Leadership and Organizational Commitment: Mediating Role of CSR

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Abstract

The purpose of this research is to determine if the organizations in the manufacturing industry led by CEO's ethical leadership exhibit differences in Corporate Social Responsibility (CSR) and in turn influence the Affective Organizational Commitment (AOC) of employees. The study investigated the mediating role of CSR between CEO ethical leadership and AOC. A structured questionnaire was floated among 1200 employees working in marketing departments of 79 manufacturing industries operating in Pakistan. Analysis was conducted on 874 responses received. Confirmatory factor analysis was conducted in AMOS, regressions analysis was done through SPSS and Process Macro by Hayes (2012) was used for mediation analysis. Results revealed positive effect of ethical leadership on CSR and AOC. Furthermore, CSR partially mediated the relationship between CEO ethical leadership with AOC.

Keywords: Ethical Leadership, Corporate Social Responsibility, Affective Organizational Commitment.

Management and accounting literature has studied CSR from various aspects but the debate on what actually CSR is and what it should be is still on (McWilliams et al., 2006; Wood, 2010). In recent years, both the society and firms have increased their interest in CSR (Adams & Frost, 2006) and researchers have identified some direct benefits for the organizations including brand image, reputation and employee commitment (Porter and Kramer, 2002).

CSR has emerged in the wake of developments in the West (Chambers et al., 2002) while its potential and consequences still need to be explored in developing economies. Literature states that in different cultural models and traditional customs, the current understanding regarding CSR may not be easily translated (Khan, 2005; Jan, 2011). CSR has gained prominence in business literature and the examples of importance of CSR are also grounding in number (McWilliams et al., 2006). Management strategists such as Porter and Kramer (2006) have took interest in making CSR a part of corporate strategy. Despite the increased focus and interest of society, academia and business organizations in the activities and issues of CSR, it lacks thorough understanding and research especially in the cultures such as Pakistan (Nadeem & Kakakhel, 2012). The relationship between CSR and Leadership is still under-researched (Waldman et al., 2004). This research

is aimed at analyzing how the behavioral and personality aspects of business leadership affect the development and implementation of CSR in manufacturing organizations and how CSR contributes in organizations commitment of employees in Pakistan. A study on Asian companies suggested that developing countries are concerned about industrial development and its environmental impacts (Belal, 2001). Developing countries are facing social and environmental issues including labour, manpower, human rights, and environmental problems. In developing countries, people see towards multinational companies to resolve the prevailing issues through CSR initiatives in cooperation with civil society (Ite, 2004). Henderson (2001) is also of the view that engaging in CSR activities have potential to resolve environmental and social problems. These problems are common in developing countries (Tilakasiri, 2012) and are also directly related to Pakistan being a developing country. This study aims to identify existing CSR practices and justification of implementing CSR in Pakistan especially in the manufacturing industry. Scholars of developing countries have started to examine the extent to which the western theory and practice of CSR is implementable in developing economies (Jamali, 2007; Tilakasiri, 2012) and what are the positive benefits of socially responsible activities for the businesses operating in such countries (Dutta and Durgamohan, 2008). Although in developing countries, stakeholders are pushing companies for CSR, research reveals that lot of organizations lack sufficient knowledge to actualize it and lack of understanding amongst managers regarding benefits associated with CSR causes hurdles in its actualization (Fernando, 2007).

Ethical behavior of leaders and more specifically of chief executive officers (CEOs) has been recognized as an important and growing feature in the west (Russell, 2010). Paton (2006) found that the number of executives involved directly in the matters related to ethical compliance has increased to 96% in 2005 while it was only 21% in 1987. Although a considerable volume of literature is available that covers CSR in general terms, research on behaviors of business leaders towards developing and implementing CSR strategies is limited (Russell, 2010). This study is aimed at addressing this gap. Many researchers, including the authors believe that leadership in the large organizations would highly benefit from advancement in CSR and leadership research resulting in helping organization to make their CSR program more effective (Kakabadse et al., 2005).

Ethical Leadership and CSR

Ethical leadership is a "leadership that is directed by respect for ethical beliefs and values and for the dignity and rights of others" (Watts, 2008) It is thus "related to concepts such as trust, honesty, consideration, charisma and fairness" (Michael et al., 2005). For motivation of followers, inspirational and effective leadership mostly rely on persuasive

communication styles and idealistic visions (Bass, 1985) but the importance of ethical behavior for meaningful influence cannot be overlooked. A cross-cultural research has indicated that ethical leadership is a common concern among managers in Asia, Europe, and the United States (Resick et al. 2011). Fontaine et al., (2006) stated that the manner organizations involve their shareholders is typically a basic feature of the concept of CSR concept. The basic and fundamental perspective of the stakeholder theory is to identify the stakeholders of a business or an organization and disclose to them the responsibility of the organization (Clarkson, 1995).

The author agrees with Russell (2010) regarding the belief that CEOs have an influential role in CSR implementation and CEOs can be champion of CSR implementation or may put hindrances thus directly affecting its institutionalization. Strategic CSR raises the questions of potential contribution of CEO in determining the intensity and propensity of an organization to indulge in CSR in developing countries such as Pakistan. CEOs have the responsibility to formulate corporate strategy and often seen involved in image building of their organization through CSR (Waldman et al., 2006). Moreover, CEOs may dramatically alter corporate strategy of the firm including decisions related to CSR.

Yin and Zhang (2012) also reported ethical leadership as critical antecedent of CSR. Zhu et al. (2014) found positive relation between ethical leadership and CSR. Similarly, Wu et. al. (2014) has found positive relationship between CEO ethical leadership and CSR and identified ethical culture as a mediator between these two variables. Study of Wu et al. (2014) was conducted in domestic firms of China and 55% of the sample respondents belonged to manufacturing industry. The respondents of this study were CEOs, human resource managers and chief financial officers. However, the understanding about perception of employees about CEOs ethical leadership and its affect on CSR is lacking in literature. Furthermore, the present study is specific to manufacturing industry of Pakistan whereas the research of Wu et al. (2014) was conducted in China and also included firms other than manufacturing. The philanthropic nature of Pakistani citizens and society due to moral and religious obligations suggest postulating the following hypothesis:

H_1: CEO Ethical leadership positively influences the CSR in manufacturing industry of Pakistan.

Ethical Leadership and Organizational Commitment

Employee organizational commitment is "an attitude that enhances emotions, feeling and obligation to remain sticky with an organization" (Dyne and Pierce, 2004). In this study the affective dimension of organizational commitment has been focused. Allen & Meyer (1990) explained AOC as "an emotional bonding which is felt by an individual for an organization". Kanter (1968) first identified the concept of affective commitment. High affective commitment reduces the

need for encouragement (Shore and Wayne, 1993). The study of Pare and Trembley (2007) found that when employees have high affective commitment they will not deploy impression management. Moreover, commitment of employees towards client organization is also a reflection of their commitment with contracting organization (Shapiro and Morrow, 2006).

Path-Goal theory specifies the style or behavior of a leader, in order to achieve a certain goal, which best fits the work environment and employee (House and Mitchell, 1974). Another related theory is stakeholder theory (Freeman, 1984). Stakeholder is defined as an individual or a group who has the potential to affect or get affected by achieving the objectives of an organization. Advancing the concept, Friedman (2006) identified employees as stakeholders along with many other groups of the society.

Ethical leadership and its performance implications have gained increased attention of scholars in recent years (e.g. Pastoriza et al., 2007; Lin et al., 2009). Although such researchers have confirmed the significance of ethical managerial behavior for outcomes related to employees such as commitment, these studies focused on first line supervisors or managers and research on top management especially CEO is quite scarce. Hence the following hypothesis is proposed:

H_2: CEO ethical leadership positively influence the affective organizational commitment of employees.

CSR and Organizational Commitment

CSR also affects employee commitment as noted by scholars such as Aguinis and Glavas (2012). They also emphasized on finding the impact of activities of an organization for the well-being of stakeholders on employee commitment. Social identity theory says that belonging to a social group is a source for individuals to derive their identity (Tajfel and Turner 1985). Application with such groups, including their employer organization, affects the sense of self-worth of employees (Dutton et al., 1994). The self-esteem of the individuals enhances when they attempt to compare the characteristics of their group with other groups and tend to perceive their organizations' success as a personal success (Turker, 2009). Employees feel happiest by associating themselves with firms having positive reputation and attempt to increase their self-esteem (De Roeck and Delobbe, 2012). Consequently, positive perception of CSR for external and internal stakeholders can be expected to lead towards commitment (Brammer et al., 2007). This argument is also supported by organizational justice theory which elaborates why the perception of employee regarding CSR may affect their attitude toward work and affective commitment (Rupp et al., 2006). A few researchers in recent years have started studying the use of CSR as an organizational tool to influence and enhance employee commitment (Kim et al., 2010). Although there is an increased trend in researches relevant to significance

of CSR for employee commitment, most of the work is being done in developed world and limited studies are seen in developing countries such as Pakistan and especially in the manufacturing sector which is crucial to supply chains for various international and local organizations. Peterson (2004) while studying 342 business professionals demonstrated the existence of positive relationship between corporate citizenship perception and organizational commitment. Turker's (2009) research of 269 Turkish business professionals further endorsed that employee's perception of CSR positively influences the organizational commitment of employees and customers. The study of Kim et al. (2010) also suggested the similar findings. Hence, the following hypothesis is proposed:

H_3: CSR positively affects affective organizational commitment of employees in manufacturing industry of Pakistan.

Mediating Role of CSR

The role of ethical CEO in executing CSR that eventually changes the behavior of employees is lacking in prior literature. Research on relationship between CEO ethical leadership and AOC of employees and the mediating role of CSR can be beneficial for the organizations to catch the attention of investors, building reputation, gaining competitive edge, satisfying customers and other stakeholders (Aguinis and Glavas, 2012). The leadership of 21st century is facing challenges of people issues, market forces and leadership competencies (Nevins and Stumpf, 1999). Research of Groves and LaRocca (2011) has provided empirical support for the effect of ethical leaders on perception of followers in stakeholder perspective of CSR. Vitell et al. (2003, 2004) recommended the firms to develop and enhance clear set of ethical policies and values in order to positively influence perception of employees about CSR. In sum, the authors posit that CEO ethical leadership influences AOC and CSR serves as a mediator in ethical leadership-organization commitment relationship. In light of the available literature, the following is hypothesized:

H$_4$: CSR mediates the relationship between CEO ethical leadership and affective organizational commitment.

In light of literature, the following framework was proposed.
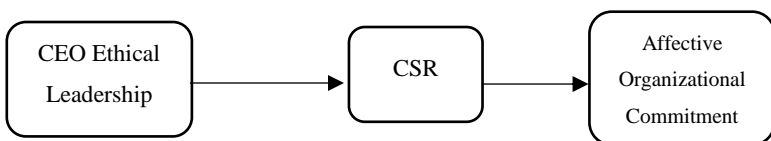
Research Methodology

Employees working in marketing departments of manufacturing industries in Pakistan is the unit of analysis and the reason behind taking employees of manufacturing organizations is that this industry poses

threats to environment, exploit natural resources, need to observe health and safety procedures and their employees are well informed about the policies of the organization and are likely to get feedback and observe the perception of other fellows living in the surrounding of that industry as explained by McMillan and Borders (2002). Total 101 companies were contacted to get permission for the survey while 79 companies granted permission. The manufacturing industry is geographically dispersed and record about the number of employees employed in manufacturing industry is not well documented due to the lack of census, limited span of time and resources to conduct this study put restriction to collect data from the randomly selected population. Based on the above mentioned argument and support from the available literature, convenience sampling technique was adopted to collect data from the available and willing employees of those industries who consented to participate in this study (Yadav and Pathak, 2016). Total 1200 questionnaires were distributed out of which 874 were returned with 73% response rate. Measure of CEO Ethical Leadership was adapted from Brown et al. (2005), CSR from Turker (2009) and AOC Meyer and Allen (1997). All variables were measured on five point Likert scale anchored in "strongly disagree" to "strongly agree".

Data Analysis and Results

The survey respondents included 78 % male and 22 % were females. As the measurement scales were adapted from literature, the scales are expected to perform in similar way. Cronbach's α for CEO ethical leadership was .8, CSR .8 and for AOC .8. Cronbach's α value from .5 to .8 is recommended by Liobikiene et al., (2016).

In order to ensure unidimensionality, only factors with loading above .6 were retained. Out of six items of AOC four items were retained while out of 17 items of CSR nine were retained. Out of 10 items of CEO ethical leadership, seven items were retained. AVE of AOC was .6, CSR .5 and CEO ethical leadership was .5. As AVE of all variables was above .5 level, adequate convergent validity was achieved. Construct reliability of AOC was .843, CSR .911 and CEO ethical leadership was .889 which were well above the minimum desired range of .7.

The Table-1 shows that squared inter-construct (SIC) of correlation is not exceeding AVE values further more none of the correlation value exceeded .85 hence there was no discriminant validity issues.

Table 1. *Discriminant Validity*

Correlation			IC	SIC	AVE
OrgComt	<-->	CorpSR	.596	.355	.6
CorpSR	<-->	CEthi	.349	.122	.5
OrgComt	<-->	CEthi	.397	.158	.6

OrgComt = Organizational Commitment, CorpSR = Corporate Social Responsibility, CEthi = CEO Ethical Commitment

Regression results in Table-3 showed that the explanatory variable CEO ethical leadership explained 19.2% of variance in AOC. Results also revealed that significant change (β = .336, p< .001) in AOC is due to CEO ethical leadership. One unit increase in CEO ethical leadership brings .336 unit increase in AOC. The results supported the hypothesis H_2.

Table 2. *ANOVA Statistics of effect of CEO Ethical Leadership on Organizational Commitment*

Df	Mean Square	F	Sig.
1	4.884	7.190	.007

Table 3. *Main effect of CEO Ethical Leadership on Affective Organizational Commitment*

Predictors	R^2	ΔR^2	B (Unstandardized)	β (Standardized)	t
	0.200	0.192			
CEL			0.384	0.336	11.061

*p<.05 , **p<.01 , ***p<.001, CEL= CEO Ethical Leadership

Results of the study are consistent with the Path-Goal theory and indicated that CEO ethical leadership positively affect the AOC of the employees in an organization. The findings of the study were in line with the study of Bass & Bass (2008), Emery et al. (2007), Groves and LaRocca (2011), and Aguinis and Glavas (2012).

Table 4. *ANOVA statistics of effect of CEL on Corporate Social Responsibility*

Df	Mean Square	F	Sig.
1	3.990	5.609	.018

Table 5. *Main effect of CEL on CSR.*

Predictors	R^2	ΔR^2	B (Unstandardized)	β (Standardized)	T
	0.322	0.320			
CEL			0.357	0.306	10.933

*p<.05 , **p<.01 , ***p<.001, CEL= CEO Ethical Leadership

Results in Table-5 also revealed significant change (β = .306, p< .001) in CSR due to CEO ethical leadership and thus supported H_1. Results were in line with stakeholder theory (Freeman, 1984) Clarkson (1995) stated that the core perspective of the stakeholder theory is

identification of stakeholders of a business entity and reveal the responsibility of the organization to them. Findings of the impact of CEO ethical leadership provide support to the findings of Yin & Zhang (2012), Zhu et al. (2013) and Wu et al. (2014).

Table 6. *ANOVA statistics of effect of CSR on affective organizational commitment*

Df	Mean Square	F	Sig.
3	66.511	145.540	.000

Table 7. *Main effect of CSR on AOC*

Predictors	R²	ΔR²	β (Unstandardized)	B (Standardized)	T
	0.334	0.332			
CSR			0.499	0.029	17.461

*p<.05 , **p<.01 , ***p<.001, CSR= Corporate Social Responsibility

Regression results as stated in Table-7 revealed significant change in AOC due to CSR (β = .029, p< .001) hence, H$_3$ is supported. The findings of influence of CSR on AOC are in line with the social identity theory which indicates that CSR activities affect attitudes of the employees. Results were in also in line with the findings of Turker (2008), Brammer et al., (2007) and Farooq et al. (2013).

Table 8. *PROCESS results of mediation effect of CSR between CEO Ethical Leadership and Affective Organizational Commitment*

Model = 4
Y = OC, X = CEL, M = CSR

Sample size = 874

Outcome: CSR
Model Summary

R	R-sq	MSE	F	df1	df2	p
3365	.1133	.6348	111.3663	1.0000	872.0000	.0000

Model

	coeff	se	t	p	LLCI	ULCI
constant	1.6763	.1353	12.3915	.0000	1.4108	1.9418
CEL	.3929	.0372	10.5530	.0000	.3199	.4660

Outcome: OC
Model Summary

R	R-sq	MSE	F	df1	df2	p
5868	.3443	.4495	228.7174	2.0000	871.0000	.0000

Model

	coeff	se	t	p	LLCI	ULCI
constant	.9970	1234	8.0760	.0000	.7547	1.2392
CSR	.4855	0285	17.0389	.0000	.4296	.5415
CEL	.2142	.0333	6.4390	.0000	.1489	.2795

Direct effect of X on Y						
	Effect	SE	t	p	LLCI	ULCI
	.2142	.0333	6.4390	.0000	.1489	.2795
Indirect effect of X on Y						
	Effect	Boot SE	BootLLCI	BootULCI		
CSR	.1908	.0219	.1505	.2366		

Mediation test was carried out with PROCESS macro by Hayes (2012). As the regression results of hypothesis H_1, H_2 and H_3 revealed significant positive effect of CEO ethical leadership on CSR and AOC as well as of CSR on AOC. This satisfy the assumptions to carry out test for mediation effect of ethical culture between CEO ethical leadership and AOC. As per Table-8, the regression coefficient of CEO ethical leadership (X) on AOC (Y) is β=.214 and the *p*-value is *p*<.000, thus CEO ethical leadership is the significant predictor of AOC. As a second step, effect of CEO ethical leadership (X) as the predictor of CSR (M) was observed. Regression coefficient of CEO ethical leadership is β=.393 and *p*=.000, which means that it is a significant predictor of CSR. Results of the dependent variable AOC (Y) regression on both the independent variable CEO ethical leadership (X) and on the mediator variable CSR (M) revealed that CSR (M) ß-effect is β=.486, and *p*-value is .000 while CEO ethical leadership β=.214 and the *p*-value is *p* =.000.

PROCESS result of indirect effect of CEO ethical leadership (X) on AOC (Y) through CSR (M) revealed ß-effect is β = .191. Co-efficient value of indirect effect reduced from β =.214 to β =.191. The indirect ß-effect is still significant as LLCI (.1505) and ULCI (.2366) does not include the value zero in between and is higher than zero.

Based on the results, it can be concluded that there exists a partial mediation effect at *p* < .05 level of CSR between the relationship of CEO ethical leadership and AOC, hence, H_4 is supported. The mediation of CSR between CEO ethical leadership and AOC was quite rare in literature. This study additionally studied this mediation and the results indicated that CSR partially mediates the relationship between CEO ethical leadership and AOC.

Conclusion

This study is aimed at providing a picture of CEO's leadership and its impact on CSR and AOC of employees of manufacturing industry of Pakistan. The test and analysis results revealed that CEO ethical leadership has significant positive influence on AOC and CSR. These findings suggest that as the CEO ethical leadership increases, AOC of employees also increases which is favorable outcome for the performance of an organization. Committed human resource is a source of positive financial returns (Huselid, 1995), helps in employee retention, serves as competitive advantage which is tough to imitate, and increases productivity. These factors resultantly contribute towards profitability (Rogers, 2001).

Furthermore, the employees with AOC, to be more specific, remain part of the organization. Thus ethical leadership from a CEO can result in a high level of AOC in the manufacturing industry of Pakistan. A firm having CEO with ethical leadership style is directly and positively affecting the AOC among employees in manufacturing industry of Pakistan. This finding is in line with the Path-Goal theory which talks about the leadership style and behavior, for achieving a certain goal, which suits the employee and work environment (House and Mitchell, 1974).

Findings also demonstrated that the more the CEO exhibits ethical leadership, the more CSR is perceived which is in line with upper echelons theory which specifies when and how more positively CEO ethical leadership affects CSR. Mediation results revealed that CSR partially mediates the relationship between CEO ethical leadership and AOC. The prior literature found positive effect of CEO ethical leadership on CSR (Zhu et al., 2013, Wu et al., 2014) and of CSR on AOC (Rupp et al., 2006, Kim et al., 2010, Aguinis and Glavas, 2012). However, the research on mediation of CSR between CEO ethical leadership and AOC was quite rare. This study is the first attempt to test this mediation effects and also the initial attempt in the Pakistan's culture and more specifically in the manufacturing industry. This study extended the models of Wu et al. (2014), Zhu et al., (2013) and findings of Aguinis and Glavas (2012) to understand the mediation mechanism between CEO ethical leadership and AOC. The findings of the study are although first in its nature but are in line with upper echelons theory as well as social identity theory. Mediation analysis of CSR reveals a useful contribution towards the implications of these theories in the manufacturing industry of cultures like Pakistan and also contribute to the existing body of knowledge. Furthermore, this study offers an opportunity to the practitioners in the manufacturing industry both locally and globally to understand the attitude of employees towards CSR and indirect effect of CEO ethical leadership on AOC.

Limitations and Future Research

While drawing conclusions from the findings of this study, it need to be kept in mind that the respondents' reported measures have been used. According to Donaldson and Grant-Vallone (2002), respondents over and under report their behaviors. In Pakistan, this can be of greater importance due to low social acceptability concern and high job in-security. Respondents are only employees working in marketing departments of manufacturing industry. The opinion of employees working in technical and other support sections of the industry about the variables of this study could be different. Furthermore, the model of this study is not based on experimental design or focus groups, therefore, drawing inference of strong causal effect can be considered as a limitation. This study has observed the AOC only which is one of the three constructs of organizational commitment. Future research may study the impact of CEO ethical leadership and CSR on overall organizational commitment.

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