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## EMPLOYEE INVOLVEMENT AND ORGANIZATIONAL PERFORMANCE: EVIDENCE FROM THE MANUFACTURING SECTOR IN REPUBLIC OF MACEDONIA

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### ABSTRACT

**PURPOSE:** This study explores the relationship between employee involvement in decision making and problem solving and perceived organizational performance. Simultaneously, the concept of employee involvement was analyzed by embedding it within a national culture context. **METHODS:** data were collected from a survey of 36 companies belonging to the Macedonian manufacturing industry. A hypothesis testing was carried out with a quantitative method and statistical analysis of data. **RESULTS:** The effective use of employee involvement is positively related to perceived organizational performance. More precisely, employee participation and empowerment programs, and the use of self-managing teams have a direct and statistically significant correlation to the managerial perception of the organizational performance. **CONCLUSIONS:** According to the aforementioned results, the companies are encouraged to adopt employee involvement programs in order to enhance performance, growth and competitiveness on the regional and global market.

**Key words:** employee participation and empowerment, self-managing teams, perceived organizational performance, manufacturing industry, national culture, Republic of Macedonia.

### INTRODUCTION

Today's business environment is rapidly changed with increasing turbulence and uncertainty. Such external circumstances do not allow reliable prediction of the future and creating long-term plans. Companies are under pressure to seek new strategies and to make quick decisions to overcome the changes. As the rate of change increases, so does the need for fast and immediate response, which implies higher organizational flexibility. Such conditions increase the importance of the involvement of talented employees and their input into the management process. Employees, who possess knowledge, skills and abilities, gain wider strategic importance. Involving employees in

decision -making and problem solving, primarily is due to the need of the organization to develop cross-functional relationships and exploiting the total potential of employees (1). The purpose of this paper is to determine the effects of several basic dimensions of employee involvement on organizational performance.

### THE CONCEPT OF EMPLOYEE INVOLVEMENT

Employee involvement is a process of participation and empowerment of employees in order to use their input towards achieving higher individual and organizational performance. Involvement refers to the employee participation in decision making and problem solving, and increased autonomy in work processes. As a result, employees are expected to be more motivated, more committed, more productive and more satisfied with their work. Basic dimensions of involvement are: employee

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participation (as individuals or in teams), empowerment and self-managed teams. Employee participation is a management initiative and, as a concept means that the employees are given the opportunity to discuss issues relating to their work, to influence managerial decisions, but management reserves the right to govern.

The idea of empowering employees means abandoning command-control system and mechanistic structure. In order to achieve results, modern managers and leaders need to act as facilitators rather than controllers of the work processes. As a socio-technical approach to technological processes and production methods, empowerment is seen as a peak in the employee involvement, social participation and social integration in the organizational system. Although often equated with the delegation, employee empowerment goes further strengthening the granting authority to those most qualified. Generally explained as allowing employees greater freedom, autonomy and self-control over their work, empowerment also means responsibility for decision-making. The key question is who has the power. In any organization, power relations are crucial in determining the way in which managers and subordinates work together (1). The power is embedded in social relations and can be switched from one side to the other depending on which is the most appropriate person to hold power. The autonomy of the work can refer to an individual employee or the team as a whole. Usually, teams have autonomy in managing tasks, although management decides which tasks to assign. Autonomy can be given to an employee who has expertise and best information. From the perspective of the employer, granting autonomy to the team or to the individual has meaning only if the group or individual have identical interests with those of the employer.

Teamwork is considered as an effective way to reduce the organizational hierarchy and increase the employee involvement. But although problem-solving teams allow employee involvement in decision making, they only have the right to make recommendations. Examples include quality circles (groups for improvement). Some organizations go further and create teams that will not only solve problems, but also implement solutions and take responsibility for

results. Organizations that strategically opted for more employee participation and autonomy, apply self-managed teams. The self-managed teams are groups of employees drawn from 10 to 15 members. They perform highly connected and interdependent tasks and take a lot of responsibilities from their supervisor. The tasks are related to: production planning, determination of budget, resource allocation, work schedule, assigning tasks to team members, making operational decisions, coordination of activities with customers, suppliers or other parts of the organization (2, 3). The self-managed teams even have the right to choose their own team members and to make performance evaluation of each member. As a result, the importance of the supervisory position is reduced and may even be eliminated. The mode of operation puts emphasis on delegating management tasks at the lowest possible organizational level. The effectiveness of self-managed teams depends on the strength and composition of team norms, the type of tasks and structure of remuneration under which the team works (4).

#### **EMPLOYEE INVOLVEMENT AND THE CULTURAL CONTEXT**

Behavior of individuals and groups largely depends on the specific socio-cultural factors. Adoption of employee involvement practices must be viewed within the existing national culture. Bearing in mind that the national cultures differ in certain dimensions (5), acceptance of employee participation in decision making and empowerment, as well as the use of self-managed teams will vary across cultures. More precisely, differences can be observed in the way employee involvement is interpreted, what is the purpose, who should be involved, and which organizational processes and activities are related to involvement. According to Sagie and Aycan, two dimensions of national culture are strongly linked to employee involvement - power distance and individualism-collectivism (6). In cultures with high power distance, employees are less involved in the decision making and problem solving processes because of the belief that it is a privilege of the top management. The basic assumption is that the employees are not equal with the managers. It is considered that the one who is at a higher level in the organizational ladder has more knowledge

and experience and is able to make better decisions. On the other hand, in the low power distance cultures cooperation between superior and subordinate is high, and it is believed that workers have the competencies to contribute to decision making at the upper levels. This is associated with the basic assumption that everyone has equal rights.

The dimension of power distance is related to the degree of employee involvement and the dimension individualism - collectivism refers to whether an individual or group is responsible for making decisions. In highly individualistic cultures, importance of individual participation and the need to meet individual interests and goals are preferable. Otherwise, societies with high collectivism favors the interests and goals of collective or group, each individual prefers being a member of community and belonging to a larger group. Only the group as a whole has the right to make decisions and it is expected to be responsible for the actions of any individual.

In the study of national cultures, Hofstede also included the former Yugoslavia. At that time, Macedonia was part of Yugoslavia, so it is possible to draw some conclusions about the cultural traits in Republic of Macedonia (5). Macedonian national culture is characterized by high power distance and high collectivism. This may produce difficulties during the implementation of employee involvement programs at the individual level. Similarly, the use of self-managed teams is determined by the broader context of national culture. Cultures with high power distance have great respect for hierarchical authority. Relationships and roles of managers and employees are clearly defined and differentiated. In this constellation, is necessary to make such a structure in which the role of the team leader will be precisely formulated and power relations will be specified.

### **RELATIONAL PERSPECTIVE ON EMPLOYEE INVOLVEMENT AND PERFORMANCE**

Employee involvement enables the organization to have a better insight about the way of functioning and where it can potentially make improvements that would be beneficial for both, the organization and the employees. There are many studies providing evidence that the employee involvement affects the organizational

performance. Also, employee empowerment is considered an important contributor to organizational success. Much effort has been made to test the direct relationship between the level of employee empowerment and employee performance, and also, the job satisfaction and commitment. The findings show that there is a significant difference between the employee performance before and after the implementation of empowerment program. Among many dimensions of empowerment, delegation of authority has the strongest effect in improving the employee performance (7). In another study, on a sample of 841 companies in Michigan, the findings suggest that employee participating programs contribute to firm's performance, and this contribution is stronger in the unionized settings (8).

Jones and Kato argue that membership in offline teams results in enhanced enterprise performance. According to their estimates, team membership leads to rejection rates improving by about 27%. These findings provide evidence that the introduction of (and membership in) teams will produce more trust by employees in management, improved goal alignment between managers and employees and thus enhanced discretionary effort and attention to quality (9).

In the study of direct participation and work organization, has been found that application of direct participation make a positive contribution to a range of indicators of business performance such as output, quality, and reduction in throughput time as well as reducing sickness and absenteeism (10).

Hence, the following hypotheses are proposed:

**General hypothesis:** There is a positive relationship between employee involvement and perceived operational performance.

**Hypothesis 1a:** There is a positive relationship between employee participation and empowerment and perceived operational performance.

**Hypothesis 1b:** There is a positive relationship between the use of self-managed teams and perceived operational performance.

### **METHODS**

The purpose of this study is to investigate the relationship between employee involvement in decision making and problem solving, and firm's

performance in the manufacturing sector in the Republic of Macedonia. Manufacturing sector was chosen because of its potential and its unquestionable importance to the economic development of the country.

Quantitative methods and statistical operations were applied to analyze the research results. Data were collected through two questionnaires with items on 5 - points Likert scale. HR manager was the respondent to the questionnaire about the extent of implementation of various programs for employee involvement. Chief operating officer answered the questionnaire about the perception of operational performance.

Predictor variable, employee involvement, is measured by two variables: 1) employee participation and empowerment and 2) the use of self-managed teams. The first variable is operationalized through the following indicators: opportunity to independently plan and organize work; opportunity to suggest improvements of work processes, and employee involvement in decision-making at higher levels. Second variable is operationalized through the following indicators: employees are organized into teams and have the authority to make decisions about new product development; quality improvements; upgrading work processes and working conditions, operating costs reduction, and purchase of new equipment.

Criterion variable, operating performance, is operationalized by subjective managerial perception of operating performance compared to the industry average. Questionnaire contains items related to product quality, new product

development, customer satisfaction, relations between employees.

## RESULTS

Survey data were analyzed using SPSS (Statistical Package for Social Sciences). Descriptive statistics such as mean and standard deviation, as well as Pearson's correlations are shown in **Table 1**.

Results from the Pearson's correlations showed that the independent variables are related to each other with moderate correlation coefficient ( $r = .559$ ,  $p < 0.01$ ). Analysis of the relationship between employee participation and empowerment, and perceived operational performance confirmed a moderate positive correlation ( $r = .409$ ,  $p < 0.05$ ). There is also a low to moderate positive correlation between the use of self-managed teams and perceived operational performance ( $r = .371$ ,  $p < 0.05$ ).

Hypotheses testing were conducted using bivariate regression analysis (Table 2). Results indicate that employee participation and empowerment have a positive impact on subjective measure of operational performance. Predictor variable explains 17% of variance in the criterion variable. The finding confirmed *hypothesis 1a*. Equally, the finding resulted from the second regression analysis shows that the use of self-managed teams has a positive effect on perceived operational performance. Predictor variable explains 14% of variance in the criterion variable. This finding also supports the *hypothesis 1b*. As a result of these findings it can be concluded that *general hypothesis*, which refers to a positive relationship between employee involvement and perceived operational performance, is confirmed.

**Table 1.** Means, standard deviations and Pearson's correlation for all variables

Variables	Mean	Std. Deviation	Employee participation and empowerment	Use of self-managed teams	Perceived operational performance
Employee participation and empowerment	3.62	0.73	1		
Use of self-managed teams	3.63	0.86	0.559**	1	
Perceived operational performance	3.76	0.44	0.409*	0.371*	1

N = 36

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

\* Correlation is significant at the 0.05 level (2-tailed)

**Table 2.** Bivariate regression analyses

	Perceived operational performance
Employee participation and empowerment	$\beta = .409$ F = 6.833 p = .013 R <sup>2</sup> = .167
Use of self-managed teams	$\beta = .371$ F = 5.419 p = .026 R <sup>2</sup> = .137

## CONCLUSIONS

This paper makes a modest contribution to the understanding of the relationship between employee involvement and organizational performance in Macedonian manufacturing sector. Similar to the aforementioned studies, the results of this study provide empirical support to the assumption that the application of employee involvement in decision-making and problem solving practices affects the perception of operational performance. This effect is slightly stronger in the dimension employee participation and empowerment.

The findings also shows that both investigated dimensions of employee involvement, namely employee participation and empowerment and self-managed teams are significantly intercorrelated which corresponds with theoretical postulates. This leads to the conclusion that one dimension reinforces the other. In fact, by increasing the employee participation and empowerment, increases organizational ability to organize work in autonomous teams who make decisions, and vice versa. Statistically significant correlation suggests that the implementation of employee involvement programs requires systemic and integrated approach, rather than partial solutions.

The extent to which Macedonian manufacturing companies apply two dimensions of employee involvement (employee participation and empowerment where  $M=3.62$ ; and self – managed teams were  $M=3.63$ ) ranged from “sometimes” to “often”, indicate that Macedonian manufacturing companies do have an experience in practicing employee involvement and work on further improvement. These findings point to the conclusion that despite the impact of national culture, there are other situational factors that

affect adoption of employee involvement programs. These include employee personality, leader’s technical knowledge, decision type, organizational culture (6).

The findings in the studies dedicated to exploring the relationship between participation and performance should be taken with caution. They suggest a positive relationship, but also demonstrate that employee involvement has only moderate effect on employee productivity, motivation and job satisfaction variables. Therefore, the conclusion is that participation is beneficial to the organization, but can not be the only means of improving performance (4).

In today's competitive business environment, employee involvement in decision - making and problem solving, as well as employee empowerment and self-managed teams, become important factors of organizational innovation and effectiveness. Their importance is increasing in those organizations where knowledge workers are dominant and when organizations move towards decentralized organic structure. According to the aforementioned results, the companies are encouraged to adopt employee involvement programs in order to enhance performance, growth and competitiveness on the regional and global market.

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