

# Final Report

## A study of the link between Performance Management and Employee Engagement in Western multinational corporations operating across India and China

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## FOREWORD

This research project expands our knowledge of employee engagement in multinational enterprises operating across different country contexts including Western countries (the UK and Netherlands) and the developing economies of India and China.

A grant was awarded in October 2008 to the authors of this report by the SHRM Foundation in the USA (<http://www.shrm.org/about/foundation/Pages/default.aspx>) to investigate the link between performance management and employee engagement in multinational enterprises (MNE) operating across developed and developing economies. The MNEs that participated in the project are:

- GKN (UK, India, China)
- AkzoNobel (Netherlands, India, China)
- Tesco HSC (India)
- InsureCo<sup>1</sup> (Asia-Pacific)

This report constitutes a summary of findings on the cumulative data collected from the different organizations. It is not exhaustive in its representation of the data but highlights pertinent findings.

The authors would like to express their gratitude to all of the company participants who engaged with this research project, in particular the key contact people, interviewees, and survey respondents, without whose very generous support it would not have been possible to carry out this study. Thanks also go out to the SHRM Foundation for funding this project, plus to the other important academic contributors to the study, in particular Susanne Beijer (Tilburg University, The Netherlands), Reimara Valk (Utrecht University, The Netherlands), Timothy So (Cass Business School, UK), Pawan Budhwar (Aston Business School, UK), Ingmar Björkman (Hanken School of Economics, Finland), and Fons van de Vijver (Tilburg University, The Netherlands).

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<sup>1</sup> InsureCo is a pseudonym for this company as confidential participation was requested.

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## 1. INTRODUCTION

This study expands our knowledge of the definitions and drivers of employee engagement in multinational enterprises (MNEs) operating across different country contexts: from developed economies (UK, The Netherlands) to important developing economies (India, China). It includes a quantitative and qualitative survey of MNEs based in these four countries. The questionnaire data is analyzed to test the meaning and correlates of engagement, and the interview data helps explain the impact of the different corporate and national contexts studied.

For MNEs, the study highlights how performance management can be used to maximize employee engagement across national boundaries. A pre-study of MNEs identified interest in this topic based on two main factors:

- India and China are targeted areas for future growth of business, but there remain many challenges that Western MNEs face there, such as sourcing appropriately skilled people and retaining them since competition for resources is extreme;
- globalization is constantly challenging MNEs, particularly in the extent to which integration is possible or localization is necessary: how can HRM practices be standardized but also be maximally effective?

Employee engagement has been recognized as fundamentally important to the future successful operation and development of firms. In India and China, where staff turnover can run at almost epidemic proportions, learning how to engage employees and build loyalty to the organization is crucial for future success.

Moreover, Western (e.g. UK and the Netherlands) and Eastern (e.g. China and India) cultures have been shown to differ significantly, particularly with respect to the need for organizational hierarchies, and a focus on individuals versus groups (Hofstede, 1980). It has been argued that these differences are likely to influence the way employees respond to the organizations and managers they work for, and the systems in place to manage their performance. This in turn is likely to have implications for their levels of engagement and the factors which influence this. This study therefore fulfils a crucial need for better understanding of the link between performance management and employee engagement in cross-cultural settings.

As part of the study, each participant company received country-specific reports which present a comparison between the different business units studied. They also received an overall benchmark report in which comparisons at the company/country grouping level were presented: comparing each company in a country with the other companies operating in that country, and then with the other countries. This final report builds on from the company reports with a predominant focus on implications for HRM practice. We first introduce the different companies and the methodology for the study. The interview findings are then presented, showing how different company and national contexts effect both performance management and employee engagement. The results of the questionnaire data analysis highlight comparisons between countries and identify key correlates of engagement. We also present a key finding from the study: the division of employee engagement into four dimensions. Following our concluding remarks an appendix includes the theoretical foundations on which this study is based.

## **2. PARTICIPANT COMPANIES**

### **GKN**

GKN is a leading global supplier to the world's automotive, offhighway and aerospace manufacturers. GKN provides technology-based, highly engineered products to virtually all of the world's major manufacturers of light vehicles, agricultural and construction equipment, aircraft and aero engines. Headquartered in the UK, some 40,000 people work in GKN companies and joint ventures in more than 30 countries. This study focused on two business divisions operating in China and India: GKN Driveline (supplier of automotive driveline components and systems) and GKN Sinter Metals (producer of precision powder metal components), and two parts of the GKN Group based in the UK: GKN Autostructures/Chassis Systems (part of GKN Automotive, responsible for producing chassis and wheels for road and off-road vehicles) and GKN OffHighway (part of GKN Portfolio business, supplying the agritechnical engineering and construction industries).

### **AkzoNobel**

AkzoNobel is a major global paints and coatings company and a producer of specialty chemicals. The portfolio includes well-known brands such as Dulux, Sikkens, International and Eka. AkzoNobel is a Global Fortune 500 company and is consistently ranked one of the leaders on the Dow Jones Sustainability Indexes. Operations are based in more than 80 countries, involving 57,000 employees around the world. The corporate headquarters is based in Amsterdam, the Netherlands. This study focused on three business units within AkzoNobel: Decorative Paints (supplier of decorative coatings to protect buildings, including homes, offices, and infrastructures), Automotive & Aerospace Coatings (part of the Performance Coatings business division - supplier of paints and services for the vehicle refinish, OEM commercial vehicles and automotive plastics markets), and Marine & Protective Coatings (also part of Performance Coatings - producing paints and anti-fouling for ships and yachts, as well as supplying protective coatings for bridges and buildings).

### **Tesco HSC**

Tesco HSC is the global services arm for Tesco, a major retailer operating in 14 countries, employing over 492,000 people in 2009, providing IT, business and finance services to its operations across Europe, Asia and America. Tesco HSC went live in May 2004, and at the time of the study had over 3,000 employees. Tesco HSC has three functions: IT (1,700 employees), Business Services (500 employees), and Financial services (600 employees). Tesco HSC designs, develops, tests, and manages some of the retailer's mission critical IT applications.

### **InsureCo**

InsureCo Group is active in the fields of banking, investments, life insurance and retirement services in more than 40 countries. With its substantial worldwide experience and with nearly 125,000 employees, InsureCo Group provides a full range of integrated financial services to over 85 million customers globally, including individuals, families, small businesses, large corporations, institutions and governments. This report focuses on one part of the InsureCo Group: the InsureCo Investment Management & Insurance Asia/Pacific, based in Hong Kong. Hong Kong is the Asia Pacific Headquarters of InsureCo Group. Insurance Asia/Pacific conducts life insurance and asset/wealth management activities in the region<sup>2</sup>.

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<sup>2</sup> Since this study started, there have been substantial changes in the InsureCo Group which are not represented here.

### 3. METHODOLOGY

This section outlines the methods used, the type of data collected, and the employees selected to take part. The research design involved constructing multiple case studies for each of the participating companies in the different country locations. There were two methods of data collection: qualitative semi-structured interviews or focus groups, and an online questionnaire.

#### Pilot study

At the start of the project, in January-March 2009, eleven employees from a range of companies completed the draft online survey (3 in UK, 3 in India, 3 in China, and 2 in Hong Kong). Each person was subsequently contacted by telephone to ask about their experience of completing the questionnaire (e.g. time taken, language, clarity and sensitivity of questions). In addition, colleagues of the research team carrying out cross-cultural research were also invited to give comments on the questionnaire. This piloting resulted in the rewording of questions based on the feedback received.

#### Interviews/Focus groups

Interviews and focus groups were held with senior HR and other managers across the business divisions and countries of the participant companies. Each of the interviews lasted approximately one to one-and-a-half hours, and was recorded and transcribed. Focus groups lasted two to three hours and were also recorded. The interview guide was developed based on a review of the literature and the study's research questions, which revolved around understanding employee engagement in a western MNE operating in India and/or China. In total, 42 people were interviewed for the project, spread over the following companies/countries:

	<b>GKN</b>	<b>AkzoNobel</b>	<b>Tesco HSC</b>	<b>InsureCo</b>
<b>UK/Netherlands</b>	May '09 (UK) Focus Group (6 people) + Interviews (2 people)	May '11 Interviews (4 people) (Netherlands)		
<b>China/Hong Kong</b>	June '09 Interviews (3 people)	April '11 Interviews (5 people)		Aug '09 Focus Group (8 people)
<b>India</b>	June '09 Interviews (6 people)	May '11 Focus Group (4 people)	March '09 Interviews (4 people)	

#### Questionnaire

The criteria for inclusion of employees in the sample of respondents was that they must have been through the performance management process at least once, and were able to read and complete a questionnaire in English online. Employees were invited by email to complete the survey. Respondents were given two weeks to do this, with a reminder email being sent after the first week of the survey. In total, 964 responses were received from the 1,268 email

invitations sent out, which represents a 76% response rate across all businesses. The following response rates were achieved per company/country:

Source	Date	Response rate	Number of respondents
GKN (UK)	Dec 2009	61%	192
GKN (China)	May 2009	91%	31
GKN (India)	July 2009	36%	133
AkzoNobel (The Netherlands)	June 2011	78%	134
AkzoNobel (China)	April 2011	85%	202
AkzoNobel (India)	May 2011	74%	183
Tesco HSC (India)	May 2009	93%	37
InsureCo (Hong Kong)	July 2009	91%	52
<b>Average/Total</b>		<b>76%</b>	<b>964</b>

*Note:* the response rate in GKN (India) was substantially lower due to problems with employees being able to access the survey via the internet system in place.

Occasionally, respondents either did not complete a sufficient proportion of the questionnaire, or they were normally based in a country other than where the survey was being carried out (e.g. on a temporary assignment). These respondents were deleted from the database before further analysis. In total, the final useable dataset which we report on here included 926 responses.

#### *Respondent profile*

The summary profile reported below shows the average respondent is a male middle manager, aged 30-39, with up to five years' service with the company. However, there are some differences in the samples across the companies. The following table shows the breakdown of respondent characteristics per company:

		GKN (total: 347)	AkzoNobel (total: 505)	Tesco HSC (total: 37)	InsureCo (total: 37)
<b>Grade</b>	Manual worker	13	8	0	0
	Administrative	42	36	2	4
	Professional/Technical	119	107	13	28
	Middle management	136	303	18	5
	Senior management	37	51	4	0
<b>Gender</b>	Male	314	384	28	23
	Female	33	121	9	14
<b>Age</b>	Under 20	7	1	0	0
	20-29 years	61	84	16	35
	30-39 years	104	241	20	2
	40-49 years	102	120	1	0
	50 or more years	73	59	0	0
<b>Tenure</b>	less than 2 years	55	103	1	27
	2-4.99 years	69	111	35	7
	5-9.99 years	64	142	1	3
	10-19.99 years	88	86	0	0
	20 years or more	71	63	0	0

As can be seen, the InsureCo sample is very young, whilst on average the GKN sample includes the oldest workers. AkzoNobel has a very large majority of people who designated themselves as middle managers, whereas there is a more even spread between Professional/Technical and Middle Management in GKN and Tesco HSC. GKN respondents showed a fairly even spread across lengths of tenure, whereas in the other companies many respondents had less than five years' service. All of the samples were dominated by male respondents; AkzoNobel had the largest relative proportion of female respondents<sup>3</sup>.

Where possible, companies provided the characteristics of all employees working in the businesses in the relevant countries. In most cases, the samples were over-representative of higher levels of management and under-representative of employees with less than one year's service (due primarily to the criteria for inclusion in the survey). In all other respects, the samples were fairly representative of the employee populations. These biases should be taken into account when considering the findings reported here.

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<sup>3</sup> The InsureCo sample was also restricted to being employees participating in a management development program across Asia.



## 4. INTERVIEW FINDINGS

The tables on the following pages highlight a number of key findings from the interviews and focus groups. These highlights are summarized further below along with illustrative examples.

### 4.1 Business contexts

As shown in Table 4.1, the 2008 financial services crisis had a significant effect on the companies based in Europe, and particularly on the financial services firm, InsureCo. In UK and the Netherlands, there had been significant job losses. However, the Indian and Chinese economies weathered the recession well and are growth markets. Perhaps because of this, levels of staff retention were problematic in these booming economies due to so many opportunities for employees to enhance their earnings and receive more development elsewhere:

“I think in some markets like China and India, which are incredibly competitive, we’ve got the market forces of pay which we have to deal with, and fast growing economies as well, which means engagement means a slightly different thing to different people as well, i.e. pay takes on a much larger emphasis.” [Regional HR Manager, Hong Kong]

In the declining markets of Europe, employees were less likely to ‘jump ship’, partly because of fewer alternative employment opportunities, and in the case of AkzoNobel Netherlands, because of the generous employee benefits:

“Our labor agreements are so fantastic in the Netherlands for AkzoNobel that there is no reason to leave the company.” [HR Manager, Benelux]

GKN and AkzoNobel have been operating with different internationalization strategies, with the former focusing on centralization and the latter on giving autonomy to units around the world. However, AkzoNobel is increasingly attempting to centralize more of their operations. Both of these MNEs had acquired companies in new markets, and this process highlighted the difficulties of transforming the organization culture and values to those of the new parent.

### 4.2 Employee engagement

Employee engagement in all of the companies was measured internally, on an annual or bi-annual basis, often including internal and external benchmarking, as well as working on action plans associated with the results. Specifically, three of the companies had their own internal survey, whilst AkzoNobel bases its survey on the Gallup Q12 questionnaire for benchmarking purposes. GKN run their internal survey every two years, with ‘positive climate index’ mini-surveys run in the interim which lead to action plans and are used for local benchmarking. A global employee engagement survey was new to both AkzoNobel and InsureCo.

As noted in Table 4.2, the definition of engagement was very similar across the company/country combinations, with keywords such as passion, commitment, motivation, being happy, and crucially, alignment with the organization’s objectives and values:

“Employee engagement, it’s an internal force of the company. So if the employee has engagement, they can build the internal power of the company and work as a

team, and they can work in a similar direction to push the company to grow in the same direction and it will grow faster.” [HR Manager, China]

“What does a good engaged employee look like in the UK? I think it’s one that in the current climate understands why things are happening, and puts it in the context of what’s happening with the industry rather than a random act of local violence in terms of restructuring ... an engaged employee is one who believes the enemy is the competition, not the management or the system”. [HR Director, UK]

Engagement was also seen as a two-way process. Employees are more willing to engage with the organization if they feel they receive something in return, such as extra pay in China or India, and work-life balance in the Netherlands:

“People are dedicated to their job, and the company takes care of the things that they care about, so under such a balance, the company gets the best outcome and the employee gets theirs – so this is a win-win situation.” [HR Manager, China]

“When the realization comes to the employee that what he is enjoying is also really benefiting the organization, that is the moment when a sense of respect and pride will set in.” [Business Manager, India]

Engagement with the organization as a whole, rather than just with a person’s job was generally seen as preferable and expected to lead ultimately to better productivity and profit. Organization engagement is often seen to be negatively affected by previous ownership of an operating site, or by loyalty to product brands rather than to the organization as a whole:

“Leaders and managers and people at senior levels are actually replicating [the corporate values]; or appreciating the right behaviors that support that ... if you day in, day out see that being demonstrated, that yes, our leaders actually see that as important, then slowly your mind will change.” [Marketing Manager, India]

Line managers are seen as fundamentally important to encouraging employee engagement, particularly in more difficult times:

“I do believe that the line manager is possibly the most critical element in employee engagement because for all employees, their immediate boss or supervisor is like the company.” [Business Manager, India]

### **4.3 Performance Management Systems**

Table 4.3 highlights that three of the companies involved in the study had standard corporate performance management systems (PMS) in place (leading to transparency and consistency in the process), usually with a semi-annual review process. Only InsureCo had a local system, but there was a general move towards future centralization of this system. GKN also differentiates between a standard system for white-collar employees, and a local system for blue-collar workers. The AkzoNobel and Tesco HSC systems explicitly incorporate corporate values into the PMS to help to develop employee competencies in this area.

Most systems linked performance evaluation outcomes to reward (with the exception of a new plant in China), either as salary increments or as individual or group bonuses. Interestingly, in Asia, in AkzoNobel it was noted that people expect (and receive) bonuses

even if they are not performing to a high standard, whereas in InsureCo, these bonuses were held back for non-performance. All of the systems appeared to give equal weight to a combination of achieving targets and developing employees. Particularly in the developing economies, skill development was a key outcome of the PMS process:

“Performance management in its rawest form of getting someone to work harder ... it’s about having the skills to be more effective”. [HR Director, UK/China]

The PMS was, however, often seen as an administrative ‘duty’ rather than a tool which can help to improve performance and build engagement. The key to a shift in mind-set appears to be the responsibility of HR – encouraging line managers to use the system to its full benefit. For example, line managers should be aware of the importance of communication throughout the performance management process:

“There should be no surprises during the PDP discussion. If there are any surprises, it means you do not communicate”. [HR Manager, China]

Equally, the PMS can be used as a tool for recording performance evaluations, but:

“Performance management is much more than the P&DD: this way you can only maybe see three key points in time, but during the whole year the manager and employee, they have a lot of interaction”. [HR Manager, China]

Other HRM practices used to encourage engagement included those mentioned by AkzoNobel China and India:

- selecting employees who have shown loyalty previously;
- fair and transparent compensation;
- a wide range of training and development opportunities;
- cross-functional team building and training;
- and employee clubs to arrange social events outside of work.

At GKN, cultural fit was also identified as important, e.g. having the ability to work in an open communication culture, especially in cultures such as China where this is not standard practice.

#### **4.5 Impact of national culture and institutions**

The first point to note here is that the majority of business units interviewed had a standard corporate performance management system and employee engagement survey in place. These were considered to be working well, which implies a lack of cross-cultural problems in implementing these systems. However, the interview data highlight some issues as noted in Table 4.5. To provide further examples, firstly there were references to the difficulty of the feedback process in performance management, and the sharing of opinions via surveys:

“There are some countries [e.g. China] perhaps where I can think of where giving open, candid, straightforward feedback is not feasible, it’s not something you do” [Regional HR Manager, Asia Pacific];

“I see that the Indian culture and the Chinese culture are more likely to rate themselves a little bit higher, whereas cultures like the Thai and Malaysian would be a little bit more modest in their initial rating.” [Regional HR Manager, Asia Pacific].

Another issue concerns how engagement can be created in terms of what employees are looking for in the workplace:

“[In India] we need to have more connection with employees on a personal level rather than send them information through email. We have seen that it works better if we have more one-on-ones, more meetings, if you are able to connect with them”; [HR Manager, India]

“That is an Indian concept. There is a family day where our wives or husbands come and we intermingle with workmen, we have food with them. We generally try to attend certain events which take place in the houses of these workmen.” [Plant Director, India]

Finally from a cultural perspective, some interviewees noted some inconsistencies between corporate values and national cultures:

“It’s certainly not easy in Asia where you have more of the old traditional respect for seniority, whether it’s age or whether it’s hierarchy, and so on. So it can be a little bit difficult for a young Chinese employee to challenge his manager”; [Senior Business Manager, China]

“People just obey the orders and they [management] do not encourage you to give suggestions; this is quite normal in a Chinese plant”; [HR Manager, China]

“This process of ‘free call’ – you can just call up people at the top and complain. We are not used to it in India.” [Plant Director, India]

In addition to variations in culture, the impact of different local laws and regulations was also apparent. For example, the increasingly high levels of protection of Chinese workers were affecting the type of contract being given (potentially impacting employee engagement due to the increasingly temporary nature of the employment relationship). This was also part of a current trend of employees to ‘job hop’ due to the vast range of opportunities in a growth economy. In the Netherlands, the very generous collective bargaining arrangements in AkzoNobel were helping to retain people, but at the same time gave very little leeway to encourage improved performance.

The following pages include the Tables referred to in the above text. It is important to note that this interview data is based on broad reflections by the interviewees on their organization as a whole, whereas in the following section which presents the results of the online survey, these results refer specifically to the sample of employees included.

## 4.1 Business contexts

	<b>GKN</b>	<b>AkzoNobel</b>	<b>Tesco HSC</b>	<b>InsureCo</b>
<b>UK/ Netherlands</b>	<ul style="list-style-type: none"> <li>Recent recession led to large-scale layoffs: is engagement different in a declining market? It is an opportunity for real change.</li> <li>Developing a culture of open communication and trust.</li> <li>Operations tend to look very similar worldwide, with strong control from corporate.</li> </ul>	<ul style="list-style-type: none"> <li>Recession did not hit as a major 'shock' but downsizing has been taking place, with more job losses expected.</li> <li>Employees are very well compensated and protected by collective bargaining agreements, and stay with the firm many years.</li> <li>The Dutch economy is weak, so few alternative jobs are available externally.</li> <li>Culture of consensus.</li> <li>Very decentralized business moving towards more central control.</li> </ul>		
<b>China/ Hong Kong</b>	<ul style="list-style-type: none"> <li>Brand still becoming established in China.</li> <li>The recession had a minor impact on business, but growth is now happening.</li> <li>Culture of open communication.</li> </ul>	<ul style="list-style-type: none"> <li>Largely autonomous operation with many different practices in place across different business units.</li> <li>Growth market with no threat of job losses (other than the relocation of one plant).</li> </ul>		<ul style="list-style-type: none"> <li>Severely hit by the financial crisis in 2008 and still in recession.</li> <li>Target setting was very difficult, and employees with sales targets were very uneasy due to the market.</li> <li>Job losses were possible but not confirmed, but in the dynamic Hong Kong market it is common for people to move jobs every 1-2 years.</li> </ul>
<b>India</b>	<ul style="list-style-type: none"> <li>Very similar to China context.</li> <li>Relations with trade unions at some plants have not been smooth, but they provide strong protection to the 'workmen'.</li> <li>Due to plants historically having been under different ownership, some shifts in culture and consistency in HRM practices were problematic.</li> </ul>	<ul style="list-style-type: none"> <li>Fast growing market with high turnover rates due to external opportunities.</li> <li>Brand awareness is still growing.</li> <li>More partnership relations with trade unions.</li> <li>Increasing integration across business units, especially on co-located sites.</li> <li>Has a strong history from ICI which AkzoNobel acquired in 2008.</li> </ul>	<ul style="list-style-type: none"> <li>Continued growth through recession, increasing levels of creativity.</li> <li>Communication seen as key during the recession to reassure employees.</li> <li>Employees not fearful of losing jobs due to market.</li> </ul>	

## 4.2 Employee engagement

	<b>GKN</b>	<b>AkzoNobel</b>	<b>Tesco HSC</b>	<b>InsureCo</b>
<b>UK/ Netherlands</b>	<ul style="list-style-type: none"> <li>• Definition: willing to go the extra mile, commitment, motivation, pride, aligns with business values.</li> <li>• The focus of engagement depends on the level of the employee: lower grades are expected to engage more with their job than with 'GKN'.</li> <li>• Engagement is expected to lead to better performance.</li> <li>• A history of previous ownership at some plants affects engagement with GKN.</li> </ul>	<ul style="list-style-type: none"> <li>• Definition: devotion, putting in the hours necessary to achieve results, teamwork, passion, pride, open communication.</li> <li>• The two-way process means the employer reciprocates with work-life balance and involvement.</li> <li>• Engagement is an individual responsibility requiring intrinsic motivation.</li> <li>• Engagement to a brand tends to be stronger than to AkzoNobel.</li> </ul>		
<b>China/ Hong Kong</b>	<ul style="list-style-type: none"> <li>• Definition: dedication, proactive, happy, passion.</li> <li>• Two-way process in which employer looks after employee.</li> <li>• Current employee benefits are not considered to be at a level which encourages retention.</li> </ul>	<ul style="list-style-type: none"> <li>• Definition: 'say, stay, strive' – happy, proactive, energetic, willing to learn, team-players, values aligned with business.</li> <li>• Engagement is a two-way process through respect &amp; caring for people, and is driven through safety, fairness and transparency.</li> <li>• Job rotation encourages engagement with the organization rather than just with the job.</li> </ul>		<ul style="list-style-type: none"> <li>• Definition: 'say, stay, strive'.</li> <li>• Engagement with line manager predominant (rather than 'InsureCo').</li> <li>• Engagement appears to dip after 2-3 years employment.</li> <li>• Engagement is important as it is believed to impact productivity/profit.</li> <li>• 'Good news' stories from within the business are used to encourage engagement.</li> </ul>
<b>India</b>	<ul style="list-style-type: none"> <li>• Definition: 'say, stay, strive' – positive, open for change, happy.</li> <li>• Different plants have different histories and cultures giving varying employee profiles per plant.</li> <li>• Organization engagement is preferable over job engagement as it is more holistic.</li> <li>• Good benefits and communication are strong retention tools.</li> <li>• Employee engagement is a performance criterion for plant managers.</li> </ul>	<ul style="list-style-type: none"> <li>• Definition: passion, commitment, satisfaction, linking to corporate goals, motivation.</li> <li>• Line managers are responsible for turning job engagement into organization engagement.</li> </ul>	<ul style="list-style-type: none"> <li>• Definition: motivation, delivering to business objectives, proactivity, innovation.</li> <li>• Engagement is linked to corporate values of trust and respect.</li> <li>• Engagement leads to higher productivity, more willingness to be developed, and less supervision required.</li> <li>• Engagement with the organization is more critical than job engagement, especially with the brand being well-known.</li> </ul>	

### 4.3 Performance Management Systems

	<b>GKN</b>	<b>AkzoNobel</b>	<b>Tesco HSC</b>	<b>InsureCo</b>
<b>UK/ Netherlands</b>	<ul style="list-style-type: none"> <li>• Group-wide system including performance development plans (PDP) for all white-collar staff.</li> <li>• Objective setting at start of year, mid-year review, end of year evaluation.</li> <li>• Focused on achieving results through personal development.</li> <li>• The system is a means of formal record keeping, whereas daily targets posted in the plants focus on continuous improvement.</li> <li>• Reward is linked to local targets (KPIs), not profit levels which can be affected by shifts in raw material costs.</li> </ul>	<ul style="list-style-type: none"> <li>• Standard Performance and Development Dialogue (P&amp;DD) tool for all employees worldwide.</li> <li>• Objective setting at start of year, mid-year review, end of year evaluation.</li> <li>• Includes 'success factors' linked to corporate values.</li> <li>• Beyond the P&amp;DD system, line managers are seen as critical in the performance management process, particularly to encourage engagement.</li> <li>• Bonuses are linked to both company and individual performance.</li> </ul>		
<b>China/ Hong Kong</b>	<ul style="list-style-type: none"> <li>• The standard PDP system is used for all management and office staff.</li> <li>• An issue can be that the resultant development demands may exceed the resources available.</li> <li>• PDP is not yet linked to reward at the new sites.</li> <li>• Blue-collar workers have a local performance management system which focuses on skill development, and is linked to a monthly bonus based on productivity.</li> </ul>	<ul style="list-style-type: none"> <li>• The standard P&amp;DD system is used for all employees and consists of targets, development plans and success factors (competencies related to corporate values).</li> <li>• Employees assess their own performance and then discuss this with their manager.</li> <li>• People expect to receive a bonus, even when they are graded low on performance (the bonus will just be reduced not taken away).</li> </ul>		<ul style="list-style-type: none"> <li>• Historically performance management has been a local system, but is becoming more centralized.</li> <li>• The local system links performance against targets to both reward and development outcomes.</li> <li>• Performance evaluation is based primarily on achieving objectives, rather than the behavior adopted.</li> <li>• Non-achievement of objectives results in no bonus payment.</li> </ul>
<b>India</b>	<ul style="list-style-type: none"> <li>• The standard PDP system is used for all white-collar staff and linked to bonus payments.</li> <li>• Blue-collar staff have a local system which sets team targets and rewards.</li> <li>• Skill development is critical as there is a lack of skilled talent available.</li> <li>• Local targets are posted in all plant locations/offices.</li> </ul>	<ul style="list-style-type: none"> <li>• The advantages of the P&amp;DD system lie in its transparency and consistent application.</li> <li>• HR's role is to encourage management to use the system fully rather than just seeing it as administration.</li> </ul>	<ul style="list-style-type: none"> <li>• Clear performance expectations are considered to contribute to employee engagement.</li> <li>• Performance is assessed against standard corporate values, using a 'traffic-light' system of grading.</li> </ul>	

#### 4.4 Impact of national culture and institutions

	<b>GKN</b>	<b>AkzoNobel</b>	<b>Tesco HSC</b>	<b>InsureCo</b>
<b>UK/ Netherlands</b>	<ul style="list-style-type: none"> <li>• Within the UK workforce, there can be great variation between levels of employee in how engagement might be interpreted.</li> <li>• The performance management system in place was developed in the UK, and is therefore considered a good fit for UK employees.</li> </ul>	<ul style="list-style-type: none"> <li>• Employees are strongly protected by collective bargaining arrangements, giving little leeway to use reward as a motivator. Instead, personal recognition from line managers is valued more highly.</li> <li>• A culture of flat hierarchies means people want to feel involved in the business.</li> </ul>		
<b>China/ Hong Kong</b>	<ul style="list-style-type: none"> <li>• The Chinese management style tends to be a family setting where the manager is the father figure and is obeyed, rather than the Western style which is more participative.</li> <li>• Chinese modesty prevents people from saying their career aspirations, but they are happier to enter these into a computerized performance management tool.</li> <li>• It is common for employees to be on temporary contracts in China due to strict regulations about termination.</li> </ul>	<ul style="list-style-type: none"> <li>• The labor market is very volatile with a short supply of key talent.</li> <li>• China’s tradition of loyalty has diminished with new generations who expect to switch jobs for new opportunities. Extra pay is now often used as a retention tool.</li> <li>• In the Chinese culture, it was seen as difficult to encourage people to challenge the status quo (as desired by the company).</li> <li>• Chinese labor laws are increasingly protecting individual employees.</li> </ul>		<ul style="list-style-type: none"> <li>• Engagement is measured in some cultures through the hours which a person is in the office, and how much they try to please the manager (e.g. Korea, Japan).</li> <li>• It can be difficult to give open feedback to employees on their job performance due to cultural sensitivities of ‘losing face’.</li> <li>• In Hong Kong, there is a tendency to grade highly because people feel very bad giving low grades – this tendency varies across Asian cultures.</li> </ul>
<b>India</b>	<ul style="list-style-type: none"> <li>• Blue-collar workers are protected by legislation. This makes it difficult to deal with non-performance issues, especially with powerful unions.</li> <li>• Indian culture encourages a strong emphasis on corporate social responsibility.</li> <li>• There is also a strong need for a sense of community, with family events linked to the workplace to encourage engagement.</li> <li>• The company encourages upward communication, but this is difficult in the Indian culture.</li> </ul>	<ul style="list-style-type: none"> <li>• There were some questions in the employee engagement survey which appeared culturally less applicable to the Indian context (e.g. having a best friend at work).</li> <li>• Indians may be less frank in their views when completing surveys or evaluations, due to their culture.</li> </ul>	<ul style="list-style-type: none"> <li>• The changing Indian culture influences engagement to the extent that where people see opportunities, they will move to another company to benefit from these. Previously, people tended to stay with a company for life.</li> <li>• Personal connection and communication with employees is critical to developing engagement.</li> </ul>	



## 5. QUESTIONNAIRE RESULTS

Following the information from the interviews and focus groups, the tables on the following pages highlight a number of key findings from the online survey. These highlights are summarized further below.

First, for clarification, the following list explains the different elements of each of the headings measured in the Tables (further information on the meaning of many of these elements can also be found in the Appendix). The information in parentheses indicates how many questions/items were used to make up the scale to measure that construct, what the scales' source was, and when possible we also report Cronbach's alpha indicating scale reliability.

### **A. PERFORMANCE MANAGEMENT**

#### A.1. Frequency of appraisal

- How often an employee has a formal performance appraisal/review (1 item).

#### A.2. Outcomes of appraisal

- The range of performance appraisal outcomes includes: new targets, training opportunities, retraining for a different job, pay adjustment, career assessment, development plans, job rotation, and promotion (8 items;  $\alpha = .677$ ).

#### A.3. Involvement in target setting

- The extent to which an employee is responsible for setting work targets on his/her own (rather than being led by the line manager) (1 item).

### **B. EMPLOYEE ENGAGEMENT**

#### *B.1. JOB-LEVEL*

##### B.1.1. STATE

- How energized employees feel about their work, how absorbed they are, and how much they are dedicated to their job (17 items from Schaufeli, Bakker & Salanova, 2006;  $\alpha = .932$ ).

##### B.1.2. BEHAVIORAL

###### B.1.2.1. Initiative

- The extent to which employees accept personal responsibility to take initiative to improve aspects of their work (5 items from Van Veldhoven & Dorenbosch, 2008;  $\alpha = .870$ ).

###### B.1.2.2. Active learning

- The extent to which employees push themselves to achieve high standards and learn new things in and for their work (5 items from Van Veldhoven & Dorenbosch, 2008;  $\alpha = .855$ ).

#### *B.2. ORGANIZATION-LEVEL*

##### B.2.1. STATE

###### B.2.1.1. Affective commitment

- The extent to which employees align themselves with the organization, feel a sense of belonging, and are emotionally attached to the organization (6 items from Allen & Meyer, 1990;  $\alpha = .817$ ).

###### B.2.1.2. Organization satisfaction

- The extent to which employees like the organization, feel satisfied working there, show dedication, and are energized by the

organization (8 items based on Saks, 2006 and Camman et al, 1979;  $\alpha = .904$ ).

#### B.2.2. BEHAVIORAL

- The extent to which employees display organizational citizenship behaviors, i.e. being willing to raise difficult issues, and make suggestions for improvements to the organization (8 items from Tsui et al, 1997;  $\alpha = .856$ ).

### C. WORK CLIMATE

#### C.1. RESOURCES

##### C.1.1. JOB-LEVEL

###### C.1.1.1. Performance feedback

- The extent to which employees believe that their work and the work of others are noticed and evaluated (5 items from Patterson et al, 2005;  $\alpha = .723$ ).

###### C.1.1.2. Autonomy

- The extent to which employees consider management is giving them freedom to make their own work-related decisions (5 items from Patterson et al, 2005;  $\alpha = .722$ ).

###### C.1.1.3. Development opportunities

- The extent to which employees feel their job leads to personal learning, achievement and growth, including career opportunities and reward (9 items from Van Veldhoven & Dorenbosch, 2008 and Dorenbosch, 2009;  $\alpha = .900$ ).

###### C.1.1.4. Task variety

- The extent to which employees believe their work is varied and requires personal creativity (4 items from Van Veldhoven & Dorenbosch, 2008;  $\alpha = .803$ ).

##### C.1.2. ORGANIZATION-LEVEL

###### C.1.2.1. *Distributive justice*

- The extent to which employees feel that the performance management processes lead to fair outcomes given their responsibilities and the amount of effort they put in (8 items from Price & Mueller, 1986;  $\alpha = .863$ ).

###### C.1.2.2. *Interactional justice*

- The extent to which employees believe that during performance appraisal, the interaction with the line manager is fair (unbiased, considerate, truthful) and includes appropriate two-way communication (6 items from Bies & Moag, 1986, and Skarlicki, Folger & Tesluk, 1999;  $\alpha = .831$ ).

###### C.1.2.3. *Procedural justice*

- The extent to which employees believe the performance management processes are fair regarding appropriate information being collected, appeal, and feedback opportunities (9 items based on Folger & Konovsky, 1989;  $\alpha = .934$ ).

###### C.1.2.4. *Support from line manager*

- The extent to which employees believe that their line manager understands them, has confidence in them, and is friendly and reliable (5 items from Patterson et al, 2005;  $\alpha = .912$ ).

###### C.1.2.5. *Support from colleagues*

- The extent to which employees believe that their colleagues will help them out with difficulties at work, and are friendly and appreciative (5 items from Van Veldhoven & Dorenbosch, 2008;  $\alpha = .814$ ).

*C.1.2.6. Support from senior management*

- The extent to which employees believe that the firm's senior management can be trusted, and displays transparency, consistency, and integrity (7 items based on Cook & Wall, 1980, and Gabarro & Athos, 1976;  $\alpha = .866$ ).

*C.1.2.7. Welfare*

- The extent to which employees believe that the organization as a whole cares about them, and tries to look after them and is fair to them (4 items based on Van Veldhoven & Dorenbosch, 2008 and Patterson et al. 2005;  $\alpha = .835$ ).

**C.2.DEMANDS**

*C.2.1. JOB-LEVEL*

*C.2.1.1. Workload*

- The extent to which employees feel under pressure from too much work or too little time to complete tasks (6 items from Van Veldhoven & Dorenbosch, 2008;  $\alpha = .837$ ).

*C.2.1.2. Emotional load*

- The extent to which employees believe their work sometimes poses difficult situations which affect them personally or emotionally, or require tact and persuasion to handle (5 items from Van Veldhoven & Dorenbosch, 2008;  $\alpha = .759$ ).

*C.2.2. ORGANIZATION-LEVEL*

*C.2.2.1. Pressure to produce*

- The extent to which employees believe that the organization has a very demanding work climate, with pressure to work very (or too) hard (5 items from Patterson et al, 2005;  $\alpha = .636$ ).

**D. ORGANIZATION PERFORMANCE**

- Employee perceptions of how well the firm is doing, in terms of reputation and achieving goals in comparison to competitors (7 items from Dorenbosch, 2009;  $\alpha = .889$ ).

**5.1 Significant correlations**

Table 5.1 demonstrates which items, when high, were found to have a positive or negative effect (correlation significance  $< .010$ ) on the different forms of engagement and on perceived firm performance. A plus sign '+' denotes a positive significant relationship, and a minus sign '-' denotes a negative significant relationship.

The table shows that from a performance management perspective, having a broad range of performance appraisal outcomes (such as promotion, training, pay increase, etc.) is positively linked to all of the desired outcomes except for organization behavioral engagement. Employee involvement in target setting is also linked positively to the two types of state engagement. Having appraisal evaluations more frequently is perhaps the least consequential, as it is only linked to organization state engagement.

With regard to work climate and job characteristics (available resources and demands), higher levels of job resources (with the occasional exception of autonomy and feedback) and the specific organization resources of support and welfare are positively related to all of the desired outcomes. Conversely, organizational justice is only linked to the two types of state engagement and perceptions on how well the organization is performing.

Looking at the demands on employees, high workload is linked to lower levels of organization state engagement and organization performance perceptions. Conversely, high emotional load is linked to higher levels of job and organizational behavioral engagement, as is high pressure to produce at the organization level. These organization demands are also positively associated with job state engagement. This highlights the reasoning that a certain level of demands is positive for employee engagement, rather than assuming that pressures or demands need to be minimized.

From this information, we can conclude that high levels of job and organization resources in general are the key elements linked to all of the types of engagement studied.

### **5.2 Detailed correlational analysis of the antecedents of engagement**

Table 5.2a gives further detail to the previous table, presenting the actual Pearson correlations between each type of performance management practice, resource, and demand and the components of the different types of engagement. Only significant correlations ( $p > .010$ ) are reported. The higher the correlation statistic reported, the stronger the correlation between the two variables. For example, one of the highest correlations noted is between development opportunities and organization satisfaction (.562).

Table 5.2b presents the results of multiple regression analyses, which go beyond the correlational analysis, exploring which variables (performance management practices, resources, and demands) best predict the outcome variables (the different types of engagement and organization performance). The results show, for example, that the job resources ‘task variety’ and ‘development opportunities’ have the strongest positive effect on job state engagement, and the organizational resource ‘welfare’ and the job resource ‘development opportunities’ have the strongest positive effect on organization state engagement. In general, the red highlighted figures show that development opportunities have the greatest effect on most outcome variables (all except organizational behavioral engagement), followed by task variety and welfare (each having a strong effect on four outcomes). Interestingly, for some antecedents we find negative regression coefficients in the multiple regression, whereas in the bivariate correlations, positive associations were found. This happens especially for distributive justice. These findings suggest that the interpretation of results for distributive justice depends on whether other important antecedents of engagement are taken into account, especially job quality (variety and autonomy).

### **5.3 Country comparisons**

Table 5.2 compares the mean in performance management, employee engagement, resources and demands of each country group against the mean of the other country groups, showing the differences where the ANOVA (analysis of variance test) is significant at the  $< .01$  level. The table ranks each country group as either having the (joint) highest, second or third highest mean on each of the variables measured.

The table shows that on average, the overall engagement score is highest amongst Indian respondents, who also reported high levels of job resources and job/organizational demands.

Organization resources were in general lower in India than in the other two country groups. Amongst the China and Hong Kong respondents, we see the exact opposite pattern. Most significantly, this tells us that perceptions of the work climate, job characteristics and engagement do vary across countries. However, further analysis on the data will be carried out in the future to explore these observations further.

#### 5.4 Four dimensions of employee engagement

Based on the existing engagement literature (see Appendix for further details), this study has explored four dimensions of employee engagement based on two different foci of engagement, and whether it concerns employees' feelings or behavior:

	<b>Job focused</b>	<b>Organization focused</b>
<b>State</b>	Job state engagement	Organization state engagement
<b>Behavior</b>	Job behavioral engagement	Organization behavioral engagement

In order to be sure that we have made an appropriate division of the employee engagement construct, further tests were carried out to see how well the data supported this four-dimension model.

Table 5.4 shows the results of a series of structural equation modeling tests which compare which model best fits the data. As a guide for interpreting the results, the higher the GFI and TLI statistics, and the lower the RMSEA statistic, the better the fit of the model. In addition, where the change in  $\chi^2$  is significant (\*\*\*) this indicates that the new model is a significantly better fit than the previous model. In short, Model 4 (M4) shows the best fit for the data: this model divides out the four dimensions of engagement as shown above, and is significantly better than any of the previous models which take engagement as a single construct, or as a two-factor construct (using either the job/organization or state/behavior dichotomy).

The final column in Table 5.4 also shows us how the different dimensions of engagement correlate with each other. For Model 4, we see that the strongest correlations exist between the two state dimensions of engagement (.731), followed by the two job-level dimensions of engagement (.700). As we might expect, there is a weak correlation between organization state engagement and job behavioral engagement (.392). This gives further support to the notion that there are four distinct dimensions of engagement, although they do correlate to a certain extent which tells us that they can be considered part of an overarching construct.

5.1 Significant correlations (positive + and negative -):

	Job state engagement	Job behavioral engagement	Organization state engagement	Organization behavioral engagement	Perceptions of how well the organization is performing
<b>Performance Management</b>					
Frequency of appraisal			+		
Outcomes of appraisal	+	+	+		+
Involvement in target setting	+		+		
<b>Resources</b>					
Job resources	+	+ <sup>†</sup>	+	+ <sup>†‡</sup>	+ <sup>†</sup>
Organization resources - justice	+		+		+
Organization resources - support & welfare	+	+	+	+	+
<b>Demands</b>					
Job demands – workload			-		-
Job demands – emotional load		+		+	
Organization demands	+	+		+	

Note: based on total dataset of 926 responses. Significant at the level of p<.010.

<sup>†</sup> excluding Autonomy; <sup>‡</sup> excluding Feedback.

## 5.2a Detailed correlational analysis:

	Job state engagement	Job behavioral - Initiative	Job behavioral - Active learning	Org state - Affective commitment	Org state - Organization satisfaction	Org behavioral - Citizenship behavior	Perceptions of how well the organization is performing
<b>Performance management</b>							
Frequency of appraisal				.121	.087		
Range of outcomes of appraisal	.232	.126	.181	.241	.255		.251
Involvement in target setting	.129	.071		.148	.168		
<b>Job resources</b>							
Feedback	.198	.121	.093	.375	.386		.327
Autonomy	.097			.179	.198		
Development opportunities	.432	.231	.268	.469	.562	.148	.390
Task variety	.401	.375	.364	.222	.286	.314	.154
<b>Organization resources</b>							
Distributive justice	.153			.350	.391		.304
Interactional justice	.121			.273	.320		.212
Procedural justice	.163			.279	.354	.106	.271
Support from line manager	.200	.156	.110	.280	.380	.149	.258
Support from colleagues	.240	.169	.178	.274	.295	.136	.200
Support from senior management	.301	.137	.156	.444	.530	.102	.458
Welfare	.307	.127	.098	.473	.571	.183	.420
<b>Job demands</b>							
Workload				<b>-.129</b>	<b>-.141</b>		<b>-.103</b>
Emotional load		.174	.175		<b>-.105</b>	.157	
<b>Organization demands</b>							
Pressure to produce	.096	.113	.143			.090	

Note: based on total dataset of 964 responses. Only significant correlations ( $p > .010$ ) are reported. Negative correlations are noted in red text.

## 5.2b Multiple regression coefficients:

	Job state engagement	Job behavioral - Initiative	Job behavioral - Active learning	Org state - Affective commitment	Org state - Organization satisfaction	Org behavioral - Citizenship behavior	Perceptions of how well the organization is performing
<b>Performance management</b>							
Frequency of appraisal							
Range of outcomes of appraisal	.081		.102				
Involvement in target setting	.074			.061	.064		
<b>Job resources</b>							
Feedback		.079		.116	.066		.087
Autonomy							-.066
Development opportunities	.236	.160	.180	.197	.248		.160
Task variety	.279	.285	.256	.090	.135	.236	
<b>Organization resources</b>							
Distributive justice		-.183	-.186			-.158	
Interactional justice	-.113						
Procedural justice							
Support from line manager		.087				.122	
Support from colleagues	.101	.095	.109	.108	.114	.080	.077
Support from senior management	.118		.100	.137	.176	.191	.231
Welfare	.119			.234	.286		.176
<b>Job demands</b>							
Workload		-.084					
Emotional load		.132	.079			.127	
<b>Organization demands</b>							
Pressure to produce	.127	.085	.111	.062			

Notes: based on total dataset of 964 responses. Multiple regression based on Forward selection in which variables are only included in the model if statistically significant ( $p > .050$ ). The three highest regression coefficients are highlighted in red text.



### 5.3 Country comparisons:

	UK/Netherlands	China/Hong Kong	India
<b>Employee engagement</b>			
Job state engagement	3	2	1
Job behavioral - Initiative	2	2	1
Job behavioral - Active learning	3	2	1
Org state - Affective commitment	1	2	1
Org state - Organization satisfaction	1	2	2
Org behavioral - Citizenship behavior	2	3	1
<b>Performance management</b>			
Frequency of appraisal	2	1	2
Range of outcomes of appraisal	2	1	1
Involvement in target setting	1	1	1
<b>Job resources</b>			
Feedback	1	1	1
Autonomy	1	2	2
Development opportunities	2	1	1
Task variety	1	2	1
<b>Organization resources</b>			
Distributive justice	1	1	2
Interactional justice	1	1	2
Procedural justice	2	1	2
Support from line manager	1	1	2
Support from colleagues	1	1	1
Support from senior management	2	1	1
Welfare	1	2	2
<b>Job demands</b>			
Workload	2	1	1
Emotional load	2	1	1
<b>Organization demands</b>			
Pressure to produce	2	3	1

**Key:**

1 = highest mean

2 = second highest mean

3 = third highest mean

*Note:* based on total dataset of 926 responses.

**5.4 Confirmatory factor analysis of combined scales:**

Model	$\chi^2$	Df	p	GFI	RMSEA	TLI	Change in $\chi^2$ in comparison with M1	Correlations between factors					
M1	1503.5	27	.000	.727	.250	.620							
M2	1348.7	26	.000	.717	.241	.647	154.4***						
M3	862.3	26	.000	.806	.191	.777	640.8***						
M4	97.0	20	.000	.975	.066	.973	1406.1*** 765.3*** (comparison with M3)	1	2	3	4		
								1					
								2	.731				
								3	.700	.392			
								4	.509	.380	.667		

Notes:

M1 = 1 factor model (all items entered together with no distinction between types of engagement)

M2 = 2 factors (job versus organization)

M3 = 2 factors (state versus behavior)

M4 = 4 factors (1: job state, 2: organization state, 3: job behavior, 4: organization behavior)

Based on dataset of 879 usable responses for the analysis.

An additional scale measuring organizational compliance was included in the organization behavioral engagement measure.

\*\*\* p<.001

$\chi^2$  = a measure of goodness of fit of a model

Df = Degrees of freedom

p = level of significance of test

GFI = Goodness of Fit Index

RMSEA = Root Mean Square Error of Approximation

TLI = Tucker-Lewis Index

## 6. CONCLUDING REMARKS

In this final section we offer some thoughts on the key questions that this research was designed to uncover<sup>4</sup>.

### A) How should firms be measuring engagement?

Our study uncovered what has also been commented on by others before us, that there are many different scales being used across companies to measure engagement – so is there one best way to measure engagement? In this study, we have distinguished multiple dimensions of engagement, so it is essential to be clear about what types are being measured, and which of these are important for the company given different operating contexts. The following matrix highlights the different dimensions:

	<b>Job focused</b>	<b>Organization focused</b>
<b>State</b>	Job state engagement	Organization state engagement
<b>Behavior</b>	Job behavioral engagement	Organization behavioral engagement

Job state engagement is about people loving their job, having great enthusiasm to get out of bed each morning and do their daily tasks. This can lead to individuals talking passionately about their job, but not necessarily having loyalty to the company they work for (although the two can be highly correlated). Organization state engagement on the other hand is about people loving the company: these people make great ambassadors for spreading the corporate brand.

Behavioral engagement, on the other hand, is less focused on loving what you do or where you work, and is more about people going the extra mile and putting in the extra effort to complete the work. Job behavioral engagement is about people taking the initiative in their daily work, and looking for development opportunities. Organization behavioral engagement is about employees being proactive in highlighting problems and suggesting improvements.

Arguably, behavioral engagement may be more beneficial to firms from a productivity perspective, whereas state engagement creates a pleasant environment for people to work in. Ultimately, it is important to know what type of engagement you are measuring, how you are communicating about the types of engagement you desire, and what action plans might help to create the necessary engagement to achieve firm performance.

### B) Have we uncovered a framework of effective performance management practices which may enhance engagement?

The questionnaire data showed us that having a broad range of outcomes of the performance management process (from training to pay rises, from job rotation to bonuses) has the

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<sup>4</sup> It is important to remember when reading this section that the survey data was biased towards employees holding middle management or professional roles in the participant companies.

strongest impact on most types of employee engagement. In other words, the performance management process needs to be seen to be leading to outcomes which are valued by the employee.

In second place in terms of impact, involvement in target setting is linked to employees having positive feelings about their job and the organization as a whole. Perhaps surprisingly, the frequency of performance evaluation was only linked with increasing employee state engagement with the organization (although with this variable, there was little variation across the companies as most locations had semi-annual review processes, so the relationship between frequency and engagement may be being masked here).

This latter finding can be interpreted on the basis of the interviews, in which we observed a standard corporate system for performance management being in place in most companies, at least covering the white-collar workforce. Given that most employees are part of some sort of system of performance management, this suggests that it is the intensity of the performance management that matters more than the presence of the practice as such.

Adaptations for local contexts were not allowed, according to the interviews, as a key aim of the system is to be able to collect standardized data across operations worldwide. Some of the more problematic issues here appeared to be about being able to apply a standard system to different levels of employee, such as asking shop floor workers to devise their own targets, and about cultural differences in the process of giving feedback (as we discuss further under D below).

Interestingly, there appeared to be a lack of an explicit linkage between corporate performance management systems and the corporate employee engagement surveys. If we look back at the definition of employee engagement as expressed by the interviewees, there was frequent mention of alignment with corporate objectives and values – performance management is meant to achieve just such an alignment, so there is a natural linkage which could take place here.

C) What is the relationship between work climate, job characteristics and employee engagement?

We see that work climate and job characteristics have a differential effect on employee engagement. Both job and organization resources (performance feedback, autonomy, development opportunities, task variety, welfare, and support from line manager, colleagues and senior management) are linked to positive employee engagement of all types, and might therefore be useful tools for enhancing engagement. Equally, a relatively high level of pressure to produce has a positive effect on employee behaviors (although, of course, too high a level may lead to burnout).

Issues around organizational justice were also raised by interviewees as being important in both the process of performance management and enhancing employee engagement. Fairness and transparency in HRM practices were highlighted as being critical, particularly in the Chinese context where people are very willing to talk to each other about their level of pay, for example. This was also supported by the survey data – organizational justice is positively associated with higher levels of job and organization state engagement: if people feel they are

being treated fairly, they are more likely to talk about their work and their organization with passion and pride<sup>5</sup>.

D) How do attitudinal and behavioral responses of employees differ over national contexts?

Existing theory tells us that putting HRM practices in place in one country, when they have been developed based on theories pertaining to a different cultural context can lead to either unexpected or undesirable employee outcomes. Given that most of the MNEs in this study use standard systems across national (cultural) boundaries to measure both performance and engagement, we wanted to explore how effectively this can operate.

The first point to note is that in MNEs, corporate culture appears to play a significant role in encouraging appropriate responses from employees to the ‘Western’ HRM practices. In other words, the companies in this study are most likely to recruit individuals who appear to fit the corporate culture, or they are developed and socialized into the corporate way of doing things (and are therefore no longer representative of the average Chinese or Indian culture, for example). This results in HRM practices having similar effects apparently across national cultures. If we were to look inside domestic Chinese or Indian organizations, it is unlikely that we would find performance management practices being implemented in the same way as has been observed in this study, due to the different emphasis of local cultures. This implies that there are two separate systems operating within a country context: domestic operations with local practices, and foreign-owned multinationals which have imported their own styles of management and HRM.

There were, however, still some cultural issues observed from the interviews. These primarily related to management style in the performance management process. Although a corporate system may require a process of employees taking a lead in suggesting work targets and assessing their own performance, in the Chinese and Indian cultures this can be a difficult undertaking – employees believe in a strong hierarchy, and are more willing to take instruction from their line managers, rather than feeling that it is a process of negotiation. Conversely in the Netherlands, if employees are not involved in the negotiation of targets, there will be very little commitment to any targets imposed. In other words, although the standard processes appear to work well, having sufficient leeway in the way in which this process is implemented in different locations around the world may be the key to their success.

The other point we would like to highlight here concerns the benchmarking of, for example, engagement survey scores across countries. Previous research has shown significant response biases across national cultures when completing questionnaires which ask respondents to grade their depth of feeling on a topic. In other words, some cultures tend to downplay their feelings, whilst others are very willing to give very high or low scores. The interviewees also highlighted this tendency. There are more detailed tests which as a research team we still need to undertake to explore this phenomenon across the survey data we collected, but this may be an important point to consider in the cross-national benchmarking of surveys.

**And finally...**

This report has presented a snapshot of some of the general findings from this study. The project has created a great wealth of data, and over the coming months, the research team will

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<sup>5</sup> However, the reverse was observed when taking job quality into account.

continue to work with this data to uncover further important relationships between performance management, work climate and employee engagement. As more detailed understanding emerges, we will be working hard to have this new knowledge published in academic and practitioner journals (of course, respecting company confidentiality), as is a key aim of the sponsors of this research, the SHRM Foundation.

## APPENDIX: THEORETICAL FOUNDATIONS

### What is employee engagement?

Although the term ‘employee engagement’ is well known in the organizational psychology literature (Macey, & Schneider, 2008), and is becoming well known in current everyday working life (Vance, 2006), in the human resource management (HRM) field there has been little research into this concept. However, there are very real implications for HRM stemming from the notion of engagement.

The roots of the concept of employee engagement can be found in the work of Kahn (1990), who discovered that people occupy roles at work to a varying degree (personal engagement or disengagement), suggesting that people can use varying degrees of their personal selves - cognitively, emotionally and physically - in the roles they perform. Job engagement is the opposite of burnout, referring to high energy levels, involvement and professional efficacy (Maslach, *et al.*, 2001). It incorporates notions of employee well-being, characterized by high levels of activation and identification: “a positive, fulfilling, work-related state of mind that is characterized by vigor, dedication, and absorption” (Schaufeli, *et al.*, 2002: 72).

Saks (2006) took a similar approach to Kahn (1990) by arguing that engagement is role-related, but argued that a distinction should be made between engagement towards the job and towards the organization since these reflect the most important roles of an employee. Saks defined employee engagement as “the extent to which an employee is psychologically present in a particular organizational role” (p. 604).

Rather than focusing on roles, Macey and Schneider (2008) take a different perspective on engagement by distinguishing three components, namely that of trait, psychological state, and behavioral engagement. Trait engagement focuses on personal level attributes such as personality, behavioral engagement encompasses the actions of employees, whilst psychological state engagement is characterized by affect and feelings of energy (Macey & Schneider, 2008). Since the work by Macey and Schneider (2009) was conceptual, empirical studies are needed to examine whether this distinction between different components of engagement is indeed supported empirically (Harter & Schmidt, 2008).

Taking these core dimensions of employee engagement, Robinson, Perryman and Hayday (2004: ix) offer the following definition which is employed in this study: “*Engagement is a positive attitude held by the employee towards the organization and its values. An engaged employee is aware of business context, and works with colleagues to improve performance within the job for the benefit of the organization. The organization must work to nurture, maintain and grow engagement, which requires a two-way relationship between employer and employee.*” This definition is deliberately broad as there is as yet little consensus as to what exactly should be measured when gauging engagement (see, for example, Vance, 2006: 5).

### What are the drivers of employee engagement?

#### *Performance management*

Performance management is “an integrated process in which managers work with their employees to set expectations, measure and review results, and reward performance, in order to improve employee performance, with the ultimate aim of positively affecting organizational success” (Den Hartog, *et al.*, 2004: 557). Such practices are being recognized as increasingly central to high performing organizations (Kirby, 2005). Particularly empowerment enhancing practices have been found in Western cultures to have a significant effect on employee commitment (Gardner, *et al.*, 2001), one important dimension of

engagement. Despite this idea that performance management practices have particular significance for notions of engagement, as yet evidence of the direct linkage is weak (Guest, *et al.*, 2003). This study has been designed to explore this further.

#### *Work climate*

Extant literature which has explored relationships between performance management and important employee level outcomes frequently highlights the important mediating role of work climate (Greenberg, 1990; Macky, & Boxall, 2007). In this sense, we define work climate as being a combination of factors such as perceived organizational justice, trust in the employer and in colleagues, and the relationship between an employee and their line manager.

In addition to this literature, looking specifically at the desired outcome of engagement, Kahn (1990) reported three psychological conditions which are critical in influencing people's engagement: *meaningfulness*, *safety* and *availability*. *Meaningfulness* is a sense of return on investment of a person's effort in his or her work. *Safety* is a sense of being able to employ oneself without fear of negative consequences to self-image, status or career. *Availability* means possessing the physical, emotional, and psychological resources necessary for investing oneself in role performance. The latter can also be divided into two dimensions: *personal* resource availability, such as energy, competence, and family demands (Rothbard, 2001); and *job* resource availability, such as social support and job control (Mauno, *et al.*, 2007), and not too high job demands requiring physical or mental effort (Demerouti, *et al.*, 2001).

#### How attitudinal and behavioral responses can differ over national contexts

Much of the theory described above has been explored in a Western, predominantly US, context. Extant cross-cultural and cross-national research however leads us to expect differential attitudinal and behavioral responses by employees in different countries to experiences in the workplace. For example, the four dimensions of national culture identified by Hofstede (1980) – power distance, individualism/collectivism, masculine/feminine, uncertainty avoidance – can have crucial effects on the outcomes of HRM practices (Schuler, & Rogovsky, 1989). From an institutional perspective, factors such as the role of the state, labor legislation, trade unions, shareholders, education systems and other influential stakeholders set the context in which HRM is experienced by employees (Brewster, *et al.*, 2007; Whitley, 1999).

Looking at important elements of employment relationships, academic commentators have found significant differences, for example, between the dimensions of organizational justice, commitment and trust in different countries (Chen, & Francesco, 2000; Gales, & Barzantny, 2006; Glazer, *et al.*, 2004; Huang, & Van de Vliert, 2006; Hui, *et al.*, 2004; Wong, *et al.*, 2006). There is also recent evidence that although the underlying relationships between employee attitudes and behaviors are fundamentally the same, i.e. based in social exchange relationships (Zhang, *et al.*, 2008), the impact of a collectivist as opposed to individualist society may affect outcomes such as affective commitment, job satisfaction and turnover intention (Wang, *et al.*, 2002; Wong, *et al.*, 2001). This emerging evidence that employee motivations may differ, particularly between Asian and Western cultures, requires further research, particularly in this new field of employee engagement (Hui, *et al.*, 2004).

There are also important cultural elements to the design and implementation of performance management systems (Fletcher, 2001; Fletcher, & Perry, 2002). However, there has been little cross-cultural research carried out in this field despite being aware of the influence of organizational and national cultural characteristics on, for example, how feedback mechanisms and management style are experienced by employees (Groeschl, 2003).



Individual's responses to different types of performance management practices may also differ between countries, leading to different employee-level, and potentially firm-level, outcomes (Fletcher, & Perry, 2002).

The study compares the performance management-employee engagement relationship in Western (UK/Netherlands-based) MNEs operating in their home country with their operations in developing economies (China and India). The UK is recognized as a liberal market economy (Hall & Soskice, 2001), similar to the USA. The culture is predominantly individualistic and with a low power distance (using Hofstede's terms), meaning that employees are largely motivated by personal incentives and there are relatively flat hierarchies in organization management structures. The other Western country studied here is the Netherlands. This country differs from the UK in that it is classified as a coordinated market economy, and so has higher regulation of the employment relationship. The culture is very similar to the UK however, other than on the dimension of masculinity-femininity (Hofstede, 1980): the Netherlands is more feminine, placing more emphasis on welfare and well-being of employees, compared to the more performance, money-oriented UK society. These Western views on the employment relationship are somewhat different again when compared with collectivist, high power distance Eastern perspectives as we note below (Ayree, *et al.*, 2002).

### *China*

The booming transitional Chinese economy is leading to changes in traditional employment patterns. The once dominant state-owned enterprises (SOE) used to be the mainstay of the 'iron rice bowl' system, providing jobs for life and cradle-to-grave welfare (Warner, 2001). Recent moves by the government to modernize the economy have been forcing SOEs to become more efficient, and workers are increasingly being made redundant (Chen, & Francesco, 2000). The non-state-owned sector now accounts for the largest part of China's industrial output with increasing numbers of joint ventures and foreign capital investments (Warner, 2001). These new firms are putting in place more western approaches to HRM such as performance-based reward, enterprise-specific wages, and temporary labor contracts, but are faced with problems of a lack of skilled managers and high turnover (Wong, *et al.*, 2001).

Chinese culture is high-context<sup>6</sup> and places more emphasis on relationships than Western cultures (Chen, & Francesco, 2000). In employment relationship terms, this means Chinese employees often conceptualize their employment as a relationship with a manager, and see the organization as a whole as an impersonal and abstract entity (Chen, & Francesco, 2000; Hui, *et al.*, 2004). This focus on thinking 'interpersonally' suggests that in the work climate, the supervisor-employee relationship will be crucial in creating employee engagement, as it is in encouraging affective commitment, trust and organizational citizenship behavior (Hui, *et al.*, 2004; Zhang, *et al.*, 2008). Another aspect of the Chinese Confucianism culture, *guanxi*, defined as a relational network system of personally defined reciprocal bonds (Chen, & Francesco, 2000; Warner, 2001), also has a significant impact on the employment relationship. *Guanxi* implies employee loyalty to their manager, who represents the firm, and it is those employees with good *guanxi* who are most likely to be promoted or recruited into the organization in the first place and show the highest levels of organization commitment (Chen, & Francesco, 2000). In summary, Wong, *et al.* (2001: 336) found that: "traditional cultural values of loyalty, *guanxi* and *pao* [reciprocity] still play an essential role in affecting Chinese employees' work-related attitudes and behaviors".

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<sup>6</sup> High context cultures are defined by Hall (1976: 79) as: "most of the information is either in the physical context or initialized in the person, while very little is in the coded, explicit, transmitted part of the message."

Looking at practice, according to the Towers Perrin Global Workforce Study (2007), Chinese employees see learning and development as crucial elements of a good employer. There is also a strong culture of poaching key staff, with many Chinese workers keen to move employers for higher pay. Towers Perrin claims there is a gap between the discretionary effort employees want to invest and how effectively companies are tapping into this (only 16% of employees in China, and only 5% in Hong Kong<sup>7</sup>, describe themselves as fully engaged in their work). This gap is leading to worker mobility with high employee intention to seek an alternative job, increasing the significance of employee engagement to retention.

### *India*

India is second only to China as a developing economy, with a very young and trainable workforce of over 500 million, and yet, to date there has been a lack of HRM research in India. There are new issues emerging in the Indian economy due to the economic boom (Budhwar, & Varma, 2007): graduates are going straight into work and not staying on to do higher qualifications; there are still restrictions in place for female workers; and there is increasing evidence of stress and burnout amongst the workforce. In the IT industry in particular, it has been noted that psychological contracts are changing: the focus is not on a job for life, as there are so many opportunities for employees to be mobile (Krishnan, & Singh, 2007). The biggest challenge is thus retention and motivation (Rathi, 2004).

In terms of culture, people from India do not think of themselves as ‘Indian’ but from a particular province or town, speaking a particular language (not dialect), and with a particular religion (Varma, 2007). These characteristics are very important in the workplace and as a result, individuals seek small groups to identify with and are often mistrustful of other groups, as is common in collectivist societies. Trust in this context is not an issue per se: it is a question of implicit duty and honor which develops informally over time (tradition-based approach), whereas in the West, relationships are controlled by formalized short-term, explicit contracts (rational economic approach). Motivational tools in Indian organizations are also more likely to be social, interpersonal or even spiritual, with a focus on personalized relationships rather than performance (Kanungo, & Mendonca, 1994).

The processes of giving and receiving feedback, and *desirable* employee attitudes and behaviors, also differ in the Indian work culture compared to Western style performance management: an external locus of control (fatalism) and lower levels of ambition; a lack of urgency and a preference for established procedures; higher commitment to family and life roles than to the organization; and high power distance, paternalism and collectivist attitudes than in Western countries (Gopalan, & Rivera, 1997).

In summary, the following table shows the different cultural characteristics of the developed and developing economies as described above:

	<b>Power Distance</b>	<b>Uncertainty Avoidance</b>	<b>Collectivism</b>	<b>Masculinity</b>	<b>High/Low Context</b>
<b>UK</b>	Small	Weak	Low	High	Low
<b>Netherlands</b>	Small	Weak	Low	Low	Low
<b>China</b>	Large	Weak	High	Medium	High
<b>India</b>	Large	Weak	High	Medium	High

<sup>7</sup> Hong Kong is reported as having the same national cultural characteristics as China, however its economy is more commercialized than China due to being under British rule from 1847 to 1997 under a free-market system (Wong, *et al.*, 2001).

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