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Corporate Social Responsibility, Corporate Reputation and Employee Engagement

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Abstract

Corporate social responsibility (CSR) has been outlined as voluntarily additional legal duties of organization to serve environment and community. This voluntarily actions of corporate help them to develop reputation which can shape favorable attitude of employees towards work. Employee engagement is an attitude of commitment and involvement of employee towards their work and organization. Researchers have proved that engaged employees are more productive, more likely to achieve corporate goals and are customer centered. Although literature provides many researches that focus on corporate social responsibility, corporate reputation and employee engagement, less work can be seen that integrates all these variables. This study bridges this gap by investigating the influence of CSR and corporate reputation on employee engagement. This study is based on primary data collected from various organizations of Pakistan. Structural equation model technique is adopted to analyze data and test hypotheses. The study confirms the significant relationships between CSR and corporate reputation, CSR and employee engagement and corporate reputation and employee engagement. The implications and applications of this research are also discussed in detail.

Key Words: Corporate social responsibility, corporate reputation, employee engagement.

JEL Classification Codes: M14, M12, M19.
Introduction

Customer is considered to be the vital aspect of a business. Companies with less focused customer face lower profit margins. Studies have unlocked the covert that companies having less customer focus face problems of having undesired reputation. Businesses themselves have recognized the fact that their future profitability depends on their willingness to assume environmental responsibilities. They have to demonstrate consistent policies to ensure their employee ethical, social and environmental outcome. But to what extent companies can ensure that their employees are motivated and committed towards companies’ objectives. But when it would ask to the company, they will pinpoint towards their good code of conduct and ethical behavior towards corporate reputation (Tang Weiwei, 2007) is the environment. More and more researches have realized that CSR and most contributing factors to enhance employee engagement. This study has been carried out to focus on the CSR to gain reputation (Weiser & Zadek, 2001) and intern enhances employee commitment to their company.

Employee engagement has been defined as” the level of commitment and how hard and how long they worked in their organizations”. It is a complex concept involving pathways which promote employee engagement. Companies have to opt for the best practices to determine the likely outcome Researches have shown the interconnection between employee engagement and CSR initiatives of firms. Engaged employee tend to do more hard work, remain more loyal to the firm and bring positive affect on organizational success.

Corporate social responsibility is an important factor of competitive market. In this new ear of competition, companies have to adopt social responsibility( Brammer and Pavelin, 2006; Fombrun, 2005; Andriof and Waddock, 2002) which act as a key attribute to judge the company reputation. Schnietz and Epstein (2005) have identified reputation as antecedent of social responsibility. Lindgreen and Swaen (2005) argue that approaches relating to responsibilities are being entrenched within the relationships that fortify business reputation.
Thus, it is clear from the literature that these two interlinked factors contribute to employee commitment. Therefore, the paper examines the meaning of employee commitment, which highlights its correlation with social responsibility and company reputation. Their surveys have been carried out to identify the importance of CSR, its impact on corporate reputation and employee commitment.

Although much work is done to interweave engagement with the social responsible attitude of the firms but less work has been done to interlink corporate social responsibility, corporate reputation and employee engagement. Today, no doubt, companies are operating in more socially and ethically manner. The study has been taken into account the engagement, an employee shows while being motivated on the basis of company’s orientation towards it stakeholders and continuous up gradation of its reputation. But what is connection between reputation and CSR? How these both assist in committing the employee for a longer period? This paper will analyze the connection of social responsibility activities with reputation and employee engagement.

**Theoretical Background and Development of Hypotheses**

**Corporate Social Responsibility**

Corporate social responsibility often recognized as corporate citizenship, corporate social performance, and corporate social accountability is meticulously explored in recent years by the research scholars. Mohr et al. (2001) viewed CSR as “a company’s commitment to minimizing or eliminating any harmful effects and maximizing its long run beneficial impact on society”. The concept of CSR has been considered in two dimensions in this study from the employee perspective; CSR association and CSR participation. Brown and Dacin (1997) termed CSR associations are defined as employees’ perceptions of the character of the company related to societal issues. CSR participation is the degree to which employees share in the execution of CSR activities or in decision making.
Corporate social responsibility has become the buzz word in business literature now-a-days. Researchers are investigating the multi-dimensional effects of corporate social responsibility on business entities. There is no agreed definition of CSR (Windsor, 2006; Garriga and Mele, 2004; Waddock, 2003). But this obstacle has not stopped the academics and practitioners to measure and conceptualized it. Companies are facing pressures from communities, non-governmental regularities, activities and socially responsible citizens, to behave as responsible corporation of the society. CSR activities are somewhat called business responsibilities. CSR is conceptualized as gesture that emerge as a sense of responsibilities and day to day fundamental activities and its impact on society, business and environment (Ahmad et al., 2003; Andriof and Waddock, 2002). In this context corporations are using conception of CSR not only to build favorable relationships with government but also with all related stakeholders in order to ensure sustainable business performance.

**Corporate Reputation**

Corporation reputation as described by Fombrun (1996) is based on a set of collectively held beliefs about a company’s ability and willingness to satisfy the interests of various stakeholders. Bromley (2002) and Sandberg (2002) viewed reputation as a socially shared impression and a consensus about how firm will behave in any given situation.

There are strong reasons to believe that corporate reputation drive business success. Bennett and Rentschler (2003) has defined reputation as image and identity of a corporation but related to value judgment, develops over a longer time span, on its consistency, dependability and credibility. A company reputation (image /identity) can affect its consistency and effectiveness in reaching its internal employees. Marken (2002) described reputation as “quality product and service, innovative capability, long term investment plan, attraction ability, retention of talent and quality management control.” Marken (2004) has mentioned in his study that each reputation is being developed on daily activities. Smith (2003) have analyzed in his survey that annihilation of reputation
is the biggest risk for the company. Corporate reputation of a firm combines with other business activities, pointed at stakeholders (Gardberg, 2001).

**Employee Engagement**

Employee engagement is relatively a new concept in the business literature and there is lack of universally acceptable definition of employee engagement. Employee engagement is the emotional commitment towards an organization (Baumruk 2004, Richman 2006 and Shaw 2005). Truss et al. (2006) elucidate it as passion at work. The positive consequences of employee engagement have lead the organization to give it due importance (Saks 2006). May et al. (2004) have explicated that engagement is related to well being. Towers (2003) explored in his research that employees tend to explicit more engagement in non profit organization. It appears to be logical, when we consider employees are driven by missions and well being of environment.

**Integration of Variables**

**Corporate Social Responsibility and Corporate Reputation**

Existing literature has been collated to argue the significance of CSR in endorsing favorable relationships with stakeholders defined as employees, consumers, investors, government regulatory (Mictell et al., 1997). These stakeholders require certain expectation to be full filled. Since the stakeholder’s silent demands of social responsiveness are being met, it augments the firm’s reputation (Donaldson and Preston, 1995). But much work has been done by researchers interlink reputation and responsibility (Brammer and Pavelin, 2006; Fombrun, 2005; Andriof and Waddock, 2002). Corporate responsibility has been identified as a key dimension of reputation (Schnietz and Epstein, 2005). Which is clearly visible by their extensive spending on Social activities .it also has been stated that CSR initiatives of companies create a reputational shield which averts negative emotions (Bhattacharya, 2007). Above discussion concludes that CSR can be used to enhance corporate reputation of doing good, therefore, the following hypothesis can be developed.
**H1:** Corporate reputation is positively influenced by higher levels of corporate social responsibility.

**Corporate Reputation and Employee Engagement**

Reputation is the true reflection of company’s value, strategies and culture. Corporate reputation influences various stakeholders of organizations and shapes their attitude towards corporation. Ali (2011) found significant influence of corporate reputation on consumer satisfaction and loyalty in the cellular industry of Pakistan. Although there is a stream of literature that documents the influence of corporate reputation on various stakeholders including customers and investors, less work has been done in the perspective of employee engagement. Employees seem to be committed towards corporate social responsibilities, with perceptions which allow them to align their interest and commitment for the organization. According to Corporate Leadership Council (2004), employee engagement is the extent to which employee are committed to something in the organization. So it can be inferred that employee engagement is the level of emotional and intellectual engagement. As Turban and Greening (1996) reveals that corporate reputation improves its attractiveness towards employee.

Reputation has decided impact on employees, and its ability to attract the finest and the brightest. According to Hill and Knowlton (2008), while choosing for employer, reputation is extremely important to job seeking people. Hence, if employee is well aware of the strategic reputation of the company, they will understand organizational strategy more deeply and they will be delivering more promising value o their stakeholders (Pearce, 2009). According to Kelly report (2010) reputation is a critical factor in determining the level of employee engagement with the firm. It appears in the report that employee evaluates their career decisions on the basis of its perceived reputation. The following hypothesis can be established on the basis of previous discussion.

**H2:** Employee engagement is positively influenced by higher levels of corporate reputation.
Corporate Social Responsibility and Employee Engagement

Research scholars have investigated the influence of corporate social responsibility on various stakeholders including consumers, investors and employees as well. For instance Ali et al. (2010a) examined the influence of CSR on consumer retention in cellular industry of Pakistan. Ali et al. (2010) investigated the relationship between CSR, consumer satisfaction and loyalty. Similarly, Ali et al. (2011) analyzed the influence of CSR in investor satisfaction and loyalty. In the context of employee behavior Ali et al. (2010b) found significant relationship between CSR and employee retention. However, the influence of CSR on employee engagement is relatively under examined. The present study fills this gap. The influence of CSR has been examined employee engagement with the corporation refers to the process through which it develops and maintains social responsibility. Motivation is persist by engaged employee. Hence, commitment is course of action that binds an individual towards certain targets (Meyer & Herscovitch 2001: 301). Commitment will initiate positive outcome, thus enhance employee commitment to the organization. Social exchange theory (Blau 1964) suggests that commitment is conditional to the perception of the benefits that they receive form the organizational membership (Shore and Wayne 1993; Wayne et al. 1997). Is ethical behavior is motivated by its climate? It has deep rooted debate on it. There are evidences that have shown benevolent environment elicit greater employee commitment (Cullen et al. 2003). The following hypothesis can be developed on the basis of above conceptual discussion.

H3: Higher employee engagement level can be achieved by higher level of corporate social responsibility.

Figure 1: Conceptual Model of CSR, CR and Employee Engagement
Figure I depict the theoretical model presented in this study. The model is developed on the basis of above conceptual and theoretical discussion. The model is quite unique in a sense that it combines the concepts of CSR, corporate reputation and employee engagement. There is sparse research available in the literature that integrates all these variables in a concentrated model. The sample and sampling, measurement and instrumentation and data analysis procedure is describes in the next section in order to prove above mentioned research propositions.

Research Methods

Sample and Sampling
This study is based on primary data which has been collected from various organizations of Pakistan. The unit of analysis in study was the individual employees and therefore the target population in this study was the employees working in various types of organizations. A total of 400 survey questionnaires were distributed, out of which 284 were returned back, leaving 71% response rate, which is quite acceptable in social sciences. The survey was personally administered in order to maximize the response rate. The sample population included employees of diverse demographic profile. It included people from various industrial sectors, age groups, income levels, educational backgrounds belonging from various functional departments in order to generalize the findings of this study.
**Measurement and Instrumentation**

The primary variable of investigation in this study was the employee engagement. The influence of CSR and corporate reputation was gauged on employee engagement. Therefore the dependent variable in this study was employee engagement. The instrument to measure employee engagement is adopted from Schaufeli et al. (2002). The instrument contained 6 items measured on five point Likert scale. The instrument measured employees’ response regarding their engagement attitude towards their work and the organization. The second dependent variable in this study was corporate reputation. The influence of CSR interventions is also investigated in this study. The instrument to measure corporate reputation is adopted from Helm (2007). The instrument was measured on five point Likert scale where 1 for strongly disagree and 5 for strongly agree. The instrument to measure corporate reputation contained 10 items, which contained questions different aspects of organizations that contribute towards reputation of the organization. The independent variable in this study was corporate social responsibility. The concept of CSR is divided into two categories; CSR associations and CSR participations. The instrument to measure CSR associations is borrowed from Lichtenstein et al.’s (2004), whereas the CSR participation is measure is borrowed from Peterson (2004) and Smidts et al. (2001). The instrument contained 5 items measured on five point Likert scale. All these items were related to different aspect of corporate social performance in the context of employees.

**Procedure**

The data collected through questionnaires was entered into SPSS sheet for analysis purposes. First of all reliability analysis were conducted to find out the overall reliability of the data. Confirmatory factor analysis (CFA) was then conducted in order to check the validity of instrument and relevance of items with their constructs. Structural equation modeling (SEM) technique is also adopted to test the hypotheses. The confirmatory factor analysis and structural equation model is computed through latest version of AMOS software. The results are presented, interpreted and discussed in the following section.
Results and Discussions

Reliability and Validity Testing

The data collected through structured questionnaire is analyzed to find out the reliability and validity, which is of prime importance in research. The reliability and validity analysis are performed in the guidelines provided by Anderson and Gerbing (1988). Cronbach alpha is computed through SPSS. The standard criteria for validity of data is that the values of Cronbach alpha should be higher than 0.70. The values for all constructs are higher than standard crieteria, therefore data was reliable for further analysis purposes. Similarly the validity of data is estimated through confirmatory factor analysis (CFA) through AMOS. The value of factor loading should also be greater than 0.60 (Bagozzi and Yi, 1988). The values of all constructs given in Table I are also loaded above than this standard; therefore, the constructs are measured validly. The model fit figures (GFI = 0.92; AGFI = 0.89; CFI = 0.97; NFI = 0.88; NNFI = 0.91; RMSEA = 0.02; RMR = 0.048.) are also satisfactory for confirmatory factor analysis.

Table I: Factor Loading and Reliability Testing

<table>
<thead>
<tr>
<th>Construct</th>
<th>Factor Loading</th>
<th>Cronbach Alpha</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>CSR Association</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>My company is committed to using a portion of its profits to help nonprofits</td>
<td>1.102</td>
<td>0.91</td>
</tr>
<tr>
<td>My company gives profits back to the communities where it does business</td>
<td>0.92</td>
<td></td>
</tr>
<tr>
<td>My company integrates charitable contributions into its business activities</td>
<td>0.79</td>
<td></td>
</tr>
<tr>
<td><strong>CSR Participation</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>My colleagues and I work together as a team on CSR activities</td>
<td>0.86</td>
<td>0.90</td>
</tr>
<tr>
<td>My colleagues and I have ample opportunity to suggest activities</td>
<td>0.78</td>
<td></td>
</tr>
<tr>
<td><strong>Corporate Reputation</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Quality of products</td>
<td>0.74</td>
<td>0.84</td>
</tr>
<tr>
<td>Value for money of products</td>
<td>0.73</td>
<td></td>
</tr>
<tr>
<td>Commitment to protecting the environment</td>
<td>0.79</td>
<td></td>
</tr>
<tr>
<td>Corporate success</td>
<td>0.77</td>
<td></td>
</tr>
<tr>
<td>Treatment of employees</td>
<td>0.79</td>
<td></td>
</tr>
</tbody>
</table>
Hypotheses Test

The study tested the proposed model given in Figure I using structural equation model (SEM). Table II presents the results that show the overall model fit. The model fit figures (GFI = 0.88; AGFI = 0.88; CFI = 0.94; NFI = 0.91; NNFI = 0.95; RMSEA = 0.05; RMR = 0.042) meets the standard criteria and can be used for hypotheses testing. The values of GFI, AGFI, CFI, NFI and NNFI should be higher than or near to 0.90 and value of RMSEA should also be closer to 0.5.

The results of hypotheses are also presented in Table II. The standard estimates S.E mean that any change in independent variable can caused this much change in dependent variable. In order to accept any hypothesis the value of P should be less than 0.05. Our first hypothesis H1 was that corporate reputation is depending on CSR performance by corporation. The results shows the P value as 0.002 which is far less than 0.05, we therefore accept our H1. It depicts that higher the level of CSR activities higher will be the corporate reputation. Similarly, P value for our H2 is 0.043 which is also less than 0.05, we therefore, accept our H2 as well.

<table>
<thead>
<tr>
<th>Customer orientation</th>
<th>0.88</th>
</tr>
</thead>
<tbody>
<tr>
<td>Contribution to charitable and local issues</td>
<td>0.82</td>
</tr>
<tr>
<td>Financial performance</td>
<td>0.89</td>
</tr>
<tr>
<td>Qualification of management</td>
<td>0.93</td>
</tr>
<tr>
<td>Credibility of advertising claims</td>
<td>0.83</td>
</tr>
</tbody>
</table>

**Employee Engagement**

| The job I have makes me enthusiastic | 0.86 |
| I like to work intensely | 0.88 |
| I often become absorbed in the job I am doing | 0.82 |
| The job gives me energy | 0.87 |
| I persevere when I encounter challenges | 0.92 |

**Note:** GFI = 0.92; AGFI = 0.89; CFI = 0.97; NFI = 0.88; NNFI = 0.91; RMSEA = 0.02; RMR = 0.048.
**Table II:** Regression Results

<table>
<thead>
<tr>
<th>Estimates</th>
<th>Estimates</th>
<th>S.E.</th>
<th>Critical Ratio</th>
<th>P-value</th>
<th>Test Result</th>
</tr>
</thead>
<tbody>
<tr>
<td>CSR &gt; CR</td>
<td>.888</td>
<td>.125</td>
<td>7.089</td>
<td>.002</td>
<td>Supported</td>
</tr>
<tr>
<td>CSR &gt; EE</td>
<td>.296</td>
<td>.146</td>
<td>2.024</td>
<td>.043</td>
<td>Supported</td>
</tr>
<tr>
<td>CR &gt; EE</td>
<td>.561</td>
<td>.095</td>
<td>5.883</td>
<td>.000</td>
<td>Supported</td>
</tr>
</tbody>
</table>

Note: GFI = 0.88; AGFI = 0.88; CFI = 0.94; NFI = 0.91; NNFI = 0.95; RMSEA = 0.05; RMR = 0.042.

**Figure II:** Structural Equation Model

**Discussion**

Hillenbrand and Money (2007) has found out most noticeable finding that how CSR been conceptualized by customers and employees. He elaborates his finding in accordance with how actually it embraces social aspects and wider elements relates to business practices.

However an institutional owner seems to regard CSR practices as important mean to enhance corporate reputation. As a practical approach, a CSR strategy well enhances corporate reputation (Suaini, 2011).
Conclusion and Recommendations

This study is conducted to investigate the potential influence of corporate social responsibility and corporate reputation on employee engagement. The study found significant influence of corporate social responsibility on corporate reputation and building higher level of employee engagement. Similarly it is found that corporations with higher level of reputation of doing well also enjoy higher level of employee engagement. Academically, this study has number of implication. This study suggest that employees conceptualize CSR on different perspectives, such as how well it communicate with its environment and how ethically it provides benefit to its stakeholders through its products and services. The companies with higher level of CSR interventions and reputation of doing well can attract committed employees who engage themselves with their work and corporation as well.

The study recommends that corporations should incorporate CSR into their strategic decision making process in order to build good reputation and motivating employees for better performance. It is worthwhile for corporations to integrate their business activities internally (employee motivation to become more committed) and externally i.e. corporate reputation in order to survive the economic downturn; firms are consistently engaging their employees. The study also provides guidelines for future researchers on this topic.
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