

# Satisfaction with HR Practices and Employee Engagement: A Social Exchange Perspective

Changjian Yang

Doctor of Philosophy (PhD) Management, Limkokwing University of Creative Technology,  
Cyberjaya, Selangor, 63000, Malaysia

541784785@qq.com

## Abstract

The phenomenon of employee engagement is a major concern in the management circles across the globe. The concept is gaining increasing significance among managers and academic circles in India. In spite of its apparent importance, little research has been hitherto undertaken for identifying the antecedents of employee engagement. On the basis of existing literature, this conceptual paper attempts to define an 'engaged employee' as the one who is optimistic, highly focused on his work, enthusiastic and willing to go an extra mile to contribute to sustainable organizational success on a long term basis. The article proposes a relationship between employees' satisfaction with human resource practices and their level of engagement in the organization. This relationship is explained based on social exchange theory. The article also discusses the importance of employee engagement and its declining levels across the globe. Finally, the present study also notices a dearth of research literature in this domain of human resource management, in Indian context and beyond, and hence it exhorts researchers to carry out relevant studies in this field.

## Keywords

Employee Engagement, Satisfaction with HR Practices, Social Exchange Theory, Engaged Employee, Positive Organizational Behaviour.

## 1. Introduction

The theme of employee engagement has generated a great deal of attention among many human resource practitioners, business entrepreneurs and academic researchers across the globe. It has emerged as one of the most important topics in the sphere of human resource management (Baldev and Anupama, 2010). The notion of employee engagement has been heavily marketed by human resource consulting firms that offer advice on how it can be created and leveraged (Macey & Schneider, 2008). Employee engagement is a distinct and unique construct that consists of cognitive, emotional, and behavioural components that are associated with individual role performance (Saks, 2006). Engaged employees play a key role in achieving organizational success and competitive advantage. Researchers have made significant studies in exploring the potential relations between engagement and performance-related outcome variables that suggest enhancing engagement could create a compelling competitive advantage for organizations across the globe (Shuck et al., 2011). As commented by Smith (2009), engagement takes its rightful place at the core of organizational success, regardless of how the economy is doing. It is a fundamental area of concern for leaders and managers across the globe as it is a vital element affecting organizational effectiveness, innovation and competitiveness (Welch, 2011). With increasing relevance of employee engagement, researchers are now focusing on what exactly drives engagement and how it can be enhanced. Wright et al., (1994) viewed human resource practices as the means through

which employee perceptions, attitudes, and behaviours are shaped. Hence, the role of human resource practices in enhancing employee engagement cannot be overlooked. The purpose of this article is to provide a review of literature on the emerging concept of employee engagement. Areas of focus include, defining employee engagement, prevalence of employee engagement across the globe, its importance and how employees' satisfaction with human resource practices of the organization boost their engagement in the organization.

## 2. Literature Review

Employee engagement has emerged as a popular term; however, it has been defined in various ways. As noted by Welch (2011) engagement is variously termed as personal engagement, work engagement, job engagement or employee engagement. Kahn (1990) was one of the first to propound the concept of engagement. Kahn (1990) defined personal engagement as the harnessing of organization members' selves to their work roles; in engagement people employ and express themselves physically, cognitively and emotionally during role performances. Kahn (1990) also noted that personal disengagement is the uncoupling of selves from work roles; in disengagement, people withdraw and defend themselves physically, cognitively, or emotionally during role performances. Kahn (1990) described three psychological conditions necessary for engagement as psychological meaningfulness, psychological safety and psychological availability. Psychological meaningfulness is a sense of return on investment of self in role performances. Psychological safety is a sense of being able to show and employ self without fear of negative consequences to self-image, status or career. Psychological availability is the sense of possessing the physical, emotional and psychological resources necessary for investing self in role performances. Building on Kahn's (1990) qualitative study May et al., (2004) quantitatively explored the determinants and mediating effects of three psychological conditions, meaningfulness, safety and availability on employees' engagement in their work. The results showed that three psychological conditions exhibited significant positive relations with engagement. According to Rothbard (2001), engagement involves two elements, attention and absorption. Attention refers to "cognitive availability and the amount of time one spends thinking about a role" while absorption, "means being engrossed in a role and refers to the intensity of one's focus on a role." As stated by Hewitt Associates LLC (2004) employee engagement is the state in which individuals are emotionally and intellectually committed to the organization or group, as measured by three primary behaviours: Say –The employee consistently speaks positively about the organization to co-workers and refers potential employees and customers; Stay –The employee has an intense desire to be a member of the organization, despite opportunities to work elsewhere; and, Strive –The employee exerts extra effort and exhibits behaviours that contribute to business success". Robinson et al. (2004) consider employee engagement as a positive attitude held by the employee towards the organization and its values. In the view of Fleming and Asplund (2007) employee engagement is the ability to capture the heads, hearts, and souls of your employees to in still an intrinsic desire and passion for excellence". Employee engagement is also considered in the context of organizational behaviour. For example, Schaufeli et al. (2002) defined engagement as a positive, fulfilling, work-related state of mind that is characterized by vigour, dedication, and absorption. Vigour is characterized by high levels of energy and mental resilience while working, the willingness to invest effort in one's work, and persistence in the face of difficulties. Dedication is characterized by a sense of significance, enthusiasm, inspiration, pride, and challenge. Absorption is characterized by being fully concentrated and happily engrossed in one's work, whereby time passes quickly and one has difficulties with detaching oneself from work.

Maslach et al. (2001) noted that engagement is characterized by energy, involvement, and efficacy—the direct opposites of the three burnout dimensions, exhaustion, cynicism and ineffectiveness. Schaufeli and Bakker (2004) also assume engagement as the positive antipode of burnout. According to Macey and Schneider (2008), employee engagement is a desirable condition, has an organizational purpose, and connotes involvement, commitment, passion, enthusiasm, focused effort, and energy, so it has both attitudinal and behavioural components. Macey and Schneider (2008) conceptualized engagement at the tripartite level, a complex nomological network encompassing trait, state, and behavioural constructs, as well as the work and organizational conditions that might facilitate state and behavioural engagement. Albrecht (2010) views employee engagement as a positive and energized work-related motivational state and a genuine willingness to contribute to work role and organizational success. The most frequently cited definitions of employee engagement are the one by Kahn (1990) and Schaufeli and Bakker (2004). They share a common focus on the manifestations of engagement: cognitive –absorption; emotional –dedication; and physical –vigour (Welch, 2011). Therefore, an engaged employee is the one who is optimistic, highly focused on his work, enthusiastic and willing to go an extra mile to contribute to sustainable organizational success on a long-term basis. However little research has been undertaken to identify the antecedents of employee engagement and Chaudhary, Rangnekar & Barua (2011) mentioned that antecedents of employee engagement need to attract considerably more attention. Human resource policies and practices help in improving the relationship between employees and employers. Contemporary research on ‘best practice’, high-performance, high-commitment, high involvement, progressive, and human-capital-enhancing human resource management (HRM) implies that organizations offer resources and opportunities that improve the motivation, skills, attitudes and behaviours of their employees (Kuvaas, 2008). Association between human resource practices and employee and organizational outcomes have been well documented. High performance work systems, a set of management policies and practices thought to endow employees with greater levels of skills, information, motivation and discretion, tend to have lower rates of employee absenteeism and voluntary turnover along with high labour productivity and lower labour costs (Guthrie et al., 2009). A study conducted by Wright et al. (2003) among 50 autonomous business units showed that HR practices are significantly related to operational measures of performance, as well as operating expenses and pre-tax profits. Recently, Wollard and Shuck (2011) noted that there is an absence of studies specifically focused on the role of HRM practices as an antecedent of employee engagement, although it is highly suggested as an antecedent. Based on this premise the primary intention of the researcher is to propose employees’ satisfaction with HR practices as an antecedent of employee engagement.

**Importance of Employee Engagement:** Employee engagement has been linked with an array of positive outcomes at the individual and organizational levels. Review of the academic literature on engagement clearly points out that employee engagement is a lever for business success. Engaged employees deliver higher productivity, lower absenteeism, less turnover intention, superior service quality, more satisfied and loyal customers, high job satisfaction, more commitment, increased organizational citizenship behaviour and improved bottom-line business results. There are empirical evidences, which show positive association between employee engagement and performance. According to the Job Demands–Resources Model, work engagement has a positive impact on job performance and employees who are engaged and perform well are able to create their own resources, which then foster engagement again over time and create a positive gain spiral (Bakker & Demerouti, 2008). Job and organization engagement were significantly positively related to job satisfaction, organizational commitment, and organizational citizenship behaviour, and negatively related to intention to quit (Saks, 2006). Shuck et al. (2011) conducted a study among workers in the service,

manufacturing, professional and non-profit industries and the results revealed that employee engagement was significantly associated with discretionary effort and intention to turnover. Engaged employees perform better than their less engaged counterparts do because they are more immersed in their work and they celebrate more about their work, which helps them to produce innovative solutions. Employee engagement is also a major driver to innovative work behaviour (Slatten & Mehmetoglu, 2011). Besides organizational level outcomes employee engagement produces positive outcomes at the individual level also. Researches show that high levels of engagement are negatively related to burnout and positively associated with well-being of employees (Bakker et al 2008; Schaufeli and Bakker 2004). In short, employee engagement is the driver of success in any organization regardless of how the economy is doing (Sarkar, 2011; Smith, 2009) and hence this concept has become a buzzword in the management circles across the globe.

**Prevalence of Employee Engagement – A Global Scenario:** According to Blessing White's 2011 research report, out of the 10,914 workers surveyed, only 31% are engaged and in all regions except Southeast Asia, more employees indicate there is "no way" they will stay with their employer in 2010 than compared to 2008. According to the report 37% of Indian workforce are engaged, which is the highest levels of engagement worldwide. However, it is disappointing to find that only 30% of the younger employees are engaged in their work. In India HR or the training employees are least likely to engaged (27%) in contrast to other regions. The functions in India with highest number of engaged employees are with the most tangible priorities, sales (45%) and marketing (43%). The number of Indian employees determined to leave the organization in the next 12 months have increased from 5% (2008) to 10% (2010) which should be viewed with caution. 21% of the employees are ambivalent towards their long term commitment to the organization for which they work which should also be a matter of concern. Towers Perrin, an international business consulting company, in their 2007 -08 Global Workforce Study, based on a survey of 90,000 employees worldwide, showed that only 21% are engaged on the job (barely 1 in 5 employees, 8% are highly disengaged and the remaining 71%, the massive middle, fall into two categories: Enrolled (partially engaged) and disenchanted (partially disengaged). According to Watson Wyatt's Work Asia Survey Report for 2008-09, across Asia-Pacific, the universe of the survey, overall employee engagement is declining with a 4 per cent dip compared to the previous year and the employee engagement score, measured in terms of engagement, commitment and line of sight (clarity on the direction of business) has declined 3 per cent in India with regard to previous year (Business Today, 2009). This decline in the employee engagement level clearly highlights the need to undertake research in this area to find out mechanisms for enhancing employee engagement, particularly in the Indian context. The prime focus of the present article is to propose a relationship between employees' satisfaction with human resource practices of the organization and their level of engagement, which is an area less explored in the academic literature.

**Significance of Research in the Area:** Having highlighted the importance of employee engagement in organizations, it becomes imperative to advance research on employee engagement (Pati & Kumar, 2010). As stated by Gebauer (2011) organizations face 'engagement gap' because they are not getting the discretionary effort they need from their people to drive their performance and growth agendas, and it is adversely affecting both their top and bottom lines. Recently Lakshmi (2012) mentioned that that effective management of labour can take place only if emerging paradigms like employee engagement are properly understood by the top management and put into practice. The results of the Towers Perrin survey, 2005 showed a wide range between geographic regions in the percentage of their workforce who were highly engaged, with Mexico (40%) and Brazil (31%) being on the high end, the United States (21%) and Canada (17%) in the middle, and Europe (11%) and Asia

(7%) at the low end. The wide range in engagement level across countries suggests that examining cross-cultural differences in employee engagement is an opportunity for further research (Towers Perrin, 2006; Attridge, 2009). The Towers Perrin (2006) study compared groups of highly engaged workers with groups of less engaged employees. Key findings of these comparisons show that, 84% of highly engaged employees believe that they can positively affect the quality of their company's products, compared with 31% of the disengaged; 72% of highly engaged employees believe that they can positively affect customer service, versus 27% of the disengaged; 68% of highly engaged employees believe that they can positively affect costs in their job or unit, versus 19% of the disengaged; 59% of highly engaged employees planned to stay with their current employer, compared with just 24% of the disengaged; and employees who are the most committed to the organization perform 20% better on the job. This reveals that positive employee engagement transforms into acts that result in positive organizational outcomes. As stated by Joshi and Sodhi (2011) organizational policies, procedures, structures and systems decide the extent to which employees are satisfied, committed or engaged in an organization. In line with this, it is interesting to see how employees' satisfaction with human resource practices of the organization influence the level of engagement of employees. The present study attempts to address this interesting issue and the shortage of research on the antecedents of engagement by exploring the relationship between employees' satisfaction with human resource practices and employee engagement.

### 3. Theoretical Support

A stronger theoretical background for explaining employee engagement can be found in social exchange theory (SET). SET argues that obligations are generated through a series of interactions between parties who are in a state of reciprocal interdependence. A basic tenet of SET is that relationships evolve over time into trusting, loyal, and mutual commitments as long as the parties abide by certain "rules" of exchange (Cropanzano and Mitchell, 2005). Rules of exchange usually involve reciprocity or repayment rules such that the actions of one party lead to a response or actions by the other party. For example, when individuals receive economic and socio emotional resources from their organization, they feel obliged to respond in kind and repay the organization (Cropanzano and Mitchell, 2005). Therefore, the norm of reciprocity is important in explaining discretionary behaviour in organizations (Sander et al., 2010). This line of reasoning assumes that satisfaction with HR practices is viewed by employees as organization's commitment towards them, which is then reciprocated back to the organization by employees through positive behaviours (Bowen & Ostroff, 2004; Kinnie et al, 2005) like employee engagement. Thus, employees are more likely to exchange their engagement for resources and benefits provided by their organization (Saks, 2006).

Enhancing employee engagement—role of the degree of employees' satisfaction with HR practices: There are several models and theories in literature to provide a framework for how to enhance employee engagement (Bakker & Demerouti, 2008; Kahn, 1990; May et al., 2004). However, the academic literature has not properly addressed how the employees' level of satisfaction with human resource practices of the organization influence their level of engagement with work. Wright et al. (1994) viewed HR practices as the means through which employee perceptions, attitudes, and behaviors are shaped. Furthermore, investment in employee development is believed to facilitate greater obligation by employees towards the organization and therefore increase employees' motivation to work hard to support organizational effectiveness (Lee and Bruvold, 2003). Bailey (1993) contended that human resources are frequently "underutilized" because employees often perform below their maximum potential and that organizational efforts to elicit discretionary effort from

employees are likely to provide returns in excess of any relevant costs. Bailey argued that HRM practices can affect such discretionary effort through their influence over employee skills and motivation and through organizational structures that provide employees with the ability to control how their roles are performed. Thus, the theoretical literature clearly suggests that the behaviour of employees within firms has important implications for organizational performance and that human resource management practices can affect individual employee performance through their influence over employee skills and motivation and through structures that allow employees to improve how their jobs are performed (Huselid, 1995). Practices at the workplace environment level are designed to motivate workers in different ways and encourage them to put forth discretionary effort (Berg, 1999). These motivational process link job resources with organizational and individual outcomes via employee engagement (Schaufeli and Bakker, 2004). Based on this premise we consider human resource management practices as a predictor of employee engagement. Research on the relationship between human resource practices and employee engagement is currently scarce and hard to come by. The researcher could come across two studies that directly studied the impact of human resource practices on employee engagement. Both of the studies were conducted to find out the impact of human resource practices on employee engagement in the banking sector of Pakistan. The results of both studies were similar and they expressed a significant relationship between human resource practices (Coordination/ decision-making, Performance Reward and Employee Involvement) and employee engagement (Asad et al, 2011; Sardar et al, 2011).

Most of the previous researches in the area face a common problem. All the research looks at the association between the presence of various written HR policies and organizational performance, and it is typically assumed that these policies will be applied to all employees (Kinnie et al., 2005). Many of the early studies in the field effectively employed a very simple theoretical model at the heart of their analysis in which on the left-hand side is a series of HR practices or policies, and on the right-hand side are various measures of organizational and individual outcomes (Kinnie et al., 2005) and then use the number of stated policies covering sufficient numbers of employees as an indicator of the sophistication of the HR approach. Employee attitudes are influenced not so much by the way, these policies are intended to operate as but by the way, they are actually implemented by line managers and team leaders on a day-to-day basis (Kinnie et al., 2005). Results of a study conducted by Nishi et al. (2008) also support the notion that employees make attributions about the purpose(s) for the HR practices in their organization and that these HR attributions are differentially associated with attitudes. Employees' attribution that HR practices are motivated by the organization's concern for enhancing service quality and employee well-being was positively related to employee attitudes. On the other hand, employees' attribution that managements' HR practices are focusing on reducing costs and exploiting employees was negatively associated with attitudes. Most important, the results suggest that the same set of HR practices may not even exhibit similar effects within a single organization. The implication is that it is not just the HR practices themselves but also rather also employees' perceptions of those HR practices that are important for achieving desired organizational outcomes. HRM practices are viewed by employees as a "personalized" commitment to them by the organization which is then reciprocated back to the organization by employees through positive attitudes and behaviour' (Hannah and Iverson, 2004). All this reinforces the need for research to focus on employee perceptions of HR practices as experienced by them (Bowen and Osfroff, 2004) and suggests that employee reciprocation will be related to the utility of particular HR practices to them. There is no reason to suppose, in either theory or practice, that employees have the same utility needs (Kinnie et al., 2005). Employees' satisfaction can be seen as an important predictor of discretionary behaviours like innovative behaviour, as theory suggests that

whether employees give their efforts wholeheartedly to the organization and produce up to their potential depends to a large part on the way they feel about their job and work environment (Scott et al., 1994). In concert with these literatures, this article proposes a relationship between the degree of employees' satisfaction with human resource practices and their level of employee engagement.

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

From the literature, it is evident that employees' satisfaction with human resource practices and employee engagement has a bearing on organizational success and in achieving competitive advantage. Most of the research involving human resource practices and employee outcomes looks at the presence of various written HR practices and policies. However, little consideration has been given to the employees' level of satisfaction with these practices. The main contribution of this study is that it synthesizes the research examining the impact of human resource practices and employee outcomes. In line with this, the present study proposes a conceptual linkage between employees' satisfaction with human resource practices and employee engagement based on social exchange theory. This study addresses the concerns about the lack of academic literature on the antecedents of employee engagement by suggesting employees' satisfaction with human resource practices as an antecedent. Therefore, the firms need to construct the human resource practices of the organization based on the need of their employees to enhance employee engagement and thus bridge the gap between the appropriate HR practices to what is actually practiced in the organizations.

#### **5. Conclusion and Recommendations**

The existing literature on employee engagement reveals that it has been conceived in different ways. There is no consensus in its definition and research has shown that, it is a multi-faceted construct (Kahn, 1990). Based on review this study suggests that an engaged employee is the one who is optimistic, highly focused on his work, enthusiastic and willing to go an extra mile to contribute to sustainable organizational success on a long-term basis. The individual and organizational level benefits of employee engagement are also discussed in this article. The declining levels of employee engagement should be viewed with caution and it is high time to undertake research in this area to find out mechanisms for enhancing employee engagement, particularly in the Indian context. Wollard and Shuck (2011) also noted that there is an absence of studies specifically focused on the role of HRM practices as an antecedent of employee engagement, although it is highly suggested as an antecedent. Association between human resource practices and employee and organizational outcomes have been well documented. From the review, this study strongly proposes that the degree of employees' satisfaction with human resource practices is an antecedent of employee engagement. This relationship is proposed based on social exchange theory and the norm of reciprocity. Designing the proper HR practices and how these practices are perceived by employees to elicit appropriate behaviour from them is a key issue of concern. Therefore, it is the responsibility and obligation of top management to address this matter. The top management should take utmost care in implementing appropriate human resource practices to serve the requirements of different groups of employees for invoking positive employee behaviour like employee engagement. In future empirical studies should be conducted to test the relationship between employees' satisfaction with human resource practices and employee engagement in an Indian context and beyond. Studies can be conducted to explore the effects through which this relationship evolves. The dearth of literature in this domain of human resource management could necessarily be a promising arena for future research,

through which it is definitely possible to increase employee engagement levels among existing workers.

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