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# Attracting employees in developing countries through corporate social responsibility initiatives<sup>1</sup>

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**Main message:** Individuals have mainly preferences for ethical jobs and companies with bad ethical reputation have to offer higher wages to recruit.

**Key points:** Social responsibility concerns are context dependent. Individuals' choices are not all predominantly oriented towards the moral high ground. A significant proportion of respondents refuse to trade-off ethical preferences for money.

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<sup>1</sup> JEL classification codes: J28, J31, and M14.

## **Introduction**

Several studies suggest that individuals exhibit other-regarding preferences and prefer working for ethical and/or responsible firms in order to extract identity related benefits and fit the image they would like to give to themselves (Albinger and Freeman, 2000; Frank, 2003; Akerlof and Kranton, 2005; Brekke and Nyborg, 2008; Grolleau *et al.*, 2012). In other words, individuals may feel better-off and experience increased self-image by choosing socially-responsible firms (Turban and Greening, 1997, 2000). In return, good (bad) levels of corporate social performance can increase (decrease) the attractiveness of companies for job seekers and lead to a competitive (dis)advantage. Corporate social performance can signal to prospective employees better working conditions (Turban and Greening, 1997) and allow them to select organizations that fit their own values and/or increase their expected self-concept through their associations with such firms (Albinger and Freeman, 2000).

Interestingly, Frank (1996) showed that if two companies offer similar wages, the more socially responsible one would experience an excess supply of applicants, and, consequently, the less ethical jobs are expected to offer a compensating wage premium. Using a reservation pay premium survey, the author found that 88 percent of socially concerned individuals would prefer a job for the American Cancer Society rather than for Camel Cigarettes with an average compensating wage premium of about \$ 24.000 per year. In the same vein, a study reported in *Forbes* (Dolan, 1997, quoted by Albinger and Freeman, 2000), found that “more than half of 2100 MBA students indicated they would accept a lower salary to work for a socially responsible company”.

Despite their interest, such findings have received little academic attention in the particular context of developing countries. An understanding of employees' preferences can be,

however, very useful to design relevant recruitment and retention policies in such countries. Several western plants are (or will be) implemented in developing countries and we argue it is useful to examine the job applicants' behavior in such different contexts in order to avoid exporting without questioning ethical concerns or prescriptions that do not fit the local contexts. Indeed, to be successful, corporate social responsibility (CSR) initiatives require an alignment between employees' values and vision with those of the organization (Collier and Esteban, 2007). Intuitively, this overlap can be facilitated by adequate recruitment. Moreover, focusing on a sample from a developing country allows us to partially address the issue raised by Heinrich *et al.* (2010) about studying human nature on the basis of samples drawn only from western, educated, industrialized, rich, and democratic (WEIRD) societies. Enlarging the diversity can definitely enrich the analysis.

Hence, we examine in a developing country context, namely Algeria (North-Africa), whether individuals prefer more or less ethical jobs and the required wage differentials to switch to the less preferred one. Algeria is an interesting candidate for such an investigation, given that it has been repeatedly ranked among countries with an important level of corruption (Jolly, 2001). Algeria is an export based economy with oil and gas accounting for more than 90 percent of its total exports. The pervasiveness of unethical practices in the management of Algerian companies is documented in Cheriet (2013) who argues that fraud managerial practices have become normal. Given the economic crisis in Algeria –due to the decrease of export revenues notably because of the falling oil prices and the depreciation of the dinar, corporate social responsibility may seem of secondary importance, especially for individuals seeking a job. At first glance, this insight is consistent with the 124<sup>th</sup> rank of Algeria (out of 195 countries) in 2017 regarding openness to corporate social responsibility (<https://www.responsible-economy.org/>). The latter is still in its infancy in Algeria. Initiatives

range from nothing or cosmetic arrangements to serious approaches, including agents from small and medium-sized enterprises doing CSR without knowing it (Dincer and Dincer, 2013). This difficult-to-decipher variety also encompasses foreign multinationals that import and sometimes attempt to adapt in Algeria their CSR practices, with less or more success. In spite of an apparent normalization of unethical practices in the Algerian context, we nevertheless hypothesize that most individuals exhibit strong ethical preferences, regardless of monetary considerations. Consequently, they *prefer the more ethical job and require a significant pay premium to switch to the less ethical job*. Our main hypothesis is drawn from intrinsic preferences for making the world a better place and being socially responsible even if it does not pay (Bhide and Stevenson, 1990). Even if this insight is widely admitted in developed countries, it makes sense to investigate it in a developing country with an economic crisis context.

The remainder of our contribution is organized as follows. The next section describes the empirical strategy. Section 3 provides the main results, discusses them and suggests several policy and managerial implications. Section 4 concludes.

### **Empirical strategy**

The survey, similar to the one used by Frank (1996), was self-administered to 98 students on various campus of the Algiers metropolitan area, on a voluntary basis. Students from various backgrounds were invited to fill a questionnaire with several hypothetical pairs of jobs (Table 1). Despite some criticisms, notably regarding the potential overestimation of socially desirable choices, hypothetical surveys have been proved to provide interesting qualitative insights (Bekir *et al.*, 2015). Concretely, in each pair, the job is identical on all dimensions (working conditions, tasks, wage, pensions, insurance, vacation policies, etc.), except the level

of social responsibility on various dimensions (health, environment, politics, corruption). In each pair, a company evokes either a high level of ethics (for example, Algerian Association against Cancer) or a low level of ethics (for example, Philip Morris Cigarettes). Students had to indicate their preferred company if each paid a salary of DZD 70000/month (around U.S. \$638) and how much higher the salary would have had to make them switching to the non-selected job. Noteworthy, even if we are conscious that different respondents may have different understandings about social responsibilities, we did not provide definitions of social responsibilities to respondents in order to not unduly influence their responses.

**Table 1: Examined pairs of jobs**

|  |  |
|--|--|
| Ad copywriter for Camel Cigarettes                                 | Ad copywriter for the Algerian Cancer Society                        |
| Accountant for a large petrochemical company                       | Accountant for a large art museum                                    |
| Language teacher for intelligence services                         | Language teacher in a local school                                   |
| Recruiter for a shale gas company                                  | Recruiter for an environmental association                           |
| Lawyer for an office defending personalities accused of corruption | Lawyer for a human rights association                                |
| Consultant for a multinational firm                                | Consultant for an international non-profit organization <sup>2</sup> |

<sup>2</sup> We do not assert that a multinational firm is necessarily less socially responsible than an international non-profit organization. Indeed, a multinational could be socially responsible, for instance, by providing better employee working environment and taking practices to avoid pollution.

## Results and discussion

The results regarding the preferred companies and the pay premiums to switch from the preferred company to the less preferred one are indicated in Table 2.

**Table 2: Preferred company for each job (in percentage) and reservation pay premiums (in DZD) for sacrificing the moral high ground (N=98)**

| Job              | Moral low ground | Moral high ground | Average pay premium for switching <sup>a</sup> | Not switching anyway (%) |
|------------------|------------------|-------------------|--|--------------------------|
| Ad copywriter    | 19               | <b>81***</b>      | 439248   | 39                       |
| Accountant       | 81               | <b>19***</b>      | 562605   | 19                       |
| Language teacher | 65               | <b>35***</b>      | 782394   | 22                       |
| Recruiter        | 27               | <b>73***</b>      | 1205600  | 32                       |
| Lawyer           | 17               | <b>83***</b>      | 973917   | 40                       |
| Consultant       | 46               | <b>54*</b>        | 1060517  | 31                       |
| <i>Global</i>    | <i>42.5</i>      | <i>57.5**</i>     | <i>837380,1</i>                                | <i>30.5</i>              |

<sup>a</sup> Individuals answering 9160000 DZD/year and more were excluded. \*\*\*, \*\* and \* respectively stand for significant at the 1, 5 and 10 percent levels of a t-test comparing moral low and moral high grounds.

Three main results can be derived from our analysis. *First*, the proportion of individuals choosing the moral high ground ranges between 19 and 83 percent, and the aggregate answers show that 57.5 percent of individuals prefer the moral high situation. We also checked the effects of socio-demographic characteristics (age, gender, income) but found only gender differences for two jobs: ad copywriter and consultant. Using a Wilcoxon test, we found that women are significantly more likely to choose the Algerian Cancer Society and an

international non-profit organization over Camel Cigarettes and a multinational firm, respectively. This finding suggests the need to further investigate whether and how ethical concerns in job seeking are gender dependent.

*Second*, individuals' choices are not all predominantly oriented towards the moral high ground, or at least to what we considered as such. Indeed, for two jobs, namely accountant and language teacher, the respondents preferred a large petrochemical company and intelligence services (both moral low) rather than a large art museum and a local school (both moral high), respectively. This result can be understood in the Algerian context where these two entities are considered as conveyers of high social status, power and stability. Indeed, a large petrochemical company immediately evokes the top Algerian company *SONATRACH* that is persistently ranked as the most attractive company for Algerian students (Ouahib, 2016). Indeed, the petrochemical sector is frequently viewed as the 'goose that lays golden eggs' that offers many opportunities notably in terms of job stability, high wages with very promising evolution perspectives. Some experts even said that this reputation is so strong among the Algerian population that prospective employees are even willing (and frequently suspected) to pay bribes to be hired in several renowned companies. This reality may explain our findings, because the petrochemical sector is frequently considered in Algeria as the most promising one. In a similar vein, intelligence services are considered in Algeria as an incredible source of power and status. To give an illustrative example, the previous director of intelligence services was rightly or wrongly nicknamed 'the Sovereign of Algeria' (Akef, 2015; Addi, 2015).

*Third*, looking to the average pay premium column in Table 2, one can notice that individuals in general require a premium between DZD 439,248/year (around U.S. \$4000) –that is, a



salary which is one and a half the starting one – and DZD 1,205,600/year (around U.S. \$11000) –that is, more than twice the starting salary. It is however interesting to notice that an important proportion of individuals (between 19 percent for accountant and 40 percent for lawyer) choose not to switch anyway. In other words, a significant proportion of respondents expressed strong values in favor of some companies and refused to trade-off ethical (or other kind of) preferences for money.

These results can provide useful insights to companies or other entities such as environmental unions to design their recruitment policies. In some cases, some entities can emphasize and exploit non-monetary benefits that are not reflected in the wage, such as being aligned with the ethical preferences of candidates. Interestingly, Collier and Esteban (2007) argue that beyond internal procedures, such an alignment is necessary to address ethical issues in a successful way. For multinationals, our findings also indicate that exporting automatically ethical concerns and strategies from a context to another can backfire if they do not fit the local reality. Rather than just taking some values as universally shared, it seems useful to devote resources to a better understanding of the local context that can challenge balances or tradeoffs that are natural in other locations.

## **Conclusion**

In a very controversial essay published in 1970, Milton Friedman denied that corporate executives had any moral duty to relax the conditions of profit maximization on behalf of the wider interests of society, such as ‘avoiding pollution’. Nevertheless, he also conceded that *“it may well be in the long run interest of a corporation that is a major employer in a small community to devote resources to providing amenities to that community or to improving its government. That may make it easier to attract desirable employees* (emphasis added), *it may*

*reduce the wage bill or lessen losses from pilferage and sabotage or have other worthwhile effects*” (Friedman, 1970). Even if our results are only indicative, they suggest that the cost of a firm’s commitment to corporate social responsibility can be (partially) offset by its ability to attract talented employees and pay lower wages. They also indicate that companies can benefit from establishing a connection between their CSR initiatives (notably through adequate advertising and having inspirational role models) and recruitment procedures to attract talents, especially among ‘millennials’ who want make a difference thanks to their work.

Our empirical investigation suggests that CSR initiatives, even if they are costly, can deliver benefits beyond CSR considerations such as contributing to successful recruitment which may in turn improve business performance (Huselid, 1995). This factor can even play a bigger role when firms compete for rare talents who are likely to compare and rank firms, even in an economically distressed context. Consequently, companies may have a clear interest in communicating their CSR achievements to potential candidates. By attracting (alienating) CSR sensitive employees, firms can benefit (suffer) from self-reinforcing effects and strengthen (deteriorate) their CSR reputation. In short, without negating other factors such as the incentive package, CSR commitments can be used as an important recruitment tool. Promoters of CSR can also emphasize this benefit in order to encourage firms to adopt these initiatives especially in sectors where recruitment is a sensitive issue. A promising issue is to investigate how and the ways by which CSR affects other dimensions of human resource management, such as employees’ morale, turnover or gender issues.

We found empirical support for the insight that people may prefer ethical companies, which implies that attracting and retaining employees can be less costly for these companies than for

less ethical ones that have to incur additional costs to compensate their social responsibility deficit (for example, tobacco companies). Interestingly, this insight seems to hold even in economically distressed countries. Beyond our immediate results, we suggest that recruitment constitutes a crucial step to help organizations to achieve their ethical goals. Indeed, it can facilitate and reinforce the alignment between employees' values and vision with those of the organization. We also found that the most preferred companies are, at least in some cases, country dependent. Ethical issues that seem evident and appealing in a given context can be less appealing in another one. These context dependent concerns question the strategies of companies and not-for-profit unions that target a worldwide audience. Indeed, their strategies can fail in some locations because they use a 'one-size-fits-all' message that does not take into account how some ethical concerns are discounted in some countries, because of other factors such as the status conveying properties of some entities. By analogy to environmental issues, it can be argued that ethical considerations will converge across countries if they reach similar degrees of economic growth, implying a kind of Kuznets ethical curves. Rather than closing the debate, the reported evidence raises several questions on whether and how people balance between ethical dimensions and other ones in various settings.

Our study suggests a new path of worthwhile investigation regarding how people arbitrate between status concerns and ethical preferences. Indeed, a sizeable literature supports that "apart from economic payoffs, social status seems to be the most important incentive and motivating force of social behavior" (Harsanyi, 1980; see also Anderson *et al.*, 2015). If ethical preferences are well-aligned with status considerations, these two levers can be used and the solution is easy. For instance, Griskevicius *et al.* (2010) argued that status competition can be used to promote pro-CSR behaviors. Consequently, managers can seek to actively channel such status-seeking 'energy' in positive directions (that is, towards socially desirable

activities or behaviors) (Loch *et al.*, 2001). In contrast, when status concerns and ethical preferences are misaligned, the situation is much more complicated and the tradeoff constitutes a very interesting promising extension.

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