The Influence of Leadership, Talent Management, Organizational Culture and Organizational Support on Employee Engagement

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ARTICLE INFO	ABSTRACT
   Corresponding author: jjsadeli@gmail.com	A leadership-driven model was hypothesized to examine the simultaneous influences of three dimensions of leadership behaviors (transformational, transactional, and interaction between transformational and transactional) on employee engagement, mediated by three intangible organizational factors: (1) talent management practices, (2) organizational culture, and (3) perceived organizational support (POS). Results of this research show that leadership behaviors (transformational and interaction between transformational and transactional) significantly influence mediating variables (talent management practices, organizational culture and POS), whereas transactional leadership must interact with transformational leadership behavior to influence mediating variables. Both talent management practices and organizational culture influence employee engagement, while POS indirectly influences employee engagement.

The general objective of this research is to study strategic human resource management (SHRM) in the context of strategic management. The importance of leaders and the manner in which leaders lead and manage human resources strategically are now inevitable since the source of competitive advantage in the knowledge based economy has shifted to people (human capital / talent) (Pfeffer, 1995; Wielemaker & Flint, 2005). Furthermore, Bartlett and Ghoshal (2002) emphasize that human capital must be the starting point and ongoing foundation of successful strategy (p. 34). To gain the sustainable competitive advantage, it is critical for the leaders and organization to look beyond traditional human resources management.

There are three specific leadership-driven intangible variables (talent management, organizational culture and perceived organizational support -

POS) that can potentially lead to better employee engagement, which subsequently results in better firm performance. The researcher seeks to examine the relationship between the influence of leadership behaviors (transformational, transactional, or the *interaction* or *combination* of the two behaviors) on employee engagement, mediated by the three aforementioned variables.

Employee Engagement

A talented workforce with dynamic capabilities alone does not suffice. Instead, employees have to be engaged to ensure a higher productivity at work (Lawler III, 2008; Cappelli, 2008a; Schiemann, 2009), thus allowing organizations to acquire competitive advantage (Macey, Schneider, Barbera, & Young, 2009).

Despite the frequent use of employee engagement strategies in organizations, researches on the effective development thereof is surprisingly lacking (Macey & Scheneider, 2008 and Saks, 2006). Thus, there exists a gap between researchers' findings on the importance of employee engagement and the lack of research on the creation of employee engagement methods (Shuck, 2010).

Talent Management

Talent management, a frequent topic in management levels today, is a comprehensive framework for managing talented employees and enhancing their contribution to company performance *e.g.* Bartlett & Ghoshal, 2002; Berger & Berger, 2004; Cappelli, 2008a; Collings & Mellahi, 2009; Lacy, Arnott, & Lowitt, 2009; Lawler III, 2008; Macey et al.*,* 2009; Pfeffer, 2001).

It is nonetheless essential to note that despite its importance to organizational success, talent management is but a recent and evolving concept (Lewis and Heckman, 2006), with ambiguous definitions and a dearth of empirical research (Collings and Mellahi, 2009; Cappelli, 2008a). There are even fewer researches that explicitly relate talent management and employee engagement. Examples include an article written by Hughes and Rog (2008) and a model explaining the relationship between talent management, employee engagement and firm performance offered by Schiemann (2009). Ashton & Morton (2005) and Barlett & Ghoshal (2002) also emphasize the importance of employee engagement element in managing talents in an organization.

In this study, the researcher proposes to view talent management practices from a *social exchange theory* perspective in their relationship with organizational initiatives and employee engagement. From a social exchange theory perspective, employee engagement occurs when an organization treats employees very well and the employees respond by focusing and contributing more to their job and to the organization (Eisenberger et al., 1986; Eisenberger, et al., 1990; Saks, 2006).

Organizational Culture, Perceived Organizational Support, Organizational Leaders and Their Relationship with Employee Engagement

Employee engagement does not depend on talent management practices alone; there are other organizational factors or context that may influence employee engagement: organizational culture (Macey et al., 2009; Wildermuth & Pauken, 2008a) and perceived organizational supports (Rich et al., 2010; Saks, 2006). Studies have also demonstrated that important organizational activities are influenced by organizational leaders, and such activities include selecting and developing the next generation of leaders (i.e. talent management), sustaining an effective organizational culture; and developing organizational structures, processes and controls (i.e. perceived organizational support) (Hickman, 1998; House & Aditya, 1997; Hunt, 1991; Ireland & Hitt, 1999; Selznick, 1984; Zaccarro, 1996a all in Boal & Hooijberg, 2001, p. 516; Saks, 2006; Wildermuth & Pauken, 2008a; Yukl, 2009).

Research Questions

The main research question is: *How is employee engagement affected by leadership behavior, and what are these effects?* It is divided into 12 topics :

1. How significant are the influences of talent management practices on employee engagement?
2. How significant are the influences of perceived organizational culture on employee engagement?
3. How significant are the influences of perceived organizational support (POS) on employee engagement?
4. How significant are the influences of transformational leadership on talent management practices?
5. How significant are the influences of transformational leadership on perceived organizational culture?
6. How significant are the influences of transformational leadership on perceived organizational support (POS)?
7. How significant are the influences of transactional leadership on talent management practices?
8. How significant are the influences of transactional leadership on perceived organizational culture?
9. How significant are the influences of transactional leadership on perceived organizational support (POS)?
10. How significant are the influences of *interaction* between transformational and transactional leadership behaviors on talent management practices?
11. How significant are the influences of *interaction* between transformational and transactional leadership behaviors on perceived organizational culture?
12. How significant are the influences of *interaction* between transformational and transactional leadership behaviors on perceived organizational support (POS)?

Research Contributions

This research is expected to contribute in enriching and enhancing the existing knowledge of strategic human resource management (SHRM) and strategic management as well as talent management, employee engagement and organizational behavior disciplines. This research examines the influence of leadership and organizational factors (talent management practices, organizational culture and POS) on employee engagement in a single research model. Having all main research variables in a single research model will provide insights on the relative and comparative influence of those variables in predicting the outcome variable (employee engagement). Hence, specific research contribution is to empirically demonstrate the influence of a *leadership-driven* talent management, perceived organizational culture and POS *simultaneously* in generating higher employee engagement level which supposedly leads to better firm performance.

Results of the research are expected to provide suggestions for Indonesian companies, top executives and managers on the most effective type of leadership behavior for the purpose of attaining and sustaining organizational success.

THEORETICAL FOUNDATIONS

This research on strategic human resource management (SHRM) in the context of strategic management is based on previous research on the strategic role of human resources in building sustainable competitive advantage in firms.

Barlett & Ghoshal (2002) and Pfeffer (1995, p. 56) concur that, in a knowledge-based economy, the key source and differentiating factor for a firm's sustainable competitive advantage is people. Based on meta-analyses, a firm's employee engagement level can be a surrogate variable of its organizational performance (Harter, et al. 2002). It therefore follows that HRM in firms today should be involved in strategy formulation and be a core organizational competency (Wielemaker and Flint, 2005).

This research aims to link SHRM and strategic management by examining relationships between types of leadership behavior (transformational, transactional and *interaction* between transformational and transactional leadership behaviors) with employee engagement as mediated by three organizational factors: talent management practices, perceived organizational culture and perceived organizational support (POS).

Social Exchange Theory as an Integrating Theory

In this research, social exchange theory (SET) (Blau, 1964) is the integrating framework to explain relationships between the three main research variables: leadership, perceived organizational support (POS) and employee engagement. In previous research, SET has been used as a framework for understanding employee engagement, POS, and leadership (Saks, 2006; Wayne et al., 1997; Wayne et al., 2002).

SET explains reciprocal behavior between individuals, between followers and leaders, and between employees and organizations (Aselage & Eisenberger, 2003; Cole et al., 2002; Dienesch & Liden, 1986; Gouldner, 1960; Organ, 1988; Saks, 2006; Wayne et al., 1997; Wayne et al., 2002). An example in working relationship is where an employer or organization provides compensation and benefits in exchange for employees' contributions. In such relationship, an economic exchange would include the provision of remuneration and benefits to employees and a social exchange would be represented by the employees' passion in contributing to the job or organization (Blau ,1964) .

The basic principle of SET is *reciprocal interdependence* between parties (Saks, 2006). When an organization treats employees extraordinary well, (e.g. POS), then employees respond in a positive manner and go beyond their call of duties. They are more engaged in their jobs, are more productive, and engaged in extra positive behavior to co-workers and the company. On the other hand, in an organization that treats employees strictly in accordance with company rules, employees respond only within the premise of their contract or job description, i.e., take whatever exchange the organization offers. This places the organization over the employees, where the organization is the initiator of the exchange process.

An organization's leader is the one with the decisive power to initiate the exchange process. Leadership behavior is reflected in the leader's choice of exchange (*i.e.*, economic or social) and its execution. Leaders tend to invest more time with subordinates with better relationship qualities (Wayne et al., 1997). Reciprocally, employees tend to invest more time and energy in their jobs to show gratitude to leaders (Dienesch & Liden, 1986).

Leaders can influence on organizational culture (Schein, 1990) and POS (Wayne, Shore, Bommer & Tetrick, 2002), activities and mechanisms such as talent management practices (Hemphill & Coons, 1957 in Yukl, 2006; Rauch & Behling, 1984 in Yukl, 2006; Katz & Kahn, 1978 in Yukl, 2006; Schiemann, 2009). Leaders may direct some espoused values and behaviors such as cultural norms to be engendered in the organization's culture. The organization recognizes positive employee behaviors as guided by cultural norms; this creates certain social exchange relationships (Cole et al., 2002).

Employee Engagement Theory

Employee engagement, a topic recently popular among human resources practitioners, consulting firms and academicians, has definitions and constructs that frequently overlap (Saks, 2006; 2008). In the business sense, employee engagement is often explained in term of how much energy and passion employees exert in their tasks (e.g. Buckingham & Coffman, 2005; Cook, 2008; Colan, 2009; Croston, 2008). When

Definitions of Employee Engagement, Employee Satisfaction, Organizational Commitment, Job Involvement and Organizational Citizenship Behavior

	Employee Engagement	Employee Satisfaction	Organizational Commitment	Job Involvement	Organizational Citizenship Behavior
Definition	*"Employees who believe in the company's goals and objectives are proud to work there and prepared to put in the extra effort in working toward those goals and will stay with the organization."*	*"General cognitive evaluation of an employee's overall work experience and fulfillment of basic employee needs."*	"Attitudes and attachment towards their organization."	*"Job involvement is the result of a cognitive judgment about the need to satisfy requirements of the job and is tied to one's self-image."*	Employees behave voluntarily, informally and pro-socially, are not directly rewarded by a formal incentive scheme, and will support functionality of co-workers and organization.
Source	Towers Perrin, 2005, p.2	Kahn (1990, in Heger, 2007, p. 122)	Saks, 2006	May (2004 in Saks 2006, p. 602)	Saks, 2006

employees spend more energy and passion in their careers, they are said to be engaged.

A high level of employee engagement in an organization leads to a high aggregate productivity and organizational performance (e.g. Cook, 2008; Corace, 2007; Colan, 2009; Fleming & Asplund, 2007; Konrad, 2006; Macey et al., 2009). It has been observed that employee engagement directly affects firm performance (a meta-analysis by Harter, Schmidt & Hayes, 2002). This meta-analysis, Schiemann (2009) and study results from top consulting firms (e.g. Hay Group, Towers Perrin & Watson Wyatt) are likely suggesting that the level employee engagement is a *surrogate variable* of firm performance indicator (e.g. Macey et al., 2009; Ormanidhi & Stringa, 2008).

Two types of employee engagement are: job and organizational engagement (Saks, 2006). Job engagement refers to engagement to a job; organizational engagement is directed to an organization. Thus, job engagement explains an

employee's focus, passion, energy and time to complete a job and, consequently, being more productive compared to disengaged employees. Organizational engagement includes employee pride or excitement in being part of an organization.

The table below demonstrates the comparison between employee engagements and employee satisfaction, organizational commitment, job involvement and organizational citizenship behavior.

Talent Management Practices

Developing talents (employees) is one of the main responsibilities that should be pursued by an organization and its leaders to continuously upgrade employees' knowledge and skills (e.g. Berger & Berger, 2004; Cappelli, 2008a; Lawler III, 2008). In talent management, the first factor and most important foundation for employees' development is having a competencies model and implementing it (Berger & Berger, 2004). A well defined competencies model that is derived

from organizational strategic needs should be able to elaborate specific competencies required for each position and incumbent (employee) who is accountable to carry out the tasks. Each employee is assessed against the required competencies proficiency levels. The competencies assessment results will be used to develop all employees so that employees will be able to execute tasks as expected and perform well, in some cases exceeding expectations. It is not unusual for some organizations to invest more in high potential employees than ordinary employees due to expectations of higher positive contributions to the organization (Buckingham & Coffman, 1999; Lawler III, 2008).

The second factor in development is a well-defined *performance management system* (Berger & Berger, 2004). A performance management system is needed by all organizations to ensure that all employees focus on an organization's agreed strategic direction. Armstrong (2004, p. 1) defines performance management as:
"a strategic and integrated process that delivers sustained success to organizations by improving the performance of the people who work in them and by developing the capabilities of individual contributors and teams"

The word *performance* itself refers both to results and behaviors (Braumbrach, 1988 in Armstrong, 2004). When an organization implements a well-defined performance management system, every job position and all job holders will be given a performance scorecard which contains measures of success (key performance indicators or KPI). The performance scorecard measures are derived and cascaded down from the organization's vision, mission, values and strategic objectives. The performance scorecards are defined in quantitative terms so that the objectivity of the performance evaluation will be optimized (Kaplan & Norton, 1996).

A performance management system actually complements competency. This statement is derived from Spencer and Spencer's (1993, p. 9) definition of competency: "*an underlying characteristic of an individual that is casually related to criterion-reference effectivity and/or superior performance in a job or a situation.*" In other words, competency leads to performance. Development requires a competency model as the basis and needs a performance management system to ensure its effectiveness (the objective of talent development is their performance).

The issue of retaining talented employees (high performance talent) in an organization has attracted major attention from many organizations' leaders (Lawler III, 2008). There have been a number of studies to estimate the costs involved in talented employees turnover, and the general conclusion of the studies is that not only are there significant costs involved but also difficulties in finding and attracting potential talented employees from the market (Lawler III, 2008, Michaels et al. 2001). According to Lawler III (2008), there are two steps in retaining talented employees: to identify them and to reward them at a high level. A reward scheme must be tied in with an effective performance management system.

Effective retention practices may lead to more talented people staying in the organization, leading to a better condition for the organization in terms of effective succession management system (Berger & Berger, 2004).

Organizational/Corporate Culture Theory
Perceived organizational culture is also proposed as another antecedent of employee engagement. In the modern conceptualization of organizational or corporate culture, Schein (1996, p. 236), explains that culture is "*sets of shared, taken for granted, implicit assumptions that a group holds.*" Like Schein, other theorists such as Weber (1930 in Keesing, 1974), Mead (1934 in Keesing, 1974) and Radcliffe-Brown (1953 in Keesing, 1974) described

culture as a system of behavioral patterns that can be socially spread among members of a community (Keesing, 1974).

Among many definitions of organizational culture, Schein's (1990) definition remains the most basic and comprehensive:

> "*the basic set of assumptions that are invented, discovered or developed by a given group or leader as it learns to cope with its problems of external adaptation and internal integration which have worked well enough to be considered valid, and is then taught to new members as the correct way to perceive, think, and feel in relation to working to solve organizational problems*" (Schein, 1990, p. 9)

Corporate culture will serve as the basis for and integrator of all management systems, procedures, practices and behaviors. With the culture as a unifying principle, it becomes easier for an organization to obtain many benefits such as better teamwork, faster decision making, and minimalization of management conflicts among members of the organization. Barney (1986) and Cameron & Quinn (2006) show that culture is a major factor in the sustainability of organizational success and, ipso facto, culture is even more important than competitive advantage. In their study, they have noticed that there are five companies in the US that have consistently been ranked as the the top five performers over the past two decades – Southwest Airlines, Wal-Mart, Tyson Foods, Circuit City and Plenum Publishing (Compustat Data Services in Cameron & Quinn, 2006) – and all have something in common: they do not have distinctive competitive advantages compared to other competitors in their respective industries, yet "*the most powerful factor they all highlight as a key ingredient in their success, is their organizational culture*", and that has kept them going for decades (Cameron & Quinn, 2006, p. 4).

Schein (1990) suggests that a leader or group of leaders create and develop a basic set of assumptions that can be shared and implemented in an organization to enable the organization to survive against internal and external issues, problems or even threats. If those assumptions are accepted by the organization's members and are later utilized as a source of reference in facing organizational issues, they will be considered as valid assumptions and subsequently as living values or principles that must be taught and transmitted to other organization members.

Organizational culture and its relation to organizational effectiveness has been studied comprehensively by Denison (1990) and other researchers such as Fey (2003), Haaland and Goelzer (in Denison, Haaland & Goelzer, 2003). Organizational culture is unique for each organization (Appelbaum et al., 2004), and an employee may be engaged when his or her personal values align with organizational values (Macey et al., 2009; Wildermuth & Pauken, 2008a). As previously indicated, employee engagement will yield increased organizational effectiveness and eventually lead to sustained organizational success.

Perceived Organizational Support (POS) Theory
In addition to organizational culture, POS is a contextual factor which can affect the level of employee engagement (Byrne & Hochwarter (2008), Harter et al. (2002), Saks (2006)).

POS is the employees' perception of the extent to which the organization values their contributions and cares about their well being (Eisenberger, Fasolo, & Davis-LaMastro, 1991; Eisenberger, Huntington, Hutchison, & Sowa, 1986; Shore & Tetrick, 1991). The basic premise for these relationships is social exchange theory (SET) (Cole et al., 2002; Shore & Tetrick, 1991).

This theory suggests an interaction is a form of exchange (Homans, 1961 in Blau, 1964). According

to Blau (1964), both parties are attracted to each other if they expect the interaction to be in some way mutually rewarding. It is important that both parties continue to exchange rewards with each other in order to sustain mutual attraction and, hence, to prolong interaction. In the context of the employer-employee relationship, the exchange will continue if both parties experience mutual benefits: the employer gets performance and, in return, the employees get financial and non financial rewards.

In addition, SET suggests that differences in interactions among exchange parties may arise because one party may be more attracted to some specific parties, which creates a stronger bond between them (Blau, 1964). The notion that each interaction may be different may lay a foundation for differentiated treatment among employees by the employer. In other words, an employer may provide supports extending beyond those specified in the general company policy for employees with higher potential and contribution, with the hope of reciprocation in the form of better engagement and performance on the employees' part.

Wayne et al. (1997) and Wat & Shaffer (2005) suggest that leadership may influence POS as employees perceive organizational support as an equivalent to leaders' support, and they feel obliged to repay the leader as well as the organization. Levinson (1965, in Wayne et al. 1997) called this support a personification of the employer or organization where leaders' or supervisors' treatments to other organizational members will be perceived as organizational action. Correspondingly, in this proposed research model, leadership is hypothesized as an antecedent of POS.

Strategic Leadership and Leadership Theories
The universal concept of leadership has existed since the beginning of civilization. In the development of leadership theories over the last 20 years, strategic leadership theory has been revitalized to face the dynamic and uncertain environment. A new breed of leaders with excellent strategic leadership capabilities is needed to enable firms to beat the competition (Boal & Hooijberg, 2001; Grant, 1999; Hitt, Haynes, & Serpa, 2010; Yukl, 2009).

Despite the many different definitions of leadership emphasizing on different aspects thereof, Yukl (2002) suggests that the essence of effective leadership lies in a leader's ability to *influence* people "*to carry out requests, support proposals and implement decisions.*"

Theory of Transactional and Transformational Leadership
The most recent evolutionary stage of leadership concerns transactional and transformational leadership theories. A leader can possibly be both transactional and transformational at the same time.

Theory of Transactional Leadership
Transactional leader promises some kind of rewards for services rendered by others. According to Yukl (2002), in transactional leaderships there is an exchange process between leaders and followers where followers comply with leaders' requests. However, the exchange will not create followers' commitment and passion. The exchange between promises and services rendered can be considered as an economic exchange or negotiated transaction (Graen, 1976 in Archbold, 2004). It can be linked to exchange theory where basically the principle is a reciprocal interdependence between persons, or persons with organizations (Saks, 2006).

Bass (1985) explains that there are three dimensions of transactional leadership: (1) contingent reinforcement, where followers receive rewards or punishment based on their performance, (2) active management by exception, where leaders implement regulations to prevent employees from making or repeating mistakes, and (3) passive

management by exception, where leaders only intervene when something goes awry.

A transactional leader is the type of leader who fits in *stable, predictable environments, works in existing systems or cultures; practises risk avoidance and strictness in terms of time and efficiency measures, and emphazises process over substance* (Bass, 1985). In their meta-analysis, contrary to what is traditionally held, Lowe et al. (1996) show that transformational leadership is more frequently found in public sector organizations compared to private ones. The other findings by Lowe et al. (1996) are that contigency rewards are found to have impacts on organizational effectiveness; on the contrary, *management-by-exception* is found to have no impact on effectiveness.

Transformational Leadership
Bass (1985, p. 220) suggests that transformational leadership is an expansion of transactional leadership.

Transformational leadership is a nearly ideal type of leadership where followers always look up to leaders to seek inspiration, direction and support. Transformational leaders develop followers, instill high expectations and provide confidence to achieve greater performance. Tentative guidelines for transformational leaders to be effective in inspring and motivating followers are as follows (Yukl, 2002, p.263): (1) articulate a clear and appealing vision, (2) explain how the vision can be attained, (3) act confidently and optimistically, (4) express confidence in followers, (5) use dramatic, symbolic actions to emphasize key values, (6) lead by example, and (7) empower people to achieve the vision.

Transactional leadership has been traditionally viewed as unconstructive compared to transformational leadership. However, transformational leadership may only be more effective in "*an unstable environment, an organic structure (rather than a mechanistic bureaucracy), an entrepreneurial culture, and dominance of boundary-spanning units over the technical core.*" (Yukl, 2002). However, a transformational leader may be *ineffective* in executing his tasks in the absence of transactional leadership (Lowe, Kroeck, & Sivasubramaniam, 1996). In other words, an effective leadership style needs both transformational and transactional elements to be practiced simultaneously.

Combination of Transformational & Transactional Leadership Behaviors and Interaction Effects of Two Leadership Behaviors
Burns (1978) suggests that transactional and transformational leadership behaviors are mutually exclusive, which means a leader can only either be transactional or transformational. Bass (1985) argues in fact that transformational leadership is an expansion of transactional leadership. The expansion is mainly of the effect on followers' "*efforts, satisfaction and effectiveness*" (Bass, 1990b, p. 53). Kuhnert and Lewis (1987) argue that Burns (1978) and Bass (1985) "identified leaders by their actions and the impact those have on others", however Burns and Bass did not explain the "framework for understanding the motivational states or personality differences that give rise to these two types of leadership" (p. 648). Further, Kuhnert and Lewis (1987) show that Bass (1985) identified "personality variables believed to distinguish transformational from transactional leaders, but Bass failed to explain how particular traits cohere to produce different types of leaders" (p. 650). Using *constructive/ developmental personality theory* as a framework for distinguishing leadership behavior, Kuhnert and Lewis (1987) show that "people vary in the ways they construct or organize experiences about themselves and their social and interpersonal environment and from this perspective that the organizational and perceptual structures of transactional leaders are quite *distinct* from those of transformational leaders" (p.650).

Yukl (2002) suggests a *combination* of transformational and transactional leadership behavior can create an effective leader. Bass (1985) also suggests that transformational and transactional leadership paradigms be viewed as *complementary* to each other. Hence, an effective leader practices both transformational and transactional styles simultaneously. According to Bass, Avolio, & Goldham, (1987 in Lowe et al., 1996, p. 387), "*transformational leadership is complementary to the transactional style and likely to to be ineffective in the total absence of a transactional leadership style between leader and subordinate.*" Bass (1990b) mentions famous names such as Abraham Lincoln, Franklin Delano Roosevelt and John F. Kennedy who were considered great transformational leaders but also practiced a transactional style of leadership.

Bass (1985) and Yukl (2002) do *not* clearly specify in what particular situation a *combination* of transformational and transactional leadership behaviors will make an effective leader. Yukl (2002) asserts that a combination of transformational and transactional leadership behaviors should be viewed from the *underlying influence processes* of the two behaviors. Effective leaders are expected to be aware of distinctively employing the type of *influence* processes relevant to the context and facilitating conditions to have the most effective impacts on followers.

Leadership and Social Exchange Theory

Interactions between superiors-subordinates can be viewed from a social exchange perspective. Social exchange is frequently employed by researchers as a basis to explain or understand relationship that build between superiors and their subordinates (Keller & Dansereau, 1995). The superiors provide support and other benefits to subordinates and subordinates are grateful and indebted to their leaders, and reciprocate with positive and productive behaviors (Hollander, 1978; Homan, 1961 all in Keller & Dansereau, 1995). Blau (1964) suggests that a social exchange relationship between superiors and their subordinates is based on trust, hence when superiors give benefits to subordinates the feeling of gratitude and personal obligation of subordinates will develop. The subordinates will then reciprocate and this may lead to higher engagement with both their jobs and organizations (e.g. Rich et al., 2010; Saks, 2006).

The exchange relationship between superiors-subordinates has been studied by researchers under the term of leader-member-exchange (LMX) (e.g. Keller & Dansereau, 1995; Sparrowe & Liden, 1997; Wayne, Liden & Sparrowe, 1994). This type of relationship is specifically labeled a dyadic relationship between superiors and subordinates. The key premise of LMX is: leaders develop different types of exchange relationships with different subordinates: high quality and low quality LMX (Dienesch & Linden, 1986 in Keller & Dansereau, 1995. Exchanges in high-quality LMXs (usually referred as "in-group") are characterized by mutual trust and support, meanwhile low-quality LMXs ("out-group") are normally based on contractual agreements.

Integrating all Theories and Frameworks Employed in This Study

Following is a pictorial summary of all theories and frameworks used for this particular study. The umbrella for all theories consists of relevant theories developed by strategic management researchers. As mentioned previously, this study examines how leaders with their leadership behaviors may influence organizational success through talented and engaged people as well as ensure that intangible elements (organizational culture and POS) are developed and implemented well. The success of an organization in outperforming competitors is one of the key issues in the strategic management field.

In the current knowledge-based economy, human resources are now the key to beating the competition; therefore, traditional Human

Resources Management (HRM) has to be lifted up to a strategic level (SHRM) where all initiatives and programs in HRM must be linked and aligned with the strategic direction of an organization. To ensure that HRM is strategic, the personnel of the HR function need to be involved in strategy formulation processes, and HR must be a core competency in and of the organization (Wielemaker & Flint, 2005).

Social exchange theory (SET) is employed as an integrating theory for the relevant theories used to deeply explain research variables: leadership, POS and employee engagement (Saks, 2006; Wayne et al., 1997; Wayne et al., 2002). SET has been employed to explain reciprocal behavior between persons, persons with leaders, or persons and organizations (Aselage & Eisenberger, 2003; Cole et al., 2002; Dienesch & Liden, 1986; Gouldner, 1960; Organ, 1988; Saks, 2006; Wayne et al., 1997; Wayne et al., 2002).

### Proposed Conceptual Model and Hypotheses

Saks (2006) suggests two types of dimensions to measure employee engagement: job engagement and organizational engagement. There have not been many models of or much research on employee engagement and Saks's (2006) argument in the measurement of employee engagement is based on two streams of previous research and social exchange theory.

The basic logic for the proposed model is the emphasis on the strategic importance of the leadership behavior of a leader in determining the success of the organization through talented and engaged human capital. In measuring organizational success, the indicator of success in outperforming competitors is not always a financial indicator (Macey et al., 2009; Ormanidhi & Stringa, 2008; Peteraf & Barney; 2003; Pfeffer, 1995).

Further assessment of this proposed model can be found in other studies conducted by researchers concluding that leaders need mediating variables to influence employees in regard to their jobs and organizational engagement (Harter et al., 2002; Heger, 2007; Kahn, 1990; Luthans & Peterson, 2002; May et al., 2004; Rich, 2010; Saks, 2006; Schaufeli & Bakker, 2004; Schiemann, 2009).

The proposed conceptual model is as follows:
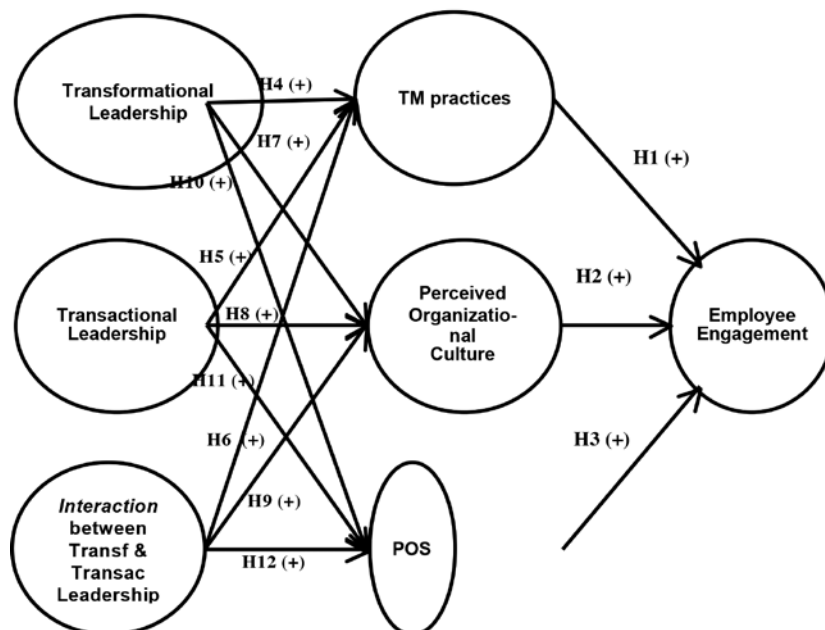
METHODS

Background and LM-FEUI Approach (Methodology) on HRE 2009 Study

Empirical studies on talent management and employee engagement are scarce since talent management and employee engagement can be considered as new fields in human resources and organizational behavior. It is even harder to find related studies on Indonesian companies. However, these two areas of human resources management are now acknowledged by many company leaders, researchers, and practitioners as vital to organizational success and survival in this era of knowledge-based economies. They agree that human capital is now the key to outperform competitors.

LM-FEUI and non-profit organization Human Resources Indonesia (HRI) had already conducted two studies on some aspects of human resources prior to 2009, aptly called Human Resources Excellence (HRE) 2007 and 2008. These previous studies mainly focused on traditional human resources functions, e.g. Recruitment, Performance Appraisal, Training and Development. After considering a few aspects and acknowledging that there was a dearth of empirical studies on talent management and employee engagement, HRE 2009 was designed mainly around these two strategic and yet relatively new aspects of human resources management, both in the theoretical and practical sense.

Human Resources Excellence 2009 Survey Respondent Profiles

HRE focuses on key and important human resources areas. The HRE 2009 study was planned and conducted carefully to ensure data accuracy. Compared to the previous HRE studies, HRE 2009 was seen as more successful in terms of the participants' number, reputation, and the size of the companies they work for.

The respondents of this study were employees of the participating companies classified as top management (10%), middle management (30%) and low management (60%) employees. The close-ended questionnaire with a six-point Likert scale was designed in such a way that the generated responses from the survey sample represented the population of the study. The survey did not easily attract companies to participate despite vigorous advertising in SWA. After the tireless efforts of the involved staff, 26 companies signed up to confirm their participation in the study. Most of the 26 participating companies had more than 250 employees.

Eight of the companies are public listed: PT Adira Dinamika Multi Finance; PT Bank OCBC NISP; PT SMART, Tbk.; PT Indosat, Tbk.; PT HM Sampoerna, Tbk.; PT Mandom Indonesia, Tbk.; PT Indocement Tunggal perkasa, Tbk.; and PT Semen Gresik (Persero), Tbk. Ten of the participating companies are state-owned enterprises (SOE) while ten are private companies.

There were 756 respondents from the 26 participating companies who returned the questionnaires. The high questionnaire return rate of 96.9%, was attributed to the persistence of the survey coordinator of LM-FEUI and the cooperation of the contact persons assigned by each of the participating companies. The data collected in the survey also included the respondents' demographic data such as job position, years of service, age, etc. These data would prove useful at the later stage of statistical analysis.

Respondents (Profile) General Description

This research is conducted by distributing 780 sets of questionnaire to 26 participating organizations in Indonesia. From the total number of distributed questionnaires, 756 (96.9%) of completed sets were returned and 728 (96.3%) were considered valid to be analyzed further as a unit of analysis. The number of samples in the range of 100 – 200 is an appropriate number, especially from the perspective of overall fit measures that are fundamental: likelihood-ratio chi-square statistic

Table 1. HRE 2009 Participating Companies

No:	Company Name	Type of Industry	Type of Ownership
1	PT SMART, Tbk.	Plantation	Public listed
2	PT TNT Indonesia	Transportation & Logistics	Private
3	PT Wika Realty	Property Developer	State Owned Enterprise (SOE)
4	PT Johnson Home Hygiene Products	Manufacturing – Consumer Products	Private
5	PT Indocement Tunggal Prakarsa, Tbk.	Manufacturing - Cement	Public listed
6	PT Adira Dinamika Multi Finance, Tbk	Financial Institution	Public listed
7	PT Asuransi Jiwa Recapital	Insurance	Private
8	PT HM Sampoerna, Tbk.	Manufacturing – Cigarettes	Public listed
9	PT. Amoco Mitsui PTA Indonesia	Manufacturing - Chemical	Private
10	PT Aetra Air Jakarta, Tbk	Clean Water Supplier	Private
11	PT Indosat, Tbk	Communication	Public listed
12	PT Garuda Food	Manufacturing - Food	Private
13	PT Oracle Indonesia	Information Technology	Private
14	PT SOHO Pharmaceutical	Manufacturing - Pharmacy	Private
15	PT Bank OCBC NISP, Tbk.	Banking	Public listed
16	PT Mandom Indonesia, Tbk.	Manufacturing – Consumer Products	Public listed
17	PT Semen Gresik (Persero), Tbk.	Manufacturing - Cement	Public listed
18	PT Angkasa Citra Sarana Catering Service	Catering	SOE
19	Perum Pegadaian	Financial Institution	SOE
20	PT Garuda Indonesia	Airline	SOE
21	Kelompok Kompas Gramedia	Publisher	Private
22	PT Microsoft Indonesia	Information Technology	Private
23	PT Permodalan Nasional Mandiri (Persero)	Financial Institution	SOE
24	PT Pertamina (Persero)	Oil and Gas	SOE
25	Perum Peruri	Manufacturing	SOE
26	PT (Persero) Angkasa Pura 1	Services	SOE

for research that analyzes data using SEM (Hair et al., 1998). The general description of respondents that are arranged in the form of tables and pie-diagrams are as follows:

This chapter is about the statistical analysis of the research data which was obtained using a questionnaire as the main research instrument. The data itself covers 26 organizations, and is comprised of 756 returned and completed

questionnaires as well as respondents' profiles. The researcher has been granted permission by LM-FEUI to use the data for the purpose of this research. Statistical analysis is conducted as one of the requirements for SHP (*Seminar Hasil Penelitian* -Research Results Seminar) examination defense. The analysis is done by using *Structural Equation* *Modeling* (SEM) with *Lisrel version 8.8* software, comprised of measurement model analysis, latent variable simplification by measuring *Latent Variable Score* (LVS), *Confirmatory Factor Analysis* (CFA) test results, structural model test, and hypothesis test result discussions.
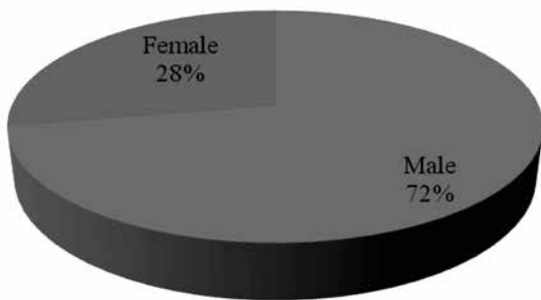
Figure 1. Responden Profile by Gender
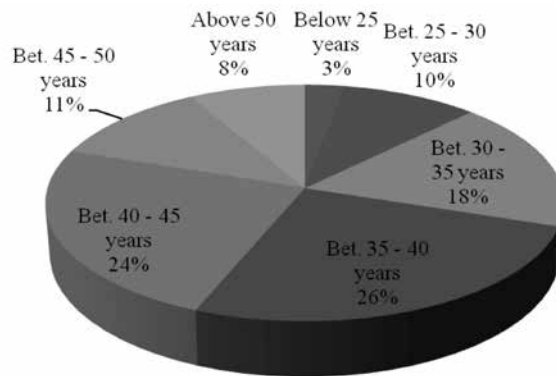
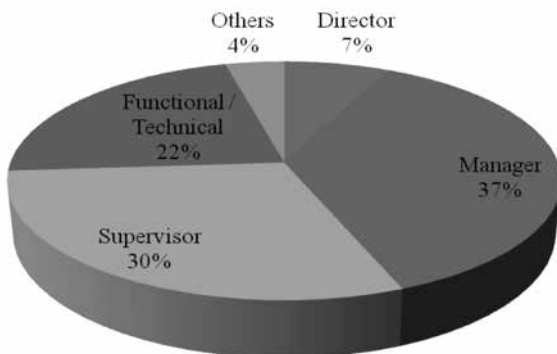Figure 2. Responden Profile by Age
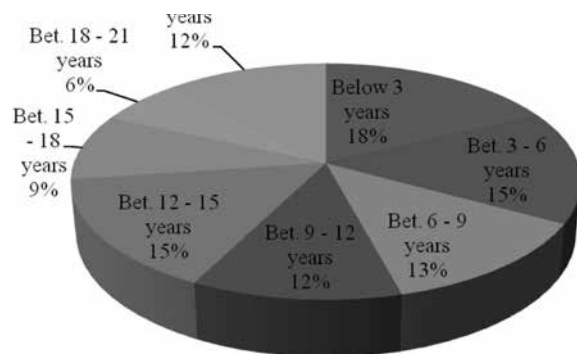

Figure 3. Responden Profile by Position

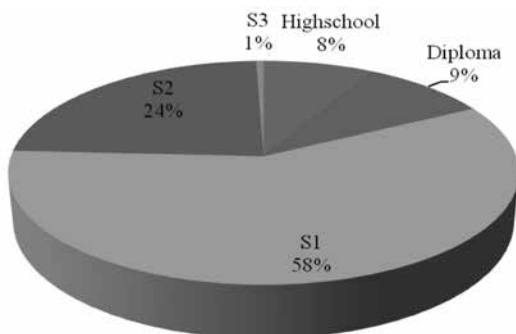Figure 4. Responden Profile by Working Experience

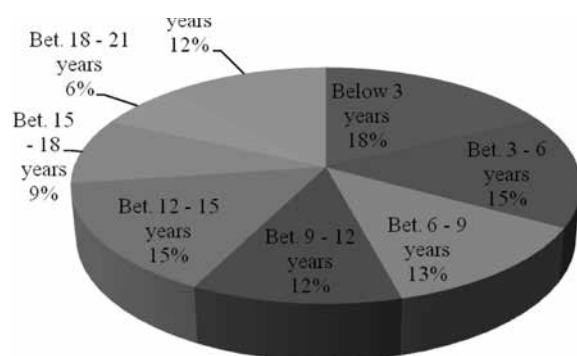Figure 5. Responden Profile by Educational Background

Figure 6. Responden Profile by Working Status

RESULTS AND DISCUSSIONS

The matrix below delineates the hypotheses pertinent to the conceptual model above and the findings of the research that has been conducted in order to ascertain their correctness.

Theoretical Contributions of the Research

There are several past studies on employee engagement, yet the majority of those are constructed by limited number of antecedents. Hence, in order to specifically contribute to the development of talent management and employee engagement theories, this study makes several contributions as in table 3.

Managerial Implications of the Research

Furtherrmore, this research generates some managerial implications, and its summary is as in table 4.

Future Research Directions

Along with very recent literature, the findings and limitations of this empirical study generate some directions for future research. For instance, due to continuing developments in employee engagement theory, there is an urgent need to find key drivers and predictors of engagement based on a firm and valid theoretical model to enable us to "understand better the reasons why the drivers relate to engagement" as Albrecht (2010, p. 10) puts it.

Table 2. Matrix of Hypotheses and the findings of the research

	Hypotheses	Findings
H1	Talent management practices positively influence employee engagement	Hypotheses is accepted
H2	Perceived organizational culture positively influences employee engagement	Hypotheses is accepted
H3	Perceived organizational support (POS) positively influences employee engagement	Hypotheses is not accepted
H4	Transformational leadership behavior positively influence talent management practices	Hypotheses is accepted
H5	Transactional leadership behavior positively influences talent management practices	Hypotheses is not accepted
H6	*Interaction* between Transformational and Transactional leadership behaviors positively influences talent management practices	Hypotheses is accepted
H7	Transformational leadership behavior positively influences perceived organizational culture	Hypotheses is accepted
H8	Transactional leadership behavior positively influences perceived organizational culture	Hypotheses is not accepted
H9	*Interaction* between Transformational and Transactional leadership behaviors positively influences perceived organizational culture	Hypotheses is accepted
H10	Transformational leadership behavior positively influences perceived organizational support (POS)	Hypotheses is accepted
H11	Transactional leadership behavior positively influences perceived organizational support (POS)	Hypotheses is not accepted
H12	*Interaction* between Transformational and Transactional leadership behaviors positively influences perceived organizational support (POS)	Hypotheses is accepted

Table 3. Theoretical Contribution

No	Related Concept(s)		Theoretical Contributions
	Theories #1	Theories #2	
1	Leadership behavior	Employee engagement	• This study affirms that employee engagement starts with leadership. • To increase employee engagement, leaders create meaning, a culture for engagement, develop and implement talent management practices.
2	Talent management practices	Social exchange	• Talent management practices may be considered as social exchange, not only transactional in nature. • Employees feel more obliged to repay the organization when they are receive more training and when their contributions are recognized.
3	Organizational culture	Employee engagement	• This empirical research affirms previous research findings that organizational culture influences employee engagement. • Talent management practices alone are not sufficient to engage talented employees.
4	POS	Employee engagement	• One finding is that POS does not significantly influence employee engagement. However, a competing theory (Levinson, 1965) says that POS may influence organizational culture and other organizational activities. In other words, POS indirectly influences employee engagement through mediating variables such as organizational culture.
5	Transformational, transactional and interaction between transformational and transactional leadership behaviors	Talent management practices, organizational culture and POS	• One finding is that transactional leadership behavior is necessary but, by itself, does not significantly influence talent management practices, organizational culture and POS. It has to be combined with transformational leadership behavior to influence the three mediating variables. • This finding contributes to the theory development of interaction or combination of transformational and transactional leadership behaviors.
6	Single research model of leadership-driven employee engagement as a new theoretical framework		• In this empirical research, a particular theoretical contribution is expected by concurrently incorporating key variables (i.e. leadership, talent management practices, organizational culture) as antecedents of employee engagement in a single research model as it may be one of the first few researches to do so. • This research construct allows for relative and comparative investigation of key variables in predicting employee engagement as an outcome variable.
7	Level of employee engagement as a *surrogate variable* to firm performance indicator		• This empirical research integrates theories of strategic human resources and strategic management to suggest that the level of employee engagement can be an organization's performance indicator, as well, it can measure a company's source of sustainable competitive advantage.

Table 4. Managerial Implications and Summary

No	Variables	Implications
1	Leadership behavior	• Organizations should develop more transformational leaders. • Transactional leadership behavior is necessary but leaders should combine it with transformational leadership behavior to ensure leadership effectiveness.

2	Talent management practices	• Leaders should initiate and implement talent management practices in order to:
		  - understand what key factors attract high potential.
		  - develop structured and robust learning and development programs to build organizational competence / capability.
		  - develop talent pools to ensure smooth succession.

3	Organizational culture	• To influence employee engagement positively, leaders must ensure alignment between organizational and employee vision, mission, values as well as goals.
4	Employee engagement	• Leaders must specifically assign and hold responsible every manager to their score of employee engagement as a manager's key performance indicators (KPIs). • Aggregate employee engagement score from all departments reflects a *surrogate variable* of organizational performance.

In this direction, it may be fruitful to look at theories linked to employee engagement such as conservation of resources or COR Theory (Hobfoll, 1989 in Albrecht, 2010), self determination or SDT Theory (Deci & Ryan, 1985 in Albrecht, 2010), social exchange or SET theory (Blau, 1964), social identity or SIT Theory (Tajfel, 1974 in Albrecht, 2010), Role Theory (Kahn, 1990), Broaden-And-Build Theory of positive emotion (Fredrickson, 2001 in Albrecht, 2010), job characteristics or JCT Theory (Hackman & Oldham, 1980 in Albrecht, 2010) and the job-demands-resources or JD-R Model (Bakker & Demerouti, 2007). Practitioners are desperate for solid knowledge for specific buttons to press that will enable them to create, increases, and sustain various levels of employee engagement. They require practical predictors and solid drivers of employee engagement that can be applied to any organizational context and supported by more integrated theoretical foundations (Albrecht, 2010), particularly those which can be tested for viability and accurate results.

CONCLUSION

The findings have indicated that leadership behaviors are very important in predicting the employees' level of engagement. Leadership-driven talent management practices engages high-potential talent which, in turn assures organizational success and performance. Leaders must initiate and activate talent management practices, organizational culture and perceived organizational supports (POS) as the wheels of social exchange. Talent management practices and organizational culture are mediating variables of leadership behavior; all together, they influence employee engagement, although in this study, it was found that the influence of POS on employee engagement was not significant.

To drive the two intangible organizational factors of talent management practices and organizational culture to engage employees, it is vital that leaders display transformational leadership behavior. Although transactional leadership behavior is necessary to drive these two mediating variables, it has to be combined with transformational leadership behavior for maximum effect and influence.

Implementing talent management practices significantly influences employee engagement. Employees, particularly talented ones, appreciate organizations that further develop their capabilities, measure their performance objectively, and offer job promotions and retention plans. This cause-and-effect relationship suggests that talent management practices can be viewed from a social exchange perspective.

One key leadership responsibility is to develop an effective organizational culture (e.g. Boal & Hooijberg, 2001; Block, 2003; Buble & Pavic, 2007; Yukl, 2008) aligned with the organization's business strategies and with employee needs. Leaders must align organizational culture as closely as possible with individual employee values, beliefs and principles; such degree of alignment is directly proportional to the level of employee engagement (Macey et al., 2009; Wildermuth & Pauken, 2008a).

Research in the fields of talent management and employee engagement continues in the quest to build solid, systematic, and integrated approaches towards robust theoretical concepts for talent management and employee engagement. Researchers, consultants and practitioners should integrate efforts to accelerate the improvement of knowledge gained through the continuous development of theories and practices in talent management and employee engagement. ■

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