Do responsible employers attract responsible employees?

Employee motivation may provide cost advantages to firms committed to social responsibility.

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Survey and register data indicate that many employees prefer a socially responsible employer, and are willing to accept a lower wage to achieve this. Laboratory experiments indicate that socially responsible groups are more productive than other groups, partly because they attract cooperative types, partly because initial cooperation is reinforced by group dynamics. Taken together, the findings indicate cost advantages for CSR firms. Socially responsible employers can pay lower wages, attract more cooperative employees, and benefit from a more cooperative and thus more productive firm culture. This helps CSR firms survive market competition, even if CSR in itself is costly. Empirical research on the topic is in its infancy, however, so findings must be interpreted with care.

Keywords: Corporate social responsibility (CSR); employee motivation; productivity; wages; green production.

Motivation

In order to recruit the best people, should one necessarily offer a high pay? Not if “best” means “most responsible”. Below, I present some recent findings indicating that employers can recruit responsible employees, and limit the recruitment of irresponsible ones, by keeping a company reputation as socially responsible while offering relatively low wages.

Some employees may be more responsible than others, in the sense of being willing to work hard towards their employer’s goals even when incentives to do so are weak on non-existing. In certain jobs, such sense of responsibility is irrelevant for firm productivity, since monetary incentives or threats of displacement provide sufficient control of employee behavior. However, if individual performance cannot be observed, recruiting the “right” people becomes crucial – particularly if irresponsible behavior can potentially produce large personal gains to the employee and/or cause great damage to the employer.

Discussion of key findings

Corporate social responsibility (CSR) has become a popular concept in advertising and in the media. Although different definitions exist, the following (Nyborg and Zhang, 2013, p.108) may suffice for the present purpose: Corporate social responsibility means that private firms voluntarily make costly efforts to achieve social goals, or to avoid socially damaging consequences of their production activities, over and above what is required by government regulation.

The social goals can be, for example, voluntary reduction of environmentally harmful emissions, making sure that subcontractors do not exploit child labor, or direct contributions to charity. Note that even if pursuing social goals is costly per se, the response of the firm’s consumers, investors, employees or the government could produce increased revenues or reduce other costs; so the above definition allows that CSR may, overall, be profitable for a firm.
The present discussion will be exclusively concerned with possible cost savings for firms engaging in CSR related to employee motivation. In the economics literature, arguments have been proposed for at least two potential sources of such cost savings (see Brekke and Nyborg, 2008): 1) CSR firms can pay lower wages, 2) CSR firms may have higher employee productivity, due to better recruitment, higher intrinsic motivation, and/or a more effort-promoting corporate culture.

Do CSR firms pay lower wages?

The hypothesis that CSR firms pay lower wages is based on the idea that some people simply prefer their employer to be socially responsible (for whatever reason). For example, Vitell and Davis (2004) found that job satisfaction was substantially higher when top management was perceived as “strongly supporting ethical behavior” (p. 493). Lanfranchi and Pekovic (2012) find, based on a data set comprising 11,600 employees of 7,700 French firms, that for firms having adopted voluntary environmental standards, employees report a significantly higher feeling of usefulness at work. In its annual Graduate Survey, the international employer branding firm Universum collects responses from roughly 180,000 students in 28 countries; in their 2006 survey, 22 percent of their US respondents and 20 percent of European respondents chose CSR as one of the few most important factors when selecting their future ideal employers (personal communication, C. Duraturo, Universum, as reported in Brekke and Nyborg 2008).

Someone who prefers her employer to be socially responsible will, if faced with a choice between two otherwise identical job offers with equal pay, choose the employer she finds most responsible. Thus, to make her indifferent, the less responsible employer must offer a higher wage. Consequently, if a sufficient number of workers have a sufficiently strong preference of this kind, the going wage for CRS firms will be lower than that of other firms (this corresponds to considering CSR as a sort of fringe benefit).

There is, indeed, some empirical support for this hypothesis, but since the research field is new, few studies are available. Studies exploring wage differentials between profit and non-profit firms have produced mixed results (Leete 2001, Mocan and Tekin 2003, Frank 2004). Studies exploring the hypothesis more directly, however, have provided support for it. Frank (2004) combined a survey on recent Cornell graduates’ current salary, type of job, and the name of their employer, with university data on respondents’ completed courses and exam grades. He further combined this with data from another survey concerning the perceived social responsibility of various jobs and employers. Controlling for sex, curriculum and academic performance, Frank found that jobs and firms considered more socially responsible paid substantially and statistically significantly lower wages. He also found that although the wage difference was of a similar magnitude for both genders, women were much more likely to actually have socially responsible employment.

Nyborg and Zhang (2013) used official register data for wages, as well as a large number of background variables such as education, gender, family status, geographical location and industry. Our data on firm reputation originated from several large surveys conducted by the employer branding firm mentioned above, Universum. This resulted in a dataset with observations for more than 100,000 full-time employees of Norwegian firms. We found that firms that are more strongly associated with CSR pay substantially and statistically significantly lower wages. Surprisingly, this
result was almost entirely driven by a strong effect for men; for women, the reduction in wage associated with CSR was small or not present at all. One possible reason for the latter might be that women are more likely to have jobs associated with social responsibility, as found by Frank (2004), and that the job categories used in our analysis were not fine-grained enough to pick this up.

Another relevant study is Reinikka and Svensson (2004), who found that among primary health care providers in Uganda, religious non-profit providers were more likely to provide pro-poor services and services with a public good element, and these providers also hired qualified medical staff below the market wage.

Are employees of CSR firms more productive?

How about cost advantage 2) mentioned above, i.e. the hypothesis that the employees of CSR firms are also more productive? At least three related, but different arguments have been proposed for why this might be so: more motivated individuals could self-select into CSR firms; working for a socially responsible employer may in itself increase work motivation; and CSR firms may better be able to establish and keep a workplace culture stimulating effort and motivation.

Gregg et al. (2011) find, using British survey data, that employees in the non-profit sector are more likely to work unpaid overtime than those in the for-profit sector, and attribute this to self-selection. Using data for French firms and employees, Sanja Pekovic and her co-authors find that for firms that have adopted voluntary environmental standards, employees are more likely to work uncompensated overtime hours (Lanfranchi and Pekovic 2012), labor productivity is higher (Delmas and Pekovic 2013), and recruitment is better (Grolleau et al. 2012). Nevertheless, when studying these questions on an aggregated level, it is hard to see through all the identification and interpretation issues one is faced with.

In economic laboratory experiments, the environment is artificial, but controlled. Participants are paid with real money, depending on their own and others’ behavior in the experiment, and everything is (normally) anonymous. Such experiments are nice tools to try to understand mechanisms working on a micro level, although one cannot, of course, know for sure the extent to which the observed behavior can be generalized to the world outside of the lab. Hence, it may be interesting to take a look at a few laboratory experiments attempting to explore the mechanisms at work here.

If employment in CSR firms is rewarded with lower wages, this may still affect recruitment – if not in terms of the number of applicants, then maybe in terms of who applies. This leads us to the first potential reason why CSR firms may benefit in terms of labor productivity: more motivated individuals could self-select into CSR firms. The experiment by Brekke et al. (2011) was designed to test a theory by Brekke and Nyborg (2008) predicting precisely this. Let me first explain the main idea of this theory.

Assume that at least some people are morally motivated, in the sense that they prefer to keep a self-image as socially responsible individuals. A good self-image requires that the individual finds her own behavior to be ethically acceptable. To make such evaluations, individuals may apply to general ethical principles. For example, inspired by Immanuel Kant, they may consider the social
consequences had everyone acted just like themselves; the better the consequences, the better is the self-image impact of the action.

In Brekke and Nyborg (2008) we showed that if behavior is influenced by general ethical principles of the kind sketched above, and if the strength of moral motivation varies between individuals, morally motivated behavior will tend to be correlated across contexts. That is, those who prefer a job in a CSR firm even though the wage is lower will also tend to be the same people who shirk less at work.

If CSR jobs pay lower wages, individuals with no moral motivation at all will not even apply; they prefer jobs with higher pay. CSR jobs will only be attractive for workers with a strong enough moral motivation to justify the associated wage loss. And if these workers are also less likely to shirk, CSR firms will in fact recruit more productive workers.

This would not be important in firms where employees can easily be monitored and rewarded according to their performance; in such firms, effort can be stimulated using traditional economic incentives or threats of displacement. In firms where productivity is highly dependent on employees’ reliability, however, recruiting the right people can be crucial.

If there is something to the above argument, one should be able to observe that individuals who voluntarily seek membership in a group committed to charity (corresponding to seeking CSR employment) also tend to contribute more to their group (corresponding to exerting effort on the job). This is precisely what Brekke et al. (2011) set out to test.

Participants were divided into small groups. Each person received a sum of money, which they could either keep for themselves or share with their group. Contributions to the group were doubled by the experimenters and then shared equally between group members. This way, each single individual would maximize her payoff by keeping everything for herself; group payoff, however, would be maximized if everyone contributed everything to the group.

In similar experiments, people typically contribute substantial amounts to their group; but if the experiment is repeated, cooperation crumbles fast (see Ledyard 1995, Zelmer 2003): it seems that those who contribute are disappointed by the others, responding with withdrawal.

In our experiment, participants were in addition asked to choose which type of group type they would be in: In «blue» groups, each member would earn 50 NOK (about 7 EUR) extra; in “red” groups, the Red Cross would instead earn 50 NOK extra per member. If responsible individuals are drawn to responsible groups, we should observe that contributions to the group were higher in red groups; that is, groups committed to contributing to charity would attract individuals who also were more willing to contribute to the group. And this is exactly what we found.

The really big difference, however, occurred when we repeated the game. While cooperation crumbled fast in blue groups, cooperation in red groups stayed high as rounds evolved – regardless of whether groups were fixed or not, and even if we let people change group type between rounds. That is, not only were members of red groups more cooperative towards their group; red groups were also better able to keep up cooperation over time, possibly because their members were less disappointed with each other to begin with.
Many experimental studies of this type have found that a substantial share of their experimental subjects, often a majority, are conditional cooperators. That is, they contribute more the more others in their group contribute (see, for example, Fischbacher and Gächter 2010). This seems to be a rather general phenomenon; people reciprocate others’ good behavior (or believed good intentions) by behaving nicely themselves. Such patterns of behavior can potentially give rise to vicious or virtuous circles at the company level, i.e. different work cultures: If others work hard, I work hard too; if others don’t, I don’t either. The experiment described above provides one indication that CSR may affect such local work cultures: If CSR attracts more cooperative individuals, it will be easier to establish a good circle rather than a vicious one. Until more data is available, however, this argument is still admittedly somewhat speculative.

Matching mission preferences

Other mechanisms might also potentially give rise to higher labor productivity in CSR firms. Besley and Ghatak (2005) suggest that motivated workers exert more effort if matched with an employer who shares the workers’ mission preferences. To test this hypothesis, Fehrler and Kosfeld (2012) conducted a laboratory labor market experiment where participants were assigned roles corresponding to employers and employees, and where employees’ efforts produced, in addition to profits to their employer, a donation to a third party. In the first part of the experiment, the researchers decided whether the third party was a random student or a charity; but if the recipient was a charity, the employee would choose which one, from a list of 16 alternative charities. To their surprise, Fehrler and Kosfeld found that under these conditions, it did not matter significantly for effort levels whether the third party was another random student or a charity. However, if employees decided themselves whether the third party would be a student or a charity of their choice, and the charity option was costly, results changed: In this case, only one third of employees did choose the charity contract, but those individuals did in fact provide substantially higher efforts than others. Again, the self-selection of responsible types seems to be a crucial part of the mechanism.

Another experiment, Koppel and Regner (2011), has much in common with the one by Ferhler and Kosfeld described above. Here, however, the share of employer profits which was donated to a third party – in Koppel and Regner’s case, a charity – was determined by the employer, not the researchers. Koppel and Regner found that workers did reciprocate higher donation shares by exerting more effort. Further, they found that a match between the employee’s preferred charity and the charity being donated to, did have a positive impact on effort, but only if the donation share was high.

One always needs to exert caution when generalizing from the lab to the outside world. Nevertheless, the studies discussed above confirm that in certain contexts at least, individuals are willing to exert higher effort when working for groups committed to charities, and that this is partly, but probably not exclusively, due to cooperative individuals self-selecting into such groups.

Final remarks

A topic I have not mentioned thus far is group identity. Several studies, e.g. Ben-Ner et al. (2009), have demonstrated that group identity is important for behavior. Employers may try to create a
feeling of group identity among their employees, which might have similar effects on motivation for current employees as an investment in CSR. However, since a feeling of group identity will hardly affect workers not yet employed by the firm, it is doubtful that this will tempt more productive individuals to seek employment in the firm.

To summarize: There is some evidence that CSR firms pay lower wages than other firms. Given this, there also exist reasons to expect that CSR employment will mainly be attractive to motivated individuals, who tend to exert more effort than others. Several studies indicate that CSR firms are in fact able to recruit more productive workers. However, this literature is in its infancy. Until more empirical research is available, these findings need to be interpreted with care.

Limitations & gaps

Three important limitations should be borne in mind when interpreting the findings discussed above.

First, the empirical literature on the relationships between CSR and wages, worker motivation and worker productivity is in its infancy, and relatively few studies have yet addressed this directly. Thus, one should not dismiss the probability that further research will reveal different results than those reported above.

Second, even if it should turn out to be true that CSR firms pay lower wages and attract more productive workers, they would not necessarily be more profitable. That depends on whether their extra costs associated with CSR outweigh the gains or not. In a long-run competitive market equilibrium, one might in fact expect these gains and losses to exactly cancel out, meaning that both types of firms would be equally profitable.

Third, an important distinction not explicitly discussed above is the following: having a reputation as socially responsible is not the same as actually being socially responsible. Each may influence employee motivation, but probably in slightly different ways. To make CSR beneficial to society, not just to company owners, it is important that the public has sufficient verifiable information about actual company behavior. This is an important task for policy.

Summary & policy advice

In this article, I have presented some recent findings from the economics literatures on work motivation, social corporate responsibility and social preferences/altruism. Taken together, these findings indicate that employers can recruit responsible employees, and limit the recruitment of irresponsible ones, by keeping a company reputation as socially responsible while offering relatively low wages.

These results discussed here are of policy relevance because

i) many public sector jobs and political positions are characterized by poor observability of individual performance, as well as large potential personal gains and great potential social damages of irresponsible behavior. These are exactly the conditions under which it is important to recruit responsible employees;
ii) even when direct political intervention is for some reason infeasible, worker motivation and its effects on productivity and profits may provide a check on firms' behavior along social and environmental dimensions (and this holds even in a competitive market environment);

iii) for the latter to hold, however, public sector support may be needed, e.g. in the form of voluntary certification initiatives.

References:


Further reading:


