Original Paper

Corporate Social Responsibility and Justice in the Salary Structure: Practice or Symbolism?

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Received: May 13, 2021         Accepted: May 21, 2021        Online Published: May 22, 2021
doi:10.22158/ibes.v3n2p94           URL: http://dx.doi.org/10.22158/ibes.v3n2p94

Abstract

Socially responsible companies should provide fair wages and maintain reasonable internal wage gaps as part of a commitment to workers as primary stakeholders of the organization. Our research seeks to clarify the influence of the Corporate Social Responsibility (CSR) system on the salary level of unskilled workers and the magnitude of internal salary gaps between the highest and lowest levels of the organization. We used a sample of 815 companies that are representative of the Chilean business ecosystem and developed a linear regression model with endogenous treatment. Our results show that the declaration of a CSR program positively influences the wage level of unskilled workers but increases the magnitude of internal organizational wage gaps. These findings suggest a partial adherence of companies declaring CSR in terms of commitment to their employees.

Keywords

CSR, Stakeholder Theory, unskilled workers salary, salary gap

1. Introduction

The literature on Corporate Social Responsibility (CSR) is extensive and has been widely analyzed in social, environmental, and economic dimensions (Latapi Agudelo et al., 2019). More and more organizations are adhering to CSR standards, as it has been demonstrated that the declaration of CSR is a strong strategy that improves the company’s financial performance through the consolidation of reputational advantages for the firm (Ikram et al., 2020; Miller et al., 2020; Pham & Tran, 2020). However, it has been shown that companies differ in terms of their commitment to the CSR management system and the practices they implement, since some firms use the CSR statement for symbolic reasons rather than considering a faithful adherence to the criteria that define a socially
responsible company (Wolf & Floyd, 2017).

CSR management systems are voluntary and self-regulatory, but pressures from stakeholders and the business ecosystem may induce the company to declare a CSR policy if social responsibility is considered a desirable attribute in organizations (Barnett et al., 2018; Félonneau & Becker, 2008). The Stakeholder Theory has been used to identify the groups to which the company is accountable and establish the level of influence that each of these parties has on establishing a CSR program (Ali et al., 2017; Berg et al., 2018). The employees of an organization are a primary stakeholder group indispensable to the operation and performance of the company (Clarkson, 1995). However, there is little research on the influence of CSR on the structuring of salary policies and internal salary distribution in the company. In this sense, a socially responsible company must pay fair wages to its employees and maintain an internal wage distribution with reasonable wage gaps (Barroso Tanoira, 2008; Bennett, 2018; Rodrigo & Arenas, 2008; Tangngisalu et al., 2020).

Our research seeks to clarify the influence of CSR on the level of non-specialized (or unskilled) workers’ salaries and the magnitude of internal salary gaps between the highest and lowest levels of the organization. To test our hypotheses, we use a sample of 815 firms that are representative of Chile’s business ecosystem and specify a linear regression model with endogenous treatment estimated by maximum likelihood. We estimate two models, one with the dependent variable representing the wage level of unskilled workers and the other with the internal wage gap as the dependent variable. In both cases, we used the formal declaration of a CSR program as a selection variable (endogenous treatment).

Our results show that the declaration of a CSR system positively affects the wage level of unskilled workers but increases the magnitude of internal wage gaps within the firm.

We contribute to the CSR literature by introducing the discussion regarding the effectiveness of CSR programs on pay equity in organizations. Our findings suggest an incomplete adherence of the socially responsible company to the commitment to workers, as they provide better salary expectations while increasing pay inequality within the organization. From the Stakeholder Theory, we propose that workers as a primary interest group could pressure the level of wages but not the magnitude of internal wage gaps.

This document is structured as follows. The theoretical framework and hypotheses are presented in the section below. We continue with the methodology section, and then we move on to present the results and discuss our findings. Finally, we conclude by presenting the limitations to the scope of the study and discuss future research opportunities.

2. Theoretical Framework

Corporate Social Responsibility (CSR) refers to the economic, legal, ethical, and philanthropic expectations that society has of organizations (Carroll & Shabana, 2010). The companies that can respond to these expectations have social objectives aligned with their financial objectives (Carroll, 2015; Carroll & Laasch, 2020). Thus, CSR policy declaration is a way for the company to connect with
society, and therefore acquire legitimacy, which increases its chances of survival. In this way, the company must consider the social consequences for consumers and society of the actions taken to maximize the wealth of its shareholders (Ee et al., 2018). CSR is recognized as a relevant business strategy to improve consumer perception of a company and ensure the firm’s permanence over time (El Ghoul et al., 2011; Fombrun & Shanley, 1990; Vishwanathan et al., 2020). The relationship between CSR and a company’s economic and financial performance has been widely studied, and a positive effect of the CSR statement on the company’s financial performance has been demonstrated through the improvement of the company’s reputation (Ikram et al., 2020; Miller et al., 2020; Pham & Tran, 2020). However, the company has other social responsibilities besides maximizing profits (D’Alessandro & Fanelli, 2015). A socially responsible company works to maximize its profits while addressing other concerns that arise from the firm’s social and environmental impacts (Carroll, 2015). Social responsibility is an attribute of the company and does not always materialize in a CSR program (Nosratabadi et al., 2019; Rotondo et al., 2019). It is enough that the company adopts responsible behavior toward society to be recognized as a socially responsible company. Thus, declarations of CSR programs can be used more for symbolic reasons than as guidelines for action (Wolf & Floyd, 2017); therefore, a formal CSR policy does not guarantee that the company will behave in a socially responsible manner. As social responsibility becomes a socially desirable attribute, adherence may not be true and normative but may instead be induced by stakeholders or business ecosystem pressure (Barnett et al., 2018; Félonneau & Becker, 2008).

As components of a more extensive social system, organizations need to demonstrate a basic acceptance of the higher system’s more generalized values (Lange & Bundy, 2018; Parsons, 1956). The Stakeholder Theory is used to analyze the groups to which the company should be accountable. Stakeholders are any groups or individuals that may affect or be affected by achieving the organization’s objectives (Freeman, 2015). Interested parties are classified as primary or secondary. Primary stakeholders are those without whom the company cannot survive (e.g., workers, customers, shareholders, and suppliers). Secondary parties influence the company but are not involved in their transactions (Clarkson, 1995). As a primary interest group, workers’ needs must be accorded high significance within their companies’ social responsibility commitments (Barroso Tanoira, 2008; Mazutis, 2018; Szelągowska-Rudzka, 2016). In this regard, Kim et al. (2018) note that the CRS policy influences the quality of working life, job satisfaction, and overall quality of life of the firm’s employees. In the same vein, Pérez et al. (2018) suggest that a socially responsible internal organizational climate, characterized by equity and fair treatment, could promote employee satisfaction.

One of the criteria that a socially responsible company must meet is to pay fair and timely wages that contribute to its workers’ development and improve their quality of life (Barroso Tanoira, 2008; Tangngisalu et al., 2020). The sense of justice of a socially responsible company must be congruent with the distribution of salaries within the firm’s remuneration structure, with reasonable wage gaps
(Bennett, 2018; Rodrigo & Arenas, 2008). Socially responsible companies provide for their workers’ economic well-being and encourage the grouping of workers through unions and bargaining groups, meeting its employees’ ideological and developmental needs (Du et al., 2015). Workers have expectations regarding companies’ social roles in wealth distribution and wage justice (Tangngisalul et al., 2020). Many factors influence the establishment of salary structures in organizations, and salary levels tend to be heterogeneous depending on the characteristics of industries and firms (Claypool et al., 2017; Hyun et al., 2019). For example, when a company is capital intensive, the demand for capital and specialized workers increases. Skilled workers are better paid than unskilled workers; therefore, the wage gap between skilled and unskilled workers increases (Ee et al., 2018; Kapoor, 2020). However, any wage structure must ensure at least the legal minimum wage that is set in the country (UNDP, 2017).

Unskilled workers are paid lower wages than skilled workers, so unskilled workers are more likely to earn wages close to the minimum wage (Balakumar & Chattopadhyay, 2020). Wage differences between skilled and unskilled workers give rise to wage gaps within the organization, which can reach different magnitudes (Anwar, 2013; Dutta, 2018). The same is true for salary dispersion between workers at the highest and lowest levels of the organization (Connelly et al., 2013; Shin, 2014). Considering the commitment to their workers (as primary stakeholders) that companies declare in their CSR policy, these firms should pay fair wages to their most vulnerable workers (unskilled workers) and maintain reasonable wage gaps between workers at the highest and lowest levels of the organization.

Based on these arguments, the following hypotheses are proposed.

H1: CSR policy has a positive effect on workers’ wages at the lowest organizational levels, such as unskilled employees.

H2: CSR policy negatively affects the wage gap between workers at the highest (managers) and the lowest (unskilled workers) levels of the organization.

3. Method

This study uses data from the Fifth Longitudinal Business Survey of Chile (ELE5-for its acronym in Spanish) of 2017 (INE, 2017). The original database contains 6,480 Chilean companies of different industries and sizes; most companies are not listed on the stock market and are representative of the Chilean business ecosystem. The 815 companies that reported complete data for all specified variables were considered. We use linear regression with endogenous treatment and maximum likelihood estimation to test our hypotheses since firms’ voluntary adoption of a CSR system induces a selection bias problem. We specified two models of analysis: the first to estimate the effect of CSR on the average wage of workers at the lowest level of the organization (unskilled workers), and the second model to determine the effect of CSR on the wage gap between workers at the highest and lowest levels of the organization.

For the first model, we use the average wage for unskilled workers as a dependent variable; it is
obtained by dividing the total compensation paid to unskilled workers by the total number of unskilled workers in the organization, expressed as a logarithm. Our second dependent variable is the salary gap between workers at the highest (managers) and lowest (unskilled workers) levels of the organization. It represents the magnitude (times) by which the manager’s average salary exceeds the average remuneration of an unskilled worker in the company. The selection (or endogenous treatment) variable is CSR; we measure CSR’s latent variable through companies that publicly declare their CSR policies. The CSR variable takes the value 1 when the company has publicly declared a CSR policy and 0 when it has not. The independent variables for the endogenous treatment equation are the size of the company as measured by five sales levels, according to the classification of the Chilean Ministry of Economy. Firm age is measured by the number of years the firm has been in operation, and the firm age squared variable is incorporated to control for the nonlinear effect of firm age. The regression equation uses the same variables as above and adds the presence of unions and the company’s capital intensity level. The presence of unions is expressed as a binary variable that takes the value 1 if there are unions or worker bargaining groups in the company and 0 if there are not. Capital intensity is measured by dividing total net assets by the company’s total employees, expressed as a logarithm. The detail of the variables and descriptive statistics of the sample are presented in Table 1.

Table 1. Descriptive Statistics

<table>
<thead>
<tr>
<th>Measures</th>
<th>Mean</th>
<th>S.D.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wage gap</td>
<td>7.475</td>
<td>4.662</td>
</tr>
<tr>
<td>Unskilled workers wage</td>
<td>13.114</td>
<td>0.240</td>
</tr>
<tr>
<td>CRS</td>
<td>0.302</td>
<td>0.459</td>
</tr>
<tr>
<td>Age</td>
<td>20.339</td>
<td>12.904</td>
</tr>
<tr>
<td>Size</td>
<td>1.503</td>
<td>0.855</td>
</tr>
<tr>
<td>Capital intensity</td>
<td>8.482</td>
<td>1.259</td>
</tr>
</tbody>
</table>
4. Result

The results are presented in Table 2. The fit measures for both models are satisfactory. The Wald test proves that both models have global significance. Furthermore, the regression method with endogenous treatment by maximum likelihood is adequate in this case, since the Wald test for the independence of equations shows a significant correlation between the dependent variables of the model (Fabbri et al., 2004; Nyquist, 1991).

According to our results, the CSR statement has a positive and significant effect on the lowest-level workers’ wage level (unskilled workers); therefore, hypothesis 1 cannot be rejected. We found that the CSR statement has a positive and significant effect on the magnitude of the wage gap between employees at the highest and lowest levels of the organization. This result is contrary to what was proposed in hypothesis 2; therefore, this hypothesis is rejected.

Table 2. Linear Regression with Endogenous Treatment Results.

<table>
<thead>
<tr>
<th></th>
<th>Unskilled worker wage</th>
<th>Wage gap</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Coef.</td>
<td>S.D.</td>
</tr>
<tr>
<td>Treatment equation (CSR as dependent variable)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Size</td>
<td>-0.309 ***</td>
<td>0.067</td>
</tr>
<tr>
<td>Age</td>
<td>0.008</td>
<td>0.010</td>
</tr>
<tr>
<td>Age square</td>
<td>0.000</td>
<td>0.000</td>
</tr>
<tr>
<td>Regression</td>
<td></td>
<td></td>
</tr>
<tr>
<td>CSR</td>
<td>0.358 ***</td>
<td>0.059</td>
</tr>
<tr>
<td>Union</td>
<td>0.022</td>
<td>0.023</td>
</tr>
<tr>
<td>Capital intensity</td>
<td>0.018 ***</td>
<td>0.007</td>
</tr>
<tr>
<td>Size</td>
<td>0.005</td>
<td>0.012</td>
</tr>
<tr>
<td>Age</td>
<td>0.001</td>
<td>0.002</td>
</tr>
<tr>
<td>Age square</td>
<td>0.000</td>
<td>0.000</td>
</tr>
<tr>
<td>Wald chi²</td>
<td>66.51 ***</td>
<td></td>
</tr>
<tr>
<td>Wald test for rho=0</td>
<td>27.29 ***</td>
<td></td>
</tr>
<tr>
<td>Observations</td>
<td>815</td>
<td></td>
</tr>
</tbody>
</table>

***/**/ indicates significance at the 0.01/0.05/0.1 level. Maximum Likelihood Estimator.
5. Discussion

Our research has two objectives: the first is to determine whether the CSR statement positively impacts the salary level of workers at the lowest levels of the organization, and the second objective is to test whether the CSR statement negatively affects the wage gap between workers at the highest and lowest levels of the company. We used data from 815 Chilean companies, specified a linear regression model with endogenous treatment estimated by maximum likelihood, and obtained satisfactory fit measures for the two proposed models.

We found that CSR policy positively affects the wage level of workers at the bottom (unskilled workers) of the organizational structure, thus, socially responsible Chilean companies are oriented toward satisfying their workers in terms of salary conditions. Considering that the employees are a primary interest group, the company cannot survive without them; therefore, the effort to retain workers within the organization corresponds not only to social goals but also to economic objectives (Clarkson, 1995; Heisler & Bandow, 2018). Workers leaving the organization can generate knowledge leaks, low productivity, and increased personnel costs (Garicano & Wu, 2012; Sumbal et al., 2020). Although socially responsible companies offer better wages to their unskilled workers, we found evidence that the CSR declaration positively affects the wage gaps in their compensation schemes. A feeling of social injustice within the organization decreases employees’ commitment to the company’s objectives and reduces workers’ satisfaction at the lowest level of the wage structure (De Clercq et al., 2021; Lee et al., 2012; Shapoval, 2019).

The mere statement of a CSR policy does not guarantee that the company will follow this policy (Félonneau & Becker, 2008; Gkargkavouzi et al., 2019). We initially proposed that socially responsible companies have contributed to social welfare by offering higher wages to the workers at the bottom of the company pay scale. In general, the public’s perception of a company’s social behavior regarding salaries is influenced by the firm’s average salary level, which can be published to attract candidates to the jobs, but internal salary gaps are not always publicly known (Yeager & Leider, 2019; Zaharee et al., 2018). A higher level of wages for unskilled workers combined with high internal wage gaps may indicate that the company is more interested in demonstrating social responsibility to other stakeholders (e.g., consumers, investors, and supply chain) than to its workers (Barroso Tanoira, 2008; Wolf & Floyd, 2017). Considering that CSR is a self-regulatory mechanism by an organization, the firm has complete freedom to put some stakeholders’ interests above others (Berg et al., 2018). If managers are responsible for the definition of salary structures, they will probably decide on their own salaries, contributing to internal salary gaps that deepen the inequality of wage distribution in the firm (Carroll & Laasch, 2020).

Our findings regarding the positive influence of CSR on the wages of unskilled workers complement Mazutis’s (2018) study, which identified a substantial increase in concern about workers in firms declaring a CSR policy. We agree with Szelagowska-Rudzka (2016) that implementing a CSR system positively influences the percentage of employees who positively assess their basic salary, bonuses, and
social packages. On the other hand, Bennett (2018) proposes that self-regulation in CSR standards can explain wage inequality because power distribution within governance structures is not controlled. In this sense, we find support for our results regarding the positive influence of CSR on the magnitude of wage gaps within the organization.

We contribute to the CSR literature by introducing the discussion on the influence of CSR on the fairness of an organization’s salary structure. Little is known so far about how socially responsible organizations behave, specifically in implementing living wage policies and in the structuring of wage distribution within the organization. We propose that socially responsible companies adhere to fair wages but not to the criterion of reasonable internal wage gaps. From Stakeholder Theory, we argue that workers, as a primary stakeholder group, may be pressuring the organization on the size of wages, but not on how remuneration is distributed within the organization.

6. Conclusion

There is little research on the fulfillment of the commitment to workers concerning the salaries that companies that declare a CSR policy should have. Although socially responsible companies comply with the criterion of paying fair and timely wages to their workers, they may encourage practices of inequity in wage distribution within the organization, which materializes in wage gaps between managers and lower-level employees. Since CSR is a socially desirable attribute in organizations and a self-regulating system, a company can limit regulatory adherence and adopt a symbolic approach to protect its reputation.

Many companies declare CSR policies but fail to comply with them in practice or implement them only partially. Stakeholder pressure implies that the organization must prioritize stakeholder demands to balance social and environmental objectives while maximizing the owners’ wealth. Therefore, detecting wage gaps may not be a matter of urgency for the organization if it has already implemented a wage policy that ensures fair wages for unskilled workers. The distribution of power in the organization and the governance structure can also influence a wage gap that exceeds what is reasonable since, if the managers of the organization are the ones who set the levels of salaries, they can assign themselves much higher salaries than the workers at the lowest level of the organization. For example, the Total Remuneration Survey (TRS) published in 2019 estimated that the wage gap between a manager and an unskilled worker in Chile can reach 47 times (Mercer, 2019).

There is a delicate balance between ethics, morality, and CSR, especially when it comes to social commitment to employees. A wage policy that ensures a better level of remuneration for workers at the lowest levels of the organization is socially responsible (moral) behavior; on the other hand, maintaining an internal wage gap within a reasonable level involves the voluntary choices of managers, who allocate salaries at each of the organizational levels from a somewhat personal (ethical) point of view.
7. Limitations and Future Research

Our study has limitations that represent opportunities for future research. Our data came from a representative sample of companies in a developing country (Chile); therefore, future studies with information from developed and/or underdeveloped countries could yield different results. The variety of standards for implementing a CSR system can mean different criteria for assessing a company’s commitment to its employees. Grouping companies that declare a CSR policy under specific standards can produce unique relationships between CSR and fairness in the company’s wage structure. Our study lacks information regarding managers’ and workers’ attitudes toward CSR in terms of wage setting and distribution; therefore, future research can incorporate these perceptual variables on CSR.

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Published by SCHOLINK INC.


https://doi.org/10.1002/9781118785317. weom020179


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