

LCLM6004

Research Methods for Business

***The Impact of Employee Engagement on Organisational
Performance in UK Small and Medium Enterprises
(SMEs)***

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1. Introduction

1.1 Background of the study

SMEs form an important part of the economy of the UK. It is estimated that they make up 99.9% of private sector firms and contribute greatly to the employment and economic output of the country (GOV.UK, 2024). However, despite their great importance, SMEs still face challenges in terms of inconsistency in production levels, high turnover rates, and poor performance, all of which are attributed to a lack of resources and poor human resource management in SMEs. Employee engagement is defined as the level of emotional and cognitive attachment that an employee has to his/her organisation (Zeng et al., 2025). Organisational performance can be defined as the performance and efficiency of the business in achieving its objectives.

Many management studies have investigated the link between employee engagement and organisational performance, showing how the former contributes to higher productivity and performance, innovation, and higher customer satisfaction (Rafiq et al., 2023). Nevertheless, findings are rather inconsistent, especially in the context of small and medium-sized enterprises due to the organisational context and resources, which could affect this relationship in a different way compared to larger organisations. The difference in performance among UK SMEs is largely linked to the difference in levels of engagement and managerial styles used, hence creating doubt in the future competitiveness and sustainability of these businesses. Thus, the purpose of this study is to investigate the effect of employee engagement on organisational performance in UK SMEs.

1.2 Problem Statement

Employee disengagement among UK SMEs is an ongoing challenge which impacts motivation levels and efficiency among employees. SMEs are more prone to such challenges because of their lack of HR capabilities. As a result, there is low efficiency, profitability, competitiveness, and inefficiency, hindering their sustainable growth.

1.3 Research Aim and Objectives

Aim

The study aims to examine the impact of employee engagement on organisational performance in UK Small and Medium Enterprises (SMEs).

Objectives

- To understand the concept of employee engagement on organisational performance in UK SMEs.
- To analyse the impact of employee engagement on organisational performance in UK SMEs.
- To identify the challenges faced by UK SMEs in improving employee engagement that directly enhance organisational performance.
- To recommend several strategies for improving employee engagement and improves overall organisational performance.

1.4 Research Questions

- What is the employee engagement on organisational performance in UK SMEs.?
- What is the impact of employee engagement on organisational performance in UK SMEs?
- What are the challenges faced by UK SMEs in improving employee engagement that directly enhance organisational performance?

2. Literature Review

2.1 Concept

Employee engagement is described as the degree of commitment shown by an employee in terms of motivation, discretionary efforts and goals towards the organisation (Atiku, Naunyango and Oladejo, 2024). Moreover, the organisational performance is determined by the extent to which the organisation fulfils its goals and aims (Aguilera et al., 2023). It can be measured through productivity, efficiency, profitability and customer service.

The relationship between employee engagement and organisational performance among small-medium organisations in the United Kingdom is very important due to the fact that the behaviours of the employees play an integral role in determining the results of the firm. The lack of sufficient resources makes it essential to understand and increase employee engagement.

2.2 Theories

- ***Herzberg's Two-Factor Theory***

The Herzberg two-factor theory identifies factors in the workplace as being either hygiene factors or motivators (Lee et al., 2022). Hygiene factors such as salary, environment, and security in the job are not motivating but rather dissatisfying, whereas motivation factors such as recognition, accomplishments, and growth in an organisation motivate the employees. In SMEs, where there is little budget and the human resource department is weak, a lack of hygiene factors dissatisfies the employees, while the presence of motivation factors motivates the employees to work hard and be committed.

- ***Job Demands–Resources (JD-R) Model***

According to the JD-R Theory, engagement results from the equilibrium between job demands such as workload, stress, and accountability and job resources like management support, autonomy, and professional development opportunities (Rasool et al., 2024). In SMEs, workers may have high job demands since there are fewer team members. However, sufficient support and empowerment would help avoid stress and create engagement.

These two models enable a critical evaluation of the mechanisms of engagement development and its positive effects on the organisation's performance.

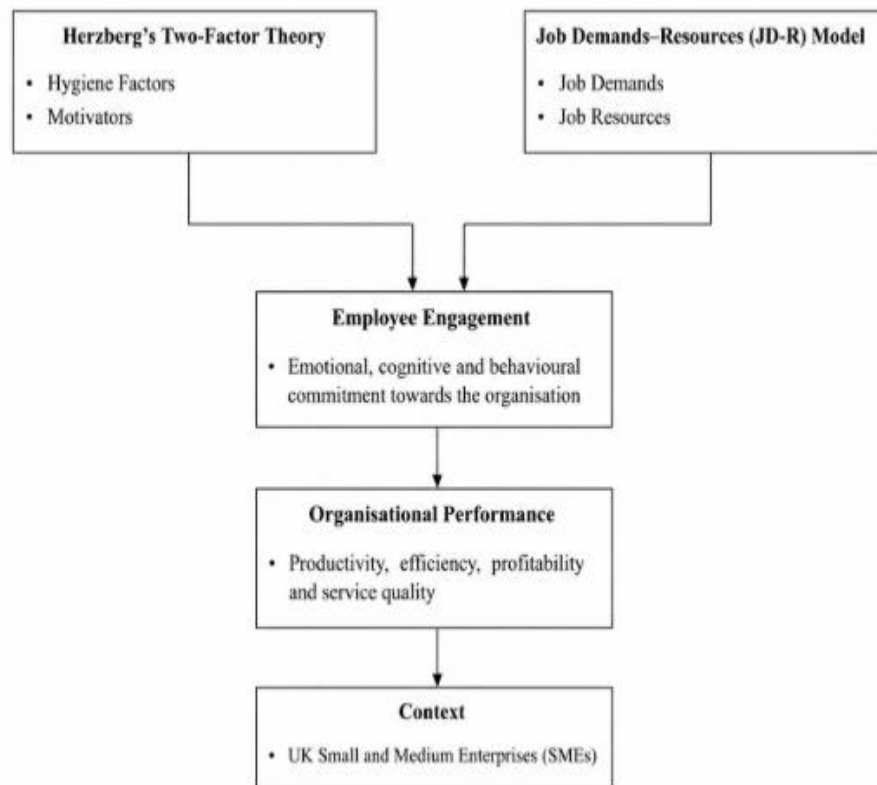


Figure 1: Theoretical Framework

Source: By Author

2.3 Impact of employee engagement on organisational performance in UK SMEs.

Engagement is a key determinant of organisational performance for SMEs in the UK, specifically in relation to productivity, efficiency, and stability in the workplace. Engaged employees correlate with increased commitment, decreased turnover and alignment with organisational goals, which all work towards better performance. Poor engagement leads to absenteeism, poor performance and weak competitive position of an organisation, more so for SMEs operating under constrained resources.

Abdelwahed and Doghan (2023), observe that engaged employees have higher productivity and customer satisfaction, thus positively contributing to organisational performance. On the other

hand, their findings show inconsistency of results depending on different organisational settings, implying that engagement does not equally lead to better performance in all circumstances. However, Jiatong et al. (2022), note that engagement is a psychological motivator of role performance; however, organisational influence greatly mediates this effect. On the contrary, Wittenberg et al. (2023), criticise oversimplistic views of engagement, pointing out the significance of emotional and psychological security when considering full engagement of employees.

Even though there is a lot of evidence in favour of this connection, in practice, it is difficult to understand due to informal structures, weak HR capabilities, and poor management practices. Such difficulty gives rise to a gap between the level of engagement and performance benefits. Thus, employee engagement influences the organisational performance in UK SMEs in a strong context-dependent way.

2.4 Challenges faced by UK SMEs in improving employee engagement that directly enhance organisational performance.

UK-based SMEs face numerous challenges that affect their ability to increase employee engagement, thus impacting organisational performance. Financial limitations prevent companies from spending money on staff development, rewards, and structured engagement programs; therefore, people become less motivated and deliver inconsistent results. Besides, SMEs tend to work within an informal organisational structure, making it harder for employees to receive clear messages regarding their responsibilities.

Szegedi, Németh and Körtvési (2023), note that SMEs usually have problems retaining talented employees because of the weaker value propositions provided to employees in comparison with big corporations. Likewise, according to Mphaluwa et al. (2025), SME engagement is dependent upon managerial abilities, since inconsistent behaviour affects employees' willingness to engage. However, Kindström, Carlborg and Nord (2022), suggest that despite the fact that managers in SMEs build closer relationships with employees, the lack of HR systems makes it hard to scale up engagement processes.

In addition to this, workload-related pressures and the need for multitasking in SMEs can result in burnout of employees and thereby lead to decreased discretionary effort and productivity. Lack of

communication between managers and workers has further exacerbated the problem of low levels of engagement. All this goes on to show that while employee engagement is accepted as a source of performance, SMEs suffer from many internal limitations.

2.5 Literature Gap

The existing literature has largely focused on engagement and organisational performance in the context of large organisations; nonetheless, very little work has been done on engagement and organisational performance in relation to UK SMEs. Most studies are conducted on a broader perspective of the engagement-performance relationship, where very little has been considered in terms of constraints facing SMEs in terms of resource constraints, lack of proper managerial processes, and inconsistency in human resource practice. The studies carried out by Jiatong et al. (2022) and Wittenberg et al. (2023) provide engagement issues but do not focus enough on how engagement affects performance in SMEs. There is still a need to conduct empirical studies on how management practices in SMEs affect engagement performance.

3. Research Methodology

3.1 Research Philosophy

The research philosophy can be described as a belief system regarding the nature of knowledge development and interpretation. Interpretivism is a research paradigm that emphasises the importance of human behaviour and experience from an individual's point of view (Watson, 2024). This research project has adopted the interpretivist research philosophy due to the nature of employee engagement as an abstract phenomenon, which depends on the perception and attitude of employees in UK small and medium enterprises.

3.2 Research Approach

In contrast to the deductive research approach, where one tests the pre-defined hypothesis, the inductive approach entails the formulation of theories and insights based on the observed data. This particular study uses an inductive approach since it focuses on identifying themes and patterns that would emerge from SME data related to employee engagement and performance. In other words, this study requires an inductive approach due to high diversity among SMEs, as well as the need for new insights into the process of translating employee engagement into performance.

3.3 Research Design

The research design of this study relies on the Research Onion proposed by Saunders and entails the systematic process of selecting methodology (Saunders, Lewis and Thornhill, 2023). Beginning with interpretivism (philosophy) and an inductive approach, this onion allows moving to the core through strategy and data.

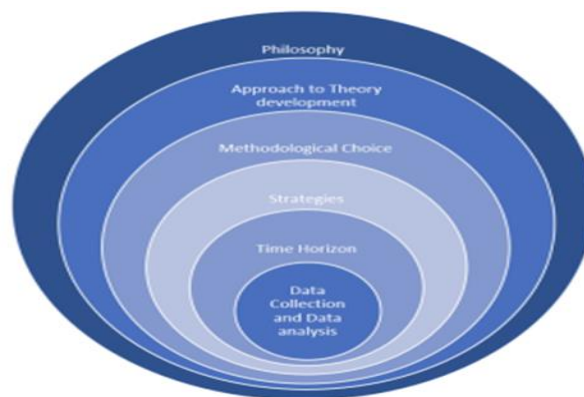


Figure 2: Saunders Research Onion Framework

Source: (Gamage, 2025)

3.4 Data Collection

Data collection has been done through the secondary sources, it includes available data from sources like academic journals, industry reports (CIPD), government data and SME performance research (Adams, T.A. Khan and Raeside, 2007). The choice of this method is dictated by the availability of the method, its economic efficiency and the possibility of obtaining a wide range of information on employee engagement trends among UK SMEs. Also, there is access to the data that does not require any time restrictions, as it already exists and is valid.

3.5 Data Analysis

Thematic analysis is conducted in order to identify, analyse and interpret patterns in qualitative data (Ahmed et al., 2025). With thematic analysis, one can categorise common themes in terms of employee engagement, including leadership impact, motivation, company culture and communication processes.

3.6 Ethical Issues

Issues of ethics involve the appropriate referencing of the secondary sources, prevention of plagiarism and the use of credible and publicly accessible data. The interpretation of the data is objective without any kind of data manipulation.

3.7 Reliability and Validity

Reliability has been achieved through the use of credible and peer-reviewed academic as well as industry sources (Dwyer, Karanikas and Sav, 2023). Validity is guaranteed by choosing SME literature and ensuring that the results show the link between employee engagement and organisational performance.

4. Business Relevance and Practical Implications

Employees' engagement is a critical element in improving organisational performance in UK small and medium-sized enterprises. The improvement of engagement strategies like appreciating employee accomplishments, offering effective communication channels, and developing employees professionally creates a sense of commitment and motivation. The leadership practices of participative decision making, feedback, and good management ensure high levels of trust and cooperation that improve employee performance and behaviour. The use of HR practices for structured recruitment, reward mechanisms, and career progression leads to high job satisfaction and loyalty.

The improved engagement contributes to efficiency through an increase in discretionary effort and efficiency in completing tasks. The retention level is also improved through the display of committed employees who are motivated to work. The efficiency of the organisation results from better coordination and communication. Engagement among employees makes the decision-making process easy for managers since workers share their ideas, problems within the firm and also come up with possible solutions based on real experiences. Strategically, SMEs that have higher levels of engagement have an advantage over others due to having a stable and motivated workforce, which can grow and meet market requirements.

Some practical measures include the use of proper feedback channels, development plans and participative management strategies. To promote engagement in organisations, SMEs can implement periodic performance reviews, incentivise high-performing employees, and conduct decision-making meetings. They enable sustainable improvement without the need for much effort and help to connect employee engagement and organisational effectiveness.

5. Conclusion

This study is an investigation of the effect of employee engagement on organisational performance in SMEs in the UK. The factors contributing to the process of engagement and its effects are taken into consideration in this study. It is essential to investigate the issue of engagement among SMEs because of their resource limitations, informal organisational culture, and importance in the economic life of the country. The results obtained make a contribution to the sphere of business by showing how engagement influences the productivity and efficiency of the organisation.

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