

**Institutional Corporate Social Responsibility and Organizational Performance: The Moderating effect of Transformational and Transactional Leadership**

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**Abstract**

*This study aims to explore the relationship between transformational leadership (TFL), transactional leadership (TSL) styles, and corporate social responsibility (CSR) practices. The study explains the role of leadership styles between CSR and organizational performance (OP) to investigate the influence of leadership styles over CSR practices this study is the first of its kind in the Asian perspective and Pakistan in particular. Self-administered questionnaires are used to conduct this large-scale field study, data is collected from major cities of Pakistan. Questionnaires are filled by executive managers and administrative staff. Purposive sampling technique is adopted to approach the respondents. Obtained results prove that TFL is more closely interlinked to CSR practices and this relationship becomes robust with the involvement of stakeholder-oriented marketing. Moreover, findings suggest that TSL increases while the TFL decreases the relationship between CSR practices and OP.*

**Keywords:** Transformational Leadership, Corporate Social Responsibility, Organizational Performance, Transactional Leadership

**Introduction**

For decades researchers investigated the social apprehensions of firms like ecological studies, Human Resource Management (HRM) Marketing and Organizational Behaviour (OB), and so on... However, the idea of Corporate Social Responsibility (CSR) progressed recently and has become more admired (Aguinis & Glavas, 2012). Due to this notion of CSR, many organizations are buoyant to deal in a socially responsible manner. Different scholars defined CSR in different modes and these definitions share some likenesses as well as have some differences. To avoid these mystifications this paper defines CSR in words of "Commission of the European Communities, 2001" (Dahlsrud, 2008) "it is an important concept by which business firms voluntarily decide to donate for a cleaner environment and improved society". According to Maine & Sprinkle (2010) the CSR includes various aspects of social and environmental edges. Walmart and Starbuck are two examples in this regard, as both exhibit the aforementioned CSR activities towards their suppliers (Denend & Plambeck, 2007). Walmart and Starbuck made collaborations with NGOs to reduce the risk associated with CSR activities leading to CSR benefits and made an example of an effective business-NGO conglomerate (Weber, 2008).

To comply with the CSR approach, many firms regularly measure the influence of their business activities on local communities. Most of the CSR activities are self-imposed. Nowadays some Governments are considering it to formulate legislation for business organizations to adopt and encourage CSR activities for the betterment and prosperity of the whole society. CSR has a signaling effect to the stockholders and bondholders about the organizational reputation, market noise, and market volatility. Furthermore, stakeholders consider CSR activities as management skills. Previous studies concluded that economic outcomes of CSR are highly variable and mixed. Some researchers concluded that CSR has positive while some indicate CSR holds a negative association with organizational economic outputs. While others reported a non-significant relationship among the two (McGuire, Sundgren, & Schneeweis, 1988; Orlitzky, 2013). CSR has a direct relation with additional

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risk. Additional risk may include lawsuits, fines, trust, strategic options, employee motivation and employee retention etc. CSR reduces the explicit claims and minimizes the implicit charges. While calculating the monetary benefits of CSR activities, managers should ignore the profitability factor and put more focus on reduced risk and minimized costs due to the CSR activities (McGuire et al., 1988).

Even though a large-scale investigation has been done on the antecedence of CSR, but still, the knowledge about the precursors of CSR is emergent (Angus-Leppan, Metcalf, & Benn, 2010). Although various internal and external organizational factors are studied as precursors of CSR but the dearth of investigation about the relationship between CSR and leadership styles is striking. The strategies of an organization depend upon the style of its leadership. Thus, leadership style may shape an important antecedence of CSR (Groves & LaRocca, 2012, p. 2008; Waldman, Siegel, & Javidan, 2006a).

Previous researchers have investigated the effect of various leadership styles on organizational performances (OP) but no prior research has been done on the impact of leadership styles on OP from the perspective of implementation of institutional CSR (Du, Swaen, Lindgreen, & Sen, 2013). It is noteworthy that no significant investigation has been carried out relevant to this problem in Pakistan. In response to this urgent need to fill this gap, this study investigates the effect of leadership styles in terms of TFL and TSL on CSR activities and its OP. Waldman et al., (2006a) has examined intellectual stimulation as an antecedent of CSR but no one has studied the other elements of TFL i.e., *charisma*, *inspirational motivation*, and individualized consideration or TSL as an antecedence of CSR. They concluded that intellectual stimulation transmits positive relation to CSR. Notion of CSR is cross-disciplinary as highlighted by Du et al., (2013) Therefore, going afar from the primary model of leadership and CSR, this study investigates the impact of stakeholder-oriented marketing on CSR jointly with the leadership styles.

We can conclude that this study tints a complex framework about the antecedence of CSR. The unique aspect of this paper is that it shows CSR and OP hold a positive association and both TFL and TSL have moderating effects on this association but in a contrary manner. TSL heighten this association between a firms' CSR activities and their outcomes while TFL lesson this association. We organize the residue of this paper in the following manner:

At first, the literature review about CSR, leadership styles, and stakeholder-oriented marketing is presented. Conceptual framework and hypothesis generation comes along with the literature reviewed. Then methodology, results of the investigation, discussions about the results are described. Theoretical and practical implications are also presented. In the end limitations of this study are described and suggestions are made for upcoming researchers.

## **Literature Review**

### **Institutional CSR**

Prior studies divulged that CSR is either Technical or Institutional and the origin of this dissection is laid in Stakeholder Theory (ST). ST bickers that a firm has to deal with two kinds of Stakeholders, first primary i.e., customers, investors, and employees, second, second, secondary Stakeholders e.g., community and natural environment. Combining these theories it is concluded that Technical CSR deals with Primary Stakeholders and Institutional CSR deals with Secondary Stakeholders (Godfrey, Merrill, & Hansen, 2009a). This study will focus on Institutional CSR because of the mounting commitment of corporations towards local communities.

### **Leadership Styles and Institutional CSR**

Researchers instituted that managers pigeonholed Leadership Styles as TFL and TSL. Originally Burns, (1978) proposed this division and applied it in the business domain (Bycio, Hackett, & Allen, 1995). Transformational leaders inspire their followers by supplying them with a sense of apparition which goes far from their self-interests motivates them to perform more than anticipated goals (Bass, Avolio, Jung, & Berson, 2003). While Transactional Leaders set performance criteria and attach rewards to them. Employees are motivated through these rewards and thus are forced to exert the desired level of performance. TFL has four dimensions, a) Inspirational Motivation (IM), b) Charisma (CH), c) Individualized Consideration (IC) and d) Intellectual Stimulation (IS) while TSL comprises two elements i.e., Management-By-Exception Active (MBEA) Management By Exception Passive (MBEP) and Contingent Rewards (CR) (Ardichvili & Gasparishvili, 2001; Bycio et al., 1995). The detail for each component is as follows:

**IM:** Leaders kindle their subordinates by inducing challenges in them. They create a sense of hallucination and develop team spirit to be effective.

**CH:** charismatic Leaders develop a sagacity of vision among their subordinates and make them feel conceit, conviction, and esteem (Hater & Bass, 1988).

**IC:** leaders act as counselor and instructor towards their subordinates and gives personal consideration to each individual’s desires (Bass, 1990; Gumusluoğlu & Ilsev, 2009).

**IS:** Through ingenuity and novelty leaders create stimulation among their subordinates. They provide new ways to implement old resolutions of a particular problem.

**MBE:** Leaders lay down the criterion and customary for performance which followers are required to follow (Bass et al., 2003).

**MBA:** leaders continuously examined the work of subordinates to locate the mistakes and wrongdoings during the process. This led to effectiveness because errors are addressed on the spot and thus the performed tasks are error-free.

**MBEP:** It does not involve leader intervention during the process. They wait until the task is accomplished and then highlight the errors, deviation from rules, and any other wrongdoing and propose standard actions to remove these discrepancies. It was proved that MBEA has a positive while MBEP has a negative correlation with follower's satisfaction and performance (Bass, 1990, 1997; Howell & Avolio, 1993).

**CR:** use of contingent rewards system creates usefulness for the accomplishment of stated goals (Podsakoff, Todor, & Skov, 1982). Transformational Leadership is required at the level of proficiency journeying while Transactional Leadership is required at proficiency exploitation. Transactional Leadership creates effectiveness and led an organization toward permanence and convergent verdict (Vera & Crossan, 2004).

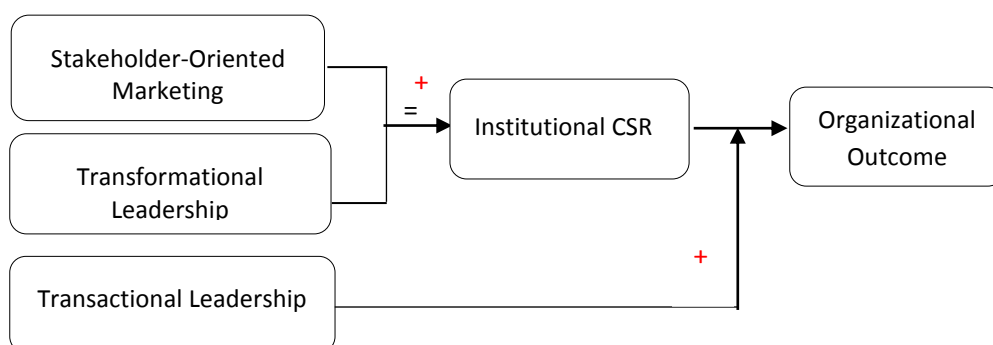
Kuhnert & Lewis, (1987) argued that a manager either exhibit Transformational Leadership behavior or Transactional Leadership behavior but Barnard M. Bass (Avolio, Bass, & Jung, 1999a; Avolio & Bass, 1995; Bass, Avolio, & Goodheim, 1987) disagreed with this distinction and proved that a manager with Transformational Leadership behavior may also show Transactional Leadership behavior. This study supports the theory of Bernard M. Bass. Thus hypothesized as:

**H<sub>1</sub>:** *Transformational (but not transactional) leadership is positively associated with a firm’s institutional CSR practices.*

**Moderating Role of Stakeholder Oriented Marketing**

Research conducted at Stanford Research Institute by Donaldson & Preston, (1995) found that management literature introduced the world with the word 'Stakeholder'. Freeman (1984) defines the term Stakeholder as: “Those groups without whose support the organizations would cease to exist”. A contrasting view the Shareholder-Value view was misinterpreted and misused including the scandals of Enron (*In re Enron Corp.*, 2005), WorldCom (*In re WorldCom, Inc. Securities Litigation*, 2004), Global Crossing, (*In re Global Crossing, Ltd. Securities Litigation*, 2004). This misunderstanding lead to the establishment and enforcement of codes of Corporate Governance and this evolution again made the world favor the Stakeholder-Orientation viewpoint. TFL along with Stakeholder Orientation creates synergy for the implementation of Institutional CSR practices (Du et al., 2013; Kakabadse, Rozuel, & Lee-Davies, 2005 ). Clarkson, (1995) proposed that these are stakeholders on which Corporate Social Performance (CSP) may measure to create effectiveness rather than measuring it based on Corporate Social Responsibility (CSR) or Corporate Social Responsiveness.

**H<sub>2</sub>:** *Stakeholder-oriented marketing positively moderates the relationship between transformational leadership and institutional CSR practices. The relationship is more positive for firms practicing stakeholder-oriented marketing to a greater extent.*



**Figure 1:** Proposed Research Model

**Leadership Styles and Organizational Performance of Institutional CSR**

Lots of arguments had been made on the relationship between CSR and OP. Some researchers argued: spending on CSR activities increases an organization's explicit cost while others argued that this explicit cost leads to generate implicit benefits which are long-term and valuable (employee's morale & productivity, reputation, quality, image) (McGuire et al., 1988). Researchers argued that such benefits served as a mechanism that preserved Corporate Financial Performance rather than the generation of Corporate Financial Performance. Firms with CSR practices proved that they are not self-centered (Godfrey, Merrill, & Hansen, 2009b).

There are two schools of thought regarding the leadership styles and OP of institutional CSR. One argued that TFL positively affects the OP of Institutional CSR (Bass, 1997; Bycio et al., 1995) while the other argued TSL positively correlates the OP (Godfrey et al., 2009b; March, 1991; Vera & Crossan, 2004). Furthermore, they argued that similarities and dissimilarities between leader and subordinate influence organizational performances (Felfe & Schyns, 2004). This study follows the latter approach and is consistent with prior research (Du et al., 2013) and thus hypothesized as:

**H<sub>3</sub>:** *Transactional (but not transformational) leadership positively moderates the relationship between institutional CSR practices and organizational performances. The relationship is more positive for firms with higher transactional leadership.*

**Methodology**

**Sample and Procedure**

This study is a large-scale field study, therefore, data were collected from major cities of Pakistan. A purposive sampling technique was adopted to approach the respondents. A single-informant approach was used (Du et al., 2013), that is, a single respondent from each organization is selected to collect the data. This study is non-contrived because questionnaires were distributed in a natural setting (Bryman & Bell, 2011).

Respondents from approximately 250 organizations were contacted through personal meetings and visits, out of which 215 responses were complete and useable. About 50 organizations were contacted through e-mails and only 3 complete and productive responses were obtained. Therefore, we retained 218 organizations in total. Based on demographics, both males and females participated in the study. About 31% of organizations have less than 100 employees, 53% of organizations have employees between 100-500, 14% of organizations hold employees between 500-1000, and only 2% of organizations have employees more than 1000.

**Measure**

***Transformational Leadership***

The measurement of Transformational Leadership was performed using two important elements i.e., Charisma (CHA) and Intellectual Stimulation (IS). The CH was measured based on twelve items, whereas, IS was measured based on four items from (Bass &, 2000; Bass et al, 2003; Waldman et al., 2006a). Total items (sixteen) used for CH and IS measurement were having (a) = 0.91 Cronbach alpha, hence were highly reliable.

***Transactional Leadership***

Transactional Leadership was measured based on two major components: Contingent Rewards and Management-By-Exception-Active (MBEA) (Bass et al., 2003); Waldman et al., 2006a). This investigation used four items to measure contingent rewards as well as MBEA and these items were taken from (Bass & Avolio, 2000; Du et al., 2013). The Cronbach alpha showed that it was highly reliable with an alpha ( $\alpha$ ) of 0.82.

***Stakeholder Oriented Marketing***

The nine items used to measure the stakeholder-oriented marketing has taken from (Coviello, Brodie, Danaher, & Johnston, 2002; Ferrell, Gonzalez-Padron, Hult, & Maignan, 2010) and the value of Cronbach alpha ( $\alpha$ ) was 0.89 which confirmed the standard and was highly reliable. Stakeholder-oriented marketing is taken as covariate as literature indicated a positive association between stakeholder-oriented marketing and organizational performances (Bhattacharya, Korschun, & Sen, 2008).

***Institutional CSR Practices***

By following the prior practices, this study included community and environment as CSR core activities. This study used twelve items to measure Institutional CSR (Du et al., 2013). The value of Cronbach alpha ( $\alpha$ ) was 0.85 indicating high reliability.

***Organizational Performances***

Four items were used for the measurement of the organizational performances (OP) and these items are derived from Brown and Dacin, (1997); Freeman, (2010); Menon and Menon, (1997); Sen and Bhattacharya, (2001). The items included to measure the OP measures the performance in relative terms instead of actual terms. This measure is reliable with Cronbach alpha ( $\alpha$ ) = 0.71.

**Results and Discussion**

This study used a multiple regression technique to run the analysis through a "statistical package for social science" (SPSS). To perform the regression, at first, some key descriptive statistics were used to check the reliability and normality of data for example standard deviation, correlations, and mean as displayed in the following Table-1.

**Table 1:** Descriptive statistics and correlations

Variables	Mean	SD	TFL	TSL	SO	CSR	OT
TFL	4.38	.46	.91				
TSL	4.23	.61	.39	.82			
SO	4.27	.50	.47	.86	.89		
CSR	4.31	.52	.50	.45	.50	.85	
OT	4.46	.48	.52	.20	.26	.38	.71

n=218. Diagonal values indicated reliability coefficients. The significant cut of value for correlations is  $p < .01$

This model was tested in two parts: primarily CSR was treated as the dependent variable and in the second part organizational performances were analyzed as the dependent variable. Moderated regression model was used to test the H<sub>1</sub> and H<sub>2</sub>. The result of this function can be seen in Table-2. In H<sub>1</sub> it was hypothesized that; *Transformational Leadership (not Transactional Leadership) has a positive relationship with Institutional CSR practices. As anticipated, the coefficients of transformational leadership ( $\beta=1.26, p<.01$ ) are significant and coefficients of transactional leadership ( $\beta=-.2$ ) are insignificant in support of H<sub>1</sub>. The coefficients of stakeholder-oriented marketing in association with institutional CSR are also positively significant ( $\beta=1.44, p<.01$ ). In support with H<sub>2</sub>, it is found that there is a positive relationship between transformational leadership and stakeholder-oriented marketing ( $\beta=.24, p<.05$ ).*

**Table 2:** Precursors of institutional CSR: Unstandardized Constants ( $\beta$ )

	<b>Institutional CSR</b>
Stakeholder-Oriented Marketing	1.44**
Transformational Leadership	1.26**
Transactional Leadership	-.02
Transformational Leadership × Stakeholder-Oriented Marketing	.24*
Transactional Leadership × Stakeholder-Oriented Marketing	-.04
Organizational Size	.10*
Adjusted R <sup>2</sup>	.36
F value	21.97***

n=218. \*\*\* $p < .001$ , \*\* $p < .01$ , \* $p < .05$

This research predicted that stakeholder plays a moderating role interconnecting TFL and institutional CSR practices. The results support this assumption and showed that the direction of this relationship is positive, that is, stakeholder-oriented marketing intensifies the positive association between TFL and institutional CSR. This moderating role indicated that TFL increases the CSR practices in an organization when stakeholder-orientation is stronger and TFL comparatively reduces the CSR practices when stakeholder-orientation is weaker. These results confirm the H<sub>2</sub> of this study. To prove H<sub>3</sub>, a moderated regression analysis was run.

The results of this study showed that TFL is positively associated with OP ( $\beta=1.38, p<.01$ ) while the relationship between transactional and OP ( $\beta=.03$ ) is not significant. In line with previous literature Stakeholder-oriented marketing holds a positive association with OP ( $\beta=.17$ ). It is founded

that Institutional CSR not only has a positive relationship ( $\beta=1.21, p<.001$ ) with OP but amplifies this relationship along with TSL ( $\beta=.04, p<.05$ ).

**Table 3:** Organizational performances of institutional CSR: Unstandardized Constants ( $\beta$ )

	<b>Organizational performances</b>
Institutional CSR	1.21***
Transformational Leadership	1.38**
Transactional Leadership	.03
Institutional CSR $\times$ Transformational Leadership	-.08 <sup>+</sup>
Institutional CSR $\times$ Transactional Leadership	.04*
Stakeholder-Oriented Marketing	.17**
Organizational Size	.12**
Adjusted R <sup>2</sup>	.33
F value	16.41***

n=218. \*\*\*p < .001, \*\*p < .01, \*p < .05, <sup>+</sup>p < .10

This means, more positive association between CSR practices and TSL will make the relationship between CSR practices and OP stronger and these results confirm H<sub>3</sub>. A negative association between TFL and CSR practices is observed ( $\beta=-.08, p<.10$ ). This result signposts that TFL lessens the positive connotation between CSR practices and OP.

**Conclusions**

The construct of CSR was getting emerged during the 1950s when people termed it as Social Responsibility (SR), that is, businessmen are held liable for the results of their actions not only in terms of Profit & Loss but in a broader perspective beyond the Income Statement (Carroll, 1999). The concept of CSR has gained a prominent place at a global level but still, this concept remains untapped at the micro-level of organizational dynamics, for example, the effects of leadership styles on CSR practices (Angus-Leppan et al., 2010; Groves & LaRocca, 2012). Current research was carried out to investigate the association between leadership styles and CSR practices, hence bridging this literature gap. A conceptual framework was developed and tested through multiple regression. The framework predicted that: 1). How TEFL influences the CSR practices in an organization, 2). How stakeholder-oriented marketing impacts the association between TFL and Institutional CSR, and 3). How leadership styles influence the CSR and OP.

It is concluded that organizations with robust TFL are more involved in CSR activities whereas, TSL is not associated with CSR activities. This study finds that stakeholder-oriented marketing increases the relationship between TFL and CSR practices of an organization. Furthermore, the association between leadership styles, CSR, and OP. This research concludes, that TSL enhances while TFL diminishes the positive association between an organization's CSR practices and its outcomes. This study represents the distinction protagonists of leadership styles (transformational and transactional) on an organization's CSR activities and its outcomes which have noteworthy theoretical as well practical implications.

**Theoretical Implications**

Current research contributes to the existing extant literature on CSR by authenticating the moderating role of leadership styles and OP of CSR. Moreover, the study places TFL in the context of stakeholder-oriented marketing (Maak & Pless, 2006) which shows a unique aspect of this research. Previous researchers found that TFL confirms the effectiveness but this study is unique as it proved that TSL increases whereas, TFL diminishes the positive relationship between CSR and OP. This also advances the previous knowledge which mostly represents the optimistic effects of transformational leadership to achieve organizational goals.

**Practical Implications**

Leadership styles play a vital role in achieving organizational performances of CSR. Transformational leadership is preeminent to design CSR policies while during the implementation stage, transactional leadership is more effective. To obtain a win-win situation both transformational leadership and transactional leadership are required (Quinn, Bright, Faerman, Thompson, & McGrath, 2014). The stakeholders of an organization are embedded in the decision-making process (Bhattacharya et al., 2008). Thus, organizations should consider the role of marketing strategies while designing CSR

activities which force the organization to be more concerned with the solutions of stakeholders' problems. The findings of this study confirm that by applying stakeholder-oriented techniques, a firm can nurture an organizational culture favorable to practice CSR activities effectively.

### **Limitations and Further Research**

People of the corporate world are reluctant and sensitive to give information about their organizational practices. This study investigates leadership styles in two forms: Transformational Leadership and Transactional Leadership. Due to time limitations, other types of leadership are not investigated. Further research should investigate the impact of other leadership perspectives, for example, autocratic leadership and democratic leadership on CSR practices. This study investigates only two-component of Transformational Leadership: IS and CH. The upcoming researchers should explore the impact of other components of Transformational Leadership. This study takes a single respondent from each organization and a common measure is used to scrutinize all variables. Although results and discussions show that single-informant and common measure (field survey) is not a problem but upcoming researchers should use multi-Informant and multiple measures to analyze the variables to cope with the limitations of this study.

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