

## **Obtaining Intangible And Tangible Benefits From Corporate Social Responsibility**

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*The relationship between corporate social responsibility (CSR) and corporate financial performance has been heavily studied in past research. However, little theory has been developed on how CSR may lead to greater corporate financial performance. In this paper, the authors attempt to fill this theoretical gap by explaining how CSR leads to the tangible benefits of attracting better employees, reduced turnover rate, greater efficiency, and reduced operating costs, via the intangible benefits of firm reputation, organizational commitment, and learning. Thereafter, managerial implications and further research opportunities are discussed.*

**Field of Research:** Corporate Social Responsibility (CSR), Intangible Benefits, Tangible Benefits

### **1. Introduction**

Much research has been done on the nature of the relationship between corporate social responsibility (CSR) and corporate financial performance (CFP) (Barnett, 2007; Brammer et al., 2005; Cardan and Darragh, 2004; Fishman et al., 2005; Orlitzky et al., 2003; Vogel, 2005) with mixed and inconclusive results (Ullmann, 1985; Vogel, 2005; Porter and Kramer, 2006). Conceptually, there can be internal and external benefits that result from CSR practices. Likewise CSR benefits can also be classified into tangible and intangible categories. Tangible benefits are those that are easily quantifiable in financial and physical terms whereas intangible benefits are harder to quantify and are non-physical in nature. External benefits that have been empirically tested include corporate reputation (Logsdon and Wood, 2002; Orlitzky et al., 2003) and reducing business risk (Orlitzky and Benjamin, 2001). Other external benefits that have been explored conceptually include boosting sales revenue (Auger et al., 2003), customer goodwill (Solomon and Hansen, 1985) and increasing rivals' costs (McWilliams et al., 2002; Heyes, 2005).

A few internal benefits have been studied empirically, like learning (Logsdon and Wood, 2002; Orlitzky et al., 2003), attracting better employees (Backhouse et al., 2002; Greening and Turban, 2000; Turban and Cable, 2003; Turban and Greening, 1996), and workplace attitude (Fulmer et al., 2003; Ballou et al., 2003). Other internal benefits include that of employee motivation (Branco and Rodrigues, 2006; Orlitzky, 2008), employee morale (Branco and Rodrigues, 2006; Maxfield, 2008); commitment (Branco and

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Rodrigues, 2006; Orlitzky, 2008; Frank, 1996), trust (Chahal and Sharma, 2006), employee loyalty/retention (Branco and Rodrigues, 2006; Srinivas, 2002), and organizational citizenship behaviors (Davis, 1973; Hodson, 2001; McGuire et al., 1988).

Branco and Rodrigues (2006) also discussed briefly how the intangible benefits of CSR result in sustained competitive advantage for firms:

*“The contribution that CSR may have to financial performance is nowadays primarily related to qualitative factors, such as employee morale or corporate reputation. It is argued that what explains the usefulness of RBP to the study of CSR and disclosure is the emphasis they place on the importance of specific intangible resources, such as reputation, culture, or employees’ knowledge, and capabilities, because they are very difficult to imitate and substitute.” (p.112)*

Little attempt has been made to integrate the various CSR – firm performance variables into an integrated theoretical framework. A comprehensive theory on how CSR leads to firm performance is lacking in the literature perhaps due to the complex relationship between CSR and firm performance relationship. This relationship is even more complex when we consider the plausible reverse causation effect between CSR and CFP (Orlitzky, 2008; Orlitzky et al., 2003). In this paper, we propose a conceptual framework on how CSR practices in firms lead to the intangible benefits of reputation, commitment and learning, which in turn, lead to the internal tangible benefits of attracting better employees, reduced turnover rate, greater efficiency, and reduced operating cost. We begin with presenting the framework and explaining each link in detail, putting forward hypotheses in the process, then discuss managerial implications and future research opportunities.

## 2. Conceptual Framework

Fig 1: Conceptual Framework of How CSR Leads to Intangible and Tangible Benefits

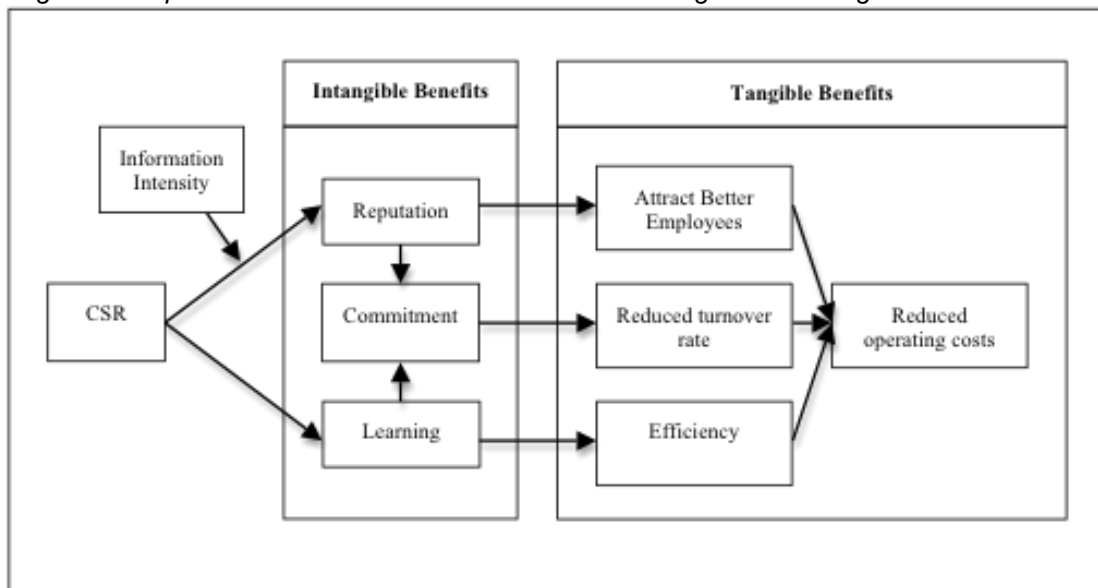


Figure 1 shows the proposed pathways through which CSR practices help to develop the intangible benefits of reputation, commitment and learning, which lead to the internal tangible benefits of reduced turnover rate, efficiency and reduced operating costs.

### 3. Literature Review and Hypotheses

#### 3.1 Reputation

##### 3.1.1 CSR to Reputation

The CSR – external reputation link is quite possibly the most established argument in the business case for CSR. Thirty years of empirical research lends strong support to reputation as a mediator of the CSR – financial performance link (Orlitzky et al., 2003). Fombrun and Shanley (1990) and Read (2004) also argued that from both theoretical and practical perspectives, organizational reputation is one of the most important CSR – CFP mediators. Firm reputation which represents an external intangible benefit is a key variable that explains how firms manage to attract better employees and thereby become more efficient and productive. It is therefore necessary to include this link in the exploration of how CSR leads to the internal tangible benefits of reduced wage cost and reduced turnover rate. We therefore hypothesize that firms with higher involvement in CSR have better reputations than firms with little or no involvement.

##### 3.1.2. Information Intensity

McWilliams and Siegel (2000) noted that the CSR – CFP relationship changed as new variables like R&D and industry advertising intensity were added. Schuler and Cording (2006) built on this and proposed the examination of the role of information intensity in the CSR to purchasing behavior link. They described it to be “a latent construct that captures the likelihood that an average consumer is aware of a firm’s good or bad social performance.” Deephouse (2003), McWilliams and Siegel (2001) and Szwajowski (2000) also supported the argument that in order for a consumer to decide to avoid or support a firm, he must have relevant information about the social performance of the firm. We hypothesize that information intensity acts as a moderator for the CSR – reputation relationship, as defined as the extent to which the public is aware of the firm’s CSR involvement.

*H1: The more firms engage in CSR, the better will their public reputations be, moderated by the level and quality of CSR information intensity to the public.*

#### 3.2 Learning

Learning can be viewed as the process of developing employees’ competencies, skills and knowledge. There is extensive literature on the CSR – organizational learning relationship. The accumulated empirical evidence to

date indicates that the CSR – CFP relationship is mediated by managerial knowledge and skills (Logsdon and Wood, 2002; Orlitzky et al., 2003; Orlitzky, 2008). The meta-analysis of prior CSR - CFP research by Orlitzky et al. (2003) showed that this internal-skills perspective is substantiated to some extent, with a mean true score correlation of 0.33.

Investments in CSR have been cited to help firms develop new capabilities, resources, and competencies which eventually show up in the firms' structure, technology, culture and human resources (Barney 1991; Russo and Fouts 1997; Wernerfelt 1984). Socially responsible organizations have also been cited to develop learning mechanisms like better scanning skills, processes, and information systems, and other internal resources which facilitate better preparedness and adaptation to changes in the environment. (Branco and Rodrigues, 2006; Russo and Fouts, 1997; Orlitzky, 2008). CSR was also identified to be a vehicle for innovation (Husted, 2005), especially if CSR was orientated toward innovation and opportunity recognition (Maxfield, 2008). In fact, innovation is "increasingly seen as a cutting edge way to frame the business case for CSR" (Maxfield, 2008).

Further, when CSR is pre-emptive (Hart, 1995) and the firm operates in a dynamic environment, CSR may help to develop employee competencies since pre-emptive efforts requires significant employee involvement, organization-wide coordination, and a forward-thinking managerial style (Shrivastava 1995). The competencies would then lead to a more efficient utilization of resources by the firm (Majumdar and Marcus, 2001; Orlitzky, 2008).

CSR can also help firms to "enhance/accelerate the learning and adaptation that are central to the strategy process" (Maxfield, 2008). This is similar to Ghemawat's (2001) concept of firms' "social competency". We therefore hypothesize that:

*H2: The more firms engage in CSR, the more they develop new or better competencies, skills and knowledge.*

### **3.3 Attracting Better Employees**

There is some empirical support that socially responsible firms attract better employees (Backhause et al., 2002; Greening and Turban, 2000; Turban and Cable, 2003; Turban and Greening, 1996). It was explained that this happens because CSR serves as a signal to potential job applicants that the socially responsible organization upholds ethical values and is likely to be a responsible employer too. Grahame (2004) captured this idea by stating that a good corporate reputation results in trust in the company. Also as a result of these signals, applicants may experience positive affects, such as an enhanced self-concept (Greening and Turban, 2000). Experience tells us that people with high self-concept are more likely to perform better in work and be more successful in life.

Frank (1996) introduced four separate studies that showed that employees were willing to receive lower compensation in order to work for an employer which was commonly perceived to uphold higher moral values. Existing research suggests that there is a positive correlation between social performance and the ability of the firm to attract employees. With access to a larger pool of job applicants, socially responsible firms will be more likely to attract higher quality job applicants. This leads us to hypothesize that:

*H3: Firms with better reputations attract higher quality job applicants.*

### 3.4 Efficiency

In the field of economics, efficiency is defined as the ratio of outputs to inputs. However in this paper, we refer to “efficiency” as the extent to which a firm utilizes its resources productively and its processes are efficient.

#### 3.4.1 Learning to Efficiency

The competencies which are acquired internally through the CSR process have been argued to lead to a more efficient utilization of resources (Majumdar and Marcus, 2001; Branco and Rodrigues, 2006; Orlitzky, 2008), which is consistent with the resource-based view of the firm (Wernerfelt, 1984). The competencies have also been argued to lead to more efficient processes and improvements in productivity (Branco and Rodrigues, 2006; Maxfield, 2008) and the development of new resources, which in turn also lead to a more efficient use of resources (Branco and Rodrigues, 2006). It is also easy to see how a firm’s efficient utilization of resources is dependent on the skills and abilities of the employees of the firm. We therefore hypothesize that organizational learning leads to firm efficiency, as defined above.

*H4: Firms with higher levels of organizational learning exhibit more efficient utilization of resources and more efficient work processes.*

### 3.5 Commitment

Organizational Commitment (OC) is a well-researched construct in the field of organizational behavior. The most commonly studied type of OC is attitudinal OC, which was defined by Mowday et al. (1982, p. 27) to be:

*“The relative strength of an individual's identification with and involvement in a particular organization. Conceptually, it can be characterized by at least three factors: a) a strong belief in and acceptance of the organization's goals and values; b) a willingness to exert considerable effort on behalf of the organization; and c) a strong desire to maintain membership in the organization.”*

Grahame (2004) also articulated that a good corporate reputation results in the employees trusting the corporation more, fostering “an emotional and

intellectual bond with employees”, which is in line with Mowday’s definition of OC.

There is some empirical support that CSR practices in firms will lead to higher organizational commitment in employees (Backhouse et al., 2002; Greening and Turban, 2000; Turban and Cable, 2003; Turban and Greening, 1996). Empirical research also suggests that firm CSR matters to its employees (Albinger and Freeman, 2000; Backhouse et al., 2002; Greening and Turban, 2000; Peterson, 2004; Turban and Greening, 1997). In line with this, Davis (1973), Hodson (2001) and McGuire et al. (1988) also argued that employees would display more “goodwill” toward an employer with greater CSR and, because of increased task motivation and organizational commitment, demonstrate greater organizational citizenship behaviors and produce better results.

### *3.5.1 Learning to Organizational Commitment*

We allude to research on job complexity to discuss the learning – organizational commitment link. In the meta-analysis by Mathieu and Zajac (1990), various antecedents to OC were explored, and all the job characteristics (skill variety, autonomy, job challenge, job scope) variables explored reported significant correlations with OC – job scope (0.503), job challenge (0.349), skill variety (0.207), and autonomy (.0083).

Complex and challenging jobs offer many learning opportunities for employees. Therefore, job complexity affects OC because it offers greater variety of unfamiliar tasks and thus learning opportunities, and also reduces the level of specialization and thus keeps jobs interesting for employees. CSR initiatives such as employee volunteering and corporate philanthropy, offer employees the chance to work on something foreign to their normal job scopes, and thereby offer a chance for greater job challenge and an opportunity to use and develop competencies that they would not otherwise. We therefore hypothesize that learning leads to greater OC.

*H5a: The higher the level of learning by employees as a result of CSR, the greater their organizational commitment.*

### *3.5.2 Reputation to Organizational Commitment*

Nothing similar to reputation as an antecedent to OC was explored in the meta-analysis by Mathieu and Zajac (1990). A search of the existent literature between organizational reputation and OC results in no direct hits. However, in an empirical study of the relationship between a supplier’s corporate reputation, trust in the supplier, buyer commitment, and willingness to undertake relationship-specific investments (Bennett and Gabriel, 2001), supplier’s corporate reputation was found to be a significant determinant of trust in supplier, which in turn was a significant determinant of buyer commitment. We believe that this result is applicable to the relationship between employer reputation and employee commitment because the employee-employer relationship can be viewed as somewhat similar to that of

## Nurn & Tan

supplier-buyer relationship. Employers supply labor opportunities, and salaries to their employees, whilst employees purchase the labor opportunities with resources such as their time, talent and effort.

Further, committed employees have “a strong belief in and acceptance of the organization’s goals and values” (Mowday et al., 1982). Social identity theory suggests that a person’s self-concept is influenced by his/her membership with an organization (Dutton, Dukerich and Harquail, 1994). Firms that are reputed to be socially responsible are more likely to have their employees perceive their firms to have values that are more congruent with their society’s values. Since employees’ values are shaped by their society, and therefore their values represent a subset of their society’s values, employees are more likely to accept and believe in the values firms which practice CSR as they will be viewed as being congruent with society’s values. Consequently, this greater employee acceptance and belief result in greater organizational commitment.

Also, employees by working for firms with good social reputations have their esteem needs (Maslow, 1970) met, which should result in increased amount of the first factor of OC as quoted at the start of this OC section: “belief in and acceptance of the organization’s goals and values” (Mowday et al., 1982, p. 27). We therefore hypothesize that an organization’s public reputation predicts organizational commitment.

*H5b: The better a firm’s reputation, the higher the level of organizational commitment.*

### 3.5.3 Organizational Commitment to Efficiency

Empirically, there is no clear support for the OC – efficiency relationship. The meta-analysis by Mathieu and Zajac (1990) studied whether OC predicted employee performance, and found the relationship to be weak. Two different ratings of employee performance were studied – 1) others’ ratings of performance (corrected correlation of 0.135) and 2) output measures as performance criteria (0.054). This result supported Mowday et al.’s (1982) conclusion that the OC – job performance relationship was weak, that OC has little direct influence on performance in most instances (Mathieu and Zajac, 1990). An employee’s actual job performance, and consequently his job performance rating, are both largely contingent upon the how the employee efficiently uses the firm’s resources he has control over, as well as how the employee designs, communicates and executes efficient work processes. We therefore conclude that employees’ job performance is highly synonymous with the level of efficiency of a firm, and hypothesize that OC does not predict firm efficiency.

*H5c: A firm’s level of organizational commitment does not affect its efficiency.*

### 3.6 Reduced Turnover Rate

#### 3.6.1 Organizational Commitment to Reduced Turnover Rate

We can easily explain how OC leads to a reduced turnover rate since employees who are committed to their organization will have “a strong desire to maintain membership in the organization” (Mowday et al., 1982). In fact, OC by definition has most often been used to predict withdrawal behaviors by researchers. In Mathieu and Zajac (1990), OC is found to correlate significantly with turnover (-0.277), intention to search for job alternatives (-0.599) and intention to leave one’s job (0.464). We therefore hypothesize that:

*H6: Organizational commitment is negatively correlated with turnover rate.*

### 3.7 Reduced Operating Cost

The increase in internal efficiencies arising from higher CSR was hypothesized to eventually translate into cost savings by Holliday et al. (2002: 83-102). The increased efficient use of resources, and more efficient processes should help companies reduce its operating cost in the long run, given that the amount of work needed to be done remains constant, as fewer employees would then be needed to complete the same amount of work. Also, the increased firm efficiency arising from greater learning and higher-quality employees should lead to greater output and thus greater revenue and/or reduced costs. Likewise, reduced turnover rate will also result in cost savings for the organizations. Therefore, we hypothesize that as a firm’s level of efficiency increases, quality of employees gets better, and turnover rates decrease, its operating cost should decrease.

*H7: As firms become more efficient in their processes and the utilization of their resources, attract better employees, and reduce their turnover rates, their operating costs will decrease.*

## 4.0 Implications

Managers who wish to jump on the CSR bandwagon, or are already engaging in CSR without fully reaping its benefits now have a clearer picture of how the internal intangible benefits (e.g. organizational learning, organizational commitment) can lead to the internal tangible benefits of reduced turnover rate and reduced operating cost. As such, they are now better able to select and structure their CSR initiatives to maximize the impact on reputation and learning.

Of special mention is that Human Resources managers now better understand the process by which CSR helps firms attract better employees and reduce turnover rates, and thus be better able to manage the process. For example, the need to manage the information intensity to the public about a firm’s CSR initiatives is extremely important as the information intensity could result in a negative public social reputation for the firm. An overkill of



CSR publicity could render the public skeptical of the firm's CSR intentions, whilst wise choices like creating tie-ups with universities to produce CSR case studies for use in teaching could create subtle but high-impact effects, like that of successful campus recruitment.

Also, an understanding of how learning and reputation help reduce turnover rate may go a long way to solving the modern Human Resource managers' major headache of employee job-hopping, and how CSR can be one of their interventions to aid in their efforts to stem the outflow of labor, knowledge and skills.

### 5.0 Further Research Opportunities

#### 5.1 Trust

One possible extension of the model is to include the construct "trust" between reputation and organizational commitment. Grahame (2004) argued that a good corporate reputation always signifies trust in the company. Also, as mentioned earlier, the empirical study of the relationship between a supplier's corporate reputation, trust in the supplier, buyer commitment found trust to be a mediator in the reputation-commitment link (Bennett and Gabriel, 2001). It would be interesting to investigate if this supplier-buyer model is applicable to the employee-employer relationship.

#### 5.2 CSR and Motivation

Future improvements of this conceptual framework may also explore how employee motivation may be included in this framework. As mentioned earlier, Davis (1973), Hodson (2001 and McGuire et al. (1988) argued that employees would display more "goodwill" toward an employer with greater CSR because of increased task motivation and organizational commitment. However, we did not include employee motivation in our framework. Branco and Rodrigues (2006) also cited motivation and commitment as benefits arising from high-CSR firms – "firms with good social responsibility reputation may also attract better employees or increase current employees' motivation, morale, commitment and loyalty to the firm", without explaining their relationship. In reality, "commitment researchers seldom address the motivation processes through which commitment affects behavior, and motivation researchers have not recognized important distinctions in the forms, foci, and bases of commitment" (Meyer et al., 2004).

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