

## THE IMPACT OF CEOs' TRANSFORMATIONAL LEADERSHIP AND ETHICAL INTEGRITY ON STRATEGIC ORIENTATION TO CORPORATE SOCIAL RESPONSIBILITY

---

The European Journal of Management Studies is a publication of ISEG, Universidade de Lisboa. The mission of EJMS is to significantly influence the domain of management studies by publishing innovative research articles. EJMS aspires to provide a platform for thought leadership and outreach.

---

Editors-in-Chief:

Luís M. de Castro, PhD  
ISEG - Lisbon School of Economics and  
Management, Universidade de Lisboa,  
Portugal

Gurpreet Dhillon, PhD  
Virginia Commonwealth University, USA

Tiago Cardão-Pito, PhD  
ISEG - Lisbon School of Economics and  
Management, Universidade de Lisboa,  
Portugal

Managing Editor:

Mark Crathorne, MA  
ISEG - Lisbon School of Economics and  
Management, Universidade de Lisboa,  
Portugal

---

ISSN: 2183-4172  
Volume 20, Issue 2

---

[www.european-jms.com](http://www.european-jms.com)

---

**José Veríssimo and Teresa Lacerda**

**ISEG – Lisbon School of Economics and  
Management, Universidade de Lisboa, Portugal**

### Abstract

Little systematic research has been conducted to advance understanding about the role of transformational leadership to explain a corporate strategy focused on social responsibility. Using data from 50 Portuguese firms, we examined the role played by transformational leadership and its four dimensions, namely: idealized influence; inspirational motivation; intellectual stimulation, and; individualized consideration as well as ethical integrity in firms' strategic orientation to corporate social responsibility. The results indicated that transformational leadership is significantly positively related to a firm's strategic orientation to corporate social responsibility. However, leaders' ethical integrity was not significantly linked to the adoption of corporate social responsibility practices. These findings suggest that further research is needed regarding leaders' ethical integrity and firms' social responsibility orientation. Practitioners may also benefit from these findings by using them to transform themselves into "truly transformational leaders" who incorporate corporate social responsibility as a core strategic value within their firms.

**Key words:** leadership, transformational leadership, business ethics, ethical integrity, corporate social responsibility.

## Introduction

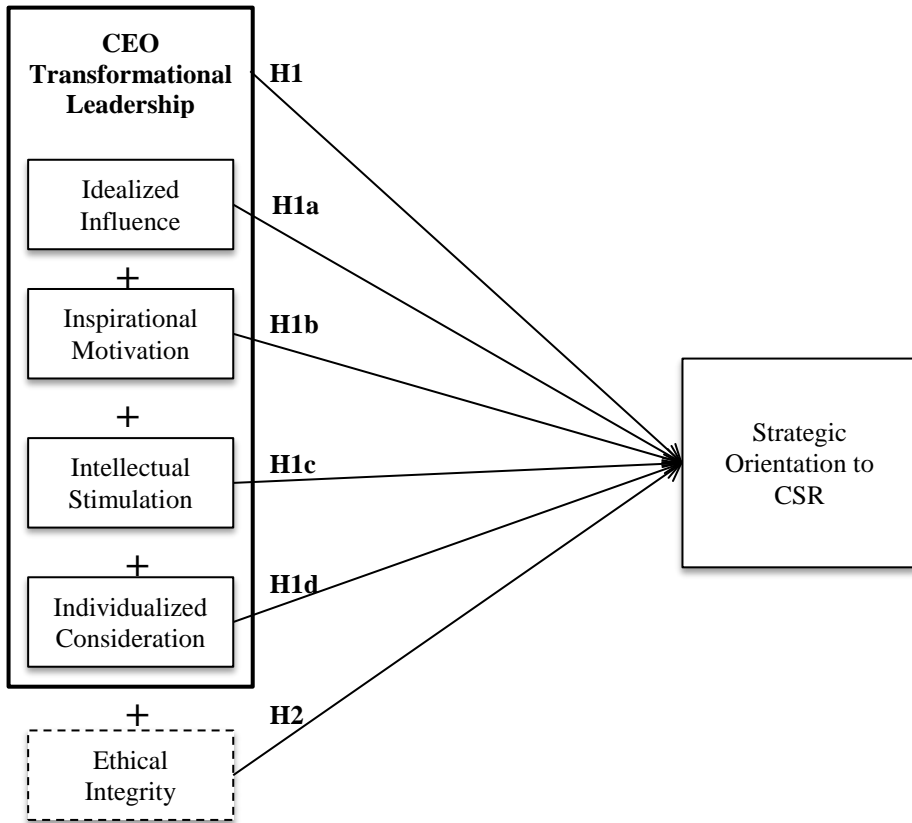
The global financial crisis has once again raised concerns regarding the lack of moral and ethical values among certain leaders. This is particularly true in the recent bankruptcy cases of corporations such as WorldCom, Enron, and Lehman Brothers, which were attributed to their leaders' unethical behavior (Jensen, 2008; Stevens & Buechler, 2013). Meanwhile, organizations face an increasing pressure to develop corporate social responsibility (CSR) practices as part of their strategic decisions, in order to meet key stakeholder expectations (Bondy, Moon, & Matten, 2012; Maon & Swaen, 2015; Matten & Moon, 2008). Recent research on CSR has begun to focus on the role of leadership in articulating and implementing such organizational practices (Angus-Leppan, Metcalf, & Benn, 2010; Du, Swaen, Lindgreen, & Sen, 2012). However, little systematic research has related a socio-moral dimension, together with the components of transformational leadership to CSR practices in organizations.

With this in mind, this paper aims to identify a response to the question of "What is the impact of the dimensions of transformational leadership and the leader's ethical integrity in the way their firms implement corporate social responsibility strategies?" In particular, we seek to confirm the relationship between each one of the transformational leadership dimensions (i.e. idealized influence/charisma; inspirational motivation; intellectual stimulation, and; individualized consideration), along with the leader's ethical integrity, and CSR strategic orientation. Based on previous research on transformational leadership, several authors have stated that such leaders are able to articulate visions based on strongly held ideological values and powerful imagery that stimulate innovative solutions for major problems and foster radical changes and high performance expectations (Bass, 1990; Berson & Avolio, 2004). These leaders' values, attributes and behaviors also affect firms' strategic decision making and their decision implementation (Bass & Riggio, 2006; House & Aditya, 1997). This paper is in line with this perspective, arguing that transformational leaders are more likely to integrate CSR in their strategic decisions.

To further this aim, our paper is structured as follows. First, we review the literature and refer to the main theoretical background in transformational leadership, ethical integrity of leadership, and corporate social responsibility. Second, we discuss the association between the dimensions of transformational leadership, together with ethical integrity and CSR practices. Empirically, our research is based on questionnaires targeted to large firms that are more likely to have already a strategy orientation to CSR. In this section we explain in detail the sampling and associated procedures, and also the scales used to measure transformational leadership, ethical integrity, and strategic orientation to CSR. Next, quantitative findings are reported, using logistic regression, after having performed several statistical tests (e.g. normality tests to assess if data came from a normal distribution). Finally, we discuss the implications of our findings in light of the theoretical framework considered, refer theoretical and managerial implications, elicit the limitations of the study, and propose future research areas.

**Dimensions of Transformational Leadership, Ethical Integrity, and CSR**

This research aims to analyze the impact of the transformational leadership construct — as well as its four dimensions — and also ethical integrity on a firm’s strategic orientation to CSR. Figure 1 depicts the proposed conceptual model, which is based on relevant theoretical frameworks of transformational leadership and strategic CSR.



**Figure 1. Conceptual Model based on the frameworks of Bass and Avolio (2008), Turner et al. (2002) and Waldman et al. (2006)**

**Dimensions of transformational leadership and CSR**

The concept of transformational leadership was first introduced by Burns (1978), and was further developed by Bass and associates (Avolio, Bass, & Jung, 1999; Bass & Avolio, 2008, 2013). According to Bass (1985), leadership must be transformational to induce followers’ performance beyond expectations. A transformational leader is one who motivates subordinates to do more than originally expected by: 1) raising the level of awareness (the level of consciousness about

the importance and value of designated outcomes and ways to achieve this level); 2) getting subordinates to transcend their own self-interest for the sake of the team, the organization, or a larger polity, and; 3) altering the need level to expand their portfolio of needs and wants (Bass & Avolio, 2008; Bass, 1985).

Bass (1985) used four dimensions to conceptualize transformational leadership: 1) idealized influence/charisma, which occurs when leaders arouse and inspire others with a vision of that which can be accomplished with extra personal effort, and as such, these leaders have much power and influence over their followers; 2) inspirational motivation, which reflects a leader's vision of what is right and important, and how to achieve it, enhancing meaning and promoting positive expectations about what needs to be accomplished; 3) intellectual stimulation, which occurs when leaders develop the followers' capacity to solve future problems, enhancing their creativity and innovation, and; 4) individualized consideration, which represents leaders' attempt to not only recognize and satisfy their followers' current needs, but also to expand and elevate those needs whilst trying to maximize and develop their full potential, providing coaching and empowerment for their followers, and consequently turning them into potential leaders.

CSR refers to actions that aim to advance (or acquiesce in the promotion of some social good) beyond the immediate interests of the firm and its shareholders, as well as beyond that which is required by law (McWilliams & Siegel, 2000, 2001; Waldman, Siegel, & Javidan, 2006). Firms are increasingly being held responsible for the conditions under which products are produced, with stakeholders including employees, customers, suppliers, government, community groups, and shareholders taking an active role in this topic. Some organizations already consider societal interests in using the concept of CSR, incorporating the creation of social, economic, and environmental values as a unique selling point, or, "in other words", as a differentiating factor in their advertising campaigns (McWilliams & Siegel, 2011). The CSR literature provides a linkage between transformational leadership and firms' orientation to CSR. Bass and Steidlmeier (1999) argued that leadership should be regarded in the context of stakeholder theory (Freeman, 1984), where workers, customers, suppliers, local communities, and governments all have a legitimate strategic and moral stake in the firm. The authors further indicated that transformational leadership can help people develop the common interests of a community beyond the aggregate interests of its individuals. Thus, transformational leadership is associated with advanced stages of moral development, where leaders take all stakeholders' interests into account and participate in organizational governance, based on universal ethical principles (Graham, 1995).

Some have tried to explain the benefits of using CSR as an instrument. For example, the agency theory defends the idea that managers can use CSR for their own profit (Wright & Ferris, 1997). In addition, those who promote the resource-based view (Russo & Fouts, 1997) and the advocates of the theory of the firm (McWilliams & Siegel, 2000, 2001), assert that CSR is one way to improve firm profitability. Meanwhile, stakeholder theory postulates that an optimal level

of CSR exists that will maximize profit and satisfy stakeholder groups' demand for CSR (McWilliams & Siegel, 2000, 2001).

More recently, research is focusing on explicit CSR (i.e. practices associated with corporate strategic decisions), according to Matten and Moon's (2008) classification (2008), and on the role of leadership in choosing and implementing such practices (Angus-Leppan et al., 2010). For example, Waldman et al. (2006) used transformational theory to explore the role of CEOs in determining the extent to which their firms engage in CSR. The authors examined two dimensions of transformational leadership: - charisma or idealized influence, and intellectual stimulation. The authors found that only intellectual stimulation was significantly associated with the propensity of the firm to engage in strategic CSR. Based on their findings, further research is required to test the relationship between the four dimensions of transformational leadership and firms' orientation to CSR.

We expect to find a positive relationship between the four dimensions of transformational leadership and firms' strategic orientation to CSR, for a number of reasons. First, we expect to find a positive relationship between idealized influence/charisma and firms' orientation to CSR, based on the assumption that charismatic leaders engage followers' self-concepts with greater social causes (Shamir, House, & Arthur, 1993). Furthermore, charisma may translate into moral leadership, which in turn facilitates the existence of CSR (Waldman et al., 2006). Second, we postulate that inspirational motivation is positively associated to firms' strategic orientation to CSR, based on the reasoning that inspirational leaders articulate shared goals and mutual understanding of what is right and what is important (Bass, 1985), and "truly transformational leaders" are inwardly and outwardly concerned about the good that can be achieved for the group, the organization, or the society for which they feel responsible (Bass & Steidlmeier, 1999). Third, we reinforce the linkage between intellectual stimulation and firms' strategic orientation to CSR, based on the encouraging empirical findings of Waldman et al. (2006) study. Finally, we argue for an association between individualized consideration and firms' strategic orientation to CSR, assuming that individualized consideration underscores the necessity of altruism (Bass & Steidlmeier, 1999), and that leaders may link the individual-level focus to firms' missions that are CSR-oriented, by elevating the followers' needs for self-actualization (Bass & Steidlmeier, 1999). Therefore, we postulate that:

**H1.** CEOs' transformational leadership is positively related to firms' strategic orientation to CSR.

**H1a.** CEOs' idealized influence is positively related to firms' strategic orientation to CSR.

**H1b.** CEOs' inspirational motivation is positively related to firms' strategic orientation to CSR.

**H1c.** CEOs' intellectual stimulation is positively related to firms' strategic orientation to CSR.

**H1d.** CEOs' individualized consideration is positively related to firms' strategic orientation to CSR.

### **Ethical integrity of leadership and CSR**

Burns (1978) and Bass (1985) presented similar concepts of transformational leadership, their main divergence relating to the moral level of the transformational leader. According to Bass (1985: 20), Burns “saw the transformation as one that was necessarily elevating, putting his emphasis on whether society ultimately benefits from them.” Meanwhile, Bass argued that transformational leadership is not necessarily beneficial leadership. Indeed, actions could be costly to all concerned, rather than beneficial. As such, Bass would consider Hitler to be a transformational leader, whereas Burns likely would not.

However, in subsequent studies, Bass distinguishes between “truly transformational leaders”, and “pseudo transformational leaders,” whereby the former share a genuine interest in others’ welfare (Bass & Steidlmeier, 1999). “Truly transformational leaders” must motivate followers to voluntarily identify with the organization and its standards of conduct, as well as willingly fulfill its purpose. This leadership style transforms followers into leaders who will take charge of their own ethical behavior (Howell, Avolio, Jane, & Bruce, 1992). Morality raises the level of human conduct and ethical aspiration and has a transforming effect on leaders and followers (Burns, 1978). Thus, transformational leadership is associated with post-conventional stages of moral development, which uses universal ethical principles to solve dilemmas serving the common good (Graham, 1995); however, not all leaders evolve to this stage, and some will even develop a “shadow” side (Lichtenstein, Smith, & Torbert, 1995). Transformational leadership is in place when leaders’ end values, such as integrity, honor, and justice are adopted by followers (Kuhnert & Lewis, 1987), provoking a “cascading effect” within the organization (Bass & Avolio, 2008).

The stakeholder theory, regarded as the dominant paradigm in CSR (McWilliams & Siegel, 2001), argues for a necessary alignment between firms’ strategy and social and ethical concerns. Managers must not only regard ethics as a necessary ingredient for the strategic analysis of what they stand for, but should also instill a moral purpose in employees (Freeman, 1984). Top management’s moral sentiments are reflected in the firm’s behavior when contracting with their stakeholders, showing mutual trust and cooperation and being socially beneficial to the firm, as well as providing a competitive advantage over firms that do not (Jones & Wicks, 1999; Jones, 1995).

The stakeholder approach places ethics as the core component in CSR (Garriga & Melé, 2004). Freeman (1994) dubbed it a “normative core”, linked to the way in which firms should be governed and how managers should act. Despite the criticisms of the normative stakeholder theory, as demystified and explained by Phillips, Freeman, and Wicks (2003), several studies on normative ethical theories have been produced in recent years, linking these principles with the formulation of firms’ strategies. For example, Turner, Barling, Epitropaki, Butcher, and Milner (2002) found that managers scoring high on moral reasoning showed more transformational behaviors. Thus, followers would ideally perceive effective leaders as displaying a level of integrity according to followers’ expectations (Craig & Gustafson, 1998). Parry and Proctor-Thomson

(2002) also found a significant relationship between perceived integrity and transformational leadership.

Based on the discussion so far, the possibility that the moral aspects of leadership might directly impact CSR needs to be further investigated. Thus, we postulate:

**H2.** CEOs' ethical integrity has a positive relationship on firms' CSR orientation.

## **Method**

### ***Participants and procedures***

Data were collected from managers of the largest firms in Portugal. Firms participating in this study were selected from the 2008 database of the 500 largest firms in Portugal, as published by *EXAME*, a leading business and management magazine. The 500 largest firms in Portugal were identified as being potential participants, as these firms are more likely to have already adopted CSR strategies. For instance, some of these firms are listed on the Euronext stock exchange and have faced increasing pressure from stakeholders to be socially responsible (such information is included in their Sustainability Report, or Annual Reports). In addition, investments to improve social responsibility performance may influence firms' corporate image and reputation (Hsu, 2012) — a primary concern among the largest firms. Finally, increasing pressure from customers, employees, suppliers, community groups, and governments alike will probably have the highest effect among the largest firms.

An introductory letter with six questionnaires attached was sent by mail to human resource managers, with guidelines on how to distribute and collect the questionnaires. Fifteen were not surveyed, owing to incorrect addresses, internal restructuring, or a change in CEO. The survey ran from April to July 2009, with 170 individual responses being obtained from 50 firms participating in the study. Fifteen questionnaires were rejected due to the lack of consistency regarding the CEO profile in terms of tenure and gender, leaving 155 valid questionnaires from 50 firms — an average response rate of 3 questionnaires per firm. Therefore, the sample size was 50 firms with an overall response rate of 10.3%, which may be regarded by some as low. Response rates per sector reached a maximum of 50% in transportation equipment, and a minimum of 20% in cleaning services and textiles. The arguably low overall response rate is not immune to the present worldwide crisis, which is often translated into internal restructuring processes, or to the sensitivity of the survey in assessing CEO leadership characteristics, which may be considered distressing to some.

The respondents had an average job tenure of 3.3 years ( $SD = 1.78$ ) with their organization. The respondents profile was 68% male, and they were on average 43 years old ( $SD = 9.50$ ). Their hierarchical level was: 8.2% Members of the Board; 57.1% Top Managers, and; 34.1% other levels. The CEO profile indicated that 94% of CEOs were male and that only 6% were female and 64%

of CEOs had between 1 and 5 years of tenure in their current position. The sample includes firms from 19 of 24 possible sectors.

## **Measures**

### *Transformational leadership*

The Multifactor Leadership Questionnaire (MLQ – 5x short form) was used to assess CEOs' transformational leadership with the permission from Mind Garden, Inc. Since its inception in 1985, several researchers have used the MLQ to assess leadership qualities and to test the main constructs associated with the model (Antonakis, Avolio, & Sivasubramaniam, 2003; Avolio et al., 1999; Bycio, Hackett, & Allen, 1995; Carless, 1998; Den Hartog, Van Muijen, & Koopman, 1997; Goodwin, Wofford, & Whittington, 2001; Tejada, Scandura, & Pillai, 2001; Yukl, 1999). The main criticisms raised by these authors relate to inadequate discriminant validity among the factors, and the inability of the initial factor structure to be replicated in empirical research. A refinement of the original scale was further introduced by (Bass and Avolio (2008), who proposed a more parsimonious model underlying MLQ. Twenty items from the later version of the MLQ were used in the current study to assess CEOs' transformational leadership qualities. Each participant was asked to rate his or her CEO on a five-point scale, ranging from "not at all" (= 0), to "frequently, if not always" (= 5).

### *Leaders' ethical integrity*

The Perceived Leader Integrity Scale (PLIS), developed by Craig and Gustafson (1998), was used to assess CEOs' ethical integrity. PLIS has 31 items corresponding to unethical leader behavior that followers find easy to recognize and assess. This four-point Likert type scale ranges from "not at all" (= 1), to "exactly" (= 4).

### *Firms' strategic orientation to CSR*

To assess firms' strategic orientation to CSR, the current study used the sustainability progress indicator comparative evaluation methodology (SPICE) developed by Hemming, Pugh, Williams, and Blackburn (2004). SPICE was previously used as a benchmarking tool to understand the sustainable development and CSR agenda of Jaguar Cars compared to other firms considered to be leaders in this field. This methodology is based on the triple bottom line concept (Elkington, 1997), which combines economic development measures with environmental and social responsibility ones, although a clear focus has been on the last two dimensions, whereas the economic dimension remains largely unaddressed (Hemming et al., 2004).

Following a review of the existing literature, ten main attributes — with individual scores ranging from 0 to 5 — were chosen, including: compliance management; environmental management systems; performance improvement; environmental and sustainability reporting; stakeholder dialogue; product stewardship; supply chain management; eco-innovation; contribution to quality



of life and community involvement, and; employer of choice. Although other measures are available to assess a firm’s strategic orientation to CSR, including The Times — FTSE 100 index, the Sustainability index, and the Business in the Community index, all share similarities to the SPICE methodology. Hemming et al. (2004) successfully used the SPICE methodology, making it appropriate for the current study.

**Results**

Tests of normality were conducted on all items of the questionnaire in order to assess normality of data. Kolmogorov-Smirnov and Shapiro-Wilk tests were used to demonstrate that data deviate from normality. Skewness and kurtosis analyses further confirmed the presence of a negatively skewed leptokurtic distribution. Reliability was measured using Cronbach’s alpha. As shown in Table 1, all constructs exhibit values above the threshold of 0.7 (Nunnally & Bernstein, 1994). Specifically, transformational leadership reported internal reliability with a Cronbach’s alpha of 0.95 for total items and for each leadership factor, ranging from 0.82 to 0.90. These values are in line with the reliabilities assessed by Bass and Avolio (2008). For the sake of content validity, we followed Bass and Avolio (2008) recommendations to measure each one of the transformational leadership dimensions, instead of using factor analysis.

	1	2	3	4	5	6	7
1. IS	(0.817)						
2. II	0.717**	(0.904)					
3. IM	0.619**	0.731**	(0.866)				
4. IC	0.704**	0.603**	0.559**	(0.820)			
5. TL	0.849**	0.920**	0.828**	0.808**	(0.950)		
6. Ethical Integrity	0.349*	0.393**	0.457**	0.309*	0.404**	(0.960)	
7. CSR	0.485**	0.579**	0.649**	0.605**	0.692**	0.153	(0.939)
Mean	2.93	3.11	3.24	2.70	3.01	3.13	3.69
Standard Deviation	0.605	0.642	0.568	0.705	0.565	0.445	0.829

Notes:

<sup>a</sup> Two cases were deleted after checking for the presence of outliers.

+ p < 0.10 (2-tailed); \* p < 0.05 (2-tailed); \*\* p < 0.01 (2-tailed).

IS – Intellectual Stimulation; II – Idealized Influence; IM – Inspirational Motivation; IC – Individual Consideration, and TL – Transformational Leadership

Cronbach's Alphas in brackets.

Transformational Leadership – Global index after summing up and averaging the scores

Ethical Integrity - Global index after summing up and averaging the scores

CSR - Global index after summing up and averaging the scores

**Table 1. Descriptive Statistics and Intercorrelations among Constructs using Spearman’s rho analysis (N = 48 firms<sup>a</sup>)**

The items of both constructs transformational leadership and leader's integrity were subjected to principal components analysis (PCA), using SPSS with a Varimax rotation. The Kaiser-Meyer-Olkin (KMO) values were 0.916, exceeding the recommended value of 0.6 (Tabachnik & Fidell, 2001), and Bartlett's Test of Sphericity reached statistical significance, thus supporting the adequacy of the sample. Convergent validity was assessed using the average variance extracted (AVE). All constructs have AVE values above the rule of thumb of 0.5 (Hair, Huly, Ringle, & Sarstedt, 2014). Discriminant validity was evaluated using the Fornell-Larcker method, which compares the square root of the AVE values with the latent variable correlations. AVE value for ethical integrity was 0.76, which is higher than any of the squared correlations of the other constructs, showing good discriminant validity among the constructs. Intra-class correlations were computed to test the reliability of ratings carried out by k raters (Shrout & Fleiss, 1979). All constructs exhibited values of ICC(1) from 0.45 to 0.52 ( $p < 0.01$ ), and ICC(2) from 0.75 to 0.78 ( $p < 0.01$ ), indicating moderate to strong agreement among raters (McGraw & Wong, 1996).

As Table 1 indicates, the average score of transformational leadership is 3.01 — slightly higher than that of similar previous studies (e.g. Bass & Avolio, 2008; Bass, 1985; Parry & Proctor-Thomson, 2002; Turner et al., 2002), which found levels of transformational leadership ranging from 2.16 to 2.68. Such differences may be explained by the fact that the current study focused on CEOs (instead of managers), who might be perceived by their followers as exhibiting more transformational leadership behavior than managers (Lowe, Kroeck, & Sivasubramaniam, 1996). Furthermore, the current results indicated that CSR has a significant positive correlation with transformational leadership, as well as with its four dimensions.

According to the data, CEOs' ethical integrity scored high, with 78% of CEOs registering mean scores above 3, with a global average of 3.13. These results are consistent with Craig and Gustafson's (1998) results (mean of 3.63), and Parry and Proctor-Thomson's (2002) results (mean of 3.73). In our study, only 10% of CEOs were rated below the mid-point on the PLIS scale, and a mere 2% were rated below the mid-point for integrity and transformational leadership scales. Arguably, these lower-rated CEOs might be considered as "pseudo transformational leaders," as proposed by Bass and Steidlmeier (1999), while the "truly transformational leaders" account for the remaining 90% of the sample. A positive significant correlation between transformational leadership and ethical integrity was also identified ( $r = 0.404$ ,  $p < 0.01$ ). Once again, these findings are consistent with Parry and Proctor-Thomson's (2002) findings, which also indicated a positive correlation between transformational leadership and perceived integrity. Indeed, authors such as Bass and Avolio (2008), Bass and Steidlmeier (1999), Burns (1978), Howell and Avolio (1992), Kuhnert and Lewis (1987), Parry and Proctor-Thomson (2002), and Turner et al. (2002), to name a few, have already provided strong support for the linkage between transformational leadership and perceived integrity. However, additional research is needed to develop a comprehensive leadership theory, incorporating an ethical dimension that might contribute to a definite distinction between "truly transformational leadership" and "pseudo transformational leadership."

Finally, the CEOs’ ethical integrity and firms’ strategic orientation to CSR were investigated. According to Table 1, no significant correlation exists between CEOs’ ethical integrity and firms’ strategic orientation to CSR, which is quite surprising, despite the support in extant literature (e.g. Freeman, 1984, 1994; Garriga & Melé, 2004; Jones & Wicks, 1999; Jones, 1995). The lack of empirical studies in this area does not help explain the reasons for this unexpected result, however, one has to assume that corporate culture and shared values should at least act as a moderator between CEOs’ moral values and firms’ strategic field (Freeman, 1984).

Data analysis was carried out via logistic regression, as data were not normally distributed, as shown by the skewness and kurtosis analyses. When checking for the presence of outliers, two cases were found above the critical values (Tabachnik & Fidell, 2001), and were deleted from the data. A new categorical dependent variable was created — “Firm Strategic Orientation to CSR,” which is defined as: (0) = “not at all orientated”, and (1) = “strongly orientated.” These two categories were created to break down the initial 0 to 5 scale into two subscales — 0 to 3 for the first category, and 4 to 5 for the second one. The objective was to determine if predictors (i.e., transformational leadership and ethical integrity) could distinguish between firms that were strongly orientated, and those that were not at all orientated to CSR. The results are in Table 2.

<b>OVERALL MODEL FIT</b>					
<b>Goodness of Fit Measures</b>		<b>Value</b>			
-2 Log likelihood (-2LL)		36.697			
Cox and Snell R <sup>2</sup>		0.448			
Nagelkerke R <sup>2</sup>		0.603			
		<b>Chi-square</b>	<b>df</b>	<b>Sig.</b>	
Omnibus Test		28.505	2	0.000	
Hosmer and Lemeshow Test		4.402	7	0.732	
<b>VARIABLES IN THE EQUATION</b>					
<b>Variable</b>	<b>B</b>	<b>S.E.</b>	<b>Wald</b>	<b>Sig.</b>	<b>Exp(B)</b>
Transformational Leadership	6.309	1.853	11.589	0.001	549.266
Ethical Integrity	-1.585	2.182	0.527	0.468	0.205
Constant	-15.208	8.532	3.178	0.075	0.000
<b>CLASSIFICATION TABLE</b>					
	<b>Predicted</b>				
<b>Observed</b>	<b>Not Or. to CSR</b>	<b>Or. to CSR</b>	<b>% Correct</b>		
Not Oriented to CSR	25	3	89.3%		
Oriented to CSR	5	15	75.0%		
<b>Overall Percentage</b>				83.3%	

Initial -2LL: 65.203; B = logistic coefficient; S.E. = standard error; Wald = Wald statistic; Sig.= significance level; Exp(B) = exponential coefficient.

Notes: <sup>a</sup>Two cases were deleted after checking for the presence of outliers.

**Table 2: Logistic Regression Model Results (N = 48 firms<sup>a</sup>)**

Transformational leadership, as a single construct, was found to impact the likelihood that firms are oriented to CSR ( $B = 6.309, p < 0.01$ ), as reported in Table 2. The model is statistically significant,  $\chi^2 (2, N = 48) = 28.505, p < 0.001$ , explaining between 44.8% (Cox and Snell  $R^2$ ) and 60.3% (Nagelkerke  $R^2$ ) of the variance in CSR status, while correctly classifying 83.3% of cases. Table 2 shows that only one of the independent variables made a statistically significant contribution to the model — transformational leadership, with an odds ratio of 549.27. Ethical integrity had no explanatory power. The first hypothesis H1 was supported by the empirical data.

A second logistic regression with a forward stepwise method was carried out on the second-level independent variables to assess the explaining power of the transformational leadership dimensions to predict the likelihood that firms are oriented to CSR. The findings are in Table 3.

<b>OVERALL MODEL FIT</b>					
<b>Goodness of Fit Measures</b>		<b>Value</b>			
-2 Log likelihood (-2LL)		33.691			
Cox and Snell $R^2$		0.481			
Nagelkerke $R^2$		0.648			
		<b>Chi-square</b>	<b>df</b>	<b>Sig.</b>	
Omnibus Test		31.511	2	0.000	
Hosmer and Lemeshow Test		3.907	7	0.790	
<b>VARIABLES IN THE EQUATION</b>					
<b>Variable</b>	<b>B</b>	<b>S.E.</b>	<b>Wald</b>	<b>Sig.</b>	<b>Exp(B)</b>
Inspirational Motivation	3.490	1.313	7.067	0.008	32.785
Individualized Consideration	2.753	1.159	5.642	0.018	15.697
Constant	-19.922	6.004	11.010	0.001	0.000
<b>VARIABLES NOT IN THE EQUATION</b>					
<b>Variable</b>	<b>Score</b>			<b>Sig.</b>	
Intellectual Stimulation	0.067			0.795	
Idealized Influence	1.086			0.297	
Ethical Integrity	0.915			0.339	
<b>CLASSIFICATION TABLE</b>					
	<b>Predicted</b>				
<b>Observed</b>	<b>Not Or. to CSR</b>	<b>Or. to CSR</b>		<b>% Correct</b>	
Not Oriented to CSR	24	4		85.7%	
Oriented to CSR	5	15		75.0%	
<b>Overall Percentage</b>				81.3%	

Initial -2LL: 65.203; B = logistic coefficient; S.E. = standard error; Wald = Wald statistic; Sig.= significance level; Exp(B) = exponential coefficient.

Notes: <sup>a</sup>Two cases were deleted after checking for the presence of outliers.

**Table 3: Logistic Regression Model Results (N = 48 firms<sup>a</sup>)**

The model is statistically significant,  $\chi^2(2, N = 48) = 31.511, p < 0.001$ , indicating that a distinction exists between firms that are oriented and not oriented to CSR. As a whole, the model explained between 48.1% (Cox and Snell  $R^2$ ) and 64.8% (Nagelkerke  $R^2$ ) of the variance, and correctly classified 81.3% of cases. The results demonstrated that only two independent variables have a statistically significant contribution to the model, namely: inspirational motivation and individualized consideration. Therefore, hypotheses H1b and H1d that state that inspirational motivation and individualized consideration are positively related with the strategic orientation to CSR were supported ( $B = 3.49, p < 0.01$ ;  $B = 2.753, p < 0.05$ ). The other two dimensions of transformational leadership — idealized influence and intellectual stimulation — quite surprisingly were not significantly associated with the dependent variable. Consequently, hypotheses H1a and H1c were not supported.

Finally, the results indicated that CEOs' ethical integrity neither predicted ( $p > 0.10$ ), nor was significantly correlated to strategic CSR ( $p > 0.10$ ). Despite the theoretical background linking these two variables (Freeman, 1984; Garriga & Melé, 2004; Jones & Wicks, 1999; Jones, 1995), no support was found for Hypothesis 2. As previously mentioned, this result was surprising and unexpected. Organizational culture and shared values may work as moderators between the two variables, requiring additional empirical studies to clarify this potential linkage.

## Discussion

The current study explored the relationship between CEOs' transformational leadership and firms' strategic orientation. Existing literature provides a conceptual linkage between CEOs' transformational leadership and firms' strategic orientation to CSR (B. M. Bass & Steidlmeier, 1999; Graham, 1995), assuming that transformational leadership enhances the development of strategies focused on the common interest of the community. Based on the results, CEOs' transformational leadership and firms' strategic orientation to CSR have a positive relationship, which is aligned with previous findings.

Focusing on the second-level dimensions of CEOs' transformational leadership, several researchers have demonstrated that idealized influence positively impacts followers' engagement to pursue CSR (B. M. Bass & Steidlmeier, 1999; Conger & Kanungo, 1994; Shamir et al., 1993; Waldman et al., 2006). Therefore, Hypothesis 1a outlines a positive relationship between CEOs' transformational leadership and firms' strategic orientation to CSR. However, no empirical evidence emerged to support this hypothesis in the present study, thereby corroborating the empirical findings of Waldman et al. (2006). Several factors can explain these findings — for instance, in financial crises, CSR expenditure could be counterproductive, regardless of the CEO's charismatic appeal. On the other hand, even CEOs with little charismatic appeal may attempt to pursue CSR - orientated strategies in order to improve the firm's image and reputation. In addition, other important factors, such as demands of certain stakeholder groups might impact

the firm's CSR strategic orientation, independently of the charismatic level of the CEO (Waldman et al., 2006).

Moving on to the second dimension, inspirational motivation is considered in the existing literature as having a focus on the good that can be achieved by the group, organization, or society for which the leader is feeling responsible (Bass & Steidlmeier, 1999). Hypothesis 1b refers to a positive relationship between inspirational motivation and firms' strategic orientation, which was confirmed by the empirical findings of this study.

Intellectual stimulation is mentioned in the reviewed literature as being a vehicle leading the followers to question the status quo and present new creative ways of achieving the firm's mission, as well as their conceptual capacity to think about the environmental context and to create strong relationships with stakeholders (Bass & Avolio, 2008; Bass, 1985; Boal & Hooijberg, 2000; Waldman et al., 2006). Hypothesis 1c maintains that CEOs' intellectual stimulation and firms' strategic orientation to CSR have a positive relationship. Contrary to our expectations, empirical findings in this study did not confirm this hypothesis. Surprisingly, the support provided by the theory and empirical data (Bass, 1985; Waldman et al., 2006) was not confirmed. This might be explained by the predominance of the emotional dimensions over the intellectual/rational ones in explaining the adoption of CSR strategies, specifically in the Portuguese context.

In addition, individualized consideration by which leaders are able to develop followers into effective transformational leaders when defining the organization's strategic plan in pursuing the common good of a community (Bass & Steidlmeier, 1999; Bass & Avolio, 2008; Bass, Waldman, Avolio, & Bebb, 1987) was tested. Hypothesis 1d posits that both CEOs' individualized consideration and firms' strategic orientation to CSR have a positive relationship. This hypothesis was also supported by the empirical findings, providing evidence that, in the participating firms, the "cascading effect" was truly effective in promoting a CSR - strategic orientation.

Based on the dominant paradigm of CSR, which postulates an alignment between firms' strategic and ethical concerns (Freeman, 1984; Garriga & Melé, 2004; Jones & Wicks, 1999; Jones, 1995), this probable link was investigated with Hypothesis 2. Despite all expectations, our findings did not provide any empirical evidence or support for this hypothesis. This might be explained by the moderating role of variables such as organizational culture and shared values. We believe that focusing exclusively on CEOs' ethical integrity will not show the "cascading effect" of the moral purpose instilled by CEOs in their followers — thus, a broader analysis of organizations' ethics is required.

## **Theoretical and Managerial Implications**

This study has contributed to the theoretical discussion of the importance of leadership characteristics in the implementation of CSR strategies. First, this study added to the debate regarding how transformational leadership might impact CSR-oriented strategies. Second, by confirming the positive relation between transformational leadership and firms' strategic orientation to CSR, the study provided additional arguments for researchers to include this topic when researching social responsibility strategies. Finally, this study contributed empirical work from Portuguese social contexts.

The new paradigm of transformational leadership has been deemed the most effective for firms' performance (Bass, 1985), and hence the true challenge for CEOs and managers alike will be to develop themselves into "truly transformational leaders". These transformational leaders will consequently be able to incorporate the creation of social, economic, and environmental factors as a strategic core value within organizations, following the triple bottom line philosophy. This should provide a holistic view of the organization, including its main stakeholders, as part of the strategic process.

## **Conclusion**

Theory has referred that transformational leadership enhances the development of strategies focused on CSR practices. This study has provided evidence from the participating firms that CEOs with transformational leadership characteristics do engage in CSR strategies. Furthermore, this study has identified the two most important characteristics of transformational leadership that impact on CSR strategies, namely: inspirational motivation and individualized consideration. These findings provide additional arguments for researchers to include transformational leadership — emphasizing both dimensions of inspirational motivation and individualized consideration — when pursuing studies on corporate social responsibility.

Despite following an exhaustive methods research and rigorous analysis procedures, the findings reported above should be interpreted in the light of several limitations that might hinder the results. The low response rate obtained from the 500 largest Portuguese companies may have conditioned the main conclusions, and should be considered as being more exploratory. In addition, focusing exclusively on the largest companies might limit generalization to smaller companies. A broader analysis should be conducted in order to obtain a more diversified reality in terms of leadership characteristics and CSR strategies. Furthermore, assessing the CEOs' ethical integrity as perceived by their subordinates poses ethical concerns for respondents. In fact, evaluators may be in a different stage of ethical development, and thus see their CEOs' behavior from a completely different ethical perspective.

Finally, this study analyzed the ethical qualities of the leader, but no analysis was carried out regarding organizational ethical values. These shared values within the organization might be directly related to CSR. The literature provides strong support for a link between CEOs' ethical integrity and transformational leadership, however, this relationship was not explored in the present study, as it would require a different approach and probably a specific research study on its own. Thus, we highly recommend that future researchers explore this relationship, using empirical methods.

## References

- Angus-Leppan, T., Metcalf, L., & Benn, S. (2010). Leadership styles and CSR practice: An examination of sensemaking, institutional drivers and CSR leadership. *Journal of Business Ethics*, 93(2), 189–213. <http://doi.org/10.1007/s10551-009-0221-y>
- Antonakis, J., Avolio, B. J., & Sivasubramaniam, N. (2003). Context and leadership: an examination of the nine-factor full-range leadership theory using the Multifactor Leadership Questionnaire. *The Leadership Quarterly*, 14(3), 261–295. [http://doi.org/10.1016/S1048-9843\(03\)00030-4](http://doi.org/10.1016/S1048-9843(03)00030-4)
- Avolio, B. J., Bass, B. M., & Jung, D. I. (1999). Re-examining the components of transformational and transactional leadership using the Multifactor Leadership Questionnaire. *Journal of Occupational & Organizational Psychology*, 72(4), 441–462. <http://doi.org/Article>
- Bass, B. M. (1985). *Leadership and performance beyond expectations*. New York: Free Press.
- Bass, B. M. (1990). *Bass and Stogdill's Handbook of Leadership: A Survey of Theory and Research*. (3rd Ed.). New York: Free Press.
- Bass, B. M., & Avolio, B. J. (2008). *Manual for the Multifactor Leadership Questionnaire, Manual and Sampler Set* (3rd ed.). Menlo Park, CA: Mind Garden, Inc.
- Bass, B. M., & Avolio, B. J. (2013). Transformational Leadership and Organizational Culture. *International Journal of Public Administration*, 17(1), 112–121.
- Bass, B. M., & Riggio, R. E. (2006). *Transformational Leadership*. New York: Psychology Press.
- Bass, B. M., & Steidlmeier, P. (1999). Ethics, character, and authentic transformational leadership behavior. *The Leadership Quarterly*, 10(2), 181–217. [http://doi.org/10.1016/S1048-9843\(99\)00016-8](http://doi.org/10.1016/S1048-9843(99)00016-8)
- Bass, B. M., Waldman, D. A., Avolio, B. J., & Bebb, M. (1987). Transformational Leadership and the Falling Dominoes Effect. *Group & Organization Management*, 12(1), 73. <http://doi.org/10.1177/105960118701200106>



- Berson, Y., & Avolio, B. J. (2004). Transformational leadership and the dissemination of organizational goals: A case study of a telecommunication firm, *15*, 625–646. <http://doi.org/10.1016/j.leaqua.2004.07.003>
- Boal, K. B., & Hooijberg, R. (2000). Strategic leadership research. *The Leadership Quarterly*, *11*(4), 515–549. [http://doi.org/10.1016/S1048-9843\(00\)00057-6](http://doi.org/10.1016/S1048-9843(00)00057-6)
- Bondy, K., Moon, J., & Matten, D. (2012). An Institution of Corporate Social Responsibility (CSR) in Multi-National Corporations (MNCs): Form and Implications. *Journal of Business Ethics*, *111*(2), 281–299. <http://doi.org/10.1007/s10551-012-1208-7>
- Burns, J. M. (1978). *Leadership*. New York: Harper and Row.
- Bycio, P., Hackett, R. D., & Allen, J. S. (1995). Further assessments of Bass's (1985) conceptualization of transactional and transformational leadership. *Journal of Applied Psychology*, *80*(4), 468–478. <http://doi.org/10.1037/0021-9010.80.4.468>
- Carless, S. A. (1998). Assessing the discriminant validity of transformational leader behaviour as measured by the MLQ1. *Journal of Occupational and Organizational Psychology*, *71*(4), 353–358. <http://doi.org/10.1111/j.2044-8325.1998.tb00681.x>
- Conger, J. A. Y. A., & Kanungo, R. N. (1994). Charismatic leadership in organizations : perceived behavioral attributes and their measurement, *15*(October 1993), 439–452.
- Craig, S. B., & Gustafson, S. B. (1998). Perceived leader integrity scale: An instrument for assessing employee perceptions of leader integrity. *The Leadership Quarterly*, *9*(2), 127–145. [http://doi.org/10.1016/S1048-9843\(98\)90001-7](http://doi.org/10.1016/S1048-9843(98)90001-7)
- Den Hartog, D. N., Van Muijen, J. J., & Koopman, P. L. (1997). Transactional versus transformational leadership: An analysis of the MLQ. *Journal of Occupational and Organizational Psychology*, *70*(1), 19–34. <http://doi.org/10.1111/j.2044-8325.1997.tb00628.x>
- Du, S., Swaen, V., Lindgreen, A., & Sen, S. (2012). The Roles of Leadership Styles in Corporate Social Responsibility. *Journal of Business Ethics*, *114*(1), 155–169. <http://doi.org/10.1007/s10551-012-1333-3>
- Elkington, J. (1997). *Cannibals with Forks: Triple Bottom Line of 21st Century Business*. Oxford: Capstone Publishing.
- Freeman, R. E. (1984). Strategic management: A stakeholder approach, 276. <http://doi.org/10.2139/ssrn.263511>
- Freeman, R. E. (1994). The Politics of Stakeholder Theory: Some Future Directions. *Business Ethics Quarterly*, *4*(4), 409–421. <http://doi.org/10.2307/3857340>

Garriga, E., & Melé, D. (2004). Corporate Social Responsibility Theories : Mapping the Territory Social Responsibility Corporate Theories : Mapping the Territory. *Journal of Business Ethics*, 53(1/2), 51–71. <http://doi.org/10.1787/9789264122352-de>

Goodwin, V. L., Wofford, J. C., & Whittington, J. L. (2001). A theoretical and empirical extension to the transformational leadership construct. *Journal of Organizational Behavior*, 22(7), 759–774. <http://doi.org/10.1002/job.111>

Graham, J. W. (1995). Leadership, Moral Development, and Citizenship Behavior. *Business Ethics Quarterly*, 5(1), 43–54. <http://doi.org/10.2307/3857271>

Hair, J. F., Huly, G. T. M., Ringle, C. M., & Sarstedt, M. (2014). *A Primer on Partial Least Squares Structural Equation Modeling (PLS-SEM)*. Thousand Oaks, CA: SAGE Publications.

Hemming, C., Pugh, S., Williams, G., & Blackburn, D. (2004). Strategies for sustainable development: use of a benchmarking tool to understand relative strengths and weaknesses and identify best practice. *Corporate Social-Responsibility and Environmental Management*, 11(2), 103–113.

House, R., & Aditya, R. (1997). The social scientific study of leadership: Quo vadis? *Journal of Management*, 23(3), 409–473. <http://doi.org/10.1177/014920639702300306>

Howell, J. M., Avolio, B. J., Jane, M., & Bruce, J. (1992). The ethics of charismatic leadership: submission or liberation? *Executive*, 6(2), 43–54. <http://doi.org/10.5465/AME.1992.4274395>

Hsu, K.-T. (2012). The Advertising Effects of Corporate Social Responsibility on Corporate Reputation and Brand Equity: Evidence from the Life Insurance Industry in Taiwan. *Journal of Business Ethics*, 109(2), 189–201. <http://doi.org/10.1007/s10551-011-1118-0>

Jensen, M. C. (2008). Non-rational behaviour, value conflicts, stakeholder theory, and firm behaviour. *Business Ethics Quarterly*, 18(2), 167–171. Retrieved from <http://philpapers.org/rec/JENNBV>

Jones, T. (1995). Instrumental Stakeholder Theory: A Synthesis of Ethics and Economics. *Academy of Management Review*, 20(2), 404–437. <http://doi.org/10.5465/AMR.1995.9507312924>

Jones, T., & Wicks, A. C. (1999). Convergent stakeholder theory. *Academy of Management Review*, 24(2), 206–221. <http://doi.org/10.5465/AMR.1999.1893929>

Kuhnert, K. W., & Lewis, P. (1987). Transactional and Transformational Leadership: A Constructive/Developmental Analysis. *Academy of Management Review*, 12(4), 648–657. <http://doi.org/10.5465/AMR.1987.4306717>

- Lichtenstein, B. M., Smith, B. A., & Torbert, W. R. (1995). Leadership and Ethical Development: Balancing Light and Shadow. *Business Ethics Quarterly*, 5(1), 97. <http://doi.org/10.2307/3857274>
- Lowe, K. B., Kroeck, K. G., & Sivasubramaniam, N. (1996). Effectiveness Correlates of Transformational and Transactional Leadership: A Meta-Analytic Review of The MLQ Literature. *The Leadership Quarterly*, 7(3), 385–415.
- Maon, F., & Swaen, V. (2015). From Eastern Dawn to Northern Lights: A Comparative Analysis of CSR Implementation Practices across Europe. In D. Sharma (Ed.), *Cultural Perspectives in a Global Marketplace* (pp. 132–133). Cham: Springer International Publishing. <http://doi.org/10.1007/978-3-319-18696-2>
- Matten, D., & Moon, J. (2008). “Implicit” and “Explicit” CSR: A Conceptual Framework for a Comparative Understanding of Corporate Social Responsibility. *Academy of Management Review*, 33(2), 404–424.
- McGraw, K. O., & Wong, S. P. (1996). Forming inferences about some intraclass correlation coefficients. *Psychological Methods*, 1(1), 30–46.
- McWilliams, A., & Siegel, D. (2000). Corporate social responsibility and financial performance: Correlation or misspecification? *Strategic Management Journal*, 21(5), 603. [http://doi.org/10.1002/\(SICI\)1097-0266\(200005\)21:5<603::AID-SMJ101>3.0.CO;2-3](http://doi.org/10.1002/(SICI)1097-0266(200005)21:5<603::AID-SMJ101>3.0.CO;2-3)
- McWilliams, A., & Siegel, D. (2001). Corporate social responsibility: A theory of the firm perspective. *Academy of Management Review*. <http://doi.org/10.5465/AMR.2001.4011987>
- McWilliams, A., & Siegel, D. S. (2011). Creating and Capturing Value: Strategic Corporate Social Responsibility, Resource-Based Theory, and Sustainable Competitive Advantage. *Journal of Management*, 37(5), 1480–1495. <http://doi.org/10.1177/0149206310385696>
- Nunnally, J. C., & Bernstein, I. H. (1994). *Psychometric Theory*. New York: McGraw-Hill.
- Parry, K. W., & Proctor-Thomson, S. B. (2002). Perceived Integrity of Transformational Leaders in Organisational Settings. *Journal of Business Ethics*, 35(2), 75–96.
- Phillips, R. a, Freeman, R. E., & Wicks, A. C. (2003). What Stakeholder Theory Is Not. *Business Ethics Quarterly*, (4), 479–502. <http://doi.org/10.2307/3857968>
- Russo, M. V, & Fouts, P. A. (1997). A resource based perspective on corporate environmental performance and profitability. *Academy of Management Journal*, 40(3), 534–559. <http://doi.org/10.2307/257052>

- Shamir, B., House, R. J., & Arthur, M. B. (1993). The Motivational Effects of Charismatic Leadership: A Self-Concept Based Theory. *Organization Science*, 4(4), 577–594. <http://doi.org/10.1287/orsc.4.4.577>
- Shrout, P. E., & Fleiss, J. L. (1979). Intraclass correlations: uses in assessing rater reliability. *Psychological Bulletin*, 86(2), 420–8. Retrieved from <http://www.ncbi.nlm.nih.gov/pubmed/18839484>
- Stevens, B., & Buechler, S. (2013). An Analysis of the Lehman Brothers Code of Ethics and the Role It Played in the Firm. *Journal of Leadership, Accountability and Ethics*, 10(1), 43–57. Retrieved from [http://www.na-businesspress.com/JLAE/stevens\\_abstract.html](http://www.na-businesspress.com/JLAE/stevens_abstract.html)
- Tabachnik, B. G., & Fidell, L. S. (2001). *Using Multivariate Statistics* (4th ed.). Boston, MA: Pearson Education.
- Tejeda, M. J., Scandura, T. A., & Pillai, R. (2001). The MLQ revisited: psychometric properties and recommendations. *The Leadership Quarterly*, 12(1), 31–52. [http://doi.org/10.1016/S1048-9843\(01\)00063-7](http://doi.org/10.1016/S1048-9843(01)00063-7)
- Turner, N., Barling, J., Epitropaki, O., Butcher, V., & Milner, C. (2002). Transformational leadership and moral reasoning. *Journal of Applied Psychology*, 87(2), 304–311. <http://doi.org/10.1037//0021-9010.87.2.304>
- Waldman, D. A., Siegel, D. S., & Javidan, M. (2006). Components of CEO transformational leadership and corporate social responsibility. *Journal of Management Studies*, 43(8), 1703–1725. <http://doi.org/10.1111/j.1467-6486.2006.00642.x>
- Wright, P., & Ferris, S. P. (1997). Agency Conflict and Corporate Strategy: The Effect of Divestment on Corporate Value. *Strategic Management Journal*, 18(1), 77–83.
- Yukl, G. (1999). An evaluation of conceptual weaknesses in transformational and charismatic leadership theories. *The Leadership Quarte*