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CEO Ethical Leadership and Corporate Social Responsibility: A Moderated Mediation Model

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Abstract This study examined the relationship between CEO ethical leadership and corporate social responsibility by focusing on the mediating role of organizational ethical culture and the moderating role of managerial discretion (i.e., CEO founder status and firm size). Based on a sample of 242 domestic Chinese firms, we found that CEO ethical leadership positively influences corporate social responsibility via organizational ethical culture. In addition, moderated path analysis indicated that CEO founder status strengthens while firm size weakens the direct effect of CEO ethical leadership on organizational ethical culture and its indirect effect on corporate social responsibility. Theoretical and managerial implications of these results are discussed.

Keywords CEO Ethical Leadership · Corporate social responsibility · Managerial discretion · Organizational ethical culture

Corporate scandals have widely raised awareness of and attention to ethical issues in business leadership. The awareness and attention of researchers are exemplified by the increasing number of studies on ethical leadership, which is defined as "the demonstration of normatively appropriate conduct through personal actions and interpersonal relationships, and the promotion of such conduct to followers through two-way communication, reinforcement, and decision-making" (Brown et al. 2005, p. 120). Recent cross-cultural research has indicated that ethical leadership is a common concern among managers in Asia, Europe, and the United States (Resick et al. 2011). Ethical leadership has been found to result in various followers' positive outcomes including voice behavior (Walumbwa and Schaubroeck 2009), task significance, job autonomy, effort (Piccolo et al. 2010), job security (Loi et al. 2012), interactional justice, supervisor effectiveness, satisfaction with supervisors (Brown et al. 2005), and citizenship behavior (Liu et al. 2013; Mayer et al. 2009).

Despite these fruitful findings, little attention has been devoted to the relationship between CEO ethical leadership and corporate social responsibility, broadly conceptualized as "context-specific organizational actions and policies that take into account stakeholders' expectations and the triple bottom line of economic, social, and environmental performance" (Aguinis 2011, p. 855). High levels of corporate social responsibility can bring numerous benefits to firms, stakeholders, customers, and employees, including improved competitive advantage, attractiveness to institutional investors, and organizational reputation (for a

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review, see Aguinis and Glavas 2012). Although prior research has studied the relationship between CEO transformational leadership and corporate social responsibility (Waldman et al. 2006), the limitation of using CEO transformational leadership rather than ethical leadership to predict corporate social responsibility is obvious: ethical leadership more directly assesses the ethical qualities of leaders than does transformational leadership (Brown et al. 2005). Indeed, directors and high-level managers from a qualitative study have reported that ethical leadership is an important precursor to corporate social responsibility (Yin and Zhang 2012). To directly evaluate the effects of CEO leadership on corporate social responsibility using a quantitative method, the first purpose of our study is to examine the effects of CEO ethical leadership above and beyond the effects of transformational leadership on corporate social responsibility.

Moreover, previous research has largely neglected how CEO leadership affects corporate social responsibility and the mediating mechanism has not yet been investigated. Applying upper echelons theory that suggests that organizational outcomes reflect top executives' psychological characteristics (Hambrick and Mason 1984), recent research has focused on the mediating role of organizational culture in explaining the relationship between CEO values and organizational outcomes (Berson et al. 2008). To unveil the mediating mechanism between CEO ethical leadership and corporate social responsibility, the second purpose of this study is to examine the mediating role of organizational ethical culture that reflects the beliefs about the ethics of an organization which are shared by its members (Key 1999).

Furthermore, if CEO ethical leadership indeed has an impact on corporate social responsibility, we do not know whether there are certain conditions under which the relationship between CEO ethical leadership and corporate social responsibility most likely emerges. Upper echelons theory has identified an important moderator, managerial discretion, which refers to the latitude of action available to the manager and may account for why top executives provide more influences in some situations than in others (Hambrick and Finkelstein 1987). Examining the unexplored boundary condition is important because it might provide insights that the positive effects of CEO ethical leadership should not be taken for granted. Hence, the third purpose of this study is to test the moderating role of managerial discretion with respect to the CEO ethical leadership's effects on corporate social responsibility.

In particular, we present a moderated mediation model positioning organizational ethical culture as a mediator of the CEO ethical leadership's effects on corporate social responsibility, and managerial discretion as a moderator of such effects. Figure 1 provides a heuristic figure of our study. In this manner, we outline for which type of firm CEO ethical leadership is most influential, as well as develop practical implications by identifying leverage points to enhance the effects of CEO ethical leadership. Below, we review relevant literature and present the result of a multi-wave, multi-source study testing our hypotheses.

Hypothesis Development

CEO Ethical Leadership, Organizational Ethical Culture, and Corporate Social Responsibility

Upper echelons theory regards firm strategies and outcomes as a function of executive psychological characteristics (Hambrick and Mason 1984). Compounded by the fact that top executives are constantly confronting lots of ambiguous stimuli during work, their values and beliefs are especially pronounced in making sense of the environment and thus influencing their interpretation of events, decisions, and actions (Hambrick and Mason 1984). A CEO is a key decision-maker charged with the responsibilities for formulating and implementing corporate strategy and choices, and his or her values and beliefs definitely play a crucial role in promoting the image of the firm through social responsibility (Waldman et al. 2006). Enhancing corporate social responsibility could be a strategic choice to reflect the extent to which a CEO is involved in promoting the firm's positive image. Themes of ethical leadership have emphasized leader character (e.g., honesty), accountability, consideration of and respect for others, and collective orientation for organization and society (Resick et al. 2011). An ethical CEO may thus adopt the practices of corporate social responsibility to exhibit his or her ethical values. This argument sets up the understanding of the positive effects of CEO ethical leadership on corporate social responsibility.

To enhance corporate social responsibility efforts, a CEO may choose to create an organizational culture grounded in appropriate ethical values (Puffer and McCarthy 2008). Indeed, organizational culture is a reflection of upper echelon leadership (Giberson et al. 2009). Research has argued that establishing an organizational ethical culture is a fundamental function of an ethical leader. One suggested way for a leader to perpetuate the desired culture is by setting an ethical example themselves (Grojean et al. 2004). Social learning theory suggests that individuals learn behaviors through attention to, observation, and imitation of role models (Bandura 1977). Top executives have the highest levels of power and status in the organization, and thus, they are likely to become role models for other organizational members (Mayer et al. 2009). In addition, by showing honesty, accountability, fair

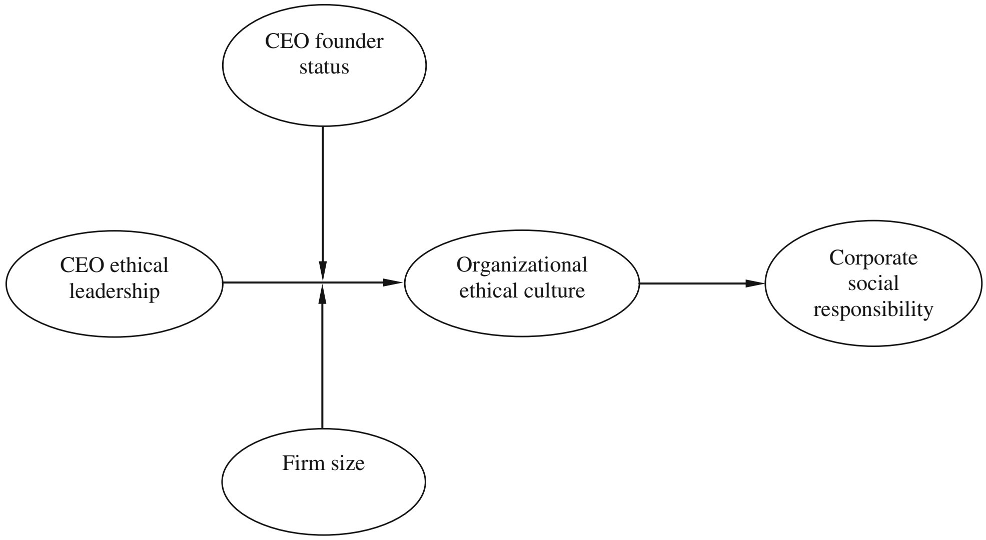

Fig. 1 The conceptual model of this study

treatment, consideration of others, and proper manner and behavior, an ethical CEO is attractive, credible, and legitimate; hence, he or she should stand out in the organizational context (Brown et al. 2005). Such CEO rewards employees' ethical behavior, punishes employees who violate ethical standards, and sets a role model of how to do things in an ethically acceptable way (Brown et al. 2005). Consequently, an ethical CEO leads followers by promoting their ethical values and helping the organization to attract and keep members who share similar ethical values and thus fit with the organization (Grojean et al. 2004). Therefore, CEO ethical leadership facilitates ethical value congruence among organizational members that is important to the organization's social environment.

Another way to promote corporate social responsibility is to establish clear expectations of ethical conduct (Grojean et al. 2004). Ethical issues may be ambiguous. An ethical leader discusses business ethics and values with other organizational members and defines success not just by results but by the way they are achieved (Brown et al. 2005). Therefore, ethical leadership can clarify the boundaries of ethical behavior to alleviate ambiguity. Such clarification, in turn, helps to establish an organizational ethical culture (Grojean et al. 2004). Recent research has indicated that ethical leadership is positively associated with ethical culture at hierarchical levels (Schaubroeck et al. 2012). These arguments support the positive relationship between CEO ethical leadership and organizational ethical culture.

Organizational ethical culture may help build a strong sense of ownership among members by emphasizing social responsibility practices as important, thereby enhancing the cohesiveness of members in terms of their ethical decision-making and moral development (Key 1999). In such culture, members are encouraged to take responsibility for ethical decisions and to take into account numerous perspectives and points of interests (Treviño 1986). Consequently, members put the interests of the organization and society ahead of their own personal interests, consider the sustainability and long-term impact of decisions, and act responsibly while interacting with customers, government, society, the natural environment, and future generations. This suggests a positive relationship between organizational culture and corporate social responsibility.

In sum, we have developed an argument that a CEO nurtures organizational ethical culture to boost corporate social responsibility by focusing on members' attention to ethics and by highlighting priorities that guide and coordinate members' efforts toward achieving high levels of corporate social responsibility. Research has indicated the mediating role of organizational culture in the relationship between CEO values and organizational outcomes (Berson et al. 2008). Hence, we propose:

Hypothesis 1 Organizational ethical culture mediates the relationship between CEO ethical leadership and corporate social responsibility.

The Moderating Role of Managerial Discretion

Although, generally, we expect that CEO ethical leadership positively influences organizational ethical culture, which in turn impacts corporate social responsibility, social learning theory (Bandura 1977), and upper echelons theory (Hambrick and Finkelstein 1987) suggest that during situations of uncertainty and ambiguity, followers are likely to pay more attention to their leaders for guidance. Based on social learning theory, Brown et al. (2005) note that, "in situations where tasks are ill-defined, and standards of practice are not well established, the ethical guidance provided by leaders should be more important" (p. 132). CEO ethical leadership might be more important in organizations that are characterized by ambiguity; hence, followers are more likely to rely on their CEO for ethical guidance.

Further, upper echelons theory suggests that managerial discretion increases when there is more ambiguity and less constraint and that managerial discretion strengthens the extent to which a CEO matters to firm strategies and outcomes (Hambrick and Finkelstein 1987). Empirical studies have indicated that when top executives have more discretion, their influences on their firms are stronger (Crossland and Hambrick 2011). Research has revealed that individual attributes and organizational factors are two key conditions that can determine the degree of managerial discretion (Hambrick and Finkelstein 1987). Drawing on these insights, this study examines CEO founder status and firm size that represent managerial discretion.

Start-up firms face higher levels of ambiguity, uncertainty, and challenge than established firms (Peterson et al. 2009). When a CEO is a founder, he or she enjoys more freedom in making decision and creating and implementing firm strategies than a non-founder CEO, because a founder CEO is less likely to be constrained by organizational routines and history. Hence, a founder CEO has more latitude to reward and punish members with respect to their ethical practices, and more importantly, to establish and foster an organizational ethical culture to promote corporate social responsibility. In addition, the status of the founder CEO is also relatively high because the founder is a key person to create the success of the start-up firm. Therefore, organizational members should pay a lot of attention to the founder's ethical values and greatly role model the founder's ethical behavior. In established firms, a non-founder CEO may be constrained by highly developed organizational routines, existing organizational decision-making processes, and historic business practices (Peterson et al. 2009). Moreover, the success of the firm may not be attributable to such CEO. As a result, organizational members are less likely to be influenced by the ethical leadership of a non-founder CEO. Past research has provided evidence that CEO leadership has more influences on start-up firms than on established firms (Peterson et al. 2009). Hence, we propose:

Hypothesis 2 CEO founder status moderates the relationship between CEO ethical leadership and organizational ethical culture, such that the positive relationship is stronger for a founder CEO than for a non-founder CEO.

Firm size is another determinant of managerial discretion (Li and Tang 2010). Large organizations generally have organizational inertia because they have established routines and hierarchical structures, and thus, members feel accustomed to following established routines (Nelson and Winter 1982). Such organizations have difficulty undertaking dramatic changes and are less likely to be influenced by CEO leadership (Bass 1998). For instance, research has revealed that large firms take less initiative to expand their business than small firms (Audia and Greve 2006). Moreover, recent research has indicated that firm size alleviates the positive relationship between CEO hubris and firm risk taking (Li and Tang 2010). Therefore, we propose:

Hypothesis 3 Firm size moderates the relationship between CEO ethical leadership and organizational ethical culture, such that the positive relationship is weaker for large firms than for small firms.

The above arguments represent an integrated framework in which organizational ethical culture mediates the positive relation between CEO ethical leadership and corporate social responsibility and managerial discretion moderates the relation between CEO ethical leadership and organizational ethical culture. According to the notion that managerial discretion moderates the relation between CEO ethical leadership and organizational ethical culture, and considering that organizational ethical culture is positively associated with corporate social responsibility, it is logical to suggest that managerial discretion also moderates the strength of the mediating mechanism for organizational ethical culture in the relation between CEO ethical leadership and corporate social responsibility—a moderated mediation model (Edwards and Lambert 2007). As previously mentioned, a stronger relation between CEO ethical leadership and organizational ethical culture will appear for a founder CEO in a small firm. Hence, the indirect effect of CEO ethical leadership on corporate social responsibility via organizational ethical culture may also be stronger for a founder CEO and a small firm. Specifically, when a CEO has more latitude in various aspects, the indirect effect of ethical leadership on corporate social responsibility should be stronger. However, when a CEO is constrained by his or her non-founder status and the large firm size, ethical leadership is less influential in promoting organizational ethical culture; consequently, the indirect effect of ethical leadership on corporate social responsibility should be weaker. Taken together, we propose:

Hypothesis 4 CEO founder status moderates the mediating effect of organizational ethical culture on the relationship between CEO ethical leadership and corporate social responsibility, such that the indirect effect of CEO ethical leadership on corporate social responsibility via organizational ethical culture is stronger for founder CEOs than for non-founder CEOs.

Hypothesis 5 Firm size moderates the mediating effect of organizational ethical culture on the relationship between CEO ethical leadership and corporate social responsibility, such that the indirect effect of CEO ethical leadership on corporate social responsibility via organizational ethical culture is weaker for large firms than for small firms.

Method

Sample and Procedures

The data of this study were collected through a questionnaire survey of domestic Chinese firms located in Guangzhou, Beijing, and Xiamen of China. As a part of a comprehensive research project centering on CEO leadership and business strategy in China, this study randomly selected samples from all domestic firms registered with the local governments. The respondents for the questionnaire survey were each firm's CEO, human resource (HR) manager, and chief financial officers (CFOs). The CEOs, HR managers, and CFOs were surveyed separately, and they did not know the questions of each other. Two waves of data collection, which took over one year, were performed in order to reduce the common method bias (Podsakoff et al. 2003). Data collectors were trained and led by one of the authors. In the first-wave survey (T_1), the HR managers provided information on CEO ethical leadership, firm demographics (e.g., firm age, size, industrial type, and location), and a control variable (i.e., CEO transformational leadership), whereas the CEOs provided information on their own demographics (e.g., founder status) and organizational ethical culture. One year later, during wave two (T_2), the CFOs were asked to provide information on their firms' corporate social responsibility. The first wave and second questionnaires were administered in face-to-face interviews, so that respondents had the opportunity to ask clarification questions to better understand the survey items, which enhanced the accuracy of the responses. To avoid sensitizing the participants, we did not analyze wave one data until we had finished the second wave data collection. Moreover, the respondents were guaranteed complete confidentiality to ensure the reliability of their answers.

Of the 481 firms that we visited in the wave one (T_1), 338 firms provided complete information for all the wave one variables (CEO ethical leadership, CEO transformational leadership, organizational ethical culture, and CEO and firm demographics). In wave two (T_2), we received 242 complete CFO questionnaires, which provided information on their firms' corporate social responsibility. We confirmed that no firms changed their CEOs in this one-year period. The total sample therefore consisted of 242 firms (including 242 CEOs, 242 HR managers, and 242 CFOs). These firms were from various industries including food manufacturing, software, biology, and machinery. Manufacturing firms accounted for 55.0 % of the sample; the rest were service firms. The average age of the firms was 10.15 years (SD = 5.88), and the average number of the employees was 928.01 (SD = 927.48). As for the location of the sample firms, 36.0 % were located in Guangzhou, 32.2 % were located in Beijing, and 31.8 % were located in Xiamen.

To examine whether subject attrition created any detectable differences in our sample, we conducted a multivariate analysis of variance to compare two subject groups (Lance et al. 2000): (1) group 1 completed both wave one and wave two ($n = 242$), and (2) group 2 completed the first wave but not the second ($n = 96$). The results indicated that these two groups were invariant in terms of firm age, firm size, firm industrial type, firm location, CEO founder status, CEO transformational leadership, CEO ethical leadership, and organizational ethical culture. Therefore, our final sample did not suffer from attrition bias.

Measures

All the multi-item measures in the study were originally constructed in English. We developed Chinese versions for all these measures following the commonly used translation-back translation procedure (Brislin 1980). The Appendix shows the items.

CEO ethical leadership. CEO ethical leadership was measured by adopting a ten-item scale developed by Brown et al. (2005). Response options ranged from 1, "strongly disagree" to 5, "strongly agree". Sample items include: "Our company's CEO defines success not just by results but also the way that they are obtained", and "Our company's CEO makes fair and balanced decisions". The scale's reliability was .92.

Organizational ethical culture. A nine-item scale developed by Key (1999) was used to measure organizational ethical culture. Response options ranged from 1, "strongly disagree" to 5, "strongly agree". Sample items include: "Ethical behavior is a norm in our company", and "Organizational rules and procedures regarding ethical behavior serve only to maintain our company's public image (reverse-coded)". The scale's reliability was .88.

Corporate social responsibility. A seventeen-item scale developed by Turker (2009) was employed to measure corporate social responsibility. Response options ranged from 1, “strongly disagree” to 5, “strongly agree”. Sample items include: “Our company complies with the legal regulations completely and promptly”, and “Our company protects consumer rights beyond the legal requirements”. The scale’s reliability was .91.

CEO founder status. CEO founder status was represented by a dummy variable, with 0 representing a non-founder CEO and 1 representing a founder CEO.

Firm size. Firm size was measured by the logarithm of the total number of employees.

Control variables. Due to the potential effects of firm demographics (e.g., firm age, location, and industrial type) and CEO transformational leadership on organizational culture and corporate social responsibility (Brik et al. 2011; Groves and LaRocca 2011; Waldman et al. 2006), we controlled for firm age, firm industrial type, firm location, and CEO transformational leadership. Years of establishment of a firm provided the firm age. Firm industrial type was represented by a dummy variable, with 0 representing service firm and 1 representing manufacturing firm. The locations (i.e., Guangzhou, Beijing, and Xiamen) of sample firms were represented by two dummy variables. CEO transformational leadership was measured using an eight-item scale originally developed by Waldman et al. (2001) and adapted by Song et al. (2009). Response options ranged from 1, “strongly disagree” to 5, “strongly agree”. The scale’s reliability was .94.

Results

Confirmatory Factor Analyses

Confirmatory factory analyses were conducted using AMOS 4.0 to evaluate the validity of the key variables. We first examined a four-factor model, in which CEO ethical leadership, organizational ethical culture, corporate social responsibility, and CEO transformational leadership were included. As suggested by Hair et al. (1998), the overall model’s Chi square, the comparative fit index (CFI), the Tucker-Lewis Index (TLI), and the root mean square error of approximation (RMSEA) were used to assess the model fit. A cutoff value close to or above .90 for CFI and TLI, and a cutoff value below .08 for RMSEA indicate that there is a relatively acceptable fit between the proposed model and the observed data (Hair et al. 1998). The hypothesized four-factor model fitted the data well: χ^2 (892) = 1464.35, $p \leq .01$; CFI = .91, TLI = .90; RMSEA = .05. In addition, all the factor loadings were significant, providing evidence for convergent validity.

The discriminant validity of the four constructs was tested by contrasting the four-factor model with the one-factor and three-factor models. The one-factor model was obtained by loading all items measured into a “grand” latent factor. The three-factor model was obtained by combining CEO ethical leadership and organizational ethical culture into one factor because correlation analysis demonstrated that their correlation was the highest among the four constructs ($r = .38$, $p \leq .01$). The one-factor and three-factor models yielded a poor fit to the data: χ^2 (902) = 4828.06, $p \leq .01$; CFI = .35; TLI = .32; RMSEA = .13 for the one-factor model, and χ^2 (895) = 2115.72, $p \leq .01$; CFI = .80; TLI = .79; RMSEA = .08 for the three-factor model. Thus, the discriminant validity of the four constructs was confirmed.

Descriptive Statistics

Table 1 presents the means, standard deviations, and zero-order Pearson correlations of all key variables. As shown in the table, CEO ethical leadership was positively correlated with organizational ethical culture ($r = .38$, $p \leq .01$) and corporate social responsibility ($r = .24$, $p \leq .01$). In addition, organizational ethical culture was positively correlated with corporate social responsibility ($r = .37$, $p \leq .01$). These results were consistent with and provided initial support to our hypotheses.

Hypothesis Testing

Hypothesis 1 predicted that organizational ethical culture mediates the relationship between CEO ethical leadership and corporate social responsibility. We conducted hierarchical multiple regression analysis to test Hypothesis 1 by entering the control variables, independent variable (CEO ethical leadership), and mediator variable (organizational ethical culture) on separate steps. According to Baron and Kenny (1986), a full mediation is supported if four conditions are met: (1) the independent variable (i.e., CEO ethical leadership) is significantly related to the mediator (i.e., organizational ethical culture); (2) the independent variable is significantly related to the dependent variable (i.e., corporate social responsibility); (3) the mediator is significantly related to the dependent variable; and (4) when the mediator is present, the relationship between the independent and the dependent variable becomes nonsignificant. The results in Table 2 show that (1) CEO ethical leadership was positively related to organizational ethical culture ($\beta = .37$, $p \leq .01$, Model 2); (2) CEO ethical leadership was positively related to corporate social responsibility ($\beta = .20$, $p \leq .01$, Model 5); (3) organizational ethical culture was positively related to corporate social responsibility ($\beta = .35$, $p \leq .01$, Model 6); and (4) the relationship between CEO ethical leadership and corporate social responsibility became nonsignificant

Table 1 Means, standard deviations, and correlations

Variables	1	2	3	4	5	6	7	8	9	10	11
1. Firm age											
2. Firm size[a]	−.00										
3. Firm industrial type[b]	−.04	.25**									
4. Firm location-Guangzhou	.02	.00	.01								
5. Firm location-Beijing	.03	.02	−.04	−.52**							
6. Firm location-Xiamen	−.05	−.02	.02	−.51**	−.47**						
7. CEO founder status	−.11	−.03	.01	.02	−.03	.00					
8. CEO transformational leadership	.00	−.16*	−.01	−.06	.08	−.02	−.13*	*(.94)*			
9. CEO ethical leadership	−.03	−.06	−.01	−.05	.06	−.01	−.04	.34**	*(.92)*		
10. Organizational ethical culture	.05	.00	−.04	−.05	.10	−.05	.00	.14*	.38**	*(.88)*	
11. Corporate social responsibility	−.01	.00	.04	.00	.01	−.01	−.04	.19**	.24**	.37**	*(.91)*
Mean	10.15	2.80	.45	.36	.32	.32	.36	3.68	3.48	3.31	3.70
SD	5.88	.38	.50	.48	.47	.47	.48	.81	.74	.68	.51

$N = 242$; ** $p \leq .01$; * $p \leq .05$ (two-tailed)

Bracketed values on the diagonal are the Cronbach's alpha value of each scale

[a] Firm size = Log (number of the employees)

[b] Firm industrial type: "0"—Service firms; "1"—Manufacturing firms

Table 2 Results of hierarchical regression analysis

	Organizational ethical culture			Corporate social responsibility			
	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6	Model 7
Control variables							
Firm age	.05	.06	.05	−.01	−.01	−.03	−.02
Firm size[a]	.03	.03	.06	.02	−.02	.01	.01
Firm industrial type[b]	−.04	−.04	−.03	.04	.04	.05	.05
Firm location-Guangzhou[c]	−.00	.01	.03	.01	.02	.01	.02
Firm location-Beijing	.08	.07	.10	.00	−.01	−.03	−.03
CEO founder status	.03	.03	.02	−.01	−.01	−.02	−.02
CEO transformational leadership	.14*	.02	.09	.20**	.13*	.15*	.12
Independent variable							
CEO ethical leadership		.37**	.27**		.20**		.08
Mediator							
Organizational ethical culture						.35**	.33**
Interactive effects							
CEO ethical leadership × CEO founder status			.22**				
CEO ethical leadership × Firm size			−.19**				
R^2	.03	.15	.22	.04	.07	.16	.16
ΔR^2	.03	.12	.07	.04	.03	.12	.09
F	1.09	5.26**	6.73**	1.40	2.35*	5.60**	5.12**
ΔF	1.09	33.38**	10.83**	1.40	8.68**	33.70**	25.38**

$N = 242$; ** $p \leq .01$; * $p \leq .05$ (two-tailed)

[a] Firm size = Log (number of the employees)

[b] Firm industrial type: "0"—Service firms; "1"—Manufacturing firms

[c] Firm location-Xiamen is the reference

($\beta = .08$, *n.s.*, Model 7) when organizational ethical culture was present. Thus, Hypothesis 1 was supported.

Hypotheses 2 and 3 predicted that CEO founder status and firm size moderate the relationship between CEO ethical leadership and organizational ethical culture. As shown in Table 2, the interaction between CEO ethical leadership and CEO founder status ($\beta = .22$, $p \leq .01$, Model 3) was positively related to organizational ethical

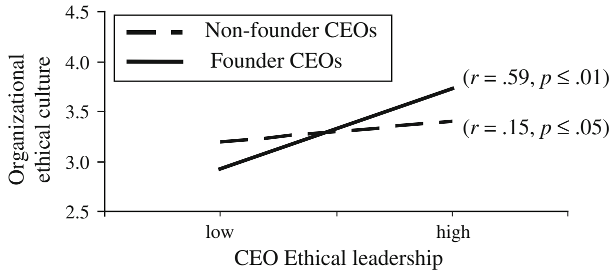

Fig. 2 Interactive effects of CEO ethical leadership and CEO founder status on organizational ethical culture

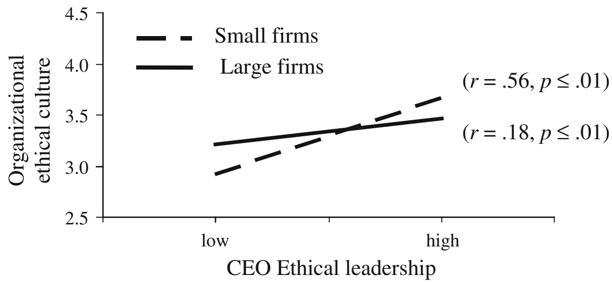

Fig. 3 Interactive effects of CEO ethical leadership and firm size on organizational ethical culture

culture, while the interaction between CEO ethical leadership and firm size ($\beta = -.19$, $p \leq .01$, Model 3) was negatively related to organizational ethical culture. The interaction terms accounted for 7 percent of the variance in organizational ethical culture ($\Delta R^2 = .07$, $\Delta F = 10.83$, $p \leq .01$). Figures 2 and 3 present the interaction patterns. As shown in Fig. 2, the positive relationship between CEO ethical leadership and organizational ethical culture is stronger for founder CEOs ($\beta = .59$, $p \leq .01$) than for non-founder CEOs ($\beta = .15$, $p \leq .05$). In addition, to draw a figure regarding firm size, we calculated the mean and standard deviance of firm size (the logarithm of the total number of employees) of the whole sample, and then categorized those firms with the firm size value less than the mean value minus one standard deviance as small firms, and those firms with the firm size value greater than the mean value plus one standard deviance as large firms. As shown in Fig. 3, the positive relationship between CEO ethical leadership and organizational ethical culture was stronger for small firms ($\beta = .56$, $p \leq .01$) than for large firms ($\beta = .18$, $p \leq .01$). Thus, Hypotheses 2 and 3 were supported.

Hypotheses 4 and 5 predicted that the indirect (i.e., mediated) effect of CEO ethical leadership on corporate social responsibility varies as a function of CEO founder status and firm size. Accordingly, we performed moderated path analysis (Edwards and Lambert 2007), bootstrapping 1000 samples to compute bias-corrected confidence intervals. As shown in Table 3, the indirect effect of CEO ethical leadership on corporate social responsibility via organizational culture was stronger for founder CEOs ($\beta = .11$, $p \leq .01$) than for non-founder CEOs ($\beta = .03$, $p \leq .01$). Overall, the differences in the indirect effect were significant ($\Delta\beta = .08$, $p \leq .01$), thus supporting Hypothesis 4. In particular, the results presented in Table 3 support a first-stage moderating effect ($\Delta\beta = .29$, $p \leq .01$), which provides further support for our theoretical argument that CEO ethical leadership interacts with CEO founder status to influence organizational ethical culture, which in turn, impacts corporate social responsibility. Finally, CEO founder status did not moderate the effect of organizational ethical culture on corporate social responsibility ($\Delta\beta = .02$, *n.s.*), nor did it moderate the direct effect of CEO ethical leadership on corporate social responsibility ($\Delta\beta = .06$, *n.s.*).

Table 3 Results of the moderated path analysis

Moderator variable	CEO ethical leadership (X) → Organizational ethical culture(M) → Corporate social responsibility (Y)				
	Stage		Effect		
	First P_{MX}	Second P_{YM}	Direct effects (P_{YX})	Indirect effects ($P_{YM}P_{MX}$)	Total effects ($P_{YX} + P_{YM}P_{MX}$)
Simple paths for non-founder CEOs	.17*	.23**	.04	.03**	.08
Simple paths for founder CEOs	.46**	.25**	.10	.11**	.21**
Differences	.29**	.02	.06	.08*	.13
Simple paths for small firms	.48**	.30**	.05	.14**	.19**
Simple paths for large firms	.16**	.20**	.09	.03*	.13*
Differences	−.32**	−.10	.04	−.11**	−.06

$N = 242$; ** $p \leq .01$; * $p \leq .05$ (two-tailed)

P_{MX} path from ethical leadership to organizational ethical culture; P_{YM} path from organizational ethical culture to corporate social responsibility; P_{YX} path from ethical leadership to corporate social responsibility. Tests of differences for the indirect and total effect were based on bias-corrected confidence intervals derived from bootstrap estimates

Moreover, Table 3 shows that the indirect effect of CEO ethical leadership on corporate social responsibility via organizational ethical culture was stronger for small firms ($\beta = .14$, $p \leq .01$) than for large firms ($\beta = .03$, $p \leq .05$). Overall, the differences in the indirect effect were significant ($\Delta\beta = -.11$, $p \leq .01$), thus supporting Hypothesis 5. In particular, the results presented in Table 3 support a first-stage moderating effect ($\Delta\beta = -.32$, $p \leq .01$), which provides further support for our theoretical argument that CEO ethical leadership interacts with firm size to foster organizational ethical culture, which in turn, encourages corporate social responsibility. Finally, firm size did not moderate the effect of organizational ethical culture on corporate social responsibility ($\Delta\beta = -.10$, *n.s.*), nor did it moderate the direct effect of CEO ethical leadership on corporate social responsibility ($\Delta\beta = .04$, *n.s.*).

Discussion

As interest in the topic of ethical leadership has steadily increased (Resick et al. 2011), the limitations of the original focus for understanding the effect of ethical leadership on employees' outcomes have begun to emerge. This study seeks to develop a model centered on organizational ethical culture that explains the effects of CEO ethical leadership on corporate social responsibility. Within this model, CEO ethical leadership facilitates organizational ethical culture, particularly for the firm that has a founder CEO and is small. As a result, members tend to share similar ethical values. An outcome of this sharing is that members act responsibly when interacting with different groups of stakeholders including customers, government, society, and the natural environment, exemplifying an outstanding corporate social performance (Clarkson 1995).

Applying a multi-wave, multi-source research design, we obtained support for all of our hypotheses: organizational ethical culture mediates the effect of CEO ethical leadership on corporate social responsibility with particularly pronounced positive effects for a firm, where its CEO is a founder and its size is small. By examining both mediating and moderating effects together, our model helps to explain, on the one hand, how CEO ethical leadership facilitates corporate social responsibility, and on the other hand, which type of firms will benefit the most in terms of CSR under CEO ethical leadership. In so doing, our study not only provides strong evidence for the claims that CEO ethical leadership can, indeed, influence corporate social responsibility (Waldman et al. 2006), but also extends our understanding of how such a relation emerges. While Waldman et al.'s (2006) study focuses on the CEO transformational leadership effect on corporate social responsibility, the first to link CEO leadership with corporate social responsibility, our study directly evaluates CEO ethical leadership above and beyond CEO transformation leadership and extends Waldman et al.'s (2006) model to understand the mediating mechanism between CEO ethical leadership and corporate social responsibility. Our work applies upper echelons theory to realize how and when CEO ethical leadership influences corporate social responsibility most positively. This study echoes the call of Waldman et al. (2006) to assess the effects of actual CEO leadership pertaining to ethics on corporate social responsibility. It also addresses the call of Mayer et al. (2009) to examine the relationship between ethical leadership and ethical culture as well as the boundary condition for the ethical leadership's effects.

We also suggest that although our model specifically deals with CEOs, its application to other top management members is robust according to the argument that organizational culture and outcomes reflect top executives' values. CEO ethical leadership is conducive to the development and nurturing of organizational ethical culture and corporate social responsibility. Upper echelons theory has noted the important role of other top executives in shaping organizational strategies and outcomes (Hambrick and Mason 1984). Although CEOs' role is multi-functional in that CEOs are involved in a wide array of activities, other top executives may have unique effects on organizational strategies and outcomes. For example, the ethical values of HR managers might influence the selection process of newcomers, which in turn, shapes the organizational ethical culture. We believe that our model is readily applicable to the psychological characteristics of other top executives as well.

One major strength of our model of CEO ethical leadership is that it provides a generative framework for future research that focuses on the firm consequences of CEO ethical leadership. As previously discussed, organizational ethical culture represents a broad and appropriate underlying mechanism with numerous insights into upper echelons theory that can be fruitfully applied to future CEO ethical leadership studies. For example, organizational ethical culture motivates members to enhance their ethical values and behaviors (Ampofo 2004), potentially influencing other firm outcomes resulting from CEO ethical leadership such as long-term wealth maximization, moral capital, and regulatory costs.

The Moderating Role of Managerial Discretion

One of the main contributions of our study lies in the examination of managerial discretion as a moderator of the CEO ethical leadership's effects. As previously noted, managerial discretion is an interesting moderator because a high level of managerial discretion represents a situation of heightened ambiguity and should accentuate the influences of CEO ethical leadership. Although our main effect prediction is generally consistent with upper echelons theory (Hambrick and Mason 1984) in that CEO ethical leadership, which represents the CEO social influence in term of ethics, promotes an organizational ethical culture and corporate social responsibility, the effects of CEO ethical leadership should be most beneficial to small firms led by a founder CEO. This finding is also in accordance with upper echelons theory, suggesting that CEOs matter more when they have more freedom (Li and Tang 2010).

That being said, we do not necessarily view our findings as conclusively ruling out other potential moderators for strengthening or alleviating the positive effect of CEO ethical leadership beyond the moderating effect of managerial discretion. For instance, Brown et al. (2005) posit that followers will be influenced by the leader's ethical leadership more when they pay more attention to the leader. Based on social identity theory, which holds that followers are likely to model their leader when they identify with the leader (Wang and Rode 2010), it is possible that organizational and CEO support may lead followers to identify with the CEO, promoting role modeling and thus strengthening the impact of CEO ethical leadership. Therefore, this study may be extended in terms of investigating other possible moderators, determining under which boundary conditions CEO ethical leadership facilitates the organizational ethical culture and thus enhances corporate social responsibility.

Our results also explicate the crucial role of managerial discretion in the CEO leadership effect by relating it to the corporate social responsibility literature. Research has indicated the positive relationship between CEO transformational leadership and corporate social responsibility (Waldman et al. 2006). Although such work is fruitful, there are no theoretical reasons to expect that CEO leadership influences organizations at the same level across all situations. Our result about the moderating role of managerial discretion in strengthening the positive effects of CEO ethical leadership on corporate social responsibility bridges a gap between managerial discretion and corporate social responsibility by considering the boundary conditions of CEO leadership. We hope that our study and other pioneering efforts in the upper echelons field (Li and Tang 2010) will stimulate more research on managerial discretion and its related effects on various firm outcomes. An example is to understand corporate governance conditions by focusing on the relative power of CEOs and broad. When the power of broad is higher, CEOs may have lower levels of managerial discretion and influences on organizational outcomes. Future research could consider studying the moderating role of broad power.

As a final note, we contend that research on the moderating role of managerial discretion in the CEO ethical leadership's effects is particularly timely given that business scandals have captured great attention among the public. Research on ethical leadership and corporate social responsibility is on the rise (Aguinis and Glavas 2012; Resick et al. 2011). The intersection of CEO ethical leadership and corporate social responsibility positions our study concerning the role played by managerial discretion, providing both theoretical and practical insights into the ethics and leadership literatures.

Limitations

Despite these contributions, our study has several limitations that should be noted. First, although our two-wave research design offers benefits over cross-sectional research design, such design cannot unequivocally determine the direction of causality (Cook and Campbell 1979). It is possible that reciprocal relationships exist between CEO ethical leadership and corporate social responsibility. For instance, CEOs may be regarded as ethical when their firms perform high levels of corporate social responsibility. Hence, we encourage future research to use a longitudinal research design to confirm the causality proposed by this research.

Second, corporate social responsibility practices may be related to the philosophy and actions of the entire top management team rather than only the CEO. Because of the time and resource constraints, we could not assess the ethical leadership of other top management team members. Hence, future research could attempt to address this issue by studying ethical values and ethical leadership among all top management team members.

Third, CEO ethical leadership was only measured at the beginning of our field survey because we assume ethical leadership would not change drastically during the time-lagged data collection process. However, it is possible that work experience may cause fluctuation in the levels of CEO ethical leadership. For example, a CEO who has witnessed the detrimental effects of business scandals may increase their ethical leadership reactively. Therefore, it is desirable to examine the antecedents and stability of the measure of CEO ethical leadership.

Fourth, we chose CEO founder status and firm size as proxy variables to represent managerial discretion. Although this approach is consistent with past studies (Li and Tang 2010), such proxy variables may have other implications and the moderating effects may not be solely due to managerial discretion. Thus, it would be better to measure managerial discretion directly. Future research could attempt to develop the measurement of CEO managerial discretion, and test it in subsequent studies.

Fifth, the source of ratings of organizational ethical culture is the CEOs. Lower level employees should also be an eligible source to assess organizational ethical culture because they are best positioned to comment on managerial actions. Hence, ratings of organizational ethical culture from multi-sources should be encouraged for future studies (Schaubroeck et al. 2012).

Sixth, CEO ethical leadership and corporate social responsibility were rated only by HR manager and CFO respectively, which may lead to bias responses. To assess these variables more accurately, we encourage future research to use multiple respondents. Ideally, researchers can ask several TMT members (except CEO) to provide ratings on CEO ethical leadership, while other TMT members to provide information on corporate social responsibility. In this way, not only response bias but also common method bias can be minimized (Podsakoff et al. 2003).

Finally, this investigation was conducted in China, resulting in the concern that the findings may not be generalized to the West. Chinese people exhibit a high power distance, which may strengthen the likelihood of modeling the leader (Lian et al. 2012). Thus, the effects of CEO ethical leadership on the organizational ethical culture and corporate social responsibility of Chinese firms may be stronger than those on Western firms. As such, a valuable avenue for future research is to conduct a cross-cultural study to examine the generalizability of our model.

Practical Implications

In practical terms, corporate social responsibility is of importance to an organization's capabilities, customer satisfaction, competitive advantage, and financial performance (Aguinis and Glavas 2012; Luo and Bhattacharya 2006). Our findings provide two paths through which CEOs and organizations can promote corporate social responsibility. The first is to take steps to enhance CEO ethical leadership. Qualitative research has indicated that employees' perceptions of top executives' ethical leadership originate from both face-to-face interaction and distant images of the top executives (Treviño et al. 2003). On the one hand, CEOs should make fair and balanced decisions, listen to what employees have to say, and discuss business ethics with employees (Brown et al. 2005). On the other hand, CEOs should promote their ethical images through public relations activities (Teven 1965) as well as internal company announcements conveyed to all employees. In addition, executive appointments may need to be based on the individual's ethical leadership and on skills that develop strategies of balancing the needs of multiple stakeholder groups.

The second path to enhancing corporate social responsibility is to identify CEOs who possess a high level of managerial discretion. Our results indicate that the positive effects of CEO ethical leadership are most influential for CEOs who have freedom. Therefore, organizations should pay additional attention to such CEOs and encourage them to exercise ethical leadership aimed at promoting the organizational ethical culture and corporate social responsibility.

Conclusion

There is no doubt that corporate social responsibility is important to the capabilities, competitive advantage, and financial performance of organizations (Aguinis and Glavas 2012). Our work applied upper echelons theory that incorporates organizational ethical culture as a critical mediator of the relation between CEO ethical leadership and corporate social responsibility as well as identifies managerial discretion as an important moderator. In sum, our moderated mediation model accounts for how and for which type of firms CEO ethical leadership matters most when it comes to practice corporate social responsibility. Our findings contribute to the ethics, strategic leadership, organizational culture, and corporate social responsibility literatures by testing the relation between CEO ethical leadership and corporate social responsibility with previously unexplored mediators and moderators. In doing so, our study serves as a springboard for future research understanding the underlying processes that engender and improve corporate social responsibility.

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Appendix

CEO Ethical Leadership

Our company's CEO

1. Conducts personal life in an ethical manner.
2. Defines success not just by results but also the way that they are obtained.
3. Listens to what employees have to say.
4. Disciplines employees who violate ethical standards.
5. Makes fair and balanced decisions.
6. Can be trusted.
7. Discusses business ethics or values with employees.
8. Sets an example of how to do things the right way in terms of ethics.
9. Has the best interests of employees in mind.
10. When making decisions, asks "what is the right thing to do?"

Organizational Ethical Culture

1. Top managers of our company regularly show that they really care about ethics.
2. Top managers of our company represent high ethical standards.
3. Top managers of our company guide decision-making in an ethical direction.
4. Management in our company disciplines unethical behavior when it occurs.
5. Employees in our company accept organizational rules and procedures regarding ethical behavior.
6. Organizational rules and procedures regarding ethical behavior serve only to maintain our company's public image (R).
7. Penalties for unethical behavior are strictly enforced in our company.
8. Ethical behavior is a norm in our company.
9. Ethical behavior is rewarded in our company.

Corporate Social Responsibility

1. Our company always pays its taxes on a regular and continuing basis.
2. Our company complies with the legal regulations completely and promptly.
3. Our company participates to the activities which aim to protect and improve the quality of the natural environment.
4. Our company implements special programs to minimize its negative impact on the natural environment.
5. Our company makes investment to create a better life for the future generations.
6. Our company targets a sustainable growth which considers to the future generations.
7. Our company supports the non-governmental organizations working in the problematic areas.
8. Our company contributes to the campaigns and projects that promote the well-being of the society.
9. Our company protects consumer rights beyond the legal requirements.
10. Our company provides full and accurate information about its products or services to its customers.
11. Customer satisfaction is highly important for our company.
12. Our company encourages its employees to participate to the voluntarily activities.
13. Our company policies encourage the employees to develop their skills and careers.
14. The management of our company primarily concerns with employees' needs and wants.
15. Our company implements flexible policies to provide a good work and life balance for its employees.
16. The managerial decisions related with the employees are usually fair.
17. Our company supports employees who want to acquire additional education.

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