# WHITEPAPER

# Corporate Social Responsibility and Employee Engagement: Making the Connection

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## INTRODUCTION

This whitepaper explores the connection between corporate social responsibility (CSR) and employee engagement. Key findings from research and surveys that support a business case for organizations to consider implementing a CSR program are presented.

Any effective strategy to attract and retain employees must be based on an understanding of engagement. The paper therefore examines the meaning of employee engagement and its correlation to attraction and retention. The business case for employee engagement is then presented, highlighting the importance of employee engagement, its impact on business outcomes and the costs associated with a disengaged workforce.

The concept of CSR is introduced to give a reader a brief background into this broad topic. The connection between CSR and employee engagement is then presented. Evidence from surveys, management consulting, journalistic and corporate sources show that CSR is an emerging and increasingly important driver of employee engagement. The academic literature consistently identified an attitudinal as well as a performance dimension to CSR's influence on employee attraction, retention and engagement.

The evidence presented in the discussion supports a business case for organizations considering implementing a CSR program. The white paper concludes by providing some preliminary direction for CSR program implementation.

Corporate social responsibility (CSR) and employee engagement are two of the most discussed issues in the business world today.

The debate over the business case for CSR is ongoing but there is no debating the pressure that companies are facing from a range of stakeholders to operate in a more socially and environmentally responsible manner. Meanwhile, research is being conducted that focuses on developing a better understanding of how engaged employees impact work and business outcomes, including productivity and profitability. But what is the connection between these two very important aspects of doing business in the 21st century? This White Paper examines the connection between a company's CSR practices and its ability to attract, retain and engage employees, and, ultimately, to influence work and business outcomes.

## KEY FINDINGS

Recent research studies of the engagement levels of employees show low levels of engagement. For example, an Aon Consulting survey indicates that less than one-third of employees are engaged, and that two of five employees would not recommend their employer as a place to work. (1) In addition, a 2005 Conference Board survey of employees found that two–thirds of workers do not identify with or feel motivated to drive their employer's business goals, 40% feel disconnected from their employers and another 25% are just "showing up to collect a paycheque." (2)

Studies show that CSR is an emerging and increasingly important driver of employee engagement. The two most important sources for this evidence are surveys and academic studies.

### Survey findings

• 44% of young professionals said they would discount an employer with a bad reputation and nearly half said corporate social responsibility policies should be compulsory. (3)

• 80% of respondents would prefer working for a company that has a good reputation for environmental responsibility. Interestingly, respondents were more concerned about working for an environmentally responsible company than purchasing from one. (4)

• Working for an organization whose employees positively view corporate responsibility efforts has a significant, favourable impact on how they rate their pride in the organization, their overall satisfaction, their willingness to recommend it as a place to work and their intention to stay. (5)

• When employees view their organization's commitment to socially responsible behaviour more favourably, they also tend to have more positive attitudes in other areas that correlate with better performance, such as customer service and leadership from management. (5)

• Seven out of 10 employees in organizations that are viewed by employees as socially responsible rated senior management as having high integrity compared with just one in five employees who were negative about their employer's CSR record.(6)

• CSR is the third most important driver of employee engagement overall, and an organization's reputation for social responsibility is an important driver for both engagement and retention. (7)

• A company's reputation as a good employer ranks sixth as an attraction driver. Accordingly, "organizations with a reputation for CSR can take advantage of their status and strengthen their appeal as an attractive employer by making their commitment part of their value proposition for potential candidates." (7)

• Over time, Americans have become more likely to consider a company's reputation when making purchase, employment and investment decisions. (8)

### Academic findings

• In summary, the academic literature is consistent with the conclusions reached from the survey data. The literature consistently identified an attitudinal as well as a performance dimension to CSR's influence on employee attraction, retention and engagement.

• CSR perceptions shape employees' subsequent attitudes and behaviours towards their firms. (9)

• Job applicant and employee perceptions of a firm's CSR affects how attractive these individuals perceive the firm to be, and employee satisfaction with CSR leads to enhanced job satisfaction, organizational commitment and organizational citizenship. (10)

• CSR practices are linked to enhanced job performance, reduced costs due to increased employee retention and improved productivity.

# EMPLOYEE ENGAGEMENT

## Employee Attraction, Retention and Engagement

Employers want employees who will do their best work to help the company achieve its objectives. Employees want good jobs that are challenging and meaningful. A term that is increasingly used to describe this win-win situation is an engaged workforce. In this section, we will discuss the meaning of employee engagement, examine how it is measured and why it is so important, and present an overview of the current state of employee engagement.

While this section focuses on employee engagement, it should be noted that much of the analysis, either explicitly or implicitly, is also applicable to attraction and retention of employees. There is a clear correlation between attraction, retention and engagement, and any effective strategy to attract and retain employees must be based on an understanding of engagement. (11)

## Defining Employee Engagement

While there is no single, agreed-upon definition of employee engagement, there is agreement that engagement entails more than just motivation or performance. Common themes found in most definitions include a commitment to and belief in the organization and its values and a willingness and ability to contribute 'discretionary effort' to help the organization succeed. Many definitions also emphasize an emotional connection to the organization, a passion for work and feelings of hope about the future within the organization. Engaged employees also derive satisfaction from the success of the organization.

For example, a recent article in the Harvard Business Review asserted that employees are motivated by jobs that challenge them and enable them to grow and learn, and that they are demoralized by jobs that are monotonous or provide little opportunity for growth and learning. (12) In 1990, William Kahn of the Boston University School of Management defined the concept of work engagement as *"the harnessing of organizational members' selves to their work roles."* (13)

Professor Riccardo Peccei has developed an engagement matrix, which includes two core elements of employee engagement: work engagement and organizational engagement. According to Professor Peccei, in the absence of either of these elements an employee cannot be fully engaged. (14)

## Measuring Employee Engagement

The most common method of measuring engagement is through surveys and questionnaires, which presents a potential problem. Research shows that surveys and questionnaires are better at measuring attitudes and intentions than they are at predicting behaviour. Accordingly, it can be difficult to determine whether survey results are measuring engagement or the drivers or antecedents of engagement. Therefore, survey data should be treated with a degree of caution.

Most efforts to measure work engagement have been through self-report surveys of individual workers. The resulting scores are then aggregated to measure engagement at the organizational level. Many companies now conduct employee opinion surveys to measure engagement.

Many consulting and polling companies have developed proprietary survey tools and processes for measuring work engagement. For example, the Gallup Organization has developed a twelve-item Worker Engagement Index, which is designed to identify strong feelings of employee engagement and classifies employees as engaged, not engaged or actively disengaged. (17)

A group of academic researchers developed the Utrecht Work Engagement Scale (UWES), a nine-item measurement tool that is based on more than two-dozen studies with data from over 14,000 employees in 10 different countries. The UWES is in the public domain and can be used without charge, provided that organizations using the tool agree not to charge a fee for its use and to share the raw data collected with the researchers. (18)

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*Research conducted to create measurement tools for engagement has developed a three dimensional concept of engagement, including the following aspects:*

**physical engagement**
or vigour
*"At my work, I am bursting with energy"*

**emotional engagement**
or dedication
*"I am enthusiastic about my job"*

**cognitive engagement**
or absorption
*"I am immersed in my work"*

(15) (16)

## The Business Case for Employee Engagement

### Gallup

The Gallup Organization conducted a meta-analysis of dozens of different Gallup studies comparing results from business units within large companies and also comparing companies with other companies. The analysis showed that having a work environment that promoted positive employee engagement was consistently associated with positive business outcomes, including reduced employee turnover and greater customer satisfaction, employee productivity and company profitability.

The research revealed a link between teams in the top quartile of engagement scores and better employee performance, which in turn resulted in significantly better business outcomes than for teams in the lowest quartile, showing that teams within a business unit with a high level of engagement performed better than those with a low level of engagement: 12% more for customer satisfaction, 62% more for safety and 12% more for profitability. The study also examined labour turnover (distinguishing between companies in industries with typically higher turnover or lower turnover) and found that companies with high employee engagement experienced 51% less turnover in low turnover industries and 31% less turnover in high turnover industries. (19)

### Towers Perrin

Towers Perrin (now known as Towers Watson) has also evaluated the potential for an engaged workforce to drive positive business outcomes. In a 2008 study of 50 mid- to large-size companies, Towers Perrin reported that high engagement companies (those with the highest average employee engagement scores) had higher 12-month change in net income (14% vs. -4%) and higher 12-month growth in earnings per share of company stock (28% vs. -11%) than low-engagement companies (those with the lowest average employee engagement scores). (20)

### International Survey Research (ISR)

In a recent employee engagement study, ISR gathered surveys of over 664,000 employees from around the world and analyzed three traditional financial performance measures over a 12-month period.

ISR found that companies with high employee engagement levels improved their operating income by 19.2 % over a 12-month period, while operating income for companies with low employee engagement levels declined by 32.7% - a gap of almost 52%. The study also found a 13.2 per cent growth in net income over a one-year period for companies with high employee engagement and a 3.8 per cent decline in net income over the same period for companies with low employee engagement. Companies with high employee engagement also demonstrated a 27.8 per cent growth in earnings per share (EPS), while companies with low employee engagement reported an 11.2 per cent decline in EPS over the same period. (21)

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*A number of studies have set out to measure employee engagement at the organizational level and connect it to business outcomes. In summary, these studies have shown that employee engagement may lead to:*

**DECREASED**
- absenteeism and turnover
- counterproductive behaviour (e.g. theft and misconduct)
- production costs

**INCREASED**
- customer satisfaction and loyalty
- revenue growth
- ability to adapt to change
- productivity

## The State of Employee Engagement

An Aon Consulting survey indicates that less than one-third of employees are engaged and that two of five employees would not recommend their employer as a place to work. (1)

A 2005 Conference Board survey of employees found that two–thirds of workers do not identify with or feel motivated to drive their employer's business goals, 40% feel disconnected from their employers and another 25% are just "showing up to collect a paycheque." These were the lowest levels of engagement ever recorded by the Conference Board in more than 22 years of studying the issue. (2) (22)

In 2008, Blessing White reported that although North America has one of the highest proportions of engaged employees worldwide, only 29% are fully engaged and 19% are actually disengaged. (11)

Towers Perrin's 2007-2008 Global Workforce Study found that disengagement encompassed over 70% of the workforce and over 50% of management. (7)

## The Cost of Disengagement

According to Towers Perrin, disengagement may manifest itself in a number of ways, including a lack of commitment to an organization's goals, absenteeism, low performance, cynicism, low trust and chronic complaints of being overstressed. (7) The engagement crisis also has significant financial implications.  The estimated cost of replacing an employee ranges from one to three times his or her annual salary and the average company loses about $1 million with every 10 professional employees who leave. (23) The Gallup organization estimates that disengaged employees cost U.S. employers between $250 and $350 billion a year. (11)

The implications of these human capital management problems are not lost on corporate leadership. According to a survey of over 600 CEOs conducted more than a decade ago, engaging employees was identified as one of the five most important challenges facing management. (24)

The ongoing economic uncertainty and the changing environment within which companies and their employees operate also have significant implications for employee engagement. Consultant Judith Bardwick introduced the term "psychological recession" to explain how these experiences shape worker attitudes. She suggests that the pessimistic view some workers have is a result of their having experienced or witnessed many years of eroding corporate loyalties, company downsizing, job losses due to globalization and fears of job instability. (25)

In addition, when employees are concerned about the possibility of being laid off there may be an initial tendency to work harder and longer to show value to their employer, but if this kind of extraordinary work effort continues for too long it can result in unintended negative consequences, including work performance quality deficits, job burnout and a range of health problems. (26)

## MAKING THE CONNECTION TO CORPORATE SOCIAL RESPONSIBILITY

Companies are facing unprecedented pressure from a number of quarters – communities, regulators, non-governmental organizations, activists and socially responsible investors, among others – to behave as responsible corporate citizens. Forward-thinking companies are increasingly coming to terms with the fact that ignoring this pressure represents a significant risk while responding proactively presents an emerging opportunity.

Studies have shown that employee engagement may lead to a number of positive business outcomes, including, among others, decreased absenteeism and turnover, increased customer satisfaction and loyalty, increased productivity and increased revenue growth. Furthermore, recent efforts to measure employee engagement have found consistently low levels of overall engagement. Finally, survey data and academic studies have also shown that CSR is an emerging and increasingly important driver of employee engagement. Accordingly, this report presents compelling evidence that an important opportunity rests with CSR's potential to influence employee engagement and, consequently, the positive business outcomes that go along with an engaged workforce.

Somewhat in contradiction to this evidence, other than a small number of high-profile companies, organizations have generally failed to embrace the idea that CSR can be an important driver of employee engagement and not many companies are using this potentially powerful tool to attract, engage and retain employees. This represents an opportunity for forward-looking companies to get in front of this emerging issue instead of playing catch up after more and more companies grasp and exploit this opportunity.  Based on the results of its Global Workforce Study, Towers Perrin stated a strong belief in the need for companies to embrace CSR: "… one thing is increasingly clear. It's not a choice any longer. Your employees expect it, and your company needs it …  it is in fact linked to how well your employees perform. In other words, CSR extends to the bottom line." (29)

### CSR's Influence on Employee Engagement

The proposition that an engaged workforce leads to a number of positive business outcomes has been well established. There is also a well-established list of some of the key drivers behind an engaged workforce.

This section of the report examines a cross section of surveys, academic studies and other commentary that endeavours to analyze and assess the importance of CSR as an emerging driver of employee engagement.

### Survey Results

#### IBM Institute for Business Value

*Attaining Sustainable Growth through Corporate Social Responsibility* [2008]

IBM Global Business Services, through the IBM Institute for Business Value, conducted a survey of 250 business leaders worldwide in 2008. The report's authors found that when companies talk about CSR they tend to describe it in terms of philanthropy. The survey also found, however, that businesses have assimilated a much more strategic view, and that 68% reported utilizing CSR as an opportunity and part of a sustainable growth strategy.

The authors noted that while developing and implementing a CSR strategy represents a unique opportunity to rally the company, only 31% of businesses surveyed engaged their employees on the company's CSR objectives and initiatives. The survey's authors also stated that employee engagement on CSR initiatives can be a powerful recruitment and retention tool, citing a 2007 study by BT in the U.K., which found that 44% of young professionals said they would discount an employer with a bad reputation and nearly half said corporate social responsibility policies should be compulsory. (3)

*CSR is a concept that has been around for some time, and its importance is rapidly growing in organizations around the world. The term is often used interchangeably with related concepts:*

- corporate responsibility
- corporate citizenship
- corporate sustainability
- corporate sustainable
  development

### Insync Surveys

*How green are we anyway? [2008]*

In a survey focusing on environmental performance, Insync Surveys selected a representative group of over 14,000 staff from all types of organizations; large and small, government, not-for-profit and corporate. Insync asked participants to respond on a one to seven scale to the statement: "Our organization is committed to the environment."

The survey's authors reported three key findings:

• A strong positive correlation was observed between employees who thought their employer was environmentally responsible and employees who were committed and satisfied with their jobs.

• When environmental credentials of applicants were analyzed, their increased likelihood of applying for a job was not solely related to the environmental ethics of the applicant. This means that being an environmentally responsible company will not stack a candidate pool with 'environmentalists,' but will serve to attract all types of people.

• Promoting environmental efforts will become increasingly important to attract and retain employees and customers. The imminent retirement of the Baby Boomers, the group with the lowest expectations of their employer with regard to the environment, will result in a need to develop strategies to attract and retain groups with a higher tendency to change jobs and hold employers to high standards in terms of development opportunities and their relationship with society. (27)

### Kenexa Research Institute

*Corporate Social Responsibility Efforts Are Recognised By Employees* [2007]

This 2007 study evaluated 1,000 U.K. workers' perceptions of their organizations' corporate social responsibility practices. The study followed up on earlier research by Kenexa that showed that actively participating in CSR efforts is related to higher employee engagement levels and more favourable views of senior management.

The survey showed that working for an organization whose employees positively view corporate responsibility efforts has a significant, favourable impact on how they rate their pride in the organization, their overall satisfaction, their willingness to recommend it as a place to work and their intention to stay. (5) Sirota Survey Intelligence [2007] This global survey of 1.6 million employees found that employees who have a favourable view of their organization's CSR commitment are also positive about other factors important to its success, including:

• senior management's integrity,
• senior management's sense of direction,
• the company's competitiveness in the marketplace,
• the company's interest in employees' well-being, and
• their engagement or pride in their organization.

  Of those who are satisfied with their employer's CSR commitment:

• 86% have high levels of engagement,
• 82% feel their organization is highly competitive in the marketplace,
• 75% feel their employer is interested in their well-being,
• 71% rate senior management as having high integrity, and
• 67% feel that senior management has a strong sense of direction.

As noted above, one of the most compelling statistics to emerge from the survey is the difference in attitude towards senior management in organizations that are seen as having a strong CSR commitment. Seven out of 10 employees in these

organizations rated senior management as having high integrity compared with just one in five employees who were negative about their employer's CSR record.

Similarly, two-thirds of employees who are satisfied with their employer's CSR commitment feel that senior management has a strong sense of direction compared to just 18% in less favourably viewed organizations.  (6) (28)

### *Towers Perrin*

*Global Workforce Study* [2007-2008]

Towers Perrin's (now known as Towers Watson) Global Workforce Study is the largest polling study on the views of the global workforce. It includes 88,600 individual responses, including 5,000 from Canada. The survey covers a range of workplace practices, but focuses particularly on the drivers of attraction, retention and engagement at mid- to large-sized companies.

The survey found that CSR is the third most important driver of employee engagement overall, and that an organization's reputation for social responsibility was an important driver for both engagement and retention among all age groups except 18-24 years of age.

It also found that a company's reputation as a good employer ranks sixth as an attraction driver. Accordingly, the report's authors noted "organizations with a reputation for CSR can take advantage of their status and strengthen their appeal as an attractive employer by making their commitment part of their value proposition for potential candidates."

The study also found that when employees view their organization's commitment to socially responsible behavior more favorably, they also tend to have more positive attitudes in other areas that correlate with better performance, such as customer service and leadership from management. For example, 82% of these employees say their organization's senior management supports new ideas and new ways of doing things. (7)

In a companion piece to the study, Towers Perrin stated a strong belief in the need for companies to embrace CSR: "… one thing is increasingly clear. It's not a choice any longer. Your employees expect it, and your company needs it …  it is in fact linked to how well your employees perform. In other words, CSR extends to the bottom line." (29)

### *Hewitt Associates / Canadian Business for Social Responsibility (CBSR)*

*CSR as a driver of employee engagement* [2009]

As part of its annual Best Employers in Canada survey, Hewitt Associates teamed up with CBSR, gathering opinions from over 100,000 employees and 2,000 leaders at more than 230 Canadian workplaces.

The survey found "a strong correlation between employee engagement and employee views of their employers' record on corporate social responsibility. "Eighty six per cent of employees at organizations with high engagement agreed or strongly agreed with the statement that they worked for an employer that was socially and environmentally responsible, compared to 71% at employers with moderate engagement and only 60% at those with low engagement."  When executives were asked what they viewed as the potential benefits of investing in or pursuing socially and environmentally responsible practices, their top three responses were a positive organizational reputation, higher or sustained employee engagement and eliminating waste/reducing their impact on the environment. (30) (31) (32)

*Organizations are more than ever required to make critical business decisions that contribute to a better world. CSR requires active involvement on the part of the organization to create and implement solutions to environmental and social challenges in response to stakeholder demands and expectations.*

## Other surveys and their key findings

### Tandberg / Ipsos MORI

• A 2007 survey of 16,823 people in 15 countries.

• Focused on environmental responsibility. Concluded that "green may be a powerful recruitment and retention tool." According to the survey, 80% of respondents would prefer working for a company that "has a good reputation for environmental responsibility."

• The survey found that more respondents were more concerned about working for an environmentally responsible company than purchasing from one. (Only slightly more than half of the consumers interviewed said they would prefer to purchase from a company with a good environmental reputation.) There was also relatively little difference in preference based on age. The youngest workers (24 years or younger) had the lowest preference for working for an environmentally responsible company, which is somewhat surprising as this cohort (often referred to as the Millennial Generation) is often characterized as being environmentally and socially conscious. (4)

### Right Management

• A 2009 study of engagement involving nearly 30,000 employees in 15 countries.

• Survey results suggest that an organization's culture plays a special role in driving engagement.

• Among the survey's more than 90 statements, the one that showed the highest correlation with engagement was, "I am committed to my organization's core values." By comparison, "There is sufficient incentive to perform well at my organization" ranked only 19th. (33)

### Cone

• A 2007 report on a longitudinal study of American consumers, employees and investors.

• Over time Americans have become more likely to consider a company's reputation when making purchase, employment and investment decisions.

• Compared to 2004 results, a greater number of American consumers, employees and investors now expect companies to have responsible practices in place.

• Just as Americans will reward companies that are good corporate citizens, they will also punish those they deem irresponsible. This statement applies to decisions relating to purchases, investments and employment. With respect to employment:

• 77% of respondents would refuse to work at a company, and

• 66% would be less loyal to their jobs. (8)

### Hudson

• A 2007 survey of 2,000 workers.

• Findings contradicted those of other surveys reported here.

• Seven out of 10 workers don't consider a prospective employer's CSR programs to be important when it comes to deciding whether or not to work for them.

• Just 7% claimed they have ever rejected an offer based on the lack of a company's CSR program.

• Nevertheless, almost half (46%) still believe it is important for organizations to have such initiatives in place. (34)

## Academic Studies

A small but growing body of academic research is developing on the issue of employee engagement generally and, more specifically, on its connection to CSR. This section presents an overview of and some key findings from that research, while Appendix 1 provides more detail on five of the most prominent studies, all of which were published within the last six years.

In summary, the academic literature is consistent with the conclusions reached from the survey data presented above. The literature consistently identified an attitudinal as well as a performance dimension to CSR's influence on employee attraction, retention and engagement.

For example, one study found that CSR perceptions shape the employees' subsequent attitudes and behaviours towards their firm. Another noted that job applicant and employee perceptions of a firm's CSR affects how attractive these individuals perceive the firm to be, and that employee satisfaction with CSR leads to enhanced job satisfaction, organizational commitment and organizational citizenship.

With respect to performance, the literature linked CSR practices with enhanced job performance, reduced costs due to increased employee retention and improved productivity.

### University of Illinois at Champaign-Urbana

*Putting the S Back In Corporate Social Responsibility: A Multi-Level Theory of Social Change in Organizations* [2004]

This study set out to understand why business organizations are increasingly engaging in CSR initiatives and thereby exhibiting the potential to exert positive social change.

The study's authors asserted that employees are among the multiple actors that push organizations to act in a socially responsible manner, and that all actors and interest groups have three main motives for pressuring firms to engage in CSR:

- instrumental (self-interest driven),

- relational (concerned with relationships among group members), and

- moral (concerned with ethical standards and moral principles).

The study concluded that employees' perceptions of the firm's CSR are a particular aspect of their more general justice perceptions and that these CSR perceptions shape the employees' subsequent attitudes and behaviours towards their firms. In other words, employees' CSR perceptions matter because they predict outcomes such as performance, turnover and well being.

The study further concluded that employees who perceive their firm to be socially responsible would be more committed to the firm and outperform (both in terms of their work and CSR activities) those employees who perceive the firm as irresponsible. This, in turn, should pressure organizations to increase CSR activity in order to recruit and retain a top quality workforce. In addition, firm performance is likely to improve because employees see a socially responsible organization as a fair organization and reciprocate this fairness through dedication, loyalty and increased productivity. (9)

### Cranfield University

*Corporate Social Responsibility Programmes and their Impact on Business Decision Making* [2005]

An empirical study of CSR programs across a number of multinational companies to explore why CSR seems to have a low impact on business decision-making.

The study found that, despite this low impact on company decision-making, CSR is linked to employee engagement, through reduced costs due to increased employee retention as well as improved reputation in the eyes of employees. In addition, the study's authors reported that CSR programs impact:

• the drivers of employee engagement (e.g. employee behaviour and motivation),

• stakeholder attitudes and behaviours (e.g. potential employees), and

• business outcomes (e.g. employee productivity and retention). (35)

**University of Illinois at Champaign-Urbana**

*Employee reactions to corporate social responsibility: an organizational justice framework* [2006]

A second study at the University of Illinois at Champaign-Urbana, this one published in 2006 in the Journal of Organizational Behaviour, sought to bridge the macro concept of CSR with micro research in organizational justice. The authors presented a theoretical model whereby employees' perceptions of CSR impact their subsequent emotions, attitudes and behaviours.

The authors asserted that individual employees, as members of the organization, are concerned about, contribute to and react to an organization's evolving social consciousness. In addition, employees make distinct judgments about their organization's CSR efforts, and acts of social responsibility or irresponsibility on the part of the organization can trickle down to affect employees' subsequent attitudes and behaviours.

According to the authors, CSR research has shown that job applicant and employee perceptions of a firm's CSR affects how attractive these individuals perceive the firm to be. In addition, research on third-party justice reactions (which is essentially what CSR perceptions are, except focused on the external environment) finds both anger and revenge as consequences of injustice. Finally, meta-analytic evidence clearly shows positive outcomes resulting from perceptions of justice, including enhanced job satisfaction, organizational commitment, organizational citizenship and job performance. (10)

***Boston University's School of Management and Baruch College, City University of New York***

*Corporate Social Responsibility as an Internal Marketing Strategy* [2007]

This study cited mounting evidence that a company's CSR activities are a legitimate, compelling and increasingly important way to attract and retain good employees, asserted that CSR can serve as an effective component of internal marketing programs by fulfilling employee needs and drawing them to identify strongly with the company. The study's authors stated that practitioners and theorists are "increasingly turning to internal marketing as the rubric under which CSR can be used to acquire and retain employees."

The study also identified four issues that limit the ability of CSR to serve as an effective internal marketing lever and recommend that managers take the following steps in order to maximize their return on investment in CSR initiatives in the employee domain:

• Increase employee proximity to CSR.

• Use a contingent input-output approach to formulate and implement CSR initiatives, and subsequently evaluate and manage CSR outcomes.

• Understand and fulfill employee needs related to CSR, targeting strategic employee segments.

• Strengthen employee identification with the company.

• Enable employees to be co-creators of CSR value. (36)

*Texas A&M University*

*Corporate Social Responsibility: A Study of Progression to the Next Level* [2009]

A review of the relevant literature, published in the Journal of Business & Economics Research, concluded that employees today have more requirements for their employers than the traditional set of benefits. They are looking to be inspired and want to feel good about their employment choice. Given all things are equal; the individual contributor will join the organization that is culturally and personally congruent with her or his values. (37)

## Other Research and Commentary

### The generational question

Some studies have examined the issue of whether there are generational differences in the influence of CSR on employee engagement. There are four generations in today's workforce, each with distinct attitudes and approaches to work. While the labels applied to each are sometimes different and the corresponding timeframes vary slightly, they are commonly broken down as follows: the Traditionalists or Veterans (born prior to 1946); the Baby Boomers (born from 1946 to 1964); Generation X (born from 1965 to 1980); and the Millennial Generation (born after 1980).

The Millennials, in particular, with their level of comfort with new technologies and desire to achieve work-life balance, have drawn particular interest. The Millennials are entering the workforce with a desire for employer relationships on their own terms and are believed to be more interested in 'talent friendly' organizations that offer a good work-life balance than those that offer high salaries. (38)

This suggests that Millennials are more likely to be influenced by CSR practices as a driver of engagement. The supporting evidence of this hypothesis, however, is mixed.

For example, in a 2003 survey conducted by Globescan, 70% of North American students said they would not apply for a job at a company they believed was socially irresponsible.  The survey also found that 68% disagreed that salary was more important than social responsibility. (39) A more recent poll on green employment by MonsterTRAK.com, a job website geared toward students and entry-level hires, found that 80% of young professionals are interested in securing a job that has a positive impact on the environment and 92% would be more inclined to work for a company that is environmentally friendly. (40)

In contrast, the Tandberg / Ipsos MORI survey cited above found that while there was relatively little difference in preference for working for an environmentally responsible company based on age, the youngest workers 24 years or younger actually have the lowest preference. In response to the statement, "I would prefer to work for a company that has a good reputation for environmental responsibility," between 77% and 80% of workers between the ages of 25 and 64 either agreed or strongly agreed, while only 68% of workers 24 years of age and under agreed or strongly agreed with the statement. (4)

Finally, a 2009 report by the Massachusetts Business Roundtable and the UMass Boston Emerging Leaders Program Team, while acknowledging that a company's CSR activities comprise an increasingly important way to attract and retain good employees, stated that contrary to early research that suggested CSR was more important to young professionals, researchers are now finding that CSR is valued by employees of all experience levels and generations. (41)

### Is the impact greater on high-performance employees?

Another interesting area of exploration is the suggestion that a strong commitment to CSR will resonate more powerfully with top performers - a question that was explored in a recent report by Towers Perrin. The report states that despite the current high levels of unemployment, competition for top performers has not diminished.

The report states that the recession has lowered turnover risk generally but it has not stopped voluntary departures among the most skilled and effective individuals — in other words, those workers with the most choices elsewhere. Based on an analysis of Towers Perrin's database, the study found that 12% of top-performing employees were seriously considering leaving their organizations and another 17% were uncertain about staying with their current employer. These percentages are consistent with trends from prior years.

In exploring the aspects of the work environment that help drive engagement, the study found two elements that are common to all employees, regardless of performance or role; the opportunity to advance one's career and the strength of the organization's leadership.

But this is where the similarity between top performers and others ends. For top performers, high levels of engagement also depend on three additional elements, all of which are related to CSR commitment and performance.

First, they are most engaged when they can embrace and be guided by an organization's vision and strategy. Second, top performers are concerned about the organization's values. This suggests that companies cannot expect to retain their top performers without a clear and compelling mission statement and a leadership team that operates according to the core values and strategy of the organization. Leaders must not only be able to articulate a clear vision but also must connect the vision on a personal level to all employees by ensuring that this vision is a guiding principle for their work.

The previous sections of this report present compelling evidence that CSR is an important and emerging driver of employee engagement. Despite this evidence and in spite of these company testimonials, corporate reporting suggests that companies have failed to embrace the idea that CSR can be an important driver of employee engagement and not many companies are using this potentially powerful tool to attract, engage and retain employees. As such, companies are missing out on an opportunity to improve employee satisfaction, productivity, and, ultimately, their bottom lines.

This section of the report presents some examples of steps that companies are taking to make the connection between their CSR programs and employee attraction and engagement.

At a the 2007 human resources and corporate social responsibility conference, a spokesperson for Accenture reported that its two staff volunteering programs bring core business benefits, in terms of recruitment (through differentiation on campuses), retention of high performers (through increased employee satisfaction), skills development and improved brand and image. (43)

In 2006, Capgemini, an IT consulting firm in the Netherlands, faced the challenge of filling 800 IT and management consulting positions. According to a company spokesperson, "In all traditional markets, all of the recruiting-efforts we were doing were the same as our competitors." In an effort to differentiate itself, the company launched a market research tool to survey IT and management consultants on recruitment and retention factors. Instead of offering a prize for completing the survey, Capgemini funded a week of housing and schooling for poor children in India through a foundation in Kolkata. The survey also asked respondents to opt in if they wanted to learn more about opportunities at the company and to submit their resumes.

The company described the response as "overwhelming." Nearly 10,000 responded to the 30-minute survey and more than 2,000 people who submitted resumes fit the profile for Capgemini, 800 of which were interviewed, screened and hired. The remaining qualified candidates became part of a newly created applicant relationship management project to keep in touch with until new positions opened or were created.

Not only did Capgemini tie recruiting to CSR and fill 800 positions with top-quality candidates, the company also received rich data to mine to tailor future recruiting

efforts. The program also garnered positive media attention in the Netherlands and enhanced the company's reputation as a socially responsible company. Finally, the campaign succeeded as an internal employee branding strategy because the company also donated two weeks of housing and schooling for the children in India for each employee referral who was hired during the campaign. (44)

Despite the mixed evidence with respect to CSR's importance as a driver for the Millennial Generation, some companies are publicizing their social and environmental efforts in recruiting materials and on campuses. Merrill Lynch & Co. outlines its environmental efforts on the back of every brochure for its campus recruiting. NewPage Corp. distributes a brochure highlighting the company's commitment to environmental responsibility when it recruits on campuses. The literature showcases the company's corporate headquarters in Miamisburg, Ohio, which uses 28% to 30% less energy than a standard office building and is furnished with more environmentally responsible materials. (40)

Novo Nordisk, a Denmark-based pharmaceutical company that is considered by many experts in the field to be an international CSR leader, is a company that has documented evidence that CSR can have significant impact in motivating, developing and retaining staff. With respect to retention, after launching its Values in Action program, which aligns business objectives with sustainable development principles, the company saw a 5% drop in staff turnover. (45)

As previously discussed, improving CSR performance can also lead to improved productivity, a fact that Genzyme discovered when it moved into its new headquarters in November 2003. The building was certified by the U.S. Green Building Council's Leadership in Energy and Environmental Design (LEED) Green Building Rating System, which is an internationally recognized green building certification system. The building has since been recognized with LEED's highest level of certification platinum.

After an initial survey of employees' reactions to the new building found that they felt more productive, Genzyme conducted a follow-up survey focused on which physical features of the building most impacted increases in productivity. The company was surprised to discover that the number one factor employees cited for their increased productivity was their increased sense of pride about Genzyme's commitment to the environment made through the new building. (43)

# IMPLEMENTING A CSR PROGRAM

Setting out to design and implement a CSR program can be a daunting undertaking. It may involve a significant commitment of resources both human and financial and can present challenges from a project management perspective. Despite these potential challenges, this report demonstrates that, if properly implemented, a CSR program can bring a variety of work and business benefits.

For companies embarking on a process of designing and implementing a CSR program, keeping the following principles in mind will help to make the journey less complicated and deliver results that will meet expectations:

### Set overall goals.

CSR programs, especially in the early stages, cannot be all things to all people. Therefore, focusing on between one and three key issues and setting general intentions related to those issues will serve as an overall guide for the process.

### Keep the process targeted.

For example, if the goals of the CSR program are to improve employee engagement and reduce environmental impact, focus on policies and programs that will help to achieve these goals.

### Start small and build upon past efforts.

You have to crawl before you can walk and walk before you can run.

### Focus on issues that matter to key stakeholders.

In the case of employees, this often means issues that they feel personally connected to, such as helping the community or protecting the environment.

### Include employees in the process.

A recurring theme in the surveys and studies described above is the fact that involving employees serves to enhance the effect that CSR has on employee engagement.

# APPENDIX 1: AN OVERVIEW OF THE ACADEMIC EVIDENCE

**Title**

Putting the S Back In Corporate Social Responsibility: A Multi-Level Theory of Social Change in Organizations

**Author(s)**

Ruth V. Aguilera, Deborah E. Rupp, Cynthia A. Williams and Jyoti Ganapathi

**Institution**

University of Illinois at Champaign-Urbana, U.S.

**Publication date**

September 2004

**Abstract:** This paper provides a multi-level theoretical model to understand why business organizations are increasingly engaging in corporate social responsibility (CSR) initiatives, and thereby exhibiting the potential to exert positive social change. Our model integrates theories of micro-level organizational justice, meso-level corporate governance, and macro-level varieties of capitalisms. Using a theoretical framework presented in the justice literature, we argue that organizations are pressured to engage in CSR by many different actors, each driven by instrumental, relational and moral motives. These actors are situated within four "levels" of analysis: individual, organizational, national and transnational. After discussing the motives affecting actors at each level and the mechanisms used at each level to exercise influence, as well as the interactions of motives within levels, we examine forces across levels to propose the complex web of factors, which both facilitate and impede social change by organizations. Ultimately, this proposed framework can be used to systematize our understanding of the complex social phenomenon of increasing CSR engagement, and to develop testable hypotheses. We conclude by highlighting some empirical questions for future research, and discussing a number of managerial implications.

**Conclusions:** There exist many different ways to exert positive social change in society and many different agents who have the explicit power to trigger such change. This special topic forum of AMR points to corporations as important and necessary social change agents, and this paper has identified the many actors that place pressure on corporations to impart social change. We have discussed the specific motives driving CSR at four levels of analysis and draw from distinct research literatures to develop our model. We propose this model as a starting point for future empirical research in an effort to systematize the analysis of CSR, such that its potential contribution to positive social change can be maximized.

**Key findings related to employee engagement:**

• Employees are among the multiple actors that push organizations to act in a socially responsible or irresponsible manner.

• All actors and interest groups  including employees  have three main motives for pressuring firms to engage in CSR:

> • instrumental (self-interest driven),

> • relational (concerned with relationships among group members), and

> • moral (concerned with ethical standards and moral principles).

• Employees' perceptions of the firm's external CSR are a special aspect of their more general justice perceptions, and these CSR perceptions shape the employees' subsequent attitudes and behaviours towards their firm. In other words, employees' CSR perceptions matter in that they predict outcomes such as performance, turnover and well-being.

• Employees make three distinct judgments about their employing organization's CSR efforts. That is, employees judge the social concern imbedded in an organization's actions (procedural CSR), the outcomes that result from such actions (distributive CSR), and how individuals, both within and outside the organization, are treated interpersonally as these actions are carried out (interactional CSR). These judgments then lead to a number of employee actions (mechanisms) that may place pressure on organizations to implement CSR initiatives, including organizational attraction, commitment, and retention; job satisfaction and performance; citizenship behaviours; and employee participation and leadership in CSR initiatives. In other words, employees push for CSR directly by actively advocating for, leading, and participating in CSR initiatives as well as indirectly by reciprocating socially responsible actions through heightened performance and firm loyalty/commitment.

• Employees who perceive their firm to be socially responsible will be more committed to the firm and out-perform (both in terms of their work as well as CSR activities) those employees who perceive a great deal of irresponsibility. This should in turn pressure organizations to increase CSR activity in order to recruit and retain a top quality workforce. Moreover, firm performance is likely to increase because employees see a socially responsible organization as a fair organization and reciprocate this fairness through dedication, loyalty, and increased productivity. (9)

**Title**
Corporate Social Responsibility Programmes and their Impact on Business Decision-Making

**Author(s)**
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**Publication date**
2005

**Abstract:** Based upon an empirical study of CSR programmes across a number of multinational companies, we explore some of the underlying reasons why CSR seems to have a low impact on business decision-making through a validated framework linking CSR programmes with business and social outcomes.

**Conclusions:** All respondent companies claim to have conducted a broad and deep scan of the NGO and stakeholder environment relevant to their business operations. Most engage stakeholders and NGOs formally in order to understand and assess expectations of their CSR measurement and reporting. However, we sense a real paradox here of companies wanting standardisation of the information required of them but vociferously rejecting a "one size fits all" approach to CSR measurement and reporting (Maklan and Knox, 2003). In addition, social and environmental reporting was separate from their financial reports across all the firms we interviewed (except Pilkington). If the core idea of the triple bottom line of company reporting (improved financial, social and environmental transparency) is to be achieved, then an integrated approach to such reporting (and measurement) across the three areas is required, as Waddock, Bodwell and Graves (2002) discuss in their recent paper. Finally, the development of our performance framework, derived from theory and the empirical work with our respondents, makes a contribution to instrumental CSR theory. Our CSR policy and practice findings extend those of Wood and Jones (1995) as to how firms define their areas of social responsibility and identify the difficulties firms have in setting priorities between stakeholders, as set out by Mitchell, Agle and Wood (1997).

**Key findings related to employee engagement:**

• CSR is linked to employee engagement through reduced costs due to increased employee retention as well as improved reputation in the eyes of employees.

• "There was full agreement that CSR programmes favourably enhance corporate reputation and to some extent could influence employee behaviour."

• CSR programs impact:

> • the drivers of employee engagement, e.g. employee behaviour and motivation,

> • stakeholder attitudes and behaviours, e.g. potential employees, and

> • business outcomes, e.g. employee productivity and retention. (35)

## Title
Employee reactions to corporate social responsibility: an organizational justice framework

## Author(s)
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**Abstract:** We seek to bridge the macro concept of corporate social responsibility (CSR) with micro research in organizational justice. A theoretical model is presented whereby employees' perceptions of CSR impact their subsequent emotions, attitudes, and behaviours, mediated by instrumental, relational, and deontic motives/needs, as well as moderated by organizations' social accounts.

**Key findings related to employee engagement:**

• Individual employees, as members of the organization, are concerned about, contribute to, and react to an organization's evolving social consciousness.

• Employees make distinct judgments about their employing organization's CSR efforts, these perceptions provide evidence regarding the fulfillment of psychological needs, and acts of social responsibility or irresponsibility on the part of the organization can trickle down to affect employees' subsequent attitudes and behaviours.

• CSR and justice share a fundamental ethical assumption of normative treatment. Organizational justice implies norms regarding the treatment of individuals (employees) and groups of individuals within the organization. In addition to a concern about how employees are treated, CSR (with some exceptions) entails norms regarding the treatment of individuals, groups of individuals, and environments external to the organization.

• Employees make three distinct judgments regarding the social concern and actions of their employing organization. That is, employees judge the social concern that is embedded in an organization's actions (procedural CSR), the outcomes that result from such actions (distributive CSR), and how individuals, both within and outside the organization, are treated interpersonally as a result of these actions (interactional CSR). Combined, these perceptions shape overall perceptions of an organization's level of accountability, responsibility, and the extent to which it upholds moral and ethical standards.

• CSR research has shown that job applicant and employee perceptions of a firm's CSR affects how attractive these individuals perceive the firm to be. Second, research on third-party justice reactions (which is essentially what CSR perceptions are, except focused on the external environment) finds both anger and revenge as consequences of injustice.

• Meta-analytic evidence clearly shows positive outcomes resulting from perceptions of justice such as enhanced job satisfaction, organizational commitment, organizational citizenship, and job performance. (10)

## Title
Corporate Social Responsibility as an Internal Marketing Strategy

## Author(s)
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## Publication
The results of the study were later presented as an article called Using Corporate Social Responsibility to Win the War for Talent in the Winter 2008 edition of MIT Sloan Management Review

## Publication date
July 2007

**Abstract:** In today's economy, companies must work harder than ever to attract, retain and motivate talented employees. Our research shows that corporate social initiatives (CSR) can serve as a highly effective component of internal marketing programs by fulfilling employee needs and drawing them to identify strongly with the company. Thus, CSR activity is capable of yielding substantial returns to both the employee and the company. This paper highlights some of the challenges companies face in the effective deployment of their CSR strategy internally, among employees. The paper ends with some suggested solutions to these challenges Specifically, we recommend that managers (1) bring their employees closer to the company's CSR initiatives, (2) use a contingent input-output approach to formulate, evaluate and manage CSR-related outcomes, (3) understand and fulfill employee needs related to CSR, (4) focus on strengthening employee identification with the company, and (5) engage employees in co-creating CSR value.

**Conclusions:** With many global companies investing millions of dollars in CSR initiatives, it has never been more worthwhile to assess returns with employees and optimize the return on such investment, especially when one considers the impact of this stakeholder group on competitive advantage. Our research suggests that successful CSR strategies need to be based on a clearly articulated and contingent input-output perspective, bring employees closer to such strategies, satisfy key and varying employee needs, encourage employee identification, and be co-created in partnership with employees. Specifically, CSR is most effective when employees play the role of the actual enactor of CSR programs with the company acting as an enabler. But companies need to be careful that they are not viewed as disingenuous for overly "marketing" CSR to employees as well as maintain control and focus in the value co-creation process. In essence, CSR is a complex strategic endeavour that demands considerable attention and commitment by the company in order for it to pay back. However, if done right, it can yield rich dividends as a potent internal marketing instrument.

**Key findings related to employee engagement:**

• Research shows that corporate social initiatives (CSR) can serve as a highly effective component of internal marketing programs by fulfilling employee needs and drawing them to identify strongly with the company. Thus, CSR activity is capable of yielding substantial returns to both the employee and the company.

• Evidence is mounting that a company's corporate social responsibility (CSR) activities is a legitimate, compelling and increasingly important way to attract and retain good employees.

• Increasingly, employees seek out socially responsible companies.

• Practitioners and theorists are increasingly turning to internal marketing as the rubric under which CSR can be used to acquire and retain employees.

• In the case of the internal stakeholder group of employees, the ability of CSR to serve as an effective internal marketing lever is limited by four related issues:

• Companies often keep their employees at an arm's length.

• Companies formulate their CSR programs without explicitly considering the diverse set of employee needs potentially fulfilled by such programs.

• Companies do not fully understand the psychological mechanisms linking their CSR programs to anticipated positive returns from their employees (e.g., pro-company behaviours, higher productivity, longer tenure, etc.).

• Companies take a top-down approach in the formulation, execution and maintenance of their CSR programs, often mandating employee participation rather than soliciting them to get involved on their own terms.

• Companies need to shift their approach to CSR management if they are to fully realize the returns that CSR promises. Study's authors recommend that managers take the following steps in order to maximize their return on investment in CSR initiatives in the employee domain:

- Increase employee proximity to CSR.

- Use a contingent input-output approach to formulate and implement CSR initiatives, and subsequently evaluate and manage CSR outcomes.

- Understand and fulfill employee needs related to CSR, targeting strategic employee segments.

- Strengthen employee identification with the company.

- Enable employees to be co-creators of CSR value. (36)

**Title**
Corporate Social Responsibility:
A Study Of Progression to the
Next Level

**Author(s)**
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**Institution**
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**Publication**
Journal of Business & Economics
Research

**Publication date**
May, 2009

**Abstract:** Corporate Social Responsibility was an initiative constructed many years before its popularity or implementation. The 2001 economic state, local, and world affairs brought this inspiration to the front of actionable items. The terrorist attacks of September 11, the collapse and scandals of Enron, WorldCom, and Tyco left thousands without their retirement. The bankruptcy of many ancillary businesses and similar corporations are excellent examples of imbalanced management. Other examples of poor silo-style management have proliferated through many organizations serving as the root cause for the adoption of socially responsible initiatives. Corporations over the past fifty years have made attempts at serving greater causes. However, these initiatives were simply a random string of projects, which were short in duration. Further they were sporadic in nature, small, and did not compliment other projects benefiting the community. Projects were based on volunteerism and little else. Some influence by a peer might inspire a reluctant person to participate once but rarely a second time. Albeit, corporations encouraged their employees to be active with these projects; corporate money was seldom used as it would inspire these causes to request additional funds. At that time, corporate sponsored social responsibility within society was the exception and not the rule. Today's companies are measured by their initiatives of corporate social responsibility. Public companies are including environmental and social accountability in their Securities and Exchange Commission documents. Massive air time is being devoted to market social responsibility and a company's compliance with a demanding public. Corporate social responsibility can now be measured as the extra mile.

**Conclusions:** Corporate social responsibility has matured from a small volunteer sample to corporate directed initiatives with officer level support. This effort now addresses opportunities in many areas, which include employees, stakeholders, economic well-being, sustainability, environmental growth, legal morality, community support, and discretionary support.

The executive, with proper education and professional tenure, must now cultivate a new set of skills. Leadership now includes motivation, empathy, trust, vision, values, and continuous improvement. These skills are prerequisite to the role of ethical professional. There remainder of the employee base has the opportunity to absorb and integrate these skill into their own persona. This will encourage a congruent behaviour, within the organization, which is desirable and marketable. Companies must transact business on a higher plane. For some time now, relationship based interaction has been suggested as a target objective. Relational base motives and transformational mind set inspires the relationship experience to move to the next level. This interaction promotes forward thinking and problem solving on a peer level. Further, it inoculates the employee base from transactional base selling, managing, and thinking.

**Key findings related to employee engagement:**

• The retention of employees is typically based on company performance and how the company compares to others in a similar size and market. Corporate social performance is a new measurement of how effective the company is with its social responsibility efforts and the company's retention.

• Cable and Judge illustrated that the corresponding values of employer and employee is gauged to job satisfaction, organizational obligation, willingness to remain, and real retention.

• Employees have more requirements for an employer than the standard set of benefits. Employees are looking to be inspired and led. The individual wants to feel good about their employment choice. Given all things are equal; the individual contributor will join the organization that is culturally and personally congruent with their values. (37)

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