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The Role of Corporate Social Responsibility in Enhancing Firm Performance: The Mediating Effect of Transformational Leadership

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Abstract:
In today's volatile and continually changing business environment, firms strive to improve their performance and reinforce their position in a business environment. However, this improvement cannot be done easily. In other words, the strength and the interconnectedness among the environmental forces hinder the firms' ability to take appropriate steps to achieve better performance. The purpose of this paper is to review the literature and the associations among corporate social responsibility, transformational leadership, and firm performance.

Keywords:
Corporate social responsibility, transformational leadership, firm performance.

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Introduction

The relationship between Corporate Social Responsibility (CSR) and firm performance has gained much attention by scholar in recent years (Saeidi, et al., 2015). Indeed, the findings of previous studies are inconclusive and misleading (Mishra and Suar, 2010). Some scholars have found a negative correlation between CSR and firm performance (ACCA, 2009). On the other hand, a positive correlation between CSR and firm performance is the dominant argument in studies (Oeyono, et al., 2011). In a narrower context, Alafi and Hasoneh (2012) postulated that a positive or negative relationship between CSR and firm performance cannot be 100% reliable, as this relationship might be influenced by other mediating variables to explain the nature of this relationship. Therefore, this study would suggest a positive correlation between CSR and firm performance is mediated by TFL. More social responsible firms have better economic situation, higher employee satisfaction, and good reputation (Rettab, et al., 2009). Moreover, the presence of consistent and entrenched CSR strategy is considered as an incubator to enhance and strengthen leaders with transformational characteristics, which in turn leads to better firm performance.

In this paper, a review of definitions on CSR, firm performance, and TFL will be presented. These three variables will be discussed in terms of the dimensions used to measure them. As well as, previous studies on the relationship among CSR, firm performance, and TFL will be presented in a chronological order.

Corporate Social Responsibility

Definition of Corporate Social Responsibility

Over the last two decades, the concept of CSR has been given much concern from scholars in different majors (Alshammari, 2015). Indeed, the light should be thrown on the definition of CSR to gain better understanding of this concept. McWilliams, et al. (2006) claimed that there is no agreement among scholars on the definition of CSR. To fully understand the meaning of CSR, the study considers how different scholars defined it from their perspectives and stand points. McGuire (1963) argued that CSR assumes that corporations have responsibilities toward society that go beyond their economic and legal responsibilities. Votaw (1972) pointed out that even if CSR means something; it does not mean the same thing for everybody. Davis (1973) moved further and stated that the CSR starts at the end of the law, in words; the firms' commitment to the requirements of law is not a social responsible behavior. Once any good firm can do so, the social responsible behavior is seen as the firms' commitment to the social obligations.

Another comprehensive definition was developed by Carroll (1999) who defined CSR as "the conduct of business that is economically profitable, law abiding, ethical and social supportive". In other words, based on Carroll's model, CSR consists of four dimensions: Economic, Legal, Ethical, and discretionary (Philanthropic) responsibilities. This definition has distinguished between the economic aspect and the noneconomic aspect of the social responsible behavior (Turker, 2009). In other words, the former focuses on what the firm does for itself, where the latter focuses on what the firms does for its society (Carroll, 1999).Along with this attractive definition, Carroll (1999) argued that the economic aspect of the firm is something it does for the society as well, therefore, this aspect could be considered as the basic responsibility of the firm toward the society (Turker, 2009).

Moreover, CSR refers to the behavior of corporations regarding business ethics that includes the obligations and commitment to the society. Daft (2003) took one step forward and defined CSR as the extension of both the morality of management and business ethics. He suggested that firms should not only focus on meeting the legal obligations, but also they should consider the public needs. Therefore, CSR could be the toll to make a balance between the benefits of stakeholders. CSR is also seen as the set of integrated policies and procedures throughout the business activities, and decisions making process that are intended to make sure that firms enhance the positive effect of their activities on the society (Spitzeck, 2009). Based on this view, CSR is described as the enduring commitment of firms to behave in an ethical way in order to improve their economic performance, the life of employees and their families, the local community, and the society (Turcsanyi and Sisaye, 2013). Homburg, et al. (2013) took into consideration the different perspectives of stakeholders groups and defined CSR as the company's voluntary actions toward stakeholders within inside and outside its business domain. Generally speaking, it seems that majority of scholars' definitions concentrate on how well organizations can achieve its economic goals, while keeping, and growing its benefits toward the society at large.

Measurement of Corporate Social Responsibility

CSR has become one of the most popular topics in literatures. CSR is assumed to have positive influence on firms and their stakeholders (Turker, 2009). Despite of the growing literatures, the measurement of CSR is still challenging. Several studies have used different methods in order to conceptualized CSR. Majority of the methods have some restrictions (Turker, 2009). Also, it has been argued that there is no particular way to conceptualize CSR. One of the most popular methods for assessing CSR is Carroll's model. Carroll (1999) suggested that CSR is a function of four dimensions: Economic, legal, ethical, and discretionary responsibility. Carroll (2000) addressed a question about whether the firms' social performance could be measured, and if so, why. The short answer is "yes". Because the social behavior of companies is critical to their business and society; it is significant to develop a measurement tool to deal seriously with this concept. Furthermore, Carroll (2000) claimed that it is complicated to develop actual measures, since there is a propensity to rely on the perspective of stakeholders in evaluating the firms' social performance. However, despite of the obvious risk, relying on the opinions of stakeholders may achieve more reliability in assessing firms' social performance compared to other different models.

Another method scholars widely used in measuring the corporate social activities is the Kinder, Lydenberg and Domini (KLD) database. According to KLD, the company's social performance is measured by relying on eight main attributes: environment, Community involvement, the treatment of diversity, product safety, military contract, quality program, nuclear program, and the excessive compensation of executives (Chatterji, et al., 2009).To test its validity, Ruf, et al. (1998) developed a scale to assess the significance of KLD's eight dimensions using the process of analytical hierarchy. They found that the dimensions of KLD coincided with the dimensions of Carroll's model at the legal, ethical, and discretionary responsibility. According to Maignan and Ferrell (2000), the indices of KLD are not appropriate to evaluate the social performance of all companies. As well as, they stated that KLD suffers from the reality that its attributes are not based on a theoretical background.

Other researchers proposed measuring the social responsible performance using internal and external social activities (Obeidat, 2016). Internally, CSR refers to the activities that are directly associated with the working environment of workers (Ferreira and Oliveira, 2014). Internal social activities can be viewed as the activities of the firm that can be done inside the company in order to enhance the welfare of employees (Pietersz, 2011). In addition, Longo, et al. (2005) suggested breaking down the internal activities of CSR into four groups called "value classes'': the development of workers skills and abilities, the social justice, welfare and satisfaction of employees, and the quality of work. On the other hand, external CSR is composed of the discretionary and community involvement that indicates the extent to which corporations play a significant role in their environment and treat their primary and secondary stakeholders (Brammer, et al., 2007).Finally, plenty of proxy measures were developed to conceptualize CSR as a single dimension of CSR (such as reputation), Moskowitz's CSR ratings, or Fortune corporate reputation index. However, studies relying on these methods have been criticized for adopting inappropriate measures (Mishra and Suar, 2010).

Dimensions of Corporate Social Responsibility

CSR can be measured using self-administered questionnaire with close-ended questions as a measurement tool. One of the most popular self-administered CSR questionnaires was developed by Maignan and Ferrell (2001). The construction of this tool derived from Maignan and Ferrell (2000). This instrument relies on the four components of Carroll's model. Accordingly, the study will adopt Carroll's model as consists of four dimensions to assess CSR. These dimensions are: Economic responsibility; Legal responsibility; Ethical responsibility; and Discretionary responsibility (also called philanthropic responsibility).

Economic Responsibility

Economic responsibility is considered as the firm's primary responsibility that requires the firm to produce valuable goods and services to society (Ramasamy and Yeung, 2009). Wang, et al. (2011) defined the economic responsibility as the profitability and competitiveness of a company, and its consequent socioeconomic effect. (UNIDO, 2002) reported that the fulfillment of this responsibility leads to creation of jobs and raising the income.

Legal Responsibility

Wheelen, et al. (2015) viewed the legal responsibility as meeting the firm's economic responsibility within the restrictions defined by the legal system of a particular country. Moreover, Carroll and Shabana (2010) defined this responsibility as the positive and negative compulsions defined by the law of a country on firms. In fact, Legal responsibility may include obeying such legal requirements as the tax law, the employees' safety, or the environmental standards (Ramasamy and Yeung, 2009).

Ethical Responsibility

Ethical responsibility takes one step further in which it goes beyond economic and legal responsibilities (Garriga and Melé, 2004). Ethical responsibility includes meeting the social expectations that are not documented by law (e.g. doing what is right, just, and fair, respecting the rights of individuals in the society) (Tuan, 2012). Carroll and Shabana (2010) defined ethical responsibility as the voluntary actions taken by firms to promote and achieve the goals for the society the go beyond economic and legal responsibility.

Discretionary Responsibility

Matten and Crane (2005) claimed that discretionary responsibility in the form of donations is equated to CSR. As well as, this responsibility is seen at the top level of CSR that includes the voluntary involvement in solving the social problems (Grbac and Lončarić, 2009). Discretionary responsibility refers the firms' actions that are taken in order to meet the social expectations to promote the quality of life for the people (Carroll and Shabana, 2010). This level of responsibility includes meeting additional activities and behaviors in which society considers them desirable (e.g. the social initiative, the contribution to solve social problems) (Tuan, 2012). Wheelen, et al. (2015) has distinguished between discretionary and ethical responsibility in which the ethical responsibility is expected to be me by many people, where few people expect to fill the discretionary responsibility.

Generally, these dimensions can be presented in a pyramid form, in which the economic and legal responsibilities (the basic responsibilities) at its base, while the ethical and discretionary responsibility (the advanced responsibilities) at its pinnacle (Ramasamy and Yeung, 2009).

Figure 1: The Pyramid of CSR. Source (Carroll, 2016)

Noticeably CSR pyramid encompasses the economic, legal, ethical, and discretionary responsibility. This set of responsibilities helps delineating in some detail the nature of firms' responsibilities toward the society (Carroll, 2016). At the base of the pyramid, the economic responsibility that is considered as the major requirement of existence that permitted firms to be created and sustained. Indeed, it is rarely to think about the economic aspect as a social responsibility. However, the sustainability of firms requires them to be profitable and able to incentivize shareholders to invest in operations. Legal responsibility requires firms to be committed for the minimal ground rules that are established by the society. These ground rules include the laws and regulations that reflect the society view of codified ethics that establish the fair business practices (Mirah and Masa'deh, 2014; Carroll, 2016). Ethical responsibility encompasses the normative expectations that are required by firms in addition to the laws and regulations. It also includes the norms and standards that are not codified by law, but firms are expected to comply (Park, et al., 2014). At the top of the pyramid, discretionary responsibility includes all forms of business given (Carroll, 2016). It embraces the business voluntary or philanthropic actions. Indeed, this business giving may not be responsibility in literal sense, but it is usually expected by firms as a part of everyday expectations (Fu, et al., 2014).

Firm Performance

Definition of Firm Performance

Generally speaking, it is complicated to develop a comprehensive definition and clear methodology for firm performance (Taghian, et al., 2015). However, from their standpoints; scholars have suggested different definitions and methodologies for the term of performance in general and firm performance in particular (Obeidat, et al., 2016). Armstrong (2006) defined performance as an ongoing and flexible process in which managers and their subordinates work together within a blueprint that determines how they can act as partners in order to achieve the required set of goals. Moreover, performance can be seen from process and economic view. As a process, performance refers to the process of converting inputs into useful outputs in order to achieve specific objectives. As for the economic perspective, performance is seen as the effective linkage of cost and output in order to achieve the desired outcomes.

In a narrower context, several definitions were developed to conceptualize firm performance. Zahay and Griffen (2004) referred to firm performance as the firm ability to achieve its goals while meeting the needs of its stakeholders. Carton (2004) defined firm performance as the combination of productive assets that are used to the accomplishment of shared goals. Firm performance can also be defined as the extent to which firms are effectively managed, and how they produced and deliver value for their stakeholders. Another definition was developed by Ramezan, et al. (2013) who suggested that firm performance is the ability to effectively gather and manage their assets in terms of human, financial or physical assets in order to accomplish their desired goals.

Measurement of Firm Performance

Over the recent years, the issue of measuring firm performance has been widely argued (Obeidat, et al., 2013, 2016, 2019; Al-Dmour, et al., 2015; Abualoush, et al., 2018a, b; Al-dalahmeh, et al., 2018; Masa'deh, et al., 2018a, b). Especially in terms of whether using financial or nonfinancial indicators and what dimensions are better to predict the firm performance. Scholars from different areas in management consider the firm performance as the vital dependent variable because it allows for companies to assess their activities in regard to their competitors (Obeidat, 2016).

Assessing the firm performance can be carried out through using financial or nonfinancial indicators. Financially speaking; Carton (2004) defined the financial performance as the assessment of the change in the firm’s financial situation, or the financial objectives that are achieved by the people within an organization. Cegarra-Navarro, et al. (2016) postulated that financial performance is considered as a direct sign for the financial situation of the firm from different aspects. Over the years, Scholars have used different indicators to predict the firm performance such as firm size, return on assets (ROA), return on equity (ROE), assets age, or return on sales (Mishra and Suar, 2010). Berman, et al. (1999) claimed that ROA is considered as the most valid financial indicator for the firm performance in which the degree of leverage has no effect on ROA. It has been argued that several factors can influence on assessing the firm performance relying on the financial perspective (Obeidat, 2016). For instance, the changing in laws and regulations, the economic circumstances, or the changes in the cost of resources and production might have a remarkable effect on the assessment process (Prieto and Revilla, 2006). Given today's business environment, researchers have complained the dependency on financial measures to assess the firm performance due to their backward focus, and their inability to reflect the firm's value creation activities (Kaplan and Norton, 1992).

Regarding the nonfinancial indicators, Wang, et al. (2015) claimed that due to the disadvantages of using the financial indicators as the lack of strategic perspective, the concentration on the short-term objectives, and the failure to provide executives with adequate data to ensure the improvement and invention of performance; researchers tend to adopt the nonfinancial indicators to assess the firm performance. Noticeably more consideration has been given to the nonfinancial indicators as they focus on the company's strategic success (Mishra and Suar, 2010). These indicators tend to concentrate on the needs of all stakeholders groups without any kind of preferences. Furthermore, due to their subjectivity; nonfinancial indicators are difficult to be controlled or manipulated by others (Cho, 2011).

One of the most popular methods for assessing the firm performance is the Balance Scorecard (BSC) developed by Kaplan and Norton (1992). Along with the financial measures, this system measures the firm performance from the nonfinancial aspect as well. It tends to consider the firm's vision, mission, and strategies (Chen, et al., 2011). Also, it supports the company in achieving its goals. According to Kaplan and Norton (1992), BSC is composed of three dimensions (Internal process, Customers, and learning and growth). It has been concluded that this approach measures the factors that achieve the long-term success for the firms as innovation, employee satisfaction, research and development, customer satisfaction, and the efficiency of internal processes, then, it assesses the improvement of firm's performance through these intangible factors (Kaplan and Norton, 2001; Obeidat, et al., 2017).

Delaney and Huselid (1996) proposed another construct for assessing the firm performance. This construct was used by researchers as Kuo (2011); and Obeidat (2016). It consists of seven dimensions (Product/ service quality, product/ service innovation, employee retention, employee attraction, employee relation, management and employee relations, and customer satisfaction). The system has a comprehensive view, in which, it concerns with all levels in the organization in order to measure its performance. Ariff, et al. (2014) suggested other indicators for evaluating the firm's nonfinancial performance. These indicators are: (good corporate governance, human resource management, academic performance, international ranking, reputation, talent management, and the influence of risk on business operations). Other methods were developed to assess the firm performance from financial and nonfinancial aspect as Mitchell (2002) who suggested four dimensions: (The responding of firm to the needs of stakeholders, the effectiveness, the efficiency, and the financial feasibility). Lee (2008) proposed other six dimensions: (Strategic performance, Organizational communication, Knowledge management, stakeholders' satisfaction, company growth, and teamwork). Furthermore, some researchers (e.g. Tsai and Yen, 2008; Almajali and Al-Lozi, 2016; Obeidat, et al., 2016; Aldmour, et al., 2017; Alenezi, et al., 2017; Tarhini, et al., 2017a, b; Yassien and Mufleh, 2017; Masa'deh, et al., 2019) claimed the firm performance can be evaluated by focusing on the knowledge management, information systems services, social and innovative performance, along with the financial performance.

Finally, it has been observed that the process of measuring firm performance is a complicated process. However, this process is expected to become more complicated due to the rapidly changing in the environmental forces and the needs of stakeholders (Hubbard, 2009).

Dimensions of Firm Performance

Innovation

Today, innovation is one of the main aspects for firms seeking to build solid strategies and sustainable competitive advantage (AlHrassi, et al., 2016; Obeidat, et al., 2017). Jung, et al. (2014) stated that innovation is the main driver for the company's growth and sustainability. Several definitions have been developed for the concept of innovation. Rennings (2000) defined innovation as a process of generating new ideas, products or services, and behaviors that lead to a reduction in the environmental encumbers. O'Sullivan and Dooley (2008) referred to the innovation the process of making a radical or incremental change on a small or large aspect of an organization to generate better goods and services, develop the current processes to add more value for customers. Another definition suggested by Lin, et al. (2010) who defined the innovation as the overall organizational system that concern with the process of value creation through the creation of new ideas, products or services. Indeed, it has been noticed that there is no main approach for assessing the organizational innovation.

In regard to its relationship with CSR, Rexhepi, et al. (2013) postulated that Innovation is the major driver of competitiveness where firms should respond rapidly to create new products for its customers. Therefore, formulating CSR plan is seen as an ethical tool that when it used properly and strategically, enhances the firm's ability to be innovative in the value creation process. Jung, et al. (2014) examined the relationship between CSR and innovation. They argued that innovation is the firm's engine for growth and sustainability, and mainly driven by the social performance. As well as, it is claimed that the presence of sustainable management has a significant influence on the innovative activities.

Reputation

Generally speaking, firms with a well-established reputation tend to attract better employees, who in turn prefer to work in these firms (Alshammari, 2015). Kotler and Keller (2015) claimed that such factors as advertising or websites play a role in the competitive market, but the company's reputation may play a greater one. Weigelt and Camerer (1988) defined reputation as a collection of characteristics that are built overtime to describe the firm. Petrick (2002) defined reputation as the status of the company's product as seen by the customers. Lai, et al. (2010) referred to company reputation as the overall perspective of stakeholders toward the company's behavior. Recently, reputation is defined as the overall held beliefs about the organization's ability to achieve the interests of its stakeholders groups (Beheshtifar and Korouki, 2013).

Heizer, et al. (2013) argued that the relationship between firms and stakeholders is voluntary. If firms do not meet their stakeholders' expectations, they will face a difficulty in building and maintaining this relationship. Therefore, maintaining a green management and reinforcing the social behavior can yield to good reputation. Zhu, et al. (2014) posited that firms with strong CSR actions create positive reputation among stakeholder, which ultimately leads to several advantages. Saeidi, et al. (2015) suggested that company's reputation is one of the major constructs of firm performance. It reflects the degree of stakeholders' satisfaction. Therefore, CSR is considered as a preferable strategy to build and maintain a positive reputation.

Service Quality

Service quality has been one of the major interests for scholars due to its critical role in improving the business profitability (Santouridis and Trivellas, 2010; Al Azmi, et al., 2012; Obeidat, et al., 2012; Khwaldeh, et al., 2017). It is usually perceived that quality can be evaluated by determining to what extent customer expectations have been met (Santos, 2003). Grönroos (1984) defined service quality as the result of a comparison process, in which customers make a comparison between their expectations and the value they have received. Santhiyavalli and Sandhya (2011) developed a comprehensive explanation of service quality. They argued that service quality refers to the overall assessment of a particular product or service provided by firms that results from comparing the company's performance with the customers' expectations of how companies should perform. Heizer, et al. (2013) defined quality as the ability of goods and services to meet the needs and wants of the customers.

Kim, et al. (2012) argued that the presence of a strong CSR can lead to a higher degree of customer awareness. Therefore, a company can better understand the needs of customers to produce better quality product. Heizer, et al. (2013) suggested that the ethical conduct must determine the social responsible activities of firms. Furthermore, every firm should have ethical instrumental values that delineate how firms should develop their products at a particular level of quality to fit with the requirements of customers. Calveras (2013) claimed that both internal and external CSR can improve the level of product quality. Internally, CSR in terms human resource practices as stability and training can enhance the product quality, which in turn improve the productivity. Externally, CSR as the involvement in social activities enhances the unobservable quality.

Employee Satisfaction

Employees have been considered as the profit center of organizations and the name of the game (Dessler, 2015). Hewitt (2012) found that employee satisfaction is associated with the productivity and sustainable workplace. As well as, employee satisfaction is considered as a major indicator for measuring the firm performance (Avery and Bergsteiner, 2011). Researchers have different views regarding the definition of employee satisfaction. Satisfaction refers to the level of completion of human's needs and desire (Avery and Bergsteiner, 2011). Locke (1976) defined employee satisfaction as the overall pleasure and positive emotions of employees resulting from his/her experience in a particular job. Employee satisfaction is referred to what extent the employees of a particular company reported they are feeling satisfied in their jobs (Suriyankietkaew and Avery, 2014). Tavakkol and Janani (2014) argued that employee satisfaction is a concept that describes whether employees are happy, vied and fulfilling their needs and wants at their organizations.

It has been widely accepted that enhancing employee satisfaction is a function of a proper CSR strategy. Bauman and Skitka (2012) claimed that the presence of CSR provides employees with a sense of job security, self-esteem, loyalty, and purpose at work, which in turn enhances their satisfaction. Skudiene and Auruskeviciene (2012) posited that CSR activities that firms undertaking are factors for motivating qualified employees to choose that company as employer. Also, they argued that internal CSR has stronger influence on employee satisfaction than external CSR. Finally, it has been observed that CSR strategy helps firms to nurture their employees where firms' activities that are related to CSR create positive emotions for employees as pride, pleasure, gratification, and enjoyment that enhance their satisfaction (Barakat, et al., 2016).

Transformational Leadership

In fact, leadership is essential to analyze the human behavior and predates to the study of corporations and business (Christensen, et al., 2014). Due to the instability of environmental forces; many efforts have been exerted to attract and maintain a sense of leadership within organizations (McDermott, et al., 2011). Erkultu (2008) referred to leadership as the process of influencing others, determining the goals of the firm, and inspiring behaviors to accomplish these goals. Tuan (2012) defined leadership as the interaction process between two or more people that includes the arrangement of ideas, and beliefs of those people, according to this definition, leader is seen as an assistant who helps others to change the status quo into desired situation. Robbins and Judge (2015) defined Leadership as the ability to influence others toward the accomplishment of a vision or certain goals.

Antonakis, et al. (2003) claimed that the presence theories of leadership mainly concentrate on determining goals, and clarifying the appropriate behavior to achieve these goals. Indeed, this is referred to the transactional leadership. According to Robbins and Judge (2015), transactional leaders are those who conduct others to achieve desires goals by explaining the required tasks and behaviors. Transactional leadership concerns only with producing the main exchanges with others. Beyond transactional leadership, TFL concerns with inspiring others to transcend their own interests for the good of their organizations (Robbins and Judge, 2015). To fully understand, Hinkin and Schriesheim (2008) developed a model for the full range for the leadership styles, Laissez-fair is the most passive and ineffective one, where idealized influence is the most active and effective one.

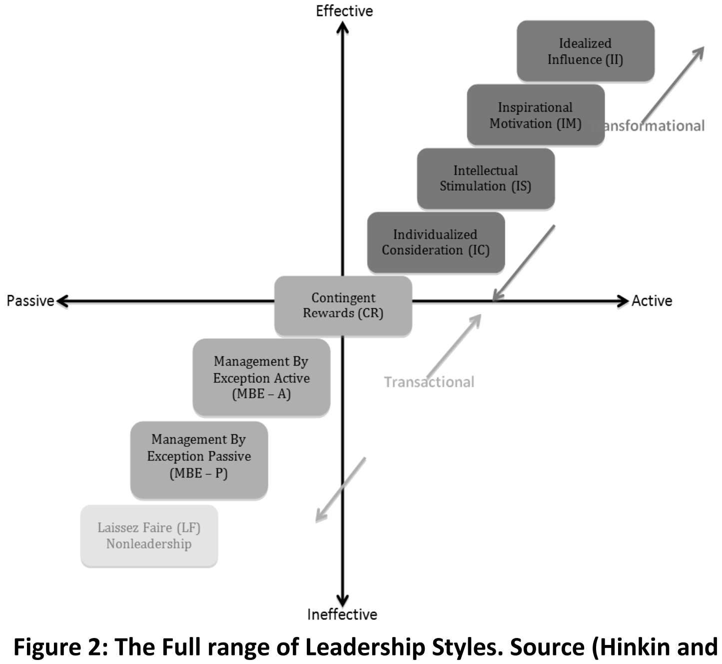

Figure 2: The Full range of Leadership Styles. Source (Hinkin and Schriesheim, 2008)

As seen in the above model, Laissez- faire is the most passive. Therefore, it is the most ineffective one. Management by exceptions (MBE) is divided into MBE passive (MBE-P) and MBE active (MBE-A). MBE-A is somewhat better, but still ineffective. MBE is only available when there is a particular problem encountered in the workplace (Robbins and Judge, 2015). Contingent reward (CR) is considered as an effective style, but it does not allow followers to go out of the box in dealing with a certain duty. On the other hand, the other four styles: individualized consideration (IC), Intellectual stimulation (IS), Inspirational motivation (IM), and idealized influence (II) are the major components of TFL who are assumed to enhance the firm performance (Wang, et al., 2011).

Definition of Transformational Leadership

The concept of TFL was earlier introduced by Burns (1978). Thereafter, scholars have developed better comprehensive definitions (Bass, et al. 2003). They developed a conceptual model for leadership. TFL is characterized by the ability to encourage the positive behaviors, stimulate others to transform their values and beliefs, and create a sense of challenge to boost the firm performance (Veríssimo and Lacerda, 2015). Scholars from different majors attempted to conceptualize TFL. Majority of these definitions focus on the leaders' ability to direct people toward achieving shared objectives. Muijs (2011) defined TFL as the ability to transform the personal interests of organizational members to achieve shared vision, and long-term goals. Another definition of TFL refers to leadership style that intensifies the consciousness of mutual interests between firm's members and supports them to attain their mutual goals (García-Morales, et al., 2012). Recently, Dumdum, et al. (2013) referred to TFL as the process of communicating firm's vision, encouraging the members of the firm to achieve this vision while recognizing the differences among them. Rao (2014) defined TFL as the process of encouraging people to achieve a set of clear goals and objectives while enhancing their ethical values.

In sum, it is noteworthy to say that TFL is built on transactional leadership and assumed to exert more efforts that go beyond transactional leadership for the purpose of improving the followers' ability. Therefore, it enhances the organizational performance (Robbins and Judge, 2015).

Measurement of Transformational Leadership

Measuring TFL is not agreed-upon process. Researchers concerned with TFL have different views toward the appropriate assessment of TFL. Some of them relied on using an observation, while others used the interview as instruments to measure TFL. One of the measurement methods to assess TFL was developed by Hitt (1990) who identified four dimensions for leadership: manipulative leader, bureaucratic administer, professional manager, and transforming leader. Then, this model has been edited by Minett, et al. (2009) to be more applicable with different industries (Guillet, et al., 2012).

McColl-Kennedy and Anderson (2002) developed a leadership method that allows respondents to indicate their perceptions toward transformational leaders. This method has been criticized by scholars due to its reliance on self-reports made by respondents in regard to leadership, which in turn might affect the validity of the measure (Sarros, et al., 2008). One of the most popular and dominant instruments to conceptualized and evaluate TFL is generated by Avolio, et al. (1999); Antonakis, et al. (2003). This instrument is called Multifactor Leadership Questionnaire (MLQ 5x). Since its inception in 1985, this instrument was used by many researches in different fields due to it high validity and applicability in several industries over a long period of time (Antonakis, et al., 2003). Moreover, MLQ can be used in order to assess both TFL and transactional leadership with nine leadership scales, and three outcomes. This instrument has been translated into different languages and used globally which means it is highly statistically valid and reliable (Judge and Piccolo, 2004).

Dimensions of Transformational Leadership

To conceptualize and measure the mediating effect of TFL; the study will adopt the four major dimensions of TFL as developed by Avolio, et al. (1999). These dimensions are: Idealized Influence, Inspirational Motivation, Intellectual Simulation, and Individualized consideration. They are also known as the “four I’s” (Robbins and Judge, 2015). Moreover, these dimensions produce such desirable outcomes as better productivity, high job satisfaction, innovative ideas, or organizational effectiveness (Hinkin and Schriesheim 2008).

Idealized Influence

It is also called “Charisma” (Dvir, et al., 2002). Idealized influence refers to leaders who behave as a role model for their followers, exhibits a sense of power and confidence, make exceptional decisions, and act based on deeply rooted beliefs and values (Bruch and Walter, 2007). Furthermore, Idealized influence ensures the presence of trust, ethics and values (Guay, 2013). According to Veríssimo and Lacerda (2015), idealized influence is characterized by the ability to communicate the organizational vision and mission of what they can achieve if they exert more efforts. Leaders with this characteristic display perseverance and determination toward achieving shared goals with respect to high standards of ethics and morality and have a high concern for the benefits over their own benefits. Orabi (2016) claimed that idealized influence has a significant effect on particular aspects of firm performance. In other words, it has a greater effect on the level of employee satisfaction and commitment, which lead to higher level of motivation and engagement.

Inspirational Motivation

TFL arouses the presence of inspirational motivation (Dvir, et al., 2002). Inspirational motivation refers to the leader’s eagerness and optimism in building a shared vision for the future of an organization and provoking similar sense among followers (Bi et al., 2012). Leaders who are characterized by this behavior creates a sense of challenge with followers at high standards, talk in an optimistic way about the future of an organization, and help followers to solve problems encountered in the workplace (Bacha,2014). Regarding its linkage with the firm performance, Rawung, et al. (2015) examined the role of inspiration motivation in enhancing the firm performance. They posited that inspiration motivation plays a significant role in transmitting the knowledge within an organization to facilitate its success.

Intellectual Stimulation

TFL gives intellectual stimulation (Dvir, et al., 2002). Intellectual stimulation occurs when leaders support their followers to be more innovative and creative in generating new ideas and solving problems. This could be done by critically questioning assumptions, restructuring problems, and moving toward old situations in new ways by encouraging followers to adapt different approaches (Limsila and Ogunlana, 2008). Intellectual stimulation has a vital role in achieving organizational goals based on the determination and the hard work of employees (Anjali and Anand, 2015). As well as, intellectual stimulation assists the application of employee empowerment to address problems and finding solutions (Smothers, et al., 2016).

Individualized Consideration

TFL treats followers with individualized consideration (Dvir, et al., 2002). Individualized consideration involves coaching and mentoring followers to become future leaders of an organization (Walumbwa, et al. 2008). Moreover, it represents how leaders build an understanding relationship with each follower, and take into consideration their needs for growth and achievement by coaching or mentoring followers to develop their abilities in a supportive environment (Limsila and Ogunlana, 2008). Bi, et al. (2012) refers to the individualized consideration as the reflection of the consideration of followers' potential and their level of development to specify their needs in the future with respect to the differences between followers. In terms of its implication for firm performance, it has been observed that leaders with individualized consideration nurture each individual within an organization. This process motivates employees, which in turn leads to better firm performance (Zacher, et al., 2014).

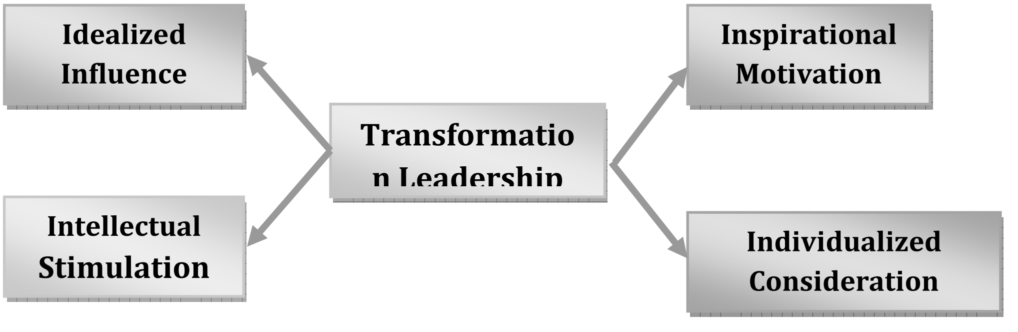

Figure 3: Dimensions of TFL. Source (Avolio, et al. 1999)

5. Corporate Social Responsibility and Firm Performance

Educators, administers, and policy makers growingly focused on CSR and how it influences on various aspects of business and it is influenced by several factors (Wang, et al., 2015). The linkage between CSR and firm performance has been extensively studies by scholars in different majors. McGuire, et al. (1988) conducted a study to investigate the relationship between CSR and firm performance, specifically the financial performance. They draw on stakeholder theory to suggest that once a firm does not behave in a socially responsible manner; some parties of stakeholders would transform from implicit to explicit agreements and that will put more costs on the shoulders of the firm. Data for this study were collected from fortune magazine annual survey of corporate reputation while a study assessed a firm's performance by using return on assets (ROA), total assets, sales growth, asset growth, and operating income growth. The study tested the relationship through using a correlation, and regression analysis to reach for results that ensure a significant relationship between CSR and firm performance.

Studies continued to investigate the impact of CSR on firm performance. Mackey, et al. (2007) studied the impact of CSR on firm performance. They postulated that CSR strategy is a voluntary action plan that could enhance the society or the environment (Aguilera, et al., 2007). Also, they used a market value as a measure for firm performance, which defined as the price of a firm's equity multiplied by the number of shares. They concluded that investors have preferences beyond maximizing the wealth. Therefore, a firm should supply more social activities to increase its market value, but they should reduce the supply of social activities once the demand for them is not favorable to protect the firm's market value.

In investigating the influence of CSR on firm performance, Mishra and Suar (2010) argued that using the financial measures to assess the firm performance is rigid. Therefore, they used such non-financial measures as employee satisfaction, customer satisfaction, research and development, internal business process, and innovation which considered as "lead indicators" for predicting firm's success. Also, they have used different financial measures as ROA and ROE. Data on CSR and non-financial performance were obtained through a survey, where secondary sources have been used to collect data on financial performance as ROA, ROE, assets age, and return on sales. In this study, descriptive statics, regression analysis, and Pearson correlation are used to show a positive influence of CSR on firm financial and nonfinancial performance.

In another study, Alshammari (2015) has drawn on the institutional theory, stakeholder perspective, and ownership literature to shed the light on the linkage between CSR and firm financial performance. He proposed that CSR is a strategic step that any firm should take to increase its profits. As well as, it has been proposed that CSR is seen a better way where the engagement in social activities can improve firms' status in the society and keep them away from social failure (Chen, et al., 2008). The expected finding of this study is that CSR should be used as a criterion in making an investment decision. As well as, once the firms' social performance is considered as a stable, integrative, and appropriate, they will find a remarkable progress in their financial performance due to the good reputation.

Drawing on stakeholders and institutional theory, Bai and Chang (2015) examined the influence of CSR on firm performance. They claimed that CSR is a strategic plan to build deeper relations with employees, customers, and society as whole. In turn, these deeper relations lead to better performance. The study found that implementing a CSR strategy enhances the firms' ROA, ROE, and return on sales within controllable variables of firm size, firm age, and ownership. Descriptive statistics was used to present the characteristics of respondents, whereas the hypotheses were tested using multiple regression analysis. It has been concluded that that once firms behave in a social responsible manner toward employees, customers, and society, their performance will be significantly improved. Noticeably the role of CSR in enhancing the firm performance has been widely investigated. Wang, et al. (2015), postulated that CSR as comprised of economic, social, environmental, corporate governance (CG) positively affects the reputation of the firm which in turn enhances its performance. He used quintile regression and ordinary least squares (OLS) to argue a significant influence of CSR on firms' financial performance.

Obeidat (2016) examined the relationship between CSR and organizational performance in the telecommunication industry in Jordan. The research adapted the internal and external CSR to measure firms' social performance. It has used the nonfinancial indicators as customer satisfaction, product/service quality, employee retention and attraction, management-employee relations to assess the organizational performance. As recommendations, he suggested that decision makers should work on formulating and implementing CSR plan that leads to improved organizational outcomes. As well as, organizations should have a vital role in the society to improve their reputation, attract more investors, and achieve enhance the overall financial performance.

Corporate Social Responsibility and Transformational Leadership

Waldman, et al. (2006) claimed that the relationship between CSR and TFL has not been extensively studied. Guillet, et al. (2012) argued that only few researches throw the light on this relationship. Their findings demonstrated a close relationship between CSR and transformational leadership. This research aims to introduce scientific evidence that even though the presence of TFL is positively associated with CSR. On the same hand, the consistency and entrenchment of CSR strengthen the characteristics of TFL.

Groves and LaRocca (2011) developed a value centered model to connect leader stakeholder value with TFL and leader economic value with transactional leadership. They also investigated the influence of these two leadership styles on the organizational citizenship behavior (OCB) and CSR through the mediating role of followers' congruence. Researchers defined TFL as the leadership style that strives to enhance the level of followers' awareness regarding the valuable outcomes by transcending their self-visions to a collective vision. To fully understand, the model consists of TFL, transactional leadership, the rating of followers' congruence, and two outcomes associated with the responsible leadership: followers CSR beliefs, and (OCB). It has been concluded that leader stakeholder values associated with TFL, while transactional leadership is associated with leader economic value. Also, it has been concluded that TFL has positive influence on the followers' congruence, which in turn leads to better CSR and OCB. On the other hand, transactional leadership is negatively associated with the followers' congruence.

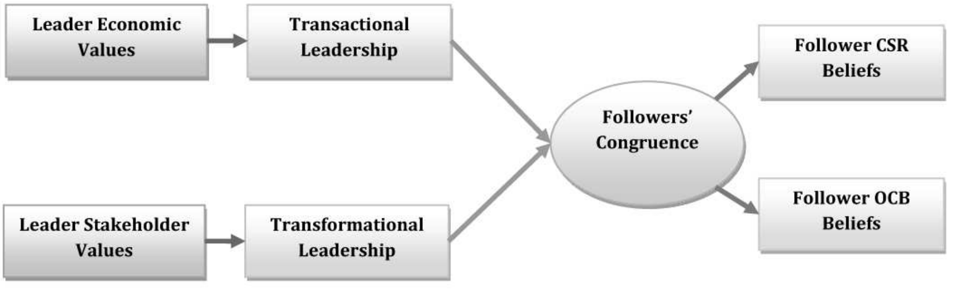

Figure 4: Values-Centered TFL. Source (Groves and LaRocca, 2011)

leadership. As well as, to investigate whether TFL or transactional leadership are associated with CSR. Therefore, Groves and LaRocca (2011) conducted an empirical study to examine specific ethical values that are important predecessors to leadership and influence on the followers' beliefs regarding social activities. They argued that ethical values are considered as underpinnings of TFL and transactional leadership. Furthermore, they suggested that deontological ethics are associated with TFL, while teleological ethics are linked to transactional leadership. Accordingly, a close relationship between TFL and CSR has been proposed. To conceptualize the study variables, (MLQ) (Avolio, et al., 1999) was used to measure both TFL and transactional leadership. Singhapakdi et al.'s (1996) was adopted to assess the beliefs of followers about CSR. Using multivariate analysis of variance (MANOVA), and multiple regression analysis to test the hypotheses, it has been found that deontological ethics are associated with TFL. Therefore, TFL is associated with followers' belief in CSR.

Guillet, et al. (2012) investigated how CSR is perceived by managers with different leadership styles. The research was conducted in Asia-Pacific region specifically in Hong-Kong where data are collected from employees working in hospitality sector by using structured questionnaire. The researchers used Pearson correlation coefficient and analysis of variance (ANOVA) to conclude that the respect for CSR is positively related to TFL and other professional style, while the disregard for CSR is positively associated with Machiavellian leadership and other bureaucratic styles. It means that there are some goals to achieve or some policies to be followed that are more essential than adapting the social responsible behavior.

Christensen, et al. (2014) conducted a qualitative study to explain how leaders are associated with both CSR and corporate social irresponsibility (CSIR). It has been proposed that CSR is highly associated with TFL. In other words, TFL influences on followers to share values (Idealized Influence), helps followers to achieve goals that are perceived as unachievable (Inspirational Motivation), supports followers to think in innovative and creative manner (Intellectual Simulation), and builds a rapport with employees to influence their behaviors (Individualized Consideration). Finally, they have proposed that leaders with intrinsic needs may strive to achieve these needs by permitting irresponsible behavior, which in turn could lead to different negative consequences.

Transformational Leadership and Firm Performance

Over the last years, plenty of studies have investigated the effect of leadership on several outcomes as creativity, OCB, and firm performance (Zhu, et al., 2014). Nevertheless, throughout this period, the concentration of these studies has been shifted from transactional leadership to TFL due to its remarkable effectiveness in enhancing the firm performance (Pillai, 2013). García-Morales, et al. (2012) analyzed the impact of TFL on the organizational performance through the mediating role of organizational learning and innovative capabilities. They postulated that companies need TFL to boost their performance in a rapidly complex environment. It has been hypothesized that TFL is one of the main underpinnings to improve the organizational learning and innovation. This can be done when leader acts as a catalyst, facilitates the communication between followers, and encourages the presences of innovative culture to achieve better organizational performance.

168 firms have participated in this study. A survey was the main instrument to collect the data regarding TFL, organizational learning and innovation. On the other hand, the financial statements of the participated companies are used to collect data regarding the organizational performance. TFL is measured using McColl-Kennedy and Anderson (2002); organizational learning is measured using Aragón-Correa, et al. (2007), whereas Antoncic and Hisrich (2001) instrument was used to assess the innovation. ROA, ROE,

return on sales, market share, and growth have been used to assess the organizational performance. The structural equation model displayed that TFL positively impacts on firm performance through organizational learning and innovation who affect positively on the firm performance – specifically the firm financial performance.

Katou (2015) investigated the linkage between TFL and firm performance. He used three mediating variables: organizational justice, organizational trust, and employee relations to analyze their impact on this relationship. The study suggested that TFL can influence on the organizational performance by adapting responsive, adaptive, and developmental behavior that produce a climate of integrity, dependability, justice, and commitment that enhance the organizational performance. 133 companies and 1,250 employees from public and private sector have participated in this study which used a questionnaire as the main instrument for data collection. The structural equation modeling is employed as a statistical method to test the hypotheses of the study. To measure TFL, responsiveness, adaptability, and development were used as the major dimensions. On the other hand, productivity, growth rate, and creativity were used to measure the organizational performance. The findings of the study indicated that TFL has a positive impact on the firms' growth, and this impact is mediated by organizational justice trust, and employee reactions.

Orabi (2016) conducted a study to explain the effect of TFL on the firm performance in the Jordanian banking sector. The research stands on a strong theoretical framework where it used MLQ to assess the TFL, and the organizational effectiveness and efficiency to assess the organizational performance. He has claimed that TFL positively impact on the firm performance where leaders with transformational behavior can best predict the improvement in the firm performance. Statistically, the study used multiple regression analysis to find that inspirational motivation, intellectual stimulation, and individualized consideration impact on the organizational performance. In contrast, idealized influence has no significant effect on the firm performance. The research justified that by arguing that the effect of idealized influence on firm performance has not been extensively studied in literatures.

Conclusions

CSR has become one of the most discussed topics over the years (Waddock and Groves, 1997). Scholars have raised some concerns regarding the relationship between CSR and firm performance. Many of which are attributed to the inconsistent findings supporting any of the proposed linkages. Friedman (1962) proposed that maximizing the wealth of shareholders should be the goal for managers when making decisions. Jensen and Meckling (1976) insisted that the engagement in socially responsible activities-especially the costly ones- might expose the company to various forms of market disciplines as limited access to low cost resources, the replacement of senior managers, and takeovers, which in return may affect the long-term efficiency, and effectiveness of firms. Further, once a company adapts CSR, it is likely to incur additional costs due to the allocation of firm resources for undertaking CSR initiatives (Ullmann, 1985). Few studies suggested there is yet to be conclusive findings regarding the effect of CSR practices on firm financial performance (Mishra and Suar, 2010).

Review of previous literatures reveals that it is difficult to conduct an empirical study on CSR since there is a lack of clear boundaries for this concept (Orlitzky, et al., 2011). However, despite the lack of clear definition, majority of definitions agree that firms must meet the expectation of society when articulating their CSR strategies (Gössling and Vocht, 2007). Regarding the firm performance, Doubtless firm performance is a critical issue for any firm operating in the emerging environment (Abu-Jarad, et al., 2010). Majority of scholars have used firm performance as dependent variable concerned with every aspect in the organization (Obeidat et al., 2016). As for TFL, scholars agree that TFL is a leadership style that motivates followers to go beyond their self-interests to achieve the goals of the entire organization (Wang et al., 2011).

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