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Abstract

Purpose – The relationship between socially responsible leaders, the key driver of corporate social responsibility (CSR) practices, and organizational financial performance is a salient issue in the global context for both CSR scholars and practitioners. The purpose of this paper is to provide much-needed insights into the interplay of responsible leadership, CSR practices, and organizational outcomes.
Design/methodology/approach – It analyses 85 CEOs' behaviors and their companies' performance in a two-year database. It thereby enriches understanding of how leaders' socially responsible decisions impact upon CSR engagement and firm performance.
Findings – The results suggest that socially responsible leaders were positively related with organizational performance of return on equity (ROE). The aspects of integrity, morality, and stakeholder relationship aspects of responsible leadership are closely related to CSR. However, CSR practices were negatively related to ROA and ROE. It implies that in China CSR activities could not boost organizational performance in the short term, at least in two years.
Research limitations/implications – Our research has clear limitations. First, most selected firms are renowned large corporations, state-owned, or private enterprises. Foreign-owned enterprises are excluded. Second, the evaluation of CSP is based on the content analysis of firms' annual CSR reports. Our research has clear limitations. First, most selected firms are renowned large corporations, state-owned, or private enterprises. Foreign-owned enterprises are excluded. Second, the evaluation of CSP is based on the content analysis of firms' annual CSR reports.
Practical implications – Our research has practical implications for the business world. First, CSR practices in China shall be conducted in a strategic way. Second, responsible leadership is of significance for the Chinese MNCs that are overseas to build trustful stakeholder relations with local stakeholders.

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Originality/value – Based on the data analysis, this study provides in-depth discussion of CSR situation in China and its relationship with firm performance, which is one of the first studies to examine responsible leadership in Chinese context and investigate the relationship between responsible leadership and organizational performance.

Keywords Corporate social responsibility, Responsible leadership, Morality, Organizational performance

Paper type Research paper

Introduction

In recent years, business scholars have brought the concept of ethics to the forefront of leadership practices. In fact, consideration for ethics in business is essential to building and sustaining relationships globally. In terms of responsible leadership, when companies do not put ethics first, or high on the list of priorities, not only do stakeholders suffer, but the general public can as well. Since the global economic crisis of 2008, business leaders have been under an increasing pressure to put ethical practices at the forefront, which calls for responsibility at both the individual and systemic levels (Pless *et al.*, 2012). Following the global financial crisis, which threatened economic collapse for many businesses, stakeholders joined a worldwide call and renewal toward implementing ethical practices. The result led to holding business leaders responsible for pursuing a global "common good," one that would force businesses to look at their role in alleviating poverty and promoting human rights (Pless *et al.*, 2012). When social issues are addressed, not only is the rapport with stakeholders and the public maintained, but the company in turn contributes to the sustainable development of their organizations; thus, in the interests of promoting these ends, practitioners and researchers alike have a significant motivation to explore the key drivers and outcomes of responsible leadership in the business world.

Recent studies have shown that for firms to successfully practice corporate social responsibility (CSR), they need leaders who embrace these "good will" values to effectively engage ethical business practices (Waldman *et al.*, 2006). Well-formulated CSR policies and practices can play a key role in improving firms' environmental management (Aguilera *et al.*, 2007), sustainable development (McWilliams *et al.*, 2006), corporate reputation (Turban and Greening, 1997), and financial performance (McWilliams and Siegel, 2011). CSR activities can also promote customer loyalty and strengthen stakeholder-company relations in general (Luo and Bhattacharya, 2006).

Despite the benefits of practicing CSR, limited empirical research is available regarding the relationship between responsible leadership, corporate social performance (CSP) and organizational performance. A majority of existing literature focusses primarily on the concept of responsible leaders and the institutional, moral, and relational structures associated with them (e.g. Maak and Pless, 2006), but fails to examine the associated outcomes, such as firms' CSR practices and performance. In addition, the connection between responsible leadership, CSR practices, and organizational performance remains unknown. The study reported, herein, aims to fill this gap by examining the relationship between the leadership style and its organizational outcomes within a previously unanalyzed institutional context: China. With China's entrance into the World Trade Organization (WTO) in 2001, many Chinese companies have been compelled to commit to the prevailing international values and norms[1]. Further, China's lack of progress in promoting moral conduct in business affairs and the emerged concomitant business scandals (e.g. Sino Forest 2011[2]) highlight the importance of responsible leadership. Even so, with the burgeoning theoretical and empirical literature on CSR in China, especially in recent years, no reports exist on the role of leadership in CSR engagement, nor its impact on CSP and corporate financial performance (CFP) specifically in China.

It is important to note that many Chinese companies expanding internationally are being pressed to commit to local values and the interests of stakeholders, and to adopt CSR in order to reduce the resistance to, and antagonism toward, takeovers, and mergers. Although Chinese firms have been pressured into implementing CSR initiatives, and adopting various CSR instruments, the impact of these measures on the realization of social and environmental goals is limited (Graafland and Smid, 2014). In some cases, unethical business practices are covered up with would-be CSR practices. For example, Du (2014) suggests that in Chinese family-owned firms, corporate philanthropic giving has a significant connection with environmental misconduct, with some firms using corporate philanthropy to divert public attention from their environmentally unfriendly behavior. With the international expansion of Chinese companies adopting CSR measures, a report measuring its success is needed.

The present study is, to the best of our knowledge, the first to examine the relationship between responsible leaders, CSP and CFP, in the Chinese context. The findings improve our understanding of how socially responsible leaders influence an organization's responsible behavior and financial performance. Hence, they have significant implications for strategic decision making concerning CSR on the part of business leaders in China.

Theoretical background and hypotheses

Before looking specifically at China, it is important to understand the concept of responsible leadership, which combines the distinct areas of CSR and leadership. Adherents of CSR devote much attention to the relationship between CSR and firm performance, but have paid insufficient attention to the effects business leaders have on the personal values of CSR-related decisions. Researchers on leadership have prioritized the study of internal, one-on-one relationships between leaders and followers, as well as team-oriented leadership, but have focussed less on issues pertaining to leadership at the higher levels of organizations (Waldman, 2011). Recently, scholars have increasingly noted the importance of integrating the concept of CSR with that of leadership as a means of understanding responsible leadership (e.g. Maak and Pless, 2006).

Ethical leadership is similar to socially responsible leadership in that ethical leadership can induce positive effects on individual and organizational performance. Brown and Treviño (2006) proposed that ethical leadership is associated positively with follower satisfaction, motivation, and commitment to the organization. Drawing on an analysis of data, collected from a major pharmaceutical company in China, Walumbwa *et al.* (2011) suggest that ethical leadership is related positively and significantly to employee performance, as rated by their immediate supervisors. We may conclude that being a socially responsible leader involves being an ethical leader, one with a team of employees at the peak of output and performance.

When discussing responsible leadership, two approaches are available, and differ in regard to moral bases: the normative stakeholder approach, and the economic/strategic approach (Waldman, 2011). According to the normative stakeholder approach, responsible leadership is defined as being "in line with both integrative and ethical theories of CSR" (Waldman, 2011, p. 77), meaning that socially responsible leaders, in order to be effective, should balance the needs of a broad set of stakeholders and act as moral person with a focus on altruism. The key task of a responsible leader then is to "weave a web of inclusion, where the leader engages himself among equals" (Maak and Pless, 2006, p. 104). In doing so, both business and employee share benefits.

The second approach of responsible leadership, economic/strategic, is when the leader's priority is the pursuit of productivity and the maximization of profits, a concept that is embodied in company law: firms have a responsibility to maximize dividends for shareholders. For example, Waldman and Siegel (2008) suggests that socially responsible leaders should make strategic decisions on CSR investment and ensure a clear financial return on each CSR activity. In contrast to Waldman and Siegel's (2008) approach, stewardship theorists argue that leaders can and should be trusted to make decisions that support the firm's best interests, by considering not only the investments of shareholders, but also those of other stakeholders as well (Waldman, 2011). Whether considering the normative stakeholder approach or the economic/strategic approach, both have benefits; however, for socially responsible leaders to advance, they need to combine both CSR and leadership.

Socially responsible leadership and company's engagement in CSR

For sometime, leadership has been viewed as a key driver in ethical business practices, because it successfully contributes to the company's overall CSP. Waldman *et al.* (2006) suggest that CEOs play a key role in determining the extent of how firms engage in CSR. Equally, a significant link exists between leaders' CSR values, and the propensity of firms to engage in "strategic" CSR, or more precisely, those CSR activities that are most likely to underpin the firm's corporate and business-level strategies. In particular, CEOs' personal values and attitudes to CSR activities influence their organizations' CSR strategies directly (Wang *et al.*, 2014). This suggests that leadership, when made the driving force of ethical business practices, will improve a company's CSP.

When considering socially responsible leadership, the importance of linking a group of stakeholders, inside and outside of the organization, demonstrates how important it is to social-relational and ethical phenomenon. In theory, the relationship with salient stakeholders is invariably associated with a CSR program and corporate performance, whereby the stakeholder environment determines the scope and depth of corporate CSR activities, and the strategic decision making of socially responsible leaders (Agle *et al.*, 1999; Doh and Guay, 2006; Hambrick, 2007). Responsible leaders can also raise employees' awareness of the firm's CSR character and values, and influence positively employees' perception of the importance of CSR. Accordingly, employees will engage themselves in CSR-related actions (Voegtlin *et al.*, 2012), thereby fostering a formidable relationship between ethical leaders. In light of the foregoing, the following hypothesis can be formulated:

H1. There is a positive relationship between socially responsible leaders and CSP.

CSP and CFP

At present, since a consensus does not exist between the relationship of CSP and firm financial performance CFP, even when empirical evidence has been considered, company leaders do nt have the supporting data with which to use CSP effectively in decision-making practices, nor do stakeholders. Jones (1995) argues that firms who base their interactions with stakeholders on ethical principles will have a competitive advantage over firms that do not. The findings of a recent empirical study by Erhemjamts *et al.* (2013) explains that a firm's CSR strength directly correlates and impacts financial performance positively, even after dividing the KLD index into its strengths and concerns components.

Some researchers argue that the relationship between CSP and CFP is one of reciprocal causality, in that high-performance firms can afford more CSR activities, and thus achieve better CSR outcomes. This approach views the positive relationship between CSP and CFP as artificial, due to halo effects (Wood and Jones, 1995). However, the only significant halo linkage is from CFP to CSR outcomes, which means that firms with higher CFP will receive higher CSR rankings, regardless of the underlying CSR activities. Orlitzky *et al.* (2003) suggest that CSR outcomes have a positive relationship with CFP across all industries and within all corporate contexts. Thus, the benefits of businesses and business leaders to incorporate CSR outcomes will also increase CSP and CSP. In light of the foregoing, the following hypotheses can be formulated:

H2a. CSP is related positively to CFP (ROA).

H2b. CSP is related positively to CFP return on equity (ROE).

Socially responsible leaders and CFP

In the global market, for a firm to develop an image of social responsibility, and ultimately build and sustain a positive corporate reputation, leaders need to consider how to communicate with stakeholders. Both stakeholder theory and CSP are about relationships between corporations and their stakeholders. In particular, some scholars indicate that awareness of CSR among stakeholders has a positive effect on a firm's sales income, as well as investment and employment (Sen and Bhattacharya, 2001; Sen *et al.* 2006). Choi and Wang (2009) provide evidence that a high level of CSR stakeholder awareness facilitates a firm's capacity to both sustain a beneficial financial performance, and to recover from a substandard performance more quickly. Voegtlin *et al.* (2012) assume that responsible leadership has additional, indirect, positive effects on the social and financial performance of an organization, mediated by honest relationships, social capital, social innovation, and follower attitudes. As discussed earlier, socially responsible leadership may correlate with improved CSP. This means, CSP may be associated with improved organizational financial performance, and the presence of socially responsible leaders may be linked with improved CFP. Thus, it might be possible to determine the relationship between socially responsible leaders, while at the same time, CFP may be mediated by evaluating CSP. To investigate these matters, the following hypotheses can be formulated:

H3a. The more socially responsible the leader, the better the CFP (ROA).

H3b. The more socially responsible the leader, the better the CFP (ROE).

H4a. The relationship between the level of socially responsible leaders and CFP (ROA) is mediated by CSP.

H4b. The relationship between the level of socially responsible leaders and CFP (ROE) is mediated by CSP.

Methodology

It is important to note that the data for the study was drawn from several sources, including an initial sample, which consisted of evaluating socially responsible leaders as measured by the Hua De Awards[3], and tracked by the Tianxia Yingcai Cultural Media Co., Ltd, (TYCM), and China Europe International Business School (CEIBS[4]). The faculty include individuals from leading businesses and academic institutions in Europe, China, and the USA, and represents a multitude of opinions producing strong research in business and management areas. Sampling was conducted randomly and included 500 CEOs from selected Chinese companies in 25 industries. Data were collected in four ways: online surveys (15 percent); employee surveys (10 percent); street surveys (35 percent); and telephone interviews (40 percent). The surveys' respondents therefore included key stakeholders of the relevant companies, as well as representatives from the public. Around 500 respondents were invited to rate each CEO by telephone, and more than ten experts participated in the evaluation of each CEO through semi-structured interviews. Information was also collected from 25 Chinese provinces, covering and including most areas of the country. This investigation began in 2010, and the data, for both 2010 and 2011, was available by the end of 2012. Hence, a compendium of critical and equitable data over two years was used in the study.

With regards to the CSP data, it was procured from the Running and Loving Consulting for Common Welfare (RLCCW)[5], a national, not-for-profit organization that promotes the development of socially responsible investing. It examines the CSP of all A-share listed companies in China by examining their annual CSR reports. After matching the data from both the Hua De Awards and RLCCW, we found 85 CEOs from 85 listed companies: the matched data were then used to track the financial performance of each company. The annual financial performance data for both 2010 and 2011 was collected from the financial reports of the listed companies.

Measures

CFP

The study tested for the effects of socially responsible leaders on financial performance, leading to the dependent variable: CFP. Accounting-based indicators, such as ROA and ROE were selected, because they offer the ability to capture the firms' internal efficiency (Agle *et al.*, 1999; Cochran and Wood, 1984). CFP accounting-based measures can also be found to correlate more significantly with CSP, than other financial indicators, such as market-based indicators, or corporate reputation (Orlitzky *et al.*, 2003). It is our opinion then that socially responsible leaders have a direct impact on CFP.

Socially responsible leaders

When conducting our study, we took into account that, to date, no universally accepted concept of socially responsible leadership in the Chinese context exists. TYCM's measurement of socially responsible leaders is based solely on the judgment of experts from CEIBS and used five weighted factors in their assessment of socially responsible leaders: morality (13.75 percent), job performance (26.5 percent), reputation (15.45 percent), social responsibility (32.80 percent), and capability (11.5 percent).

Breaking each assessment down further, morality was determined based on whether the CEO was a moral person, one well-respected by others; job performance was measured by the CEO's charisma, capacity to innovate, and to possess effective communication skills; reputation was based on whether the CEO was respected within his or her industry, and therefore influences the development the company; social responsibility was measured by whether the CEO pursued CSR activities to benefit society and the community, and whether CEOs believed that their company should act as a corporate citizen when undertaking strategic decision making; and lastly, capability was measured by whether CEOs were able to ensure the firm had a comprehensive corporate governance structure and a strong, long-term competitive advantage. The value of TYCM's tool for evaluating the social responsibility of leaders has been recognized by many Chinese researchers on leadership (Zhou, 2013).

CSP

In our research, many scholars studying CSP have noted the difficulty in measuring CSP despite the avaiability of various methods, including surveys, content analysis of annual CSR reports, and expert evaluation. Recently, one method adopted by Western scholars, with an interest in CSP, was to use the database developed by Kinder, Lydenberg, Domini and Company (KLD) in order to measure, in some capacity, CSP (e.g. Erhemjamts *et al.*, 2013).

In 2009, RLCCW began compiling its database, with the intent of becoming the Chinese counterpart to KLD. Although the RLCCW data set is based mainly on content analysis of annual company CSR reports, it is still viewed as China's foremost CSR rating, and one of the most valuable sources for examining CSR issues in China. RLCCW pioneered a system for CSR criteria based on widely accepted international CSR standards, ISO 26000, and the Chinese business environment. Further, RLCCW utilizes content analysis to audit nine dimensions of CSP: CSR-related strategy; corporate governance; communication with stakeholders (excluding consumers); economic growth; labor and human rights; environmental policies; legal operations; consumer satisfaction; and community engagement and social development. This content analysis also measures the depth of CSR reporting activities in the annual CSR report[6].

The method of content analysis has two significant advantages:

(1) "Once the particular variables have been chosen (a subjective process), the procedure is reasonably objective; therefore, the results are independent of the particular research" (Cochran and Wood, 1984, p. 44).

(2) As the technique is more mechanical than surveys, larger sample sizes are available, because no limitations are imposed by lack of workforce. Consequently, a firm's content analysis report has been used in a number of studies. The advantages of using the RLCCW ratings as a measure of CSP are thus as follows: an objective set of criteria is used; the rankings are applied consistently across all firms; and the ratings are made by knowledgeable researchers and practitioners who are not affiliated with any of the rated firms.

Control variables

As already noted, the dependent variable captures CFP through CSR practices; hence, the factors that could exert a systematic influence on financial performance should be controlled. To achieve this control, we included variables that were previously identified as likely to affect the financial performance of leadership and CSR. The control variables were: industry, firm size, firm age, and an annual dummy variable.

Results

Table I presents the descriptive statistics and correlations for the variables that were used to test the hypotheses. The results showed that CSP, industry, and location significantly correlated with ROA; socially responsible leaders, industry, and location were significantly associated with ROE; and CSR practices correlated positively with the level of socially responsible leaders. Further analysis showed an average Variance

Table I.
Means, standard deviations, and correlations among variables

Variables	Mean	SD	1	2	3	4	5	6	7	8	9	10	11
1. ROA	5.96	5.45	–										
2. ROE	15.41	9.13	0.75***	–									
3. Leaders	781.66	92.10	−0.12	0.10*	–								
4. CSR	43.73	16.23	−0.30***	−0.04	0.21*								
5. Primary industry	0.01	0.11	−0.08	−0.11	0.16	−0.09	–						
6. Secondary industry	0.46	0.50	0.24**	0.19*	0.09	−0.26**	−0.10	–					
7. Tertiary industry	0.45	0.50	−0.34 **	−0.23 **	−0.05	0.11	−0.10	−0.83***	–				
8. East	0.80	0.40	−0.33**	−0.23**	0.05	0.36***	−0.22**	−0.19*	0.15	–			
9. Middle	0.06	0.24	0.19*	0.01	−0.02	−0.26**	0.44***	−0.03	−0.02	−0.50***	–		
10. West	0.08	0.28	0.23*	0.09	0.01	−0.10	−0.03	0.24**	−0.18*	−0.60***	−0.07	–	
11. Large	0.88	0.32	0.13	0.14	−0.04	0.14	−0.30***	−0.10	0.11	−0.09	−0.06	0.11	–
12. Firm age	16.78	5.12	−0.17	0.10	0.15	0.16	0.00	0.10	0.08	0.09	−0.06	−0.07	−0.13

Notes: $n = 85$. *$p < 0.10$; **$p < 0.05$; ***$p < 0.01$

inflation factor of 2.248, indicating that interpreting the regression results should not be affected adversely by multi co-linearity.

Ordinary least squares (OLS) was used with a panel-corrected standard errors (PCSEs) method of STATA to test the hypothesized model. OLS estimates of the time series models may not be optimal, but they often perform well in practical research studies. To avoid under or over-estimating the OLS in standard errors, it is suggested that the OLS parameter estimators should be retained, but that the OLS standard errors should be replaced with the PCSEs that "take into account the contemporaneous correlation of the errors and perforce heteroskedasticity" (Podestà, 2002, p. 17). Reasons behind using OLS with PCSEs relate to investigating the relationship between management practices and firm performance: the OLS technique has an economically and statistically significant effect on both of the dependent variables in the OLS-pooled cross-sectional model, whereas the random and fixed effect modes provide an empirical bias (Huselid and Becker, 1996).

Table II shows the relationship between the level of socially responsible leaders, the evaluation of CSR practices and CFP. A significant positive association was observed between socially responsible leaders and CSR practices ($\beta = 0.25$, $p < 0.05$). This confirms *H1*, explaining 33 percent of the variance. Particular attention should be given to the parameter estimates of the remaining columns: first, notable result was the significant negative impact of CSR on ROA ($\beta = -0.35$, $p < 0.001$) and ROE ($\beta = -0.23$, $p < 0.01$), consequently resulting in the rejection of *H2a-2b*. The link between socially responsible leaders and ROA was not significant ($\beta = 0.03$, $p > 0.05$); in conclusion, *H3a* was also rejected. As could be expected from the factor structure, the strongest correlation ($\beta = 0.18$, $p < 0.001$) surfaced between the evaluation of socially responsible leaders and ROE. This result supports *H3b*, explaining 23 percent of the variance.

In regard to the relationship between socially responsible leaders and ROA, the evaluation of socially responsible leaders became insignificant when the assessment of CSR practices was added into the equation ($\beta = 0.09$, $p > 0.05$). The result concludes the rejection of *H4a*. The mediation analysis results showed that the relationship between the level of socially responsible leaders and ROE was insignificant when CSR practices were added into the model. As a result, *H4b* was also rejected.

Taken together, the control variables explained 28 percent of the total variance in ROA and 23 percent of the total variance in ROE. As Table II shows, ROA of companies, from the tertiary industry, was more likely to decrease than that of companies in the secondary industry. At the same time, the ROA of companies from the secondary industry was lower than that of companies in the primary industry. ROE was affected by firm characteristics: larger firms proved to have a higher level of ROA ($\beta = 0.08$, $p < 0.001$) and ROE ($\beta = 0.11$, $p < 0.001$). Firms at a higher level of organizational life cycle also had a higher level of ROE ($\beta = 0.28$, $p < 0.001$). The organizational financial performance of 2011 was lower than the performance of 2010, in both ROA ($\beta = -0.07$, $p < 0.001$) and ROE ($\beta = -0.08$, $p < 0.001$). Figure 1 shows the results of the hypothesis test.

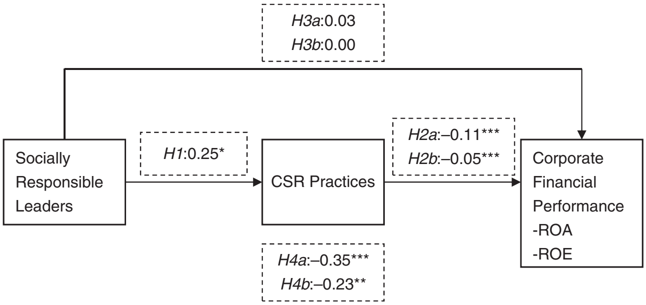
Discussion

The findings support the hypothesis that the evaluation of socially responsible leaders correlates positively with the evaluation of CSP, and equally support the hypothesis that the evaluation of socially responsible leaders correlates positively with ROE. However, we did not find evidence that the exchange relationship between socially responsible leaders and CFP is mediated by CSP.

Table II. Socially responsible leaders, CSR practices, and corporate financial performance

	ROA	ROE	*H1* CSR	*H2a* ROA	*H2b* ROE	*H3a* ROA	*H3b* ROE	*H4a* ROA	*H4b* ROE
Control variables									
Primary industry	−0.25***	−0.21***	−0.12***	−0.09***	−0.12***	−0.25***	−0.27***	−0.28***	−0.30***
Secondary industry	−0.30***	−0.38***	−0.74***	−0.17***	−0.24***	−0.31***	−0.44***	−0.56***	−0.60***
Tertiary industry	−0.53***	−0.55***	−0.55***	−0.23***	−0.33***	−0.51***	−0.62***	−0.70***	−0.75***
Area-east	−0.24***	−0.49***	0.38***	−0.03**	−0.26***	−0.27***	−0.62***	−0.13**	−0.53***
Area-middle	0.16***	−0.17***	−0.02	0.05***	−0.10***	0.14***	−0.19***	0.13***	−0.19***
Area-west	0.09***	−0.18***	0.21***	0.05***	−0.09**	0.06***	−0.24***	0.13***	−0.19***
Firm size	0.08***	0.11***	0.13***	0.05***	0.07***	0.09***	0.08***	0.14***	0.11***
Firm age	−0.03	0.28***	0.14*	0.02**	0.17***	0.00	0.24***	0.04*	0.27***
Year (2011)	−0.07***	−0.08***	0.05	−0.01***	−0.04***	−0.04	−0.12***	−0.02***	−0.11***
Main effects									
Responsible leaders			0.25*			0.03	0.18***	0.09	0.23***
CSR practices				−0.11***	−0.05***		0.00	−0.35***	−0.23**
Wald chi2	1.12e+15***	1.37e+15***	520.13***	2048.39***	406.82***	28.88***	234.16***	640.24***	167.22***
R^2	0.28	0.23	0.33	0.37	0.23	0.25	0.29	0.34	0.32

Notes: $n = 85$. $^*p < 0.10$; $^{**}p < 0.05$; $^{***}p < 0.01$



Notes: Control Variables: industry, location area, firm size, firm age and year. $^{*}p < 0.10$; $^{**}p < 0.05$; $^{***}p < 0.01$

Figure 1. Research model and hypothesis test

The findings show that socially responsible leaders were key drivers of CSR activities in Chinese companies and is consistent with Yin and Zhang's (2012) case study of 16 Chinese firms, suggesting that CSR behaviors rely more on the exercise of managerial ethics, than external regulation, or civil mobilization, because these latter factors still lack in force. The western literature shows that charismatic leadership by the CEO related positively to the propensity of the firm to engage with CSR (Waldman *et al.*, 2006). If CEOs act morally, and consider the needs and claims of stakeholder groups, as well as the benefits of their actions to society, as a whole, employees may feel proud to work for a company with a positive organizational image, and be inspired to work in tandem toward the realization of CSR (Waldman *et al.*, 2006).

Overall, our research showed that responsible leadership has positive influences on ROE, and essentially confirmed the hypothesis of Voegtlin *et al.* (2012) that states responsible leadership contributes directly to organizational performance. In theory, socially responsible leaders can meet the three requirements proposed by Yukl (2008) to improve organizational performance. First, socially responsible leaders are intended to ensure that company organizational systems and processes operate in a manner that facilitates efficacy and moral action. Second, socially responsible leaders are committed to cultivating a work environment, one where diverse employees "have fun and feel mobilized" and are "enabled to contribute to their highest potential, both qin a business and a moral sense" (Maak and Pless, 2006, p. 111). Third, socially responsible leaders are visionaries and care about the social and natural environments; this compels the company, on a whole, to respond to external changes quickly and pursue sustainable development by balancing the various needs of different stakeholder groups.

In the Chinese context, the government is one of the key stakeholders, suggesting that one of the primary responsibilities of SOEs is to take the lead in complying with Chinese government policies (Kuo *et al.*, 2012). The strong political ties that SOE leaders have with the government have given them a competitive advantage over others. Responsible Chinese business leaders were also found to seek legitimacy with international consumers and local government via CSR activities (Yin and Zhang, 2012). In conclusion, the above factors have been conducive to improve corporate image and generate returns on equity in the short term. Shareholders, as the companies' primary stakeholders, then become beneficiaries. In supporting the findings of previous studies, and confirming existing theory, our study makes a significant contribution to the current literature on the role of responsible leadership.

Our research did not find a statistically significant positive relationship between CSP and CFP (i.e. ROA and ROE). This can be attributed to leaders' strategic decisions and the lack of a stakeholder environment. First, the CEOs performed CSR without holistic strategic planning; although, the CEOs were chosen from among the top companies in China, their firms may still be at the preliminary stages of CSR activities. CSR is still a newer concept in China (Gao, 2010). Some Chinese companies only conducted CSR in response to a client's requirements, and viewed responsible corporations as merely meeting the local legislative requirements. Going beyond this requirement was deemed to be unnecessary, and as a result, CSR initiatives and actions cannot effectively support business strategy, and contribute to financial success. Yin and Zhang (2012) reported that few leaders were concerned with the social impact of implemented CSR initiatives; stakeholders' awareness of CSR activities was hindered by limited information disseminated by companies about them. At the same time, increasing Chinese consumer trust and awareness in CSR has been proven to improve corporate evaluation, product association, and purchase intentions (Gao, 2010). However, Kuo *et al.*(2012) found that half of the firms sampled did not fulfill any of the 42 educational activities that would allow outside stakeholders to understand their CSR actions. This may undermine the positive relationship between CSP and CFP.

Second, with a lack of positive peer pressure in China, the stakeholder environment is not conducive to CSR policies. Social screening is also minimal. Crucially, there is little reward for CSR from either the government or consumers (Yin and Zhang, 2012). In the long term, the positive effects of CSR initiatives on CFP may be visible within a more supportive stakeholder environment. One solution would be to implement a social audit, one needed to prevent a decoupling strategy, where CSR is adopted symbolically rather than implemented substantively, a practice observed widely among Chinese companies today (Yin and Zhang, 2012). Our preliminary conclusion is that the positive effects of CSP on CFP will be limited until CSR is implemented substantively and stakeholder awareness develops.

With regard to the business world, our research has practical implications that can better inform companies on the benefits of implementing CSR practices. First, CSR practices in China should be conducted strategically. At present, the CSR practices of Chinese companies are largely oriented around government policies (Gao, 2009; Yin and Zhang, 2012). If CSR activities fail to generate economic returns, it may undermine a firm's willingness to undertake them. A study of the top 100 companies in China in 2007 revealed a far greater concern for economic issues than ethical or legal ones (Gao, 2009). CSR activities performed by Chinese companies should be linked directly to day-to-day, core operations. Equally, firms should adopt a holistic approach to CSR as part of their strategic planning, ensuring that company CSR actions are integrated into core operations, leading to a firm managed in the interests of a broad set of stakeholders, which are ultimately set on achieving maximum economic and social value, over the medium to the long term (Chandler and Werther, 2014). The substantive implementation of CSR, rather than its symbolic adoption, is a prerequisite to generating a positive relationship between CSR and CFP.

Second, responsible leadership is significant for Chinese multinational corporations operating overseas as a means of developing good relations with local stakeholders. Chinese companies abroad have been confronted with strikes and protests against their misconduct and unethical actions (e.g. IBM factory in Shanghai, 2014). Some of these disputes arose from a lack of communication and trust between employees and company leaders, and could have been avoided, if responsible leaders had been selected. SOE selection, for companies expanding abroad, is therefore an important step for Chinese companies.

Our research has clear limitations. First, most of the firms selected for consideration are large, well-known corporations, both state-owned and private enterprises (foreign-owned enterprises were excluded). Second, the evaluation of CSP is based on content analysis of a firm's annual CSR reports, which might only show what activities firms care to report, as opposed to what they are actually carrying out. Firms with poor CSR activities may also promote the company image by exaggerating CSR achievements in these reports; however, despite its limitations, this is the standard way of collecting data on the CSR activities of Chinese companies (e.g. Gao, 2009). Finally, our data set spans only two years, which speaks against the generalizability of the results. On the other hand, our data set is unique in that we combine three databases: Hua De Awards, CSP, and CFP. The limitations of the data set are due to CSR being a relatively new concept in China (Gao, 2010). That said, as time passes, databases of CSR-related data will come to form a richer source of tangible and critical information for practitioners and researchers.

Conclusion

One of the significant values our study provides is that it combines three databases and is a time-series study. By providing empirical support for, and new insights into, the role of socially responsible leaders, and the impact they have on firm performance, it contributes to CSR theory, in general, and responsible leadership theory, in particular. On the one hand, the study finds that the level of socially responsible leaders is related positively to the organizational performance of ROE. Our analysis focussed on key aspects of responsible leadership – integrity, morality and the stakeholder relationship – which are closely related to CSR. On the other hand, we found a strong profile of CSR practices was related negatively to ROA and ROE, indicating that CSR activities in China have not been able to improve organizational performance in the short term, at least over the two years that we conducted the study. However, through a substantive implementation of CSR, and an increasing level of stakeholder awareness, it may be that CSR practices will come to affect ROA and ROE positively in the future.

While many studies have examined the development of CSR and CSP in China, the study reported, herein, is unique due to the fact that it examines the relationship between the presence of socially responsible leaders and CFP. Overall, the study developed the findings in the literature using three approaches:

(1) by examining responsible leadership at the macro-level, which facilitates our understanding of its connections with other phenomena at an organizational level, such as CSR and firm performance;

(2) by identifying morality as the defining element of responsible leadership and making it the primary focus of the study; and

(3) considering how socially responsible leaders are assessed by the salient stakeholders, thereby illustrating how CEOs should value stakeholders' needs.

Notes

1. These include intergovernmental conventions, such as the United Nations Global Compact and International Labour Organization conventions, model codes, such as SA 8,000, and individual corporate codes driven by multinational corporations (MNCs) via their supply chain.
2. Source: www.economist.com/node/21526407.
3. The web site of Hua De Awards: http://finance.sina.com.cn/forum/cegzxxmyd/index.html

4. CEIBS ranks 17th in the Global MBA Rankings published by the *Financial Times*.
5. The web site of Running & Loving Consulting for Common Welfare: www.rksratings.com/
6. The web site of Rankings CSR Ratings (RKS) is www.rksratings.com, available by February 25, 2015.

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