

# EMPLOYEE LOYALTY AND ORGANIZATION'S ROLE: A CASE STUDY BASED ON EXPORT ORIENTED MANUFACTURING COMPANY, SRI LANKA.

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## ABSTRACT

*The employee loyalty causes for the productivity of a company, minimize employee turnover, improves the corporation's image, reduce the cost of new recruitments and less absenteeism. The objectives of this study were to identify the relationship between the employee loyalty with financial and non-financial benefits, empowerment, organization's commitment on employee and managers' attitudes and its influence that make on the employee loyalty. According to the results of ordinal logistic regression model, even though the variables are positively engage with the employee loyalty the organization's commitment on employee (0.721) and managers' attitudes (0.883) are significantly engaged rather than financial and non-financial benefits (0.221) and empowerment (0.462). The Cronbach's alpha coefficient is 0.87. A progress in the attachment of the employee union and high labour turnover identified as challenges. Hence the management should introduce the proper evaluation methods and treat the employees based on the results of employees' attitude surveys as recommendations.*

## KEYWORDS

*Employee Loyalty, Ordinary Logistic Regression, Organization's Role, People Management*

## 1. INTRODUCTION

Employee loyalty is a key factor in people and organizational management. It could be defined as, the employees who are dedicated to the success of their business unit or organization and believe that being an employee of this business unit or organization is in their best interest. The loyal employees are always willing to make a personal sacrifice for the advantage of the organization; they are perseverance, dedicated, having leadership, pride and respect for the organization, ready to learn and they don't fall for anything. That will cause for the productivity of the company, minimize employee turnover, improves the corporation's image, reduce the cost of new recruitments and less absenteeism.

The employees are vital resources for any organization (Pandey & Khare , August 2012). Because of that management of any organization or a company always, consider about employee recruitment, training, salaries, healthcare plans and bonus and etc. Their study revealed that there was a significant impact of job satisfaction and organizational commitment on employee loyalty in manufacture industry and but was not affected by organizational commitment in service industry.

According to Iqbal et all, they have defined loyalty, the kind of faithfulness and trueness (Iqbal, et al., 2015 ). The study revealed that there was a significant negative correlation among the employee loyalty and the financial benefits. They proposed the organization should responsible to grant benefits and incentives that the employee can improve the loyal behavior. Due to studying the

employee loyalty is a very complex practice in people and organization sector, restricted to one factory in a selected company and drawbacks when completion questionnaire were identified as limitations of the study.

### **1.1. Research Problem**

Employees are always played a significant role in any company to enhance the positive development of the performance. They are considered as the main resource of a particular company and success or failure always depends on their performances (Murali, et al., 2017). Managing the human resource effectively causes for the productivity of any company. Therefore the employees should always loyal to the company and should not chase away the other alternative opportunities. The selected company for the study is always considering about their employees due to the human resources as a key source of their production. Because of that, the selected company is continuously taking actions to maintain the employee loyalty. There should be an appropriate study about the effectiveness of those actions taken by them. Because there're limited researches have conducted about this scenario in Sri Lankan context and to fill the research gap is one intention of doing the research.

Through this study, the following questions were tried to answer.

- i. What is the relationship between the employee loyalty with financial and non-financial benefits, empowerment, organization's commitment on employee and managers attitude?
- ii. What are the challenges and issues in people management by the company faces?

### **1.2. Objectives**

The core objective of the study was to identify the relationship between the employee loyalty with financial and non-financial benefits, empowerment, organization's commitment on employee and managers attitude and its influence that make on the employee loyalty.

The sub objectives were to identify the challenges and issues in people management by the company faces and to provide recommendations and solutions to make and to have a highly efficient, effective and loyalty workers for a company.

## **2. LITERATURE REVIEW**

### **2.1. Employee Loyalty**

Loyalty implies a person's devotion, faith and truthiness or special attachment to a particular object. The employee loyalty is one of special segment related to people and organization management. There are number of researchers have studied on employee loyalty. According to Murali et all, (2017) defined employee loyalty as a key behavior for a successful organization. According to them employee loyalty affects the organizational performance and it is necessary to as a key factor in evaluating the performance of employees (Murali, et al., August 2017). The employee loyalty to the career defies as the investment of emotional by a person that regularity of commitment to the organization by them, are significant factors that determine the longevity and the performance of organizations (Bakker & Schaufeli, 2008). Employee Loyalty is "is a deliberate commitment to further the best interests of one's employer, even when doing so may demand sacrificing some aspect of one's self-interest beyond what would be required by one's legal and other moral duties" (Elegido, 2013).

## 2.2. Empirical Evidences

The employees are vital resources for any organization (Pandey & Khare , August 2012). Because of that management of any organization or a company always, consider about employee recruitment, training, salaries, healthcare plans and bonus and etc. These plans focused at developing loyal employees. They aimed to identify the impact of organizational commitment and job satisfaction on employee loyalty and find the comparison of employee loyalty on manufacturing and service industry. In their research, they have used two hundred employees as the sample using judgmental sampling technique. The primary data selected through self-designed questionnaire on five point Likert scale to evaluate job satisfaction, organizational commitment and employee loyalty. As the statistical tools, they have used correlation analysis, Cronbach's alpha, T-test and factor analysis. According to their results, they revealed that Cronbach's alpha value was 0.836 in face validity that found to be high. There was a significant impact of job satisfaction and organizational commitment on employee loyalty in manufacture industry and but was not affected by organizational commitment in service industry. At last there were four factors have identified that contributed towards employee loyalty. They were commitment (5.364), motivation (2.225), belongingness (1.382), and career development (1.322).

Suharti and Suliyanto (2012) aimed to find out whether the leadership style and organizational culture were included for instance factors that affect employee engagement and if employee engagement was a facilitating factor for whether the leadership style and organizational culture toward employee loyalty (Suharti & Suliyanto, September 2012). In their study, they have collected primary data through structured questionnaires from 102 respondents from one hotel in Indonesia by saturation sampling technique. The Cronbach's alpha and multiple regression have been used to analysis data. According to the results, the employee engagement significantly affected to employee loyalty by 36.4%. The employee engagement was an intermediating variable for employee loyalty through organizational culture and leadership style. They revealed the employee commitment makes the employees to have wish to stay and have better work performance. According to the results, they have proposed that the company should pay attention on factors that can encourage the establishment of employee engagement because the engagement has correlation with positive attitudes and employee loyalty.

According to Iqbal et al, they have defined loyalty, the kind of faithfulness and trueness (Iqbal, et al., 2015 January). Their main objective of the study was to determine the problem occur in employee's loyalty and organizational commitments. They mainly considered about the financial rewards, job security, performance evaluation do by the organization. The independent variables ere organization commitment, financial benefits and owner attitudes. The dependent variable was the employee loyalty. The Cronbach's alpha was 0.791 relativity. Their results revealed that there was a negative and significant correlation among the employee loyalty and the financial benefits. However, when comparing the employee loyalty with organization commitment there was a positive significant relationship. According to that, organization commitment plays an important role in the employee loyalty while financial benefits had a negative effect. They proposed the organization should responsible to grant benefits and incentives that the employee can improve the loyal behavior.

Tomic et al, (2018) done a study on "An Empirical Study of Employee Loyalty, Service Quality, Cost Reduction and Company Performance" to create a model to analyze the relationship between employee loyalty, service quality, cost reduction and company performance and to investigate the impact of employee loyalty to company performance (Tomic, et al., 2018). They collected primary data from hundred service companies in Republic of Serbia, Bosnia and Herzegovina using with a voluntary questionnaire. The Kolmogorov-Smirnov statistic, correlation, regression and path

analysis is used to analyze data. According to the results, they revealed that employee loyalty was a key variable and had a significant impact on company productivity. The employee loyalty has a positive influence on service quality. The service equality affected the cost reduction and it affected to the performance. Therefore, there had a direct and positive influence on cost reduction.

Mehta et al. done a study to design, develop and standardize a measure to evaluate employee loyalty, to find out the underlying factors of employee loyalty and to compare the loyalty between teachers of professional and non-professional courses (Mehta, et al., 2015). They collected hundred teachers of various professional and non-professional institutions as primary data through purposive sampling technique. The correlation, Cronbach's alpha, factor analysis, z-test and t-test used to analysis data. They found career development, motivation, bounding, job security, leadership and commitment as underline factors for employee loyalty. In addition, they exposed that there was a significant deference in loyalty between professional and non-professional teachers but there was no any significant difference in loyalty between female and male teachers.

### 3. METHODOLOGY

The ABC Company, which was selected for the study, located at Katunayake Export Processing Zone (KEPZ). The company consisted with eight factories in three different export-processing zones in Sri Lanka. This company is facilitated by Board of Investment (BOI) of Sri Lanka. Their production mainly depends on labour force. It values employee contribution and maintains healthy work culture, thereby induces positive vibes within and even beyond the work premises. The general workers are the significant role in the company production. Because of that, the management always providing considerable benefits to the employees with the objective of enhances the employee loyalty.

The study was conducted in two ways. Primary data collected from a sample consisted with 60 respondents using the convenience sampling technique from a survey of 270 general workers in selected factory and 5 direct interviews from management. A self- designed structured questionnaire has been used to gather data from the sample survey. The questionnaire was administrated in the factory premises and has conducted in Sinhala medium.

The descriptive statistic techniques were used to identify descriptive information of the collected data. The Cronbach's Alpha Coefficient was used to verify the reliability. To identify the relationship between the independent variables related to the dependent variable has been used the ordinal logistic regression.

$$\text{logit}[P(Y \leq j)] = \alpha_j - \sum \beta_i X_i \quad [1]$$

In here,  $j$  is the level of an ordered category with  $J$  levels and  $i$  correspond to independent variables.  $j = 1, 2, \dots, j - 1$  and  $i = 1, 2, \dots, m$

The data was analyzed through the Statistical Package of Social Sciences (SPSS) version 20 software.

### 4. RESULTS AND DISCUSSION

According to the results of the sample survey, the majority of the respondents are female, nearly 67%. The male respondents are nearly 33% from the total sample. From them the majority is in 21-30 age group. It is nearly 60% of the respondents.

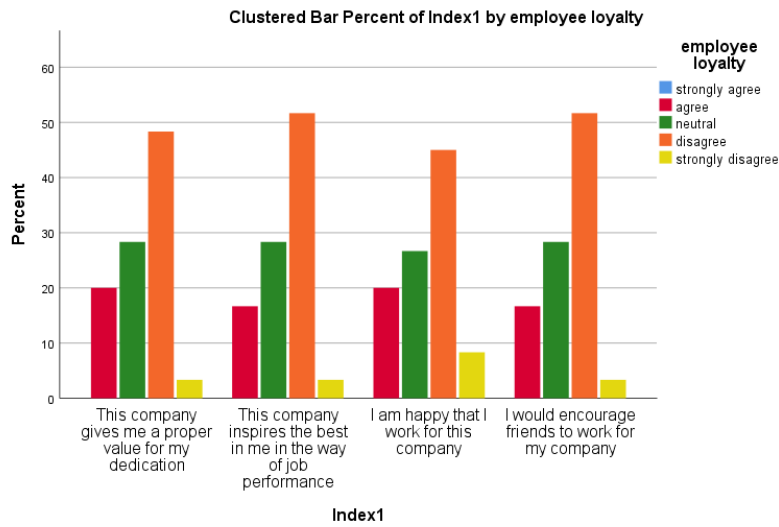


Figure 1. The employee loyalty of the respondents.

Source: SPSS output -Survey Data, 2020

The employee loyalty measures by four statements through five Likert scale method. According to the results the majority of the respondents nearly 49% are mentioned as disagree all four statements as mentioned. There is nearly 28% of the respondents are mentioned as neutral to the all above statements even 18% of the respondents from the sample are mentioned as agree to the statements. However, nearly 5% of the total respondents are strongly disagreed to the above four statements that used to check the employee loyalty.

The Cronbach’s alpha coefficient is 0.87 which shows the questionnaire is reliable. The assumptions for the ordinal regression model have been satisfied. According to the significant value explains that there is a significant improvement in fit of the final model over the null hypothesis of the relationship between the variables do not exist in the population with the value of  $\chi^2(4) = 31.348$   $p < 0.001$  . According to the results, of the goodness of fit test the  $\chi^2(350) = 428.364$   $p = 0.395$ , there is enough evidence to reject the null hypothesis and it supposed to accept there is good model fit.

Table 1: Results of Parameter Estimates

Variable Name	Estimates	Sig
Benefits	0.221	0.001
Commitment	0.721	0.013
Empowerment	0.462	0.000
Attitude	0.883	0.024

Source: SPSS output -Survey Data, 2020

The coefficients have probability values less than the estimates are statistically significant. This is the ordered log-odds estimate for one unit increase in benefits, commitment, empowerment and attitude score on the expected loyalty level. If a subject were to increase the respondents benefits score by one point, his ordered log-odds of being in a higher loyalty category would increase by 0.221, 0.721, 0.462 and 0.883 respectively while the other variables in the model are held constant.

The selected four variables are incorporated positively with the employee loyalty. Findings of this study is in-line with the earlier research related with the selected variables (Niehoff, et al., March 2001).

According to the several discussions with the company management could be able to understand their view is significantly focused on financial and non-financial benefits as the most valuable factor for employee loyalty. However, it is not matching with employees views about this company. There is a significant attachment with organization's commitment on employees and managers' attitudes.

The majority of the employees are in disloyalty can be identified as a challenge and an issue which facing by this company in people management. In addition, the results of management discussions, they revealed that there is an employee union in this company. The union action always causes for the delay of the production due to the protesting and strikes (Dowling & Welch, 2010). The high labour turnover is identified as a significant challenge as the result of the management discussion. The management should engage with HR department and suggest new policies to reduce the high turnover.

## 5. CONCLUSION

Because the managers' attitudes and organization's commitment on employees cause to the employee loyalty significantly, the company should consider about those factors considerably. Under the recommendations, conducting employees' attitude surveys even in twice a year, the management could be able to be known about the employees' views about their supervisors, how they feel about the work they do, working environment, opportunities for improvement, the quality of their training, fairness of the company pay policy and treatment of female workers and minorities. Create employee relations with managers and supervisors, Remove the downward communication barrier. Then it allows employees at lower levels to communicate their views and thoughts to higher-level decisions makers. By considering these factors could be help to understand about the employees' ideas about the organization's commitment on employees also. It is the thought of the employee about "what are the actions taken have to enhance the employee living styles." The company should give intimations because the employees are the most important resource to the company.

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