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A Qualitative Study on Non-Financial Factors of Employee Engagement Outcomes in SME Business in Malaysia

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ABSTRACT

Employee engagement has been recognized to have positive consequences in all facets of any business of any sizes including organizational success. Engaged employees within an organization provide a competitive advantage to organizations. Higher level of employee engagement are associated with various desirable organizational outcomes. This study attempts to unlock important organizational level outcomes of employee engagement from the perspective of SMEs top managers in Malaysia. A sample of ten respondents participated in this study using snowball sampling technique. Five non-financial factors were identified from the literature. Data were gathered using converging interviewing technique through a series of interviews. A content analysis method was used to interpret and analyze the findings. Findings on the non-financial factors were consistent with the literature. Nevertheless, findings on the most important non-financial factors to SMEs has revealed that customer satisfaction instead of employee retention is the most important non-financial factor to SMEs.

Keywords: Employee engagement, non-financial factors, SMEs, qualitative research, Malaysia.

1. INTRODUCTION

Employee engagement is a popular term among academics and practitioners. It has received much attention in human resources and management literature. The term has become an overnight sensation in the business consulting world after the book *First Break All the Rules* (Buckingham and Coffman, 1999) was published.

An early conceptualization of employee engagement was introduced by Kahn (1990). He defines personal engagement as “harnessing the organization members’ selves to their work roles” (Kahn, 1990, p. 694). The model posits that individual and organizational factors influence the work experience and

that this experience drives work behavior hence leads to positive performance outcomes. Harter, Schmidt, and Hayes (2002) defines employee engagement as “the individual’s involvement and satisfaction with as well as enthusiasm for work” (p. 296). Schaufeli et. al., (2002) took a different perspective and describes employee engagement as a “positive, fulfilling work-related state of mind that is characterized by vigor, dedication, and absorption” (p. 74). Saks (2006) then proposed a multidimensional approach to the term and defines employee engagement as “a distinct and unique construct consisting of cognitive, emotional, and behavioral components that are associated with individual role performance” (p. 602). These various definitions of employee engagement however are in agreement that highly engaged employees are not only cognitively attentive and emotionally connected to the task at hand but are also bring together their physical effort on the pursuit to role-related goals that directed toward desired organizational outcomes (Ashforth and Humphrey, 1995; Kahn, 1990; Saks, 2006; Shuck and Wollard, 2010).

Employee engagement has been recognized to have positive consequences in all facets of any business of any sizes including organizational performance and success. Engaged employees within an organization provide a competitive advantage to organizations. Higher level of employee engagement are associated with various desirable organizational outcomes. A study by Rich, LePine and Crawford (2010) shows that employee engagement is a channel for the effects of extensive individual and workplace factors on job performance. Engaged employees also are difficult to replicate and are unique to an organization (Bhatnagar, 2007).

In Malaysia, SMEs are considered as the backbone of the economy. SMEs formed 99.2 per cent of the total business formation in the country (Economic Census, 2011). Studies concerning SMEs have reported low productivity (Department of Statistics Malaysia, 2011), low motivation (Hill and Stewart, 2000), and failure to retain employees (Beaver and Hutchings, 2005; Fauzi, Ahmad, and Gelaidan, 2013; Tee, 2013). Issues related to employee engagement might be the root cause of these problems in SMEs, thus establishes a necessity to explore outcomes of employee engagement in this business setting.

Although there is an expanding body of literature examining employee engagement, it has been noted by scholars such as Macey and Schneider (2008) and Robinson, Perryman, and Hayday (2004) that practitioner publications and developments on the area are exceeding that of academic research. In addition, the existing literature on employee engagement is opinion rather than empirically evidence (Shuck and Wollard, 2010).

In addition, past research on employee engagement were conducted in a general business setting such as R&D firms, fast-food firms, telecommunication firms, automotive firms, and hotels rather than focusing on SMEs. These studies were also ignored employee engagement from the perspective of top managers. They rather concentrated on the non-managerial employees, or among managers and supervisors only or included employees at all levels without any segregation according to managerial levels. The perspectives and experience of the top managers are viewed as vital because they are responsible on the implementation and monitoring of organizational performance and also the decision makers in their respective firms. Besides that, the approach of past research on employee engagement were mostly quantitative in nature rather than qualitative. Qualitative data in the employee engagement literature is lacking (Hakeem and Gulzar, 2014). The depth and detail of qualitative data is required to understand the complex phenomenon such as employee engagement (Carson et. al., 2001).

Financial factors, for instance profitability is the ultimate motive of any organizations, thus a common factor regardless of types and sizes. Nevertheless, non-financial factors might vary in different types of organizations especially to those that are classified as SMEs because of the uniqueness of their employees and their business characteristics. They vary in term of skills, the available resources, and the importance on training. The uniqueness of SMEs in term of size and type of employees is apparent up to the extent that they require special definition on their own. Thus, the outcomes of employee engagement that are important to SMEs perhaps different than that of in the general business settings. Even though previous researchers had studied non-financial factors of employee engagement in SMEs but they are focusing on the individual level outcomes of employee engagement rather than on the organizational level outcome of employee engagement. This study focuses on the organizational level outcomes of employee engagement based on two premises: (1) outcomes at the organizational level are the barometers of a business performance, and (2) performance at the organizational level is often viewed more vital as an indicator of success than the performance at the individual level (Pugh and Dietz, 2008).

Therefore, the purpose of this study is to explore the outcomes of employee engagement particularly the non-financial factors in Malaysia from the perspective of SMEs' top level management. Specifically, this study attempts to understand the non-financial factors that are important to SMEs. Hence, this study was guided by the following research question: "How and why to establish the important non-financial factors influenced by the organizational level outcome of employee engagement in SMEs?"

2. LITERATURE REVIEW

In the previous section, the background and purpose of this study were explained. In this section, issues within the literature that relate to the research problem are highlighted in which outcomes of employee employment was first discussed and subsequently followed by proposed theoretical framework of this study.

Outcomes of Employee Engagement

The outcomes of employee engagement are viewed to consist of two levels namely the individual level and the organizational level (Ahlowalia, Tiwary, and Jha, 2014; Jones and Harter, 2005; Jose and Mampilly, 2012; Kahn, 1990; Roberston-Smith and Markwich, 2009; Swarnalatha and Prasanna, 2012). Employee engagement would initially impact the individual level then only the organizational level. In other words, positive outcomes of employee engagement at the individual level will produce positive outcomes at the organizational level (Harter et. al., 2002; Swetha and Kumar, 2013). This linkage is consistent with engagement models, theory and research (Gruman and Saks, 2011).

The examination of the related literature is performed for the purpose of identifying the organizational level outcomes of employee engagement. A total of 16 articles were selected based on refereed journal status, context of the studies and level of non-financial outcomes of employee engagement. First, the context of studies of these article was examined. The result of review on the context of studies is illustrated in Table 1. Out of 16 articles, only one article in which the study was conducted specifically in SMEs whereas the remaining 15 articles were studies conducted in general business setting.

Table 1
Context of Studies of the Selected Studies on Organizational Level Outcomes of Employee Engagement

	<i>Context of Studies</i>		<i>Total</i>
	<i>Studies in General Business Setting</i>	<i>Studies in SMEs</i>	
Frequency	15	1	16
Percentage	93.8%	6.2%	100%

Source: Developed for this study.

Table 2
Sample and Research Methods of the Selected Studies on Organizational Level Outcomes of Employee Engagement

	<i>Respondents</i>					<i>Research Method</i>				
	(1)	(2)	(3)	(4)	(5)					
	<i>Non-managerial employees</i>	<i>Middle managers & Top managers</i>	<i>Top Managers</i>	<i>Non-managerial employees, Middle managers & First-line managers</i>	<i>Employees at all levels</i>	<i>Total</i>	<i>Quantitative</i>	<i>Qualitative</i>	<i>Mixed Method</i>	<i>Total</i>
Frequency	5	2	0	5	4	16	13	1	2	16
Percentage	31.3%	12.5%	0%	31.3%	24.9%	100%	81.3%	6.2%	12.5%	100%

Source: Developed for this study.

Next, the respondents and the research method of those selected studies were examined. The result of both aspects is shown in Table 2 above. Out of 16 articles, none has selected top managers solely as their respondents. Their respondents were either non-managerial employees or a combination of different managerial levels or employees at all levels. In term of research method, only one out of 16 articles was a qualitative study. This has shown dearth of qualitative approach in employee engagement literature.

Lastly, the organizational level outcomes of employee engagement of these studies was assessed. The result of the assessment of the selected articles is depicted in Table 3 below. The assessment of the selected articles has unveiled five non-financial outcomes of employee engagement at organizational level. These outcomes are (1) employee retention, (2) absenteeism, (3) customer satisfaction, (4) customer loyalty, and (5) advocacy of an organization.

The highest frequency is employee retention in which 8 out of 16 articles studied this outcome, equivalent to 50 per cent. The second highest frequency is absenteeism and customer satisfaction, in which 3 out of 16 articles studied each outcome, equivalent to 18.7 per cent each. The lowest frequency is the remaining two outcomes that is customer loyalty and advocacy of an organization. Each outcome has a frequency of one out 16, equivalent to 6.3 per cent each.

Table 3
Analysis on the Organizational Level Outcomes of Employee Engagement

	<i>Non-Financial Factors for Organizational-Level Outcomes of Employee Engagement</i>					<i>Total</i>
	<i>1</i>	<i>2</i>	<i>3</i>	<i>4</i>	<i>5</i>	
	<i>Employee Retention</i>	<i>Absenteeism</i>	<i>Customer Satisfaction</i>	<i>Customer Loyalty</i>	<i>Advocacy of an Organization</i>	
Frequency	8 out of 16	3 out of 16	3 out of 16	1 out of 16	1 out of 16	-
Percentage	50%	18.7%	18.7%	6.3%	6.3%	100%
Selected for this study	√	√	√	√	√	

Source: Develop for this study

All of these five organizational level outcomes of employee engagement were selected for this study. Specifically, this study attempts to understand the non-financial factors that are important to SMEs from the perspective of top managers in this classification of business.

Theoretical Framework

In the previous section, the assessment of related studies in employee engagement has uncovered five organizational level outcomes of employee engagement namely employee retention, absenteeism, customer satisfaction, customer loyalty, and advocacy of an organization. These five non-financial factors for organizational level outcomes of employee engagement are listed according to the frequency of each factor that is from the highest frequency to the lowest frequency. This framework was used as a platform to further explore the important non-financial factors of employee engagement outcomes at organizational level. The proposed conceptual framework of this study is shown in Figure 1.

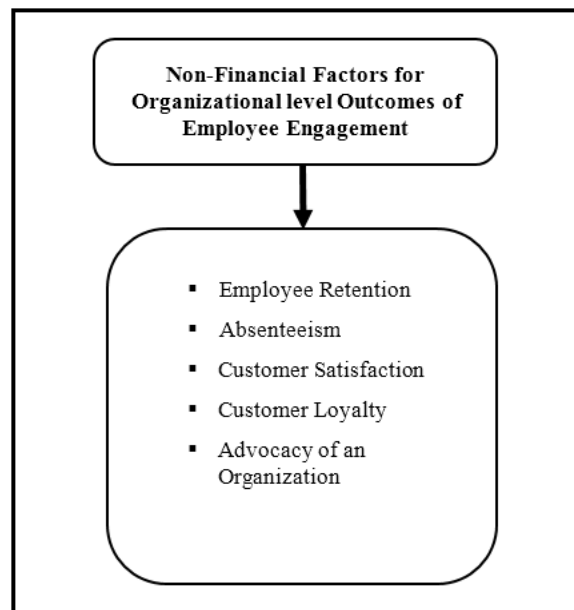


Figure 1: The Theoretical Framework
Source: Developed for this study

3. METHODOLOGY

This study was dominantly qualitative in nature using convergent interviewing technique to collect data. This interview technique comprises of a series of interviews with experts who have specialized knowledge or relevant experience of the phenomenon under investigation (Dick, 1998; Nair and Riege, 1995; Rao and Perry, 2003) and it is the most suitable data collection technique when the amount of known is limited (Dick, 1990; 1998). The interview protocol was prepared to ensure the validity and reliability of the data collection process. Each interview was about 30 minutes. The interviews were tape recorded and transcribed. This study included a sample of ten respondents selected through snowball sampling method. This sampling technique is the most effective method to obtain people who are knowledgeable or experts about the topic under investigation (Aaker and Day, 1990). The respondents of this study were top managers of SMEs and owners of those businesses, who hold various positions such as chief operating officer, managing director, general manager, and director.

4. FINDINGS

All of the respondents were approached personally for their inputs and interviews. Initial contact with potential respondents was established through email and followed by telephone calls and messages. Each respondent was given an overview of the research, the purpose of the interview, and was then asked to participate in the interviews. Venue and time were decided when they agreed (Carson et. al., 2001). Each interview was transcribed within a day of the interview. Table 4 illustrates the summary of the respondent's gender, age, position in the firm, the industry in which their organization operates.

Table 4
A Summary of the Respondent's Background for the Convergent Interviews

<i>S.No.</i>		<i>Data</i>	<i>Frequency</i>
1	Age	30s	2
		40s	4
		50s	4
2	Education Qualification	Undergraduate degree	5
		Postgraduate degree/ Professional Qualification	5
3	Industry type	Manufacturing	1
		Services and Other Sectors	9
4	Position	Chief Financial Officer	1
		Chief Executive Officer	2
		Director	1
		Executive Director	1
		General Manager	2
		Managing Director	3

Source: Developed for this study

Because the respondents converged on similar issue quickly, only ten respondents were necessary. All ten respondents were males and their age was between late 30s and early 50s. Five of them were holders of undergraduate degree and the remaining three were holders of postgraduate degree and two respondents

were professional qualification holders. These respondents represented nine different firms from service and other sectors category and only one firm from manufacturing category. These top managers had six different designations.

The collected data were then analyzed using content analysis method. The summary of the non-financial factors from the convergent interviews is shown in Table 5. Respondents names were disguised with the letter A to J to maintain anonymity and confidentiality.

Seven out of ten respondents agreed that customer satisfaction is the non-financial factors for employee engagement outcomes at organizational level. More specifically, this factor is considered the most important non-financial factor for SMEs. For employee retention, five out of ten respondents agreed that this factor is the non-financial factors for employee engagement outcomes at organizational level, thus considered as the second important non-financial factor for SMEs. Absenteeism is agreed by four respondents as the non-financial factors for employee engagement outcomes at organizational level, hence considered the third important non-financial factor for SMEs. The least important factors from the perspective of the respondents are customer loyalty and advocacy of an organization. Three out of ten respondents agreed that these two non-financial factors are important to SMEs.

Table 5
The Summary of the Non-Financial Factors from Convergent Interviews

<i>Elements from the Convergent Interview</i>	<i>Respondent</i>										<i>Total</i>
	<i>A</i>	<i>B</i>	<i>C</i>	<i>D</i>	<i>E</i>	<i>F</i>	<i>G</i>	<i>H</i>	<i>I</i>	<i>J</i>	
Employee Retention	x	√	x	x	√	x	√	x	√	√	5
Absenteeism	x	√	x	√	√	x	x	x	√	x	4
Customer Satisfaction	√	√	√	√	√	x	x	√	x	√	7
Customer Loyalty	x	x	x	x	x	x	x	√	√	√	3
Advocacy of an Organization	x	x	x	x	x	x	x	√	√	√	3

Notes: √ = Respondent is in conformity with the statement

x = Respondent is in disconformity with the statement

Source: Analysis of field data

In conclusion, the findings of this study supported the literature. However, with regard to the ranking of the most important to the least important factor, from the perspective of top managers of SMEs, customer satisfaction is considered the most important non-financial factor, followed by employee retention, absenteeism, customer loyalty, and advocacy of an organization. The amended framework is depicted in Figure 2.

5. CONCLUSION

Employee engagement is a crucial element of organizational performance. In this study, the aim was to provide an understanding on the organizational level outcomes of employee engagement by specifically concentrated on the non-financial factors. The findings of the present study demonstrate that the non-financial factor that is often documented in the existing literature of employee engagement is not consistent with the non-financial factors that is viewed most important to SMEs. The results of this study propose that SMEs should realize and should focus on gaining customer satisfaction by enhancing their relationship

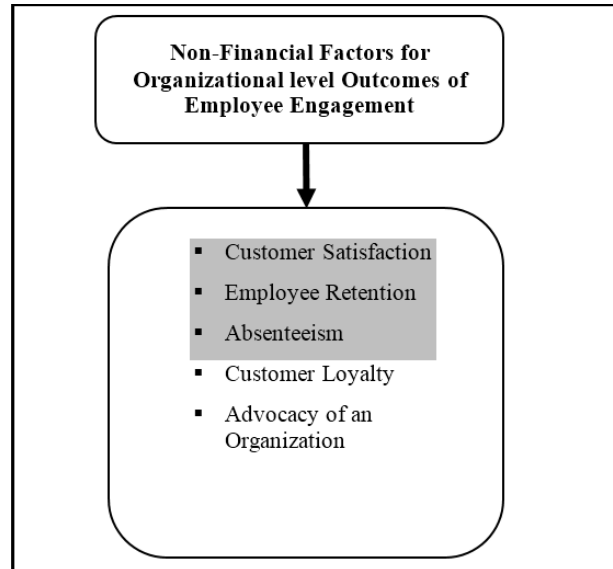


Figure 2: The Amended Framework
Source: Developed for this study

with customers through employee engagement. This study provides guidelines to SMEs especially in service industries to build tighter relationships with their customers by improving customer service level, improving customer intimacy, and responding rapidly to customer needs for better organizational success. Further research is needed to validate and generalize the findings to broader settings and hence future study should examine different service sectors in SMEs category such as insurance, business service of accountancy, or education.

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