

Impact of employee engagement on organizational performance: A study of select private sector banks

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Abstract

Purpose: With the Employee Engagement becoming an area of emergent concern in the literature, the purpose of the study is to have deep analysis of the relationship between Employee Engagement and Organizational Performance and its outcomes.

Design/Methodology/Approach: A quantitative approach was used. Data for this study were collected from private banks via questionnaire. Participants were selected by convenient sampling method and in total 150 respondents completed the questionnaire.

Findings: The results were in positive direction and fulfilled the research aims of the current study. The model extracted on the basis of review of literature has revealed the existence positive relationship between Employee Engagement and Organizational performance. Which is further, validate through Structure equation modeling.

Contribution: The research provides an immense contribution in the banking sector by providing an insight to look up as how Employee Engagement enhances the Organizational Performance in banks.

Originality/Value: This is an attempt to examine the impact of employee engagement on Organizational Performance in banking sector.

Implications: The study provides an insight in to practical and theoretical implications in the banking sector which will help the employees in the banking sector to excel.

Keywords: employee engagement, organizational performance, vigor, dedication and absorption

1. Introduction

Today we are living in an era of globalization where change is certain and the management of human capital is important for the success of the organization. As the organizations are facing huge competitions have realized the importance of making their employees fully linked with the organizations and their job. 'Employee Engagement' is quite a new construct in HR literature. Engaging employees is a key to satisfy organization's customers. HR consultants consider that the engagement is how employee feels about the work and how he or she is treated in the organization. Employee engagement is rightly viewed as the main aspect of productivity. A fully engaged employee brings enthusiasm and zeal to their work which is directly related to cohesive workplace culture and the extra efforts, better ideas and innovations that make organizations succeed. In recent years due to a slow economic recovery and uncertain economic conditions many organizations have limit their hiring processes, making employee engagement even more significant. Taking these things into consideration it is important to understand the culture, management and other factors that influence employee engagement. The importance of employee engagement is clear when looking at the differences in performance between work teams with high and low levels of employee engagement. Gallup (2013) ^[6] finds that employee engagement program is powerful evidence of the impact of employee engagement on the bottom line. The *State of the American Workplace: Employee Engagement Insights for U.S. Business Leaders* report finds that "engaged workers are the lifeblood of their organizations."

1.1 Employee Engagement in Banking Sector

Indian banking system has emerged as a vibrant Economy sector in the Indian economy. There has been amazing growth in profits in our banking industry over the last two decades. The banking sector index has grown at a compounded annual rate of 51% 2001 (Anjum and Tiwari, 2012) ^[1]. By 2013 the Indian Banking Industry employed 1,175,149 employees and had a total of 109,811 branches in India and 171 branches abroad and manages aggregate deposit of 67504.54 billion (US\$1.1 trillion or €840 billion) and bank credit of 52604.59 billion (US\$830 billion or €650 billion). The net profit of the employees put discretionary effort into their work, in the form banks operating in India was 1027.51 billion (US\$16 billion or €13 billion) against a turnover of 9148.59 billion (US\$140 billion or €110 billion) for the financial year 2012-13 (Reserve Bank of India) ^[10]. The banking industry in India has the potential to become the fifth largest banking of industry in the world by 2020 and third largest by 2025 according to a KPMGCII report. Over the next decade, banking sector is projected to create up to two million new jobs, driven by the efforts of the RBI and the Government of India to integrate financial services into rural areas. Also, the traditional way of operations will slowly give way to modern technology. Thus, the paper mainly aims to get insight into the employee engagement practices in banking sector and to identify the role of employee engagement in effective organizational Performance of private banks.

2. Review of Literature

2.1 Employee Engagement

Employee Engagement theory is deemed as one of the most

influential theories of the management literature. It has been evolved from the concepts of job satisfaction, organizational commitment and organizational citizenship behaviour, but it is much broader than the concepts of 'commitment' and 'motivation' in the management literature. Employee engagement is generally seen as a two-way interaction between the employee and the organisation for which the organisation has the accountability to show the way. There are numerous unique characteristics of an 'engaged' workforce consist of loyalty, satisfaction and encouragement, an association with the organization's strategy, and the expression of discretionary effort on the part of the engaged employee. Also, engaged workers are full of life, are optimistically associated to their work and feel they are doing their jobs effectively (Leiter and Bakker, 2010). It is a constant and broad affective-cognitive state. (Schaufeli *et al.* 2002) [12], view as a positive, fulfilling work-related state of mind that is characterized by vigor, dedication, and absorption. Vigor is characterized by high levels of energy, the willingness to invest energy in one's work. Dedication refers to being strongly involved in one's work and experiencing a sense of significance enthusiasm, 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. In short, engaged employees have high levels of energy and are enthusiastic about their work. Moreover, they are often fully immersed in their work so that time flies (Schaufeli, 2009; Bakker)

2.2 Organizational Performance

Organizations have an important role in our daily lives and therefore, successful organizations represent a key ingredient for developing nations. Continuous performance is the focus Determinants of organizational performance of any organization because only through performance organizations are able to grow and progress. Thus, organizational performance is one of the most important variables in the management research and arguably the most important indicator of the organizational performance. Managers began to understand that an organization is successful if it accomplishes its goals (effectiveness) using a minimum of resources (efficiency). Thus, organizational theories that followed supported the idea of an organization that achieves its performance objectives based on the constraints imposed by the limited resources (Lusthaus & Adrien, 1998 after Campbell, 1970) [8]. In this context, profit became one of the many indicators of performance. The authors Lebens & Euske (2006) [7] provide a set of definitions to illustrate the concept of organizational performance: performance constitutes both financial and non-financial indicators which offer information on the degree of achievement of objectives and results (Lebens & Euske 2006 after Kaplan & Norton, 1992) [7]. Performance is dynamic; requiring judgment and interpretation and it may be illustrated by using a causal model that describes how current actions may affect future results. To define the concept of performance is necessary to know its elements characteristic to each area of responsibility.

To report an organization's performance level, it is necessary to be able to quantify the results.

2.3 Employee Engagement and Organizational Performance

Employee engagement is a critical ingredient of individual and organizational success. It predicts employee outcomes, organizational success, and financial performance. The impact of engagement (or disengagement) can manifest itself through productivity and organizational performance, outcomes for customers of the organisation, employee retention rates, organizational culture, and advocacy of the organisation and its external image (Schaufeli and Bakker 2008) [2]. Further, Employee engagement is a powerful concept that organizations can utilize to improve many of their business functions, including safety performance. The degree of employee engagement is directly related to addressing the six fundamental elements above and the level of involvement that employees are given in managing their work processes, practices, and activities. Some of the ways that employees can become involved in addressing the safety of the work in which they are going to be engaged may include participating in production goal assessment, having input into planning the work, assessing the risk, evaluating the procedures, suggesting possible practice methods, addressing logistics, selecting risk mitigation techniques, having the "right" information, etc. Of course, this will require that the workforce be capable, skillful, knowledgeable, and motivated. The organization will have to have selected the "right" workers as well as supervisors, have staffs that are knowledgeable of the operational functions, and have a deep understanding of human nature. They will also have to have an enlightened leadership, a culture and climate that foster and support engagement, and integrated and aligned organizational and operational systems. There has to be robust and open communication, fair treatment, and feedback as well as opportunity for growth and development. The degree to which these aspects are implemented and function seamlessly will determine the level of engagement and the outcomes that drive the organization's success.

HYP1: Higher the Employee Engagement better is the Organisational Performance.

HYP1a: Vigor positively leads to Organisational Performance.

HYP1b: Dedication positively leads to Organisational Performance.

HYP1c: Absorption positively leads to Organizational Performance.

2.4 Theoretical Framework Fig. 1

The above research model is showing relationship between independent variable Employee Engagement and dependent variable Organizational Performance

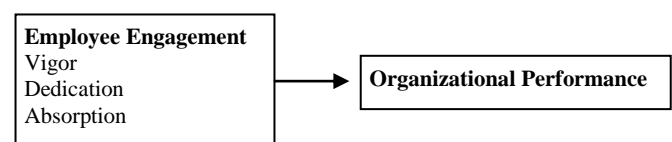


Fig 1: Theoretical Framework

2.5 Research Design and Methodology

This research is evaluative in nature. It evaluates relationship between Employee Engagement and Organizational Performance. Following steps have been undertaken to make this research objective more accurate:

2.6 Sample Design & Data Collection

The population for the study comprised 150 Private bank employees of Jammu city. All of these employees were contacted to generate research information. Data has been collected from multiple respondents to avoid the problem of common method variance. Questionnaire technique has been used for data collection.

2.7 Generation of Scale Items

All scales in the model were measured with multiple-items on five-point Likert-type scale, ranging from 1 (strongly disagree) to 5 (strongly agree). Seventeen statements of Employee Engagement have been adapted from (Schaufeli *et al.* 2002) [12] and fifteen items of Organizational Performance has been adapted from (Baker & Sinkula, 1999) [3].

2.8 Measurement Validation

The study performed psychometric analyses to provide evidence of the reliability and validity of the constructs used in the study. The reliability and convergent validity of all the constructs are examined through composite reliability and average variance extracted (AVE). All the constructs proved to be reliable as the value of composite reliabilities are above the threshold value of .70 (Table 1). Similarly, the calculated values of AVE are also good that is, above the usual benchmark of .50, which provides support for the existence of convergent validity of the measurement scales. Further, discriminant validity is also checked by comparing the square root of AVE with the correlation estimates. Discriminant validity is obtained when the square root of AVE is larger than correlation coefficients'. As table 1 shows that in all cases AVE is greater than correlation coefficient which means that discriminant validity exists for all the constructs. Table 1

Table 1: Result of Scale- Level Reliability and Validity Assessment

Construct	Standardised loadings	Average Variance Extracted	Composite Reliability	Cronbach's alpha
Employee Engagement		0.770	0.982	0.792
Vigor	.982			
Dedication	.662			
Absorption	.581			
Organizational Performance		0.673	0.968	0.762
OP5	.510			
OP9	.840			
OP10	.801			
OP11	.542			

2.9 Impact of Employee Engagement on Organizational Performance

Structural Equation Modeling has been used to check various relations proposed, it is a multivariate technique that seeks to explain the relationship among multiple variables. In the present study, the relationship between Employee Engagement and Organizational Performance has been assessed. First we studied the impact of Employee Engagement (independent variable) on Organizational performance (dependent variable). The results revealed that Employee Engagement is significantly affecting Organizational Performance. Hence the hypothesis H1 has also been accepted (SRW= .81, $P < .001$) Fig.2

performance were examined. Inspection of standardized weight revealed that the impact of vigor on organizational performance is highest (0.82) followed by absorption on organizational performance (.80), and Dedication on organizational performance (0.72). Therefore, the result revealed that all the dimensions of Employee Engagement viz; Vigor, Dedication and Absorption significantly affecting Organizational performance

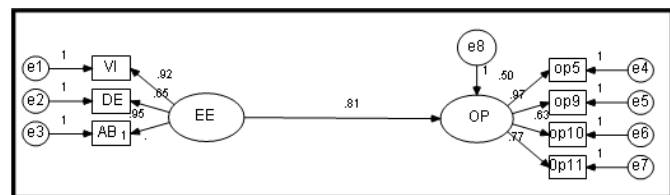


Fig 2

Another, model was also framed in which dimension-wise impact of Employee Engagement on organizational

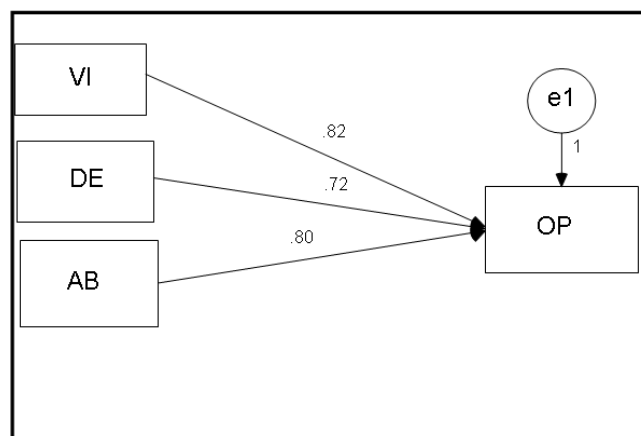


Fig 3

3. Discussion

This paper discusses about the impact of Employee engagement on organizational performance. The proposed model in the study was tested in the employees of private banks with a structured questionnaire. Firstly, we tried to examine the impact of employee engagement on organizational performance, which was significant. The rationale is that the organizations with engaged employees have improved performance. It has been observed that engaged employees complete their job assignments on time, which contributes to the overall performance of the company. Further, Employee Engagement drives employees to improve their skills, which should promote their proficiency on the job, contributing to meeting or exceeding performance standards.

3.1 Limitation and Future Research

Like all studies, the present study also has all the precautionary efforts to ensure the objectivity, reliability and validity of the study, yet certain limitations were discovered. Firstly, it is a cross-sectional study examining a specific point in time. Longitudinal designs are needed in future research to extend our findings. Finally, the data was collected from Private bank employees only, so the results lack general is ability. It should be helpful for the future studies to replicate these findings in other sectors to enhance general is ability in other settings.

4. Conclusion

Employee Engagement is a positive attitude held by the employees towards the organization and its values. It is rapidly gaining popularity and importance in the workplace and impacts organizations in many ways. An organization should thus recognize employees, more than any other variable, as powerful contributors to its competitive position. It has been observed that organizations' with higher levels of employee engagement outperform their competitors in terms of profitability. Engaged employees can help the organization achieve its mission, execute its strategy and generate important business results. They give their companies crucial competitive advantages—including higher productivity, customer satisfaction and lower employee turnover. Therefore employee engagement should be a continuous process of learning, improvement, measurement and action. The relationship between employee engagement and organizational outcomes would be stronger if better measures are used. Thus, organizations' need to understand how different employees are affected by different factors of engagement and focus on those, in order to achieve the strategic outcomes as well as to improve overall effectiveness

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