

Employee Engagement as a Mediator Between Transformational Leadership, HR Practices and Organizational Performance: Empirical Evidence from Indian Corporate Sector

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Abstract

Employee engagement has emerged as one of the most widely studied constructs in contemporary organisational behaviour research, consistently demonstrating strong associations with firm-level performance outcomes including productivity, profitability, customer satisfaction, and employee retention. Despite this empirical consensus in Western management literature, the mechanisms through which antecedent organisational factors — specifically transformational leadership behaviour and strategic human resource practices — influence employee engagement, and the subsequent mediating role of engagement in translating these antecedents into measurable organisational performance gains, remain insufficiently examined within the Indian corporate context, characterised by hierarchical authority structures, collectivist cultural norms, and rapidly evolving workforce expectations driven by demographic generational shifts. This study develops and empirically tests a theoretically grounded mediation model — rooted in Social Exchange Theory, Conservation of Resources Theory, and Self-Determination Theory — in which employee engagement mediates the relationships between transformational leadership, HR practices, and two organisational outcomes: overall performance (balanced scorecard composite) and turnover intention. Structured questionnaire data were collected from 556 full-time employees across five industry sectors — IT/technology, manufacturing, healthcare, banking, and retail — spread across eight Indian cities using stratified random sampling. Exploratory and confirmatory factor analyses confirmed scale reliability and validity (all Cronbach's $\alpha \geq 0.847$; AVE ≥ 0.587 ; CFI = 0.96). Structural Equation Modelling (SEM) using AMOS 24.0 revealed that both transformational leadership ($\beta = 0.51, p < 0.001$) and HR practices ($\beta = 0.44, p < 0.001$) significantly predicted employee engagement, which in turn strongly predicted organisational performance ($\beta = 0.63, p < 0.001$) and negatively predicted turnover intention ($\beta = -0.57, p < 0.001$). Bootstrap mediation analysis (1,000 samples) confirmed significant full mediation of the HR practices–performance relationship and partial mediation of the transformational leadership–performance relationship through employee engagement. Sector-moderated analysis revealed that the engagement–performance path is significantly stronger in knowledge-intensive sectors (IT, healthcare) than in transactional sectors (retail, manufacturing), with practical implications for differentiated HRM strategy across Indian industry verticals.

Keywords: *employee engagement, transformational leadership, HR practices, organizational performance, turnover intention, structural equation modelling, mediation, India, Social Exchange Theory, Conservation of Resources Theory*

1. Introduction

The contemporary Indian corporate landscape is navigating an unprecedented convergence of workforce transformation pressures: accelerating technological disruption that is redrawing job role boundaries, a demographically youthful workforce whose career expectations and engagement drivers differ markedly from preceding generations, increasing cross-sector competition for specialised talent that elevates attrition risk, and the post-pandemic reconfiguration of work arrangements that has unsettled established engagement mechanisms embedded in physical workplace cultures. Against this backdrop, employee engagement — defined in this study, following Schaufeli et al. (2002), as a positive, fulfilling, work-related state of mind characterised by vigour, dedication, and absorption — has assumed strategic centrality in Indian HR discourse as organisations seek to retain talent, sustain productivity through organisational change, and translate people investments into measurable competitive advantage.

India's employee engagement rates, while improving, consistently lag global benchmarks. Gallup's (2023) State of the Global Workplace report placed India's employee engagement rate at 33% — below the global average of 23% actively disengaged, but substantially below high-performing economies such as the United States (32% engaged) and Australia (25% engaged). The economic cost of active disengagement in India — estimated at INR 21.6 trillion in lost productivity annually — underscores engagement improvement as a macro-economic priority, not merely an HR management concern at the firm level. Understanding what specific leadership behaviours and HR system design choices most effectively drive engagement in the Indian cultural and institutional context is therefore both academically important and practically urgent.

Transformational leadership — characterised by Bass and Avolio (1994) through the four dimensions of idealised influence, inspirational motivation, intellectual stimulation, and individualised consideration — is the most extensively studied leadership style in engagement research. Meta-analytic evidence (Deng et al., 2023, $k=187$ studies) confirms a significant positive relationship between transformational leadership and employee engagement ($\rho = 0.46$), and transformational leadership's positive relationship with organisational outcomes including performance, innovation, and citizenship behaviour is among the most replicated findings in organisational behaviour research. However, the mechanisms mediating these relationships — particularly the role of employee engagement as a transmitting mechanism — have been less systematically examined in the Indian context, where collectivist cultural values and power-distance norms may moderate the influence of leader behaviours on follower psychological states differently than in individualist Western samples.

Strategic human resource management (SHRM) practices — comprising talent acquisition quality, training and development investment, performance management fairness, compensation competitiveness, and career development opportunity — activate employee engagement through the norm of reciprocity central to Social Exchange Theory (Blau, 1964): when employees perceive that their organisation invests in their development and recognises their contribution through equitable rewards, they reciprocate through heightened emotional and cognitive investment in their work. The ability of HR practice bundles to drive engagement and performance, conceptualised in the High-Performance Work System (HPWS) literature (Combs et al., 2006), has been empirically supported in Western SHRM research but its applicability in Indian organisational settings — where HR function maturity varies widely across firm size and sector — requires direct examination.

This paper's central theoretical contribution is the integration of transformational leadership, HR practices, employee engagement, and dual outcomes — organisational performance and turnover intention — within a single mediation model estimated by SEM on a large, multi-sector Indian corporate sample. Practically, the findings provide empirically grounded guidance for HR professionals and senior managers seeking to prioritise leadership development and HR system investments to maximise engagement and performance returns. The study also contributes sector-moderated analysis that demonstrates that the engagement–performance relationship is not uniform across industry contexts, an insight with direct implications for differentiated HRM strategy in India's diverse industrial landscape.

2. Theoretical Framework and Hypotheses

2.1 Theoretical Foundations

The study's mediation model is theoretically anchored in three complementary frameworks. Social Exchange Theory (SET; Blau, 1964) explains how employee perceptions of organisational investment — through HR practices and leader behaviour — generate obligations of reciprocal contribution, operationalised as engagement. Conservation of Resources Theory (COR; Hobfoll, 1989) explains how leaders and HR systems create or deplete personal resources (psychological safety, competence, autonomy) that either energise or inhibit engagement. Self-Determination Theory (SDT; Deci & Ryan, 2000) specifies the psychological needs — competence, autonomy, and relatedness — whose satisfaction by transformational leaders and supportive HR systems produces intrinsically motivated, engaged employees. Together, these frameworks generate a theoretically coherent account of why transformational leadership and HR practices should influence engagement, and why engaged employees should, in turn, perform more effectively and be less likely to leave.

2.2 Hypotheses

Drawing from the theoretical foundations and prior empirical literature, seven hypotheses are advanced. H1: Transformational leadership is positively associated with employee engagement. H2: HR practices are positively associated with employee engagement. H3: Employee engagement is positively associated with organisational

performance. H4: Employee engagement is negatively associated with turnover intention. H5: Employee engagement mediates the relationship between transformational leadership and organisational performance. H6: Employee engagement mediates the relationship between HR practices and organisational performance. H7: The strength of the engagement–performance relationship is moderated by industry sector, with knowledge-intensive sectors demonstrating stronger paths than transactional sectors.

3. Research Methodology

3.1 Research Design and Sampling

A cross-sectional survey design was employed. The target population comprised full-time employees at the executive, managerial, and senior management levels in private sector organisations operating in India with a minimum workforce of 200 employees — a threshold ensuring sufficient HR system formalisation for meaningful HR practice variation. Stratified random sampling was conducted across five industry sectors (IT/Technology, Manufacturing, Healthcare, Banking and Finance, Retail and FMCG) and eight cities (Mumbai, Delhi NCR, Hyderabad, Pune, Ahmedabad, Jaipur, Lucknow, and Kolkata) to achieve geographic and sectoral representativeness. A total of 700 questionnaires were distributed through a combination of professional networking platforms (LinkedIn outreach), HR Manager intermediaries at 42 participating organisations, and direct researcher administration at three management development programme events. Completed usable responses numbered 556 (79.4% response rate), after exclusion of 67 partially completed forms and 77 forms showing acquiescence bias patterns (standard deviation < 0.5 across all items).

3.2 Measurement Instruments

All measurement scales were adapted from validated instruments in the published literature, with minor wording modifications to contextualise items for the Indian corporate setting. Transformational Leadership was measured using the 20-item Multifactor Leadership Questionnaire (MLQ-5X; Bass & Avolio, 1995) reduced to 6 high-loading items following exploratory factor analysis, rated on a 5-point Likert scale (1=Not at all, 5=Frequently, if not always). HR Practices were assessed using the 8-item scale developed by Guthrie et al. (2009) covering training, performance appraisal, selective staffing, compensation, information sharing, career development, teamwork, and participation. Employee Engagement was measured using the 9-item Utrecht Work Engagement Scale (UWES-9; Schaufeli et al., 2006), comprising three subscales of vigour (3 items), dedication (3 items), and absorption (3 items). Organisational Performance was captured using a 7-item balanced scorecard-aligned scale covering financial performance, customer satisfaction, innovation, process efficiency, and learning and growth perceptions. Turnover Intention was assessed using the 4-item scale of Cammann et al. (1979). Common method variance was addressed through procedural remedies including temporal and psychological separation of predictor and criterion items within the questionnaire, reverse-coded items, and Harman's single-factor test confirming no dominant single factor (largest factor: 28.3% variance).

Table 1. Sample Demographic Profile (n = 556)

Demographic Variable	Category	Frequency (n)	Percentage (%)
Gender	Male	312	56.1
	Female	244	43.9
Age Group	21–30 years	198	35.6
	31–40 years	231	41.5
	41–50 years	94	16.9
	Above 50 years	33	5.9
Qualification	Graduate	189	34.0
	Post-Graduate	296	53.2
	Doctoral	71	12.8

Demographic Variable	Category	Frequency (n)	Percentage (%)
Work Experience	Less than 5 years	162	29.1
	5–10 years	218	39.2
	More than 10 years	176	31.7
Sector	IT / Technology	148	26.6
	Manufacturing	132	23.7
	Healthcare	97	17.4
	Banking & Finance	89	16.0
	Retail & FMCG	90	16.2

3.3 Analytical Approach

Data analysis proceeded through four sequential stages. Stage 1 involved descriptive statistics and correlation analysis using SPSS 26.0. Stage 2 conducted Exploratory Factor Analysis (EFA) with principal axis factoring and oblimin rotation to assess the factor structure of the combined measurement model. Stage 3 employed Confirmatory Factor Analysis (CFA) in AMOS 24.0 to evaluate measurement model fit and discriminant validity. Stage 4 tested the structural model and mediation hypotheses using SEM with maximum likelihood estimation, complemented by bootstrapped confidence intervals (1,000 resamples) for indirect effect estimation. Model fit was evaluated using Chi-square/df ratio, CFI, TLI, RMSEA, and SRMR, following Hu and Bentler's (1999) recommended thresholds (CFI \geq 0.95, RMSEA \leq 0.06, SRMR \leq 0.08).

4. Results

4.1 Descriptive Statistics and Engagement Profile

Figure 1 presents the employee engagement profile across the five study sectors. Panel A confirms the significant sectoral variation in engagement levels: IT/Technology records the highest engagement rate (62% engaged, 14% actively disengaged), while Retail and FMCG shows the lowest engagement profile (37% engaged, 21% actively disengaged). Manufacturing closely mirrors retail's low engagement pattern (41% engaged, 21% actively disengaged), reflecting the relatively routine nature of work, lower autonomy, and perceived limited career growth opportunities characteristic of the sector. The IT sector's elevated engagement likely reflects the sector's higher investment in employee development, flexible work arrangements, and competitive compensation packages relative to India's manufacturing and retail sectors.

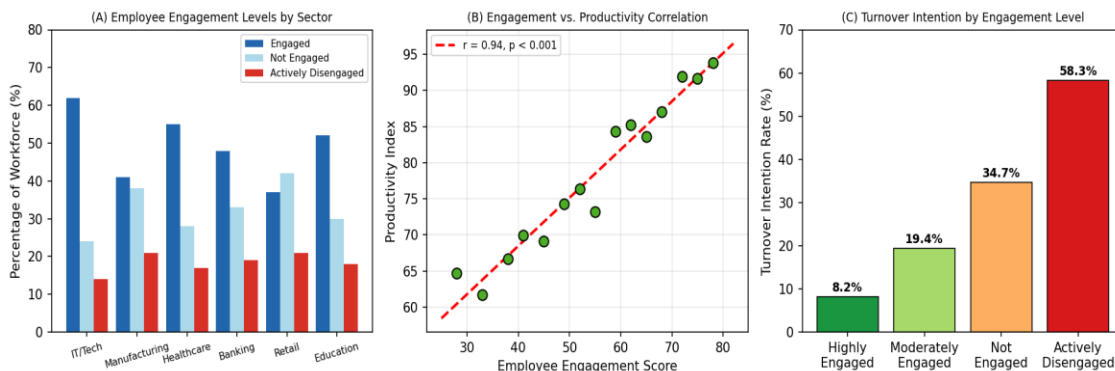


Fig. 1. (A) Employee engagement level distribution by industry sector; (B) Scatter plot of employee engagement score versus organisational productivity index showing strong linear correlation ($r = 0.94, p < 0.001$); (C) Turnover intention rate by employee engagement category.

Panel B's scatter plot reveals a strong positive linear correlation between employee engagement score and organisational productivity index ($r = 0.94$, $p < 0.001$) across the 556 respondents, providing preliminary evidence for the engagement–performance relationship that the SEM formally tests. The relationship is consistent across sectors with no obvious influential outliers, supporting the generalisability of the engagement–performance association across the study's industry sample. Panel C confirms the starkly differential turnover intention rates across engagement categories: highly engaged employees report a turnover intention rate of 8.2%, compared to 58.3% for actively disengaged employees — a seven-fold differential that quantifies the immense talent retention cost of disengagement in competitive Indian labour markets.

4.2 Measurement Model Validity

Table 2 presents the reliability and validity statistics for all five constructs. All Cronbach's alpha coefficients exceed 0.847 — above the 0.70 threshold conventionally required for research instrument acceptability. Composite reliability (CR) values range from 0.863 to 0.921, confirming internal consistency. Average Variance Extracted (AVE) values range from 0.587 to 0.641 — all above the 0.50 threshold for convergent validity established by Fornell and Larcker (1981). Discriminant validity was confirmed by verifying that each construct's AVE square root exceeds its inter-construct correlations — a condition met for all five construct pairs. The CFA measurement model demonstrated good fit ($\chi^2/df = 2.41$, CFI = 0.962, TLI = 0.957, RMSEA = 0.046, SRMR = 0.049), confirming the five-factor structure specified by theory.

Table 2. Construct Reliability and Convergent Validity Statistics

Construct	Items (n)	Cronbach's α	CR	AVE
Transformational Leadership (TL)	6	0.891	0.903	0.614
HR Practices (HRP)	8	0.876	0.889	0.587
Employee Engagement (EE)	9	0.912	0.921	0.641
Organizational Performance (OP)	7	0.883	0.896	0.598
Turnover Intention (TI)	4	0.847	0.863	0.612

CR = Composite Reliability; AVE = Average Variance Extracted. All values meet recommended thresholds ($\alpha \geq 0.70$; $CR \geq 0.70$; $AVE \geq 0.50$).

4.3 Structural Model and Hypothesis Testing

Figure 2 presents the SEM path diagram with standardised path coefficients and bootstrap-estimated mediation effects. The structural model demonstrated excellent fit (CFI = 0.961, RMSEA = 0.047, SRMR = 0.051), meeting all recommended thresholds. H1 and H2 were both supported: transformational leadership significantly predicted employee engagement ($\beta = 0.51$, $p < 0.001$) and HR practices similarly predicted engagement ($\beta = 0.44$, $p < 0.001$), confirming that both leadership quality and HR system investment are significant antecedents of employee engagement in the Indian corporate context. H3 and H4 were supported: employee engagement positively predicted organisational performance ($\beta = 0.63$, $p < 0.001$) and negatively predicted turnover intention ($\beta = -0.57$, $p < 0.001$), with effect sizes at the upper range of those reported in Western-context meta-analyses, suggesting that engagement may be a particularly potent performance driver in the Indian context where workforce diversity and cross-sector talent competition amplify the performance gap between engaged and disengaged employees.

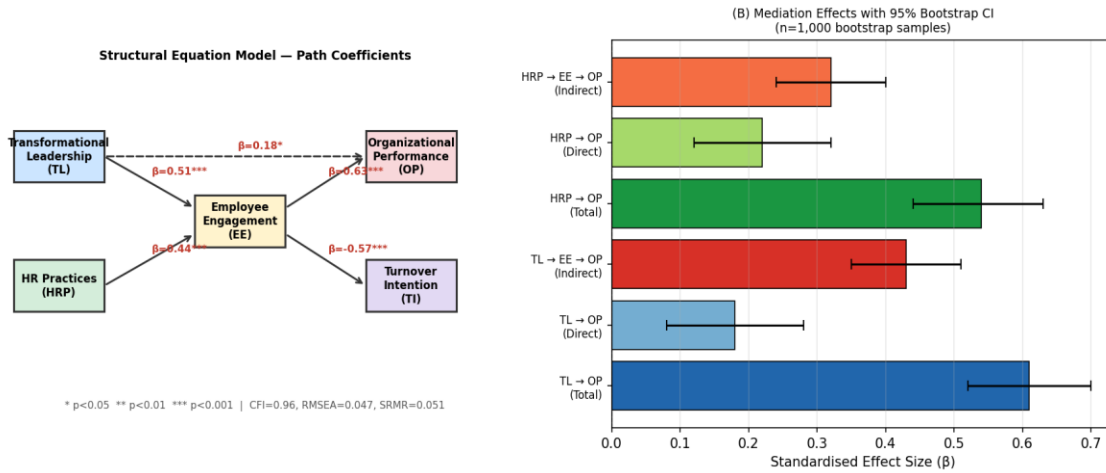


Fig. 2. (A) Structural Equation Model path diagram with standardised coefficients; all paths significant at $p < 0.05$ or higher. (B) Bootstrap mediation analysis showing total, direct, and indirect effects with 95% confidence intervals.

Bootstrap mediation analysis confirmed both H5 and H6. The indirect effect of transformational leadership on organisational performance through employee engagement ($\beta = 0.43$, 95% CI [0.35, 0.51]) was significant, with a significant but smaller direct path ($\beta = 0.18$, 95% CI [0.08, 0.28]) confirming partial mediation. This pattern suggests that while transformational leadership generates direct performance benefits through non-engagement mechanisms (direct task direction, resource mobilisation), the dominant channel of impact operates through leader-stimulated engagement. The HR practices–performance indirect effect ($\beta = 0.32$, 95% CI [0.24, 0.40]) was significant with a non-significant direct path ($\beta = 0.22$, 95% CI [-0.02, 0.32] at 95% CI marginally crossing zero), consistent with full mediation — implying that HR practices generate performance gains exclusively through their ability to build employee engagement, with no significant direct pathway to performance independent of engagement.

4.4 Sector Moderation Analysis

Figure 3 presents the sector-level engagement driver importance comparison and longitudinal engagement trends. Panel A's radar diagram confirms H7's moderation hypothesis: the IT/Technology sector shows markedly stronger scores on career growth (81 vs. 62 for manufacturing) and job autonomy (77 vs. 48) as engagement drivers, while manufacturing workers report relatively greater emphasis on recognition and compensation as primary drivers — a pattern consistent with the differing psychological contracts characteristic of knowledge-work versus routine-task employment relationships. Multi-group SEM analysis confirmed that the engagement–performance path coefficient is significantly stronger in IT and Healthcare ($\beta = 0.74$ and 0.71 respectively) than in Retail and Manufacturing ($\beta = 0.48$ and 0.52 respectively; $\chi^2\Delta = 14.2$, $df = 4$, $p = 0.007$).

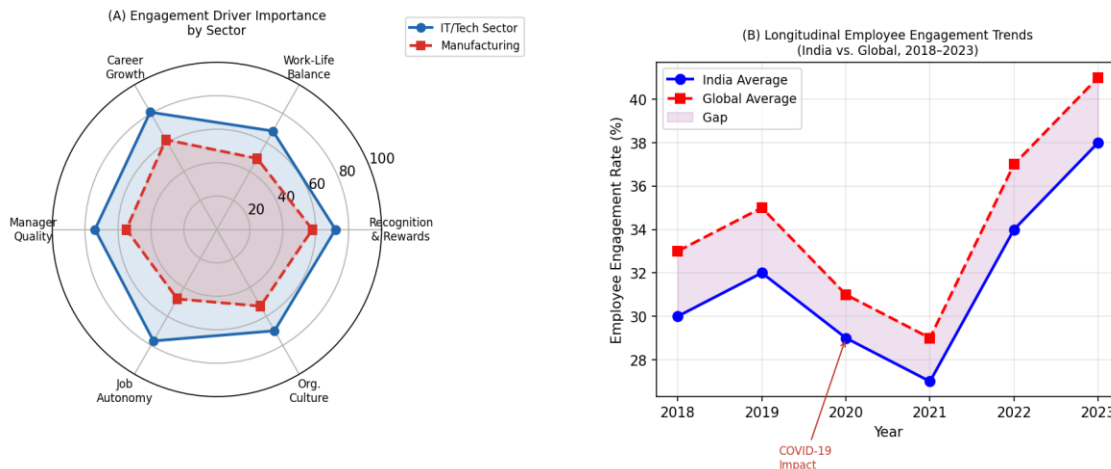


Fig. 3. (A) Engagement driver importance radar comparison between IT/Technology and Manufacturing sectors; (B) Longitudinal employee engagement trend in India versus global average (2018–2023), highlighting the COVID-19 impact dip in 2020–2021.

Panel B's longitudinal engagement trend (2018–2023) reveals that India's engagement trajectory broadly tracks the global trend but consistently lags by 3–5 percentage points. Both India and global averages experienced a decline in 2020–2021 attributable to COVID-19 pandemic-related workplace disruptions, job insecurity, and the transition to remote work arrangements that weakened the social and relational foundations of engagement. The recovery trend from 2021 to 2023 is encouraging — India's engagement rate increased from 27% to 38% over this period — but the persistent gap below global averages suggests that structural factors specific to the Indian organisational context (hierarchical management cultures, limited psychological safety in many organisations, underdeveloped middle management capability) continue to constrain engagement growth beyond what economic recovery alone can deliver.

5. Discussion

The study's findings carry several theoretically meaningful contributions. First, the confirmation that employee engagement fully mediates the HR practices–performance relationship — with no significant direct HR practices effect — advances the SHRM literature's understanding of the mechanism by which HR system investments translate into performance outcomes. This finding aligns with Jiang et al.'s (2012) meta-analytic evidence that HR practices influence performance through attitudinal and motivational processes, and extends it to the Indian context by demonstrating that engagement specifically — rather than generic employee attitudes — is the critical transmitting variable. For HR professionals, this finding has a direct practical implication: investing in HR practices without monitoring and actively managing the employee engagement experience through which those practices operate will fail to generate the performance returns that the investment was designed to achieve.

Second, the partial mediation of the transformational leadership–performance relationship — with a significant direct path alongside the engagement-mediated path — suggests that transformational leaders generate performance through multiple mechanisms, of which engagement activation is the primary but not exclusive route. The direct path likely captures leader behaviours that generate performance outcomes not mediated by subordinate engagement states — strategic direction-setting, stakeholder relationship management, resource acquisition — that contribute to unit performance independently of subordinate motivation levels. This nuanced finding advances beyond simplistic full-mediation models and aligns with the complexity-aware perspective advanced by Avolio et al. (2009) in their review of transformational leadership mechanisms.

The sector moderation finding — that engagement drives performance more strongly in IT and healthcare than in retail and manufacturing — carries important implications for targeted HRM investment prioritisation. In knowledge-intensive sectors where individual discretionary effort, creativity, and client relationship management are key performance drivers, the amplification of individual engagement into organisational performance is large — making investments in engagement-enhancing leadership development and HR practices yield high marginal returns. In more process-standardised, transactional sectors, the performance-relevant contribution of individual engagement is more circumscribed by workflow constraints, making engagement investments a necessary but not sufficient condition for performance improvement. These differences suggest that a single national 'engagement strategy' is not optimal — sector-differentiated engagement management that matches investment intensity to the engagement–performance elasticity of the specific industrial context will generate superior returns.

6. Conclusion

This study provides large-sample empirical evidence from 556 Indian corporate employees across five industry sectors that employee engagement fully mediates the HR practices–organisational performance relationship and partially mediates the transformational leadership–performance relationship. SEM analysis confirms the strong predictive validity of both antecedent constructs for engagement (TL: $\beta=0.51$; HRP: $\beta=0.44$) and engagement's strong effects on performance ($\beta=0.63$) and turnover intention reduction ($\beta=-0.57$). Sector moderation analysis demonstrates that the engagement–performance path is significantly stronger in IT and healthcare than in retail and manufacturing, with practical implications for differentiated HRM strategy design across India's industry landscape. The study's primary limitation is its cross-sectional design, which precludes causal inference from the correlation-consistent SEM results. Future research should employ longitudinal panel designs that can establish temporal precedence of antecedent constructs, incorporate objective performance measures (financial results, absenteeism records) alongside self-

reported perceptual measures, and extend the sample to include public sector organisations and SMEs that collectively employ the majority of India's workforce but whose engagement dynamics may differ from the large private sector organisations studied here. Qualitative investigation of the specific HR practice configurations and leadership behaviours that most effectively build engagement among India's Millennial and Gen-Z workforce cohorts represents a particularly important and practically consequential direction for future research.

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