

# Does CSR mediate the nexus of ethical leadership and employee's job performance? Evidence from North Italy SMEs

Junaid Aftab, Huma Sarwar, Anam Amin and Alina Kiran

## Abstract

**Purpose** – Leadership has a decisive role in the success of all types of businesses and firms, including small- and medium-sized enterprises (SMEs), and the ethical behavior of leaders is a key component which brings a sense of respect, fulfillment, trustworthiness and acceptance among the employees, which later become visible in their job performance (JP). This study aims to check the immediate effect of ethical leadership (EL) on employee's JP (EJP) and also explore the indirect mediating effect of corporate social responsibility (CSR) on this EL and EJP nexus.

**Design/methodology/approach** – Primary data was obtained from the employees of manufacturing SMEs of Northern Italy using a cross-sectional design from the end of 2019 to the start of 2020. This paper circulated 450 self-administered questionnaires using simple random sampling, and 202 (44.88%) valid questionnaires were returned. The PROCESS macro was performed using statistical package for social sciences to ensure whether or not EL affects EJP and is there any mediation effect of CSR present in this nexus.

**Findings** – The results indicate that EL has a strong positive connection with EJP and CSR. Interestingly, CSR positively influences EJP. Furthermore, the results also report the strong mediating effect of CSR in the nexus of EL and EJP.

**Originality/value** – This scholarly work seeks to contribute not only to the literature of EL and EJP but also enriches the understanding of this EL-EJP association by highlighting the indirect effect of mediating variable CSR in the SME sector.

**Keywords** Job performance, SMEs, CSR, Manufacturing industry, Ethical leadership, Hayes process

**Paper type** Research paper

Junaid Aftab and Huma Sarwar both are based at Department of Economics and Management, University of Brescia, Brescia Italy. Anam Amin is based at the Department of Management Science, COMSATS University, Islamabad, Pakistan. Alina Kiran is based at Fakulti Pengurusan Teknologi Dan Teknousahawanan, University of Technical Malaysia Melaka, Melaka, Malaysia.

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## 1. Introduction

Small- and medium-sized enterprises (SMEs) have a leading role in global economies (de Sousa Jabbour *et al.*, 2020; Cicea *et al.*, 2019), and it is the backbone of the European Union (EU) countries (Cicea *et al.*, 2019; European Commission, 2016). SMEs are the source of economic-social advancements such as job creation, export promotion and industrial development of a country (de Sousa Jabbour *et al.*, 2020; Nyeko *et al.*, 2013). They are the source of poverty alleviation by contributing to the economy and providing safer and better employment opportunities through the youth and empowerment of women (Heeks, 2010). The role of SMEs has been even more magnified in recent years owing to the rapidly changing and competitive world markets (Cicea *et al.*, 2019). Though a lot has gone on the SME's research, researchers are yet to make a consensus on the unified scientific definition of SMEs (Bocconcelli *et al.*, 2018; Gbandi and Amissah, 2014; Abor and Quartey,

2010). The definition of SMEs varies across countries and even across industries depending upon their economic growth and local government policies. But the majority of the researchers believe that criteria to define SMEs depend upon the following three parameters: initial capital/investment, the number of workers employed and sales turnover per annum (Zahoor *et al.*, 2020; Hu *et al.*, 2015; Perera and Chand, 2015). Based on this argument, SMEs are defined as any business that maintains assets, revenues or a number of workers within a certain threshold (Liberto, 2020). European Commission (2003) defined the term SMEs as “any enterprise having less than 250 persons employed. They should also have an annual turnover of up to €50 million or a balance sheet total of no more than €43 million.”

According to Zafar and Mustafa (2017), SMEs comprise more than 90% of total enterprises in developed countries and one of the significant reasons for their financial development. They further added that SMEs contribute above 55% of gross domestic product and more than 65% in employment generation of high-income countries (Zafar and Mustafa, 2017), and it is not different in the EU countries where 99.8% of total firms are SMEs, they contribute 66.8% in employment and 56.4% in the value-added (Small Business Act, SBA, 2019). These numbers are even more highlighted in the Italian SME sector because Italy has the highest number of SMEs in the EU. According to SBA (2019) figures, there are 3.79 million SMEs operating in Italy, which accounts for 99.9% of total enterprises, employing a massive 11.68 million workers and added value of €490bn in the country's economy. Furthermore, the manufacturing sector is one of the largest and contributes 30.4% of the total value added by Italian SMEs in the “non-financial business economy” (SBA, 2019) which is highest in the country. For this continual growth of Italian SMEs in the era of rapidly changing economic paradigms and increasing competition, the value of leadership has become far more important than before because the leadership style is the essence of determining the performance of a firm (Manzoor *et al.*, 2019), and the moral characteristics of leaders can affect the employee's job performance (EJP) and eventually the outcomes of the firm. In determining the behaviors and more particularly the ethical characteristics of leadership, researchers are paying attention to identifying the specific leadership behaviors and traits that are essential for effective leadership (Alazzani *et al.*, 2019). According to Ullah *et al.* (2017), leadership links to ethics, and it is being considered “as a two-way transformative and an intrinsically ethical link between leaders and their employees” (p. 978). On the other hand, Brown *et al.* (2005) were among the first few scholars who empirically studied this concept of EL and defined it 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). Brown and colleagues further advocated that EL has the following two notable aspects:

1. the moral person element (e.g. justice, honesty, trustworthiness, integrity, etc.); and
2. the moral manager element (e.g. a role model in ethical behavior, stress on ethical standards, rewarding, punishing, etc.) (Brown *et al.*, 2005).

Although this conceptualization of EL is relatively new, nonetheless, a considerable amount of attention has been paid by researchers to this emerging topic (Saragih *et al.*, 2020; Mayer *et al.*, 2010; Walumbwa and Schaubroeck, 2009; Brown *et al.*, 2005). Several studies have examined the benefits of EL on reducing harmful behaviors and unethical practices of employees (Ullah *et al.*, 2017; Walumbwa and Schaubroeck, 2009; Mayer *et al.*, 2009). However, relatively little attention has been paid to the effects of EL on EJP (Saragih *et al.*, 2020; Bouckennooghe *et al.*, 2015; Walumbwa *et al.*, 2011). Nonetheless, there have been studies that highlight the positive association of EL in achieving better job outcomes (Saragih *et al.*, 2020; Piccolo *et al.*, 2010) and organizational performance (Kim and Thapa, 2018). Walumbwa *et al.* (2012) clarified that EL is important because it influences employee's behavior and performance (Brown *et al.*, 2005). Similarly, Ullah *et al.* (2019)

stated that firm managers who follow an EL temperament are probable to establish an environment that encourages the attitudes and behaviors of the subordinates. While the nexus of EL and EJP has received little scholarly attention, there is even a dearth of research about the intermediate mechanisms through which EL relates to EJP (Saragih *et al.*, 2020; Yang and Wei, 2017; Bouckennooghe *et al.*, 2015; Walumbwa *et al.*, 2012) in the SME sector. Focusing on the immediate relationship between leadership and EJP without considering the intermediating mechanisms may lead to inaccurate or ambiguous outcomes. For that reason, we introduced corporate social responsibility (CSR) in an intermediating role between EL and EJP because the globalization of the market is one responsible force regularly applying the social pressures on firms to increase the social impact of corporate responsibility, ethical behavior and EL (Mishra and Schmidt, 2018). CSR has been defined as the “context-specific business activities, strategies, and policies that consider the stakeholder’s prospects and the triple bottom line of social, ecological, and economic performance” (Aguinis, 2011, p. 855) and the accountability of firms for their effect on the society and community (Ullah *et al.*, 2019). CSR is defined as:

[...] the continuing commitment by business to behave ethically and contribute to economic development while improving the quality of life of the workforce and their families as well as of the local community and society at large (WBCSD, 1999).

CSR is recognized as a constructive management device to reinforce the performance of the business from a better impression in the mind of all stakeholders and also as a consequence of their responsible behavior toward society and the environment (De Roeck and Farooq, 2018).

The choice of CSR in the EL and EJP nexus is meaningful for at least three main reasons. First, we responded to the scholar’s call to examine the association between leadership and CSR (Manzoor *et al.*, 2019). More specifically, to check the direct link of EL and CSR. Brown *et al.* (2005) noted that EL often plays out through corporate actions that are viewed as socially responsible. Aguinis and Glavas (2012) suggest that a sense of justice and duty among the leaders, indicators of EL, results in CSR behaviors which in turn strengthen employee–firm linkages. Empirical evidence also supports this influence of leadership on CSR (Muller and Kolk, 2010). Although the studies of Jnaneswar and Ranjit (2020) and Manzoor *et al.* (2019) have analyzed the relationship between leadership (e.g. transformational) and CSR, the limitation of the aforementioned leadership style instead of EL to forecast CSR is noticeable because EL more openly evaluates the ethical characteristics of leaders rather than transformational leadership (Ullah *et al.*, 2017; Brown *et al.*, 2005). Despite the growing importance, limited attention has been given to the association between EL and CSR (Ullah *et al.*, 2017) in the SME sector. Thus, it gives us the reason to investigate the EL-CSR nexus in the Italian SME sector. Second, we noticed that there are studies which have investigated the relationship between transformational leadership and EJP with the mediation of CSR (Jnaneswar and Ranjit, 2020; Manzoor *et al.*, 2019; Hongdao *et al.*, 2019), transformational leadership, employee engagement with the mediation of CSR (Besieux *et al.*, 2018), authentic leadership and organizational citizenship behavior with the mediation of CSR (Iqbal *et al.*, 2018), but as per the researcher’s knowledge, no scholarly study is available that addresses the association between EL, CSR and EJP in the SME sector. It encourages us to investigate this important model in the context of SMEs. Finally, the debate on CSR has long focused on large or multinational enterprises, whereas the debate has remained limited for SMEs (Aras-Beger and Taşkın, 2020; De Zoysa and Takaoka, 2019; Coppa and Sriramesh, 2013). SMEs are quite different from large enterprises in several ways such as the availability of resources, the importance of managerial values, level of involvement, strategies and stakeholder priorities (Coppa and Sriramesh, 2013). These factors impact the different ways in which CSR is perceived and practiced in SMEs in contrast with large companies. According to Quinn’s (1997) work on CSR in SMEs, the personal values of the managers/leaders affect the CSR practice of the

firm, as SMEs are characterized by the absence of the separation between management and ownership (Coppa and Sriramesh, 2013). The same is the case in Italy, where a large number of SMEs are family firms or owned by an individual (Barbieri *et al.*, 2020), and the owner is the only decision-maker (Akhtar *et al.*, 2015). It shows that the fair and ethical behavior of leaders in Italian SMEs is far more important because there is a higher chance of personal ethics of leaders influencing business ethics (Coppa and Sriramesh, 2013) and eventually affecting employees and organizational outcomes. Eva *et al.* (2019) also highlighted the importance of EL in SMEs as a “key antecedent” of employee engagement of internal community citizenship behavior (e.g. CSR) at the workplace. Similarly, while exploring the connection between CSR and EL, Brown and Mitchell (2010) stated that EL frequently carries out through corporate activities, which are observed as publicly responsible. Mazutis and Zintel (2015) added that EL style matters for CSR and getting social support. Furthermore, EL is linked to several positive social outcomes such as organizational citizenship behaviors, an inclination toward taking more risk, for instance, voicing transformation, which may hypothetically benefit the firm (Metwally and Punnett, 2017). That is how a firm’s CSR initiative comes into the spotlight and provides a fair competition with EL temperaments (Buckler, 2017). Similarly, Muller and Kolk (2010) clarified that a spirit of justice, accountability and responsibility among the leaders are signs of EL, consequences in CSR oriented behaviors that sequentially reinforce employee–employer relationships, hence, strengthening value alignment (Ullah *et al.*, 2019). Consequently, subordinates associate themselves as a part of social exchanges with their leaders, and when they perceive the exchanges as unbiased they will respond by going beyond their formal job duties to undertake and comprehend more substantially (Manning, 2018) and hence, it produces an effect on EJP.

Despite the growing importance of CSR in the EL and EJP nexus, it is somewhat surprising that there have been no empirical or theoretical studies of these constructs in the SME sector, which makes this study obvious to investigate the aforementioned relationship and looks to fill in the gap present in the literature. Hence, we posited the following research question: Does CSR mediate the nexus of EL and EJP in the SME sector? To answer the research question, the two main objectives are linked with this scholarly work: first, to explore the relationship between EL and EJP (in the Italian manufacturing SMEs perspective); and second, to investigate whether or not CSR acts as a mediator in the nexus of EL-EJP.

A way forward, Sections 1–4 are arranged as follows. In Section 1, the theoretical background is discussed, and four hypotheses are developed covering the relationship between EL, CSR and EJP. Section 2 discusses the research methodology and design, followed by the penultimate section which presents the analysis and results. Finally, this paper concludes with the implications of our findings along with research limitations and future research suggestions.

## 2. Theoretical background and hypotheses development

Researchers have several views about the leadership role and its influence on the projects triumph and failure or organization, but the majority of the scholars have a consensus that leaders and their style of leadership have a central and significant role in the progress and success of any firm (Manzoor *et al.*, 2019; Alazzani *et al.*, 2019). As Manzoor *et al.* (2019, p. 3) cited Bushra *et al.* (2011), leadership is “the ability to influence, encourage, and permit workers to contribute to the achievement and efficiencies of the organization.” Whereas EL means to “demonstrate integrity and high ethical standards, considerate and fair treatment of employees, and hold employees accountable for ethical conduct” (Brown *et al.*, 2005, p. 130). Even though EL is considered a key driver of EJP (Walumbwa *et al.*, 2011), there is surprisingly no research that explores how EL influences CSR’s effectiveness to generate desirable EJP. To illuminate whether and in what manner EL affects the EJP and what is the

role of CSR in this nexus, we used social exchange theory because it is one of the most extensively practiced theories to understanding employee behaviors in the workplace (Iqbal *et al.*, 2018).

The social exchange theory of Blau (1964) states that the “exchange of social and material resources is a fundamental form of human interaction” (p. 1). It considers as an appropriate theory to investigate whether and how followers are encouraged to involve in taking charge under the supervision of an ethical leader (Wang *et al.*, 2020). Scholars have advocated that this theory is a potential mediated mechanism for EL to influence the employee’s work-related behavior (Garba *et al.*, 2018). In this regard, Iqbal *et al.* (2018) found that in the workplace, this social exchange theory hypothesizes about interpersonal behaviors (e.g. the relationship among colleagues, supervisor and firm) in terms of the exchange of rewards and costs. For instance, if the subordinates perceive leadership behavior as fair toward them, in response they also show more cooperative behavior toward leadership (Blau, 1964). Wang *et al.* (2020) indicated that employees perceive a superior-quality social exchange relationship with EL, and the social exchange would incline us to produce feelings of personal trust, gratitude and obligation (Blau, 1964), which encourages subordinates to pay back with optimistic attitudes and good working manners (Kacmar *et al.*, 2011). Furthermore, De Roeck and Farooq (2018) pointed out that a leader’s actions and decisions should be the reflection of his/her own beliefs and values. Consequently, the ethical leader can build a strong connection of trust and empathy with their employees and this unique coordination between a leader and his/her subordinates account for exceptional performance and achievement for the firm (Manzoor *et al.*, 2019). Similarly, within a firm, a leader draws attention to ethical practices through frequent communications about the social and ethical aspects of the firm’s business activities (Kim and Brymer, 2011). Following the ethical standpoint of leadership, “top management may establish clear and relevant societal responsibilities, e.g. CSR” (Kim and Thapa, 2018, p. 4), and motivate workers to initiate them (Thomas *et al.*, 2004). Therefore, we can conclude, based on the review of literature that subordinates who perceive leadership roles and the firm’s CSR practices as fair are more likely to exceed the formal duties which ultimately results in firm success. Hence, this scholarly work is an attempt to understand the role of EL on EJP with the indirect mediating effect of CSR in the SME sector.

## ***2.1 Ethical leadership and employee's job performance***

The concept of ethical leadership (EL) has been gradually evolving ever since the concept was introduced by Trevino *et al.* (2000). Trevino and colleagues advocated that EL is not only associated with the ethical behaviors (ethical decision-making, fairness and openness) and leader’s traits (trustworthiness, integrity and honesty) but also thought to be people-oriented and value-based leaders (i.e. develop and promote ethical standards through rewards and communication) (Kuntz *et al.*, 2013). According to Bouckenoghe *et al.* (2015), EL is a “valid leadership construct” rather than an aspect of main leadership practices (“transformational, authentic and transactional”). Although EL has been a focal point in management literature, the concept is still suffering from confusion and disintegration. From the evidence of literature, it is confirmed that researchers attempted responses on EL from a combination of philosophical and empirical standpoints (Kim and Thapa, 2018). However, researchers are still seeking to find a generally accepted definition. For instance, Brown *et al.* (2005) outlined ethical leaders as “considerate, trustworthy, and morally upright individuals who make just decisions, candidly communicate acceptable ethical standards to their followers, and become excellent role models by practicing these ethical standards themselves” (p. 120). While Brown and colleagues referred to the construct of EL 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). The term “normatively appropriate conduct” describes the key difference between ethical leaders and other leadership practices, i.e. servant leadership, authentic and

charismatic-transformational leadership (Brown and Treviño, 2006). That means ethical leaders seek to do the right things based upon ethical standards and are more committed to acting ethically in their professional and personal lives. This is also evident from the past literature. For instance, Mayer *et al.* (2010) conducted a study that included 1,525 employees and their leaders/supervisors working in 300 firms across the USA, they found that ethical leaders are the trendsetters of ethical behaviors among the subordinates through framing and implementing ethical practices within a firm while reducing the likelihood of unethical practices. Furthermore, ethical leaders encourage the ethical and fair treatment of subordinates by stimulating a collaborative and positive work environment where employees care about others' welfare and providing support for employee's development, that motivate their subordinates to exhibit the same ethical behaviors toward their organization (Sarwar *et al.*, 2020; Walumbwa *et al.*, 2017; Brown and Treviño, 2006) and put extra effort into their job that leads to elevated EJP (Kalshoven *et al.*, 2013).

The concept of EJP has continuously received growing academic, business and public attention during the past decades. Collier (2010) defined job performance (JP) as how well employees do their job-related tasks. This is underpinned by Jamal (2007) who supposed that EJP is the ability to effectively perform tasks by using the available resources. At the firm level, JP can be influenced by various drivers at different levels; for instance, at the organization level (e.g. values, culture), the team level (e.g. social support) and individual level (e.g. self-efficacy) (Besieux *et al.*, 2018). The crucial organizational objective is to improve EJP to compete with its competitors. EJP increases by higher job commitment and job satisfaction. Researchers have found job satisfaction and EJP to be significantly related to EL (Den Hartog and Belschak, 2012). This may occur through EL emphasis on fair and ethical treatment of employees, thus promoting a collaborative association with the leaders that could lead to employee positive attitudes and better JP.

Regarding the EL-EJP connection, Farouk and Jabeen (2018) stated that leaders play a substantial part in shaping the ethical climate within a firm by communicating and implementing ethical policies and practices. Several prior research has documented a consistent connection between EL and employee outcomes (Sarwar *et al.*, 2020; Avey *et al.*, 2012). For instance, DeConinck (2015) collected the data of 331 salespeople and revealed that ethical leaders positively influence the employee's work behaviors, job attitudes and organizational identification. Similarly, Sabir *et al.* (2012) have observed that firm ethical values act as a catalyst in leveraging EL and EJP. Supporting this assertion, previous literature identified that when leaders of the organization treat their followers respectfully and fairly, they respond to the leadership behavior and actions by building a social exchange relationship (Blau, 1964). As social exchange theory states that the quality of the social exchange between two parties motivates individuals to engage in and reciprocate beneficial actions directed at each other (Blau, 1964). Brown *et al.* (2005) claim that EL can impact subordinate's job commitment, as the association between them is based on social exchange rather than economic circumstances. In a strong social exchange, the relationship is based on trust where managers and subordinates both reciprocate affection to each other (Blau, 1964). Furthermore, Walumbwa *et al.* (2011) have reported a positive correlation between EL and EJP, which is fully mediated by leader-subordinates exchange and self-efficacy. Therefore, EL helps in developing a high-quality relationship by giving, caring and fair treatment of their subordinates (Lin and Liu, 2017). Thus, EL can positively affect EJP. Based on the above relevant discussion, we recommended the following first hypothesis:

*H1.* EL has a direct and positive effect on EJP.

## ***2.2 Ethical leadership and corporate social responsibility***

The concept of CSR was first introduced by Sheldon in 1924 but did not receive much attention from the corporate and academic world, until the 1960s. CSR has broadened

considerations from practitioners and academics as it goes beyond the economic benefits (Aguinis and Glavas, 2017). Bowen and Johnson (1953, p. 6) defined CSR as:

[...] obligations of businessmen to pursue those policies, to make those decisions, or to follow those lines of action which are desirable in terms of the objectives and values of our society.

Carroll (1979) characterized this notion of CSR as a multidimensional model and defined it as “economic, legal, ethical, and discretionary expectations that society has of organizations at a given point in time” (p. 500). Accordingly, Dahlsrud (2008) supported Carroll's view and stated that CSR has been conceptualized in a variety of ways, but generally it includes economic, social, environmental voluntariness and stakeholder dimensions. In general, CSR includes the activities of a firm that positively affect society and the environment by engaging in social welfare (Islam *et al.*, 2019).

A growing interest in CSR and EL has been observed among professionals and researchers and gained a critical role in the competitiveness of organizations (De Roeck and Farooq, 2018; Khan *et al.*, 2018). The extent of research literature claimed that managerial approaches and beliefs toward CSR in a certain organizational context are likely to have a significant impact on the consequences of CSR practices (Saha *et al.*, 2020; De Roeck and Farooq, 2018; Kim and Thapa, 2018). Mishra and Schmidt (2018) shared the same notion that the increasing growth of the business is responsible to enhance the social pressures on the firms to improve the social impact of EL, ethical behavior and corporate responsibility. EL also enhances the socially oriented initiatives and changes that are the components of CSR activities (Li *et al.*, 2019). According to Mazutis and Zintel (2015), the EL role is crucial in attaining CSR support and generates sustainable competitive advantages that are the components of CSR. De Roeck and Farooq (2018) claimed that highly engaged leaders in CSR initiatives possess a high level of EL behavior. In this vein, Brown and Treviño (2006) highlighted that ethical leaders treat their subordinates respectfully, fairly and showed more concern about their society, organization and employees instead of their self-interest, and it comes under the social dimension of CSR. On the contrary, unethical leaders ignore the need for CSR and give priority to their self-interests (Aslan and Şendogdu, 2012). Christensen *et al.* (2014) emphasized that ethical leaders try to balance the variety of needs of stakeholders in a manner that meets the interests of all and thus often appears as a CSR champion. This conception is corroborated by the empirical findings of Butt *et al.*'s (2016) study which demonstrated that EL impacts CSR resulting in a high level of organizational outcomes. Based on the significance of CSR activities and EL, Schinzel (2018) postulates a positive relationship between these two constructs and suggested the managers urgently learn and demonstrate socially responsible and ethical behavior toward their employees. Furthermore, De Roeck and Farooq (2018) also posit that ethical leaders influence organizational employees to engage in ethical and socially responsible behaviors and found a high-quality association between CSR and EL. Moreover, Cacioppe *et al.* (2008) asserted that EL focuses on finding out the ethical solutions of controversies related to organizational culture, consumer satisfaction, employee happiness and well-being, societal welfare and their own values. In light of the above arguments and conceptualization of EL and CSR, we recommended the following second hypothesis:

H2. EL has a direct and positive effect on CSR.

### ***2.3 Corporate social responsibility and employee's job performance***

EJP has been a fundamental component in most of the management and organizational behavior research related to employment relations. JP refers to the behavior or actions to set up all the responsibilities, professional duties and formal tasks the employee was engaged to perform in exchange for their compensation package and are written in their job description (Kim and Park, 2017). Yozgat *et al.* (2013) also provided a much alike definition of JP in which he defined it through the formal obligations scheduled under the job

descriptions. According to [Rao et al. \(2014\)](#), the workers perform core substantive duties that are considered a cutting-edge organizational resource and a valuable asset. In line with this, [Carmeli and Tishler \(2006\)](#) argued that employees with a high level of intelligence can control their emotions, which in turn fosters JP.

Interestingly, CSR is associated with several individuals, organizations (the link between CSR and financial and non-financial consequences of CSR on firms) and institutional (strengthens an organizational reputation and relationships with external stakeholders) outcomes ([Glavas, 2016](#)). Socially responsible activities promote individual JP and thus better organizational results. [Story and Neves \(2015\)](#) pointed out only when employees perceive that the firm is investing in CSR initiative and their firm's values overlap with their values, they reciprocated this behavior via JP. In a sense, other pieces of literature also indicate that employees would give preference to the organizations that are involved in socially responsible activities (e.g. CSR) which may have a significant impact on job satisfaction and EJP ([De Roeck et al., 2014](#)). Empirical evidence also confirms the positive and significant effect of CSR on various job outcomes, such as organizational commitment and job contentment ([Valentine and Fleischman, 2008](#)), work engagement and JP ([Lindgreen and Swaen, 2010](#)). The same phenomenon can be explained with the help of the social exchange theory of [Blau \(1964\)](#), where the notion of reciprocity comes into action. As employees perceive the leadership as ethically and socially responsible, they will feel obliged to put their share too in terms of good performance. Although there is a dearth of CSR and EJP researches, the majority of available evidence indicates that CSR has a positive impact on EJP ([Manzoor et al., 2019](#); [Sarfraz et al., 2018](#); [Glavas, 2016](#)). Thus, we hypothesized the following:

*H3. CSR has a direct and positive effect on EJP.*

#### ***2.4 Mediating effects of corporate social responsibility on the nexus of ethical leadership-employee's job performance***

EJP can be increased through leadership style. Through a suitable leadership style, the manager can have a positive impact on EJP, competence, effectiveness and job contentment and output ([Manzoor et al., 2019](#)). Leadership style is a combination of managerial behavior, manner, attributes and capability based on the employee and the standard of the company ([Bisharat et al., 2017](#)). Leadership is considered as a management function, which usually focuses on public relationships and techniques to encourage and promote people for attaining elevated EJP and organizational prosperity ([Mangkunegara and Huddin, 2016](#)). There are at least three reasons why EL increases EJP. First, EL creates positive ethical environments for their subordinates ([Schaubroeck et al., 2012](#)). These ethical climates provide a clear normative order that helps followers to do their jobs effectively and ethically ([Nejati et al., 2020](#)). Second, working for a leader with ethical characteristics is less stressful for subordinates ([Nejati et al., 2020](#)) because ethical leaders set clear expectations, care for subordinates and manage them fairly ([Brown et al., 2005](#)). This reduces the work-related stress of employees ([Nejati et al., 2020](#)) and increases their performance. Third, ethical leaders are actually moral managers who communicate ethical values to their subordinates ([Trevino et al., 2000](#)). These "shared values forge a strong bond between ethical leaders and subordinates" ([Nejati et al., 2020](#), p. 4) and lead to better EJP.

Accordingly, EL has a positive association with CSR ([Kim and Thapa, 2018](#)), so we can say that a firm will be more engaged in CSR practices when leaders are perceived as ethical, who are aware of their strengths and weaknesses, such as personal values, beliefs (altruism, integrity, honesty and trustworthiness). Furthermore, it also shows that ethical leaders who show their ethical behavior to subordinates with their actions and act upon ethical values and beliefs have more chances to achieve a prominent level of performance and to help subordinates to accomplish the same. Similarly, an extensive body of literature also exposed that EJP is significantly influenced by the social-oriented initiatives and ethical

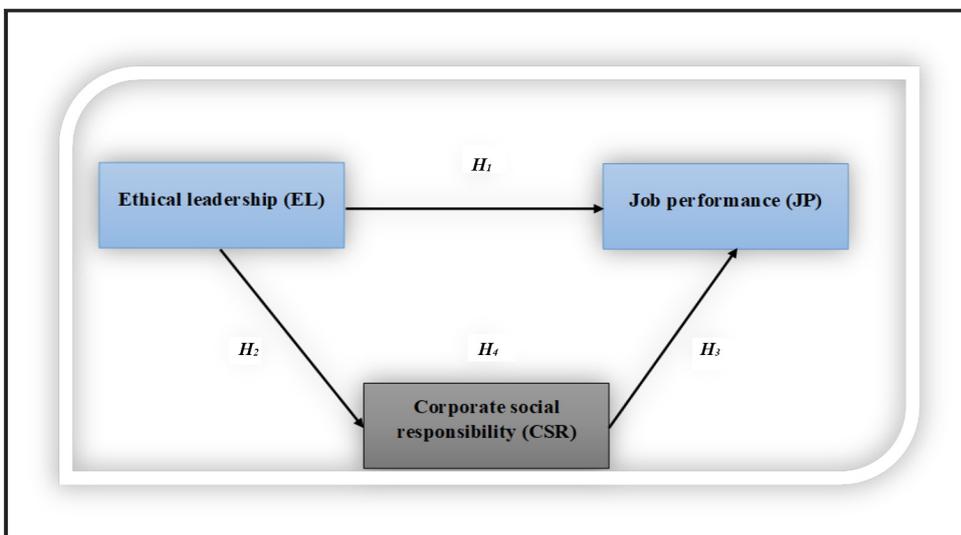
working environment which in turn foster the individual and firm performance (Su and Swanson, 2019; Farouk and Jabeen, 2018). This illustrates that EL has become crucial for corporations to distinguish them from their competitors in terms of performance and CSR (Sarwar *et al.*, 2020; Luque and Herrero-Garcia, 2019). Under the supervision of EL, a firm is more likely to adopt CSR activities because these types of leaders not only implement CSR practices with determination and consistency but also endorse initiatives with solid decisions (Kim and Thapa, 2018), which in turn enhances EJP and firm performance over time. They added as CSR is not a short-term or temporary engagement project, hence it needs a strong EL to be formed (Kim and Thapa, 2018). In a practical scenario, ethical leaders who engage, invest and implement CSR activities can bring a positive effect on EJP, whereas a leader with strong EL does not invest in CSR activities, her/his leadership style might not directly enhance the EJP. This argument is supported by Manzoor *et al.* (2019) who found that leadership can affect firm performance in two ways: it can have a direct effect on EJP; and it can have an indirect mediating effect through CSR. Based on the belief, we can conclude that EL will mediate the EJP relationship through CSR (Figure 1). Hence, this hypothesis posited the following:

H4. CSR has an indirect mediating effect on the EL and EJP nexus.

### 3. Methodology and research design

This research aims to test the linkage between EL and EJP through the mediation of CSR. To elucidate the relationship between dependent, independent and mediating variables, a cross-sectional survey questionnaire design was used through a quantitative approach. The target respondents were the employees working in manufacturing SMEs in the Northern region of Italy. The manufacturing sector of Italy is increasingly important owing to its global reputation and the second-largest manufacturing output in Europe (Khurana *et al.*, 2018). Khurana and colleagues added that it is important to understand that SMEs are a critical part of the Italian manufacturing industry and responsible for the majority of turnover and employment within the sector (Khurana *et al.*, 2018). This has recently been confirmed by the Italian SBA (2019) report – the contribution of the manufacturing sector is prominent with the highest percentage of total value added by SMEs in the “non-financial business

**Figure 1** Research model



economy.” The report also reveals that manufacturing SMEs are the source of 16.2% of jobs in Italy (SBA, 2019). Furthermore, we focused on the Northern region because it is the economic and industrial hub of the country and the most significant contributor to the economy (Odoardi and Muratore, 2019), and the majority of the manufacturing firms operate in the Central and Northern regions of Italy (Khurana *et al.*, 2018). Though we chose manufacturing SMEs, the selection of SMEs was made using simple random sampling. That means every SME had equal chances to get selected. Because of these reasons, we believe that the data collected from the manufacturing SMEs would be the representation of all types of SMEs operating in Northern Italy. To get the information of manufacturing SMEs of Northern Italy, we accessed the “Analisi Informatizzata Delle Aziende” (AIDA) database from which we collected the tax code and registration number of the Northern region manufacturing SMEs and entered that information on the chamber of commerce website and got the contact information (e.g. email addresses and operating location addresses). After that a self-administered questionnaire was developed which comprised of two parts, the first part had five questions related to the basic information of respondents such as firm size, age, sex, education level and experience, whereas the second part had 31 questions, EL (10), CSR (16) and EJP (5).

### ***3.1 Sample and data collection procedure***

For data collection purposes, we contacted the manager/owner of 60 SMEs through email and explained the purpose of our study, and seek their permission. Of those 60 firms, 36 permitted us to carry out the survey. After getting permission, the sum of 450 questionnaires was accompanied by a cover letter that explained the objective of the study and assured the confidentiality of respondents was distributed among the SMEs employees using simple random sampling through email, postal services and personal visits at the end of 2019 and start of 2020. Some of the respondents filled the questionnaire on the spot, whereas the remaining asked us to leave the questionnaire and collect after a few days. To follow up, the calls were made after 20 days as a reminder to fill in the questionnaires. The response rate from the 36 firms varied from 7% to 89%. In the end, we received 221 responses from the participants out of which 202 were considered valid after initial screening. This relatively high response rate has ruled out any non-response bias issue.

The major part (93) of the respondents belonged to micro firms, 71 of the respondents were from small firms and the remaining 38 respondents were part of medium-sized firms. The majority of respondents (137) were males, and the remaining (65) were females. Almost 13.37% of respondents were less than 26 years old, 38.61% of the respondents were between the age of 26– and 30, 31.19% of the respondents were between the age of 31– and 40, and 16.83% of the respondents were 40 and above. Likewise, the highest number of the respondents (92) was holding a bachelor’s degree, 79 of the respondents was holding a master’s degree, 4 of the respondents were holding a PhD degree and the remaining 27 of the respondents did not specify their degrees. Finally, (66) respondents had 1–5 years of job experience, 83 respondents had 6–10 years of job experience, 35 respondents had 11–15 years of job experience and 18 respondents had more than 15 years of job experience as shown in [Table 1](#).

### ***3.2 Measurements***

All the items used in this scholarly work were based on a five-point Likert scale (where 1 indicates “I do not agree” and 5 indicates “strongly agree”). The respondents were requested to mark appropriately each statement in conformity with the actual conditions of their firms. The scales used in this study were adapted from previous validated research works. All of these items were originally developed in English; to obtain a better response rate, we translated the items into the Italian language with the help of native Italian experts. The ten-item scale of [Sarwar \*et al.\* \(2020\)](#) was adapted to measure EL. Its example

**Table 1** Demographic information

Variables	Frequency	(%)
<i>Firm type</i>		
Micro-sized (1–9 employees)	93	46.1
Small-sized (10–49 employees)	71	35.1
Medium-sized (50–250 employees)	38	18.8
<i>Gender</i>		
Male	137	67.83
Female	65	32.17
<i>Respondent age</i>		
Less than 26	27	13.37
26–30	78	38.61
31–40	63	31.19
41 and above	34	16.83
<i>Education level</i>		
Bachelors	92	45.55
Masters	79	39.11
PhD	4	1.98
Others	27	13.36
<i>Experience (in years)</i>		
1–5	66	32.67
6–10	83	41.09
11–15	35	17.33
16 and more	18	8.91

includes: In my firm, a leader “can be trusted,” “disciplines employees who violate ethical standards” and “conducts his/her personal life in an ethical manner.” [Iqbal et al. \(2018\)](#) developed a 16-item scale which was adapted to measure CSR. Its example includes: “My organization provides important job training for employees,” “Fairness toward co-workers and business partners is an integral part of the employee evaluation process in my organization” and “My organization is concerned about respecting and protecting the natural environment.” The scale has been validated and used in the CSR literature ([Manzoor et al., 2019](#)). The five-item scale of [Manzoor et al. \(2019\)](#) was adapted to measure EJP. Its example includes: “I (employee) consistently complete the duties specified in my job description,” “I (employee) consistently meet the performance requirements of the job” and “I (employee) fulfill all responsibilities required by my job.”

### 3.3 Validity and reliability

To ensure the consistency of the instrument, we performed validity and reliability procedures. For instance, content validity was used to confirm the credibility of the research scales. [Saris et al. \(2004\)](#) explained that content validity assists in whether or not the content of your measurement instrument represents the relevant aspects of the concept. For content validity, we consulted several university professors and firm managers who were experts in the field and made changes as per their feedback.

Likewise, to confirm the reliability of the scales, Cronbach’s alpha was executed to find out the internal reliability of items because it is the most commonly used way to measure reliability in social science research ([Aftab et al., 2019](#); [Zaid, 2018](#)). According to [Saris et al. \(2004\)](#), the reliability of an instrument is virtually always defined in terms of repeatability. It means if you repeat measurement on the same object, you should get the same result. [Okello et al. \(2018\)](#) defined reliability, as a degree to which measurement scales are dependable, predictable, consistent and stable. Cronbach’s alpha value for the EL scale was 0.886, for CSR it was 0.800 and for EJP, it was 0.771 as shown in [Table 2](#). Hence, it was

confirmed from the results that each instrument has satisfactory internal reliability because all the values are higher than 0.7 (Aftab *et al.*, 2019; Hair *et al.*, 2016), and it is acceptable in social science research (Okello *et al.*, 2018)

#### 4. Analysis and results

Correlation analysis depicts the strength of the relationship among the variables. The value of the correlation exists between  $-1$  and  $+1$  (Sekaran, 2003). The  $+$  sign shows the positive correlation, and the  $-$  sign shows the negative correlation among the latent constructs. In this research, Pearson correlation, means and standard deviation of all the examined variables were obtained through statistical package for social sciences (SPSS) 26 and are given in Table 3.

The results indicate that EL was positive and significantly correlated with CSR ( $r = 0.766$ ,  $p < 0.01$ ) and EJP ( $r = 0.614$ ,  $p < 0.01$ ) as expected. Likewise, a significant and positive correlation was observed between CSR and EJP ( $r = 0.675$ ,  $p < 0.01$ ). Therefore, these results give authentication to support the hypotheses of the research.

##### 4.1 Common method variance

We collected data from single sources (e.g. manufacturing SMEs) on the self-report measure at one point in time (e.g. cross-sectional design), which may be a source of common method variance (CMV). Therefore, all the 31 items used in this scholarly work were tested for CMV. We applied Herman's single-factor method to check the measurement biases (Song *et al.*, 2019; Yeap *et al.*, 2016). The results confirmed that the collected data does not suffer from the issue of CMV as a percentage (%) of variance explained one factor as 42.92%, which is under the limit of 50% (Jnaneswar and Ranjit, 2020; Manzoor *et al.*, 2019). Therefore, it was evident that CMV will not cause any serious effect on our findings.

##### 4.2 Regression analysis

To test our direct effect hypothesis, multiple linear regression was conducted in SPSS 26. The results in Table 4 show that  $R^2$  is 0.376 which means 37.6% variation in the predicted variable EJP is happening because of the predictor variable EL. It also shows that EL is positively and significantly linked with EJP ( $\beta = 0.643$ ; at  $t = 10.988$  at  $p < 0.00$ ), therefore,  $H1$  is accepted.

**Table 2** Cronbach's alpha

Variables	No. of items	Cronbach's alpha reliability	Source
EL	10	0.886	Sarwar <i>et al.</i> (2020)
CSR	16	0.800	Iqbal <i>et al.</i> (2018)
EJP	5	0.771	Manzoor <i>et al.</i> (2019)

**Table 3** Correlation

Variables	Mean	SD	1	2	3
EL	3.6990	0.82955	1		
CSR	3.2512	0.61272	0.766**	1	
EJP	3.4614	0.87656	0.614**	0.675**	1

Notes: sample size ( $N$ ) = 202; \*significant at  $p < 0.05$ , \*\*significant  $p < 0.01$  (two-tailed)

### 4.3 Hayes mediation test

The results in Table 5 show that EL is linked with CSR positively and significantly at ( $\beta = 0.565$ ;  $t = 16.847$  at  $p < 0.00$ ), therefore,  $H2$  is accepted. Also, the CSR has positive and direct links with EJP at ( $\beta = 0.711$ ;  $t = 6.247$  at  $p < 0.00$ ), therefore,  $H3$  is fully supported (Table 5).

To examine the mediating effect of CSR in the nexus of EL and EJP, the PROCESS macro was executed using SPSS (Hayes, 2017). This Hayes method is considered more suitable and reliable than Sobel's test to explore the indirect mediation effects (Jnaneswar and Ranjit, 2020). From the template of Hayes process V25, Model 4 was selected which allows us to check the mediating effect between explaining and explanatory variables with an estimated 95% confidence interval and 5,000 bootstrapping samples. The results reveal that there is an indirect mediating effect of CSR on the nexus of EL and EJP as the 95% confidence interval (0.2693, 0.5369) did not cross zero. Additionally, to check the strength of mediation, we calculated the coefficient ( $\beta$ ) of EL-CSR-EJP by taking the product of EL-CSR and CSR-EJP coefficients ( $\beta$ ) if it is greater than the coefficients ( $\beta$ ) of EL-EJP that means CSR fully mediates EL and EJP nexus if not then there is a partial mediation. After calculation of EL-CSR and CSR-EJP coefficients (e.g.  $0.5657 \times 0.7115 = 0.4025$ ), we found that it is higher than the coefficient ( $\beta$ ) of EL-EJP = 0.2458. Therefore, we confirmed that CSR significantly mediates the relationship between EL and EJP. Consequently,  $H4$  is accepted. Hence, we can conclude that CSR is a strong mediator in the nexus of EL and EJP in the SME sector (Figure 2).

## 5. Discussion

Previous researches have highlighted the significance of EL is regarding EJP (Saragih et al., 2020). Nevertheless, limited attention has been paid to understanding the underlying mechanisms through which ethical leaders affect EJP (Shafique et al., 2018). This study responds to the calls of scholars that ask for an investigation of EL and EJP nexus through a mechanism as it considers CSR as a mediating mechanism to study the aforementioned relationship. This study advances knowledge about how EJP can be enhanced through EL style and CSR initiatives. In recent years, EL and CSR have become the focus of the researchers because of their positive and significant effect on organizational performance and EJP (Khan et al., 2018; De Roeck and Farooq, 2018). However, the mediating role of CSR on the nexus of EL and EJP has never been investigated in the context of SMEs. Therefore, this study contributed to the literature by presenting an empirical model to

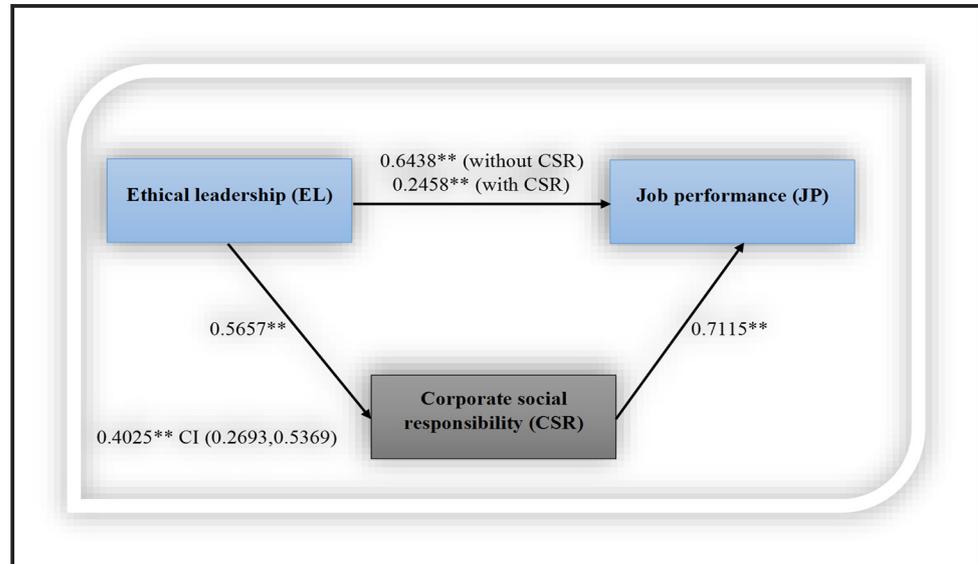
**Table 4** Regression result

Hypothesis	Coefficient ( $\beta$ )	R <sup>2</sup>	t-value	F-statistics	p-value
EL-EJP	0.6438	0.376	10.988	120.73	0.00

**Table 5** Hayes mediation results

Testing hypotheses	Unstandardized coefficient Coeff. ( $\beta$ )	std error	t-value	Sig (p)	Bootstrapping LLCI	ULCI
EL → EJP	0.2458	0.084	2.922	0.04	0.0799	0.4117
EL → CSR	0.5657	0.034	16.847	0.00	0.4995	0.6319
CSR → EJP	0.7115	0.114	6.247	0.00	0.4869	0.9361
EL → CSR → EJP	0.4025	0.070			0.2693	0.5369

**Figure 2** Hayes process model



explore the mediating role of CSR in the nexus of EL and EJP in the context of the SME sector.

In today's contemporary world, the role and style of leadership have gained importance. Leadership style plays a profound part in EJP (Shafique *et al.*, 2018). The good and ethical style of leaders has a positive influence on the subordinates, whereas bad and unethical behavior of leaders negatively impacts the subordinates (Ullah *et al.*, 2017). We argued that EL is positively related to EJP, and the first objective of this study was to explore this nexus. We found that EL significantly and positively affects the EJP in Italian SMEs. According to Tarkang Mary and Ozturen (2019), the ethical behavior of leaders and their sense of responsibility have a strong impact on employee's attitudes and practices. Our study also acknowledges Tarkang Mary and Ozturen (2019) who suggested that the leader should be perfect role models for their subordinates. They should fairly treat their subordinates, build trust in them and encourage them to behave ethically and follow the firm's rules and regulations. This outcome is also in line with Blau's (1964) social exchange perspective, that is, when EL respect their subordinates and treat them positively and fairly, the employees will have more positive energy toward their leader and firm. These positive energies reciprocate in better JP and the benefit of the whole organization. We also found in this study that EL in Italian SMEs affects positively to EJP. Italian SMEs need ethical leaders because, as mentioned in the literature, an important characteristic of ethical leaders is their morality (Brown *et al.*, 2005). When SME employees regard their leader as displaying good moral behavior, they may model this behavior and translate it into improved JP (Brown *et al.*, 2005). Mayer *et al.* (2009) advocated that if leaders treat their subordinates with fairness, encourage them, support them in a difficult time and give them enough opportunities then the subordinates will certainly respond with an optimistic behavior. The results of this scholarly work are consistent with previous studies that also reported a strong and positive connection between EL and EJP (Saragih *et al.*, 2020; Shafique *et al.*, 2018; Bansal and Kumar, 2018; Yang and Wei, 2017; Khokhar and Zia-ur-Rehman, 2017; Bouckenoghe *et al.*, 2015; Piccolo *et al.*, 2010).

The results also reveal that EL has a direct link with CSR. In other words, EL directly and positively influences CSR practices. That means the EL style of managers fosters socially oriented changes and initiatives that are the forces of CSR practices (Saha *et al.*, 2020). Our

result findings are consistent with our theorized anticipations and endorse the findings of previous researches (Saha *et al.*, 2020; Pasricha *et al.*, 2018; Kim and Thapa, 2018; Ullah *et al.*, 2017; Hussain and Attiq, 2017; Williams and Seaman, 2016; Butt *et al.*, 2016) who also observed the positive association between EL and CSR. Furthermore, we also explored the link between CSR and EJP. More specifically, we investigated the direct connection of CSR with EJP in Italian SMEs. The results show that CSR is directly and positively linked to the EJP. It shows when employees perceive that their firm is socially responsible and engage in CSR activities then it reflects in their task performance. Our findings are in line with prior researches that noted an exclusive and positive connection between CSR and EJP (Manzoor *et al.*, 2019; Hongdao *et al.*, 2019; Sarfraz *et al.*, 2018; Bushra *et al.*, 2011). The same concept explains by social exchange theory with the notion of reciprocity (Kacmar *et al.*, 2011). That means when employees perceive their respective firm is socially responsible and follows ethical principles they also try to put their share too in terms of positive work-related attitude, which increases their JP.

Finally, we investigated whether or not CSR plays the role of mediator in the nexus of EL and EJP, and it was our second objective too. We observed that CSR exerts a positive mediating effect on the relationship between EL and EJP. That means leadership is important given their role and influence on the initiation of CSR practices and subsequent EJP. As argued, leadership cognitions and behaviors are vital to establish and initiate strategy and/or policy (Eisenbeiss *et al.*, 2015). In this situation, the ethical style of leaders through CSR practices leads subordinates to achieve high levels of JP. Consequently, the employees who perceive leadership behaviors and the firm's CSR actions as fair are more likely to improve their EJP (Manzoor *et al.*, 2019). It is also the core principle of social exchange theory (Blau, 1964). It highlights that when ethical leaders make CSR policies and practice them, the workers also follow the footsteps of their leaders and consider themselves part of a socially responsible firm. Subsequently, it brings enthusiasm in the workers, which reciprocate it in the performance. So, we can say that the employee's attitudes and behaviors toward their firms are highly based on the comportment and the actions of their leaders. Employees who perceive social responsibility and fair treatment of leaders show affective commitment to the work. While those who perceive a lack of social responsibility and unfair treatment from leaders may display deviant behaviors at work. The same thing we noticed in Italian SMEs where workers are well aware of their rights and CSR policies. Because of this reason, CSR has become a vital element of firm policies where leaders give importance to CSR practices and treat their subordinates ethically and respectfully, which in turn improves EJP and the overall performance of the firm. Thus, we can conclude, based on the empirical evidence, that EL through CSR practices is beneficial for the employee's job outcomes in the Italian SME sector.

### ***5.1 Theoretical and practical implications***

This scholarly work extends the current knowledge of EL, EJP and CSR in different notable ways. Theoretically, our findings confirm that EL improves EJP and is vital for the sustainability of the SMEs. Previously, there was a lack of consensus among the scholars on CSR and the EJP relationship (Hongdao *et al.*, 2019), but our study outcomes suggest that CSR positively and significantly influences EJP in the SME sector. This study empirically supports prior research suggesting that EL leads to the enhancement of EJP (Saragih *et al.*, 2020; Yang and Wei, 2017), and also EL style improves CSR practices (Kim and Thapa, 2018). Finally, our study enriches EL and EJP nexus by exploring the indirect effect of mediating variable CSR in the SME sector. Which is unique and has never been examined before as per the researcher's knowledge? The results propose that ethical leaders tend more to sustainable business practices and thus support CSR-related activities, and the theoretical model affirms the salience of EL on employee attitude and behavior toward CSR.

Practically, this study's findings also have considerable implications. For instance, EJP is important for any firm (Ng and Feldman, 2008), and we found that EL plays a positive part in the EJP, and firms should keep an eye on leadership behavior (Iqbal *et al.*, 2018). With our work, we suggest channels that insight owners of not only Italian but also other EU countries SMEs to make an environment that is favorable for employees through the ethical behavior of a leader and CSR practices since most of these countries are quite similar in terms of values, cultures, working environments, technology and challenges. The first channel is firms should value ethics and consider it as the main pillar on which the foundation of their organizational culture is constructed. More specifically, the firm may need to recruit supervisors who have high levels of conscientiousness and agreeableness (Liu *et al.*, 2013), as research indicates that these above-mentioned personality traits can help supervisors to practice relatively higher levels of EL (Walumbwa and Schaubroeck, 2009). Also, the firm may need to invest in ethics training and mentoring programs about self-discipline, accountability, communications, fairness and ethical dilemmas to train managers on how to improve their EL skills (Mayer *et al.*, 2009). The second channel is to promote workplace friendships and work-life balance that facilitates the positive effect of EL on employee's task performance (Liu *et al.*, 2013). For this purpose, firms can arrange special training and mentoring workshops to facilitate positive relationships between leaders and team members, as well as an effective work climate involving support, warmth, acceptance, enthusiasm and sincerity, and it comes under the social responsibility of the firm. Last but not least, the results further recommend that firms should use ethics as a key measure in promotional schemes as well. This perspective is likely to lead toward positive outcomes of EL on EJP, job satisfaction and firm performance in the SME sector.

### ***5.2 Limitations and future research suggestions***

However, this study would fulfill the literature gap and provide significant insight to managers of Italian SMEs. Our study also has few limitations that offer avenues for future research direction. First, a longitudinal study design can be implemented instead of the cross-sectional study design for the collection of data to avoid data uncertainty. Second, this study is conducted in Italy, which means the sample was limited to a European developed country, and the outcomes may not be generalized for less technologically advanced developing and culturally different countries. Therefore, the sample can be increased by adding developing and/or culturally different countries and compare their findings for the generalizing purpose. Third, this study was limited to SMEs, although our model is applicable for every firm regardless of the industry, however, differences may occur in the results owing to firm age and size, which means outcomes might not be generalized for large or multinational enterprises, therefore, a wider sample from SMEs and large enterprises is suggested for future research. Fourth, the understanding and knowledge of CSR among developed and developing countries is also a limitation. It is much higher in developed countries where society, workers and customers are aware of their rights and keep the pressure on the firms along with the government. Consequently, it forces the owners/managers of firms to fully engage in CSR-related practices. However, it is relatively limited in developing countries where managers/owners of SMEs try to achieve minimum standards set by the government without any pressure from society customers, labor and the environment. This barrier of CSR-related knowledge may affect the outcome in developing countries. Finally, social desirability bias is also a limitation. For instance, CSR and ethics are considered sensitive terms, and sometimes respondents avoid giving answers to sensitive questions or falsify on sensitive questions by answering it the way they believe is socially expected. Such types of falsification or failing to report may become the key source of error in any study. For a future perspective, there are many other leadership styles such as authentic, transactional and transformational that can be considered along with ethical leadership to check their influence on EJP with the moderating role of psychological empowerment.

### 5.3 Conclusion

This study demonstrates how EL and CSR activities in the firms affect EJP. Organizational structure and systems should support and encourage EL and CSR practices to establish and sustain a value-based culture so that the employees can stay enthusiastic about their job. It should be the responsibility of the leaders to consider the best interests of employees. Consequently, a healthy leadership style identified and appreciated by employees will lead to the enhancement of performance. This study is based on the investigation of EL effect on EJP and the mediation effect of CSR in SMEs in Italy. Based on the social exchange perspective, our study findings summarize that ethical and fair treatment of leadership plays a significant positive role in EJP. Moreover, CSR significantly mediated the association between the EL and EJP in Italian SMEs. This implies that the managers who behave ethically are more concerned with the dignity of their employees and able to establish and sustain an ethical and socially responsible approach in their daily work. Consequently, the employees become more confident in achieving challenging tasks which leads to high JP.

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#### About the authors

Junaid Aftab is a PhD student in Business and Law at the University of Brescia (UNIBS), Italy, and his research interest is focused on entrepreneurship, human resource management, leadership, and corporate social responsibility. Junaid Aftab is the corresponding author and can be contacted at: [junaidaftab@rocketmail.com](mailto:junaidaftab@rocketmail.com)

Huma Sarwar is a PhD student in Business and Law at the University of Brescia (UNIBS), Italy, and her research interest is focused on corporate social responsibility.

Anam Amin has completed her master's degree from Comsats University, Pakistan, and her research interests are leadership, entrepreneurship, organizational development and organizational behavior

Alina Kiran is a PhD student in Technology and Management at the University Technical Malaysia Melaka (UTEM), and her research interest is focused on human resource management and technology management.

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