Exploring the Vital Factors Influenced by Outcomes of Employee Engagement: A Qualitative Study among CEO in Malaysia’s SMEs

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Small and medium-sized enterprises (SMEs) are significant both to the individual in providing employment and raising standard of living, as well as to the nation in contributing to national GDP and total export. However, SMEs in Malaysia have not been given adequate attention by researchers in addressing problems related to employee engagement. As a result, this study aims to explore the vital factors of organizational-level outcomes of employee engagement in Malaysia’s SMEs. Six organizational-level outcomes of employee engagement were identified, namely employee retention, profitability, absenteeism, customer satisfaction, productivity, and customer loyalty. This qualitative study will be using the snowball sampling technique in the selection of participants. The participants of this study will consist of chief operating officers (CEO). A series of interviews will be conducted using converging interview technique and data analysis will utilize content analysis technique. The expected benefits of this study to policy-makers, top managers of SMEs, human resource managers of SMEs, and future researchers were highlighted.

Keywords: Employee engagement, SMEs, vital factors, organizational-level outcomes, qualitative study

INTRODUCTION

Small and medium-sized enterprises (SMEs) are significant to the individual as they provide employment and raise the living standard as well as to the nation as they contribute to the country’s economic development through their contribution to the national GDP and total export. In Malaysia, performance of SMEs is crucial to transform Malaysia into a high-income country by 2020. As a result, the government has taken various efforts towards the development of SMEs. In the Ninth Malaysia Plan (2006-2010), SME development plan has been designed to assist SMEs to meet the new

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business challenge. Besides that, numerous agencies and ministries are formed to provide assistance to SMEs in terms of skills upgrading, provision of infrastructure and supporting services, promotion, R&D activities, advisory, tax incentives, and financial assistance (SME Corporation Malaysia; NSDC). Examples of these agencies and ministries are the National SME Development Council (NSDC), SME Bank, Small and Medium Enterprises Corporation Malaysia (SME Corp), Perbadanan Nasional Berhad (PNS), the Ministry of International Trade and Industry, Ministry of Entrepreneur and Co-operative Development (MECD). In addition, the launched of SMEs Masterplan 2012-2020 in July 2012 signifies government’s desire to comprehensively develop SMEs in meeting the Vision 2020.

SMEs in Malaysia formed 99.2 per cent of the entire business formations as reported in the SME Masterplan Malaysia 2012/2020 and Economic Census 2011 (Department of Statistics, Malaysia), which suggests their existence to be crucial to the economy. Table 1 below shows the SMEs' performance in Malaysia with relation to their GDP contribution, employment generation, total export and value-added growth.

**TABLE 1 HERE**

Despite the importance of SMEs to the economy, however, various studies have reported low productivity in SMEs. For instance, Census of Establishment and Enterprises has reported that productivity of Malaysia’s SMEs was very much lower than that of large enterprises with value added of only RM0.3 million per establishment as compared with RM41 million per establishment for large enterprises (Department of Statistic Malaysia). Low motivation to perform among employees (Hill & Stewart, 2000) and failure to retain employees (Beaver & Hutchings, 2005; Fauzi, Ahmad, & Gelaidan, 2013, Tee, 2013) have also been documented. These problems might be due to issue related to employee engagement, thus creates a necessity to study employee engagement in SMEs.

There exists a vast literature on employee engagement. Kahn (1990) was the first scholar who published the theoretical framework of personal engagement and disengagement at work. Since then, the concept of employee engagement has obtained recognition and discussion regarding its usage as a measurement for comparisons and importance in the workplace (Little and Little, 2006; Kular, Gatenby, Rees, Soane and Truss, 2008; Ferguson, 2010; Ologbo and Sofian, 2013).

Employee engagement has been recognized to have positive repercussions in all aspects of any business including organizational success. There is a strong belief amongst practitioners in the linkage of employee engagement to desirable organizational outcomes (Little & Little, 2006). It is because engaged employees perform better within their role that support organizational success. According to Bakker and Oerlemans (2011), there are four reasons proposed why engaged employee perform better: (1) engaged employees experience active, positive emotions including joy and enthusiasm; (2) engaged employees experience better health in which enable them to focus and devote their energy to their work; (3) engaged employees initiate their own job and personal resources; and (4) engaged employees transmit their engagement to others and indirectly improve team performance.

The existing literatures on employee engagement have identified that employee engagement outcomes comprises of two levels namely the individual-level and the organizational-level (Ahlowalia et al. 2014; Jones & Harter, 2005; Jose & Mampilly, 2012; Kahn, 1990; Roberston-Smith & Markwich, 2009; Swarnalatha & Prasanna, 2012). The relationship between employee engagement and its two-level outcomes is shown in Figure 1 below.

**FIGURE 1 HERE**

To have an impact on the organizational-level, employee engagement must first impact individual-level outcomes (Kular et al. 2008; Saks, 2006; Swetha & Kumar, 2014). Therefore, it is agreed that the positive outcomes of employee engagement at the individual level will result in positive outcomes at the organizational level (Harter, Schmidt, & Hayes, 2002; Swetha & Kumar, 2013). Organizational-level outcomes of employee engagement being the final outcome of employee engagement.
engagement and indicators of a business’s economic viability, thus will be the focus of this study.

This study will be beneficial to four groups: (a) policy-makers - to design governmental and non-governmental sound support programs and strategies in relations to the performance of the SMEs; (b) top managers of SMEs – to optimize employee engagement in the organization for the purpose of achieving organizational success; (c) human resource managers of SMEs – to implement effective employee engagement interventions and strategies; and (d) future researchers – to embark further in their investigation in the area of employee engagement based on the findings of this study.

JUSTIFICATIONS OF THE STUDY

The former section has presented the introduction of this study. This section proceeds with the justification of this study. The purpose of this study is to explore the vital factors of organizational-level outcomes of employee engagement in SMEs. This study will be carried out on the bases of importance of SMEs contribution to the economy and gaps in the literature. These justifications are explained next.

The importance of SMEs performance to the economy in Malaysia. SMEs now exist in nearly all sectors of the Malaysian economy. Being the backbone of the economy (Radam, Abu, & Abdullah, 2008), the importance of SMEs contribution to the economy cannot be taken for granted. Their contributions are in the area of economic development, Gross Domestic Products (GDP), export earnings, social uplifting and political stability (Khalique, Isa, Shaari & Ageel, 2011). SMEs have also become as an effective instrument for creating employment opportunities and provide support to big companies (Hashim & Wafa, 2002). Furthermore, in 2020 their output is projected to contribute 41 percent to GDP (refer to Table 1).

Gaps in the literature. Even though plentiful studies have addressed the outcomes of employee engagement, however only some examined organizational-level outcomes of employee engagement and none has examined on the vital factors of organizational-level outcomes of employee engagement. Besides that, empirical studies exploring organizational-level outcomes of employee engagement in SMEs are lacking. Hence, there is a need to undertake this study to overcome these deficiencies.

LITERATURE REVIEW

The introduction and the justification of the study were discussed in the earlier sections. In this section, the review of literature is presented to highlight issues within the literature and thus, provides the foundation of the proposed conceptual framework as well as the subsequent data collection. First, definition of SMEs in Malaysia is highlighted, followed by review of literature on context of studies of organizational-level outcomes of employee engagement research, and finally employee engagement specific outcomes at organizational-level.

Definition of SMEs in Malaysia. In Malaysia, the definitions of SMEs have been changed occasionally based on the relevance of SMEs to the economy and stages of economic development. Before 2005, there is no common definition of SMEs in Malaysia. Different agencies used their own criteria, normally measuring against number of full-time employees or turnover sales or shareholders’ funds and concentrated primarily on SMEs in the manufacturing sector (NSDC Development, 2005).

On November 6, 2013, Bank Negara Malaysia has issued a Circular on the new definitions of SMEs which took effective on January 1, 2014. The improved definition of SMEs has revised the amount of sales turnover and number of full-time employees or turnover sales or shareholders’ funds and concentrated primarily on SMEs in the manufacturing sector (NSDC Development, 2005).

This new revision of SMEs definition enables inclusion of more firms particularly those from the oil and gas category as well as other types of services sectors to be classified as SMEs. Table 2 below depicts the new SMEs definition in Malaysia.
TABLE 2 HERE
Context of studies. Subsequently, related literatures on outcomes of employee engagement at organizational-level were examined. 21 related articles were selected for the review and they were examined in term of their context of studies. The results of the review is depicted in the following Table 3.

TABLE 3 HERE
Based on the review of those articles, it is evident that most studies were conducted in general business setting in which out of 21 selected articles, 90.5 percent were done in general business setting and only 9.5 percent were executed in the context of SMEs. Furthermore, only one article out of the total selected articles for the review on organizational-level outcomes of employee engagement was conducted in Malaysia, which is also in a general business setting instead of SMEs. Hence it can be concluded that there is dearth of studies on organizational-level outcomes of employee engagement in the context of SMEs as well as in Malaysia.

Specific outcomes of employee engagement at organizational-level. Further critical review on specific outcomes of employee engagement at organizational-level of the 21 articles has revealed six organizational-level outcomes that is employee retention, profitability, absenteeism, customer satisfaction, productivity, and customer loyalty. The result of the analysis on specific outcomes of employee engagement at organizational-level is shown in Table 4.

TABLE 4 HERE
Out of six outcomes of employee engagement at organizational-level examined, the highest frequency is employee retention in which 9 out of 21 articles studied this outcome. The highest frequency of this outcome can be explained by a strong link between employee retention and increase in sales, market value, and profitability (Huselid, 1995). Further, the opposite of employee retention will have a detrimental impact to business (Abduljlil, Yazam, & Ahmid, 2011).

The second highest frequency of outcome of employee engagement at organizational-level is profitability and absenteeism in which 4 out of 21 articles researched these outcomes respectively. Profitability gained its popularity among researchers is because it denotes the organization’s bottom-line results that measure the organization performance (Niresh & Velnampy, 2014; Vaijayanthimala & Vijakumar, 2014) and affects the longevity and success of an organization (Yazdanfar, 2013). Concurrently, absenteeism has received attention from researcher mainly due to its direct and indirect effects to the organizations (Gangai, 2014). It is regarded as a serious problem and a costly incidence to both employees and employers (Sharma & Magotra, 2013). Examples of negative consequences of absenteeism are increase statutory sick pay and expense of covering absence (Mason & Griffin, 2003), loss of productivity (Dalton & Mesch, 1991), low morale among employee(s) covering for those absent (Leaker, 2008), interruption of the workflow (Klein, 1986), and as loss of revenue (Sharma & Magotra, 2013).

The third highest frequency of outcome of employee engagement at organizational-level is customer satisfaction. It is because customer satisfaction is the heart of marketing (Ganiyu, Uche, & Elizabeth, 2012) as it leads to greater customer loyalty (Bei & Chiao, 2001; Szymanski & Henard, 2001), reduce the cost of future transactions (Reichheld & Sasser, 1990), and helps to secure future revenues (Fornell, 1992) by reducing costs associated with defective goods and services (Anderson & Sullivan, 1993).

The fourth highest frequency of outcome of employee engagement at organizational-level is productivity. Two out of 21 articles explored this outcome. This outcome has gained attention from researchers because there is a need to attain and maintain high level of productivity (Okeye & Ezejiofor, 2013) as it provides an opportunity for increasing profits (Ramirez & Nembhard, 2004).

Finally, with respect to customer loyalty, there is only one empirical research in business context that explored the relationship between employee engagement and this outcome. The lack of empirical research on this outcome is owing to the fact that studies on this outcome were published as conceptual paper or viewpoints (e.g. AbuKhalifeh...
From the above discussion, the six outcomes will be selected for this study in order to identify the vital factors of the organizational-level outcomes of employee engagement in SMEs.

PROPOSED CONCEPTUAL FRAMEWORK

From the previous discussion, six organizational-level outcomes of employee engagement specifically employee retention, profitability, absenteeism, customer satisfaction, productivity, and customer loyalty were unveiled. These six outcomes are then grouped as financial-related factors, customer-related factors, and employee-related factors based on their definitions.

The financial-related factors comprise of two organizational-level outcomes namely profitability and productivity. For the customer-related factors, another two organizational-level outcomes of employee engagement at organizational-level are listed that are employee retention and absenteeism, and finally the employee-related factors which also consist of two organizational-level outcomes of employee engagement at organizational-level specifically customer satisfaction and customer loyalty. The proposed conceptual framework of this research is shown in Figure 2.

FIGURE 2 HERE

The arrows that connect the financial-related factors, customer-related factors, and employee-related factors indicate that each outcome under the three categories is related to one another and thus create a strong relationship among them. This relationship will be used as a platform to investigate further the vital factors for each category of the organizational-level outcomes of employee engagement in Malaysia’s SMEs.

RESEARCH METHODOLOGY

This study embarks on new fields of enquiry in employee engagement, hence choosing a realism paradigm to uncover the “realities” on vital factors that could be influenced by organizational-level outcomes of employee engagement within the Malaysia’s SME business, thus a qualitative research methodology will be employed by this research. The strength of the qualitative approach lies in its ability to provide rich data (Jack & Anderson, 2002). It provides a more realistic feel of the real world and flexible ways of collecting, analyzing and interpreting data (Jean Lee, 1992) of the phenomenon under investigation. For this study, data will be collected using the converging interview technique. The converging interviewing process is shown in Figure 3. For the purpose of enforcing the validity and reliability of the data collection process, the interview protocol will be prepared when conducting the interview (Healy & Perry, 2000).

FIGURE 3 HERE

Next, the collected data will be analyzed using content analysis technique. The participants of this study consist of chief operating officers (CEO) of SME business because they are directly involved in implementing and monitoring organizational performance and had a clear conception of the whole decision process. In the selection of participants of this study, snowball sampling technique will be used. According to Aaker and Day (1990), this sampling technique is the most effective method to seek people who are expert about the topic under investigation. It also enable researchers to identify participants who meet the research criteria to be selected for this study. The optimal sample size of this study will be determined when stability is reached (Lincoln & Guba, 1985; Patton, 1990).

CONCLUSION

SMEs are significant to the individual as well as to the nation. As Malaysia aspires to transform into a high-income country by 2020, numerous efforts towards SMEs development have been taken by the government. SMEs in Malaysia formed 99.2 per cent of the entire business formations, make their ability to survive and perform well are a crucial agenda. Various studies on SMEs have reported low productivity, low motivation to perform among employees and failure to retain employees. Employee engagement could be the problem in
SMEs, thus creates a necessity to study employee engagement in SMEs. Hence, the purpose of this study is to explore the vital factors of organizational-level outcomes of employee engagement in Malaysia’s SMEs. Scholars and practitioners alike agreed that employee engagement is directly linked with organizational performance outcomes. Employee engagement would result in high employee retention, enhance profitability, low absenteeism, improve customer satisfaction, increase productivity, and better customer loyalty, however it is seen vital to investigate the vital factors among the six organizational level outcomes of employee engagement. The findings of this study is seemed important as it will aid various groups including policy-makers, top managers and human resource managers of SMEs and also future researchers to design developmental strategies to enhance, refine, and improve employee engagement in SMEs.

REFERENCES


**APPENDIX**

Table 1: SME Contribution to Malaysia Economy 2005-2020

<table>
<thead>
<tr>
<th>Key Indicator</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>2020*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Contribution of SMEs to GDP</td>
<td>29.0</td>
<td>29.4</td>
<td>30.4</td>
<td>31.5</td>
<td>31.9</td>
<td>32.5</td>
<td>32.7</td>
<td>33.1</td>
<td>32.3</td>
<td></td>
<td>41.0</td>
</tr>
<tr>
<td>Employment share</td>
<td>56.8</td>
<td>56.9</td>
<td>58.4</td>
<td>58.9</td>
<td>59.2</td>
<td>59.5</td>
<td>59.0</td>
<td>57.3</td>
<td>57.4</td>
<td>NA</td>
<td>61.0</td>
</tr>
<tr>
<td>Export share</td>
<td>19.0</td>
<td>19.0</td>
<td>19.0</td>
<td>19.0</td>
<td>19.0</td>
<td>22.0</td>
<td>19.0</td>
<td>NA</td>
<td>NA</td>
<td>NA</td>
<td>25.0</td>
</tr>
<tr>
<td>Value added growth of SMEs</td>
<td>6.9</td>
<td>7.4</td>
<td>10.0</td>
<td>6.4</td>
<td>-0.4</td>
<td>8.4</td>
<td>NA</td>
<td>NA</td>
<td>NA</td>
<td>NA</td>
<td>NA</td>
</tr>
</tbody>
</table>

*Source: NSDC, 2010; *Projection; NA: Not Available*

Figure 1: *The Relationship between Employee Engagement and its Outcomes*

Source: developed for this study
Table 2: SMEs Definitions in Malaysia

<table>
<thead>
<tr>
<th>Year</th>
<th>Category</th>
<th>Micro enterprises</th>
<th>Small-sized enterprises</th>
<th>Medium-sized enterprises</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014 - Present</td>
<td>Manufacturing</td>
<td>Sales turnover less than RM300,000</td>
<td>Sales turnover between RM300,000 to less than RM15 million</td>
<td>Sales turnover between RM15 million to RM50 million</td>
</tr>
<tr>
<td></td>
<td></td>
<td>OR less than 5 full-time employees</td>
<td>OR full-time employees between 5 to 75</td>
<td>OR full-time employees between 75 to 200</td>
</tr>
<tr>
<td></td>
<td>Services and Other Sectors</td>
<td>Sales turnover less than RM300,000</td>
<td>Sales turnover between RM300,000 to less than RM3 million</td>
<td>Sales turnover between RM3 million to RM20 million OR full-time employees between 30 to 70</td>
</tr>
<tr>
<td></td>
<td></td>
<td>OR less than 5 full-time employees</td>
<td>OR full-time employees between 5 to 30</td>
<td>Full-time employees between 30 to 70</td>
</tr>
</tbody>
</table>


Table 3: Selected Literature on Organizational-Level Outcomes of Employee Engagement

<table>
<thead>
<tr>
<th>No.</th>
<th>Context of Research</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Studies in General Business Setting</td>
<td>19</td>
<td>90.5%</td>
</tr>
<tr>
<td>2</td>
<td>Studies in SMEs</td>
<td>2</td>
<td>9.5%</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>21</td>
<td>-</td>
</tr>
</tbody>
</table>

Source: develop for this study

Table 4: Analysis on Outcomes of Employee Engagement at Organizational-Level

<table>
<thead>
<tr>
<th>No.</th>
<th>Outcomes of Employee Engagement at Organizational-Level</th>
<th>Frequency</th>
<th>Selected for this study</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Employee Retention</td>
<td>9</td>
<td>✓</td>
</tr>
<tr>
<td>2</td>
<td>Profitability</td>
<td>4</td>
<td>✓</td>
</tr>
<tr>
<td>3</td>
<td>Absenteeism</td>
<td>4</td>
<td>✓</td>
</tr>
<tr>
<td>4</td>
<td>Customer Satisfaction</td>
<td>3</td>
<td>✓</td>
</tr>
<tr>
<td>5</td>
<td>Productivity</td>
<td>2</td>
<td>✓</td>
</tr>
<tr>
<td>6</td>
<td>Customer Loyalty</td>
<td>1</td>
<td>✓</td>
</tr>
</tbody>
</table>

Source: developed for this study
Exploring the vital factors influenced by outcomes of employee engagement

Figure 2: The Proposed Conceptual Framework

![Figure 2: The Proposed Conceptual Framework](image)

Source: developed for this research

Figure 3: Three-Stage of Convergent Interviewing Process

![Figure 3: Three-Stage of Convergent Interviewing Process](image)

Source: adaptation from Dick (1990) for this study