Employee Engagement and Perceived Financial Performance: A Serene Insight

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Abstract
Employee engagement encompasses and connects a vast range of management discipline which turns it to be a wide spread concept. The correlation between employee engagement and perceived financial performance has rarely been studied. The intention of this study scrutinizes the connection between employee engagement and perceived financial performance. Based on data extracted from 67 HR managers in the listed companies in Sri Lanka, the study investigates two hypothesized relationships; the relationship between employee engagement and perceived financial performance, and the mediating role of employee job performance on the relationship between employee engagement and perceived financial performance. These ideas initiate important discussion for academics and practitioners.

Keywords: employee engagement, perceived financial performance, mediating role

1. Introduction
Employee engagement as Anita (2014) suggests explaining a number of studies are one of the fundamental factors that cultivate high levels of employee job performance. She has also discovered a significant impact by employee engagement on employee job performance. As it is obvious employee engagement enhances employee job performance, particularly when there is an association between employee engagement and the elements of employee job performance such as organizational citizenship behavior and task performance (Richman, 2006; Macey & Schneider, 2008; Demerouti & Cropanzano, 2010; Rich et al., 2010; Christian et al., 2011). Stewart & Brown (2011) divide employee job performance into three parts; specifically task performance, counterproductive performance and organizational citizenship behaviour. Christian et al., (2011) substantiate that employee engagement is interrelated to employee job performance, emphasizing a high level of connectivity of an engaged employee with one’s work tasks; the force that drives employee toward the task-related goals and objectives which direct to task performance. A similar observation that an engaged employee is likely to initiate extra-role behaviors has also been made. This perhaps is due to the reason that a particular person capable of “freeing up” resources by efficiently performance and achieving goals, making room to achieve what is not part of one’s is job descriptions. In summation, after considering the studies of the above mentioned researchers, a conclusion that an employee engagement leads to employee job performance can be made.

The relationship at the business-unit level between employee engagement and employee job performance is revealed by Harter et al., (2002) that when an employee as Xanthopoulou et al., (2009) state is engaged in work and focused on customers, that person brings high profit to the organization. In recent years, as Saks & Gruman (2014) mention, a great growth of interest in employee engagement has been observed. Employee engagement conjectures organizational success in relation to financial performance; for instance total shareholder return (Bates, 2004; Baumruk, 2004; Harter et al., 2002; Richman, 2006; Sahoo & Sahu, 2009). Repeated research, according to Sahoo & Sahu (2009), has identified the direct correlation between the level of employee engagement in a company and the company's overall financial and operational performance. Considering the above mentioned literature evidence, the researchers can state that there is a relationship between employee engagement, employee job performance and financial performance.
This study attempt to cover;

1. Conceptualization and operationalization of perceived financial performance.
2. Reliability and validity of the constructs of perceived financial performance.
3. Identifying the impact of employee engagement on perceived financial performance in the Sri Lankan context.
4. Identifying whether employee job performance significantly mediates the relationship between employee engagement and perceived financial performance.

2. Research Design

The purpose of the study, extent of researcher interference with the study, type of investigation, unit of analysis, study setting and time horizon of study are the six components of the research design presented by Sekaran (2003). The details of the research design are represented under Table 1.

Table 1. The research design

<table>
<thead>
<tr>
<th>Research design</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. The purpose of the study</td>
<td>Hypothesis testing</td>
</tr>
<tr>
<td>2. Extent of researcher interference</td>
<td>Minimum interference</td>
</tr>
<tr>
<td>3. Type of investigation</td>
<td>Correlational</td>
</tr>
<tr>
<td>4. Unit of analysis</td>
<td>Individual</td>
</tr>
<tr>
<td>5. Study setting</td>
<td>Non-contrived</td>
</tr>
<tr>
<td>6. Time horizon of study</td>
<td>Cross-sectional</td>
</tr>
</tbody>
</table>

Unit of analysis is individual; to be specific Human Resource (HR) managers in the Sri Lankan listed companies. Proper conceptualization and operationalization helped to develop the questionnaire of this study. Likert scale is the measurement scale of the questionnaire and the rating scale is five-point. Non-probability sampling is used as the sampling method. The sample of this study is 67. Roscoe (1975), as cited in Sekaran (2003), comes up with a rule that the sample sizes should be more than 30 respondents and less than 500 respondents. The researchers of this study have followed that rule when it comes to a decision about the sample size. The response rate of this study is 24% from the population of 212. Refer to Table 2. Statistical Package for Social Science 23 (SPSS 23) is used for statistical analysis.

Table 2. Summary of the samples

<table>
<thead>
<tr>
<th>Unit of analysis</th>
<th>Population/Total sample</th>
<th>Number of usable questionnaires</th>
<th>Total sample – Unsuitable or un-contactable of the sample</th>
<th>Response rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Individual – HR managers</td>
<td>212</td>
<td>67</td>
<td>145</td>
<td>24%</td>
</tr>
</tbody>
</table>

3. Conceptualization of Perceived Financial Performance

Financial data, according to Harter et al., (2002) are of two types; namely business-unit sales (revenue) and margin (percent profit of total revenue). A link between human resource management (HRM) practices and financial performance has been suggested by many authors; for instance Huselid (1995) brings up an important link between financial performance and high performance work practices (HPPWPs).

Schneider & Barbera (2014) wrote:

“The fundamental relationship between the internal functioning of an organization and profits is based on the service profit chain which integrates marketing, operations and human resources to handle the results for customers over the costs of service production.”

There is evidence that employee engagement leads to perceived financial performance as well. The researchers prefer the word perceived financial performance, because, in this study, the researchers study about how the Human Resource managers (HR managers), perceived, financial performance in relation to employee engagement.

3.1 Towards a Definition for Perceived Financial Performance

Corporate financial performance (CFP), defined by Karaye et al., (2014), is achievement of organizational objectives or as being both productive and efficient. Lorino’s (2004) definition of corporate financial performance is that anything which contribute to ameliorate value-cost couple and not only which contributes to cost decrease or value increase (Karaye et al., 2014). The financial performance refers to the economic status of a firm such as profitability, sales growth, return on assets etc (Palagolla & Wickramasinghe, 2016). The measures
of financial performance contain profit, sales growth and return on assets (Shaverdi et al., 2014; Karaye et al., 2014; Boaventura, et al., 2012). The working definition has an influence of the definition by Palagolla & Wickramasinghe (2016). Their definition evidently indicates the measurements of financial performance.

3.2 Perceived Financial Performance – Working Definition

The perceived financial performance refers to the economic status of a firm such as profitability, sales growth and return on assets.

Source adapted: Palagolla & Wickramasinghe (2016)

4. Operationalization of the Variable of Perceived Financial Performance

4.1 Dimensions of Perceived Financial Performance

Boaventura et al., (2012) wrote:

“The concept of CFP [corporate financial performance] is influenced by many factors including CSR. The meta analysis of Boaventura et al. (2012) reported that most studies uses return on assets (ROA) to measure CFP [corporate financial performance] almost forty eight percent (48%), followed by return on equity (29%), sales growth (22%), return on sales (16%), contribution margin (15%), Tobins Q (10%), etc. Therefore these developments lead to the conclusion that researchers predominantly use return on asset (ROA) to measure CFP [corporate financial performance].”

The measures of financial performance include profit, sales growth and return on assets (Shaverdia et al., 2014; Karaye et al., 2014; Boaventura, et al., 2012). According to Palagolla & Wickramasinghe (2016), the dimensions are profit growth, sales growth, cash flow and return on investments. Hong et al., (2013) state that the proportions of financial performance are the sales growth, profit growth and revenue growth. The researchers, after considering all these features, have identified three dimensions for the construct of perceived financial performance; profit growth, sales growth and operating cost.

4.2 Profit Growth

The profit growth can be measured by the average profit during the last three years compared to competitors (Halpin & Senior, 2009; Walker, 2005; Mukharjee & Hanif, 1998). The dimension called profit growth is measured by the statements such as “the average of the profit during the last three years is high, comparing to the high levels of employee engagement. Exhibit 1 presents the elements and statements of the dimension called profit growth.

Exhibit 1. Elements and statements of the dimension called profit growth

<table>
<thead>
<tr>
<th>Element</th>
<th>Statement</th>
</tr>
</thead>
<tbody>
<tr>
<td>Profit growth during the last three years</td>
<td>The average of the profit during the last three years is high, comparing to our competitors due to the high levels of employee engagement.</td>
</tr>
</tbody>
</table>

4.3 Sales Growth

The sales growth can be measured by the average sales during the last three years compared to the competitors (Halpin & Senior, 2009; Mukharjee & Hanif, 1998; Walker, 2005). The dimension called sales growth is measured by the statements such as “employee engagement has a positive effect on the sales growth during the last three years comparing to our competitors.” Exhibit 2 presents the elements and statements of the dimension called sales growth.

Exhibit 2. Elements and statements of the dimension called sales growth

<table>
<thead>
<tr>
<th>Element</th>
<th>Statement</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales growth during the last three years</td>
<td>Employee engagement has a positive effect on the sales growth during the last three years comparing to our competitors.</td>
</tr>
</tbody>
</table>

4.4 Operating Cost

Operating cost can be measured by the operating cost during the last three years compared to the competitors (Shaverdia et al., 2014; Halpin & Senior, 2009; Mukharjee & Hanif, 1998). The dimension called “operating cost” is measured by the statements such as “due to high levels of employee engagement, operating cost is low comparing to our competitors.” Exhibit 3 presents the elements and statements of the dimension called operating cost.
Exhibit 3. Elements and statements of the dimension called sales growth

<table>
<thead>
<tr>
<th>Element</th>
<th>Statement</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating cost during the last three years</td>
<td>Due to high levels of employee engagement, operating cost is low comparing to our competitors.</td>
</tr>
</tbody>
</table>

Figure 1 diagrams the dimensions and elements of the variable of perceived financial performance. In the Figure 1, (D) stands for a dimension and (E) stands for an element of the variable of perceived financial performance.

Figure 1. Dimensions and elements of the variable of perceived financial performance

5. Reliability and Validity of the Perceived Financial Performance Measure

Perceived financial performance is observed through profit growth, sales growth and operating cost; the three items related to three dimensions. First the researchers ensured the content validity, which, according to Sekaran (2003), is a function of how well the dimensions and elements of a concept have been delineated. Content validity has been guaranteed through proper conceptualization (Refer to 3.0) and operationalization (Refer to 4.0), and Construct validity, by a confirmatory factor analysis (CFA).

Theoretical predictions indicate three latent variables; profit growth (1 item), sales growth (1 item) and operating cost (1 item). The number of items is below the recommended levels by Nunnally (1978) and Tabachnick & Fidell (2001) that is 10:1 and 5:1 respectively. One latent variable for perceived financial performance is indicated by exploratory factor analysis (EFA). The recommended level of factor loading is 0.5 or above (Dubey, 2016; De Vries, 2012). Table 3 shows that all the factor loadings are above 0.5.

Perceived financial performance has a Cronbach’s alpha level which is in an appropriate level. The Cronbach’s alpha for the whole measure is 0.752. Nunnally & Bernstein (1994) as cited in Andrew et al., (2011) state that in social sciences, values at or above 0.7 are desirable. Since the Cronbach’s alpha for the construct of perceived financial performance is high (α=0.752) the items are highly connected and highly reliable for assessing perceived financial performance. Related to internal consistency reliability and content validity of perceived financial performance, the statistical output can be summarized as follows.

Table 3. Reliability and validity of perceived financial performance measure

<table>
<thead>
<tr>
<th>Variable</th>
<th>Items</th>
<th>Principal Component Factor Loading</th>
<th>Cronbach’s Reliability Coefficient of Item Deleted</th>
<th>Cronbach’s Reliability Coefficient (α)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Perceived financial performance</td>
<td>FIN1</td>
<td>0.650</td>
<td>0.552</td>
<td>0.554</td>
</tr>
<tr>
<td></td>
<td>FIN2</td>
<td>0.808</td>
<td>0.335</td>
<td></td>
</tr>
<tr>
<td></td>
<td>FIN3</td>
<td>0.740</td>
<td>0.473</td>
<td></td>
</tr>
</tbody>
</table>

Source: Survey data

6. Introduction to Employee Engagement

The working definition for this study, is the definition by Iddagoda et al., (2016). That is employee engagement is the extent to which an employee gets involved in the job and the organization cognitively, emotionally and behaviorally. Iddagoda et al., (2016) in their study present dimensions of the construct of employee engagement;
namely, cognitive involvement, emotional involvement and behavioural involvement. These dimensions are the dimensions for the construct of employee engagement for this study.

7. Introduction to Employee Job Performance

The label called “employee job performance” is used by the researchers of this study, instead of job performance because it is more comprehensible. Stewart & Brown (2011) interprets “job performance” as the contribution that individuals make to the organization that employs them, which is going to be the working definition of this study. The dimensions of this construct are task performance, citizenship performance and counterproductive performance.

8. Employee Engagement and Perceived Financial Performance

A massive growing interest in employee engagement has been observed by Saks & Gruman (2014) in recent years. The researchers mention that one reason is the impact of employee engagement on financial performance. According to Sahoo & Sahu (2009), a direct connection between the level of employee engagement in a company and the company's overall financial and operational performance has been identified. When it comes to financial performance, employee engagement predicts organizational success; for instance total shareholder return (Bates, 2004; Baumruk, 2004; Harter et al., 2002; Richman, 2006; Sahoo & Sahu, 2009).

Xanthopoulou et al., (2009) state that an engaged employee who is focused on his/her customers brings extraordinary profit to the organization, while the actively disengaged employees drive away the customers (Gallup, 2013). Active disengagement, according to Gallup (2013), is an immense drain on economies throughout the world. For instance, as Gallup estimates, for the United States, active disengagement costs US $450 billion to $550 billion per year while it is between £52 billion and £70 billion (US $83 billion and $112 billion) per year in the United Kingdom. Figure 2 explains how employee engagement helps to revenue growth.

![Figure 2](http://ibbr.ccsenet.org)


Thus, it is essential to test the relationship between perceive financial performance with employee engagement. All such findings lead to the next hypothesis:

**Hypothesis 1**: Employee engagement has a significant positive effect on perceived financial performance.

9. Testing Hypothesis 1

**Hypothesis**

**H1**: Employee engagement has a significant positive effect on perceived financial performance.
Pearson correlation matrix was used to test the null hypothesis. One tailed test was conducted. The Pearson correlation matrix of the variables investigation is shown in Table 4. According to the table, the relationship is significant at a level of 0.05. In other words there is a 95% confidence level. As Table 4 depicts perceived financial performance correlated with a coefficient of 0.278. From this time the null hypothesis is rejected. In view of that, the researchers can say that there is a small correlation between perceived financial performance and employee engagement.

<table>
<thead>
<tr>
<th>Table 4. Correlations of perceived financial performance and employee engagement</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
</tr>
<tr>
<td>OFinNew5</td>
</tr>
</tbody>
</table>

Source: Survey data

10. The Mediating Role of Employee Job Performance

The fact that employee engagement leads to employee job performance (Anitha, 2014) and the financial performance (Harter et al., 2002) is clear. Business units in the top quartile on employee engagement had, according to Harter et al., (2002), on average, from $80,000 to $120,000 higher monthly revenue or sales (and for one organization, the difference was more than $300,000). Gallup (2013) has identified critical links between employee engagement, business growth and profitability.

Figure 3. The mediating effect of employee job performance on the relationship between employee engagement and perceived financial performance

Emotional disconnection of an actively disengaged employee from his/her organization, as Gallup (2013) brings up, can work against vision and mission of the organization, which will also negatively influencing their coworkers to become less productive, miss workdays and drive away the customers. As Gallup (2013) mentions, active disengagement is a massive drain on economies all over the world. On the contrary, Sahoo & Sahu (2009) maintain the idea that higher levels of employee engagement indicate more productivity, less absenteeism, lower turnover, long-term organizational affiliation, higher job satisfaction, better client servicing and happier customers, higher levels of motivation, higher work morale, team spirit, loyalty and commitment to organization and high level of energy and enthusiasm.

Hypothesis 2: Employee job performance has a significant mediating effect on the relationship between employee engagement and perceived financial performance.

11. Testing Hypothesis 2

Figure 4. Diagram of direct and mediating effect


Mediation effect of predictor and outcome variables are explained in Figure 4. This has an influence of Frazier et
al., (2004) model. Path A, is predictor (employee engagement) related to mediator (employee job performance). Path B is mediator related to outcome variable; perceived financial performance. Path C is the total path. Path C is the direct effect of the predictor on the outcome.

Employee job performance has a significant mediating effect on the relationship between employee engagement and perceived financial performance is the Hypothesis 2 (H2). The relationship between employee engagement and perceived financial performance is significant at 5%, meanwhile the $p$ value is 0.023 ($p = 0.023$). Refer to Table 4. As a result Path C in Figure 4 is significant. The relationship between employee engagement and employee job performance is not significant ($b = -0.038, p = 0.760$). Refer to Table 5. Accordingly Path A in Figure 4 is not significant. In this manner it shows that the employee job performance variable is not mediated the relationship between employee engagement and perceived financial performance. Consequently H2 is rejected. Refer to Table 6.

Table 4. Coefficients of Path C

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>t</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>Std. Error</td>
<td>Beta</td>
<td></td>
</tr>
<tr>
<td>1 (Constant)</td>
<td>3.121</td>
<td>0.574</td>
<td>5.435</td>
<td>0.000</td>
</tr>
<tr>
<td>Engnew5</td>
<td>0.324</td>
<td>0.139</td>
<td>0.278</td>
<td>2.330</td>
</tr>
</tbody>
</table>

a. Dependent Variable: OFinNew5

Source: Survey data

Table 5. Coefficients of Path A

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>t</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>Std. Error</td>
<td>Beta</td>
<td></td>
</tr>
<tr>
<td>1 (Constant)</td>
<td>-4.660</td>
<td>0.599</td>
<td>7.779</td>
<td>0.000</td>
</tr>
<tr>
<td>Engnew5</td>
<td>-0.044</td>
<td>0.145</td>
<td>-0.038</td>
<td>-0.306</td>
</tr>
</tbody>
</table>

a. Dependent Variable: Performance5

Source: Survey data

Table 6. Coefficients of Path B

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>t</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>Std. Error</td>
<td>Beta</td>
<td></td>
</tr>
<tr>
<td>1 (Constant)</td>
<td>3.129</td>
<td>0.804</td>
<td>3.891</td>
<td>0.000</td>
</tr>
<tr>
<td>Engnew5</td>
<td>0.324</td>
<td>0.140</td>
<td>0.278</td>
<td>2.310</td>
</tr>
<tr>
<td>Performance5</td>
<td>-0.002</td>
<td>0.120</td>
<td>-0.002</td>
<td>-0.015</td>
</tr>
</tbody>
</table>

a. Dependent Variable: OFinNew5

Source: Survey data

11. Limitations of the Study

Cross sectional research design: This is a cross sectional study. According to Saunders et al., (2007) the cross sectional study is a particular phenomenon at a particular time. There are two reasons for conducting this research based on cross sectional design. One is the time constraint and the other is since the profit making is the main concern of the organizations and they do not allow their workforce to spend time on responding the questionnaires numerous times.

Sectors of the listed companies: Respondents are from the Sri Lankan Listed Companies. Even though there are 20 sectors, the researchers were able to get the data from 18 sectors. The researchers of this study were unable to
cover the sectors such as Oil Palms and Stores and Supplies.

12. Discussion and Conclusion

Prior to the study about the mediation effect of employee job performance on the relationship between employee engagement and perceived financial performance (H2), discussing the relationship between employee engagement and perceived financial performance is important. Sixty seven HR managers of the Sri Lankan listed companies took part in the study of testing H1 and H2 to study the relationship between employee engagement and perceived financial performance. H2 is hypothesized as “employee engagement has a significant positive effect on perceived financial performance”. As the results suggest, employee engagement and perceived financial performance is noteworthy. The results of the first hypothesis support bridging the research gap in the literature of employee engagement by Iddagoda & Opatha (2017) that is “there is no empirical evidence on the relationship between employee engagement and financial performance in the Sri Lankan context.”

Hypothesis two (H2) represents the mediating effect of employee job performance on the relationship between employee engagement and perceived financial performance. According to the hierarchical regression results, employee job performance variable have no relation to the relationship between employee engagement and perceived financial performance. The researchers depending on these results were capable of bridging another research gap in the literature of employee engagement by Iddagoda & Opatha (2017); that is “there is no empirical evidence on employee job performance as an intervening variable for employee engagement and financial performance.” In addition, the well adapted instrument for perceived financial performance, has also been provided.

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