
Employee-Centered Sustainability in the Banking Sector: Examining the Role of Spiritual Leadership in Enhancing Psychological Empowerment and Sustainable Employee Effectiveness

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Abstract: Previous research has focused on various outcomes of spiritual leadership, while psychological empowerment and sustainable employee effectiveness remain underinvestigated areas with consequences for organizational sustainability performance. Based on restricted employee sustainability theory (REST), the present study investigated the relationship between spiritual leadership and sustainable employee effectiveness through psychological empowerment. For this purpose, we selected a sample of 282 employees working in domestic commercial banks. To minimize common method bias in cross-sectional data, a time-lag data-collection technique was used, in which respondents were approached through adapted self-administered research questionnaires across three different sittings for different variables. Structural equation modeling was applied for hypothesis testing in AMOS (v24). The sample includes 57% male and 43% female participants, with an average age of 38.5 years, and a majority (79%) holding 16 years or more of university education. Results indicated that spiritual leadership significantly fosters a psychological sense of empowerment among employees, ultimately leading to sustainable employee effectiveness, a highly desirable employee-related outcome in the contemporary banking sector. This study has provided empirical evidence on sustainability from an employee effectiveness perspective and extended the validation of the restricted employee sustainability theory (REST), thereby contributing to knowledge in the context of a developing country. Moreover, these results provide useful policy implications for the banking sector, prompting necessary actions to promote workplace spirituality and improve employee-centered sustainability. Detailed implications are discussed in the paper's final section.

Keywords: Innovative behavior, knowledge sharing, psychological empowerment, spiritual leadership, spirituality, sustainable employee effectiveness.

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INTRODUCTION

In today's rapidly transforming, competitive business environment, organizations are striving to achieve sustainability from different perspectives (Otoo, 2019). Particularly in banks, sustainability is linked to consistent achievement of organizational goals, resilience, and risk management, driving long-term customer satisfaction and retention (Ogbu & Blessing, 2019). These organizational outcomes largely depend on an effective, committed, and retained workforce that supports banks' continued growth and stability (Alwali & Alwali, 2026). Leadership styles are among the critical factors that shape employees' direction toward achieving collaborative goals and, hence, lay the foundation for sustainable employees as well as organizational effectiveness (Akther & Rahman, 2022; Wang, Guo, Ni, Shang, & Tang, 2019).

Spiritual leadership has been identified as an effective style in the extant literature (Wang et al., 2019). Such leaders care for the fundamental spiritual needs of followers and foster their commitment to their goals (Anderson & Sun, 2017; Mohammed & Elashram, 2022; Qiuyan, 2022). They energize people, give meaning to their work, and ensure honest commitment that further aids in attaining excellence and achieving goals (Hunsaker, 2022; Jain, 2023; Lianto, 2023; Liao, Hu, & Huang, 2022; Nurlina, 2022). From this perspective, spiritual leadership style can inspire people to perform beyond their obligations for the collective good of their organization (Khaddam, Alzghoul, Khawaldeh, Alnajdawi, & Al-Kasasbeh, 2023). Previously, several researchers (Benefiel, 2005; Pio & Lengkong, 2020; Salehzadeh, Khazaei Pool, Kia Lashaki, Dolati, & Balouei Jamkhaneh, 2015) have studied the role of leadership from an organizational sustainability perspective (Boeske, 2023; Mollah, Choi, Hwang, & Shin, 2023) while employees' sustainability outcomes remain less investigated (Khanam, Tarab, & Khan, 2025). More specifically, the role of spiritual leadership in creating sustainable employee effectiveness is a missing link in the extant literature (Boeske, 2023; Hendri, 2025; Huang, 2022; Naseer et al., 2020; Oh & Wang, 2020; Ramgolam, Ramphul, & Chittooo, 2025; Wang et al., 2019).

Singh and Singh (2022) found a positive relationship between spiritual leadership and employees' commitment and productivity. They elaborate that employees feel empowered and psychologically comfortable with such leaders and are therefore motivated to perform well in the workplace (Fry, 2003; Soleimani, Dana, Salamzadeh, Bouzari, & Ebrahimi, 2023; Zhai, Zhu, & Zhang, 2023). Empowerment is a key facet that should be present in an organization because it enhances responsiveness in achieving goals (Rahmatika, Ma'arif, & Kholifah, 2022). Psychological empowerment is considered an enabler of sustainable performance and organizational commitment (Mousa & Samara, 2022; Nwachukwu, Vu, Chládková, & Agboga, 2022). Research also shows that organizations with empowered employees exhibit high workplace morale and productivity (Suprpto & Widigdo, 2021) and are successful (Tu & Luo, 2020). Although some of the researchers paid significant attention to the link between psychological empowerment and various leadership styles like ethical leadership (Suifan, Diab, Alhyari, & Sweis, 2020; Towsen, Stander, & van der Vaart, 2020) transformational leadership (Bose, Patnaik, & Mohanty, 2021; C. Liu, Liu, Yang, & Wu, 2019; Tsang, Du, & Teng, 2022) authentic leadership (Grošelj, Černe, Penger, & Grah, 2021) and paternalistic leadership (Dedahanov, Bozorov, & Sung, 2019) yet, the interplay between spiritual leadership and psychological empowerment largely remained neglected (Bantha & Nayak, 2021; Junaidi, 2026).

Similarly, while studying the outcomes of spiritual leadership, the focus of research remained on commitment and citizenship behavior (Pio, 2022) engagement (Wu & Lee, 2020) innovation (Yang, Chang, Chen, Zhou, & Zhang, 2021) and performance (Hunsaker, 2016) while the holistic view of sustainable employee effectiveness remained missing, specifically through the mediating mechanism of psychological empowerment Gotsis and Grimani (2017). Wang et al. (2019) also noted this literature gap and urged future research to

investigate the process underlying this relationship, which can have various practical implications for organizations. Therefore, the present study helps clarify the role of spiritual leadership in fostering psychological empowerment and sustainable effectiveness among employees. For this purpose, we develop a theoretical framework based on restricted employee sustainability theory (REST) (Barnes & Wagner, 2023; Barnes, Wagner, Schabram, & Boncoeur, 2023) in conjunction with spiritual leadership theory (Fry, 2003) and employ a quantitative survey technique to assess its relationship with psychological empowerment and the effectiveness of sustainable employees.

LITERATURE REVIEW

Spiritual leadership style goes beyond traditional leadership values in terms of vision, altruistic love, and purpose (Henderikx & Stoffers, 2022). Spiritual leaders adopt a holistic view of performance and success, focusing on collective growth and development by pursuing higher ideals and fostering a sense of empowerment among their followers. They empower people to trust their abilities and competence and to develop a sense of control in their work and lives (Samul, 2020; Wang et al., 2019). Researchers (such as Schermuly and Meyer (2020)) refer to this sense of empowerment as psychological empowerment, operationalized as meaning, competence, self-determination, and impact. Such employees are intrinsically motivated to take initiative and exhibit higher levels of commitment, satisfaction, and creativity (Safari et al., 2020). In other words, psychologically empowered employees proactively contribute and go out of their way to complete their tasks, share their knowledge with their teams, and embrace positive transformation. Sustainable employee effectiveness provides a basis for sustainable organizational outcomes by aligning individual goals with organizational goals and striving to achieve them in the best interests of the overall organization (Shehzad et al., 2023). Mohiuddin, Hosseini, Faradonbeh, and Sabokro (2022) describe sustainable employee effectiveness as contributing to quality, efficiency, and innovation in sustainable performance (Shehzad et al., 2023). From this perspective, the three constructs are intertwined yet require empirical evidence.

Spiritual Leadership and Psychological Empowerment

Researchers (Allameh, Heydari, & Davoodi, 2012; Mufti, Xiaobao, Shah, Sarwar, & Zhenqing, 2020; Schermuly, Creon, Gerlach, Graßmann, & Koch, 2022) have reported a positive relationship between various leadership styles and psychological empowerment, with a collaborative focus on enhancing personal and organizational growth; however, the role of spiritual leadership is less evident in this context. As indicated by Zubi and Khalid (2022), spiritual leaders help align individual values with the organizational mission, creating a collaborative work environment where employees feel a strong connection to and commitment to their jobs and the organization. Such leaders foster a sense of fulfillment and positivity among employees and tend to be more task-oriented, inclusive, and collaborative in their behavior (Ali, Shahid, Timsal, & Naseer, 2023). Employees under spiritual leaders are imbued with a sense of self-determination and help create a collaborative work environment that focuses on personnel and collective growth, as well as purposeful, continuous development (Abbas, Ekowati, Suhariadi, & Anwar, 2023). Spiritual leadership is closely linked to psychological empowerment, as it is based on the principles of empowering others and fostering employee autonomy (Dar, Kundi, & Soomro, 2023; Lan, Huo, Wong, & Yuan, 2023). It is a perspective that enables employees to understand the supervisor's expectations for proactive performance (Bolino, Valcea, & Harvey, 2010).

Therefore, keeping in view the supporting literature, we propose the following hypothesis for testing in the present study.

H₁: Spiritual Leadership is positively related to Psychological Empowerment.

Psychological Empowerment and Sustainable Employee Effectiveness

There is ample research available on the relationship between psychological empowerment and employees' task or contextual performance (Hameed, Khwaja, & Zaman, 2023). However, the concept of sustainable employee effectiveness is broader, characterized by sustainable employee performance, knowledge sharing, and innovative work behavior (Shneikat, Dreisbach, Elrehail, Kumar, & Alzoubi, 2023). Researchers have reported a positive relationship between psychological empowerment and employee performance (Ambad, Kalimin, Ag Damit, & Andrew, 2021; Aryee & Chen, 2006; Mahama & Cheng, 2013). Similarly, Yarberr and Sims (2021) indicated that psychologically empowered employees share their knowledge resources and focus on collaborative achievements, which are important facets of sustainability (Ahmed, Masri, Minshar, & Abbas, 2023; Luthans & Broad, 2022). Such employees are more confident and innovative and are not reluctant to take initiatives (Coun, Peters, Blomme, & Schaveling, 2022). However, previous research has not considered this relationship as a composite construct, particularly from a sustainability perspective (Malik, Sarwar, & Orr, 2021).

Khassawneh, Mohammad, and Momany (2023) contend that in some cases, psychological empowerment may not significantly predict the employee's outcomes, like satisfaction or performance, as it depends on the type of job they are performing. From this perspective, psychological empowerment may have a two-way relationship with sustainable employee effectiveness, depending on the type of sample selected and the jobs performed by the respondents (Ahmed et al., 2023; Juyumaya, 2022; Llorente-Alonso, García-Ael, & Topa, 2024). Sustainable employee effectiveness is largely dependent on intrinsic motivation to perform a job, and thereby, employees put extra effort into going out of their way in the execution of their assigned tasks. Therefore, keeping in view the opinion of a majority of the researchers (Wang et al., 2019), we assume a positive relationship between the two variables and put forward the following hypothesis for testing.

H₂: Psychological empowerment is positively related to Sustainable Employee Effectiveness.

Spiritual Leadership and Sustainable Employee Effectiveness

The concept of spiritual leadership is based on a comprehensive value system where vision, altruistic love, and purpose play a critical role in shaping the behavior of a leader (Abbas et al., 2023). Such leaders focus on collaboration and lead from the front by aligning their work with a shared value system (Ferguson & Milliman, 2008; Fry et al., 2026). This alignment serves as a source of motivation for followers, who tend to follow their leader's lead and go out of their way to perform for the greater good of the organization (Ibrahim, Rami, Isa, & Olaitan, 2025). Hence, the relationship between spiritual leadership and sustainable employee effectiveness is natural and transformative, surpassing traditional management approaches (Hunsaker, 2022).

The relationship between spiritual leadership and sustainable employee performance is best explained by restricted employee sustainability theory (REST), posited by Barnes et al. (2023). According to this theory, sustainable employees' outcomes depend on the availability of a sustained, conducive work environment and timely access, as well as the replenishment of required social, physical, emotional, psychological, and financial resources (Stajkovic & Stajkovic, 2026; Ullah, Sakib, Ahsan, & Jakowan, 2026). Long-term employees' performance needs persistent preservation, renewal, and accumulation of these resources (Kossyva, Theriou, Aggelidis, & Sarigiannidis, 2024). Spiritual leadership, characterized by vision, purpose, and altruistic love, ensures the provision of these resources and thereby helps create a sense of empowerment among employees

(Fry et al., 2026). This feeling further strengthens the bond with leadership and helps cultivate sustained employee outcomes such as performance, knowledge sharing, and innovation (Yu, Lu, & Liu, 2010). Spiritual leadership behaviors help employees maintain a sense of purpose, psychological well-being, and emotional stability, thereby preventing resource depletion and reducing the likelihood of burnout (Srivastava, Mendiratta, Pankaj, Misra, & Mendiratta, 2022). Klein and Zwilling (2022) add that spiritual leaders put extra effort into eliciting more-than-anticipated outcomes from their followers (Haque, Nawaz, Shaikh, & Tariq, 2022).

Scholarly discourse considers spiritual leadership an enabler of sustainability that emphasizes ethical and institutional well-being and short-term performance (Dyllick & Muff, 2016). As contended by Fry (2003), spiritual leadership cultivates intrinsic motivation and value-driven, sustainable conduct, whereas Avolio and Gardner (2005) provide evidence linking authentic leadership to stakeholders' trust and reduced deviance. Spirituality is considered a highly contextualized construct, particularly in the banking sector, yet there is agreement that it is grounded in ethical decision-making and helps address reputational risks (Chen & Li, 2013; Saleem, Malik, & Qureshi, 2020). Spiritual leadership sustains workforce engagement and organizational citizenship behavior, which are essential for long-term resilience and sustainability (Neck & Milliman, 1994; Thomas & Velthouse, 1990). Based on the same premise, we propose the following hypothesis for testing in the current study.

H₃: Spiritual Leadership is positively related to Sustainable Employee Effectiveness.

Spiritual Leadership, Psychological Empowerment and Sustainable Employee Effectiveness

Spiritual leaders empower their followers through a compassionate, empathetic leadership style. Such leaders emphasize personal growth and higher objectives by aligning their values to the work (Allen & Fry, 2023). According to Noermijati, Juwita, and Alashkam (2019), spiritual leaders empower their followers by creating an environment of vision, altruistic love, and purpose. As a result, employees follow the value system set by their leaders and strive to achieve the best for themselves and their organizations (Macini, Sengupta, Moin, & Caldana, 2023). Employees under the spiritual leadership strive for collaboration, share their knowledge with others, find creative solutions, and help the organization achieve sustainability goals (Yang et al., 2021).

As posited by Barnes et al. (2023) in restricted employee sustainability theory (REST), leadership plays a critical role in sustaining employees' physical, social, and psychological well-being, as well as their overall effectiveness. Since human sustainability comprises growth, maintenance, creativity, and the adoption of change, people need to feel empowered in the workplace (Abou Zeid, El-Ashry, Kamal, & Khedr, 2022; Bhattacharya, Sen, Edinger-Schons, & Neureiter, 2023). The altruistic love, purpose, and vision of spiritual leaders ensure the provision of all psychological, emotional, and physical resources that enable employees to thrive in the workplace (Bayighomog & Arasli, 2022). The REST also indicates the negative role of entropy, which refers to factors harmful to employees' well-being and performance. Spiritual leadership removes entropic pressures, psychologically empowers its employees, rebuilds and maintains resources, and enables sustainable employee effectiveness (Barnes & Wagner, 2023). Despite its significance in the contemporary world, REST (Barnes et al., 2023) remains newer and needs validation. Based on the presented literature, we propose the following hypothesis for testing:

H₄: Psychological Empowerment significantly mediates the relationship between Spiritual Leadership and Sustainable Employee Effectiveness.

Figure 1 illustrates the above-mentioned proposed relationships in pictorial form.

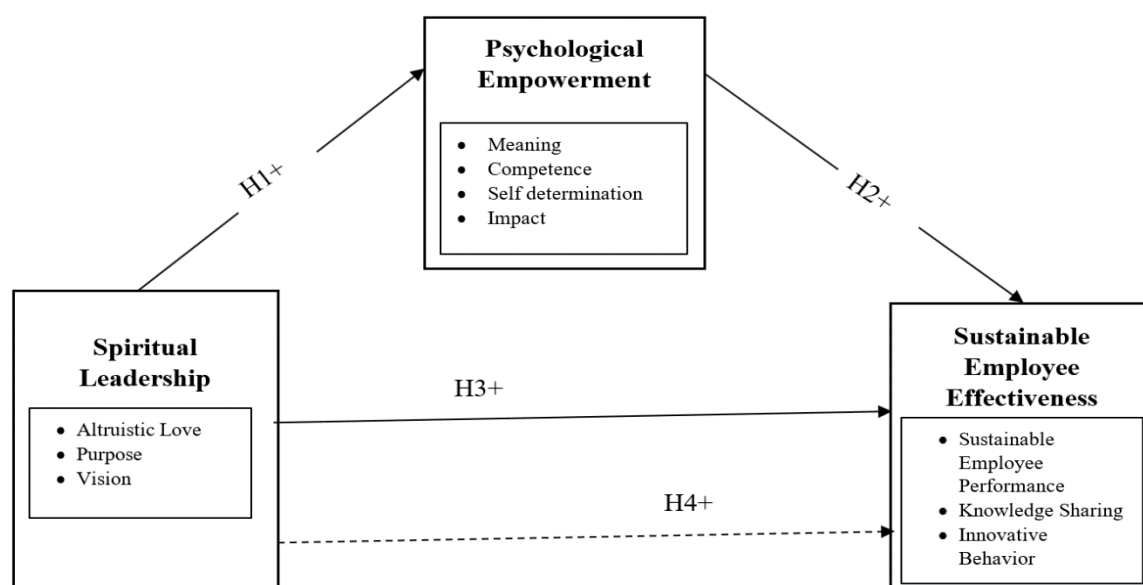


Figure 1: Research Framework

Note: ---Dotted line indicates the indirect path.

Method and Measures

The sample for the present study was drawn from commercial banks of Pakistan, representing the most strategically significant and largest service industry. These banks have a widespread branch network with more than 20,000 branches and 21000 ATMs across the country to serve millions of individual and corporate customers. Currently, almost all branches of these banks are digitized and connected via 1-link to manage a large customer base and high transaction volume (www.sbp.org.pk). These banks included Habib Bank, Meezan Bank, Bank Islami Pakistan, Faysal Bank, Allied Bank, Askari Bank, Muslim Commercial Bank, Bank Alfalah Limited, Bank al Habib Limited, Soneri Bank Limited, Summit Bank, and JS Bank. For the present study, various branches of these banks located in the capital city of Pakistan were visited (Fazal, Gulzar, & Naz, 2025; Sumbal, Ključnikov, Durst, Ferraris, & Saeed, 2023).

Pakistan's banking sector is facing rapidly evolving challenges, including technological transformation, changing customer expectations, increased market competition, and stringent government regulation. Accordingly, the focus of human resource management practices is shifting from a traditional performance orientation to a consolidated, sustainable effectiveness, in which individual and organizational goals go hand in hand (Liu, Naveed, Mustafa, & Naveed, 2024; Qureshi, 2015). The dynamic context requires agile, compassionate leadership to maintain employee trust and increase their commitment to improving service quality (Asrar-ul-Haq & Kuchinke, 2016). Hence, in the present study, the significance of spiritual leadership as a useful framework for the Pakistani banking sector will help expand the understanding of its effectiveness in a unique context.

In the present research, we employed a convenience sampling technique to survey bank employees using adapted instruments (Table 1). A cover letter explaining the purpose, anonymity, confidentiality, and significance of the study was included with each questionnaire, and respondents were free to provide their opinions or leave any question unanswered if they deemed it unsuitable. Their participation was totally voluntary. The overall questionnaire was divided into three main sections, and researchers adopted a three-phase data collection strategy to have one section completed each time. In the first phase, 650 questionnaires

were distributed to respondents to collect personal information and to respond to items on employee effectiveness. In this phase, 510 respondents responded, for a response rate of 78%.

In the second phase, the same 510 respondents were again approached to provide their opinions on psychological empowerment, of whom 357 responded (70% response rate). In the last phase, 357 respondents were approached to provide their opinions on spiritual leadership, and 288 responded, out of which 6 were incomplete. In this phase, the response rate remained at 80%, which was acceptable for self-administered questionnaires. Overall, the response rate remained at 43.38% ($RR=282*100/650$), which is acceptable for a social science survey, given the availability and willingness of respondents in a Multi-wave data collection strategy (Sataloff & Vontela, 2021). These 282 questionnaires were used for the final analysis. Each phase was administered with a one-week gap between phases. Researchers personally visited various branches of these banks and shared the Google form (for online responses) or a hard copy of the questionnaire, as per the respondent's ease.

Table 1: Measures and scaling

Variables	Dimensions	Reference Study	No of Items	Scale	Sample Item
Spiritual Leadership	Vision Purpose Altruistic Love	Fry, Vitucci, and Cedillo (2005)	17	1–5 (from strongly disagree to strongly agree)	● My leader's vision inspires my best performance
Psychological Empowerment	Meaning Competence Self-Determination Impact	Spreitzer (1995)	12	1–5 (from strongly disagree to strongly agree)	● The work I do is meaningful to me
Sustainable Employee Effectiveness	Sustainable Employee Performance	Ji, de Jonge, Peeters, and Taris (2021)	10	1–5 (from strongly disagree to strongly agree)	● I persistently perform well in the overall job by carrying out tasks as expected
	Knowledge Sharing	Davenport and Prusak (1998) and Yu et al. (2010)	4		● I have contributed knowledge to other members that resulted in the development of new insights
	Innovativeness	Scott and Bruce (1994)	6		● I develop adequate plans and schedules for the implementation of new ideas

RESULTS

The collected sample of 282 employees reflects 43% female and 57% male respondents. The average age of respondents was 38.5 years, with a range of 26 to 57 years. The majority of respondents (57%) are mid-career employees with 10-15 years of work experience. The educational background indicates that most (79%) employees have a university degree of 16 years or more.

Table 2: Validity, Reliability, Correlation, and Descriptive Analysis

First order CFA																	
	CR	AVE	MSV	MaxR(H)	Vls	Pur	Com	Imp	Mn	Sdr	Inn	KS	SEP	ALt	SLA	PSE	SEE
Vls	0.938	0.751	0.374	0.940	0.867												
Pur	0.904	0.658	0.788	0.931	0.612***	0.811											
Com	0.942	0.845	0.801	0.943	0.315***	0.527***	0.919										
Imp	0.957	0.882	0.801	0.960	0.312***	0.542***	0.895***	0.939									
Mn	0.934	0.825	0.462	0.935	0.327***	0.319***	0.606***	0.679***	0.909								
Sdr	0.940	0.839	0.767	0.941	0.335***	0.559***	0.876***	0.865***	0.617***	0.916							
Inn	0.881	0.649	0.858	0.889	0.352***	0.152*	0.219***	0.254***	0.573***	0.207**	0.806						
KS	0.951	0.829	0.472	0.953	0.329***	0.531***	0.666***	0.687***	0.542***	0.633***	0.399***	0.911					
SEP	0.921	0.598	0.858	0.936	0.336***	0.231***	0.349***	0.356***	0.548***	0.327***	0.926***	0.469***	0.774				
ALt	0.948	0.724	0.788	0.954	0.605***	0.887***	0.550***	0.535***	0.362***	0.586***	0.159*	0.506***	0.223***	0.851			
Second Order CFA																	
SLA	0.888	0.730	0.372	0.943											0.855		
PSE	0.932	0.776	0.550	0.959											0.610***	0.881	
SEE	0.846	0.702	0.505	0.901											0.552***	0.682***	0.711
HTMT Analysis for Discriminant Validity (First order)																	
Vls																	
Pur					0.723												
Com					0.316	0.547											
Imp					0.314	0.548	0.894										
Mn					0.331	0.342	0.602	0.676									
Sdr					0.334	0.572	0.877	0.866	0.617								
Inn					0.373	0.211	0.220	0.251	0.582	0.204							
KS					0.332	0.542	0.671	0.691	0.539	0.637	0.395						
SEP					0.362	0.329	0.433	0.439	0.585	0.399	0.906	0.570					
ALt					0.602	0.929	0.538	0.523	0.359	0.574	0.169	0.505	0.276				
HTMT Analysis for Discriminant Validity (Second order)																	
SL																	
PE															0.550		
SEE															0.396	0.600	
Control Variables																	

Gend	0.04	0.16	0.07	0.11	0.23*	0.12	0.1	0.09	0.19	0.22*	0.03	0.07	0.11
Edu	0.01	0.05	0.01	0.06	0.18	0.07	0.26*	0.18	0.11	0.01	0.05	0.09	0.09
Age	0.08	0.11	0.17	0.11	0.15	0.01	0.11	0.08	0.12	0.19*	0.03	0.07	0.04
Expe	0.09	0.01	0.17	0.11	0.13	0.02	0.16	0.03	0.10	0.12	0.07	0.12	0.09
Descriptive Analysis													
Mean	3.91	3.82	3.88	3.61	3.87	3.78	4.12	4.33	4.89	4.27	3.85	3.89	4.90
Std. Dev	0.94	0.99	0.94	1.01	0.92	1.08	0.94	0.59	0.86	0.91	0.71	0.97	0.96
Reliability Analysis													
Cronbach's Alpha	0.89	0.91	0.86	0.92	0.97	0.93	0.98	0.91	0.88	0.93	0.87	0.85	0.88

Note: N: 282 ***p<0.001; **, p<0.01; *p<0.05.

AltL: Altruistic Love; Pur: Purpose; Vis: Vision; SEP: Sustainable Employee Performance; KS: Knowledge Sharing; Inn: Innovation; Com: Competence; SD: Self Determination; Imp: Impact; Mn: Meaning; SL: Spiritual Leadership; SEE: Sustainable Employee Effectiveness; PE: Psychological Empowerment; Std. Dev: Standard Deviation; Edu: Education; Gend: Gender; Exp: Experience.

Descriptive statistics (Table 2) indicate that the means of all variables are more on the positive side. The Internal consistency (Cronbach's Alpha) values are greater than 0.85 in all cases and confirm that the instruments' reliability lies in robust or adequate regions (Taber, 2018). Similarly, correlation statistics also reflect positive and significant relationships among all the variables and their dimensions. In particular, the correlations among dimensions and spiritual leadership (AltL, Pur, and Vis) exceed 0.8, raising concerns about multicollinearity (Chan et al., 2022; Kim, 2019). Therefore, as shown in Table 2, we carried out convergent and discriminant validity analysis including composite reliability (CR), Average Variance Extracted (AVE), Maximum Shared Variance (MSV), Maximal Reliability of Highest Order (MaxR(H)) and HTMT analysis using AMOS plugins in AMOS (v.26). Results indicate that in first order confirmatory factor analysis (CFA), the data comply with the assumptions of the convergent validity (AVE>0.5; CR>0.8; MaxR(H) >0.8). However, several discriminant validity issues were highlighted (MSV > AVE; HTMT > 0.8; factor loadings < corresponding correlations) across various dimensions. As interpreted by Hunsaker (2016), there is Multicollinearity among the dimensions; hence, second-order CFA is a preferred technique.

Therefore, we conducted second-order CFA, as shown in Table 2, and found all values within the prescribed range, thereby meeting construct validation criteria. Table 3 presents the model fit indices, which met the criteria (CMIN/df < 3; CFI, TLI, IFI > 0.9; RMSEA and SRMR < 0.05) in the second-order CFA. Therefore, we retained a second-order structural model for further analyses and to validate the theory underlying these constructs (Byrne, 2010; Hair, Black, Babin, & Anderson, 2010). Moreover, the demographic variables gender, education, age, and experience were examined for possible correlations with the study variables; however, none were significantly correlated with any of the main variables. Nevertheless, we included these variables in the main structural model. As shown in Figure 2 and Table 4, none of the demographic variables significantly affect the model. Additionally, the common latent variable method was used to test the possibility of common method bias in the data, as recommended by Podsakoff, MacKenzie, Lee, and Podsakoff (2003). Results indicate that the model remains fit when including a common latent variable, and the chi-square difference between the two models is less than 0.2; it can be assumed that the data are free from CMB and can be used for further analyses.

Table 3: Fit Indices

Model	CMIN/Df	CFI	TLI	IFI	RMSEA
Threshold Values (Ideal)	< 3	> 0.95	> 0.95	> 0.95	< 0.05
(Acceptable)	< 5	> 0.90	> 0.90	> 0.90	< 0.08
CFA 1 st Order	4.74	0.79	0.80	0.79	0.097
CFA 2 nd Order	2.92	0.95	0.94	0.95	0.080
Single Factor CFA (to test CMB)	3.29	0.90	0.89	0.90	0.079
SEM 2 nd Order	2.14	0.95	0.94	0.94	0.080

Note: CFA: Confirmatory Factor Analysis; CFI: Comparative Fit Index; IFI: Incremental Fit Index; TLI: Tucker Lewis Fit Index; RMSEA: Root Mean Square Error of Approximation; SEM: Structural Equation Modelling.

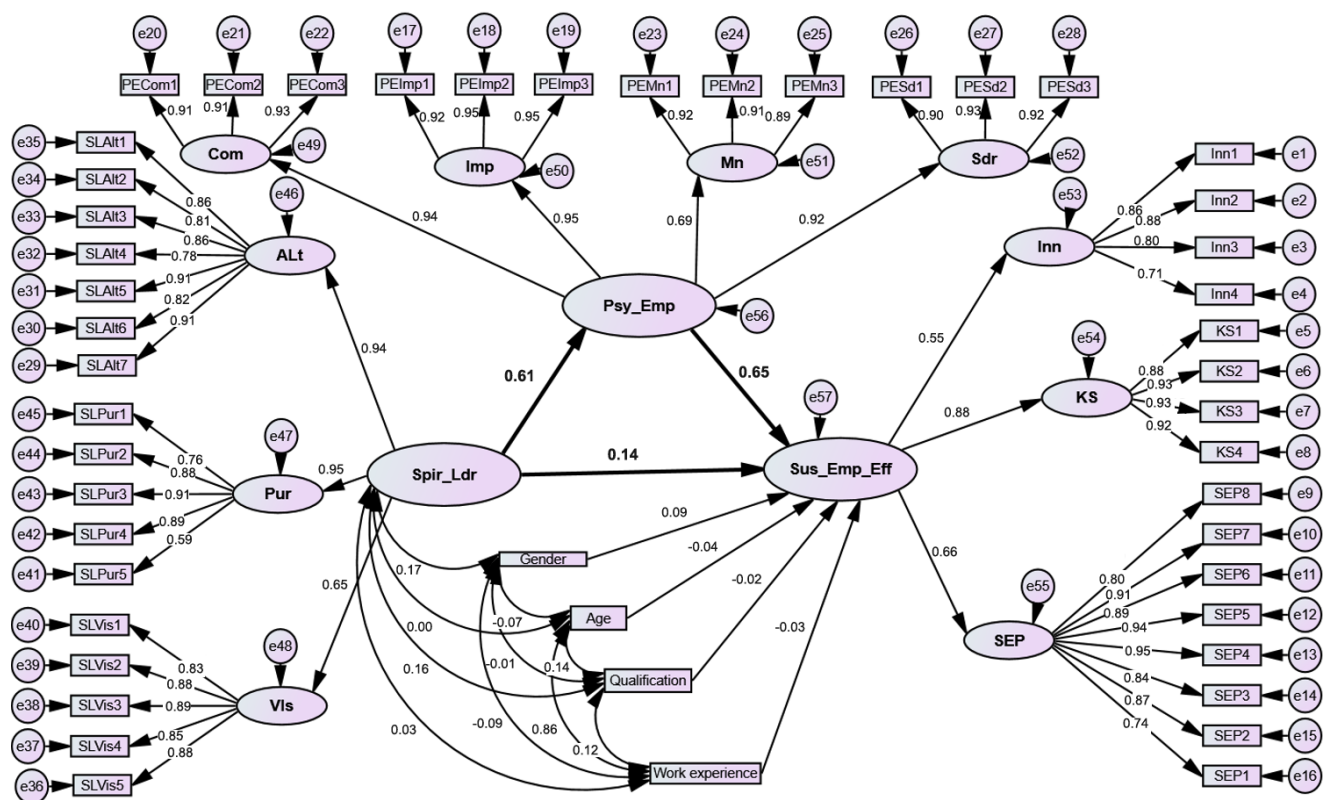


Figure 2: Path Diagram

Note: Spir_Ldr: Spiritual Leadership; Psy_Emp: Psychological Empowerment; Sus_Emp_Eff: Sustainable Employee Effectiveness; AltL: Altruistic Love; Pur: Purpose; Vis: Vision; Sus_EP: Sustainable Employee Performance; KS: Knowledge Sharing; Inno: Innovation; Com: Competence; SDr: Self Determination; Imp: Impact; Mn: Meaning.

Figure 2 illustrates the standardized estimates of path structures proposed in the literature review section. Moreover, the strong factor loadings for dimensions of each construct (as depicted in Figure 2) validate their theoretical structure. Table 4 further explains the unstandardized and standardized estimates of the mediation analysis. As mentioned, the spiritual leadership is positively related to psychological empowerment ($b = 0.610$; $p < 0.001$) and sustainable employee effectiveness ($b = 0.645$; $p < 0.001$). Similarly, psychological empowerment is significantly related to sustainable employee effectiveness ($b = 0.552$; $p < 0.001$). Moreover, the direct effect model (Spir_Ldr $\rightarrow$ Psy_Emp $\rightarrow$ Sus_Emp_Eff) was found to be insignificant, indicating full mediation in the process ($b:0.159$; $p:0.143$). The strength of the mediation effect was assessed by estimating the indirect effect, which was positive and significant. These results indicate that psychological empowerment significantly mediates the relationship between spiritual leadership and sustainable employee effectiveness ($C-C': 0.581$; $p < 0.001$). Overall results provide evidence for accepting all four hypotheses, H1, H2, H3, and H4, in the banking context.

Table 4: Mediation Analysis

Model	Total Effect Model (Path C)				Direct Effect Model (Path C')				Indirect Effect (Path C-C')			
	Un.St	Std.	Std. Err.	P	Un.St	St.	Std. Err.	P	Un.St	St.	Std. Err.	P
Experience	-0.023	-0.025	0.083	0.767								
Education	-0.023	-0.016	0.071	0.740								
Age	-0.05	-0.047	0.010	0.741								
Gender	0.173	0.098	0.085	0.020*								
Spir_Ldr	0.957	0.610	0.177	***								
⇒Psy_Emp												
Psy_Emp	0.816	0.552	0.167	***								
⇒Sus_Emp_Eff												
Spir_Ldr	0.607	0.645	0.292	***	0.235	0.159	0.149	0.143	0.581	0.393	0.207	***
⇒Sus_Emp_Eff												

Note: N: 282, ***p<0.01, *p<0.05. Spir_Ldr: Spiritual Leadership; Sus_Emp_Eff: Sustainable Employee Effectiveness; Psy_Emp: Psychological Empowerment; Un.St: Unstandardized estimates; St. Standardized Estimates.

DISCUSSION

We conducted this study to address the knowledge gap identified by previous researchers (Junaidi, 2026; Wang et al., 2019; Yang et al., 2021) regarding the mediating mechanisms in the relationship between spiritual leadership and sustainable employee effectiveness. Therefore, we selected psychological empowerment as a potential mediator in this relationship as recommended by Wang et al. (2019). This decision was grounded in the restricted employee sustainability theory (REST) (Barnes et al., 2023), which explains the mechanism by which leaders provide support to promote sustainable employee outcomes. From this perspective, it was found that a spiritual leader, through his vision, altruistic love, and purposeful leadership traits, ensures the provision of the required financial, physical, psychological, social, and emotional resources and strives to remove entropic pressures, leading to enhanced confidence and trust among employees. Consequently, such employees/followers feel empowered and motivated (Zhu, Bahadur, & Ali, 2023). They acknowledge their job as useful and important for themselves, for their organization, and for society at large. Such employees/followers go beyond performing their duties and share their knowledge for the collective growth of the organization and others (Pio, 2022). The REST is a new theory, and the present research validated it in the leadership context, which is a theoretical contribution of the study (Barnes & Wagner, 2023). In line with previous research (Li, Yu, Lei, & Hu, 2023), this study found that spiritual leadership encourages and enhances innovative work behaviors. Such leaders empower their employees to take innovative steps and therefore help in improving the overall effectiveness of the employee within an organization and therefore pave the way to employee as well as organizational sustainability (Haque et al., 2022).

Psychological empowerment has been considered an essential concept for sound decision-making that an employee can construct (Dewettinck & van Ameijde, 2011). The pattern a spiritual leader adopts creates a working atmosphere that fosters the independence of duties, providing a foundation for individuals to empower themselves and address challenges effectively (Hunsaker, 2022). Psychological empowerment can be observed as an approach that has a sense of efficacy associated with values and dynamism (Malik et al., 2021). Spiritual leadership allows individuals to view the image positively, and such a perception is a key factor in ultimate growth and empowerment. Studies have shown a positive relationship between spiritual leadership

and psychological empowerment (Rahmatika et al., 2022). Therefore, a spiritual leader is a driver of empowerment and motivation for employees to perform exceptionally at work.

The present research was carried out in Pakistan's banking sector, which is undergoing rapid transition and increasing customer service demands. Employees of such organizations are expected to give beyond their conventional task performance to remain effective in a highly competitive work environment and achieve sustainability objectives (Ibrahim et al., 2025; Mahmud & Ramli, 2025). Particularly in contemporary competitive environments, banks are striving for sustainable performance and therefore need highly committed and effective employees. Previously, researchers (Ashworth, Krøtel, & Villadsen, 2023) reported that such organizations need caring and compassionate leadership to align individual and organizational needs and goals effectively and to propagate the organizational vision of mutual growth and development. Spiritual leaders provide them with the right amount of high-quality guidance not only to psychologically empower them but also to achieve desired results in sustainable performance, knowledge sharing, and innovation (Alamimi & Nasaj, 2026; Yasin, Yang, Huseynova, & Atif, 2023). From this perspective, the study has several implications for various stakeholders, as discussed in the next section.

IMPLICATIONS

The study has important implications for employees and management in the banking sector, who face immense stress on a daily basis. In particular, employees need to feel psychologically empowered to make critical decisions, and spiritual leaders provide them with the nourishment for their psychological needs through their caring, compassionate, and motivating behavior. Consequently, such employees not only introduce innovative strategies to perform their tasks more efficiently but also eagerly share their knowledge with peers, helping them grow and solve problems. Modern banking systems pose various challenges for decision-makers, and achieving sustainability is one of them. Banking employees need to learn and upgrade their knowledge regularly, and both psychological empowerment and spiritual leadership help create an inclusive work environment where employees can work in teams and share their skills and knowledge.

Our research has also extended the applications of restricted employee sustainability theory (REST) in the banking context, from the perspective of spiritual leadership. Results confirm that the love, compassion, and care of spiritual leaders not only provide them with the resources they need to thrive in the workplace but also help them cope with entropic pressures, thereby fueling the achievement of sustainability goals. Therefore, banks may adopt leadership development strategies such as training, mentoring, coaching, and the provision of a conducive environment for management. These are important for inculcating leadership traits and promoting workplace spirituality. Moreover, psychological empowerment serves as a bridge in this relationship; therefore, bank leaders may promote this feeling among employees through the delegation of power and motivational strategies to achieve sustainable effectiveness.

The research also has certain limitations, which are avenues for future research. Previous research (such as Gao, Xu, Wang, and Wu (2023) and Tuuli and Rowlinson (2009) has found that psychological empowerment improves employees' motivation, further leading to employee effectiveness. In our research, we did not consider the serial mediation of employee motivation, which can have different effects. We used the REST to explain the relationship between spiritual leadership, psychological empowerment, and sustainable employee effectiveness. This theory is new and not yet prominent in the literature (Yasin et al., 2023). We provided evidence to revalidate this in the leadership context; however, future research may use REST in other contexts to extend the validation of the theory, which is highly relevant to contemporary organizations facing

sustainability challenges. Moreover, organizational politics can affect this relationship (Khan & Chaudhary, 2023). It is therefore recommended that the moderating role of organizational politics be explored in future research. Although necessary precautions were taken during data collection (Wang, Abrantes, & Liu, 2023), the cross-sectional data are still susceptible to common method bias. It is therefore recommended that future research consider multi-level data collection and analysis techniques to minimize the chances of CMB further.

CONCLUSION

We conducted this research to identify the mediating mechanism of psychological empowerment in the relationship between spiritual leadership and sustainable employee effectiveness, using the lens of restricted employee sustainability theory (REST). The research filled the gap in the literature and also found other avenues for future research, as explained in the previous section. The research provided evidence for approaching sustainability from the perspective of employees' effectiveness and paved the way to achieving sustainable banking goals.

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TRANSPARENCY: The authors confirm that the manuscript is an honest, accurate, and transparent account of the study; that no vital features of the study have been omitted; and that any discrepancies from the study as planned have been explained. This study followed all ethical practices during writing.

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