while ensuring the organization's viability and success. The positive relationships between sustainable leadership practices and sustainability performance indicate that SMEs can benefit from adopting a more holistic and sustainable approach to leadership.

From a practical standpoint, the study's findings suggest that SMEs should prioritize sustainable leadership practices in their management strategies. By fostering strong labor relations, valuing employees, and promoting a shared vision for sustainability, SME leaders can enhance their organizations' overall sustainability outcomes. This, in turn, can lead to improved financial performance, increased competitiveness, and greater resilience to external challenges.

The study's findings also have broader implications for the business community as a whole. By highlighting the importance of sustainable leadership in driving organizational sustainability, the study underscores the need for businesses of all sizes to adopt more sustainable practices. This includes not only environmental

initiatives but also social and economic considerations that can contribute to long-term success and sustainability.

The study contributes to the growing body of research on sustainable leadership and organizational sustainability, particularly in the context of SMEs. By identifying the factors that influence sustainability performance and demonstrating the impact of sustainable leadership practices, the study provides valuable insights for SMEs seeking to enhance their sustainability practices and achieve long-term success.

6. Conclusion, Limitations & Future Scope

The crucial factor in attaining sustained success in corporate transformation is in the interaction between leadership's awareness and the particularities of the current and previous circumstances. Sustainable leadership is essential for driving organizational sustainability in SMEs. By promoting a holistic approach to leadership that considers the needs of all stakeholders, SMEs can achieve long-term success and contribute to a more sustainable future. Further research in this area is needed to explore additional factors that may influence sustainability performance in SMEs and to identify best practices for sustainable leadership in different contexts.

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