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CORPORATE SOCIAL RESPONSIBILITY FOR EMPLOYEE'S COMMITMENT: DOES CORPORATE REPUTATION COUNT?

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Abstract

Corporate social responsibility (CSR) has attracted the attention of scholars and companies. To keep employees committed and to sustain in a competitive business environment, companies need to ensure the retention of its talent and corporate responsible behaviour. Aiming at examining the effect of CSR on corporate reputation and employee's commitment, and the mediating role of corporate reputation in influencing the impact of CSR on employee's commitment in Malaysian banking sector, the study gathered data from randomly selected samples among selected banks' employees through self-administered survey. Using SmartPLS to analyse the formative higher order structural model, this study revealed that for employees to be committed, companies need to focus on behaving more responsibly to the society and environment, rather than other dimensions of CSR. Organization's responsible behaviour also contributed significantly to its reputation development. Surprisingly, being perceived as a reputable organization did not show a significant role in mediating the impact of CSR practices on employee's commitment. Thus, this study confirmed that to gain commitment from its employees, looking good is insufficient. The banks, however, need to be worthy by doing good to its stakeholders

Keywords: Corporate social responsibility, reputation, employee commitment, banking sector, Malaysia.

1. Introduction

Intense competition among industry players has urged the organization to fight for the best talent while retaining the existing ones. One of the most effective ways of sustaining competitiveness is by strategically managing its most valuable asset that is human capital. Organization relies heavily on skills, knowledge and ability of its employees to remain competitive. In order to sustain organization's competitiveness, employees' commitment towards the organization is crucial. To attract and retain good talents, organization needs to go beyond its normal duty and develop its core competencies that is difficult to be imitated. Among the strategies that can be implemented by organizations to retain employee's commitment are strengthening its CSR activities and enhancing its reputational stance as it could potentially affect stakeholders by leveraging their perception towards the organization and consequently boost the bonds between organization and employees (Arikan et al., 2016). CSR, at present, has become an important statement that defines what the organizations stand for due to its capability to enhance the image or reputation of the practicing organizations.

Considering the above statement, this study aims to examine the impact of CSR in influencing reputation and commitment of employees towards the organization, and to assess the role of corporate reputation in mediating the impact of CSR on employee's commitment.

1. Problem Statement

The banking sector plays an important role in boosting a nation's economy. Because of the role it plays, banking institutions need to focus on increasing social responsibility so that economic interests are in line with social interests. Moreover, banking sector is one of the sectors that suffer high turnover and CSR is seen to be relevant since it promotes several competitive advantages including enhancement of the bank's reputation, which is a determining factor in attracting and retaining employees (Lorena, 2018), and securing employees commitment towards the organization (Stites & Michael, 2011).

The need to conduct more studies to examine the dynamics of CSR and its impact on relationship with stakeholder is vital (Jamali & Carroll, 2017). Since employee is an important group of internal stakeholders (Jamali, 2008), the study on CSR focusing on employee-level outcome is crucial due to the relative lack of research on CSR and employee attitudes (McNamara et al. 2017). Although research on the area of CSR has gained massive attention from scholars, studies focusing on its practice in Malaysia is still lacking, mainly in banking sector. Thus, it is crucial to assess internal stakeholder's view on CSR practices of banking institutions and how it affects reputation and employee-organization bonding.

2. Research Questions

1. What is the effect of CSR activities on organization's reputation as perceived by its employees?
2. How do CSR activities conducted by organizations in developing country (in this case banks in Malaysia) affect its employees' commitment?
3. Which type of CSR activities contributes the most (and the least) organizational commitment of the employees?
4. Does organization's reputation add value to CSR activities in securing employees' commitment?

3. Purpose of the Study

- To examine the impact of CSR practices on employee's commitment.
- To investigate the impact of CSR practices on bank's reputation.
- To identify the type of CSR activities that contributes the most (and the least) organizational commitment of the employees.
- To assess the role of corporate reputation in mediating the impact of CSR practices on employee's commitment.

4. Research Methods

A survey was conducted among employees of two major banks in Malaysia. Due to its nature, the name of participating banks needs to be treated as unanimous. Only eight percent of the total branches agreed to voluntarily participate in the study. There was an average of 16 employees at each branch and questionnaires were randomly distributed to the banks' employees from various levels, who were available at the time survey was conducted. A self-administered survey resulted to a total of 221 usable questionnaires collected. Data for the study were analyzed using SmartPLS and analysis on the structural model was performed. The structural equation modelling was used in this study due to its ability to handle both latent and measured variables (Kaplan, 2000).

This study has one exogenous higher order latent variable in its research model that is corporate social responsibility (CSR), and two endogenous variables namely reputation and organizational commitment. Using a formative higher order construct, the exogenous variable of the study was measured using 17 items factorial subscales comprising of CSR to employees (CSRe), CSR to customers (CSRc), CSR to government (CSRg), and CSR to social and non-social stakeholders (CSRn) adapted from Turker (2009). The endogenous variable of reputation (REP) was measured using measurement tool by Mael and Ashforth (1992) while organizational commitment (OC) was measured using six items of organizational commitment scale adapted from Meyer and Allen (1991).

Using five-point scale ranging from 1 (strongly disagree) to 5 (strongly agree), respondents were asked to evaluate bank's responsible behaviour, their perception on bank's reputation and their level of commitment towards the organization by stating their agreement or disagreement on the statements given.

The exogenous higher order latent variable (CSR) was modeled to be formative while the other two endogenous constructs (reputation and organizational commitment) were modeled to be reflective.

5. Literature Review

A well-known CSR model by Carroll (1979) categorized CSR into four: (1) economic responsibility that concerns about wealth creation; (2) legal responsibility that focuses on complying to rules and regulations; (3) ethical responsibility that urges corporations to recognize and respect social values and ethical norms of the society; and (4) philanthropic responsibility that embraces the act of voluntary and discretionary which could result into community and environmental betterment. A later theory by Turker (2009) suggested that CSR can be measured through organization's concern towards its employees,

customers, government, and social and non-social stakeholders. Although the theory looks distinctive to each other, it contains basically the same principles.

As an economic unit in the society (Carroll, 1979), organizations are expected to provide a secure job to its employees, and to train or assist them in career development while producing goods (or services) (Maxfield, 2008; Turker, 2009). Jayabalan et al. (2016) suggested that in order to retain employees' commitment, organization needs to be concerned on employee's welfare and offers attractive pay, apart of fulfilling its obligation to customers by creating values through innovation and product (or service) quality (Joyner & Payne, 2002). Not limited to being responsible to employees and customers, organization also needs to obey societal laws and regulations other than complying with laws and regulations imposed by the government (Jayabalan et al., 2016).

5.1. CSR Impact on Reputation and Employee's Commitment

Employee's commitment consists of continuous, normative and affective commitment (Meyer & Allen, 1991), which are also labeled as 'have to', 'ought to' and 'want to' commitment (Fu et al., 2014). Regardless of the suggested three components of commitment, this study however, focuses only on affective or 'want to' commitment because it has been demonstrated to be the most important aspect of organizational commitment (Chun et al. 2013) and the most beneficial as it could affect other components in the long run (Allen & Meyer, 2011).

CSR practice is proven to have an impact on organization as it generates favourable employee-related outcome such as job satisfaction, and reduces turnover intention by securing commitment of employees (Du et al., 2015). Employees are likely to feel more supported by organizations who fight for social causes that they value or fight for themselves. They may feel more pride in interviewing with or working for companies that support social causes that they care about. Ultimately, the culmination of these positive feelings toward the organization is likely to increase retention (Turner et al., 2019).

Evidence has shown that employees' commitment is positively related to employee's perception on CSR (Lin, 2010; Rajput, 2015; Smith & Kumar, 2014). Result from previous study also revealed that CSR behaviour has become a significant predictor of effective commitment (Ditlev-Simonsen, 2015). Thus, to retain its valuable talent, it is crucial for organization to secure the commitment of its employees as it can reflect the extent that the organizational members would give a positive response to maintain their relationship with the organization (Jussila et al., 2012).

5.2. Reputation and its Mediating Role on Employee's Commitment

Reputation can be defined as a perceptual representation of organization's past actions that describe its overall appeal (Fombrun, 1996; Safón, 2009), which is believed to be a representation of good feelings, admiration and highly regarded (Fombrun & Pan, 2006). In the last two decades, organizations have begun to perceive the link between corporate social responsibility and reputation (Lee, 2008). Moreover, corporate social responsibility is claimed to be a value-driven that could contribute to competitive advantage (Ellen, Webb & Mohr, 2006) and play a significant role in gaining reputation (Fombrun, 1996).

Recent evidence by Taghian et al. (2015) showed that organization's CSR activities are experienced directly by employees, which consequently increase their perception on organization's reputation

(Stanaland et al., 2011). Responsible action by organizations does not only result into reputational building but it also has a consequential impact on employee's commitment (Fombrun et al., 2015). The impact of CSR practices in reputational building is undeniable. Being a reputable organization seems to be crucial because employees who work in a reputable organization or affiliated with a prestigious organization will likely to be more committed (Cable & Turban, 2003; Dögl & Holtbrügge, 2014).

6. Findings

Data for this study were analyzed based on responses consisting of 111 males and 110 females aged less than 30 (23.98%), between 30 and 44 (39.82%) and aged more than 45 years (36.20%). Samples were represented by 20 heads of department, 80 executives, and 121 clerical staff.

Initial evaluation of the measurement model revealed that few indicators need to be deleted. To ensure the validity of the model, three indicators for CSR to employees and one indicator for CSR to social and non-social stakeholders were deleted. In addition, two out of five indicators for reputation and three indicators for organizational commitment were also deleted due to low loadings.

Analysis on the construct reliability and validity after deletion showed that all formative and reflective indicators had acceptable factor loading, which was greater than 0.7 (Chin, 1998). Findings disclosed that the internal consistency existed which was shown through the Cronbach's alpha values ranging between 0.815 and 0.866. In addition, composite reliability showed the values of 0.881 to 0.915, which were above the recommended cut-off point of 0.6 (Bagozzi & Yi, 1988). Convergent validity was also confirmed since the average variance extracted values fell between 0.597 and 0.843, above the acceptable value of 0.5 (Fornell & Larcker, 1981).

In order to estimate the structural model, a bootstrapping procedure with 1,000 replications was applied (Henseler et al., 2009). The results demonstrated that all path coefficients were positive. To assess the effect of CSR on reputation and organizational commitment, the study models the influence of formative higher-order dimension.

Results from structural model estimation revealed that CSR positively and significantly affected employees' commitment towards the organization ($\beta = 0.675$, p-value = 0.000). This finding supported the study's assumption as proposed earlier. The present study also provided evidence that CSR has a positive significant effect in influencing organization's reputation ($\beta = 0.664$, p-value = 0.000), which supported the second assumption of the study. Analysis of formative higher-order construct showed diverging results whereby all dimensions of CSR had a significant influence on its higher-order dimension. Organization's CSR to social and non-social stakeholder was found to contribute the highest ($\beta = 0.358$, p-value = 0.000) followed by CSR to employees ($\beta = 0.350$, p-value = 0.000), customers ($\beta = 0.325$, p-value = 0.000) and government ($\beta = 0.180$, p-value = 0.000).

The third assumption of the study, however, failed to be supported when the result surprisingly revealed that reputation did not have a significant impact in mediating the relationship between CSR and organizational commitment ($\beta = 0.111$, p-value = 0.177).

The R^2 values of the model tested showed that CSR construct explained 44.1% variance in reputation, while 56.7% of the organizational commitment variance was explained by CSR and reputation construct.

The main goal of the current study was to examine the impact of corporate social responsibility (CSR) on organization's reputation and employees' commitment towards the organization and the role of reputation in mediating the relationship between CSR and employee's commitment. The most obvious finding that emerged from this study was that organization's action or behaviour is much more important compared to how the organization is seen by employees.

The result from this study was in agreement with previous studies, which found that CSR has a significant influence on employees' commitment towards the organization (Ditlev-Simonsen, 2015; Du et al., 2015; Lin, 2010; Singh et al., 2008; Smith & Kumar, 2014; Rajput, 2015; Ismail et al., 2016). It is worth to note that although the study focused on employees, findings revealed that organization's responsible behaviour to social and non-social (society and environment) has the greatest contribution towards CSR construct. Consistent with previous studies (Bertels & Peloza, 2008; Dögl & Holtbrügge, 2014; Fombrun, 1996; Kim et al., 2010; Taghian et al., 2015), the current study also provided further evidence on the importance of corporate social responsible behaviour in influencing employees' view on organization's reputation.

7. Conclusion

This present study offers an insight that in order to be highly seen (reputable) and to get employees to be committed, the organization needs to behave responsibly. However, it is surprising to find that reputation does not play a role in adding value to CSR in order to secure the commitment of employees. This may be due to the possibility that employees will interpret the prestige that other stakeholders have on the organization and thus reflect their emotions, which will lead them to make cautious assessment on the organization.

The current study adds to a growing body of literature by providing an insight with regard to the impact of corporate social responsible behaviour on organization's reputation and employees' commitment. Findings from this present study could be used to help corporations in planning its strategic action. However, it is unfortunate that this study did not include sectors other than banking. Thus, it is interesting to assess the impact of corporate social responsibility on employees' commitment of other sectors and make comparison between different sectors. Another possible area of future research is to consider the view of other stakeholders such as customers and analyse other stakeholders' views on organization employees' views. Although the study is able to describe the important role of CSR, there are limitations that deserve attention from future researchers.

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