

Linkage between perceived corporate social responsibility and employee engagement: Mediation effect of organizational identification

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Abstract

This study employs structural equation modelling technique to examine the direct effect of perceived external corporate social responsibility and perceived internal corporate social responsibility on employee engagement as well as the mediated link through organizational identification. Social exchange theory and social identity theory used to explain the relationships between the variables in this study. It was conducted among 1080 employees of four selected organizations in Iran which are among the main pioneers in performing corporate social activities. The test of research model shows the positive effect of perceived external corporate social responsibility and perceived internal corporate social responsibility on employee engagement. In addition, it confirms that organizational identification has a mediating role in above relationships. The results have also contributed to a better understanding of corporate social responsibility in Iran as a developing country in which corporate social responsibility has recently gained attention and thus there is still a lack of understanding about it. The findings would be useful for managers to have a better insight towards applying corporate social responsibility in line with increasing employees' identification and engagement.

Keywords: Perceived external corporate social responsibility, Perceived Internal corporate

social responsibility, Corporate social responsibility (CSR), Employee engagement, Organizational identification, Structural equation modelling (SEM). Partial least squares (PLS)

1. Introduction

Corporate social responsibility (CSR) has gained the interest of business organizations since 1980s (Shen & Jiu-hua Zhu, 2011). The present research adopts the social perspective, describing CSR based on the company's efforts and position associated with its perceived societal as well as stakeholder responsibilities (Brown & Dacin, 1997; Sen & Bhattacharya, 2001). According to this definition, an organization should act in a way to “protect and advance the well-being of the community as a whole along with the benefit of the organization” (Davis & Blomstrom, 1975, p. 5). Although some researchers confirmed the role of CSR policies in motivating employees (Skudiene & Auruskeviciene, 2012), increasing organizational identification, organizational commitment, organizational citizenship behaviour and work meaningfulness (Bauman & Skitka, 2012), there is still a lack of attention on the effects of perceived internal CSR and perceived external CSR activities separately on employees as a major internal stakeholder (Lee et al., 2013b), especially on employee engagement as a motivational construct (Bakker et al., 2007) and employees' identification with the organization (Collier & Esteban, 2007). When the recent economic recession started in the 2000s, employee engagement has become an influential factor for organizational success in a competitive business world (Saks, 2006). Engaged employees exhibit pleasant behaviour towards their company like organizational commitment and a lower intention to leave the organization. Thus, considering the remarkable social changes in business world, it should be noted that identifying the determinants relevant to today's social activities which employee engagement is driven with seems to be essential. Furthermore, this study responds to the command for more studies on the individual-level effects of CSR (Aguilera et al., 2007; Rodrigo & Arenas, 2008; Tziner et al., 2011; Van Buren III, 2005). Most of studies in CSR have been done in organizational level of analysis or focused on external stakeholders (Rego et al., 2011). The foundation of this study is grounded based on social exchange theory (Blau, 1964) and social identity theory (Tajfel & Turner, 1979). Moreover, this study concentrates on the perception of employees towards CSR programs in their organisation. Accordingly, it can provide a clear insight to receive a better understanding of the effects of CSR on employees.

2. Linkage between external and internal CSR and employee engagement

According to Schaufeli et al. (2002b) work engagement is “a positive fulfilling, work-related state of mind that is characterized by vigor, dedication, and absorption” (p.74). “Vigor is characterized by high levels of energy and mental resilience while working, the willingness to invest effort in one's work, and persistence even in the face of difficulties. Dedication refers to being strongly involved in one's work and experiencing a sense of significance, enthusiasm, inspiration, pride, and challenge. Absorption, is characterized by being fully concentrated and happily engrossed in one's work, whereby time passes quickly and one has difficulties with

detaching oneself from work” (p.74).

Based on the findings of Hewitt Associates (2010) research, CSR perception is one of the top five threats of employee engagement. Organizations should try to keep their present CSR commitment or risk a decrease in employee engagement (Kenexa Research Institute, 2007).

As outlined by stakeholder theory (Freeman, 1984), CSR initiatives provide beneficial consequences for organizations by fulfilling stakeholders’ interests of the company, including employees, government, customer and shareholders (Lee et al., 2013a). This study perceives CSR as a multidimensional approach connected to various stakeholders of an organization that CSR has two main dimensions, internal and external (Amann & Stachowicz-Stanusch, 2012; Brammer et al., 2007; Jamali et al., 2008). External CSR includes community and philanthropy contributions. By taking this approach, the company communicates with the physical environment and its ethical manner to consumers and other external stakeholders (Carroll, 1979). Companies concern all internal operations of company in internal CSR activities (Brammer et al., 2007). It is possible to justify the relation between external CSR and individuals’ positive outcomes by the help of Social identity theory (SIT) which was originally presented by (Tajfel & Turner, 1979). SIT declares that people tend to group themselves in social categories that impact their self-concept (Ashforth & Mael, 1989; Greening & Turban, 2000; Peterson, 2004). Based on SIT, employees receive a positive feeling of identity when their organization has a positive reputation (e.g. perhaps committing to CSR), and collaboration with a company that has a negative image in CSR could have a detrimental effect on employees’ self-concept (Peterson, 2004). Prior researches have indicated a positive association of corporate prestige and its engagement in societal matters (Hess et al., 2002) and philanthropy (Brammer & Millington, 2005). Thus, a positive relationship could be assumed between perceived external CSR activities and employee engagement.

Therefore, it can be hypothesized that:

Hypothesis1: Perceived external CSR has a significant and positive effect on employee engagement.

In turn, there are some activities that company can conduct to enhance employee engagement and commitment in terms of working condition, giving equitable wages, appreciation and respect, communication, job security and personal and career development (Eweje & Bentley, 2006). According to ISO 2600, these items are considered as internal CSR, because its concentration is on taking care of the employees in company (Santoso, 2014).

Social exchange theory (SET) emphasizes on social behaviour as the consequence of an exchange process (Blau, 1964). The exchange is related to a reciprocal behaviour (Konovsky & Pugh, 1994). Saks (2006) believes that a good and proper way through which workers can repay their companies is through their degree of engagement. When employees receive economic and socio-emotional supports from the organization, they reciprocate it by showing emotional, cognitive and physical behaviours to the company and their work role. So, when CSR activities satisfy employees’ expectations, they are eager to repay with enthusiastic

behaviour in terms of organizational citizenship behaviour, employee engagement, and other pleasant behaviours (Organ & Lingl, 1995).

Therefore, it can be hypothesized that:

Hypothesis 2: Perceived internal CSR has a significant and positive effect on employee engagement.

3. Mediating role of organizational identification between CSR and employee engagement

The perception of oneness with the organization is named organizational identification (Ashforth & Mael, 1989). When individuals identify themselves with the organization, they are more willing to behave in line with the interests of the company (Van Knippenberg & Sleebos, 2006). SIT signifies that the CSR activities of company have a significant and direct impact on employees' organizational identification. Individuals attempt to attain or keep a positive social identity (Aberson et al., 2000), which they could obtain as a member of various groups (Ashforth & Mael, 1989).

Thus, organizational identification derived from the image and the perceived prestige of the organization can be a driver of organizational identification (Dutton et al., 1994; Tyler & Blader, 2002). In addition, corporate involvement in social issues and reputation are positively connected to each other (Hess et al., 2002).

According to SIT, employees tend to bolster their self-esteem and enhance their self-image by identifying with organizations and groups which are acknowledged for their responsibility and social engagement (Gond et al., 2010). On the other hand, CSR toward employees (internal CSR) consists of activities that guarantee the welfare and support of employees and good working conditions which can strengthen the employees' perception of self-respect and status in the company. CSR towards employees is related to employee's organizational identification. Indeed, individuals' judgment about the extent of respect from the company may impact the identification by improving the perceived status in their company (Tyler & Blader, 2002). Consequently, employees who have high organizational identification tend to enhance their engagement in their work, because they believe this process is mutually beneficial (He & Brown, 2013). In this regards, Employees perceive that external and internal CSR has a positive impact on organizational identification (Bhattacharya & Korschun, 2008).

Therefore, it can be hypothesized that:

Hypothesis 3: Organizational identification mediates the relationship between perceived external CSR and employee engagement

Hypothesis 4: Organizational identification mediates the relationship between perceived internal CSR and employee engagement

The conceptual model is presented in Figure 1.

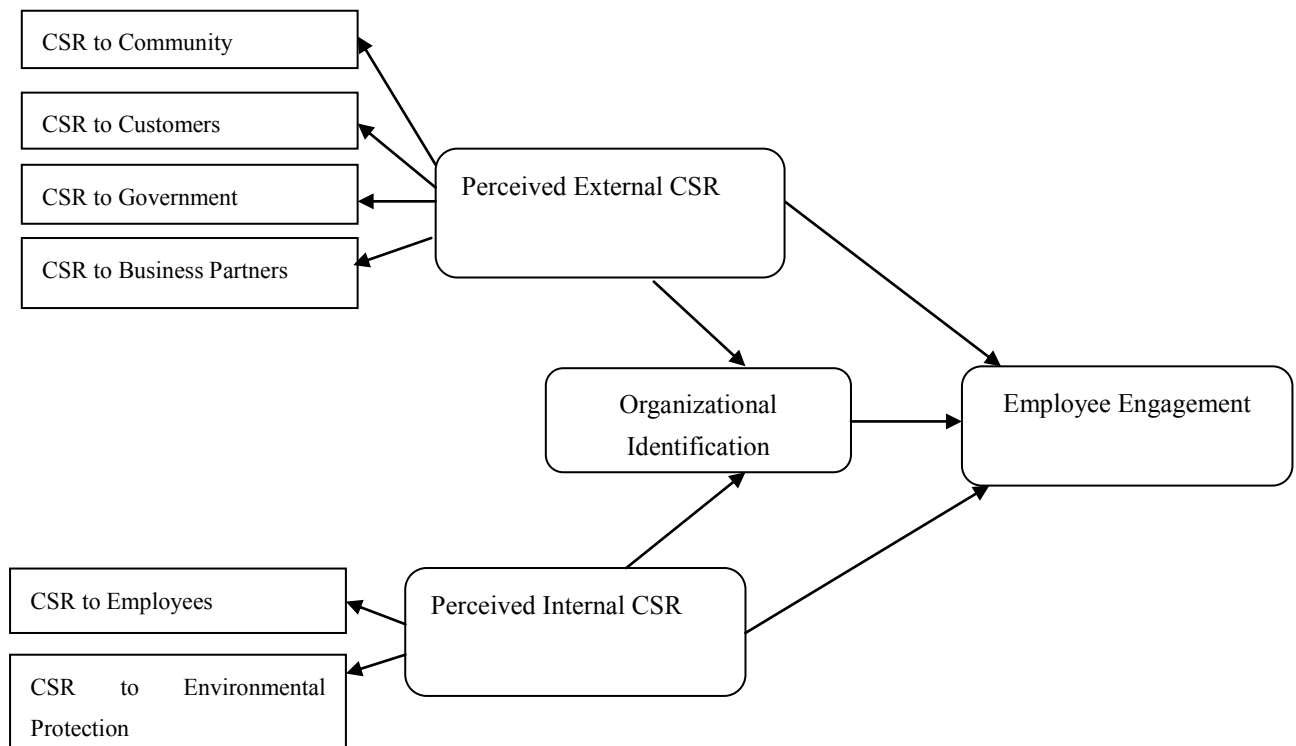


Figure 1: Conceptual Model

4. Methodology

This study focuses on all employees of four selected Iranian organizations which are located in Tehran. These companies are pioneers in carrying out CSR programs based on the report of CSR Centre in Iran and are involved in different CSR programs which publish CSR-related information on their websites. Data collected from employees as a unit of analysis because employees' reaction to CSR activities of their company is induced by their perception rather than using objective measurements (Brammer et al., 2007), predictors and outcomes need to be associated with regards to their source (Rupp et al., 2013). 1600 questionnaires distributed according to systematic random sampling by the help of researcher's friends who worked in those companies and 1100 questionnaire obtained (response rate: 68%). The final sample comprised 1080 usable questioners.

4.1 Measurements

To measure perceived external CSR, we relied on perceptual measures and developed a scale of four sub-dimensions of employees' perception of external CSR. CSR to community measured by 6 items, CSR to business partners measured by 4 items, CSR to customer and CSR to governments measured by 2 items separately. Thus, the final instrument comprises of 14 items adapted from various sources (Lindgreen & Swaen, 2010; Mijatovic & Stokic, 2010; Mishra & Suar, 2010; Skudiene & Auruskeviciene, 2012; Turker, 2009). Perceived internal

CSR as a second order construct is composed of two sub dimensions: CSR to employees measured by 10 items and CSR to environmental protection measured by 4 items. These 15 items were adapted from (Maignan & Ferrell, 2000; Mishra & Suar, 2010; Skudiene & Auruskeviciene, 2012; Turker, 2009). Organizational identification was measured by 6-items adapted from (Ashforth & Mael, 1989). Work engagement was measured with the shortened version of the Utrecht Work Engagement Scale (Schaufeli & Bakker, 2004; Schaufeli et al., 2002a). Responses were measured on a five-point Likert scale ranging from 1 (Strongly Disagree) to 5 (Strongly Agree).

5. Results and Analysis

PLS-SEM method makes the researchers able to examine the reliability and validity of the construct measures (Hair et al., 2014, p. 96). For this purpose, first measurement model including convergent and discriminant validity and then structural model are estimated by PLS analysis as implemented in Smart PLS 2.0 (Hansmann & Ringle, 2004). According to the approach of (Chin, 1998) and in order to find out the significance levels for loadings and path coefficients, the bootstrapping method has been employed. As both basic design and detailed design of model include higher-order constructs, a two-stage approach is followed to evaluate the structural model documented by (Hair et al., 2014).

In order to establish convergent validity which is defined as the degree to which multiple items are measuring the same concept are in agreement, we examined the factor loadings, composite reliability and average variance extracted (Hair et al., 2010). According to Chin et al. (2003), factor loadings should be at least 0.6 and preferably greater than 0.7. As shown in Table 1 all the items have factor loadings over 0.6 except for EMP4. This research accepted factor loadings of 0.6 and above as threshold in this study. In Table 1 composite reliability values ranged from 0.763 to 0.972 which is generally accepted at value of 0.7 or higher (Hair et al., 2010). The average variance extracted (AVE) should be greater than 0.50 (Barclay et al. 1995) and all construct measurements fulfilled this requirement (Table 1). In order to test the reliability, Cronbach's alpha values are above 0.6 as suggested by Nunnally and Bernstein (1994). Table 2 shows convergent validity of measurements.

Table 1: Measurement Model

First Order Constructs	Second Order Construct	Item	Loadings	AVE	CR	Alpha
CSR to Business Partners		BP1	0.694	0.536	0.821	0.711
		BP2	0.762			
		BP3	0.798			
		BP4	0.667			
CSR to Community		COM1	0.714	0.666	0.923	0.898
		COM2	0.787			
		COM3	0.803			
		COM4	0.859			
		COM5	0.875			
		COM6	0.847			
CSR to Government		GOV1	0.837	0.743	0.852	0.656
		GOV2	0.887			
CSR to Customers		CUS1	0.973	0.945	0.972	0.941
		CUS2	0.971			
		CSR to Business Partners	0.691	0.517	0.808	0.875
Perceived External CSR		CSR to Community	0.878			
		CSR to Government	0.644			

	CSR to Customers	0.637			
CSR to Employees	EMP1	0.672	0.502	0.900	0.876
	EMP2	0.736			
	EMP3	0.707			
	EMP5	0.634			
	EMP6	0.698			
	EMP7	0.682			
	EMP8	0.781			
	EMP9	0.771			
	EMP10	0.684			
	CSR to Environmental Protection	EP1	0.771	0.589	0.851
EP2		0.700			
EP3		0.842			
EP4		0.750			
EP5		0.897			
Perceived Internal CSR	CSR to Employees	0.891	0.621	0.763	0.845
	CSR to Environmental Protection	0.670			
Organizational	OII	0.634	0.535	0.872	0.823

Identification	OI2	0.635			
	OI3	0.785			
	OI4	0.736			
	OI5	0.765			
	OI6	0.812			
	Employee Engagement	EE1	0.732	0.539	0.913
EE2		0.603			
EE3		0.790			
EE4		0.703			
EE5		0.800			
EE6		0.827			
EE7		0.761			
EE8		0.624			
EE9		0.737			

Note: AVE= Average Variance Extracted, CR= Composite Reliability

In the present research, the discriminant validity of the measurement model is evaluated through employing the criterion of (Fornell & Larcker, 1981). In order to measure discriminant validity the correlation of a construct with its indicators (i.e. the square root of the AVE) should exceed the correlation between the construct and any other construct (Georges & Eggert, 2003). In Table 2, all diagonal elements are greater than the non-diagonal elements in the corresponding rows and columns. Measurement model has been shown in Figure 1.

Table 2: Discriminant validity

Constructs	Employee Engagement	Organizational Identification	Perceived External CSR	Perceived Internal CSR
Employee Engagement	0.734			
Organizational Identification	0.662	0.730		
Perceived External CSR	0.632	0.524	0.719	
Perceived Internal CSR	0.603	0.634	0.374	0.788

Note: Diagonals represent the square root of the AVE while the off-diagonals represent the correlations

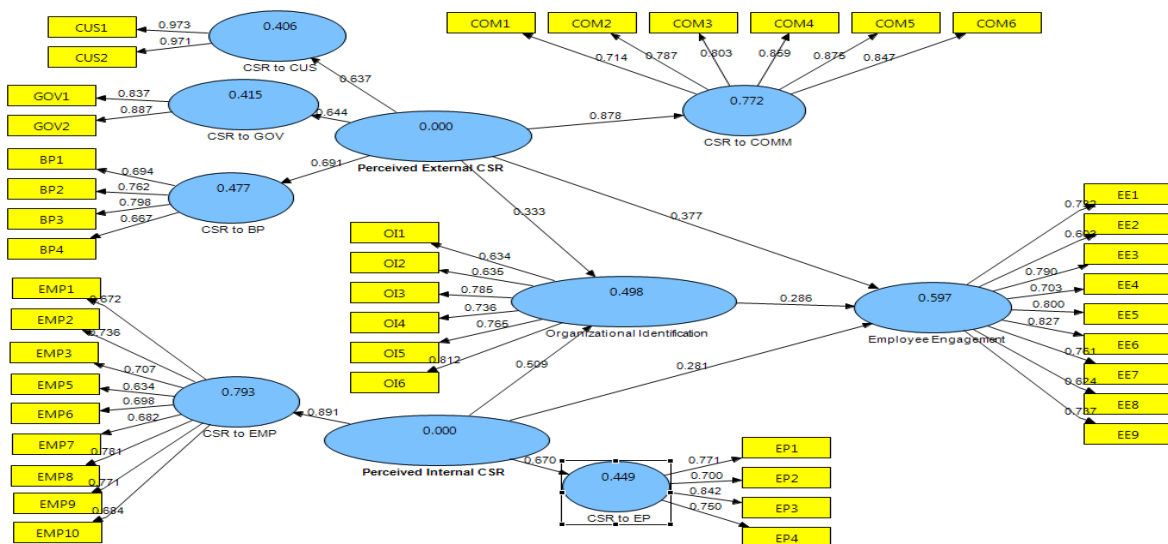


Figure 1: Measurement Model

5.1 Assessment of the structural model

The hypotheses were tested using Structural equation modelling method. We followed the two stage procedure recommended by (Hair Jr et al., 2014). As shown in Figure 2 and Table 3,

hypotheses 1 and 2 were supported. Perceived External CSR ($\beta = 0.386$, $p < 0.01$) has a positive effect on Employee Engagement. Perceived Internal CSR ($\beta = 0.237$, $p < 0.01$) has a positive effect on Employee Engagement. Perceived External CSR has a greater effect on employee engagement, according to the greater path coefficient ($\beta = .386$) and also with the medium effect size ($f^2 = 0.25$), in compare to Perceived Internal CSR ($\beta = .237$) with a small effect size on employee engagement ($f^2 = 0.09$). To evaluate the structural models' predictive power, R^2 indicates the amount of variance explained by the exogenous variables (Barclay et al., 1995). All three variables together explained 54.9% of the variance in Employee Engagement. Perceived External and Internal CSR together explained 43.1% of the variance in Organizational Identification. Using a bootstrapping technique with a re-sampling of 1500, the path estimates and t-statistics were calculated for the hypothesized relationships.

Table 3: Hypothesis results

Hypothesis	Hypothesis	Beta	Std. Error	t-value	Decision
H1	Perceived External CSR -> Employee Engagement	0.386	0.027	14.259**	Supported
H4	Perceived Internal CSR -> Employee Engagement	0.237	0.023	10.262**	Supported

Note: ** $p < 0.01$, * $p < 0.05$

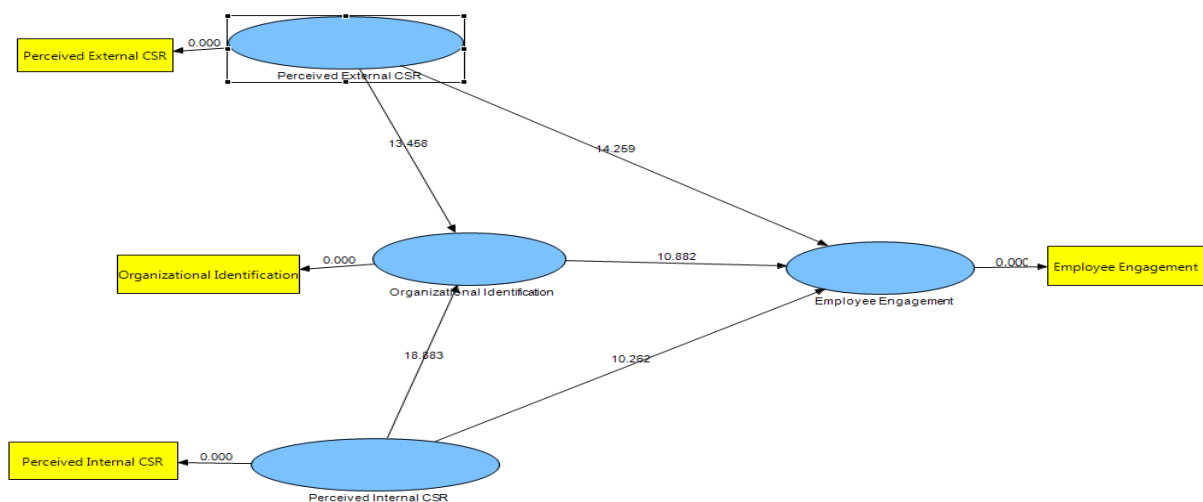


Figure 2: Structural model

5.2 The meditating effect of organizational identification

Hypothesis 2 and 3 which were related to the mediating role of organizational identification were supported. The results are shown in Table 5.

H₂: Organizational Identification mediates the relationship between Perceived External CSR and Employee Engagement. (Supported)

The recent reviews propose to employ the bootstrapping approach of Preacher and Hayes (2008) in order to mediation analysis that is a non-parametric experiment and does not disrupt the assumption of the normality.

The bootstrapping analysis showed that the indirect effect $\beta = 0.113$ (0.369×0.305) was significant with a t-value of 8.515. Also, as indicated by Preacher and Hayes (2008) the indirect effect 0.113, 95% Boot CI: [LL = 0.087, UL = 0.138] does not straddle a 0 in between indicating there is a mediation. Thus, we conclude that the mediation effect is statistically significant.

H₃: Organizational Identification mediates the relationship between Perceived Internal CSR and Employee Engagement. (Supported)

The bootstrapping analysis showed that the indirect effect $\beta = 0.136$ (0.446×0.305) was significant with a t-value of 9.813. Also as indicated by Preacher and Hayes (2008), the indirect effect 0.136, 95% Boot CI: [LL = 0.109, UL = 0.163] does not straddle a 0 in between indicating there is a mediation. Thus, we can conclude that the mediation effect is statistically significant.

6. Discussion

This study contributes to the knowledge by advancing the understanding of employee perspectives regarding CSR activities. The results suggest that perceived external and internal CSR have a positive effect on employee engagement as well as confirms the mediating role of organizational identification in these relationships. This research originally proposed, and the results support, an identity-based motivation for employee engagement. Identity-based motivation has received increased attention in employee behaviour research (Ashforth et al., 2008; He & Brown, 2013). This research incorporates organizational identification to explain effects different aspects of CSR (external and internal) on employee engagement. The current study indicates that employee's perception of CSR activities in organizations is crucial for enhancing both engagement and identification. According to the result external CSR has a greater effect on employee engagement than internal CSR which is inconsistent with previous studies that indicated internal CSR has a greater effect on employee positive behaviour such as job satisfaction (De Roeck et al., 2014). Internal CSR directly addresses employees' needs and well-being (Cornelius et al., 2008), so, it is expected that it should have a greater effect on employee engagement. But it should be mentioned that in developing countries based on the high unemployment rate, job security is a vital factor in employees' point of views. In developing countries such as Iran, companies' survival is not stable because of unstable economic issues. Iran ranks 130th among 189 countries world-wide, and 13th among 15 nations in the Middle East and North Africa in terms of ease of conducting

trade and business (World Bank, 2014). Employees believe that external CSR activities guarantee the business survival in changeable circumstances. They think that the relationship between companies and the government will get stronger, if companies participate in community activities. In result, it indirectly affects the company's survival. The present research aims to explain the notion of external and internal CSR defined as second order construct, consisting of CSR to various stakeholders with the help of empirical data. This study opens new avenues for CSR–employee research. Furthermore, whereas organizational behaviour literature mainly focuses on leader–member exchange and other forms of direct exchange, we introduce the concept of indirect social exchange and suggest that employees reciprocate some of the benevolent actions of the organizations, even if those actions are not focused on them. The results would be useful for internal marketing. As employees' attitudes and behaviours constitute intangible resources that are valuable, rare, difficult to imitate, and lacking in perfect substitutes, CSR leads to intangible resources for the firms. Perceived external and internal CSR, identification significantly affect work- and job-related variable such as engagement which considered as a motivational factor and leads to less turnover intentions, which are important for competitive advantages

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