

# Building Employees' Engagement through Leadership, Human Resources Management Practices and Organizational Culture

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**Abstract:** Competition in the business world is getting tougher. This circumstance requires employees who have good engagement because employees having good engagement will have high morale, spread positive information about the organization for which they work, and always strive to provide the best for the organization. Leadership and human resource management practices within an organization shape employees' perceptions, attitudes, and behavior. Similarly, the organizational culture, shared values, governs the behavior patterns of the organizations members. This research aims to develop a development model of employees' engagement through leadership and human resource management practices through organizational culture that supports employees' engagement. The data were collected by using questionnaires involving 111 students working in companies in the Jakarta, Bogor, Tangerang and Bekasi (Jabodetabek) as research respondents. The data were analyzed by using structural equation modeling (SEM) with AMOS program. The results showed that leadership and human resource management practices have a significant positive effect on employee engagement through organizational culture. Human resource management practices directly influence employees' engagement, but the leadership has no significant direct effect on employees' engagement.

**Key words:** organizational culture; morale; employees' behavior

**JEL codes:** L2

## 1. Introduction

The concept of employees' engagement has gained popularity for the last twenty years. Research findings in many organizations suggest that organizations put the development of engagement in the workplace as a priority. For example, Mandiri Bank declared that its human resource management strategy is that employees' high engagement can be achieved. The reason is that with the high engagement, companies can lower employees' costs and employees can perform better. Wright et al. (1994) look at the practice of human resource management as a means of forming perceptions, attitudes, and behaviors of employees. Facing increasingly intense competition, especially in education industries will require leadership and human resource management practices that result in the employees' engagement through organizational culture. It is important to realize that in tight competition management, managers may apply low cost policies or strategies which can result in counterproductive. Tight budget policies (low-cost) will result in the dis-engagement of employees which cannot support the

competitiveness of universities (Mello, 2011). In tight business competition, an organization that can provide excellent quality of service will have the ability to win the competition. Better quality of service can only be performed by employees who have a high level of engagement, so it is necessary to study the factors that support employees' engagement.

The study aimed to investigate: (1) The effect of leadership on human resource practices. (2) The effect of leadership on organizational culture. (3) The effect of human resource management practices on organizational culture. (4) The influence of organizational culture on employees' engagement. (5) The effect of leadership on employees' engagement. (6) The effect of human resource management practices on employees' engagement.

## **2. Hypotheses**

One factor of employees' engagement is human resource management practices. Mulenburt-Trevino (2009) defines engagement as statements regarding to positive works, marked by a spirit (vigor), dedication and absorption. Individuals having engagement feel energetic in carrying out their work, attached to their work, and are better to handle the demands of the job. The existence of high morale is characterized by high energy, mental endurance, the willingness to perform well, and the diligence in doing their work. Dedication is characterized by a sense of the importance of their contribution to the company, the enthusiasm, inspiration, pride, and challenge. Absorption is characterized by a feeling of fun when doing his job, feeling time flies and feeling reluctant to break away from work.

Based on previous studies, for example by Wyatt (2009), organizations with employees having engagement have retention, productivity, customer satisfaction, innovation, and higher quality. Employees with engagement provide greater benefits but less costs. According to Wyatt (2009) engagement is a combination between commitment and line of sight, in which the employee's commitment is the motivation to support the success of the organization. Line of sight is the focus and direction that enable employees to understand what must be done by employees to make their organization successful.

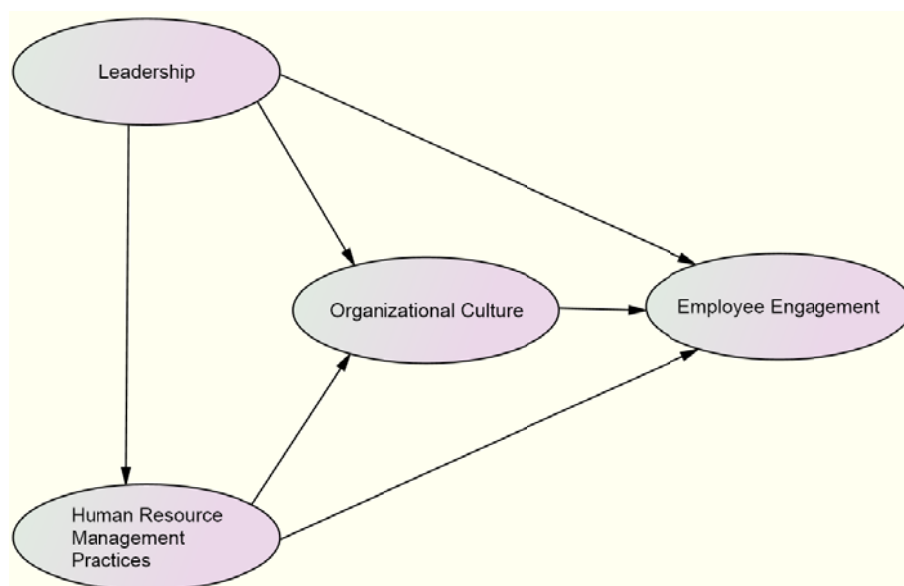
Bailey (1993) states that human resource management practices can influence employees through their influence on the ability and motivation of employees and through organizational structure which gives employees the ability to control behavior and shows their role in the organization. Work environment designed to motivate employees will encourage them to do better and will support to the success of the organization (Berg, 1999). Work resources are related to process of motivation with individual and organizational results through employees' engagement (Schaufeli & Bakker, 2004). Based on these ideas, this research considers the practices of human resource management as predictors of employees' engagement. Researches on the relationship between human resource management practices and employees' engagement are still relatively few in Indonesia. Studies that directly focus on the impact of human resources practices on employees' engagement, among others, were conducted by Asad et al. (2011) and by Sardar et al. (2011). Both studies were conducted to determine the impact of human resource practices on employees' engagement in the banking sector in Pakistan. The results of both studies stated that there is a significant relationship between human resource practices and employees' engagement.

The practice of human resource management is a factor to create organizational culture. This is proven in Singh's research (2010) that the practices of human resource management which consist of the process of recruitment, training and employee development, performance appraisal, and compensation significantly influence

organizational culture. Research by Kumari (2012) also proved that human resource management is a major factor to shape organizational culture, and then affect the effectiveness of organizations.

The correlation between employees' engagement and organizational culture can be explained by using the Social Exchange Theory. As it is known, the engagement of employees and their organization are the results of 2-way interaction between the employees and the organizations (Robbinson et al., 2004). Organizational culture has a concept of exchange, where the implementation of good values and management system can be assumed as an endorsement of the organization to its employees. Good organizational culture can bring psychologically safe feelings to the employees themselves. Research conducted by Kahn (1990) found that there is a positive correlation between employees' safe feeling and employees' engagement. Siddhanta et al. (2010) stated that organizational culture plays a role in the existence of employees' engagement as organizational culture is the bridge between the organizations and their members.

Denison (2010) in his study of a sample of 9,464 individuals in 90 organizations in North America found out that employee engagement is a result of a healthy organizational culture. According to him, if organizations look at employee engagement alone, without considering the culture that employees work in, they potentially leave themselves blind to the strategic strengths and weaknesses in the organization that impact employee performance and ultimately organizational performance.



**Figure 1 Research Framework**

## **2.1 Study Hypothesis**

Based on the theory and previous researches, the research model of employees' engagement is proposed as the Figure 1. The hypotheses are as follows:

- H1: Leadership significantly influences the human resource management practices.
- H2: Leadership significantly influences the organizational culture.
- H3: Human resource management practices significantly influence the organizational culture.
- H4: Organizational cultures significantly influence employees' engagement.
- H5: Leadership significantly influences employees' engagement.
- H6: Human resource management practices significantly influence employees' engagement.

### **3. Methods**

#### **3.1 Operational Research Variables**

This research is an explanatory research as it aims to explain the influence of variables through hypothesis testing. This research is related to human behavior and this study is an explanatory research from the perception of the respondents (explanatory perceptual research).

The variables used in this study consist of four variables: leadership (X1) and human resource management practices (X2) as an exogenous variable, and employees' engagement (Y2) as endogenous variables, and organizational culture variables (Y1) serve as an intervening variable.

Variable of leadership (X2) is the respondents perception of their immediate leaders in their work. This variable is measured using a Likert scale on the five dimensions of Posner's leadership model, consisting of (1) Model the way, (2) Inspire a shared vision, (3) Challenge the process, (4) Enable others to act, and (5) Encourage the heart.

Variables of human resource management practices (X2) are the employees' perception of the implementation of the operational functions of human resource management. This variable is measured using a Likert scale on the following dimensions (Rathnaweera, 2010), consisting of (1) Employee Recruitment and Selection, (2) Employee Training and Development, (3) Performance Evaluation, (4) Promotion, and (5) compensation for Employees.

Organizational culture variables (Y1) are the employee perceptions of the practices and traditions done in the company. This variable was measured using a Likert scale (1 to 5 points) using the four dimensions of Denison in Fey and Denison (2008), namely (1) engagement, (2) consistency, (3) Adaptability, and (4) Mission.

Employees' engagement variables (Y2) are the perception of the employees about the feelings of commitment, pride and willingness to strive hard in doing his job. This variable was measured using a Likert scale (1 to 5 points) by using three dimensions of Schaufeli et al. (2009) namely: (1) Vigor, (2) Dedication, and (3) Absorption.

#### **3.2 Samples and Data Analysis**

The populations of this study are employees in Jabodetabek who are still studying in the University of Mercu Buana, the sampling is convenience sampling as many as 111 people. Primary data were collected with questionnaires submitted directly to the respondents by enumerator who will explain how to fill out the questionnaires. The data were processed using structural equation (SEM) using AMOS program package (Analysis of Moment Structure) version 16.

### **4. Results and Discussion**

#### **4.1 Descriptive Statistics**

Statistics respondents' responses to the questions in the research questionnaires showed scores of indicator of the research variables, presented in Table 1. It shows that the leadership dimensions have the lowest scores on the challenging dimensions of 3.5813 and the highest scores on the inspired dimensions by 3.7863. It means that the average of respondents' answers between neutral and agree. Of indicators of human resource management practices, only the process of recruitment and employee selection and training and employees' development scored above 4, which means that respondents agree. The transparent assessment, fair promotion and

compensation system shows scores below 4, meaning that most of the respondents answered neutral.

**Table 1 Mean Score, Loading Factor and Construct Reliability**

Variable/Indicator	Mean Score	Loading Factor	Construct Reliability
<b>Leadership</b>			
1. Model the way	3.6640	0.644	
2. Inspire a shared vision	3.7863	0.822	
3. Challenge the process	3.5813	0.783	
4. Enable others to act	3.7280	0.724	
5. Encourage the heart	3.6549	0.831	0.904
<b>Human Resource Management Practices</b>			
1. Recruitment and selection	4.0105	0.637	
2. Training and development	3.7869	0.568	
3. Performance evaluation	3.7866	0.952	
4. Promotion	3.4365	0.578	
5. Compensation	3.3267	0.670	0.882
<b>Organizational Culture</b>			
1. Involvement	3.7536	0.679	
2. Consistency	3.6168	0.835	
3. Adaptability	3.7360	0.763	
4. Mission	3.7964	0.727	0.914
<b>Employee Engagement</b>			
1. Vigor	3.8166	0.580	
2. Dedication	3.8429	0.967	
3. Absorbtion	3.3911	0.576	0.934

Based on the statistics of respondents' responses, that the indicators of organizational culture has a value below 4, it means that most respondents answered neutral and do not agree to these questions about the organization's culture. These values indicate that the perception of the respondents still can be improved to obtain the expected results. Similarly engagement indicators have an average value of less than 4; it means that the majority of respondents have not agreed on the questions in the questionnaire. Score of 4 means that the participants agree; it means that they have engaged to the company where they work; it means that most employees do not have engagement so that it can still be improved.

#### **4.2 Confirmatory Factor Analysis**

The results of confirmatory analysis for the measurement of the research variables are based on the value of P values; all indicate the significance value below 0.05. The results of the parameter estimates (standardized estimates) as in Table 1 shows that the value of the loading factor of all indicator variables of the research is greater than 0.5; it means that it is valid for measuring the research variables. The reliability of measuring instruments based on the value of variant extract, all have a value greater than 0.5, while values of construct reliability above 0.7. This means that the research measuring instruments qualify reliability.

#### **4.3 Normality Assumptions**

The further testing data is to analyze the level of normality of the data used in this research. Assumption of normality of the data must be met before they can be further processed for SEM modeling. The test results are some of the CR values of skewness of greater than 2, but the CR of its kurtosis is less than 2, so the presence of skewness is still acceptable. There is only one variable that has a CR value of skewness and kurtosis CR greater

than 2, but it still can be retained in the model due to the strong supporting theory and it is based on the valid and reliable confirmatory factor.

Testing for the presence of outliers is done based on the Mahalanobis index value. Testing for the presence of outliers or not is based on the Mahalanobis index using criteria on the value of  $p_1$  (Singgih, 2002, p. 87).  $P_1$  values smaller than 0.001 (indicating that the data are outliers). Based on these criteria there are no outliers so that the data meet the assumptions of normality or acceptable.

#### **4.4 Goodness of Fit Model Test**

Value CMIN/DF is 1.610 (less than 2), indicating that the model research is good. RMSEA value of 0.079 indicates that the model is good and it can be used for analysis. The value of CFI in this research is 0.935. Various considerations above indicate that the model is acceptable for further analysis.

#### **4.5 Structural Equation Analysis**

The result summary of the testing hypotheses about the effects of human resource management practices and organizational culture on employees' engagement is presented in Table 3. Criteria used for testing are based on the criterion P value, cut-off value of CR with a significance of 0.05.

**Table 2 Hypotheses Test Result**

			Std.Estimate	Estimate	C.R.	P
HRM Practices	<---	Leadership	0.495	0.480	3.760	***
Organizational Culture	<---	Leadership	0.503	0.456	4.082	***
Organizational Culture	<---	HRM Practices	0.356	0.333	3.051	0.002
Engagement	<---	Organizational Culture	0.332	0.243	2.386	0.017
Engagement	<---	Leadership	0.174	0.116	1.467	0.142
Engagement	<---	HRM Practices	0.276	0.189	2.381	0.017

#### **4.6 Hypothesis 1**

The testing results of the effect of leadership on human resource management practices indicate the P value of 0.000; it means that the hypothesis is accepted. This result supported Yukl (2006, p. 4), which defines leadership as influence processes, which affect the interpretation of events for followers, the choice of targets for the group or organization, the organization strategies to achieve these objectives. As strategic function of human resource management practices, the human resource management practices could be used by the leaders to achieve the goals or targets. To promote employees' performance, for example, the leader can implement the performance based compensation.

#### **4.7 Hypothesis 2**

The testing result of hypothesis the influence of leadership on organizational culture indicates a P value of 0.000; it means that the hypothesis is accepted. The results of this study prove that an effective organizational culture, which consists of the dimensions of involvement, consistency, adaptability and mission, can be created by the leadership which has the dimensions of model the way, inspiring, challenge the process, and encouraging subordinates. The most powerful dimension is encouraging, followed by inspiring dimensions.

The results of this research support previous thinking and researches. As stated by Daft (2002, p. 300) that leadership is a relationship builder and as a values builder within the organization. A leader has the role motivating and empowering others through communication skill and power. As the values builder within the organization, leaders create a vision and define strategic direction and forming the culture.

#### **4.8 Hypothesis 3**

The results of testing the hypothesis that human resource management practices significantly influence the organizational culture is accepted, since the P value of 0.000. The results of this research support the previous research conducted by Singh (2010) that the practice of human resource management consisting of the process of recruitment, training and employee development, performance appraisal, compensation have significant effects on all dimensions of organizational culture. This research also supports the research by Kumari (2012) which proved that human resource management is the main factor for shaping organizational culture, and has significant effect on organizational effectiveness.

#### **4.9 Hypothesis 4**

The testing result of the hypothesis that organizational culture significantly influences employees' engagement is proven, since the P value of 0.05. It indicates that organizational culture significantly influence employees' engagement. Siddhanta et al. (2010) stated that organizational culture plays a role in the creation of employees' engagement as organizational culture is the bridge between the organization and its members. This research also supports the results of previous studies by Suharti and Suliyanto (2012) which proved that leadership and organizational culture affect the employees' engagement. Organizational cultures are the values, beliefs, habits and assumptions that exist in the organization. It can also be regarded as a pattern of behavior, rules and traditions or customs in the organization. Organizational culture which has a positive influence on employees' engagement is a healthy organizational culture, as expressed by Denison (Denison Consulting, 2010) including four dimensions namely engagement, empowerment, adaptability and mission.

#### **4.10 Hypothesis 5**

The testing results of the hypothesis that the leadership significantly affect the employees' engagement shows the P value of 0.143, greater than 0.05. It is indicated that the direct influence of leadership on employees' engagement is not significant although it showed a positive effect. This result support the previous research by Alimangkutana (2014) and Supriyono (2014) conducted in Indonesian context. Both of them found that leadership affected employees' performance through organizational culture and employees' satisfaction. It also supported what Yukl (2006) stated, that leadership affected the followers directly and indirectly.

#### **4.11 Hypothesis 6**

The hypothesis is that human resource management practices significantly influence employees' engagement. Table 2 shows the value of the P value of 0.017. It means that the hypothesis is supported by the results of the research, that the practices of human resource management significantly influence employees' engagement. The results of this study support the results of previous studies conducted by Asad et al. (2011) and by Sardar et al. (2011). Both studies were conducted to determine the impact of human resources practices on employees' engagement. Both studies showed similar results, namely that there is a significant relationship between human resource practices and the employees' engagement.

### **5. Conclusion**

The perception of employees on leadership and human resource management practices in average is pretty good, so is in the organizational culture. Most of the employees have a pretty good engagement; it means that good leadership, human resource management practices, organizational culture, and employees' engagement can still be improved.

Leadership directly affects positively and significantly to human resource management practices and organizational culture. Human resource management practices have a significant and positive effect on the organizational culture. Organizational culture and human resource management practices have a direct influence positively and significantly on employees' engagement. Leadership does not have a significantly direct effect on employees' engagement.

Thus leadership makes an important effect on employees' engagement, since it affects human resource management practices, and together with human resource management practices have a significant positive effect on employees' engagement through organizational culture, although the leadership has no significant direct effect on employees' engagement.

## **6. Recommendation**

Considering that employees' engagement can be enhanced through leadership and good human resource management practices, by creating an effective organizational culture, it is suggested that the managers implement leadership dimensions proposed by Poshner called the leadership challenge. The leaders should implement such behaviors, model the way, inspiring a shared vision, challenge the process, enable others to act, and especially encourage the heart.

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