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# Effect of ethical leadership in corporate tax leaders on corporate transparency, ESG management, and corporate performance

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## ABSTRACT

This study aims to empirically assess the effect of ethical leadership in corporate tax leaders on corporate transparency, ESG management, and corporate performance. The research model was constructed, and hypotheses were formulated for structural equation analysis. This study used a total of 262 questionnaires collected from tax leaders in large South Korean companies. A research model was designed using structural equations, and results were derived through confirmatory factor analysis, correlation analysis, and path analysis. The analysis results verified that ethical leadership had a positive effect on corporate transparency and ESG management. However, ethical leadership in tax leaders had no direct impact on corporate performance. This study also proved that this leadership can be positively influenced by corporate transparency and ESG management activities and is not a direct determinant of corporate performance. Additionally, corporate transparency had no direct effect on corporate performance; however, it can be affected along with ESG management as a mediated factor through which the ethical leadership of tax leaders influences corporate performance. These results indicate that the implication is that ethical leadership in corporate tax management impacts corporate performance when corporate transparency and ESG management activities are reinforced, and its effectiveness is maximized as well. Further, it suggests that corporate tax leaders have a crucial role in maintaining financial transparency, fair tax management, and social responsibility.

**Contribution/Originality:** This is one of the few studies investigating ESG management and tax benefits. The results of empirical verification indicate that tax benefits can be a strategy to strengthen a company's ESG management. It contributes to ESG development in terms of national policy as well as corporate ESG management.

## 1. INTRODUCTION

The bankruptcy of Enron in 2001, as well as the Lehman Brothers, triggered a global financial crisis. Since then, General Electric (GE) faced criticism in 2020 for years of financial opacity and accounting fraud. Additionally, Wirecard went bankrupt after it was revealed that USD 2 billion had disappeared from its accounts. These unethical business practices have continuously posed significant risks to the global economic system and have had widespread negative impacts. Consequently, the importance of global standards of ethical management has been emphasized worldwide. Nowadays, corporate ethics and social responsibility have become key measurements in evaluating global companies. Accordingly, ethical leadership is an essential factor for companies to comply with strengthened regulations worldwide and maintain their reputation and sustainable competitiveness in the international market (Miles & Covin, 2000). Ethical leadership has become a crucial factor not only from a moral standpoint but also in corporate performance, sustainability, and risk management. Brown, Treviño, and Harrison (2005) argued that ethical leadership promotes role modeling by leaders and encourages ethically appropriate behavior through their actions, decision-making, and communication. Ethical leaders embrace others with honesty and trust, strive to do what is right, make balanced decisions, and carry out ethical acts by making fair and principled choices with integrity and consideration (Garcia, Mendes-Da-Silva, & Orsato, 2017). As such, ethical leadership enhances employee morale and trust in the organization, promotes shared ethical values, and has a positive role in work efficiency and performance (Piccolo, Greenbaum, Hartog, & Folger, 2010).

Furthermore, consumers and investors are no longer solely focused on profitability but are increasingly expecting companies to fulfill their social responsibilities due to the surge in social demands. Demand is increasing for businesses to practice various social values, such as environmental protection, respecting human rights, and fair business practices. Accordingly, ethical management can be narrowly defined as transparent and responsible management through anti-corruption efforts across an organization's operations, while more broadly, it encompasses the active fulfillment of social responsibilities. In this context, ESG (Environmental, Social, and Governance) management is being increasingly emphasized as a key factor for sustainable business operations (Rajesh, 2020).

Many companies enhance ethical leadership to increase values such as transparent governance, environmental protection, and social responsibility (Saha, Shashi, Cerchione, Singh, & Dahiya, 2020; Zahari, Said, Muhamad, & Ramly, 2024). Ultimately, ethical leadership serves as the fundamental foundation of ESG management and manifests through ethical decision-making and responsible leadership to drive successful ESG initiatives. Companies with ethical leadership prioritize transparent management and adherence to legal and ethical standards, which align with the fundamental principles of ESG management. Therefore, ethical leadership enables transparent management and enhances stakeholder trust and provides the foundation for successfully implementing ESG initiatives. Companies should incorporate ethical leadership and corporate transparency as essential elements to achieve ESG goals (Lu & Wang, 2021; Sarwar, Ishaq, Amin, & Ahmed, 2020).

The ethical leadership of corporate tax leaders, especially, plays a crucial role in financial transparency, fair tax management, and social responsibility from the perspective of organizational trust (Fraj, Matute, & Melero, 2015). As Brown and Mitchell (2010) argued, tax leaders must handle tax matters fairly and honestly to ensure that companies provide transparent financial reports. Additionally, tax leaders with ethical leadership must strictly comply with legal requirements, preventing corporate misconduct and tax evasion. Ultimately, this helps companies mitigate legal risks and avoid fines or regulatory sanctions (Mayer, Aquino, Greenbaum, & Kuenzi, 2013).

Tax leaders play a central role, especially in corporate transparency management and ethical business practices. Therefore, their ethical leadership impacts overall corporate transparency and ESG management activities (Eisenhardt, Graebner, & Sonenshein, 2016). First of all, tax leaders' ethical leadership can contribute significantly to a company's financial transparency (Den Hartog & Belschak, 2012). Strengthen disclosure to provide information about the company's structure, functions, policies, and budgets with easy access to relevant data.

In addition, the ethical awareness and moral integrity of tax leaders directly affect the company's financial stability and tax compliance. Ethical leadership of tax leaders also achieves a desirable code of conduct within the organization. Furthermore, strengthening the ethical leadership of tax leaders provides best practices to other employees and strengthens the company's ethical culture (Mayer et al., 2013) and improves corporate transparency and ethics by fostering a desirable organizational culture and promoting organizational citizenship behavior (Brown & Mitchell, 2010).

However, despite this importance, there is still not enough research on the ethical leadership of corporate tax leaders. Additionally, previous studies have focused on measuring ethical or ESG management using quantitative indicators such as corporate financial data or valuation scores, and have concentrated on analyzing short-term effects on stock and financial performance (Elamer, Boulhaga, & Ibrahim, 2024; Seifzadeh, 2022). In these backgrounds, this study empirically examines the impact of ethical leadership among corporate tax leaders on ESG management, corporate transparency, and corporate performance. This study highlights the importance of ethical leadership of tax leaders in influencing ethical and ESG management. Additionally, this study examines specific implications for enhancing ethical leadership within an organization to improve corporate transparency and ESG performance.

Accordingly, this study is structured as follows: Section 2 describes the relationships between ethical leadership, corporate transparency, ESG management, and corporate performance based on previous studies. Section 3 proposes the research model, survey design, and data collection, as well as the analytical methods. Section 4 discusses the hypothesis testing. Section 5 elucidates key issues derived from the analysis. Finally, Section 6 provides academic implications and practical insights for enhancing the ethical leadership of tax leaders.

## 2. LITERATURE REVIEW

### *2.1. Organizational Ethics and Ethical Leadership*

Ethics refers to actions that follow ideal values or norms. Ethics is one of the concepts that have been emphasized recently for companies and is the virtue of a leader who leads an organization (Bello, 2012). Ethical management should be accompanied by the awareness and active participation of the ethics of members of the organization, not only by the ethics and efforts of the leader who must set a virtuous example for followers. Leaders should be desirable role models based on social learning theory, Bandura (1977), and should promote the members of the organization to make ethical decisions and actions (Brown et al., 2005).

For scholars who study organizational leaders, decision-making on ethical issues is one of the interesting research topics (Bass, Barnett, & Brown, 1999). Organizational members often encounter situations where making ethical decisions is challenging, known as ethical dilemmas. Leaders provide guidelines to organizational members to facilitate effective decision-making in situations where members face difficult ethical dilemmas (Abramson, 1985). The process of making ethical decisions is divided into four stages: the ethical sensitivity stage, the moral judgment stage, the intention stage, and the behavior stage (Craft, 2013; Rest, 1983). People are aware of the situation from an ethical perspective, make judgments, prioritize, and finally act.

Ethical ideology becomes important at the stage of moral judgment (Barnett, Bass, & Brown, 1994). This is because ethical ideology, which means values, beliefs, and attitudes related to ethical issues, presents guidance to individuals and becomes a criterion for judgment when making ethical decisions (Forsyth & Nye, 1990). Ethical ideologies are divided into idealism and relativism (Schlenker & Forsyth, 1977). Idealism refers to the attitude that an individual thinks that universal moral rules exist and must be followed without exception in any situation, and relativism is an attitude that rejects universal moral rules and believes there are exceptions when making moral judgments (Forsyth, 1980).

If an organization member is an ethical relativist within the organization, it is actually difficult for a leader's ethical leadership to affect an organization member because there are differences in basic assumptions about ethics, even if the leader demonstrates ethical leadership. The leader's ethical leadership will have a positive impact on members of the organization because idealists who think that universal humanitarian rules exist are consistent with leaders who emphasize moral behavior and norms and beliefs about ethics and morality. Ethical leadership has been explained by an approach based on justification based on philosophical ethics theory and social learning theory. From the perspective of philosophical ethics theory, ethical leadership includes the leader's behavior and character (Brown & Treviño, 2006; Kirkpatrick & Locke, 1991).

Leadership integrity and trustworthiness are closely related to leadership effectiveness (Kouzes & Posner, 1995). In addition, Treviño, Hartman, and Brown (2000) confirmed ethical leaders have the characteristics of making decisions based on principles. Ethical leaders not only practice their own ethical and virtuous character and behavior but also make active efforts to influence the unethical behavior of their followers. At this time, ethical leaders communicate with employees through ethics and values and function as role models by intentionally demonstrating ethical behavior (Brown et al., 2005; Treviño et al., 2000).

Ethical leadership allows followers to have emotional trust. In addition, when a leader exercises ethical leadership, subordinates increase satisfaction in their relationship with the leader, evaluate the leader's ability more highly, and are willing to make additional efforts in their duties (Brown et al., 2005). In order to be recognized as an ethical leader, it is necessary to have the appearance of a 'moral person' and at the same time a 'moral manager'. Moral human beings must have attributes such as individual legitimacy, truthfulness, reliability, openness, respect, and principled decision-making. A moral manager refers to communicating the importance of ethics as a leader with subordinates, setting ethical standards, and managing subordinates to fulfill their ethical responsibilities in accordance with those standards (Forsyth & Nye, 1990).

Therefore, ethics should be more emphasized by individuals themselves and they should lead their subordinates to behave ethically. Brown et al. (2005) defined ethical leadership as encouraging people to behave in accordance with norms in their behavior and relationships with others based on social learning theory, communicate in both directions, and engage in ethical behavior through normative decision-making processes. Therefore, ethical leadership is described as how leaders exert their own social power over others as moral people (Brown & Treviño, 2006).

### *2.2. Corporate Transparency and Ethical Leadership*

Accounting information has been recognized as a tool to alleviate information asymmetry between corporate insiders and outsiders (Healy & Palepu, 2001). However, managers who are responsible for preparing financial statements can deliver accounting information reflecting bias to information users to maximize their utility (Guidry, Leone, & Rock, 1999; Healy, 1985). External auditors, various internal monitoring organizations, and regulatory agencies exist to mitigate this distortion, but the important point is whether information users such as investors have sufficient ability to understand and interpret accounting information even if there is no distortion indication inherent in the financial statements (Lee, 2001). Institutional and foreign investors may perform sophisticated accounting analyses, and ordinary investors may also receive help from financial analysts.

However, it is difficult to perform a fundamental analysis using accounting information because most individual and potential investors rarely encounter accounting education in practice. Stakeholders who have not received accounting training experience considerable difficulty when they first encounter accounting-related terms (Albrecht & Sack, 2000). As such, the lack of understanding of accounting by stakeholders deepens information asymmetry, which may lead to a decline in the manager's monitoring function for accounting fraud (Dhaliwal, Naiker, & Navissi, 2010) and may find it difficult to accurately recognize accounting transparency (Angluin & Scapens, 2000).

In these backgrounds, accounting transparency means providing users with high-quality information. It can be defined as the degree of agreement between observable accounting profits and hard-to-observe but true economic profits (Bhattacharya, Daouk, & Welker, 2003). As a study related to accounting transparency, Bushman and Smith (2001) mention corporate transparency related to regular business performance, investment opportunities, and corporate risk. Barth and Schipper (2008) explain financial transparency as information representing the economic activities underlying financial reporting so that users of financial information can easily understand it.

Further corporate transparency refers to the accurate and complete disclosure of a company’s business activities, financial status, and decision-making processes to stakeholders. It is a crucial factor in enabling stakeholders to understand a company’s operations and build trust in its management (Awotomilusi, Adewara, Dagunduro, & Falana, 2023). Key characteristics of corporate transparency include ensuring that all disclosed information is accurate, fact-based, and reliable. Additionally, companies must disclose important information in a timely manner to maintain the relevance and timeliness of their reports. Companies should engage in effective dialogue with various stakeholders and clearly explain the background and process of their decision-making (Mbithi & Wasike, 2019). Additionally, a high level of transparency can reduce internal risks such as fraud and accounting irregularities, enabling companies to utilize resources more efficiently. This improved management efficiency can lead to enhanced corporate performance.

This corporate transparency has relationships with ethical leadership based on distributive fairness, procedural fairness, transparency, contribution, and honesty (Metwally, Ruiz-Palomino, Metwally, & Gartzia, 2019; Onyeneke & Abe, 2021). The concept of ethical leadership generally emphasizes the efforts of ethical leaders to normalize beliefs, values, and actions in accordance with moral principles, and emphasizes high aspirations, consideration, pride, and continued commitment. Ethical leaders, in particular, strive to achieve morally desirable outcomes while maintaining core values such as honesty, credibility, and moral integrity (Faraz, Ahmed, Ying, & Mehmood, 2021).

### *2.3. ESG Management and Ethical Leadership*

ESG is a concept that encompasses the environment, society, and governance and was first introduced in the European Union's United Nations Global Compact (UNGC) "Who Cares Wins" in 2004. Even before the advent of ESG management, companies had adopted strategies to increase social value, and in particular, the Corporate Social Responsibility (CSR) movement was actively developed. In a situation where ESG management is in the spotlight, companies are making efforts to present a prospect of receiving positive reviews in the market by minimizing negative issues in the areas of the environment, society, and governance and strengthening positive issues. Kahneman and Tversky (1984) proposed a theory that explains how decisions are made between risk-bearing alternatives. This theory corresponds to the expected utility theory (Von Neumann & Morgenstern, 1847).

First, the setting of the reference point depends on the subjectivity of the individual, and it is considered a loss if it is lower than the reference point, and a gain if it is higher. Second, sensitivity shows a more sensitive response when the change in profit or loss is small than when the change in profit or loss is large. Third, the tendency to avoid loss makes a loss feel greater than the profit. In the end, it is worth noting that even if it is a subjective reference point in decision-making, when a negative issue occurs compared to a positive issue, the impact is much greater. By applying prospect theory to ESG management, companies that do not have ESG negative issues can set a neutral reference point. Of course, when companies voluntarily disclose information, there is a risk of washing that emphasizes positive information due to the selective effect, but companies can expect to positively interact with various stakeholders such as customers, investors, and employees through social responsibility by implementing ESG management.

ESG management is a concept that expands shareholder-centered stakeholder capitalism and is a management philosophy that emphasizes a win-win approach with various stakeholders. Stakeholder capitalist scholars emphasized that companies can create economic value while fulfilling their social responsibilities based on a win-win philosophy (Kotsantonis, Pinney, & Serafeim, 2016). In the short term, there may be social responsibility investments that are contrary to economic performance, but the creation of shared value through win-win management can maximize social and economic values. In addition, ESG management should appear as a concrete effort to realize social values, not to improve its image. In the process of promoting ESG management, companies may benefit from the improvement of their ESG rating due to the positive response from the launch of environment-friendly products or the favorable effect of investors from improving governance, but steady social responsibility management is essential for sustainable development, and these efforts will increase corporate value through the formation of positive relationships with customers and investors (Gill, Moss, Beverly, & Thepthongsay, 2023; Zumente & Bistrova, 2021).

As ESG management expands corporate social responsibility to include ethical and philanthropic responsibilities (Carroll & Buchholtz, 2011), ESG management programs have become more structured, reinforcing ethical systems and strengthening leaders' ethical conduct within corporations (Krambia-Kapardis, Stylianou, & Savva, 2023). ESG management seeks to establish fair relationships with stakeholders through ethical practices and philanthropic obligations (Carroll & Shabana, 2010). Therefore, leaders must present an ethical mission, vision, and code of conduct at the organizational level, pursuing ethical rationality as role models (Kim, 2012).

Since the 2000s, most previous research on ethical leadership and ESG management has emphasized that an organization's ESG practices contribute to qualitative improvements across various business functions, thereby reinforcing the ethical behavior of leaders (Lee & Lee, 2002). De Hoogh and Den Hartog (2008) mention that ethical leadership and ethical behavior among leaders increase employees' awareness of and motivation to participate in ESG management, ultimately encouraging the organization to fulfill its social responsibilities actively. Similarly, Harako (2023) demonstrated that ethical leadership positively influences ESG management and corporate activities.

### *2.4. Ethical Leadership and Corporate Performance*

Corporations emphasize economic efficiency and evaluate their performance based on revenue, market share, and labor productivity. Adewara, Dagunduro, Falana, and Busayo (2023) defined corporate performance as the effective allocation of tangible and intangible resources to enhance corporate value and propose a long-term strategy. Similarly, Asubiojo, Dagunduro, and Falana (2023) explained that corporate performance involves efficient organizational resource management to establish the direction of the long-term strategy and maximize corporate value.

First, financial performance is measured using key financial factors such as profitability, cost reduction, stock price increase, and market share. Regarding the impact of ethical leadership on financial performance, ethical leadership fosters trust between companies and customers. Ethically managed firms achieve consumer confidence, which enhances customer loyalty and ultimately drives long-term revenue growth (Saha et al., 2020). Nguyen, Nguyen, and Thanh Hoai (2021) further stated that companies with strong ethical leadership can establish a positive reputation, increasing the likelihood of customers continuously purchasing their products and services. Ethical leadership helps prevent corruption and unethical behavior while strengthening internal controls to minimize legal risks and regulatory violations from a cost-reduction and operational efficiency perspective. Financial fraud and corruption can lead to significant legal expenses and penalties, but ethical leadership mitigates these risks and contributes to long-term cost savings (DiSegni, Huly, & Akron, 2015).

Additionally, Pham and Tran (2020) emphasized the ethical leadership role in securing investor trust and reducing capital costs. They argued that ethically managed firms provide transparent and reliable financial information, earning positive evaluations from investors and shareholders. This facilitates capital attraction, drives up stock prices, and reduces the cost of capital. The strong ethical leadership enhances risk management processes and minimizes legal and regulatory risks. When ethical leadership is reinforced, corporate operations remain stable, and this stability is positively reflected in financial markets, improving financial performance (Huang, Do, & Kumar, 2019).

On the other hand, non-financial performance includes factors that cannot be directly measured by financial indicators. Al Halbusi, Tang, Williams, and Ramayah (2024) explained that ethical leadership enhances employee satisfaction and engagement by fostering a sense of fairness among employees.

This contributes to increased job satisfaction and commitment, driving productivity and innovation. Employees become more willing to voluntarily dedicate their time to achieving organizational goals. Ethical leadership promotes positive values and behaviors such as trust, respect, and responsibility, thereby improving organizational culture. This type of culture facilitates collaboration and teamwork while fostering an environment conducive to innovation (Waheed & Zhang, 2022).

Moreover, ethical leadership helps minimize conflicts and encourages positive interactions among employees, enhancing organizational performance (Mostafa & Shen, 2020). Saha et al. (2020) explained that ethical leadership contributes to improving corporate reputation and brand image by strengthening corporate social responsibility (CSR) and fostering a perception of adherence to ethical standards. Hence, ethical leadership plays a crucial role in ensuring a company's long-term sustainability.

Additionally, ethical business practices help reduce legal risks, maintain smooth relationships with regulatory authorities, and assist organizations in adapting to market conditions while fulfilling social responsibilities, making them essential for achieving sustainable growth (Sarwar et al., 2020).

## 3. RESEARCH METHODS

### *3.1. Research Model and Hypothesis*

The research analyzed the impact of tax leaders' ethical leadership on corporate transparency, ESG management, and corporate performance. The research model was designed as Figure 1, based on the structural equation model.

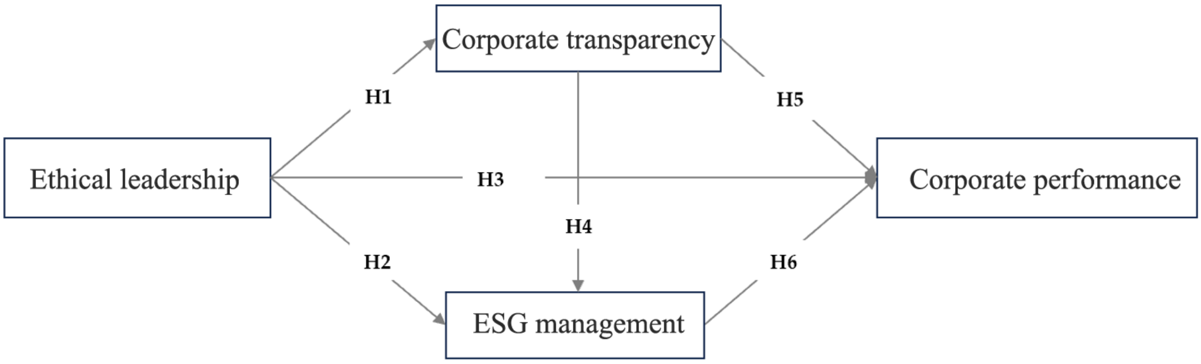


**Figure 1.** Research model.

#### *3.1.1. Ethical Leadership and Corporate Transparency*

Zahari and Said (2019) argued that a leader's ethical leadership is a crucial factor in strengthening corporate transparency. Asencio (2019) further emphasized that ethical leadership facilitates transparent decision-making, fosters a transparent organizational culture, and helps prevent fraud. Particularly, the ethical-leadership-based management practices of tax leaders can directly impact tax compliance and financial transparency by mitigating tax evasion risks (Luttmer, 2015; Said, Omar, Rafidi, & Syed Yusof, 2018; Zainal, Hashim, Salleh, Ariff, & Mohamad, 2022). Therefore, tax leaders can proactively prevent corruption and tax evasion while strengthening corporate transparency when they exercise their leadership to enhance financial transparency. This study formulated the following hypothesis:

*$H_1$: Ethical leadership in corporate tax leaders will have a positive (+) impact on corporate transparency.*

#### *3.1.2. Ethical Leadership and ESG Management*

Krambia-Kapardis et al. (2023) argue that ethical leadership helps corporate reputation and fosters employee trust, which in turn leads to greater engagement and commitment to ESG initiatives. Moreover, Florini (2007) explained that the ethical awareness and leadership of corporate accounting and financial organization leaders are crucial in operating and successfully leading an ESG management system. Harako (2023) argued that the ethics and transparency of corporate tax organization members and leaders must be enhanced from the governance perspective. This study planned the following hypothesis:

*$H_2$: Ethical leadership in corporate tax leaders will have a positive (+) impact on ESG management.*

#### *3.1.3. Ethical Leadership and Corporate Transparency*

The ethical leadership contributes to financial performance by increasing profitability through revenue growth, cost reduction, and lower capital costs (Das & Teng, 2003; Huang et al., 2019). In terms of non-financial performance, it offers various benefits such as improved employee satisfaction, customer satisfaction, organizational culture, and corporate reputation (Sarwar et al., 2020). The ethical leadership of corporate tax leaders is also expected to have a positive impact on corporate performance in both financial and non-financial factors. In light of these findings, this study formulated the following hypothesis:

*$H_3$: Ethical leadership in corporate tax leaders will have a positive (+) impact on corporate performance.*

### *3.1.4. Corporate Transparency and ESG management*

Hunton, Libby, and Mazza (2006) explained that the transparency of a company's accounting information can influence corporate social activities and ESG management. Zahid, Taran, Khan, and Chersan (2023) emphasized that corporate ethics and transparency are crucial in strengthening social activities within ESG initiatives. Similarly, Pillai, Islam, Kumar, and Almustafa (2024) argued that ESG management stems from leadership that pursues corporate morality and transparent management. Previous studies (Wanjau, Muturi, & Ngumi, 2018) suggest that corporate transparency positively influences ESG management activities. In light of these findings, this study formulated the following hypothesis:

*$H_4$: Corporate transparency will have a positive (+) impact on ESG management activities.*

### *3.1.5. Corporate Transparency and Corporate Performance*

Previous studies, including Musyoka (2017), Richard, Barnett, Dwyer, and Chadwick (2004), Rezaee, Olibe, and Minmier (2003), and Patel, Balic, and Bwakira (2002), have emphasized the importance of accounting transparency in achieving success in financial markets (Duffie & Lando, 2001; Gelos & Wei, 2002). The opacity of accounting increases information asymmetry and risk, which can raise capital costs and reduce liquidity, thereby potentially shrinking the capital market (Bhattacharya et al., 2003). Awotomilusi et al. (2023) suggested that transparency disclosure positively influences corporate performance through investor trust. Therefore, corporate transparency can significantly impact corporate performance. In light of these findings, this study formulated the following hypothesis:

*$H_5$: Corporate transparency activities will have a positive (+) impact on corporate performance.*

### *3.1.6. ESG Management and Corporate Performance*

Clark, Feiner, and Viehs (2015) defined that companies that disclosed ESG management indicators experienced improvements in financial performance. Hanson (2013) further emphasized that non-financial performance of the corporate governance, employee relations, customer satisfaction, and supplier partnerships are crucial assets of ESG management. Many studies Duque-Grisales and Aguilera-Caracuel (2021), Deng and Cheng (2019), and Li, Zhou, and Xiong (2020), suggest that ESG management promotes sustainable development through transparent and ethical business practices across all corporate activities. In these findings, this study formulated the following hypothesis:

*$H_6$: Corporate ESG management activities will have a positive (+) impact on corporate performance.*

### *3.2. Data Collection and Variables*

In this study, "ethical leadership" is defined as the actions of tax leaders within a company who enhance transparency and ethical standards in tax-associated operations through ethical and fair decision-making, equitable treatment, and honest communication based on moral principles and values. "Corporate transparency" refers to the accurate and complete disclosure of a company's business activities, financial status, and decision-making processes to stakeholders. "ESG management" represents the business operation by integrating governance, social responsibility, and environmental sustainability as essential management values. "Corporate performance" encompasses both financial performance, such as growth and profitability, and non-financial performance, including corporate reputation, trust, and market competitiveness. The study employed an online survey targeting tax leaders in South Korean companies. South Korea has approximately 17,000 certified tax accountants. The survey focused on tax leaders at the director level or higher, working in large companies across the manufacturing, service, and IT industries located in Seoul. To ensure reliability and validity, the survey was validated over a period of seven days. A total of 262 surveys were deemed valid and analyzed, collected from 13 August to 3 September 2024, spanning three weeks. Tax leaders within a company typically possess expert characteristics and are part of a community network that is not well underrepresented. Consequently, judgmental sampling was employed among non-probability sampling methods to conduct the survey. Initially, a sampling frame—comprising a list of population members necessary for sampling—was constructed. Subsequently, based on the researcher's expertise, the most suitable sample was selected to align with the study's purpose. The variables defined were structured into a total of 31 questionnaires based on previous research, as presented in Table 1. However, as shown in Table 4, as a result of exploratory factor analysis, two items of ethical leadership, four items of ESG management, and one item of corporate performance were rejected. According to the characteristics of the sample called tax leader, it is interpreted that items that are not significantly linked to their activities have been deleted. Accordingly, a total of 24 items were finally used for the analysis.

**Table 1.** Measurement items.

| Factor | Measurement Items | | Reference |
|---|---|---|---|
| Ethical leadership | | - Our tax leader emphasizes professional ethics with employees.<br>- Our tax leader strives to provide employees with more benefits.<br>- Our tax leader is ethical.<br>- Our tax leader leads by example in handling work from an ethical perspective.<br>- Our tax leader imposes strict penalties on employees who violate ethical standards.<br>- Our tax leader evaluates work performance based not only on the results but also on the process.<br>- Our tax leader encourages employees to do what is right for society. | Kasemsap (2016); Mostafa and Shen (2020) and Onyeneke and Abe (2021) |
| Corporate transparency | | - Our company transparently discloses corporate information to stakeholders (shareholders, the board of directors, customers, etc.)<br>- Our company discloses management-related reports, including ESG activity reports and ethical management reports.<br>- Our company ensures accounting transparency by adhering to accounting principles.<br>- Our company discloses the discussions and activities of the board of directors. | Healy and Palepu (2001); Bushman and Smith (2001) and Wanjau et al. (2018) |
| ESG management | Environment | - Our company uses eco-friendly renewable energy sources (such as LED lighting, solar power, etc.) to improve energy consumption efficiency.<br>- Our company implements systems and programs to protect the natural environment.<br>- Our company provides the public with eco-friendly policies and green initiatives.<br>- Our company manages household waste and promotes recycling. | Koh, Burnasheva, and Suh (2022); Garcia et al. (2017) and Wang and Esperança (2023) |
| | Social | - Our company plays a positive role in community development.<br>- Our company provides welfare support for vulnerable groups such as individuals with disabilities and pregnant women.<br>- Our company supports charitable activities to address issues related to the aging population.<br>- Our company promotes job creation, including fostering local talent and youth employment. | |
| | Governance | - Our company has a reliable governance and organizational structure.<br>- Our company operates a trusted corporate governance structure with professional management.<br>- Our company has maintained a well-established integrity and ethical system.<br>- Our company values customer communication and engagement. | |
| Corporate performance | Financial Performance | - Our company has been improving the current ratio (liquidity).<br>- Our company has been steadily decreasing the debt ratio (stability).<br>- Our company has seen continuous improvement in the operating profit margin (profitability).<br>- Our company has been consistently increasing the revenue growth rate (potential growth). | Das and Teng (2003); Hubbard (2009) and Awotomilusi et al. (2023) |
| | Non-Financial Performance | - Our company has a good reputation among customers.<br>- Our company is well known to many people.<br>- Our company is a trusted.<br>- Our company has strong market competitiveness. | Phillips (1999) and Sarwar et al. (2020) |

## 4. RESULTS

### *4.1. Demographic Information*

Regarding gender, 82.1% of the participants were male and 17.9% were female. Regarding age, those 50 years and older made up the majority at 51.9%, those in their 40s accounted for 32.1%, those in their 30s comprised 15.3%, and those under 30 represented 0.8%. Regarding educational background, 61.1% held a bachelor's degree and 33.6% graduated from university. Regarding work experience, 53.1% had 20 years or more of experience, 33.2% had 10 to 20 years, and 13.7% had less than 10 years. Regarding company size, 42.7% of the respondents worked in small- and medium-sized enterprises (SMEs), 32.4% in medium-sized enterprises, and 21% in large companies (see Table 2).

**Table 2.** Demographic information of survey participants.

| Classification | | Frequency | Percentage (%) |
|---|---|---|---|
| Gender | Male | 215 | 82.1 |
| | Female | 47 | 17.9 |
| Age | Under 30 | 2 | 0.8 |
| | 30 to 40 | 40 | 15.3 |
| | 40 to 50 | 84 | 32.1 |
| | Above 50 | 136 | 51.9 |
| Education | Highschool | 14 | 5.3 |
| | University | 160 | 61.1 |
| | Graduated University | 88 | 33.6 |
| Work experience | Less than 10 years | 36 | 13.7 |
| | 10 to 20 years | 87 | 33.2 |
| | More than 20 years | 139 | 53.1 |
| Corporation size | Small- and Medium-sized enterprises | 112 | 42.7 |
| | Medium-sized enterprises | 85 | 32.4 |
| | Large companies | 55 | 21 |
| | Small enterprises | 10 | 3.8 |

### *4.2. Analysis Results of Reliability and Validity*

A descriptive statistical analysis of the variables was conducted (see Table 3). First, it was found that the mean of ethical leadership was 3.19 with a standard deviation of 1.21. The mean of corporate transparency was found to be 3.46 with a standard deviation of 1.23. The mean of ESG management was found to be 3.47 with a standard deviation of 1.18. The mean of corporate performance was found to be 3.32 with a standard deviation of 1.17.

**Table 3.** Descriptive statistical analysis results.

| Variable | N | Mean | Standard deviation | Skewness | Kurtosis |
|---|---|---|---|---|---|
| Ethical leadership | 262 | 3.19 | 1.21 | -0.098 | 1.841 |
| Corporate transparency | 262 | 3.46 | 1.23 | -0.427 | 2.010 |
| ESG management | 262 | 3.47 | 1.18 | -0.380 | 1.937 |
| Corporate performance | 262 | 3.32 | 1.17 | -0.134 | 1.689 |

As shown in Table 4, the construct validity (CV) was significant, ranging from 0.883 to 0.911, and the factor loadings were good, ranging from 0.582 to 0.891. The average variance extracted (AVE) values ranged from 0.502 to 0.653. Cronbach's α values ranged from 0.884 to 0.911. The results indicate that the convergent validity of the instrument is satisfactory. Further, Bartlett's Test of Sphericity exhibited a value below 0.001, and the KMO measure of sampling adequacy demonstrated an adequate level of suitability at 0.94, thereby confirming the appropriateness of employing factor analysis.

**Table 4.** Results of reliability and convergent validity tests.

| Variable | Measurement question | Factor loadings | C.R. (p) | CV | AVE | Cronbach's α |
|---|---|---|---|---|---|---|
| Ethical leadership | EL1 | 0.692 | 11.652*** | 0.894 | 0.63 | 0.893 |
| | EL2 | 0.878 | 15.234*** | | | |
| | EL3 | 0.891 | 15.54*** | | | |
| | EL4 | 0.702 | 12.259*** | | | |
| | EL5 | 0.756 | | | | |
| Corporate transparency | CT1 | 0.869 | 15.339*** | 0.883 | 0.653 | 0.884 |
| | CT2 | 0.682 | 12.652*** | | | |
| | CT3 | 0.845 | 14.965*** | | | |
| | CT4 | 0.764 | | | | |
| ESG management | ESG1 | 0.593 | | 0.888 | 0.502 | 0.888 |
| | ESG2 | 0.674 | 8.859*** | | | |
| | ESG3 | 0.582 | 7.982*** | | | |
| | ESG4 | 0.627 | 8.538*** | | | |
| | ESG5 | 0.740 | 9.654*** | | | |
| | ESG6 | 0.763 | 9.819*** | | | |
| | ESG7 | 0.799 | 9.947*** | | | |
| | ESG8 | 0.749 | 9.535*** | | | |
| Corporate performance | CP1 | 0.706 | | 0.911 | 0.595 | 0.911 |
| | CP2 | 0.674 | 12.959*** | | | |
| | CP3 | 0.697 | 13.769*** | | | |
| | CP4 | 0.706 | 13.769*** | | | |
| | CP5 | 0.767 | 12.349*** | | | |
| | CP6 | 0.832 | 13.539*** | | | |
| | CP7 | 0.820 | 13.465*** | | | |

**Note:** *** $p<0.001$.

The goodness-of-fit analysis revealed a χ2 (df) of 752.196. TLI (Tucker–Lewis Index) was 0.865, and CFI (Comparative Fit Index) was 0.880, both above 0.8. SRMR (Standardized Root-Mean-Square Residual) was 0.065, and RMSEA (Root-Mean-Square Error of Approximation) was 0.865, both below 0.1. These results indicate that the measurement model fits the constructs statistically significantly (see Table 5).

**Table 5.** Confirmatory factor analysis.

| χ2 | df | p | TLI | CFI | RMSEA | | | SRMR |
|---|---|---|---|---|---|---|---|---|
| | | | | | Value | Lower bound | Upper bound | |
| 752.196 | 246 | 0.000 | 0.865 | 0.880 | 0.089 | 0.082 | 0.096 | 0.065 |

As demonstrated in Table 6, the analysis indicated that the value did not exceed the AVE. The squared correlation coefficient was calculated for each variable to evaluate discriminant validity.

**Table 6.** Discriminant validity.

| | ESG management | Ethical leadership | Corporate transparency | Corporate performance |
|---|---|---|---|---|
| Ethical leadership | **0.709** | | | |
| Corporate transparency | 0.765*** | **0.794** | | |
| ESG management | 0.750*** | 0.631*** | **0.808** | |
| Corporate performance | 0.734*** | 0.570*** | 0.634*** | **0.772** |

**Note:** The square root of AVE is shown in bold letters.

### *4.3. Hypothesis Analysis Results*

As shown in Table 7, the resulting $\chi^2$ (df) value was 429.217, with a corresponding $\chi^2$/degree-of-freedom value of 2.085. The model demonstrated satisfactory performance, and the model's goodness-of-fit was significant, with a GFI (Goodness-of-Fit Index) of 0.865 and an NFI (Normal Fit Index) of 0.890. RMR (Root-Mean-Square Residual) was 0.074, RMSEA was 0.064, AGFI (Adjusted Goodness-of-Fit Index) was 0.829. CFI indicates the explanatory power of the model was 0.939, and TLI was 0.929, which determines the explanatory power of the structural model. These values of the basic model indicate a good fit.

Hypothesis testing resulted in the rejection of two of the six hypotheses. Ethical leadership (-0.916) and corporate transparency (1.58) had no effect on corporate performance; thus, those hypotheses were rejected. On the other hand, ethical leadership had a positive effect on corporate transparency (8.772, p<0.001) and ESG management (6.011, p<0.001). Corporate transparency had a positive effect on ESG management (5.900, p<0.001), and ESG management had a positive effect on corporate performance (5.018, p<0.001).

Table 7. Results of hypothesis test.

| | Hypothesis (Path) | Estimate | S.E. | β | C.R. (p) | Support |
|---|---|---|---|---|---|---|
| H1 | Ethical leadership → Corporate transparency | 0.692 | 0.079 | 0.652 | 8.772*** | Accepted |
| H2 | Ethical leadership → ESG management | 0.367 | 0.061 | 0.477 | 6.011*** | Accepted |
| H3 | Ethical leadership → Corporate performance | -0.077 | 0.084 | -0.086 | -0.916 | Rejected |
| H4 | Corporate transparency → ESG management | 0.339 | 0.058 | 0.469 | 5.900*** | Accepted |
| H5 | ESG Management → Corporate performance | 0.876 | 0.175 | 0.751 | 5.018*** | Accepted |
| H6 | Corporate transparency → Corporate performance | 0.127 | 0.080 | 0.151 | 1.58 | Rejected |

**Note:** Structural model fit: $\chi^2$(df), 429.217; $\chi^2$/degree of freedom, 2.085; RMR, 0.074; GFI, 0.865; AGFI, 0.829; NFI, 0.890; TLI, 0.929; CFI, 0.939; RMSEA, 0.064; * p<0.05, ** p<0.01, *** p<0.001.

### *4.4. Results of Mediated Effect*

A bootstrapping method was analyzed to derive the direct, indirect, and total effects (see Table 8). The path analysis revealed that ethical leadership, corporate transparency, and ESG management served as direct and indirect mediating effects. However, ethical leadership had a negative effect on corporate performance. Unlike ESG management, which had a direct mediating effect, ethical leadership and corporate transparency exerted their influence through indirect mediating effects. This indicates that their impact on corporate performance was not necessarily positive.

**Table 8.** Results of mediated effect.

| Dependent variable | Explanatory variable | Direct effect | Indirect effect | Total effect |
|---|---|---|---|---|
| Corporate performance | Corporate transparency | 0.353*** | - | 0.353*** |
| | | 0.387*** | 0.307*** | 0.694*** |
| | ESG management | 0.662*** | - | 0.662*** |
| | | 0.599*** | 0.475*** | 1.074*** |

**Note:** *** p<0.001.

## 5. DISCUSSION

This study empirically examined the impact of ethical leadership among corporate tax leaders on corporate transparency, ESG management, and corporate performance. Additionally, it explored how ethical leadership influences corporate performance through the mediating effects of corporate transparency and ESG management.

First, ethical leadership does not have a direct impact on corporate performance; instead, it affects corporate performance indirectly through the mediating effects of ESG management and corporate transparency. This finding contrasts with previous studies (Saha et al., 2020; Sarwar et al., 2020), which suggested that the ethical leadership of top executives directly influences corporate performance. The ethical leadership of high-level executives can have a direct impact on corporate performance since it is closely tied to financial risks. However, since tax leaders do not directly influence decision-making or performance management as part of the organization's leadership group, the different results can be understood. Ultimately, the ethical leadership of organizational leadership groups, rather than high-level executives, can lead to corporate performance when it creates synergy with ethical management activities such as corporate transparency and ESG management. As Al Halbusi et al. (2024) argued, ethical leadership in organizational members can enhance the ethical organization and increase the transparency of management systems rather than directly influencing performance. Similarly, it was confirmed that the ethical leadership of tax leaders positively influences corporate transparency and ESG management activities, rather than directly affecting performance.

Second, the findings indicated that corporate transparency does not directly impact corporate performance, but it plays a mediating role in the relationship between ethical leadership and corporate performance, along with ESG management. Corporate transparency can enhance an ethical organization and increase the transparency of management systems rather than directly influencing performance. This study confirms that corporate transparency, rather than directly affecting performance, can be defined as a factor that positively influences the ESG management activities of leaders who have ethical leadership. Ultimately, ethical leadership and transparency can have indirect effects that enhance organizational sustainability and reputation rather than driving short-term financial performance. Therefore, this study highlights that companies could integrate ESG management to enhance organizational culture and value rather than merely focusing on ethical leadership or improving transparency in isolation.

Third, ESG management directly impacts corporate performance and is a mediating factor between ethical leadership in tax leaders and corporate performance. Kim and Li (2021) suggested that ESG management influences corporate financial performance. Rodríguez-Fernández, Sánchez-Teba, López-Toro, and Borrego-Domínguez (2019) and Dey, Bhattacharjee, Mahmood, Uddin, and Biswas (2022) argued that ESG management enables sustainable development by promoting transparent and ethical business practices across all corporate activities. The research findings align with previous empirical findings, and it highlights that ethical leadership and corporate transparency positively contribute to ESG management activities. Moreover, it was confirmed that non-financial factors such as social responsibility, environmental activities, relationships with employees, customers, business partners, and governance are important assets that determine future price competitiveness and profitability, thereby enhancing corporate value and positively impacting both short- and long-term business performance. Therefore, ESG management should be recognized as a strategic business practice that enhances corporate ethics and transparency while directly contributing to corporate performance.

## 6. CONCLUSION

### *6.1. Research Implications*

The findings indicate specific implications for the influence of ethical leadership among tax leaders, a key role in corporate ESG management and transparency, in contrast to previous studies that primarily focused on the relationship between corporate ethics, transparency, ESG management, and corporate performance. Specifically, the findings that ethical leadership in tax leaders positively impacts corporate transparency and ESG management suggest that the ethical duties and decision-making of tax leaders play a crucial role in enhancing both internal and external transparency and social responsibility activities within the company.

There are many prior studies on corporate ethical leadership, but few studies have been conducted on members of organizations in charge of finance and tax affairs. In this respect, this study has academic significance in that it deals with the ethical leadership of tax leaders in the organization. In addition, most of the existing ethical leadership studies focus on the impact on organizational behavior or corporate performance. Therefore, this study is of academic value in that it empirically verifies the relationship between ethical leadership, ESG management, and corporate transparency.

The results of this study also present three practical implications. First, to strengthen the ethical leadership of tax leaders, companies should implement an ethical environment by providing education on ethical behavior and decision-making so that they can understand and apply ethical standards. In addition, training programs such as regular workshops and seminars should be provided to help tax leaders respond to changes in the latest tax laws and ethical standards. Organizations should provide ethical decision-making guidelines for all employees to clearly define their ethical codes and to ensure that tax professionals make the right decisions when ethical decisions are needed. By establishing a communication channel related to this, a system should be established for employees to report anonymously when ethical issues or concerns arise. This allows employees to raise issues without hesitation whenever difficulties arise. Such support can contribute to creating an environment in which tax leaders can comply with ethical standards and demonstrate ethical leadership.

Second, regular training on tax-related regulations, legal requirements, and ethical obligations should be conducted to create an environment where employees can comply with regulations and perform their duties responsibly. Recognizing the importance of corporate transparency through these training programs, tax leaders should be able to report financial and tax-related information accurately and transparently. Tax-related procedures and reports should be regularly reviewed and audited for transparent information reporting. Strengthening internal control systems to prevent errors or inconsistencies will increase the transparency and reliability of information and help prevent internal fraud within the organization. In addition, there is a need to strengthen open communication with stakeholders such as shareholders, customers, and employees about tax-related issues or the company's financial situation. In addition, a safe channel should be established to report potential misconduct or illegal acts that may occur internally or externally.

Third, it is important to establish tax policies that reflect ESG principles, and tax leaders must clearly and transparently report corporate tax information along with ESG-related indicators to ensure that corporate tax strategies integrate environmental and social responsibility while highlighting their commitment to corporate social responsibility. It is also important not only to reflect ESG principles but also to clarify how tax strategies align with ESG goals, and it is necessary to propose ESG corporate ratio strategies that outline how to achieve them. Therefore, tax leaders need to emphasize the importance of ESG management within the company and raise awareness of social responsibility to encourage the active participation of all employees. It is also important to implement education and training programs to help tax leaders understand the relationship between ESG principles and taxes. This will help raise awareness of the impact ESG management has on the company and promote a more informed approach to ESG and tax-related decisions.Finally, tax is no longer just a cost factor but a tool to create socioeconomic integration, environmental value creation, and long-term prosperity. Tax, an important factor in the ESG transition, reflects a company's social contribution and affects all ESG transition processes. It is necessary to establish the government's environmental tax and incentive policies and corporate tax strategies to respond to them.

Governments around the world are developing net-zero strategies and extensive plans for a sustainable society and are increasingly focusing on policy instruments such as low-carbon technologies and incentives to improve employee skills. In response, governments should use taxes to encourage emissions reduction and circular economy development, and companies should review how they should adjust their tax strategies to support changes in their operational, investment prospects, and employment practices.

### *6.2. Research Limitations and Future Plans*

The results and implications of this study contribute to enhancing the understanding of ethical leadership in corporate tax leaders and provide more specific insights into improving corporate transparency and ESG management for corporate performance. Nevertheless, this study has the following limitations:

As this study was targeted at tax leaders and the managerial level in South Korean companies, there are limitations in terms of generalizing the results to other countries or industries. Each country's economic, legal, and social environment is different. Future research can explore variations in national and organizational cultures. Additionally, the perception of business managers and tax leaders varies depending on the size and type of organization. Future research should consider these differences and expand to other countries and industries.

Second, while this study focuses on ethical leadership as a main variable, the indirect effects of ethical leadership on corporate performance need to be analyzed through ESG management. This means that individual factors such as personal gain, monetary temptation, and career, as well as organizational factors such as job satisfaction, organizational distrust, competition, and work pressure, which could significantly impact corporate performance, were not fully considered. As a result, the explanatory limitations could affect the research findings. Therefore, future research should incorporate qualitative methods such as interviews or case studies to collect various variables and develop more comprehensive research models, while also analyzing the interactions between each variable.

Third, this study does not provide insights into how ethical leadership, corporate transparency, and ESG management activities may differ over time. Given that individuals' behavioral intentions regarding ethical leadership could change over time, research on the long-term effects is required. Future research should be conducted to analyze the long-term effects of ethical leadership on attitudes, corporate transparency, and ESG management. A longitudinal study should be carried out to observe changes over time and trace them down.

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**Transparency:** The authors state that the manuscript is honest, truthful, and transparent, that no key aspects of the investigation have been omitted, and that any differences from the study as planned have been clarified. This study followed all writing ethics.
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