

Employee Engagement and Financial Performance among SMEs in Lagos State, Nigeria

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Abstract

This article examines the influence of employee engagement on financial performance of SMEs in Lagos State, Nigeria, using a survey research design with a random selection of 450 respondents from a population of 4,535 small and medium enterprises in Lagos State, Nigeria. Data were collected through a systematic review of the literature and a structured questionnaire. The data obtained from the questionnaire was subjected to descriptive and inferential statistics. The result showed a significant positive relationship between employee engagement and financial performance of SMEs ($r = 0.35$; $p < 0.01$). Employee engagement positively correlated with the financial performance criteria such as profitability, financial strength, operating efficiency, performance stability, level of indebtedness, and ability of the enterprises to raise capital. The findings suggest that employee engagement should be strengthened to enhance the financial performance of SMEs. SMEs can enhance employee engagement through the use of improved employee-management relations, regular training, teamwork, and increase in capacity utilisation rates.

Keywords: Employee Engagement; Financial Performance; Organisational Commitment; SMEs

Introduction

How to achieve a competitive advantage is a real challenge for many organisations. Researchers have noted that a high level of employee engagement can increase significantly chances of success in organisations (Ellis & Sorensen, 2007; Gonring, 2008; Vosloban, 2013). Schaufeli *et al* (2002, p. 74) described employee engagement as a positive, fulfilling, work-related state of mind characterized by vigour, dedication, and absorption. The measurement of employee engagement is based on several criteria including the likelihood that employees would be fully committed to the organisation, recommend their organisations to others, and think their bosses treat them fairly.

As reported by Galagan (2015, p. 24): ‘a quick search for definitions of “employee engagement” yielded results as varied as happiness, satisfaction with an employer, pride in one’s work, willingness to drive business success, and commitment to act in the employer’s best

interests. This implies that employee engagement can enhance employee motivation, job satisfaction, and organisational commitment.

Ability to attract, retain, and motivate employees with the right skills will not only make organisations realise the goal of a competitive advantage but also enhance their capacity for growth and development. There is no doubt that the employees with the right skills are critical for the success of an organisation. Thus, organisations are expected to involve their employees in strategic decision-making. Wright and Haggerty (2005) observed the impact of employee engagement on strategic human resource management and organisational performance. Also, Macey, Schneider, Barbera, and Young (2009) noted that employee engagement is a determinant of employee performance. Similarly, Mone and London (2010) showed that employees' engagement would enhance the levels of performance.

Central to the concept of employee engagement is the belief that employees can make a contribution to the successful functioning and continuous improvement of organisational processes. Employee engagement is a process of creating opportunities for employees to connect with their colleagues, managers and the organisation. A report by the Chartered Institute of Personnel and Development (CIPD) (2010) showed that engaged employees could promote sustained organisational performance.

Kahn (1990) described employee engagement as the process of harnessing employees to their work roles, showing that when employees are engaged, they will express themselves physically, cognitively, and emotionally during role performances. Several factors identified to correspond with employee engagement include organisational commitment, job satisfaction, and organisational citizenship behavior.

These processes can trigger employees towards going extra mile to achieve desirable results for the organisation. Moreover, employee engagement is an integral part of employee resourcing which Ogunjori and Ojikutu (2014) described as a combination of human resource planning, recruitment and selection, and employee retention. Human resource planning (HRP) plays an important role in helping an organisation to determine the caliber of employees required by the organisation.

In their study of small-scale and medium-scale enterprises (SMEs), Ogunyomi and Ojikutu (2014) noted that attracting, recruiting, and retaining skilled employees into SMEs is very challenging but significant to performance. As shown in their findings, most SMEs appreciated the need for effective employee resourcing practices but there were other more important issues calling for the attention of the owners or managers of SMEs.

Several studies have confirmed the persistence and growth of entrepreneurial activities in the SMEs (Ali & Najman, 2018; Horodnic, Ciobanu, Williams, & Rodgers, 2018; Pereshybina, Conde, & Kalyesubula, 2017; Wornell, Jensen, & Tickamyer, 2018). SMEs are considered to be the strongest driver of innovation in an economy. Many SMEs are part of the supply chains for large companies in several countries. SMEs range from traditional craft firms to pioneering high-tech companies.

The performance of SMEs in Nigeria deserve attention, hence the central issues in the present article are based on the following research questions: What is the degree of financial

performance among small and medium enterprises in Lagos state, Nigeria? How does employee engagement affect the financial performance of small and medium enterprises in the study area? The research questions are addressed through secondary data and a survey involving 450 respondents who were randomly selected in various SMEs in Lagos state, Nigeria.

Theoretical Framework of Employee Engagement and Organisational Performance

Interest in organisational performance has been examined from different perspectives such as scientific management techniques and human relations movement. In the theory of scientific management, Taylor (1911) identified scientific methods of recruitment and performance based remuneration for increasing organisational performance. The aim of scientific management was to ensure efficiency through time and motion studies. However, applications of the principles of scientific management resulted in employees' alienation and high rate of labour turnover in many organisations.

Henry Ford applied the principles of scientific management under the auspices of the Assembly Line with huge success in his automobile manufacturing industry, where the time required to produce an engine was reduced from 12 hours to 6 hours. However, the Assembly Line led to high rate of labour turnover. The rate of labour turnover was 370 percent in 1913, and the working conditions were so bad that 71 percent of new hire quit after five days on the job (Volti, 2008).

Ford's response was to increase wages and salary. In 1914, Ford announced his intention to pay his workers at the rate of \$5 a day. The \$5 a day wage had its intended results; prospective workers poured into the Ford manufacturing complex in Dearborn, and once hired, the majority stayed on the job. Henry Ford was hailed as a great benefactor of American workers. While the theory of scientific management is suitable for an understanding of organisational performance, the issue of employee engagement has received inadequate attention in the theory. This lacuna is offset by the human relations theory, which emanated from the outcomes of the Hawthorne studies at the Western Electric Company in Chicago.

In the course of their Hawthorne studies, Elton Mayo and his colleagues from Harvard Business School discovered that when supervisors took an interest in employees and made decisions based on the needs and psychological makeup of the employees, there was increase in employees' performance (Mayo, 2014). They also attributed increase in employees' performance to teamwork, cooperation, and opportunities for communication between employees and their supervisors. In this regard, human relations theory is suitable for an understanding of the linkage between employee engagement and organisational performance in SMEs.

The human relations theory has advanced an idea that irrational behaviour of employees could be overcome by more humane supervision, matching of man and job and the incorporation of informal leadership and work groups formed by the employees. Indeed owners and managers of SMEs have a long history of engagement with employees. The structures of SMEs in Nigeria allow for a close interaction between the owners or managers and employees.

Employee Engagement and Financial Performance of Organisations

Performance in organisations has been subjected to various interpretations in which it is equated with productivity, efficiency, effectiveness and, competitiveness (Cooke, 2000). Performance measurement in the organisation is based on financial and non-financial criteria respectively (Ukenna, Ijeoma, Anionwu & Olise, 2010).

The financial performance includes percentage of sales resulting from new products, profitability, as well as capital employed and returns on assets (ROA) (Hsu, Lin, Lawler & Wu, 2007). Grossman (2000) identified return on investment (ROI), earnings per share (EPS) and net income after tax (NIAT) as measures of financial performance.

Organisations generally use financial measures to determine how effectively management has been generating profits out of the firm's asset base (Grant, 2003). These financial indicators include profit margin, return on capital employed, collection period, and stock turnover ratios (Joyce & Wood, 2001; Kazmi, 2000).

An analysis of nearly 8,000 business units in 36 companies showed that employee engagement resulted in an increase in organisational performance (Harter, Schmidt, and Hayes, 2002). Employee engagement propels performance by encouraging employees to stay, increasing customer loyalty, improving productivity, reducing accidents, and ultimately, increased profitability. Engaged employees are interested in their organisation and strive to contribute towards its success. Such employees are less likely to leave for another job, or take unauthorised leave. They are more likely to work better, faster and more safely (Baumruk & Gorman, 2006).

In the first phase of their study involving 660 salespersons and 1,320 customers in Taiwan Information Technology firms, Yuan, Lin, Shieh and Li (2012) found that engaged employees displayed greater vigor, dedication, and absorption in their work. They hypothesised that more engaged salespeople are more likely to experience positive moods at work, and are therefore more likely to genuinely feel and display positive emotions when interacting with customers. The second phase of their study involved 600 salespersons and 1200 customers, while a total of 540 salespersons and 1,080 customers participated in the third phase of their study.

In his study of high performing organisations, DeWaal (2007) noted that leaders of high performance organisations were committed to the organisation to go extra mile by balancing common purpose with self-interest, and teaching employees to put the organisation first. This confirms some researchers' observation that employees' engagement constitutes emotional and intellectual commitment to the organisation (Baumruk, 2004; Richman, 2006; Shaw, 2005).

However, based on his experience of employee engagement in the United States, Galagan (2015) noted that many organisations are worried about employee engagement, showing that in a 2014 Deloitte study, 78 percent of business leaders surveyed rated retention and engagement as urgent or important. But surprisingly, another study found that 75 percent of organisations had no engagement strategy. It is noted that:

Despite great sums spent on engagement consultants, software, and surveys, employee engagement scores have been declining for years. According to a Towers Watson survey, nearly two-thirds of U.S. employees are not fully engaged in their work. The cost of disengagement, and the lost productivity it causes, is estimated

to be between \$450 billion and \$550 billion per year in the United States. (Galagan, 2015, p. 24)

Also, Keegan (2015, p. 86) reported that:

Just 30 percent of American workers are engaged at work, costing the nation \$450 billion to \$550 billion per year in lost productivity', which is partly due to absenteeism, workplace accidents, and increased health care costs. Even the best companies register only about 38 percent of their employees as "fully engaged"

Similarly, a 2012 survey of employees in Great Britain by the University of Bath found that only about one-third of employees said they were actively engaged at work. That represents some 20 million people who are not working to their full capability or realizing their full potential at work. Opinions of managers and researchers are divided on the relationship between employee engagement and organisational performance.

Many claim that their approach to engagement will improve company performance, while some claim that there is no evidence that employee engagement causes better performance given that there are only studies that show a correlation. The dissidents argue further that more profitable companies have better engaged staff, because they are profitable, and do a lot of other things better than companies with less-engaged staff. They also suggest that the best performers are actually less engaged than weak performers.

Nevertheless, a close observation of the description of employees' engagement in various studies shows its compatibility with other concepts such job satisfaction and organisational commitment. Joshi and Sodhi (2011) identified the policies and practices, which they regarded as the drivers of employees' engagement as follows: Work Life Balance, Job Content, Monetary Benefits, Team Orientation, Labour-Management Relations, and Rewards Management. For Macleod and Clarke (2009), the drivers of employees' engagement are leadership, engaging managers, employees' voice, and integrity.

Consistent with the above observation, Ireland and Hitt (2005) described strategic leadership as a person's ability to anticipate, envision, maintain flexibility, think strategically, and work with others to initiate changes that will create a viable future for the organisation. The managers who apply the 21st century strategic leadership practices can encourage employee engagement as part of the sources of competitive advantage for their organisations.

The case of Guaranty Trust Bank (GTB) is relevant here. Tayo Aderinokun and Fola Adeola cofounded GTB in 1989 to provide excellent banking services (Knox & Maklan, 2005). They recruited and personally trained all management-level staff for the first five years of the bank's operations. They opened the first branch of the bank in 1990 and the bank grew rapidly as a result of excellent leadership and employee engagement. They created a list of values to guide employees towards delivering their vision: Professionalism, Ethics, Integrity, Customer Service, and Innovation. Many employees complied with these values and remained committed to the GTB, while some employees left the bank. This situation shows the need to classify employee engagement as shown in Table 1.

Table 1: Classification of Employee Engagement

Classification of Employees	Description
The Engaged	The employees in this category contribute fully to the success of the organisation and find great satisfaction in their work.
The Almost Engaged	The employees in this category are among the high performers and are reasonably satisfied with their job. However, they are highly employable and more likely to be lured away.
The Honeymooners and Hamsters	The Honeymooners are new to the organisation and happy to be there, while the Hamsters may be working hard, but contributing little to the organisation.
The Crash and Burners	These are top producers who are not achieving their definition of success and satisfaction. They can be disillusioned and leave the organisation or retard the progress of those around them.
The Disengaged	These are the most disconnected from organisational priorities, often feel underutilized, and are clearly not getting what they need from work. They are likely to be skeptical, and can be looking for their next job.

Source: Adapted from White (2011)

Small-Scale and Medium-Scale Enterprises

Small-scale and medium-scale enterprises (SME) play significant roles in the process of industrialisation and economic growth of both developed and developing countries. Aside from creating employment opportunities and increasing per capita income and output, SMEs check rural-urban migration (Ogunyomi & Ojikutu, 2015).

The explanation of SMEs has been based on various parameters such as number of employees, value of assets, and turnover, hence a lack of universal definition of SMEs. Besides, an enterprise that is considered big in a developing country like Nigeria may be considered small in a developed country like the United States of America (USA). The classification of SMEs depends on the framework of business in a country.

The National Policy on Micro, Small and Medium Enterprise (MSMEs) (2012) described small-scale enterprises as those enterprises whose total assets (excluding land and building) are between five and fifty million Naira with a total workforce of 10-49 employees, while medium-scale enterprises are those enterprises whose total assets (excluding land and building) are between 50 and 500 million Naira with a total workforce of 50-199 employees.

Methods of Data Collection and Analysis

The study adopted a descriptive survey research design to examine employee engagement and financial performance of SMEs in Lagos state, Nigeria. The choice of Lagos State is due to its strategic importance to Nigeria's economy. It is the economic nerve centre of Nigeria. Lagos State has the highest concentration of micro, small, and medium enterprises in Nigeria. Available record showed the existence of 4,535 SMEs in Lagos State, Nigeria (MSMEs, 2012).

The unit of analysis comprised the employees and owners/managers of SMEs in Lagos state. A total of 450 respondents were randomly selected from the available list of SMEs in Lagos state. A structured questionnaire was used for data collection. Likert Scale was used to measure the opinions of employees and owners/managers concerning employee engagement and financial performance. The independent variable is employee engagement with ten (10) items while the dependent variable is financial performance comprising six (6) criteria such as follows: profitability, financial strength, operating efficiency, performance stability, level of indebtedness, and ability of the firm to raise capital.

A reliability coefficient of 0.87 was obtained for the items in the structured questionnaire. Out of 450 copies of the structured questionnaire shared among the respondents, 257 copies of the questionnaire were properly filled and returned, yielding 57% response rate. Data gathered through the questionnaire were subjected to descriptive and inferential statistics through the use of the Statistical Package for the Social Sciences (SPSS) version 16. Also, data obtained from the secondary sources were subjected to content analysis.

Findings and Discussions

As shown in Table 2, less than half of the sampled enterprises (45.9%) had fewer than 20 employees, while 54.1% had more than 20 employees. Almost 38% of the enterprises had been in existence for over five years. This is an indication of their ability to survive the challenges of the business environment in Nigeria. More than 60% of the owners/managers of the enterprise were male, while 28% were female.

Almost 50% of the owners/managers of the enterprises were in the age brackets of 30-49 years. More than 60% of the respondents were married. More than one-third of the respondents mentioned bachelor's degree as their highest educational qualification. Almost 40% had worked for 1-5 years in the organisation. This shows most of the employees are relatively new in the organisation.

Table 2: Socio-Demographic Characteristics of the Respondents

Characteristics	Frequency	Percentage
Number of Employees in SMEs:		
<20	118	45.9
20-50	71	27.6
51-100	29	11.3
101-200	39	15.2
Age of the SMEs (Year):		
< 1	19	8.1
1	23	9.8
2	32	13.6
3	45	19.1
4	48	20.4
5 and Above	90	37.5
Gender:		
Male	163	63.4
Female	94	36.6
Age (Years):		
<20	13	5.1
20-29	41	16
30-39	23	8.9
40-49	98	38.1
50-59	68	26.5
60 and Above	14	5.4
Marital Status:		
Single	58	22.6
Married	166	64.6
Separated	7	2.7
Divorced	2	0.7
Widowed	24	9.4
Educational Qualifications:		
NCE	7	2.7
OND	29	11.4
Bachelor	108	42.0
Master	72	28.0
Other	41	15.9
Work Experience (Years):		
<1	40	15.6
1-5	102	39.7
6-10	60	23.3
11-15	14	5.5
16 and Above	41	15.9

The Respondents Views on Employee Engagement

Table 3 shows that 91.7% of the respondents agreed that they were committed to the core values of the organisation. Also, 87.7% of the respondents agreed and 12.4% disagreed that their opinions counted in the decision making process. Moreover, 81.1% agreed, while 18.8% disagreed that they had a clear understanding of what is expected of them at work.

And, 74.6% of the respondents agreed, while 25.4% disagreed that they had been fairly rewarded. As to whether career opportunities exist in the organisation, 87.3% agreed, while 12.7% disagreed on the availability of career opportunities for them in the organisation.

Similarly, 77.8% agreed, while 15.2% disagreed that their immediate manager gave them necessary support to do the job well. Regarding the capability to do their jobs effectively, 83.3% agreed, while 16.7% of the respondents disagreed that employees had the capability to do their jobs effectively. Authority goes with responsibility, hence where there is no authority people cannot be held responsible for any misdemeanor. Thus, 80.2% agreed, while 19.7% disagreed that they had the authority to do their jobs well. Health and employees' well being are very crucial to enhanced productivity and to the financial performance of the organisation, hence 84.6% agreed, while 15.4% disagreed that the organisation actively promoted health and safety. On the issue of employee development, 70% agreed, 30% disagreed that the organisation encouraged learning and development programmes.

Table 3: The Respondents Views on Employee Engagement

Respondents' Views on Employee Engagement	SA	A	D	SD
I am committed to the organisation's core values	109 (45.2%)	112 (46.5%)	17 (7.1%)	3 (1.2%)
My opinions count in the decision making process	74 (30.7%)	138 (57.0%)	26 (10.7%)	4 (1.7%)
I have a clear understanding of what is expected of me at work	65 (27.2%)	129 (53.9%)	38 (15.9%)	7 (2.9%)
I have been fairly rewarded	50 (20.7%)	130 (53.9%)	46 (19.2%)	15 (6.2%)
There are career opportunities for me in my organisation	66 (27.9%)	140 (59.4%)	28 (11.9%)	2 (0.8%)
My immediate manager gives me the support I need to do my job well	63 (24.5%)	137 (53.3%)	29 (11.3%)	10 (3.9%)
People in my organisation have the capability to do their jobs effectively	80 (33.3%)	120 (50.0%)	37 (15.4%)	3 (1.3%)
I have the authority that I need to do my job well	60 (25.2%)	131 (55.0%)	41 (17.2%)	6 (2.5%)

My organisation actively promotes health and well being	69 (28.8%)	134 (55.8%)	33 (13.8%)	4 (1.6%)
My organisation invests in learning and development	52 (21.7%)	116 (48.3%)	59 (24.6%)	13 (5.4%)

Key: N=Total Response, SA=Strongly Agree, A=Agree, D=Disagree, SD=Strongly Disagree

The Respondents Views on Organisational Performance

Table 4 shows that profitability of SMEs improved due to high levels of employee engagement. Using financial strength as a parameter for measuring organisational performance, most of the respondents indicated that financial strength of their organisations was high. Another important variable used to assess organisational performance is operating efficiency. From Table 4, it is evident that operating efficiency of the SMEs was high. Performance stability is the consistency of an organisation in maintaining a particular performance level over a period of time.

The majority of the respondents indicated that the performance of their organisations was stable over a period of time. Level of indebtedness of an organisation has to do with how the business is being financed; owners' capital, tenure loan, stock, debentures, and leasing or factor. A high debt ratio of an organisation may affect the profitability of the organisation due to interest payment on loans. Hence, it is better for an organisation to finance its operations more with owners' capital than loan. Table 3 shows that the level of indebtedness of the SMEs was low. Inadequate capital has been the bane of performance of SMEs in Nigeria. Hence, it is a competitive edge for any organisation to be able to raise enough capital. From Table 3, it is evident that ability of SMEs to raise capital was high.

Table 4: The Respondents Views on Organisational Performance

Performance Criteria	VH	H	M	L	VL
Profitability	61 (25.6%)	100 (42.0%)	60 (25.2%)	13 (5.5%)	4 (1.7%)
Financial Strength	52 (22.0%)	91 (38.6%)	57 (24.2%)	30 (12.7%)	6 (2.5%)
Operating Efficiency	46 (19.3%)	103 (43.3%)	67 (28.2%)	21 (8.8%)	1 (0.4%)
Performance Stability	35 (14.7%)	101 (42.4%)	90 (37.8%)	12 (5.0%)	-
Level of Indebtedness	15 (6.6%)	37 (16.0%)	53 (22.9%)	80 (34.6%)	46 (19.9%)
Ability to Raise Capital	41 (17.4%)	80 (34.2%)	57 (24.3%)	45 (19.1%)	12 (5.0%)

Key: VH=Very High, H=High, M=Moderate, VL=Very Low

The result of Correlation analysis shows that $r = 0.35$, $n = 240$, and $p\text{-value} = 0.001$. Therefore, employee engagement has a significant relationship with financial performance of SMEs in Lagos State, Nigeria.

Table 5: Correlation Analysis

Correlation		Financial Performance	Employees' Engagement
Financial Performance	Pearson Correlation	1	.351(**)
	Sig. (2-tailed)		.000
	N	250	241
Employees' Engagement	Pearson Correlation	.351(**)	1
	Sig. (2-tailed)	.000	
	N	241	250

** Correlation is significant at the 0.01 level (2-tailed).

Discussion of Findings

The results of the study are consistent with the results of previous studies by Xanthopoulou *et al* (2009) who found a link between work engagement of restaurant workers and daily financial returns. Salanova *et al* (2005) also found a relationship between work engagement and client satisfaction. The results of the study are also in consonance with the study of Bakker *et al* (2004), who found a connection between employee engagement and in-role and extra-role performance. Halbesleben and Wheeler (2008) also found that in-role performance and turnover intentions were low.

Furthermore, Harter, Schmidt and Heyes (2002) also found that engagement was linked to business unit performance. Consistent with the views of practitioners and academics, competitive advantage can be gained by creating an engaged workforce. It is also evident from the results of the study that engaged employees contribute significantly to the financial performance of the SMEs in Lagos state.

The findings of this study suggest that the managers of SMEs can make employee engagement a cardinal principle and strategic means of motivating employees to get them engaged and get the best from them in terms of their contributions to performance of the organisation. This implies that managers of SMEs need to pay attention to employees' feeling, employees' well-being and opportunities for employees to grow.

Conclusion

The objective of the study is to investigate the relationship between employee engagement and financial performance of SMEs in Lagos State, Nigeria. Employee engagement has a significant

relationship with financial performance of SMEs. Hence, managers should stimulate the drivers of employee engagement such as leadership style, employee voice and integrity to improve the performance of employees and by extension enhance the financial performance of SMEs. Opportunities for career development can make the employees improve their performance on the job. Managers can achieve this by encouraging the employees to upgrade their skills. Also, there should be a clear link between performance and pay. Essentially, managers should be explaining to their employees reasons for major decisions. In addition, stress should be kept to a manageable level, culture of mutual respect should be promoted, and opportunities for teamwork should be created and promoted regularly.

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