Transformational leadership style and social responsibility of employees in economic corporations: a study on Sarmayeh Bank of Iran

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Abstract: In our dynamic era, observing the social responsibility has become an essence for each organisation. In addition, some researchers believe that observing social responsibility by the corporations is one of the perquisites of gaining profits, since today customers are very sensitive to ethical issues. The current study aims to examine a conceptual model relating to the association between the transformational leadership style and social responsibility of the employees in Sarmayeh Bank. This organisation has 400 employees and our sample size is 196. Second generation statistical tools are utilised for data analysis. Based upon the research findings, all four dimensions of transformational leadership style have significant and positive impact 0n employees' CSR activities. This study reveals the importance of the relationship between leadership style and employees' social responsibility; meanwhile, using this research's results, managers will be able to formulate suitable strategies for developing social responsibility by acquiring a dynamic approach to their leadership style.

Keywords: social responsibility; legal responsibility; ethical responsibility; humanitarian responsibility; economic responsibility; transformational leadership; idealised influence; inspirational motivation; intellectual stimulation; individualised consideration.

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1 Introduction

Leadership styles and corporate social responsibility are among the managerial topics which many researchers have examined and analysed them in different organisations all over the world. According to Macassa et al. (2017), in recent decades, corporate social responsibility (CSR) as a part of socially sustainable businesses has become a common practice in both developed and developing countries. In addition, Asrar-ul-Haq and Kuchinke (2016) believe that leaders have significant influence on subordinates and this significance of leadership style increases in the services sector, as it has a direct impact on economic development; meanwhile, the development and growth in services sector

ensures the overall growth of national economy, especially in a developing country. We have to take in mind that Leadership style influences organisational culture and even personnel's productivity and also main strategies in the organisation (Ahmadi et al., 2011). In recent years, society and many organisations have been paying increasing attention to the social responsibilities of organisations towards various stakeholder groups. Interaction with corporate stakeholders can be an appropriate mean of better understanding of stakeholders' demand (Amran et al., 2015). To ensure the fulfilment of social responsibilities of organisations towards society, CSR should be embedded in day-to-day operations and managerial decision-making (Mehralian et al., 2016). A combination of different leadership styles in the life span of an organisation as well as knowing when to bring in the required leadership style with respect to the phase of the organisation's growth is very important for the profitability and sustainability of business organisations (Esowe et al., 2017). Leadership style and technique are fundamentally the manifestation of setting direction practice capable of triggering two other core practices, i.e., developing people and redesigning organisation (Fitriati et al., 2014). Leadership styles have been classified and categorised in a variety of ways and different styles have been shown to be more effective in different situations. Choosing the right leader to manage a given crisis is clearly not a one-size-fits-all proposition. Placing the wrong leader at the helm in a crisis situation can virtually guarantee a catastrophic result (Bowers et al., 2017). A leader transforms an organisation into a real organisation (Suyanto and Nurhaeni, 2017).

This study aims to examine the leadership styles in economical corporations, and since the leadership style of these companies have some effects on social responsibility; the current research is seeking to find if the specific leadership style will lead to accelerate more responsibility. Also, the current research intends to answer this question: What is the impact of four dimensions of transformational leadership style on social responsibility of employees in Sarmayeh Bank?

It is needed to be added that Sarmayeh Bank is sixth Iranian private bank, ran from 2005 and is one of the most successful banks and is known as one of the active organisations in social responsibility activities.

2   Literature review and hypothesis development

2.1   *Leadership styles*

In recent decades, most successful organisations have utilised the famous leaders and managers and have been able to appropriately supervise the behaviours and performances of the employees (Ali et al., 2015). The successful leaders are able to fulfil the dynamic and routine activities and leadership styles can influence the activities and outputs greatly (Muthuveloo et al., 2014). The theories and previous methods have focused on what the leaders do, how they encounter the problems, and which leadership styles they follow. There are some misunderstandings about the concept of leadership among the various parties. Some of them think that the leadership is related to the first person or the more powerful person in a society or corporation.

In addition, Iles and Preece (2006) argue that leadership is a social process engaging members of a community. Moreover, Jogulu (2010) concludes that variations in leadership styles are because of cultural influences since people have different beliefs and

assumptions. Furthermore, Sabir et al. (2012) address the ethics for leaders so that ethical leaders have strong ethical norms and values which create supportive character for themselves and others.

According to Howes (2011), "leadership has been defined in many ways, and no definition of leadership could be considered complete and absolute." In addition, Schein (1992) defines leadership as the creation and management of culture and believes that leadership and culture are two sides of the same coin. Moreover, Arnold (2007) defines leadership in terms of character, attitude, interaction, and relation. Based upon the ideas of Northhouse (2010), there are four common themes in leadership as follows:

1   Leadership is a process.

2   Leadership involves influence.

3   Leadership occurs in group context.

4   Leadership involves goal attainment.

Regardless of defining leadership by everyone, Ali (2012) believes that leadership typically involves an element of vision and a vision provides right direction to the influence process so that a leader (or group of leaders) may have one or more visions towards future to help them to fetch a group towards this goal successfully. It is close to impossible to determine the exact leadership style that would work best in a large group expedition. Groups of any size are incredibly diverse and unique. It is hard to classify and even harder to satisfy their needs and wants. The leadership style that would work best in upholding a positive group dynamic would be a dynamic leadership style. A leader should be able to mould to the group given to them, demonstrating the ability to choose from a number of leadership styles and then applying it appropriately to the group (Val and Kemp, 2012).

Understanding the various leadership styles including their potential benefits and limitations will help organisations and leaders improve performance and respond to the changes in resources, technologies, marketing methods, and distribution systems because of market globalisation (Özer and Tınaztepe, 2014). Leadership styles have been classified and categorised in a variety of ways and different styles have been shown to be more effective in different situations (Bowers et al., 2017). Most organisations faced with a crisis will rely on the leader in place at that time to lead them out of the crisis, often with disastrous results. When the crisis gets out of hand, these organisations realise belatedly that the current leader does not necessarily possess the leadership style required to manage the crisis effectively (Bowers et al., 2017). Sharma and Jain (2013) quote that: "Good leaders are made not born. If you have the desire and willpower, you can become an effective leader. Good leaders develop through a never ending process of self-study, education, training, and experience." Leadership behaviours are one of the factors that may lead to the success of business. To keep leading in a challenging environment, a leader must keep learning and highly responsible on their tasks and subordinates. Responsibility of a leader is not easy because it needs high commitment in accomplishing the task. There are two types of leadership styles which explain below (Ali et al., 2015).

Behaviour-oriented strategies, expressed by divergent processes directly determined people-oriented leadership styles. Results shed new light on what can be considered as typical behaviour of organisational leaders in the context of strategic thinking determination for human resources management and work effectiveness in the

organisation. Researchers indicate that processes of mental operationalisation of actions are particularly important during implementation processes in organisation. Thus, in order to examine leadership styles' determinants, the cognitive perspective should be extended (Bajcar et al., 2015).

Previous studies had discovered that different styles of leadership have been applied in different organisations, cultures and working frames (Jauhar et al., 2017). According to a 2015 research by Liphadzia et al., researches on leadership have proposed a number of leadership styles such as democratic, autocratic, consultative, and joint decision making types. Eyal and Kark (2004) address the three leadership styles named transformational, transactional or monitoring, and laissez-faire or passive-avoidant in examining the related theory and research on transformational leadership. Transformational leadership is an appropriate style for the leadership of creative people. In particular, intellectual stimulation and inspirational motivation should be applied when leading creative individuals and innovators. However, intellectual stimulation is an area of leadership that would benefit from development amongst leaders. In addition, the most transformational leaders are creative as well, which indicates that they are in good position to lead innovators. The results can be used in identifying the most transformational and creative individuals to increase the variety of personalities amongst leaders, especially when innovation is called for (Uusi-Kakkuri, 2017). Based on Asrar-ul-Haq and Kuchinke (2016), transformational leadership style has the greatest effect on some variables such as effectiveness, satisfaction, extra effort, and organisational commitment. Liphadzia et al. (2015) classify the leadership as transactional leadership, charismatic leadership, transformational leadership, democratic leadership, laissez-faire leadership, and authoritarian leadership. Adequate leadership is a vital key to the successful performance of any firm or business (Liphadzia et al., 2015).

Leadership style may increase organisational learning and pave the way for achieving the goals of an organisation. A leader of an organisation can improve the organisational learning and social capital of employees through adopting different leadership styles and increase self-confidence, innovation and mental stimulation in his group (Golmoradi and Ardabili, 2016). Leadership has a stronger effect on the attitude of employees towards their jobs. The role of leaders in today's organisations has changed and the success of any organisation relies on the leadership styles practiced by the leaders. Effective leaders who possess good leadership styles have the ability to moderate or minimise the organisational politics perceptions hence increasing job satisfaction. Therefore leadership style and organisational politics both are important factors that may affect employee's satisfaction regarding their job (Saleem, 2015). Social psychologist Kurt Lewin (1890–1947) defined and differentiated three major classical leadership styles. Many consider Lewin to be the founder of social psychology and management theory as well as leadership studies. After extensive experiments in group dynamics and leadership, he developed the concept of leadership climate. Based on this concept, Lewin defined three types of leadership climates: democratic, authoritarian and laissez-faire. Further, the choice of leadership style depends on the needs associated with making a decision (Rahbi et al., 2017). Some studies found that transformational leadership behaviours are significantly and positively correlated with courtesy, altruism, sportsmanship, conscientiousness, civic and virtue (Podsakoff et al., 2000).

2.2 CSR and employees

CSR can be described in two ways: CSR is a general term and includes various kinds of established theories and methods and enterprises are responsible for affecting society, natural environment and sometimes individuals' responsibility and legal compliance (Doshmanli et al., 2018). Business corporations, whose primary concern has traditionally been emphasised on shareholder value maximisation, are progressively adopting CSR and corporate sustainability practices (Amran et al., 2013; Amran and Ooi, 2014). Sustainability is a pattern of resource use which meets the needs of the present without compromising the ability of future generations to meet their needs (Nejati et al., 2010).

CSR is a concept which has become dominant in business reporting. Every corporation has a policy concerning CSR and produces a report annually detailing its activity. The broadest definition of CSR is concerned with what is – or should be – the relationship between global corporations, governments of countries and individual citizens. More locally the definition is concerned with the relationship between a corporation and the local society in which it resides or operates. Another definition is concerned with the relationship between a corporation and its stakeholders (Crowther and Aras, 2008).

The terminology used to refer to social responsibility is important, having particular connotations in different locations and constituencies. What constitutes the 'social responsibility' (SR) of enterprises and other organisations is difficult to define. In addition, there is by no means consensus that SR is a useful or desirable concept at all. According to Waddock (2004) CSR, defined as "the broad array of strategies and operating practices that a company develops in its efforts to deal with and create relationships with its numerous stakeholders and the natural environment."

CSR activities are manifest in organisational programs that protect and improve societal welfare, ranging from cause-related marketing, employee benefits, community outreach, to eco-friendly or sustainable business practices (Du et al., 2013). CSR has been a topic of concern for many years, but it has never been static, always evolving to become today's CSR that is not only about moral responsibility but also about business benefits. Van Weele (2010) argues that the idea of CSR is related to developing business solutions so that requirements of the current world population are met without imposing any harm to the requirements of future generations. Whilst some authors have argued that CSR is a way of mitigating risk, there is evidence that it can also bring more positive outcomes for firms that embrace it. While it is the decision of the firm to implement sustainable requirements, the dangers for not complying cannot be over emphasised (Mushanyuri, 2013).

There are many approaches how to define CSR (instrumental theories, political theories, integrative theories, ethical theories), since this area does not have clearly defined boundaries and is based on a voluntary basis of the company (Jankalova, 2016). CSR is a major concern for companies, policy makers and researchers. In recent years scientists and managers have devoted greater attention to the strategic implications of CSR (Slavova, 2013). According to Elghandour and Adel (2016) the continuing increase in the number of CSR rating institutions has tuned social responsibility into a product utilised by firms for the benefits of its stakeholders, rather than an opportunity for innovation and development of the business and the society. Companies engage in CSR mainly because they can reap some kind of benefits from such engagement. It is thus necessary to have a CSR notion which is able to address this important feature. The

differing views regarding the role of business in society are often presented as being placed within the stakeholder-shareholder debate (Branco and Rodrigues, 2007). Haski-Leventhal et al. (2017) assume that employee's CSR engagement is a combination of behaviour and employee's social responsible identity which is about to promote social good (Haski-Leventhal et al., 2017). Past researches has highlighted the importance of employees on CSR field and stated that they are the most important party who carries the responsibility for implementing CSR activities (Aguilera et al., 2007, Rupp et al., 2013). The importance of employees to act as an ambassador for organisation's CSR activities has been highlighted by McShane and Cunningham (2012).

2.3   CSR and transformational leadership

We expect transformational leadership to inspire more CSR practices, for many different reasons. One is that transformational leadership is related to ethics (Groves and LaRocca, 2011). Many researchers believe that transformational leaders are value oriented and ethical (Bass and Steidlmeier, 1999). Current theoretical (Pless and Maak, 2011) and qualitative (Angus-Leppan et al., 2010) researches also show that transformational leaders are likely to exhibit ethical, or responsible, leadership behaviours.

On the other hand, Waldman et al. (2006) show that transformational leaders intellectually stimulating ones, think vastly about the environmental context and the manner in which various organisational stakeholders are served. They find that the intellectual stimulation factor of transformational leadership is positively associated with CSR practices. Transformational leaders' broader view of the firm should stimulate organisational learning and foster institutional CSR practices (Vera and Crossan, 2004). Overall, it is believed that firms with transformational leadership will have more CSR practices. If leaders can provide a sense of purpose for the CSR activities, employees will recognise issues of CSR as a part of their daily practice and engage themselves in CSR-related actions.

Waldman et al. (2006) studied the transformational leadership factors of CEO's in 112 large US and Canadian companies and the correlation of these transformational leadership factors with CSR actions. Their study found that intellectual stimulation is a predictor of the firm's intention to engage in strategically oriented CSR, but not socially oriented CSR. Interestingly, charismatic leadership was not found to be a predictor of CSR. Shahin and Zairi (2007) studied SMEs in Iran, surveying managers from 58 companies about leadership styles and CSR activities. Their findings indicate effectiveness of transformational leadership. They state that transformational leadership seems to be more effective, comparing other leadership styles in order to deploy CSR related activities. Based upon the literature review, the research hypotheses have been defined as follows: Some researchers had found that different aspects of transformational leadership are vital for CSR practices, for example 'visionary leadership' (Maak and Pless, 2006; Waldman et al., 2006; De Luque et al., 2008; Waldman and Siegel, 2008), 'inspirational leadership' (Angus-Leppan and Benn, 2007; Waddock and Bodwell, 2007), and 'intellectual stimulant leadership' (Waldman et al., 2006) and as mentioned before, Four leadership factors are associated with transformational leadership: idealised influence (charisma), inspirational motivation, intellectual stimulation, and individualised consideration (Northouse, 2010).

So we propose four hypotheses as below:

H1   There is a positive and significant relationship between individualised consideration and social responsibility of employees in Sarmayeh Bank.

H2   There is a positive and significant relationship between intellectual stimulation and social responsibility of employees in Sarmayeh Bank.

H3   There is a positive and significant relationship between inspirational motivation and social responsibility of employees in Sarmayeh Bank.

H4   There is a positive and significant relationship between idealised influence and social responsibility of employees in Sarmayeh Bank.

3   Research methodology

This study investigates the association between Transformational leadership and employees' social responsibility in Sarmayeh Bank of Iran. This financial corporation has about 400 employees in Tehran and our sample size is 196 respondents according to finite population sampling formula. The data is analysed using SmartPLS software version 3.2 (Ringle et al., 2015). Therefore, this research employed Partial Least Square (PLS) path modelling analysis, which is a method of structural equation modelling (SEM). One of the benefits of SEM is that at the same time it can analyse multiple relationships together in one model (Hair et al., 2010). In this research, all measurement items are adapted or adopted from the previous studies the measurement items for transformational leadership style is adopted from Bass and Avolio (2000) and CSR items are adapted from Carroll (1991).

4   Conceptual model

The conceptual model of this study has been originated from the models of Bass and Avolio (2000) and Carroll (1991) as depicted in Figure 1.
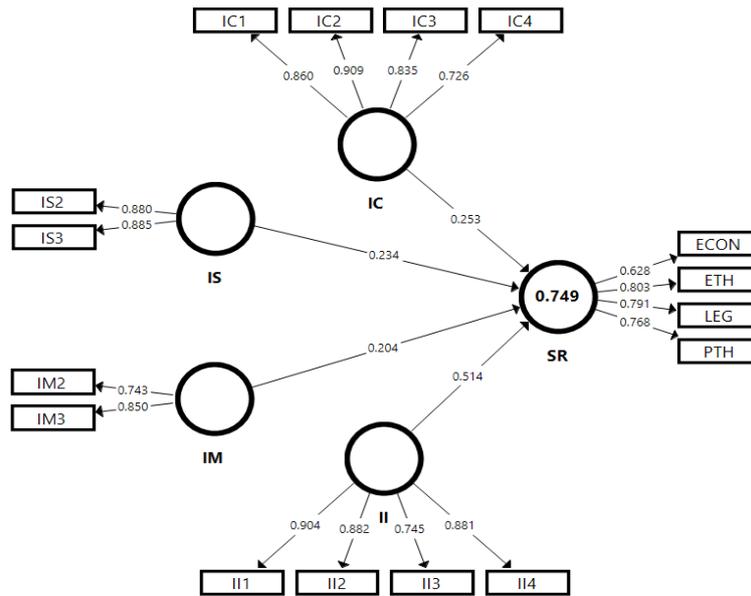
Figure 1   The conceptual model of the research (see online version for colours)
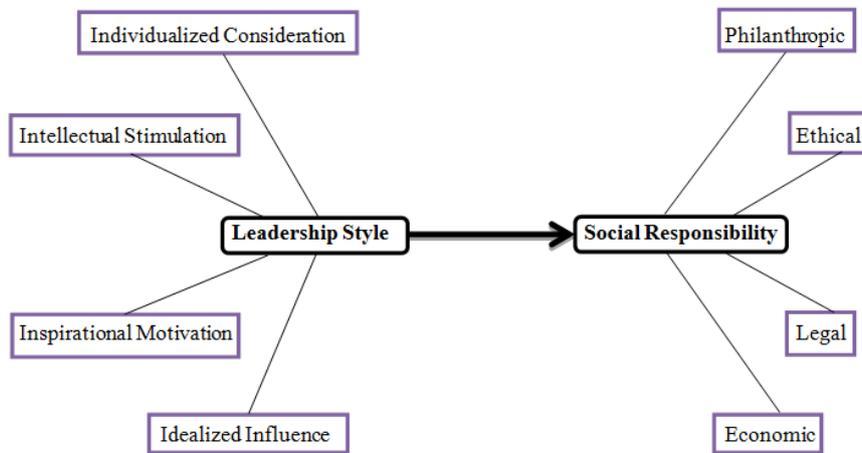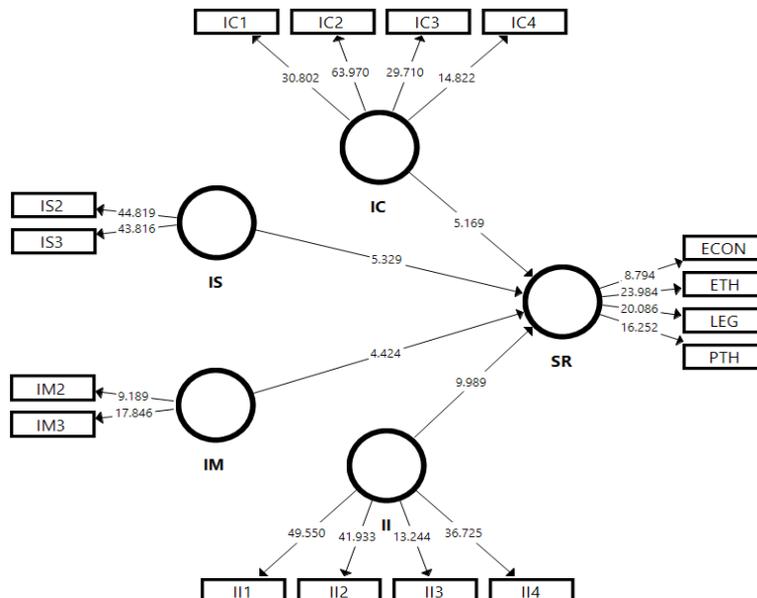
5   Research findings

Figures 2 and 3 depict the output of the SmartPLS software for our model on hypotheses measurement and structural models.

Figure 2   Measurement model

Figure 3   Structural model

6 Examining the validity and reliability of the instruments

The following items must be calculated for evaluating convergent validity and combined reliability and if the conditions stated in Table 1 are met, one can claim that the validity and reliability of the instruments are existed.

Table 1 The required conditions for the validity and reliability of the instruments

Reliability	*CR > 0.7*
Convergent validity	• Factor loading must be significant
	• Standard factor loading has to be greater than 0.5 and if possible greater than 0.7
	• CR > AVE
	• AVE > 0/5

Considering the calculated numbers for the indices, it is obvious that all the amounts for CR are greater than 0.7 and the amount of AVE is greater than 0.5. Thus, the combined reliability or the reliability of the instrument is existed. Therefore, the validity and reliability of the instruments is confirmed by taking the following numbers into account. The loadings are shown in Table 2 and AVE and Cr are presented in Table 3.

Table 5 indicates the results of the hypotheses.

Table 2 Loadings of the model

	IC	*II*	*IM*	*IS*	*SR*
ECON					0.628
ETH					0.803
IC1	0.86				
IC2	0.909				
IC3	0.835				
IC4	0.726				
II1		0.904			
II2		0.882			
II3		0.745			
II4		0.881			
IM2			0.743		
IM3			0.85		
IS2				0.88	
IS3				0.885	
LEG					0.791
PTH					0.768

Table 3   The existence of the validity and reliability of the instruments

	Composite reliability	Average variance extracted (AVE)
IC	0.901	0.697
II	0.916	0.732
IM	0.777	0.637
IS	0.875	0.778
SR	0.837	0.564

Results of the HTMT test is also presented in Table 4.

Table 4   HTMT results

	IC	II	IM	IS	SR
IC					
II	0.43				
IM	0.527	0.294			
IS	0.469	0.357	0.775		
SR	0.753	0.805	0.869	0.784	

Based on Table 5, the results originated from the SEM reveals that the critical coefficient or the t-values has been obtained out of the interval (from –1.96 to 1.96) and thus, H0 is rejected. Therefore, all hypotheses are confirmed with the 99% certainty and since the path coefficient are high, it should be noted that there is a positive and significant correlation between four dimensions of transformational leadership and CSR of employees. To get sure about the results, Table 6 shows the confidence intervals as well.

Table 5   The results of the hypotheses

Hypothesis	Path	Beta value	SE	t-value	P values	f^2	VIF
H1	IC -> SR	0.253	0.049	5.169	0	0.193	1.327
H2	II -> SR	0.514	0.051	9.989	0	0.878	1.2
H3	IM -> SR	0.204	0.046	4.424	0	0.128	1.292
H4	IS -> SR	0.234	0.044	5.329	0	0.159	1.365

Table 6   The results of confidence intervals

	Original sample (O)	Sample mean (M)	Bias	5.00%	95.00%	
IC -> SR	0.253	0.253	0	0.172	0.334	S
II -> SR	0.514	0.514	0	0.420	0.591	S
IM -> SR	0.204	0.205	0.001	0.124	0.278	S
IS -> SR	0.234	0.233	–0.001	0.162	0.307	S

It is now clear that there is a positive and significant relationship between all four dimensions of Transformational leadership style and social responsibility of employees.

7   The overall test of the model using SMART-PLS

There are many different model fit indices in different references and we went through some R-square and goodness-of fit (GoF) to test our model fit. The GOF index presented by Amato et al. (2004) has been used for evaluating both the fitness of internal equations and external measurements simultaneously. The GOF index is obtained via the product of the average amounts of R-square and Q-square as described below:

1   The described variance or the average coefficients for determining R2 is related to the dependent variable (Social Responsibility of Employees). According to Chain (1998), this index must be at least 0.2, but, it has to ideally become more than 0.3. Thus, Table 7 declares that the dependent variable has obtained the desirable amount.

2   Q-square: Table 8 shows the amounts of communality for the research variables.

Table 7   The described variance relating to the dependent variable

Dependent variable	R^2
Social responsibility of employees	0.749

After deleting some questions according to having a main loading of less than 0.5 (IC5, II5, II6) and for AVE of less than0.5 on the other hand (IM1, IS4) and IM4 and IS1 forgetting a good model fit. The final model with related questions in different dimensions is presented in Figure 4.

Figure 4   Final model and questions
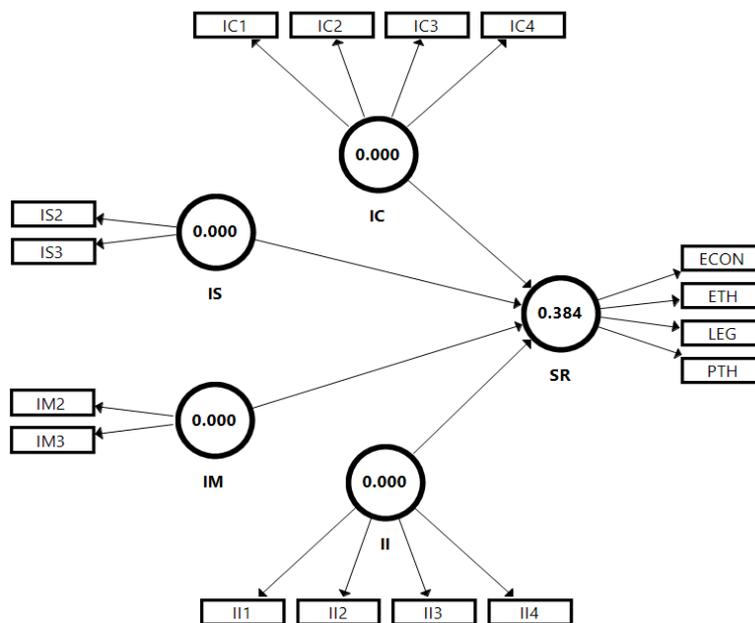
The results of Q-square for model fit are also presented in Table 6.

Table 8   The amount of Q-square

	SSO	*SSE*	$Q^2 = (1 - SSE/SSO)$
IC	784	784	
II	784	784	
IM	392	392	
IS	392	392	
SR	784	483.079	0.384

Based upon the GoF formula and the numbers given in the above tables, the amount of GoF has been calculated as 0.715 which reveals that the goodness of fit for the model is ideal.

8   Conclusions

Considering the results obtained in this study and examining the association of transformational leadership style with social responsibility of employees in Sarmayeh Bank, we found out that all dimensions of transformational leadership have impact on social responsibility of employees and any improvement in any of them can influence and improve the social responsibility activities of employees in Sarmayeh Bank. Therefore, the employees believe that their motivation and collaboration in decision making not only improves their capability but also increases their responsibility.

The results of the research reveal that there is a positive association between intellectual stimulation and social responsibility of employees; meanwhile, another positive relation can be seen between idealised influence and social responsibility of employees. Thus, if the managers of the mentioned bank focus on inspirational motivation together with its advantages and make its benefits tangible for the employees, the amount of employees' responsibility will be increased and also the associations of idealised influence and social responsibility of employees will be extended so that it would be a desired tool for successful managers.

The empirical and executive assistance of the current study is that the managers will be able to design a dynamic approach for transformational leadership style for developing the social responsibility of employees. These concepts have to be taken into consideration as systematic processes in organisational structure to accelerate the strategic organisational goals of the bank.

9   Suggestions and implications

Reviewing the results of the hypotheses, following suggestions are offered to the managers of Sarmayeh Bank:

1   The organisational managers can choose the desired leadership style that is the transformational leadership style, because it has more conformity with the accelerative changes in the current world. The addressed style will increase the employees' motivation as well. The credit and service organisations like banks

require leaders who are able to determine the suitable direction for the organisation's future and create motivation for change in their organisation.

2   The transformational leaders with creative ideas and new perspectives will be able to discover new paths of growth for their organisations and it will improve the social responsibility of their employees. On the other hand, the managers of the banks must identify new opportunities and find robust visions for the future of their organisation to increase the employees' motivation and also enhance their commitment by creating strong and obvious relations by making them inspire toward the mission of their organisation.

3   The managers of Sarmayeh Bank have to level up the power of relations among themselves and their employees identically in order to attain an integrated goal and actual change. This will lead to a suitable intellectual stimulation to organisational goals and will also promote the social responsibility of employees toward reaching the defined goals.

4   To have effectiveness leaders, the bank officials have to prepare their employees to accept changes; meanwhile, the managers must benefit the key abilities for executing the appropriate process for change management.

5   Instead of focusing on ordinary rules and regulations, the leaders must utilise the employees' collaboration to empower them via creating intellectual stimulation and making them involved in decision making. Also, the managers have to enhance the employees' consistency with the existing conditions by internalising the fundamental values in different levels of the bank.

6   To create an ethical atmosphere in the bank, a manifestation must be provided and announce to all personnel in order to direct the employees for observing ethical behaviours and having collaboration in fulfilling the organisational processes.

Now, it's time to ask the main question of the research again: To what extent does the transformational leadership style impacts CSR of the Sarmayeh Bank?

The answer to the question is that all dimensions of transformational leadership style have effects on social responsibility of employees in Sarmayeh Bank. It means that the more the aforesaid components, the more the social responsibility among the employees.

10   Limitations and future research recommendations

The most important limitation of our study was to limit our sample to main offices in Tehran Province and if other researchers add other employees from some different provinces, there might be something new to compare with our findings.

On the other hand following previous researches we assumed that transformational leadership style worth more to be studied but as the impact of some dimensions of this leadership style on CSR activities is insignificant, it is suggested to future researchers to do the same study on transactional leadership style as well.

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