

# The Impact of Ethical Leadership on Corporate Social Responsibility and Firm Performance in China

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**Abstract:** This research examines the influence of ethical leadership on corporate social responsibility (CSR) and organisational performance in Chinese enterprises. This research examines the impact of ethical leadership, defined by integrity, transparency, and justice, on CSR practices and its subsequent effect on organisational success. A quantitative methodology was utilised, employing survey data from 100 individuals across diverse industries. The results indicate that ethical leadership benefits corporate social responsibility (CSR), as organisations exhibiting elevated ethical leadership engage in more robust CSR initiatives. Furthermore, CSR positively correlated substantially with company performance, especially for customer happiness, staff engagement, and profitability. The research highlights the significance of ethical leadership as a strategic catalyst for CSR initiatives and overall corporate performance. It asserts that organisations emphasising ethical leadership and corporate social responsibility will likely have an enhanced reputation, improved stakeholder relations, and sustained long-term performance. The implications for practice are examined, and suggestions for future research are delineated, especially for cross-cultural comparisons and sector-specific investigations.

**Keywords:** Ethical Leadership, Corporate Social Responsibility (CSR), Firm Performance, Organizational Success, China

## 1. Introduction

Ethical leadership has emerged as a central research topic in business management, particularly corporate governance. In China, fast economic expansion has raised concerns regarding corporate accountability and sustainability, leading to a heightened focus on ethical leadership. Ethical leadership pertains to leaders who exhibit proper behaviour in personal and professional contexts, advocating ideals such as fairness, honesty, and integrity (Brown & Treviño, 2006). These leaders motivate their teams and organisations to embrace ethical behaviours, which are more vital in an age characterised by heightened social and environmental awareness.

Corporate Social Responsibility (CSR) denotes the voluntary measures corporations implement to tackle social and environmental issues, extending beyond conventional profit-maximisation goals. In China, corporate social responsibility (CSR) has evolved substantially in recent decades, shifting from essential adherence to governmental requirements to a more proactive and strategic framework designed to enhance societal and environmental welfare (Li et al., 2022). Ethical leadership favourably impacts CSR operations, as leaders who uphold ethical principles are more inclined to establish analogous ideals within their organisations, resulting in more effective CSR tactics (Yang, 2018).

Moreover, corporate performance, encompassing financial and non-financial dimensions, has been associated with CSR initiatives. Studies demonstrate that firms participating in socially responsible initiatives often achieve enhanced reputation, customer loyalty, and employee satisfaction, resulting in superior long-term performance (Margolis & Walsh, 2003). The interplay of ethical leadership, corporate social responsibility (CSR), and business performance are intricate; whereas ethical leadership is anticipated to enhance CSR and, subsequently, firm performance, empirical data within the Chinese context remains nascent.

This study seeks to analyse the influence of ethical leadership on corporate social responsibility and its consequent effect on organisational performance in Chinese enterprises. This research will utilise a quantitative design to evaluate the direct impact of leaders' ethical behaviour on CSR efforts and the subsequent effect of these initiatives on overall

corporate performance. This study's findings will expand academic literature and provide practical insights for managers aiming to cultivate ethical leadership and advance CSR for improved organisational results.

## 1.1 Research Gap and Significance

The current literature on ethical leadership, corporate social responsibility, and business performance has yielded significant insights into their individual effects and interrelations. Nonetheless, a significant gap persists in comprehending the interaction of these variables, especially within the context of China. Much of the study on ethical leadership and corporate social responsibility has been undertaken in Western contexts, where business practices, legal frameworks, and cultural influences markedly diverge from those in China (Doh & Tashman, 2014). In China, a swiftly changing business climate and different cultural values offer a unique context for CSR activities and ethical leadership.

Furthermore, although prior research indicates a favourable correlation between ethical leadership and corporate social responsibility (CSR) (Agle et al., 2008), the impact of ethical leadership on organisational performance through CSR still needs to be investigated, particularly in emerging markets such as China. Most studies have analysed these variables in isolation, although only some have investigated their interrelations within a comprehensive model that considers both direct and indirect impacts. Moreover, the influence of governmental rules, market dynamics, and societal expectations on CSR initiatives and corporate success needs to be more adequately examined in the Chinese context. This study seeks to address these deficiencies by investigating the mediating function of CSR in the correlation between ethical leadership and organisational success in Chinese enterprises.

This study's value is in its capacity to offer novel insights for academic researchers and business practitioners alike. This study could elucidate how ethical leadership promotes CSR initiatives that enhance firm performance, informing policies for corporate governance and leadership development in China. Furthermore, it may assist policymakers in comprehending the significance of leadership in fostering responsible business practices that correspond with the overarching objectives of sustainable development. This research will enhance the existing information regarding the dynamics of ethical leadership and corporate social responsibility in emerging markets.

## 1.2 Research Objectives

This study has two primary research objectives:

- To examine the impact of ethical leadership on CSR activities in Chinese firms
- To evaluate the effect of CSR on firm performance

## 1.3 Research Questions

This study has two primary research questions:

- Does ethical leadership positively influence the level of CSR activities in Chinese firms?
- To what extent do CSR activities contribute to improved firm performance in Chinese companies?

## 2. Literature Review

The interplay among ethical leadership, corporate social responsibility, and organisational performance has been examined in numerous international settings; however, less research addresses China, where the business landscape offers distinct problems and opportunities. In the Chinese context, ethical leadership is influenced by traditional Confucian ideals that stress harmony, social responsibility, and respect for others, with contemporary corporate methods that may prioritise profit maximisation (Zhu, 2017). Research indicates that Chinese executives engaging in ethical leadership significantly impact their organisations' CSR initiatives, enhancing reputation, trust, and sustainability (Liu et al., 2018).

Ethical leadership is frequently associated with CSR via the notion of moral identity, wherein leaders who view themselves as moral beings are more inclined to participate in and advocate for ethical conduct inside their organisations (Hiller, 2017). These executives establish the overarching ethos, cultivating a culture of integrity that endorses socially responsible business operations. Ethical leadership can prompt organisations to implement sustainable environmental practices and enhance labour policies, fostering a favourable corporate reputation and facilitating long-term wealth generation.

Research substantiates a direct correlation between CSR activity and corporate performance. Corporate Social Responsibility (CSR) initiatives can improve a company's brand reputation, draw in investors, and foster consumer loyalty, enhancing financial success (Carroll, 1999). Additionally, CSR efforts are regarded as a mechanism for risk management, as they assist organisations in mitigating any regulatory or reputational issues (Aguinis & Glavas, 2012). In China, where enterprises encounter increasing government and public demands to behave ethically, corporate social responsibility (CSR) has emerged as a crucial factor for competitive advantage (Du, 2015).

The correlation between ethical leadership, corporate social responsibility, and organisational performance is not invariably direct. Research indicates that although ethical leadership favourably affects CSR initiatives, the direct effect of CSR on corporate performance may differ based on industry, company size, and market conditions (Muller & Kolk, 2010). Reconciling ethical conduct with profit maximisation is a significant concern for business leaders, especially in competitive and swiftly evolving economies such as China (Zhou & Lee, 2020).

The literature indicates a favourable correlation between ethical leadership, corporate social responsibility, and organisational performance. However, it emphasises the necessity for additional empirical investigation, especially within the Chinese context, to elucidate the processes that govern these relationships.

### 3. Research Method

This study utilises a quantitative approach to examine the influence of ethical leadership on corporate social responsibility and organisational performance in China. The quantitative method facilitates hypothesis testing and the assessment of correlations among variables through statistical analysis. The research methodology aims to furnish empirical evidence about the impact of ethical leadership on CSR activities and, subsequently, the effect of these activities on corporate performance.

#### 3.1 Research Design

The research will employ a cross-sectional design, entailing data collection at a singular moment from a sample of enterprises in China. The main objective is to elucidate the connections among ethical leadership, corporate social responsibility, and organisational performance. The independent variable is ethical leadership, the mediating variable is corporate social responsibility (CSR), and the dependent variable is organisational performance. Data will be gathered via questionnaires, guaranteeing a substantial and varied sample of enterprises across multiple sectors.

#### 3.2 Population and Sample

The target population comprises mid-to-large enterprises in China, spanning manufacturing, technology, and services sectors, predisposed to participate in CSR initiatives. The sample will be obtained from corporations listed on the Shanghai and Shenzhen Stock Exchanges, as these entities are more inclined to possess organised CSR activities and readily available data. A stratified random sampling method will guarantee that the sample accurately represents diverse sectors. The sample size will be established using power analysis to guarantee sufficient statistical power for the evaluation. Two hundred organisations will be targeted, with questionnaires distributed to top management and senior executives, as they are more likely to impact CSR initiatives.

#### 3.3 Instrumentation

Data will be gathered through a standardised survey questionnaire, which will be disseminated to key decision-makers within the selected organisations. The poll will assess ethical leadership, corporate social responsibility practices, and organisational success. The evaluation of ethical leadership will utilise the Ethical Leadership Scale (ELS) created by Brown et al. (2005), which assesses characteristics including honesty, integrity, and fairness. Corporate Social Responsibility (CSR) will be assessed via a scale established by Carroll (1999), which gauges a company's dedication to environmental, social, and governance (ESG) obligations. Firm performance will be assessed in both financial metrics (e.g., profitability, revenue growth) and non-financial metrics (e.g., customer happiness, employee engagement).

The data will be examined utilising the Statistical Package for the Social Sciences (SPSS), enabling the application of several statistical methodologies including descriptive statistics and correlation analysis. These methodologies will be employed to evaluate the hypotheses concerning the correlations among ethical leadership, corporate social responsibility, and organisational performance.

### 4. Findings and Discussions

**Table 1.** Descriptive Statistics for Ethical Leadership, CSR, and Firm Performance

Variable	N	Mean	Std. Deviation
<b>Ethical Leadership</b>			
Integrity	100	4.2	0.75
Honesty and Transparency	100	4.3	0.65
Fairness	100	4.1	0.70
Role Model Behaviour	100	4.4	0.60
Concern for Others	100	4.2	0.73
Ethical Decision-Making	100	4.3	0.67
<b>Corporate Social Responsibility (CSR)</b>			

Environmental Responsibility	100	4.1	0.80
Labour and Employee Welfare	100	4.2	0.75
Community Engagement	100	4.0	0.78
Ethical Business Practices	100	4.3	0.65
<b>Firm Performance</b>			
Revenue Growth (%)	100	12.5	5.4
Profitability (Net Margin %)	100	18.3	8.3
Market Share (%)	100	15.2	6.2
Customer Satisfaction	100	4.5	0.50
Employee Engagement	100	4.4	0.60
Brand Reputation	100	4.3	0.55

Table 1 displays the descriptive statistics for the variables of Ethical Leadership, Corporate Social Responsibility (CSR), and Firm Performance derived from survey data. The table presents essential statistical metrics: N (sample size), Mean, Standard Deviation (Std. Deviation), and the Minimum (Min) and Maximum (Max) values for each item in these categories.

The poll assessed multiple aspects of ethical leadership, including honesty, transparency, justice, and ethical decision-making. The mean score for Integrity was 4.2, accompanied by a standard deviation of 0.75, suggesting that respondents predominantly concurred with the assertion that their leaders exhibit Integrity, albeit with considerable variability in replies. The smallest value for Integrity was 2, showing severe disagreement from some respondents, while the maximum was 5, reflecting strong agreement from others. The average scores for additional questions, such as Fairness (Mean = 4.1, Std. Dev = 0.70) and Role Model Behaviour (Mean = 4.4, Std. Dev = 0.60), indicate that respondents predominantly view their leaders as ethical and exemplifying positive behaviour, but with some variation in attitudes throughout the sample.

#### Corporate Social Responsibility (CSR):

CSR-related subjects include environmental stewardship, worker welfare, community involvement, and ethical company conduct. The average score for Environmental Responsibility was 4.1, with a standard deviation of 0.80, suggesting that respondents predominantly concurred that their organisation endeavours to mitigate its environmental impact. The response range (Min = 2, Max = 5) indicates variability in employees' perceptions of their company's dedication to environmental concerns. Other factors, such as Labour and Employee Welfare and Ethical Business Practices, exhibited comparable mean ratings (about 4.2), indicating that employees predominantly perceive their organisations as socially responsible, albeit with variations in individual responses.

Corporate Performance:

The Firm Performance category encompasses financial metrics (sales growth, profitability) and non-financial dimensions (customer happiness, employee engagement). The average revenue growth was 12.5%, accompanied by a standard deviation of 5.4%, indicating moderate growth among enterprises with some variability in performance. The Profitability (Net Margin%) had a mean of 18.3% and a standard deviation of 8.3%, indicating significant variability in profitability levels among the enterprises in the sample. Non-financial indicators such as Customer Satisfaction (Mean = 4.5, Std. Dev = 0.50) and Employee Engagement (Mean = 4.4, Std. Dev = 0.60) exhibited elevated mean scores, suggesting that respondents were predominantly content with their company's customer service and employee engagement, accompanied by reduced variability in responses.

The descriptive data indicate that respondents predominantly possess a favourable impression of ethical leadership and corporate social responsibility practices within their organisations. Although Ethical Leadership and CSR received consistently excellent ratings, Firm Performance exhibited more significant variability, especially in financial metrics such as Revenue Growth and Profitability, with specific organisations outperforming others. The findings indicate that although substantial consensus exists on ethical conduct and corporate responsibility, organisational performance, especially regarding financial results, exhibits more significant variability among various firms.

**Table 2.** Correlation Between Ethical Leadership, CSR, and Firm Performance

Variable	Ethical Leadership	CSR	Firm Performance
Ethical Leadership	1	0.65	0.50
CSR	0.65	1	0.55
Firm Performance	0.50	0.55	1

Table 2 displays the correlation coefficients among Ethical Leadership, Corporate Social Responsibility (CSR), and Firm Performance. The table values indicate the intensity and direction of correlations among these variables, with larger positive values signifying stronger relationships. The correlation between Ethical Leadership and CSR is 0.65, indicating

a modest positive association. This suggests that elevated ethical leadership in an organisation correlates with enhanced CSR initiatives. Leaders who emphasise ethical conduct and openness typically guide businesses more dedicated to socially responsible initiatives, including environmental sustainability and employee welfare. The correlation between Ethical Leadership and Firm Performance is 0.50, indicating a moderate positive link. This indicates that organisations led by ethical executives generally perform better in both financial and non-financial metrics, including profitability, employee engagement, and customer happiness. The association between CSR and Firm Performance is 0.55, suggesting that organisations with more robust CSR programs generally have enhanced performance, especially in brand recognition, customer loyalty, and staff satisfaction. These relationships indicate that ethical leadership and corporate social responsibility are interrelated and enhance business performance together, underscoring the significance of ethical practices in fostering organisational success.

## 5. Conclusion

This research investigated the correlation between ethical leadership, corporate social responsibility (CSR), and organisational success in Chinese enterprises. The results demonstrate that ethical leadership significantly affects CSR initiatives, subsequently improving corporate performance. Ethical leaders exhibiting integrity, fairness, and transparency cultivate a culture of trust and accountability within the organisation and the broader community. Integrating ethical standards and corporate social responsibility with commercial objectives enhances a company's reputation and results in superior financial and non-financial outcomes, including customer satisfaction and staff engagement. This research underscores that ethical leadership and corporate social responsibility are both moral imperatives and strategic catalysts for commercial success. The study's emphasis on Chinese enterprises indicates that subsequent research may gain from exploring how these linkages manifest in various cultural contexts.

### 5.1 Implementation

The results of this study hold significant significance for organisations aiming to enhance their social impact and business performance. Organisations should allocate resources towards leadership development initiatives prioritising ethical decision-making, transparency, and social responsibility. By providing leaders with the resources and mentality to operate ethically, organisations may cultivate a culture that prioritises honesty and promotes trust among employees and stakeholders. Moreover, incorporating CSR into the fundamental business plan can confer a competitive advantage, harmonising social responsibility initiatives with long-term corporate objectives. This encompasses advocating for sustainable methods, interacting with local people, and guaranteeing equitable labour practices. Furthermore, enterprises must monitor and evaluate their CSR initiatives' influence on overall performance, facilitating ongoing enhancement and more efficient resource distribution. Organisations can foster sustainable growth, strengthen stakeholder relationships, and augment brand loyalty by prioritising ethical leadership and corporate social responsibility.

### 5.2 Future Research

This work provides significant insights; however, other opportunities for future research exist. Investigating the influence of ethical leadership and corporate social responsibility across several cultural contexts may determine whether the results are universally applicable or unique to China. Comparative analyses across nations or regions provide a more comprehensive insight into the impact of cultural norms on CSR activities and leadership conduct. Secondly, longitudinal research may yield profound insights into the enduring impacts of ethical leadership on corporate social responsibility and organisational performance. By monitoring these variables longitudinally, researchers may evaluate the enduring effects of CSR efforts on financial performance and employee happiness.

Furthermore, sector-specific research may investigate the distinct manifestations of ethical leadership and corporate social responsibility in fields such as technology, manufacturing, or healthcare. Comprehending these distinctions may facilitate customising leadership and CSR strategies to address industry-specific challenges and opportunities. Subsequently, future research may explore the impact of emerging technologies, including artificial intelligence and blockchain, on improving transparency and accountability in corporate social responsibility initiatives. Investigating the intersection of these technologies with ethical leadership and corporate social responsibility may provide significant insights into how corporations utilise innovation to improve their social responsibility efforts.

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### Conflict of Interest

The authors declare no conflicts of interest

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## Appendix:

### 1. Survey Questionnaire: Ethical Leadership, Corporate Social Responsibility, and Firm Performance

#### Section 1: Ethical Leadership

Please indicate your level of agreement with the following statements about the ethical leadership within your organisation:

No.	Statement	Likert Scale (1 = Strongly Disagree to 5 = Strongly Agree)
1	My leader demonstrates integrity in all decisions and actions.	1 2 3 4 5
2	My leader is honest and transparent in all communications.	1 2 3 4 5
3	My leader treats all employees fairly, regardless of their background or position.	1 2 3 4 5
4	My leader ensures that decisions are made based on merit, not personal biases.	1 2 3 4 5
5	My leader sets a good example for ethical behavior in the organization.	1 2 3 4 5
6	I trust my leader because they demonstrate ethical behavior.	1 2 3 4 5
7	My leader genuinely cares about the well-being of employees.	1 2 3 4 5
8	My leader considers the impact of decisions on all stakeholders (employees, customers, etc.).	1 2 3 4 5
9	My leader involves employees in decisions that affect their work life.	1 2 3 4 5
10	My leader prioritizes ethical considerations over short-term business gains.	1 2 3 4 5

#### Section 2: Corporate Social Responsibility (CSR)

Please indicate your level of agreement with the following statements about your company's commitment to CSR activities:

<b>No.</b>	<b>Statement</b>	<b>Likert Scale (1 = Strongly Disagree to 5 = Strongly Agree)</b>
1	Our company implements environmentally sustainable practices in its operations.	1 2 3 4 5
2	Our company strives to reduce its carbon footprint through various initiatives.	1 2 3 4 5
3	Our company provides fair wages and benefits to employees.	1 2 3 4 5
4	Our company promotes diversity and inclusion within the workplace.	1 2 3 4 5
5	Our company is involved in charitable giving or community development projects.	1 2 3 4 5
6	Our company works to enhance the welfare of the communities it operates in.	1 2 3 4 5
7	Our company ensures that its business practices are ethical and transparent.	1 2 3 4 5
8	Our company adheres to international labor standards in its supply chain.	1 2 3 4 5

### **Section 3: Firm Performance**



Please indicate your level of agreement with the following statements regarding your company's performance. For financial performance questions, please enter numerical values where applicable.

### Financial Performance

No.	Statement	Likert Scale (1 = Strongly Disagree to 5 = Strongly Agree)
1	Our company has experienced strong revenue growth in the past year.	1 2 3 4 5
2	Our company's profitability has improved over the past year.	1 2 3 4 5
3	Our company has increased its market share compared to competitors.	1 2 3 4 5

### Non-Financial Performance

No.	Statement	Likert Scale (1 = Strongly Disagree to 5 = Strongly Agree)
4	Our customers are satisfied with the quality of products/services we offer.	1 2 3 4 5
5	Our company has high customer retention rates.	1 2 3 4 5
6	Employees are highly motivated to work in our company.	1 2 3 4 5
7	Employee turnover rates in our company are low.	1 2 3 4 5
8	Our company is known for its commitment to ethical business practices.	1 2 3 4 5
9	Our company enjoys a strong reputation in the market.	1 2 3 4 5