



# Effect of Employee Engagement on Organizational Performance

*An Empirical Study with Innovative Work Behaviour as a Mediating Variable*

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## ABSTRACT

Employee engagement has emerged as a critical strategic lever for improving organizational performance in contemporary business environments. This study examines the effect of employee engagement on organizational performance, with innovative work behaviour serving as a mediating variable. Using a descriptive research design, primary data were collected from 200 employees working across multiple departments through a structured Likert-scale questionnaire measuring three constructs: Employee Engagement (Vigor, Absorption, Dedication), Innovative Work Behaviour (Generation, Exploration, Implementation), and Organizational Performance (Financial and Non-Financial). Data were analysed using Partial Least Squares Structural Equation Modelling (PLS-SEM) via SmartPLS 3 and 4. Findings reveal that employee engagement significantly and positively influences both innovative work behaviour ( $\beta = 0.764, p < 0.001$ ) and organizational performance ( $\beta = 0.751, p < 0.001$ ). Innovative work behaviour further mediates the engagement–performance relationship ( $\beta = 0.085, p < 0.001$ ). The model explains 58.3% variance in innovative work behaviour and 70.3% variance in organizational performance, reflecting strong predictive power. The study recommends that organizations invest in structured engagement strategies, supportive leadership, and innovation-enabling work cultures to sustain high performance.

**Keywords:** *Employee Engagement, Organizational Performance, Innovative Work Behaviour, PLS-SEM, Job Satisfaction, Vigor, Dedication, Absorption.*



## 1. INTRODUCTION

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In today's rapidly changing and highly competitive business environment, organizations are continuously striving to enhance their performance and sustain long-term growth. Employee engagement has emerged as a pivotal human resource construct that goes beyond mere job satisfaction — it reflects the emotional, cognitive, and behavioural investment employees bring to their roles. Engaged employees exhibit high levels of energy, inspiration, and commitment, which directly contribute to improved productivity, innovation, and overall organizational effectiveness.

Organizational performance is a multidimensional concept encompassing both financial outcomes — profitability, revenue growth, return on investment — and non-financial outcomes such as customer satisfaction, employee retention, and innovation. The relationship between engagement and these outcomes has attracted growing scholarly and managerial attention, as organizations with higher engagement levels consistently outperform competitors. Critically, innovative work behaviour — the intentional creation, promotion, and implementation of new ideas — is increasingly recognized as a key pathway through which engagement translates into superior performance. This study, set in the Specialty Chemicals (Electronics Materials) industry, investigates this three-variable mechanism empirically.

## 2. OBJECTIVES OF THE STUDY

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### Primary Objective

To examine the effect of employee engagement on organizational performance.

### Secondary Objectives

- To analyse the impact of employee engagement on organizational performance.
- To find the mediating effect of innovative work behaviour between employee engagement and organizational performance.
- To analyse the relationship between study variables — Employee Engagement, Innovative Work Behaviour, and Organizational Performance.

## 3. NEED FOR THE STUDY

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Employee engagement has become one of the most pressing concerns for organizations in dynamic and technology-intensive industries. Many organizations continue to face challenges such as high employee turnover, absenteeism, declining productivity, and reduced innovation — all of which are symptomatic of disengagement. Despite the recognized importance of employee engagement, there is limited empirical evidence from specialized industrial contexts, particularly in the electronics materials and specialty chemicals sector. In such industries, employees' intellectual and creative contributions are critical success factors, making their engagement especially consequential. Furthermore, the mediating role of innovative work behaviour in the engagement–performance relationship remains underexplored. Understanding this mechanism can help organizations not only improve day-to-day performance but also build long-term competitive advantage through a sustained culture of innovation and workforce commitment.

## 4. REVIEW OF LITERATURE

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### 4.1 Employee Engagement and Organizational Performance

Muller, Smith, and Lillah (2018) examined employee engagement using a balanced scorecard framework and found that engagement positively influences financial performance, customer satisfaction, internal process efficiency, and organizational learning. Their study demonstrated that employees demonstrating vigour, dedication, and absorption consistently contributed to higher profitability and service quality, confirming engagement as a multi-dimensional driver of performance.



## 4.2 Mediating Role of Job Satisfaction

Al-dalahmeh, Masa'deh, Abu Khalaf, and Obeidat (2018) investigated the relationship between employee engagement and organizational performance with job satisfaction as a mediator in the Jordanian banking sector. Their findings established that job satisfaction partially mediates the engagement–performance link, suggesting that organizations must address both attitudinal and behavioural dimensions of employee experience to maximise performance outcomes.

## 4.3 Engagement and Innovative Behaviour

Rajendran and Doraisamy (2022) studied Malaysian pharmaceutical organizations and confirmed that employee engagement is a significant predictor of innovative work behaviour, which in turn improves organizational performance. Engaged employees were more likely to explore new working methods, generate solutions, and implement improvements — findings that are directly aligned with the present study's framework.

## 4.4 Engagement Drivers and Retention

Kumari and Sharma (2018) analysed factors affecting organizational excellence through employee engagement and found that recognition, communication, leadership support, and growth opportunities are critical antecedents of engagement. The study confirmed that organizations investing in these drivers experience measurably lower turnover, better teamwork, and improved financial performance over time.

## 4.5 Engagement in Developing Economy Contexts

Islam and Islam (2021) conducted a review of private companies in Bangladesh, establishing that employee engagement positively influences organizational commitment and performance. Their study highlighted that the relationship is mediated by commitment, suggesting that engagement strategies must address both employee involvement and organizational loyalty to deliver sustained performance improvements.

## 4.6 Engagement as a Strategic Performance Tool

Bukagile (2025) conducted an empirical case study and confirmed that engaged employees are significantly more productive, committed, and innovative. The study found that organizations with structured engagement programmes consistently outperformed those without, validating the central premise of this research. These findings reinforce the strategic value of employee engagement as a performance management tool across diverse organizational contexts.

## 5. RESEARCH METHODOLOGY

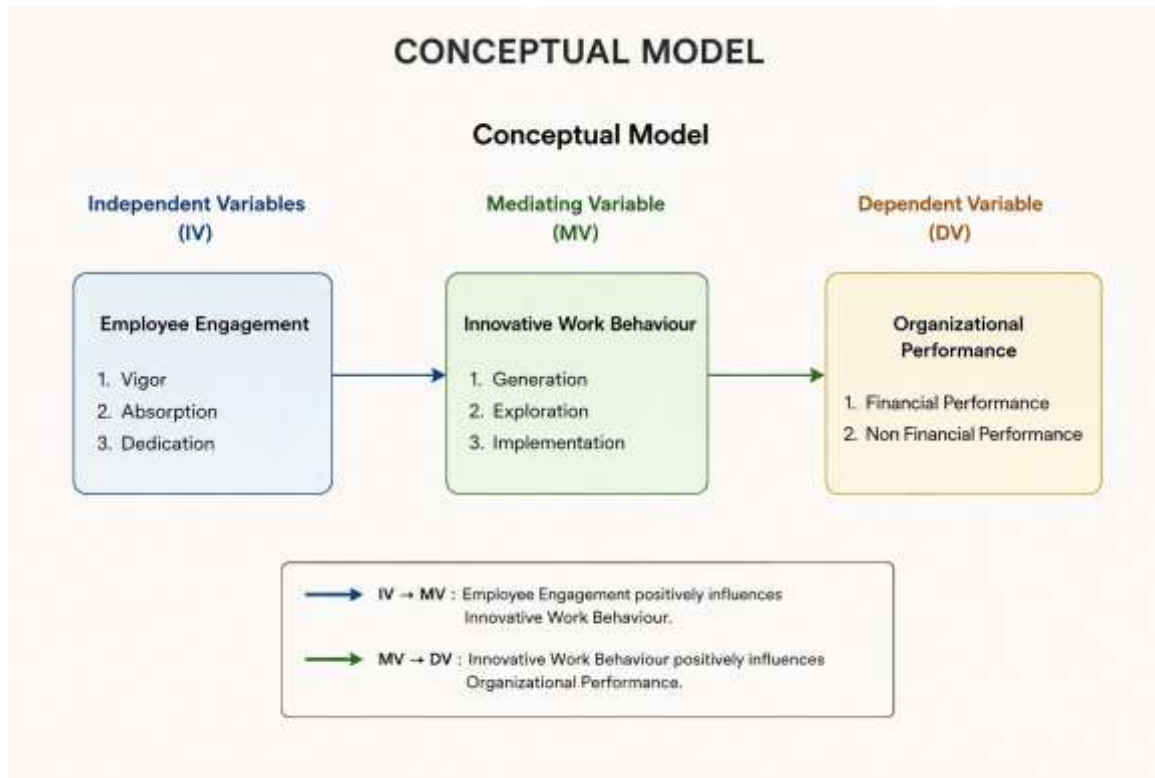
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This study adopted a descriptive research design to examine the effect of employee engagement on organizational performance. Primary data were collected from 200 employees using simple random sampling across departments including production, R&D, quality control, operations, HR, and administration. A structured five-point Likert scale questionnaire was used, covering three constructs: Employee Engagement (8 items — Vigor, Absorption, Dedication), Innovative Work Behaviour (7 items — Generation, Exploration, Implementation), and Organizational Performance (8 items — financial and non-financial indicators). The questionnaire was distributed via Google Forms and internal communication channels. Data were analysed using SmartPLS 3 and 4 through Partial Least Squares Structural Equation Modelling (PLS-SEM), which is suitable for complex models with multiple constructs and does not require multivariate normality assumptions. Statistical assessments included descriptive statistics, reliability (Cronbach's Alpha, Composite Reliability), convergent validity (AVE), discriminant validity, R-square, model fit indices (SRMR, NFI), and structural path coefficients with bootstrapping.



## 6. CONCEPTUAL MODEL

The conceptual model below illustrates the structural relationship between the study's three variables. Employee Engagement (IV) positively influences Innovative Work Behaviour (MV), which in turn positively influences Organizational Performance (DV). A direct path from Employee Engagement to Organizational Performance is also hypothesised.



## 7. DATA ANALYSIS AND INTERPRETATION

**Table 1: Descriptive Statistics of Measurement Items**

Variable	Item	Mean	Median	Factor Loading	VIF
Employee Engagement	EE1 – Feel bursting with energy	3.515	4	0.739	1.875
	EE4 – Job inspires me	3.665	4	0.773	1.936
	EE5 – Time flies when working	3.648	4	0.752	1.808
	EE8 – Job is challenging	3.658	4	0.730	1.677
Innovative Work Behaviour	IW2 – Generate original solutions	3.690	4	0.888	1.508
	IW5 – Introduce innovative ideas	3.631	4	0.796	2.094



	IW6 – Contribute new ideas	3.648	4	0.806	2.176
Organizational Performance	OP1 – Profitability above average	3.601	4	0.805	2.875
	OP4 – Firm reputation improved	3.719	4	0.704	1.790
	OP5 – Mutual trust with suppliers	3.650	4	0.783	1.702

Interpretation: All mean values ranged between 3.51 and 3.72 on the five-point scale, reflecting positive employee perceptions across all constructs. Factor loadings exceeded 0.70 for every item, confirming strong indicator reliability. VIF values below 5 confirm the absence of multicollinearity among variables, making the model statistically sound.

**Table 2: Reliability and Convergent Validity**

Construct	Cronbach's Alpha	rho_A	Composite Reliability	AVE
Employee Engagement	0.884	0.884	0.908	0.552
Innovative Work Behaviour	0.880	0.883	0.907	0.583
Organizational Performance	0.893	0.894	0.915	0.573

Interpretation: Cronbach's Alpha values range from 0.880 to 0.893, well above the 0.70 threshold, confirming strong internal consistency. Composite Reliability values exceed 0.90 for all constructs, indicating high reliability. AVE values between 0.552 and 0.583 surpass the 0.50 benchmark, confirming convergent validity. All three constructs are reliable and valid for structural analysis.

**Table 3: Discriminant Validity Analysis (HTMT/AVESQRT)**

Construct	Employee Engagement	Innovative Work Behaviour	Organizational Performance
Employee Engagement	0.743	—	—
Innovative Work Behaviour	0.764	0.764	—
Organizational Performance	<b>0.835</b>	0.684	0.757

Interpretation: Diagonal values represent the square root of the AVE for each construct. Since these values (0.743, 0.764, 0.757) are higher than the off-diagonal inter-construct correlations, discriminant validity is confirmed. Each construct is sufficiently distinct, with no significant overlap, ensuring the accuracy and integrity of the measurement model.



**Table 4: Structural Path Analysis (PLS-SEM Results)**

Hypothesis / Path	$\beta$ (O)	Mean (M)	STDEV	T-Stat	P-Value	Decision
EE $\rightarrow$ Innovative Work Behaviour	<b>0.764</b>	0.765	0.025	30.482	0.000	Accepted
EE $\rightarrow$ Organizational Performance	<b>0.751</b>	0.750	0.049	15.457	0.000	Accepted
IWB $\rightarrow$ Organizational Performance	<b>0.111</b>	0.112	0.054	2.056	0.040	Accepted
EE $\rightarrow$ IWB $\rightarrow$ Org. Performance (Mediation)	<b>0.085</b>	0.086	0.042	2.019	0.044	Accepted

Interpretation: Employee Engagement significantly predicts Innovative Work Behaviour ( $\beta = 0.764$ ,  $T = 30.482$ ,  $p < 0.001$ ) and Organizational Performance ( $\beta = 0.751$ ,  $T = 15.457$ ,  $p < 0.001$ ). Innovative Work Behaviour also significantly influences Organizational Performance ( $\beta = 0.111$ ,  $p = 0.040$ ). The indirect effect ( $\beta = 0.085$ ,  $p = 0.044$ ) confirms partial mediation. The model explains 58.3% of variance in Innovative Work Behaviour and 70.3% in Organizational Performance. All four hypotheses are accepted.

## 8. DISCUSSION

The findings of this study strongly affirm that employee engagement is a powerful and statistically significant determinant of both innovative work behaviour and organizational performance. The high path coefficient between employee engagement and innovative work behaviour ( $\beta = 0.764$ ) is particularly noteworthy in the context of the electronics materials industry, where innovation is not optional but operationally essential. Engaged employees — characterized by energy, inspiration, and deep focus — are significantly more inclined to explore new working methods, generate creative solutions, and champion ideas through to implementation. The direct effect of engagement on organizational performance ( $\beta = 0.751$ ) further confirms that emotional and cognitive investment by employees translates into measurable organizational gains. The mediation of innovative work behaviour, while modest ( $\beta = 0.085$ ), is statistically significant and theoretically meaningful — demonstrating that part of engagement's influence on performance flows through innovation, creating a reinforcing cycle of engagement, creativity, and outcomes.

## 9. CONCLUSION

This study confirms that employee engagement is a foundational driver of organizational performance, mediated by innovative work behaviour, in the specialty chemicals and electronics materials industry. The empirical evidence, derived from 200 employees using PLS-SEM, demonstrates that engaged employees are more innovative, more productive, and more committed to organizational success. The model's high explanatory power — 70.3% of variance in organizational performance — underscores the strategic relevance of engagement as a management priority. Organizations that invest in effective leadership, open communication, recognition systems, career development pathways, and innovation-enabling cultures will build a workforce that not only performs at a high level today but sustains competitive advantage over the long term. Employee engagement is not merely a human resource concern — it is an organizational imperative.



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