The Effect of Organisational Performance on Employee Engagement

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Abstract

Although there have been many studies examining the link between job satisfaction and performance, previous research has focused on survey and correlational methods. This study investigated the causal relationship between employee engagement and organisational performance using an experimental design. Hypothetical vignettes were created describing organisations and were manipulated so that readers perceived the organisation as either performing above or below average. In the second task, the same organisation performed better or worse than previously described. After reading each vignette, participants were required to rate the workplace climate and expected levels of engagement. Data were collected from 108 participants. Analyses revealed that the perception of an organisation’s performance and the direction of change in the performance altered reported engagement levels. Higher organisational performance resulted in higher employee engagement compared to an organisation that worsened in performance even when the final performance level was the same in both conditions.

Performance-Engagement Link

Although this study will use the broader term of employee engagement (defined here as the aggregate of organisational commitment, job satisfaction and intention to stay), most previous studies have been based on job satisfaction and performance at the individual or task level.

There have been several key meta-analyses conducted on the link between performance and job satisfaction. Before the recent meta-analysis by Judge, Thoresen, Bono, and Patton (2001), most articles examining the link between satisfaction and performance had cited results from Laffaldano and MacKinnon's (1985) meta-analytic study. These authors estimated the true population correlation between satisfaction and performance to be only .17 and went on to describe the relationship as an 'illusory correlation'. Subsequent reviews have found measurement problems and flaws in Laffaldano and MacKinnon's methodology (Organ & Ryan, 1995). In their meta-analysis of 312 samples, Judge et al. (2001) found the estimated population value of the correlation between overall job satisfaction and overall job performance to be .30 when the correlations were corrected for unreliability in satisfaction and performance measures.

Two causal assumptions have dominated the research. The most persistent theory dates back to the human relations movement and states that employee satisfaction will directly affect the quality and quantity of individual and group performance (for example, the Sears employee-customer-profit chain; Rucci, Kirs & Quinn, 1998). Despite the common view of satisfaction influencing performance, researchers have found little evidence for this assumption (Judge et al., 2001; Lawler & Porter, 1967; Locke, 1976; Latack, 1999).

The second theoretical approach sees satisfaction as dependent on performance. The performance-causes-satisfaction theory is attributed in the literature to Porter and Lawler (1967). They argued that employees who are satisfied want to continue to work. Lawler's (1969) model suggests that the causal relationship is moderated and satisfaction would be much weaker if rewards were not linked to performance. Using a structural equation model, Langford, Parkes and Metcalfe (2006) found evidence for employees' level of engagement being a consequence of purpose, their participation and degree to which they see the organisation making progress towards important outcomes.

Bagozzi (1980) added two more models to this list. First, the two variables could be related reciprocally. This model has no distinct theoretical foundation but rather is a hybrid model of the previous two models (Judge et al., 2001). Siegel and Bowen (1971) investigated this model but found only support for job performance leading to satisfaction and not the reverse. MacKenzie, Podsakoff and Ahearne (1994) developed and tested a theoretical model that specified the relationships between in- and extra-role performance and salesperson job satisfaction, organisational commitment, role perceptions and turnover using cross sectional data from a large sample. They found that in- and extra-role performances were intertwined, with in-role performance serving as an antecedent to job satisfaction and organisational commitment and extra-role performance as a consequence of the two variables. Finally, Bagchi (1980) highlighted the logical possibility that satisfaction and performance are not causally related at all and any empirical association might be a spurious one due to common antecedents. Researchers have suggested role ambiguity and self esteem as factors that might explain the association between satisfaction and performance (Judge et al., 2001). However, Lawler (1969) did not find support for this model even after controlling for self-esteem, job-related tension and role ambiguity. There was a positive relationship between the two constructs that could not be removed using control variables.

Organisational Performance

Previous research has predominantly looked at the relationship between job satisfaction, job attitudes and performance for individuals, but little work has investigated the relationships at the organisational level of analysis (Ostrom, 1992). Early theorists, such as Locke (1970) implied that employee satisfaction and well-being are related to performance, but they did not explicitly hypothesise about the appropriate level of analysis to which their theory applied.

Ostrom (1992) argued that it may be too restrictive to examine the satisfaction-performance relationship at the individual level because doing so fails to take into account a wide range of behaviours individuals may act out in response to satisfaction. Ostrom found significant correlations between average teacher job satisfaction and numerous indicators of school effectiveness; uncorrected correlations between satisfaction and organisational performance ranged from 11 to 54, with an average of 28, and between commitment and performance, the correlations ranged from .05 to .60 with a mean of .22. Ostrom and Schmidt (1993) also showed that the relationship between job satisfaction and performance at the organisational level, Hartline, Schmidt and Keysor (2003) meta-analytic correlation of business-unit employee engagement with composite performance was .26 within companies and .33 for business units across companies.

Hypotheses

Previous research investigating the performance-engagement link has been based almost entirely on correlations and cross-sectional studies. The aim of the present study was to examine experimentally the impact of organisational performance on employee engagement. While not previously examined, the current study also investigated the impact upon engagement of improving and worsening organisational performance. Specifically, the following hypotheses were made:

Hypothesis 1: Perceived higher organisational performance leads to higher employee engagement. Perceived lower organisational performance will lead to lower employee engagement.

Hypothesis 2: An improvement in organisational performance will lead to higher employee engagement. A worsening in organisational performance will lead to lower employee engagement.

Hypothesis 3: An improvement in organisational performance will lead to higher employee engagement compared to a worsening in organisational performance, even if the final level of performance is the same.

Method

Participants

The sample in this study consisted of 108 participants. The overall mean age of the sample was 21.74 years (SD = 5.91, with a range from 17 to 42 years); 67% were female and 33% were male. Of the 108 participants in this study 49% had previously worked full-time (Mean work experience = 7.88 months, with a range of 1 to 250 months) and 94% had previously worked as a casual or part-time employee (Mean = 35.18 months with a range of 1 to 130 months). At the time of the study, 14% of all participants were employed in a full-time job, 23% were working part-time, 49% were employed in a casual job and 14% were not currently working.

Materials and Measures

Vignette

To test the hypotheses, this study manipulated the perceived performance of an organisation using factorial surveys, more commonly known as vignettes. Factorial surveys are constructed scenarios that attempt to capture the complexity of real life and the conditions of real human choices and judgments and attempt to show the separate influences of the factors that go into such judgments and choices (Hennegy, Macqueen & Seals, 1995; Rossi & Nock, 1982). Each vignette provided a separate condition in the experiment (Hennegy et al., 1995). The first step in designing the factorial survey is determining the dimensions or essential characteristics of the concept (Hennegy et al., 1995). The next step is to use a set of descriptive phrases that convey the meaning of each dimension.

The study was divided into two parts. At Time 1 a vignette was created giving a brief outline of a job as an organisational psychologist. Factors related to job design, organisational structure and communication and supervisory behaviours have consistently been found to
correlate with engagement (Brown & Peterson, 1993; Langford et al., 2006), so to give the sense of a real-world organisation and for the experiment to work successfully in the vignettes also included such variables. Hence, the second paragraph in the vignette gave a description of the general workplace environment such as facilities, safety, rewards, role clarity, co-workers and work-life balance. While manipulated across vignettes, these factors were included to 1) build a realistic picture of a workplace, 2) hide the purpose of the study including details not manipulated across participants, and 3) provide control variables to enable comparison of effects across manipulated and non-manipulated factors.

These not-manipulated factors were described as being ‘average’ in all vignettes; for example, ‘The managers in your organisation are reasonable and you get along well with your co-workers’ and ‘Benefits and rewards given are satisfactory’. The final section of the vignette described the organisation as either performing above average or below average in regards to overall organisational performance with statements such as ‘Your organisation offers good quality services and products and clients are satisfied with the services provided’ and ‘Change is handled well in your company and profits are high’ for a high performance organisation and ‘Your organisation offers fairly average quality services and clients are somewhere satisfied with the services provided’ and ‘Change is not handled well in your company and profits are low’ for the low performing organisation.

The vignettes at Time 2 did not include the first paragraph of the general job outline as did the Task at Time 1. Instead it described the workplace as ‘twelve months later’ andFEA of exactly the same average workplace environment. However, at Time 2 the organisation previously described was now performing better or worse than before. To measure the change in employee engagement the wording of the vignettes had to be sufficiently different to give the correct manipulation. The high-improving performance organisation described an improvement in performance such as ‘Your organisation now offers very high quality services and clients are extremely satisfied with the services provided’ and ‘Change is handled very well in your company and profits are at all time high’. The low-worsening performance organisation for example stated, ‘Your organisation now offers poor quality services and clients are rarely satisfied with the services provided’ and ‘Change is handled poorly in your company and profits are very low’. To test hypothesis 3, the high-worsening performance organisation and the low-improving performance organisation were given exactly the same ‘moderate’ description of an organisation in Time 2: ‘Your organisation now offers average quality services and clients are moderately satisfied with the services provided’ and ‘Change is handled adequately in your company and profits are average’.

Employee Engagement The dependent variable of employee engagement was measured on a 10-item questionnaire taken as a subscale from the Voice and Climate Survey (Langford, 2007). It consisted of three items on job satisfaction, four items on organisational commitment and three on intention to stay; the items are aggregated into these three lower order scales which in turn are aggregated into a single score for employee engagement. It included statements such as, ‘Overall, I am satisfied with my job’ (job satisfaction), ‘I am willing to put in extra effort for this organisation’ (organisational commitment) and ‘I can see a future for me in this organisation’ (intention to stay). Participants rated items on a 5-point Likert scale ranging from 1 (strongly agree) to 5 (strongly disagree). The overall alpha for the engagement scale in Langford’s (2007) study was .92 and for the current study, the overall alpha was found to be .90.

Procedure Participants were randomly assigned to four groups; these were high-improving performance organisations (HI), high-worsening (HW), low-improving (LI) and low-worsening (LW) performance organisations. At Time 1 both the high-improving and high-worsening groups were given the same vignette of a high performing organisation. Likewise, at Time 1 both the low-improving and low-worsening groups were given the same vignette of a low performing organisation. At Time 2, the high-improving group was given a vignette describing a very high performing organisation. Both the high-worsening and low-improving groups were given exactly the same vignette at Time 2 of a moderately performing organisation. Finally, the low-worsening group at Time 2 was given a vignette describing a very low performing organisation. The study took approximately 20 minutes to complete.

Results A t-test was used to analyse hypotheses 1 at Time 1. The high-improving and high-worsening groups engagement scores were combined (at both these groups viewed the same vignette of a high performing organisation at Time 1) to give an average score for a high performing organisation. Similarly, the low-improving and low-worsening groups’ scores were averaged at Time 1 (both these groups viewed the same vignette of a low performing organisation at Time 1). As shown in Figure 1, employee engagement was significantly higher for the high performing organisation compared to the low performing organisation, t(106) = 5.54, p < .01 with means of 3.57 (SD = .58) and 2.92 (SD = .64) respectively.

Figure 1. Engagement for different groups at Time 1 and Time 2.

The engagement levels at Time 2 were also analysed. As suggested by Figure 1, significant differences were found between the high-improving and low-worsening performance groups, F(2, 70) = 7.02, p < .01, and also between the low-worsening and the average of the high-improving and low-worsening groups, F(79) = 8.63, p < .01. No significant difference was found between the high-improving group and the average of the high-worsening and low-worsening groups, t(79) = 1.50, p = .14.

To test hypothesis 3, a t-test was used to compare engagement scores at Time 2 between the high-worsening organisation and low-improving organisation. A significant difference was found between the two groups, t(57) = -3.48, p < .01 (M = 3.16, SD = 0.53 and M = 3.59, SD = 0.37 respectively), even though the scenarios were exactly the same for both groups at Time 2.

Discussion This study used an experimental design to investigate a causal relationship between organisational performance, changes in performance, and employee engagement. As predicted in hypothesis 1, manipulating the perceived level of organisational performance affected reported employee engagement in the workplace. The scenario presented a higher performing organisation at Time 1 resulted in participants reporting higher imagined engagement than participants presented with the scenario presenting a lower performing organisation at Time 1. These performance levels were also compared at Time 2. Significant differences were found between the high-improving and low-worsening performance groups.

Support of hypothesis 2, at Time 2 results indicated that on average, scenarios describing improvements in organisational performance lead to reports of higher employee engagement than did scenarios describing worsening performance. As predicted in hypothesis 3, participants in the low-improving group (i.e., where organisation performance at Time 1 was low but improved in Time 2) showed higher engagement ratings than employees in the high-worsening group (i.e., where organisation performance at Time 2 was high but dropped in Time 2). This result was found despite both groups being given exactly the same vignette at Time 2 (i.e., the description of the actual level of performance at Time 2 was identical across both groups; all that differed was the description given at Time 1). This interesting finding suggests that the direction of change may be more important in determining engagement levels of employees than the actual level of performance. As discussed in the introduction, no previous studies have examined the effect of change in performance. A possible explanation for this finding is that employees may forecast improvement into the future, such that, for an organisation that has improved from Time 1 to Time 2, employees will perhaps assume the organisation will continue to improve into Time 3 and beyond. Similarly, organisations that worsen in performance levels will perhaps be inclined to keep worsening.

These results provide support for a causal link from levels of organisational performance, and changes in performance, to levels of employee engagement. It must also be acknowledged that this study is hypothesis-based and what has been demonstrated is that manipulating descriptions of organisational performance cause changes in imagined employee engagement. Nevertheless, vignette-based studies are extensively used in psychology and business and have been shown to predict reactions in equivalent ‘real world’ scenarios (Heath and Heath, 1970; Rusbult & Zerbe, 1982). Hence, it is not unreasonable to predict that the results demonstrated here would be mirrored in a real-world environment.

It should also be highlighted that these results show an average response tendency, and there may be specific circumstances in which individuals may be different from these results. It is also possible that employees in poorly performing organisations may perceive the poor performance as an opportunity to demonstrate their competence, and hence employee
engagement may be higher. Conversely, employees in a highly performing organisation may feel pressured to maintain the high performance with little hope for further improvement, and hence may experience reduced employee engagement. Nevertheless, the results of this study suggest the predominant pattern of responses is that there is a positive causal link between organisational performance, change in performance and employee engagement.

References

Testing a Model of the Predictors of Change Success
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Abstract
Research has suggested that commitment to organisational change is a mediator between employees’ perceptions of organisational climate and change-related outcomes such as behavioural support for change. This study sought to further clarify the role of one component of commitment to organisational change (affective commitment) in mediating the relationships between two aspects of organisational climate, perceptions of change management and change success. We used structural equation modelling to examine a structural model using two large data sets (N = 2549 and 2737 respectively).
We also conducted a sub-group analysis which examined whether the one structural model was suitable across four separate organisations which comprised the second data set. The original and structural model confirmed that effective commitment to organisational change was a mediator of the relationships between the two aspects of organisational climate, perceptions of change management and change success. The structural model was also similar for the four organisations. These results suggest that while the role of affective commitment to organisational change was similar across the four organisations, perceptions of change management and positive organisational climate were the most important predictors of change success.

Introduction
Interest in employees’ commitment to organisational change is justified by the extensive research demonstrating that employees’ commitment levels are related to a range of important work-related outcomes such as job satisfaction, work performance, turnover intentions, and actual turnover (Cooper-Hakim & Viswesvaran, 2005). Previous research (Herscovitch & Meyer, 2002; Machin & Bannon, 2005) has demonstrated that the components of commitment to organisational change are differentially related to employees’ level of support for those changes and may mediate the influence of organisational climate on the level of support for change. For example, Machin and Bannon found that positive work climate was a significant contributor to the prediction of behavioural support for change even after controlling for affective normative, and continuance commitment to organisational change. However, the majority of the variance in behavioural support for change (33% in Study 1 and 55% in Study 2) was accounted for by the commitment to organisational change variables. While employees’ level of support for organisational change is regarded as an important indicator of the likelihood of the change succeeding, a better outcome measure may in fact be perceptions of change success.
Wall and Wood (2005) described the importance of differentiating between unidirectional, contingency, and configurational theories of management which provide different explanations for the benefits of human resource management (HRM) practices. For example, the contingency theory is that a working environment that aligns all elements of workforce planning, performance management, and business strategies with organisational objectives will be more conducive to coping with the changes taking place in management processes and methods of service delivery. However, it is still unclear which approach is better suited to the management of change.

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