

Influential Financial Factors of Employee Engagement Outcomes within SME Business in Malaysia: A Qualitative Study

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Abstract

A great deal of interest in employee engagement has been witnessed over the years. Even though previous researchers have established the relevance of employee engagement and their desired outcomes, an examination of the existing literature has revealed a gap. Against the backdrop of the importance of employee engagement within small-and-medium enterprises (SMEs), the purpose of this study was to qualitatively explore employee engagement outcomes at the organisational level, particularly the influential financial factors. Participants of this study shall include the top managers of SMEs in Malaysia. Eight financial factors namely profitability, productivity, revenue, business growth, account receivable, shrinkage, operating margin, and return-on-asset (ROA) were identified. This study will employ the snowball sampling technique and converging interviewing was suggested to be used to gather data to confirm the proposed conceptual framework. Finally, data will be analysed using content analysis.

Keywords: Employee engagement outcomes, qualitative, top managers, financial factors, SMEs, Malaysia

1.0 Introduction

The study by Kahn (1990) has been acknowledged as pioneering work on employee engagement. A great deal of interest in employee engagement has been witnessed ever since. Research to date suggested that employee engagement is a key element of individual and organisational success. It has become a matter of concerns for managers in organisations as they recognised it to contribute to organisational effectiveness. Engaged employees within an organisation of any size provide a competitive advantage to the organisation. An engaged employee is one who is fully involved, enthusiastic about his or her work, perceptive of business context, meets the organisation's needs, and fulfils its interests (May, Gilson, & Harter, 2004; Macey & Schneider, 2008; Swarnalatha & Prasanna, 2012). As a result, employee engagement can be defined as "an individual employee's cognitive, emotional, and behavioural state directed toward

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desired organisational outcomes” (Shuck & Wollard, 2010, p. 103). The various desired organisational outcomes include organisational citizenship behaviour (Schaufeli & Bakker, 2004), customer satisfaction (Salanova, Agut, & Peiro, 2005), higher employee productivity and financial returns (Richman, 2006), and better business returns (Xanthopoulou, Bakker, Demerouti, & Schaufeli, 2009). These positive implications of employee engagement are not only impacting large enterprises (Bakker & Schaufeli, 2008), but also small-and-medium enterprises (SMEs) (Kishore, Majumdar, & Kiran, 2012).

2.0 Research Problem

There is an increasing body of research available to confirm the impact of employee engagement on organisational performance (Masson, Royal, Agnew, & Fine, 2008) including financial outcomes. However, not much has been done looking at the influential financial factors of employee engagement outcomes, particularly in the Malaysian SMEs context despite having evidence proving that understanding on these factors matters to organisations in enhancing their performance. Studies concerning SMEs also reported problems of low employee motivation to perform, inability to retain employees, and low employee productivity (Wang, 2003; Beaver & Hutchings, 2005; Salleh & Ndubisi, 2006; Chan, 2009; Fauzi, Ahmad & Gelaidan, 2013; Tee, 2013). This phenomenon in SMEs suggested that employee engagement might be an issue. It is viewed imperative to undertake this study by focusing on financial factors of employee engagement outcomes in SME business with the intention to suggest ways of improving their performance. Thus, the purpose of this study is to explore the influential financial factors of employee engagement outcomes from the perspectives of top managers in SME business in Malaysia. Identification of influential financial factors of employee engagement outcomes will enable top managers of SMEs to make strategic adjustments within their organisations to achieve better performance through their employees, and also for the decision-makers and policy makers alike to design governmental and non-governmental comprehensive support plans and strategies in relation to the performance of SMEs. Hence, this research will be guided by the following research question: “How to and why establish influential financial factors of employee engagement outcomes within SME business?”

3.0 Justification of the Study

This study will be carried out on the basis of the importance of SME performance to the economy, capitalisation of human resources through employee engagement in SMEs, and gaps identified in the existing literature.

The first justification of this study is the importance of SME performance to the economy. SMEs in Malaysia had been identified as a key contributor to economic growth of the nation (Hashim, 2005; Omar, Arokiasamy, & Ismail, 2009; Hee & Daisy, 2012). More importantly, they constitute a significant proportion of the total establishments (refer

to section 2.1) and their contribution to gross domestic product (GDP) is expected to expand substantially by 2020 (NSDC, 2005). Thus, it is viewed vital to undertake this study to assist the understanding of SMEs' top managers, decision-makers, and policy-makers on the needs and requirements of SMEs related to employee engagement and their performance, success, and survival.

The second justification of this study is the capitalisation of human resources through employee engagement in SMEs. Employee engagement is believed by many organisations as a dominant source of competitive advantage and has been reported able to solve organisational problems such as workplace performance and productivity (Macey & Schneider, 2008; Macey, Schneider, Barbera, & Young, 2009). Higher concentration of SMEs in the service sector indicates higher percentage of employment in this sector, hence creating the need to carry out this study so that a framework and strategies that can boost firm's performance through employee engagement can be developed.

The final justification of this study is the gaps identified in the existing literature. An examination of the existing literature on employee engagement outcomes revealed a gap in the area of influential financial factors of employee engagement outcomes. Studies in SMEs in Malaysia had given great emphasis on the non-financial factors such as job performance (Idris, Dollard, & Winefield, 2011; Ng & Tay, 2011), organisational discretionary behaviour (Islam Khan, Aamir, Ahmed, Ungku Ahmad, & Shaukat, 2012; Krishnan, Ismail, Samuel, & Kanchamalay, 2013; Ologbo & Sofian, 2012), job satisfaction (Wang, 2011), and employee retention (Alias, Mohd Noor, & Hashim, 2014). Therefore, this study intends to explore the influential financial factors of employee engagement outcomes within the SME business in Malaysia, which will enrich the empirical literature on employee engagement outcomes in SMEs.

4.0 Literature Review

In this section, the review of literature is presented to draw attention to issues within the existing literature and hence, provides the basis for the proposed conceptual framework. Firstly, the background of SMEs in Malaysia is briefly discussed in section 2.1, followed by evolution of engagement research in section 2.2, and then the review of literature on employee engagement outcomes by focusing on financial factors in section 2.3. Finally, sections 2.4 and 2.5 presents the proposed conceptual framework and research issues for this study, respectively.

4.1 SMEs in Malaysia

The importance of SMEs to the economy has been well established (Abd Aziz & Mahmood, 2011). SMEs provide significant contributions to the overall economic performance, including economic growth, exports, social uplifting, and political stability (Khalique, Isa, Shaari, & Ageel, 2011; Chong & Almsafir, 2013; Zakaria,

2013) as well as stimulating entrepreneurial skills among the population, acting as incubators for developing domestic businesses into large enterprises (Habaradas, 2008), and redistribution of household income in the country (Berry & Mazumdar, 1991).

The definitions of SMEs in Malaysia are based on a quantitative measure, namely the amount of sales turnover and the number of full-time employees. These SMEs are further classified into micro enterprises, small-sized enterprises, and medium-sized enterprises. They are also grouped under two categories of sectors that are either manufacturing, or services, and other sectors as shown in Table 1 below.

In Malaysia, SMEs formed 97.3% of the entire business formations which is equivalent to 645,136 establishments out of a total establishment of 662, 939. In addition, a huge proportion of total businesses are in services sectors with 591,883 establishments out of total establishments of 645,136 (Economic Census 2011, 2012).

Table 1

SME Definition in Malaysia, 2014 – Present

Size	Category	
	Manufacturing	Services and Other Sectors
Micro enterprises	Sales turnover less than RM300,000 OR less than 5 full-time employees	Sales turnover less than RM300,000 OR less than 5 full-time employees
Small-sized enterprises	Sales turnover between RM300,000 to less than RM15 million OR full-time employees between 5 to 75	Sales turnover between RM300,000 to less than RM3 million OR full-time employees between 5 to 30
Medium-sized enterprises	Sales turnover between RM15 million to RM50 million OR full-time employees between 75 to 200	Sales turnover between RM3 million to RM20 million OR full-time employees between 30 to 70

Source: National SME Development Council, Bank Negara Malaysia

Contribution of SMEs is crucial to transform Malaysia into a high-income country by 2020. The contribution of SMEs to GDP revealed an increment of only 4.1 % from 2005 to 2013, and the employment share showed a growth of only 0.6 % in the same period. The growth of export share was stagnant at 19.0 % from 2005 to 2011 (NSDC, 2005). In addition, contribution to GDP by SMEs in Malaysia was far lower than SMEs in other countries such as Indonesia, Singapore, and China (Organisation for Economic Co-operation and Development – OECD, 2013). Small contribution to the economy is to a great extent related to low employee productivity.

4.2 Evolution of Employee Engagement Research

Employee engagement is a multifaceted and dynamic process. It involves each individual's unique and personal relationship with work (Litten, Vaughan, & Wildermuth, 2011). The term employee engagement may appear a relatively recent concept but it travels back over 20 years when the term appeared in an academic journal in 1990 (Kular, Gatenby, Rees, Soane, & Truss, 2008). In 1999, after the book "*First Break All the Rules*" by Buckingham and Coffman was published, the term has become an overnight sensation among business consultants and practitioners. The evolution of employee engagement research can be separated into four phases as illustrated in Figure 1.

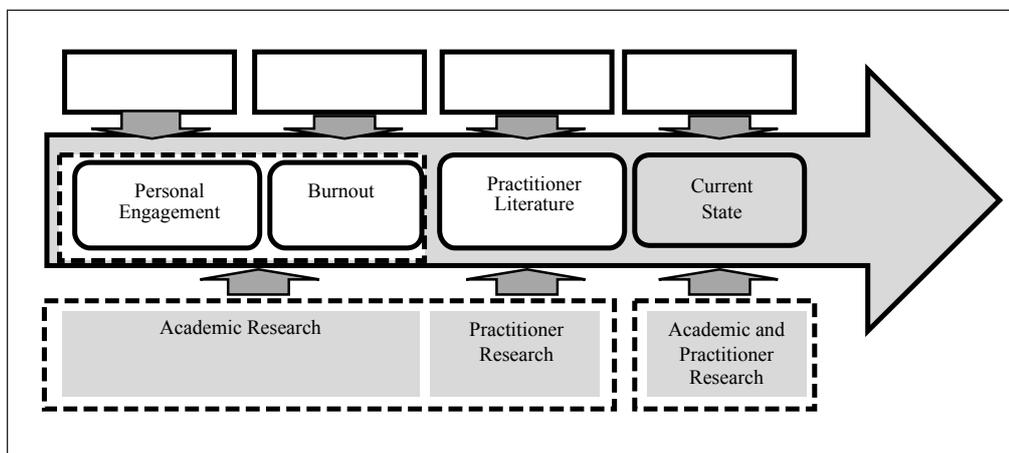


Figure 1: *The Evolution of Employee Engagement Research*

The first phase of the evolution of employee engagement research was personal engagement introduced by Kahn (1990), which posited that individual and organisational factors influence the experience of work and that this experience drives work behaviour leading to positive performance outcomes. The second phase of the evolution of employee engagement research was burnout. Engagement is conceptualised as the antithesis of psychological burnout by Maslach and Leiter (1997). The third phase of the evolution of employee engagement research consisted of empirical research by practitioners including professional associations and societies (e.g., The American Society for Training and Development, ASTD) and consulting firms (e.g., Towers Perrin) that conducted and disseminated empirical evidence of engagement from the practitioner perspective. The final phase of the evolution was the current state of employee engagement research. This phase was built on two dominant families of employee engagement literature which are academic and practitioner literature. In this phase, employee engagement literature was contributed from the psychology discipline, workplace behaviour, and human resources disciplines (Kular et al., 2008; Shuck & Wollard, 2010).

A review of the literature on the 15 related articles has identified eight financial factors namely profitability, productivity, business growth, account receivable, shrinkage, operating margin, and return-on-asset (ROA). The highest frequencies among the eight factors are profitability and productivity. Seven out of 15 articles studied each of these two factors. These two elements have gained popularity among researchers because they denoted the ultimate organisation’s bottom-line results that measure the organisation performance (Niresh & Velnampy 2014; Vijayanthimala & Vijakumar 2014) which affects the longevity and success of an organisation (Yazdanfar, 2013). The second highest frequency of financial factor of the employee engagement factor is revenue in which 3 out of 15 articles researched this factor, while the third highest frequency is business growth in which 2 out of 15 articles probed into this factor. The lowest frequencies of those financial factors are account receivable, shrinkage, operating margin, and return-on-asset (ROA) in which 1 out of 15 articles examined each of these factors. These eight financial factors identified from the literature will be selected for further investigation.

4.4 Proposed Conceptual Framework

Based on the evidence from the existing literature on the financial factors of employee engagement outcomes, eight financial factors have been identified specifically profitability, productivity, revenue, business growth, account receivable, shrinkage, operating margin, and return-on-asset (ROA). These eight outcomes can then be grouped into influential financial factor and non-influential financial factor categories according to their frequencies (refer to section 2.3, Table 2). The proposed conceptual framework of this study is depicted in Figure 2 below.

The influential financial factor category comprises profitability, productivity, business growth, and revenue. The remaining four factors which are account receivable, shrinkage, operating margin, and return-on-asset (ROA) are placed under the non-influential financial factors category. The arrow that links influential factors and non-influential factors indicates that each factor under both categories is connected with each other.

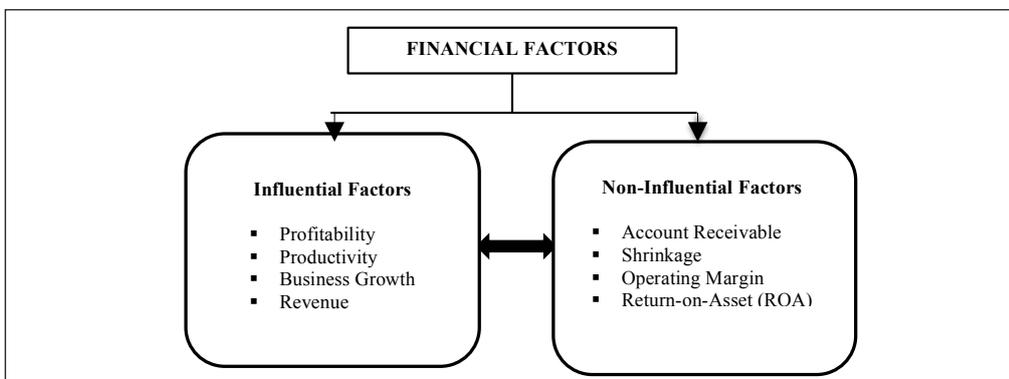


Figure 2. Proposed Conceptual Framework

4.5 *Research Issues*

Two research issues are proposed based on the conceptual framework of this study as shown in Figure 2 in section 2.4, which become the platform for data collection, followed by data analysis, and consequently answering the research problem. The two research issues of this study are:

- 1) What are the influential financial factors of employee engagement outcomes within SME business in Malaysia?
- 2) What are the non-influential financial factors of employee engagement outcomes within SME business in Malaysia?

5.0 **Methodology**

The purpose of this study was established to provide a deeper insight into issues surrounding the influential financial factors of employee engagement outcomes in Malaysia's SMEs. A deeper understanding on the financial factors of employee engagement outcomes requires it to be conducted using the qualitative approach. This approach may help provide in depth understanding of what factors influenced most from the perspective of SMEs' top managers.

5.1 *Data Collection Method*

For this study, data will be collected using the convergent interview technique. This interview technique comprises a series of interviews with persons who have specialised knowledge or relevant experience of the phenomenon under investigation (Dick, 1998; Nair & Riege, 1995; Rao & Perry, 2003). It is a suitable technique to collect data about a topic or related topics when the amount of known is limited (Dick, 1990; 1998).

Convergent interviewing process has three stages (Dick, 1990), which will be closely followed by this study. The first stage of converging interviewing process is planning. This stage involves three steps specifically the initial planning of the interview, preparing sample, and getting permission to the final planning of the interview session in developing interview questions. The second stage of converging interviewing process is the analysis of the interview. This stage consists of conducting the interview sessions, summarising main themes, comparing notes, and devising probe questions. The analysis of the interview cycle has to be repeated until it reaches saturation. The third stage of converging interviewing process is the final stage in which results are generated from the analysis of the interview that answer the research questions for achieving the research objectives. Following the data analysis, a detailed summary of findings of their inputs are provided so that any points of concern about issues raised or confidentiality are discussed and resolved prior to the final write-up of this research.

5.2 *Sample Selection*

The participants of this study shall consist of top managers of SME businesses. In the selection of participants for this study, a snowball sampling technique will be used. This sampling technique is the most effective method to seek participants from specialised people who are experts about the topic (Aaker & Day, 1990; Patton, 1990). This sampling technique is recommended when the study is on behaviours or perceptions (Dragan & Isaac-Maniu, 2013) and primarily explorative, qualitative, and descriptive (Hendricks, Blanken, & Adriaans, 1992), which is in line with the purpose of this study.

5.3 *Sample Size*

For this study, the sample size will be determined when stability or saturation is reached (Liamputtong, 2013; Lincoln & Guba, 1985; Padgett, 2008; Patton, 1990) that is until nothing new is mentioned and the story has been mentioned from different perspectives (Arksey & Knight, 1999; Carpentar & Suto, 2008). Thus, the optimal sample size is determined when stability is reached which occurs when agreement among all interviewees is achieved and disagreement between them is explained on all the issues raised.

5.4 *Data Analysis Procedure*

Data analysis process involved in this study shall be divided into four parts, namely data analysis preparation phase, organising phase, research findings phase, and finally the reporting phase. The first part of data analysis process is preparation phase. The second part of data analysis process is organising phase, which involves the coding process. This coding process comprises three types of coding, namely open coding, axial coding, and selective coding. The third part of data analysis process is the research findings phase. After research findings have been coded, the data will be segregated into two categories for discussion, which are (i) the influential financial factors of employee engagement outcomes in Malaysia's SMEs, and (ii) the non-influential financial factors of employee engagement outcomes in Malaysia's SMEs. Next, the ranking process will be prepared using data matrices for easy arrangement and mapping process. The fourth part of data analysis process is the reporting phase that includes the reporting of the findings. The final output is the conceptual categories of influential financial factors and non-influential financial factors of employee engagement outcomes.

6.0 **Conclusion**

This study offers the opportunity to increase understanding of influential financial factors of employee engagement outcomes within SME business in Malaysia. This study will be carried out on the basis of the importance of SME performance to the economy, capitalisation of human resources through employee engagement in SMEs, and gaps identified in the existing literature.

Based on the evidence from the existing literature on financial factors of employee engagement outcomes, eight financial factors were identified, specifically profitability, productivity, revenue, business growth, account receivable, shrinkage, operating margin, and return-on-asset (ROA). A deeper understanding on these financial factors requires this study to be conducted by using the qualitative approach which may help provide in depth understanding of what factors influenced most from the perspective of SMEs' top managers. The influential financial factors will be determined and then confirmed by using a qualitative study data collection method, that is the converging interview. The identification of influential financial factors of employment engagement outcomes will enable top managers of SMEs to make strategic adjustments within their organisations to achieve better performance through their employees, and also for the decision-makers and policy makers alike to design governmental and non-governmental comprehensive support plans and strategies in relation to the performance enhancement of SMEs.

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