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**Article**

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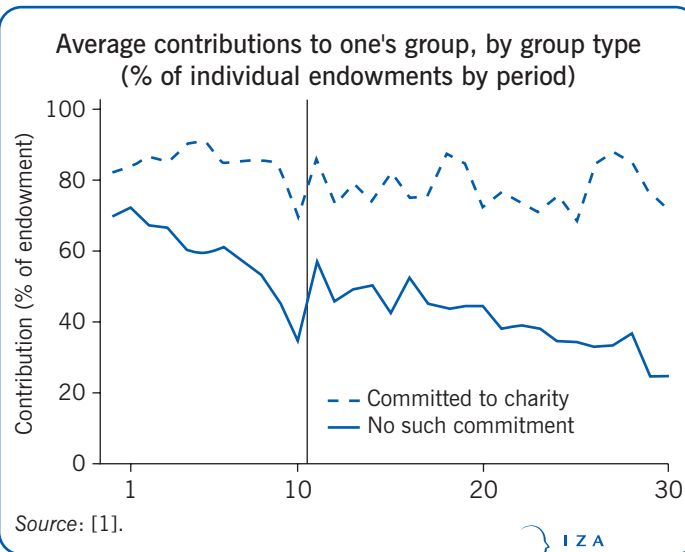
# Do responsible employers attract responsible employees?

The cost of a firm's commitment to CSR may be offset by its appeal to motivated employees who work harder for lower wages

Keywords: corporate social responsibility (CSR), employee motivation, productivity, wages

## ELEVATOR PITCH

Survey and register data indicate that many employees prefer a socially responsible employer and will accept a lower wage to achieve this. Laboratory experiments support the hypothesis that socially responsible groups are more productive than others, partly because they attract cooperative types, partly because initial cooperation is reinforced by group dynamics. Overall, the findings indicate corporate social responsibility may have cost advantages for firms.



## KEY FINDINGS

### Pros

- ⊕ Firms with a reputation as socially responsible pay lower wages than other firms.
- ⊕ Such low wages are unattractive to unmotivated workers who care only about their own earnings.
- ⊕ A low wage may be tolerated by a motivated individual who prefers a socially responsible employer.
- ⊕ Laboratory experiments indicate that a socially responsible firm attracts more cooperative individuals.
- ⊕ Experiments also indicate that individuals cooperate more in a group the more that others in the group also cooperate.

### Cons

- ⊖ Men's wages are lower in socially responsible firms, but for women, results are less clear.
- ⊖ The cost advantages of social responsibility to firms do not necessarily make them more profitable.

## AUTHOR'S MAIN MESSAGE

There is empirical support for the idea that socially responsible employers can pay lower wages and yet attract more motivated, cooperative employees. This cooperativeness can be reinforced by group dynamics, allowing firms that adopt corporate social responsibility (CSR) to benefit from a more productive firm culture. Thus, such firms may be able to 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.

## MOTIVATION

Does one have to offer high pay to get the best people? Not if “best” means “most responsible.” This paper presents some recent findings which show that a firm can recruit responsible employees, and limit the recruitment of irresponsible ones, by maintaining a reputation for social responsibility—all while offering relatively low pay.

Some employees are more responsible than others, in the sense they are willing to work hard to further their employer’s goals even when monetary incentives are weak or nonexistent. In some jobs a sense of responsibility is irrelevant to productivity because employee behavior can be controlled through pay incentives or threats of dismissal. However, where an individual’s performance cannot be readily observed, recruiting the “right” people becomes important. Indeed, it is crucial if an employee is in a position to make large personal gains or even threaten the firm’s reputation or existence through irresponsible behavior.

## DISCUSSION OF PROS AND CONS

CSR has become a popular concept in advertising and the media. There are various definitions, but the following should suffice for the present purpose: CSR 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** [2], p. 108.

The social goals can, for example, be voluntary reductions of environmentally harmful emissions, ensuring that subcontractors do not exploit child labor, or contributing to charities. It is important to note that although pursuing social goals may be costly per se, a favorable response by customers, investors, employees, or the government to firms with a good social reputation can result in increased revenues and/or reduced costs. Overall, therefore, CSR may be profitable for a firm.

The present discussion will be concerned exclusively with cost savings for firms that engage in CSR related to employee motivation. In the economics literature, arguments have been proposed for at least two potential sources of such cost savings: CSR firms can pay **lower wages**; and CSR firms may enjoy **higher employee productivity** due to better recruitment, higher intrinsic motivation, and/or a more effort-promoting corporate culture [3].

## Do CSR firms pay lower wages?

The hypothesis that firms practicing CSR are able to pay lower wages is based on the idea that some people simply prefer, for whatever reason, to work for an employer who is socially responsible. For example, it has been reported that job satisfaction is substantially higher when top management is perceived as strongly supporting ethical behavior. A recent study, based on a data set comprising 11,600 employees at 7,700 French firms, finds that employees of firms that have adopted voluntary environmental standards report a significantly higher feeling of usefulness at work [4]. In its annual graduate survey, the international employer-branding firm Universum collects responses from roughly 180,000 students in 28 countries; in its 2006 survey, 22% of US respondents and 20% of European respondents identified CSR as one of the few most important factors they would use in selecting their future ideal employers [3].

People who prefer their employer to be socially responsible will, if faced with a choice between two otherwise identical job offers with equal pay, choose the employer they find more responsible. Therefore, to make those people indifferent, the less responsible employer must offer a higher wage. It follows that if a sufficient number of workers have a sufficiently strong preference of this kind, the going wage for CSR firms will be lower than that of other firms. This corresponds to CSR being viewed 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 to us. Studies exploring wage differentials between profit and nonprofit (not-for-profit) firms have produced mixed results. Studies exploring the hypothesis more directly, however, have provided support for it. One, published in 2004, combined a survey of Cornell University graduates' current salary, type of job, and employer with university data on respondents' completed courses and exam grades [5]. This was further combined with data from another survey on the perceived social responsibility of various jobs and employers.

Controlling for sex, curriculum, and academic performance, the author 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 size for both genders, women were much more likely to actually be in socially responsible employment.

In research published in 2013, official register data for wages, as well as a large number of background variables such as education, gender, family status, geographical location, and industry were used [2]. The data on firm reputation originated from several large surveys conducted by the employer-branding

firm mentioned above, Universum. This gave a data set with observations for more than 100,000 full-time employees of Norwegian firms.

It was found that firms 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 might be that women are more likely to have jobs associated with social responsibility (as found in the earlier study [5]), but that the job categories used in the analysis were not fine-grained enough to pick this up.

In another relevant study from 2004, the authors found that, among providers of primary healthcare in Uganda, religious nonprofit bodies were more likely to offer services for the poor and services with a public-good element. These nonprofit providers were able to hire qualified medical staff at below the market wage.

## **Are employees of CSR firms more productive?**

How about the second cost advantage mentioned above—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 highly motivated individuals could self-select into CSR firms; working for a socially responsible employer may in itself increase work motivation; and CSR firms may be better able to establish and foster a workplace culture that stimulates motivation and effort.

A study using survey data from the UK finds that employees in the nonprofit sector are more likely to work unpaid overtime than those in the for-profit sector, and attributes this to self-selection [6]. Three studies using data for French firms and employees find that, for firms that have adopted voluntary environmental standards, employees are more likely to work uncompensated overtime hours [4], labor productivity is higher [7], and difficulties with recruitment are smaller [8]. Nevertheless, when we look at these issues at an aggregated level, it is not easy to see through all the identification and interpretation problems that they present to the researcher.

## **Evidence from the laboratory**

### ***Do motivated individuals self-select?***

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 (usually) anonymous.

Such experiments are useful tools to help us understand mechanisms at 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 the laboratory. Nevertheless, it may be interesting to take a look at some laboratory experiments that have attempted to explore the mechanisms at work here.

If employment in CSR firms is rewarded with lower wages, this may affect recruitment—if not in terms of the number of applicants, then maybe in terms of who applies. This leads to the first possible reason CSR firms may benefit in terms of labor productivity: It may be that more motivated individuals self-select into such firms. An experiment published in 2011 was designed [1] to test an earlier-mentioned theory from 2008 which predicted precisely that [3]. The main idea of this theory should first be explained.

Assume that at least some people are morally motivated, in the sense that they like to regard themselves as socially responsible individuals. A good self-image requires that individuals find their own behavior ethically acceptable. To make such evaluations of their behavior, individuals may appeal to general ethical principles. For example, inspired by Immanuel Kant, they might consider what the social consequences would be if everyone acted exactly as they did; the better the consequences, the better the impact on self-image of the action.

The 2008 study showed that if behavior is influenced by general ethical principles of this kind, and if the strength of moral motivation varies between individuals, those who make socially responsible choices in one context are more likely to do so in other contexts as well [3]. 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 put more effort into their work.

If CSR jobs pay less, individuals with no moral motivation will not even apply; quite simply, they go for jobs with higher pay (if all else is equal). CSR jobs will only be attractive to those with a strong enough moral motivation to justify the associated lower income. And if these workers are also less likely to shirk, CSR firms will in fact recruit workers who are more productive.

This is not 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 dismissal. 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 (which corresponds to seeking CSR employment) also tend to contribute more to their group (which corresponds to exerting effort on the job). This is precisely what the 2011 study set out to test [1].

In this experiment, which was a variety of what is known as a public good game, participants were divided into groups of three individuals. Each person was given a sum of money which they could either keep for themselves or share with their group. Contributions to the group (i.e. sums shared with the group by individuals) were doubled by the experimenters and then shared equally between group members. In this way, every time an individual contributed money to the group, she would only get two-thirds of it back. Consequently, each individual would maximize their payoff by keeping everything for themselves; group payoff, however, would be maximized if everyone contributed everything to the group.

In similar experiments it has been observed that, initially, people typically contribute substantial amounts to their group. However, if the experiment is repeated, cooperation crumbles fast: It seems that those who contribute are disappointed by the behavior of others who do not, and respond by withdrawing.

In this study, the experimental subjects were, in addition, asked to choose between two types of group they could join. Those who chose to be in a “blue” group would each earn 50 Norwegian kroner (about 7 euros) extra, in addition to the payoff scheme described above; however, if they chose a “red” group, a similar sum of 50 kroner would instead be donated to the Red Cross. The idea here was that if responsible individuals are drawn to socially responsible groups, we should observe that contributions to the group are higher in red groups—that is, groups committed to contributing to charity should attract individuals who also are more willing to contribute to the group. And that is exactly what was found.

The really big difference, however, was seen when the game was repeated. Whereas cooperation crumbled fast in blue groups, cooperation in red groups stayed high as rounds evolved—regardless of whether membership of the groups was fixed or not, and even if people were allowed to change from one type of group to the other between rounds. That is, not only were members of red groups more cooperative toward 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 portion of the experimental subjects, often a majority, are “conditional” cooperators—that is, the more others in their group contribute, the more they contribute themselves. This seems to be a rather general phenomenon:



People reciprocate others' good behavior (or supposed good intentions) by behaving nicely themselves. Potentially, such patterns of behavior can give rise to vicious or virtuous circles at the company level along the lines of "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 influence such local work cultures within a company: If CSR attracts more cooperative individuals, a firm with a reputation for practicing CSR will find it easier to establish a good circle rather than a vicious one. Until more data are available, however, this argument admittedly remains somewhat speculative.

### *Shared mission preferences*

Other mechanisms might also give rise to higher labor productivity in CSR firms. It has been suggested that motivated workers exert more effort if matched with an employer who shares their mission preferences. To test this hypothesis, researchers conducted a laboratory labor market experiment where participants were assigned roles corresponding to employers and employees, and where—in addition to profits for their employer—employees' efforts resulted in a donation being made to a third party [9]. In the first part of the experiment, the **researchers** decided whether the recipient should be a randomly selected student or a charity. If the recipient was a charity, the employee got to choose which one from a list of 16 alternatives.

To their surprise, the researchers found that under these conditions it did not matter significantly for effort levels whether the third party was another randomly selected student or a charity. Nor did it matter if researchers tripled the donation produced per unit of effort. Puzzled by these results, the researchers conducted a second part of the experiment, in which it was the **employees themselves** who decided whether the recipient would be a student or a charity of their choice. Researchers also varied how costly each alternative was to the employees.

If donating to a charity was less costly than donating to another student, all employees chose a charity. However, as soon as the charity option became more costly than the alternative, the results changed: Now, only one-third of employees chose the charity option, but those individuals made substantially more effort for their "employer" than others. Again, the self-selection of responsible types seems to be a crucial part of the mechanism.

Another experiment has much in common with the one just described [10]. Here, the employer decided the share of her profits that should be donated to a charity. The experimenters found that workers responded to the employer's decision to donate a larger share of profits by exerting more effort. Further, they found that when the receiving charity matched the employee's preferred



charity it had a positive impact on the employee's effort, but only if the share of profits donated was high.

One must always exercise caution when generalizing from laboratory experiments like these 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 in groups that are donating in some way to charity, and that this is partly, but probably not exclusively, because cooperative individuals self-select into such groups.

## Final remarks

A topic not mentioned thus far is group identity. Several studies have demonstrated that group identity is important for people's behavior. Employers may try to create a feeling of group identity among their employees, and it is possible that this will have effects similar to an investment in CSR on motivation for people they already employ. However, since a feeling of group identity is unlikely to affect anyone outside 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 is also reason to believe that CSR employment is mainly 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 area of study is in its infancy, and until more empirical research is available these findings need to be interpreted with care.

## LIMITATIONS AND GAPS

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

First, empirical investigation of the relationships between CSR and wages, worker motivation, and worker productivity is in its infancy. It is possible that further research will reveal different results from those reported here.

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 the extra costs associated with CSR outweigh the gains. In a long-term competitive market equilibrium, one might in fact expect these gains and losses to cancel each other out, so both types of firm would be equally profitable.

Third, a reputation for social responsibility is not the same as actually being socially responsible. To make CSR beneficial to society, not just to company

owners, the public has to have sufficient verifiable information about actual company behavior. This is a key task for policy.

## SUMMARY AND POLICY ADVICE

These findings from the economics literature on work motivation, CSR, and social preferences/altruism indicate that companies can recruit responsible employees, and limit the recruitment of irresponsible ones, by maintaining a socially responsible reputation while offering relatively low wages.

The findings are relevant for policy because:

- many public-sector jobs and political positions offer poor observability of individual performance, as well as a large potential for personal gain and the considerable social damage that irresponsible behavior can cause—exactly the conditions under which it is important to recruit responsible employees;
- even when direct political intervention is unfeasible, worker motivation and its effects on productivity and profits may provide a check on firms' behavior along social and environmental dimensions (even in a competitive market environment).

For the last point to hold, however, public-sector support may be needed—for example, voluntary certification initiatives.

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## Competing interests

The IZA World of Labor project is committed to the *IZA Guiding Principles of Research Integrity*. The author declares to have observed these principles.

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