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## Ethics *for* Human Flourishing

*Trust, Voice, Dignity, and Sustainable Institutions*

Featuring selected papers from the  
2026 Ethics Paper Competition at  
Anderson University and Christ University

SPECIAL ISSUE

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The 2026 Ethics Paper Competition brought together student scholars from Anderson University and Christ University to examine one of the most urgent questions facing contemporary organizations and societies: How can ethical life be sustained in institutions shaped by ambition, power, technological change, generational transition, and global sustainability pressures? The theme of this special issue, **Ethics for Human Flourishing: Trust, Voice, Dignity, and Sustainable Institutions**, is reflected across the seven papers included here. Together, these papers explore ethics not simply as a matter of individual decision-making, but as the moral architecture that determines whether people, organizations, and communities can flourish.

Across the papers, a central insight emerges: ethics becomes most visible where relationships are most vulnerable. When ambition is pursued without restraint, trust deteriorates. When power becomes self-protective, voice is silenced. When institutions measure success only by growth, money, or status, dignity becomes negotiable. Yet the papers also offer a hopeful vision. They suggest that moral maturity, intergenerational learning, psychological safety, transparent governance, and sustainable finance can reshape organizations into places where human beings are not merely resources, but people whose dignity and voice matter.

The issue opens with Ngan Dao's paper, "When Ambition Overrides Moral Duty: Reputation, Power, and Ethical Regression in Workplace Relationships." Dao frames the competition theme through deontological ethics and Kohlberg's stages of moral development, asking what happens when the pursuit of reputation, wealth, and power overrides moral duty. The paper argues that colleagues and employees must never be reduced to tools for personal advancement because they possess inherent value and must be respected as ends in themselves. Through workplace examples, Dao shows how ambition can shift moral reasoning downward,

from principled responsibility to image protection, self-interest, and blame avoidance. The essay places dignity at the center of ethical reflection: ambition is not condemned in itself, but it becomes morally dangerous when it causes people to treat others as instruments rather than persons.

Nicole Poston's paper, "The Ethical Consequences of Excessive Pursuit of Fame, Fortune, and Power on Workplace Relationships," builds on this foundation with a broader theoretical analysis of ambition in leadership. Poston argues that ambition can serve collective flourishing, but becomes harmful when it is selfish, excessive, and disconnected from moral restraint. Using utilitarian ethics, deontological duty, and Kohlberg's moral development theory, the paper shows how the excessive pursuit of fame, fortune, and power can erode trust, fairness, ethical voice, and collaboration. The ethical problem is not achievement, recognition, or authority themselves. The problem is ambition detached from responsibility. Leadership effectiveness, therefore, must be judged not only by results, but also by moral reasoning, restraint, and relational impact.

Rese Ruffin's paper, "The Laundering of Power: Leadership Rhetoric, Moral Arrest, and the Erosion of Organizational Life," deepens the discussion by examining how excessive power can disguise itself as strong leadership. Ruffin argues that power seeking is often misread as confidence, decisiveness, or vision, even when it masks coercion, manipulation, or relational harm. Through deontological ethics and Kohlberg's theory of moral development, the paper shows how leaders may rationalize unethical behavior when they operate from lower stages of moral reasoning. Ruffin's analysis identifies relational breakdown as an early warning sign of ethical failure. Before scandal becomes public, trust becomes conditional, candor becomes unsafe, and employees begin to perform loyalty rather than practice honesty. Organizations do not collapse ethically all at once. They erode through small compromises that make silence feel safer than truth.

The fourth paper, Vishakha Damani's "Cognitive Dissonance and Its Resolution in Reverse Mentoring Among Senior Leaders in Startups," shifts the issue from ethical decline to ethical development. Damani explores how reverse mentoring, where younger employees share digital, cultural, and generational knowledge with senior leaders, can challenge traditional hierarchies and support moral growth. Drawing on Festinger's Cognitive Dissonance Theory and

Kohlberg's moral development, the study examines how senior leaders respond when assumptions about authority, expertise, and leadership identity are disrupted. The paper identifies six constructs: metamorphic leadership, constructive cognitive tension, catalytic reverse mentoring, leadership agility, generational synergy, and psychological safety. Together, these concepts show how discomfort can become a pathway to humility, innovation, and principled leadership. Damani's work offers an important corrective: while ambition and power can produce moral regression, structured learning relationships can also produce moral renewal.

Ankita Sharma's paper, "Decoding Gen Z Workforce Attrition: A Quantitative Study on Workplace Expectations, Values, and Retention Strategies," brings the theme into the lived realities of a new generation entering the workforce. Sharma examines how motivation, psychological factors, workplace expectations, flexibility, recognition, learning opportunities, and mental health support influence Gen Z retention and attrition. The paper argues that traditional retention strategies often fail because Gen Z employees seek more than salary or job security. They also value purpose, autonomy, inclusivity, communication, psychological support, and alignment between personal values and workplace culture. Gen Z attrition is not merely a staffing problem. It is an ethical signal that workplaces may be failing to create environments where young employees feel seen, supported, and able to flourish.

The sixth paper, S. Devi Priya's "The Influence of Outcome-Based Ethical Performance on Foreign Direct Investment and Tourism Flows: A Panel Data Study," expands the conversation beyond workplace relationships into the global economy. Priya uses teleological ethics to examine how measurable ethical outcomes, especially environmental, social, and governance indicators, influence foreign direct investment and tourism flows. The paper argues that investors and tourists increasingly respond to ethical performance as a signal of trust, sustainability, institutional quality, and reduced risk. This study moves ethics from intention to impact. Ethical performance is not treated merely as a statement of values, but as a visible outcome that shapes international confidence and economic behavior. By connecting ethical outcomes with FDI and tourism, the paper shows that sustainable institutions are both morally desirable and economically impactful.

The issue concludes with Anuj Gupta and Sara Gupta's "Green Finance and Sustainable Development in India's BFSI Sector: Trends, Ethics, and the Future." This paper examines how

India's banking, financial services, and insurance sector is responding to climate change, green finance, ESG expectations, regulation, technology, and greenwashing risk. The authors argue that green finance in India is moving from scattered CSR-driven initiatives toward a more structured, regulated, and strategically aligned system. They analyze green bonds, green loans, green deposits, ESG funds, AI, blockchain, and fintech, while identifying ongoing ethical challenges such as data quality, funding gaps, greenwashing, and inclusion for MSMEs and smaller green projects. This final paper locates ethics within institutional systems, showing that human flourishing requires financial structures, regulatory frameworks, and technologies that direct capital toward sustainability, transparency, and justice.

Taken together, these seven papers form a coherent and timely conversation. The first three papers diagnose the ethical dangers of unrestrained ambition and power. The fourth and fifth papers explore how organizations can become more adaptive, inclusive, and responsive through reverse mentoring and attention to Gen Z expectations. The final two papers extend the ethical lens to global and institutional systems, showing how measurable ethical performance and sustainable finance shape investment, tourism, climate resilience, and long-term development.

This sequence creates a movement from the person to the organization to the institution. It begins with the inner moral life of leaders and employees, moves outward to workplace relationships and generational change, and concludes with the larger systems that distribute capital, shape development, and determine whether sustainability is merely a slogan or a measurable reality. The shared message is clear: ethics is not peripheral to organizational success. Ethics is the condition that makes genuine success possible.

The papers in this special issue invite readers to reconsider what it means for institutions to flourish. A flourishing institution is not one that simply grows, wins, or accumulates power. It is one that protects dignity, encourages voice, sustains trust, and aligns its practices with the long-term good of people and communities. In this sense, the 2026 Ethics Paper Competition offers more than student research. It offers a moral vision for leadership and institutional life in a world where success must be measured not only by what organizations achieve, but by what they become in the process.

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**Ngan Dao**

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### **Introduction**

This paper seeks to deepen and improve our understanding of business ethics in services by developing a typology that reconciles and integrates disparate and often conflicting ideas and viewpoints while providing practical guidance for ethical decision-making (Tsiotsou et al., 2024).

In today's modern working environment, many people constantly desire higher positions, greater recognition, and especially more resources (Judge & Kammeyer-Mueller, 2012). Reputation and wealth always bring numerous career opportunities and grant significant social influence. However, when individuals become overly focused on what is called fame and power, surrounding relationships can easily collapse, as people become blinded by ambition. This paper uses two theoretical frameworks, deontological ethics and Kohlberg's stages of moral development, to analyze how excessive ambition can cause individuals to lose their moral grounding and undermine respect, trust, and fairness among people in the workplace (Kohlberg, 1981; Judge & Kammeyer-Mueller, 2012).

#### **Deontological Ethics: Human Beings as Values That Must Be Respected**

Deontological ethics emphasizes that moral correctness is not evaluated solely based on outcomes, but rather on whether an individual fulfills moral duties during the process of action

(Britannica, 2005, Dec. 19). In the workplace context, some fundamental duties include respecting human dignity, being honest in communication, ensuring fairness in evaluation and task allocation, and refraining from abusing power to pressure those in weaker positions. From this perspective, colleagues and employees are not tools to serve personal goals, but capable individuals with inherent value who must be respected as ends in themselves (Kant, 1785/1993).

When a person excessively pursues reputation and power, they tend to revert to a deeper, more self-centered instinct, prioritizing personal interests over moral duties (Kohlberg, 1981; Judge & Kammeyer-Mueller, 2012). Simple examples include claiming credit for collective efforts, concealing information to maintain an advantage, or avoiding responsibility for one's own mistakes by making excuses or shifting blame onto others. Although such behaviors may contribute to career advancement, they clearly violate fundamental moral duties, particularly honesty and respect.

### **Kohlberg and the “Regression” in Moral Reasoning When Ambition Exceeds Limits**

According to Kohlberg (1981), individuals do not always operate under the same moral standards. When making decisions, people may act at different levels of moral maturity depending on their circumstances and lifestyles. These levels do not merely indicate whether one is “right or wrong,” but rather reflect how one reasons before taking action.

As a student at an age full of desire and eagerness to gain real-world experience, I aspire to enter practical working environments to accumulate experience and avoid confusion later on. Through part-time jobs, I have had several real-life experiences that illustrate different moral stages. I once worked at a family-owned restaurant in Vietnam with a large number of customers and many employees supervised by managers. As an introduction to my real-life example from a

moral perspective, the restaurant served pho, a soup-based dish that is heavy and difficult to carry, making service prone to mistakes.

Below is the transitional process of moral reasoning.

Kohlberg divided moral development into three major levels.

### **First, the Pre-conventional Level: Self-centered Thinking**

At this level, individuals tend to ask themselves questions such as: “Does this benefit me?” or “Will I be punished or lose something?” The primary motivation is avoiding risk and prioritizing personal gain (Kohlberg, 1981; Judge & Kammeyer-Mueller, 2012). This is not inherently wrong when one seeks to protect oneself from trouble that is not self-inflicted; however, it becomes problematic when one attempts to evade responsibility for personal mistakes.

In the workplace, this can manifest as hiding one’s errors to avoid punishment, taking credit for others’ work to receive rewards, or helping others only when it benefits oneself.

On the surface, such individuals may be viewed as “smart” or “calculating,” but from an ethical standpoint, this represents a low level of moral reasoning, as others are not regarded as individuals with intrinsic value, but merely as variables affecting personal benefit.

A typical example I encountered involved coworkers avoiding carrying heavy dishes. Despite the restaurant having many employees, they often hoped others would handle difficult tasks, pretending to be busy to avoid personal inconvenience. This clearly illustrates self-serving behavior that leads to responsibility being shifted among employees (Kohlberg, 1981).

### **Second, the Conventional Level: Protecting Image and Social Position**

At this level, individuals are highly concerned with how others perceive them, adhering to organizational norms and striving to maintain status and reputation. Common questions

include: “What will others think of me?” and “Will I lose my position?” In contexts involving reputation and power, people often fear appearing inferior or being judged negatively, striving to preserve a flawless image while avoiding inconvenient truths (Judge & Kammeyer-Mueller, 2012). Although they may follow procedures correctly, this does not necessarily equate to moral correctness.

Individuals excessively driven by reputation and social image at this level prioritize organizational prestige, expectations from superiors, and competitive culture over fairness, truth, and respect for human beings (Kohlberg, 1981; Moody-Adams, 2025).

For example, our manager often assisted with taking orders when the restaurant was overwhelmed and also trained employees. One day, a group of around 20 customers arrived unexpectedly, making order-taking highly error-prone and anxiety-inducing. Since most employees were occupied, only the manager and I could take orders. We divided the work, with me taking fifteen bowls of pho and her taking five. When inputting the orders into the system, I offered to help input her portion to avoid mistakes. However, with the restaurant owner present, she refused any shared responsibility and shouted at me, insisting that she was only responsible for her own orders. This clearly demonstrated her desire to protect her standing with the owner rather than fulfilling her managerial responsibility to supervise and support employees (Kohlberg, 1981).

### **Third, the Post-conventional Level: Placing Moral Principles Above Personal Interests**

At the highest level of moral maturity, individuals prioritize human dignity, uphold fairness as a core value, and are willing to do what is right even when it puts them at a disadvantage (Kohlberg, 1981). Such individuals willingly share credit, take responsibility for mistakes, and protect vulnerable members within an organization. Power, in this sense, is not

merely something to possess but a responsibility to serve and protect the collective (Kant, 1785/1993).

Kohlberg's framework helps explain why some individuals become more successful over time while simultaneously experiencing moral regression. This is not due to ignorance of right and wrong, but rather fear, fear of losing status, pressure from reputation, or the pursuit of power, that pushes individuals toward lower levels of moral reasoning.

I was fortunate to work with a colleague who exemplified ethical professionalism. He consistently volunteered for tasks prone to error and criticism, openly admitted mistakes, and never shifted blame onto others. He became a moral role model that reinforced my belief that ethical professionalism still exists.

### **The Ethical Consequences of Excessive Ambition**

Ambition is typically defined as “the persistent and generalized striving for success, attainment, and accomplishment” (Judge & Kammeyer-Mueller, 2012). When excessive ambition alters moral reasoning, core values and dignity begin to erode. In the workplace, individuals may initially act fairly and respectfully, operating at the post-conventional level. However, as opportunities for promotion and recognition increase, competitive pressure intensifies, gradually reshaping moral perspectives (Judge & Kammeyer-Mueller, 2012).

This process occurs slowly, beginning with minor compromises in transparency, followed by silence in the face of injustice to preserve position, and ultimately sacrificing others for personal gain. This represents a clear moral regression from post-conventional to conventional, and eventually to self-interested reasoning (Kohlberg, 1981). Such individuals may succeed professionally but fail ethically and relationally (Judge & Kammeyer-Mueller, 2012).

The deterioration of workplace relationships often manifests through:

- Trust being replaced by calculation, where communication becomes unreliable and cooperation shifts toward defensiveness and suspicion (Kant, 1785/1993).
- People being reduced to “roles” or “utility value,” treating employees as resources to exploit rather than individuals deserving respect (Kohlberg, 1981).
- Organizational culture drifting toward performance over ethics, where unethical success is rewarded and integrity is penalized, normalizing silence and discouraging moral courage (Judge & Kammeyer-Mueller, 2012).

### **Moral Implications from Both Frameworks**

The combined insights from deontological ethics and Kohlberg’s theory demonstrate that moral duty requires unwavering respect for human dignity, while moral reasoning can regress under excessive ambition. Pursuing reputation, wealth, and power is not inherently wrong, but becomes unethical when these pursuits are valued above human beings themselves. At that point, moral duties are violated, moral maturity declines, and workplace relationships suffer severe harm.

From a deontological perspective, excessive pursuit of fame, wealth, and power violates duties of respect, fairness, and honesty (Kant, 1785/1993; Kohlberg, 1981). From Kohlberg’s framework, it reflects a regression from mature moral reasoning to self-interest and image preservation, ultimately resulting in the loss of trust and deterioration of human relationships in the workplace (Kohlberg, 1981; Judge & Kammeyer-Mueller, 2012).

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**Nicole Poston**

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## **Abstract**

Ambition, fame, fortune, and the acquisition of power are sometimes conflated, particularly in terms of ambition and its relationship to success as an organizational leader. But selfish and excessive ambition has negative ethical implications regarding workplace associations and ethical climate. This paper discusses the negative ethical implications of excessive ambition from a utilitarian and Kohlbergian perspective of ethical principles and organizational leadership. Utilitarianism as an ethical principle suggests that the outcomes of organizational ambition should provide a net gain in happiness and that selfish and excessive ambition has negative implications. Kohlberg's model of ethical principles and leadership indicates that selfish and excessive ambition is a negative aspect of organizational leadership, resulting from an ethical leader's heightened capacity for ethical reasoning.

**Keywords:** ethical leadership, ambition, utilitarianism, moral development, workplace relationships

## Introduction

Ambition is often treated as a defining characteristic of effective leadership, yet its ethical implications for workplace relationships remain contested. While the pursuit of fame, fortune, or power can motivate performance and achievement, it can also undermine trust, fairness, collaboration, and ethical voice when pursued without moral restraint. This paper examines how ambition shapes workplace relationships through the lenses of utilitarian ethics, deontological duty, and moral development theory, arguing that ambition is not inherently ethically problematic but becomes harmful when excessive and self-serving. By integrating these ethical frameworks, the analysis demonstrates that leadership effectiveness and ethical legitimacy depend not on the intensity of ambition but on the moral reasoning and restraint exercised in pursuing it.

This paper addresses the question: *What is the impact of fame, fortune, or power, when pursued to excess, on workplace relationships?* Based on utilitarian approaches to ethics and Kohlberg's model of moral stages of development, this essay will argue that when ambition is overly self-focused and reaches a selfish level, this habit of leadership development results in adverse outcomes for working relationships and, thus, negatively affects the level of leadership ethics.

### **Ethical Framework: Utilitarianism in Leadership Contexts**

Utilitarian ethics is a teleological ethics that focuses on actions in accordance with their projected outcomes for the general well-being, rather than on intent. The application of the principle that aims to maximize happiness for the greatest number makes it specifically relevant in the context of leadership practice, as such practice directly influences a multitude of people in

various ways (Kohlberg, 1984; Ciulla, 2004). In contrast to ethics that consider intent, utilitarian ethics place greater emphasis on outcomes than on intent.

It must be considered that, in any fashion, actions related to leadership impact trust, employee morale, security, and legitimacy, in which context ethics would be assessed in relation to long-term effects rather than a short-term prognosis. The context relates the application of the ethics of utility to the role of leadership in an organizational context. Applying ethics to utility involves evaluating trust, moral principles, and the impact of actions on overall well-being, all within the context of shared values (Brown & Treviño, 2006; Treviño et al., 2014). The unchecked application of fame and power can lead to cumulative adverse effects in a subtly changing culture, in which short-term costs become easier to overlook (Bazerman & Tenbrunsel, 2011). It can thus be said that a prognosis regarding the impact of applying utilitarian ethics to long-term use is.

There is an empirical finding related to authority and moral perception. The development of authority among leaders is associated with greater psychological distance, lower empathy, and lower moral awareness (Keltner et al., 2003). The greater the psychological distance among leaders, the more likely they are to overlook group goals in pursuit of personal goals when those personal goals conflict with moral principles. Moral disengagement operates as an attributional process, interpreting desired results as necessary or justified (Moore & Gino, 2013). As far as utilitarian ethics are concerned, this attribution indicates moral vulnerabilities in contexts in which personal gain as a goal for leaders tends to pose an amplified risk of interpersonal harm.

Unbridled ambition often benefits elites, while workers bear the costs (Kaptein, 2011). Unequal treatment damages morale, creates unfairness, and weakens social cohesion and ethical culture (Dirks & Ferrin, 2002; Kaptein, 2011). This is worse in competitive settings valuing

dominance and personal gain over fairness (Keltner et al., 2003; Bazerman & Tenbrunsel, 2011). Ambitious, aggressive individuals raise stress and conflict, reducing trust and collaboration (Andersson & Pearson, 1999; Ashforth & Anand, 2003). Inequity then becomes a structural issue that erodes ethics and performance over time.

Research studies among scholars confirm that workplace incivility affects lower-strata employees, who are more fatigued and relegated, and who also experience stalled career advancement and growth (Andersson & Pearson, 1999). Relational costs surpass competition gains. A utilitarian study must consider relationships, reputation, and institutional effects. Research shows self-centered leaders damage stakeholder trust and legitimacy, weakening leader adaptability due to questionable ethics, as Ciulla (2004) and Kaptein (2011) note. Once ambition becomes public, reputation suffers, and costs accumulate socially and institutionally. The relational, psychological, and reputation costs reveal that fame, luck, and power lack utilitarian value.

### **Ambition and Potential Collective Goods**

A utilitarian would argue that the aspiration for fame, fortune, or power is valid only to the extent that it is beneficial to the whole group. Leaders use authority, recognition, and power to motivate and mobilize people to work together on common objectives (Ciulla, 2004; Brown & Treviño, 2006). Reward or power motivates successful people, fueling growth, security, and the fulfillment of stakeholder needs. When aspiration involves the whole group, it aligns with the organization. Ethical leadership contrasts with over-ambition, in which self-interest overrules ethics in relationships (Ciulla, 2004; Kaptein, 2011). With the passage from beneficial aspiration to over aspiration, the distribution of profit is more centralized, while the expense is more diffused. Utilitarianism qualifies any aspiration as valid only to the extent that the following

overall costs are beneficial or unfavorable to the whole group (Treviño et al., 2014).

Undisciplined aspiration may also corrupt relationships and mental health, as the following subtopic describes further on.

### **Excessive Pursuit and Net Harm**

The moral assessment shifts significantly when the excessive, selfish pursuit of personal gain is the goal. Studies link high power seeking with lower empathy, morality, and regard for others' interests (Keltner et al., 2003; Moore & Gino, 2013). Personal status/power-seeking leaders justify destructive behavior for personal gain, thereby masking the impacts on relationships. From an ethical view, excessive leadership for gain, publicity, or wealth harms relationships, cooperation, and moral atmosphere. These harms reduce organizational well-being, leading to future costs such as disengagement, turnover, and reputational damage (Edmondson, 1999; Treviño et al., 2014). Even without coercion, leadership can be ethically problematic when subtle uses of their expert status, authority, or social referent power influence information, opportunities, and social impact (Kovach, 2020). Although there can be personal gain for these people, the macro-level negativity surpasses the gain.

### **Deontological Evaluation of Leadership Duties in Leadership Contexts**

Beyond ethical determinations based on outcome assessment, ethics in leadership also entails consideration of deontological responsibilities. Deontological responsibilities involve assessing the morality of an action based on its conformity with specific moral duties, rather than on its outcomes. It has been argued within the body of ethics in leadership research that power in leadership positions involves a kind of moral non-neutrality rather than moral neutrality (Ciulla, 2004; Brown & Treviño, 2006; Treviño et al., 2014). In these duties, merely obtaining good results might not necessarily release one from the responsibilities.

From a deontological perspective, the question of ethical leadership hinges on what leaders choose to do with this authority and how they treat others, rather than on what they accomplish (Ciulla, 2004). Because power imbalances restructure dependency patterns, ethical responsibility for leaders necessarily increases to wage this influence in moderated, open, and equal manners, even for leaders with legitimate authority (Kovach, 2020). Deeds driven by fame, success, and power must still be evaluated against loyalty to core responsibilities, with goals lacking consequences. This balances utilitarian concerns by showing how some activities are unethical despite short-term benefits (Ciulla, 2004). The following sections provide examples of how violations of responsibility play out and disrupt working relationships.

### **Duty of Honesty**

A moral duty is placed upon leaders to promote truthfulness by expressing genuine attitudes, making decisions in good faith, and communicating the results honestly. Evidence indicates that truthfulness plays a salient role as a mediator between moral leadership and followers' moral judgment, delivered reliably and effectively (Brown and Treviño, 2006; Treviño et al., 2014). Achieving fame or power may impair ethical duties, as self-centered leaders often exaggerate successes, hide failures, and spread misleading information to protect themselves. These practices violate the duty of truthfulness regardless of consequences, risking followers' autonomy and leaders' moral role (Ciulla, 2004). It can be considered immoral because it provides favorable outcomes, but through dishonest practices.

### **Duty of Fairness**

Leadership positions are characterized by an inherent responsibility to apportion recognition, opportunities, and rewards in ways that are seen as fair. On the topic of ethical leadership, fairness is recognized as an essential ingredient in establishing trust and legitimacy in

an organizational setting (Brown & Treviño, 2006; Kaptein, 2011). Overreach in accumulating wealth and power occurs when a leader allocates resources to serve personal interests or favorites. Examples include tokenism, hijacked credit, marginalizing dissent, and prioritizing ideological allegiance over merit, often seen in ethically tainted management (Kaptein, 2011; Treviño et al., 2014). Using deontological ethics, favoring the few may boost short-term stability and performance (Ciulla, 2004). However, fair appraisal should be an independent moral practice, not just linked to organizational respect or outcomes.

### **Duty of Respect for Persons**

Leadership ethics emphasize treating followers as moral agents, respecting their dignity, autonomy, and intrinsic value (Ciulla, 2004). The overemphasis on fame, fortune, or power as a leader's goal easily leads to instrumentalizing supporters, as they are appreciated mainly for their usefulness in achieving the leader's aims (Ciulla, 2004). The empirical literature shows that when a leader places greater emphasis on personal interests, his/her workers become less eager to raise opposing voices, thereby hampering ethical agency (Edmondson, 1999; Treviño et al., 2014). From a deontological perspective, such an action in leadership ethics would be deemed unconscionable, regardless of consequences, because it ignores treating people as ends in themselves.

### **Duty of Fidelity to Trust**

Leadership authority also entails a responsibility of trustworthiness, meaning leaders are obliged to honor the trust placed in them by their followers (Kaptein, 2011). Trust is not to be regarded solely as an end but also as a function of a moral obligation rooted in the asymmetry of power between the trustee and the trustor (Dirks and Ferrin, 2002). When leaders disregard this trust and pursue their own personal growth and success to the detriment of common obligations

and commitments expected of leaders, they go against the burden of trustworthiness (Kaptein, 2011). The violation of trust has also been found to undermine trust and the organizational principles under which functioning within an organization takes place (Dirks and Ferrin, 2002; Kaptein, 2011). Taking a deontological stance on this point, a violation of trust remains intrinsically wrong and independently damaging to leadership, regardless of the unspecified adverse outcomes (Kaptein, 2011). Therefore, it is essential to consider the moral implications of such breaches.

### **Deontological Judgment**

Such actions, in the excessive pursuit of fame, fortune, or power, are unethical if they compromise the primary leadership responsibilities of honesty, fairness, respect, and loyalty. These responsibilities arise from the moral demands of leadership itself and remain applicable regardless of any outcome or organizational success (Ciulla, 2004; Brown & Treviño, 2006). Even if an action such as this achieves positive outcomes, it would still be unethical if it violates those responsibilities because it would instrumentalize human beings. The moral legitimacy of leadership is justified on the grounds of responsibility rather than based on outcome performance (Treviño et al., 2014). Hence, to be ethical, leadership performance should no longer be justified and measured exclusively by outcome, but also by the extent to which leaders adhere to the responsibilities associated with their role.

### **Moral Development and Ethical Leadership Capacity**

#### **Comparative Overview of Kohlberg's Moral Development Stages**

Kohlberg's Moral Stages of Development identifies how people reason through ethical dilemmas, including those involving fame, riches, or power (Kohlberg, 1984; Rest et al., 1999). At the pre-conventional level, morality is driven by self-centeredness and fear of punishment,

making a person vulnerable to personal interests, even when these interests could have negative implications for relationships with others (Kohlberg, 1984). At the conventional moral development stage, reasoning focuses on societal expectations and authority. Organizational leaders, adhering to norms, might pursue personal ambition aggressively if acceptable within the organization (Kohlberg, 1984; Bazerman & Tenbrunsel, 2011). Consequently, this stage emphasizes the importance of conforming to social rules and maintaining order.

By contrast, at the post-conventional stage, moral reasoning is based upon principles and values such as justice, morality, and respect for others (Kohlberg, 1984). At this stage, leaders tend to suppress self-serving pursuits of either power or recognition if these pursuits are at odds with moral obligations (Brown & Trevino, 2006; Mayer et al., 2012). It appears from the various stages outlined that it is not merely fame, fortune, and/or power that affect moral outcomes about ambition, but rather the moral reasoning framework by which leaders regulate such aspirations and pursuits.

Kohlberg's theory explains how ethical behavior by leaders regarding ambition and power is facilitated. The maturity of morality brings about the skills to identify ethical issues and avoid excuses based on selfishness (Kohlberg, 1984; Rest et al., 1999). At the pre-conventional stage, leaders with less morality judge ethical issues instrumentally, based on personal interests, rewards, and avoidance of punishment. Circumstances in which people are favored for domination and visibility may lead them to view damaging others as unavoidable (Moore & Gino, 2013). At the conventional stage, leaders become more sensitive to social cues regarding morality but face ethical dilemmas with cultures that promote aggressive ambition and tolerate some personal shortcomings (Bazerman & Tenbrunsel, 2011). Leaders assess ambition through the lenses of justice, equity, and dignity.

In the postconventional stage, leaders' ethical capabilities are more mature. Empirical studies have linked postconventional thinking to morality, leadership, trust, and high ethical standards (Brown & Treviño, 2006; Mayer et al., 2012). Moral Development Theory argues that providing desirable outcomes without developing moral reasoning skills can result in unethical leaders by turning a personal weakness into a system failure (Treviño et al., 2014). Here, a lack of controls over ambition can result in ethical failure rather than a one-off incident.

### ***Preconventional and Conventional Moral Reasoning***

At the preconventional or conventional levels of moral development, leaders tend to measure the success of themselves or their undertaking in terms of their own personal gain and external rewards, primarily driven by the desire to avoid punishment or to pursue self-interest or social conformity; their handling of moral principles remains shallow (Kohlberg, 1984; Rest et al., 1999). When leaders are rewarded in terms of fame, fortune, or power, their thinking becomes highly prone to ethical fading and moral disengagement, with personal self-interest and social conformity taking precedence over moral principles and avert morally problematic behavior (Bazerman & Tenbrunsel, 2011). In an organization, the reward system further rigidifies development constraints, compelling leaders to prioritize career advancement over moral values.

At the ethical level, leaders tend to invoke norms, roles, or expectations as justifications for harmful acts, thereby perpetuating the harm within the relationship despite the manifestation of professionalism or benevolence (Kohlberg, 1984; Dardenne et al., 2007). Primitive ethical judgment generally takes an affirmative, outcome-oriented stance over sound principle-reasoning, placing ethics under the dominance of ambition and at risk to interpersonal relationships due to a lack of accountability.

### ***Postconventional Moral Reasoning and Ethical Leadership***

People acting as postconventional leaders base their choices on abstract values such as justice and dignity, rather than on rewards (Kohlberg, 1984; Rest et al., 1999). They see leadership as a moral duty, not merely a matter of performance. Studies link this thinking to ethical leadership, trust, and a positive ethical climate where leaders serve as integrity tutors (Brown & Treviño, 2006; Kaptein, 2011; Mayer et al., 2012). Ambition is judged by its effects on others, not individual achievements. Overemphasis on fame, fortune, and power shows situational constraints, not authentic leadership. Leaders with higher moral capacity control ambitions, considering relationships and ethical ideals, even when pursuing personal power (Ciulla, 2004). Moral development influences leadership behavior, fostering relationships and ethical cultures.

### **Impact of Excessive Pursuit on Workplace Relationships**

#### ***Trust as a Moral Resource***

In the realm of ethics in leadership, trust serves as a moral resource to support cooperation, learning, and the voicing of ethics amid power disparities. Since leaders condition the regulation of evaluation, reward, or opportunities, followers rely on leaders' ethical control when vulnerability is present (Dirks & Ferrin, 2002). The search for fame, fortune, or power can undermine leadership by making the promise of going or the pledge of allegiance appear selfish. There is empirical evidence that as trust decreases, performance, as well as commitment or citizenship in the organization, is undermined (Dirks & Ferrin, 2002). Much as the leaders seek fame or power in their pursuits, the followers or supporters can view the occurrence as tertiary to user gain in the end, an act or approach that undermines the ethics of the positioning or the positioning in the relationship.

## **Collaboration, Voice, and Moral Courage**

### ***Psychological Safety and Ethical Voice***

Ethical leadership requires moral courage and psychological safety. The latter allows workers to point out concerns about ethics without fear of reprisal, while the former enables one to demonstrate ethics despite danger (Edmondson, 1999; Brown & Treviño, 2006). However, overemphasis on power can detract from these characteristics by fostering a culture of fear, competition, and impression management, particularly when managers appear status-conscious or reputation-minded (Keltner et al., 2003; Bazerman & Tenbrunsel, 2011). In such a culture, disagreement is a challenge to authority rather than a means of observing ethics, with a preference for conformity over ethics.

### ***Silence as a Rational Response to Power Asymmetry***

Ignoring the ethical voice institutionalizes unethical behavior in the organization's everyday activities and agendas. Studies reveal that silence blocks the feedback mechanism that can help identify threats, question decisions, and allow actions (Ashforth & Anand, 2003; Treviño et al., 2014). Power structures influence the ethical voice because they determine what can be spoken, which voices are heard, and which worries are ignored, making silence a sensible approach to organizational power structures rather than an issue of individual moral character (Clegg et al., 2006). Leaders often overlook new developments, weaknesses, or knock-on effects by ignoring the ethical voice. Over time, leadership deteriorates not from lack of power but from being misled by improper or selective information.

### ***Organizational Learning and Relational Consequences***

The long-term effects of a suppressed ethical voice extend beyond isolated acts of unethical behavior, posing risks to the organization. Reduced psychological safety makes

organizations less adaptable and more prone to failing to learn from mistakes, increasing risks to reputation, legality, and ethics (Edmondson, 1999; Kaptein, 2011). Additionally, subordinates with a perception of a voice as ineffective, futile, or dangerous often demonstrate psychological disengagement, which may result in distrust of management levels, thus creating a challenge towards shared organizational goal achievement (Dirks & Ferrin, 2002). The lack of an upward voice hampers managerial leadership's effectiveness in maintaining information integrity and trust, which are vital for organizational success.

### ***Leadership Signals and Ethical Breakdown***

Research suggests that employees are less likely to speak up about untoward behavior when leaders are perceived as self-serving, punitive, and apathetic toward ethics (Brown & Treviño, 2006; Treviño et al., 2014). The reason is fear of retaliation and a lack of confidence in any positive impact from speaking up, particularly when subgroup concerns are ignored earlier (Edmondson, 1999; Treviño et al., 2014). A reduction in speaking up about ethics robs the organization of an early-warning system, leading to an increase in unethical behavior and potentially culminating in crises (Ashforth & Anand, 2003; Kaptein, 2011). Speaking up about ethics is about responsible leadership, fostering an environment that encourages and reinforces speaking up, not about individual risk-taking (Dirks & Ferrin, 2002; Brown & Treviño, 2006). Ultimately, fostering such an environment is essential for maintaining ethical integrity and organizational resilience.

### **Ethical Climate and Normative Leadership Influence**

Ethical climate is how members perceive proper behavior in an organization. It influences moral actions more through observation and reinforcement than written policies, as Victor and Cullen (1988) note. Management's response to behavior sets boundaries.

Overemphasis on image, wealth, and power can foster incivility, loyalty over fairness, and silence dissent, as Ashforth and Anand (2003) warn. Trivial transgressions, viewed as minor, can erode ethics and impair judgment. Leaders might overlook moral warning signs, leading to moral drift and ethical failures. Over time, signs of incivility, manipulation, and exploitation increase, causing conflict, weakening organizational identity, and reducing trust (Andersson & Pearson, 1999). Such environments lack moral integrity regarding performance due to negative effects on relationships (Victor & Cullen, 1988). This, in turn, erodes trust and ethical standards.

### **Organizational Self-Regulation and Long-Term Outcomes**

Excessive ambition damages organizational ethics due to reduced accountability and oversight, leading to a degradation of ethical self-regulation practices (Kaptein, 2011; Treviño et al., 2014). Ethical self-regulation is possible when employees are prepared to critically evaluate decisions, resist authorities, and raise doubts before any adverse event materializes, and this is maintained when processes related to psychological safety and trust are utilized and strengthened (Edmondson, 1999; Dirks & Ferrin, 2002). Belief in personal gain over ethics harms self-regulation by dismissing ethical issues and by lacking avenues for correction, favoring instant gain over sustainability. This raises long-term organizational risks and the chance of malpractices during crises (Ashforth & Anand, 2003; Kaptein, 2011). Therefore, understanding and addressing these vulnerabilities is crucial, as they can undermine organizational stability and reputation.

## **Integrative Ethical Analysis**

### **Synthesis of Ethical Frameworks**

Leadership not only involves authority or decision-making rights but also the interpretation of reality to construct meaning within the organization, hence the interpretation

regarding ambition, power, or success (Bolman & Deal, 2021). Utilitarian ethics assess actions based on their impact on overall welfare and individual ethical awareness (Kohlberg, 1984; Rest et al., 1999; Ciulla, 2004). Research evidence shows that one can be capable of harmful behavior yet still believe in the support the behavior provides to others; hence, there are gaps in ethical consciousness despite the absence of an intention to harm (Dardenne et al., 2007). In this light, ethical leadership involves ethical reasoning, consciousness, or moderation as opposed to just following rules or results (Brown & Treviño, 2006; Treviño et al., 2014). Building on this idea, it is proposed that ambition is contingent on the justification or means used in the approach to leadership.

### **Institutional Reinforcement of Ethical Risk**

Organizational power resides in structures, processes, and values (Clegg et al., 2006). Its influence on aspiration formulation depends on systems valuing performance over ethics, reinforcing beliefs that define success as control rather than responsibility (Bolman & Deal, 2021). These systems that maintain outcomes with unattended ethics tend to fuel lower-stage moral development by placing value upon performance rather than responsibility (Kohlberg, 1984; Bazerman & Tenbrunsel, 2011). Using utilitarian theory reveals that these systems serve to consolidate gains for leaders and filter any resulting costs to workers, thus reducing overall group happiness (Dirks & Ferrin, 2002; Kaptein, 2011). Beliefs upon moral development imply institutions condition self-justifications for these systems to systematically convert personal ethics into vulnerabilities (Rest et al., 1999; Trevino et al., 2014). This explains why fame, fortune, and power may emerge from leadership systems characterized by a lack of ethical awareness.

### **Implications for Ethical Leadership Practice**

This collaboration underscores shortcomings in leadership theories that emphasize performance but overlook moral development and interaction effects. Ethical leadership demands that organizations foster moral thinking and accountability for the greater good (Ciulla, 2004; Kaptein, 2011). Organizations prioritizing ethical leadership sustain and enhance trust and performance despite competitive pressure (Edmondson, 1999; Brown & Trevino, 2006). The implications of ethics for leaders seeking fame, fortune, and power depend on whether moral reasoning is self-serving, tradition-based, or duty-driven, shaping leadership and morality (Kohlberg, 1984; Rest et al., 1999). This analysis will use this framework to examine extreme ambition and implications.

### **Counterargument and Ethical Rebuttal**

#### **The Performance-Based Justification of Excessive Ambition**

Often cited in leadership ethics debates is the idea that aspiring for fame, money, or power is necessary in a competitive environment. Proponents argue that self-serving leaders can improve performance, instill discipline, and achieve organizational success, despite relational costs (Ciulla, 2004). This view sees ethical compromise as a painful but necessary price for success, expecting followers to sacrifice relationships for organizational gains (Treviño et al., 2014). It aligns with traditional morality, judging ethics by approval, reward, and effectiveness rather than morality (Kohlberg, 1984). The ethics of this view are questioned when leadership ethics are judged by general moral standards that consider overall impact and responsibility.

#### **Utilitarian Rebuttal and Relational Consequences**

Under the utility approach, being more concerned with long-term than short-term results would make more sense as a good leader. The more harm occurs in a relationship, the less valuable it becomes in the long term, even when more optimal results are initially observed

(Edmondson, 1999; Dirks & Ferrin, 2002; Kaptein, 2011). As utility costs rise, relationships become less responsive, making it harder for leaders to guide change (Brown & Treviño, 2006; Treviño et al., 2014). This decline can hinder effective leadership during change. Maintaining healthy relationships is crucial for successful change management.

### **Moral Development and Normative Evaluation**

Moral development theory describes how justifications based on ambition influence ethical decision-making. When those in charge act at the preconventional or conventional levels, decisions focus on rewards, punishments, or group norms rather than on moral duty (Kohlberg, 1984; Rest et al., 1999). Prioritizing ambition over moral duty risks unethical costs that outweigh short-term gains, making such actions morally indefensible (Ciulla, 2004; Brown & Treviño, 2006). Therefore, it is crucial to consider the long-term ethical implications when making decisions.

### **Conclusion**

This analysis demonstrates that ambition impacts workplace relationships not by its presence alone, but by how it is ethically constrained and justified within leadership practice. Drawing on both utilitarian and deontological frameworks, the paper shows that excessive pursuit of fame, fortune, or power produces net relational harm by eroding trust, fairness, ethical voice, and collaboration, while simultaneously violating core leadership duties grounded in respect, honesty, and moral responsibility. Moral development theory further explains why such harm is not evenly distributed across leaders, highlighting how lower-stage reasoning increases vulnerability to self-serving rationalizations and ethical blind spots. In contrast, principled ambition rooted in postconventional moral reasoning supports ethical leadership by aligning personal goals with collective well-being and sustaining the relational conditions necessary for

organizational learning and resilience. Ultimately, utilitarian and deontological reasoning converge in demonstrating that leadership effectiveness and ethical legitimacy depend not on the intensity of ambition but on the moral restraint with which it is exercised.

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**Abstract**

Excessive power seeking is often interpreted as a strategic misstep or a leadership style gone awry, yet its deepest impact is ethical and relational. This paper examines how leaders' pursuit of power beyond its legitimate purpose alters the moral conditions of organizational life. Using a deontological ethical framework, the analysis argues that excessive power violates fundamental duties toward others by reducing employees to instruments for a leader's selfprotection or self-promotion. Kohlberg's theory of moral development further illuminates how leaders come to perceive such violations as justified, particularly when operating from preconventional or conventional stages of moral reasoning. Through an examination of organizational cases, including Theranos, Wells Fargo, and Uber, the paper demonstrates that ethical failure first emerges in relationships: trust becomes conditional, candor becomes unsafe, and the organization's moral community erodes. Ultimately, the excessive pursuit of power distorts both leadership and the relational fabric on which ethical organizational life depends. Recognizing these relational harms as early indicators of moral stagnation is essential for cultivating leadership grounded in duty, accountability, and principled judgment.

*Keywords:* Excessive Power Pursuit, Deontological Duty, Developmental Moral Reasoning, Workplace Relational Dynamics, Ethical Organizational Life

## Introduction

In contemporary organizational culture, the pursuit of power is often framed as a professional virtue. Leaders are encouraged to be assertive, influential, and decisive, and ambition is routinely celebrated as evidence of competence and vision. Yet there is a point at which the desire for power shifts from responsible leadership to ethical distortion. When individuals pursue power to excess, it does more than shape strategy or performance; it alters the moral texture of workplace relationships. Colleagues become instruments rather than collaborators, loyalty becomes conditional, and ethical commitments yield to the preservation of authority. What is frequently praised as “strong leadership” can quietly conceal patterns of control, manipulation, and relational harm.

Excessive pursuit of power reflects moral stagnation rather than leadership strength, violating fundamental ethical duties and distorting the relationships that sustain organizational life. This analysis adopts a deontological ethical framework, which grounds moral judgment in duties owed to others and insists that leadership be evaluated not by its outcomes but by its adherence to obligations such as honesty, fairness, and respect for human dignity. Leaders who prioritize power over principle violate these obligations when they reduce employees to tools for personal advancement or organizational expedience. Even when power-driven decisions appear effective, deontological ethics maintains that actions that instrumentalize others remain morally impermissible.

Kohlberg’s (1981) stages of moral development provide a complementary lens for understanding how such violations become psychologically and socially rationalized. Moral reasoning shapes how leaders interpret authority, responsibility, and the limits of their own influence. At lower stages, decisions reflect self-interest, social approval, or uncritical

conformity to hierarchical norms. Leaders operating at these levels may justify coercion, silence, or fear-based control as necessary features of organizational life. Higher stages, in contrast, demand critical reflection, accountability, and commitment to universal ethical principles. Excessive power seeking, viewed through this framework, signals moral stagnation rather than leadership strength. Grounded in duty-based ethics and moral development theory, this analysis considers how the pursuit of power, when left unchecked, quietly redefines leadership itself.

### **Deontological Ethics and the Moral Duties of Leadership**

Deontological ethics offers a strong foundation for evaluating leadership behavior because it anchors moral judgment in duty to others rather than outcomes. Rooted in Kant's assertion that individuals must be treated as ends in themselves, deontology holds that actions are morally right when they honor the dignity, autonomy, and inherent worth of others (Kant, 1785/1993). In the organizational context, this means leadership cannot be appraised solely through growth, efficiency, or competitive success. Ethical leadership requires fidelity to obligations such as honesty, fairness, and respect, and a refusal to exploit or instrumentalize others, regardless of the benefits that alternative approaches might yield.

Scholars have extended these principles into contemporary leadership ethics. Bowie (1999) argues that Kantian leadership requires reciprocal respect and prohibits treating employees merely as instruments for organizational or personal ambition. Ciulla (2005) similarly maintains that the ethical legitimacy of leadership rests not on charisma or strategic competence but on how leaders treat the people who depend on their decisions. Treviño et al. (2000) note that ethical leadership involves both "moral person" and "moral manager" dimensions, meaning leaders must embody moral character and intentionally cultivate ethical conduct within the

workplace. Across these perspectives, a consistent theme emerges: respecting the personhood of employees is not optional but foundational to ethical influence.

The excessive pursuit of power disrupts this moral foundation. Power itself can arguably be seen as ethically neutral. Leaders require influence to guide teams, coordinate action, and make difficult choices. Ethical concerns emerge, however, when power shifts from a means to a moral responsibility into an end in itself. When this shift occurs, leaders often prioritize personal authority over interpersonal accountability. Dissent becomes a threat rather than a contribution. Information is curated to protect status rather than support shared understanding. And, followers are valued for their compliance rather than their judgement or agency. Such patterns signal clear violations of deontological duty because they subordinate the autonomy and dignity of others to the leader's own interests.

Deontological ethics rejects the notion that beneficial outcomes can redeem such violations. Even if excessive power produces short-term innovation, competitiveness, or organizational clarity, actions that manipulate, coerce, or silence remain morally impermissible. Kant's categorical imperative requires that leadership actions be ethically sound in themselves. That is, they should serve as universal principles guiding how all people should treat one another (Kant, 1785/1993). Leadership driven by self-protection or dominance cannot meet such a standard. As Caldwell et al. (2010) note, the legitimacy of leadership depends on honoring stakeholders' moral rights, a commitment incompatible with sacrificing duty for expediency.

Leadership theorists further warn that the pursuit of power often distorts leaders' sense of obligation. Kellerman (2004) observes that leadership failures frequently stem from leaders who conflate authority with entitlement. Van Dierendonck (2011) adds that relationally oriented leadership requires humility and self-restraint, qualities incompatible with unchecked power

accumulation. When leaders seek power as an end in itself, the duties that should anchor their role erode, and self-protective behaviors begin to reshape relationships and organizational climates.

Seen through a deontological lens, excessive power seeking constitutes a fundamental moral failure, not merely a strategic error. It represents a departure from the duties that justify leadership in the first place and creates the conditions in which ethical relationships cannot flourish. This framework establishes the moral foundation for examining how excessive power seeking reshapes workplace relationships and reveals the deeper ethical consequences that unfold when authority is pursued without restraint.

### **When Power Masquerades as Leadership**

Despite the moral clarity offered by deontological ethics, the excessive pursuit of power often evades ethical scrutiny because it rarely presents itself explicitly. It often enters organizations quietly, mistaken for leadership competence. Traits such as decisiveness, confidence, and strategic boldness, all valuable in moderation, are reinterpreted as indicators of effective leadership even when they mask coercion or disregard for others. Behaviors that compromise respect or fairness become reframed as necessary for “vision,” “discipline,” or “maintaining focus.” In these environments, power is not simply exercised; it becomes morally laundered through the language of leadership.

Leadership scholarship helps clarify why this laundering persists. Lipman-Blumen (2005) notes that destructive leaders endure because organizations develop structural and psychological dependencies on strong authority, especially in times of uncertainty. Padilla et al.’s (2007) toxic triangle further demonstrates how environments that reward dominance create conditions in which destructive leaders appear not alarming but effective. Under such circumstances, ethical

violations do not register as deviations from leadership norms. In fact, they can appear entirely consistent with them.

Organizational case evidence illustrates how moral laundering distorts relational life long before misconduct becomes visible. Investigations into Uber under Travis Kalanick revealed a culture that codified aggression as a core value, rendering harassment, retaliation, and rulebending invisible under the banner of boldness and “always be hustlin’” (Isaac, 2017). Employees reported that speaking up meant risking exclusion or professional penalty, creating a workplace where relational trust deteriorated in exchange for proximity to power. At WeWork, Adam Neumann’s charismatic vision fostered a culture of intense loyalty that blurred boundaries and discouraged dissent. Employees described pressure to mirror the leader’s enthusiasm and suppress concerns to avoid being cast as misaligned or insufficiently committed (Brown & Farrell, 2021). In both cases, relational fractures driven by silence, guardedness, and conditional trust materialized early as byproducts of leaders’ escalating pursuit of power.

These examples illustrate a broader and more consequential pattern. When power becomes synonymous with leadership competence, relational harm becomes difficult to detect. Tourish (2013) notes that where such perversion of power persists, upward communication collapses and candor carries interpersonal risk. Compliance masquerades as collaboration, and silence is interpreted as alignment. The result is not merely a dysfunctional workplace but a morally disoriented one. What should trigger ethical concern instead reinforces the illusion of effective leadership, allowing leaders to press further in their pursuit of power because their overreach is misread as competence rather than a cause for scrutiny.

The danger is not only that leaders overreach but that their behavior reshapes the interpretive frameworks around them, making such overreach difficult to see—or worse,

admirable. As leaders begin treating their own authority as sufficient justification for decisions, the conditions essential to honoring the dignity of others erode quietly. By the time relational fractures surface clearly, the leader's pursuit of power has already altered workplace norms and expectations. The laundering of power into leadership legitimacy thus becomes a catalyst for moral stagnation. Understanding how leaders come to view their choices as sound judgment or responsible authority requires examining the moral reasoning that enables such interpretations, an inquiry grounded in Kohlberg's stages of moral development.

### **Moral Development and the Psychology of Excess**

If deontological ethics tells us that the excessive pursuit of power is wrong because it violates duties to others, Kohlberg's framework helps explain why such pursuit can feel not only permissible but necessary to the leaders who engage in it. Kohlberg's (1981) account of moral development traces how people move from self-protective and conformist reasoning toward principled judgment. Applied to leadership, it exposes a sobering reality: leaders can occupy positions of immense authority while reasoning at stages that treat power as a shield, a reward, or a proof of worth rather than a responsibility to safeguard relationships. Rest et al. (1999) extend this insight by showing how individuals rely on dominant moral schemas that filter which concerns they perceive as morally salient; leaders acting from lower-stage schemas therefore struggle to recognize the relational consequences of their own power seeking.

Kohlberg's early stages are defined by self-protection and instrumental thinking. Leaders reasoning in this register are less concerned with what is right than with what keeps them safe or successful. In a Stage 1 frame (obedience and punishment), the question beneath decisionmaking is, "How do I avoid loss, sanction, or humiliation?" Power becomes a buffer against vulnerability: more control means fewer people who can hurt, expose, or overrule you. A leader

in this mindset may centralize decision-making, sideline critics, or retaliate against dissent, not because they lack intelligence or self-awareness, but because their moral horizon is dominated by fear of consequence. Stage 2 (self-interest orientation) extends this logic: relationships become transactional, and influence is accumulated as leverage. A leader agrees to “take care of” those who are loyal, expects personal return for organizational sacrifice, and views power as earned bargaining capital. In this frame, the pursuit of power to excess does not feel like overreach; it feels like prudent self-management in a competitive environment.

These early-stage patterns are visible in many leadership failures that unfold long before scandal becomes public. Executives who manipulate performance metrics to meet targets, founders who rewrite governance norms to insulate themselves from removal, or partners who hoard client relationships to become “indispensable” are often acting from a self-protective moral calculus. They justify consolidation as a strategic necessity: “I’m the only one who can steer this;” “If I don’t control this information, someone will use it against me;” or “After everything I’ve risked, I’ve earned the right to make the final call.” In each case, power is pursued as a hedge against feared loss rather than as a tool for shared responsibility. The relational aftermath is predictable: people become cautious, honesty becomes expensive, and trust thins into guarded calculation.

Kohlberg’s conventional stages introduce social norms and institutional order but do not necessarily restrain the quest for power. In some cases, they can intensify it. Stage 3 reasoning (interpersonal accord and conformity) orients leaders around image and belonging. Here, power is pursued to confirm an identity: the respected expert, the decisive visionary, the unflappable “strong leader.” A leader at this stage may double down on authority when challenged, not only to achieve outcomes but to protect a story about who they are. In Stage 2, loyalty is valued for its

utility. Supporters are “taken care of” because they offer strategic advantage or protection. Stage 3 reflects a different moral logic: loyalty is rewarded because it affirms the leader’s desired identity, while dissent is marginalized not for its inconvenience but for its threat to the persona the leader works to maintain. The pursuit of power becomes a quest to preserve face. In the aftermath of disruptions like failed strategies, public criticism, or ethics investigations, this same reasoning often leads to deflection and impression management rather than genuine accountability. Relationships become collateral damage in the effort to salvage status.

Stage 4 reasoning (authority- and social-order-maintaining orientation) offers a different but equally potent justification. Here, the leader sees themselves as guardian of order: their primary moral commitment is to keep the system intact. When filtered through this lens, the pursuit of power to excess can appear as duty. Tightening control, suppressing dissent, or withholding uncomfortable information is framed as “protecting the organization,” “maintaining stability,” or “upholding standards.” Leaders in this stage may sincerely believe that questioning them threatens the greater good. After a disruption, Stage 4 reasoning leans toward institutional self-preservation: legal parsing, narrow admissions, and carefully managed communication. The leader’s primary concern is whether the hierarchy survives, not whether relationships have been damaged or dignity compromised.

Seen together, these early and conventional stages illuminate why leaders can pursue power in ways that erode trust, silence candor, and hollow out relationships while still believing themselves responsible. Self-protective reasoning interprets relational strain as proof that more control is needed. If people are upset or resistant, the leader concludes they “don’t understand the pressure,” “aren’t team players,” or are “threatening stability.” Conformist reasoning conflates loyalty with agreement and reads discomfort or critique as betrayal rather than as an ethical

signal. Law-and-order reasoning treats hierarchy as its own moral defense: “Someone has to be in charge; that someone is me.” In each case, the leader’s moral lens converts relational warning signs into further justification for consolidating power.

Kohlberg’s postconventional stages (social contract and universal ethical principles) offer a sharp contrast and, by their absence, help diagnose moral stagnation in leaders who pursue power to excess. A Stage 5 leader recognizes that authority is legitimate only insofar as it protects the rights and well-being of those affected by it. Power is understood as contingent and accountable, subject to critique and revision. In the face of disruption, such a leader asks, “Whose trust has been damaged?” and “What obligations do we now have to those who were harmed?” Stage 6 reasoning goes further, anchoring decisions in principles such as justice and respect for persons, even when they conflict with self-interest, reputation, or institutional convenience. A leader reasoning at this level resists the impulse to hoard or defend power precisely because they understand its capacity to distort relationships and obscure the humanity of others.

Most organizations never explicitly name these developmental patterns, yet Kohlberg’s framework clarifies the ethical core of the problem: excessive power seeking is a symptom of moral arrest. Leaders continue to rely on self-protective, approval-seeking, or hierarchy-bound reasoning even as the complexity and relational stakes of their role demand principled judgment. The aftermath of disruption, whether in the form of scandal, internal crisis, or quiet exodus, is where this arrest becomes most visible. Leaders who cannot move beyond preconventional or conventional logic respond by tightening control, managing optics, or invoking their position; leaders whose reasoning has matured toward postconventional principles respond by sharing

information, inviting hard truths, and accepting constraints on their own authority for the sake of restoring trust.

Kohlberg's theory, then, does more than categorize stages; it exposes the inner narratives that make the pursuit of power to excess feel justified. Leaders reasoning at lower stages ask, "How do I protect myself, my image, or my position?" rather than, "How do I honor the dignity of those my decisions affect?" That shift in question is what ultimately reshapes workplace relationships. When power is pursued through self-protective or conformity-bound moral logic, colleagues are gradually reclassified as risks, resources, or audiences rather than partners in a shared moral community. The deterioration of trust, candor, and psychological safety is not incidental to excessive power. Arguably, it is the clearest relational evidence that moral development has stalled.

### **Relational Consequences: How Excessive Power Reshapes Workplace Relationships**

The first evidence of excessive power seeking is often found in the subtle reorganization of relational life. When leaders pursue power as insulation, validation, or entitlement, the shift is not announced. Instead, it is absorbed. It appears in how people speak, how they hesitate, and how they begin to protect themselves from the very authority meant to safeguard them.

Excessive power seeking in the organizational context distorts decision-making and rearranges the moral coordinates through which people understand what honesty, loyalty, courage, and responsibility look like at work.

The first casualty is trust. Trust is more than interpersonal goodwill. It is also the ethical foundation that allows people to assume good faith and act with candor. When leaders accumulate power to preserve themselves rather than serve others, trust moves from a moral assumption to a tactical question. Employees no longer wonder whether the leader is just; they

wonder whether the relationship is safe enough to withstand the truth. Organizational justice research consistently finds that perceived self-serving authority weakens trust long before withdrawal becomes visible (Colquitt et al., 2013). Trust weakens because the relational terms necessary for trust (reciprocity, fairness, and relational predictability) have been compromised.

A second consequence is the silencing of candor. Excessive power alters who speaks and what can be said. At Theranos, for example, Elizabeth Holmes's consolidation of authority turned dissent into a reputational threat. Engineers and laboratory staff reported being discouraged from raising concerns, isolated from critical information, and warned against questioning the company's narrative (Carreyrou, 2018). Holmes's pursuit of power, likely rooted in preserving her persona as an infallible visionary, embodies what Kohlberg (1981) describes as Stage 3 reasoning: affirmation becomes moral currency, and critique becomes betrayal. Rest et al. (1999) would characterize her reasoning as schema-restricted, meaning ethical cues that did not align with her preferred identity failed to register as morally salient. The result mirrors Tourish & Robson's (2006) account of "voice suppression spirals:" leaders come to mistake compliance for alignment, becoming increasingly insulated from relational truth.

Third, excessive power produces conditional and performative relationships. People stop relating and start calibrating instead. Wells Fargo offers a clear example. Employees described intense pressure to meet sales quotas framed as demonstrations of loyalty, while ethical hesitation was treated as insufficient commitment to organizational goals (Cowley, 2016). In such climates, people adjust their behavior to the leader's expectations rather than to shared moral norms. Edmondson's (2018) research on psychological safety shows that when power is used to enforce compliance, individuals retreat into impression management, avoiding

vulnerability and withholding the candor necessary for genuine collaboration. The relational result is a workplace governed by guardedness rather than trust.

Finally, excessive power corrodes the organization's moral community. Deontological ethics presumes organizations function as shared moral spaces, places where duties, fairness, and respect bind members together in a common moral life. Excessive power dissolves this sharedness. Those with authority dictate the ethical terms while those without adapt. At Theranos, Holmes framed secrecy, loyalty, and uncritical belief as moral imperatives, fracturing any sense of collective responsibility. Employees no longer experienced themselves as members of a shared scientific or ethical enterprise. They became subjects oriented around proximity to power. The organization remained structurally intact but relationally hollow. This is what Vaughan (1996) calls the normalization of deviance: not the dramatic embrace of wrongdoing but the quiet recalibration of what seems reasonable.

The cumulative effects are profound. When trust weakens, candor recedes, and relationships become performative, organizations lose the relational capacity required for ethical discernment. Ethical concerns become harder to detect because the relationships capable of surfacing them have been diminished. Deviance becomes normalized (Vaughan, 1996). High performers disengage or exit, removing the dissenting voices that might have interrupted escalating harm. Over time, the organization becomes relationally fragile and ethically disoriented, unable to distinguish loyalty from silence or stability from suppression. Excessive power seeking thus becomes a catalyst that reshapes the moral fabric of organizational life.

### **Conclusion**

The excessive pursuit of power is, at its core, a failure of leadership grounded in a failure of moral reasoning. Deontological ethics clarifies the breach: leaders who place self-protection,

image, or authority above the dignity of others abandon the duties that define ethical influence. Kohlberg's model explains why such failures often feel internally justified. Leaders reasoning from self-protective or conformity-bound stages can interpret control as responsibility, loyalty as virtue, and dissent as improper challenge. This developmental arrest shapes the leader's individual decisions and the relational conditions in which an organization operates.

Its effects appear first in the relationships that make collective life possible. As leaders consolidate power, trust becomes contingent, candor grows tentative, and relationships lose their grounding in mutual recognition. Employees shift from honest engagement to strategic selfpreservation, while leaders misread silence as support. The workplace may continue to function, yet the moral substance of its interactions thins. People no longer speak from conviction. They speak from caution. The organization's ethical capacity erodes quietly, in the small relational compromises that accumulate around a leader's expanding authority.

What makes this transformation especially difficult to detect is that excessive power often presents itself as exemplary leadership. Assertiveness is praised as vision, centralization as decisiveness, and loyalty as culture. Wrapped in this language, the leader's overreach acquires a veneer of legitimacy. By the time relational fractures become undeniable, the interpretive frameworks that could have challenged them have already been reshaped, and workplace relationships lose the moral clarity necessary for principled action.

The question of impact, then, is inseparable from the question of moral maturity. Leaders who pursue power without attending to the ethical duties of their role create environments where honesty feels unsafe, dissent feels futile, and dignity is negotiated rather than assumed. The resulting harm is relational in form and ethical in consequence. Trust collapses into caution,

collaboration into performance, and the organization's moral community into a network of fragile, self-protective ties.

Ultimately, the impact of excessive power seeking is relational because leadership itself is relational. Ethical leadership depends on the ability to recognize and uphold the dignity of others, and this obligation cannot survive when authority becomes a tool for self-advancement. Organizational life depends on the quality of its relationships; when those relationships fracture under the weight of excessive power, the moral life of the institution fractures with them.

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**Abstract**

In startup ecosystems, the study discusses 'Reverse Mentoring' as a substantive and ethically conscious strategy which modifies stakeholder and leadership dynamics in swiftly changing organizational environments. It demonstrates how proactive role reversals force senior executives to contemplate prolonged hierarchies, occupational identities, and tactical logics, creating an appealing tension that can spur principled change, in line with Festinger's Cognitive Dissonance Theory. To create a meticulously derived model of intergenerational learning, ten senior leaders' semi-structured interviews were investigated using Reflexive Thematic Analysis employing an interpretivist methodology. Six interlinked constructs, Metamorphic Leadership, Constructive Cognitive Tension, Catalytic Reverse Mentoring, Fluid Leadership Agility, Generational Synergy and Innovative Psychological Safety, emerge as mechanisms by which cognitive dissonance is reconfigured from disruption into a catalyst for ethical leadership adaptation. These findings, which are colored by Kohlberg's Stages of Moral Development, elucidate an alternation from customary, compliance-centered perspective to subsequent, principle-oriented interaction with contemporary coworkers. This research advances an original, evidence-based framework demonstrating how ethically grounded reverse mentoring can institutionalise inclusive innovation and accelerate sustainable organisational transformation worldwide. Instead of being merely a developmental tool, the structure that ensues sees reverse

mentoring as a means for integrating ethical reflexivity, propagating co-creative inventiveness, and bolstering organizational resilience, skills necessary to sustain success in quick-velocity, inventive contexts.

**Keywords:** Reverse Mentoring, Cognitive Dissonance, Ethical Leadership, Generational Synergy, Startup Ecosystems Cognitive Dissonance and its Resolution in Reverse Mentoring among Senior Leaders in Startups

### **Introduction**

By having younger employees teach senior leaders vital digital and cultural knowledge, reverse mentoring has become a novel approach that challenges conventional hierarchies in an era demanding agility in leadership and knowledge transfer (Pruett, 2020; Reverse Mentoring, n.d.). This approach fosters a unique form of intergenerational cooperation that promotes adaptive learning and inclusive innovation (Browne, 2021). However, academic literature has not thoroughly explored its long-term effects on leadership development and conflict resolution, particularly within startup ecosystems, where reverse mentoring is often used to address skill mismatches (Satterly et al., 2018; Javanmard et al., 2024). To promote sustainable knowledge sharing and adaptability across generations, this study investigates reverse mentoring as a strategic and ethically conscious tool for organizational transformation. Anchored in Festinger's (1962) Cognitive Dissonance Theory (CDT), the study acknowledges that senior leaders may experience psychological discomfort when their traditional role as knowledge providers is reversed. This cognitive incongruence may lead them to either resist new perspectives or reconstruct their conceptual frameworks (Miller et al., 2015). Reverse mentoring, therefore, becomes a means of reconfiguring dissonance into openness, allowing leaders to embrace alternative viewpoints and develop moral reflexivity (Harmon-Jones & Mills, 2019). Drawing on

Kohlberg's Stages of Moral Development, the study explores how this discomfort stimulates ethical reasoning and principled adaptation. Using an interpretivist methodology, the research examines participants' subjective experiences through semi-structured interviews and Reflexive Thematic Analysis. This approach captures how intergenerational exchanges influence leadership responsiveness, dispute resolution, and psychological safety within fast-paced organizational settings. By linking cognitive dissonance to ethical learning, this study fills a critical gap by illustrating how reverse mentoring transforms internal tension into a catalyst for moral growth, emotional intelligence, and co-creative leadership, thereby fostering resilient, ethically grounded startup cultures. Cognitive Dissonance and its Resolution in Reverse Mentoring among Senior Leaders in Startups

### **Research Objectives**

1. To investigate the most common causes of cognitive dissonance senior leaders face in reverse mentoring relationships in startups. 2. To explore strategies senior leaders use to manage and resolve cognitive dissonance during mentoring interactions. 3. To evaluate the implications of resolving cognitive dissonance on leadership adaptability and startup organizational culture.

### **Research Questions**

1. What are the sources of cognitive dissonance for senior leaders in reverse mentoring relationships within startups? 2. How do senior leaders identify, navigate, and resolve cognitive dissonance in these mentoring interactions? 3. What are the individual and organizational implications of resolving cognitive dissonance in reverse mentoring among startup senior leaders?

## **Review of Literature**

### **Reverse Mentoring as a Catalyst for Cross-Generational Learning & Leadership Development**

Reverse mentoring has been recognized as a strategy to bridging interpersonal and generational divides through reciprocal instruction and managerial development, transformatively as unlike the traditional means, it empowers the seniors and fosters millennial managerial ways by positioning the younger folks as sources of information for digital change, diversity awareness and any upcoming market trends (Chaudhuri, Park, & Johnson, 2021). Not only does it cause knowledge transference, but also intergenerational interaction and the restoration of power dynamics (Gadomska-Lila, 2020). AS it promotes flexibility and heightened ability to think strategically, the foundations of traditional instruction will remain applicable today (Chen, 2013).

However, there is a dearth of empirical research on long-term leadership change, which calls for formalized frameworks to formalize knowledge sharing across generations. Cognitive

### **Dissonance and it's Resolution in Reverse Mentoring among Senior Leaders in Startups**

#### **Reverse Mentoring & Organizational Change Adaptability**

Organizational adaptability is critical to meeting the demands of rapid technological disruption. One useful tool for improving intergenerational knowledge sharing, cognitive flexibility, and resilience is reverse mentoring.

According to a sequential mediation model put forth by Burhan et al. (2024), senior leaders can develop adaptive behaviors through reverse mentoring by unlearning fixed mindsets and coming

up with creative solutions. On similar veins, Walton (2024) emphasized its contributions to

making leadership more future-proof through cultural sensitivity and with digital acumen, while

Al-Khuzai and Mezher (2022) show its role in bridging the disparity of generational differences

to create culture of agile decision-making. The scalable frameworks and longitudinal evidence

however, are still poorly understood, requiring more empirical research. Reverse Mentoring in

Multigenerational Workforce Management & Talent Development Organizations must comprehend the various skills within today's multigenerational workforce in order to create pipelines that will last. One creative approach is reverse mentoring, in which junior staff members guide more experienced ones. It promotes leadership curiosity, improves digital skills, and facilitates the exchange of knowledge across generations. Tech-savvy Gen Y improves its own leadership skills and assists in reskilling senior staff, claims Brînzea (2018). Kumar and Kumar (2018) and Chaudhuri and Ghosh (2012) also highlight its function in fostering employee agility and engagement, especially in startups. The structural and cultural difficulties of implementation, as well as the long-term effects on organizational development, are the subject of a substantial research vacuum.

**Cognitive Dissonance in Leadership & Workplace Dynamics**

Cognitive Dissonance is fundamental to organizational behaviour that influences the employee commitment, ethics and decision making and workplace stressors such as role ambiguity and theical dilemmas cause emotional exhaustion and disengagement as understood by Shah (2022). According to Müller (2020), leadership training can either increase dissonance by failing to offer resolution techniques or lessen it by encouraging cognitive flexibility.

**Cognitive Dissonance and it's Resolution in Reverse Mentoring among Senior Leaders in Startups**

According to Mariappanadar (2018), dissonance-driven inconsistent leadership behavior can undermine trust and reduce employee engagement. Despite being acknowledged as a disruptive force, little is known about how leaders can use adaptive mechanisms to use dissonance for constructive purposes like innovation and moral leadership.

**Conflict Resolution & Leadership Strategies**

Resolution of the dissonance has developed from a simple response to an essential ability in today's fast paced modern workplace, According to Methangkool (2023), leaders that are effective switch conflicts to a chance for creativity by utilizing emotional intelligence, active

listening and structured mediation. Garvin (2009) emphasizes the expanding role of young leaders in peace talks, early investment in negotiating skills will provide a robust pipeline of future leaders. The transition from authoritarian to cooperative approaches, where various viewpoints are combined to jointly develop solutions is a major theme. To integrate conflict resolution with strategic decision-making, however, and to examine the influence of sectoral, cultural, and generational differences on conflict resolution styles, more research is required.

### **Methodology**

**Sample Description** A qualitative, research-based methodology was used in this study, which included primary interviews with ten senior leaders from Indian startups and related organizational branches in a variety of industries as well as secondary reviews. Understanding the conflicts that exist in startup ecosystems between traditional leadership practices and rapid innovation was the main goal. Purposively chosen to offer insightful commentary, participants had to have first-hand knowledge of reverse mentoring and the cognitive dissonance that goes along with it in order to meet the inclusion criteria. The sample's representation of leaders from a range of industries, organizational sizes, and cultural backgrounds enhanced the investigation of dissonance and how it is resolved in various contexts. To put light on intergenerational dynamics, participant selection purposefully included hierarchical authority, age demographics, and adaptive leadership needs. In order to ensure the findings' relevance, diversity, and transferability, recruitment took place through Cognitive Dissonance and it's Resolution in Reverse Mentoring among Senior Leaders in Startups leadership forums, startup communities, and professional networks. By reflecting a variety of mentoring relationships, including younger mentors with a focus on diversity, technology, or organizational culture, participants expanded the study's focus on reverse mentoring practices. **Data Collection Method** The main technique for

gathering data was semi-structured interviews since they were effective at capturing the complexities of lived experiences. This method made sure the research focus stayed in line with the guiding questions while allowing participants to think deeply about cognitive dissonance and how it is resolved in reverse mentoring contexts. The semi-structured design accommodated participants' differing leadership styles, values, and mentoring experiences by allowing for pre-planned core questions to be supplemented by impromptu probes and follow-ups. A thorough literature review on leadership adaptability, cognitive dissonance, and reverse mentoring served as the basis of the interview guide. The questions focused on the causes of the dissonance, how it could be addressed, and how the processes influence both organizational development and leadership. The questions were intended to evoke thoughtful observations and particular illustrations. The guide was peer-reviewed by experts in the field for rigor and refinement, and adjustments were made based on their feedback in terms of negotiating a balance between natural conversation and methodical data collection. Process Between May and August 2025, fieldwork was carried out in innovation hubs such as Delhi, Mumbai, and Bengaluru. To ensure confidentiality and rapport, semi-structured interviews were conducted with senior leaders of startups in private, comfortable settings, either in person or through secure video conferencing. Data transcription, interview administration, and participant recruitment were all handled by the principal investigator. Interviews underwent reflexive thematic coding after they were collected. This approach made it possible to systematically find recurring themes in the cognitive dissonance and adaptation techniques used by leaders in reverse mentoring. To maintain openness and trust, confidentiality was stressed at every stage. Cognitive Dissonance and its Resolution in Reverse Mentoring among Senior Leaders in Startups Data Analysis Because of its ability to identify both recurring patterns and subtle complexities of belief conflicts in reverse

mentoring relationships, reflexive thematic analysis (RTA) was used as the primary analytical method. Coding was the first step in data analysis, where pertinent segments were assigned to themes like belief reconciliation, cognitive dissonance, and generational divides. The codes were then arranged into more general thematic clusters, such as conflict resolution techniques, leadership flexibility, and emotional intelligence. Understanding how senior leaders manage dissonance, modify their leadership philosophies, and foster flexibility was made possible by this iterative process. The approach allowed for cross-case comparisons while maintaining the depth of lived experience. Data auditing was done to confirm theme development and coding consistency in order to guarantee rigor. To increase credibility, dependability, and analytical depth, triangulation was used by contrasting interview results with existing literature and supplementary sources (such as case studies and observations). Ethical Considerations Ethical considerations were central to ensuring honesty, dignity, and confidentiality in this study on managing cognitive dissonance through reverse mentoring among senior leaders in startups. Informed consent was foundational: participants were fully briefed on the study's purpose, scope, and potential risks, and each signed a consent form confirming voluntary participation and the right to withdraw at any time without penalty. This upheld participants' autonomy and transparency throughout the research process. Confidentiality and anonymity were strictly maintained. Identities, organizations, and responses were anonymized, with data access restricted to the researcher. No specific startup was identified, allowing findings to remain broadly applicable while safeguarding sensitive information. Given the introspective nature of exploring cognitive dissonance, participation could evoke emotional or reflective discomfort. To mitigate this, debriefing procedures and access to Cognitive Dissonance and its Resolution in Reverse Mentoring among Senior Leaders in Startups support resources were provided to ensure

participants' emotional well-being during and after the interviews. The study also adhered to broader ethical principles of respect for persons and fairness. All participants' voices were treated with equal value, minimizing researcher bias and recognizing diverse experiences with reverse mentoring. Upholding these standards ensured that the research was conducted with integrity, trustworthiness, and a genuine commitment to ethical leadership inquiry.

## Results

Table 1

Overall Themes Table Overall Themes Description Grouped Themes Metamorphic Leadership  
 How reverse mentoring triggers shifts in leadership self-concept, purpose, and identity, allowing senior leaders to redefine their roles and approach to authority. Realignment of Leadership Identity through Reverse Mentoring; Evolving Entrepreneurial Identity and the Dissonance of Vision Control; Leadership Emergence Through Identity Transition; Identity, Passion, and Entrepreneurial Self-Formation; Leadership Identity and Purpose in Flux; Evolving Identities and Emotional Bonds; Leadership Reimagined Through Humility; Purpose-Driven Entrepreneurial Evolution; Organizational Realities and Structural Constraints Cognitive Dissonance and it's Resolution in Reverse Mentoring among Senior Leaders in Startups Constructive Cognitive Tension Recognition of conflicting beliefs, values, or practices and the internal tension that senior leaders experience; emphasizes awareness as a precursor to resolution. Experiencing Cognitive Dissonance Through Cultural Contrasts; Cognitive Dissonance from Shifting Roles and Rapid Responsibility; Navigating Cognitive Dissonance in Leadership Evolution; Generational Dissonance as Catalyst for Innovation; Cognitive Dissonance from Shifting Roles and Leadership Evolution; Cognitive Reframing Through Relational Dynamics and Dialogue Catalytic Reverse Mentoring Using reverse mentoring

intentionally to drive cultural change, innovation, and strategic advantage; embedding it into organizational systems. Reverse Mentoring as a Cultural and Strategic Advantage; Resolution Through Reverse Mentoring and Reflexivity; Reverse Mentoring and Non-Hierarchical Learning; Reverse Mentoring as a Catalyst for Challenging Traditional Beliefs; Resolution of Dissonance Through Mutual Learning and Open Structures; Embedding Reverse Mentoring into Organizational Systems; Creating Structures that Normalize Reverse Mentoring; Operational Translation of Reverse Mentoring into Strategy and Growth; Resolution Through Reverse Mentoring Embedded in Startup Culture Fluid Leadership Agility Leadership flexibility in decision-making, conflict resolution, Adaptive Leadership and Conflict Transformation; Operational and Strategic Agility Influenced by Gen Z; Adaptive Leadership Through Reverse Mentoring in Cognitive Dissonance and its Resolution in Reverse Mentoring among Senior Leaders in Startups and operational agility, enabled by openness to learning from younger generations. Practice; Operationalizing Change Through Adaptive and Inclusive Practices.

### **Theme 1: Metamorphic Leadership**

The theme of Metamorphic Leadership demonstrates that reverse mentoring sparked a re-ordering of senior leaders' notions of self, purpose, and authority. Rather than simply considering themselves as knowledge-givers, participants described an identity difference, brought about by exposure to values and practices other than their own and those modelled by younger colleagues. This change was often stimulated by cognitive dissonance, disturbing and reframing pre-existing assumptions. One participant recalled the challenge of abandoning traditional norms of financial professionalism: "The idea that financial products don't have to look financial... finance is equals to user-first design, uhm and even playful if needed. That was very new to me" (AS). For another, the tension emerged from professional conditioning that

privileged accuracy over creativity: “I resisted because, you know, in teaching accuracy was everything and I thought ‘fun’ could be a distraction....but in the moment I felt it clashed with my way of working” (RB). Such tensions foreground the destabilizing role of reverse mentoring in surfacing conflicts between entrenched and emergent identities. Yet, identity realignment was also narrated positively through dialogic exchange: “And I felt very nice that she had so many questions... we used to get some ideas out of that” (VS). These results address the questions that guided the study, showing how cognitive dissonance is generated, how the leaders in the study worked through the identity tensions, and how these processes foster responsiveness and flexibility for the organizations in which they operated. Cognitive Dissonance and its Resolution in Reverse Mentoring among Senior Leaders in Startups

### **Theme 2: Constructive Cognitive Tension**

The idea of Constructive Cognitive Tension represents how conflicting frameworks of beliefs, values, and practices produce dissonance that causes senior leaders to question their assumptions. In many of the reverse mentorship interactions, cognitive tensions occurring when leaders’ regimes were in conflict with the pragmatism and views of younger colleagues, were revealed. One leader reflected on an entrenched rule about client-facing responsibilities: “Yes, one stands out. I had always believed interns shouldn’t handle the client calls, only trained advisors should. But one summer, a client was annoyed about a delay, and the only person who had the exact update was our intern....that night I kept thinking about it, I realized maybe I was protecting a rule more than the customer” (SK). Wherein a critical reframing was prompted by the conflict between hierarchy and client responsiveness. Similarly, tensions arose around generationally divergent approaches to branding: “In my head, finance was supposed to be serious and sober. When they pitched a playful brand direction I almost shut it down....later I saw our engagement

shoot up and I had to admit my own bias was in the way” (AS). For another participant, organizational pace disrupted perfectionist tendencies: “Coming from places where ‘process’ is everything, I underestimated how much speed matters for small teams here....it bothered me to compromise on the perfect deck, but I learned moving with 80% clarity beats waiting for 100%” (RT). They serve as examples of how cognitive dissonance arises in reverse mentoring settings and how its positive resolution influences leadership flexibility and the development of startup cultures, thus directly promoting the goals of the study.

### **Theme 3: Catalytic Reverse Mentoring**

The theme of Catalytic Reverse Mentoring highlights how reverse mentoring moves beyond interpersonal exchange to become a deliberate mechanism for organizational learning, cultural change, and strategic renewal. Rather than treating mentoring as incidental, participants described ways in which reverse mentoring was embedded structurally and leveraged to challenge hierarchical norms. Cognitive Dissonance and its Resolution in Reverse Mentoring among Senior Leaders in Startups For some leaders, this manifested in an explicit recognition of non-hierarchical learning cultures: “Okay, okay. So I think um so I first talk about how the way that the team is structured, so we don’t work in a hierarchical manner, we have a flat structure....So I think that the learning is two way and it's like a reverse mentoring for sure, because uh definitely me as a senior I have learned a lot of things from my team especially in terms of the trends” (VS). In other cases, systems were formalized to ensure reciprocity: “We wrote it down. Pair every senior with a junior for a 30-minute monthly ‘teach session’ and the senior can’t talk for the first 10 minutes....it forced real reverse mentoring instead of just saying we’re open” (SK). These structural shifts were also linked to cultural transformation. One leader described actively seeking junior input: “I asked our youngest designer to review the flow first

before it came to me....and it changed the whole dynamic,people started bringing user ideas directly without waiting for permission” (RT). Another underscored humility and reflexivity: “I take guidance from them to adapt where I am wrong rather than thinking that I am always right” (SM). These show how reverse mentoring functions for identifying and resolving dissonance, which improves leadership flexibility and instills cultural responsiveness in startup companies, a result that is directly related to the goals of the study.

#### **Theme 4: Fluid Leadership Agility**

The theme of Fluid Leadership Agility reflects how reverse mentoring interactions encouraged leaders to embrace flexibility in decision-making, conflict resolution, and operational processes. Senior leaders described how exposure to younger colleagues’ practices and perspectives compelled them to loosen rigid frameworks, experiment more readily, and recalibrate leadership styles in response to dynamic startup environments. One leader highlighted the need to weigh theoretical correctness against market pragmatism: “Now in terms of talking about a couple of examples where um, you know, team has suggested something and I felt very strongly that it will not go well, uh, and then we kind of debated....we should wait test this, um, what you're saying is theoretically right, but it's not necessarily convince me that it is actionable in the current market scenario” (PK). Others adapted more fundamentally to alternative work rhythms: “I work with a lot of freelancers and Cognitive Dissonance and it’s Resolution in Reverse Mentoring among Senior Leaders in Startups young people who don’t operate on 9-to-5 mindsets....so I built processes that flex with them instead of forcing them into my old schedules” (SM). Leaders also reframed experimentation as a structural norm: “We set a two-week experiment target, told the team we’ll review numbers and kill ruthlessly if it doesn’t move the needle....that made decisions faster and less personal” (RT). Similarly, humility in decision-making created space for

innovation: “One of our junior analysts changed my mind on a risk model by showing me a quick and dirty simulation....I stopped the meeting and said ‘we’ll ship his version and keep mine as a backup’” (SK). By connecting dissonance resolution to startup resilience and cultural evolution, these accounts directly advance the goals of this study by demonstrating how cognitive dissonance, when handled constructively, promotes organizational agility and leadership adaptability.

### **Theme 5: Generational Synergy**

The notion of Generational Synergy shows how reverse mentoring creates collaboration, and cultural change by bridging divergent generational perspectives. These discussions gave leaders the opportunity to re-evaluate established practices and embrace more innovative, inclusive methods of working rather than deepening hierarchical divisions. One participant illustrated how mentees voices reframed traditional communication strategies: “Students wanted less jargon and more stories....I thought we were dumbing it down but they showed me we were opening it up” (RB). Similarly, evolving communication formats were adopted as a result of younger colleagues’ influence: “All the time, I mean this is why you have companies like nada right? You have communities of practice, so we do our monthly connect....we follow the young folks’ format,short, tight, async first, and only then a live call” (PK).These changes show how generational practices are being incorporated into organizational structures. It was also clear that younger workers could question established hierarchies of power: “My team is very young and they do not wait for permission to propose....and I really like the way they break barriers we took for granted” (SD). This was mirrored in leaders’ willingness to cede decision-making: “I used to do the final call on everything creative....now I ask for a ‘why’ Cognitive Dissonance and it’s Resolution in Reverse Mentoring among Senior Leaders in Startups from them first and many

times I just nod and move on with their version” (AS). Taken together, these accounts highlight how cognitive dissonance arising from generational differences was not only managed but harnessed to build trust, redistribute authority, and reshape startup cultures, findings that align directly with the study’s objectives on leadership adaptability and cultural evolution.

### **Theme 6: Innovative Psychological Safety**

How reverse mentoring fosters cultures of openness, experimentation, and emotional intelligence within startups is encapsulated in the theme of Innovative Psychological Safety. Leaders and teams co-constructed conditions for innovation and adaptability by establishing settings that normalize vulnerability and reframe taking risks as learning. For some participants, this took the form of establishing explicit norms around dialogue: “Absolutely. you know, so there is there is wisdom in you know, belonging and not belonging and there is wisdom in learning and unlearning....We have a principle in our team that it's okay to disagree loudly but then align quickly” (PK). Others emphasized the importance of feedback cultures that invited participation: “And also if you give a right feedback to the people who are working with you, that growth and that openness completely helps....So I feel that instead of saying ‘no’ to this ideas welcome those ideas instead of restricting those people” (PS). Psychological safety also emerged in moments of shared accountability: “But in that moment, speed mattered more than perfection. Clients were waiting, and we took a call together and I made it clear no one would be blamed if this didn’t work....that was one of the most appreciated things we did” (SK). Personal vulnerability was reframed as authentic leadership: “Now, I’m quite shy and I always felt showing my face was unnecessary....but hearing from the team and the results made me rethink my belief that professionalism meant staying behind the scenes” (SD). These cases emphasize how cognitive dissonance, experienced in psychologically safe environments, improves leadership adaptability

and supports startup cultures focused on transparency and group creativity, and met a study's research aims. Cognitive Dissonance and it's Resolution in Reverse Mentoring among Senior Leaders in Startups

## Table 2

### Participant Demographics Initial Age, Gender Role & Leadership Level Experience

(Total/Startup) Sector Reverse Mentoring Duration PS 47, M Partner, Founder 20 / 16 yrs

Tourism > 2 yrs SM 41, F Founder 5 / 1.6 yrs Beauty & Wellness 6 mos-1 yr PK 55, M COO, C-

Suite 30 / 5.6 yrs Footwear > 2 yrs VS 25, F VP 2 / 1.7 yrs Advertising 1-2 yrs RT 37, F Sr.

Manager 11 / 2 yrs Technology > 2 yrs ML 25, F Founder 3 / 3 yrs Consulting > 2 yrs SK 35, M

Founder 10 / 5 yrs Financial Services 1-2 yrs Cognitive Dissonance and it's Resolution in

Reverse Mentoring among Senior Leaders in Startups SD 32, F Founder 8 / 3 yrs Sustainability 6

mos-1 yr AS 27, F Dept. Head 5 / 5 yrs Fintech 1-2 yrs RB 38, F Founder 12 / 2 yrs F&B 6 mos-

1 yr The demographics of participants showed a diverse and fair distribution across age ranging

from 25 to 55 years ( $M \approx 35$ ), thus prioritizing intergenerational interactions, which were

relevant to reverse mentoring. While younger leaders (e.g., VS, ML, AS) brought perspectives of

digital natives, established executives (e.g., PK, PS) brought decades of acculturated experience,

both establishing natural situations for cognitive dissonance and leadership development. While

there was a slight gender imbalance tops data - with women as a majority (six female, four male)

- it is notable in the context of women's underrepresentation in entrepreneurial leadership. The

female participants generally pointed to openness and co-creation that related to psychological

safety and transformational leadership. Professional experience diverged greatly from less than

five years to 30 years, however experience from start-ups less so (1.6 -16 years), which suggests

that both early- and late-career leaders experience and engage with the entrepreneurial

ecosystems. All participants indicated having experience in mentoring and all had direct experience of reverse mentoring ranging from six months to over two years, indicating that these findings emerged from their lived and sustained experience and not from theoretical contemplation. The industry that the participants represented was heterogeneous, moving from traditional industries (e.g. travel, F&B) to disruptive industries (e.g. fintech, consulting, advertising) demonstrating that reverse mentoring does not exist only in high-tech contexts; it is prevalent across various organizational contexts and affirms its catalytic role in supporting leadership adaptation and cultural transformation. Cognitive Dissonance and its Resolution in Reverse Mentoring among Senior Leaders in Startups

### **Discussion**

The outcomes of this research demonstrate that reverse mentoring functions not only as a remedy for digital and generational gaps but also as a transformative mechanism for reshaping leaders' self-concepts, authority perceptions, and adaptive strategies within startup environments. The six emergent themes reveal how the intentional reversal of traditional hierarchies provokes reflection, self-questioning, and moral recalibration among senior leaders. Guided by Festinger's (1962) Cognitive Dissonance Theory, the findings indicate that while initial dissonance may feel destabilizing, it ultimately facilitates adaptive thinking and ethical transformation, turning discomfort into developmental energy. Metamorphic Leadership highlights how reverse mentoring fosters identity realignment, encouraging leaders to view humility and vulnerability as strategic strengths rather than weaknesses in innovation-dependent contexts. This supports Müller's (2020) argument that leadership transformation often follows periods of internal dissonance and reflection. Constructive Cognitive Tension further validates Mariappanadar's (2018) view that dissonance and discomfort promote growth and creativity, with participants

reframing authority and decision-making norms in response to their younger mentors' perspectives. The theme of Catalytic Reverse Mentoring underscores the importance of structure in institutionalizing openness. Participants reported that formalized practices - such as mandatory "teach sessions", helped normalize intergenerational knowledge exchange, echoing Walton's (2024) argument that reverse mentoring enhances organizational adaptability. Theoretically, this reframes cognitive dissonance as a generative system rather than a leadership obstacle. Practically, it demonstrates that embedding reverse mentoring within startup culture fosters adaptability, innovation, and resilience, especially crucial in high-velocity, volatile environments. Fluid Leadership Agility and Generational Synergy reveal how intergenerational collaboration and flexible mindsets improve conflict resolution and creativity. Leaders who relinquished rigid control reported enhanced decision-making and trust-building, reinforcing Chaudhuri and Ghosh's (2012) assertion that reverse mentoring bridges cultural divides. Meanwhile, Innovative Psychological Safety provided the emotional infrastructure that enabled this process. Consistent with Shah (2022), psychological safety acted as a buffer against Cognitive Dissonance and its Resolution in Reverse Mentoring among Senior Leaders in Startups exhaustion from dissonance, cultivating an atmosphere where feedback, accountability, and vulnerability could coexist productively. Collectively, these six themes illustrate a cyclical process through which reverse mentoring destabilizes and reconstructs leadership practice. Metamorphic Leadership captures identity change, while Constructive Cognitive Tension represents the friction that drives reflection. When channeled through Catalytic Reverse Mentoring, this tension becomes productive, establishing formal structures for bi-directional learning. Fluid Leadership Agility and Generational Synergy then operationalize this mindset, promoting shared ownership and experimentation, with Innovative Psychological Safety acting

as the stabilizing force that sustains ongoing adaptability. Viewed through the lens of Kohlberg's Stages of Moral Development, this cycle mirrors the progression from conventional, rule-bound reasoning toward post-conventional, principle-based ethical leadership. As leaders confront dissonance, they evolve from compliance-driven decision-making to morally reflective judgment, prioritizing fairness, inclusivity, and integrity. Reverse mentoring thus becomes a moral as well as organizational learning process - cultivating ethical reflexivity alongside leadership agility. In this hybrid model, reverse mentoring emerges not as a peripheral training practice but as a cultural mechanism that uses cognitive dissonance as a catalyst for ethical and organizational renewal. Startups adopting this approach can reframe discomfort as creative tension - transforming dissonance from a destabilizing force into a deliberate pathway for sustainability, ethical maturity, and collaborative leadership.

### **Limitations and Recommendations**

While this research advances understanding of reverse mentoring and cognitive dissonance within startup ecosystems, several limitations warrant acknowledgment. The purposive sample of ten senior leaders enabled deep, reflexive insight but limits generalizability. Findings are embedded in an Indian startup context, shaped by specific socio-cultural and economic conditions that may differ across global entrepreneurial ecosystems. Cognitive Dissonance and its Resolution in Reverse Mentoring among Senior Leaders in Startups Second, the reliance on self-reported narratives introduces potential bias. Participants may have minimized vulnerability or conflict, and retrospective accounts risk recall distortion. Although reflexive thematic analysis revealed underlying tensions and contradictions, longitudinal or ethnographic approaches could capture leadership transformation in real time and reduce these constraints. Third, the interpretivist methodology privileges depth of meaning over measurable breadth. Consequently,

organizational outcomes - such as innovation velocity, employee retention, or decision-making speed were not quantified, restricting direct performance linkage. Future research should employ comparative, cross-cultural and mixed-methods designs to test the model's transferability and combine qualitative richness with quantitative precision. Longitudinal studies would further illuminate how cognitive dissonance and leadership adaptation unfold over time. Practically, startups should institutionalize reverse mentoring as a structured and psychologically safe process, ensuring mutual accountability and reciprocal feedback. Embedding such systems can foster sustainability through trust, inclusivity, and adaptive collaboration. Leadership programs can also reframe cognitive dissonance as constructive tension, a catalyst for creativity, learning, and ethical adaptability rather than resistance. Despite its limitations, this study offers a conceptual foundation for reimagining leadership as a dynamic, intergenerational, and ethically grounded process of mutual development and resilience.

### **Conclusion**

This study extends knowledge of reverse mentoring in startups by showing senior leaders who experienced role reversals and bottom-up generational perspectives reconfigured positional authority and navigated adaptive leadership while embracing co-creative innovation. The identified themes together demonstrate leadership identity that is both relational and agile. The contribution of the study is re-framing cognitive dissonance and the contextual emphasis on Indian startups underscores the exploratory rather than confirmatory nature of this Cognitive Dissonance and its Resolution in Reverse Mentoring among Senior Leaders in Startups research, whilst pointing to avenues for comparative and longitudinal research. Future research efforts may include understanding cross-cultural and/or cross-sectoral contexts in which reverse mentoring may take place, as well as linking their leadership adaptation to other relevant

organizational outcome measures. The research provides an example of how dissonance can advance the change in leadership practice, through agility, inclusion and sustainable innovation. Reverse mentoring suggests that the maturity of leadership is not in being certain, but rather the courage to be developed through dissonance. Cognitive Dissonance and it's Resolution in Reverse Mentoring among Senior Leaders in Startups

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### Appendices

Research Documentation Drive Link: PG Research - Vishakha Damani (2437662)

<https://drive.google.com/drive/folders/1xhrJBoUCGrT1huD7GhRW7amLZG29q28w?usp=sharing>

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### **Abstract**

This paper analyses how motivation, psychological variables, and workplace expectations influence early-stage retention and turnover intentions. It explores Generation Z (Gen Z) workforce attrition. It goes beyond descriptive discussions of generational differences and creates a systematic analytical framework that connects personal expectations about flexibility, recognition, learning opportunities, and mental health support with individual psychological traits like optimism, emotional coping styles, and confidence in career outlook. The study also assesses the workplace environment's mediating function in converting these characteristics into attrition or retention results.

This research investigates the key drivers of Generation Z workforce attrition by empirically examining how factors like motivation, psychological traits, personal and workplace expectations can be deployed to design retention strategies. It goes beyond the descriptive discussions of generational differences and develops an analytical framework that links individual psychological traits such as optimism, emotional coping mechanisms, and confidence in career outlook with personal expectations like flexibility, recognitions, learning opportunities, and mental health support. It further delves into the mediating role of the workplace environment in translating these factors into either retention or attrition intentions.

A quantitative, cross-sectional research design is used with primary data collections by means of a structured questionnaire that would be circulated to Gen Z university students and entry-level professionals aged between 18 and 25. Statistical techniques including correlation analysis, multiple regression, factor analysis, and significance testing will be employed to identify the key predictors of attrition intention and to assess the strength of relationship amongst the variable.

This paper contributes to the existing literature by offering a region-specific, post-pandemic, quantitative perspective on Gen Z attrition and integrates psychological and motivational dimensions into retention analysis. The findings are aimed to support organizations in designing evidence-based strategies that better align workplace practices with employee expectation, eventually minimizing attrition risk and increasing job security and stability.

## **Introduction**

Employee attrition has become one the most pressing challenges that is faced by organizations across various industries. In today's fast paced and competitive business environment, employees exiting the organization not only causes immediate financial burden through recruitment, onboarding and training expenses but also results in multiple long term disruptions such as reduced productivity, weak team cohesion and loss of expertise and knowledge. A high turnover oftens pushes the organizations to reinvest resources away from R&D and innovation to filling up the positions that keep falling vacant. Consequently, understand the underlying causes of this employee attrition has emerged as key priority area in human resource management and strategy planning. While we do understand that attrition is not

a new phenomenon, the entry of the Generation Z to the workforce had brought some unique challenges along with it that the traditional retention strategies are failing to address.

Generation Z is defined as the group of individuals who are born between 1997 and 2012. They will become the dominant segment of the global workforce and are projected to comprise one-third of employees by 2030. This generation is entering the job market with characteristics, aspirations and workplace expectations that are significantly different from those of their predecessors i.e. Millennials, Generation X and Baby Boomers. Gen Z employees are the digital natives who have grown up in an environment that was shaped by rapid technological advances, economic uncertainties, social change and most importantly a global pandemic. They are best described as adaptable, tech-savvy, socially conscious and purpose driven. Unlike the earlier generations, Gen Z prioritizes flexibility, mental health, inclusivity and meaningful engagement over the traditional markers of job success like job security and financial rewards alone. While salary does remain important, they view it as only a part of the broader package of workplace values.

Despite these positive attitudes, the attrition rates among Gen Z employees is considerably high. Multiple studies suggest that this generation is more likely to engage in job hopping in search of faster career growth, meaningful work and alignment of job with their personal values. A mismatch between organizational culture and expectations leads to disengagement, dissatisfaction and eventually turnover. For example, a rigid hierarchical structure with infrequent feedback, lack of recognition and inadequate mental health support results in early exit of Gen Zs from the organization. This trend has posed significant risks for businesses as high turnover among younger employees not only inflates operational costs but also disrupts long term succession planning and eventually the development of future leaders. This

frequent movement of talent also undermines organization's stability making it difficult to sustain a cohesive, engaged and motivated workforce.

The consequences of a high attrition rate go beyond just cost considerations. Attrition affects team dynamics and lowers morale among remaining employees hampering innovations by breaking the continuity in projects and collaborations. For industries that are heavily reliant on young talent such as technology, startups and creative sectors, the constant churning of employees threatens competitiveness and growth. Traditional approaches to retention such as offering financial incentives or long-term security have been seen to be ineffective with Gen Z employees who prioritize purpose, autonomy and personal growth. This highlights the urgent need to design new strategies that are tailored specifically to the unique needs of this generation. The existing literature has examined generational differences in workplace behaviour broadly but lacks the focus on entry level Gen Z employees and the factors influencing their attrition.

This study seeks to address this research gap by investigating the factors driving attrition among Gen Z employees. The research will explore dimensions like motivation drivers, career expectations, workplace culture, mental health and wellbeing and communication preferences that play a critical role in shaping the retention strategies. The objective is to provide organizations with actionable insights that help them align workplace policies and practices with Gen Z expectations.

### **Objectives**

1. To quantify the relationship between Gen Z's workplace expectations and attrition intentions.
2. To identify the most influential psychological and motivational factors in predicting Gen Z job hopping.

3. To assess the impact of workplace conditions and managerial support on attrition risk among Gen Z entrants.

### **Literature Review**

- Monika T. and Densingh Joshua Israel (2024) examine the sustainable strategies for managing attrition among Gen Z employees in the Indian context. Their review identifies that the key contributors to Gen Z attrition are inadequate compensation, limited flexibility, outdated work cultures and lack of mentoring support. The study emphasizes the importance of empathetic leadership, continuous feedback and technology enabled workplace environments to reduce attrition risk. However, the research is primarily conceptual and lacks empirical validation. Hence, there is need for quantitative region-specific study in the domain.
- Zahari and Puteh (2023) examine the job-hopping intentions among Gen Z university students in Malaysia using quantitative survey approach. Their findings reveal that factors like achievement, salary and benefits, recognition and working conditions influence job hopping behaviour and interpersonal relationships and career advancements are insignificant predictors. However, this study is limited to students and does not include actively employed Gen Z professionals which is a gap in understanding the real workplace attrition dynamics.
- Isic (2020) explores the role of onboarding process in reducing the attrition risk among millennials and Gen Z employees in Finland through mixed method approach. The study demonstrates that a structured onboarding process involving mentoring, feedback and career planning over an extended period significantly enhances

retention intentions. Despite its insights, the research is limited by its small sample size and lack of HR perspectives thereby reducing its generalizability.

- Zepeda (2019) examines the various factor influencing attrition among millennials in United States through literature-based analysis, It identifies poor compensation, lack of trust, rigid work environments and unmet expectations are primary drivers of attrition. Although the findings are relevant, the absence of primary empirical data and millennials being the primary focus limits its applicability to Gen Z workforce dynamics.
- Pawar and Pandit (2023) analyze job hopping trends among millennials and Gen Z in the post pandemic period in India. The study highlights that burnout, lack of flexibility, work life imbalance and misalignment with organizational values are the major drivers of attrition. While the study does provide valuable post-COVID insights, its focus is region specific and also lacks deeper psychological or longitudinal analysis.
- Romsa et al. (2025) studies the influence of faculty interactions on retention and satisfaction among Gen Z students using NSSE survey data. The findings suggest that personalized attention, mentoring and frequent interactions among students and faculty significantly impact the attrition intention. While conducted in an educational context, the study does provide transferable insights for managerial support and mentorship in workplace retention strategy planning.
- Morales (2023) explores Gen Z retention in the big tech industry through a mixed method case study. The research reveals that the Gen Z employees prioritize salary, growth, flexibility and purpose driven work and that the rigid return to office policies

contribute to dissatisfaction. The study focuses on a single organization which limits its generalizability which highlights the need for broader industry level validation.

- Ngo et al. (2025) examine how logistics service quality influences Gen Z customer trust and satisfaction in e-commerce sector. The study finds that the personal contact quality strongly predicts trust and satisfaction highlighting the importance of human interaction for Gen Z. Although the research is conducted in consumer context it offers findings parallel to workplace engagement and relationship building.
- Rai (2012) provides a conceptual review of engaging Gen Y employees in a social media dominated environment. The study argues that transparent communication and digital engagement tools are very important for workplace engagement. Whilst this study is focused on Gen Y, it offers conceptual insights that are relevant for Gen Z.
- Veeramani et al. (2025) analyses work life balance challenges among Gen Z employees in an Indian manufacturing firm. This study identifies that flexible work hours and supportive management are the key contributors to improved balance while excessive screen time and blurred boundaries increase stress. This research is sector specific and addresses that specific gap and hence calls for a broader cross industry study.
- Jain (2022) conducted an e-Delphi study to identify best workplace integration practices for Gen Z from managerial perspectives. The study establishes consensus on psychological well being, career development and flexible rules to the key retention strategies. The limited expert panel size also suggests the need for empirical testing with a larger sample size.
- Khan (2019) presents a descriptive analysis of attrition across the generations and identifies career growth and pay as the dominant drivers for Gen Z. The study reinforces

the need for generation specific retention strategies and lacks empirical data to support the conclusions that it suggests.

- Shriti and Shyam (2023) examine the emotional affectivity among Gen Z in hybrid learning environments. They find out that emotional variability significantly influences the decision making and mental health of Gen Zs. These insights are relevant in understanding the emotional dynamic of Gen Z in hybrid workplaces.
- El Hajal and Losekoot (2024) explore Gen Z talent management in the hospitality industry. This study highlights that flexibility, communication and technology integration as critical retention factors. The qualitative nature of this research calls for quantitative validation across industries.
- Shoidal et al. (2023) discuss the economic insecurity among millennials and Gen Z pointing out the delayed financial independence and job instability in the current decade. This study provides a societal context and background for our research but it lacks empirical workforce level analysis.

### **Research Gaps**

- Lack of region-specific quantitative studies that capture Gen Z's unique workforce dynamics. The current researches are more qualitative and do not have empirical data to support their conclusions.
- Insufficient exploration of factors like psychological well being and value alignment as attrition drivers. The current studies predominantly examine external factors such as salary or career growth but neglect the complex impact of psychological well being, personal values and workplace culture.

- Limited understanding of post pandemic work model implication on Gen Z retention. The transition from remote to hybrid work models due the COVID 19 has fundamentally altered the workplace dynamics but there are still only a few researches examining these transformations.
- Absence of multi stakeholder perspective in attrition research. Attrition is a multifaceted challenged and influences both the employee needs and organizational requirements but the current researches only focus on the employee viewpoint and overlook the managerial, HR and organization wide perspectives.

### **Problem Statement**

Employee attrition has become a significant challenge for organization globally and with the entry of Gen Z now entering the workforce it has emerged as a major growing concern. Unlike the previous generations Gen Z has very different workplace expectations such as flexibility, purpose driven roles, recognition and mental health support. Failure in meeting this expectations is linked with disengagement and ultimately increase in turnover rates. Understanding these drivers of attrition among Gen Z at the entry stage is extremely important for organizations in order to design effective retention strategies. This study seeks to quantify the relationship between Gen Z motivations, career expectations, workplace culture, mental health needs, communication preferences and how all these factors ultimately influence attrition tendencies

## Key Constructs and Relationships

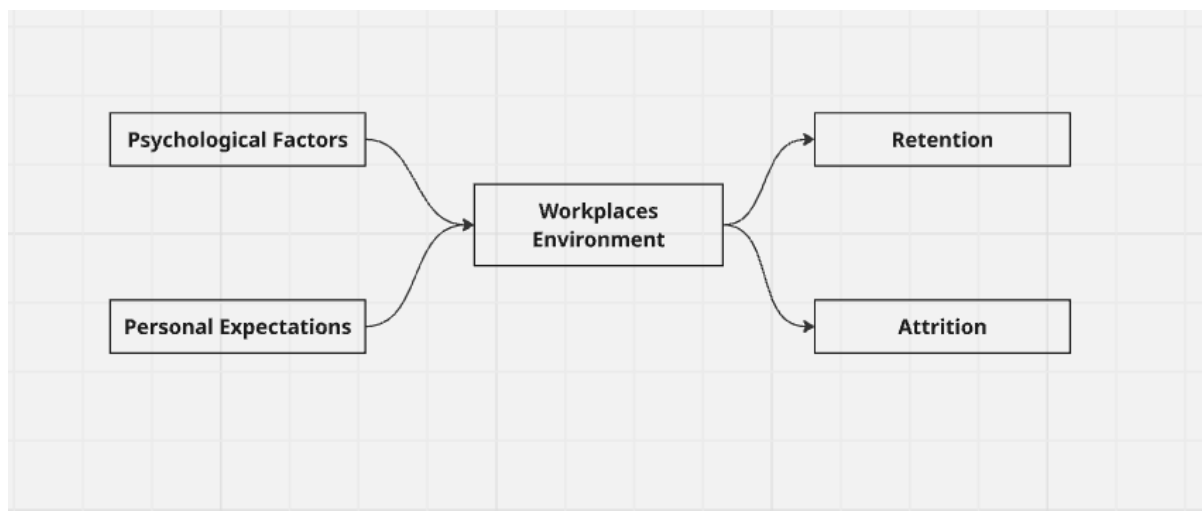
**Table 1**

*Key Constructs and Relationships*

Construct	Description	Role in Framework
Workplace environment	Refers to the organizational climate including inclusivity, leadership quality, managerial support, mental health resources, and feedback	Mediator
Psychological factors	Includes aspects like optimism, confidence in career outlook, emotional coping mechanism, and value alignment with employer	Independent Variable
Personal expectations	Includes desired job attributes such as purpose, career growth, flexibility, and mental health support.	Independent Variable
Retention	The likelihood or intention to stay with the current employer or job due to fulfilment of needs	Dependent Variable
Attrition	The likelihood or intentions to leave the job or employer within a defined period of time	Dependent Variable

**Figure 1.1**

*Conceptual Model*



## Methodology

**Type of Research:** Quantitative survey-based study.

**Population:** The target population for this study consists of Generation Z university students between the ages of 18 and 25 who are either preparing to enter the Indian workforce or are currently employed as interns or entry-level employees.

**Period of Study:** The questionnaire is framed to capture attitudes shaped by experiences over the past three to five years. The study is being conducted over the period of one year.

**Type of Data:** Two forms of data are being used in the study. Primary data has been collected directly from respondents using a structured multiple-choice questionnaire designed to quantify workplace motivations, values, mental health considerations, and communication preferences. This data will be the foundation for statistical analysis and hypothesis testing. Secondary data will be used for validation, including insights from existing academic literature, HR industry reports, and attrition statistics published by credible organizations. This dual approach enhances both the reliability and validity of the study findings.

**Sampling Technique:** The study has employed a simple random sampling method to ensure adequate representation of diverse respondent groups.

**Source of Data:** Primary data has been collected through an online questionnaire distributed via university networks, student organizations. Collaboration with academic institutions and internship coordinators will help secure access to relevant respondents. Online dissemination is particularly effective for reaching Gen Z, as they are digital natives and more likely to engage with web-based survey platforms. Secondary data will be sourced from peer-reviewed journals, government labor reports, consulting firm publications, and HR associations to provide context and support for primary findings.

**Sample Size:** 185 responses have been collected on the google form.

### **Tools for Analysis**

- Correlation & Multiple Regression (to assess factor impact)
- Factor Analysis (to cluster psychological drivers)
- Z test/Chi-square for significance testing.

### Hypothesis

1. Greater alignment between psychological factors and the workplace environment increases Gen Z employee retention.
2. Fulfilment of Gen Z employees' personal expectations by the workplace environment reduces their likelihood of attrition.
3. Lack of psychological support within the workplace environment leads to higher attrition rates among Gen Z employees.
4. Mismatch between Gen Z personal expectations and the workplace environment result in decreased retention.

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**Abstract**

The study aims to analyze how ethical performance measured by outcomes influences Foreign Direct Investment (FDI) and the tourism industry. It takes its theoretical ground from teleological ethics which is the school of thought that judges ethical conduct solely on the basis of its measurable outcomes and not the related intentions. The research views ESG results as signals of the site's attractiveness which affect the inflow of capital and tourists thus they look beyond the ESG disclosures at the company level. The research employs a quantitative, explanatory research design comprising 20 countries' panel data analysis covering the period 2011 to 2022 and applying fixed-effect and random-effect models, and conducting Hausman test for model selection. The results reveal that there is a considerable impact of ethical results on FDI and tourism while the extent of the impactful differences is quite pronounced between developed and developing countries. In developing countries, the best infrastructure and reliable institutions are the major factors attracting foreign direct investments (FDI) while for tourism the government policy and other factors related to the environment are the main influencers. On the other hand, in developed countries, social welfare and the quality of economic institutions primarily move the tourists, while foreign direct investment remains relatively immune to short-term ethical changes. The findings present a teleological view in which both the tourists and the

investors are guided by the measurable ethical outcomes indicating trust, sustainability, and a low risk.

**Keywords:** Ethical outcomes; Foreign Direct Investment; Governance quality; Sustainable tourism; Teleological ethics.

## Introduction

The global Foreign Direct Investment (FDI) scene is encountering a major decrease due to the increasing geopolitical fragmentation, total FDI flows falling by 2% to USD 1.3 trillion in 2023. This situation raises the question of what specifically pushes capital to be placed in such an environment. At the same time, the tourism industry that represented 4% of the world's GDP and 7% of the global pre-pandemic exports (USD 1.7 trillion in 2019) has come back to 96% of the volumes of the year 2019 by the middle of 2024, thus indicating that investors are again interested in the development of new destinations (UN Trade & Development, 2024). The new understanding indicates that investors have become more concerned with ethical, environmental, and social impacts and, consequently, this capital allocation is no longer entirely determined by conventional factors (Manaf, et al., 2025). This transition signals a basic change of direction: multinational corporations now consider potential investments through a consequence-based ethical viewpoint, where measurable results (not simply declared purposes) are the basis for capital allocation. This perspective supports the important question of how ethical practices influence the flow of investment and tourism funds between countries, which is moderate to high and steadily increasing (Davletbayeva & Zagrebin, 2025).

Teleological ethics, which is the assessment of actions according to their consequences and realworld outcomes, rather than to intrinsic rules or duties, gives the theoretical basis for understanding the contemporary reasons for FDI (Kebede, 2025). In contrast to deontological

approaches, this consequentialist framework puts empirical results first: the ethical issue is, in the end, the generation of positive environmental, social, and governance (ESG) outcomes in the recipient countries due to FDI (Kornecki, 2011). In practical terms, Environmental, Social, and Governance (ESG) metrics are no longer merely indicators but are instead quantifiable outcomes: emissions cuts, compliance with labor standards, clarity in governance, and benefits to communities. Lately, there has been proof confirming that foreign investors with better ESG performance create economic spillover effects that can be quantified within the recipient countries (Maroof, et al., 2019). A study of 2,465 companies in 52 countries (2015-2023) proves that FDI coming from ESGsuperior investors raises the ESG percentile rankings of recipient companies by 2.715 percentage points, which is significantly higher than the 2.231-point baseline of no FDI exposure. The benefits based on context vary very much. For instance, the advanced economies increase their ESG score by 2.948 points in comparison to the 1.436 points gained by the emerging markets, while the lowemitting industries boast a score increase of 2.860 points as opposed to 5.886 points in the case of high-emission sectors, which shows the difference in institutional capacity and operational tractability between sectors and regions (Sang, 2025). The diversity of ethical performance based on outcomes highlights the fact that it acts as a conditional mechanism whose effectiveness relies on absorptive capacity and sectoral structure.

Foreign Direct Investment is the main long-lasting source of capital for economic transformation, creating technology transfers, jobs, and productive capacity in host countries (Tu, 2024). However, the impact of FDI on development is still conditional: the quality of institutions, especially the control of corruption and the reliability of the regulations, greatly increases the attractiveness of FDI. The tourism flows, which are measured by the number of international arrivals and the amount of foreign exchange earned, work as indicators of mobility

that are in parallel and that indicate the credibility of the destination and the trust of the world (United Nations Conference on Trade and Development., 2024). The formation of destination perception almost automatically leads to tourist trust and projected behavior; in particular, local community involvement in tourism governance rises authority and revisit intentions. The connection is twoway: the empirical evaluation covering developed countries (1980-2012) validates the existence of a significant positive correlation between Foreign Direct Investment and tourism development, thus indicating that capital and visitor flows are responding together to the signals of destination attractiveness (Jebbouri, et al., 2022).

This study connects ethical theory to international economics by making outcome-based ethical performance the primary link between Foreign Direct Investment and tourism flows. The study does not treat ESG practices as company commitments only and instead sees ethical outcomes as location signals that have a strong influence on the decision-making of investors and tourists. The study reveals that investments guided by ethical considerations are spread through supply-chain governance and institutional hierarchies, and the effects of such flow are determined by the reasons for investing and the situation in the host country. The study is based on a combination of the fields of institutional economics, ethics, and globalization, and it provides helpful perspectives for policymakers on how to use sustainable investment to improve ethical performance and the attractiveness of the destination.

## **Literature Review**

### **Theoretical Framework**

**Teleological Ethical Theory (Jeremy Bentham, 1789):** The teleological ethical theory, proposed by Jeremy Bentham in 1789, contended that actions were judged according to their results and not the motives behind them. Ethical performance in the case of Foreign Direct Investment and tourism served as a visible result that indicated the quality of the institution.

Such consequences included capital allocation and travel flows that investors and tourists directed to the places with demonstrated trustworthy ethical outcomes (Wesseh, 2025). b)

**Institutional Theory (Douglass C. North, 1990):** The idea of Institutional theory, which North Douglass C. advanced in 1990, consisted of the economic behavior shaped by formal rules, informal norms, and enforcement mechanisms together. Institutional effectiveness and governance credibility were mirrored in ethical performance. Precise ethical results reduced the uncertainty of foreign investors and tourists, thus supported the inflow of investments and the development of tourism by fostering trust and predictable institutional environments that became even stronger (Telles, 2024).

### **Review of studies linking ethical, social, and environmental outcomes with economic growth and investment.**

Embedding environmental, social, and governance (ESG) criteria into business strategies proved to be a sure way to improve the economic performance, innovation, and sustainability of a business. Additionally, firms with more extensive ESG disclosures were better valued (Ahmad et al., 2023). Good governance and sustainability reporting attracted Foreign Direct Investment (FDI) even in emerging economies where FDI was seen as a major contributor to the rise in carbon emissions, reflecting the existence of a growth-environment trade-off (Chipalkatti et al., 2021). The adoption of the circular economy by companies ensured sustainable growth, while resourceintensive development created negative environmental and social impacts that needed to be tackled through a joint policy approach (Hysa et al., 2020; Qaim et al., 2020). National integration frameworks led to less inequality and reduced climate risk, while new digital technologies like blockchain and AI made governance more transparent. However, they also needed to be implemented with the provision of a clear and inclusive governance structure (Basheer et al., 2022; Hong & Xiao, 2024; Zhong, 2022; Purnamawati et al., 2023). 2.3

### **Studies on Ethical Perception and Tourism Flows covering Destination image, ethical responsibility, and tourism demand.**

The impacts of destination image on tourist behavioral intentions depended greatly on the strength of the affective and overall images, which were the most influential factors in determining recommendation and revisit intentions (Afshardoost & Eshaghi, 2020). According to Sun et al. (2021), a mismatch between the projected and the perceived destination images resulted in the over-exploitation of resources and the rejection of sustainable tourism experiences. The destination social responsibility supported the development of the destination through ethical practices while playing a role as a partial mediator (Khan et al., 2021). On the other hand, environmental concern, combined with a future time perspective, increased the demand for ecotourism, further pointing out the role of ethical consciousness in directing tourist flows (Pham & Khanh, 2020). 2.4

### **Studies on Teleological Ethics in Economic and Policy Research covering Relevance of outcome-based ethical assessment in empirical studies.**

Teleological ethics, which were based on the consequences, had a significant part in empirical studies on moral judgments, especially in the case of consumer and organizational decision making. Although deontological evaluations had a more powerful impact overall, teleological evaluations remained consistent throughout the different cases and were particularly important in utilitarian and relational choices (Smith et al., 2023). The area of economic and policy research gradually moved towards the incorporation of teleological ethics into empirical frameworks to the extent of capturing ethical complexity better (Babalola et al., 2022). Nevertheless, there were still very few studies that connected outcome-based ethics to specific CSR practices like reporting and performance, which implied that more quantitative research was required in the area of governance and policy (Velte & Stawinoga, 2020). 2.5

## Research Gap

A considerable amount of research has been conducted, and it has been concluded that the outcomes of environmental, social, and governance (ESG) factors not only improve the overall economic performance but also draw in Foreign Direct Investment (FDI) and indirectly influence tourism demand via the image of the destination and its responsible behavior. Nevertheless, these claims do not cover the whole picture. The opposite is true for the case of FDI and travel flows, where most studies tend to concentrate on one side of the issue while completely neglecting the other. On top of this, the ethical aspect along with the ESG dimensions is most frequently viewed as a firm's level of transparency instead of a primary indicator of the market's investors and tourists' behavior that has been influenced by the firm's actions. There are not enough empirical studies that have used composite measures of ethical performance based on outcome-based ethics to investigate the impact of different dimensions of company ethics on FDI and tourism. The extent to which the synergy of environmental, social, and governance aspects combined with an overall ethical standing has shaped the streams of international capital and tourism is still an unanswered question. To fill this gap, the study makes these hypotheses:

**H1** Environmental outcomes significantly affect FDI inflows and Tourism inbound arrivals.

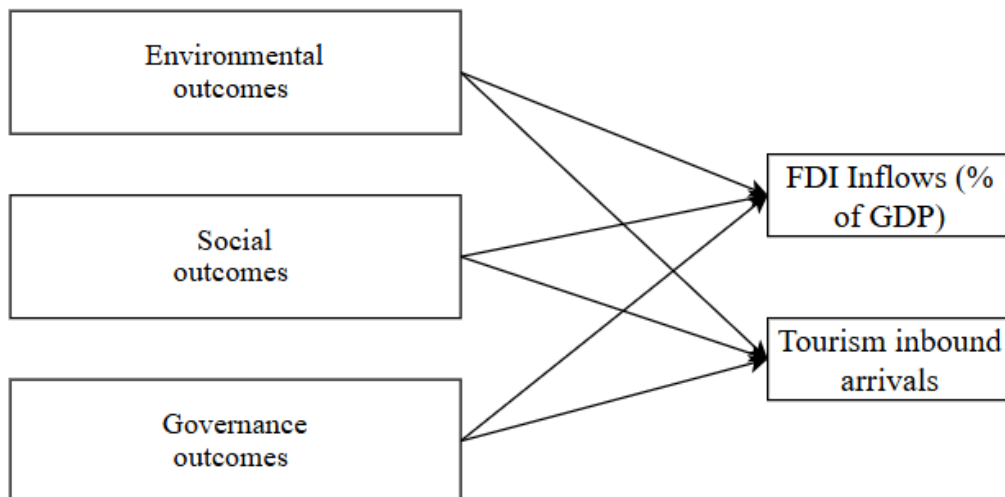
**H2** Social outcomes significantly influence FDI inflows and Tourism inbound arrivals.

**H3** Governance quality positively affects FDI inflows and Tourism inbound arrivals.

**H4** The Ethical Outcomes Index positively affects FDI inflows and Tourism inbound arrivals.

**Figure 1**

**Conceptual Framework**



**Research Objectives**

**Obj1** To examine the effect of environmental outcomes on Foreign Direct Investment inflows and inbound tourism arrivals.

**Obj2** To analyze the influence of social outcomes on Foreign Direct Investment inflows and inbound tourism arrivals.

**Obj3** To assess the impact of governance quality on Foreign Direct Investment inflows and inbound tourism arrivals.

**Obj4** To evaluate the effect of the Ethical Outcomes Index on Foreign Direct Investment inflows and inbound tourism arrivals.

**Research Methodology**

The study chose a quantitative, explanatory research design based on teleological ethics and authenticated by it, which evaluated ethical performance only on the basis of observable outcomes and not on the basis of intentions. The analysis was done using a balanced/unbalanced

panel data technique which covered 20 countries (depending on the availability of data) during the study period 2011 to 2022, thus enabling the researcher to capture both cross-country differences and time dynamics. The dependent variables were the inflow of Foreign Direct Investment (FDI) as a share of GDP and international tourism inbound arrivals which stood for the mobility of capital and that of people, respectively. Country-level Environmental, Social, and Governance (ESG) indicators together with a developed Ethical Outcomes Index that summed up outcome-based ethical performance according to teleological principles formed the independent variables.

Secondary data were collected from world-renowned databases like the World Bank, UN agencies, governance indicators, and sustainability datasets. The purpose was to provide crosscountry comparability and reliability. Data distribution and variability were first described using descriptive statistics. After that, panel regression methods were applied, estimating both Fixed Effects (FE) and Random Effects (RE) models to control for unobserved country-specific traits. The Hausman specification test was utilized for selecting the suitable model for each specification. Individual regressions were performed for FDI and tourism to get the different ethical outcome effects. All models were tested at regular significance levels, and robustness was guaranteed by verifying multicollinearity and checking for missing observations. The methodological approach made it possible to carry out a rigorous empirical assessment of whether the ethical ESG outcomes were in line with a teleological evaluation framework, and hence the global economic attractiveness was developed. The study selected these countries as presented in Table 1:

**Table 1****Developed & Developing Countries**

<b>Developed Countries</b>	<b>Developing Countries</b>
Australia	China
Germany	Indonesia
France	India
Japan	Mexico
United States	Viet Nam
Canada	Brazil
Switzerland	Philippines
United Kingdom	Turkey
Netherlands	South Africa
Sweden	Thailand

**Results**

The findings and interpretation of data are presented in this section. The results were categorized following the demographic variables, study aims, and questions. The objectives and hypotheses consist of a table and narration of the results: 5.1

**Table 2****Descriptive statistics Variable**

<b>Variable</b>	<b>Obs</b>	<b>Mean</b>	<b>Std. Dev.</b>	<b>Min</b>	<b>Max</b>
Access to electricity (% of population)	120	96.205	5.459	79.500	100.000
Total greenhouse gas emissions per capita excluding LULUCF (t CO <sub>2</sub> e/capita)	120	5.660	2.657	1.665	10.952
Carbon dioxide (CO <sub>2</sub> ) emissions excluding LULUCF per capita (t CO <sub>2</sub> e/capita)	120	3.868	2.380	0.861	8.936
Carbon intensity of GDP (PPP)	120	0.259	0.146	0.123	0.651
Government Effectiveness	120	0.064	0.254	-0.588	0.808
Political Stability and Absence of Violence/Terrorism (Estimate)	120	-0.637	0.447	-2.007	0.267
Rule of Law (Estimate)	120	-0.258	0.237	-0.869	0.155
Life expectancy at birth, total (years)	120	72.465	4.245	60.602	78.202
GDP (annual % growth)	120	4.002	3.693	-9.518	11.439
GDP per capita (current US\$)	120	6,498.976	3,461.383	1,429.322	13,396.624
Foreign direct investment, net inflows (% of GDP)	120	2.463	1.270	-0.860	9.660
International Tourism Arrivals (UN Tourism)	120	24,713.367	36,048.481	8.000	162,538.000

Table 3

## Panel Data Analysis with FDI

FDI	Fixed Effect Model			Random Effect Model			Hausman (1978) specification test		
	Coef.	t-value	p-value	Coef.	t-value	p-value	Chi-Square	P-value	Outcome
Access to electricity (% of population)	0.141	4.28	0	0.092	2.64	0.008	57.472	0	Fixed Effect Model
Total greenhouse gas emissions per capita excluding LULUCF (t CO <sub>2</sub> e/capita)	-0.548	-0.43	0.666	0.022	0.09	0.93			
Carbon dioxide (CO <sub>2</sub> ) emissions excluding LULUCF per capita (t CO <sub>2</sub> e/capita)	0.193	0.13	0.896	-0.454	-1.48	0.139			
Carbon intensity of GDP ppp	3.989	1.16	0.249	6.474	2.54	0.011			
Government Effectiveness	-1.194	-1.92	0.057	-1.644	-2.74	0.006			
Political Stability and Absence of Violence/Terrorism: Estimate	-1.26	-3.01	0.003	0.845	2.86	0.004			
Rule of Law: Estimate	1.232	1.5	0.138	0.451	0.81	0.415			
Life expectancy at birth, total (years)	-0.138	-1.66	0.1	-0.041	-0.99	0.323			
GDP (annual % growth)	0.045	1.67	0.099	0.04	1.33	0.183			
GDP per capita (current US\$)	0	0.76	0.449	0	1.62	0.105			
Constant	-0.923	-0.12	0.905	-3.522	-1.36	0.175			

Results have been obtained using a panel regression study of Foreign Direct Investment (FDI) utilizing fixed and random effects. The Hausman (1978) test has a statistic that is significant (Chi-Effect square = 57.472,  $p = 0.000$ ), thus, indicating the Fixed Effect Model as the one preferred. During the fixed effects, the availability of electricity shows a direct positive and significant correlation with FDI ( $\beta = 0.141$ ,  $p = 0.000$ ), implying better access to electricity results in greater FDI inflows. On the other hand, various environmental indicators (total GHG per capita, CO<sub>2</sub> per capita, and rule of law) are considered not significant and therefore no strict direct association is drawn with FDI in this context. Among the governance factors, political stability has a negative and significant ( $\beta = -1.260$ ,  $p = 0.003$ ) while government effectiveness is marginally significant and negative ( $\beta = -1.194$ ,  $p = 0.057$ ), suggesting that changes in governance conditions have a very strong relationship with FDI across countries over time. Control over the economy variables such as GDP growth and life expectancy is only weakly significant/marginal while GDP per capita and the constant associated with it are insignificant.

Table 4

## Panel data analysis with Tourism Hausman Fixed Effect Model

Tourism Inbound Arrivals	Fixed Effect Model			Random Effect Model			Hausman (1978) specification test		
	Coef.	t-value	p-value	Coef.	t-value	p-value	Chi-Square	P-value	Outcome
Access to electricity (% of population)	264.659	0.44	0.66	1180.97	1.88	0.06	96.051	0	Fixed Effect Model
Total greenhouse gas emissions per capita excluding LULUCF (t CO <sub>2</sub> e/capita)	-50612.7	-2.2	0.03	-708.007	-0.16	0.874			
Carbon dioxide (CO <sub>2</sub> ) emissions excluding LULUCF per capita (t CO <sub>2</sub> e/capita)	48794.02	1.82	0.073	6865.57	-1.24	0.213			
Carbon intensity of GDP ppp	129611.4	2.07	0.041	293857.6	6.4	0			
Government Effectiveness	4275.618	0.38	0.706	12315.97	1.14	0.255			
Political Stability and Absence of Violence/Terrorism: Estimate	19894.36	2.62	0.01	14955.3	-2.81	0.005			
Rule of Law: Estimate	-23756.5	-1.59	0.116	-40634	-4.07	0			
Life expectancy at birth, total (years)	1747.564	1.16	0.249	4328.414	5.76	0			
GDP (annual % growth)	1063.14	2.16	0.033	1025.69	1.92	0.055			
GDP per capita (current US\$)	-4.632	-2.32	0.022	2.525	2.16	0.031			
Constant	-31136	-0.22	0.824	-489525	-10.48	0			

Fixed and random effects models were used to investigate the factors that influence inbound tourist arrivals. The Hausman test was significant (chi-square = 96.051,  $p = 0.000$ ), indicating that the fixed effects model is the better estimator. The fixed-effects model revealed a negative and significant connection between tourism and total greenhouse gas emissions per capita ( $\beta = 50,612.7$ ,  $p = 0.030$ ). Furthermore, the carbon intensity of GDP had a positive and significant connection with tourism ( $\beta = 129,611.4$ ,  $p = 0.041$ ), demonstrating that the environmental and economic structure consistently impacts tourist flows. Furthermore, governance plays a key impact. Political stability has a positive and substantial influence on tourism arrivals ( $\beta = 19,894.36$ ,  $p = 0.010$ ), showing that safer and more stable situations attract more visitors. Furthermore, GDP growth is positive and substantial ( $\beta = 1,063.14$ ,  $p = 0.033$ ). GDP per capita is significantly negative ( $\beta = -4.632$ ,  $p = 0.022$ ), indicating that changes in income levels within a nation may correlate to changes in tourist volumes. Other factors, such as energy availability, government performance, rule of law, and life expectancy, are not significant under the fixed effects in this table. 5.2

### **Developed Countries**

**Table 5****Descriptive statistics Variable**

Variable	Obs	Mean	Std. Dev.	Min	Max
Access to electricity (% of population)	120	100.000	0.000	100.000	100.000
Total greenhouse gas emissions per capita excluding LULUCF (t CO <sub>2</sub> e/capita)	120	12.219	6.594	4.780	27.307
Carbon dioxide (CO <sub>2</sub> ) emissions excluding LULUCF per capita (t CO <sub>2</sub> e/capita)	120	9.585	4.662	3.453	18.478
Carbon intensity of GDP	120	0.168	0.084	0.047	0.348
Government Effectiveness	120	1.608	0.205	1.165	2.104
Political Stability and Absence of Violence/Terrorism (Estimate)	120	0.805	0.357	-0.106	1.418
Rule of Law (Estimate)	120	1.651	0.184	1.181	1.990
Life expectancy at birth, total (years)	120	81.781	1.554	76.329	84.560
GDP (annual % growth)	120	1.749	2.446	-10.297	8.576
GDP per capita (current US\$)	120	53,589.454	13,878.246	34,065.644	94,394.511
Foreign direct investment, net inflows (% of GDP)	120	3.111	10.416	-32.151	48.471
International Tourism Arrivals (UN Tourism)	120	26,354.835	25,502.280	245.800	90,914.000

**Table 6**  
**Panel Data Analysis with FDI**

FDI	Fixed Effect Model			Random Effect Model			Hausman (1978) specification test		
	Coef.	t-value	p-value	Coef.	t-value	p-value	Chi-Square	P-value	Outcome
Access to electricity (% of population)	0	.	.	0	.	.	16.089	0.041	Fixed Effect Model
Total greenhouse gas emissions per capita excluding LULUCF (t CO2e/capita)	-1.282	-0.16	0.871	-0.065	-0.06	0.953			
Carbon dioxide (CO2) emissions excluding LULUCF per capita (t CO2e/capita)	10.533	0.99	0.325	1.628	0.74	0.461			
Carbon intensity of GDP	-284.939	-1.38	0.171	-89.801	-1.29	0.197			
Government Effectiveness	-22.042	-1.74	0.085	-2.891	-0.26	0.796			
Political Stability and Absence of Violence/Terrorism: Estimate	5.254	0.66	0.509	6.339	1.04	0.298			
Rule of Law: Estimate	14.642	0.98	0.329	11.796	1.01	0.312			
Life expectancy at birth, total (years)	-3.195	-1.23	0.222	-0.528	-0.36	0.718			
GDP (annual % growth)	-0.02	-0.04	0.967	0.105	0.26	0.796			
GDP per capita (current US\$)	0	-1.8	0.075	0	-2.29	0.022			
Constant	260.161	1.19	0.238	41.313	0.34	0.737			

Panel regression results for FDI in developed countries using fixed and random effects. The Hausman (1978) test is significant (Chi-square = 16.089,  $p = 0.041$ ), indicating that the Fixed Effect Model is the appropriate specification. Under fixed effects, most environmental variables (total GHG per capita, CO<sub>2</sub> per capita, and carbon intensity of GDP) are statistically insignificant, suggesting no strong within-country effect of these indicators on FDI over time in this sample. Governance indicators are also largely insignificant, although government effectiveness is marginally negative ( $\beta = -22.042$ ,  $p = 0.085$ ), implying a weak association. Among economic controls, GDP per capita appears marginally significant ( $p = 0.075$ ), while GDP growth and life expectancy remain insignificant. The electricity access variable shows no estimated variation (reported as 0 with missing test statistics), which typically indicates near-constant values in developed countries, limiting its explanatory role.

Table 7

## Panel Data Analysis with Tourism

Tourism Inbound Arrivals	Fixed Effect Model			Random Effect Model			Hausman (1978) specification test		
	Coef.	t-value	p-value	Coef.	t-value	p-value	Chi-Square	P-value	Outcome
Access to electricity (% of population)	0	.	.	0	.	.	264.05	0	Fixed Effect Model
Total greenhouse gas emissions per capita excluding LULUCF (t CO2e/capita)	3444.467	0.56	0.575	-231.688	-0.12	0.905			
Carbon dioxide (CO2) emissions excluding LULUCF per capita (t CO2e/capita)	8658.106	1.05	0.298	5952.692	1.54	0.123			
Carbon intensity of GDP PPP	-277585	-1.73	0.087	-304696	-2.51	0.012			
Government Effectiveness	14500.82	1.47	0.144	36408.92	1.86	0.062			
Political Stability and Absence of Violence/Terrorism: Estimate	-5561.61	-0.9	0.368	-45938.7	-4.32	0			
Rule of Law: Estimate	2810.932	0.24	0.809	-33978.7	-1.67	0.095			
Life expectancy at birth, total (years)	12165	6.02	0	215.002	0.08	0.933			
GDP (annual % growth)	-172.306	-0.47	0.639	465.18	0.66	0.51			
GDP per capita (current US\$)	0.206	0.98	0.331	-0.44	-2.08	0.038			
Constant	-1081124	-6.35	0	63062.92	0.29	0.769			

The determinants of tourism inbound arrivals for developed countries. The Hausman test is highly significant (chi-square = 264.05,  $p = 0.000$ ), confirming the fixed effect model as the preferred estimator. In the fixed-effects results, life expectancy shows a strong positive and highly significant association with tourism arrivals ( $\beta = 12,165$ ,  $p = 0.000$ ), indicating that improvements in population health/longevity coincide with higher inbound tourism within countries over time. Carbon intensity of GDP is marginally negative ( $\beta = -277,585$ ,  $p = 0.087$ ), suggesting that a cleaner production structure may be linked with stronger tourism performance, although at a weaker significance level. Other environmental variables (ghg per capita and  $\text{CO}_2$  per capita) and governance measures (government effectiveness, political stability, rule of law) are not significant in the fixed-effects model. GDP growth is also insignificant, and GDP per capita does not show a significant fixed-effects relationship with tourism in this table. In contrast, access to electricity again shows no meaningful variation (0 with missing statistics), consistent with saturation in developed economies.

### **Discussion**

In developed countries, the main factor influencing FDI is the basic infrastructure and especially the electricity availability. On the other hand, tourism is more dependent on factors like political stability, economic growth, and environmental performance. Infrastructures and institutions remain the key determinants in drawing FDI to these nations. The findings decisively support the argument of a teleological ethics stance where ethical outcomes through business and measurable consequences guide the decision-making process. Institutional credibility, risk reduction, and destination attractiveness are all characteristics of real estate that draw both investors and tourists.

Hence, the development of infrastructure, health care, and the environment each serve as indicators of ethical places that determine the movement of capital and visitors. These conclusions echo the findings of previous studies that related ESG performance to the demand for investment and tourism (Ahmad et al., 2023; Afshardoost & Eshaghi, 2020; Jebbouri et al., 2022). The governance effects seen in developing countries being mixed is a contradiction to some institutional theories and it shows that the governance impact is dependent on the absorptive capacity, sector composition, and regulatory stability (Sang, 2025). This negative and statistically significant association between political stability and FDI inflows can be justified by the recent growing literature to undermine the traditional understanding of political stability as a determinant of foreign investment in a strictly positive manner. Particularly, the findings suggest that an increment in political stability by one percentage point can be linked with a 0.1571% reduction in foreign direct investment inflows (Le et al., 2023).

This paradoxical observation will fit with the regulatory risk theory in the argument that political stability can go hand in hand with regulatory systems that are unfavourable to multinational businesses. Politically stable regimes, especially those with high state capacity, can also come with suffocating regulations, increased government interference, or bureaucratic inertia increasing the cost of compliance and operation in foreign companies as observed by Kurecic and Kokotovic (2017) and Shan et al. (2018). The negative correlation between environmental degradation and tourism is in line with the evidence about the trade-offs between growth and environment (Chipalkatti et al., 2021). Unlike the findings on most cross-country studies that the level of pollution is related to FDI in developing economies, the fixed-effects results indicate that the environmental indicators, including GHG emissions per capita, CO<sub>2</sub> emissions per capita, and carbon intensity of GDP, are not statistically significant. This does not refute the Pollution Haven Hypothesis, but indicates that, in developing economies, marginal

alterations in the quality of environmental performance have no significant effect on the FDI inflows. Environmental conditions are therefore a non-binding restraint, which is in line with a passive PHH, where firms do not aim at environmental degradation, nor do they decrease investment in the event of poor performance. In fact, cross country structural differences and underlying economic and infrastructural factors, including the availability of electricity, are the main determinant of FDI, and not the environmental outcomes (Khan et al., 2023). The policy implications suggest that focusing on measuring ESG outcomes and maximizing digital transparency would be the way to attract competitive investment and tourism.

In high-income countries, the findings show the evident saturation effect, in which the FDI inflows are not highly dependent on the short-term changes in the quality of governance or environmental performance. The observation is consistent with empirical findings that most institutional quality indicators can no longer affect FDI in developed economies once a minimum standard of institutional quality is attained, and regulatory quality only has a few significant effects, and other governance variables become statistically irrelevant (Khan et al., 2024). Conversely, the inflows of tourism tend to be more sensitive to result oriented ethical outcomes, specifically the quality-of-life and sustainability. Sustainable tourism development literature determines environmental and social aspects as significant elements of destination competitiveness, highlighting the role of reduced environmental footprint and improved quality of life to promote attractiveness and sustainability in the tourism business (Papečkys & Jasinskis, 2024).

Consequently, upgrading infrastructure, public health, and environmental quality signal's ethical locations that attract capital and visitors. These findings align with previous ESG performance research (Ahmad et al., 2023; Afshardoost & Eshaghi, 2020; Jebbouri et al., 2022). The theorizing provides empirical operationalization of outcome-based ethical performance

within the macroeconomic framework, turning calls for integrating ethical theory into economic analysis into action (Smith et al., 2023; Babalola et al., 2022). For developed economies, policy implications emphasize that tourism authorities should fortify the social responsibility of destinations to develop trust and repeat visitation (Khan et al., 2021; Hong & Xiao, 2024).

### **Conclusion**

The present research considered the teleological ethics framework, which distinguishes moral from non-moral based on the former being intended for a good outcome and the latter not, to analyze how ethical performance that is based on outcomes might affect Foreign Direct Investment (FDI) and incoming tourism to a country. An explanatory quantitative research design was used, and panel data analysis was performed on 20 countries to unravel the situation of capital and both tourism flows in terms of environmental, social and governance outcomes and a composite Ethical Outcomes Index. The results suggest that ethical outcomes are a significant factor; however, their impact is not the same in developed and developing countries. While in the latter group, infrastructure and institutional solidity are the significant factors for the attraction of FDI, in the case of developed countries, social harmony and environmental sustainability are the main contributors to shaping tourism flows and hence, their economic growth from this sector is more dependent on these factors. Policymakers must have a very strict and transparent digital ESG measurement framework in place so as to explicitly signal their performance as ethical thereby attracting FDI and sustainable tourism of good quality. The tourism authorities need to start destination stewardship programs that will not only take social responsibility to the local supply chains and the visitor management systems but also build trust in the long run and make it clear that the community welfare and the environment are the ones that tourism directly benefits.

The study makes an empirical contribution by analyzing FDI along with tourism in one ethical framework at a time. At the same time, it presents a theoretical contribution by making teleological ethics usable in macroeconomic analysis, and it shows a practical application by proving that ethical performance is a reliable location signal. In the future, researchers could use different ethical frameworks, do sector-specific studies, or collect firm- and destination-level data to unravel the micro-level ethical spillovers and causal mechanisms better, thus making their work more comprehensive and closer to reality.

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**Anuj Gupta & Sara Gupta Vol 5.2:8 2026**

Under guidance of Dr. Suresha B.

Christ (Deemed to be University)

**Abstract**

The Banking, Financial Services and Insurance (BFSI) sector in India has evolved significantly in the past 10 years, particularly with cleaner balance sheets, digitalization and broader financial inclusion. However, the industry is currently confronted with emerging challenges associated with climate change, cyber threats, which increases the need for a more inclusive and sustainable system for the Indian BFSI Sector. This article examines the role of green finance in the Indian BFSI industry and its ability to serve both economic and environmental objectives in the long term. It examines the place of regulators such as the RBI and SEBI, the emergence of green bonds, green loans, ESG funds, and the application of technology such as AI, fintech, and blockchain. The paper also contrasts the public and the private sector banks to know how green banking programs are being put into practice. Although India has achieved a lot in such aspects as financing renewable energy and sustainability reporting, significant gaps are still present, particularly in financing climate adaptation, MSMEs, and smaller green projects. The paper concludes that green finance in India is transitioning to a more organized concept, rather than a CSR-driven concept, but challenges such as data quality, ethical governance, greenwashing, and funding gaps still hinder the process. On the whole, the analysis demonstrates that green finance can be one of the major drivers of sustainable

development in case it is reinforced with more effective regulation, the use of better technology, and inclusive financial policies.

*Keywords:* Green Finance; Banking, Financial Services and Insurance(BFSI) Sector; Environmental, Social and Governance (ESG); Climate Risk, Ethics in Sustainable Growth

## INTRODUCTION

India's Banking, Financial Services, and Insurance (BFSI) sector has undergone a profound, multi-year transformation, shifting from a system challenged by asset quality issues to one defined by systemic stability and technological dynamism. This pivotal change was propelled by two strategic forces: structural de-risking and the mass adoption of Digital Public Infrastructure (DPI) which rapidly accelerated over the decade spanning 2015 to 2025. The period began with a crucial regulatory overhaul, highlighted by the enactment of the Insolvency and Bankruptcy Code (IBC) in 2016. This framework enabled a substantial clean-up of institutional balance sheets, driving down the Gross Non-Performing Assets (GNPA) ratio from a peak of 11.2% in FY2018 to a projected 2.5% in FY2025E. This stabilization restored institutional health and enhanced the sector's capacity for credit creation, supporting India's economic resilience.

In parallel, India leveraged its Digital Public Infrastructure (DPI), built upon Aadhaar for identity verification and the Unified Payments Interface (UPI) for real-time transactions. UPI became the dominant payment rail, accounting for 93% of all digital transactions, with the total transaction value reaching the equivalent of 71% of the country's GDP. This rapid digitization fueled an unprecedented FinTech boom, establishing India as a global hub with over 4,200 active startups and a market opportunity estimated at \$1.3 trillion by 2025.

Beyond payments, financial inclusion deepened dramatically. Initiatives like the Pradhan Mantri Jan Dhan Yojana (PMJDY) brought over 55.98 crore beneficiaries into the formal financial system. The Reserve Bank of India's Financial Inclusion Index (FI-Index) rose by 24.3% since 2021, driven by enhanced usage and quality.

The BFSI sector now accounts for 38% of the Nifty Index valuation, signaling strong investor confidence in its stability and growth trajectory. This technological sophistication and deepened penetration position the BFSI sector as a critical engine for supporting India's ambition to become the world's third-largest economy by 2030.

Despite its recent digital and asset quality gains, this faces profound challenges that require a strategic pivot toward sustainable finance principles. The primary threat to long-term stability is systemic, structural, and operational. Structurally, the financial sector struggles to address the massive credit gap for Micro, Small, and Medium Enterprises (MSMEs), with an estimated ₹80 lakh crore unmet formal demand, driven by stringent collateral and documentation requirements.

Concurrently, climate change represents the foremost prudential threat, as India is highly vulnerable to physical risks, having suffered over \$180 billion in climate-related disaster losses in three decades. Such events translate directly into non-performing assets; for instance, the 2015 Chennai floods immediately put nearly ₹1 lakh crore in priority sector loans at risk. Furthermore, the rapid digitization that has defined the sector's success has created escalating cyber risks, with fraud losses soaring by 206% to ₹22,845 Crore in 2024, highlighting critical governance failures and inadequate operational resilience. The average cost of a data breach, now Rs 19.5 crore, further underscores this vulnerability.

Sustainable finance provides the essential regulatory and market architecture to mitigate these specific gaps. The Reserve Bank of India (RBI) is tackling climate risk head-on by mandating a comprehensive Disclosure Framework and issuing guidance on Climate Scenario Analysis and Stress Testing. This compels institutions to integrate long-term climate horizons (30 years or more) into immediate prudential calculations, ensuring future climate risks are priced into present-day lending decisions.

To address the governance failures underpinning cyber risk, the Securities and Exchange Board of India (SEBI)'s Business Responsibility and Sustainability Report (BRSR) mandates standardized non-financial disclosures across governance and stakeholder engagement for the top 1,000 listed companies. This transparency enhances accountability and enforces better operational rigor, which is critical for digital resilience.

Finally, the burgeoning Green, Social, and Sustainability (GSS+) debt market provides the mechanism to bridge the credit and infrastructure financing gap (estimated to exceed 5% of GDP). Cumulative GSS+ issuance reached USD 55.9 billion by December 2024, a 186% increase since 2021. This capital is strategically channeled to finance climate-resilient projects and is beginning to unlock MSME credit by substituting traditional collateral with verifiable E&S resilience practices, turning climate adaptation into bankability and reinforcing inclusive growth.

## **LANDSCAPE OF GREEN BANKING IN THE INDIAN MARKET**

The global shift toward a low-carbon economy has made green finance not just a trend but a core pillar of economic strategy, and India's Banking, Financial Services, and Insurance (BFSI) sector has become a key player in this transformation. By 2025, sustainable finance in India has matured considerably. What once appeared as scattered, one-off initiatives has now

evolved into a more structured and policy-driven ecosystem. This evolution signals a deeper change: green finance is no longer treated merely as a matter of corporate social responsibility but has become an integral part of how financial institutions define their business models. This change is being driven by three powerful forces: stricter regulatory expectations, growing market opportunities, and a heightened recognition of climate-related risks.

This paper explores the changing landscape of green finance in India's BFSI sector, offering a broad view of its drivers, instruments, and ongoing challenges. A central focus is on the role of the Reserve Bank of India (RBI) and the Ministry of Finance, which have built a stronger regulatory backbone through measures like mandatory climate risk disclosures and the creation of a national climate finance taxonomy. According to the CPI report "The Landscape of Green Finance in India" (Khanna et al., 2022), more than 80 per cent of green financing in India comes from domestic sources of finance and 17 per cent is through international financing sources such as foreign direct investment (FDI), Official Development Assistance (ODA) and Other Official Flows (OOF) (S Bhatnagar, 2025). The working of banks, asset managers, and insurers who are moving beyond compliance to innovation, needs to be studied. From financing renewable projects and issuing green bonds to embedding environmental, social, and governance (ESG) considerations into credit and investment decisions, these institutions are redefining what it means to operate sustainably in financial markets.

Taken together, these developments point toward both opportunity and complexity. On one hand, India's financial sector is opening new pathways for clean energy and sustainable infrastructure. On the other, it faces pressing challenges from the need for accurate climate data to the balancing act between profitability and long-term environmental impact. By piecing together these dynamics, this paper seeks to chart India's evolving journey toward a financial

system that is not only more sustainable but also more resilient to the uncertainties of a changing climate.

India's per capita GHG emissions stood at approximately 2.9 tonnes of CO<sub>2</sub> equivalent in 2023, significantly lower than the World average of 6.7 tCO<sub>2</sub>e. The per capita emissions of India were far less than some of the leading economies in the world such as the European Union, which stood at 6.9 tCO<sub>2</sub>e, Japan at 8.3 tCO<sub>2</sub>e, the United States at 17.2 tCO<sub>2</sub>e and Canada at 20.4 tCO<sub>2</sub>e for the same year.

Yet, it has been witnessing numerous environmental issues due to the rapidly increasing population, unplanned use of efficient technologies, and poorly managed waste management system (Rahman et al., 2023).

This places India at a critical juncture. Whether it will build the future on highly polluting power plants such as coal or thermal or invest in renewable sources like solar and wind. India's future trajectory will depend upon its regulatory and political will and its ability to access sustainable finance pools. This is why monitoring green banking initiatives of banks is important.

## **GLOBAL PERSPECTIVE ON GREEN BANKING**

Green banking was introduced in the year 2009 in the state of Florida (Sharma & Choubey, 2022). Over a period of time several banks throughout the globe have adopted ecofriendly green banking programs for financing as well as green transformation of internal operation (Mir & Bhatt,2022).

For example, countries like Bangladesh, Brazil, Colombia, and Indonesia have begun implementing green banking practices in line with their respective policy frameworks (Rahman & Akhtar, 2016). The Bangladesh banks for instance implemented several green banking policies

such as paperless banking, green financing, solar roof and green mortgage. These programs are not only able to increase funding for environment friendly projects but also discourage initiatives that may harm the environment (Hasanur et. Al., 2023). The GX (Japan Climate Transition Bonds) plan focuses on green finance, investment in renewables, energy efficiency and circular economy (Rehman et al., 2021). GX bond aims to de-carbonize sectors like iron and steel, chemical, power, gas, oil, pulp and paper, cement etc. (Nomura, 2023). China has made significant progress in green banking initiatives, especially in green bonds and green financing. They have excelled in green credit, with banks supporting firms with robust green strategies, (Chen & Zhao, 2021). China holds over 20% of the global green market, second only to the USA (Chen & Zhao, 2021).

Fintech supports green finance by improving credit access, bridging information gaps, and building trust, especially in farming communities (Rahman et al., 2023). Green bonds are key to funding a wide range of environmental projects beyond just renewables and green buildings (Rahman et al., 2023).

## **THE INDIAN CONTEXT**

The governance-related aspects are well established in most banks. RBI has conducted several training programs and is developing standardized datasets to help banks in their scenario analysis journey, which is an important tool under corporate strategy of banks. Work on taxonomy is actively progressing, with the Ministry of Finance releasing their draft framework of the climate finance taxonomy.

However, there are divergent practices related to ownership of these initiatives at the execution level in banks. In terms of strategy, the alignment between financial planning and climate risk and opportunity assessment has not yet begun. Scenario analysis, which is an

important tool under strategy, is still in its nascent stage, with most banks having basic exposure through some exercises conducted by RBI.

While banks have begun acknowledging climate factors, formal integration into corporate strategy remains limited. Scenario development capabilities are still in nascent stages, with most bank's primary exposure to climate scenario analysis occurring through RBI's pilot Climate Vulnerability Assessment and Stress Testing (VAST). Significant capacity building is required to develop robust climate scenario analysis capabilities that can meaningfully inform decision-making processes. The proposed Climate Risk Information System (CRIS) by RBI represents a positive step in this direction, potentially providing essential infrastructure for conducting standardized scenario analyses that improve result comparability across institutions. The initiative will provide standardized datasets for physical risk (including hazards and vulnerability) and transition risk. With these efforts and the increasing understanding of banks, sustainability and climate-related assessments of risks and opportunities will become a major factor in banks' decision-making processes.

## **REGULATORY REQUIREMENTS**

The RBI issued its first circular on banking and sustainable development in 2007, encouraging the adoption of best practices and greater transparency. Since then, important steps have been taken as outlined below. In addition to various progressive measures, corporate social responsibility (CSR) has been formally introduced through the Companies Act of 2013 with effect from 1 April 2014. All companies, private limited or public limited, with a net worth of INR 5 billion (US\$81.8 million), a turnover of INR 10 billion (US\$163.7 million) or a net profit of INR 50 million (US\$0.8 million) have to spend at least two per cent of their average net profit

of the immediately preceding three financial years on CSR activities. Notably, sustainability-linked funding is an option available to companies.

## **PUBLIC SECTOR BANKS**

In the context of green banking, there are a broad spectrum of initiatives, from eco-friendly internal operations to the financing of environmental projects. (Sharma and Choubey,2022) identified green product development (GPD), green internal process (GIP), and green corporate social responsibility (GCSR) as the three core components of the initiatives. The intervention of the regulatory authorities is limited when private sector banks are in consideration and hence public sector banks become the core area of study when the government's role needs to be studied in the field of sustainable finance. Let's look at the top 5 public sector banks in the country.

**State Bank of India**, India's largest public sector bank, has consistently positioned itself as a pioneer in sustainable banking. On the product front, it has introduced innovative instruments such as the Green Rupee Term Deposit and financing schemes for rooftop solar, household solar adoption, biofuels, and wind energy, thereby advancing India's renewable energy agenda (SBI, 2023; 2024). Internally, the bank has invested in energy-efficient operations by installing solar panels on its buildings and ATMs, while simultaneously expanding its digital ecosystem through platforms like YONO 2.0 and video-based account openings, which significantly reduce paper dependency. On the CSR front, SBI's green outreach programs include massive tree plantation drives, funding for women-led self-help groups, and infrastructure initiatives such as bio-toilets, underscoring its holistic approach to environmental and social sustainability (SBI, CSR Report, 2024; Neeraja & Joseph, 2021).

**Bank of Baroda** has sought to balance financial security with sustainability by designing green products such as the Bob Earth Green Term Deposit Scheme and solar housing loans for semi-urban and rural households (BoB, 2023; 2024). Internally, it has adopted eco-friendly processes like paperless banking through a digital repository, solar-powered branches, and even bio-gas plants to promote waste-to-energy recycling. Its CSR engagements extend beyond banking to include rural development, education, and healthcare support, reflecting a commitment to inclusive and environmentally conscious growth in underprivileged regions (BoB, 2023; 2024).

**Punjab National Bank** has introduced tailored financial products like the Green Car Loan, rooftop solar financing, and the Green Ride scheme that supports rickshaw operators, blending sustainability with livelihood creation (PNB, 2023; 2024). Within its operations, the bank has invested in renewable infrastructure such as rooftop solar systems and EV charging stations, while also implementing rainwater harvesting and sewage treatment facilities to reduce its ecological footprint. In terms of social responsibility, PNB has launched flagship programs like PNB PALAASH for afforestation and PNB VIKAS for village adoption, along with rural self-employment training centers, strengthening both environmental stewardship and community development (PNB, 2024).

**Canara Bank** has embraced green financing through initiatives like the Green Wheels EV loan program, rooftop solar financing, and a structured Green Deposit Policy that channels funds into renewable energy and sustainable infrastructure (Canara Bank, 2023; 2024). The bank has also digitized its internal processes with platforms like the ai1 mobile app, DBUs, and document management systems, while supporting green mobility with EV charging infrastructure. Its CSR activities range from plantation drives and cleanliness campaigns to

awareness workshops in schools and colleges, demonstrating an integrated approach that combines ecological sustainability with community engagement (Canara Bank, 2024).

**Union Bank of India** has emerged as a major green financier, lending extensively to renewable projects and promoting captive solar adoption through its Union Solar Program (Union Bank, 2024). In terms of internal processes, the bank has accelerated digitization by offering instant digital loan approvals, video-KYC, and blockchain-backed services, while also encouraging staff to adopt green mobility options. Through its social foundation, UBI has engaged in rural development, healthcare access, and skill-building programs, particularly via Rural Self-Employment Training Institutes, reinforcing its dual commitment to sustainability and inclusive growth (Union Bank, 2023; 2024).

These initiatives are related to government involvement sustainability objectives and legal requirements. However, public banks remain constrained by operational inefficiencies, resource constraints, and bureaucratic hurdles that make innovation and the extension of green financing difficult.

## **PRIVATE SECTOR BANKS**

Private Sector Banks have a 78% share in the market cap, with the remaining 20% share with the public sector banks and 2% share with small finance banks. A major chunk of the public wealth is parked in this sector and hence it is crucial to examine the contribution of these banks towards climate change mitigation and building a sustainable world.

**Axis Bank** and **HDFC Bank** have issued green bonds, sponsored clean technology companies and have included ESG factors in lending frameworks. In 2015, Yes Bank became the first Indian bank to issue a green bond, raising ₹1,000 crore (approximately USD 150 million) to fund renewable energy projects. This pioneering step marked a turning point in green finance in

India, signaling the private sector's readiness to invest in sustainability. Since then, several other banks and corporates including Axis Bank, HDFC Bank, ICICI Bank and NTPC, have followed suit, making India one of the top 10 green bond markets globally

#### *ESG SCORES OF PRIVATE BANKS IN INDIA*

The S&P Global Environment Score, a performance-based score with a range of 0 to 100, which evaluates a company's performance in addressing and managing material ESG risks, opportunities, and impacts. It is a component of the larger S&P Global ESG Scores, which also include governance and social factors. The higher the score, the better are the practices of the company. The ESG Scores of the top 10 private banks is as follows:

**Table 1**

#### **ESG Scores of Private Banks in India**

<b>Bank Name</b>	<b>Environmental scores</b>
Yes Bank	66
Axis Bank	44
RBL Bank	43
IndusInd Bank	36
HDFC Bank	35
Kotak Mahindra Bank	28
ICICI Bank	22
Federal Bank	20
IDBI Bank	5

#### **S&P ESG Scores of Private Banks in India**

*ANALYSIS OF INVESTMENTS IN SUSTAINABLE PROJECTS*

**HDFC Bank** The bank is actively pursuing a clear Carbon Neutrality Pathway, with a goal of achieving net-zero Scope 1 and Scope 2 emissions by FY32. Beyond its internal operations, the bank has made a significant commitment to green finance, having financed renewable energy projects with a total capacity of 6,110 MW, backed by loans totaling approximately INR 151,150 million.

**ICICI Bank** In fiscal year 2023, the bank's green financing portfolio accounted for 21.4% of total lending, or ₹119 billion. This is supported by the fact that the bank has financed over 10 GW of clean energy capacity. Internally, ICICI Bank also demonstrates its commitment by having 28 new sites, covering 2.87 million square feet, which earned it the Indian Green Building Council (IGBC) in fiscal year 2023.

**Kotak Mahindra Bank** has adopted a strategic approach to sustainability by integrating a sophisticated climate risk management framework. The bank conducts a scenario-based climate risk assessment aligned with the TCFD recommendations. Its commitment to transparent reporting is evidenced by the disclosure of Scope 1 emissions of 12,214 tCO<sub>2</sub>e and Scope 2 emissions of 80,482 tCO<sub>2</sub>e for FY23.

**RBL Bank** is integrating sustainability at the local level. The bank has installed solar rooftop panels that generate 96 kWp at 21 rural branches. Its commitment to green infrastructure also extends to its two largest workplaces, which are located in certified green buildings, demonstrating a comprehensive approach to reducing its operational footprint. In 2023, the bank spent a total of 5.22 crore on CSR.

**YES Bank** demonstrates its long-term commitment to sustainability through over a decade of comprehensive reporting aligned with global frameworks like GRI and TCFD. The

bank's efforts have led to a 23.61% year-over-year reduction in its emission intensity per full-time equivalent. It has also strategically reduced the carbon intensity of its financed electricity generation portfolio to 0.404 tCO<sub>2</sub>e/MWh.

**Axis Bank** has emerged as a key player in sustainable finance through its robust framework for green and social lending. The bank has allocated a substantial ₹19,397 crores to Eligible Green Projects and ₹79,838 crores to Eligible Social Projects. By fiscal 2026, the bank has pledged to provide an additional ₹30,000 crores in funding through Wholesale Banking to industries that yield favorable social and environmental results. The bank had reached an incremental exposure of ₹20,400 crores as of March 2023. They are also investing in its own operations, with its solar energy initiatives reducing emissions by approximately 2590 tCO<sub>2</sub>e in FY23.

**IDBI Bank** made a historic move in sustainable finance by issuing a landmark USD 350 million Green Bond in 2015. As the first state-owned commercial bank in India to do so, the bond's proceeds were used to specifically refinance a portfolio of clean energy projects, including solar and wind. Federal Bank Federal Bank has established a strong position on responsible lending with its Environmental and Social Management System (ESMS). A cornerstone of this policy is a clear commitment to not financing any new coal-based power plants or mines. This dedication has attracted international recognition, including an equity investment of \$126 million (₹916 crores) from the International Finance Corporation (IFC). This investment is intended to increase financing for climate-friendly projects and strengthen Federal Bank's commitment to environmental, social, and governance (ESG) standards. 2.5

## CONCLUSION

In retrospect, 2025 will be seen as the year when India's green finance landscape moved from a collection of fragmented, CSR-driven initiatives to a more structured, regulated, and strategically-aligned ecosystem. The introduction of mandatory climate risk disclosures, the development of a national climate finance taxonomy, and the establishment of a robust green deposits framework have laid the foundational blueprint for a sustainable financial future. While the sector still faces significant challenges including data deficiencies, greenwashing risks, and a persistent investment gap—the institutional commitments and regulatory clarity put in place this year are a major step forward. By leveraging technology, fostering international partnerships, and prioritizing a just and inclusive transition, India's BFSI sector is now positioned to play a central and transformative role in mobilizing the capital required to build a sustainable and resilient economy for the decades to come.

## **SECTORAL DISTRIBUTION OF GREEN FINANCE IN INDIA**

### **OVERVIEW OF FINANCE FLOWS**

Green finance in India has experienced measurable growth over recent years, particularly in the context of mitigation activities. According to the Climate Policy Initiative (CPI, 2024), tracked mitigation finance reached approximately INR 3.7 trillion (USD ~50 billion) in FY 2021/22, marking a 20% increase from FY 2019/20 levels. In contrast, adaptation finance totaled only INR 1.1 trillion (USD ~15 billion) over the same period. While these figures represent a significant step forward, they still account for less than one-third of the annual investment required to achieve India's NDC targets, estimated at INR 11 trillion (USD 170 billion) per year (CPI, 2024).

The distribution of these flows highlights a critical divergence: mitigation sectors, particularly clean energy, are increasingly attracting private and international capital, whereas

adaptation remains overwhelmingly reliant on public budgets. This imbalance underscores structural challenges in mobilising finance for sectors where returns are less easily monetised, such as disaster management, climate-resilient agriculture, and urban adaptation. The subsequent analysis disaggregates these flows to provide a comprehensive view of sectoral priorities and barriers.

**Table 2**

**Annual Green Finance Flows by Sector in India (FY 2021/22)**

<b>Sector</b>	<b>Annual Average Finance Flows (INR billion)</b>	<b>Annual Average Finance Flows (USD billion)</b>	<b>Percentage Share of Total Flows</b>
<b>Mitigation</b>	<b>3,712</b>	<b>50.1</b>	<b>77%</b>
<b>Clean Energy</b>	<b>1,768</b>	<b>24</b>	<b>47%</b>
<b>Energy Efficiency</b>	<b>1,287</b>	<b>17.3</b>	<b>35%</b>
<b>Clean Transportation</b>	<b>657</b>	<b>9</b>	<b>18%</b>
<b>Adaptation</b>	<b>1,092</b>	<b>15</b>	<b>23%</b>
<b>Disaster Risk Management</b>	<b>461</b>	<b>6.2</b>	<b>42%</b>
<b>Agriculture &amp; Rural Livelihoods</b>	<b>265</b>	<b>3.6</b>	<b>24%</b>
<b>Flood &amp; Cyclone Mitigation</b>	<b>347</b>	<b>4.7</b>	<b>32%</b>

Source: Climate Policy Initiative, *Landscape of Green Finance in India* (2024); Ministry of Finance, Government of India (2023)

**MITIGATION FINANCE**

Mitigation finance remains the primary driver of India's green investment, reflecting the relative maturity of certain sectors and the confidence of private investors in predictable revenue streams.

### *CLEAN ENERGY*

Clean energy emerged as the dominant mitigation sector, absorbing approximately 47% of total flows, or INR 1.77 trillion in FY 2021/22 (CPI, 2024). Solar power, both utility-scale and rooftop, accounted for the largest share. Utility-scale projects benefited from reverse auctions, government-backed transmission infrastructure, and concessional financing, while rooftop solar installations were bolstered by the Production-Linked Incentive (PLI) scheme for high-efficiency modules, which de-risked early-stage investment. Wind energy, historically a major recipient, has faced slower growth due to challenges related to land acquisition, permitting delays, and grid integration, demonstrating that even mature sectors require continual policy support. Emerging technologies, such as battery storage and pumped hydro, have received increasing attention, particularly for their role in grid stability, although their share of overall flows remains modest. The concentration of capital in solar underscores the effectiveness of clear policy instruments in mobilising private and international investment.

### *ENERGY EFFICIENCY*

Energy efficiency accounted for INR 1.29 trillion (35% of mitigation flows). The majority of investment was concentrated in household adoption of energy-efficient appliances, notably LED lighting and refrigerators, under schemes like UJALA. This indicates the potential of consumer-focused interventions to scale mitigation action. However, investment in building retrofits and industrial efficiency remained limited. Barriers include high upfront costs, split incentives between landlords and tenants, and fragmented standards. Industrial efficiency

projects under the Perform, Achieve, and Trade (PAT) scheme have shown promising pilot results but are yet to reach scale. These patterns suggest that while demand-side adoption is effective, structural measures are necessary to expand efficiency finance to more capital-intensive sectors.

### *CLEAN TRANSPORTATION*

Clean transportation received INR 657 billion (18% of mitigation finance), representing a significant increase from previous years. Electric vehicles (EVs) have been a key focus, with financial support flowing into both manufacturing and charging infrastructure, catalyzed by the FAME II scheme and complementary state-level EV policies. Public investment remains predominant in mass transit systems, including metro rail projects, where farebox recovery challenges limit private participation. Early-stage investments in green freight and hydrogen mobility demonstrate an expanding mitigation portfolio that aligns with India's long-term low-carbon transport goals.

### *INDUSTRIAL TRANSFORMATION*

Although industrial decarbonization remains nascent, financing is beginning to target hard-to-abate sectors such as steel, cement, and chemicals. Pilot projects exploring green hydrogen-based steel production and carbon capture, utilisation, and storage (CCUS) reflect early efforts to channel mitigation finance into industrial transformation. These sectors will require substantial scale-up to contribute meaningfully to India's net-zero pathway by 2070.

### **ADAPTATION FINANCE**

Adaptation finance in India presents a contrasting picture, with flows predominantly sourced from public budgets. In FY 2021/22, adaptation finance amounted to INR 1.1 trillion, with less than 2% originating from private or international sources (CPI, 2024). The limited

monetisation potential of adaptation projects, combined with high uncertainty in returns, continues to restrict private participation.

#### *DISASTER RISK MANAGEMENT*

Disaster risk management accounted for INR 461 billion, representing the largest adaptation sub-sector. Funding was directed to early warning systems, cyclone and flood shelters, and embankment construction. While these allocations have expanded coverage, expenditure remains weighted toward reactive interventions rather than proactive resilience-building, highlighting the need for forward-looking planning to enhance adaptive capacity.

#### *AGRICULTURE AND RURAL LIVELIHOODS*

Agriculture received INR 265 billion, primarily through the Pradhan Mantri Fasal Bima Yojana. While crop insurance is vital for protecting farmer incomes, operational challenges such as claim delays and low penetration in smallholder segments limit its efficacy. Micro-irrigation schemes and climate-resilient agricultural practices received smaller allocations, indicating persistent gaps in rural adaptation finance.

#### *FLOOD AND CYCLONE MANAGEMENT*

Flood and cyclone mitigation, receiving INR 347 billion, focused mainly on structural measures such as river embankments, drainage systems, and coastal protection works. Despite large capital flows, long-term sustainability is constrained by the absence of integrated watershed management and limited community engagement, reflecting a gap between funding and resilient outcomes.

#### *URBAN RESILIENCE AND ECOSYSTEMS*

Emerging areas of adaptation, including urban resilience and ecosystem-based interventions, remain underfunded. Initiatives like municipal heat action plans and mangrove

restoration demonstrate potential co-benefits for communities and biodiversity. However, these programs currently attract minimal finance, emphasizing the need for innovative mechanisms that can monetise long-term ecological and social benefits to attract investment.

## **BARRIERS TO BALANCED SECTORAL DISTRIBUTION**

The skewed distribution of green finance arises from structural, financial, and institutional barriers. Adaptation finance suffers from a bankability gap, as returns are uncertain and dispersed. High financing costs, often exceeding those in OECD countries by 2–3 percentage points, further constrain capital mobilisation for both mitigation and adaptation.

Policy and institutional challenges compound these barriers. While the Union Budget 2023 announced the establishment of a national climate finance taxonomy, operationalisation remains pending. Fragmented measurement, reporting, and verification (MRV) frameworks across ministries and states hinder precise tracking of flows. At the subnational level, weak technical capacity limits the preparation of bankable projects, particularly in rural and urban adaptation domains.

Private participation is further constrained by limited risk-sharing mechanisms and a scarcity of blended finance instruments. Industrial sectors such as green hydrogen and CCUS, while eligible for finance, face high capital intensity and technology risk, reducing private investor interest without de-risking interventions.

**Table 3****Sources of Finance for Mitigation and Adaptation**

Source	Mitigation Finance (INR billion)	Adaptation Finance (INR billion)	Notes
Domestic Private	2,048	0.7	Dominates mitigation, negligible for adaptation
Domestic Public	1,045	1,066	Key driver for adaptation finance
	390	0.6	Growing for mitigation; almost absent for adaptation
Multilateral DFI	21	21	Limited share in both
Bilateral DFI	2	2	Minor
Philanthropy	0.3	0.3	Negligible

Source: CPI, Landscape of Green Finance in India (2024)

**POLICY AND REGULATORY DEVELOPMENTS AFFECTING SECTORAL FLOWS**

Recent policy developments have begun addressing these challenges. The Reserve Bank of India has issued guidance encouraging banks to incorporate climate risks into credit decisions. The Securities and Exchange Board of India (SEBI) mandates sustainability reporting through the Business Responsibility and Sustainability Report (BRSR) framework, enhancing transparency for investors.

Financial instruments such as sovereign green bonds, first issued in 2023, have mobilised INR 160 billion, directed primarily toward renewable energy and clean transport. At the state level, initiatives in Kerala and Odisha, including climate budget tagging and adaptation funds, demonstrate early attempts to decentralise climate finance and strengthen local ownership.

International collaborations, including the International Solar Alliance and the Coalition for Disaster Resilient Infrastructure, further provide opportunities to leverage concessional finance and technical expertise.

## **STRATEGIC PRIORITIES FOR REALIGNING SECTORAL FLOWS**

To achieve a more balanced distribution of green finance, India must prioritise the following strategies:

1. Mobilise Private Adaptation Finance: Develop resilience bonds, credit guarantees, and blended finance vehicles to attract private capital for agriculture, urban resilience, and ecosystem-based adaptation.
2. De-risk Emerging Mitigation Sectors: Scale concessional finance and risk-sharing mechanisms for battery storage, hydrogen production, and industrial decarbonisation.
3. Strengthen MRV Systems: Establish unified national platforms for tracking finance flows, building on CPI methodologies, to improve transparency and inform policy adjustments.
4. Enhance Subnational Capacity: Provide technical assistance and funding to state and municipal agencies for project design and implementation.
5. Leverage International Collaboration: Use India's global climate leadership to attract South-South finance, concessional flows, and knowledge transfer.

## **THE SPECTRUM OF GREEN FINANCE INSTRUMENTS**

Green finance simply means using money in a way that helps the environment. Instead of funding projects that harm nature, green finance focuses on activities such as renewable energy, clean transport, energy efficiency, and pollution control. Over the last few years, this

idea has become much more important, especially for countries like India that are growing fast but also face serious environmental problems.

In India, the green and sustainable finance market has grown quickly. By the end of 2024, the total amount of green, social, sustainability, and sustainability-linked (GSS+) debt issued in the country reached about USD 55.9 billion. This shows a very sharp increase compared to earlier years and places India among the top emerging markets in this area. Most of this money has come through green bonds, which make up more than 80 percent of the total. The government's Sovereign Green Bond program has played a major role, with issuances worth around INR 477 billion by the end of 2024.

However, when we look at different reports, the size of India's green finance market looks very different. Some studies say the market is quite small, while others say it is extremely large. This difference happens mainly because there is no single definition of green finance. Some reports count only green bonds, while others also include green loans, equity investments, and other types of funding. This creates confusion and shows that the market is still developing.

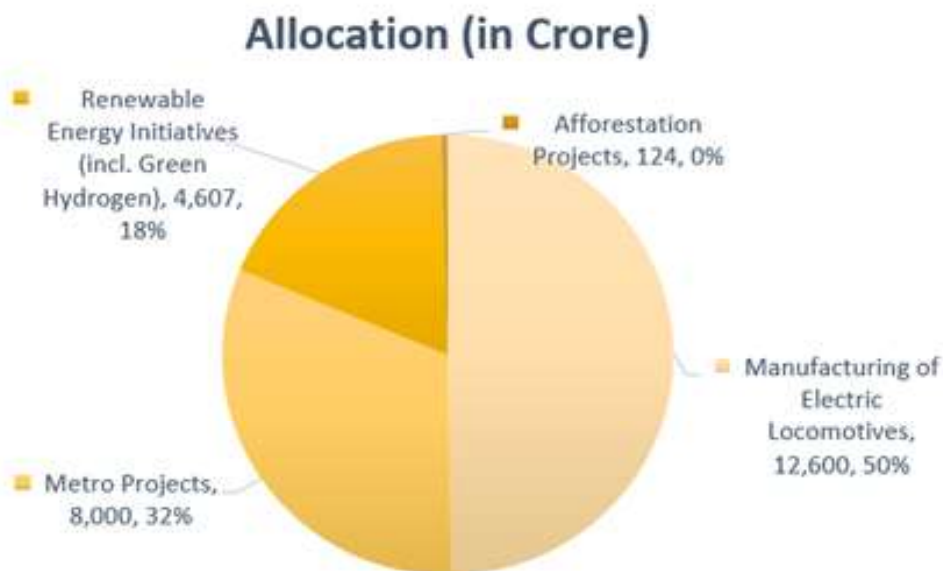
The government and regulators have started taking green finance more seriously. The Reserve Bank of India (RBI) and the Securities and Exchange Board of India (SEBI) have introduced rules and guidelines to improve transparency and reduce the risk of greenwashing, where companies falsely claim to be environmentally friendly. Banks are also offering new green products such as green bonds, green loans, and ESG-based investments. This is important because India needs a very large amount of money—around USD 2.5 trillion by 2030—to meet its climate goals under the Paris Agreement. Just like normal finance, green finance uses different instruments depending on the type of project and the source of funds. The main instruments used in India are discussed below.

## **GREEN BONDS**

Green bonds are debt instruments where the money raised is used only for projects that are good for the environment. This is the main difference between green bonds and regular bonds. These projects usually include renewable energy, energy-saving technologies, clean transportation, waste management, and green buildings.

To be called a green bond, issuers are expected to follow certain guidelines, such as the Green Bond Principles. In India, SEBI introduced rules for green bonds in 2017. These rules explain which projects are allowed and what information companies must disclose. Following these rules helps investors trust that their money is actually being used for green purposes. India introduced sovereign green bonds in 2022. This was an important step because it showed that the government itself is committed to green finance. These bonds also help set a standard price for other green bonds in the market. Since January 2024, the government has raised around INR 440 billion through sovereign green bonds. The money has been used for projects like energy-efficient electric trains, renewable energy projects, and afforestation programs.

For 2024-25, the budgetary allocations for the various SGB-funded projects include:

**Figure 1****Green bond issuance in India**

Green bond issuance in India has increased a lot over the last ten years. It has grown from USD 1.2 billion in the early 2010s to nearly USD 21 billion in 2023. Government support and growing awareness about sustainability have helped this growth.

***THE GREENIUM PARADOX***

The term “greenium” is used to describe the slightly lower interest rate that issuers sometimes get when they issue green bonds instead of normal bonds. India’s first sovereign green bonds achieved a greenium of about 6 basis points, which shows that investors were interested.

However, green bonds in India also face some problems. Compared to developed countries, the greenium in India is smaller. Also, many green bonds are not traded much after they are issued because investors prefer to hold them until maturity. This low liquidity makes green bonds less attractive to some investors. In addition, India does not yet have many

specialized impact investors, which limits demand. Because of these reasons, green bonds are useful but not always the cheapest or easiest option for all projects.

### **GREEN LOANS AND GREEN DEPOSITS**

Green loans are loans given for projects that help the environment. In India, banks and non-banking financial companies provide green loans for activities such as installing rooftop solar panels or buying electric vehicles. Development banks also support green projects, especially for small and medium enterprises. Green deposits are a newer concept. Under this system, banks accept deposits and promise to use the money only for green activities. This allows common people to contribute to environmental protection through their savings. The RBI introduced guidelines for green deposits in 2023. These rules require banks to clearly disclose how the money is used and to get their activities verified by third parties.

### **ESG MUTUAL FUNDS AND ETFs**

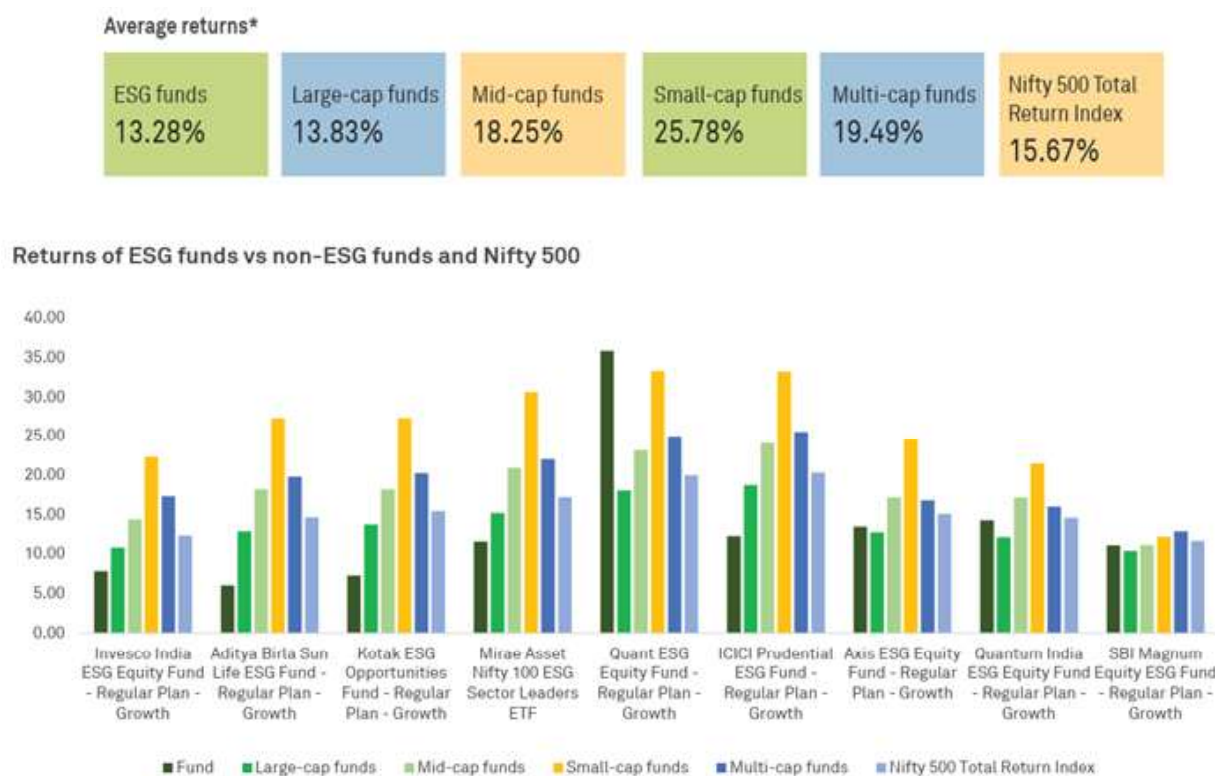
ESG mutual funds and exchange traded funds (ETFs) invest in companies that perform well on environmental, social, and governance factors. These funds allow investors to support responsible companies while aiming to earn returns. In India, ESG funds have become more popular since 2019, and are now offered by major asset management companies (AMCs) like SBI, ICICI Prudential, Kotak, Axis, Aditya Birla, and Mirai.

However, the performance of ESG funds has not always been strong. On average, they have given lower returns compared to many traditional mutual funds and market indices. One reason is that most ESG funds invest mainly in large companies and avoid small and mid-sized companies, which sometimes give higher returns. Another reason is that ESG data for many companies is still limited.

To improve the situation, SEBI has introduced new rules for ESG funds. These rules require funds to invest most of their money in companies that follow proper sustainability reporting standards. SEBI has also proposed regulations for ESG rating agencies to make ESG scores more transparent and reliable.

**Figure 2**

**Returns of ESG funds vs non-ESG funds and Nifty 500**



The figure given compares the average total returns of ESG mutual funds with other non-ESG fund categories and the Nifty 500 Total Return Index. From the data, it is clear that ESG funds have performed worse than all the other categories. The average return of ESG funds is 13.28%. This is lower than large-cap funds (13.83%), multi-cap funds (19.49%), mid-cap funds (18.25%), and small-cap funds (25.78%). The Nifty 500 Total Return Index also performed better than ESG funds, with an average return of 15.67%.

There are a few reasons for this lower performance. Most ESG funds in India were started after 2019, so they do not have a long performance record. ESG funds mainly invest in large-cap companies, which usually give lower returns compared to mid-cap and small-cap companies. Many ESG funds also avoid small- and mid-cap companies because proper ESG data for these companies is not easily available. Because of this, ESG funds miss out on some high-return opportunities. Also, some retail investors who expect strong environmental or social impact from ESG funds may not see many clearly ESG-focused companies in these portfolios.

To improve ESG investing, SEBI has introduced new rules for ESG funds. These rules say that at least 80% of the fund's money must be invested in securities that match the fund's ESG strategy. Out of this, at least 65% must be invested in companies that follow SEBI's Business Responsibility and Sustainability Reporting (BRSR) guidelines. SEBI has also proposed rules for ESG rating agencies so that they clearly explain how ESG ratings are given. This will help investors understand ESG ratings better and make informed investment decisions.

## **CONCLUSION**

Even though green finance in India has grown very fast, it still faces many challenges. Problems such as greenwashing, lack of clear data, and different reporting standards are common. To make green finance more effective, better rules, clearer reporting, and proper verification are needed. For banks and investors, trust will depend not just on how much money is invested, but also on whether the projects actually deliver real environmental benefits.

## **REGULATORY AND POLICY DRIVERS, ENABLERS AND BARRIERS**

### **INTRODUCTION AND CONCEPTUAL FRAMEWORK**

#### *GREEN FINANCE AND INDIA'S DECARBONISATION CONSTRAINT*

India's economic expansion and its climate commitments are now structurally interlinked. The national objective of achieving net zero emissions by 2070 introduces a financing challenge that extends far beyond conventional public expenditure planning. Available estimates indicate that nearly seventy per cent of the capital required for the transition remains unfunded, translating into an additional annual requirement of more than USD 170 billion.<sup>1</sup> This gap highlights a fundamental constraint: climate ambition without financial reallocation lacks operational feasibility.

Within this context, green finance functions as a systemic enabler rather than a supplementary policy instrument. Regulatory certainty, credible financial products, and defensible risk assessment mechanisms are necessary to mobilise long term capital at scale. This dependency becomes particularly evident in infrastructure intensive targets such as the planned deployment of 500 GW of non fossil fuel based power capacity by 2030, where financing depth directly influences execution viability.<sup>3</sup>

Recognizing these limitations, Indian policymakers have increasingly favoured coordinated regulatory intervention. The Government of India, in collaboration with financial regulators such as SEBI and the RBI, has introduced a series of aligned measures aimed at embedding climate considerations into financial supervision and market conduct.<sup>4</sup> These interventions are intended not only to expand capital flows but also to preserve market credibility by addressing risks related to disclosure quality, misclassification, and product integrity.

#### *ANALYTICAL SCOPE AND FRAMEWORK*

This study examines the structure and functioning of India's emerging green finance ecosystem through three interrelated dimensions. The first consists of regulatory drivers that seek to enforce compliance and protect market integrity. The second includes market enablers that

facilitate capital mobilisation and investor participation. The third captures structural barriers that constrain scalability and efficiency. The analysis adopts a regulatory market friction perspective, focusing on the interaction between policy intent and institutional capacity. Particular attention is given to constraints arising from inconsistent data availability, uneven technical preparedness within financial institutions, and the prolonged absence of a unified national green taxonomy. These factors collectively determine whether regulatory ambition translates into effective market expansion or remains confined to formal compliance.

## **MACRO PRUDENTIAL REGULATION AND CLIMATE RISK INTEGRATION**

India's regulatory approach to green finance reflects a gradual but decisive movement away from voluntary sustainability alignment towards mandatory climate risk integration. This shift signals an effort to internalise climate related risks within mainstream financial supervision rather than treating them as peripheral reporting obligations. The emphasis is placed on strengthening market discipline while limiting systemic exposure to climate induced financial instability.

### *SEBI'S ESG DEBT FRAMEWORK AND THE ENFORCEMENT OF MARKET DISCIPLINE*

The ESG Debt Securities framework introduced by SEBI in 2023 represents a notable departure from earlier reliance on disclosure driven credibility.<sup>6</sup> The framework acknowledges that sustainability labelled instruments are vulnerable to misrepresentation, particularly in the absence of enforceable consequences. Purpose washing, where environmental claims are weakly linked to actual project outcomes, is explicitly identified as a risk to investor confidence.<sup>7</sup>

Rather than addressing this risk through enhanced narrative disclosure alone, the framework alters issuer incentives by embedding compliance into financial outcomes. Issuers are required to articulate project specific objectives prior to issuance and to report measurable post

issuance impacts.<sup>8</sup> These disclosures are structured as verifiable commitments rather than aspirational statements. Mandatory alignment with the ICMA Green Bond Principles and the requirement for independent external review further reduce discretion in interpretation.<sup>9</sup>

The framework's most consequential provision lies in its enforcement authority. SEBI retains the power to mandate early redemption where proceeds are misused or materially misaligned with stated objectives.<sup>7</sup> This converts ESG compliance from a reputational concern into a balance sheet risk, reshaping issuer behaviour. The obligation to earmark proceeds exclusively for identified green projects further limits ambiguity in fund allocation.<sup>12</sup>

#### *RBI'S CLIMATE RISK MANAGEMENT ROADMAP AND INSTITUTIONAL READINESS*

Parallel to capital market regulation, the RBI has introduced a phased roadmap to integrate climate related risk management across regulated entities, including scheduled commercial banks, all India financial institutions, and systemically important non banking financial companies.<sup>13</sup> A critical element of this roadmap is the planned introduction of mandatory disclosure of climate related metrics and targets from the financial year 2027 to 2028.<sup>15</sup>

The roadmap progresses through stages encompassing institutional sensitisation, policy formulation, pilot scenario analysis, and supervisory calibration.<sup>17</sup> Central to this framework is the expectation that financial institutions will conduct macro prudential stress testing that captures both physical climate risks and transition related financial shocks.

In practice, institutional readiness remains limited. Many financial institutions are still developing basic analytical capabilities to model long horizon climate risks.<sup>4</sup> This challenge is compounded by inconsistent data availability and a shortage of specialised technical expertise,

exacerbating skill gaps within the BFSI sector.<sup>18</sup> As a result, there is a growing tension between regulatory expectations and operational feasibility.

**Table 4**

**Key Regulatory Frameworks and Green Finance Integrity Mechanisms**

<b>Regulatory Instrument</b>	<b>Authority</b>	<b>Core Regulatory Function</b>	<b>Implication for Market Credibility</b>
ESG Debt Securities Framework (2023)	SEBI	Enforces verified use of proceeds and mandatory external review	Discourages purpose washing through enforceable penalties and redemption risk <sup>7</sup>
Climate Risk Disclosure Roadmap	RBI	Mandates scenario based climate risk assessment and disclosures	Integrates climate risk into systemic supervision rather than voluntary reporting
Green Deposit Guidelines (2023)	RBI	Requires ring fencing of deposit proceeds and third party assurance	Limits misallocation of retail green funds and improves depositor trust
Sovereign Green Bond Framework	RBI and GoI	Defines eligible expenditures through GFWC oversight	Establishes credibility and standardization for domestic green bond issuance

**SOVEREIGN INTERVENTION AND CAPITAL MARKET DEVELOPMENT**

*SOVEREIGN GREEN BONDS AND BENCHMARK FORMATION*

The issuance of sovereign green bonds represents a strategic attempt to deepen India's green capital markets while signalling policy commitment to international investors. In early 2023, multiple tranches of sovereign green bonds, each valued at ₹80 billion, were issued under

oversight of the Green Finance Working Committee and aligned with the ICMA Green Bond Principles.<sup>21</sup>

Proceeds were largely allocated to clean transportation and renewable energy, sectors associated with high mitigation potential.<sup>21</sup> Initial issuances benefited from a pricing premium, or greenium, reflecting strong demand.<sup>27</sup> However, subsequent secondary market activity remained limited, leading to the erosion of this premium.<sup>27</sup> This outcome highlights persistent liquidity constraints within the domestic green bond market.

Despite these limitations, the establishment of a sovereign benchmark offers longer term benefits. It improves price discovery, lowers compliance costs for corporate issuers, and reduces reliance on expensive secondary party opinions.<sup>13</sup>

**Table 5**

**Allocation of Sovereign Green Bond Proceeds (FY 2022-23 Case Study)**

<b>Expenditure Category</b>	<b>Approximate Allocation</b>	<b>Primary Policy Objective</b>	<b>Strategic Significance</b>
Clean Transportation	About 78 per cent	Emission reduction in mobility systems	Targets sectors with immediate decarbonisation impact
Renewable Energy	About 21 per cent	Expansion of non fossil power capacity	Supports progress towards the 500 GW target
Natural Resource Management	About 1 per cent	Climate adaptation and land resilience	Addresses long term environmental stability
Total Allocation	100 per cent	Full compliance with SGB framework	Confirms adherence to approved eligibility norms

**MARKET ENABLERS AND TECHNOLOGICAL CATALYSTS**

Demand side dynamics have played an increasingly important role in supporting India's green finance ecosystem. The domestic ESG investment market is projected to expand significantly, driven by heightened climate awareness among younger and urban investors.<sup>28</sup> Regulatory measures such as SEBI's BRSR framework and stricter ESG fund classification norms have further reinforced investor confidence.<sup>28</sup>

International climate finance has also contributed to risk mitigation through blended finance structures. The India Green Finance Facility, supported by the Asian Development Bank and the Green Climate Fund, exemplifies how concessional capital can crowd in private investment by absorbing early stage risk.<sup>29</sup>

Technological innovation, particularly in green fintech, has emerged as a complementary enabler. Platforms leveraging data analytics, artificial intelligence, and blockchain have improved ESG assessment, expanded access to alternative financing mechanisms, and enhanced traceability for distributed renewable projects.<sup>31</sup>

## **STRUCTURAL BARRIERS TO SCALE**

Despite regulatory progress, several structural constraints continue to limit the scalability of green finance in India. The absence of a unified national green taxonomy remains the most significant barrier.<sup>32</sup> Without an authoritative classification framework, inconsistencies persist across regulatory and market practices, raising transaction costs and limiting international alignment.<sup>33</sup> Financial constraints also remain pronounced. Green infrastructure projects are capital intensive and characterised by long payback periods, while the domestic banking system largely offers short tenure debt.<sup>30</sup> This maturity mismatch restricts the availability of long term financing.

Data gaps and institutional capacity deficits further undermine progress. ESG disclosures remain uneven despite regulatory mandates, with significant information gaps in sectors such as agriculture and forestry.<sup>36</sup> At the same time, financial institutions continue to face skill shortages in climate risk modelling, limiting effective implementation of regulatory requirements.<sup>18</sup>

**Table 6**

**Synthesis of Green Finance Barriers and Structural Challenges**

<b>Constraint Domain</b>	<b>Identified Issue</b>	<b>Practical Market Impact</b>	<b>Policy Aligned Mitigation</b>
Regulatory Architecture	Absence of a unified green taxonomy	Inconsistent classification and higher transaction costs	Finalization of tiered national taxonomy
Financial Structure	High capital intensity and short loan tenures	Limits viability of long duration infrastructure projects	Expansion of blended finance and long term DFIs
Institutional Capacity	Limited expertise in climate risk modelling	Weak pricing of transition and physical risks	Targeted training and access to validated models
Data Availability	Fragmented and uneven ESG disclosures	Reduced investor confidence and analytical reliability	Enforcement of BRSR core and fintech enabled analytics

**CONCLUSION AND POLICY IMPLICATIONS**

India's green finance framework reflects strong regulatory intent, driven by SEBI's emphasis on market integrity and the RBI's focus on systemic risk management. However, the translation of policy ambition into scalable capital deployment remains constrained by structural

frictions, particularly the absence of a unified taxonomy, persistent maturity mismatches, and institutional capacity gaps.

Addressing these constraints will require coordinated action. Finalising and implementing a national green taxonomy is essential to harmonise regulatory language and market practice. Strengthening institutional capacity through targeted training and access to validated climate data will be critical for effective risk integration. Finally, measures to improve secondary market liquidity for sovereign green bonds and incentivise long tenure green debt can enhance market depth and investor participation.

#### FUTURE OF GREEN FINANCE IN THE BFSI SECTOR

India has promised that it will reach net zero carbon emissions by the year 2070 and while this sounds like an environmental goal it is actually a very big financial challenge as well. India is still developing which means new roads, buildings, factories, transport systems and power plants are being built every year and all of this usually increases pollution. So the real question is not whether India should grow or not but how this growth is financed. This is where banks, financial institutions and insurance companies become extremely important because they decide where money goes and which projects get support.

Green finance has come up as a way to solve this problem. It simply means giving money to projects that are better for the environment such as renewable energy, electric vehicles, sustainable farming and cleaner infrastructure. On paper this idea sounds very good but in reality it is not so easy to implement. Banks still need to make profits, rules related to sustainability are still changing and there is always a risk that companies may pretend to be “green” just to get cheaper funding even when they are not actually helping the environment (Rakesha and Parmashivaiah 2025).

Technology has helped reduce some of these problems. Artificial Intelligence, big data and blockchain are now being used to understand environmental risks better and to check whether green projects are actually doing what they promise. AI helps banks look at financial data and environmental data together instead of treating them as separate things. Blockchain helps by keeping clear and permanent records of where green money is used which makes it harder for companies to lie (Chauhan and Sahoo 2024). Big data also helps by tracking supply chains and resource usage so that investors can see whether companies are truly becoming more efficient and less harmful to the environment.

India's rules related to green finance are also slowly becoming stricter. Climate risks are now being treated as financial risks which means banks and NBFCs are being forced to take responsibility for the environmental impact of their lending decisions (Reserve Bank of India 2023). Because of this many international investors see India as a very important market for green finance in the future. Along with traditional banks, new green focused NBFCs have also come up, especially those funding electric vehicles, rooftop solar panels and energy saving solutions for small businesses. These institutions use technology to give loans faster and to people who are usually ignored by big banks.

Even with all this progress one major problem still exists. India has a green finance funding gap of more than ₹8,30,000 crores every year (Climate Policy Initiative 2024). This gap exists because big projects are easier to fund while small and local green projects struggle to get money even though they are very important for sustainability (Singaram 2025). If this gap is not filled green finance will remain limited to only a few large projects instead of helping the country as a whole.

## **ARTIFICIAL INTELLIGENCE (AI) AND GREEN FINANCE**

Artificial Intelligence is important for green finance mainly because it can handle very large and complex information at the same time. Climate data, environmental reports, financial risks and government rules are all difficult to analyze together but AI systems can do this much faster than humans (MDPI 2024). This helps banks decide which green projects are worth funding and which ones may be risky. AI also helps banks move from reacting to problems to preparing in advance. Instead of waiting for environmental damage or new rules to create losses, banks can use AI to predict risks and take action early. This makes the financial system stronger and more stable especially when climate related problems are increasing.

From a governance point of view AI helps improve transparency inside financial institutions. Automated systems can track how decisions are made and can warn banks if something unusual happens. This builds trust with regulators and reduces the chances of mistakes or misuse of green funds (Frontiers 2024). AI also helps make green finance more inclusive. Many small businesses and rural enterprises do not get loans because they do not have proper credit records even if their work is environmentally friendly. AI based digital lending platforms can look at other types of data such as transaction history or business behaviour to judge whether someone is trustworthy (Neliti 2025).

### *THE IMPLEMENTATION GAP*

Even though AI is useful it also has many problems. One big issue is poor quality data. ESG data is often incomplete or inconsistent which makes it difficult for AI systems to give accurate results (ResearchGate 2025). There are also concerns about transparency because many AI systems do not clearly explain how they make decisions. Between 2010 and 2024 AI use increased a lot in areas related to sustainability. In agriculture AI moved from simple crop data

analysis between 2010 and 2014 with investments of ₹300 crores and only 30% private involvement to advanced AI farming and energy optimisation between 2022 and 2024 where investments increased to ₹3,000 crores and private participation reached 65%.

However most of this growth has been driven by private companies. For example in green data centres private investment reached around 70% in 2021 while public investment fell to about 30%. This is risky because private investors usually focus on profits and may ignore poor or rural areas. Without government support AI based green finance may increase inequality instead of reducing it (AFAI 2025). Another problem is that AI itself uses a lot of energy. Even though ₹2,000 crores were invested in green data centres in 2021 making these centres completely energy neutral is still very difficult.

## **BLOCKCHAIN AND GREEN BONDS**

Green bonds are one of the most popular tools used in green finance today. Even though they form only about 2% of all bonds issued globally they are important because they raise money specifically for environmentally friendly projects. By 2020 the global green bond market will reach \$1 trillion but experts say that \$5 to \$7 trillion is needed every year to fight climate change which means green bonds are still not enough (Vorisek and Yu 2020).

One major issue with green bonds is trust. Investors want to be sure that their money is actually used for green purposes. Blockchain helps solve this problem by keeping records that cannot be changed (Lin et al. 2021). Once information is stored on the blockchain it stays there permanently which reduces greenwashing. When blockchain is combined with IoT devices real time data about emissions and energy use can be collected and stored. Smart contracts automatically handle payments and settlements which reduces delays and costs. Tokenization

allows green bonds to be issued in smaller amounts making them accessible to more investors (Sahebi et al. 2023).

## **FINTECH AND DUE DILIGENCE**

As green finance grows, traditional methods of checking environmental claims are no longer enough. ESG data is often collected manually which increases mistakes and makes it easy for companies to hide the truth. FinTech tools help solve this problem. Machine learning checks climate risks using satellite images and weather data (Islam and Managi 2019). IoT devices provide real time environmental data. Geospatial tools allow investors to see whether forests are being destroyed or whether land is being misused. Together these tools make green finance more honest and reliable (Neliti 2025).

## **CONCLUSION**

Green finance in India's BFSI sector has a lot of potential but it also faces many challenges. AI helps banks make better decisions, blockchain builds trust and FinTech improves transparency. However these tools must be used carefully so that they do not increase inequality or create new environmental problems. If implemented properly green finance can help India grow while also protecting the environment (CEEW 2025).

## **ETHICS IN GREEN FINANCE: NAVIGATING INTEGRITY & EQUITY IN THE INDIAN CONTEXT**

The rapid expansion of India's green finance ecosystem reaching a cumulative issuance of approximately USD 55.9 billion by 2024 brings with it a complex set of ethical imperatives. As the nation strives to meet its "Panchamrit" targets and Net Zero goals by 2070, the ethical

framework governing green finance must move beyond mere compliance to address fundamental issues of transparency and social justice (Bhatnagar 2024).

### **ACCOUNTABILITY AND THE MITIGATION OF GREENWASHING**

The primary ethical concern in the Indian green bond and loan market is greenwashing which is the practice of making misleading or unsubstantiated claims about the environmental benefits of a financial product. Ethically, greenwashing represents a breach of trust between the issuer and the investor and potentially diverts capital away from projects that offer genuine climate resilience. To address this, the Securities and Exchange Board of India (SEBI 2023) has formalized ethical boundaries through the 2023 Disclosure Norms for ESG Debt Securities. These regulations require issuers to provide independent assurance on the use of proceeds. From an ethical standpoint, this shifts the burden of proof from the investor to the issuer and ensures that "green" is not just a marketing label but a verifiable environmental outcome. Furthermore, the Reserve Bank of India's (RBI 2023) framework on Green Deposits mandates that banks must disclose the impact of their green lending, which prevents the use of retail savings for projects that may have hidden ecological footprints.

### **SOCIAL EQUITY AND THE "JUST TRANSITION"**

In a developing economy like India, the ethics of green finance cannot be separated from social equity. A "Just Transition" implies that the shift to a low carbon economy should not disproportionately harm vulnerable populations such as coal dependent communities and the informal sector (Ministry of Finance 2022). Ethical green finance in India necessitates a focus on Financial Inclusion. Currently, Micro, Small and Medium Enterprises (MSMEs) face a significant credit gap. Ethical banking practices, such as those adopted by the Small Industries Development Bank of India (SIDBI 2023), aim to provide concessional finance for green

technology to smaller players who lack the capital to transition. This ensures that the green transition is inclusive and rather than elitist. By prioritizing "Climate Justice," financial institutions uphold the ethical principle that environmental progress should not come at the cost of livelihood security for the poor.

## **GOVERNANCE AND FIDUCIARY DUTY**

The transition from traditional profit maximization to "stakeholder capitalism" represents a significant ethical shift for Indian boardrooms. Fiduciary duty is being redefined as the legal and ethical obligation to act in the best interest of another party. Indian financial institutions are increasingly adopting the "Triple Bottom Line" approach covering People, Planet and Profit. The ethical integration of Corporate Social Responsibility (CSR) with green finance is a unique Indian phenomenon. Under the Companies Act 2013, the ethical mandate to spend 2% of profits on social development is now being aligned with environmental sustainability. For example, the State Bank of India (SBI 2024) integrates ESG scores into its credit assessment process, which reflects an ethical commitment to avoid funding projects with high social or environmental costs even if they are economically viable in the short term.

## **DATA INTEGRITY AND TECHNOLOGICAL ETHICS**

As India leverages its Digital Public Infrastructure (DPI) to scale green finance, new ethical questions regarding data privacy and algorithmic bias arise. While AI and Blockchain can enhance transparency by providing immutable records of fund allocation, they must be deployed ethically to ensure that automated credit scoring does not unfairly exclude rural borrowers due to a lack of "digital footprints". Ethical governance in this space requires ensuring that the data used for green certifications is accurate and unbiased and protected from manipulation (SEBI 2023).

## CONCLUSION

India's green finance ecosystem has moved decisively beyond its early, fragmented phase and entered a stage of institutional consolidation. What was once driven primarily by isolated corporate social responsibility initiatives has evolved into a policy anchored financial architecture shaped by the national commitment to achieve Net Zero emissions by 2070. This transition is now embedded within the financial system through coordinated regulatory action and is reflected in the rapid expansion of sustainable capital flows. By the end of 2024, cumulative Green, Social, Sustainability and Sustainability linked debt issuance had reached USD 55.9 billion, positioning India as a significant emerging market for sustainable finance.

Despite this progress, regulatory maturity has not yet translated into financial scale. The estimated annual investment requirement exceeding USD 170 billion highlights a persistent gap between ambition and execution. The ability of India's green finance ecosystem to bridge this gap remains constrained by three interrelated structural frictions: the absence of a unified taxonomy, a misalignment between capital costs and debt tenors, and limited institutional capacity within the financial sector.

At the regulatory level, the synchronised interventions of the Reserve Bank of India and the Securities and Exchange Board of India have fundamentally reshaped market discipline. SEBI's ESG Debt Framework has strengthened capital market integrity by introducing enforceable accountability, ensuring that sustainability labelled instruments are supported by clearly defined use of proceeds, external verification, and measurable outcomes. In parallel, the RBI's climate risk management roadmap represents a shift in banking supervision by requiring financial institutions to integrate climate related risks into credit appraisal, stress testing, and

capital planning. Together, these measures move green finance from voluntary alignment toward mandatory financial responsibility.

Market responses to this regulatory backbone have been most visible in the expansion of green bonds and the issuance of Sovereign Green Bonds. While these instruments have successfully attracted investor interest and established an initial benchmark for green debt, limited secondary market liquidity continues to undermine their effectiveness as a pricing reference for corporate issuers. Addressing this liquidity constraint remains essential for deepening capital markets and sustaining investor participation. As green finance scales, ethical considerations assume central importance. The credibility of the transition depends not only on regulatory compliance but on ethical conduct by financial institutions and corporations. Greenwashing, selective disclosure, and exaggerated sustainability claims distort capital allocation and erode investor trust. Ethical green finance therefore requires transparency, consistency, and alignment between stated objectives and real world outcomes. While digital technologies can enhance monitoring and verification, ethical responsibility ultimately rests with governance structures and institutional culture.

A further structural imbalance lies in the distribution of capital between mitigation and adaptation. Mitigation projects continue to dominate investment flows due to clearer revenue models, while adaptation finance remains heavily dependent on public expenditure. This imbalance exposes even well financed mitigation assets to unaddressed physical climate risks. Mobilising private capital toward adaptation is therefore not only a social imperative but a necessary strategy for systemic risk reduction.

In conclusion, India's green finance framework stands at a critical inflection point. Strong regulatory intent, expanding market participation, and growing technological support provide a

solid foundation. However, scaling this ecosystem requires urgent progress on taxonomy finalization, long tenure financing mechanisms, institutional capacity building, and the ethical governance of sustainable finance. How effectively these challenges are addressed will determine whether India's financial sector can support a resilient, credible, and inclusive climate transition.

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