

**THE ROLE OF WORK ENGAGEMENT AND GOVERNANCE IN IMPROVING
EMPLOYEE PERFORMANCE AND ITS IMPACT ON ORGANIZATIONAL
PERFORMANCE : STUDY IN RURAL BANKS**

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ABSTRACT

This study aims to examine the role of work engagement and governance in improving employee performance and its impact on organizational performance. The research object was the rural banks (in Indonesia are called BPR) in the cities of Banda Aceh and Aceh Besar, Indonesia. The research population comprised 212 employees of the four BPRs in the cities of Banda Aceh and Aceh Besar. The sample taken with stratified random sampling method, as much as 136 employees. Data were analyzed using Structural Equation Modeling (SEM). The results of the research found that, direct testing shows that work engagement and corporate governance affect employee performance and organizational performance. The results of the research found that, direct testing shows that, work engagement and corporate governance affect employee performance and organizational performance; employee performance also significantly affects organizational performance, and; Employee performance mediates significantly on the effect of work engagement and corporate governance on organizational performance. In this research model it is also found that employee performance functions as a partial mediator. All of these findings contributed to the formation of a model for improving the performance of BPR banks in the cities of Banda Aceh and Aceh Besar. Further researchers can develop this finding model by adding variables such as corporate citizenship behavior and employee empowerment to find out more about how big a role it plays in the formation of BPR Bank performance.

Keyword: Work Engagement, Bank Governance, Employee Performance, BPR Performance.

1. INTRODUCTION

Bank Perkreditan Rakyat (BPR) is one of the banking services financial institutions whose main activity is to collect and channel funds from the public, either in the form of savings or in the form of other products and then channel it to creditors by fulfilling any requirements stipulated by government regulations in the form of law laws or other regulations by the Financial Services Authority (OJK). Kota Banda Aceh and Aceh Besar currently have four BPRs that still operate their business conventionally.

The increasingly complex needs of society have made the demand for banking services higher and are predicted to grow in the following years. The distribution of services and facilities continues to provide satisfaction to its customers. With a wider range of services accompanied by an increase in the number of businesses carried out by BPRs, the risk faced by BPRs will also

increase so that good governance is needed to produce good performance.

The following is the financial statements of BPRs in the cities of Banda Aceh and Aceh Besar for the last three years.

Table 1. Performance of four BPRs

NO	BANK	Headquarters	2017			2018			2019		
			Net profit	NPL	Total Assets	Net profit	NPL	Total Assets	Net profit	NPL	Total Assets
			(Rp)	Net %	(Rp)	(Rp)	Net %	(Rp)	(Rp)	Net %	(Rp)
1	PT. BPR Artha Aceh Sejahtera	Aceh Besar	1,044,878	7.79	47,946,382	555,102	22.2	33,166,321	112,720	19.05	33,859,454
2	PT. BPR Berlian Global Aceh	Banda Aceh	384,027	16.52	8,590,294	300,322	19.8	12,564,743	171,851	18.25	11,476,781
3	Kop. BPR Ingin Jaya	Aceh Besar	1,765,836	4.72	49,168,274	1,807,398	7.06	49,333,590	1,095,784	12.28	43,358,934
4	PD. BPR Mustaqim Sukama kmur	Aceh Besar	3,290,180	6.34	157,662,785	2,679,573	6.51	158,056,160	783,209	7.45	153,773,804
Amount			6,101,278		263,367,735	74,487,826		253,120,814	1,096,852		242,468,973

Source: DPD PERBARINDO Aceh Province, 2020 (processed)

Based on the financial reports of four BPR Banks in the City of Banda Aceh and Aceh Besar, it can be seen from the indicators that the net profit has decreased significantly. Furthermore, the number of assets owned by the four banks also experienced a fluctuating increase and decrease, an increase in the number of assets occurred in 2018 but decreased again in 2019. The decline in the performance of BPRs in Banda Aceh and Aceh Besar is inseparable from the role of less than optimal employee performance.

Performance must be the concern of every leader because it is an important factor, especially in the banking service business. To obtain an overview of the current phenomenon of BPR performance, researchers conducted a preliminary survey in which the results of BPR performances in Banda Aceh and Aceh Besar obtained an average value of 3.39 which was at a poor level according to the Likert scale assessment guidelines, where out of eight The indicators tested show that the productivity and effectiveness of BPRs are still very low.

These results explain that the importance of maintaining the resources owned such as employees in an effort to achieve the company's vision and mission, employees who have good performance cannot be separated from the management's attention to the duties, functions and needs of these employees at work so that this will have an impact on organizational performance. From the results of the survey that the researchers conducted, it was also known that the overall performance of BPR employees obtained a mean value of 3.37 where on the Likert scale this value indicates that the performance conditions of the employees at the BPRs were not good. Of the five indicators measured in the initial survey on employee performance, it is known that the employee work motivation indicator has the lowest value. The performance of an organization or

company is highly dependent on the performance of employees in carrying out their duties and responsibilities.

The regulation of the financial services authority (POJK) states that BPR governance must apply the principles of transparency, accountability, responsibility, independence, and fairness. The problems that arise in this industry are in the form of a conflict of interest which sometimes contradicts the rules stipulated in the POJK, therefore the concept of governance (corporate governance) emerges as an effort to control or overcome management behavior that requires self. Every financial institution that implements good governance will be able to improve organizational performance, but if company governance does not go well, it is impossible to achieve the company's goals well. In addition to these factors, companies also need employees who can be tied to their work because employees who have a high level of work engagement will show their best performance at work (Bakker & Leiter, 2010).

Seeing the phenomena discussed above, researchers conducted research on Work Engagement and Bank Governance in Improving Employee Performance and its impact on the Performance of Rural Banks in Banda Aceh and Aceh Besar. Research attempts to measure the operational performance of BPRs in general by improving the corporate governance system in accordance with the POJK regulations, through testing hypotheses directly or indirectly on employee performance and the performance of BPRs in Banda Aceh and Aceh Besar in particular.

2. LITERATURE STUDY

Organizational Performance

Organizational performance is a total result of the entire organization produced by employees (Saifi & Shahzad, 2017). According to (Sobandi et al., 2006) Organizational performance is described as something that has been achieved by the organization within a certain period of time, related to inputs, outputs, outcomes, benefits, and impacts. Therefore, from some of these opinions, it can be explained that performance is a term to describe work results.

In this research, the measurement of organizational performance uses indicators as disclosed by (Indiahono, 2017) namely productivity, service quality, responsiveness, responsibility, accountability, efficiency, effectiveness, and fairness. These indicators were chosen because they are relevant to the research model developed in this research.

Employee Performance

(Robbins & Judge, 2017) revealed that performance is a measure of work results that describes the extent to which a person's activities in carrying out tasks and trying to achieve the goals set. (Rivai & Sagala, 2014) defined performance as real behavior that is displayed by everyone as an evaluation of the work produced by employees in accordance with their role and something that is important in achieving goals.

Based on these opinions, it can be concluded that performance is a result of work achieved by a person or group of people according to the standards and criteria that have been set in an effort to achieve organizational goals. In this research, the measurement of employee performance uses indicators as revealed by (Mathis & Jackson, 2019) namely individual abilities, motivation, support received, the existence of the work they do and their relationship with the

organization.

Corporate governance

Corporate governance is a system that regulates, manages and also oversees the business control process to increase share value, as well as a form of concern for stakeholders, employees and the surrounding community (Tunggal, 2012). Another opinion by (Agoes, 2019) explained that Good Corporate Governance (GCG) is a system that regulates the relationship between the role of the board of commissioners and the role of the Board of Directors, shareholders, and other stakeholders. Good corporate governance is also referred to as a transparent process for determining company goals, achieving them and evaluating their performance.

The measurement of corporate governance uses indicators as stipulated in the 2014 Financial Services Authority Regulation (POJK), which determines that the measures of good corporate governance are transparency, independence, accountability, responsibility, and fairness.

Work Engagement

(Albrecht, 2010) argued that work engagement is a state of positive and energized motivation related to work and an employee's genuine desire to contribute to work roles and organizational success. (Marciano, 2010) argued that work engagement is the extent of someone who is committed, dedicated and loyal to the organization, work and colleagues. This is indicated by passion and enthusiasm for work more consistently on goals and expectations, with new ideas in work, curiosity and encouraging and supporting other team members to be more optimistic and positive thinking as well as persistent in overcoming problems and more focused on tasks, actively and can develop themselves for better organizational goals. In this research, the measurement of work engagement uses indicators as disclosed by (Kahn, 1990) namely workload, job resources, job descriptions, availability and security. This indicator was chosen because it fits the model built in this research.

Conceptual framework

This research conceptual framework can be described as follows :

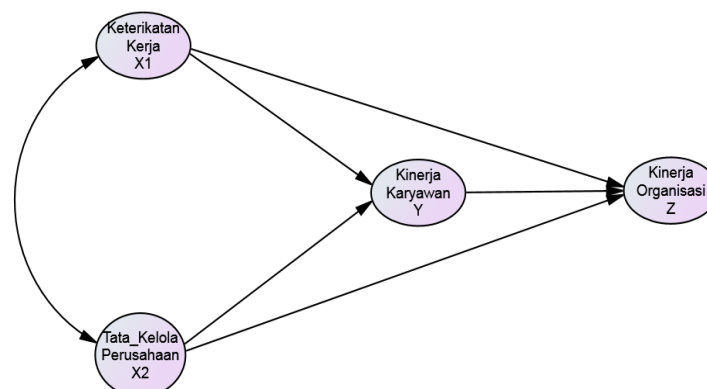


Figure 1. Conceptual Framework

- H1 : Work engagement significantly affects employee performance
- H2 : Corporate Governance significantly affects employee performance
- H3 : Employee performance significantly affects BPR performance
- H4 : Work engagement significantly affects BPR performance
- H5 : Corporate Governance significantly affects BPR performance
- H6 : Work engagement significantly affects BPR performance through employee performance
- H7 : Corporate Governance significantly affects BPR Performance through Employee Performance

3. METHOD

This research was conducted at four BPRs in the City of Banda Aceh and Aceh Besar, Indonesia. The location selection was made deliberately with the consideration of being able to obtain the necessary data in accordance with the research. The population in this study was 212 employees from the four BPRs branches in the cities of Banda Aceh and Aceh Besar. The sample selection method used was stratified random sampling with a sample of 136 employees.

In this research, data collection techniques used two events, namely documentation and questionnaires. Data were measured using a Likert scale and obtained using the SEM Amos statistical equipment. The equation obtained from the converted path diagram consists of a structural equation that was formulated to express the causal relationship between various constructs.

$$V_{endogenous} = V_{exogenous} + V_{exogenous\ endogenous} + error$$

Then mathematically the causality relationship between the constructs in research can be stated as follows:

$$\eta_1 = \gamma_{1.1} \xi_1 + \gamma_{1.2} \xi_2 + \gamma_{1.3} \xi_3 + \zeta_1$$
$$\eta_2 = \gamma_{2.1} \xi_1 + \gamma_{2.2} \xi_2 + \gamma_{2.3} \xi_3 + \beta_{21}\eta_1 + \zeta_2$$

or

$$\text{Employee Performance} = \gamma_{1.1} \text{Corporate Governance} + \gamma_{1.2} \text{Job Engagement} + \zeta_1$$
$$\text{Organizational Performance} = \gamma_{2.1} \text{Corporate Governance} + \gamma_{2.2} \text{Work Engagement} + \beta_{2.1} \text{Organizational Performance} + \zeta_2$$

4. RESULT AND DISCUSSION

Direct Hypothesis

The structural model analysis explaining the effect test between variables is presented in the following path diagram:

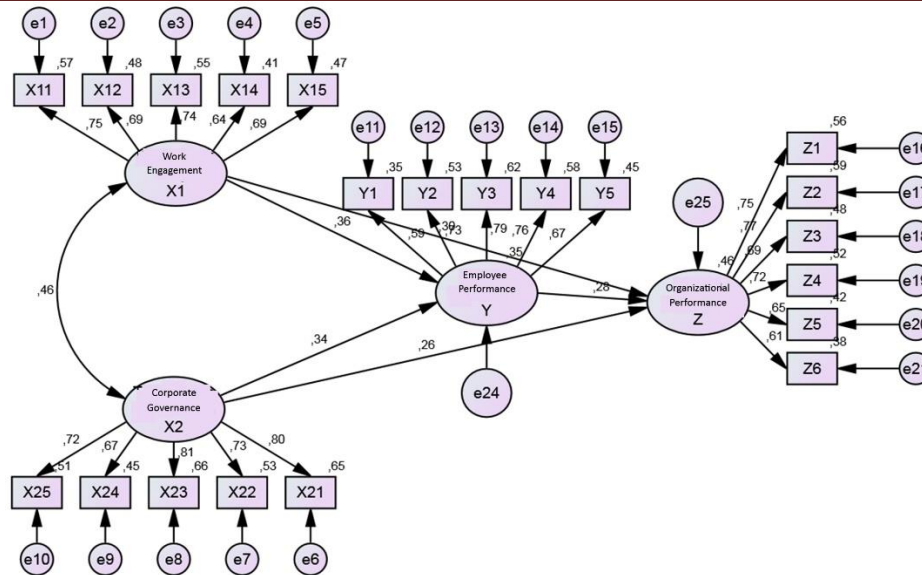


Figure 2. Test Results

The full model test results for testing the direct effect hypothesis after fulfilling the SEM assumptions are more clearly shown in the following table:

Table 2. Hypothesis Test Results

			Estimate		S.E.	C.R.	P
			Unstandardized	Standardized			
Employee Performance_Y	<---	Work Engagement_X1	0.250	0.356	0.077	3.245	0.001
Employee Performance_Y	<---	Corporate Governance_X2	0.228	0.338	0.071	3.195	0.001
Organizational Performance_Z	<---	Employee Performance_Y	0.430	0.285	0.165	2.612	0.009
Organizational Performance_Z	<---	Work Engagement_X1	0.315	0.297	0.110	2.873	0.004
Organizational Performance_Z	<---	Corporate Governance_X2	0.260	0.256	0.100	2.598	0.009

Source: Primary data, 2020 (processed)

From the test findings in Table 2, it can be explained as follows:

1. H1: The test for the effect of work engagement on employee performance obtained the Critical Ratio (C.R.) value of 3,245, which was greater than the predetermined critical standard value, namely 1.96, then the p value or probability was obtained at 0.001 less than 0.05. Because the C.R value is 3,245 > 1.96 and the p value is 0.001 < 0.05, work

engagement has a significant effect on employee performance. Furthermore, the coefficient or estimate value obtained from the Standardized Regression table is 0.356 or 35.6. So it can be stated that work engagement has a significant effect on employee performance by 35.6%.

2. H2: The test of the effect of corporate governance on employee performance obtained a Critical Ratio (C.R.) value of 3.195, greater than the predetermined critical standard value, namely 1.96, then the p value or probability was obtained at 0.001 less than 0.05. Because the C.R value is $3.195 > 1.96$ and the p value is $0.001 < 0.05$, corporate governance has a significant effect on employee performance. Furthermore, the coefficient or estimate value obtained from the Standardized Regression table is 0.338 or 33.8%. So it can be stated that corporate governance has a significant effect on employee performance by 33.8%.
3. H3: The test of the influence of employee performance on organizational performance (BPR) obtained a Critical Ratio (C.R.) value of 2.612, which is greater than the predetermined critical standard value of 1.96, then the p value or probability is obtained at 0.009 less than 0.05. Because the C.R value is $2.612 > 1.96$ and the p value is $0.009 < 0.05$, then employee performance has a significant effect on organizational performance (BPR). Furthermore, the coefficient or estimate value obtained from the Standardized Regression table is 0.285 or 28.5%. So it can be stated that the employee performance system has a significant effect on organizational performance (BPR) by 28.5%.
4. H4: The test for the effect of work engagement on organizational performance (BPR) obtained a Critical Ratio (C.R.) value of 2.873, which is greater than the predetermined critical standard value, namely 1.96, then the p value or probability is obtained at 0.004 less than 0.05. Because the C.R value is $2.873 > 1.96$ and the p value is $0.004 < 0.05$, work engagement has a significant effect on organizational performance (BPR). Furthermore, the coefficient or estimate value obtained from the Standardized Regression table is 0.297 or 29.7. So it can be stated that work engagement has a significant effect on organizational performance (BPR) by 29.7%.
5. H5: Testing the effect of corporate governance on organizational performance (BPR) obtained a Critical Ratio (C.R.) value of 2.598, greater than the predetermined critical standard value of 1.96, then the p value or probability is obtained at 0.009 less than 0.05. Because the C.R value is $2.598 > 1.96$ and the p value is $0.009 < 0.05$, corporate governance has a significant effect on organizational performance (BPR). Furthermore, the coefficient or estimate value obtained from the Standardized Regression table is 0.256 or 25.6%. So it can be stated that corporate governance has a significant effect on organizational performance (BPR) by 25.6%

Indirect Hypothesis (Mediation)

The results of testing the indirect hypothesis (mediation) are described below:

1. H6: Testing the effect of work engagement on Organizational Performance through employee performance as can be seen in the following figure:

Input:	Test statistic:	Std. Error:	p-value:
a 0.250	Sobel test: 2.03234506	0.05289456	0.04211874
b 0.430	Aroian test: 1.97613913	0.054399	0.04813902
s _a 0.077	Goodman test: 2.09363691	0.05134606	0.03629234
s _b 0.165	Reset all	Calculate	

Figure 3. Results of Hypothesis Mediation 6

The sobel test shows that the indirect effect of work engagement on organizational performance through employee performance is significant because it has a p value of 0.042 which is smaller than 0.05. The results of the significance for line C', and the significance values for all paths (A, B, C and C') are presented in Figure 4 below:

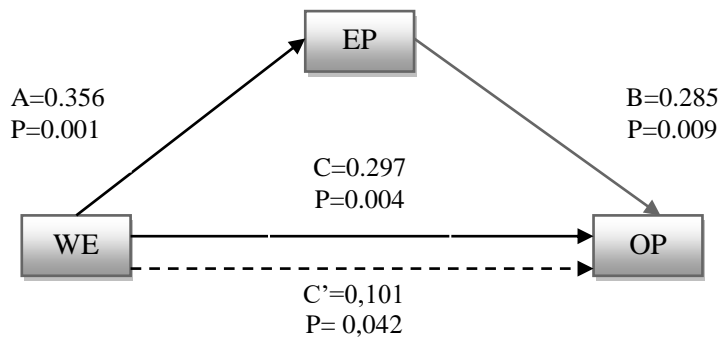


Figure 4. Hypothesis Mediation Effects 6

Information:

- WE : Work Engagement
- EP : Employee Performance
- OP : Organizational Performance

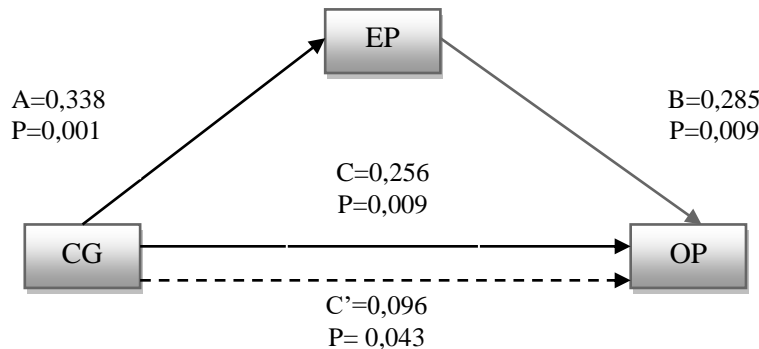
The picture above reveals that the coefficient of path A, path B and C, is proven significant and the significance value of path c' obtained from the sobel test is significant. So it is evident that the mediating variable in this research acts as a partial mediator. The results also explain that employee performance partially and significantly mediates the relationship between the attachment to organizational performance by 0.101 or 10%..

2. H7: testing of corporate governance on organizational performance through employee performance as shown in the following figure.

Input:		Test statistic:	Std. Error:	p-value:	
a	0.228	Sobel test:	2.02355407	0.04844941	0.04301605
b	0.430	Aroian test:	1.96687264	0.04984563	0.0491979
s _a	0.071	Goodman test:	2.08543635	0.04701174	0.03702971
s _b	0.165	Reset all	Calculate		

Figure 5. Hypothesis Mediation Effects 7

The sobel test shows that the indirect effect of corporate governance on organizational performance through employee performance is significant because it has a p value of 0.043 <0.05. The results of the significance for line C', and the significance values for all paths (A, B, C and C') are presented in Figure 6 below:



Gambar6. BaganEfek Mediasi Hipotesis 7

Information:

CG : Corporate Governance

EP : Employee Performance

OP : Organizational Performance

The picture above reveals that the coefficient of path A, path B and C is significant and the significance value of path c' obtained from the sobel test is also significant. So it is evident that the mediating variable in this research acts as a partial mediator. The results also explain that employee performance partially and significantly mediates the relationship between corporate governance and organizational performance by 0.096 or 9.6%.

5. CONCLUSION

The results of the research found that, direct testing shows that, work engagement and corporate governance affect employee performance and organizational performance; employee performance also significantly affects organizational performance, and; Employee performance mediates significantly on the effect of work engagement and corporate governance on organizational performance. In this research model it is also found that employee performance functions as a partial mediator. All of these findings contributed to the formation of a model for improving the performance of BPR banks in the cities of Banda Aceh and Aceh Besar. Further researchers can develop this finding model by adding variables such as corporate citizenship behavior and employee empowerment to find out more about how big its role is in shaping the

performance of BPR Banks.

A number of research recommendations mapped out the existing problems. To improve the organizational performance of BPR Banks in the cities of Banda Aceh and Aceh Besar, management needs to create HR governance through work engagement and good corporate governance in accordance with the applicable regulations of the POJK. Corporate governance can be improved by openness in conveying information regarding the financial condition, financial performance, ownership and management of the company to the stakeholders. Meanwhile, so that the POJK can be understood and implemented properly, OJK needs to increase the intensity and sustainability of the OJK in disseminating information to BPRs, especially Banda Aceh and Aceh Besar.

Employee performance can be improved by increasing individual abilities through education and training, providing motivation to employees both in the form of financial compensation such as bonuses and non-financial such as rewards for performance, promotion of positions and supporting any work performed by employees as well as maintaining good relationships between superiors and subordinates and fellow employees. Work engagement can be increased through making rules that are liked by employees, providing compensation for work services to the organization. Require employees to work responsibly, employees must be willing to be placed in every operational area of BPR throughout Indonesia, and the safety of the work environment must be well maintained.

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