Ethical leadership, organizational learning, and corporate ESG performance: a moderated mediation model

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Abstract

Based on social learning theory and stakeholder theory, this research surveyed 205 leaders of small and medium-sized enterprises (SMEs) in China. After controlling for variables such as firm ownership, size, industry, and age, the findings revealed that ethical leadership positively influences ESG performance. Additionally, organizational learning partially mediates the relationship between ethical leadership and ESG performance. The study also indicates that internal social capital moderates both the relationship between ethical leadership and organizational learning, as well as the mediating effect of ethical leadership on ESG performance through organizational learning. These findings highlight the impact of ethical leadership on ESG performance and underscore the significance of ESG practices for companies. Moreover, the study provides insights for government policymakers and regulatory bodies aiming to foster responsible corporate behavior.

Keywords: Ethical leadership, organizational learning, ESG performance, internal social capital, social learning theory

1. Introduction

Since the 1960s, the rapid development of the global economy and social civilization has led to unprecedented prosperity in human economic activities. However, this growth has also given rise to various social problems (Eccles et al., 2014). Recently, corporate scandals related to environmental and social issues have become increasingly prevalent. For instance, the 2018 Facebook data breach caused a 7% decline in the company's stock price within a week, with $36 billion in market value evaporated. The crisis of user trust fundamentally undermined the foundation of Facebook's business. Such ESG-related negative events have imposed financial burdens on companies and precipitated severe reputational crises. Consequently, under the current economic and social conditions, corporate ESG practices are becoming increasingly essential and urgent (Abhayawansa & Tyagi, 2021).

ESG originates from socially responsible investing in the 1960s. However, the term was formally introduced in 2004 through the United Nations Global Compact's report titled "Who Cares Wins" (UN Global Compact, 2004). Since then, ESG has become a vital component in investment decision-making. The environmental dimension of ESG refers to a company's responsibility to consider its impact on the natural environment and its commitment to minimizing negative externalities. This dimension encompasses critical issues such as climate change, carbon emissions, air and water pollution, biodiversity, energy usage, and waste recycling (Broadstock et al., 2021). Social factors pertain to the rights, welfare, and interests of individuals and society, including aspects such as customer satisfaction, data protection and privacy, gender equality, social relationships, human rights, and labor standards (Velte, 2022). Governance involves the internal mechanisms a company establishes to ensure effective self-management, decision-making, legal compliance, and accountability to external stakeholders. This includes considerations related to board composition, supervisory structures, anti-

corruption, and regulatory compliance (Solomon, 2020). Unlike conventional investment principles and corporate evaluation standards, ESG underscores that the goal of corporate actions and financial decisions should not be limited to economic indicators; it is crucial to assess their broader impacts on the environment, society, and a diverse array of stakeholders to foster the sustainable development of human society (Huang, 2021).

In response to the growing demands for sustainable investment practices, systematic and comprehensive studies have come to be conducted on ESG. Most research focuses on the relationship between ESG ratings, financial performance, and ESG investments. However, a unified consensus remains elusive. On one hand, traditional classical economics asserts that a company's primary responsibility is profit maximization (Friedman, 2007). When business managers pursue profit-beyond objectives, the allocation of resources to "social products" increases operational costs ultimately borne by consumers or shareholders (Chouaibi et al., 2022). Conversely, competitive advantage theory posits that a company's ESG practices can provide strategic benefits. Through compliance with ESG principles, companies can cultivate a positive reputation among various stakeholders and demonstrate responsible business practices (Fatemi et al., 2015). Additionally, ESG investment portfolios offer investors a better balance of corporate, environmental, and social interests, which can mitigate risks and help achieve sustainable returns (Hoepner et al., 2024). In China, where ESG development is still in its early stages, it is essential to investigate the influencing factors and intrinsic mechanisms behind corporate ESG practices in the context of high-quality development (Xu et al., 2021).

Current research on ESG performance relies on secondary data from capital markets or publicly traded companies in developed countries (Pedersen et al., 2021). Existing studies have primarily concentrated on the ESG evaluation system and the relationship between ESG investments and corporate performance (Giese et al., 2019). However, limited research has been conducted on the factors influencing ESG performance, and there is an absence of comprehensive models and theoretical frameworks that elucidate the intrinsic mechanisms underpinning corporate ESG outcomes. This raises the question: Can ethical leadership enhance corporate ESG performance through organizational learning? In response, the study surveyed leaders from SMEs in China to examine the relationship between ethical leadership and corporate ESG performance. The research also analyzed the mediating role of organizational learning in the relationship between ethical leadership and corporate ESG performance and the moderating effect of internal social capital on the relationship between ethical leadership and organizational learning. The results indicate that ethical leadership positively influences the ESG performance of SMEs. Organizational learning partially mediates the relationship between ethical leadership and corporate ESG performance. Furthermore, the influence of ethical leadership on organizational learning is stronger in companies with higher levels of internal social capital.

This study makes the following contributions: Firstly, it enhances research on ESG performance in developing countries. While most existing ESG research has focused on developed markets in which the concept is relatively well-established, this study surveyed SMEs in China. By doing so, it deepens the understanding of ESG practices among Chinese SMEs and enriches ESG research in emerging markets. Secondly, it expands ESG-related research. While some scholars have examined the impact of transformational leadership on corporate ESG performance, limited research has been conducted on the influence of other leadership traits. This study reveals the significant influence of ethical leadership significantly on ESG performance, thereby enriching existing literature. Thirdly, it provides new

insights for corporate managers by presenting novel perspectives for corporate decision-makers and practical policy recommendations for public policymakers. These findings contribute to the cultivation of ethical and responsible corporate behavior.

This study is structured as follows: First, it presents a literature review based on relevant theories and establishes the research hypotheses. Second, it demonstrates the measurement of relevant variables, followed by an empirical analysis of data and an explanation of the findings. Finally, it discusses the results, theoretical implications, practical implications, limitations, and future research suggestions.

2. **Theoretical background and research hypothesis**

2.1 Ethical leadership and ESG performance

Enderle (1987) introduced ethical leadership in his article "Some Perspectives on Managerial Ethical Leadership," defining it as a framework for articulating ethical issues in managerial decision-making and for regulating the ethical principles that inform this process. Brown et al. (2005) further described ethical leadership as the demonstration of ethically normative behavior by leaders through personal actions and interpersonal relationships to encourage subordinates' compliance with these standards based on two-way communication, reinforcement, and decision-making processes. Ethical leadership is characterized by three main features: serving as an ethical role model, treating others fairly, and actively engaging in moral management. The initial two features fall under the "ethical individual" aspect of ethical leadership, whereas the third is under the "ethical manager" facet (Mayer et al., 2009).

The vital role of ethical leadership within organizations has led to a surge in empirical research on its antecedents and outcomes. Existing studies have shown that the personal traits of leaders (De Hoogh & Den Hartog, 2008), moral identity (Wright & Quick, 2011), and situational elements (Stenmark & Mumford, 2011) positively impact ethical leadership. In turn, ethical leadership has been shown to enhance employees' job attitudes (Neubert et al., 2009), organizational citizenship behavior (Kacmar et al., 2011), and corporate reputation (Zhu et al., 2014).

Sustainable development theory argues for the alignment of economic development with the carrying capacity of the natural environment. Businesses should strike a balance among ecological, social, and economic factors instead of engaging in blind pursuit of growth at the expense of the environment (Spangenberg et al., 2011). By modeling ethical behavior, ethical leaders motivate employees to prioritize environmental issues and engage in protection (Ren et al., 2020). Additionally, ethical leaders uphold high moral standards. They reward ethical behavior and penalize unethical conduct in an attempt to ensure the consistent application of these standards. This management approach can enhance employee behavior and improve environmental performance (Islam et al., 2021). Finally, ethical leadership fosters continuous improvement in environmental practices through the integration of environmental consciousness into the company's values and norms (Ahmad et al., 2022).

Stakeholder theory asserts that a company functions as an organic system of interconnected stakeholders (Freeman, 2010). These relationships are built on the interactions among consumers, suppliers, entrepreneurs, employees, and the surrounding environment (Parmar et al., 2010). From a

stakeholder perspective, corporate behavior reflects the values of its managers. Ethical leaders, characterized by noble qualities, encourage employees' participation in volunteer services and other social responsibility practices, with the objective of raising their awareness of social responsibility (De Roeck & Farooq, 2018). Ethical leaders place stress on integrity, fairness, and responsibility to create a safe working environment in which they offer fair compensation and benefits. In addition, they actively respond to social concerns and needs and promote continuous improvement in corporate social responsibility (Saha et al., 2020).

The survival and development of enterprises rely on robust business leadership and effective corporate governance (Freeman & Evan, 1990). Effective governance provides guidance and control for proper management of the relationships among corporate management, the board of directors, controlling shareholders, minority shareholders, and other stakeholders (Bebchuk et al., 2009). Ethical leaders exemplify integrity, honesty, and fairness. Through personal demonstration and instruction, they inspire compliance with regulations and laws among employees. Employees are also encouraged to disclose significant matters and uphold ethical and legal standards in governance, with the ultimate goal of enhanced compliance and transparency (Laczniak & Murphy, 2004). Additionally, ethical leaders advocate fair, just, and responsible decision-making. They emphasize employee participation and communication, consider diverse perspectives, and avoid conflicts of interest and ethical risks, all contributing factors to corporate governance's efficiency and effectiveness (Othman & Abdul, 2014). Based on this analysis, the following hypothesis is proposed:

H1: Ethical leadership positively impacts corporate ESG performance.

2.2 The mediating role of organizational learning

Organizational learning, as introduced by Argyris and Schon (1997), refers to the process by which organizations continuously adjust their learning modes and methods, enhance their behavior, and optimize their systems in response to an ever-evolving external environment. The process aims to ensure sustainable survival and sound development amid dynamic internal and external conditions (Zangwill & Kantor, 1998). Research on organizational learning emphasizes its practical value by examining factors such as leadership style (Berson et al., 2006), technological development (Robey et al., 2000), and organizational culture (Cook & Yanow, 2011), along with their impacts on organizational learning. Additionally, organizational learning exerts a significant influence on employee performance (Jiménez-Jiménez & Sanz-Valle, 2011), job satisfaction (Joo & Park, 2010), and corporate innovation (Tu & Wu, 2021).

Social learning theory posits that individuals acquire appropriate behaviors through role-modeling processes based on observation of other conducts (Bandura & Walter, 1977). Employees often follow the actions and behaviors of leaders they view as role models. Therefore, ethical leaders shape followers' behavior according to moral standards through effective communication of these standards and the implementation of equitable accountability systems (Jordan et al., 2013). Firstly, ethical leaders advocate a learning culture that encourages continuous improvement among employees. They lead by

example by showing a passion for knowledge and a positive attitude toward learning, which prompts employees' engagement in organizational learning (Ayodele et al., 2019). Secondly, ethical leaders provide abundant learning opportunities and resources for employees, including training, education, and cross-departmental exchanges. They prioritize employee development and support skill enhancement through various learning opportunities (Bai et al., 2019).

Corporate ESG performance encompasses environmental, social, and governance aspects. Organizational learning can positively impact a company's ESG performance in several ways. First, environmental responsibility is a social obligation that companies fulfill alongside pursuing economic benefits (Hart & Milstein, 2003). Organizational learning enables companies to accumulate environmental knowledge and experience, thereby promoting innovation in environmental technology and management models. Continuous learning and improvement enhance a company's environmental performance and help maintain a competitive edge in the environmental sector (Mishra & Yadav, 2021). Furthermore, organizational learning enhances a company's adaptability, enabling flexible responses to environmental changes and market demands. Ongoing learning and adjustment strengthen a company's capacity to develop and implement effective environmental strategies (Vidal-Salazar et al., 2012). Through accumulated experience and case studies, companies can accurately assess their environmental impact and formulate corresponding environmental protection plans and goals (Ali et al., 2023).

Secondly, companies bear social responsibility and must act in the best interest of their stakeholders (Kakabadse et al., 2005). The fulfillment of social responsibility towards shareholders primarily involves continuous and efficient operations, stable and high profitability, and greater dividends to ensure appropriate investment returns (Deng et al., 2013). Organizational learning facilitates the acquisition of economic benefits, increasing corporate capacity for social responsibility practices. Continuous learning and improvement enable the establishment of an effective social responsibility management system that enhances the efficiency and effectiveness of their execution (Al-Shammari et al., 2022). Furthermore, organizational learning helps establish shared values and increases awareness of social responsibility among employees. Through continuous acquisition and sharing of knowledge related to social responsibility, employees gain a deeper understanding of the company's social responsibility concepts and actively promote continuous improvement in this area (Ghasemzadeh et al., 2022).

Thirdly, dynamic corporate governance largely determines companies' fulfillment of sustainable operational goals (Naciti et al., 2022). Organizational learning enhances corporate transparency and accountability. Continuous learning and improvement facilitate the establishment of transparent and effective governance structures and mechanisms that refine internal audit processes, risk management, and information disclosure, thereby increasing trust among shareholders and stakeholders (Bebchuk et al., 2009). Secondly, organizational learning renders companies more flexible and adaptable by emphasizing continuous improvement and innovation. This flexibility contributes to the updating of corporate governance structures and decision-making models and gives a strong boost to corporate competitiveness and capabilities for sustainable development (Bilan et al., 2020). Finally,

organizational learning improves decision-making quality. Knowledge accumulation and experience enable prompt access and analysis of market and internal information, which, in turn, offer insights for informed and practice-based decisions (Filatotchev et al., 2006). Based on these theoretical explanations, this study posits that ethical leadership may positively influence ESG performance through the mediating role of organizational learning. On this basis, the following mediation hypothesis is proposed:

H2: Ethical leadership positively impacts corporate ESG performance through organizational learning.

2.3 The moderating role of internal social capital

Internal social capital within a company encompasses both the actual and potential resources embedded in its internal relational network. This concept reflects the resources derived from the organization's internal social relationships (Colombo et al., 2015). Internal social capital consists of three primary dimensions: 1) Structural Social Capital: This dimension pertains to the connections between nodes in the internal relational network and the patterns of these connections. It reflects the bidirectional interaction between network members based on the internal network structure and is characterized by the closeness of connections among team members (Jiang et al., 2015); 2) Relational Social Capital: This refers to assets gained through interpersonal relationships or those embedded within them. It describes the quality of these relationships and their evolvement and enhancement over time (Iturrioz et al., 2015); 3) Cognitive Social Capital: This dimension refers to the shared understanding of collective behavioral goals, norms, and methods formed through interactions among members of the internal relational network. It reflects individuals' fundamental cognition of their group, including aspects of organizational culture and shared values (Aragón et al., 2016).

Existing research indicates that internal social capital significantly influences conflict reduction among members (Chang, 2017), promotes knowledge sharing (Yen et al., 2015), and enhances innovation performance (Lazzarotti et al., 2017). Therefore, this paper hypothesizes that internal social capital positively moderates the effect of ethical leadership on organizational learning. Firstly, high internal social capital enhances communication and interaction among organizational members, facilitating learning and knowledge sharing. This improvement enables ethical leaders to gain more feedback and resources, leading to improved organizational learning efficiency (Rhodes et al., 2008). Secondly, high internal social capital fosters a supportive interpersonal relationship environment. Guided by shared values and visions, ethical leadership strengthens mutual expectations and understanding among organizational members. It fosters greater support and assistance that improve the effectiveness of organizational learning (Pastoriza & Ariño, 2013). On this basis, the following hypothesis is proposed:

H3: Internal social capital positively moderates the relationship between ethical leadership and organizational learning.

2.4 The moderated mediation effect of internal social capital

Previously, this study proposed the mediating role of organizational learning in the relationship between ethical leadership and corporate ESG performance, as well as the moderating role of internal social capital in the relationship between ethical leadership and organizational learning. Consequently, it can be inferred that internal social capital moderates the mediating role of ethical leadership on ESG performance through organizational learning. This aligns with the moderated mediation model proposed by Edwards and Lambert (2007). In other words, higher levels of internal social capital strengthen the indirect effect of ethical leadership on ESG performance through organizational learning. On this basis, this study proposes the following hypothesis:

H4: Internal social capital positively moderates the mediating role of organizational learning in the relationship between ethical leadership and ESG performance.

The research framework is shown in **Figure 1**.

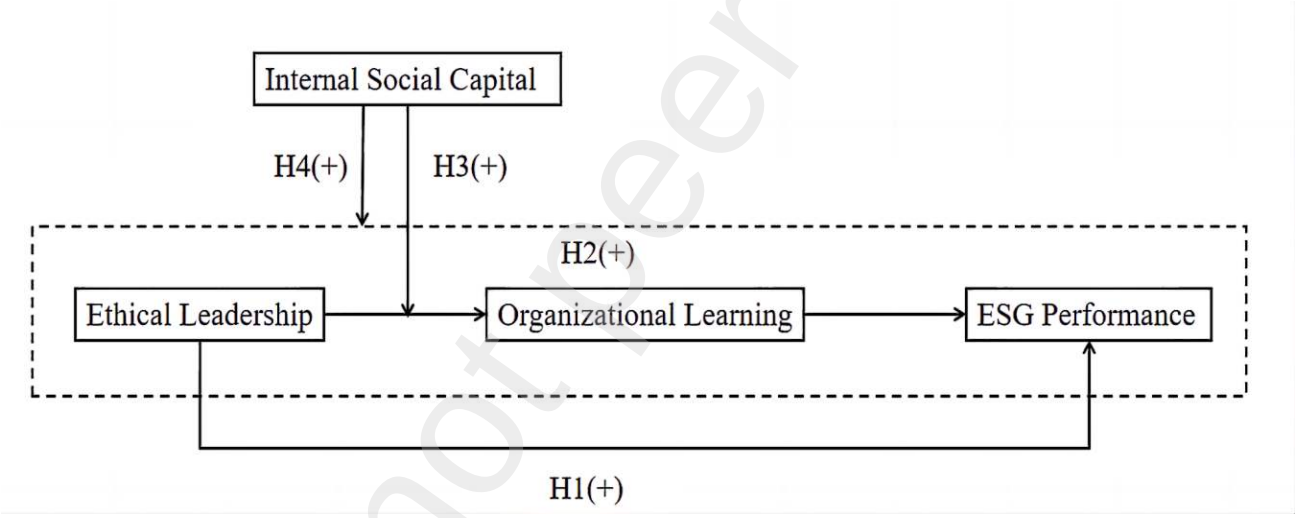

Figure 1 Research framework

3. Methodology

3.1 Data and samples

This study collected data using a survey questionnaire with enterprises as the research sample. In January 2024, the survey targeted corporate managers or general managers well-acquainted with the company's strategic direction, key resources, and internal and external stakeholder information. A brief explanation of the survey background and content was provided to participants. In May 2024, 250 questionnaires were distributed, with 220 returned, resulting in a response rate of approximately 88%. After the exclusion of invalid questionnaires, 205 valid questionnaires were obtained, with an effective response rate of 92%. The ownership of the companies was predominantly non-state-owned enterprises,

accounting for 65.37% of the sample. Most of the companies were in the service industry (85.85%). Regarding firm size, responses were primarily from companies with 0-50 employees (32.68%) and those with more than 500 employees (32.20%). Additionally, most firms (46.34%) had been in operation for less than five years. The demographic characteristics of the respondents are shown in **Table 1**.

Table 1. Sample distribution

Characteristics	Options	No.	Percentage
Ownership	State-owned enterprises	71	34.63
	Non-state-owned enterprises	134	65.37
Industry	Manufacturing industry	29	14.15
	Service industry	176	85.85
Firm size	0–50 employees	67	32.68
	51–200 employees	29	14.15
	201–500 employees	43	20.98
	More than 500 employees	66	32.20
Firm Age	Less than 5 years	95	46.34
	5–10 years	25	12.20
	11–20 years	44	21.46
	More than 20 years	41	20.00
	Total	205	100.0

3.2 Variable measurement

The variables in this study were drawn from well-established domestic and international scales, with items tailored to reflect the specific context. Responses were recorded on a 5-point Likert scale, where 5 indicated “strongly agree” and 1 indicated “strongly disagree”.

Ethical Leadership: The scale by Brown et al. (2005) was utilized. It consisted of eight items that have demonstrated reliability and validity. Sample items included “In terms of ethics, a company's leadership serves as an exemplar of doing things right.”

Organizational Learning: The scale by Zheng et al. (2019) was utilized. It consisted of six items that have demonstrated reliability and validity. Sample items included “Viewing learning as the primary improvement method is one of the company's fundamental values.”

Internal Social Capital: The scale by Tsai and Ghoshal (1998) was utilized. It consisted of six items that have demonstrated reliability and validity. Sample items included “Company members frequently exchange opinions and ideas.”

ESG Performance: The scale by Zhu and Huang (2023) was utilized. It consisted of three dimensions: environmental performance (six items), corporate social responsibility (eleven items), and corporate governance (six items). Environmental performance items included “The company takes the initiative to use low-carbon, energy-saving products and equipment.” Corporate social responsibility items included “The Company participates in various charitable activities.” Corporate governance items included “The company fully considers the interests of shareholders and other stakeholders.”

Control Variables: Based on previous research, this study incorporated firm age, ownership, industry and size as control variables. Firm size was categorized based on the number of employees into four tiers: 0-50 employees, 51-200 employees, 201-500 employees, and more than employees. Firm Ownership was dichotomized into two types: state-owned enterprises and non-state-owned enterprises. Firm age was classified into four types: less than 5 years, 5–10 years, 11–20 years and more than 20 years. Furthermore, industry was classified into two sectors: manufacturing and service. The control variables were virtualized in the regression analysis before the research hypotheses were analyzed and tested.

3.3 Reliability and validity test

Reliability pertains to the internal consistency of a measurement scale and is frequently utilized to evaluate the reliability, stability, and consistency of test results in measurement contexts. A Cronbach's alpha coefficient exceeding 0.7 indicates high reliability for the items in a questionnaire. In this study, Cronbach's alpha coefficients for ethical leadership, organizational learning, internal social capital, and ESG performance (environmental performance, corporate social responsibility, corporate governance) were 0.928, 0.908, 0.925, 0.867, 0.933, 0.895, indicating good reliability for the questionnaire items for each variable. The KMO value was 0.929, and the results of Bartlett's test of sphericity confirmed the criteria for significance, with a p-value below 0.05. The cumulative variance contribution rate was 65.87%, indicating that the collected research data was suitable for exploratory factor analysis. This study employed Harman's single-factor analysis method to test for common method variance (Harman, 1960). The first factor accounted for 31.06% of the variance, with the maximum factor explaining less than 50% of the total variance, indicating no significant common method variance in this study.

To further validate the structural validity of the model, this study conducted confirmatory factor analysis on the collected data using AMOS 24. From **Table 2**, the chi-square=854.936, df=845, RMSEA=0.031, CFI=0.998, TLI=0.998, IFI=0.997. These values met the standard criteria, indicating a good fit for the model. The AVE values for all seven factors were above 0.5, and CR values were above 0.7, satisfying the established criteria. This indicated that analyzed data had good convergent validity.

Table 2. Constructs and indicators

Constructs	Items	Standard Factor Loading	Variance Explained	AVE Value	CR Value
Ethical Leadership (EL)	EL1	0.786	12.911	0.619	0.928
	EL2	0.843			
	EL3	0.738			
	EL4	0.828			
	EL5	0.773			
	EL6	0.828			
	EL7	0.764			
	EL8	0.725			
Organizational	OL1	0.832	8.883	0.624	0.909
	OL2	0.721			

Learning (OL)	OL3	0.807			
	OL4	0.828			
	OL5	0.807			
	OL6	0.739			
Internal Social Capital (ISC)	ISC1	0.846			
	ISC2	0.818			
	ISC3	0.840	10.417	0.672	0.925
	ISC4	0.819			
	ISC5	0.812			
	ISC6	0.782			
Environmental Performance (EP)	EP1	0.682			
	EP2	0.671			
	EP3	0.735	8.618	0.522	0.867
	EP4	0.733			
	EP5	0.747			
	EP6	0.762			
Corporate Social Responsibility (CSR)	CSR1	0.807			
	CSR2	0.685			
	CSR3	0.786			
	CSR4	0.708			
	CSR5	0.772			
	CSR6	0.766	15.949	0.559	0.933
	CSR7	0.725			
	CSR8	0.759			
	CSR9	0.731			
	CSR10	0.714			
	CSR11	0.764			
Corporate Governance (CG)	CG1	0.695			
	CG2	0.774			
	CG3	0.768	9.093	0.589	0.896
	CG4	0.757			
	CG5	0.783			
	CG6	0.822			

Note: EL = Ethical Leadership, ISC = Internal Social Capital, OL = Organizational Learning, EP = Environmental Performance, CSR = Corporate Social Responsibility, and CG = Corporate Governance. The same applies below.

3.4 Descriptive statistical analysis

This study utilized SPSS 26 software for data analysis. **Table 3** displays the mean, standard deviation, and correlation coefficients for each variable. The correlation analysis results disclosed significant positive associations between ethical leadership and the dimensions of ESG performance, including environmental performance, corporate social responsibility, and corporate governance, with correlation coefficients of 0.334, 0.378, and 0.595, respectively. Additionally, organizational learning demonstrated a significant positive correlation with internal social capital, as indicated by a correlation coefficient of 0.269. Furthermore, a strong positive correlation was identified between ethical leadership and organizational learning, with a correlation coefficient of 0.611. Lastly, organizational learning correlated significantly with ESG performance across all its dimensions, with correlation coefficients of 0.358 for environmental performance, 0.421 for corporate social responsibility, and 0.496 for corporate governance.

Table 3. Descriptive statistical analysis

Variables	Mean	SD	1	2	3	4	5	6	7	8	9	10
Ownership	0.346	0.477										
Industry	0.141	0.349	-0.060									
Firm Age	2.151	1.209	0.002	-0.016								
Firm Size	2.527	1.247	0.178*	-0.127	0.103*							
EL	3.579	1.087	-0.014	0.025	0.062	0.060						
OL	3.611	1.083	-0.046	0.079	0.013	0.049	0.611**					
ISC	3.876	1.068	-0.022	0.067	-0.087	-0.040	0.056	0.269**				
EP	3.897	0.869	-0.057	0.013	0.100	0.086	0.334**	0.358**	0.138*			
CSR	3.845	0.905	-0.005	0.026	0.090	0.125	0.378**	0.421**	0.049	0.465**		
CG	3.665	1.023	-0.039	0.067	-0.025	0.006	0.595**	0.496**	0.139**	0.386**	0.352**	

Note: N = 205, ** is p < 0.05, ** is p < 0.01, two-tailed test.

4. Research results

Firstly, the study examined the impact of ethical leadership on ESG performance through the mediating variable of organizational learning. Control variables considered included firm age, ownership, industry, and size. Ethical leadership was defined as the independent variable, organizational learning served as the mediator, and ESG performance was considered the dependent variable. As shown in **Table 4**, Model 1 demonstrated a significant positive effect of ethical leadership on ESG performance (β=0.376, p<0.01), supporting H1. Model 2 revealed that ethical leadership significantly influenced the mediator, organizational learning (β=0.607, p<0.01). Model 3, which incorporated the mediator of organizational learning, confirmed the significant positive impact of ESG performance (β=0.246, p<0.01). Additionally, organizational learning significantly affected ESG performance (β=0.214, p<0.01). Furthermore, bootstrap tests were conducted to further assess the mediation effect: the total effect was 0.376, with a 95% confidence interval of [0.452, 0.566]. The direct effect was 0.246, with a 95% confidence interval of [0.154, 0.337]. The indirect effect was 0.130, with a 95% confidence interval of [0.070, 0.207]. Importantly, the confidence interval for the indirect effect did not include zero, confirming a significant mediating role for organizational learning and thus supporting hypothesis H2 (see **Table 5**).

Table 4. Multiple regression analysis

	ESG Performance			Organizational Learning	
Variables	**Model 1**	**Model 2**	**Model 3**	**Model 4**	**Model 5**
Constant	2.341** (13.326)	1.427** (5.606)	2.035** (11.298)	3.550** (21.248)	3.564** (22.784)
Ownership	-0.069 (-0.771)	-0.089 (-0.687)	-0.050 (-0.584)	-0.082 (-0.660)	-0.069 (-0.600)
Industry	0.082 (0.678)	0.201 (1.153)	0.039 (0.335)	0.158 (0.942)	0.177 (1.129)

Firm Age	0.015 (0.434	-0.024 (-0.477)	0.020 (0.611)	-0.006 (-0.123)	0.003 (0.060)
Firm Size	0.039 (1.117)	0.026 (0.525)	0.033 (1.000)	0.031 (0.652)	0.008 (0.177)
EL	0.376** (9.748)	0.607** (10.861)	0.246** (5.300)	0.592** (11.043)	0.549** (10.784)
OL			0.214** (4.600)	0.236** (4.308)	
ISC					0.190** (3.653)
EL*ISC					0.309** (5.388)
R^2	0.336	0.389	0.400	0.433	0.506
Adjust R^2	0.323	0.365	0.382	0.416	0.488
F Value	20.092	24.402	21.972	18.556	28.825

Note: ** is $p < 0.01$. The t-values are inside the parentheses.

Table 5. Decomposition of the total, direct, and indirect effects

	Effect	SE	LLCI	ULCI
Total Effect	0.376	0.039	0.452	0.566
Direct Effect	0.246	0.046	0.154	0.337
Indirect Effect	0.130	0.035	0.070	0.207

Note: Bootstrap = 5000.

Additionally, the study explored the moderating role of internal social capital on the connection between ethical leadership and organizational learning. As per **Table 4**, Model 4 integrated both ethical leadership and internal social capital into the regression analysis. The results indicated that ethical leadership (β=0.592, $p < 0.01$) and internal social capital (β=0.236, $p < 0.01$) positively affected organizational learning. Model 5 expanded upon Model 4 by including the interaction term between ethical leadership and internal social capital. The interaction (β= 0.309, $p < 0.01$) significantly impacted organizational learning, indicating that internal social capital positively moderated the relationship between ethical leadership and organizational learning, supporting H3.

To graphically represent the moderating effect of internal social capital, this study conducted a simple slope analysis, considering one standard deviation above and below the mean of internal social capital. The analysis results (see **Figure 2**) indicated that when internal social capital was at a low level, ethical leadership had a significant positive influence on organizational learning (β=0.219, p=0.01). Conversely, a high level of internal social capital corresponds to an even more significant positive impact of ethical leadership on organizational learning (β=0.878，$p<0.01$).

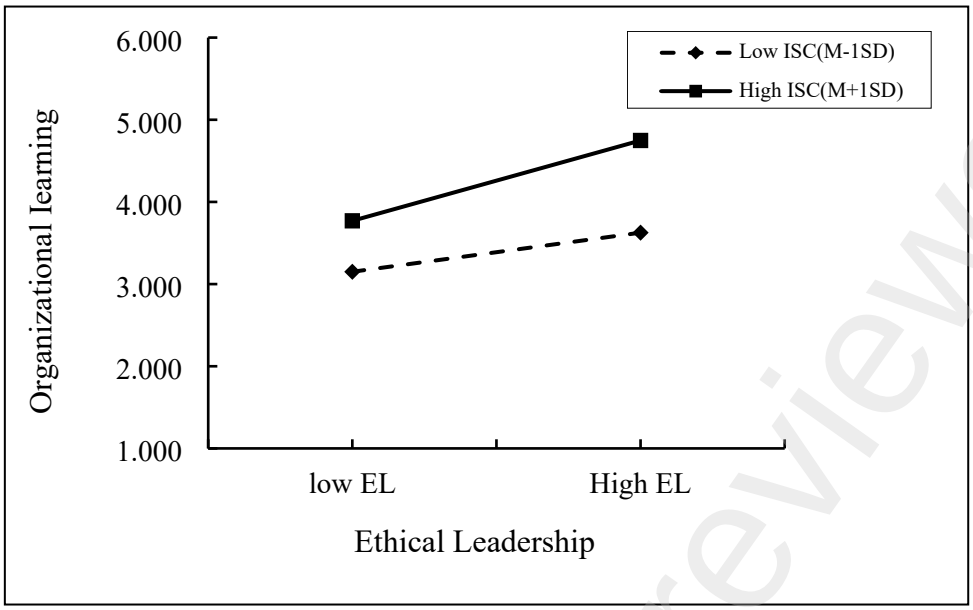

Figure 2 The moderating effect of internal of social capital

According to **Table 6**, the analysis of moderated mediation effects revealed that when internal social capital was at a low level (−1 SD), the indirect relationship between ethical leadership and ESG performance via organizational learning was 0.047, with a 95% CI = [0.006, 0.108]. In contrast, when internal social capital was at a high level (+1 SD), this indirect relationship via organizational learning was 0.188, with a 95% CI = [0.098, 0.288]. The moderated mediation effect value was 0.066, with a 95% CI = [0.028, 0.109], which did not include zero. This indicates a significant moderated mediation effect, lending support to H4.

Table 6. Bootstrap test for the moderated mediation effects model

Variables	**EL—>OL—>ESG**			
ISC	Effect	SE	LLCI	ULCI
Low ISC	0.047	0.027	0.006	0.108
High ISC	0.188	0.050	0.098	0.288
The moderated mediated effects	0.066	0.021	0.028	0.109

Note: Results for bootstrap = 5000. The test to distinguish between indirect and direct effects is based on the confidence interval of bootstrap estimates after bias correction.

5. Discussion

With the advancement of the economy and society, various stakeholder groups, including governments, consumers, and environmental organizations, have shown an increasing awareness of the significance of corporate sustainability. Consequently, there is a growing demand for businesses to implement ESG. This study, based on an integration of social learning theory, sustainable development

theory, and stakeholder theory, investigates the internal mechanisms between ethical leadership and corporate ESG performance from the perspective of leadership behavior. The study surveyed leaders from SMEs in China, with ethical leadership as the independent variable, corporate ESG performance as the dependent variable, organizational learning as the mediator variable between ethical leadership and ESG performance, and internal social capital as the moderator variable between ethical leadership and organizational learning. The conclusions of this study are as follows:

Firstly, ethical leadership positively impacts corporate ESG performance. Ethical leaders prioritize environmental protection and sustainability, motivating companies to adopt eco-friendly practices (Dey et al., 2022). Furthermore, they value employee welfare, community development, and charitable activities and actively engage in social responsibility initiatives (Tourigny et al., 2019). Ethical leaders advocate integrity, transparency, and responsible governance, underscoring regulatory compliance and robust internal controls.

Secondly, organizational learning partially mediates the relationship between ethical leadership and corporate ESG performance. Ethical leadership promotes the development of learning organizations and attaches importance to communication and cooperation to enhance organizational learning (Kalshoven et al*.,* 2011). This learning enables companies to accumulate knowledge and experience in environmental protection and thus contribute to innovation in environmental protection technologies and management models. Furthermore, organizational learning cultivates a corporate culture centered on social responsibility. It stimulates employees' enthusiasm for participating in social responsibility activities and improves corporate social responsibility. It also aids organizations in the establishment of robust governance mechanisms to strengthen board oversight and internal audits, as well as corporate governance (Beasley et al., 2005).

Thirdly, internal social capital positively moderates the impact of ethical leadership on organizational learning. It facilitates information sharing and communication among employees and cultivates an inclusive learning environment. In this context, ethical leadership is particularly effective in the promotion of learning, thereby advancing organizational learning (Polyviou et al., 2020). Furthermore, internal social capital contributes to cooperative and trusting relationships. It reinforces employee cohesion and fosters a sense of belonging. Ethical leaders can effectively motivate employees to engage in learning by facilitating knowledge-sharing and collective learning.

5.1 Theoretical implication

Firstly, this study broadens the exploration of the effects of ethical leadership. While extensive research has demonstrated its positive impacts on employee creativity, corporate performance, and organizational behavior, this study further links ethical leadership with corporate ESG performance. This connection expands the exploration of ethical leadership topics and deepens the understanding of its mechanisms and the outcomes it influences.

Secondly, this study enriches the research related to ESG. Existing studies treat ESG performance as a factor influencing corporate value and financing costs, underscoring its significance. Zhu and Huang (2023) explored the intrinsic relationship between transformational leadership and corporate

ESG performance. Based on their findings, this research demonstrates the positive influence of ethical leadership on corporate ESG performance in China. With a focus on leaders' ethical management styles, this study contributes to the scholarly discourse by offering deeper insights into ESG-related studies.

Thirdly, this study delves into the intrinsic mechanisms and boundary conditions of ethical leadership affecting corporate ESG performance. It highlights the comprehensive process through which ethical leadership influences ESG performance via organizational learning. Through the establishment of a theoretical model that connects ethical leadership, organizational learning, and corporate ESG performance, this research presents a novel perspective on the transmission pathways of ethical leadership's impact on ESG performance.

Fourthly, this study incorporates internal social capital into the model to explore the influence and conditions of ethical leadership on organizational learning. This approach transcends traditional single-factor models of organizational learning influences. The research comprehensively reveals how ethical leadership affects organizational learning under the framework of internal social capital. Furthermore, it establishes a moderated mediation model that demonstrates how ethical leadership impacts corporate ESG performance.

5.2 Practical implication

Firstly, emphasis should be placed on the cultivation of ethical leadership styles. Organizations ought to prioritize the recruitment and development of ethical leaders through targeted selection and development activities. For instance, organizations can establish ethical role standards within performance evaluations to emphasize the significance of ethics as a fundamental responsibility for leaders. Furthermore, to foster ethical leadership, organizations should implement supportive management measures. They should create systems that allow employees to voice their concerns and nurture strong superior-subordinate relationships to develop psychological safety among subordinates. This approach will enhance the positive effects of ethical leadership.

Secondly, it is crucial to strengthen corporate organizational learning for continuous development. Knowledge internalization, information sharing, and integration are critical for greater organizational learning capabilities. Companies should regard organizational learning as a fundamental catalyst for progress and create an environment that prioritizes mutual learning and knowledge sharing to drive development through knowledge. This requires systematic planning and design of organizational learning activities, stronger incentives for learning, and sustained boosts to organizational learning capabilities for full utilization of its critical role in corporate development.

Thirdly, it is essential to strengthen the construction of internal social capital. Companies should promote multi-departmental communication and connections among employees. This can be achieved by optimized internal management and both formal and informal communication channels, such as regularly scheduled work exchange meetings, redesigned office environments (including open-plan layouts, tea rooms, and lounges), and job rotation systems. Additionally, companies can organize various team-building events (such as team-building exercises, trips, and dinners) that cultivate trust among members. Lastly, a shared vision should be established. The company should develop a vision

that aligns with its current circumstances and future goals. It should work to promote this vision as a collective objective for both the organization and its employees, thereby enhancing goal and cognitive alignment among organizational members.

Fourthly, companies should enhance their ESG practices to create long-term sustainable value. Environmental Responsibility: 1) Increase environmental awareness: Companies should improve environmental awareness by upgrading technologies and optimizing production processes. Timely updates and replacements of environmental machinery can reduce pollution by improving resource utilization efficiency. This measure can steer the company towards green and sustainable development. 2) Promote environmental consciousness: Further promote environmental concepts to enhance awareness. It is crucial to advocate eco-friendly growth and highlight the transition to green economic practices.

Social responsibility: 1) Enhance social responsibility awareness: Efforts to raise awareness of social responsibility can elevate companies' intrinsic value. Its significance can be underscored through several steps: share successful social responsibility cases, highlight economic losses from being neglected, and address public demands for responsible corporate behavior. 2) Professional training: Hire external experts to train management on social responsibility and foster a culture of responsibility. 3) Strategic integration: Internally, managers should align policies with strategic business goals to integrate social responsibility into decision-making. Externally, governments should refine laws and create evaluation systems for corporate social responsibility to empower unions and industry associations to oversee and educate on these matters. The community and media should also expose unethical behavior to encourage better practices.

Corporate governance: 1) Stakeholder-oriented governance: Devise comprehensive governance mechanisms that consider all stakeholders' interests, not just those of shareholders. Traditional corporate management typically aims to maximize shareholder value and, as a result, can neglect and harm other stakeholders. A sustainable approach requires a balance among the interests of all parties to maintain the company's value. 2) Governance mechanism: Establish and maintain a governance system that protects the rights of all stakeholders. The aim is to ensure a holistic approach to corporate management based on sustainability and stakeholder theory.

5.3 Limitations and future research directions

This study has several limitations. First, the data were collected using a cross-sectional research design, which limits the rigorous assessment of causal relationships between variables. Future research could adopt a longitudinal design and conduct surveys over different periods to examine causal effects and reveal the influence of ethical leadership on corporate ESG performance. Second, this study focuses only on the impact of ethical leadership on corporate ESG performance. Future studies could explore the effects of other leadership styles. Third, this research solely considers the mediating role of organizational learning and the moderating role of internal social capital. However, other factors, such as dynamic capabilities and absorptive capacity, also play boundary roles and should be explored in future research. Fourth, the study relies on survey data, which reflects corporate executives' subjective

perceptions and judgments. This may only partially capture the objective reality of the situation. Future research could conduct empirical investigations using objective corporate indicators to yield more reliable and comprehensive guidance for developing and implementing sustainable strategies.

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