

## How does Managers' Leadership Styles Influence Institutional CSR activities? Employees Perspective

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### ABSTRACT

The primary purpose of writing this paper was to explore the impact of transformational and transactional leadership styles of managers as prospective antecedents of the firm's Corporate Social Responsibility (CSR) practices. A large-scale survey had been conducted to collect data from employees of several organizations in Pakistan. Structural equation modeling was employed to test the proposed hypotheses in the conceptual model. Findings revealed that transformational leadership style is positively associated with Employee CSR perception whereas transactional leadership showed an insignificant relationship with employee CSR perception. The results implied that to strengthen an organization's CSR activities the managers should employ transformational leadership along with transactional leadership.

**KEYWORDS:** Corporate Social Responsibility, Transformational leadership, Transactional leadership

**Submission type:** Research paper

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### 1. INTRODUCTION

Corporate social responsibility is the wide range of operating practices and strategies which companies generate to develop and sustain relationships with natural environment and its various stakeholders[33]. On the other hand, with regard to managerial context, managers perceive these CSR practices as an activity that acts as a direction, a strategy, an organizational creed or principles which are prioritized by the management as a social contribution towards society for continual progress considering the safety, decorum and legal compliances[11]. The procedure through which organizations develop their social consciousness and corporate culture is also referred as corporate social responsibility. CSR has been viewed as set of activities, decisions and policies that organizations produce an implement for bringing about positive social change in the environment[27;2].

CSR is not merely an ideology but a reality. In the present day it is considered essential for an organization to identify their roles within the society while applying social and ethical standards to their businesses [20;21]. The researchers therefore have moved their pace from macro social effects to organizational level analysis; as they are trying to examining the CSR impact on perceived corporate performance. Few authors also highlight the fact that for sound implementation of CSR activities managers must establish strong ties with their stakeholder.

CSR can be a source of innovative development that can help in value creation by introducing alternative techniques and systems making a corporation efficient in every aspect. Moreover, these two assists a corporation for a long-term, provided that practicing CSR and innovation is a key strategy to remain ahead of its opponents. Therefore, in order to be among the successful brands in future, social innovations (i.e. advancement in CSR process) have to be considered as a source of opportunities rather than a threat to be alleviate[26].

The studies have previously promoted the idea of further research pertaining to the relationship between leadership styles and CSR[34]. Therefore, the current study aims to address these research gaps by exploring that how the leadership styles: transformational and transactional leadership when adopted by firm managers, affect the firm's CSR practices. Usually CSR is recognized as macro-level activity which results in macro level consequences due to this area has received scarce attention with respect to micro organizational behavior literature. This study suggests that employees being the member of an organization do react and contribute to social consciousness. Therefore the topic of CSR must be explored at micro level[27]. The agenda of the research is as follows: Firstly, it aims to explore the impact of transformational and transactional leadership styles of managers (leaders) as potential antecedents of the firm's CSR practices.

## **Conceptual Framework and Hypothesis**

### **Employee CSR Perception**

Employee perception of CSR activities can be defined as the degree to which employees consider that their company promotes and implement activities related to social welfare. Research on CSR has brought forward that employee CSR perceptions affects that how attractive these employees perceive the firm to be [27]. The employee perception of CSR activities, specifically the external CSR directly relates to the employees general justice perceptions. These perceptions shape up the employees behavior and attitude towards the firm. The degree of employee's perceived fairness of their working environment has a significant impact on both organizational outcomes like job performance, organizational commitment and turnover and employee wellbeing which includes employee job satisfaction .Incase if employees perceive organizational acts to be fair they put extra effort in their work and in unjust conditions show vengeful behavior [2].Previously employee fairness perception was measured on the basis of, self-focused perception which means how fairly am I treated? But lately the approach has changed; now the individuals measure it on the basis of how others are treated [9]. So it can be concluded that organizations level of social justice can be anticipated by an organization's CSR efforts. The fairness heuristic theory discusses that fairness can be used as a heuristic for evaluating trust, it can be said that CSR is a heuristic for fairness [15].

The discussion above is in line with abundant research on employees justice perception which clearly shows that employees CSR perception in relation to their firm shape their perception about their respective organization[25; 27]. Considering the mediating role of employee CSR perception, the CSR facilitate in strengthening the relationship between the organization and the employee by providing positive employment environment. As socially desirable practices of an organization generate a great degree of employee job satisfaction in the individuals[31]. Employees perceive CSR activities positively when their respective organization successfully plan, conduct and evaluate is its CSR activities[18]. In prior studies employee perception of CSR has significant relationship with employee attachment to their company which further results in high level of employee job satisfaction[19].

### **Leadership Styles and CSR**

#### **Transformational leadership**

Transformational leadership is a way to “create and sustain a context for building human capacity by identifying and developing core values and unifying purpose, liberating human potential and generating increased capacity, developing leadership and effective followership, utilizing interaction-focused organizational design, and building interconnectedness” [13]. Such leader's hold characteristics and conduct by taking into account their team and other's benefit ahead of their own self-interests [17] owing to their strong personal values which allows them to work for the collective good [6].

This form of leadership can be directly or indirectly associated with CSR; therefore, increase chances for companies to get involved in strategic CSR. Provided that, transformational leaders hold Charisma to motivate, inspire and possess the ability to influence others through glorify their vision [35]. Hence due to its positive impacts it is suggested that this form of leadership to be an essential component for organizational outcomes where leaders try to re-plan the future [6; 29]. These highly attained selfless ethics, being taken responsibility for shielding the wellbeing of secondary stakeholders [4; 24],aptitude to surpass the status quo [6]; are such ingredients of transformational leadership which positively associate this style of leadership with CSR practices [34].

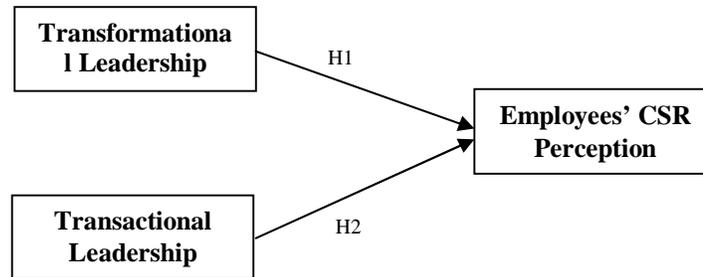
HI: Transformational leadership styles will positively influence employee's perception of CSR positively.

#### **Transactional Leadership**

Transactional leadership; as explained by Bass(2000)is the form of leaders who persuade their subordinates by having control over their actions and performance, ensures them with rewards on their performance by eliminating troubles through corrective transactions [5]. They hold ethics such as; using authority, incentives and approval [16]. According to Vera and Crossan (2004)these leaders are efficient in developing goals, maintaining current structures, and provide feedback on everyone's performance to ensure their efficiency in task/ transaction [32].

These leaders owing to their intellect should be more attentive and mindful for leveraging the prospects in order to maximize organizational competence and social gains in respect of CSR; provided that by engaging in close scrutiny and through ensuring continuous advancement in organization's CSR practices can direct it towards constructive and positive outcomes for an organization [10].

H2: Transactional leadership style will positively influence employee's perception of CSR positively.



**Figure 1: Conceptual Model**

## 2. METHOD

### Sample and Procedures

The countrywide data set has been collected by undertaking a large-scale survey of the employees working in Pakistani organizations contacted them via phone calls and emails. The sample included broad range of firms covering all kind of businesses (business-to-consumer or business-to-business, physical goods or services) including telecom companies, banks, multinationals, and education institutions. For obtaining the data in a professional manner proper permission letter has been issued by our institution validating the fact that the research is primarily for educational purpose. The respondents were selected considering their roles in the organization that whether they will be able to answer the questions in relevance to their knowledge and experience with the management policies. The respondents held managerial as well as non-managerial positions, ranging from lower to upper management posts.

It has been assured to the respondents that anonymity and confidentiality shall be maintained in reference to their feedback via full length questionnaires and the analysis shall be based on the aggregated results. Almost 270 respondents from different Pakistani organizations completed the survey. As some of the questionnaires were incomplete, we excluded almost twenty questionnaires from the survey. Therefore we retained 242 questionnaires out of 270. The total of 242 respondents include 155 males and 87 females whose age ranges from 20 to 50 and above, where the age of 87.2% of the total respondents ranges within

21 to 40 years. 61.2% of them hold master or above degree while only 6.6% of the respondents have done intermediate or are matriculated. Among these respondents, 50.4% of the individuals earn income below 50,000 while other 47.9% earns within 50,000 to 200,000 and only 1.7% earns above 200,000.

### Measures

The adapted measures have been taken from the previous literature considering the relevancy for this study. The Multifactor-Leadership Questionnaire (MLQ form) developed by Bass (2000)[5] has been adopted in order to measure the transformational leadership and transactional leadership styles. The items were used to assess traits which characterize the behavior of leaders and managers by 5 point Likert scale (1 = “never,” 5 = “frequently, if not always”) [16]. From the former literature [14; 23], we have included only those CSR activities that target environment and community to measure employee CSR perception. For determining the exact measurement items prior literature [22; 30] was also reviewed that resulted in a list of 12 items for measuring employee CSR perception with a 5 point Likert scale (1=“strongly disagree”, 5= “strongly agree”).

## 3. RESULTS

The current study consists of two stages of analysis in order to analyze data set and for testing proposed hypothesis. For this in the first stage, psychometric properties (reliability and validity) of adopted measurement instruments have been assessed through confirmatory factor analysis (CFA); while in the second stage, proposed latent variables are examined through using structural equation modeling.

### Confirmatory Factor Analysis

The analysis was conducted in AMOS 18 and its properties (reliability and validity) are shown in Table 1. The results were depicting goodness of fit of the measurement model as evident from its statistics. The model fit has been assessed using CFI, CMIN, TLI, where value for these indices are exceeding 0.8; therefore indicating a good fit ( $\chi^2 = 104.251$ ,  $df = 62$ ,  $\chi^2/df = 1.681$ ,  $TLI = 0.963$ ,  $CFI = 0.971$ ,  $GFI = 0.935$ ,  $AGFI = 0.905$ ,  $RMSEA = 0.053$ ).

The internal reliability and Average Variance Extracted (AVE) was assessed in following Anderson and Gerbing, (1988) [3] and Gerbing and Anderson(1988) [12]. The internal reliability (Cronbach's alpha) for each construct ranges within 0.820 to 0.891. The value of Cronbach's alpha for each scale was exceeding the limit of 0.7 thus depicting reliability of the results. Moreover, the average variance extracted for each scale was found to be greater than 0.5 and higher than the shared variance among the constructs. Hence the scale exhibits both the convergent and discriminant validity.

### Structural Model

In order to test the proposed hypothesis, Structural Equation Modeling (SEM) has been employed. The analysis has been conducted in AMOS 18 by adopting a Maximum likelihood approach. The analysis of model fit statistics predicts a goodness of fit of our proposed hypothesize model ( $\chi^2=104.251, df=62, \chi^2/df=1.681, CFI=0.971, TLI=0.963, GFI=0.935, AGFI=0.905, RMSEA=.503$ ). Table 1 shows the results of the structural model.

**Table 1: Structural Model Results**

Hypotheses	Relationship	Estimate	S.E.	C.R.	P
H1	Transformational Leadership → CSR	0.495(0.490)	0.089	5.589	***
H2	Transactional Leadership → CSR	0.113(0.122)	0.074	1.522	0.128

*Note: The values in the parenthesis are the standardized Estimates*

In the current study, H1 and H2 proposed the impact of transformational and transactional leadership styles on perception of employees CSR respectively. The result indicated that transformational leadership style ( $\beta=0.490, p<.001$ ) are positively related to employees' perception of CSR activities while in case of transactional leadership styles, the results were insignificant. Therefore, supporting the H1, not H2 (As shown in Table 1).

## 4. DISCUSSION

In the light of global corporate agenda; CSR has a very eminent place but its understanding at the micro-level in organizations remain insufficient [4; 16]. This study primarily focuses and develops a theoretical framework to investigate that how the leadership styles influence the employee CSR perception. By conducting extensive survey of the employees in multiple organization at diverse working positions, the findings we have obtained demonstrate that firms that have adopted transformational leadership style has positive impact on the employee CSR perception whereas impact of transactional leadership is insignificant [10]. Transformational leadership has long been linked to perceived corporate performance through individual studies and meta-analyses [4]. In particular, transformational leadership has a strong link to innovation [28] which Boerner et al., (2007) argue is largely due to the mediating factor of debate that this leadership style encourages, thereby creating an environment where debate is used to make sense of novel ideas and new areas [8]. Finally, the findings reveal that transactional leadership diminishes whereas transformational leadership give boosts the to the employee CSR perception. The study highlights the diverse roles which transactional and transformational leadership styles play in the development of employee CSR perception having significant implications for both theory and practice.

### Managerial/Theoretical Implications

Prior research suggests that instead of focusing on social performance, investigators should examine managerial tendencies toward using CSR values in their decision-making, because managers are largely responsible for CSR implementation [1]. It has also been observed that the emphasis to date on characterizing and justifying CSR actions has left unexplored the antecedents of CSR, such as the societal level values or leadership behaviors that trigger or shape corporate responses in this domain [7; 34]. This paper has addressed an important issue which has not been discussed before; that is impact of leaders on the perception of their followers in relation to corporate social. It analyses the comparison of the impact of transactional and transformational leadership on the employee CSR perception. Primarily this study highlights the significance of leadership styles in an organization's CSR endeavors

### Limitations and Further Research

Before interpreting the results of this study numerous caveats must be considered. Firstly must observe to which extent we can draw causal inferences, while testing the relationships over the time period. Extensions and replications of our findings by employing experimental designs are required. Secondly we have measured all the

survey with a common method (i.e. field survey) additional research should be undertaken with multi-method designs to overcome this potential limitation. Thirdly, this study is based only on Pakistani firms, so further research should be done with the purpose of examining generalizability of our findings in other countries having different economic conditions e.g. developed countries or with different cultures for e.g. individualistic vs. collectivistic.

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