

The Effect of CSR on Employees' Turnover Intention: Comparative Study on Harmful and Non-Harmful Industry

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Abstract

The study examines the effect of CSR on employees' turnover intention. Specifically, it compares the effect of CSR between harmful and non-harmful industry. Harmful industries include tobacco, gambling, alcohol and other controversial industries engaged with social or ethical issues. Employees' turnover is more serious concern for harmful industries than other non-harmful industries. According to the social identity theory, employees in harmful industries tend to differentiate themselves from their organization to protect self-esteem and avoid being criticized by social norms. High level of misidentification from their organizations leads to a high level of turnover. CSR can build a good reputation of organization and a strong relationship with employees, which can, accordingly, alleviate employees' turnover intention. This paper presents that CSR can mitigate employees' turnover intention moreover, the mitigating effect of CSR is greater in harmful industries than non-harmful industries.

Keywords: CSR, Employees' Turnover Intentions, Harmful Industry, Sinful Industry

1. Introduction

Corporate Social Responsibility (CSR) is becoming an important strategy for long term sustainability of a corporation, beyond moral duties to a society. In particular, companies in controversial industries such as tobacco, alcohol, oil, gaming and other socially criticized product manufacturing firms turn to CSR as a means to obtain legitimacy and sustainability⁸. Their products or services of controversial firms are susceptible to be perceived as harm to society members. Controversial firms thus try to countervail their bad and unrespectable perceptions to good and acceptable images through CSR practices even though signal value of CSR may be diminished. This is because organizations are hardly accepted as legitimate and sustainable social member if they fail to satisfy social expectations of communities.

In addition, harmful industries suffer from high level of employees' turnover compared to non-harmful

industries. Employees in harmful firms are inclined to be pressed and easily condemned by a society because of organization's legal but unrespectable identity, which drives employees to differentiate from and misidentified with their organizations. That is the way for employees to protect their self-esteem. Then, they are susceptible to drop from ill-matched job with their self-identities. Employees' turnover can be quite a costly problem to organizations. Employees who leave an organization voluntarily have to be replaced and replaced workers have to be trained. It takes time and cost until the new workers are employed and performs on the same level of the previous members¹⁶.

The existing research suggests that CSR can influence employees' attitudes and behaviors that are known to be critical antecedents of employees' turnover: employees' commitment, identification, satisfaction and so forth. Organizations can enhance their relationship with employees through both internal and external CSR, which

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are inferred to affect employees' turnover. This research empirically investigates how CSR influence employees' turnover intentions and examines the differences of CSR effect on employees' turnover intentions between harmful and non-harmful industries. CSR of sinful and other controversial industries and their CSR effects are increasingly attracting attentions from academics and practitioners due to their debatable natures.

2. Theory and Hypotheses

2.1 CSR and Employees' Turnover Intentions

Reference⁴ defines CSR as obligations of a corporation including economic, legal, ethical and philanthropic to firms' stakeholders. A corporation has economic responsibilities to produce goods and services that society wants and to sell them at a profit. But, social stakeholders expect a firm to fulfill its economic incentives within a legally accepted framework. They also expect a corporation to behave and act ethically above legal requirements. Philanthropic responsibilities involve making an effort to benefit society, for example, by donating services to community organizations, being involved in projects to aid the environment. Stakeholders such as owners/shareholders, employees, customers, local community and society-at-large, have an interest in the practices and decisions of the firms because they are affected by and affect to the firms' practices⁷.

CSR is found to have a positive effect on attitudes and behaviors of both external and internal stakeholders. For example, consumers respond to CSR through favorable evaluations of company and its products⁹ as well as through increased loyalty¹³. Working for socially responsible companies leads to increased employee engagement, creative involvement¹⁰ and employee commitment¹³. Relatively a few is known about responses of internal employees to CSR rather than those of external stakeholders¹.

However, an emerging stream of research based on Social Identity Theory (SIT) has started to investigate employees' reactions to CSR and suggested a positive relationship between CSR and employees' attitudes and behaviors. According to SIT, people utilize different categorization schema to define themselves and others in the social environment. The self-concept in SIT comprises a personal identity including abilities and traits and a social identity encompassing differential social classification¹⁷.

Reference² later applied SIT into organizational socialization. They proposed that the distinctiveness of the organization's values and practices served to separate it from others and to provide a unique identity. Then, the organization's distinctive identity can influence on employees' self-esteem.

CSR practices aimed for external stakeholders of a corporation can increase organizations' image, which strengthens employees' pride and willingness to be associated with an organization. According to SIT, belonging to prestigious and reputable organization can increase self-esteem^{3,15,18}. Strong associations with organizations are supposed to induce employees' positive attitude and behaviors such as commitment and identification. Besides, CSR practices directed at internal stakeholders including educational programs and diverse atmospheres are supposed to draw employees' positive responses as well.

Employees' enhanced commitment, identification and satisfaction by CSR practices are regarded as important antecedents of employees' intention to leave^{6,15}. The more committed to organization, the better performance there will be, which is likely to result in employees' longer stay. Reference¹⁹ estimates empirically the effect of good reputations on the voluntary turnover (quit) rate of employees. Adoption of business policies that cause the firm to be rated as socially responsible reduce the annual quit rate as compared to non-CSR public corporations. The paper employs a regression of the turnover rate of 84 of Fortune magazine's '100 Best Employers' against measures of CSR and several other control variables such as annual wages, gender composition of the labor force that previous studies have identified as explaining firm labor turnover. Reference¹¹ also finds that employees who perceive their employer to be more socially responsible were less likely to consider leaving the company. They used healthcare employee to test hypotheses. A lot of research investigating the effect of firms' ethical climate on employees supports the negative relationship between firms' ethical climate and employees' turnover intentions¹⁴. Based on the discussions so far, it can be hypothesized that CSR is negatively related with employees' turnover.

H1: CSR can mitigate employees' turnover intentions.

2.2 Harmful Industry and Employees' Turnover Intentions

Harmful industries are typically characterized by touching social taboos then causing political pressures and moral

debates. They include sinful industries, such as tobacco, gambling, alcohol and adult entertainment as well as industries related to emerging environmental, social, or ethical issues, i.e., weapons, nuclear, oil, cement, mining and so forth⁵.

Employees' turnover is known to be more serious concern for harmful industries than other non-harmful industries. Employees in harmful industries try to differentiate themselves according to SIT. Working for a perceived harmful corporation causes employees to be depressed by social norms. Thus, they misidentify with organization to protect self-esteem, which leads to high level of employees' turnover. For example, the more casino dealers in gaming industry perceive their work to be morally dirty, the higher their levels of occupational and organizational misidentification. Both types of misidentification are found to be positively related to turnover intention. Reference¹⁶ also shows that the casino industry suffers one of the highest employee turnover rates among all non-manufacturing industries.

While the degraded perception of work undermines the status of certain occupations, it simultaneously facilitates the development of strong occupational cultures. The stronger the social pressure, the stronger the culture is, which reinforces the perceptions of discriminating selves from members in other occupations. Moreover, a strong culture provides the defending tactics to reframe and refocus the meaning of their work that is mitigating misidentification of workers. CSR practices for internal stakeholders (e.g. employees) can help make cohesive organizational culture protecting members' identity. External CSR of harmful industry, mainly concerned with organizational reputation, directed at different stakeholder groups (e.g. customers, government, NGO and so forth) can enhance employees' identity. Firms' socially responsible practices are used by external stakeholders to make judgment about the organization's reputation and that of its members. Employees are willing to identify with a respectful and socially well-regarded organization because such an association tends to booster their self-esteem^{3,15}.

Thus, internal and external CSR initiatives of harmful industries can build a strong cohesive culture and enhance employees' self-esteem, thus mitigate misidentification from an organization. For example, Reference¹⁵ empirically investigate that CSR practices in oil firms have a positive impact on increasing employees' organizational identification.

As discussed above, employees' turnover and turnover intentions are more serious issues in harmful industries. Harmful industries can increase employees' commitment or identification with an organization through CSR activities, which induces more effectively employees to stay longer in harmful industries. In the similar context, reference¹² contrasts the effect of risk reduction in controversial firms and that in non-controversial firms through CSR practices, presenting that the effect of risk reduction in controversial firms is more significant than those in non-controversial firms. Firm risk is more issue for controversial industry. And a firm in controversial industries can reduce firm risk by being involved in CSR activities. CSR of controversial firms is economically and statistically more significant than in non-controversial for reducing firms' risk. They measured firm risk as combining the standard deviation of daily stock return and market risk. Based on the discussions, it can be hypothesized that the decreasing effect of turnover in harmful firms through CSR engagement is greater than that of non-harmful firms.

H2: The mitigating effect of CSR on employees' turnover intentions is greater in harmful industries than in non-harmful industries.

3. Research Design

CSR was set as the independent variable and turnover intention as the dependent variable. Age, gender and education were included as controlling variables. First, we collected CSR performance scores for 2011 from an index published by the Korea Economic Justice Institute (KEJI). KEJI evaluates the CSR activities of Korean firms listed since 1991. The institute evaluates the soundness of corporate activities, fairness, social contribution, environment protection, consumer protection, employee satisfaction and contribution to economic growth. Second, we obtained information about employees' turnover intention for these firms. The data for the empirical analysis are drawn from the Human Capital Corporate Panel (HCCP) survey for 2011 administered by the Korea Research Institute for Vocational Education and Training. Final sample is 775 observations for 40 firms. Sample includes 21 sinful firms which involved with environmental or social issues, such as, chemistry, metal, mineral, medicine and biotech⁵.

4. Results and Conclusion

Table 1 presents descriptive statistics for the variables used in this paper. The sample included 639 men (82.5%) and 136 women (17.5%). The majority of respondents in this sample held a bachelor's degree (48.6%) or having a college degree (12%). Table 2 presents the evaluation of CSR and score of turnover intention by industry. The mean value of the CSR score is 62.56 in harmful and 64.35 in non-harmful firms respectively. The evaluation of CSR is significantly greater in non-harmful industry than harmful industry in Korea ($t = 10.214$). The turnover intention evaluated on five point scale is 2.63 in harmful firms and 2.71 in non-harmful firms. The difference of turnover intention across industry is not statistically significant ($t = -1.089$). Table 3 shows the regression results. Accordingly, CSR seems to significantly affect employees' turnover intention, controlling other variables such as age, education and gender. Thus, Hypothesis 1 is supported (Model 1). Model 2 and 3 presents the regression results of harmful industry and non-harmful industry respectively. The CSR has a significantly negative effect

Table 1. Descriptive statistics

Measure	Demographics		
	rank	Frequency	Percentage (%)
Industry	Harmful	311	40.1
	Non-Harmful	464	59.9
Gender	Male	639	82.5
	Female	136	17.5
Education	Middle School	15	1.9
	High School	73	9.4
	Technical High School	79	10.2
	Other High School	81	10.5
	College	93	12.0
	Bachelor	377	48.6
	Master	53	6.8
	Ph.D.	4	0.3

Table 2. CSR and turnover intention by industry

Measure	harmful	non-harmful	t
CSR	62.559 (2.20)	64.346 (2.503)	-10.214**
Turnover Intention	2.630 (1.12)	2.713 (0.987)	-1.089

() standard deviation, * $p < 0.10$, ** $p < 0.05$

Table 3. Regression results

Independent variable	Model 1. Full model		Model 2. Harmful industry		Model 3. Non-harmful industry	
	coefficient	t	coefficient	T	coefficient	t
Intercept	7.967**	7.872	12.712**	7.087	6.336**	4.904
Csr	-0.063**	-4.358	-0.151**	-5.450	-0.034*	-1.863
Control Variables						
F	14.557**		9.520**		10.226**	
R ²	0.070		0.111		0.082	

* $p < 0.10$, ** $p < 0.05$

on employees' turnover intention in both industries. They shows the slight difference of CSR effect on turnover intention between harmful and non-harmful firms (-0.151 vs. -0.034). The parallel test was executed to compare the coefficient of CSR effect. The difference between harmful and non-harmful industry is not enough to be significant ($t = 0.117$), though the difference of the CSR effect shows the anticipated direction thus, Hypothesis 2 is not supported.

This paper finds that firms with higher scores of CSR enjoy significant lower employees' turnover intention. It also finds the mitigating effect of CSR on turnover intention is slightly greater in harmful industry than non-harmful industry though the effect is not statistically significant. The paper is contributed to explore the effect of CSR on employees' turnover intention across industries such as harmful and non-harmful industry. It is meaningful because the CSR in harmful industry has been increasingly interested both in academia and practice. Moreover, turnover in harmful industry is more serious concern than in non-harmful industry. CSR has a more negative effect on turnover intention in harmful industry even though the difference is not sufficiently great to be statistically significant. It can be said that CSR could be an investment that contributes to maintain human resources, especially for harmful industry. It is necessary to investigate the CSR effect in harmful industry through including more firms and subjects in future research.

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