CSR, Trust and the Employer Brand

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Abstract

Trust in companies and their executives seems to have declined in recent years (Edelman Trust Barometer, 2018; Reputation Institute, 2018; Tonkiss, 2009), with consequences for the credibility of the entire economic system. At the same time, there is some evidence, that social responsibility is considered important for the long-term success of companies by university students, who represent the future entrants to the job market (Elias, 2004). Those future entrants seem to be interested in companies’ responsible behavior and sustainable governance. In line with demographic challenges and resulting staffing bottlenecks, companies are challenged to position themselves as attractive employers in the job-market. Against this background, the discussion about trust, Corporate Social Responsibility (CSR) and the employer brand has gained traction. The objective of this paper is to conceptualize the relation between trust, CSR and the employer brand and to derive instruments for building trust via CSR and employer branding. Trust is understood as the “psychological state comprising the intention to accept vulnerability based upon positive expectations of the intentions or behavior of another” (Rousseau, Sitkin, Burt & Camerer, 1998). The paper describes elements and determining factors for trust and discusses the influence of CSR activities and the employer brand on employer choice and trust. Finally, instruments rooted in CSR and employer branding that enhance trust in companies are identified.

Keywords

CSR, workplace CSR, trust, employer choice, employer branding
1 Introduction

Responding to ambivalent trust relationships and increasing expectations of the public towards companies to address societal challenges (Edelman Trust Barometer, 2018; Bertelsmann Stiftung, 2016), companies begin to consider trust and trustworthiness as elements of their stakeholder communication. Trust is an essential lubricant in situations with high perceived risk due to asymmetric information or power and high involvement of the potentially weaker party. Not least, this applies to employment situations, where job seekers and even employees cannot ex ante evaluate workplace characteristics, leadership style or career perspectives. Trust and perceived fairness may therefore be important criteria for employer choice and at the same time potential differentiation attributes for employers to attract suitable job candidates and retain their existing workforce. This is even more pressing, when demand for qualified and skilled employees exceeds supply, and a high-quality workforce is essential to ensure competitive advantage.

Literature suggests that trust is enhanced by responsible and fair behavior of companies (e.g. Fukukawa, Balmer & Gray, 2007; Kim, Hur & Yeo, 2015; Perrini & Castaldo, 2008; Pivato, Misani & Tencati, 2008; Rupp, Ganapathi, Aguilera & Williams, 2006). At the same time, it is argued that trust has positive effects on employee organizational citizenship (Dirks & Ferrin, 2001; Organ & Ryan, 1995), voluntary performance (Chen, Hwang & Liu, 2012; Morgan & Hunt, 1994) and retention (Hansen, Dunford, Boss, Boss & Angermeier, 2011; Hemdi, Nasurin & Gadjah, 2006; Tzafrir & More, 2006). Connecting these relations, Hansen et al. (2011), for instance, show a mediating effect of trust in the relation between Corporate Social Responsibility (CSR) and turnover intention. Another stream of literature tries to provide evidence on (positive) effects of CSR on perceived attractiveness of a company by job applicants and on employer choice (Albinger & Freeman, 2000; Brammer, Millington & Rayton, 2007; Galbreath, 2010; Greening & Turban, 2000; Kim & Park, 2011; Lin, Tsai, Joe & Chiu, 2012). Finally, some authors argue for a positive link between CSR and the (employer) brand (Hsu, 2012; Kim et. al., 2015; Schmidt, 2009).

However, less emphasis has been put on combining the results from organizational behavior theories, employer marketing and CSR literature. In addition, there is little research on how to build trust in companies. Therefore, the objective of this paper is

1. to conceptualize the link between trust, CSR and the employer brand;
2. to gain insights into which aspects of CSR potentially drive trust in companies.

To this end, we will first deepen the understanding about the role of risk and trust in employment relations and detail the concept and components of trust. We will then shed some light on the reasons of why CSR positively affects employer choice, commitment and retention, and the role of the employer brand. Finally, we will detail the impact of CSR on trust and the mechanisms of how to build trust in companies by responsible behavior as well as by processes, structures and systems preventing opportunistic behavior.
2 Risk and trust in employment relations

Companies can be understood as long-term coalitions of individuals with not necessarily identical interests, joining in order to reach a common goal (Schauenberg & Schmidt, 1983). At the same time, they are linked via transactional and other relations to a number of external stakeholders, again with their own and potentially conflicting interests (Freeman, Harrison & Wicks, 2007). In case of perfect competition and properly defined property rights, these relations can be designed via negotiation, contracts and prices. However, market failures such as asymmetric information, power asymmetries and external effects entail risks for cooperation and may lead to leeway for opportunistic behavior (Bustamante, 2013; Schauenberg, 2004). Figure 1 shows some examples for risks in stakeholder relations, some of them one-directional (as for example the investment risk for investors), some of them mutual (as for example the employment risk which is relevant for employees and employer) (see Figure 1).

Figure 1: Risk and Opportunism in company relations
Source: Own illustration

Risks are also highly relevant in employee–employer relations: Following the classification of goods of Nelson (1970) and Darby and Karni (1973), the future workplace possesses a high share of experience and trust factors (Bollwitt, 2010). Only few employer attributes are overt and can be judged before signing the work contract. From an information economics perspective these characteristics are classified as search characteristics (Nelson, 1970). Most job characteristics, such as working atmosphere, training possibilities or contents of work, are experience characteristics. They often depend on the relationships with colleagues and superiors and can only be evaluated once the employee begins to work for the company (Böttger, 2011; Petkovic, 2008). Finally, those characteristics of the company or the workplace that will become visible only after years such as job security or the future...
Employment risks are perceived as crucial given the fact that employment relations are usually long-term and more difficult to change than other transactional relations (such as the purchase of a product or service). Additionally, employees usually spend a high percentage of their time at the workplace, such that a meaningful work and a good working atmosphere are of high importance to them (Anitha, 2014; Sageer, Rafat, Agarwal, 2012).

In situations of asymmetric information between the employer and the employee, companies may search for possibilities to build trust between the employer and actual as well as potential employees, hence reducing the risks perceived by employees (Ryan, & Oestreich, 1998; Whitener, 1997).

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1 Of course, also employers cannot entirely judge beforehand the competencies and the knowledge of job aspirants whom they plan to employ or the motivations and actions of actual employees. However, for the sake of simplicity, in this paper we will neglect this aspect and focus on risks of potential employees and the role of trust in employers.
3 The concept of trust

Trust can be defined as the “psychological state comprising the intention to accept vulnerability based upon positive expectations of the intentions or behavior of another” (Rousseau et. al., 1998). It reduces complexity (Luhmann, 2000) and is considered as a social mechanism for maintaining the ability to act in situations of dependency and insecurity (Ripperger, 1998). Trust gets important whenever there is room for opportunistic behavior: by providing “cognitive and moral expectational maps” it enables coordination and cooperation, which would not occur in the absence of trust (Barber, 1983).

Trust builds on expectations that economic agents attribute to their counterparties when choosing rationally effective and morally and emotionally appropriate actions (ibid.). Typically, the concept of trust refers to “positive” expectations, or the (mutual) confidence in the other’s goodwill (Ring & Van de Ven, 1992; Sabel, 1993), and leads to the willingness of a party to engage in an action even if there is the risk of being exploited by the trustee.

These expectations are grounded in the degree of trustworthiness that is assumed to form an inherent characteristic of the behavior of the trustee (“character trust”), and in situational factors that render trustworthy behavior a rationally effective choice (“situational trust”) (Liebeskind & Oliver, 1998; Norderhaaven, 1995). Character trust is driven by values, moral or empathy and decreases the gain from opportunistic behavior based on preferences (internal boundedness). In organizations, it can be encouraged by corporate values and culture, role models and recruiting procedures. Situational trust in contrast increases/decreases the incentives for opportunistic behavior based on external factors such as reputation, repeated action or social norms. Within companies, it is endorsed by transparency and social embeddedness. Both, situational and character trust depend on information (experiences, communication and other sources of knowledge) about the other party, which may serve as a signal for its “type” or the situational circumstances (Güth & Kliemt, 2007).

For the understanding of trust in company-employee relations it is also important to distinguish between personal and systemic trust (Giddens, 1990; Luhmann, 2000). Personal trust refers usually to dyadic situations where trustor and trustee can be identified for both parties, such as the trust of the employee in his superior. Systemic trust concerns expectations about behavior due to systemic characteristics (principles, rules, guidelines) (Giddens, 1990). It refers to the trust of an employee in the company he is working for, or the trust of potential employees in companies as institutions. Whereas personal trust may be based both on expectations about character and situation, systemic trust usually results from situational factors.

Trust is an important asset for companies. It supports voluntary participation, satisfaction and turnover intention of current employees (Chen et al., 2012; Dirks & Ferrin, 2001; Hameed, Arain & Farooq, 2013), as well as general work intention and employer choice of potential employees (Herger, 2006).
4.1 Importance of CSR for employees

CSR may be defined as "the responsibility of enterprises for their impacts on society" (European Commission, 2011). It implies the integration of "social, environmental, ethical, human rights and consumer concerns into business operations and core strategy in close collaboration with their stakeholders" (ibid). The scope of responsibility can be derived from general values and ethical considerations reigning in a society or dialectically from the expectations of legitimate stakeholders of a company. Employees, as one of the core stakeholders of a company, are paid specific attention in several frameworks of CSR. For example, the European Commission (2008) distinguishes four main areas of responsibility, with "workplace CSR" being the component which is most prominently directed on employees (see Figure 3).

![Figure 3: Fields of CSR proposed by the European Commission](Source: European Commission (2008))
Furthermore, the ISO 26000 framework names seven core subjects of responsibility, where “Human Rights” and “Labor Practices” contain CSR aspects with particular relevance for employees (see Figure 4).

**Figure 4: Core subjects of CSR in the ISO 26000 framework**
Source: Own illustration based on International Organization for Standardization (2014)

The attention paid to employees in theory and practice may partly be explained with the positive consequences of CSR on employees’ attitudes and behavior. A number of studies show that CSR is an important aspect for job selection (Albinger & Freeman, 2000; Brammer et al., 2007; Bustamante & Brenninger, 2014; Bustamante, Pelzeter & Ehlscheidt, 2018; Galbreath, 2010; Kim & Park, 2011; Lin et al., 2012; Turban & Greening, 1997). Other studies reveal that CSR positively influences commitment (Brammer et al., 2007) and organizational identity (Fukukawa et al., 2007) and hereby motivation and productivity. Various theories provide explanatory approaches for the positive effects of CSR for companies in their role as employers (see Figure 5 for an overview):

Motivation theories suggest that workplace CSR, such as work-life balance, social benefits and health management, has a direct effect on job satisfaction, staff commitment and loyalty of current employees and that it may lead to higher motivation, productivity and innovation (see European Commission (2008) for an overview of studies). It may also positively affect the cognitive and affective judgment of potential employees towards a company if they are able to evaluate workplace characteristics beforehand.
Other fields of CSR are also thought to increase the attractiveness of the company in question:

Social identity theory claims that CSR, if appreciated by society or affiliated social groups, positively influences social identity and self-esteem (Cable & Graham, 2000). Moreover, potential and current employees may expect a positive link between companies’ (CSR) image and their personal reputation (Herrbach & Mignonac, 2004).

Several authors suggest that employees prefer working for a company with corresponding values (Chatman, 1989; Rosenstiel, 2001). Depending on their moral feeling they would even react negatively when companies treat other stakeholders in an unfair way and vice versa (Cropanzano, Byrne, Bobocel & Rupp, 2001; Rupp et al., 2006). With increasing consciousness for ecological and social behavior, people expect employers to reflect their own ethical concerns and engage in CSR activities (Greening & Turban, 2000; Maxfield, 2008).

Finally, signaling theory (Spence, 1974; Rynes, Bretz & Gerhardt, 1991) suggests that organizational attributes are interpreted as signals for other unknown attributes. Perceived and visible responsibility towards the market, environment or community may hence also be taken as a signal for being a fair and responsible employer and potentially enhance the trustworthiness of the company.

However, CSR performance does not necessarily coincide with the perception of the company being responsible. Comparing indices for CSR performance with indices for CSR reputation, significant differences can be detected. Companies with a good CSR reputation, such as HP (rank 28 according to Reputation Institute (2018)) do not necessarily rate high in indices for CSR performance (rank 77 according to Corporate Knights (2018)), and vice versa. CSR image and CSR identity in these cases differ from each other, requiring an adequate positioning of CSR to relevant stakeholders via employer marketing and employer branding.

<table>
<thead>
<tr>
<th>CSR component</th>
<th>Influence</th>
<th>Effects</th>
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<tbody>
<tr>
<td>Workplace CSR</td>
<td>Motivation theories: Increase of motivation</td>
<td>Potential employees:</td>
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<td></td>
<td>Employer Branding: Attribute for differentiation</td>
<td>Reputation</td>
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<td></td>
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<td>Trust</td>
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<td></td>
<td></td>
<td>Attractiveness</td>
</tr>
<tr>
<td>Marketplace CSR</td>
<td>Social Identity Theory: Social identity and self esteem</td>
<td>Current employees:</td>
</tr>
<tr>
<td></td>
<td>Assumed link between company and own reputation</td>
<td>Motivation</td>
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<tr>
<td></td>
<td>Person-Organization-Fit Theory: Fit to own values and norms</td>
<td>Creativity</td>
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<tr>
<td></td>
<td>Signaling Theory: Signal for fair and secure working conditions</td>
<td>Commitment</td>
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<tr>
<td>Environment-related CSR</td>
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<td>Contribution</td>
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<tr>
<td>Community-related CSR</td>
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<td>Retention</td>
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Figure 5: Positive effects of different CSR components
Source: own illustration
4.2 Functions and effects of the employer brand

The employer brand can be understood as an unmistakable image of a company as an employer that is firmly established in the minds of potential, current as well as former employees (Grobe, 2008). In the scientific literature the term “employer brand” was first introduced in 1996 by Ambler and Barrow (Melde & Benz, 2014), who defined it as “the package of functional, economic and psychological benefits provided by employment, and identified with the employing company” (Ambler & Barrow, 1996, p. 187). The employer brand captures the company’s identity and internal self-image as an employer and makes it tangible for current and potential employees (Kriegler, 2012).

Employer branding can be described as the management process of the employer brand (Grobe, 2008; Stotz & Wedel-Klein, 2013). It comprises the planning, steering, coordination and controlling of an employer brand (Sponheuer, 2010), or, to be more precise, of all activities and design parameters of an employer brand (Grobe, 2008; Stotz & Wedel-Klein, 2013). Following the German Employer Branding Academy, employer branding can furthermore be defined as the identity-based, internally as well as externally effective positioning of a company as a credible and attractive employer (Deutsche Employer Branding Akademie, 2006).

An employer brand has different functions that vary depending on whether someone takes an employer or employee perspective. Concerning the employer perspective, an employer brand allows companies to differentiate themselves from its competitors in the eyes of potential and current employees (Petkovic, 2008). This is one of the main functions of an employer brand (ibid.). Only those companies who can stand out of the mass of companies will be and will stay to be attractive for both, potential as well as current employees (Stotz & Wedel-Klein, 2013). The differentiation itself can be achieved either by signaling unique functional benefits of the employment offering or by creating sympathy and affection for the company as an employer (Scholz, 1992; Petkovic, 2008). The creation of sympathy and affection is discussed under terms like “emotionalizing” or “emotional differentiation” and it gains importance because of the increasing comparability or homogeneity of employment factors (Petkovic, 2008). Furthermore, another important function is building preferences in favor of a company as an employer (Petkovic, 2008; Stotz & Wedel-Klein, 2013). This means that a company can become and continue to be the so-called “employer of choice” (Stotz & Wedel-Klein, 2013).

Regarding the employee perspective, the employer brand can give potential employees orientation when searching for and choosing an employer (Petkovic, 2008; Stotz & Wedel-Klein, 2013). In situations like these, potential employees are confronted with a high amount of information of numerous companies, which they cannot absorb cognitively (Stotz & Wedel-Klein, 2013). The employer brand bundles functional as well as emotional information and in this way simplifies the decision-making process (ibid.). Besides this function of orientation, the employer brand works as a trust anchor for the existence of an employer quality (Petkovic, 2008), meaning that the brand signals a certain employer quality on which potential employees can rely. This is especially important in the context of employer selection decisions. As potential employees are often not able to judge the characteristics of a company as an employer in advance of an employment, employer selection decisions carry a risk (Stotz & Wedel-Klein, 2013). Using the employer brand, potential employees can build trust concerning the employer quality and, in this way, the risk within choosing the right employer can be reduced (Petkovic, 2008; Stotz & Wedel-Klein, 2013). Finally, the employer brand offers an emotional benefit as it allows
identification (Meffert, Burmann & Koers, 2002) and social reputation (Hermann, 2005). The employer brand conveys the company values (Stotz & Wedel-Klein, 2013). Thus, it can be used by potential and current employees to compare company values with the own self-concept and own aspired value system and in case of a match to identify with the company and its values (Herriot, 2002; Ross, 1971). In addition, the image of an employer brand can be applied by employees to form their own image among friends (Stotz & Wedel-Klein, 2013).

Major goals of employer branding are the retention of current and the attraction of new employees. Additional effects are the strengthening of the company culture and of the corporate brand, which finally enhance corporate performance (see Figure 6).

This section showed that some functions of employer branding coincide with the expected effects of CSR on employees. Both, employer branding and CSR strategies aim at increasing trust, building preferences in favor of a company and enhancing the identification between a company and an employee. This suggests the integration of CSR into the employer positioning.

4.3 The interdependence of CSR, trust and the employer brand

In the last two chapters it was argued, that:

- CSR may build employer preference by providing attractive workplace attributes, by building trust and by allowing for personal and social identification.
- CSR needs to be communicated in order to take full effect on stakeholders.
- Employer branding comprises the positioning of a company to external stakeholders.
The employer brand is based on a distinctive bundle of tangible and intangible employment benefits which in the process of its development are to be selected such that a company is perceived as different and trustworthy and incites positive emotions and identification.

It is then straightforward that the integration of CSR as a distinctive employment benefit in the employer brand supports the communication of CSR to relevant stakeholders. At the same time, it potentially strengthens the employer brand in its function to attract and retain employees in three ways (see Figure 7):

- First, as an attribute for differentiation from competitors.
- Second, by enhancing identification with and perceived “added value” (e.g. Gardberg & Fombrun, 2006; McWilliams, Siegel & Wright, 2006; Varadarajan & Menon, 1988) of the company in question (provided that ecological and social consciousness and fairness is part of the value system of the target employees of a company).
- Finally, by signaling trustworthiness, hence strengthening the image of the company as a trustful, reliable and fair employer.

**Figure 7: Interplay between CSR, the employer brand and trust**

Source: Own illustration
5 Building trust by CSR and employer branding

As could be seen in the preceding chapters, one possible effect of CSR and its integration in the employer brand is to enhance trust of current and future employees in companies as employers: CSR serves as a signal for being fair to (potential) employees when information about the workplace is incomplete and the required experience, as well as trust characteristics of the employment relation are high. Integrating CSR in the employer brand underlines the function of the brand to establish trust in the company.

Referring to chapter 3, trust may be built in two essential ways: By fostering trust in the character of a company (“character trust”), or by establishing structures, processes and incentives that would make it costly to companies to deviate from promised behavior (situational trust) (see Figure 8 for an overview).

Character (or value-based) trust:

- Decreases gain from opportunistic behavior based on preferences

Situational (calculative) trust:

- Decreases gain from opportunistic behavior based on costs and benefits

- Establish institutions that prevent opportunistic behavior (control organs, self-binding codes of conduct)

- Signal trustworthiness where observable (e.g. social projects)

- Employ leaders that act as role model

- Build emotional bonds

- Reputations Employer brand

Figure 8: Instruments to build trust in companies
Source: Own illustration

Character trust depends on the belief of the trustor in preferences and values of the trustee that would make him behave in a responsible way. It is enhanced by signals of the trustee, for example by behaving (repeatedly) trustful with respect to other potential trustees, even if situational factors would not require this. Responsible behavior, e.g. with respect to society, environment or market partners might therefore be one way to build character trust. Moreover, personal ties and emotions play a decisive role for character trust. Hence, the building of positive emotions towards a company via employer branding as well as the personalization of CSR by showing people within a company that stand for its values and ideas might be a way to promote character trust. Finally, character trust is supported when employees identify themselves with a company (Hameed, et al., 2013). One factor for this is a perceived fit between own values and the value system of the company. Additionally, the “volunteering” (possibility to work within the company on voluntary social projects) is a factor for identification and hereby trust in companies.
Situational trust may be endorsed by establishing structures and systems that increase the cost of opportunistic exploitation, e.g. the setting of guidelines for responsible behavior or fair leadership, the integration of performance indicators linked to employee related responsibility, or the building of a reputation for being a good employer increase the cost of not complying with promises to employees. Also, the existence of social norms – or a company culture based on fairness – positively influences situational trust. However, as in the case of character trust, information about the existence of these institutional factors is a condition for building situational trust.
6 Summary and outlook

The aim of this paper was to contribute to the understanding of trust and its interplay with CSR and employer branding. According to selected theoretical frameworks, CSR seems to strengthen positive associations with potential employers, both because of an appreciation of workplace CSR related attributes (such as health care or work-life balance) and because of positive effects in personal and social identification and the trustworthiness of companies. The integration of CSR in the employer brand is not only in line with its (similar) objectives (orientation, but also trust building and identification), but also serves to close the gap between actual CSR performance and perceived CSR. Trust is fostered by both – CSR and employer branding. CSR potentially contributes to trust in an employer by signaling its fair character via observable other activities (character trust) as well as by institutions enhancing situational trust. Employer branding supports observability and information, but also shapes situational trust, making it costly to damage reputation by playing unfair.

Future research should empirically support the findings and shed some more light on the gaps between actual CSR, perceived CSR and trust in companies. Moreover, the effects of CSR on a cognitive and affective level should be investigated.

Research with respect to the relation between CSR, trust and employer branding has just begun. Companies already use trust as a value proposition to their stakeholders. Understanding the ways in which it can be enhanced is a major challenge which may allow companies to differentiate themselves better from their competitors.
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