The Internal Effects of Corporate Social Responsibility on Firm Performance

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Abstract

The purpose of this thesis is to identify the internal effects of corporate social responsibility on firm performance. It also examines the definition of corporate social responsibility and two varying theories about the topic. This thesis explores the human resource, quality and financial aspects of firm performance and how those aspects of a company are affected by adopting significant corporate social responsibility programs. This research seeks to answer the claim that corporate social responsibility programs do not have a positive effect on the actual performance of an organization. It will examine the effect of CSR on employee attitudes, moral and overall satisfaction, seeking to determine if it affects employees in such a way that would affect their performance. This thesis will also examine the effect of implementing CSR programs on the quality of the company’s service or products. Finally, it will investigate the financial effects of implementing CSR programs on an organization.
The Internal Effects of Corporate Social Responsibility on Firm Performance

Although there are always advancements in technology and research that businesses use to manage operations, invest in employees and build loyalty with customers, few trends have reached the same level of significance as the rise of Corporate Social Responsibility (CSR). This trend has become far reaching and necessary in every business (Fallon, 2015). Corporate Social Responsibility can have positive effects on not only society as a whole, but also in the overall performance of an organization. CSR is not a new concept to the field of business, but has recently gained a significant amount of attention. The expectation on businesses to implement Corporate Social Responsibility has become almost a necessity to be a competitor in most markets. Fallon (2015) notes that consumers’ awareness of global issues is growing and so is there desire for the places they shop to be engaged in socially responsible practices. CSR has become mainstream as businesses look to use CSR to create shared values with society in order to add sustainability to their organization, attract new consumers and build customer loyalty (Fallon, 2015).

Implementing these practices affects not only customer perceptions and marketing, but also the structure of an organization and its employees (Du, et al., 2010). These changes can have significant impact on an organization, its people, and its bottom line. The size of the firm will determine the approaches taken and the particular industry that the organization operates in will also affect the implementation of social responsibility processes (Baumann-Pauly, et.al., 2013). The type of social responsibility will also change the way an organization handles it through structure and marketing (Du, et al., 2010). Although the goal of Corporate Social Responsibility is to benefit the
society or the environment surrounding an organization, it is important to discuss the effects of CSR on companies’ internal operations and overall performance. It is good to seek to benefit society, but for businesses, the bottom line will always be of high priority because if not, they will not be able to maintain operation in the long run.

This thesis will seek to consolidate much of the research done on Corporate Social Responsibility, focusing on how it effects the operations of a company. The following research will show whether or not CSR is beneficial to an organization from the perspective of human resources, financials and quality management. Determining the effects of CSR from these perspectives will help to determine the effectiveness of CSR campaigns in benefitting a company’s operations and performance.

**What is Corporate Social Responsibility?**

There are various perspectives on the specific definition of the term Corporate Social Responsibility. Many definitions however, are rather broad, generally describing CSR as an organization implementing a program or way of doing business that affects people outside of the organization in a positive way. Ness (1992) defines Corporate Social Responsibility as “A strategic decision whereby an organization undertakes an obligation to society, for example in the form of sponsorship, commitment to local communities, attention to environmental issues, and responsible advertising” (p. 1). Although there are many differing views on what Corporate Social Responsibility truly is or should be, each school of thought and definition attempts to outline what the responsibility of a business to society exactly is.

Two of the major schools of thought on Corporate Social Responsibility were developed by Milton Freidman and Archie B. Carroll. Friedman’s (1962) writings argue
that the greatest responsibility an organization has to its stakeholders, shareholders and society is to maximize profits. He holds tightly to free market capitalism and that any philanthropic acts should be done by individuals and not by organizations on behalf of the individuals. Maximizing profits provides better standards of living for employees, gives shareholders the highest returns on investments, and hopefully provides sustainability for the whole company. Essentially, Friedman argues that any initiative that does not contribute to maximizing a company’s profits should not be engaged in by that company.

In contrast to Friedman, Carroll (1979) developed the view that the responsibility of businesses to society is four-fold. Carroll’s view is that the responsibility of businesses was not only to meet the legal and economic requirements and expectations of the greater society and shareholders, but to also engage in ethical practices that may go beyond basic legal requirements and also to engage in philanthropic activities. Carroll’s view recognized the responsibility of businesses to honor shareholder’s investments but it also recognized that the influence of business goes further into society than just economics. Carroll’s approach views businesses as members of society than just simply institutions of society.

CSR in Today’s Businesses

The topic of Corporate Social Responsibility has gained more focus today as the world of business looks towards continued globalization. According to Ravi (2011), “The concept of Corporate Social Responsibility (CSR) has been reinforced with the introduction of globalization and liberalization. Many world-renowned companies, like the World Bank, OECD, and European commissions are very actively supporting and
promoting the concept of CSR” (p. 10). Implementing CSR into an organization is also a way to add sustainability to that organization’s operations. Because more companies are working to embed sustainability into the core of their business, CSR has become more mainstream as businesses seek to have shared values with society (Fallon, 2015).

For example, in 2017, Lego was listed by Forbes magazine, as the company with the highest CSR reputation for that year (Strauss, 2017). Through its operations and supported causes, Lego seeks to protect the environment, maintain high ethical standards and transparency and to protect the rights of their biggest consumer, children. The Lego foundation partners with other organizations to help promote play and early education for children. Policy framework and group culture have helped Lego to create an environment that upholds ethical practices and respect among employees. Through their Local Community Engagement Program, they combine a desire for employee engagement with their goal to help children. Through this program, employees give volunteer hours to help inspire and develop children’s ability to learn through play (Lego.com, 2018).

Today, Corporate Social Responsibility initiatives can be seen through external philanthropic donations, ethical and sustainability standards and investment into employees. Many of these practices have become preferred if not expected by consumers and employees alike. Although satisfying shareholders by maximizing profits is a part of good business, so is meeting the demands of consumers. The implementation of CSR in an organization has now become an expected part of an organization’s operations. Although CSR has come to the forefront of business conversations and operations in recent years, the concept itself is not a new one.
History of Corporate Social Responsibility

Many businesses began noting a need for social responsibility in the United States during the 1930s and 40s, but a more formal focus on the topic in the United States has developed within approximately the last 60 years. One of the earliest writers on the subject was Howard R. Bowman (1953) who authored the book entitled *Social Responsibilities of the Businessman*. According to Bowman, the social responsibility of businessmen “refers to the obligations of businessmen to pursue those policies, to make those decisions, or to follow those lines of action which are desirable in terms of the objectives and values of our society” (p. 6). Carroll (1999) notes that “Bowen’s (1953) work proceeded from the belief that the several hundred largest businesses were vital centers of power and decision making and that the actions of these firms touched the lives of citizens at many points” (p. 269).

Carroll proposes the publications of Howard R. Bowmen as a fairly distinct beginning to the modern approach to CSR. Moura-Leite and Padgett give three points that summarize CSR in the 1950s. The first point that Moura-Leite and Padgett give is “the idea of corporate managers as public trustees”, the second, “the idea of balancing competing claims to corporate resources” and the third, “the acceptance of philanthropy as a manifestation of business’s support of good causes” (Moura-Leite & Padgett, 2011). In the 1950s, CSR was done almost entirely through philanthropy and there was very little consideration for its effects on business.

The 1960s brought a new layer to the discussion of CSR and conversation began to shift towards its importance to not only society, but also to business. Perspectives began to arise that society’s economic and human resources should be used in a way that
benefits more than just a single individual or firm. The idea that businesses had a responsibility to society beyond simply economic and legal duties. The 1960s also gave rise to the opposition of CSR presented by Milton Freidman in his book *Capitalism and Freedom*. Freidman (1962) argued that the greatest good a firm could do for society as a whole and to its shareholders is to maximize its profits and not to undermine that goal through other projects or goals that take the focus off of profits. Moura-Leite and Padgett (2011) point out, however, that businesses during this decade began to implement things like philanthropy, customer relations, employee improvements and stockholder relations, all of which could be considered social responsibilities.

The 1970s continued to develop the concept of CSR, with a more focused view on its practice implications. High priority, however, was still given to the necessary functions and the economic responsibilities of business. Moura-Leite and Padgett (2011) explain that “In the 1970s many authors focused on the content and implementation process of CSR that did not conflict with the fundamental interests of business” (p. 531). At the beginning of the decade, Friedman added to his 1962 work, part of which was that some social demands were acceptable to integrate into a business if they were profitable in the long-run (Moura-Leite & Padgett, 2011). At the end of the decade, Archie B. Caroll (1979) introduced his pyramid concept of CSR. In his model, CSR is comprised of the economic, legal, ethical and discretionary expectations placed on a business from the greater society.

During the 1980s, social concerns and businesses grew closer as businesses became more in-tune and responsive to their stakeholders (Moura-Leite & Padgett, 2011). As research on CSR continued to seek to define CSR, new concepts such as
corporate social responsiveness, corporate social performance, corporate citizenship, public policy, business ethics and stakeholder theory/management also emerged (Moura-Leite & Padgett, 2011). At this point in CSR history, the focus was on how to practically implement CSR and how to pair it with corporate responsiveness and business ethics.

Since the 1990s, Corporate Social Responsibility has progressed from a good concept integrated by some businesses, to a standard in almost every business, large and small. Although research and approaches have changed over many decades, the underlying motive has remained constant. According to Carroll (1999), “Bowen (1953) set forth an initial definition of the social responsibilities of businessmen: ‘It refers to the obligations of businessmen to pursue those policies, to make those decisions, or to follow those lines of action which are desirable in terms of the objectives and values of our society’” (p. 270). Just like with any field of study, the decades to follow allowed the study of Corporate Social Responsibility to be further researched and better defined.

**Archie Carroll and the Stakeholder Theory**

As mentioned before, there are many types of social responsibility that a corporation may implement. Each of these types of efforts may look different from one another because their focuses are different and their purposes are aimed at varying demographics. There are three general categories that are usually used to organize different types of Corporate Social Responsibility programs. Some organizations now incorporate some CSR into a few of their practices while other companies have made it central to their core values. Ben and Jerry’s has implemented CSR at its core, using only fair trade ingredients and developing a dairy farm sustainability program (Fallon, 2015). Corporate Social Responsibility is not always simply an independent program
implemented in a company, more and more it is becoming a fundamental part of how some companies choose to do business.

Carroll (1979) describes the social responsibilities of business in a pyramid form. The base of the pyramid is the economics factor. Carroll (1991) holds that the basic role of a company is to make a profit. An organization has a responsibility to its stakeholder to make a profit in order to benefit those who have invested time or money into the company. According to Carroll (1991), “Before anything else, the business institution is the basic economic unit in our society. As such, it has a responsibility to produce goods and services that society wants and to sell them at a profit” (p. 283). He continues to explain that the focus has shifted from acceptable profits to maximizing profits, but the overall role is the basis upon which the other three responsibilities build on.

The next layer to Carroll’s (1991) CSR pyramid is the Legal aspect. On top of the economic responsibilities of a business to make and profit and provide value to the community, it is the responsibility of a business to follow the laws of the land. Carroll (1991) writes, “As a partial fulfillment of the "social contract" between business and society, firms are expected to pursue their economic missions within the framework of the law” (p. 41). The laws that are created to regulate business represent general beliefs of what society considers acceptable business practices and what it considers not acceptable. The legal responsibilities of companies go hand in hand with the economic responsibilities, because making a profit without following the law is not beneficial to any party involved.

Along with the most basic responsibilities of economics and law, Carroll’s (1991) theory of social responsibility, considers ethics to be the next layer of responsibility that
businesses have. The ethics aspect, similar to the last layer of Carroll’s pyramid, goes beyond the role of the layers that proceeded it. Within the context of making a profit, within legal guidelines, Carroll claims that businesses have a responsibility to society, to act ethically in all situations, even if the action would go beyond what is required by law. According to Carroll (1991), “Ethical responsibilities embody those standards, norms, or expectations that reflect a concern for what consumers, employees, shareholders, and the community regard as fair, just, or in keeping with the respect or protection of stakeholders' moral rights” (p. 41). Carroll believes that meeting the expectations of ethical practices is often the act of adopting new values and expectations of customers, employees, shareholders, etc. that may require the company to operate at a higher level of standard than is currently required by law. In essence, its understanding the values of society and working to meet those widely accepted standards.

The final layer to Carroll’s (1991) pyramid is the Philanthropy layer. Many projects or efforts that people associate with CSR would be found in this category. These projects or campaigns can often times be more externally focused or more visible to those outside the company. The Layer of philanthropy builds on the foundation of economics, law and ethics because without those three present in a company, any philanthropic efforts with either be impossible or counterproductive. In the same article, Carroll (1991) gives a description of what the top layer of his pyramid entails, “Philanthropy encompasses those corporate actions that are in response to society's expectation that businesses be good corporate citizens” (p. 42). These expectations on business, however, are different than ethical expectations because they are not expectations of morality. Essentially, if a business does not engage in philanthropic practices, it will most likely
not be seen as a bad company whereas compromising ethical standards would most likely result in a bad reputation.

Most debates over the topic of CSR focus on the philanthropic aspect because it is more of a discretionary matter. Many organizations believe that the corporate responsibilities to society are found in the first three layers and therefore do not engage in philanthropic efforts. Some individuals, on the other hand, believe it is part of the responsibility of business to engage in the external community, invest in the arts, help to provide better living conditions for individuals, etc. These extra efforts that go beyond the three foundational responsibilities of business are what many people argue over whether they are actually beneficial to the external community and whether or not they have a positive effect on the internal functioning and overall performance of the firm. It is these questions that will seek to be answered in the research of this paper.

**Prioritizing Shareholders Over Stakeholders**

Although the idea of Corporate Social Responsibility may seem beneficial to many people and companies, there are theories that argue that CSR does not do as much good as it may seem (Saleem, Kumar & Shahid, 2016). The consistent thread that seems to run through most arguments against CSR is that social entrepreneurship is not the purpose of businesses and those that run it. Some individuals argue that the role of a business is to maximize profits and not to interfere with social or environmental issues, while other arguments hold that implementing extensive social responsibility programs could cost organizations more than they would benefit them.
Carroll and the Shareholder Theory

In contrast to the stakeholder theory that views CSR as a way to meet the expectations of customers and employees, the shareholder theory views the main purpose of business as maximizing profit to maximize shareholder’s wealth. This view is based on the idea that the key responsibility of a business is to use shareholder’s funds only in ways that grow the business and maximize profits. In this view, any use of shareholder funds for philanthropy or something that will not increase profits, is seen as a misuse of the shareholder’s investment. Milton Friedman was an economist in the 1960s who held to this view of corporate roles. Carroll and Shabana (2010) explain, “Friedman held that management has one responsibility and that is to maximize the profits of its owners or shareholders. Friedman argued that social issues are not the concern of business people and that these problems should be resolved by the unfettered workings of the free market system” (p. 88). The authors further describe arguments in the same vein that claim that business managers are equipped for finances and business operations and not qualified to make decisions that are socially oriented.

The shareholder theory offers the argument that by providing society with a quality product or service at a reasonable price, the company is benefitting society enough. By holding the shareholder view, an individual believes that a business’s priorities should lie in meeting the expectations of investors over the expectations of consumers. According to Saleem (2016), “By providing a necessary product or service at a reasonable price, a business is benefitting society (p. 948). He continues to say that “It is unnecessary and unwise to spend shareholder money for unprofitable social causes. The shareholders have made an investment and are dependent on the firm to provide them
with a return” (Saleem, 2016, pp. 948-949). Holding such a strong view of shareholder loyalty could cause a strain on management if the shareholders are desiring a focus on maximized profits while consumers are expecting a focus on social responsibility.

**The Monetary Risks of CSR**

The chance that implementing social responsibility programs may not monetarily pay off for a company is a risk that is often a major concern for organizations. When implementing new CSR programs in an organization, there are often monetary investments, as well as changes in standards and regulations. Monetary investments could include purchases of new, energy saving equipment or switching to environmentally friendly materials. New standards placed on processes could cost time and money to retrain employees or to simply add extra steps to the existing regulating processes (Auld et al., 2008). These investments into developing social responsibility programs could result in increased profits, customer loyalty, product distinction in the market or employee satisfaction. These results have the potential to outweigh the cost of implementing these programs but there is also the possibility that those investments will not pay off. According to Auld (2008), “If neither profitable internal changes nor external economic benefits are available, a profit-maximizing firm undertaking the new CSR will, over time, either suffer comparative disadvantage vis-a-vis nonparticipating firms by losing money, or the self-imposed requirements will be marginal rather than transformative” (p. 5). Although the CSR campaigns of a company may benefit the company internally and have a positive impact on the cause of their choice, those efforts do also have the potential to be inaccurately predicted and cause more harm than good.
Any social responsibility program taken on by an organization should be thoroughly researched and planned before implemented.

**Company Motivation**

There are several motivations behind why companies implement Corporate Social Responsibility into their business models and some motivations may seem less philanthropically based than others. Companies are strongly influenced by outside factors such as consumer expectations and market trends. Jenkins (2008), explains that CSR is relevant to all activities of business, especially in the way that those activities contribute to economic, social and environmental sustainability. He states that companies must be able to adhere to these expectations from the market and society in order to remain competitive.

In recent years, CSR has become a greater portion of market demands and therefore has become more crucial for organizations to consider their approach on the issue. Many organizations are motivated to implement social responsibility in their company in order to stay relevant in competitive markets and appeal to customers and other stakeholders in order to maintain loyalty, brand reputation and boost marketing campaigns. Kitzmueller (2008), explains that the fact that consumers and employees are intrinsically motivated should not be ignored due to the fact that their motivations directly impact demand in product markets and supply and demand in labor markets. As Kitzmueller mentions, the expectations of consumers, stakeholders and potential employees can affect the profits of the organization. CSR can effect profitability through improving the company’s reputation in consumer markets and improving a company’s product differentiation, both of which aim to increase sales and market shares (Graafland,
Whether social responsibility programs are implemented into a company with the initial intent of increasing profit, any organization who understands the current market will make Corporate Social Responsibility a point in their marketing.

The motivations behind Corporate Social Responsibility are not solely externally and profits based. Organizations may also be intrinsically motivated to incorporate social responsibility into their operations. Intrinsic motivations can often come from the values and desires of the employees and managers of an organization (Graaffland, 2012). A push for CSR does not have to only originate in executive offices. Graaffland (2012) states, “Managers’ personal values and beliefs can be an important motivating factor for CSR, particularly in SMEs, but also for larger companies” (p. 380). He further finds that “Non-financial motives often reflect intrinsic motives that perceive CSR as an end in itself, independent from (financial) benefits” (Graaffland, 2012, p. 380). Intrinsic motivations can generally be defined as either being based in a sense of moral duty or as altruism. A sense of moral duty often drives an individual to feel obligated to act in a way that benefits another for the well-being of the other individual or for society as a whole. A sense of duty is motivated less by emotion or connection with a cause and more by a perceived expectation or obligation to do one’s part. In suble contract to this, altruism is more driven by the good feeling that comes from doing things that benefit others. Individuals driven by altruism may be driven by their feeling of compassion towards a cause more than their sense of duty to society (Graaffland, 2012).

Corporate Social Responsibility also adds a level of sustainability to an organization. The idea behind this concept is that implementing CSR in an organization not only builds sustainability in relation to stakeholder loyalty, but it also helps to create a
stable environment, whether socially, economically or environmentally, for that organization to operate in in the future. Carroll and Shabana (2010) argue that businesses must take action now if they hope to have a healthy, functional climate in the future and ensure their sustainability for the long-run. The efforts of an organization to maintain a stable market environment in which to do business, may not only benefit the future of the organization, but may also benefit the communities that are affected by those efforts.

CSR’s Internal Effects

Although there are varying views on the value of implementing Corporate Social Responsibility, the actual results of CSR on firm performance can bring clarity to the topic. Organizations have looked to CSR as a way to improve sales and employee engagement. The following research will examine three areas of firm performance and how substantial CSR campaigns affect them. The first area examines the effect of CSR on employee attitudes and if those attitudes affect their overall performance. The second area focuses on quality performance in services or products that a company produces and whether CSR has a significant effect on the outcomes. The final area will analyze CSR’s effects on the financial performance of a firm. The following research will seek to answer whether or not added regulations, training or costs of substantial CSR campaigns have more of a negative affect than a positive affect on the financial performance of a firm.

Employee Attraction and Retention

The discussion of Corporate Social Responsibility efforts has often focused on the perceptions and level of satisfaction of consumers, however as the concept of CSR has
grown, businesses have recognized the importance of CSR programs that invest in and take into consideration the values of their Employees. Meeting the expectations of society and seeking to provide products or services that are aligned with the values of consumers has been what many corporations seek in hopes to increase brand equity and in turn, sales. CSR efforts, however, do not solely affect the perceptions of consumers, but they also affect, arguably even more so, the perceptions of employees and potential employees within an organization.

Businesses’ first responsibility is to its employees, those who are often dependent on the organization. Corporate culture and employee perceptions of their workplace have been shown to have a significant effect on their individual performance and overall performance of the firm (Kim & Scullion, 2013; Anitha, 2014). Corporate Social Responsibility efforts often play a significant role in the operations of a company and can affect the day to day tasks of most employees within the organization. Because of this impact, examining the impact of CSR on the perceptions of employees and potential employees is crucial to the understanding of its effect on the overall performance of a firm.

In the same way that consumers are looking for companies to implement values that align with their own, employees are also increasingly looking to work for organizations where they can find deeper value in the work that they do. Colwell (2008) found that employee retention and attraction is affected significantly by the alignment of the employee’s personal values and goals with the values and goal of the organization. He further found that an employee’s initial attraction to a company and the length of time they stay with a company, is largely due to how well the values of the company match the
values of the individual. Many of the value matches or mismatches are found in the employee’s perception of CSR. Coldwell (2008) discusses results that organizations have found in the statistics of their employee attraction and retention due to CSR campaigns.

The global healthcare company, Novo Nordisk experienced a 5% decrease in staff turnover since implementing its Values in Action program which aligned company values with sustainable development principles. Similarly, since implementing a CSR program, Sears has experienced a 20% decrease in staff turnover (Colwell, 2008). The impact of CSR on employee retention and satisfaction has also been found to have a positive effect on profits for an organization through its effects on human resources. A study sponsored by the British United Provident Association found a strong correlation between CSR and positive results for an organization’s bottom line (Colwell, 2008). Colwell (2008) found that “CSR helped to attract, motivate and retain a diverse workforce” (p. 614). The presence of a strong CSR campaign has been shown to have a positive impact on attracting new talent and also on retaining current employees, which in turn, has a positive impact on the overall performance of the organization.

Babcanova and coauthors (2010) define employer branding as a company’s reputation as an employer. Human resources works to market the company to attract new talent, the same way that marketing would brand products to attract consumers (Babcanova et al., 2010). Hershatter and Esptein (2010) found that Millennials in particular prioritize CSR when deciding where to work. Millennials look at corporate culture and try to determine if the values of the company align with its actions. Both Corporate Social Responsibility and the values of the company play an integral role when Millennials choose where they want to work (Hershatter & Esptein, 2010).
Microsoft, Google and The Walt Disney Company have been ranked in the top four by RepTrak as having the best CSR Reputation globally (Global CSR RepTrak 100, 2017). At the same time, a survey conducted by SurveyMonkey (2017) in July of 2017 showed that, out of all the companies people are most excited to work for, those same three companies were once again in the top four. Potential employees have recognized that companies such as Microsoft, Google and The Walt Disney Company have made CSR a priority and they desire to be a part of what those companies are doing.

**Employee Performance and Engagement**

As employees seek to work for organizations whose values align with their own, the effect of the presence of CSR campaigns have an effect on employee’s performance and engagement in their work. Lee and coauthors (2013) examine how CSR can affect corporate culture which affects employee perspectives which eventually affects overall company performance. They show that “An ethical work climate leads to more trust in the company, stronger attachment from employees, lower absenteeism and turnover rate, higher productivity, a more positive attitude toward work and good conduct from employees” (Lee, 2013, p. 1716). The ethical environment of an organization and the external perspective of family or friends have been shown to have an indirect yet positive impact on an employee’s job satisfaction (Lee et al., 2013). The article takes on the perspective that many companies spend most of their effort confusing on the impact of their CSR campaigns on consumer perspectives and yet CSR campaigns can also significantly affect the satisfaction level and perspectives of a company’s employees. Because employees play the most integral role in the daily operations of a company, their
attitudes and view on their workplace environment can have a significant impact on their job performance.

When examining the correlation between extensive CSR campaigns and employee engagement, some studies have shown that certain types of CSR have a more significant positive effect on employee perception than other types do (Kim & Scullion, 2013). One category of CSR that companies can implement is external CSR. These types of programs would include community outreach, efforts to make production environmentally friendly and other such programs that are focused outwards from the company, and seek to impact customers and other such individuals who are external to the organization. The other type of CSR are those programs that are focused inward, on the individuals who are internal to the company. These programs can include extra training and education for employees, diversity on the workplace and extra consideration for health, safety and human rights.

The types of CSR programs that organizations engage in look different from one company to the next, but a study done by Albdour and Altarawneh (2012), found a correlation between the presence of internal CSR programs and an employee’s engagement in both their job and the overall organization. They surveyed 336 frontline employees in the banking industry in Jordan and considered 51 internal CSR items in the categories of Training and education, health and safety, work life balance, workplace diversity and human rights components (Albdour & Altarawneh, 2012). When comparing the correlation between the presence of these types of programs in an organization and level of employee engagement in their individual job and in the company as a whole, Albdour and Altarawneh (2012) found that there is a strong, positive correlation between
internal CSR and employee engagement in the overall organization and a lesser but still positive correlation between the presence of those programs and an employee’s individual job engagement. The results of their study shows that employees who are on the frontline are more likely to express a higher level of Job engagement if they perceive their company as performing good internal CSR practices (Albdour, 2012). In this study, they found that health and safety programs are the biggest predictors for job engagement over the other categories, with training and education coming in last as a predictor.

In their article, Kim & Scullion (2011) discuss the findings of their research that CSR can contribute greatly to the motivation of employees. They divide the motivations that CSR creates in employees into three motivations, achievement, affiliation and power. CSR plays into a desire for achievement through perceptions of duty and pride, it plays into affiliation through safe work environments and a sense of cooperation towards a shared value and it plays into a desire for power through having effects and influences over other people or society. Adhering to the motivations of employees through CSR programs, is a key aspect of increasing job satisfaction and productivity.

Overall, extensive Corporate Social Responsibility programs can have a strong positive effect on human resources. Both external and internal CSR programs help to attract new talent, retain existing employees and help to increase employee engagement (Kim & Scullion, 2013; Albdour & Altarawneh, 2012; Hershatter & Esptein, 2010). External CSR programs that have a more visible presence to those outside the company may have more of an effect on the attraction of potential employees more than they have effect on the satisfaction of current employees. Internal CSR programs however, have been shown to have a strong positive effect on the engagement of employees and thus is
often reflected in lower employee turnover rates (Lee et al. 2013). Companies such as Microsoft, Google and The Walt Disney company attract new talent through their reputation of CSR programs, while companies such as Novo Nordisk and Sears have seen significant decreases in their staff turnover rates due to implementing CSR.

**Effects on Organizational Quality and Brand Equity**

Many proponents of CSR and stakeholder theory argue that CSR efforts contribute significantly to an organization’s reputation and their brand equity. Such a result is often attributed to the goal of CSR to align the values of a company with the values of society and potential customers. If the claim is true, then CSR campaigns have the potential of benefitting an organizations overall performance by positively impacting its reputation and brand equity. At the same time, however, added requirements, training and financial investment are necessary to implement extensive CSR programs. How then, is the quality of an organization’s services or products affected by these additional standards?

Total Quality Management is an approach to running and organization that plans and implements quality into every aspect of the company. The U.S. Department of defense has defined TQM as “The application of quantitative methods and human resources to improve materials and services supplied to an organization, all the processes within an organization, and the degree to which the needs of the customer are met, now and in the future” (U.S. Department of Defense, 1990, p. 11). The most significant driving focus of TQM is the continuous improvement of every process and aspect of a company. The goal of this is for the overall quality and performance of the organization
is continuously improving and the resulting products and/or services would also be continuously improving.

Barrett (2009) argues that the goals of both TQM and CSR are not necessarily compatible. He holds that the philanthropic or environmental aspect of potential CSR programs are not necessary for achieving excellence within the organization. His view is based in the shareholder theory which states that the only responsibility of a business to society is to make a profit. According to Barrett (2009), “Businesses offer intrinsic benefits to society when they operate with integrity in an effort to maximize profits. Initiatives such as philanthropy and certain environmental efforts can serve to augment these advantages, but may also be detrimental” (p. 29). From this point of view, total quality management integrates well into Corporate Social Responsibility but not all CSR programs may benefit the goal of TQM.

In opposition to the idea that CSR projects can be detrimental to TQM goals, Frolova and Lapina (2015), argue that CSR campaigns and quality management systems are in fact compatible and together, can result in improved higher satisfaction levels and overall firm performance at every level of an organization. These authors make the case that employee satisfaction and turnover levels play a significant role in the overall quality and sustainability of an organization. As discussed earlier, the factors of employee engagement and turnover rates are impacted significantly by the presence of strong CSR programs. According to Frolova and Lapina (2015), having committed employees is a precursor to increasing process performance, sustainability and the overall excellence of an organization. Frolova’s viewpoint holds that CSR is a crucial aspect of a high performing organization and thus is compatible with the goals of total quality
INTERNAL EFFECTS OF CSR

management. The goal of CSR is to satisfy stakeholders by meeting their standards of what they value. When successfully accomplished, the performance of an organization can be considered excellent when measured by the satisfaction of its stakeholders (customers, employees, investors, etc.). According to Frolova and Lapina (2015), “The key of a CSR management system is the transformation of stakeholders’ expectations into a set of CSR objectives, targets and indicators, which are then cascaded throughout the organization, embedded into organizational processes and continuously monitored” (p. 266). With this goal in mind, an already existing quality management system can be used to integrate CSR efforts into every aspect of an organization.

Lai and coauthors (2010) found a relationship between CSR, brand reputation and brand equity. In today’s market place, consumer and employee expectations have made CSR efforts a necessary factor in creating a positive company reputation. According to Lai (2010), “In today's highly competitive market environment, many companies have used CSR as a strategic tool to respond to expectations of various stakeholders such as media, public opinion, nongovernment organizations and even consumers, to thus create a favorable corporate image” (pp. 460-61). Company reputation has a strong determining role in brand equity (Lai, 2010). Brand equity is considered to be found in the perception of consumers. How well an organization meets the desires and expectations of consumers and in turn, how consumers perceive the value an organization offers in comparison to other competing brands all contribute to brand equity. As discussed by Lai (2010), brand value is created not just when the consumer is satisfied but when the expectations of all stakeholders are met. Most stakeholders expect a good company reputation and so having that good reputation can benefit the brand equity of that
company’s products. Having a good corporate reputation which results in a significant amount of brand equity can benefit the overall performance of the firm through positive customer perceptions and loyalty.

Overall, extensive CSR campaigns have been shown to have a high potential for a positive impact organizational quality and consumer’s perceptions of quality. When view from the stakeholder view, quality management systems and CSR programs are compatible within an organization and can benefit each other, when focused on the same goals. Corporate reputation and brand equity are both significant factors in the overall performance of an organization and its standing in the market place. The goal of brand equity is to appear and ultimately be irreplaceable in the eyes of a customer. A significant factor in becoming irreplaceable in the eyes of a consumer is for the values of the organization to align with the values of the customer which is a major goal and result of Corporate Social Responsibility.

**Effects on Financial Performance**

Individuals who are in favor of CSR often claim that socially responsible practices increase sales and customer loyalty, thus increasing profits. Opposition to this view, however, may question much of an effect does CSR actually has on consumer behavior and whether the customer loyalty established by the presence of a CSR campaign, is created in a large enough customer base to make the campaign worth the investment. Questions could also be raised as to whether investments into CSR programs, especially philanthropic or environmentally focused ones, cost the company more than they benefit it financially. It could also be argued that CSR projects are often not integral to the operations of an organization and thus when invested into, do not have
a direct, positive impact on a company’s bottom line. Investment into CSR programs however is not guaranteed to have a negative impact on a company’s financial standing. The studies examined below have shown that investment into CSR programs often result in positive long-term outcomes. While examining the financial impacts of CSR on a company is crucial for understanding its benefits and drawbacks from a strictly business perspective, it is also important to consider that the benefits that are desired from implementing CSR in a company go beyond just financial benefits.

According to Weber (2008), CSR can increase revenue by increasing sales due to corporate reputation, one time public CSR campaigns or even from public recognition for environmental efforts. Extra savings for a company can also be created by the presence of CSR due to more efficient production or tax breaks that are intended to encourage the implementation of CSR in companies (Weber, 2008). These types of programs, however, can also add extra costs. Weber shows that extra CSR-induced costs can be either one time or continuous. The individually occurring costs are often seen in the form of one-time philanthropic donations. Continuous costs however can be created by the ongoing philanthropic support of a particular cause or by maintaining certain licenses. Additionally, continuous CSR costs could include the added expense of advertising materials or to pay a manager to coordinate CSR projects on top of their existing roles (Weber, 2008). These particular costs however are hard to determine because they are not often distinguished from other continues material or labor costs.

In their article, Abdeen, Rajah and Gaur (2016) studied the effect of CSR on consumers’ beliefs and behavior. They found that CSR does have a positive effect on the purchasing behavior of consumers. Some types of CSR, however, have a stronger effect
on the consumer behavior than others. There are also significant differences between what type of CSR benefits the sales of a company most from one country to another. It is crucial for international businesses to consider the demands of consumers in different cultures as they seek to incorporate CSR in the various regions they operate in. Abdeen and his coauthors (2016) show that in the United States, an emphasis of high levels of economic operations proved a positive factor on consumer behavior while in Germany and France, this aspect of CSR has the least positive effect of consumer behavior. They explain that customers in those countries were more likely to support CSR initiatives that contributed to society in legal, ethical and philanthropic ways (Abdeen et al., 2016). The effect of CSR on consumer behavior has been shown to be driven by consumer belief about what they believe to be right or wrong and thus seek to align their actions with what they perceive to be moral. Abdeen and his coauthors found that the social behavior of humans stems from their beliefs about their intended behavior, and their evaluation of what the consequences will be of that action. Beliefs are the foundation where attitudes, intentions and behaviors stem from (Abdeen, 2016). From this study, Abdeen and his coauthors have found that the presence of CSR in a company often does have a positive impact on consumer purchasing behaviors but it is not always guaranteed. Whether or not a CSR campaign will increase sales depends largely on the values of the consumers and what they perceive to be good, bad, right or wrong. With this in mind, CSR campaigns that focus on largely accepted values and causes will see the most benefit to the bottom line from a sales and marketing perspective.

As discussed above the presence of CSR programs that are more visible to consumers and that appear to have a direct link to a company’s products or services often
have a positive effect on sales activity. But when considering the financial effects of CSR on a company, it is important to consider how internally focused CSR programs benefit an organization on a financial level. Cavazotte and Chang (2017) conducted research on the financial benefits that can come from investing in internal CSR programs. On the most basic level, Cavazotte and Chang (2017) discuss the negative impacts that are experienced by corporations who do not meet their social responsibilities. Companies who have neglected their responsibilities unusually experience a negative effect on their financial performance in a direct way through fines, damages and subsidies due and indirectly through their corporate reputation which can have a significant impact on sales. (Cavazotte, 2017). These drastic results are seen in the context of organizations who neglect their basic responsibilities and not necessarily those who do meet the most basic requirements of law but do not engage in additional CSR programs.

Cavazotte & Chang (2017) do, however, examine the financial impacts of investing in additional CSR that is directed inwardly, to benefit employees. They found that investing in internal CSR does have a positive impact on the financial performance of an organization. The benefits, however, usually do not appear until a few years after the initial investment. According to Cavazotte & Chang (2017), “There is a positive relationship between CSR and the financial performance of firms and with propositions that internal social responsibility can benefit companies. Our findings indicate, more specifically, that investments that focused on employee education, healthcare, profit sharing and pension plans, can all drive such effects in the medium and long terms” (p. 13). Such an approach to investing in CSR can be seen as a more direct way of impacting firm performance. External CSR may prove to increase profits through
consumer behavior as a result of corporate reputation, but internal CSR is a more direct way to impact financial performance by investing in internal human capital. Internal CSR is a long-term investment whose impact may not be experienced immediately. With the long term sustainability and performance of an organization in mind, internal CSR has proven to be an extremely important investment.

**Conclusion**

When examining the impacts of Corporate Social Responsibility programs on the overall performance of an organization, it has been shown to have a positive impact on most areas of an organization. Because of how common CSR is becoming in the field of business it is important to understand the effects that it has on firm performance. CSR can be very beneficial for society and for an organization itself, however, the first responsibility of business to society is its economic responsibility. In contrast, it is also important to understand the benefits that CSR can bring to businesses and their employees.

Substantial CSR programs can decrease employee turnover rate, increase employee engagement and have a positive impact on employee performance (Albdour & Altarawneh, 2012). Having a strong CSR campaign within an organization can also help to attract and retain new talent in an organization (Lee et al., 2013). Potential employees want to work for companies where they feel the values of the company align with their own personal values. By engaging in CSR initiatives, businesses can attract skilled and talented individuals to join their teams. CSR and quality management systems have also been shown to work in sync with one another, working towards a shared goal of optimizing quality at every level of an organization and positively
impacting the experiences of stakeholders (Frolova & Lapina, 2015). Due to customer perceptions, CSR has also been shown to effect corporate reputation and consequently brand equity (Lai, 2010). In congruence with this, brand performance and consumer behavior can be shifted in favor of a company’s products or services because of their CSR campaigns. A positive change in brand performance and consumer behavior can directly impact sales and increase revenue (Cavazotte, 2017). The CSR campaigns that typically have an impact on sales are those programs or projects that are directed externally to the organization. Internal CSR in contrast, still has a positive effect on the financial performance of a company through investment into human capital.

The overall impacts of CSR on an organization have been shown to be significantly positive. There are added costs that often come with CSR but those costs are usually far outweighed by the benefits that come (Weber, 2009; Auld et al., 2008). Investment into CSR is not just a monetary investment with a monetary result. Investment into CSR is investment into community, people and sustainability. CSR programs do improve the performance of an organization through greater employee satisfaction and productivity, lower employee turnover rates, contribution to quality management, increasing brand equity, increasing sales and investing in human capital and long-term sustainability.

Corporate Social Responsibility is becoming an integral part of the field of business as society is holding business responsible for the impacts their operations have on their communities. Engaging in CSR allows businesses to not only leverage their resources and influence for the benefit of others, but engaging in CSR can also help to strengthen that company’s resources and influence. The expectation of Corporate Social
Responsibility is not going to go away any time soon, and so businesses must take into consideration how they can effectively implement CSR initiatives in their own operations.
References


