

# EMPLOYEE ENGAGEMENT IN ENTREPRENEURSHIP MANAGEMENT: SMEs CASES

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## ABSTRACT

*This research purpose is to test and analyse employee engagement in entrepreneurship management in SMEs cases. The type of this research is a survey using primary data through questionnaire and interview with the manager. The number of respondents is 257 which are widely spread on 92 SMEs centre in the Province of DIY, Indonesia that has 4 regencies and 1 capital, Yogyakarta. The data analysis technique is using structural equation modelling with Amos as statistical tool. The research result explains that employee engagement is affected by the antecedents of work satisfaction and rewards. Meanwhile, consequences of the employee who has a high engagement will be able to improve organizational commitment and Leader Member Exchange (LMX). LMX itself is able to improve organizational commitment.*

**Keywords:** Employee Engagement, Work Satisfaction, Rewards, Organizational Commitment, LMX.

## INTRODUCTION

Entrepreneurship through small and medium enterprise (SME) has an important role for Indonesian economy because it could increase the economic growth of a country (Muafi, 2015; Sugandini et al., 2017). In order to survive in global competition nowadays, every SME should be able to improve the employee engagement in their company so that the company performance will also increasing.

It is known that employee engagement has gotten attention from the practitioner in entrepreneurship because it is related to employee and business (Stroud, 2009). Employee engagement appears as development effort from previous concept such as employee work satisfaction, employee commitment and employee organizational behaviour. If the employee is actively involved in the company, then it means that the company has a positive work climate. This means that they have high enthusiasm to work; even sometimes they do far beyond their main job that is written in their working contract.

Employee engagement is a development from two previous concepts which are organizational commitment and organizational citizenship behaviour (OCB) (Robinson et al., 2004; Rafferty et al., 2005). The concept of employee engagement has similarity with both of the previous concept and sometimes the definition is overlapping. Robinson et al. (2004) stated that both of the previous concepts which are organizational commitment and OCB are not complete enough, so in the concept of employee engagement nowadays has includes business awareness. Rafferty et al. (2005) also differentiate between concept of employee engagement with the

previous concepts, where the employee engagement is more showing the process of giving and accepting that is profitable for the employee and organization/company.

The previous researches are mostly focused to organizational commitment such as research of Hakanen et al. (2006) and Demerouti et al. (2001). Other than that, only found one study who studied two measurement of employee engagement (Saks, 2006). Researches of employee engagement are only focused to find the antecedents and consequences of employee engagement without paying attention to the theory that underlies that relationship. Most of the research result about this relationship shows a biased result, because the antecedents and consequences that were identified by the existence research is limited to the employee engagement which is relatively new in the research of organizational behaviour (Ellis and Sorensen, 2007; Macey and Schneider, 2008; Rafferty et al., 2005; Saks, 2006). This research is focused to the employee in leather craft centre SME in the Province of DIY, Indonesia. The interview research with some manager show a facts that there is a high employee turns over and low employee commitment to the organization. This becomes a trigger for the researcher to analyse the antecedents and consequences factor of employee engagement. The researcher also wants to give theory contribution to the development of antecedent and consequences variable of employee engagement that is not only have an impact to the organizational performance but also organizational commitment and LMX that is still rarely found in the previous research.

## LITERATURE REVIEW

### Work Satisfaction and Employee Engagement

Ali and Farooqi (2014) did a research that one of the goals is to analyse the effect of work satisfaction toward employee engagement on 207 public division employees in Gujranwala Sector University. The research result explained that work satisfaction become the cause of the existence of employee work engagement and employee performance. Biswas and Bhatnagar (2013) added that an employee who experienced pleasant emotional state in work place will feel more satisfied with their job. Employee engagement is potentially could be improved through the satisfied employee (Abraham, 2012a & 2012b). Work satisfaction is the antecedent from work engagement (Alarcon and Lyons, 2011; Barnes and Collier, 2013; Brunetto et al., 2012; Schaufeli and Bakker, 2004). Yalabik et al. (2013) also proved that work satisfaction is the antecedent of work involvement.

*H1: Work satisfaction has positive and significant effect toward employee engagement.*

### Reward and Employee Engagement

Kahn (1990) stated that employee engagement in an organization is a function of employee perception toward the benefit of employee role in an organization. Lazear (2000) also positively stated that financial reward can give motivation and employee engagement to the organization. Lazear (2000) shows positive relationship between employee engagement and reward. Employee tends to have engagement to work as long as far as they see more reward and recognition of their role. Maslach et al. (2001) also suggested that while lack of reward and recognition can cause fatigue, giving right reward and recognition is important to increase employee engagement. When the employee receives a reward or recognition from their

organization, then they will feel an obligation to have higher level of involvement or engagement.

*H2: Reward has a positive and significant effect toward employee engagement.*

### **Employee Engagement and Leader Member Exchange (LMX)**

Employee engagement and involvement are consistently shows positive attitude, such as work beyond their job duties, giving time, effort and extra initiative to contribute to business success and recommend the organization to their co-workers (Baumruk and Gorman, 2006). They are also reliable, communicative, more involved, have good attitude and will to do the job right and try to develop their competence, skills and ability (Ellis and Sorenson, 2007). Supervisor can see that this attitude and behaviour of the employee are more impressive and valuable. Mousa et al. (2017) proved his finding that there is a strong relationship between employee engagement and leader member exchange. Strong relationship can happen when there is employee training and they are enthusiastic to transfer that training result to their work place. This is because LMX play an optimal role when the training condition happens. Leaders have good relationship and interaction with the staff and have level of relationship proximity in company. This result is strengthened by Chaurasia and Shukla (2013) that LMX has a positive and significant effect toward employee engagement. The result also shows that high LMX quality have positive influence with employee engagement and their work role performance.

*H3: Employee engagement has a positive and significant effect toward leader member exchange.*

### **Employee Engagement and Organizational Commitment**

Some researches show that there is positive relationship between employee engagement and affective commitment. (Llorens et al., 2007; Hakanen et al., 2006; Saks, 2006; Demerouti et al., 2001; Maslach et al., 2001; Brown and Leigh, 1996). Meyer and Allen (1993 & 1997) explained that higher level of employee engagement is related to cost of leaving the organization (continuance commitment). Employee who has positive and pleasant mind about his job tends to show positive attitude toward their job in the organization and show bigger affective and normative commitment. Job Demand-Resources (JD-R) model (Maslach and Jackson, 1986) and social exchange theory (Blau, 1964) explained that there is relationship between employee engagement and organizational commitment. Meanwhile, Coyle-Shapiro and Shore (2007) combined both of this theories and concluded that an employee who is actively involved in their organization are feeling obliged to respond and give compensation to the organization in some kind (Cohen, 2000). One of many ways for employee to give compensation to the organization is by increasing the organizational commitment (Cropanzano and Mitchell, 2005). That is why by having high employee engagement and then the employee organizational commitment will also increase.

*H4: Employee engagement has positive and significant effect towards organizational commitment.*

### **Leader Member Exchange (LMX) and Organizational Commitment**

Morrow (2005) defined Leader member exchange (LMX) as an improvement of relationship quality between supervisor and employee that can improve both of their

performance. LMX as employee attitude toward organization has an important role towards an organization success. Truckenbrodt (2000) stated that LMX are focused to the assessment toward relationship and interaction between supervisor and employee. The level of relationship proximity between leader and employee shows an indication of leader member exchange in the company. The stronger the organization value that is maintained and the stronger the employee will to achieve the goal that is set by the company, then it will be easier to improve organizational commitment. According to Steers & Porter (1983), the form of work commitment that appears is not only a positive loyalty, but also involving an active relationship with the work organization whose purpose is to give all effort for the organization success. A finding from Leow and Khong (2009) proved that LMX has positive and significant result toward organizational commitment. This is strengthened by Ansari et al. (2001). That positive correlation proved that if leader has good relationship and interaction with their employee, then it will increase employee commitment in the organization.

*H5: Leader member exchange has an effect towards organizational commitment.*

## RESEARCH METHOD

This research embraced a paradigm of positivism. Paradigm of positivism thought that reality is something single, tangible, divisible and emphasized to the occurrence of causality relationships whose tests are conducted on a value-free basis. This research also used survey approach because it noticed a number of factors that explain the existence of the phenomenon under study (Lutz, 1989). The data that was used is primary and secondary data. The primary data was obtained through personal and deep interview and questionnaire. Meanwhile, the secondary data was obtained through some magazine publication, company database and other secondary data. The population of this research is the entire employees who work in a centre of leather craft in the Province of Daerah Istimewa Yogyakarta. The amount of population of the centre of leather craft is 92 centres with 400 employees while the research was conducted. The sampling technique is using survey with purposive sampling technique. The amount of respondents in this research is 267 respondents, but only 257 respondents who return the questionnaire and whose data can be processed further (response rate 93%). This research used 5 variables as follows; work satisfaction, employee engagement, reward, Leader Member Exchange and organizational commitment. All these variables are measured using questionnaire that has been modified by researcher and perception measurement below:

1. Work satisfaction (WS) is measured by 3 questionnaire item sourced from Ali and Farooqi, 2014; Yalabik et al., 2013.
2. Employee engagement is measured by 9 questionnaire item sourced from Baumruk and Gorman, 2006; Ellis and Sorenson, 2007; Rafferty et al., 2005.
3. Reward is measured by 8 questionnaire item sourced from Lazear, 2000; Maslach et al., 2001.
4. Leader Member Exchange (LMX) is measured by 11 questionnaire item sourced from Morrow, 2005; Truckenbrodt, 2000; Leow and Khong, 2009.
5. Organizational commitment is measured by 6 questionnaire item sourced from Meyer and Allen, 1997; Meyer et al., 1993.

The statistic technique used in this research is AMOS 4.0. The validity and reliability test concluded that all items and variables are valid and reliable.

## RESEARCH RESULT

### Characteristic Respondents

The description of majority SMEs that was researched is having employee for more than 15 years is 65%, age of employee who is around 45-52 years old is 52%, having high Scholl as the latest education is 67% and male gender 77%. The test result using structural equation model with AMOS statistic technique can be accepted or fit the data. In order to test the hypothesis of causal relationship between each variable, it is presented path coefficient that shows causal relationship between the variables as shown on Table 1.

<b>Hypotheses</b>	<b>Path</b>	<b>Path Coefficient</b>	<b>CR</b>	<b>Results</b>
1	Job satisfaction-à Employee Engagement	0.299	3.448	H1 Accepted
2	Reward-à Employee Engagement	0.334	6.203	H2 Accepted
3	Employee Engagement->Commitment	0.435	4.034	H3 Accepted
4	Employee Engagement->LMX	0.344	3.718	H4 Accepted
5	LMX-à Employee Engagement	0.497	4.795	H5 Accepted
*sign = alpha 0.05				

The hypothesis test (alternative) was done with looking at CR value. The CR value is significant when CR value > 2,56. Based on the criteria, it can be seen that all path is significant, which means that all hypothesis submitted is accepted.

## CONCLUSION AND DISCUSSION

This study has produce finding that model testing of antecedent and consequence of employee engagement can be accepted for SME research object. The research result explained that employee engagement is affected by the antecedents of work satisfaction and rewards. Meanwhile, the consequence of an employee who has high engagement will be able to increase the organizational commitment and LMX. LMX itself can increase the organizational commitment.

Work satisfaction has positive and significant effect towards employee engagement. This research result supports the previous research from Ali and Farooqi (2014), Biswas and Bhatnagar (2013), Abraham (2012a & 2012b), Alarcon and Lyons (2011), Barnes and Collier (2013), Brunetto et al. (2012), Schaufeli and Bakker (2004), Yalabik et al. (2013). All of those experts are sure that employee in the small, medium or large company will have an improvement of work engagement when they have level of positive satisfaction. Employees who like their job will work sincerely and have high engagement to their organization. It needs to be known that the feeling related to the job includes: Salary or wages received relationship with other employee, career, organization structure and others. Meanwhile, the feeling that is related to the employee himself includes: Gender, age, education, ability, skills and others. The organization

should pay attention to those components and have policy or certain strategy about aspect of job satisfaction so that the employee who works in SME has high engagement.

Rewards have positive and significant result toward employee engagement. This research support previous research from Lazear (1986) that financial rewards can give positive contribution in improving employee engagement to the organization. When employee receives rewards and recognition of his work, they will love the organization and have a strong emotional engagement to the organization (Maslach et al., 2001). The needs of rewards include the need of individual self-esteem, such as: Pride, autonomy and achievement and also appreciation from others such as: Status, recognition and attention. Organizational award system must be designed and implemented by paying attention to the internal and external factors of employee.

Employee engagement also has positive and significant effect towards LMX. This research result support the research of Mousa et al. (2017), Chaurasia and Shukla (2013). The principal is if the SME leader have good relationship and interaction with the employee and also have level of relationship proximity either in professionalism of work or emotion (Surjanti et al., 2018; Muafi, 2015 & 2017), then it will increase the employee work engagement, especially in SME organization. SME organization is known as an organization that have strong social and emotion closeness between leader and employee. This close relationship and interaction happens because usually they come from the same region, have the same social relationship and have high social capital. The leaders have a job to generate motivation and employee morale, high enthusiasm and high optimism. Other than that, the leader also should communicate high hopes and clear work challenges to the employee and create conducive climate in order to develop innovation and creativity. Working in a SME company needs a creative soul and high innovation to be able to develop and be successfully competing.

Employee engagement has positive and significant effect towards organizational commitment. This research findings support the research result from Llorens et al. (2007); Hakanen et al. (2006); Saks (2006); Demerouti et al. (2001); Maslach et al. (2001); Brown and Leigh, (1996). SME employee who is actively involved in the organization tend to feel obligate and responds it with actualizing their attitude by working hard and having intention to stay in the organization for a long term. They express their concern to the organization with success and high achievement. Company needs to maintain an employee who have high commitment by applying system and policy that can motivate them in a unique and consistent way, such as; giving authority and responsibility, giving rewards and recognition and giving a sense of togetherness to the employee.

The next research finding is that LMX has positive and significant effect toward organizational commitment. Morrow (2005) explained that LMX as an employee attitude towards the organization has an important role to an organization success. This means that relationship and interaction between leader and employee will be able to strength the organization values to the employee and it wills strength the employee willingness to work and achieve something in the organization. A good treatment from the leader to his employee will be able to increase voluntary feeling of employee to sacrifice for the organization. This result strengthen the previous result from Ansari et al. (2001); Leow and Khong (2009) that LMX has a strong correlation towards employee organizational commitment.

## IMPLICATION

The theory implication that can be produced is a theory generalization which is work satisfaction and reward has a function as the antecedent of employee engagement. Meanwhile,

the consequences of employee engagement are LMX and organizational commitment. LMX itself can increase the organizational commitment. Besides, it could be used by business practitioner to add their knowledge and insight so that they can help the organization to have better understanding about the relationship of employee engagement with its antecedent factor and consequence. Employee engagement is important for human resource practice in an organization and it can be useful to overcome uncertain condition. In developing the business, SMEs owners need to learn about their employee behaviour in order to create a policy related to their behaviour so that the business performance will increase (Muafi, 2017).

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