How does organizational leadership contribute to the firm performance through social responsibility strategies?

Parvaneh Saeidi a,⁎, Lorenzo Adalid Armijos Robles b, Sayedeh Parastoo Saeidi a, María Isabel Vera Zamora c

a Facultad de Ciencias Administrativas y Económicas, Universidad Tecnológica Indoamérica, Quito, Ecuador
b Departamento de Ciencias Económicas Administrativas y de Comercio, Universidad de las Fuerzas Armadas, ESPE, Quito, Ecuador
c Facultad de Ciencias Administrativas, Universidad UTE, Quito, Ecuador

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ABSTRACT

Despite the wide-ranging studies on Corporate Social Responsibility (CSR), firm performance, and Organizational Leadership (OL), there have been only a few studies examining the inter-relationship between them. Accordingly, this investigation has tried to investigate how OL contributes to the firm’s performance through the CSR strategies. It has an internal orientation to CSR motivations compared to the existing studies that mostly considered the external factors in implementing of CSR in firms; also, it has a comprehensive view toward the firm's performance by considering both financial and non-financial aspects of performance. It could be said that this study has tried to answer the question of whether or not CSR can be as a mediator between the OL and firm performance. Data collection was performed from 285 manufacturing and consumer products firms located in Malaysia during the four-month period of June–September of 2020. AMOS Structural Equation Modeling (AMOS-SEM) method was applied to analyze the model. Following the Baron and Kenny approach in testing the hypotheses, it was found that the relationships of OL and financial performance, as well as OL and non-financial performance were partially mediated by CSR. In addition, the non-financial performance was found as a full mediator between the OL and financial performance. Further, the results revealed two full mediated relationships in this way that non-financial performance was a full mediator variable between CSR and financial performance, as well as CSR and non-financial performance which were found as two multiple full mediators between OL and financial performance. The results help Malaysian managers to understand their current status, capabilities, strong points and weaknesses in leadership regarding to CSR. Moreover, due to the positive effects of CSR on both firm’s financial and non-financial performance, CSR is recommended to be integrated in leadership style and the organizational strategies in order to having better performance.

1. Introduction

There are some environmental strategic plans applied by firms in order to lessen harmful effects of their activities on the natural environment, such as introducing a clean energy or reducing waste or reducing the energy consumption (Bansal and Roth, 2000; Walls et al., 2011). These kinds of environmental measures by firms and governments bring a higher level of environmental awareness among consumers so that offering environmentally friendly products has become a priority for many customers in selecting a supplier (Zhang et al., 2020). This shifting from organizational-level activities to societal level initiatives have encouraged more companies to be environmentally friendly and adopt environmental strategies (Shurrab et al., 2019b). This mutual impact between the society and firms shows that organizations with introducing and applying different environmental-social strategies unwittingly change the social awareness and expectations. Since competitiveness and legitimacy indicators for firms are determined by the society according to their needs, willing and believes, companies should apply strategies that in addition to considering environmental issues, it also benefits the company’s financial interests.

In this regards, corporate social responsibility (CSR) with its especial attitude towards the society and environment could be a great contribution to the firm’s social legitimacy (Font et al., 2016; Palazzo and Scherer, 2006), because it allows the companies to improve their
relationship with consumers by generating more perceived value for consumers (Servera-Francés and Piqueras-Tomás, 2019) that consequently would lead to having higher competitive advantages and greater financial benefits for firms (Garay and Font, 2012; Margolis and Walsh, 2003). This ability of CSR in connecting firms with the society has caused most of the researchers and practitioners lean towards studies on CSR and society as an external organizational factor.

The large volume of research focusing on the external stimuli in CSR implementation led to fewer studies done on the role of CSR and on the intra-organizational relationships. Accordingly, more research on CSR and internal organizational components have been called (Andrew and Max, 2007; Du et al., 2013; Kim and Thapa, 2018), especially in developing countries. This is because, on the one hand they are significantly impacted by the environmental damages and climate changes and on the other hand, managers are being trained for CSR qualification as an advantage in managing a company (Ayala and Meier, 2017; López-Pérez et al., 2017). In this regard, Rehmani and Khokhar (2018) have referred to the less attention on the role of CSR between the Organizational Leadership (OL) as an important influential internal factor and firm performance. Ismail et al. (2014) call leaders as the human resource development professionals who link the corporations and society. On the other hand, Mittal and Dhar (2016) refer to the important role of managers and leaders with a socially-oriented view in encouraging businesses to achieve their social aims and goals. In supplementary studies on CSR Groves and LaRocca (2011) reported that socially-oriented leadership brings changes and initiatives to an organization as a driver of CSR applications. Or in another study by Hemingway and Maclagan (2004) the power of personal initiatives of manager about CSR in making a difference in the performance of corporation has been highlighted.

These evidences show that human resource development is increasingly expected to play a facilitative role in sustainability of CSR (Garavan and McGuire, 2010). However, Ismail et al. (2014) believe that the role of managers and leaders is very challenging; this is because, in making any decision or applying any strategy in the organization, expectations of both internal and external stakeholders should be met equally.

Despite the investigations in these allegations, there is still a paucity of research that investigate to what extent organizational leadership through CSR could generate desirable organizational outcomes. Therefore, the study of leadership’s role (as an internal component) on the firm performance through CSR practices seems to be an interesting and useful research. A strong proof for this claim is the variety of scholars who have emphasized the lack of study on CSR and their abilities as a mediator between the OL and organizational outcomes (Du et al., 2013; García-Sánchez et al., 2020; Rehmani and Khokhar, 2018; Williams and Seaman, 2016), particularly in developing countries such as Malaysia in which the importance of CSR programs has not been fully appreciated by the firms’ managers (Abdul and Ibrahim, 2002; Ismail et al., 2014; Wong and Bustami, 2020). Accordingly, the purpose of this study is to answer this question that “How does a company leader contribute to the firm’s performance through the social responsibility strategies?”.

Therefore, any study that could improve the performance of Malaysian manufacturing companies is important (Rusli et al., 2012). The questionnaires were sent to the top and middle-level managers and leaders of industrial manufacturing and consumer products firms. All firms were randomly selected based on the list of registered corporations in Kuala Lumpur Stock Exchange (KLSE).

The combination of leadership and CSR in this big sector could significantly affect the creating of a socially responsible organizational culture and, providing a better image of the firms in the society in terms of being environmentally friendly that ultimately leads to the higher performance for firms (Saeidi et al., 2015). Additionally, the results of this research would enhance the knowledge and practices of socially oriented manufacturing business in Malaysia.

This study is divided into five sections. Section one introduces the topic with background and importance of the study. Sections two and three review the related literature and develop the research hypotheses while section four explains the research method applied. Section five deals with the presentation of the data, the analysis of the data and the testing of the hypotheses. Sections six and seven discuss the results, with the conclusion, limitations of the study and the recommendations of the study.

2. Literature review of key concepts

2.1. Organizational leadership (OL) and organization

The leadership scholars have spent a considerable amount of time attempting to define their focal construct of study (Reiche et al., 2017). Nevertheless, some believe that in case of any agreement on the common definition of leadership, it would be better to be understood. 221 different definitions of leadership by Rost (1991) while, all 221 definitions say basically the same thing in which leadership is about one person make other people do something (Giuli, 2020). This approves the important position and power of leadership in controlling the business actions with the aim of improving the organizational climate (Salt-Vallina et al., 2020; Walumbwa et al., 2017). Accordingly, it is crucial for each corporation to improve organizational leadership efficiency in order to bring effectiveness in the performance of an organization as a whole directly and indirectly (Arzuibiaga et al., 2018; Moslehpour et al., 2019).

In this regard, Hemingway and Maclagan (2004) have claimed that the strong moral character of leaders could be a great help to fasten this progress and growth. This view was supported by some scholars that believe the effectiveness of a company, its performance, as well as its success are closely associated with the leaders’ ethical attitude and their approach over a particular organization (Feng et al., 2019; Saha et al., 2020; Sarwar et al., 2020; Shafique et al., 2019).

In the 18th century, Benjamin Franklin claimed that leaders with doing right thing in an ethical way help society for the right reasons. Later, in the 19th century, some of the highly discussed scandals and frauds improved studies on behavior of business leadership and their effects on different aspects of firm performance (Badrinarayanan et al., 2019; Lin et al., 2020; Saha et al., 2020; Shafique et al., 2019). Following the success of research in the academic, companies also gradually started to redress their ethical misdemeanor to be more conscious about their social responsibility in the eyes of the society, as recently consumers would not let companies to be more careless about the environment and society health (Ahmad and Gao, 2018; Tu and Lu, 2016). Accordingly, scholars should give more clarification on the crucial role of leaders in organizations to improve the firm’s performance by applying and strengthening different environmental and social practices in organizations (Saha et al., 2020; Sharma et al., 2019). One of those practices could be CSR with a growing research interest in recent years as it tries to meet the stakeholders’ ethical demand as well as economics goals of the organization (Robinson et al., 2011). But how CSR could contribute the relationship between CL and firm performance is a question that is going to be answered in this study.

2.2. Corporate social responsibility

Though Corporate social responsibility (CSR) is not a fresh concept, it has never been more outstanding on the corporate program than today. The knowing root of CSR concept has a long and wide-ranging history. CSR was generated in 20th century, especially from the early 1950s up to the present time so that it has received a considerable attention among academicians as well as companies over the last few decades (Carrington et al., 2015; Carroll, 2008). Despite the great literature on CSR, no unique definition was emerged in the history of CSR. Therefore, the lack of clear conceptual boundaries and unique conceptualization took CSR to diverse definitions. However, the joint CSR contending definitions is that firms must meet the ethical expectations of society while planning their strategies (Vuković et al., 2020). Indeed, CSR answers to the uncertainties that business corporations have to cope with in terms of the social context
of dynamic, global, and technological business arena in these days (Van Beurden and Gosling, 2008). In another well-known and clearest conceptualization of CSR by Carroll (1979), CSR is a social responsibility of a business including the economic, legal, ethical, and discretionary expectations of society from the organizations at a given point of time. He already considered all aspects of CSR as it was argued by Turker (2009) that economic and ethical responsibilities should be considered together in addressing CSR; this is because financial interests are significant reasons for establishing a business, while corporate ethical behaviors are the main factors influencing the organizational surviving. Align with Carroll (1979), the current study has also considered the economic, legal, discretionary and ethical dimensions of CSR.

2.3. Performance of organizations

The performance of organization is regarded as one of the significant dependent variables that has been recently applied and researched in organizations, but with a vague and loosely outlined constructs (Richard et al., 2009). Accordingly, there is still no a comprehensive definition of firm performance in literature (Alasoni et al., 2016). Organizational performance was reported a paradoxical concept based on Cameron (1986), because if it sounds good from one point of view, it might seem improper in another points of view. In terms of overall, the performance of organization could be a measurement tool to measure the effectiveness of organizational management and the way of delivering of values to its stakeholders and customers (Moulin, 2007). In the same vein, Barney (2001), believe that the performance of organizations aligns with the coordination of the assets and efforts toward a co-operation for achieving the goals of an organization.

As noted by Daft et al. (2010), organizational performance is the capability of a organization to effectively achieve its aims, strategy, goals and its resources. Similarly, Labiri et al. (2012) reported that the capability of organization to accomplish its plan by utilizing its resources effectively and efficiently presents its performance. In their study, Richard et al. (2009) claimed that the organizational success highly is depending on its performance, while taking the focus of managers, researchers and practitioners on performance is a significant parameter in the success of organization performance.

In this regard, Perotti and Suarez (2002) and Kaplan and Norton (2005) pointed out that performance is comparable to two factors, namely as financial (economy) and non-financial (efficiency and effectiveness of a particular activity or program). Accordingly, in order to determine the organizational performance, both financial and non-financial measures should be considered. Similarly, Hansen and Wernerfelt (1989) identified two essential factors of research that determine the organizational performance, one of which is based on the economic tradition focusing on the external market, features organization's sector, its position in the market and its resources' quality, while the other factor focuses on the behavioral and sociological patterns, such as organizational culture, motivation, human resource policies, job design and leadership (Chien, 2004). In this regard, Nicholas (1998) and Kaplan and Norton (2005) claimed that just focusing on the financial criteria couldn't provide a correct view of the organizational performance as financial measurements have not reflected the real performance of the organization without clarifying its capability for maintaining profit(s) in future. Accordingly, non-financial measurements overcome the problems of financial measurements (Kristensen and Westlund, 2004).

Balanced Scorecard (BSC) created by Kaplan and Norton (2005) is able to measure the performance by focusing on all organizational perspectives, such as internal business perspectives, learning and growth perspectives, financial perspectives, customer perspectives and innovation. BSC has been considered as an efficient tool for solving the issues in measuring the performance (Hoque and James, 2000; Malina and Selto, 2001). In fact, BSC helps the managers for long-term strategy settings toward the performance management while they are focusing on all the aspects of performance to ensure the customer value(s) and accomplishing the goals of the organizations at the same time (Kaplan and Norton, 2005).

3. Hypothesis development

3.1. Leadership and firm performance

Leadership is a pivotal issue that affects the success and failure of every organization, country, and religious movement (Kocolowski, 2010). Managers are a relatively small group of the company with overall responsibilities for the entire organization (Wiengarten et al., 2017). Guadalupe et al. (2014) stated that leader is the inner circle that formulate, articulate and execute the strategic moves of the organization. Thus, it was claimed that leadership team is a reflection of a firm's organizational structure, as well as the governing body that sets the firm strategy, coordinates activities, and allocates the resources across the business units. Hendricks et al. (2015) introduced managers and leaders as a main driver of corporate strategy so that they are able to sends out a powerful signal to the firm's stakeholders about the firm's strategic importance in market. Menz (2012) mention that the most critical and strategic decisions in a company are typically made by its top managers team that, subsequently, lead to the organizational performance (Menz, 2012). In this regard, researchers attempted to evaluate the impact of leadership on different aspects of firm's performance, i.e. by analyzing the data of 264 Chinese firms, Wang et al. (2017) concluded that organization leadership with three orientations of humane orientation, sustainability orientation and moderation orientation positively influence both the firm's financial and social performance. This positive finding broadly supported the work of other studies in this area. For instance, Menz (2012) who identified the socio, economic, and technological developmental outcomes of effective management teams' performance, or Geiger and North (2006) who found positive and strong effect of company leaders on a company's financial performance. Vitanova (2019) also found an economically and statistically significant positive influence of overconfidence leaders on the firm's performance.

Based on the social learning theory Barrick et al. (2015) claimed that leaders with customer orientation have more positive effect on the firm's performance. Atuahene-Gima and Ko (2001) also noted that leaders with customer orientation reflect the firm's strategy focusing on the market intelligence to serve customer needs. In the same vein, the results of data collected from 264 Chinese firms by Feng et al. (2019) showed that humane leadership and moderation leadership help the firms to better leverage customer orientation for enhancing their performance. Indeed, they believed that meeting customer demand is highly significant task with the potential of positively or negatively affecting the organization's revenue and profitability levels (Chisambara, 2017) so that meeting customer demand has been introduced as a critical marketing requirement for the firm's social logistics (Nimmy et al., 2019; Pelton et al., 2010).

The importance of meeting customer demand has been well acknowledged in the literature so that many scholars demonstrated the significant relationship between leadership with a focus on the customer orientation and the firm's performance (Feng et al., 2012, 2019; Frambach et al., 2016; Ziggers and Henseler, 2016). Mostly positive effect was found by them. For example, Ziggers and Henseler (2016) claimed that the main outcome of leadership with customer orientation is the customer satisfaction. Consequently, customer satisfaction finally leads to the higher competitive advantage and higher financial performance for firms that try to meet the customer's demands (Saedi et al., 2015).

Nowadays, companies are facing increasingly competitive and uncertain markets along with a dynamic economic environment where market and customer demand are changing rapidly (Darvishmotevali et al., 2020). Accordingly, all the leaders and managers as the main decision-makers in different sections of organization need to be updated in identifying the customer and market demands. Therefore, in current challenging environments, by increasing environmentally sensitive
consumers who are demanding sustainable and more environmentally friendly products and services, companies are forced to apply new environmental strategies (van de Haar and Hesseborn, 2020). One of those strategies is CSR, in which the companies consider not only their profitability and economic growth, but also the interests of society and environment by taking responsibility because of the social and environmental impacts of their activities (Tencati et al., 2020). This study is going to address “to what extent CSR as a mediator could contribute to the effect of leadership on the firm’s performance”. Regarding the use of Baron and Kenny (1986) approach in this study to test the mediating effect of CSR, the direct effect of OL on the firm's performance should be initially tested for answering the mentioned question. Therefore, it was hypothesized that:

H1: Organizational leadership is significantly associated with financial performance.

H2: Organizational leadership is significantly associated with non-financial performance.

Based on the applied approach, at the second step to answer the main hypotheses of this study, it is needed to evaluate the effects of CSR itself (as a mediator) on the firm's performance. Accordingly, the following section is going to explain the relationship between CSR and the firm’s performance.

3.2. Corporate social responsibility and firm performance

CSR has recently become a competitive strategy for corporations to raise their profits by affecting the customer loyalty (Islam et al., 2021; Rahbari et al., 2020), positive society attitudes towards the company's brands (Calabrese et al., 2016), corporate reputation and customer satisfaction (Saeidi et al., 2015). Growing demand for initiatives in the social responsibilities of stakeholders as an obvious index to the corporate world make the business leaders highlight the environmental and social issues in their business to achieve the ultimate customers’ confidence and change the loyalty into a competitiveness. As the external main stakeholders of a company, customers pay attention to both their ethical and economical profits as in recent decades, consumers would not let companies be more careless about the environment and society health (Ahmad and Gao, 2018; Tu and Lu, 2016).

This new perceptual in the society has caused the organizations to be highly involved in ethical activities such as CSR initiatives (Reza et al., 2020). The association between the performance of a firm and CSR has been excessively researched (Creixans-Tenas et al., 2019; Islam et al., 2021). While some studies have investigated the direct impact of CSR on the performance of a firm (Agyemang Otuo and Ansong, 2017; Jang Soojeen et al., 2019; Karim et al., 2019; Yoon and Chung, 2018), others claimed that this association might be influenced by some other intervening parameters and involved other factors in their studies (Hasanudin et al., 2019; Saeidi et al., 2015). For example, using data gathered from the 3401 observations of the publicly traded firms in China (2009–2015) by Jin (2020) showed that CSR could improve the performance of the firm when its strategy emphasizes the value appropriation more than the value creation. Kim et al. (2018) in another study proposed that competitive action moderates the relationship between the performance of a firm and CSR. In the same year, Ting and Yin (2018) found that the excessive control rights of shareholders moderate the link between the performance of a firm and CSR. In a study which set out to determine the link between the value of a firm and CSR initiatives, Taylor et al. (2018) concluded the moderating impact of advertising intensity on that link.

In a comprehensive study of CSR and the firm’s performance, Saeidi et al. (2015) found that the positive effect of CSR on the firm’s performance is due to the positive effect that CSR has on competitive advantage, reputation and customer satisfaction. Accordingly, it could be concluded that the effect of CSR on firm’s performance is both direct and indirect (Naseem et al., 2020).

On the whole, the evidence from literature shows that much of the research on CSR and firm performance up to now has been carried out on the mutual effects of external factors (society) in establishing CSR. However, little attention has been paid to the role of CSR on internal organizational processes. So far, in this regard, some studies tried to determine the impact of CSR on the innovation (Briones Peñalver et al., 2018; Broadstock et al., 2019; Ji et al., 2020), employees' commitment and job satisfaction (Ahmad et al., 2020; Bouraoui et al., 2019; Hamouda and Junoh, 2019), but still there is much less information about the mutual effect of CSR and organizational leadership (OL) as an important influential internal factor on the firm’s performance. This is while, the importance of leadership role in advancing the goals of the organization is known to all. In this context, it has been claimed that organizations with good leaders are more able to create a better environment that encourage all the members of the team to develop their skills so that they could contribute to the common project and vision of the company. But, to what extent this process is affected by CSR is still less known. Accordingly, the purpose of this investigation is to explore the relationship between leadership and the firm’s performance by mediating the effect of CSR. According to the applied approach of Baron and Kenny (1986) to test the mediating effect, before testing the mediating effect and after testing the hypotheses (1) and (2), hypotheses (3–6) were formulated as below:

H3: Corporate social responsibility is significantly associated with financial performance.

H4: Corporate social responsibility is significantly associated with non-financial performance.

H5: Non-financial performance is significantly associated with financial performance.

H6: Organizational leadership is significantly associated with Corporate social responsibility.

3.3. Mediating role of CSR between organizational leadership and firm performance

Organizational leaders as a key player in strategic management, identifying and adopting strategies have been identified as a supportive platform for organization strategies. Therefore, they could be considered as an important and powerful influential internal factor in the success and failure of any strategy used in the organization in order to improve the firm's performance (Eide et al., 2020). Recently, the market has faced a new growth challenge with changing the stakeholders' judgment of a company so that the success of a company in the eyes of the society is no longer solely about economic terms, but the ethical, social and environmental dimensions as they have become as evaluation factors of organizations (Sarkis et al., 2010). Therefore, the organizational leaders should modify their sole focus from the financial issues to the social-environmental subjects as well to be able to continue in today's competitive market.

In this regard, Parker (2008) reported that businesses leaders with environmental-social practices believe that considering social responsibility is a mean of achieving profitability for organizations’ leaders. They call CSR as a strategic approach that overcome the negative impacts on the external environment, as well as internal environment. According to Graham (2020) and Feng et al. (2019) consumers as influential external factors and organizational leaders as powerful internal factors have enough power to affect the company's resources and decisions about the environment. Customers by being more environmentally sensitive and demanding sustainable and more environmentally friendly products and services (Seur et al., 2019); and leaders by forcing managers in considering environmental practices in making strategic decisions. Accordingly, those organizational leaders are successful in improving the firm’s performance that support the stakeholders’ concerns including economic, ethical issues and integrate their interests in their leadership style. Despite the wide-ranging studies on CSR, firm performance and OL,
there have been only a few studies examining the inter-relationship between OL and CSR in the business world, this study is going to fill up the existing gap on the role of CSR on the relationship between OL and firm performance by answering this question that “How does a company leader contribute to the firm’s performance through the social responsibility strategies?”. Accordingly, as the last step of applied Baron and Kenny (1986) approach to test the mediating effect of CSR, it is hypothesized in this study that:

H7: CSR plays as a mediator in between Organizational leadership and firm financial performance.
H8: CSR plays as a mediator in between Organizational leadership and firm non-financial performance.
H9: Non-financial performance plays as a mediator in between CSR and financial performance.
H10: Non-financial performance plays as a mediator in between Organizational leadership and financial performance.
H11: CSR and Non-financial performance play as mediators in between Organizational leadership and financial performance.

The study’s conceptual framework is summarized in Figure 1, showing the proposed associations between the four different variables of organizational leadership, CSR, organizational financial and non-financial performance.

4. Methods

4.1. Sample and data collection

In this research, the study population comprised the top and middle-level managers and leaders of local companies and multinational companies in two highly industrialized region in Malaysia (Johor Bahru and Selangor). To improve the representativeness of sampled firms, all firms were randomly selected based on the list of registered corporations in Kuala Lumpur Stock Exchange (KLSE). The only firms which are included and relevant to this research belong to the industrial manufacturing and consumer products. The importance of these sectors among other sectors in their influence on the environment and society (Burritt et al., 2011; Saeidi et al., 2015). Totally, 832 manufacturing and consumer product firms were listed for this study.

The work aimed to study the attitude and perception of Malaysian managers and leaders about CSR, OL, financial performance, and non-financial performance by applying quantitative research approach for data collecting. Accordingly, research strategy was based on survey. The questionnaires were started to be mailed to the respondents in June of 2020, and they were asked to respond it back within 3 weeks. One reminder letter was sent to the respondents three weeks after the initial questionnaire. The last questionnaire was returned second of September 2020. The response rate was 27.6% from the first questionnaire and 10.6% from the second questionnaire, adding that the overall response rate was 38.2%. According to the evidence, 38.2% of response ratio should be adequate for a developing country as Malaysia, where CSR neither is adequately addressed nor its managers have a high knowledge on CSR. After ignoring the redundant surveys, 318 firms are ultimately involved in this research. Early respondents have been compared (Armstrong and Overton, 1977) and there were no significant differences on any study variables (α = 0.05).

4.2. Independent variable

One of the well-known instruments that measures the leadership is Multifactor Leadership questionnaire (MLQ) which is employed in numerous institutions (Agha, 2019; Baek et al., 2018; Bagheri and Sohrabi, 2015; Hoon Song et al., 2012; Qosja and Druga, 2014; Vinger and Cilliers, 2006). Brandt et al. (2016) claimed that MLQ could provide better results in comparison with other instruments. In the same vein, Tejeda et al. (2001) and Vinger and Cilliers (2006) also claimed that in the field of organizational science, MLQ form 6S has been viewed as one of the most frequent, validated and well leadership measuring instrument. They introduced the ability of this instrument in adaptation with different organizational settings and different cultural contexts as its advantage. Accordingly, the short version of MLQ-6S developed by Bass and Avolio (1990) was employed in this study.

Seven leadership factors including laissez faire leadership behaviors, transformational, and transactional are measured by 21 questions of MLQ-6S. The questionnaire is a 5-point Likert type tarting with “1 – not at all” and ending with “5 = frequently if not always”. 3 items have been allocated to measure each factor of MLQ-6S. Idealized influence (II), individualized consideration (IC), intellectual stimulation (IS) and inspirational motivation (IM) with 12 items are going to measure Transformational leadership (TFL). Two subscales of management by exception (ME) and contingent reward (CR) by 6 items measure Transactional leadership (TAL). And finally, only 3 items have been considered for measuring laissez-faire leadership (LFL).

4.3. Dependent variables

According to literature (Gallbreath and Shum, 2012; Islam et al., 2021; Saeidi et al., 2015, 2017), there is no universal and united method to measure CSR. There are two types of data collection to measure CSR: 1) based on primary data and 2) based on secondary data. Conceptualization of CSR presented by Carroll (1979) has been frequently cited in many studies which is used in primary data collection. Four main dimensions of CSR (legal, economic, discretionary, ethical) are included in

![Figure 1. Conceptual framework.](image-url)
this instrument to determine the firm's CSR orientation. This instrument is not fully appropriate for the current study because the Carroll's (1979) instrument only focuses on the significance degree of different CSR dimensions, while the objective of this study is to assess CSR activity. Maigian and Ferrell (2000) later developed the instrument presented by Carroll (1979) so that the assessment of CSR activity (aim of the current study) was replaced instead of being an tool to measure the importance degree of CSR. Thus, measurement used by Maigian and Ferrell (2000) was selected by this study to measure CSR. Measurement of all four main dimensions of CSR were covered by one 5-point Likert scale including 23 questions in which '1 = strongly disagree' and '5 = strongly agree'.

Organizational performance is one of the most important constructs in management and organization research (Richard et al., 2009). In majority of studies, organizational performance is considered as either financial performance or non-financial performance (Kim, 2020). Financial performance mostly refers to the extent to which the organization performs in relative profitability, return on investment and total sales growth (Ho, 2011), while non-financial performance refers to measure any performance that is not expressed in accounting measurements (Ha and Lo, 2018), such as higher quality of products and service, loyalty and customer satisfaction and employee satisfaction (Simon et al., 2015). In this regard, Ghaylanyi and Noble (1996) claim that traditional performance measurement has some weaknesses because of not considering both financial and non-financial aspects of performance (Ghaylanyi and Noble, 1996). The balance scorecard (BSC) was developed by Kaplan and Norton (1996) as a strategic performance measurement model to overcome those weaknesses of traditional performance measurement so that it became one of the most known references in measuring performance (Friso and Krumwiede, 2000; Liang and Wang, 2010; Saeidi et al., 2020).

The BSC approach contains both financial and non-financial measurements, integrating the set of measures derived from the company's strategy and gives top managers a fast, but comprehensive view of the business performance. Actually, BSC is a framework for describing all the organizations activities based on the 4 aspects of financial, customer satisfaction, internal business processes and growth and learning (Kaplan and Norton, 1996). Seven items namely return on equity (ROE), return on investment (ROI), return on assets (ROA), market share growth, sale growth, net profit margin and return on sales (ROS) of the firm were considered to measure financial performance.

Since the goal of this study is evaluating the effect of OL on both financial and non-financial performance, the balanced scorecard is the best method in assessing the overall performance of the company. One 5-point Likert scale with 22 questions was used to cover both financial and non-financial performance, in which '1 = strongly disagree' and '5 = strongly agree'.

5. Analysis and results

5.1. Measurement model

At the first step, measurement model of all variables needs to be approved by Confirmatory Factor Analysis (CFA) (Jamshidi and Khani, 2013). Through CFA, reliability and three different validities namely Construct Validity, Discriminant Validity and Convergent Validity would be assessed. In this study, CFA through using AMOS 20.0 were performed to evaluate the constructs' psychometric properties. Several items with standardized factor loadings lower than 0.6 by CFA were dropped to maintain the level of convergent validity (Hair et al., 2003). All the standardized factor loadings were then greater than 0.6 (p < 0.01) that provided proper evidence of convergent validity after the purification procedure (Hair et al., 2006) (see Table 1).

Average Variance Extracted (AVE) and Composite Construct Reliability (CCR) were examined to assess reliability, as well as discriminant and convergent validity of the latent constructs. Minimum requirement was met on the CCR coefficients where all exceeded 0.7. Moreover, each AVE estimate exceeded its corresponding inter-factor squared correlations which indicated an acceptable level of discriminant validity between any two latent variables (Fornell and Larcker, 1981) (Table 2).

Therefore, the measurement models for organizational leadership, CSR, financial performance, and non-financial performance constructs were justified in the structural model.

In addition to evaluating the validities and reliabilities, seven indicators presented by Kaynak (2003) namely goodness of fit index (GFI), normative fit index (NFI), chi-square to degree of freedom (c2/DF), root mean square error of approximation (RMSEA), adjusted goodness of fit index (AGFI), standardized root mean squared residual (SRMR) and comparative fit index (CFI) were also calculated to determine the goodness of fit of the measurement model and structure model. The results which showing a perfect fit of measurement and structural models have been shown in Table 3.

5.2. Mediating relationship test

Following Galbreath and Shum (2012), Structural Equation Modeling (SEM) is more proper than conventional regression analysis in organizational research. Moreover, according to Iacobucci et al. (2007), compared to classic method, SEM is a proper method for the empirical and theoretical statistical grounds. In another study, Urbach and Ahlemann (2010) suggest SEM (the 2nd generation of statistical techniques) because it could overcome the confines of the 1st generation techniques as discriminate analysis, factor analysis and multiple regressions in testing the causal relationship between multiple independent and dependent variables. In addition, SEM is able to reduce the bias by taking measurement errors into account compared to the classic regression method(s).

Finally, it was proved by Iacobucci et al. (2007) that SEM approaches consistently would be more powerful in detecting a mediation result than regression approach. Accordingly, SEM was found as a proper statistical analysis technique for this study to test the mediation relationship. H1 and H2 posit that OL influences significantly the financial performance

| Table 1. Results of CFA for measurement model. |
| Constructs and Items | Standardized Loading | P value |
|-----------------------|----------------------|---------|
| **Organizational leadership** | | |
| Individualized Consideration (IC) | 0.678 | *** |
| Idealized Influence (II) | 0.867 | *** |
| Inspirational Motivation (IM) | 0.904 | *** |
| Intellectual Stimulation (IS) | 0.699 | *** |
| Contingent Reward (CR) | 0.863 | *** |
| Management by Exception (ME) | 0.745 | *** |
| Laissez-Faire Leadership (LFL) | 0.705 | *** |
| **Corporate social responsibility** | | |
| Ethical | 0.759 | *** |
| Legal | 0.694 | *** |
| Economic | 0.987 | *** |
| Discretionary | 0.926 | *** |
| **Non-financial performance** | | |
| Customer Satisfaction (CS) | 0.871 | *** |
| Internal Business Processes (IBP) | 0.843 | *** |
| Growth and learning (GL) | 0.747 | *** |
| **Financial performance (FIP)** | | |
| ROI | 0.699 | *** |
| ROE | 0.965 | *** |
| ROA | 0.749 | *** |
| Sale growth | 0.854 | *** |
| Market share growth | 0.723 | *** |
| ROS | 0.798 | *** |
| Net profit margin | 0.755 | *** |
and non-financial performance. The results suggested that OL significantly and positively influenced the financial performance (coefficient = 0.15, p < 0.05) and non-financial performance (coefficient = 0.19, p < 0.05). Therefore, the results supported H1 and H2. H3 and H4 postulated that CSR influences significantly the financial performance and non-financial performance. Results showed that CSR significantly and positively influenced the financial performance (coefficient = 0.18, p < 0.05) and non-financial performance (coefficient = 0.48, p < 0.05). These results support H3 and H4. H5 posits that non-financial performance significantly influence the financial performance. The results suggested that financial performance positively and significantly is affected by non-financial performance (coefficient = 0.63, p < 0.05). H6 imagined that OL significantly influence CSR and the findings showed that OL significantly and positively influenced CSR (coefficient = 0.31, p < 0.05). Therefore, the results supported H5 and H6 as well (Tables 4 and 5 & Figure 2).

In order to investigate the mediating role of CSR and non-financial performances between OL and financial performance (H7–H11), a Sobel test was conducted. Additionally, through the bootstrapping method of AMOS 20.0 the indirect effects of OL on financial performance; CSR on financial performance were analyzed. Findings showed that financial performance is significantly and indirectly influenced by OL (coefficient = 0.09, p < 0.01) as well as non-financial performance which is indirectly influenced by OL through CSR (coefficient = 0.25, p < 0.01). Therefore, it could be concluded that CSR is a partial mediator in the relationship between OL and financial performance as well as between OL and non-financial performance. Accordingly, the results supported H7 and H8.

It is worth noting that financial performance was not significantly affected by CSR through non-financial performance (coefficient = 0.45, p > 0.05), while it was significantly affected by CSR without having any mediator in between them (coefficient = 0.18, p < 0.05). Thus, it is shown that the relationship between CSR and financial performance is fully mediated relationship by non-financial performance. On the other hand, OL had a significant indirect influence on financial performance through non-financial performance (coefficient = 0.14, p < 0.01) that gives a partial mediator role to the non-financial performance in the relationship between OL and financial performance. Accordingly, the results supported H9 and H10 as well.

Finally, OL had a non-significant indirect influence on financial performance through multiple mediators of CSR and non-financial performance (coefficient = 0.17, p > 0.05), while OL had a significant direct impact on financial performance (coefficient = 0.15, p < 0.05). Thus, CSR and non-financial performance was regarded as two full mediators in the relationship between OL and financial performance (see Tables 6 and 7).

6. Discussion

The firm performance could obviously indicate the effective fulfilling of market orientation and financial goals by an organisation. The best performance metrics are the combination of financial and operational dimensions which are affected by a variety of firm’s internal and external variables and strategies (Kaplan and Norton, 2005). Business strategies establish how organizations can shift the current performance position to a stronger one which is based on the competitive gaps (Feurer and Chaharbaghi, 1994). In this regard, Bulat (2011) claimed that successful strategies in improving competitive advantage and performance of firms are those that are effective in identify the market needs and expectations at the correct time. Based on this claim and showing more concern by the society about the protection of environment and willing to purchase a green product in order to save the polluted environment (Saeidi et al., 2015), companies were encouraged to be more environmentally friendly and adopt environmental strategies so that applying environmental practices became a great contribution to the firm’s social legitimacy (Font

Table 2. Discriminant validity and composite construct reliability analysis.

| Construct | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 | 12 | 13 | 14 | 15 |
|-----------|---|---|---|---|---|---|---|---|---|----|----|----|----|----|----|
| IC        | 0.74 |   |   |   |   |   |   |   |   |    |    |    |    |    |    |
| II        | 0.47 | 0.81 |   |   |   |   |   |   |   |    |    |    |    |    |    |
| IM        | 0.53 | 0.54 | 0.72 |   |   |   |   |   |   |    |    |    |    |    |    |
| IS        | 0.49 | 0.64 | 0.56 | 0.87 |   |   |   |   |   |    |    |    |    |    |    |
| CR        | 0.41 | 0.49 | 0.43 | 0.53 | 0.74 |   |   |   |   |    |    |    |    |    |    |
| ME        | 0.53 | 0.41 | 0.49 | 0.61 | 0.42 | 0.74 |   |   |   |    |    |    |    |    |    |
| LFL       | 0.57 | 0.59 | 0.41 | 0.48 | 0.43 | 0.48 | 0.81 |   |   |    |    |    |    |    |    |
| CSR ETHICAL | 0.67 | 0.53 | 0.44 | 0.49 | 0.50 | 0.47 | 0.43 | 0.80 |   |    |    |    |    |    |    |
| CSR LEGAL | 0.39 | 0.62 | 0.62 | 0.42 | 0.58 | 0.52 | 0.54 | 0.64 | 0.85 |   |    |    |    |    |    |
| CSR ECONOMIC | 0.49 | 0.69 | 0.47 | 0.54 | 0.55 | 0.58 | 0.49 | 0.68 | 0.53 | 0.70 |   |    |    |    |    |
| CSR DISCR. | 0.62 | 0.46 | 0.59 | 0.59 | 0.47 | 0.62 | 0.53 | 0.56 | 0.62 | 0.46 | 0.75 |   |    |    |    |
| CS        | 0.66 | 0.51 | 0.63 | 0.44 | 0.67 | 0.49 | 0.57 | 0.45 | 0.66 | 0.51 | 0.55 | 0.81 |   |    |    |
| IBP       | 0.46 | 0.63 | 0.60 | 0.46 | 0.62 | 0.53 | 0.47 | 0.43 | 0.49 | 0.40 | 0.49 | 0.36 | 0.79 |   |    |
| GL        | 0.59 | 0.52 | 0.41 | 0.41 | 0.47 | 0.49 | 0.69 | 0.47 | 0.54 | 0.63 | 0.44 | 0.67 | 0.81 |   |    |
| FIP       | 0.53 | 0.58 | 0.59 | 0.53 | 0.59 | 0.53 | 0.41 | 0.49 | 0.61 | 0.42 | 0.41 | 0.48 | 0.43 | 0.48 | 0.84 |
| MEAN      | 3.43 | 2.98 | 4.01 | 2.75 | 3.76 | 4.65 | 3.92 | 3.65 | 4.21 | 3.10 | 2.98 | 2.61 | 3.05 | 4.05 | 4.21 |
| SD        | 1.40 | 1.28 | 1.06 | 1.01 | 1.37 | 1.20 | 1.08 | 1.43 | 1.22 | 1.02 | 1.06 | 1.11 | 1.45 | 1.19 | 1.03 |
| AVE       | 0.56 | 0.67 | 0.52 | 0.76 | 0.63 | 0.55 | 0.67 | 0.65 | 0.73 | 0.50 | 0.57 | 0.67 | 0.63 | 0.66 | 0.71 |
| CCR       | 0.97 | 0.89 | 0.96 | 0.93 | 0.87 | 0.94 | 0.96 | 0.89 | 0.99 | 0.92 | 0.89 | 0.98 | 0.96 | 0.97 | 0.91 |

* Diagonal item are AVE square root.

Table 3. Analysis of measurement and structural model.

| The goodness of fit measures | GFI | CFI | CMIN/DF | NFI | AGFI | RMSEA | SRMR |
|-----------------------------|-----|-----|---------|-----|------|-------|------|
| Measurement Model           | 0.967 | 0.909 | 1.019 | 0.976 | 0.931 | 0.065 | 0.034 |
| Structural Model            | 0.987 | 0.934 | 1.284 | 0.981 | 0.943 | 0.045 | 0.287 |
et al., 2016; Palazzo and Scherer, 2006; Shurrab et al., 2019a). Constant communication with the customer and generating perceived value for the society allows the competitive differentiation of companies (Server-a-Francs and Piquerias-Tomás, 2019).

The interests of consumers as external stimulus and meeting their willing by firms has encourage firms to apply environmental protection strategies such as CSR. On the other hand, in environmental studies, consumers as external stimulus became the centre of scholars’ attention in evaluating firm performance. For example, in his study, Wang (2020) found that customer behavioural intention could be affected by CSR through enhancing customer satisfaction and corporate image; Or Lee (2019) who indicated a positive effect of economic and legal components of CSR on customer loyalty. In another study by Zhang et al. (2020) found that customer behavioural intention could be affected by CSR through positive effects that CSR has on customer satisfaction, reputation and CSR as well as between the organizational attractiveness and media reputation and CSR as a mediator between the customer satisfaction and CSR as well as between the organizational attractiveness and CSR was found. Saeidi et al. (2015) in their comprehensive study on CSR, reported that firm’s performance would be enhanced indirectly by CSR and non-financial performance through positive effects that CSR has on customer satisfaction, reputation and competitive advantage.

Furthermore, some studies tried to focus on the effects of CSR on internal stimulus of CSR such as employees’ behaviour, such as employees’ commitment, employees’ motivation, employees’ satisfaction, employees’ productivity and performance. It was mostly found by those studies that CSR as an independent variable that integrate interests of all stakeholders is affecting positively the employees’ commitment (Ali et al., 2010; De Silva and Lokuwaduge, 2019; Weerasekara and Ajward, 2020; Zafar and Ali, 2016), employees’ motivation (Jie and Hasan, 2016; Skudiene and Auraskeviciene, 2012), employees’ satisfaction (Barakat et al., 2016; Brancato, 2017; Wisse et al., 2018), employees’ productivity (Romi et al., 2018) and employees’ performance (Ali et al., 2020; Story and Castanheira, 2019). Compared to this volume of studies on CSR, less study was performed on the leadership as an influential internal stimulus and their mutual effects on CSR. For example, a group of studies focused on evaluating the perception and level of CSR among leaders and managers (Ahmad and Khan, 2019; Moliner et al., 2019; Ramasamy and Ting, 2004; Saeidi et al., 2017; Zhang et al., 2020). The results are different based on the region and industry. In a more detailed study, Strand (2011) tried to give a comprehensive view on the role of leadership on CSR and it was concluded that in most cases leadership has positive effect on CSR success, however, Lu et al. (2020) reported a negative relationship between female top leadership and CSR application. These results showing that findings are still inconclusive.

In Malaysia, as one of the most active emerging economies, the evidences show a rapid development of CSR, but, it has never been adequately addressed in the business and academic environment (Hizam et al., 2019; Ismail et al., 2014). In this regard, Janang et al. (2020) claimed that, while the perception of CSR among Malaysians’ managers has been improved compared to last decade, still CSR implementation in Malaysia is at moderate level. Nurjanah (2019) claimed that CSR in Malaysia is mostly dominated by charity activities, and those activities with a focus on reducing environmental damage are still very minimal. In another studies, Hizam et al. (2019) and Ismail et al. (2014) found that high percentage of the sampled managers and leaders in Malaysia do not fully appreciate the importance of CSR, while are relatively aware of CSR programs. Accordingly, more experimental research are needed on the practical benefits of CSR at the corporate and national levels.

The important role of managers in strengthening organizational effectiveness and competitiveness on one hand and increasing environmentally sensitive consumers who are demanding sustainable and more environmentally friendly products and services (van de Haar and Heseborn, 2020) on the other hand caused variety of scholars to emphasize on the lack of study on CSR and their abilities as a mediator between the OL and organizational outcomes (Du et al., 2013; García-Sánchez et al., 2020; Rehmani and Khokhar, 2018; Williams and Seaman, 2016). Accordingly, in this study, it was aimed to examine to what extent engagement in CSR could affect the relationship between Organizational leadership (internal organizational stimulus) and both financial and non-financial performances.

The results supported almost all the hypotheses of this study. In this case, OL has a significant positive and direct effect on the firm’s financial and non-financial performance; CSR as hypothesized mediating variables has also significant positive and direct effect on the firm’s financial and non-financial performances. In addition, there is a significant relationship between the OL as independent variable and CSR as hypothesized mediating variables; a significant relationship between the firm’s non-financial performance as hypothesized mediating variables and the

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**Table 4. Regression weight, main effect of variables (Unstandardized values).**

| Hypothesis | Path | Estimates | S.E. | C.R. | p |
|------------|------|-----------|------|------|---|
| H1         | Organizational leadership → financial performance | 0.280 | 0.081 | 3.456 | * |
| H2         | Organizational leadership → non-financial performance | 0.181 | 0.121 | 1.495 | * |
| H3         | CSR → financial performance | 0.213 | 0.093 | 2.290 | * |
| H4         | CSR → non-financial performance | 0.590 | 0.051 | 1.568 | * |
| H5         | Non-financial performance → financial performance | 0.775 | 0.194 | 3.994 | * |
| H6         | Organizational leadership → CSR | 0.432 | 0.179 | 2.413 | * |

**Table 5. Regression weight, main effect of variables (Standardized values).**

| Hypothesis | Path | Estimates |
|------------|------|-----------|
| H1         | Organizational leadership → financial performance | 0.152 |
| H2         | Organizational leadership → non-financial performance | 0.194 |
| H3         | CSR → financial performance | 0.183 |
| H4         | CSR → non-financial performance | 0.479 |
| H5         | Non-financial performance → financial performance | 0.628 |
| H6         | Organizational leadership → CSR | 0.310 |

**Table 6. Indirect effects.**

| Path | Estimate | Lower bound | Upper bound | P value |
|------|----------|-------------|-------------|---------|
| Organizational leadership → CSR → financial performance | 0.092 | 0.055 | 0.234 | *** |
| Organizational leadership → CSR → non-financial performance | 0.255 | 0.034 | 0.197 | *** |
| CSR → non-financial performance → financial performance | 0.457 | -0.145 | 0.087 | 0.593 |
| Organizational leadership → non-financial performance → financial performance | 0.140 | 0.003 | 0.149 | *** |
| Organizational leadership → non-financial performance → financial performance | 0.179 | -0.019 | 0.013 | 0.883 |
firm's financial performance was found. Accordingly, all the hypotheses of direct effects (H1–H6) were supported. The report of indirect effects supported the hypotheses of 7–11, so that, CSR was confirmed as a partial mediator between the OL and both firm's financial and non-financial performance. In the second part of the model, the report showed that CSR through improving non-financial performance could affect the financial performance positively. Based on this result, hypothesis 9 was supported as a full mediator variable. Moreover, a partial mediating role of non-financial performance between the OL and financial performance was found (H10). As the last hypothesis, the report showed a multiple full mediating role for CSR and non-financial performance between the OL and financial performance (H11). In conclusion, CSR as a mediator is able to help OL as an important influential internal stimulus in improving firm's financial in Malaysian sampled firms.

7. Conclusion

Though the CSR expectation was higher than the real CSR expectation that was practiced by Malaysian firms (Zahid et al., 2020), the gained results were consistent with those who found positive effect of OL on CSR (Rehmani and Khokhar, 2018; Tourigny et al., 2019; Williams and Seaman, 2016), positive effect of leadership on non-financial performance (AlAnazi et al., 2016; Alsayyed et al., 2020; Hashim et al., 2018), introducing non-financial performance as a mediator between CSR and financial performance (Saeidi et al., 2015). And as a new finding, this study found a mediating role of CSR between OL and firm performance. There are several contributions between the findings of this study to the leadership and CSR domain. Knowledge is contributed by solving the vague over the relationship among CSR, firm's performance and organizational leadership, and also expanding the OL studies through offering a framework to describe how corporate social responsibility could assist the leaders to provide better performance for firms, since, the perception, attitudes and values of leader have an essential role in the environmental response of a firm, particularly by the raise of the environmental worries of stakeholders (Papagiannakis and Lioukas, 2012). As a result, the findings have enhanced the awareness of leaders in Malaysian firms about the significant role of CSR as a strategy in creating intangible assets.

On the whole, these findings highlighted a role for the OL in promoting the firm's non-financial performance indirectly and directly through CSR practices. On the other hand, the results proposed a role for CSR in promoting the firm's financial performance indirectly through enhancing the customer satisfaction, internal business processes, and growth and learning as components of the firm's non-financial performance. The existing studies have their own limitations because the perspective of CSR among organization leaders in Malaysia remains largely unexplored, especially regarding the role of CSR on the effects of OL on the firm's performance. Accordingly, more research is needed to increase knowledge of managers about CSR and its benefits in improving firm performance.

In addition, the current study is conducted only in industrial manufacturing and consumer products sectors located just in two states of Malaysia that may limit the power of this research to generalize its findings. Accordingly, further research should be carried out in a wider scope in Malaysia to validate the results of this study. Moreover, an investigation and experimentation into barriers of implementing of CSR in Malaysia is strongly recommended.

Declarations

Author contribution statement

Sayedeh Parastoo Saeidi: Analyzed and interpreted the data; Wrote the paper.
Pravaneh Saeidi: Conceived and designed the experiments; Contributed reagents, materials, analysis tools or data.

| Hypothesis | Path | Direct effect | Indirect Effect | Mediating Role |
|------------|------|---------------|----------------|---------------|
| H7 | Organizational leadership → CSR → financial performance | 0.152 | 0.092 | Partial mediator |
| H8 | Organizational leadership → CSR → non-financial performance | 0.194 | 0.255 | Partial mediator |
| H9 | CSR → non-financial performance → financial performance | 0.183 | 0.457 | Full mediator |
| H10 | Organizational leadership → non-financial performance → financial performance | 0.479 | 0.140 | Partial mediator |
| H11 | Organizational leadership → CSR → non-financial performance → financial performance | 0.628 | 0.179 | Full mediator |

Figure 2. Framework and main effects tests (standardized beta value).
Lorenzo Adalid Armiros Robles: Performed the experiments;
Contributed reagents, materials, analysis tools or data.
Maria Isabel Vera Zamora: Conceived and designed the experiments;
Performed the experiments.

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