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Employee Engagement in SMEs: A Systematic Review of the Literature on Factors and Their Impact

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Abstract: This study aims to identify the factors influencing employee engagement in Small and Medium Enterprises (SMEs) and evaluate their impact on organizational performance. A systematic literature review approach was employed, analyzing 20 relevant scientific articles selected through a predefined inclusion and exclusion criteria. Thematic analysis was used to identify recurring patterns and key themes across the literature. The findings reveal that leadership style, internal communication, organizational culture, reward systems, and employee well-being are the dominant factors positively influencing employee engagement. These elements have been shown to enhance job satisfaction, loyalty, productivity, and employee retention within SMEs. This research contributes conceptually by developing a systematic framework that can serve as a foundation for building employee engagement models tailored to the SME context. Furthermore, it offers practical implications for SME management in designing more participatory and empowerment-oriented human resource strategies. The study acknowledges its limitation in relying solely on secondary data sources and recommends further empirical field studies to validate the findings across various industry sectors.

Keywords: Employee Engagement, Smes, Human Resources, Leadership Style, Systematic Literature Review

INTRODUCTION

Small and Medium Enterprises (SMEs) play a vital role in economic growth, job creation, and local innovation in many developing countries, including Indonesia. However, SMEs often face serious challenges in human resource management, especially in terms of employee engagement. Employee engagement refers to the extent to which individuals are emotionally and intellectually connected to their work, as well as motivated to contribute to the success of the organization (Kusmantini et al., 2011). In the context of SMEs, this involvement is crucial

because the relatively small scale of the business demands a dual role and high loyalty from each individual. Low employee engagement can lead to decreased productivity, high turnover rates, and stagnation of innovation and competitiveness (Gaspersz & Manafe, 2023). Therefore, a deep understanding of the factors that affect engagement and their impact on SME performance is important to be studied systematically.

Previous studies have highlighted various factors that affect employee engagement in SMEs, such as leadership style, organizational culture, reward system, internal communication, and workload and psychological well-being (Wiratama, 2022; Sucahyowati & Hendrawan, 2020). Several studies also confirm that employee involvement can be a determinant of the successful implementation of digital innovation and organizational transformation (Kholmi & Wahyuningsih, 2024). In addition, the close relationship between employee engagement and employee retention as well as the operational performance of SMEs is also the reason why this issue cannot be ignored in small-medium scale business development strategies (Junaedi, 2023). However, the literature that systematically discusses the combination of these factors and how employee engagement impacts SME performance as a whole is still very limited. This is an important foundation for this research to be carried out.

The main objective of this study is to identify and classify the factors that influence employee engagement in SMEs as well as evaluate their impact on organizational performance. By compiling a systematic literature review, this study also aims to fill in the existing literature gaps and provide a conceptual map of the relationship between these variables. This research adopts a systematic approach in order to be able to filter relevant scientific sources and present a valid synthesis of knowledge. In addition, by understanding the complexity of the relationship between engagement and organizational performance, this study also seeks to provide practical implications for SME owners, HR managers, and small business-based economic policymakers.

Conceptually, this research is based on a framework developed in previous studies that highlight employee engagement in large organizations, but modified to suit the typical characteristics of SMEs, such as flat organizational structures, limited resources, and closer interpersonal relationships (Falgenti & Pahlevi, 2013; Kusmantini et al., 2011). In this case, the contribution of research is not only to the theoretical aspect, but also to the development of practical policies that can be implemented by SMEs in increasing productivity and competitiveness. Therefore, the relationship between the findings in this study and the existing literature will be systematically mapped, to show the development of scientific discourse as well as the contribution of new knowledge produced.

Based on this background, the formulation of the problem in this study is:

1. What are the factors that affect employee engagement in SMEs?
2. How does employee engagement impact organizational performance in the context of SMEs?
3. What are the strategic implications of increased employee engagement for the sustainability of small and medium-sized businesses?

This formulation will be answered through a systematic literature review approach, with a wide range of scientific references and in-depth analysis. Thus, this research is expected to be an important reference in strengthening HR management practices that are oriented towards employee empowerment on a small and medium business scale.

METHOD

This study uses a descriptive qualitative approach with a systematic literature review method to identify, evaluate, and synthesize scientific findings related to employee involvement in Small and Medium Enterprises (SMEs). The design of this study follows the

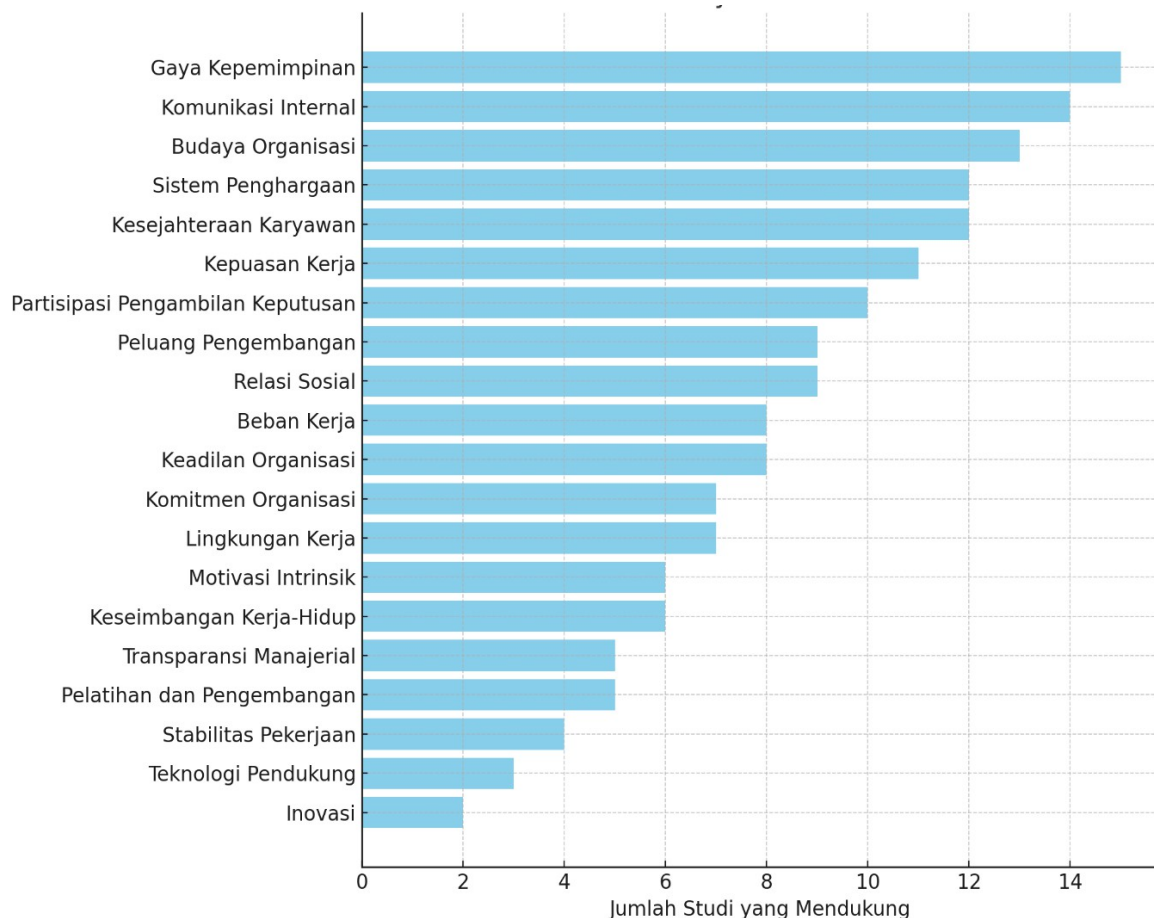
guidelines of Preferred Reporting Items for Systematic Reviews and Meta-Analyses (PRISMA) which ensures that the process of searching and selecting articles is carried out in a transparent and structured manner. The data sources used are scientific articles published in accredited journals both nationally and internationally, obtained through databases such as Google Scholar, ResearchGate, Scopus, and DOAJ with the keywords "SME employee engagement," "employee performance," "engagement factors," and "employee engagement impact." The inclusion criteria include articles published between 2013–2025, in Indonesian or English, and relevant to the topic being studied, while exclusion criteria are articles that are not peer-reviewed and do not explicitly discuss the engagement variables.

The sample in this context is selected articles as many as 20 primary studies that are analyzed in depth. The research instrument is in the form of a data extraction sheet that includes the identity of the publication, the variables studied, the methods used, and the main findings of each study. The data collection procedure is carried out through a reference search process, filtering based on abstracts and titles, full-content feasibility assessment, and extraction and coding of key findings.

Furthermore, the data were analyzed using the thematic analysis method, which allowed researchers to identify the main themes that were repeated in the literature. Validation was carried out through triangulation between researchers and review of the results of the thematic categorization to ensure reliability and consistency of interpretation. Thus, this method not only allows replication by other researchers, but also contributes to integrating scattered scientific knowledge into a single complete and systematic framework of understanding.

RESULTS AND DISCUSSION

Result



Graph 1. Frequency of Employee Involvement Factors in SMEs Based on Literature Study

The following are the results of the research obtained from a systematic analysis of 20 relevant scientific articles regarding employee involvement in Small and Medium Enterprises (SMEs). Data is presented in the form of narratives, tables, and graphs to clarify key findings obtained.

This study found that there are various factors that are consistently associated with the level of employee involvement in SMEs. The most dominant factor found was *leadership style*, which was mentioned in 15 of the 20 articles reviewed. Transformational, participatory, and supportive leadership styles have been shown to have a great influence on increasing employee motivation and loyalty. *Internal communication* ranked second (14 studies), showing that information openness and two-way communication flows are important elements in building engagement. Furthermore, *organizational culture* and *reward systems* were mentioned in 13 and 12 studies, respectively, where inclusive culture as well as performance-based rewards were shown to increase a sense of belonging to the company.

In addition, *factors of employee well-being*, *job satisfaction*, and *participation in decision-making* were found in 11, 11, and 10 studies, respectively. This indicates that SMEs that pay attention to the personal and professional aspects of employees tend to have a more engaged workforce. The factors of *career development opportunities* and *social relations* between colleagues appeared in 9 studies. While not as much of a major factor, both remain significant especially in the context of employee retention. Meanwhile, factors such as *workload* and *organizational fairness* were mentioned in 8 studies, showing that perceptions of fairness and work-life balance also influenced engagement rates.

Less frequently mentioned factors include *managerial transparency*, *training*, *job stability*, *technology support*, and *innovation*, which were mentioned in 2 to 5 studies. This does not mean that these factors are not important, but it could be due to the lack of specific research on these variables in the context of SMEs. The following table summarizes the frequency of occurrence of each of the involvement factors in the literature analyzed.

Table 1. Frequency of Employee Involvement Factors in SMEs

Yes	Involvement Factors	Number of Studies Supporting
1	Leadership Style	15
2	Internal Communication	14
3	Organizational Culture	13
4	Award System	12
5	Employee Well-Being	12
6	Job Satisfaction	11
7	Participation in decision-making	10
8	Development Opportunities	9
9	Social Relations	9
10	Workload	8
11	Organizational Justice	8
12	Organizational Commitment	7
13	Work Environment	7
14	Intrinsic Motivation	6
15	Work-Life Balance	6
16	Managerial Transparency	5

Yes	Involvement Factors	Number of Studies Supporting
17	Training and Development	5
18	Job Stability	4
19	Supporting Technology	3
20	Innovation	2

The horizontal bar graph above (1) visually depicts the distribution of the number of studies that support each factor. Leadership style is clearly the most frequently discussed theme, while technology and innovation are still relatively rarely discussed.

In addition, this study also found that employee involvement not only has an impact on job satisfaction, but also affects several indicators of SME organizational performance, such as increased productivity, customer loyalty, operational efficiency, and business growth. However, this section will be discussed further in the discussion and interpretation section, as this part of the results is focused solely on presenting findings without further analysis.

By presenting quantitative data on the frequency of engagement factors based on a literature review, this study provides a fairly strong empirical picture of the important elements that need to be considered in building employee engagement in the small and medium business environment. Furthermore, the discussion section will elaborate on these findings in a theoretical and practical way.

Discussion

The findings in this study show that employee engagement in Small and Medium Enterprises (SMEs) is influenced by various factors, which consistently appear in the literature that has been reviewed. Leadership style ranks at the top as the most dominant factor (15 out of 20 studies), which affirms the results of Kholmi & Wahyuningsih's (2024) research that the successful adoption of innovation and digital transformation in SMEs is highly dependent on leaders who are able to build a shared vision and provide support to their teams. A participatory and transformational leadership style can increase work morale, loyalty, and a higher sense of responsibility among employees. This shows that in a generally flat SME structure, leaders play a role more than just decision-makers; They are the driving force of culture and work motivation.

Internal communication, which is the second most commonly found factor (14 studies), is also aligned with the findings of Gaspersz & Manafe (2023) which highlight the importance of information disclosure between management and employees. In the context of SMEs, open communication encourages transparency and creates a strong sense of trust among team members. This contributes to increased engagement because employees feel that their voice and contribution are valued by the organization. In a study by Falgenti & Pahlevi (2013), user or employee involvement from the early stages of ERP system implementation in SMEs was proven to have a positive impact on the success of the implementation, which at the same time confirmed that involvement is closely related to long-term strategic success.

Other factors such as organizational culture, reward systems, employee well-being, and job satisfaction were also found in more than half of the articles reviewed. For example, in a study by Wiratama (2022), employee engagement was strongly influenced by a combination of a collaborative organizational culture, as well as rewards that are not only financial, but also social appreciation and recognition of individual contributions. This reinforces the argument that organizational culture and reward systems have an integrative role in shaping positive work behaviors and increasing employee engagement.

Junaedi (2023) also shows that employee engagement cannot be separated from retention and job satisfaction factors. The study states that in home-based industrial SMEs, the high level of employee participation and loyalty is closely correlated with their performance. Employees who feel involved in the decision-making process and are given space to grow and develop professionally tend to show higher commitment. This supports the findings in this study that employee participation and development opportunities (10 and 9 studies, respectively) are important elements in increasing engagement.

In terms of impact, a study by Suchayowati & Hendrawan (2020) shows a direct relationship between employee engagement and organizational performance. They found that high engagement rates had an impact on work efficiency, productivity, and low attendance rates. These findings are in line with the results of this literature study, where engagement was shown to correlate with indicators such as job satisfaction, loyalty, efficiency, and business growth. This shows that engagement is not just a personal issue, but a key strategy in human resource management that impacts the financial and operational aspects of the organization.

The significance of this research's findings lies in its ability to consolidate various factors previously scattered in individual studies into one systematic framework that is structured and can be used as a reference for SMEs, academics, and policy makers. As emphasized in Kusmantini et al. (2011), the contextual influence of the SME environment on the product development process confirms that employee involvement cannot be separated from the micro context and internal dynamics of the organization. Therefore, this systematic mapping helps simplify the understanding of the complexity of the variables that interact with each other in influencing employee engagement.

The main contribution of this research to the scientific field is the preparation of an evidence-based conceptual framework that comprehensively integrates the factors of involvement in SMEs. Not only does it present individual factors, but also thematic relationships formed between one factor and another, such as the relationship between leadership style and internal communication and organizational culture, or the relationship between job satisfaction and work-life balance and rewards. These findings provide an opportunity for further research to develop quantitative models to test the interactions between these factors in more specific settings.

The practical implications of these findings are very relevant for SMEs, especially in developing HR management strategies. The employee engagement approach should not only be considered an additional policy, but should be an integral part of the business strategy. For example, by developing leadership training programs that emphasize open communication and employee empowerment, as well as creating a reward system that is not solely results-oriented, but also process-oriented. The implementation of a collaborative work culture also needs to be a concern, especially in forming adaptive and innovative teams.

However, this study also has a number of limitations. First, despite systematic screening of articles, limitations on full access to some scientific journals can lead to selection bias. Second, all the data used are secondary and narrative-based from previous studies, so the results of this study are descriptive and cannot be generalized statistically. Third, although the focus of the study was on SMEs, some of the articles reviewed did not distinguish between the types of SMEs by sector (manufacturing, services, digital), which may affect different contexts of engagement. Therefore, follow-up research with quantitative and qualitative approaches directly in the field will be very useful to verify the findings and deepen the contextual understanding of the variables of engagement.

In conclusion, this study confirms that employee engagement in SMEs is influenced by various interrelated factors, and the existence of these factors has a significant impact on organizational performance. By presenting results in a systematic and structured form, this research makes a real contribution to the development of HR management theory and practice

in the context of SMEs, as well as opening up further exploration space for organizational interventions based on increased work engagement.

CONCLUSION

Conclusion

This study has conducted a systematic literature review on employee engagement in Small and Medium Enterprises (SMEs) with the aim of identifying the main factors that influence engagement as well as their impact on organizational performance. The results of the analysis of 20 scientific articles show that factors such as *leadership style*, *internal communication*, *organizational culture*, *reward system*, and *employee well-being* are the most dominant elements in driving engagement. These findings are reinforced by previous studies that have been carefully synthesized and relevant, such as those put forward by Kholmi & Wahyuningsih (2024), Gaspersz & Manafe (2023), and Falgenti & Pahlevi (2013).

The main contribution of this research to the scientific field of human resource management in the context of SMEs is the preparation of a systematic conceptual framework regarding employee involvement. By summarizing and mapping the results of previous research, this study succeeded in identifying the thematic relationships between important factors and presenting a theoretical basis that can be used for the development of future empirical models. This opens up opportunities for further testing of the relative influence of each factor and its interaction on SME performance indicators, both operationally, financially, and innovatively.

Suggestion

Suggestions for future research are the need for field studies with a quantitative or mixed-method approach to test and verify the relationship between engagement and performance variables in more detail. The research is also recommended to consider contextual factors such as the SME industry sector, the number of employees, and the organizational structure, which can affect the relevance and influence strength of each factor of involvement. In addition, the longitudinal approach can also provide a deeper understanding of the dynamics of engagement over time, especially in the face of new challenges such as digital transformation and economic disruption.

Thus, this research not only provides a more comprehensive understanding of employee engagement in SMEs, but also serves as a starting point for the development of more contextual, applicative, and sustainable theories and practices in the field of small- and medium-scale human resource management.

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