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The Impact of Leadership on Organizational Learning via CSR and Organizational Innovativeness in Lebanese SMEs

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Abstract

Purpose-This paper investigates the firm-level benefits, especially for Lebanese small and medium enterprises (SMEs), of offering employees actions that are consistent with their sound values in addition to intellectual simulation within an innovative environment. It also evaluates variations in perceived effects of implementing service and transformational leadership on organizational learning, and examines the effect of causal factors such as perceived organizational innovativeness and CSR. Design/methodology/approach -A large convenient sample of 284 front-line managers was surveyed, using a 15-item instrument based on previous research. The researchers used factor analysis to ascertain construct validity, based on two suitability tests: the Kaisers-Meyer-Olkin (KMO) measure of sampling adequacy and the Bartless test of sphericity. The dimensions were found to be reliable, with Cronbach's alpha ranging between 0.70 and 0.95. Findings- Findings from path analysis support the research hypotheses that impact of the direct and positive effect of leadership on organizational learning is strengthened via the mediating variables: CSR and innovativeness.Originality-This article empirically correlates two main fields of management research within the context of a developing country: leadership and organizational learning with focus on changing behavior.

Keywords: Leadership; Employee benefits; CSR; Innovativeness; Factor analysis; Organizational learning.

1. Introduction

Successful leaders recognize that building the learning capabilities of their organizations is a must for achieving organizational goals. Garvin believes that "Continuous improvement requires a commitment to learning" (Garvin, 1993). Leaders must scan the environment for signs of innovate to what, when, where, and why change is necessary. Koulopoulos notes that "Companies are not so much in the business of what we buy, but the way we act" (Koulopoulos, 2012). At the same time, everyone in the organization must recognize that resisting necessary change is destructive to the organization. As Bell et al. (2002) put it, "the role of the organization and its managers, therefore, is to create an environment or culture conducive to learning" (p. 77). In the context of organizational learning, the most vital role of leadership is to generate and manage the alignment environment. Employees should be trusted and treated fairly. When an organization integrates advanced technology, values its internal customers, and treats them equally, its employees respond with loyalty and greater productivity. Patterson says "[H]ere's a radical concept–treat your employees as well as you do your best customers, and your business will reap rewards beyond your wildest imagination" (Patterson, 2015). The focus of this research is on the impacts that leadership, organizational innovativeness, and CSR has on organizational learning, among Lebanese small and medium enterprises (SMEs).

2. Literature Review
2.1. Research on Leadership

According to Nordin and Kasbon (2013), "leaders' support is seen to be an essential factor in promoting learning cultures in an organization" (p. 125). Moreover, Zagorsek et al. (2009) argued that "the influence of leadership is greatest on behavioral and cognitive changes, which are the final and apparently the most important phase of the learning process in organizations" (p. 158). In this context, the idea of transformational leadership, first identified by Burns (1978) and further developed by Bass (1985), is particularly relevant. Bass defined a transformational leader as one who motivates others to do more than is expected of them. As Allen et al. (2016) explained, "servant leadership focuses on supporting and developing the individuals within an institution, while transformational leadership focuses on inspiring followers to work towards a common goal" (p. 113). This model should be considered from the perspective of stakeholder theory, "which recognizes that it is the satisfaction of all the legitimate interests of a firm's interdependent constituencies (…employees, customers, suppliers, the local community, shareholders, etc.) that can be said to truly lead to the long-term success of that firm" (Iwu-Egwuonwu and Chibuike, 2010). Thus, implementing a corporate strategy that is centered on learning, innovativeness, and a community's common interests may be considered an example of transformational leadership.

Within the Lebanese context, (Charbaji, 2017) asked why business leaders in a country that is positioned behind Europe, such as Lebanon; doesn't have much in common with their counterparts in advanced countries. She suggested that Lebanese managers must develop a new vision of what they can be and what they can do to introduce organizational change. Moreover, she argued that it is almost impossible to change the behavior of Lebanese leaders or managers at work by inspiring new corporate values such as not to discriminate on the basis of religion or politics (Dagher and Charbaji, 2018). Lebanese people live in a princely state resembling the state that emerged in Italy during the Renaissance of the seventeenth century. The Lebanese political leaders are similar to the Renaissance Lords in Europe (Dagher, 2015). What's more, Lebanese people stereotype each other and this in reality alienates qualified employees and make it hard to hire the right person in the right place at the right time. Charbaji (2017).

2.2. Research on CSR

Khurshid *et al.* (2014), believe that "corporate social responsibility is predominantly considered a Western phenomenon supported by strong institutions, standards, and appeal systems that are weak in the developing countries" (p. 100). Indeed, CSR means different things to different people and organizations. Some people perceive CSR as corporate philanthropy, while others conceive it as how the firm respects and cares for the physical environment. A third group such as Klein (2014) believes that companies should invest aggressively in activities that end with meaningful change before making traditional charitable contributions. However, nearly everyone believes that business has some responsibility to their external customers, to their internal customers, to their communities, and to their society, beyond maximizing profit.

Historically, in the Middle Eastern culture, the idea that one should be socially responsible can be traced back to the establishment of the Waqf System (WS) and Zakat structure during the early development of Islam in the seventh century (Raimi *et al.,* 2014). In the West, Chakraborty *et al.* (2004) noted that "Adam Smith, a philosopher of morality and economics, came up with the idea that the greatest good of the greatest number is effectively served by the Invisible Hand of self-interest" (p. 98). Modern-day corporate CSR initiatives can be traced back to the mid-to-late 1800s (Pohl and Tolhurst, 2010).

In his study entitled "CSR: Four Theories for a Necessary Practice," Melé differentiates between four distinct theories of CSR:

I. The Corporate Social Performance Theory: Firms work in society and society lets them do so. Firms create wealth, serve society, and earn a reputation that affects customer satisfaction and loyalty. Based on the equity theory, (Pérez and del Bosque, 2015) argued that "customers are likely to be more satisfied if the company is socially responsible towards different stakeholders such as employees or customers themselves" (p. 17).

II. The Shareholder Value Theory: Firms work with the aim of generating profits, so social responsibility is not necessary unless the law requires it. The firm can create wealth, comply with the laws, and still exploit workers, customers, and the environment. The managerial viewpoint has evolved around the protection of shareholders' interest (Crane and Matten, 2010).

III. Stakeholder Theory: This theory suggests that shareholders' needs cannot be met without to some extent satisfying the needs of other stakeholders. Jamali (2008), for example, identified "six groups as key stakeholders including employees, customers, investors, suppliers" (p. 218).

IV. Corporate Citizenship Theory: Organizations are seen as corporate citizens who should participate in the well-being of their society. Khurshid and his associates believe that "the appeal systems needed to support corporate social responsibility is weak in the developing countries" (Khurshid *et al.,* 2014).

In general, these four theories account for debates over CSR in the management and governance literature (Iwu-Egwuonwu and Chibuike, 2010). Unfortunately, "there is a scarcity of applied research into CSR in Lebanon" (Charbaji, p. 86). Nevertheless, one can say that Lebanese organizations that treat their workers well are acknowledged as good corporate citizens by internal and external customers. In general, CSR may prosper in advanced countries but is developing and often misconceived in countries such as Lebanon.

2.3. Organizational Innovativeness

Luebke argued that innovation "should focus on a specific need that is satisfied and on a specific end result that it produces" (Luebke, 2010). Getting advanced machinery, equipment, computer hardware, computer software, increasing the range of goods, and entering new markets should stimulate organizational learning and develop positive attitudes towards proactive learning. Gnizy and his colleagues assert that "PLC is particularly important to SMEs whose lack of market power and resources render them vulnerable in risky foreign market launch"(Gnizy *et al.,* 2014). Several authors (Aguilera *et al.*, 2015; Demangeot *et al.*, 2015; Deutscher *et al.*, 2016; Ji *et al.*, 2016) have focused on the impact of organizational learning on organizational innovativeness in developed countries, but there appears to be a gap in the literature to the impacts in underdeveloped countries. We will argue that daily technological advancements and social media in this contrasting context of a developing economy gives rise to quite different outcomes.

2.4. Organizational Learning

Organizational learning is rooted in two main approaches: the cognitive that focuses on the thinking component of organizational learning, and the behavioral that emphasizes experience (Azmi, 2008). Previous research showed that organization learning is evolving as a corporate goal. What's more, starting to put together an organization in

which learning plays a vital role without innovative behavior is often more frustrating than nearly any one can imagine.

2.5. Significance

The present study argues that especially in Lebanon, companies need a strategy to offer employees corporate culture in addition to intellectual simulation, within an innovative environment. The present study supports (Verissimo and Lacerda, 2011) point that "leadership and CSR are issues of utmost importance for practitioners and scholars alike" (p. 2). However, Anthony and Schwartz (2017) that "companies that claim to be 'transforming' seem to be everywhere. But when you look more deeply into whether those organizations are truly redefining what they are and what they do, stories of successful change efforts are exceptionally rare". This research seeks to better understand managerial perceptions of factors affecting the implementation of organizational learning in developing economies, using Lebanon as our case study.

2.6. Research Question

What is the effect of leadership on organizational learning, as mediated by CSR and innovation?

2.6.1. Hypotheses

H$_1$. Employees' perceptions about leadership directly and positively affect perceived organizational learning in Lebanon.

H$_2$. Employees' perceptions of CSR practices directly and positively affect perceived organizational learning in Lebanon.

H$_3$. Employees' perceptions about organizational innovativeness directly and positively affect perceived organizational learning in Lebanon.

3. Procedures and Methodology

3.1. Sample Selection

This study analyzes data from 284 questionnaires that were collected from a very large convenience sample of front-line managers in Lebanese SMEs, e.g. supervisors, line managers, and office managers. Male respondents (180) comprised 63.8% of the sample, and the age distribution is highly positively skewed, with an average age close to 56.9 years. The respondents' experience in their current jobs is moderately positively skewed with an average close to 9 years of experience. Their average previous experience is 12.52 years. The education variable is approximately normal, with an average of 17 years of education.

3.2. Variables and Their Measures

Based on personal experience and a review of the literature, the researchers constructed an English format questionnaire to gather demographic data as well as the respondents' views on fifteen statements. Each response uses a 5- point Likert scale: Strongly Disagree (1), Disagree (2), Undecided (3), Agree (4), and Strongly Agree (5). Factor analysis was carried out as a data reduction technique and to test the validity of the questionnaire instrument. Two statistical tests were conducted to determine the suitability of factor analysis. First, the Kaisers-Meyer-Olkin (KMO) measure of sampling adequacy generated a score of 0.867, well above the recommended level of 0.50. Second, the Bartless test of sphericity result was significant (Chi Square = 2047.633, P= 0.00), indicating that there are adequate inter-correlations between the items, allowing for the use of factor analysis. Principal axis factoring was used as an extraction method and oblique rotation was used as a rotation method. Five factors were extracted using a criterion of an Eigen value greater than 1. The five-factor solution accounted for 72.706% of the total variance, as shown in Table 1.

The first factor (Perceived Innovativeness, a=0.845) accounts for 38.821% of the total variance and is defined by four items with factor loadings greater than 0.70:
- During the last few years, my company obtained advanced machinery, equipment, and computer hardware or software
- During the last few years, my company launched procedures and technical preparations
- During the last few years, my company increased its range of goods or services
- During the last few years, my company entered new markets or increased its market share

The second factor (Perceived Creativity, a=0.797) accounts for 10.52% of the total variance and is defined by two items with factor loadings close to 0.90:
- At our firm, employees are curious about the unknown
- At our firm, employees enjoy discovering new things

The third factor (Perceived CSR, a=0.777) accounts for 8.829% of the total variance and is defined by three items with factor loadings greater than 0.80:
- Our firm has a fair pay policy
- Our firm has a clear Sabbatical Leave policy
- Our firm has a fair paid maternity leave policy

The fourth factor (Perceived Leadership, a=0.872) accounts for 7.638% of the total variance and is defined by four items with factor loadings greater than 0.80:
- At our firm, decisions are influenced by employees' input

- At our firm, management listens to employees
- At our firm, management does what it promises to do
- At our firm, management makes me feel like I work with them not for them

The fifth factor (Perceived Organizational Learning, a=0.872) accounts for 6.638% of the total variance and is defined by three items with factor loadings greater than 0.85:

- Our company learns from our customers
- Our company learns from our suppliers
- Our company learns from other business associates

Table-1. Structure Matrix

	Component				
	1	**2**	**3**	**4**	**5**
During the last few years, my company increased its range of goods or services	.880	.175	.273	.407	.392
During the last few years, my company launched procedures and technical preparations	.804	.107	.496	.360	.488
During the last few years, my company entered new markets or increased market share	.800	.105	.215	.464	.394
During the last few years, my company obtained advanced machinery, equipment and computer hardware or software	.798	.120	.400	.342	.469
At our firm, employees enjoy discovering new things	.155	.912	.124	.094	.070
At our firm, employees are curious about the unknown	.150	.905	.124	.080	.129
Our firm has a fair pay policy	.316	.041	.850	.474	.338
Our firm has a clear Sabbatical Leave policy	.276	.195	.816	.272	.229
Our firm has a fair paid maternity leave policy	.406	.065	.812	.292	.331
At our firm, management makes me feel like I work with them not for them	.443	.034	.288	.851	.376
At our firm, management listens to employees	.453	.065	.349	.823	.540
At our firm, management does what it promises to do	.451	-.019	.395	.808	.468
At our firm, decisions are influenced by employees' input	.291	.162	.304	.762	.347
Our company learns from our suppliers	.425	.057	.250	.437	.881
Our company learns from other business associates	.392	.099	.247	.383	.876
Our company learns from our customers	.473	.076	.358	.433	.859
Extraction Method: Principal Component Analysis. Rotation Method: Oblimin with Kaiser Normalization.					

3.3. Dependent Variable Regression: Perceived Organizational Learning

In regressing the dependent variable "Perceived Organizational Learning" on the other independent variables, it was found that the regression equation is highly significant (F= 15.346, p=.000) and the R^2 is 0.345. Table 2 shows that three independent variables out of four variables are significant in predicting Perceived Organizational Learning.
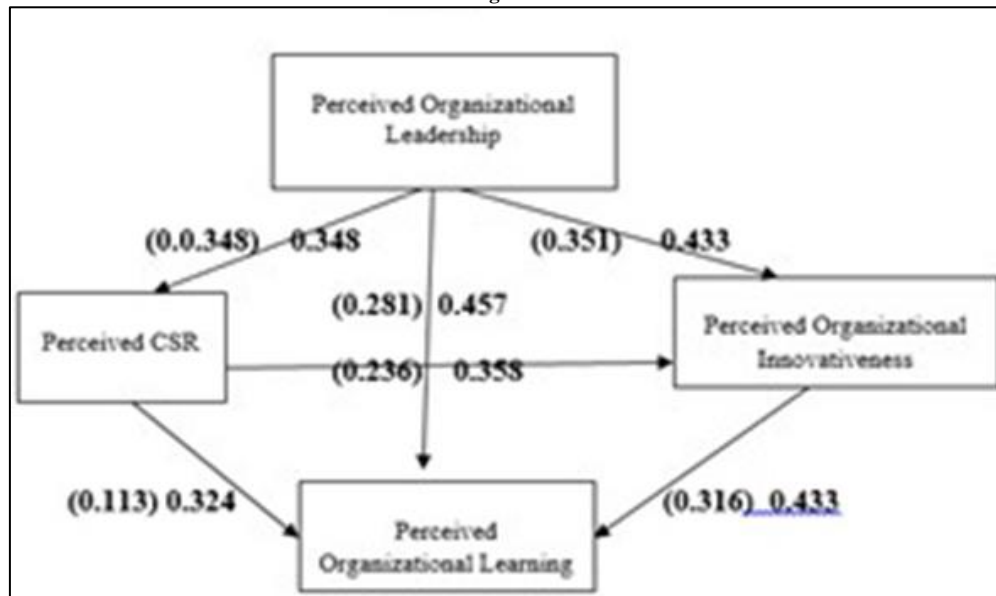
Table-2. Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	**Std. Error**	**Beta**		
1	(Constant)	1.366E-16	.050		.000	1.000
	Perceived CSR	.113	.056	.113	2.031	.043
	Perceived Organizational Leadership	.281	.058	.281	4.882	.000
	Perceived Innovativeness	.316	.058	.316	5.459	.000

a. Dependent Variable: Perceived Organizational Learning

3.4. Path Analysis

Figure 1 contains the results of a path analysis of the structural causal model that is formed for this study. The true direct effect is shown between the parentheses while the other numbers are a zero-order relation. The findings of the path analysis confirm the research hypothesis that the impact of leadership on organizational learning is strengthened via CSR and innovativeness.

Figure-1

The direct path effect is shown between parentheses. The other numbers are the total effect.

4. Conclusion

Findings of path analysis shows that the total effect between perceived leadership and perceived organizational learning is better and stronger than the direct effect. The impact of perceived leadership on organizational learning improved via CSR and innovativeness. A multiple regression analysis revealed that perceived organizational creativity is not significant, so it was not included in path analysis. This is not surprising, because it is hard in the Middle East to have variation in conceived creativity. Many people in Arab culture reject creativity in favor of innovation, believing that creativity is the sole province of God. These findings are consistent with those by Barsh and her colleagues (2008), who wrote that "Innovation is a big idea with a big potential. But it is wise to approach it in small steps, implementing just one or a few of the ideas we propose and building from there. For many companies, the initial steps on this value-creating journey are the most critical of all" (Barsh *et al.,* 2008). Our findings also support (Akbar *et al.*, 2015), that emphasize the role of transformational and transactional leadership style on employees' creativity and innovation. Thus, considering these two styles use different methods for their collection, but they affect employees' innovation and creativity. Thus, leaders of the organizations can utilize a combination of both types of styles considering different situations and conditions and they influence their employees' creativity and innovation. (pp. 3501-3502)

Finally, our findings emphasize the importance of leadership in promoting innovation via improved employee benefits (CSR) in the selected companies. Mai Ngoc Khuong and Dang Thuy Hoang argued that "To reach business success, there are several key factors such as: leadership skills, environment impacts and the most important element are human resources" (Khuong and Hoang, 2015). It is highly recommended that decision makers at the surveyed Lebanese firms make improved employee benefits a priority, because they are considered critical and highly important. What's more, leadership is the first step in achieving successful innovation and organizational learning.

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