Employee Engagement as a Performance Driver of State-Owned Enterprises (SOE’s) in Indonesia

Rusdin Tahir, Agus Nizar Vidiansyah, Liga Suryadana, Cecep Ucu Rakhsman

Abstract: One of the key elements in the operational performance of State-Owned Enterprises (SOEs) is the improvement of quality planning, human resources (HRs), and financial management that can serve as a monitoring tool as well as a performance driver. Herein, the research examined the extent to which employee engagement, comprised of cognitive engagement, emotional engagement, and behavioral engagement could drive employee performance in Indonesian SOEs. The research was conducted with a survey method to 429 middle managers in 141 SOEs in Indonesia. Data were collected through an indirect communication technique using a questionnaire and direct communication techniques using limited interviews and documentary studies. Data were analyzed descriptively through weighted averages and inferentially through Structural Equation Modelling (SEM). The results of the study show that: Employee engagement in Indonesian SOEs was in the “good” category, but not optimal. The performance of the SOEs managers was measured based on the total performance scorecard (TPS). Employee engagement (cognitive, emotional, and behavioral) partially and simultaneously contributed positively and significantly to the improvement of the performance of Indonesian SOEs based on the total performance scorecard.

Keywords: Company performance; employee engagement; cognitive engagement; emotional engagement; behavior engagement.

I. INTRODUCTION

Human Resource managers often experience difficulties related to conflicting interests, such as those of the agents and principals, and the high demands for talented employees. Companies are increasingly more responsive to the needs of employees, as they do not want to lose the best people. Nevertheless, the issue of hijacking employees is still often heard. Some of the causes for this is that companies that want to excel generally choose to “buy” the best people from outside the organization, even though they have to pay expensive fees. Ideally, this action poses the risk of creating a less conducive atmosphere for the career development of employees who have served for decades at the companies.

The presence of a new generation in a work environment with completely different characteristics from the previous generation already working there, or commonly called Gen Y, necessitates changes in the paradigm of human capital practices. Human capital practitioners must be prepared to accept a new generation with work behaviors and styles different from those of the previous generation. In reality, generally, Human capital practitioners are not able to respond to this situation well, creating the inconductive atmosphere for the company. Ideally, the employees of the previous generation are directed to become mentors for employees of Generation Y.[1][2]

The condition is perpetuated by the fact that the Indonesian Labor Law No. 13/2003 is until recently still being amended, and although it is included in the national legislation program, it has never been discussed by the legislative council. Consequently, investors have difficulty to enter Indonesia, while employers prefer to outsource workers rather than recruiting permanent employees. Many employees have adequate educational qualifications but are assigned positions that are not in line with their qualifications. Furthermore, training is still prioritized for senior employees. The lack of balance between quality and quantity is caused by overstaffing and poor recruitment patterns, the low effectiveness of the career path planning system, and inadequate reward and punishment system.[3]

II. LITERATUR REVIEW

Research conducted to 475 executives from electricity companies in the free trade area of Malaysia revealed that career satisfaction, career achievement, and career balance significantly affected the quality of work-life [4][5][6][7][8][9]. This finding is reinforced by the results of the study of [10][11][12][13] which shows a significant relationship between employee engagement and decision making and other aspects in the HRM practice under study.

The results of the study by [14] indicate that (1) employee engagement to leading companies had an influence on customer satisfaction, which ultimately led to the organization’ profitability or business, and (2) there was a strong relationship between employee engagement and company performance and final products. Although it was found that different organizations defined engagement differently, there were some similarities in practices.

The characteristics of employee engagement are also found in the quality of work-life [15][16][17]. Another study shows that organizational citizenship behaviour had an effect on employee engagement, which is supported by [18] who concluded that to improve organizational citizenship behaviour between employees and organizations, especially government-owned companies in Nigeria, the management needs to set workplace policies.
that will guarantee increased organizational support and fair treatment of all people from the three aspects of organizational citizenship behaviour, namely helping behaviour, civic virtue, and sportsmanship, which will lead to improved performance of government-owned companies in Nigeria.

The conclusion is in line with the drivers of employee engagement, namely: (1) Organizations: organizational factors that can drive employee engagement are organizational culture, vision and values adopted, and organization brand. Justice and trust as organizational values also have a positive impact on employee engagement, creating a perception for employees that they have the support from the organization; (2) Management and Leadership: engagement is built through a process, takes a long time, and requires a strong commitment from the leader. For this reason, the consistency of leaders is needed in mentoring employees in creating employee engagement. Organizational leaders are expected to have several skills, such as communication techniques, techniques to provide feedback, and performance appraisal techniques [19]; [20]; [21]; and (3) Work life: the comfort of work environment conditions becomes a driver for employee engagement.[22][23]

Thus, efforts to provide opportunities for employees to engage with the company are inseparable from the role of the organization, leadership, and work environment conditions. In this regard, the three factors are the drivers of employee engagement.

The results of the research by [24] show six factors that influence employee engagement with the company, namely: (1) communication within the company, (2) working conditions, (3) HR evaluation and development, (4) company provisions, (5) rewards and remuneration; and (6) HR services from the company. Meanwhile, surveys in various countries show differences in factors that affect employee engagement. Research by [25] on the professional service company Hay Group found that the engagement between offices (companies) to employees could drive employees to be 43% more productive. The 52% drastic decrease in the company's operating income was due to the low level of the company’s engagement with its employees.

The overall characteristics of employee engagement are related to the efforts made by business organizations (companies) in general to improve employee and organizational performance [26][11][27]. TPS-based company performance is a continuous discovery process involving improvement, development, and learning, which focuses on customers, personal and organizational goals, passion and enjoyment, ethics and behavior, process orientation, improvement, development, and learning [28][29]; [30].

III. METHODOLOGIES

The research employed the Explanatory Survey Method. Despite the explanatory nature, it is relational research focuses on the relationships between variables. This research attempted to find out the level of general applicability or generalization of the results limited to the phenomena that occur in the research site. Employee engagement was measured through indicators that are characteristic of the variable, operationalized into 10 statements, using an instrument in the form of a questionnaire. Company Performance was measured using the Total Performance Scorecard (TPS) approach, measured through indicators that are characteristic of this variable, operationalized into 54 statements, also using an instrument in the form of a questionnaire. The results of this questionnaire were ordinal data, with scores ranging from 1 to 5 for each item.

The population unit in this study was 141 SOEs, while the observation unit was 36,619 middle managers who worked for SOEs. Using a simple random sampling technique, a sample size of 429 Middle Managers in all SOEs in Indonesia was established. Based on the purpose of this study, the middle managers were considered representative for all Indonesian SOEs because they are decision-makers at level 1 and/or level 2 accountable to the board of directors (top manager) and supervise lower-level managers. The middle managers in this research served as leaders to provide perceptions about employee engagement and performance based on total performance scorecards (TPS) for SOEs in Indonesia.

Data were collected through an indirect communication technique using a questionnaire and direct communication techniques using limited interviews and documentary studies. The data were then analyzed descriptively through weighted averages and inferentially through Structural Equation Modelling (SEM), on the basis that this analysis is an integrated approach combining Confirmatory Factor Analysis, Structural Model, and Path Analysis.

IV. RESULT AND DISCUSSION

Table 1. Middle Managers’ Perception Of Employee Engagement

<table>
<thead>
<tr>
<th>MANIFEST VARIABLE</th>
<th>ACTUAL SCORE</th>
<th>IDEAL SCORE (%)</th>
<th>NOTE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cognitive engagement</td>
<td>4.035</td>
<td>6.435</td>
<td>62.70</td>
</tr>
<tr>
<td>Emotional engagement</td>
<td>6.365</td>
<td>10.725</td>
<td>59.35</td>
</tr>
<tr>
<td>Behavioural engagement</td>
<td>4.048</td>
<td>6.435</td>
<td>62.91</td>
</tr>
<tr>
<td>TOTAL</td>
<td>15.693</td>
<td>23.595</td>
<td>61.23</td>
</tr>
</tbody>
</table>

Source: Primary Data processed by the researchers, Attitude scale: Very Low, Low, Moderate, High, Very High

![Figure 1. Model Of Employee Engagement](image-url)
In other words, employee engagement to SOEs was perceived by the middle managers to be not optimal. This is considered reasonable because there were still a number of indicators that were included in the “moderate” category, such as cognitive engagement, especially for indicators of employee knowledge, and understanding of their leaders and emotional engagement, especially for indicators of employee commitment to the work environment. In fact, some indicators were included in the “low” category, such as the positive attitude of middle managers towards the organization and their leaders (emotional engagement), and the indicators of attraction to the work they are assigned with (behavioral engagement).

In order to test the suitability of the company performance variable based on the total performance scorecard on SOEs in Indonesia formed from the dimensions, the reliability of all indicators can be calculated using the construct reliability and variance extracted approach. The test results for each dimension of the latent variables of company performance based on the total performance scorecard, presented in Table 3, which shows that the 6 (six) dimensions that build company performance based on total performance scorecard on SOEs in Indonesia, shows construct reliability = .734 with a value of variance extracted = .636. This means that the dimension that builds company performance based on the total performance scorecard in SOEs in Indonesia has a poverty value of 73.4% with 63.6% variance, a chance of being wrong 0%, with a 95% confidence level (p = .000; α=.05).

Thus the company's performance based on the total performance scorecard on SOEs in Indonesia influences all observed dimensions and has been tested for meaningful suitability.

Company Performance Variable Based on Total Performance Scorecard (TPS) in this study consists of 6 dimensions. A description of the statistical value of the responses of Middle Managers about what is perceived to be the Performance of the Company Based on the Total Performance Scorecard (TPS) for SOEs in Indonesia, can be seen in Table 4.

### Table 2. Testing Result Of Engagement Measurement Model

<table>
<thead>
<tr>
<th>Dimensions</th>
<th>Standardized Loading</th>
<th>Nilai t</th>
<th>Error Variance</th>
<th>Square Multiple Correlation</th>
<th>p-Value</th>
<th>NOTE</th>
</tr>
</thead>
<tbody>
<tr>
<td>EE, EE</td>
<td>617</td>
<td>19.948</td>
<td>0.619</td>
<td>0.381</td>
<td>.000</td>
<td>Sig.</td>
</tr>
<tr>
<td>EE, EE</td>
<td>577</td>
<td>23.117</td>
<td>0.650</td>
<td>0.333</td>
<td>.000</td>
<td>Sig.</td>
</tr>
<tr>
<td>EE, EE</td>
<td>768</td>
<td>18.567</td>
<td>0.481</td>
<td>0.590</td>
<td>.000</td>
<td>Sig.</td>
</tr>
</tbody>
</table>

Construct Reliability = .839  
Variance Extracted = .761  
α=.05  
.000  
Sig.

Source: Primary data, processed by the researchers

### Table 3. Testing Result of The Company Performance Measurement Model Based Total Performance Scorecard

<table>
<thead>
<tr>
<th>Dimension</th>
<th>Standardized Loading</th>
<th>Nilai t</th>
<th>Error Variance</th>
<th>Square Multiple Correlation</th>
<th>p-Value</th>
<th>NOTE</th>
</tr>
</thead>
<tbody>
<tr>
<td>TPS, TPS</td>
<td>.855</td>
<td>62.967</td>
<td>.269</td>
<td>.731</td>
<td>.000</td>
<td>Sig.</td>
</tr>
<tr>
<td>TPS, TPS</td>
<td>.605</td>
<td>16.269</td>
<td>.634</td>
<td>.366</td>
<td>.000</td>
<td>Sig.</td>
</tr>
<tr>
<td>TPS, TPS</td>
<td>.647</td>
<td>15.909</td>
<td>.545</td>
<td>.455</td>
<td>.000</td>
<td>Sig.</td>
</tr>
<tr>
<td>TPS, TPS</td>
<td>.885</td>
<td>15.909</td>
<td>.217</td>
<td>.783</td>
<td>.000</td>
<td>Sig.</td>
</tr>
<tr>
<td>TPS, TPS</td>
<td>.850</td>
<td>11.033</td>
<td>.273</td>
<td>.722</td>
<td>.000</td>
<td>Sig.</td>
</tr>
<tr>
<td>TPS, TPS</td>
<td>.589</td>
<td>12.008</td>
<td>.653</td>
<td>.347</td>
<td>.000</td>
<td>Sig.</td>
</tr>
</tbody>
</table>

Construct Reliability = .724  
Variance Extracted = .636  
α=.05  
.000  
Sig.

Source: Primary data, processed by the author

### Table 4. Condition of Company Performance Based Total Performance on Total Performance Scorecard (TPS)

<table>
<thead>
<tr>
<th>No. Dimension</th>
<th>Actual Score</th>
<th>Ideal Score</th>
<th>WMS (%)</th>
<th>NOTE</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Customer Focus (TPS5)</td>
<td>14.146</td>
<td>19.305</td>
<td>73.28</td>
<td>Good</td>
</tr>
<tr>
<td>2. Personal and organizational goals (TPS2)</td>
<td>8.746</td>
<td>12.870</td>
<td>67.96</td>
<td>Good</td>
</tr>
<tr>
<td>3. Passion and Enjoyment (TPS3)</td>
<td>11.957</td>
<td>19.305</td>
<td>61.94</td>
<td>Good</td>
</tr>
<tr>
<td>4. Ethics and Behavior (TPS4)</td>
<td>17.148</td>
<td>23.595</td>
<td>72.68</td>
<td>Good</td>
</tr>
<tr>
<td>5. Process Orientation (TPS)</td>
<td>1.528</td>
<td>2.145</td>
<td>71.24</td>
<td>Good</td>
</tr>
<tr>
<td>6. Focus on Continuous Improvement, Development &amp; Learning (TPS)</td>
<td>3.068</td>
<td>4.290</td>
<td>71.52</td>
<td>Good</td>
</tr>
</tbody>
</table>

TOTAL 56.593 81.510 69.77 Good

Source: Primary data, processed by the author

In another word, employee engagement to SOEs was perceived by the middle managers to be not optimal. This is considered reasonable because there were still a number of indicators that were included in the “moderate” category, such as cognitive engagement, especially for indicators of employee knowledge, and understanding of their leaders and emotional engagement, especially for indicators of employee commitment to the work environment. In fact, some indicators were included in the “low” category, such as the positive attitude of middle managers towards the organization and their leaders (emotional engagement), and the indicators of attraction to the work they are assigned with (behavioral engagement).

Company Performance Based on Total Performance Scorecard as a whole shows an average figure weighted 69.77% of the ideal score. This shows that the performance of TPS-based companies in SOEs in Indonesia has been implemented well. Furthermore, from the table above also shows the condition of company performance based on the total performance scorecard on SOEs in Indonesia, found in the customer focus dimension shows the highest percentage, reaching 73.28% of the ideal score, while the lowest percentage is found in passion and enjoyment as one of the dimensions of the company’s performance variables considered to have run well based on the dimensions of focus on the customer, but for the condition of desire and enjoyment as one of the dimensions of the company’s performance variables based on the total performance scorecard on SOEs in Indonesia, still need to be increased again.
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Figure 2. Model of Total Performance scorecard

Based on the phenomena in the field and using variables extracted from the problems investigated, a model is developed, which is also drawn upon partial theories between models.

Goodness-of-Fit Statistics Test

The results of overall model testing as indicated by the goodness-of-fit statistics is summarized in Table 5.

The results of model testing yielded a big value of $\chi^2$ (p = .000; $\alpha = 0.05$). However, because the CMIN to DF ratio was still less than 2, it can be stated that the structural model was accepted (fitted the data). Another measure of Goodness-of-Fit-Statistics also shows that the model was still applicable, where the RMSEA for the structural model was 0.064, smaller than the critical value of 0.8, and the Normed Fit Index (NFI) model was 0.97, greater than the critical value (0.90). The GFI value of the model falls in the “marginal” category.

Table 5. Evaluation Of Goodness-Of-Fit Indices

<table>
<thead>
<tr>
<th>Criteria</th>
<th>Result</th>
<th>Critical Value</th>
<th>Model Evaluation</th>
</tr>
</thead>
<tbody>
<tr>
<td>$\chi^2$ (CMIN)</td>
<td>3998.169</td>
<td>Expected to be small</td>
<td>Marginal</td>
</tr>
<tr>
<td>Significance Probability</td>
<td>0.0000</td>
<td>$\geq 0.05$</td>
<td>Marginal</td>
</tr>
<tr>
<td>CMIN/DF</td>
<td>1.124</td>
<td>$\leq 2.0$</td>
<td>Good</td>
</tr>
<tr>
<td>RMSEA</td>
<td>0.0640</td>
<td>$\leq 0.08$</td>
<td>Good</td>
</tr>
<tr>
<td>Goodness of Fit Index (GFI)</td>
<td>0.89</td>
<td>$\geq 0.90$</td>
<td>Marginal</td>
</tr>
<tr>
<td>Normed Fit Index (NFI)</td>
<td>0.97</td>
<td>$\geq 0.90$</td>
<td>Good</td>
</tr>
</tbody>
</table>

Source: Primary data

Based on the goodness-of-fit test then, it can be concluded that the structural model fitted the data and met the criteria of Goodness-of-Fit.

Figure 3. Model of Employee Engagement As a Performance Driver based Total Performance scorecard

The test results of the effect of the exogenous variable “Employee Engagement” on the endogenous variable of “Total Performance Scorecard”, show the following: (1) The total performance scorecard (TPS) of the SOEs was proved to be significantly and simultaneously influenced by employee engagement quality with a determination coefficient of 0.622 or 62.2% ($p = .000; \alpha = 0.05$); (2) The total performance scorecard of the Indonesian SOEs was proven to be partially and significantly influenced by cognitive engagement with a determination coefficient of 0.78 or 7.8% ($p = .000; \alpha = 0.05$); (3) The total performance scorecard of the Indonesian SOEs was proven to be partially and significantly influenced by emotional engagement with a determination coefficient of 0.210 or 21% ($p = .000; \alpha = 0.05$); and (4) The total performance scorecard of Indonesian SOEs was proven to be partially and significantly influenced by behavioural engagement with a determination coefficient of 0.334 or 33.4% ($p = .000; \alpha = 0.05$).

Thus, the hypothesis stating that employee engagement contributes to improved company performance based on the total performance scorecards of Indonesian SOEs was accepted. In other words, the SOEs’ performance based on total performance scorecard was also determined by employee engagement. The statistical equation model is as follow:

$$TPS = .279kk_1 + .459kk_2 + .578kk_3 + .378$$

The results of this study are in line with those of who Gallo (2014) concluded that the quality of work-life will improve: (1) employees’ commitment to work and organization, (2) employees’ pride of their work and organization, (3) employees’ willingness to support increased benefits and profits for their work and organization, and (4) employees’ satisfaction with work and organization, both emotionally and intellectually. These four things are characteristics of employee engagement and are performance drivers.

Nevertheless, the results of this study indicate that the middle managers did not perceive employee engagement to be optimal, as indicated by the following scores: Knowledge and understanding of employees towards their leaders only reached 51.89% of the ideal score; employee commitment to their work environment (50.40% of the ideal score), high negative attitude (60.37%), and low positive attitude (38.83%) of their organization and leaders, and low interest (38.04%) in the work done. There are still other factors (44.79%) that have an effect on the total performance scorecard of Indonesian SOEs besides employee engagement, including the absence of uniformity (standard) in the Remuneration Policy. In the annual report (2011) analysis, even SOEs that were in the same group were found to have no similar position analysis method and remuneration system. The provision of remuneration (compensation), both financial and non-financial, is not uniform, prompting employees to move to other companies that can offer them more.

In other words, employee engagement felt by middle managers both as managers and as employees in SOEs in Indonesia showed good conditions, as well as company performance based on Total Performance Scorecard for SOEs in Indonesia, which showed good conditions. This can be seen from the attachment of
codices, emotional attachment, and behavioral engagement of middle managers in SOEs in Indonesia which are triggering company performance either partially or simultaneously showing positive influence, although not yet optimal but significant enough.

In particular, the results of this study are also in line with Robbins and Judge’s theory of organizational behaviour [3] which states that employee engagement actually grows because it is created and developed by individuals working in an organization and accepted as maintained values and handed down to each new member, which will affect their performance and the organization in which they work.

V. CONCLUSION

In Employee engagement in Indonesian SOEs was shown to be in “good” category, but not optimal. The less-than-optimal engagement was perceived by the middle managers, indicated by the following things: Low knowledge and understanding of employees of their leaders, low employee commitment to their work environment; negative attitudes towards the organization and their leaders, and low managers’ interest in the work they did.

The performance of Indonesian SOEs based on total performance scorecard was also good, but not optimal. This finding is understandable considering there were several indicators included in the moderate category, such as (a) Organizations are concerned with corporate ethics and social responsibility, and (b) All employees are open to change improvement and renewal. Some other indicators were included in the low category, such as (a) Prioritising interventions in HR (especially training), (b) empowering employees, (c) allowing employees to make mistakes, because employees always learn from mistakes, (d) improving employees and their jobs, (e) helping other employees to improve themselves and the organization, and (f) integrating customer needs into employees’ daily activities.

Employee engagement significantly contributes to improving the performance of SOEs in Indonesia. In other words, employee engagement is a performance driver, which can be traced by observing cognitive engagement, emotional engagement, and behavioral engagement. Managers as employees both partially and simultaneously contribute significantly to SOEs’ performance based on the total performance scorecard in Indonesia.

In terms of employee engagement, some indicators were still included in the low category, namely the positive attitude of middle managers to the organization and their leaders on the dimension of emotional engagement, and indicators of their engagement with their work on the dimension of behavioral engagement. Leaders or management team with strong engagement with the company who can apply effective leadership competencies are a very essential element in employee engagement.

Leadership capability, which is considered very important in employee engagement includes: building trust, building a sense of confidence in employees, communicating effectively, building a pleasant and knowledge-fulfilling work environment, being flexible in understanding individual needs, developing talents and training team members, driving high-quality performance, mastering the required knowledge, and monitoring issues related to employee engagement.

Identifying team members who are suitable for the work team will encourage employees to stay longer and make greater contributions to the company, especially if they have a good relationship and are facilitated with open dialogues with their immediate supervisors. The results of this study show that: the performance of SOEs based on the total performance scorecard was not optimal. Several indicators were still included in the moderate category, such as (1) Organizations’ concern with corporate ethics and social responsibility, and (2) All employees are open to change improvement, and renewals. Some other indicators were included in the low category, such as: (1) Prioritising interventions in HR (especially through training), (2) empowering employees, (3) allowing employees to make mistakes so that they can always learn from mistakes, (4) improving employees themselves and their jobs, (5) helping other employees to improve themselves & the organization, and (6) integrating customer needs into employees’ daily activities. Meanwhile, the highest percentage was on the dimension of focus on the customer.

The Ministry of SOEs should review and re-examine the Decree of the Minister of SOEs No. Kep-100/MBU/2002 dated 4 June 2002, concerning SOEs Soundness Rating that is still applicable to date and to include indicators that build SOE performance based on total performance scorecards not included in the decree. The government should also integrate the Good Public Governance principle (GPG) in their regulatory functions and implementing Good Corporate Governance (GCG) in their corporate functions. Finally, the government should make this an obligation for all SOEs.

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AUTHORS PROFILE


