

CEO ethical leadership, corporate social responsibility and financial performance in the industrial revolution 4.0: Evidence from garment and textile industry

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ABSTRACT

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The objective of the paper is to assess the relationship between the CEO ethical leadership style and the corporate social responsibility (CSR) implementation through corporate culture; thereby testing the impact of CSR implementation on financial performance; finally examining the regulatory role of CEO founder status and the corporation size in the relationship between the CEO ethical leadership style and corporate culture. A research on 536 Vietnamese garment and textile enterprises is conducted and the results show that CEO ethical leadership style positively impacts CSR implementation through corporate culture. Simultaneously, the CSR implementation brings more positive financial results henceforth. A statistically significant regulatory role of the CEO founder status and the corporation size in the relationship is also determined. The bigger the CEO founder performs, the better the influence of CEO ethical leadership style on corporate culture, and the smaller the CEO founder performs, the less impact of CEO ethical leadership style on corporate culture. In contrast to larger businesses, the CEO ethical leadership style slightly influences the corporate culture because at this time corporate culture has been formed for a long time and has become a habit of employees.

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1. Introduction

The scandals of corporations such as Enron Scandal (2001) have encouraged managers to raise awareness and interest in ethical issues in corporate leadership, in order to achieve sustainable development. Not only in reality, in the field of research, researchers are also very interested in the issue of business leader's ethics expressed through the increasing number of industry studies on ethical leadership style, and on the relationship between ethical leadership styles and other factors such as corporate culture and corporate social responsibility (Brown et al. 2005). In another study, Resick et al. (2011) conducted a survey in some countries and the results show that managers in Asia, Europe and the United States had a special interest in the corporate culture formed through an ethical leadership style. Ethical leadership will positively impact stakeholders such as employees, customers, suppliers, etc. (Walumbwa & Schaubroeck, 2009), and create employees' satisfaction and dedication for businesses (Piccolo et al. 2010).

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Although ethical leadership style positively impacts firm performance, studies on CEO ethical leadership style to corporate social responsibility have not been widely covered to stakeholders such as employees, the environment, the community, suppliers, investors, customers, or seriously interested in the corporate sustainable development in three aspects of human, planet and profitability (Aguinis, 2011).

Furthermore, previous studies mainly assess the influences of leadership styles such as transformational leadership, shifting leadership to organizational performance, and researches which assess ethical leadership impact to CSR implementation through corporate culture have not yet been prominent.

This study was carried out on Vietnamese garment and textile enterprises, a key industry of Vietnam. With export turnover in the top 5 of the country, total export turnover in 2018 was more than 36 billion USD, which contributed about 20% to Vietnam's growth domestic product (GDP) and creates jobs for nearly 5 million workers, accounting for about 20% of Vietnam total labor force. Additionally, the characteristics of these enterprises are that the industry depends mainly on women labor, so ethical leaders will strongly impact on corporate culture to build trust, satisfaction and engagement for employees.

2. Literature review and research hypotheses

2.1. CEO ethical leadership and Organizational ethical culture

Ethical leadership style means behaving according to our ethical principles in business life and making daily decisions. To be simplified, it means doing the right thing. Ethical leadership style develops a healthy corporate culture for businesses. Organizational culture is a reflection of the superior leadership style (Giberson et al. 2009; Clarkson, 1995). Previous studies have determined that the fundamental function of an ethical leadership is to establish an ethical corporate culture to protect the environment (Grojean et al. 2004). The leadership style of senior managers will create a culture for businesses, because executives/administrators have the highest power and position in the business, so they will become role models for other members of the business (Mayer et al. 2010). Furthermore, if the CEO behaves properly, honestly, responsibly, this creates fairness in the business and cares about the employees and stakeholders and there will be an attraction to highly qualified and dedicated employees to the business (Groves & LaRocca, 2011; Luo & Bhattacharya, 2006). Moreover, the study of Schaubroeck et al. (2012) states that ethical leadership is positively related to corporate culture at the decentralized level. Therefore, ethical leadership will create an ethical corporate culture. Therefore, we propose the following hypothesis:

Hypothesis 1: CEO ethical leadership creates a positive impact on Organizational ethical culture.

2.2. Organizational ethical culture and CSR

Corporate social responsibility is the voluntary action of businesses to ensure the interests of stakeholders such as employees, environment, communities, customers, suppliers and investors (Mishra & Suar, 2010). According to Grojean et al. (2004), to enhance CSR actions, enterprises have to establish clear expectations of ethical behavior by building an ethical culture within the enterprise. Enterprises with ethical culture will always direct employees to act responsibly with the stakeholders, thereby helping to improve CSR activities. Therefore, we propose a hypothesis:

Hypothesis 2: Organizational ethical culture positively influences enterprises' CSR.

2.3. CSR and financial performance

The relationship between CSR and financial performance has been carried out by many researchers around the world in different contexts, resulting in different outcomes. Most studies have shown that

CSR activities provide better financial performance in the future (Hasan et al. 2018), raise employee satisfaction thereby attracting highly qualified human resources, increase the cohesion of individuals and improve labor productivity thereby enhancing financial efficiency (Hasan et al. 2018). Additionally, CSR activities also increase confidence in the government, improve customer reputation and loyalty (Aras et al. 2010; Turker, 2009) thereby reducing related costs such as informal costs, brand image advertising fees and finding customers cost and leading to improve financial performance (Lee & Jung 2015; Crossland & Hambrick, 2011). Thus, we propose the following hypothesis:

Hypothesis 3: CSR positively influences financial performance.

2.4. CEO founder status's regulatory role in the relationship between CEO ethical leadership and Organizational ethical culture

For founder CEOs, they are more proactive in making business decisions and strategies than those of non-founder CEOs (Peterson et al., 2012). Besides, the non-founder CEOs' decision does not decide the enterprise success, so employees in the business are less affected by the CEO's ethical leadership style (Peterson et al., 2012). This means that the higher the management power of CEOs is (i.e. the higher the level of contribution to establishing a business), the more powerful the CEO ethical leadership influence on the organizational ethical culture, because now CEO can decide the activities related to corporate culture and the CEO image himself/herself will also create an essential role to create corporate culture. Therefore, we propose the following hypothesis:

Hypothesis 4: CEO founder status plays a significant role in regulating the relationship between CEO ethical leadership and organizational ethical culture

2.5. Firm size's regulatory role

Large firms like corporations often have organizational inertia because they have had a corporate culture already and employees feel familiar with following established habits (Nelson & Winter, 1982). In large firms, CEO's ethical leadership style has less impacts on corporate culture. Li and Tang (2010) argued that the larger the enterprise size, the less the influence of arrogant leadership on the ability of enterprises to accept risks. Nonetheless, in small firms, each of the CEO's smallest activities becomes a measure of employee standards and creates considerable impact on corporate culture. Therefore, we propose the following hypothesis:

Hypothesis 5: Firm's size plays a significant role in regulating the relationship between CEO ethical leadership and organizational ethical culture.

2.6. The intermediary role of Organizational ethical culture in the relationship between CEO ethical leadership and CSR

Although previous studies have examined the relationship between transformational leadership and corporate social responsibility (Waldman et al., 2006), however, new studies limit the use of transitional leadership instead of ethical leadership to predict corporate social responsibility. On the other hand, ethical leadership more directly evaluates the ethical qualities of leaders than transformational leaders (Brown et al., 2005). Indeed, according to Yin and Zhang (2012), senior managers and managers with ethical leadership are important precursors to corporate social responsibility. Moreover, previous research has ignored the ethical leadership style of CEOs affecting corporate social responsibility and the intermediary mechanism has not been studied yet. In order to directly assess the impact of CEO leadership on corporate social responsibility by quantitative methods, the first purpose of our research is to examine the impact of ethical leader CEOs out of transformational leadership towards corporate social

responsibility and verifying the intermediary role of corporate culture. Therefore, we propose the following hypothesis:

Hypothesis 6: Organizational ethical culture acts as an intermediary role in the relationship between CEO ethical leadership and CSR.

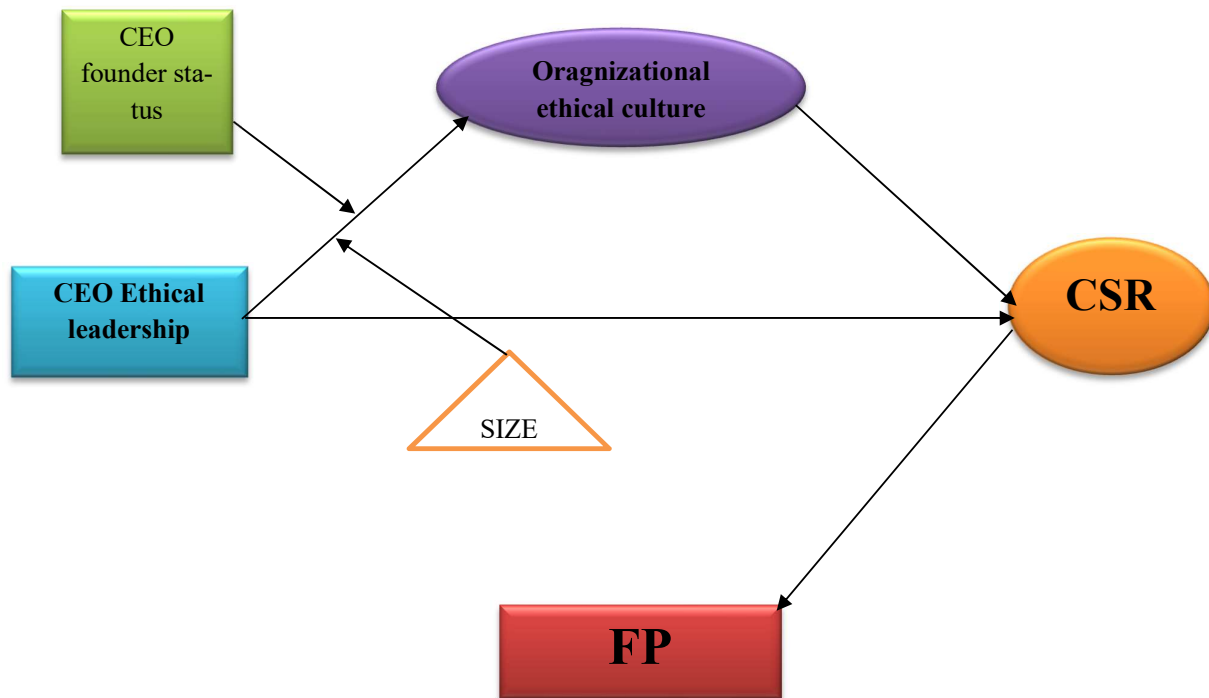


Fig. 1. Research model

3. Research methods

3.1. Research sample

The research sample is Vietnamese garment and textile enterprises. A survey in one of our research projects to all businesses that are members of the Vietnam Textile and Apparel Association (2018) has been conducted by email and by post. After 2 months, we collected 619 questionnaires, after checking and removing invalid questionnaires, we had 536 reasonable questionnaires to put in the data analysis..

3.2. Analysis techniques and research models

To test the research hypotheses, the reliability of the scale through SPSS no.22 software was tested. At this stage, the scale with Cronbach Alpha coefficient < 0.7 and the correlation of the total variable < 0.4 is removed (Hair et al., 2006). Next, we conduct the suitability analysis of the research data with the research model, testing the aggregate reliability, convergence and different values of the scales, using Bootstrap technology on Smart PLS 3.0 software to test hypotheses. Research model as shown in Fig. 1. Measurement: All scales are used with 5-point Likert scale as follows:

CEO ethical leadership: Measured by 10 items developed from Brown et al.'s research (2005) and Wu et al. (2015). The 5-point Likert scale from 1 is "strongly disagree" to 5 is "strongly agree".

Organizational ethical culture: Measured by 9 items developed from studies of Key (1999) and Wu et al. (2015). The 5-point likert scale from 1 is "strongly disagree" to 5 is "strongly agree".

Corporate social responsibility: Includes 29 items on 6 aspects of employees, environment, community, suppliers, investors, customers developed from Mishra & Suar's research (2010) after being matched with the context of Vietnam garment and textile industry scene. The 5-point Likert scale demonstrates CSR policies/activities in enterprises with 1 means completely unavailable, 2 means available but not yet implemented, 3 is available and partially implemented, 4 means available and being good performance and 5 represents available and being very-well implemented.

Financial performance: Consists of 10 items on two aspects: profitability and growth which were developed by Santos and Bristo research (2012). The financial performance compared to the industry average with a 5-point Likert scale from 1 is much lower to 5 is much higher.

CEO founder status: CEO founder status is the “dummy” variable, taking two values, 0 and 1 with 0 is “a non-founder CEO” and 1 is “a founder CEO”.

Firm size is the size of the enterprise, the number of employees of the business is divided by 5 levels according to the guidance of Vietnam's Circular 39/TT-BTC on the division of enterprises.

4. Research results

With the results of reliability measurement of scale, all scales of variables are satisfied except for the 11 scales of CSR variables with Cronbach Alpha coefficient <0.7 and correlation of total variables <0.4 so we removed it from the research model. The result is a CSR variable with the remaining 28 items eligible for further analysis.

Table 1
Construct Reliability and Validity

	Cronbach's	rho_A	Composite	Average Vari-
CEO ethical leadership	0.920	0.923	0.920	0.698
CSR Practices	0.982	0.982	0.982	0.665
CSR_Com	0.887	0.887	0.887	0.662
CSR_Custo	0.872	0.872	0.872	0.694
CSR_Employee	0.910	0.911	0.910	0.629
CSR_Envir	0.928	0.928	0.928	0.682
CSR_Invest	0.898	0.898	0.898	0.638
CSR_Supply	0.872	0.872	0.872	0.694
FP_G	0.917	0.917	0.917	0.689
FP_P	0.871	0.877	0.872	0.579
Financial performance	0.949	0.951	0.949	0.653
Organizational ethical culture	0.945	0.946	0.945	0.775

From the results in Table 1, the **Cronbach's Alpha coefficients** are > 0.7 and the **Composite Reliability** are both > 0.6 and **Average Variance Extracted (AVE)** are both > 0.5 . Thusly, according to Hair et al. (2006) all are satisfied to carry out further analysis on Smart PLS 3.0.

Table 2
Discriminant Validity Fornell-Larcker Criterion

	CEO ethical leadership	CSR Practices	CSR_Com	CSR_Custo	CSR_Employee	CSR_Envir	CSR_Invest	CSR_Supply	FP_G	FP_P	Financial performance	Organizational ethical culture
CEO ethical leadership	0.836											
CSR Practices	0.164	0.816										
CSR_Com	0.354	0.017	0.813									
CSR_Custo	0.231	0.013	0.271	0.833								
CSR_Employee	0.174	0.041	0.025	0.037	0.793							
CSR_Envir	0.361	0.015	0.085	0.095	0.030	0.826						
CSR_Invest	0.070	0.036	0.009	0.022	0.049	0.026	0.799					
CSR_Supply	0.296	0.387	0.009	0.238	0.393	0.232	0.382	0.833				
FP_G	0.217	0.381	0.364	0.379	0.379	0.385	0.415	0.348	0.830			
FP_P	0.116	0.421	0.410	0.412	0.419	0.421	0.460	0.386	0.054	0.761		
Financial performance	0.209	0.393	0.380	0.388	0.392	0.396	0.429	0.360	0.058	0.078	0.808	
Organizational ethical culture	0.236	0.177	0.146	0.169	0.172	0.204	0.193	0.155	0.325	0.362	0.337	0.880

Table 3
R-square

	R Square	R Square Adjusted
CSR Practices	0.368	0.358
Financial performance	0.297	0.288
Organizational ethical culture	0.216	0.212

According to Table 3, R-square results show that factors explain 36.8% of the variation in CSR performance, 29.7% of the fluctuation of financial performance and 21.6% of the fluctuation of corporate culture. The test hypothesis results are shown in Fig. 2 as follows:

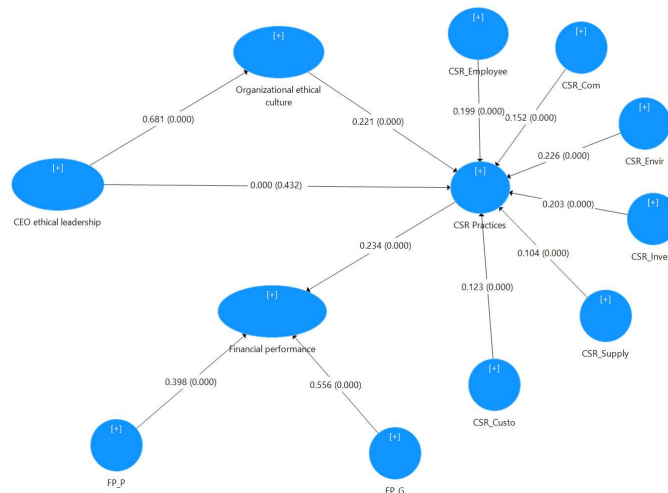


Fig. 2: Bootstrap result (PLS out)

Summary of hypotheses test results are as follows:

Table 4
Bootstrap result and Path Coefficients

	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T Statistics ((O/STDEV))	P Values
CEO ethical leadership → CSR Practices	0.000	0.000	0.000	0.479	0.432
CEO ethical leadership → Organizational ethical culture	0.221	0.226	0.055	4.002	0.000
CSR Practices → Financial performance	0.000	0.000	0.000	5.102	0.000
CSR Com → CSR Practices	0.155	0.155	0.003	52.149	0.000
CSR Custo → CSR Practices	0.121	0.120	0.005	22.274	0.000
CSR Employee → CSR Practices	0.221	0.219	0.003	63.847	0.000
CSR Envir → CSR Practices	0.234	0.235	0.006	38.072	0.000
CSR Invest → CSR Practices	0.193	0.194	0.004	44.745	0.000
CSR Supply → CSR Practices	0.118	0.118	0.003	34.494	0.000
FP_G → Financial performance	0.541	0.540	0.007	81.087	0.000
FP_P → Financial performance	0.473	0.474	0.006	76.698	0.000
Organizational ethical culture → CSR Practices	0.000	0.000	0.000	5.787	0.000

According to the results of Fig. 2 and Fig. 3 all hypotheses 1, 2 and 3 are supported. Vietnamese garment and textile enterprises are mostly small and medium-sized enterprises, so the impact of CEO ethical leadership on corporate culture is very profound at the impact level of 0.681 with 1% significance level (P -value=0.000). Next, organizational ethical culture has a statistically significant impact on CSR activities with a coefficient of 0.221 at the 1% significance level. Moreover, CSR activities also have direct impacts on the financial efficiency at the impact level of 0.234 at the 1% significance level. For the overall SEM model in Fig. 2, the impact of CEO ethical leadership on CSR is no longer statistically significant (P -value=0.432), which shows that the organizational ethical culture acts as a full intermediary role in the relationship between CEO ethical leadership and CSR, which means that hypothesis 6 is supported.

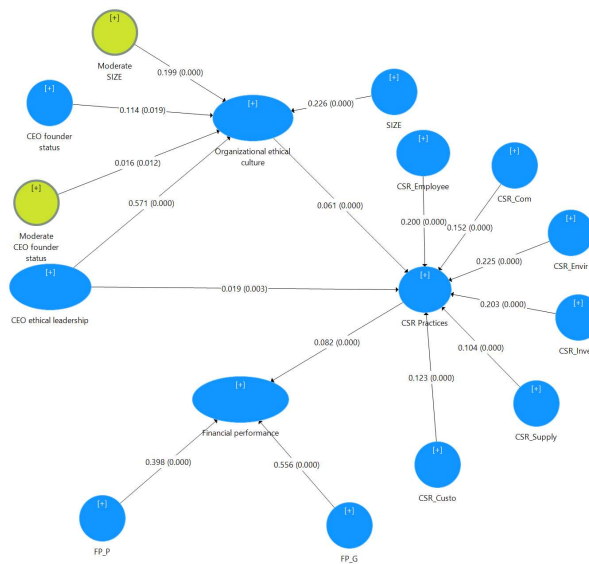


Fig. 3. Results of regulatory role inspection (PLS out)

As a result, the regulatory role of CEO founder status and firm size in Fig. 3 shows that both regulatory variables are statistically significant. This represents that with larger businesses, the impact of CEO ethical leadership on organizational ethical culture is small because these businesses have a long history and culture. In contrast, in smaller businesses, all CEO activities affect corporate culture. Besides, the higher the CEO's founder status, the more powerful the impact of CEO ethical leadership on the ethical culture of the business is because the CEO's decision-making power is high. In contrast to businesses where CEOs have few founding roles, the impact of CEO ethical leadership on corporate culture is relatively lower. Results of regulatory role inspection:

5. Conclusions

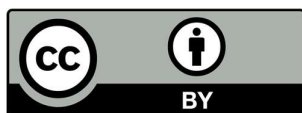
Vietnamese garment and textile enterprises are facing many challenges from the industrial revolution 4.0. Therefore, the enterprises activities which create ethical corporate culture and CSR implementation to achieve sustainable development of financial efficiency are extremely urgent (Puffer & McCarthy, 2008). However, the construction and management of corporate culture of Vietnamese garment and textile enterprises in the future must also be created and standardized according to the following four principles: Enhancing communication and interaction; Information transparency; Technology support and Decentralize decision-making. Besides, it is necessary to add the fifth principle, which is the guiding principle of views, attitudes and approaches on investment, industrial development and the 4.0. economy. That is: The development of new technologies and business models must comply with ethical and hu-

manistic principles and obligations. Industry and machinery are to serve human and for the comprehensive development of human. Only for the reason of improving efficiency, pursue profits but push tens of thousands, millions of workers lose their jobs is not allowed; we should give them the opportunity and support to change their careers, move to other jobs with the salary no less than the previous job at least. Combined with the results of quantitative research, corporate culture plays a full intermediary role in the relationship between ethical leadership and CSR; not to mention Vietnamese garment and textile enterprises are mostly small and medium-sized businesses, thus the role of ethical leadership is significant. Ethical leadership will create an ethical culture that will help businesses implement CSR more efficient and aim for better sustainable development. In addition, the characteristics of Vietnam's garment and textile industry are manufacturing and processing according to orders of well-known brands in the world, so the requirements of CSR are very substantial. CSR is considered as a passport for Vietnamese garment and textile enterprises to accompany with the world textile market and global textile supply chain.

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