

THE IMPACT OF EMPLOYEE ENGAGEMENT ON ORGANISATIONAL PERFORMANCE: A BALANCED SCORECARD APPROACH

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—Abstract—

Employee engagement is widely-considered to be a powerful and useful tool to assist organisations achieve competitive advantage. This study investigates employee perceptions regarding the impact of engagement on organisational performance in the Eastern Cape Province. Organisations often fail to enhance long-term business success when they focus narrowly on financial performance measures. This study, consequently, utilised the balanced scorecard (BSC) approach, consisting of financial, customer, internal process as well as learning and innovation measures to evaluate perceptions of organisational performance. A quantitative research design was utilised, surveying employees (n=428) from private organisations through non-probability convenience sampling. Using multiple regression analysis, the empirical results revealed that employee engagement positively and significantly influenced all four measures of the BSC.

Key Words: employee engagement, organisational performance, balanced scorecard

JEL Classification: J24, J53, L25

1. INTRODUCTION

Employees are an extremely valuable business asset, and employee engagement is undeniably a dominant source of competitive advantage at all organisational levels (Schwartz, 2011). Engaged employees also experience a heightened sense of meaningfulness in their work, associated with psychological safety and psychological availability (Kahn, 1990:694). Engagement further enables employees to become absorbed in their work, to become dedicated to the organisation and its outcomes, while exhibiting vigour in their interactions and task performance (Schaufeli, Salanova, Gonzalez-Roma & Bakker, 2002:74). Important organisational outcomes are, therefore, derived from engaged employees, giving organisations a much-desired competitive advantage (Werner, 2011:21).

Gruman and Saks (2011:125) state that among a sample of 65 organisations in different industries, the top 25 percent on an engagement index had a greater return on assets, profitability, and more than double the shareholder value compared to the bottom 25 percent. Utilising different performance metrics, Schwartz (2011) reports that a study conducted between 2007 and 2008, among 90 000 employees in 18 countries, found that companies with the most engaged employees had a 19 percent increase in operating income during the previous year, while those with the lowest levels had a 32 percent decline. This supports that in achieving competitive advantage, people in organisations cannot be replicated nor copied by competitors.

2. PROBLEM STATEMENT

A global meta-analysis reports that South Africa has one of the lowest employee engagement scores out of 142 countries studied (Gallup, 2013:59). The investigation found that only nine percent of the country's workforce was engaged, whilst 45 percent were actively disengaged. The report further revealed that the low levels of engagement affected as many as 335 000 workers across various sectors of the economy, with dire consequences for organisational performance, including productivity and talent retention. As a result, researchers frequently highlight the importance of studying employee engagement, because of the prominent impact engagement has on organisational performance (Coetzee, Schreuder & Tladinyane, 2014:1).

Low organisational performance, and more specifically productivity, contributed considerably to the negative economic trends in South Africa, with the country experiencing the lowest labour productivity levels in 46 years (Jones, 2014). Similarly, labour productivity has declined in the Eastern Cape Province and contributed to the weakening in economic growth in 2013 of 2.4 percent per annum, in comparison to 2008 (DEDEAT, 2013). Sim and Koh (2001) caution that traditional performance measurement systems are too narrowly focussed on financial measures and functional level performance and, as a result, they often fail to enhance long-term business success. Ireland, Hoskisson and Hitt (2012) state that this concern is addressed by utilising the BSC approach, consisting of measuring financial performance, customer performance, internal process performance as well as learning and innovation performance.

Against the background of the problem statement, the main research question of the study is: *What is the impact of employee engagement on organisational performance when performance is measured using the BSC?*

3. LITERATURE REVIEW

The literature review sections serve to clarify the operationalisation of the study variables and provide a theoretical overview of the constructs. Findings from previous research are also discussed.

3.1. Employee engagement

Various definitions of employee engagement are in existence, each representing the unique perspectives of the time and field from which they were conceptualised (Shuck & Wollard, 2010:101). These definitions include the needs-satisfying definition (Kahn, 1990:694), the burnout-antithesis definition (Maslach & Leiter, 1997; Schaufeli *et al.*, 2002:74), the satisfaction-engagement definition (Harter, Schmidt & Hayes, 2002:269), and the multidimensional definition (Saks, 2006:602).

The work engagement perspective operationalises engagement as consisting of the dimensions of vigour, dedication and absorption (Schaufeli & Salanova, 2007:144). Individuals with vigour have abundant energy, enthusiasm and stamina while working. Dedication refers to being strongly involved in one's work and experiencing a sense of meaning, significance, inspiration, pride and challenge in performing work (Schaufeli & Bakker, 2003:5). Absorption is characterised by individuals having full concentration and being happily

engrossed in work tasks. Absorbed employees perceive time as passing quickly, get carried away and find it difficult to detach themselves from work. Employee engagement is further operationalised as consisting of three psychological dimensions, namely, cognitive, emotional and physical dimensions, which is based on Kahn's (1990) definition of personal engagement (May, Gilson & Harter, 2004:31; Iddagoda, Opatha & Gunawardana, 2016:93). However, more recent studies including studies conducted in South Africa, also confirmed the single factor structure of engagement (Olivier & Rothmann, 2007:51; Van Zyl, Deacon & Rothmann, 2010:8). For the purpose of this study, employee engagement was defined as the extent to which employees exhibit the desired cognitive, emotional and behavioural characteristics in completing work tasks with vigour, dedication and absorption

Previous studies concluded that employee engagement improves organisational performance. In particular, Towers-Perrin (2003) found that as engagement rises, employees exhibit a stronger orientation around customer satisfaction. In addition, Towers-Perrin (2003) found that engagement increased revenue growth and reduced the costs of production.

3.2. Organisational performance

Organisational performance is considered to be a multi-dimensional concept and the measurement thereof is a critical aspect of organisational leadership, as continuous improvement relies on the ability to evaluate the organisation's performance continually (Shahin, Naftchali & Pool, 2014). Organisations risk jeopardising future organisational performance, however, by over-emphasising financial performance at the expense of overall strategic performance (Ireland *et al.*, 2012). For this reason, Upadhyay and Palo (2013) report that organisations are effectively using the BSC approach as a comprehensive measure of organisational performance. Ireland *et al.* (2012) state the BSC consists of measures of *financial performance, customer performance, internal process performance* as well as *learning and innovation performance*.

Financial performance

The *financial performance* variable selected for this study was measured through testing perceptions of organisational profitability. Profitability is defined as the efficiency with which an organisation utilises its capital to generate turnover (Els *et al.*, 2014). Employee engagement contributes to increased profitability through

employees exerting discretionary effort to increase revenue and reduce costs (Shuck, Reio & Rocco, 2011).

Customer performance

Customer performance relates to the assessment of an organisation's ability to anticipate customer needs and the effectiveness of service practices (Ireland *et al.*, 2012). In this study, *customer performance* was operationalised and measured by two underlying variables, namely, customer satisfaction and customer loyalty. Customer satisfaction is defined as the specific measure of whether customer perceptions meet or exceed customer expectations (Hoffman, Czinkota, Dickson, Dunne & Griffin, 2004). Customer loyalty is defined as the repeat or consistent purchase behaviour and favourable attitudes that result from psychological decisions made by customers (McCain, Jang & Hu, 2005). Harter *et al.* (2002) showed that the degree of employee engagement was positively related to customer satisfaction and customer loyalty. Schaufeli and Salanova (2007:512) rationalised that increasing employee engagement improved the service climate of organisations, which, in turn, increased customer loyalty.

Internal process performance

Internal process performance evaluates the processes that organisations are required to emphasise in order to utilise their competitive advantage successfully (Ireland *et al.*, 2012). In this study, it was assessed by evaluating perceptions regarding organisational productivity and quality levels. Heizer and Render (2013) defines productivity as the organisation's ability to manage process outputs effectively as a proportion of process inputs. Quality is defined as the sum of features and characteristics of a product or service, which bears on its ability to satisfy stated or implied customer needs (Heizer & Render, 2013).

Learning and innovation performance

The *learning and innovation* perspective considers the ability of the organisation to improve its performance and adapt to change (Perkins, Grey & Remmers, 2014). Organisational learning is defined as the process of collecting, sharing and interpreting information, to promote organisational outcomes. Kataria, Rastogi and Garg (2013:62) concluded that engaged employees exert effort in increasing the efficiency with which products and services are delivered and in adapting to organisational changes (organisational learning).

4. PURPOSE OF THE STUDY

The purpose of this study was to investigate employee perceptions regarding the impact of employee engagement on organisational performance in the Eastern Cape Province.

5. HYPOTHESES OF THE STUDY

Based on the operationalised dimensions of organisational performance and the operationalisation of employment engagement, the following were hypothesised:

H₁: There is a positive relationship between *employee engagement* and *financial performance*.

H₂: There is a positive relationship between *employee engagement* and *customer performance*.

H₃: There is a positive relationship between *employee engagement* and *internal process performance*.

H₄: There is a positive relationship between *employee engagement* and *learning and innovation performance*.

6. RESEARCH METHODOLOGY

The study's research methodology included a consideration of the research paradigm, sampling, data collection, questionnaire design, and data analysis.

6.1. Research paradigm and approach

This study followed the positivistic research paradigm and conclusions were drawn through logical reasoning, which involved building hypotheses from existing literature relating to the variables in the hypothesised model. The existing knowledge was thereafter subjected to empirical scrutiny by collecting quantitative data by means of questionnaires administered to respondents (Ghuri & Gronhaug, 2010).

6.2. Sample

The population of this study consisted of all employees of privately-owned and for-profit business organisations situated in the Eastern Cape Province of South Africa. A total of 556 000 people were employed in the Eastern Cape

metropolitan areas during the time of the survey at the end of July 2016 (StatsSA, 2016).

Based on the extent and the geographical area that the population covered, the non-probability sampling method was used for this study. Convenience sampling was employed, as readily accessible organisations from the online business directories were approached to participate in the study (Zikmund, Babin, Carr & Griffin, 2009). Employees from these organisations, and others that were known and easily reachable by the researcher and field workers, were selected to participate in the study. Furthermore, snowball sampling was used to identify additional respondents for inclusion in the study.

6.3. Data collection

Secondary data was collected by means of extensive literature reviews of the study variables, using national and international library databases of peer-reviewed journal articles, reports, books and internet sources. Primary data for this study was collected by means of the survey method using a combination of self-administered paper-based questionnaires and online questionnaires. Based on a targeted sample size of 400 responses, a total of 600 paper-based and 209 web-based questionnaires were distributed to eligible respondents in the Eastern Cape. A total of 428 useable questionnaires were returned, yielding a response rate of 53 percent.

6.4. Questionnaire design

The questionnaire used in this study was a combination of self-constructed questions generated from the literature review as well as reliable and valid items adopted from previous studies. The first section of the questionnaire consisted of items measuring perceptions regarding employee engagement utilising nine items from the Utrecht Work Engagement Scale (Schaufeli, Bakker & Salanova, 2006:701), six items from literature by May *et al.* (2004:36), Olivier and Rothmann (2007:51) and Van Zyl *et al.* (2010:8). The second section measured organisational performance using self-constructed items. The third section of the questionnaire solicited biographical information relating to the respondent's age, gender, ethnicity and qualification(s).

6.5. Data analysis

The first step of analysing the data involved determining the validity and reliability of the questionnaire. Content validity was ensured by submitting the questionnaire to academic experts in the fields of leadership and organisational performance. The constructs of the hypothesised model in this study were subjected to factor analysis to determine convergent validity. The tests of unidimensionality were performed and enabled the creation of summated scales. Principle component analysis (PCA) was used as the factor extraction method. Unrotated factors were used to assess the construct validity of the measuring instrument (Zikmund *et al.*, 2009; Hair, Black, Babin & Anderson, 2014). The retention of factors was determined by applying the Kaiser-Guttman rule, which holds that factors having an explained variance (eigenvalue) greater than one is considered significant and may be retained for further interpretation (Kaiser, 1991; Zikmund *et al.*, 2009; Hair *et al.*, 2014). The eigenvalues, therefore, reflect the amount of common variance accounted for by the respective number of items (StatSoft, 2013). The internal consistency method calculating Cronbach's coefficient alpha was used to assess the reliability of the measuring instrument for this study. A coefficient value of 0.70 for each factor was deemed acceptable (Nunnally & Bernstein, 1994).

Based on the factors created in the previous steps, the data analysis continued by calculating the descriptive statistics including the mean and standard deviation to condense the data. Regression analyses were conducted to test the hypothesised relationships between the study variables. The data was analysed using the MS-Excel and Statistica (version 12) software packages.

7. RESULTS

The following sections discuss the empirical results of the study.

7.1. Demographics

The majority of the respondents (44 percent) were aged between 20 and 29 years, and 61 percent were female. In terms of the ethnic classification, the majority of the sample were Coloureds at 33 percent followed by Africans at 31 percent and Whites who constituted 30 percent of the sample. In terms of educational qualifications, the majority of the respondents (29 percent) had a grade 12 certificate, followed respondents in possession of a national diploma (21 percent) and a bachelor's degree (16 percent).

7.2. Validity and Reliability

The results of the tests of unidimensionality for validity, and internal consistency for reliability are presented in Table 1.

TABLE 1: Validity and reliability results

Variables	Retained items	Factor loadings		Eigen	% Total variance	Cronbach's alphas
		Min.	Max.			
Employee Engagement (ENGA)	15	-0.602	-0.828	7.728	51.5	0.929
Financial performance (FINP)	5	-0.606	-0.764	2.649	52.9	0.777
Customer performance (CUSP)	5	-0.716	-0.860	3.269	65.3	0.859
Internal process performance (INPRO)	5	-0.808	-0.843	3.411	68.2	0.881
Learning & innovation performance (LEARN)	5	-0.729	-0.840	2.965	59.3	0.824

In terms of validity, the factor loadings presented in Table 1 indicate the correlation between the original variable and its factor. Hair *et al.* (2014) state that factor loadings greater than 0.30 can be considered significant if the sample size is greater than 350. As the sample size for this study was 428, a criterion of 0.40 was used as the cut-off point for valid factor loadings to determine construct validity. Hair *et al.* (2014) further note that loadings equal to or greater than 0.50 are considered practically significant, and loadings exceeding 0.70 indicate well-defined structure.

Based on the results in Table 1, sufficient evidence of convergent validity for the variables in the hypothesised model was provided, as all the loadings were greater than 0.40. The factor loadings further conformed to the criterion of being practically significant, with all loadings being greater than 0.50 (Hair *et al.*, 2014). The lowest eigenvalue was reported for *financial performance* at 2.649, and the highest value was *employee engagement* at 7.728. For the items measuring each variable, the percentage of total variance explained was the lowest for *employee engagement* at 51.5 percent, and the highest for *internal process performance* at 68.2 percent. The operationalisation of all the variables, therefore, remained unchanged, as no items were disregarded or deleted from the original variables.

In Table 1, the Cronbach's alpha coefficients for all the dimensions of both employee engagement and organisational performance analyses were greater than

0.7, therefore, sufficient proof of reliability were found. The highest Cronbach’s alpha coefficient was 0.929 for *employee engagement*, and *financial performance* was found to have the lowest coefficient value at 0.777.

7.3. Descriptive statistics

The descriptive statistics illustrated in Table 2 were used to summarise the central tendency of the data.

TABLE 2: Descriptive statistics

Variables	Mean	Standard deviation
Employee engagement	5.61	0.93
Financial performance	5.53	0.94
Customer performance	5.62	1.01
Internal process performance	5.60	1.05
Learning & innovation performance	5.61	0.99

The data was collected by anchoring the items of the questionnaire on a seven-point Likert scale. The Likert scale in the questionnaire was given as: 1-strongly disagree, 2-disagree, 3-disagree somewhat, 4-neutral, 5-agree somewhat, 6-agree and 7-strongly agree. From Table 2, it is evident that the lowest mean score was found for *financial performance* at 5.53, and *customer performance* had the highest mean at 5.62. The mean scores indicated that respondents agreed somewhat with all the items measuring the different variables of the study.

7.4. Regression analysis

Table 3 reports the regression results for the influence of *employee engagement* on the dimensions of organisational performance based on the BSC.

TABLE 3: Regression analysis of employee engagement on dimensions of organisational performance

Variable	FINP		CUSP		INPRO		LEARN	
	<i>p-value</i>	<i>b*</i>	<i>p-value</i>	<i>b*</i>	<i>p-value</i>	<i>b*</i>	<i>p-value</i>	<i>b*</i>
ENGA	0.000	0.454	0.000	0.468	0.000	0.477	0.000	0.550

<i>Model statistics</i>	F=110.56;p< 0.05 R² = 0.206	F=119.51; p< 0.05 R² = 0.219	F=125.57;p< 0 .05 R² = 0.227	F=184.75;p < 0.05 R² = 0.302
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Note: Regressions indicated in bold are significant at $p < 0.05$

The results of the regression analyses in Table 3 revealed that *employee engagement* explained 20.6 percent of the variance in *financial performance* ($R^2 = 0.206$), 21.9 percent of the variance in *customer performance* ($R^2 = 0.219$), 22.7 percent of the variance in *internal process performance* ($R^2 = 0.227$), and 30.2 percent of the variance in *learning and innovation performance* ($R^2 = 0.302$). Furthermore, *employee engagement* explained a significant proportion of the variance in the dependent variable *financial performance* ($F = 110.56; p < 0.05$) and was found to have a significant and positive impact on *financial performance* ($b^* = 0.454; p < 0.05$).

From Table 3, it is further evident that *employee Engagement* explained a significant proportion of the variance in the dependent variable, *customer performance* ($F = 119.51; p < 0.05$). *Employee engagement* also had a significant and positive impact on *customer performance* ($b^* = 0.468; p < 0.05$), and this suggested that *employee engagement* was predicted to increase *customer performance*. *Employee engagement* further explained a significant proportion of the variance in the dependent variable, *internal process performance* ($F = 125.57; p < 0.05$), and a statistically-significant and positive relationship between these variables existed ($b^* = 0.477; p < 0.05$). *Employee engagement* was, therefore, predicted to improve productivity significantly and quality levels associated with *internal process performance*.

In terms of *learning and innovation performance*, it was evident that *employee engagement* explained a significant proportion of the variance in the model ($F = 184.75; p < 0.05$) and had a significant and positive influence on *learning and innovation performance* ($b^* = 0.550; p < 0.05$). Based on these results, it is predicted that as employees become more engaged, organisational learning and innovation behaviours can be expected to increase.

8. DISCUSSION

Based on the empirical results and hypothesis testing (summarised in Table 4), it was established that the one-dimensional construct of *employee engagement* improved organisational performance across all four dimensions of the BSC ($H_1 - H_4$). This finding was in line with previous studies (Harter *et al.*, 2002; Schaufeli

& Bakker, 2004; Saks, 2006). *Financial performance* in this study was measured by soliciting perceptions regarding the organisation's profitability. The results showed that *employee engagement* had a significant and positive influence on *financial performance* (H₁). This finding suggested that *financial performance* is predicted to improve as employees become more engaged in the workplace. The finding is supported by similar results in previous studies (Harter *et al.*, 2002:276; Schneider, Macey, Barbera & Martin, 2009). *Employee engagement* contributes to increased profitability through employees exerting discretionary effort to increase revenue and reduce costs (Shuck *et al.*, 2011).

The results indicated that *employee engagement* positively and significantly influenced *customer performance* (H₂). *Customer performance* in this study was measured by evaluating perceptions related to customer satisfaction and customer loyalty. The results, therefore, suggested that engaged employees would lead to significant and positive improvements in customer loyalty and customer satisfaction. This finding is consistent with previous studies indicating that engaged employees create an outstanding service climate that influences customers' favourable intentions, attitudes and cognitions towards the organisation's products and services (Salanova, Agut & Peiro, 2005:1224). Engaged employees are strongly focussed on customer needs, and this gives customers a reason to return to the organisation when employees are in direct contact with customers.

Internal process performance was evaluated by items measuring productivity (the ratio of process outputs to inputs) and quality (the sum of features and characteristics of a product or service that satisfy customer needs). From the empirical results, it was evident that *employee engagement* significantly and positively influenced *internal process performance* (H₃). This suggests that improving employee engagement will increase internal process performance related to productivity and quality. Previous studies concur, stating that engaged employees are more resourceful and willing to go the extra mile and are, therefore, more productive (Bakker & Demerouti, 2008:216). The proficiency with which engaged employees complete work tasks leads to higher quality performance, which enhances overall organisational performance (Kataria *et al.*, 2014:49).

Employee engagement was found to influence the *learning and innovation performance* dimension of the BSC significantly and positively (H_4). This finding suggests that organisations have increased capacity to improve on past performance, and adapt to change, when employee engagement is increased. Organisational learning hinges on engaged employees who acquire new knowledge and skills, and effectively apply this in the organisation to achieve competitive advantage. This finding is consistent with previous studies that revealed engagement results in employee proactive behaviour in taking personal initiative (being innovative) and pursuing learning goals (Sonnentag, 2003:525).

9. CONCLUSION AND RECOMMENDATIONS

It can be concluded that employee engagement has a significantly positive impact on organisational performance when performance is measured using the BSC. It is recommended that organisations create an enabling environment for employee engagement by providing sufficient organisational support to employees, to enhance their positive state-of-mind, which is characterised by vigour, dedication and absorption. Social support should be provided to employees through coaching and feedback as well as nurturing positive work relations between co-workers and supervisors. Organisational support involves providing the necessary job resources to complete tasks efficiently.

Managers and supervisors should provide employees with sufficient latitude to exercise job control, and autonomy through participation in decision-making. Through recruitment and selection, managers and HR practitioners should ensure that employees experience work as meaningful by aligning employee personal values with their job role. This ensures that there is adequate job fit, which allows employees to experience physical and emotional comfort in their work. Furthermore, managers should allow employees the freedom to change the design and content of their jobs by choosing tasks or negotiating alternative job content. A positive work climate can be fostered through trust-building behaviours of open communication and openness to new ideas. Employees should be encouraged to take personal initiative by arranging working conditions with sufficient motivating and energising resources that engage employees.

10. LIMITATIONS AND DIRECTIONS FOR FUTURE RESEARCH

The sampling frame was limited to organisations situated in the Eastern Cape and is a geographical limitation to the study. Respondents were required to self-report

on the extent of their engagement at work. The influence of common method variance should be considered when interpreting the engagement data of this study. As there appears to be a shortage of studies focussing on employee engagement in small and medium-sized enterprises, it is recommended that employee engagement be studied in these organisations.

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