

# Direct and Indirect Relationship of Employee Engagement, Corporate Image, Employee Loyalty, and Business Performance among Private Business Organizations

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## Abstract

This study is very crucial for private business organizations to achieve business performance by formulating short and long-term strategies and plans to achieve the set business performance. The topic being studied is important for private organizations because it will allow organizations to improve their performance and business sustainability in the future. The purpose of this study is to measure the direct and indirect relationship between employee engagement, employee loyalty, corporate image, and business performance. This study uses a quantitative approach by using primary data for data analysis. A total of 329 clean data were used in data analysis using the Structural Equation Modeling (SEM) technique. This study uses Smartpls3 software to analyze multivariate data and the proposed hypotheses. Furthermore, model measurement and structural model assessment procedures were also carried out by using Smartpls3. An assessment of construct reliability and validity was done to confirm the existence of convergent validity and reliability. Then, discriminant validity is assessed by calculating cross-loadings and Heterotrait-Monotrait (HTMT) ratios. Next, the inner model was assessed and from the results of hypotheses testing, it was found that employee engagement does not have a direct relationship with business performance, while employee loyalty and corporate image have a direct relationship with business performance. On the other hand, employee loyalty and corporate image have a significant mediating effect on the relationship between employee engagement and business performance. Findings from the analysis show that employee loyalty and corporate image are important mediators in the relationship between employee engagement and business performance. For future studies, it is suggested that other variables such as leadership style. Organizational commitment and peer influence are to be included in the model so that it will better perspective on the factors influencing the business performance of private organizations business performance.

**Keywords:** Employee Engagement, Corporate Image, Employee Loyalty, Business Performance, Structural Equation Modeling

### **Introduction**

To ensure that a private organization achieves the expected business performance is not an easy task. It requires proper planning and strategy which when implemented will lead the organization to achieve the set goals. Many private organizations around the world are faced with a strong guarantee to achieve good business performance due to the increasingly intense business competition today due to the large number of new competitors entering the market (Kebah et al., 2019). Private organizations today have to look at various factors that affect their respective business performance. In the past, most private organizations only focused on quantitative factors to see the influence on their respective business performance, but today, qualitative factors have begun to be emphasized to see the influence on business performance (Kebah et al., 2019). Qualitative factors such as employee engagement, employee loyalty, and corporate image have begun to receive attention that has an influence on the business performance of a private organization. In Malaysia, most private business organizations have expressed concern about the challenge of maintaining their business performance given the increasingly competitive business market conditions (Osman et al., 2022). The government has tried its best to ensure that the business environment can benefit private business organizations. Various business policies and procedures have been drafted by the government to help private business organizations run their business operations. At the same time, private business organizations have also seen internal factors that have influenced business performance by increasing positively on business performance (Alwi et al., 2022). This study has significance for policymakers in formulating policies and business procedures in the country. Also, this study has significance for private business organizations in formulating effective strategies to maintain good business performance. The motivation of this study is to understand the cause and effect relationship between variables based on direct and indirect relationships as suggested in the study model to obtain a solution to solve business performance problems found in private business organizations. The purpose of this study is to see the direct and indirect relationship between employee engagement, employee loyalty, corporate image, and business performance.

### **Literature Review**

#### *Business Performance.*

Business performance to organizational efficiency in creating and providing value to internal and external customers (Antony & Bhattacharyya, 2010). The concept of business performance is used interchangeably with terms such as firm performance and organizational performance (Barrett et al., 2012). Moreover, business performance is also categorized as financial and non-financial (Combs et al., 2005). Furthermore, management literature has widely discussed business or firm performance as a multidimensional construct based on financial and nonfinancial measures (Martz, 2013; Umrani et al., 2016). Measuring organizational performance is always a focus for management researchers. Which is an important construct to the success of the organization. In addition, it is important to understand that non-financial measures are important indicators for financial measures where the organization always focuses on the evaluation of the financial perspective. Therefore, the evaluation of performance against non-financial indicators helps the organization refocus all resources to improve long-term performance (Banker et al., 2000).

Other researchers consider employees who perform well always look with high motivation and value to determine so that their organization gets positive results (Abrahma, 2012). Furthermore, Ram and Prabhakar (2011); Purcell (2012) consider employee well-being to be an acknowledgment of employees' contribution to the organization's business performance. Markos and Sridevi (2012) have confirmed that engagement is a two-sided sharing of information between managers and subordinates and finding the weaknesses of employees that need attention.

### *Employee Engagement*

Engagement in an organization measures how employees involve themselves in the organization as a whole and additionally how employees think about their superior management. Kular et al (2008) stated the best time to identify the best-engaged employee is when they are employed by the organization. Many researchers who study employee well-being are found trying to understand the relationship between employee engagement and organization business performance (Gupta & Sharma, 2016). Employees who are involved in engagement show better performance compared to employees who are less involved in engagement (Sorenson, 2013). Ahmed et al (2017) suggested that employee engagement plays an important role in determining business performance. Employee engagement is often seen as having a relationship with employee loyalty in an organization. Hussain (2012) says there is a relationship between workplace conditions and recognition with loyalty which is the same as the type of relationship used in Gallup's survey which is used in other literature that measures employee engagement. This is supported by a study done by Jones et al. (2009) who found that employee engagement has an influence on absenteeism which is also one of the variables to measure loyalty. This is coupled with findings by Inerson and Berechet (2011) who consider career development to be one of the factors to expect loyalty. Engaged employees are more likely to spread positive things about the corporate image through word of mouth or through social media (Osman et al., 2021). Engaged employees also tend to interact with the organization's social media page and thus will further increase the reach and engagement of the corporate image through digital channels. Taha and Shinwoo (2021) in their study on public employees have revealed that employee engagement has a positive and significant influence on the image of the organization.

### *Employee Loyalty*

According to LaMalfa (2007), research says employers need to understand why employees have an emotional relationship with the organization which is usually more than the salary and remuneration they get. Employees who have a strong emotional connection with the organization are the best employees who will engage in the organization more actively and feel more valued. Reichheld (2006) in his study found that loyalty is for those who plan to work longer with their employer for at least two years. This is due to the effects of several factors such as benefits and wages and the work environment. Employee loyalty is a critical factor for the organization because continuous turnover will increase the cost of the organization. According to Osman and Sentosa (2013), the most effective way to increase employee loyalty is to make employees feel that their presence in the organization is significant. Osman et al (2022) stated that feedback systems from employees can help increase employee loyalty by providing two-way communication between employees and management. If employees feel that the organization listens to their views and recognizes their contribution to the organization, the employees will be more loyal and in turn, will

contribute to the organization's business performance. Nazrin et al (2020) in their study on airline employees have found that employee loyalty has a mediating effect on the relationship between employee engagement and business performance. The finding was supported by the study on tourism employees conducted by Osman and Sentosa (2014) where the results showed that there was an indirect influence of employee loyalty on the relationship between employee engagement and business performance.

### *Corporate Image*

Corporate image is influenced by not only various factors, but it also has an effect on the business performance of an organization. In particular, many researchers have conducted many studies that show employee engagement has an influence on the corporate image (Zameer et al., 2018). Improving the corporate image can improve the organization's business performance (Adeniji et al., 2014). Li and Shu (2019) in a study found that corporate image mediates the relationship between employee engagement and business performance. Chang (2007) in his study found that corporate social responsibility and corporate image have a positive and significant influence on business performance. This is supported by Boonpattarakan (2012) in his study which states a positive and significant relationship between corporate image and business performance involving Thai logistics companies who also found that corporate image plays a role as a mediator to business performance. Huang and Lien (2012) in their study on the relationship between corporate social responsibility, corporate image, and business performance have found that corporate image has a direct influence on business performance and mediates the relationship between corporate social responsibility and business performance. Also, Alrubaiee et al (2017) found that corporate image has a positive and significant direct relationship with performance and also acts as a mediator between customer value and performance.

### **Research Hypotheses**

In view of the above conceptual development, the following hypotheses were proposed for this study:

- H1*: There is a relationship between corporate image and business performance in private business organizations.
- H2*: There is a relationship between employee engagement and business performance in private business organizations.
- H3*: There is a relationship between employee engagement and corporate image in private business organizations.
- H4*: There is a relationship between employee engagement and employee loyalty in private business organizations.
- H5*: There is a relationship between employee loyalty and business performance in private business organizations.
- H6*: There is a relationship between employee loyalty and corporate image in private business organizations.
- H7*: There is a mediating effect of corporate image on the relationship between employee engagement and business performance in private business organizations.
- H8*: There is a mediating effect of corporate image on the relationship between employee loyalty and business performance in private business organizations.

H9: There is a mediating effect of employee loyalty on the relationship between employee engagement and business performance in private business organizations.

H10: There is a mediating effect of employee loyalty on the relationship between employee engagement and corporate image in private business organizations.

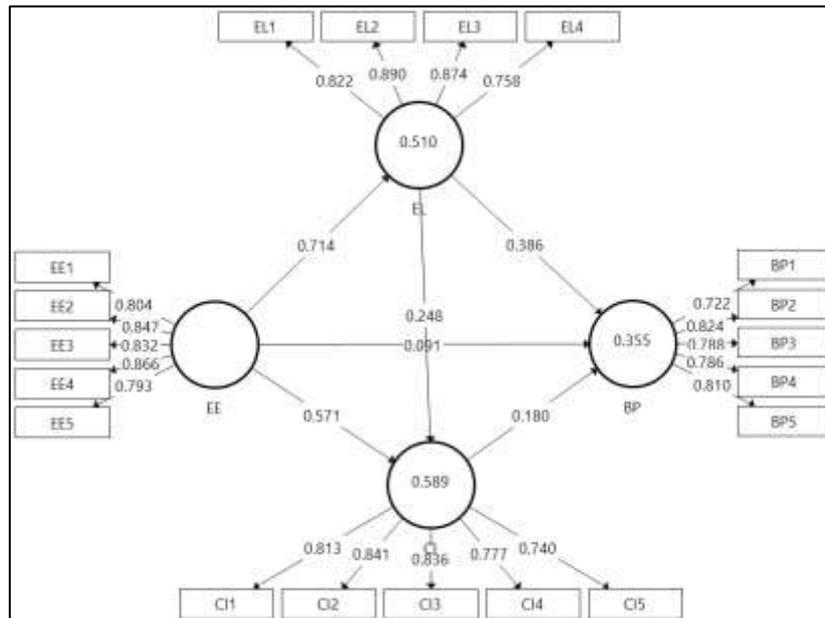


Figure 1: Research Model

Note: EE=Employee Engagement EL=Employee Loyalty CI=Corporate Image BP=Business Performance

### Methodology

Employees who are working in private in Malaysia were selected for this study. This study used primary data and a survey instrument was employed for data collection. The measurement items used in the survey questionnaire for this study were developed with a detailed evaluation of prior studies to reach suitable measurements that were being frequently utilized and possessed strong reliability and validity. Survey questionnaires were sent through email to the selected respondents. This study used the non-probability sampling technique of purposive sampling to gather data due to the absence of the sample frame. In this study, there was a total of 19 observed variables comprised of exogenous variables and endogenous variable measurement items. The employee engagement construct consists of 5 measurement items (May et al., 2004), the corporate image consists of 5 measurement items (Lee, 2004), the employee loyalty construct consists of 4 measurement items (Matzler and Rentzl's, 2006), and the business performance construct consists of 5 measurement items (Ganeshasundaram and Henley, 2007). A five-point Likert scale was adopted ranging from strongly disagree to strongly agree to measure all constructs' measurement items. Out of 485 questionnaires sent out, 353 were returned. This made-up a 72.8% response rate and it was adequate to analyze the data by adopting the structural equation modeling technique (SEM). Then, after data screening and eliminating the outliers, 329 questionnaires were clean and ready to be analyzed.

This study uses component-based SEM (i.e., partial least squares structural equation modeling, PLS-SEM) to test the relationship in the proposed model. This method allows for analyzing the strength of the construct's influence on the target construct in the path model (Hair et al., 2022). PLS-SEM supports both explanatory and predictive goals when analyzing casual-predictive model relationships (Wold, 1982). To compare with the theory developed before, the model must support causal explanation and provide predictive accuracy (Chin et al., 2020). This type of research methodology is particularly suitable for the development of new theories and also the development of existing theories (Ritcher et al., 2016). Moreover, PLS-SEM supports the estimation of not only both reflective and formative measurement models (Hair et al., 2022) but also complex structural models (Hair et al., 2019; Wold, 1982). Researchers from various different fields of social science, for example, human resource management (Ringle et al., 2020), higher education (Ghasemy et al., 2020), information systems (Chin et al., 2020), and especially in the field of marketing (Liu et al., 2021; Chaouali et al., 2021; Damberg, 2021a), especially corporate and organizational reputation (Damberg, 2021b; Schloderer et al., 2014) used the PLS-SEM method in the empirical analysis to support the purpose of their study. This study uses SmartPLS 3 (Ringle et al., 2015) to estimate and model evaluation results.

#### *Respondents' Profile*

In this study, 39.8% were male and 60.2% were female. Of the age of respondents who participated in this study, 7.9% were 20-30 years old, 44.1% were 30-40 years old, 23.7% were 40-50 years old, 17.9% were 50-60 years old, and 6.4% more than 60 years old. In terms of the year of service of the respondents, 12.5% were less than 5 years, 5-10 years were 22.5%, and 10-15 years was 17.3%. 15-20 years were 13.7%, 20-25 years were 12.5%, 25-30 years were 13.4% and more than 30 years was 8.2%. On the management level, 11.6% from top management, 57.1% from middle management, and 31.3% from the operational level. In terms of income level, 34.3% were less than RM4,850, 43.2% were RM4,851-RM10,970 and 22.5% were more than RM10,971.

#### **Data Analysis**

##### *Common Method Bias*

In the field of business management, common method bias is one of the problems faced by researchers. The problem arises when the variance that should be considered to represent variables actually represents the measurement method in the field being studied. Therefore, this study uses Harman's single factor test method to assess whether there is a common method bias issue in this study. After doing the common method bias test, the principal factor showed 39.4% which proves that there is no problem with the common method bias due to the principal factor did not hold most of the variance explained. This is in line with Podsakoff and Organ (1986) who suggested that there is no problem with common method bias when the variance explained by the principal component fraction was not higher than 50%.

##### *Measurement Model*

PLS-SEM algorithm was used to assess and verify the constructs' measurement validity and reliability. As recommended by Hair et al (2017), there were two vital elements in PLS-SEM which were the reliability and validity of the outer goodness model for the study. Initially, the specified model was established (Figure 1), and after early outer loading reliability and validity assessment, one item from the employee loyalty was deleted due to the loading being lower

which caused the construct validity of Average variance Extracted (AVE) below the 0.5 threshold. Low item loadings also caused the Hetrotrait-Monotrait (HTMT) ratios have failed to meet the requirements. After the re-specified model was established (Figure 1) and after the lower loading items deletion, all constructs obtained an AVE of a minimum of 0.5 thresholds with a minimum AVE of 0.619 and maximum AVE of 0.702 (Table 1). This showed the convergent validity establishment for all constructs. Further, Table 1 also showed the composite reliability for all constructs ranging from 0.890 to 0.916, which was greater than the threshold of 0.7 as suggested by (Hair et al., 2017). Then, the establishment of discriminant validity was assessed to confirm its presence in this study by evaluating the cross-loading measurement items. The results of the assessment have shown all item loadings were higher than their respective cross-loadings (Table 1). The confirmation of discriminant validity was further evaluated with the Hetrotrait-Monotrait (HTMT) ratios assessment and the result has demonstrated that all the four constructs' ratios were less than 0.9 (Table 2) as proposed by Henseler et al. (2015). Therefore, it can be concluded that this study has established the reliability and validity of all latent constructs as suggested by (Hair et al., 2022).

**Table 1**  
*Constructs Reliability, Validity & Item Loadings*

Construct	Item	Loading	Cronbach Alpha	Composite Reliability	Average Variance Extracted
Business Performance	BP1	0.722	0.847(0.813, 0.875)	0.890(0.869, 0.909)	0.619(0.570, 0.667)
	BP2	0.824			
	BP3	0.788			
	BP4	0.786			
	BP5	0.810			
Corporate Image	CI1	0.813	0.861(0.826, 0.889)	0.900(0.878, 0.918)	0.643(0.591, 0.692)
	CI2	0.841			
	CI3	0.836			
	CI4	0.777			
	CI5	0.740			
Employee Engagement	EE1	0.804	0.886(0.852, 0.913)	0.916(0.894, 0.935)	0.687(0.629, 0.741)
	EE2	0.847			
	EE3	0.832			
	EE4	0.866			
	EE5	0.793			
Employee Loyalty	EL1	0.822	0.857(0.823, 0.885)	0.904(0.883, 0.921)	0.702(0.655, 0.744)
	EL2	0.890			
	EL3	0.874			
	EL4	0.758			

*Note: CI 95% bootstrap confidence interval*

Table 2

*Hetrotrait-Monotrait (HTMT) Ratio*

	BP	CI	EE
CI	0.581(0.481, 0.677)		
EE	0.566(0.455, 0.679)	0.853(0.789, 0.905)	
EL	0.652(0.563, 0.737)	0.759(0.679, 0.829)	0.815(0.747, 0.876)

Note: CI 95% bootstrap confidence interval, EE=Employee Engagement EL=Employee Loyalty  
CI=Corporate Image BP=Business Performance

*Structural Model*

The inner value inflation factors (VIFs) are all below the more liberal threshold of 5 with the highest value being 2.835 (Table3). Collinearity at this level permits to comparison and interpretation of the structural model coefficients size. The hypotheses testing results show that from the 10 hypotheses proposed and tested in this study, nine hypotheses are supported and only one hypothesis is not supported which is  $H_2$  (Table 4). The corporate image demonstrates the high level of endogenous constructs' amount of explained variance with an  $R^2$  of 0.589 (Figure 1). For the main target construct, business performance, it shows that the model explains a 35.5% variance of the construct ( $R^2=0.355$ ). More importantly, the model's out-of-sample predictive power is to draw conclusions and give managerial recommendations. For this assessment, the PLSpredict procedure is used on business performance (Shmueli et al., 2016, 2019).  $Q^2$  predict greater than 0 shows the PLS-SEM predictions are greater than the naïve mean value prediction standard outcomes (Table 5). In addition to that, the root mean square error (RMSE) value of the PLS-SEM predictions is eight of fourteen cases smaller than the RMSE value of the linear model (LM) prediction benchmark. These results prove the proposed model has a predictive power (Table 3).

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performance value, employee engagement demonstrates the highest performance value (70.05), and employee loyalty displays the lowest performance value (61.42). Therefore, employee loyalty has the second highest importance for business performance but also at the same time has the lowest performance value. The top management of the private business organization hence should focus on and emphasize their activities to improve the performance of the employee loyalty among their staff so that it would affect positively the performance of the business performance

Table 3

*Inner Collinearity Statistics (VIF)*

	BP	CI	EL
CI	2.438		2.271
EE	2.835	1.376	2.231
EL	2.191		

Table 4

*Hypotheses Testing Results,  $f^2$* 

Hypotheses	Beta	T Statistics	P Values	$f^2$	2.50%	97.50%	Decision
	0.18			0.02			
H1: CI -> BP	0	2.412	0.016	1	0.029	0.322	Supported
	0.09			0.00	-		Not
H2:EE -> BP	1	1.002	0.316	5	0.094	0.267	Supported
	0.57			0.38			
H3:EE -> CI	1	10.409	0.000	8	0.456	0.672	Supported
	0.71			0.23			
H4:EE -> EL	4	22.064	0.000	7	0.644	0.770	Supported
	0.38			0.10			
H5:EL -> BP	6	5.573	0.000	6	0.248	0.517	Supported
	0.24			0.07			
H6:EL -> CI	8	4.370	0.000	3	0.139	0.362	Supported
	0.10						
H7:EE -> CI -> BP	2	2.259	0.024		0.018	0.198	Supported
	0.04						
H8:EL -> CI -> BP	4	2.155	0.031		0.010	0.092	Supported
	0.27						
H9:EE -> EL -> BP	6	5.343	0.000		0.175	0.377	Supported
	0.17						
H10:EE -> EL -> CI	7	4.243	0.000		0.097	0.263	Supported

Table 5

*PLS\_predict Results for the Target Endogenous Constructs*

	RMSE <sub>PLS</sub>	RMSE <sub>LM</sub>	RMSE <sub>PLS</sub> - RMSE <sub>LM</sub>	Q <sup>2</sup> _predict
BP1	0.784	0.783	0.001	0.089
BP2	0.760	0.760	0.000	0.140
BP4	0.640	0.645	-0.005	0.189
BP5	0.744	0.746	-0.002	0.207
BP3	0.788	0.783	0.005	0.098
CI3	0.533	0.535	-0.002	0.302
CI2	0.502	0.500	0.002	0.371
CI1	0.498	0.500	-0.002	0.319
CI5	0.497	0.501	-0.004	0.360
CI4	0.522	0.528	-0.006	0.403
EL4	0.721	0.716	0.005	0.236
EL2	0.548	0.552	-0.004	0.413
EL1	0.472	0.468	0.004	0.355
EL3	0.498	0.500	-0.002	0.400

Note: EL=Employee Loyalty CI=Corporate Image BP=Business Performance

Table 6

*Importance-Performance Map Analysis (IPMA)*

Constructs	Total Effects	Performance
CI--->BP	0.180**	63.59
EE--->BP	0.501**	70.05
EL--->BP	0.430**	61.42

Note: \*\*p<0.05, EE=Employee Engagement EL=Employee Loyalty  
CI=Corporate Image BP=Business Performance

**Discussion & Conclusion**

This study looks at the importance of employee engagement, employee loyalty, corporate image, and business performance from the point of view of employees who work with private business organizations in Malaysia which are examined empirically based on a theoretical research model. In this study, an assessment was made on key determinants, namely employee engagement, employee loyalty, and corporate image, and the implication on private business organization business performance. The main purpose of this study is to investigate the direct and indirect relationship between employee engagement, employee loyalty, and corporate image with business performance. As a result of statistical data analysis, the proposed model explains and estimates private business organization employee engagement, employee loyalty, corporate image, and business performance as perceived by their employees. Furthermore, employee engagement has been found to have a positive and significant direct relationship with employee loyalty ( $\beta=0.714$ ) and corporate image ( $\beta=0.571$ ). Therefore, it is very important for private business organizations to formulate a strategy to ensure that employee engagement activities can be increased in their respective organizations so that it will have an impact and strengthen employee loyalty and the organization's corporate image. However, employee engagement has a direct positive relationship with business performance but is not significant. Because the direct relationship between employee engagement and employee loyalty and corporate image is significant, the

involvement of employees in private business organizations is very important so that their loyalty to the organization will increase and they will be with the organization for a longer period.

In this study as well, a mediating relationship between employee loyalty and corporate image is suggested in the relationship between employee engagement and business performance. The statistical data analysis is done, and it shows that employee loyalty has a positive and significant mediating effect on the relationship between employee engagement and business performance. For private business organizations, in order to achieve good business performance, efforts must be made so that the involvement of employees can be increased to a high level and will become more loyal to the organization which will ultimately have a positive impact on the organization's business performance. Next, from the statistical data analysis conducted, it was found that corporate image also has a clear mediating effect on the relationship between employee engagement and business performance. These results clearly show the role played by corporate image is very important in improving business performance. A strong corporate image for a private organization will contribute to improving the business performance of an organization. The top management of private organizations needs to formulate and plan to strengthen the corporate image so that employee engagement activities can have an impact on business performance through the corporate image. With this proposed model, it is possible to explain and predict the business performance of private business organizations by introducing employee loyalty and corporate image as mediators of the relationship between employee engagement and business performance. Therefore, it can be concluded that employee loyalty and corporate image play an important role in this study in the context of private business organizations. Private business organizations should use this proposed model as part of their differentiation strategy from their competitors. Employee loyalty also plays a role as a mediator in the relationship between employee engagement and corporate image. The increase in employee engagement activities in private organizations will lead to an increase in corporate image and with the involvement of employee loyalty as a mediator. Active engagement by employees will make them more loyal to the organization and in turn, will form a strong corporate image for the organization.

The major theoretical contributions in this study are, first, the operationalization and test of the complex theoretical model that connects existing constructs from business management literature. Then, address the existing research gap by examining and finding empirical evidence for each construct in the context of private organizations. After that, all constructs were united in an established model from business management literature, specifically to examine employee loyalty and corporate image as mediators in the relationship between employee engagement and business performance.

The results of the empirical study from the presented model have some practical implications for the human resource management perspective in private business organizations. This study found that employee engagement, employee loyalty, and corporate image play an important role from the employee's perspective when employee loyalty and corporate image significantly mediate the relationship between employee engagement and business performance. Findings from this study emphasize that it is necessary for management to ensure engagement on the part of employees beyond offering employees only financial

remuneration and high-quality services. Mediating analysis results clearly show that employee loyalty and corporate image will lead to improved business performance according to the employees' views. Therefore, a strategy must be held to strengthen employee loyalty and corporate image. At the same time, employees must be encouraged to multiply their engagement in the organization because it is very important so that business performance will always be improved. The strategy to improve business performance in private organizations is necessary for the organization to support and stimulate employees to feel more open to participating and engaging in all appropriate activities within the organization. This is so that the sense of loyalty will be able to be increased, which in turn will form a positive and strong cooperative image.

For future studies, further examination between types of private organizations based on the industry can be done to produce deeper implications. Furthermore, other variables that may have an influence on business performance can be tested such as corporate social responsibility, organizational commitment, and leadership style. In conclusion, this study provides preliminary work that shows the importance of employee loyalty and corporate image as mediators in the relationship between employee engagement and business performance. This offers potential research and practical implications for private business organizations. From the overall perspective of sustainable private organizations, future studies require factors that have an impact on business performance which can be further added to the design of qualitative studies on specific target private organizations. Although previous studies have found a relationship between employee engagement, employee loyalty, corporate image, and business performance, the proposed model can be used to evaluate specific and detailed factors that affect all constructs and the relationship between constructs.

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