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CSR and Staff Retention in New Zealand Companies: A Literature Review

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ABSTRACT

This working paper examines the notion that there is a relationship between CSR and staff retention in organisations. Studies have shown that people are becoming more aware of business activities in many countries. As such, companies with good CSR policies are being rewarded by consumers and this is manifested in companies’ financial position in the long term. On the other hand, consumers will punish companies with poor CSR reputation. This review is illustrated through an analysis of literature on corporate social responsibility intended to advance that there is a relationship between CSR and staff retention in organisations. By translating the general principles of CSR into business practices, by developing better measures of CSR, and by empowering and engaging employees, businesses are more likely to embrace CSR so that it penetrates all business activities.
INTRODUCTION

The ‘human capital’ is the most valuable asset of any company. As such, recruitment, retention and development of capable and talented staff are fundamental to any business success. With the ever-increasing globalization process and increasing number of regional trading blocs emerging, doors are opening for skilled labour to seek employment in different parts of the world. Many people are having the opportunity to live in different cultures and relocate to where their skills are most needed. Moreover, many skilled workers in different parts of the world and in developed countries in particular, now have to take many factors into consideration before they accept a job offer, and the corporate social responsibility (CSR) of a company is said to be one such factor. It has been proven empirically that most people will like to work for an organisation with good social and environmental policies. Just as it has been proven that more people will do business with such organizations (Dierkes and Zimmerman, 1994; Murphy, 1995; Zadek, 1998).

A recent study found that when traditional customer-buying criteria, such as price, quality, and convenience are equal, 81% of customers would switch brands if a company practised CSR (Caribbean Business, May 2004). Although, corporate social responsibilities of companies have become familiar phenomenon, research has not been focused on the relationship between CSR and staff retention in organizations. It can be characterized as conceptually and theoretically poor and empirically nearly unexplored (Hopkins, 1999). In a recent annual survey of The Sunday Times [in the UK] “100 Best Companies to Work For” the focus was based on three characteristics of best practice: people development, leadership, and corporate responsibility (DTI, 2004). It was suggested that, in many organizations, people development and CSR attracted many top employees to their present position at work (DTI, 2004).

It has been shown that people in developed countries are increasingly aware of the environmental performance, ethical issues, occupational health and safety, and business - community relationships (Eweje, 2005). For example, findings from the Millennium Poll on CSR suggest that about 20-60% of potential recruits claim that the environmental image and reputation of a company would influence their decision in accepting a job offer. Also, 60-70% of respondents in the USA, Great Britain, Australia and Canada said that they had rewarded or punished a company in the last year because of its CSR reputation (Environics, 2002). In this paper, we argue that employees’ assessment of their working place is affected not only by
remuneration, but also by working conditions, health and safety policies, public image and socially responsible behaviour of the employer.

This review is the first part of a longer–term study which aims to examine whether there is a relationship between CSR and staff retention in New Zealand companies. This is undertaken within the context of a growing shortage of skills in New Zealand companies and institutions and many New Zealanders are moving overseas to seek better employment opportunities. Our concern in this research was to find out if a company CSR policy would affect employees and recruits in making a decision about where they would want to work. An analysis of CSR in New Zealand companies is also presented with a focus on the research hypothesis that there is a relationship between the level of CSR performance and the employees’ retention rate.

**HISTORICAL BACKGROUND TO THE STUDY**

The business case for CSR is compelling. “If ethics fail to persuade you, the bottom line should” (Caribbean Business, May 2004). That is because, the more a company makes CSR as part of its core business, the more profitable and competitive the company becomes. It has been proven that the social (non-financial) improves the financial, as confirmed by numerous studies and successful cases.

A 2002 DePaul University study ((Caribbean Business, 2004) found that companies with defined corporate commitment to CSR have higher sales and revenues than companies that do not. Similarly, a recent 11 year Harvard University study (Caribbean Business 2004) found that stakeholder-balanced companies showed four times the growth rate and eight times the employment growth rate compared with shareholder-only focused companies. Furthermore, a 2002 Innovest Strategic Advisors study (Environics, 2002) showed that companies that rate highly on environmental factors outperformed their peers by nearly 20%.

This growing evidence is being watch closely by the world’s leading corporations. For example, in a 2002 study of global CEOs by PricewaterCoopers (PwC, 2002), 70% agreed that CSR is vital to the profitability of any company. A fifty country study of CEOs the same year by Environics International showed that 80% believe CSR enhances product innovation and profitability (Environics, 2002).
WHERE DOES THE PROFITABILITY COME FROM?

It has been shown that employee motivation and loyalty are enhanced by workplace measures toward every CSR initiative enacted by their employer. This virtually enhances productivity, customer service, sales, staff retention and recruitment, and reduces errors and “frivolous employee lawsuits” (Caribbean Business, May 2004). A survey of US companies by the Hudson Institute in 2000 concluded that employees who believe they work in a socially responsible environment are six times more likely to be loyal than those workers who believe that their organisation is not socially responsible and behaves in an unethical manner.

WHAT IS CSR?

The claim that businesses do have a social responsibility has been discussed in the literature for over 50 years (Bowen, 1953; Davis, 1960, 1967; Carroll, 1979, 1999). However, the concept of social responsibility is still very ambiguous and vague (Fisher, 2004; White, 2004; Hummels, 2004; Smith, 2003). The organization, Business for Social Responsibility (BSR) defines CSR as “operating a business in a manner that meets or exceeds the ethical, legal, commercial, and public expectations that society has of business.” This broad definition encompasses business decision-making related to “ethical values, legal requirements, as well as respect for people, communities, and the environment” (BSR, 2005). The Green paper of the European Commission (EU, 2002) defined CSR as “a concept whereby companies integrate social and environmental concerns in their business operations and in their interaction with their stakeholders on a voluntary basis”. Being socially responsible means voluntary compliance above what the law stipulated. It means investing more in human capital, environmental protection and maintaining constant relations with stakeholders. “CSR means open and transparent business practices that are based on ethical values and respect for employees, communities and the environment. It is designed to deliver sustainable value to society at large, as well as to shareholders” (IBLF, 2005).

CSR implies that “corporations have an obligation to constituent groups in society other than shareholders and beyond that prescribed by law and union contract” (Caroll, 1999). Warhurst et al (2000) define CSR as “internalisation by the company of the social and environmental effects of its operations through pro-active pollution prevention and social impact assessment so that harm is anticipated and avoided and benefits are optimised”. The proposition is that social
responsibility begins where the law ends. A corporation is not being socially responsible if it merely complies with the minimum requirements of the law. As Stark (1993) put it: “ethical management is a process of anticipating both the law and the market – and for sound business reasons”. In similar vein, Drucker (1993) states “… [corporate] citizenship means active commitment. It means responsibility. It means making a difference in one’s community, one’s society, and one’s country …”.

At this point, it is apposite to note that the World Business Council for Sustainable Development (WBCSD, 1998), a group of 120 international companies, defines the concept as “a continuing commitment by business to behave ethically and contribute to economic development while improving the quality of life of the workforce and their families as well as of the local community and society at large”. The definition by the WBCSD shows that businesses are beginning to see the concept of CSR as important aspect of their business philosophy. This is further shown by Murphy (1995), who argues that many companies “have issued or revised their firm’s ethical posture … and more serious attention now seems to be devoted to ethical decision-making”.

**CSR IN NEW ZEALAND COMPANIES**

The CSR concept is not a dominating management concept in the New Zealand business but its importance in recent years is growing rapidly. According to Roper (2004) “The terms - Social responsibility or Business responsibility were not even publicly considered prior to 1998. This fact was a reflection of the almost complete dominance of neo-liberal free-market ideology at that time”.

In October 2003 the University of Waikato Management School (UWMS) and Sustainable Business Network (SBN) performed a survey (Sustainability practices of New Zealand business) in 811 small, medium and large companies. The findings of this study (UWMS SBN, 2004) highlight that businesses in New Zealand are actively engaged in environmental and social practices. As the survey method is based on self-assessment, it could be assumed that the findings are more positive than the actual situation. Interesting findings of this study are:

- The majority of firms have given time and money to local community projects
- Over two-thirds contribute to charities
o Three-quarters provide on-the-job training, and almost half provide assistance to staff to gain tertiary education
o 57% consider diversity in hiring decisions
o Businesses receive significant internal pressure from employees to adopt social practices
o For over 40% of firms the main driver for sustainability was the personal values and beliefs of management
o Only 27% of the companies produce environmental or sustainability report
o Large firms are more heavily engaged in sustainability practices

Likewise, a recent report (Niche Forecasting, 2005), based on a review of companies’ websites showed that the CSR theme is rarely present. Westpac NZ, Vodafone NZ, and Telecom are good examples of companies demonstrating a complete systematic approach, including CSR reporting. Most of the companies limit their CSR activities to charity (Air New Zealand, AMI, State, Tower, NZI, Goodman Fielder, Healtheries, National Bank, BNZ, ANZ), or to environmental initiatives (The Warehouse, Carter Holt Harvey, Sony NZ, and others). The Warehouse also have social contribution including charity, taking on employees otherwise unemployable.

There have been positive developments in New Zealand. The CSR movement is developing at present under the umbrella of the Sustainable development concept, which is more popular in the business circles as the ‘Triple Bottom Line’ approach. The New Zealand Business Council for Sustainable Development (NZBCSD) proclaims its mission “to provide business leadership as a catalyst for change toward sustainable development, and to promote eco-efficiency, innovation and responsible entrepreneurship” (NZBCSD, 2005). This mission is conveyed into four strategic directions: (1) Business leadership - to be the leading business advocate on issues connected with sustainable development; (2) Policy development - to participate in policy development in order to create a framework that allows business to contribute effectively to sustainable development; (3) Best practice - to demonstrate business progress in environmental and resource management and corporate social responsibility and to share leading-edge practices among our members; (4) Global outreach - to contribute to a sustainable future for developing nations and nations in transition.

Another organisation in New Zealand is The Sustainable Business Network (SBN). SBN is a forum for businesses interested in sustainable development practice to get together and make it
happen. SBN promotes Sustainable Business (defined as the integration of economic growth, social equity and environmental management), in four strategic directions (SBN, 2005): (1) Environmental Quality – to implement practices and procedures that go beyond compliance through the adoption of proactive strategies to restore and enhance the environment in which we live, work and play; (2) Social Equity – to operate as a good corporate citizen, encourage respect and dignity to all stakeholders by developing mutually beneficial partnerships with local community stakeholders; (3) Economic Prosperity – to undertake business management so as to support long-term economic growth for New Zealand; (4) Corporate Governance & Ethics – to conduct business in an ethical manner and to seek to do business with companies, which adopt the same principles. Most of the largest New Zealand companies are members of NZBCSD and SBN. This fact shows the importance of these two organisations for the transformation of the CSR concept into management philosophy and core organizational value.

The New Zealand Centre for Business Ethics and Sustainable Development (NZCBESD) encourages environmentally, socially and financially successful business practice through research and education about business ethics and sustainable development. The Centre recognises and disseminates the experience of New Zealand businesses that value ethical and responsible practice in the areas of community, environmental, employee and supplier practices (NZCBESD, 2004).

**CSR AND EMPLOYEE RETENTION**

Employee retention can be defined as “the effort by an employer to keep desirable workers in order to meet business objectives” (Frank *et al*, 2004). Turnover, on the other hand, is most often used to describe the unplanned loss of workers who voluntarily leave and whom employers would prefer to keep. In statistical terms, measuring employee turnover is comparatively straightforward and is tracked by most organizations. Waldman and Arora (2004) argue “retention rate is not simply the inverse of turnover. Retention rate measures what is wanted rather than what is undesirable. Yet because turnover has been easy to measure, it has been the dominant way of thinking about movement out of organizations. Rather than measuring something we do not want – turnover - we should track what we do want - employee retention” (2004, p.6).
The employees’ retention is related to a broader term: job satisfaction. Insufficient levels of job satisfaction cause withdrawal behaviours expressed in such patterns as turnover, absenteeism, lateness, and decision to retire (Saari and Judge, 2004). A great deal of research has been conducted about the drivers for employee retention (Phillips and Connell, 2003; Glanz, 2002; McKeown, 2002). Generally such internal drivers, depending on the organisation and its management, are considered to be:

- Compensation (salaries and wages, performance-based rewards, benefits, retirement plans),
- Work environment (work place, health and safety, work-life balance, diversity, team-building),
- Appreciation and respect (leadership, acknowledgement, empowerment, ethics and trust, job-security),
- Development and career growth (induction, new skills acquisition, education, training, career development planning),
- Communication (organizational culture, information access, meetings, feedback).

Most of these drivers will be affected and reinforced by the companies’ CSR performance.

The relationship between employees’ satisfaction (including retention) and organizational performance has two dimensions. The first one is the impact of the employees’ satisfaction on the organizational performance. The second one is the impact of the organizational performance upon the employees’ satisfaction. Most of the surveys performed so far (Edwards and Fisher, 2004; Koys, 2001; Arthaud-Day, 2005) focus on the effects of the employees’ satisfaction and retention on organizational performance and effectiveness.

Saari and Judge (2004) point out “the knowledge gap in the areas of the causes of employee attitudes, and how to measure and influence employee attitudes” (2004, p.395). They predict that one likely future direction of employee attitude research will be to better understand the interplay between the person and the situation and the various internal and external factors that influence employee attitude. Further research is needed to bridge this gap. A distinctive area of research required is the question “What is the effect of the CSR performance of New Zealand companies on the employees’ satisfaction and retention?” Some overseas surveys indicate a relationship exists between these factors.
A 2002 UK Work Foundation study revealed that 82% of UK professionals would not work for an organization whose values they did not believe in, and 73% take social and ethical consideration into account when selecting a job (Draper, 2002). Three independent surveys on corporate philanthropy in the US (Rubenstein, 2004) showed that employees expect business to actively help build a better society and they reward those that do. Nearly two-thirds of employees surveyed believe that their companies should sponsor a corporate citizenship programme of some sort. The reports concur that good corporate citizenship provides benefits to business by improving “employer-employees” relations in terms of recruitment, retention, morale, loyalty, motivation and productivity.

The direct correlation between the level of CSR and the employees’ retention rate is more likely to be expressed by the influence of the components of CSR that have direct impact on the employees at the workplace. Such components are: the labour practices, employment conditions, labour/management relations, health and safety, training and education, diversity and equal opportunity, and the human rights at the workplace - non-discrimination, freedom of association, indigenous rights. The indirect correlation between the level of CSR, and the employees’ retention rate could be identified through the influence of such factors as company’s reputation, values, public image, etc, to the extent to which they are created and reinforced by the company’s CSR performance.

The annual PricewaterhouseCoopers global survey “The World’s most respected companies” (2004) was based on more than 1,000 interviews of CEOs across 25 countries, in four subject areas: Shareholder value, CSR, Corporate governance, and Innovation. The top 10 in the list of “Companies that best demonstrate their commitment to CSR” are Microsoft, Toyota, BP, General Electric, IBM, Royal Dutch/Shell, Johnson and Johnson, Honda, McDonald’s and Wal-Mart. Five of these MNC are also among the top 10 in the list of “The World’s most respected companies”.

The relationship “CSR – employees retention” has not been empirically researched in New Zealand. The annual survey, “The Unlimited Best Place to Work” (Robertson and Associates, 2005), is based on 60 questions. Only four of them have some content related to CSR. These questions are: the organisation cares about the well-being of its people, the organisation is an equal opportunity employer, communication in this organisation is open and honest, I am encouraged to develop my knowledge, skills and abilities in this organisation.
The survey, “Sustainability practices of New Zealand business” (UWMS and SBN, 2004) examines the general topics of CSR performance. It focused on differences between small, medium and large companies. The employees are regarded as one of the stakeholders and there were no specific questions and data about employees’ retention rate. Only few questions were related to staff retention in general. This include questions such as: the business provides job training; the business provides assistance to employees to obtain tertiary education, the business considers diversity in hiring decisions; the business has family friendly policies, the business provides flex-times.

The survey “Corporate environmental responsiveness in New Zealand” (CBSD, 2003) is based on ten questions about: Corporate environmental policy, Corporate governance (of environmental issues), Measurable environmental targets, Environmental objectives, Employee environmental programme, Environmental stewardship, Environmental management system, Communication with stakeholders, Environmental audit, Supplier programme. As it can be seen, this research is about environmental responsibilities. There are no questions about employee satisfaction and retention.

In 1998-99, Leanne Holdsworth from Christchurch interviewed 16 business leaders from Australia and New Zealand on the connection between maximizing shareholder return and “holistic business leadership” which encompasses respect for the human spirit and social responsibility (Holdsworth, 2000). In this research there were no particular questions related to employees’ retention.

The research of the relationship between CSR of New Zealand companies and the employees’ retention is of great importance in the present period of strong economic growth and shortage of staff in many companies. The New Zealand labour market is experiencing a period of rising employment, rising labour force participation rate and falling unemployment. The Labour market outlook of the Department of Labour predicts that in 2005 and 2006 the unemployment rate will be record low, at about 3.7 – 3.8 per cent (DL, 2004, p.2). In this situation the research will facilitate the business efforts to sustain economic growth by improving their CSR performance and retain talented staff, and will provide new scientific facts and information for further development of the CSR and human resource management theories.
CONCLUSION

The notion of CSR is at the forefront of contemporary management thinking. In fact, CSR has become a significant issue in both the business and public domain. A company CSR performance has become an important factor in overall business performance. It has also been proven that companies with good CSR reputation are able to attract better employees. Hence, this research investigates the relationship between CSR and staff retention. This area is conceptually and theoretically undeveloped and empirically nearly unexplored.

Many sources in the business literature support the hypothesis that there are direct and indirect correlations between the level of CSR, and the employees’ retention rate. For example, consumers in developed countries in their attitudes and behaviours, and as employees, have increasing awareness of the environmental performance, business ethics, philanthropic activities, and community relationships of the companies. It has been shown that the occupational health and safety issues are one of the areas of CSR, which will influence strongly the employees’ assessment of their working place and motivation.

Research on the relationship between CSR and staff retention in New Zealand companies will be of great importance in the present period of strong economic growth and shortage of staff in many companies and industries. The New Zealand labour market is experiencing a period of rising employment, rising labour force participation and falling unemployment. An empirical study on how to retain and attract skilled labour using CSR as an attractive package will be a significant model in the long term.
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