THE RELATIONSHIP BETWEEN EMPLOYEE ENGAGEMENT AND ORGANISATIONAL PERFORMANCE: IMPLEMENTATIONS OF ORGANISATIONS

ElifONGO

Business and Management, Manchester Metropolitan University, UK

Abstract

This paper examines the relationship between employee engagement and enhanced organisational performance and enablers of engaged workforce in existing literature. The approach taken is a literature review with the comparison of annual reports of world-wide companies. The paper includes a fair comparison of theory and practice. Achieving psychological contract, with elements such as reward policy and talent management, will provide employee engagement as well as increased organisational performance. The paper includes the existing pool of knowledge on the relationship between psychological contract and reward systems and the relationship between committed workforce and engaged leadership and the evidence to examine the theory.

Keywords – Employee Engagement, Organisational Performance, Committed Workforce, Engaged Leadership

Introduction

The elements that determine the trends of the business environment such as the current circumstances of the markets, government policies, developing technology, innovation and investor attitudes have been on a transformation of change. In today’s business environment companies are compelled to come up with new strategies and better products in order to adapt to fast-changing circumstances (Yu and Ramanathan, 2012). Nevertheless, this battle of surviving requires more than the product itself or the service. The most valuable asset that companies have in hand is the employees (Jackson, 2007).

The changing characteristics of business environment requires new strategic developments as the economy have shifted from ‘production economy to service economy’ (Chen, 2008; 504). Meanwhile, current trends of society are also on a change as the intellectual technology is extremely developed after ‘the application of computers and other smart devices.’ (Chen, 2008; 504).

Knowledge has become a decisive element in competitive business environment rather than the land and the capital in the last decade (Chen, 2008). Increasing interest in knowledge asset management, as it is often referred to intellectual capital management (Jackson, 1997), brought up other implementations in various aspects of human resources management such as ‘employee satisfaction, commitment, motivation, involvement and the psychological contract, as well as features such as job design and total rewards’ (McBain, 2007; 16). In order to achieve sustainability and deliver success within this new environment, ‘knowledge workers’ (Paton, 2013; 20) needs to be managed and directed while ‘rewarding and valuing’ their possession (Paton, 2013; 21).

Managing intellectual capital, referring to ‘international material, knowledge, skills, intellectual property, and experience’ (Gonzalez, 2004; 60), requires an accurate understanding of business and the group that it is interacting with. Conclusively, it is the employees and only employees who carry the organisations ahead because, ‘Any business is only as good as the people who comprise the organisation.’ (Author Unknown, 2010).

Employee Engagement

Different definitions are possible for the term engagement, nevertheless, it is mainly described as ‘how individuals feels towards the organization, engagement is around the discretionary effort an individual is prepared to put in.’ (McBain, 2007; 17). Achieving employee engagement is directly linked to ‘productivity, profitability, employee retention, safety, and customer satisfaction’ (Whittington and Galpin, 2010; 16).
Current trends of business market and globalization of economic activities made it necessary for companies to attach new high-performing employees as well as maintaining the key personnel (Whittington and Galpin, 2010). In order to do so, as Whittington and Galpin (2010; 15) suggested; “organizations must create work environments that provide a sense of challenge and meaningfulness for employees.

Figure 1: integrative model of employee engagement (Whittington and Galping, 2010; 15)

As we can see from the integrative model of employee engagement model (Whittington and Galping, 2010), most of the firms are focused on macro-level enablers of employee engagement (Whittington and Galpin, 2010). Nevertheless macro-level engagement would only be enabled as long as it is supported by micro-level components (Whittington and Galpin, 2010). It is possible to see same essential factors create commitment on other employee engagement models. As it is also suggested by McBain (2007; 19):
Desired outcomes of employee engagement, for instance improved organisational performance, can only be achieved after providing certain elements such as trust and it requires particular driven forces such as influential leadership and right management.

As it was stated by Albrecht (2012), work experience has both negative and positive influence on behavioural patterns, level of engagement and employees well-being. In order to minimise the negative effects of disengagement an employee’s mental well being and health, employee engagement needs to be recognized and supported through ‘senior leadership, clarity of organizational [sic] vision, organizational climate and supportive HRM policies.’ (Albrecht, 2012; 843). It is possible for some organisations to conduct some of the disengaged individuals, but unless this situation is fixed, they will continue withdrawing themselves both psychological and emotionally.

According to Huckerby’s findings (Pech and Slade, 2006; 21); “Only 17 percent of employees are truly ‘engaged’ in their organisations, while 63 percent are ‘not engaged’, and 20 percent are ‘disengaged’ – those who have mentally quit, but stay on.” Among US workers (Wildermuth and Pauken, 2008; 124); “An estimated 25 percent are fully engaged, 50 percent not engaged and 15 percent is actively disengaged.”

Creating an engaged workforce is short-term strategical objective for most companies. As we can see from Vodafone Group Plc. (2013), employee engagement elements were explained as ‘a combination of pride, loyalty and motivation.’
In the case of Vodafone Group Plc, as they stated in their Annual Report of 2013 that; “We aim to be recognised as an employer of choice and therefore seek to maintain high standards and good employee relations wherever we operate.”

The fundamental element for an engaged workforce is the clear understanding and proper communication of mission, vision and goals between the employer and the employee (Appelbaum et al., 1998). Vodafone Group Plc, in 2012, launched the “Vodafone Hub” (Vodafone Group Plc, 2013) and other websites where employees can share videos and attend webinars. The programme aims to improve engagement of the employees through social networking web. This network between employer and the employees also enables Vodafone Group Plc’s “Speak Up” (2013) policy where employees can use a global telephone line to indicate their concerns on code of conduct issues and get accurate information and guidance.

It is also possible to see the “remuneration package” for the 2014 financial year for executive directors which include short term business plans such as; “motivating employees and incentivise delivery of performance over the one-year operating cycle” (Vodafone Group Plc, 2013).

**Engaged Leadership**

Although numerous definitions are available to explain what leadership is, according to Daft (Yiing and Ahmad, 2009) leadership is a transmission among leaders and their followers that reflects the common purposes and shared beliefs.

The challenging business environment requires more than “outdated change management methodologies that rely on problem-solving techniques” (Tombaugh, 2005; 16). Managers are required to have leadership skills with “the emphasis now on cooperation, collaboration, and communication.” (Graetz, 2000; 550). According to Graetz (2000; 550) the two fundamental characteristics of desired leaders are “instrumental and charismatic”. Instrumental characteristic involves more operating level elements such as controlling and monitoring the progress, whereas the charismatic leaders are more focused on boosting motivation. As it was suggested by Goleman (Graetz, 2000; 557)

**Summary of Change Leadership Roles**

<table>
<thead>
<tr>
<th>Charismatic Role</th>
<th>Qualities and Attributes</th>
<th>Instrumental Role</th>
</tr>
</thead>
<tbody>
<tr>
<td>Change leadership mindset</td>
<td>Honesty/integrity/trustworthy</td>
<td>Management mindset</td>
</tr>
<tr>
<td>Strategic focus</td>
<td>Inspiring</td>
<td>Operational/technical focus</td>
</tr>
<tr>
<td>Systematic/big picture focus</td>
<td>Competent</td>
<td>Business unit focus</td>
</tr>
<tr>
<td>Envisaging, energising</td>
<td>High degree of emotional intelligence</td>
<td>Planning and control</td>
</tr>
<tr>
<td>Concern for shared values, attitudes</td>
<td>Self-confidence, awareness</td>
<td>Concern for systems, structures and resource (human/physical)</td>
</tr>
<tr>
<td>Motivating Staff</td>
<td>Strong drive/energy to achieve openness to new ideas/change</td>
<td>Improvement</td>
</tr>
<tr>
<td></td>
<td>Strong interpersonal skills</td>
<td></td>
</tr>
</tbody>
</table>

Figure 4: Change Leadership Roles (Graetz, 2000; 557)
When the organisations needs to do more with fewer resources, ensuring high-quality service is one of the key component for the organisations (Church, 1995). Especially when the organisation is going through a change progress or a crisis, as Schneider (Church, 1995) suggested that leadership behaviours have critical importance in order to maintain and effective and positive work environment. As it is explained on Figure 5 (Church, 1995; 27), the ability of leaders and managers to lead people and the service employees produce is directly linked to organisational performance at any unit.

![Diagram: Organizational Culture, Managerial Behaviour, Service quality, Performance outcomes, Work-group climate]

Figure 5: Unit level performances (Church, 1995; 27)

**Psychological Contract**

As it was explained by Clutterbuck, (2005) the perception between an organisation and the interacting groups such as investors, shareholders, customers and employees have crucial importance for the value of an organisation. Ultimately, this transaction between such groups decides how this communication chain is going to be. It is either positive with understanding and enthusiasm or negative that is stimulating an unfavourable behaviour chain. This communication between groups enables us to examine different behavioural patterns of the employees. “The common term for how people feel about this exchange is called psychological contract.” (Clutterbuck, 2005; 359). It is also explained by Morrison and Robinson (Lub et al., 2012) that, psychological contract is the set of assumptions of obligations towards to an organisation where those obligations are not necessarily recognized on paper. As it was stated by McDonald and Makin (2000), there is a strong link between psychological contract and the individual’s commitment to the organisation. Achieving loyalty and commitment from workers will increase worker’s job satisfaction as well as the performance.

Considering the current circumstances of the markets that organisations are operating in, achieving a committed workforce is the key to provide higher performance. It was stated by O’Donohue et al. (2007; 74); “To realize the potential of their human capital, organisations require HR strategies and practices informed by an understanding of the role of professional work ideologies in the psychological contract.”

When HR policies fail to deliver a common ground between an employer and their employees, in other words failing to create a sense of commitment, it is not uncommon to encounter an employee’s sudden resignation. In today’s job market, replacing a worker is both a time and money consuming process. However, companies which are directly interacting with consumers such as Starbucks (store models), employee and manager relations with costumers have crucial importance for the company’s appearance. Thus, the loss of key personnel, line managers or executive managers, would cause unavoidable damage to the firm. In this case, managers need to make sure of a committed workforce as well as psychological contract. As it was stated in Starbucks Corporation Annual report of 2012; “The loss of key personnel or difficulties recruiting and retaining qualified personnel could adversely impact our business and financial results.”

Further to Starbucks Corporation Annual Report of 2012, they are well aware of the importance of recruiting sufficiently and the importance of retaining and motivating current employees in order to achieve a sustainable workforce.

It was also stated as vision of human resources department of Turkish Airlines (Annual report of 2012); “Turkish Airlines’ greatest asset is its human resources, and
the Company has transformed the dynamism of its young cadre into an international success story.”

Organisational Citizenship

The most common explanation for organisational citizenship follows; “the relative strength of the identification of the individual and his involvement with his particular organisation.” (Yousef, 2000; 6)

In order to achieve organisational commitment, three essential requirements need to be ensured (Faisal, Al-Esmaer, 2014);

- A strong belief in and acceptance of the organization’s goals and values
- Eagerness to work hard for the organization, and
- Desire to remain a member of the organization (Faisal, Al-Esmaer, 2014; 25).

In order to apply this definition to theory, the core values of the organisations need to be communicated distinctly, so employees have clear understanding of the vision and mission which enables them to decide if the organisational objectives are leading them to the direction of their individual aims. Along with commitment, employees also required to have a sense of involvement. Hence, the announcement of new business decisions and aims are needs to be delivered to employees by the management team themselves.

Employee commitment, in other words, one’s belief in organisational goals and values, is eventually translating into “competitive advantage and improved work attitudes such as job satisfaction, performance, absenteeism and turnover intentions. (Yiing and Ahmad, 2009; 56).

Organisational – Individual Goals, Talent Management

The first enabler of the committed workforce is to have a clear understanding of both organizational and individual aims. As long as organisational objectives and individual objectives are aligned, expectations will be satisfied. An individual will be willing to “go the extra mile” as long as the company is willing to offer more opportunities, such as promotion and career development. As it was stated on Google Inc. Annual Report of 2012; “We provide an environment where these talented people can have fulfilling careers working on some of the biggest challenges in technology, and have a huge, positive impact on the world.”

In the case of knowledge workers, there is an essential importance to create a committed workforce and organisational citizenship. Unlike previous generations, knowledge workers are more inclined to create a portfolio type of background, meaning working with different companies, widen the knowledge and continue to endless learning and adapt to innovation. Creating a healthy workplace and encouraging them to continue updating their knowledge would create devoted employees. In this case, organisations need to be supportive and consider “knowledge workers as an asset rather than as a cost” (O’Donohue et al, 2007; 75). As it was stated on Dell Inc. Annual Report of 2011; “Our success depends on our ability to attract, retain and motivate our key employees.”

Talent, on the other hand, according to many talent matrixes, is based on two components; “performance and potential” (Ross, 2013; 168). Managing the potential, in other words, revealing one’s abilities and knowledge, will help increase organisational performance. In regard to this, talent management enables individuals to have a better understanding of their individual roles in delivering desired organisational aims and performance. Talent management concept also enables “adequate recruitment and retention of the best staff.” (Mannion, 2009; 645). But, as it is argued by Mannion (2009), it is primarily about finding the right people for the right positions to increase potential performance from the employees.

Rewarding

Various methods are used by firms in order to boost the organisational performance. Rewarding is a ‘key management tool that can contribute to a firm’s effectiveness by influencing individual and group behaviour’ (Kerrin, Oliver, 2012; 322). In order to achieve a sustainable development, organisations are in need of a committed workforce, in other words, they need employees who are willing to go the extra mile for organisational benefits.

The traditional way of rewarding is to induce employees with financial rewards. Such as providing bonuses to accolade superior performance of individuals or teams. Most of the companies are still using this method while rewarding their employees, but at the same time, financial bonuses are also include retirement plans, health insurance and as we see in the world-wide companies, they enable their employees to obtain shares of the companies.

As it was stated in Apple Inc.’s Annual report (filled Oct 31, 2012); ‘Much of the company’s future success depends on the continued availability and service of the key personnel, including its Chief Executive Officer, Executive Team and other highly Skilled Employees.’
In order to achieve sustainability in employees, Apple Inc. performs different employee benefit plans such as 2003 Employee Stock Plan (generally expire seven to ten years), 1997 Director Stock Plan, Rule 10b5-1 Trading Plans, Employee Stock Purchase Plan. With these plans, employees (including executive officers) are able to purchase items from the company’s common stock through payroll deductions at the price equal to 85% of the lower than the fair market values. 2003 Employee Stock Plan is also a shareholder approved plan which gives the employees stock purchase rights depending on their individual performance as a reward. Although the company policy requires one-for-one basis upon vesting in shares of the company; each share issued to an individual for their superior performance reduces the number available for the 2003 Employee Stock Plan shares by two. Nevertheless, at the end of September 29, 2012, ‘approximately 37.1 million shares were reserved for future issuance under the 2003 plan’ (Apple Inc. Annual Report, Filled Oct 31, 2012) the availability of the RSU (Restricted Stock Units) for 2003 Employee Stock Plan is based on the continued employment. However, these plans are aiming to keep the valuable employees inside of the company by rewarding high performance.

Another financial reward that Virgin Media Inc. (Annual Report of 2012) incorporates to its employees is an annual bonus plan which rewards executive officers for achieving specific organisational objectives.

It is possible to see the same kind of implementations in The Coca-Cola Company Annual Report of 2012; Stock Compensation Plans and Stock Option Plans were both approved by the investors and have been active since 2000. The firm is granting stock options and ‘stock rewards to certain employees of the Company.’ (The Coca-Cola Company Annual Report of 2012).

On the other hand, most employers are aware that ‘paying at or above market-levels is not sufficient to encourage and motivate staff’ (Whitaker, 2010). Some of the rewarding policies are more psychological which are more promising to create the sense of loyalty from the employees. Compared to financial rewarding system, psychological rewards are more likely to trigger employee commitment. ‘Offering private music festivals, an indoor gold course and personal financial advice’ (Fuller, 2010) are some of the examples that companies in UK are currently operating. Apart from these examples, in order to motivate employees psychologically, some factors follow:

- Rewarding superior performance of an employee in front of an audience (such as presenting plaque or certificate),
- Giving accurate feedback on short-term basis (reviewing performance),
- Mentoring,
- Arranging training/education opportunities in order to assist expanding individual knowledge,
- Reducing anxiety by assuring job security and increasing insurance cover,
- Thanking employees and acknowledging publicly their efforts (Whitaker, 2010),
- Team launches and dinners or additional holidays such as shorter working hours on Fridays every once in a while (Whitaker, 2010)
- Granting promotions.

While Apple Inc. is more focused on financial rewarding systems for the employees, Samsung Electronics’ sustainability report of 2012 shows more of a psychological impressions. As it was stated on the report; ‘Samsung believes that a company’s growth directly relates to positive personnel policies that encourage employees to grow alongside their ongoing contributions to the business.’ (Samsung Electronics Sustainability Report of 2012).

The first remarkable HR function of Samsung Electronics is the recruitment. In order to ensure a sustainable growth, in 2012, Samsung tried to follow more responsible hiring policies. This approach includes young people who are living in impoverished or remote areas. In Korea, ‘Samsung electronics assigned 35% of its annual college recruitment allocation to schools in rural areas and another 5% to people from low-income households.’ (Samsung Electronics Sustainability Report of 2012) Another important hiring path for Samsung is to enable work opportunities for disabled people. At the end of April, 2013, Samsung employs ‘total of 1,213 people with disabilities.’ (Samsung Electronics Sustainability Report of 2012). These recruitment policies, or as it was named in Samsung’s Sustainability report ‘fostering talent for sustainable future’ (Samsung Electronics Sustainability Report of 2012) is the indicator of social responsibility as an established company and how their vision of ‘always pace people first’ (Samsung Electronics sustainability Report of 2012) and their actions work together in order to secure a sustainable company growth.

**Work Place, Safe and Health**

A Company has to provide a decent work place for the employees in order to increase the efficiency of the work. Workers rights are also protected by law to have a safe working environment that are free of known dangers. Unless essential working assets are satisfied, it is possible for employees to encounter some health related problems such as ‘dryness, itching or watering of the eyes; runny nose
and sneezing; a blocked of stuffy nose; dry throat; headache.’ (Robertson, 2007). These diagnoses, commonly known as Sick Building Syndrome (SBS) is one of the main causes of decrease in performance.

Samsung Electronics puts significant attention on employee’s safety and health. Since they are operating in the technology industry and besides designing or improving products, they also produce electronic products, it is important for them to acknowledge both internal and external environmental conditions. In order to do so, Samsung Electronics has ‘prepared scenarios that include proactive countermeasures for environmental pollution, toxic chemical spills, fires, explosions, and natural disasters.’ (Samsung Electronics Sustainability Report of 2012) Through these worst case scenarios, Samsung is able to come up with solutions in order to avoid crisis and it enables them to develop emergency plans as well as back up plans. In order to ensure safe and immediate worker evacuation, ‘regular drills and emergency medical treatment demonstrations care carried out for all company staff.’ (Samsung Electronics Sustainability Report of 2012) And the scheme used to address possible weaknesses follows:

![Diagram](image)

Figure 6: Addressing and fixing weaknesses (Samsung Electronics Sustainability Report, 2012)

The Procter & Gamble Company’s Annual Report of 2013 stated that, ‘… Managing changes, including identifying, developing and retaining key employees, is critical to our success.’ In order to do so, the P&G Company’s policy is paying the employee wages higher than the average market value. These higher salary options are following post-employment plans such as pension plans and health care costs.

Conclusions

The changing nature of the markets as the work environment has became more challenging than ever before, organisations are compelled to adapt in order to protect their existence. Current trends of business markets and shifted economy require more than the product or the service. The most valuable asset that companies have is the employees who are designing, creating, operating and delivering the service or product. Since the crucial importance of workforce is recognised, the concepts to boost the individual and organisational performance such as commitment or engagement of employees needs to be achieved.

Creating a sense of commitment is the key element for organisational citizenship. Once organisations achieve a loyal work force, it will enable engaged employees. When the company needs additional effort to maintain its existence in a challenging business environment, employees will be willing to go the extra mile (working extra hours without demanding payment etc.). Specifically, during a progress of adaptation (in other words, change or development process), a committed work force is a fundamental issue in order to remain sustainable.

Achieving an engaged workforce will provide superiority to the organisations in a competitive business environment. Finding the right people for the right positions, creating a set of mutual expectations between the employer and the employee, building the sense of commitment and loyalty to an organisation are formed by managers and leaders thus it gives substantial responsibility to them.
Reference

and Learning in Organizations vol. 19 (3) pp. 15-17