

# Leader Ethical Behavior and Corporate Social Responsibility: The Moderating Role of Stakeholder Pressure

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## Abstract

This study examined the relationship between leader ethical behavior and corporate social responsibility (CSR) by focusing on the moderating role of stakeholder pressure. Analysis was made based on data collected from a sample of 352 domestic Ethiopian manufacturing firms. Employees were asked to rate their supervisor's ethical leadership practices, CSR, and the stakeholder pressure to adopt CSR they felt. We found that CEO ethical leadership positively influences corporate social responsibility. In addition, moderated path analysis indicated that stakeholder pressure strengthens the direct effect of CEO ethical leadership on corporate social responsibility. Theoretical and managerial implications of these results are also discussed.

**Keywords:** Corporate social responsibility, Ethical leadership, Stakeholder pressure

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## 1. Introduction

Corporate scandals have widely raised awareness and drawn attention to ethical issues in corporate governance. The growing body of research on ethical leadership, which is defined as "the demonstration of normatively appropriate conduct through personal actions and interpersonal relationships, and the promotion of such conduct to followers through two-way communication, reinforcement, and decision-making" (Brown et al. 2005, p. 120), serves as an example of the awareness and focus of researchers. According to recent cross-cultural research, managers in Asia, Europe, and the United States share a common concern about ethical leadership (Resick et al. 2011). Several followers' positive outcomes have been linked to ethical leadership, such as voice behavior (Walumbwa and Schaubroeck 2009), task significance, job autonomy, effort (Piccolo et al. 2010), and job security (Liu et al. 2013; Mayer et al. 2009).

The relationship between CEO ethical leadership and corporate social responsibility, which is broadly defined as "context-specific organizational actions and policies that take into account stakeholders' expectations and the triple bottom line of economic, social, and environmental performance," has received little attention despite these useful findings (Aguinis 2011, p. 855). Increased competitive advantage, attractiveness to institutional investors, and organizational reputation are just a few advantages that high levels of corporate social responsibility can offer to businesses, stakeholders, clients, and staff (for a review, see Aguinis and Glavas 2012). Even though previous studies have looked at the connection between CEO transformational leadership and corporate social responsibility (Waldman et al. 2006), it is clear that using CEO ethical leadership as opposed to transformational leadership to predict corporate social responsibility is limited. This is because ethical leadership more directly evaluates the ethical qualities of leaders than transformational leadership (Brown et al. 2005). Indeed, ethical leadership has been cited as a crucial precursor to corporate social responsibility by directors and high-level managers in a qualitative study (Yin and Zhang 2012). The first goal of our study is to investigate the effects of CEO ethical leadership above and beyond the effects of transformational leadership on corporate social responsibility in order to directly evaluate the effects of CEO leadership on corporate social responsibility using a quantitative method.

Moreover, previous research has largely neglected how leadership affects corporate social responsibility and the moderating mechanism has not yet been investigated. Applying stakeholder theory, recent research has focused on the moderating role of stakeholder pressure in explaining the relationship between ethical leadership and corporate social responsibility.

Furthermore, even if ethical leadership does influence corporate social responsibility, it is unknown whether there are any particular circumstances in which this relationship is most likely to materialize. Stakeholder theory is identified as a key moderator. This term refers to the amount of accountability that firms have to endure may explain why top executives exert more influence in some circumstances than in others (Hambrick and Finkelstein 1987). It is crucial to look at the unexplored boundary condition because it might reveal why the advantages of ethical leadership shouldn't be taken for granted. Hence, the second purpose of this study is to test the moderating role of stakeholder pressure with respect to the ethical leadership's effects on corporate social responsibility. Below, we review relevant literature and present the result of a multi-wave, multi-source study testing our hypotheses.

## **2. Conceptual Framework and Hypotheses**

### **2.1. Corporate Social Responsibility (CSR)**

There are numerous definitions of CSR offered by various academics. Carroll (1991) argues that a CSR company should aim to be profitable, operate within the bounds of the law, conduct its business in an ethical manner, and be a responsible corporate citizen. Legal, economic, ethical, and philanthropic social responsibilities were further defined by Carroll (1991) as four different categories. A company's legal responsibilities include operating the business within the law, while its economic responsibilities include working to increase the company's profitability. On the other hand, ethical obligations have to do with upholding the morally righteous standards of behavior and values. Finally, the firms' involvement in the betterment of society through various donations, charities, and other initiatives is covered by their philanthropic responsibilities.

Two points of view stand out in the ongoing discussion regarding the obligations of corporate management with regard to corporate social responsibility (Schwartz, 2001). The fundamentalist (Sohn, 1982; Klonoski, 1991), classical (Bowie, 1991), or "traditional view of the corporation" (Buchholz, 1991) claims that corporate management has a primary obligation to the shareholders and is required to work toward maximizing profits while abiding by the law. This opinion can be traced back to Milton Friedman (1962, 1970), an economist.

According to a second viewpoint on the proper functions of corporate management, in addition to serving the interests of its shareholders, managers also have a responsibility to a wide range of stakeholders (M. Schwartz, 2001). Peter Drucker (1973, 1995), who is regarded by many scholars as the father of management, also contended that businesses should have broader social responsibilities rather than focusing solely on financial performance.

Edward Freeman (1984) advanced a more optimistic view of leaders' support for CSR initiatives, building on the work of Chester Barnard's (1938) "inducement contribution" framework. According to Freeman's well-known stakeholder theory, managers should strive to please not only the company's shareholders but also a wide range of other stakeholders (such as employees, suppliers, customers, and local community organizations) who have the power to affect corporate outcomes. This point of view contends that participating in specific CSR initiatives can help a company retain stakeholders who might otherwise stop supporting it. The work of Donaldson and Preston (1995), who highlighted the moral and ethical dimensions of CSR as well as the business case for doing so, contributed to the further development of stakeholder theory.

According to M. Schwartz (2001), the majority of management literature generally holds that business has broad social roles and responsibilities to play. For instance, the discussion of appropriate managerial responsibilities is assumed to have been resolved in favor of this position in many business and society textbooks (e.g., Carroll & Buchholtz, 2006).

### **2.2. Ethical Leadership**

According to Brown et al. (2005) and Snell (2000), ethical leadership is the practice of normatively appropriate behavior in both personal and interpersonal contexts, as well as the active promotion of socially responsible behavior at all levels of an organization. It also involves maintaining a moral ethos through ethical communication and decision-making. According to Beauchamp and Bowie (1988), the foundations of ethical leadership are respect, service, justice, honesty, and community. According to the ethical leadership theory, the phenomenon is a combination of situational factors, such as a moral context, and personal traits, such as moral reasoning (Ciulla 2005; Brown and Trevio 2006). Having said that, our focus is more on how ethical leadership manifests itself in the workplace and affects employee behavior (Hemingway and Maclagan 2004).

According to ethical leadership theory, ethical leaders ensure that both internal and external stakeholders are treated fairly and with care in a consistent manner (Chiaburu and Lim 2008; Neubert et al. 2009). They also take interactional justice seriously. This entails making investments in the organization's employees, ensuring their personal development, involving other stakeholders in a way that fosters social consensus in the neighborhood, and conveying a sense of social responsibility.

As a result, ethical leaders are viewed as sincere and dependable by the followers they are responsible for (Brown and Trevio 2006; Neubert et al. 2009). Increased motivation and positive attitudes, including job satisfaction and organizational commitment, are the results of such trust in the leader (Neubert et al. 2009). Since they are accountable for both the welfare of their organization as a whole and for the welfare of their followers, ethical leaders consistently set an example of this behavior (Wood and Bandura, 1989). According to the social learning theory, this has an impact on their subordinates and encourages accountability (Brown and Trevio 2006). The consensus regarding reciprocal exchange and obligations is strengthened when the subordinates take ownership of organizational welfare in return for the leader's consistent stance on social responsibility (Anderson and Schalk 1998). As a result of ongoing moral management by the leader, a subtle form of goal alignment begins to occur (Brown and Trevio 2006). This encourages pro-social and extra-role behaviors in addition to the development of positive attitudes like job satisfaction and increased commitment to the organization (Neubert et al. 2009).

### 2.3. Stakeholder Pressure

According to Freeman (1984), a stakeholder is any person or group that has the potential to influence or be affected by an organization. It indicates the degree of responsibility that businesses must bear in relation to their actions and choices made when developing the product(s), obtaining raw materials, utilizing production systems, or using a distribution network to carry out their operations (Parmigiani et al., 2011).

According to stakeholder theory, "the ability of the firm to sell its products will be determined by the fit between the values of the corporation and its managers, the expectations of stakeholders, and the societal issues" (Freeman, 2004, p. 5). As a matter of long-term survival, a stakeholder approach emphasizes active management of the business environment, relationships, and the promotion of shared interests (Freeman and McVea, 2001).

Stakeholders have important roles to play in various ways. According to the literature on stakeholder theory, there are many different stakeholder types that put pressure on CSR and persuade businesses to adopt sustainable practices or goals (Zhu et al., 2005; Gonzalez-Benito and Gonzalez-Benito, 2006; Wolf, 2013). According to Zhu and Sarkis (2006), external stakeholders can influence or mobilize public opinion, and employee and managerial stakeholder pressure can lead to a positive feedback loop of proactive environmental strategies. Delmas (2001) discovered a strong and favorable relationship between competitive advantage and the involvement of external stakeholders (customers/clients, shareholders, community members, distributors, and regulatory agencies). Employees and mid-level managers are a couple of the stakeholders that have clout within the company.

### 2.4. CSR and Ethical Leadership

Incorporating moral principles into decision-making and establishing ethical standards within an organization are key responsibilities of ethical leaders (Minkes, Small, & Chatterjee, 1999). In order to create and maintain ethical cultures and ethical behavior within organizations, leaders at all levels are crucial (Avey, Palanski, & Walumbwa, 2011). Although early research (Robin & Reidenbach, 1987; Desai & Rittenburg, 1997; Agle & Caldwell, 1999) supported the idea that CEOs or top managers typically establish the ethical norms for corporations, other findings also demonstrate that middle managers were frequently the socially responsible change agents (Drumwright, 1994). Results showed that middle- and bottom-level managers in many companies operating in Uganda were largely responsible for initiating and overseeing CSR activities (Katamba, Kazooba, Mpisi, Nkiko, Nabatanzi-Muyimba, & Kekaramu, 2012). Leaders have the behavioral ability to influence followers' and coworkers' guiding values and principles in a positive way (Groves, 2014). According to earlier studies, ethical leadership was crucial for the internal motivation of behavior (Tu & Lu, 2013). An ethical leader is a person with strong moral principles that direct their behavior. In the same way that a moral manager serves as the company's ethics officer, an ethical leader acts in the best interests of other people and society when making decisions (Trevio, Hartman, & Brown, 2000; Trevio, Brown, & Hartman, 2003; Detert, Trevio, Burris, & Andiappan, 2007). Managers who act morally and demonstrate ethical leadership can help other people and society. As a result, these managers are concerned with the company's profitability as well as achieving it within the bounds of the law and morality (Carroll, 1991), since ethics calls for a higher standard of moral conduct than merely following the law.

According to Schwartz and Carroll (2003) and Harms, Wagner, and Glauner (2010), corporate social responsibility (CSR) refers to a set of actions that businesses undertake while abiding by the law and moral standards and which typically benefit a wide range of people and groups. An ethical leader's sense of responsibility to himself or herself and to the community is the foundation of a long-term focus on the interests and needs of future generations of society as well as the natural environment (Ferdig, 2007; De Hoogh & Den Hartog, 2008; Kalshoven, Den Hartog, & De Hoogh, 2011). Leaders' long-term views on success and their concern for the welfare of society and the environment are also rooted in this sense of responsibility. A company's policies and procedures must be ethically sound, and ethical leaders are also responsible for putting those policies into practice. For instance, according to Lambertson, Mihalek, and Smith (2005), leaders who care about ethical principles are less likely to demand that accountants materially alter financial results. As a result, they are more likely to hire outside auditors to keep an eye on their financial and accounting reports and disseminate information. Legal consultants are also used by ethical leaders to inform their organizations about ethical human resource practices and to uphold their commitment to putting customers' needs first. Kanungo and Mendonça (1996) included the leaders' environmental orientation in the measurement of ethical leadership in one of the few empirical studies on the role of ethical leadership in terms of CSR. The authors noted that ethical leaders are expected to have strong inner obligations and high moral standards, as well as possessing strong concerns for social and environmental issues as a result (Kanungo & Mendonça, 1996). According to Kanungo (2001), the moral basis of ethical leadership is an internalized norm of responsibility (or social responsibility), which serves as the foundation for a motive of moral altruism. Leaders' social responsibility (moral-legal standards of conduct, inner obligation, concern for others, concern about consequences, and self-judgment) has been linked to ethical leadership, according to De Hoogh and Den Hartog (2008).

Another crucial component of ethical leadership is fairness (Trevio, Brown, & Hartman, 2003; Brown, Trevio, & Harrison, 2005). An ethical leader is one who is prepared to engage in fair and open dialogue with various

stakeholders in order to reach genuine consensus, according to Bowen and Power (1993). Making fair decisions, acting in a trustworthy and honest manner, refraining from favoritism, and accepting accountability for one's own actions are all behaviors that fall under the fairness component (De Hoogh & Den Hartog, 2008). Through fair resource distribution and strategic resource linking, ethical leaders have a positive impact on corporate ethics. Leaders who place a high value on justice and fairness are more likely to allocate resources fairly among various stakeholder groups, businesses, and stakeholders. We see a connection between leaders' fairness, the expectation of being treated fairly by stakeholders, and the expected responsible activities given that business organizations are frequently under pressure to explain how their activities are just and fair to internal and external stakeholders (Logsdon, Thomas, & van Buren, 2006) and because CSR is also viewed as action that appear to further some social good beyond the interests of the firm (McWilliams & Siegel, 2001). On the basis of these justifications, we suggest the following hypothesis:

Hypothesis 1: Managers' ethical leadership has a positive influence on CSR implementation.

## **2.5. Moderating Role of Stakeholder Pressure**

According to the stakeholder theory, stakeholders are people or groups that have an impact on how well a company performs and the procedures it uses to accomplish its goals. Individuals and groups who make up a stakeholder may also have an impact on how a company conducts its business (Freeman, 1984). Stakeholders can be divided into internal and external groups based on how each one affects organizations (Maignan, Ferrell, & Ferrell, 2005). Employees, functional departments, and interested internal parties are examples of internal stakeholders. They play a crucial role in business performance, customer purchase intention, and employee satisfaction (Carter & Jennings, 2002; Brammer & Millington, 2004; Mohr & Webb, 2005). They are also crucial to a company's survival. In addition to customers, suppliers, and business partners, external stakeholders also include rival companies, the press, regulators, and the community (Miller & Lewis, 1991). From the perspective of motivation, internal stakeholders primarily contribute to organizational effectiveness through production decisions, while external stakeholders do so through participation decisions, which involve providing the organization with resources and assessing the organization's legitimacy (Fanelli & Misangyi, 2006).

The aforementioned hypotheses make the case that managers' ethical leadership or pressure from external stakeholders can influence CSR implementation. We also propose that the relationship between ethical leadership and CSR implementation is moderated by stakeholder pressure. When there is significant stakeholder pressure, ethical leadership has less of an impact on when CSR is implemented. In contrast, when there is little external stakeholder pressure for CSR implementation, ethical leadership becomes more crucial. For instance, businesses control their behavior to live up to the standards set by external stakeholders and to ward off threats from them (King & Lenox, 2000). Where managers exhibit poor ethical leadership, external stakeholder pressure becomes crucial in driving CSR initiatives. Therefore, we suggest the following hypothesis:

Hypothesis 2: Stakeholder pressure has a positive influence on CSR implementation.

Hypothesis 3: Stakeholder pressure moderates the relationship between ethical leadership and CSR implementation.

## **3. Methods**

### **3.1. Sample and Procedures**

#### **3.1.1. Samples**

352 Ethiopian workers who are employed in the manufacturing industry make up the study's sample. The sample companies are a variety of large and medium-sized businesses from two important industrial cities in Ethiopia (Addis Ababa and Dire Dawa) and three important regional states, covering a wide range of industries. Urban and suburban areas, as well as important regional towns, such as Dukem, Sebeta, and Gelan towns in the Oromia Regional State, Kombolch, Debre Brehan, and Bahir Dar towns in the Amhara Region, and Hawassa town in the SNNP and Sidama Region, are where most manufacturing companies in Ethiopia are concentrated. Together, these cities and regions of Ethiopia account for 86.56% of the country's GDP, 82.25% of the population, and 50% of the country's geographic area, according to the Central Statistics of Ethiopia (CSA), 2013. The organizations were chosen at random from the Ministry of Trade and Industry, Ethiopia, database to help ensure adequate variation. The organizations represented a wide range of industries, including non-metallic mineral products, chemical and chemical products, rubber and plastic products, textile and apparel products, leather and leather products, wood and pulp products, metal, construction, and engineering products. In comparison to the organizations in the database from which they were drawn, the participating organizations were evenly split by industry. A minimum of 100 employees were required for a firm to be included in the sample.

#### **3.1.2. Procedures**

The proposed hypotheses were tested using a questionnaire-based survey, a common method for gathering data from a large population (Saunders, 2011; Yukl, Mahsud, Hassan, & Prussia, 2013). The respondents gave their full consent to participate, and they were administered in the summer and fall of 2022. Additionally, respondents

were given the assurance that their answers would be kept private. The study's corresponding author made the data collection. The researcher had little knowledge of the sampled area, so assistant data collectors from Dire Dawa town, Oromia and SNNP regional states, and Addis Abeba city were recruited to help. The corresponding author alone was responsible for gathering the data from the Amhara regional state because that is where they live and work. All survey participants are university or college graduates, so even though English is not their first language, it is a language they can all speak and understand. In all Ethiopian higher education institutions, English is the language of instruction.

The information gathered from respondents who took part in these surveys was checked and cleaned for disinterested responses, outliers, inconsistent data, and blank responses. 352 questionnaires were discovered to be usable for the final analysis during this process, with questionnaires with few missing data being imputed, and 48 responses were discarded because they were either discarded because the respondent had given a neutral response to each item or because they were incomplete (significant parts were left blank). The result was a final data set of 352 observations, and the final response rate—calculated using the 400 questionnaires that were initially distributed—was 88%.

The sample respondents' average age was 33.78 (SD=6.757), and 77.8% of them were men. The respondents had an average tenure of 5.69 years (SD = 4.21) at their current positions, as shown in table 1. 30.7% of respondents were married, while 68.8% of respondents were single. Regarding the highest level of education attained during the survey, 25% had a master's degree, and 70.5% held a bachelor's degree, with the remaining participants holding a college diploma. Textile and apparel (18.2%), construction materials (13.1%), food and beverage (25%), and chemical & chemical products among others (11.9%) were the most common respondent industries.

Table 1 Descriptive statistics for demographic variables

<b>Demographics</b>	<b>Number of respondents (frequency)</b>	<b>% of total n</b>
<b>Gender</b>		
Male	274	77.8
Female	78	22.2
<b>Marital Status</b>		
Married	242	68.8
Single	108	30.7
Divorced	2	0.6
Widowed	-	-
<b>Age</b>	33.78 (Mean)	6.757 (SD)
<b>Educational Qualification</b>		
College/TVET diploma	16	4.5
First Degree	248	70.5
Master's degree and PhD	88	25
<b>Tenure</b>	5.69 (mean)	4.211 (SD)
<b>Industry</b>		
Food and beverage	88	25
Textile and apparel products	64	18.2
Leather & leather products	-	
Wood and pulp products	4	1.1
Metal, construction, engineering products	46	13.1
Non-metallic mineral products	34	9.7
Chemical and chemical products	42	11.9
Rubber and plastic products	74	21
<b>Role in the Organization</b>		
Non managerial employee	128	36.4
Lower level manager	88	25
Middle level manager	108	30.7
Top level manager	28	8

### 3.2. Measures

#### 3.2.1. Ethical Leadership

The Yukl et al. (2013) 15-item Ethical Leadership Scale (ELS) was used to evaluate ethical leadership behavior. The scale exhibits high reliability, stable uni-dimensionality, predictive validity, and discrimination from related constructs (Yukl et al. 2013). Several other empirical studies have since used this instrument (e.g., Mayer et al., 2012; Piccolo et al., 2010; Walumbwa & Schaubroeck, 2009; Walumbwa et al., 2011). Examples of such

statements are "Discusses business ethics or values with workgroup members" and "Sets an example of how to do things in terms of ethics." We calculated a group-level ethical leadership measure by averaging group members' assessments of their group supervisor in order to evaluate the overall pattern of leadership behavior displayed to the group as a whole. The idea of ethical leadership being conceptualized at the workgroup level is consistent with previous research (e.g., Mayer et al., 2009, 2012; Walumbwa & Schaubroeck, 2009), as well as with the idea that workers in the same workgroup are likely to encounter similar leadership behaviors (Kirkman, Chen, Farh, Chen, & Lowe, 2009; Shamir, Zakay, Breinin, & Popper, 1998; Walumbwa, Hartnell, At the group level, the internal reliability alpha was 0.94.

### 3.2.2. Corporate Social Responsibility

To assess corporate social responsibility, Turker (2009) developed a seventeen-item scale. One was designated as "strongly disagree," and five were designated as "strongly agree." Examples of the item include "Our company complies with the law fully and promptly" and "Our company protects consumer rights above and beyond the requirements of the law." The reliability of the scale was 0.91.

### 3.2.3. Stakeholder Pressure

We chose measuring tools for this study based on previous research, and the Likert scale response range for all items was from 1 (strongly disagree) to 5 (strongly agree). The six items that made up stakeholder pressure were taken from Sarkis et al., (2009). The sample item stated that my organization faces pressure from "government," "environmental organizations," "employees," etc.

### 3.2.4. Common Method Bias

We used a single source for all of our measured variables, raising the possibility of common method bias issues in self-reported measures. We conducted a factor analysis of all measures using the well-known Harman's one-factor method to investigate the probability of a single or dominant factor. The outcome did not support the existence of a dominant common factor. Thus, we came to the conclusion that common method bias did not seem to be a significant issue for this study. Furthermore, prior research indicates that interaction effects might not be common method bias artifacts; on the contrary, common method bias makes it challenging to detect interaction effects (Siemsen et al. 2010). The results pertaining to the second hypothesis, which deal with interaction effects, are therefore unlikely to be explained, at the very least, by common method bias.

Table 2 Factors used in the proposed models and their validity assessment

Factor	Items (ACRONYM)	Loading	AVE	Composite reliability	Cronbach's a
Ethical Leadership	strong concern for values	0.830	0.555	0.949	0.949
	communicates ethical standards	0.812			
	sets ethical example	0.762			
	honest and can be trusted	0.838			
	walks the talk	0.735			
	fair and unbiased	0.728			
	keep promises and commitments	0.825			
	acknowledges mistakes	0.627			
	honesty and integrity	0.733			
	opposes the use of unethical practices	0.812			
	needs of others above his/her	0.591			
accountability	0.687				
CSR to Employees	additional education	0.920	0.747	0.946	0.948
	develop their skills and careers	0.864			
	work & life balance	0.877			
	employees' needs and wants	0.885			
	decisions are fair	0.817			
CSR to Customers	labor law and regulations	0.796		0.935	0.932
	full and accurate information	0.852	0.826		
	respects consumer rights	0.946			
CSR to Government	Customer satisfaction	0.860		0.949	0.948
	pays its taxes	0.941	0.902		
CSR to Society,	complies with legal regulations	0.973		0.942	0.942
	contributes to campaigns	0.714	0.642		

Factor	Items (ACRONYM)	Loading	AVE	Composite reliability	Cronbach's a
Community and the Environment	natural environment	0.682			
	sustainable growth	0.752			
	makes investment on future	0.721			
	Supports NGOs	0.892			
	contributions to charities	0.943			
	Volunteer	0.721			
	donations for local dev'ts	0.851			
Stakeholder Pressure	Governments and regulatory agents	0.883	0.642	0.914	0.921
	Customers/consumers	0.921			
	Employees/unions	0.886			
	Shareholders/owners	0.780			
	Citizens/communities and social groups	0.693			
	NGOs and activists	0.668			

## 4. Results

### 4.1. Reliability and Validity

We used SPSS Amos to carry out a CFA to assess the discriminant validity of the three variables prior to testing the hypotheses. The CFA revealed that the two-factor model did not fit the data any better than the three-factor model ( $\chi^2 = 899.408$ ;  $p = .000$ , CFI = 0.932; RMSEA = 0.061) (Table 3). A minimum value of 0.9 is thought to be acceptable for the comparative fit index (CFI). Values under 0.08 are considered to be acceptable for the root-mean-square error of approximation (RMSEA) (Bagozzi & Yi, 1988). When compared with the two factor model, the proposed three-factor model (external stakeholder pressure, CSR, and ethical leadership) fit the data more effectively. This demonstrated the construct distinctiveness of external stakeholder pressure, ethical leadership, and CSR.

Table 3 Goodness-of-fit indices of the two models.

Indices	Recommended	Direct Model (Two Factor)	Moderated model (Three Factor)
$\chi^2$	-	1204.69	899.408
df	-	800	546
p	$\approx 0.0$	0.000	0.000
$\chi^2/df$	(<3.0)	1.506	1.647
GFI	>0.8 (Dawes et al., 1998)	0.858	0.876
RMSEA	<0.08 (Hair et al., 2019)	0.054	0.061
CFI	>0.9	0.933	0.932
IFI	(Hair et al., 2019)	0.934	0.933

Source: Authors' estimation. Notes: Goodness of fit is calculated in SPSS AMOS.

### 4.2. Hypotheses Testing

CSR was regressed on stakeholder pressure, ethical leadership, and their interaction term. According to Table 5, stakeholder pressure and ethical leadership were positively related to CSR implementation ( $\beta = 0.58$ ,  $p < 0.01$ ;  $\beta = 0.16$ ,  $p < 0.1$  respectively). So, H1 and H2 are accepted. The interaction between perceived stakeholder pressure and ethical leadership was negatively related to CSR activities, as shown in Table 5 when the interaction terms were entered in the final step ( $R^2 = 0.38$ ). Stakeholder pressure was significant for regressions of CSR at both low and high levels of ethical leadership, though the relationship was significantly inverse at the latter. The findings show that Hypothesis 2 is supported.

We plotted the interactive effect as suggested by Aiken and West (1991). Figure 3 below illustrates that under high levels of ethical leadership and low levels of ethical leadership, the relationship between stakeholder pressure and CSR activity weakened and strengthened, respectively.

Table 4 Descriptive statistics and correlations

Variable	Mean	SD	1	2	3
Ethical leadership	3.4322	.76653	<b>0.745</b>		
Stakeholder pressure	3.0083	0.61675	0.192*	<b>0.795</b>	
Corporate social responsibility	3.4596	0.92466	0.610***	0.277**	<b>0.739</b>

Notes: N=352, Significance of Correlations: † p < 0.100; \* p < 0.050; \*\* p < 0.010; \*\*\* p < 0.001

Bolded diagonal elements are the square root of average variance extracted (AVE). These values should exceed the inter-construct correlations (off-diagonal elements) for adequate discriminant validity.

Table 5 Antecedents of institutional CSR: standardized coefficients

	CSR
Ethical leadership	<b>0.58</b>
Stakeholder pressure	<b>0.16</b>
Ethical leadership X Stakeholder pressure	<b>0.02</b>
R <sup>2</sup>	<b>0.40</b>
ΔR <sup>2</sup>	<b>0.02</b>

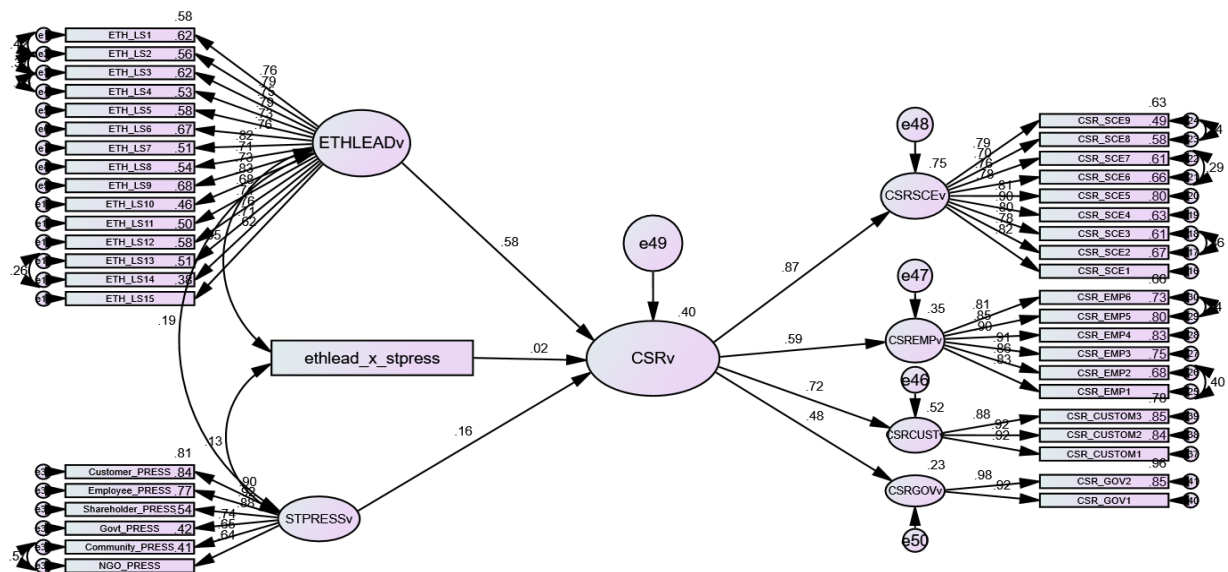


Fig. 1. Structural equation model incorporating stakeholder pressure variable as a moderator (Model 2).

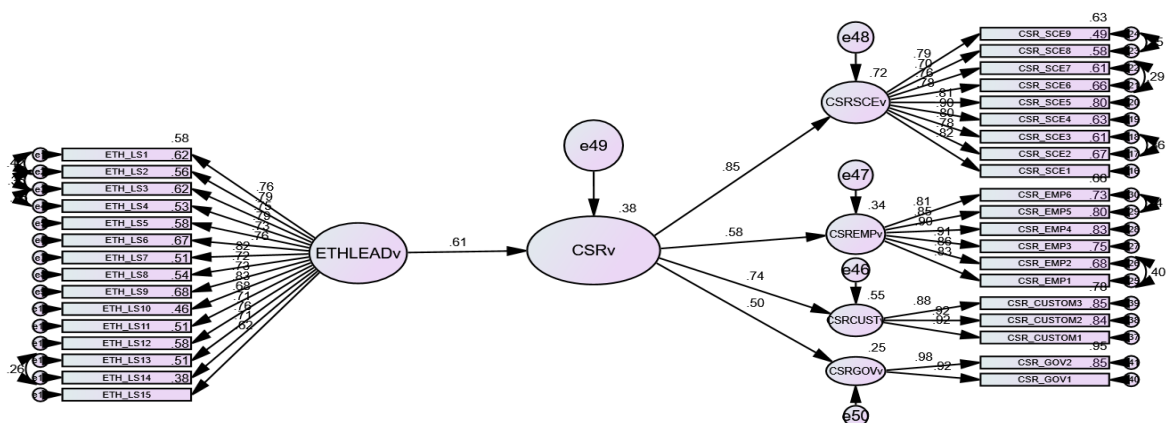


Fig. 2. Structural equation model for the direct relationships between ethical leadership and institutional CSR practices (Model 1).



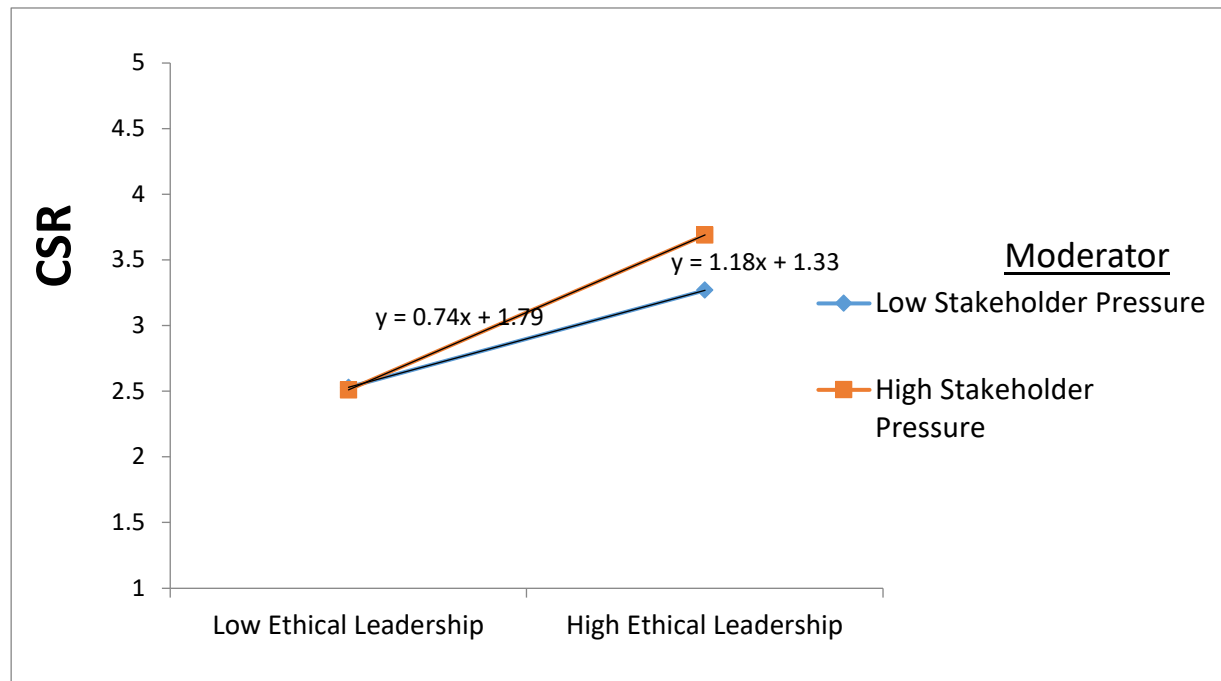


Figure 3. The Interactive Effects of Stakeholder Pressure and Ethical Leadership on Corporate Social Responsibility (CSR) Implementation (N = 352 respondents)

## 5. Discussion

### 5.1. Theoretical Implication

For the study of external stakeholder pressure, ethical leadership, and CSR implementation, this study has a number of theoretical ramifications. The current study tries to expand the study of CSR in emerging markets, especially in Africa, toward understanding the impact of external stakeholder pressure and internal ethical leadership on CSR implementation. Reviews of CSR studies within the emerging economy context, especially in Ethiopia, are currently lacking.

Our research has created a framework by demonstrating the importance of stakeholder pressure and ethical leadership as CSR drivers. On the one hand, the understanding of CSR implementation in Ethiopia is improved by considering stakeholder pressure as a precursor to CSR. Although Ethiopia's economy is rapidly expanding, Ethiopian businesses have come under fire for not implementing CSR. Ethiopia's central and local governments, as well as the general public, have recently changed their focus from purely economic development to harmonious development as a result of growing awareness of the negative effects of rapid development. So it makes sense to want to know how businesses react to stakeholder pressure.

However, this study is one of a select few that examines CSR implementation from both internal and external angles. Leaders' internal initiatives (such as codes of ethics and employee justice) and responsive activities (such as transparency and environmental proactivity) are two ways that voluntary CSR is demonstrated. The role of organizational leaders has been largely ignored in previous research, which has largely concentrated on the impact of stakeholder pressure on CSR implementation (e.g., Brammer & Millington, 2004; Baron, 2009). Our findings contribute to the existing CSR literature by demonstrating that an organization can act either more reactively in response to stakeholder demands or more pro-actively when led by ethical managers.

We looked further into their complementary roles in advancing CSR and discovered an interactive effect between stakeholder pressure and ethical leadership on CSR, in addition to looking at the direct effects of stakeholder pressure and ethical leadership on CSR. This finding paints a clearer picture of how internal and external factors interact to affect how CSR is implemented by organizations, as well as how the two variables support one another in both high- and low-ethical leadership situations.

### 5.2. Managerial and Organizational Implications

The findings of this study also have a number of practical ramifications, particularly for businesses in Africa and Ethiopia specifically. First, given the significance of stakeholders, it makes sense for organizations to use stakeholders as a motivator for CSR activity performance. Our study's findings indicate that the more stakeholders pressurize a company, the more likely it is that the company will respond by taking CSR initiatives. Therefore, we advise managers to adopt a proactive stakeholder approach by successfully addressing the demands and pressures of the stakeholder. Organizations can set up a communication system so that the stakeholders can voice their

concerns in order to better understand their concerns. Second, the findings indicate that, regardless of the external circumstances, businesses with ethical managers are more likely to implement CSR policies. Employing leaders who uphold their moral principles consistently and think about the ethical ramifications of their choices makes sense. To hire ethical leaders, we advise that businesses employ selection procedures that gauge a managerial candidate's moral character or outlook on life. Third, the negative relationship between stakeholder pressure and ethical leadership further suggests that the presence of less ethical leaders is constrained by external stakeholder pressure.

### 5.3. Limitations and Further Research

The same questionnaire may lead to common method variance even though our company-level aggregated data were derived from both employees and middle-level managers. The endogeneity issue could be alleviated by the cross-sectional design. Future research should think about including a measure of CSR implementation by stakeholders and customers to get around these limitations. Since they frequently experience stakeholder pressure most acutely and are responsible for implementing CSR within the organization, asking top-level managers about their perceptions of stakeholder pressure seems more appropriate. Research that looks at various CSR facets would increase the confidence in the study's findings.

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**Appendix: Survey Instrument**

<b>Ethical Leadership Style</b>						
<b>№</b>	<b>Survey Item</b>	<b>Strongly disagree</b>	<b>Disagree</b>	<b>Neutral</b>	<b>Agree</b>	<b>Strongly agree</b>
1	My boss shows a strong concern for ethical and moral values.	1	2	3	4	5
2	My boss communicates clear ethical standards for members.	1	2	3	4	5
3	My boss sets an example of ethical behavior in his/her decisions and actions.	1	2	3	4	5
4	My boss is honest and can be trusted to tell the truth.	1	2	3	4	5
5	My boss keeps his/her actions consistent with his/her stated values (“walks the talk”).	1	2	3	4	5
6	My boss is fair and unbiased when assigning tasks to members.	1	2	3	4	5
7	My boss can be trusted to carry out promises and commitments.	1	2	3	4	5
8	My boss insists on doing what is fair and ethical even when it is not easy.	1	2	3	4	5
9	My boss acknowledges mistakes and takes responsibility for them.	1	2	3	4	5
10	My boss regards honesty and integrity as important personal values.	1	2	3	4	5
11	My boss sets an example of dedication and self-sacrifice for the organization.	1	2	3	4	5
12	My boss opposes the use of unethical practices to increase performance.	1	2	3	4	5
13	My boss is fair and objective when evaluating member performance and providing rewards.	1	2	3	4	5
14	My boss puts the needs of others above his/her own self-interest.	1	2	3	4	5
15	My boss holds members accountable who violate ethical standards.	1	2	3	4	5

<b>Corporate Social Responsibility (CSR)</b>						
<b>№</b>	<b>Survey Item</b>	<b>Strongly disagree</b>	<b>Disagree</b>	<b>Neutral</b>	<b>Agree</b>	<b>Strongly agree</b>
<b>CSR to Employees</b>						
1	Our company supports employees who want to acquire additional education.	1	2	3	4	5
2	Our company policies encourage the employees to develop their skills and careers.	1	2	3	4	5
3	Our company implements flexible policies to provide a good work & life balance for its employees.	1	2	3	4	5
4	The management of our company is primarily concerned with employees’ needs and wants.	1	2	3	4	5

<b>Corporate Social Responsibility (CSR)</b>						
<b>№</b>	<b>Survey Item</b>	<b>Strongly disagree</b>	<b>Disagree</b>	<b>Neutral</b>	<b>Agree</b>	<b>Strongly agree</b>
5	In our company, the managerial decisions related with the employees are usually fair.	1	2	3	4	5
6	Our organization adheres to the Ethiopian labor law and regulations.	1	2	3	4	5
<b>CSR to Customers</b>						
7	Our company provides full and accurate information about its products to its customers.	1	2	3	4	5
8	Our company respects consumer rights beyond the legal requirements.	1	2	3	4	5
9	Customer satisfaction is highly important for our company.	1	2	3	4	5
<b>CSR to Government</b>						
10	Our company always pays its taxes on a regular and continuing basis.	1	2	3	4	5
11	Our company complies with legal regulations completely and promptly.	1	2	3	4	5
<b>CSR to Society, Community and the Environment</b>						
12	Our company contributes to campaigns and projects that promote the well-being of the society.	1	2	3	4	5
13	Our company implements special programs to minimize its negative impact on the natural environment.	1	2	3	4	5
14	Our company participates in activities which aim to protect and improve the quality of the natural environment.	1	2	3	4	5
15	Our company targets sustainable growth which considers future generations.	1	2	3	4	5
16	Our company makes investment to create a better life for future generations.	1	2	3	4	5
17	Our company supports nongovernmental organizations working in problematic areas.	1	2	3	4	5
18	Our Company makes sufficient and regular monetary contributions to charities.	1	2	3	4	5
19	Our organization encourages employees to volunteer and participate in community development activities.	1	2	3	4	5
20	Our organization provides financial support and donations for local community development projects.	1	2	3	4	5

<b>Stakeholder Pressure</b>						
Please assess to what extent you feel pressure from the following stakeholders to adopt (implement) CSR practices.						
<b>Key: 1 = Never 2 = Rarely 3 = Sometimes 4 = Often 5 = Always</b>						
<b>№</b>	<b>Survey Item</b>	<b>Never</b>	<b>Rarely</b>	<b>Sometimes</b>	<b>Often</b>	<b>Always</b>
1	Governments and regulatory agents	1	2	3	4	5
2	Customers/consumers	1	2	3	4	5
3	Employees/unions	1	2	3	4	5
4	Shareholders/owners	1	2	3	4	5
5	Citizens/communities and social groups	1	2	3	4	5
6	Nongovernmental organizations and activists	1	2	3	4	5