

Attractiveness through CSR: How Signaling Theory explains the Link between CSR and Employer Attractiveness

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Bachelor of Science

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Purpose/Motivation: In 2015, over 90% of the 250 largest firms worldwide published corporate social responsibility (CSR) reports (Meier & Cassar, 2018). By implementing CSR, organizations complement their core-business by providing benevolent contributions. CSR is a wide-ranging concept with many different activities. Corporate responsible behavior is also a valuable criterion by which prospective applicants evaluate a firm's attractiveness, enabling the firm to win the "war for talents". Organizations send signals, which provide further insights such as underlying true CSR intentions that are otherwise difficult to assess by potential applicants. However, the strength of CSR-related signals appears to depend on different dimensions. In this thesis, the link between an organization's CSR activities and its attractiveness to future applicants is examined with the help of Signaling Theory.

Theories/Hypotheses: Signaling Theory's principles can be transferred to firm's recruiting processes as firms seek to attract (and later on retain) individuals with the highest possible abilities. In order to do so, they intentionally send signals, which will ultimately distinguish the company from its competitors. However, due humans' selfishness actors tend to convey wrong information (Connelly et al., 2011). In order to mitigate this issue, the senders' signals need to be honest, i.e. costly or hard to fake (Bangerter, Roulin & König, 2012; Spence, 1973). Since not all firms are willing or able to incorporate CSR programs, the firms that do engage in responsible activities have the advantage to signal their qualities to potential applicants. Correspondingly, CSR has been seen to be a salient signal by which individuals evaluate the attractiveness of the practicing firm. As the number of companies practicing and the overall interest in corporate responsible activities has increased over the past years, researchers have begun to distinguish between symbolic and substantive CSR initiatives. However, the differentiation of substantive and symbolic CSR might not be sufficient to identify honest signals.

Approach/Methodology: Potential applicants have increasingly become more sensitive towards companies' true CSR intentions. Therefore, it is necessary that firms send honest signals in order to convince possible future applicants of their motives. Signaling Theory's components, costly and hard-to-fake signals, were used to explain how different CSR dimensions signal the practicing firm's sincere intentions. Signals which impose a cost are seen to demonstrate some type of the sender's quality which others, lacking this type of quality, cannot afford (Bangerter et al., 2012). Honesty can be ensured as only the "true" owner of the characteristics can afford to send the signal. If an honest signal is not costly, the signal will most likely be hard to fake. Credibility is established because this signal is beyond the sender's conscious control and, thus, hardly manipulable (Bangerter et al., 2012).

Findings: Based on costly and hard-to-fake signals, five dimensions were identified: Duration, Quantity, Seal of Quality, Alignment and Target. The signal strength of each dimension determines the extent to which possible job seekers perceive the firm as attractive. Consequently, this analysis led to the following propositions:

- P1: The longer a firm engages in CSR and signals these activities, the higher is the possibility that future applicants perceive the firm as attractive.
- P2: The higher the quantity of a firm's investments in CSR programs the likelier it is that prospective job seekers will link these perceived signals with the firm's attractiveness.
- P3: Certifications and CSR-related reporting send strong signals which influence future applicants' perceptions of a firm's attractiveness.
- P4: Possible applicants will receive a stronger signal if CSR activities are aligned with the firm's overall strategy and will perceive the firm as attractive.
- P5: By observing that the firm puts a lot of effort into selecting specific targets towards whom their CSR programs are directed, the potential applicants receive a stronger signal and, hence, will perceive the firm as attractive.

Research Limitations: Each dimension is investigated in isolation from the other dimensions. In reality, it seems likely that these different dimensions co-exist within a firm. Although Signaling Theory seems to be the best basis to explain the mechanisms behind individuals' perceptions of firm attractiveness, the theory cannot give an insight about the synergies and which particular criterion is more important in the evaluation process. Moreover, often there is a difference between research evidence and individuals' behavior in

real situations. When individuals are asked to participate in a study, they might evaluate firms which practice CSR positively and state they would consider the firm as an attractive employer. However, if the situation of job search arises in reality, the individual might decide differently.

Research Implications: Future research in this particular field would be necessary in order to provide further insights on the process how applicants assess a firm's attractiveness. Possible ways to conduct future research can be designed by pairing identical firms which only differ in the one specific dimension that is observed.

Practical Implications: For organizations achieving high attractiveness among the applicant population, it is advisable to have true benevolent intentions in order to send honest signals which, in turn, are highly regarded among prospective applicants.

Contribution: The thesis contributes to the literature on CSR by extending the usual distinction between substantive and symbolic initiatives. Thus, the paper examines relevant dimension of CSR that may influence the strength of CSR signals.

Paper type: Conceptual

Further readings:

Bangerter, A., Roulin, N., & König, C. J. (2012). Personnel selection as a signaling game. *Journal of Applied Psychology*, 97(4), 719.

Cuypers, I. R., Koh, P.-S., & Wang, H. (2016). Sincerity in corporate philanthropy, stakeholder perceptions and firm value. *Organization Science*, 27(1), 173-188.

Shea, C. T., & Hawn, O. V. (2019). Microfoundations of corporate social responsibility and irresponsibility. *Academy of Management Journal*, 62(5), 1609-1642.