Analyzing the Relationship between Leadership Style and Corporate Social Responsibility in Hungarian Small and Medium-sized Enterprises

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Abstract: In recent decades, Corporate Social Responsibility (CSR) has become an important issue in the global business world. The topic has been studied from many viewpoints, but due to its continuous development and constant change, it remains a special and interesting area of scientific life to this day. The essence of CSR is that in addition to economic aspects, companies take into account the interests of society in their business and economic behavior. These behaviors can have many segments, so they can take into account their business partners, suppliers, employees, and the surrounding environment. Despite the fact that CSR literature has grown significantly since the turn of the millennium, researchers are mostly focused on the CSR activities of multinational companies, and there is limited research on SMEs. The relevance of the research topic is undoubtedly proven by the fact that many domestic and international researchers refer to the role of the leadership in CSR. Practical implementation basically depends on the behavior of the organization, and ultimately the attitude of the leader to CSR. In developing this study, I aimed to get to know the motivations, views, and attitudes of examined Hungarian small and medium-sized enterprise leaders regarding CSR. In my opinion, the companies that want to be successful, now and in the future, need to integrate CSR into their business strategy.

Keywords: leadership style; Corporate Social Responsibility; Hungary, employee-oriented leadership style

1 Introduction

More and more businesses are recognizing the need for CSR practices, and yet alongside this, they are trying to re-establish the irresponsible and short-term beneficial decisions that have led to global problems [10].

According to McWilliams and Siegel [32] CSR is defined as actions that acquiesce in the promotion of some social good, beyond the interests of the organizations and its shareholders and beyond what is required by law.

In my opinion, mostly the profit-oriented companies (Exxon Shipping Company, Union Carbide Corporation, Chisso Corporation, etc.) are causes of global social problems, for which the leaders have prime responsibility. The individual values that appear in the leaders' personality can play a decisive role in social responsibility. Thus, the examination of the impact of leaders' values on CSR was well founded. In my research, I would like to focus on the relationship between leadership and the practice of corporate social responsibility. My goal was to get to know the factors that influence leaders toward corporate social responsibilities.

The main benefit of my study is a new approach to analyzing the relationship between the style of leaders in small and medium-sized enterprises and CSR. According to literature, CSR activities have been approached mainly by ethical leadership ([3], [26], [44]) and transformational leadership ([17], [23], [47]), while, I analyze the impact of selected Hungarian small and medium-sized enterprise leaders on their CSR activities by the Michigan State University leadership model.

2   Literature Review

CSR has no precise definition to this day, probably because of the largeness of the topic. CSR is known under a number of names such as corporate responsibility, corporate accountability, corporate ethics, or corporate citizenship [15].

The CSR concept is often very positively labeled as ethical, honest and responsible behavior on the part of companies, and sometimes it is considered a "small green lie, a marketing trick, or a managerial boast" [38], which improves the reputation of companies.

CSR means "companies voluntarily incorporate social and environmental considerations into their business and their relationships with their partners". Its objectives include employment and social policy, environmental protection, consumer protection, governance and the sustainable development of these dimensions [4].

The first period of CSR's emergence can date to the 1950s. The rapid development of the economy and the growing demands of the consumer society brought the CSR concept. In 1953, Bowen interpreted terminology as a social obligation with issues of business responsibility [8].

The definition of CSR began in the 1950s and '60s, but initially, the focus was not on the responsibility of the company but on the responsibility of "businessmen".

Friedman [20] argues that companies are responsible only for increasing profits while spending money on social responsibility or environmental protection is just a money-wasting act. Another argument is the invisible hand theory. According to this, there is no need to intervene in the economy because the regulation of the 'invisible hand' creates the socio-economic optimum. Accordingly, in some Member States of the United States, until the early 1990s, companies were prohibited by law to give charitable donations to social organizations [37].

Today, Friedman's words have been disproved by the fact that CSR in the long term is now essential to ensuring organizational profitability because industrial accidents and corporate scandals have disrupted many companies' financial performance over the past decades. The former skepticism that companies cannot afford "charity„ has become obsolete for several reasons. The first reason is the behavior of a responsible corporate, which may show to be costlier in the short term but can be productive in the long run with a good company image. Secondly, the role of companies has unintentionally become increasingly important in society. They are responsible for the environment and everyday life, and because of this, they have to show themselves as trustworthy actors in every case [40].

Loew et al. [31] identify four CSR theoretical models. According to CSR1, companies, as a part of society, have responsibilities, and have certain obligations towards society when they use the resources of society. CSR2 or Corporate Social Responsiveness has been spreading since the 1970s and examines how a company can respond to societal challenges [1]. CSR3 is Corporate Social Rectitude, which means fair corporate conduct – and has been around since the 1980s. In essence, ethical considerations must be embedded in relevant corporate decision making processes [19]. Finally, CSR4 "Cosmos, Science, Religion" from the late 1990s highlights the role of individual companies, emphasizing the importance of science and its role in building social institutions.

From the turn of the millennium, CSR has become part of the corporate strategy while contributing to both business and social activities [25]. European companies are convinced that CSR-oriented organizations are gaining a competitive edge and will be at the forefront of the global economy in the future while reducing both their costs and environmental pressures [14]. CSR is not seen as a separate task but as a coordinated part of the corporate unit.

Many have studied the relationship between corporate performance and corporate social responsibility. Orlitzky et al. [35] noted that CSR not only reduces business risk, but it also increases the efficiency of internal resources and attracts a higher quality workforce.

According to Paine [36], the motivation behind the ethical behavior of companies can be negative or positive. It is negative if the company wants to avoid, prevent and avoid scandals, fines, costs, risks with CSR, and positive if the goal is to improve trust and reputation.

According to Carroll [12] although companies are responsible for the social problems, the damage and problems they cause are the responsibility of corporate leaders, and thus "social responsibility is not the commitment of a company, but of a person that takes into account the impact of their decisions and actions on the entire social system.

Carroll [11] describes the levels of responsibility of economic operators and companies in his famous pyramid model: economic responsibility means that economic operators must make a profit because they can meet other expectations of society only on a strong financial and economic basis. Compliance with the rules is based on, legal responsibility, but there is a higher level of ethical responsibility to consider and respect the interests of those concerned. Finally, Carroll identifies an exceptionally high-level, a human-friendly approach: philanthropic responsibility, which recognizes that the economic operator's ultimate goal is to allocate resources to increase social well-being and quality of life too. This responsibility is voluntarily assumed by the company and no one can be forced to do so.

Another popular interpretation is based on the stakeholder theory. According to this theory, the essence of CSR is that companies take into account the interests of stakeholder groups in addition to their corporate shareholders. In other words, companies have to find an ethical balance between the interests of the various groups [2]. The basic idea is that an organization needs to manage its relationship with the many stakeholder groups that are affected by its business decisions [13]. Social responsibility includes all the economic, legal and ethical actions undertaken by organizations to meet the expectations of all stakeholders [41].

Companies that do nothing to assume their social responsibility and claim that they gain no significant benefit from CSR because stakeholders do not value this type of activity are losers in today's fierce market competition [27].

Sood and Arora [42] argue that the motivation of companies for social responsibility activities depends on the organizations' leadership.

Nowadays, the importance of leadership has increased due to the continuously increasing competitive business environment [9]. According to Varney [45] leadership has been defined as an interpersonal process for influencing individuals and groups to achieve organizational goals. Leadership is a kind of power where one person has the ability to influence or change the behavior of another person [21].

Blake, Shephard, and Mouton [7] developed a two-factor model of leadership behavior, calling the factors 'concern for people' and 'concern for output'. From the 1960s, research into leadership began to analyze the effects of certain leadership behaviors, predominantly task-oriented and relationship-oriented leadership [5]. In the task-oriented leadership style, the leader focuses extensively on goal achievement and well-defined communication. In relationship-oriented leadership

the leader gives strong emphasis to respect for their followers, looking out for their welfare, expressing appreciation, and providing emotional support.

Drucker [16] states briefly: "the only definition of a leader is someone who has followers." It is about influencing a group of individuals. These group leaders direct their energies toward common goals [34].

Lewin [30] identified two main leadership styles, which are autocratic and democratic. In an autocratic leadership style, the leading power and decision making are centralized, the leader does not consult employees, and the motivation is a structured set of rewards and punishments. The democratic leadership style is also called the participative style, in which the leader encourages employees to take part in the decision making.

Despite it being a key topic there is a lack of theoretical and empirical research on the leadership aspect of CSR. In today's society, there is a growing interest in corporate leaders who are committed to CSR through actions that promote some social good, as required by company regulations and law [47].

The leaders' motives for CSR can be divided into extrinsic and intrinsic motives. Extrinsic motives are aligned to business strategy and external pressures and are financially motivated, while intrinsic motives are morally, ethically, and philanthropically driven [22].

According to Waldman [48], ignoring the nature of the relationship between CSR and management is unfortunate, as a company's decision to take social responsibility must be considered at the strategic level.

According to Visser [46] the type of leadership required by CSR has elements in common with the contingency/interactionist leadership style, which is about the interaction between the individual leader and his framing context [18].

A CSR leader is someone who inspires followers and supports action towards a better world. According to Du et al. [17] transformational leaders are more effective in socially responsible organizations than transactional leaders. Transformational leadership increases follower motivation and performance more than transactional leadership [5]. Lazányi [28] argues that transformational leaders use emotions to motivate employees, communicate a vision, and stimulate followers to work towards long-term ideals and strategic objectives.

In summary, I can state that common in the CSR definitions is that all professionals pay particular attention to voluntary expression, as this activity is not prescribed by law, is not mandatory, but is a manifestation of ethical corporate behavior. Furthermore, based on the literature, I can say that it is worth exploring the topic in more detail and doing further research on the relationship between leadership and CSR. In the next part of my study, I want to introduce research methodology and the results of empirical research.

3   Methodology

The purpose of the present study is to identify if there is any correlation between leadership style and CSR practice in Hungarian small and medium-sized enterprises. The research is based on a survey conducted at 277 enterprises and uses data I collected through a self-completion questionnaire between 2018 and 2019. The sample includes respondents who manage SMEs (employing fewer than 250 people, with a turnover of less than EUR 50 million). All of the respondents hold significant leadership roles in the enterprise. Simple random sampling was used among the database of Hungarian small and medium-sized enterprises. Before my own research, pilot testing was conducted to help identify and change confusing, awkward, or offensive questions and techniques, thereby enhancing the validity and reliability of the research instruments. Feedback from the pilot test was generally agreed by the respondents that the questionnaire had been constructed in a clear way.

The questionnaire is divided into 2 sections. In the first one, the background information part is designed in order to collect demographic characteristics, such as gender, age, and education of respondents. The other part includes questions from the scales that were chosen to measure variables analyzed in the current study, namely leadership and CSR.

A total of 400 questionnaires was distributed, and 277 of those were returned completed, resulting in a response rate of 69.2%.

Participants were advised that the completion of the questionnaire should take no longer than 30 minutes. This was confirmed during the pilot study conducted prior to the main research.

All participants were advised that their participation was voluntary. Respondents were also assured that their own identity, together with the name of the organizations they work for, will remain confidential. It was explained to participants that the questionnaire is completely anonymous.

The analysis was performed by using single and multivariate statistical methods, in applying the SPSS program.

4   Results of Empirical Research

The research is based on three main pillars. In the first part, I examined the demographic characteristics of leaders and the main characteristics of evaluated enterprises. These results give an overview of the type of enterprises of the examined segment, its main activity, the market of its products/services, and the scope of its employees. Research on the demographics of leaders highlights the gender, education, and work experience proportion of the examined leaders. In the

second part, the respondent evaluates the CSR activity of their enterprises using the 5-point Likert scales. This provides an opportunity to prioritize leaders in terms of CSR. In the third part, I was curious about the leadership style of examined leaders. Here, I examine the style of leaders and the impact of their attitudes toward corporate social responsibility.

In my primary research, I targeted Hungarian small and medium-sized enterprises because we can find in the scientific literature much less study than relating to multinational organizations. At the same time, small and medium-sized enterprises play an important role in economic life, in terms of employment and their role in the local economy. The small-sized organizations represent the majority (60.28%) of my sample, followed by medium-sized (24.18%) and micro-enterprises (15.52%).

Table 1 shows the main demographic characteristics of the respondents, 68.23% of respondents were male and 31.77 % were female. In terms of age, 32.85% of respondents declared themselves to be between 35 and 44 years, while 29.24% were over 45 years. The age group with the smallest representation in the sample (26 persons, 9.75%) was the group between 18 and 24 years of age. If we take a look at the educational background of the respondents, most of them, 51.99% have finished their secondary school education. The following group featured the respondents with a university qualification (38.63%). Those who finished primary school make up below 9.39% of the respondents and are mainly from the older age groups. It was found that 27.55% of the employees had 2 to 5 years of experience, while 11.91% had more than 10 years of work experience.

Table 1
Demographic characteristics of respondents

Age	Frequency	Percent
18-24	27	9,75
25-34	78	28,16
35-44	91	32,85
45+	81	29,24
Gender	**Frequency**	**Percent**
Male	189	68,23
Female	88	31,77
Education	**Frequency**	**Percent**
Primary	26	9,39
Secondary	144	51,99
University degree	107	38,63
Work experience	**Frequency**	**Percent**
0-2 year	66	23,83
2-5 year	104	37,55
6-10 year	74	26,71
more then 10 year	33	11,91

The sectoral proportion of the examined enterprises is shown in the following Table 2. The table above shows that services (20.58%), manufacturing (14.08%), and clothing (13.36%) sectors had the highest proportion among respondents.

Table 2

Sectoral proportion of examined SMEs, percentage

	Number of responses	Percent
Agriculture	11	3,97
Electric material	7	2,53
Trade	15	5,42
Wholesale	20	7,22
Construction	22	7,94
Restaurant	17	6,14
Transports and distribution	24	8,66
Clothing	37	13,36
Telecommunications	28	10,11
Services	57	20,58
Manufacturing	39	14,08

The CSR activity of the examined enterprises can be divided into 2 main sections, the inward and the outward CSR activity. The following Table 3 shows the main elements of the CSR activities of the evaluated small and medium-sized enterprises.

Table 3

Elements of CSR in examined SMEs

Inward CSR	Percent	Outward CSR	Percent
Protecting the health of employees	26.71	Sport sponsorship	14.80
Flexible, family-friendly workplace	22.38	Cultural sponsorship	22.38
Employee volunteer programs	13.36	Community Support	25.63
Employment of disadvantaged people	5.05	Support for environmental protection	24.19
Education, learning support	24.91	Support for health promotion	6.86
None of them	7.58	None of them	6.14

Most of the companies in the sample indicated in the first place protecting the health of their employees (26.71%) in terms of internal CSR activity, followed by the importance of education, learning support (24.91%). In outward CSR activity, the most performed by examined SMEs was community support (25.63%) followed by support for environmental protection (24.19%) and cultural sponsorship (22.38%).

From the literature, I selected the task (work) oriented and employee (relationship) oriented leadership model for further analysis. Based on the literature ([29], [33], [39], [43]) these models are one of the frequently utilized leadership styles by small and medium-sized enterprise leaders. The main characteristics of this leadership model are: 1) Task-oriented behavior – stresses getting work done, followers are like tools that can be used to complete work and achieve goals. 2) Employee-oriented behavior – focus on the personal aspect of work where the leader looks at worker individuality and attends to each subordinate's personal needs [24].

In my research model, I indicated 8 leadership traits (Table 4) to determine which direction the examined leader represents.

Table 4
Main personality traits of task/employee-oriented leaders

Task-oriented leader	Employee-oriented leader
accuracy	communicative
objective driven	cooperative
proactive	inspiring
straight forward	sympathetic

The results of the personality characteristics of examined leaders are shown in Figure 1. Leaders marked on the Likert-scale from 1 to 4 their own personality traits (1-not very characteristic, 4-very characteristic). Based on the obtained results it can be stated that the leaders of the examined Hungarian small and medium-sized enterprises are mainly characterized by the communicative (3.77) personality trait, followed by the cooperative (3.49) and sympathetic (3.42) personality traits.
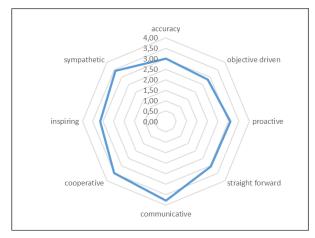

Figure 1
The main characteristics of the examined leaders, Likert-scale

Based on the above results, the leaders of the examined Hungarian small and medium-sized enterprises mostly belonged to the employee-oriented leadership style. This is confirmed by Bass and Avolio [6] who described the concept of employee-oriented leadership behavior, which is measured by indicators like idealized attribution and behavior, individualized concern, intellectual stimulation, and inspirational motivation.

In my opinion, the personality of leaders has a significant impact on CSR activity in small and medium-sized enterprises. To prove this statement, I analyzed the personality traits of examined leaders relating to CSR activity.

Table 5 shows that two of the personal characteristics of the evaluated leaders show significant effects on their CSR activity. In the case of these 2 factors (cooperative and sympathetic), the significant value of less than 0.05. This statement also confirms the fact that leaders who are socially sensitive to people are more committed to CSR.

Table 5

Impact of a leader's personal characteristics on CSR activity

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
1 (Constant)	1.663	.498		3.340	.001
accuracy	-.034	.074	-.029	-.460	.646
objective driven	-.024	.079	-.019	-.304	.762
proactive	-.042	.057	-.044	-.733	.464
straight-forward	.001	.054	.001	.024	.981
communicative	-.080	.061	-.083	-1.309	.192
cooperative	.131	.061	.138	2.151	.032
inspiring	.025	.059	.026	.429	.668
sympathetic	.255	.062	.259	4.106	.000

The results of the correlation analysis between the factors of task-oriented/employee-oriented leadership and CSR are shown in Table 6. This result also confirms that the employee-oriented leadership style has a significant relationship with CSR.

Table 6

Correlation between leadership styles and CSR

	Task-oriented leadership style	Employee-oriented leadership style
CSR	0.167	0.529

Correlation is significant at the 0.01 level (2-tailed)

The factors of employee-oriented leadership (0.529) have a strong positive correlation with CSR at a significance level of 0.000. This signifies that leaders who possess these attributes of employee-oriented leadership are more likely to stimulate their enterprises for CSR activity.

Regression analyses have been conducted to validate the hypothesis of my study: *The leadership style of leaders has a significant influence on CSR in small and medium-sized enterprises.*

Because the employee-oriented leadership style had a stronger correlation with CSR as a task-oriented leadership style, after this part I will evaluate deeply the employee-oriented leadership style and its impact on CSR to prove my hypothesis.

In the model the employee-oriented leadership was the independent variable and CSR the dependent variable. The regression analysis (Table 7) indicates that employee-oriented leadership has a considerable impact on the CSR activities of small and medium-sized enterprises.

Table 7

The result of regression analysis

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.529[a]	.280	.278	1.780	2.039

a. Predictors: (Constant), employee-oriented leadership

b. Dependent Variable: CSR

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	339.011	1	339.011	107.021	.000[b]
	Residual	871.119	275	3.168		
	Total	1210.130	276			

a. Dependent Variable: CSR

b. Predictors: (Constant), employee-oriented leadership

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	t	Sig.
1	(Constant)	2.042	.278		7.334	.000
	employee-oriented leadership	.553	.053	.529	10.345	.000

a. Dependent Variable: CSR

As the Model Summary section of Table 7 shows, the R value is 0.529. The R value represents the correlation value between employee-oriented leadership and CSR. The R Square value is 0.280 and the Adjusted R Square value is 0.278. Since the Adjusted R Square value is 0.278, it can be concluded that the independent variable accounts for nearly 28% of the variation in the dependent variable. The ANOVA section of Table 7 illustrates that the F value is 107.021. Since the F statistic is significant at 0.000 it can be said that leadership plays an important role in determining the CSR orientation of small and medium-sized enterprises. The Beta value is 0.529 at a significance level of 0.000. It indicates that leadership contributes significantly to CSR. The t value is 10.345 and the associated p value is 0.000. As the p value is smaller than 0.05 it can be concluded

that the independent variable (leadership) reliability predicts the variation in the dependent variable (CSR) and the relationship between them is significant. This clearly indicates that leadership has a positive impact on the CSR initiatives undertaken by small and medium-sized enterprises and thereby supports my hypothesis.

One of the novel results of my study was that I approached the CSR activities of small and medium-sized enterprise leaders with the help of employee-oriented leadership style, which could provide new research opportunities for those interested in the topic. As there are few studies on the relationship between leadership and CSR, and even less dealing with small and medium-sized enterprises, my study can contribute to the literature of selected topic.

Conclusions

The results of my research confirm that CSR also plays an important role in the business life of Hungarian small and medium-sized enterprises. Based on the results obtained, it can be concluded that more than 90% of the surveyed companies had both outward and inward CSR activities. The corporate social responsibility of SMEs is expressed to stakeholders via environmental protection and community supports, while inward CSR primarily manifests itself in protecting the health of workers and in training and development of subordinates.

The activities of companies committed to social responsibility appear as a competitive advantage both in the short and long-term. I suggest to the leaders of the examined small and medium-sized enterprises that they should place more emphasis on the promotion of CSR activities in their corporate communication.

The regression analysis conducted on leadership and CSR indicates that leadership does have a positive impact on CSR. Of the examined SME leadership styles, the employee-orientation leadership style plays an important role in CSR activity. The results of my own research also highlighted the importance of leadership values for CSR. Most important are the leadership values that are manifested in behavior with subordinates. The responsible manager feels a sense of responsibility towards his subordinates and the "outside world" too. This is supported by Pless [37] who argues that the leaders' personal values are reflected in the practices that companies adopt.

An important factor in the dissemination of CSR is the personal commitment of the leaders, which is well illustrated by the example of the enterprises surveyed. Therefore, it is very important for leaders to prioritize a company's CSR activities, as opposed to their own individual interests, so that not only companies but also communities can benefit in the long run.

Even though small and medium-sized enterprises do not have that resources background that is available for leaders of large companies, SME leaders strive to conform to certain CSR values. Among companies, there are many small and medium-sized enterprises that try to run their business in a socially and

environmentally responsible way. Even today, there are many factors that hinder the effective CSR activities of small and medium-sized enterprises. In order to have a successful and efficient corporate governance, it would be important that leaders explore the factors that hinder the implementation of CSR within their enterprises.

Competitive advantage as an opportunity stimulates active CSR of these small and medium-sized enterprises, which improves the reputation of the enterprise, as well as the acquisition and retention of employees.

In 2020, the COVID-19 crisis shocked the world. The crisis will certainly have an impact on the CSR activities of companies, too, especially of small and medium-sized enterprises, as they will have to deal with the retention of their employees in addition to the financial problems caused by the crisis. Thus, due to the COVID-19 crisis, companies have to re-evaluate the issues of both external (environmental subsidies, community programme supports, etc.) and internal (occupational health expenditures, employees' programmes, etc.) CSR activities. In my opinion, leaders of truly responsible companies should not change their basic business and moral attitude even during the crisis, because CSR can help enterprises to recover more quickly. As a result of responsible activities and appropriate communication, they can retain their business partners as well as their talented employees.

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