

## Factors Enhancing Employee Loyalty towards Organization

By

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### Abstract

Human resource is a essential factor affecting the efficiency and competitiveness of organizations in the business world. Competent and high quality personnel can rapidly and sustainably develop organizations. Therefore, any development without human resources is rather difficult to be successful. The psychological studies found that organizational commitment can create more work efficiency, and indicate organizational trustworthiness and values. The objectives of this study were 1) to study factors enhancing employee loyalty towards organization, and 2) to develop a structural equation model of factors enhancing employee loyalty towards organization. The quantitative and qualitative research methods were implemented in this study. The quantitative data were collected from the interviews of 500 industrial business executives.

The findings indicated that the significance levels of employee loyalty towards organization were high in all aspects. The highest significance level of leadership was that the executives provided a work manual describing the structure of work. The highest significance level of labor union was that the organizations provided proper cost-of-living and fringe benefits for employees. The highest significance level of organizational commitment was that the employees always maintained their organizational values. The hypothesis testing revealed that the small, medium, and large enterprises differently focused on the enhancement of employee loyalty towards organization at statistical significance level of .05.

The results of structural equation model analysis showed that it passed the evaluation criteria with empirical data congruence including Chi-square probability of 0.699, relative Chi-square of 0.940, index of item objective congruence of 0.970, and root mean square error of approximation of 0.000.

**Keywords :** Structural Equation Model, Employee Loyalty, Organizational Commitment, Leadership, Mixed Method

### Introduction

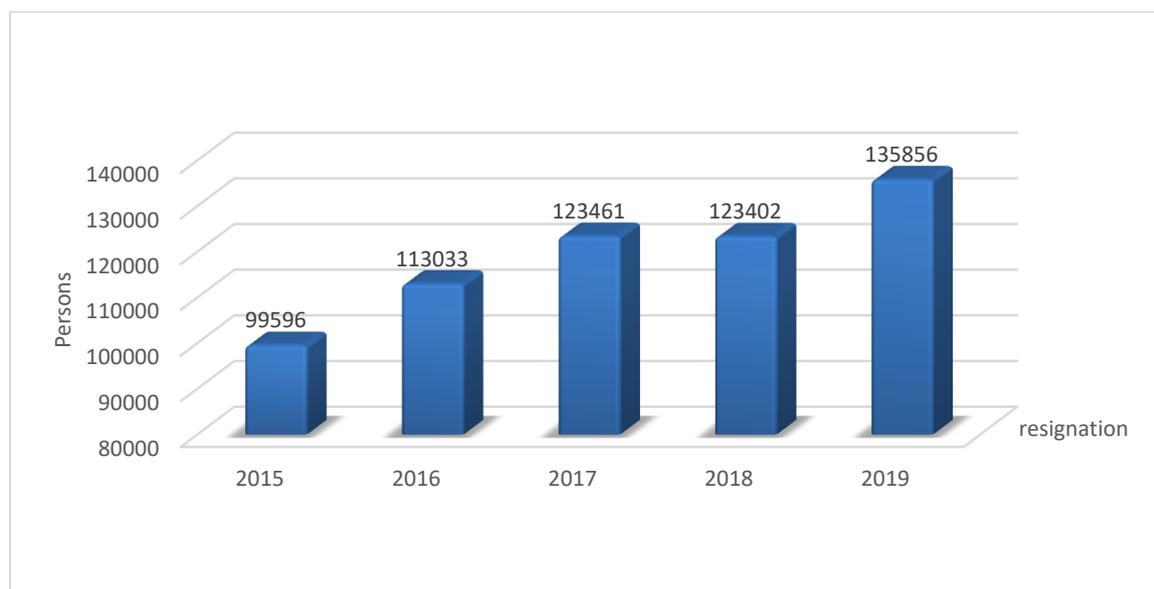
The effective consumption of resources is an important factor of success and achievement of organizational goals. Of all the resources, human resources are a crucial factor affecting the efficiency and competitiveness of organizations in the business world. The human resource with high quality can rapidly and sustainably develop organizations. Therefore, any development without human resources is rather difficult to be successful. The psychological studies found that organizational commitment can create more work efficiency, and indicate

organizational trustworthiness and values (Steers, 1991). However, employee loyalty may be different because of individual expectations, for example, the perceived expectations of leadership of executives, relationship between labor union and executives, employee satisfaction, and organizational commitment. Thus, organizations need to focus on human resource management and work efficiency starting from employee recruitment, and job placement, planning and development, as well as maintaining employees with proper qualifications. For those who don't have organizational commitment and want to leave the organization, they usually have less trust and acceptance of the organizational goals. Besides, they don't try to have commitment to work and this reduces their work efficiency and finally affects the organization itself. Lack of organizational commitment impacts absence from work, work delay, or resignation. This much impacts the organizational growth.

And some major factors should be focused to prevent the valued employees from quitting, e.g., proper job assignment for each employee's competency, for example, high skilled workers with challenging tasks should get higher payment and fringe benefits than general workers. Today most organizations usually consider their benefits they earn rather than employees' job responsibilities. Therefore, the employees finally resign, and move to another organization they can provide higher payment and fringe benefits (Thitiya and Sakrapee, 2020).

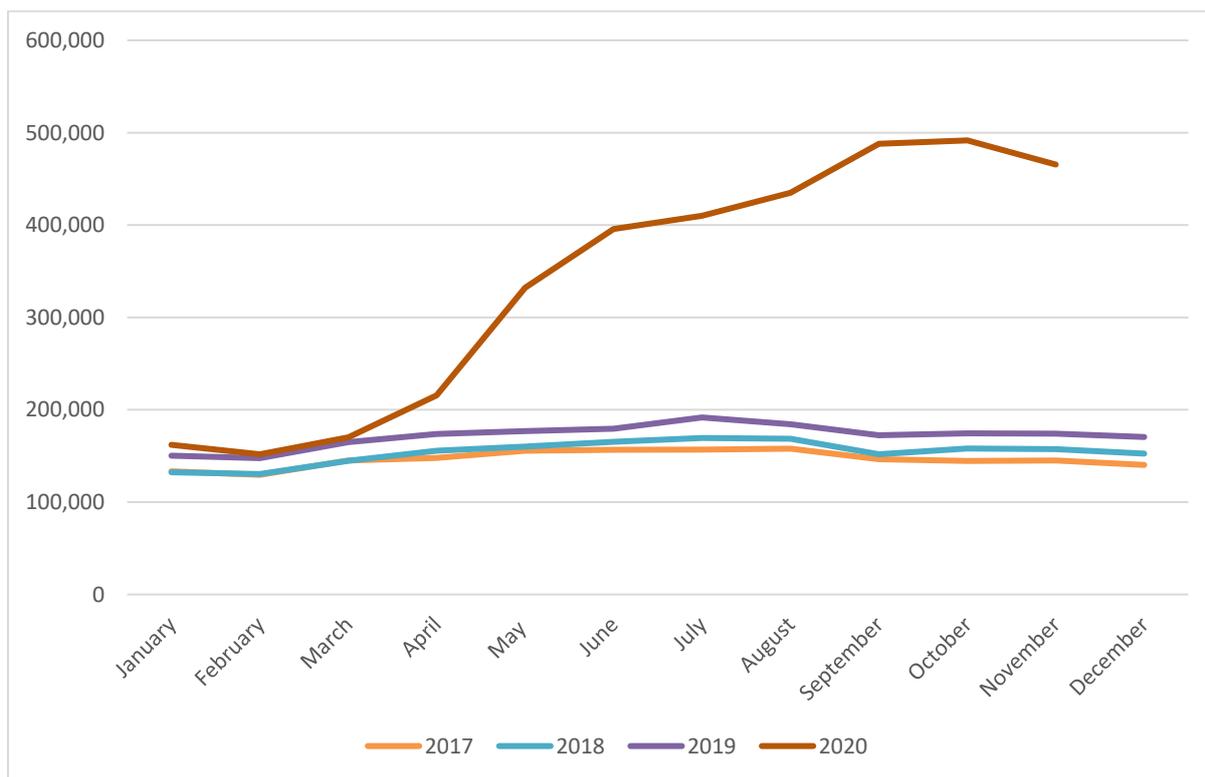
Figure 1 shows a number of employees increasingly resigned per month, and in 2019, the average number of 135,856 employees resigned per month, or 1.6 million per year. It was a large amount and enormous expense.

Employees who quit/month

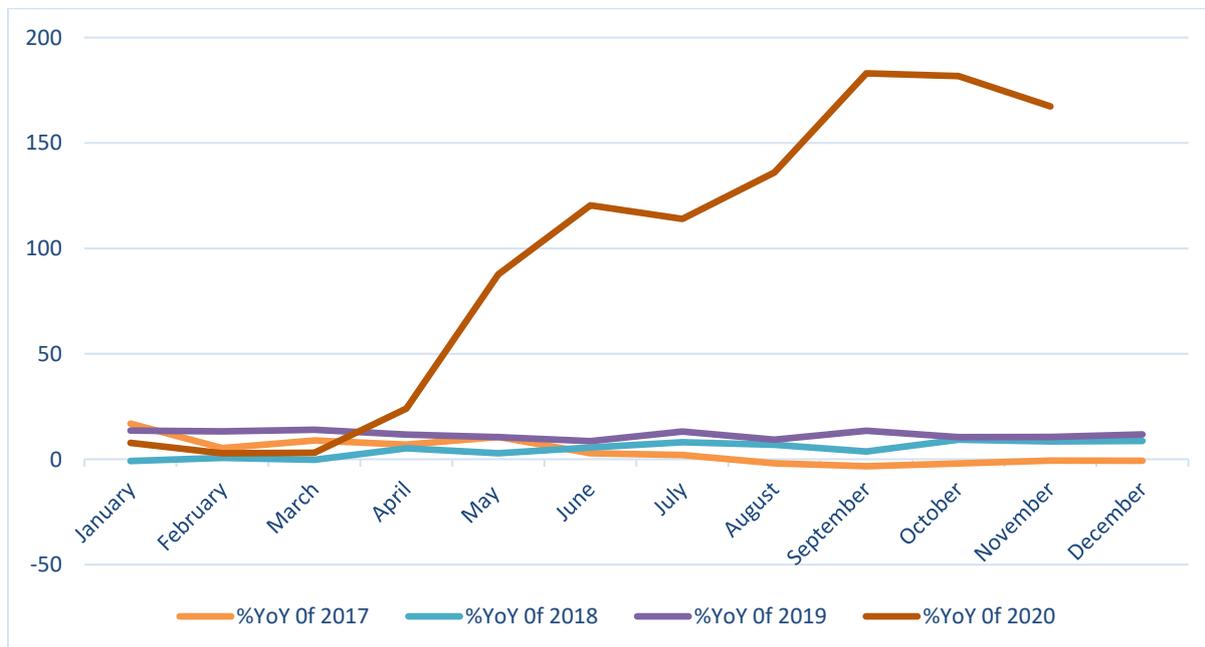


**Figure 1:** Resignation in 2015-2019

**Source:** Office of the Permanent Secretary-Ministry of Labor: Labor Statistics in the Year 2019



**Figure 2:** Number of the Employees Who Asked for Unemployment Benefits in Case of Unemployment in Social Security Systems in 2017-2020



**Figure 3:** Percentage of Change of the Employees Who Asked for Unemployment Benefits in Case of Unemployment in Social Security Systems in 2017-2020

<https://www.tcijthai.com/news/2021/1/scoop/11298>

**Source:** Social Security Office

**Note:** Data calculated by policy work group of labor micro-economics, Division of Labor Economics

The statistics mentioned above shows that it is necessary for industrial organizations to enhance employee loyalty. The organizational loyalty means relationship between employees and organization. If the employees have high organizational loyalty, they will refuse to resign. There are four factors of loyalty: (1) Leadership-according to Fiedler's model, there is a situational control, i.e. relations between leader and members, and position power that enhance a proper environment for better employee work performance and organizational loyalty (Fiedler, 1976); (2) Union Relationship-Commons said a negotiated agreement consists of work performance regulations/rules to provide employees' rights, and labor union is established for labor protection. The employees' rights provide more freedom but it must be under the regulations (John R. Commons, 1892); (3) Job Satisfaction-the employees must be given basic needs to create job satisfaction. This enhances employee engagement and finally organizational loyalty (Locke, 1976), and (4) Organizational Commitment-factors enhancing organizational commitment are commitment factor of continuity, commitment factor of feelings/emotion, and commitment factor of social bases (Meyer and Allen, 1997)

From the reasons mentioned above, the researcher interested in the study of factors enhancing employee loyalty towards organization. The results of this research would be the guidelines for human resource management of organizations in the industrial business sector and enhancement of employee loyalty towards organization for sustainable development.

## **Objectives of the study**

The growth of the organization depends highly on the role of human resources and employee loyalty; therefore, it is significant to explore the factors that strengthen employee loyalty to the organization. Employees with high loyalty will dedicate their best effort to achieve organization goals, mitigate conflicts, minimize cost of operation; thus lead to profitable and sustainable organization. It is the main duty of human resource to build job satisfaction and enhance employee loyalty. Therefore, it is worth to explore these factors.

The objectives of this research were 1) to study factors enhancing employee loyalty towards organization, and 2) to develop a structural equation model of factors enhancing employee loyalty towards organization.

## **Methodology**

### ***Study design***

This study was a mixed research method.

## **Data collection and tools**

Data collection was explained regarding types of research methods as follows.

### ***Stage 1 Qualitative research:***

The data were collected through the in-depth interview. A sample group of this study consisted of 10 experts from 4 different groups: academic group, public and related state agency group, business industrial group, and labor union group. The scope and subject matter

were four factors: Leadership, Union Relationship, Job Satisfaction, and Organizational Commitment.

***Stage 2 Quantitative research:***

The data were collected through a questionnaire. The research population of the quantitative research were 500 industrial business executives with labor union in the private businesses registered by the Bureau of Labor Relations, the Department of Labor Protection and Welfare. The multi-stage sampling methods including cluster sampling and probability sampling were implemented to assign the sample size (Tanin, 2020). The researcher created a questionnaire divided into 8 steps as follows.

- Step 1: Studying guidelines for creating a questionnaire based on the conceptual framework;
- Step 2: Studying related information from books, documents, articles, and related works as the guidelines for writing question items;
- Step 3: Setting subject matter and limits of question items based on the objectives and benefits of the study;
- Step 4: Creating a draft questionnaire;
- Step 5: The researcher had the draft questionnaire and quality evaluation form verified by five experts and the results of structural equation model analysis were proved by congruence evaluation criteria including the index of item objective congruence of 0.60-1.00;
- Step 6: Distributing the questionnaire evaluated by the experts to 30 similar subjects of the sampling group for try-out;
- Step 7: The results of try-out were analyzed and results of discrimination index analysis of each item were between 0.32–3.66, and the question items were rating scales with corrected item-total correlation between 0.26–0.81. And Cronbach's alpha coefficient for the questionnaire reliability was of 0.969.
- Step 8: Improving and correcting the questionnaire based on the results of discrimination index and questionnaire reliability analysis before implementation.

**Stage 3:** It was a focus group to have the model of factors enhancing employee loyalty towards organization verified by 7 experts. The structural equation model of this study consisted of 20 observed variables. The variables were divided into four factors as follows.

***Leadership with five observed variables:***

1. The leaders are respectful and trustful (LS02).
2. The leaders offer helps and support your work performance (LS06).
3. The leaders clearly provide assignments (LS13).
4. The leaders are responsible for assessing employee's work performance (LS16).
5. The leaders have rights to provide employees punishments or rewards (LS19).

***Union relationship with five observed variables:***

1. The organizations provide health welfare (UR02).
2. The organizations provide opportunities for employees to complain (UR05).
3. The employees are allowed to ask any questions whenever they have (UR11).
4. The organizations provide safety training in factory (UR13).
5. The organizations appropriately issue policies and plans upon labor relations the labor law (UR17).

***Job satisfaction with five observed variables:***

1. The job positions provide ways of creativity (JS02).

2. The supervisors have characteristics of leadership (JS06).
3. Most co-workers create collaboration in the workplace (JS09).
4. Job promotion is based on each employee's capability (JS15).
5. The employees are satisfied with their income or salary (JS18).

***Organizational commitment with five observed variables:***

1. The employees are highly concerned with their organizational change (OC03).
2. The employees think that they are as important as the others to the organization (OC07).
3. The employees think that their values are the same as their organizational values (OC11).
4. The employees think that their work performance is challenging with valuable experiences (OC17).
5. The employees dedicate their capabilities to organization for business success (OC20).

## **Data analysis**

The quantitative data were analyzed by using descriptive statistics, i.e., frequency, percentage, mean and standard deviation, and inferential statistics to analyze the factors in the structural equation model. The data were analyzed by using the SPSS (Statistical Packages for the Social Science) and AMOS (Analysis of Moment Structure).

## **Results**

### ***Sample characteristics of the study***

The overall respondents were equally from small and medium enterprises and large enterprise. Of all the respondents, 71.40% worked in the industrial businesses with over 20 year operation, 40.80% worked in the industrial businesses operated by Thai owners, 39.20% worked in the industrial businesses with the annual income of 75-500 million Baht (THB), and 30.80% worked in the industrial businesses of the group of vehicle and equipment manufacturers including the business of vehicle and equipment repair.

### ***The results of analyzing the factors enhancing the employee loyalty towards organization***

The results of analyzing the factors enhancing the organizational loyalty of the employees revealed that the significance level of employee loyalty towards organization in industrial section was at a very high level with the mean of 3.89 (S.D. = 0.44). The significance level of organizational commitment was at the highest level with the mean of 4.00 (S.D.=0.47), followed both the labor relations and job satisfaction with the equal means of 3.90 (S.D. 0.47), and the leadership with the mean of 3.84 (S.D. = 0.55).

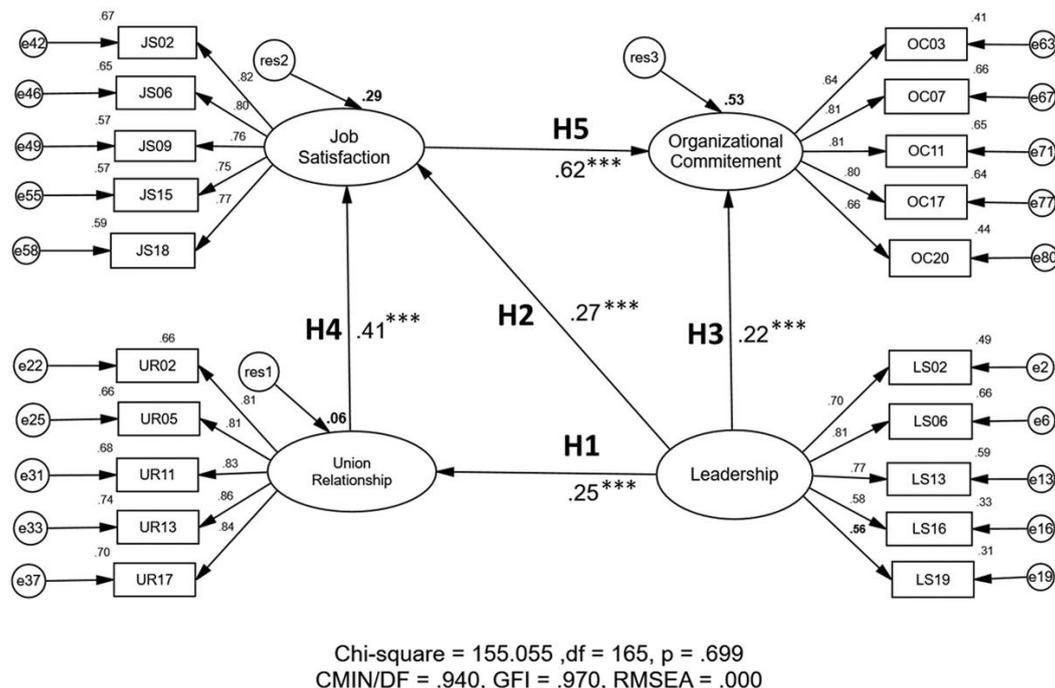
### ***The results of analyzing the structural equation model of the factors enhancing the organizational loyalty of the employees***

#### ***Before the model improvement***

The results of analyzing the structural equation model of the factors enhancing the employee loyalty towards organization before the model improvement found that the results were not consistent with the available empirical data. Therefore, the researcher improved the model to make sure that the model was consisted with the empirical data.

*After the model improvement*

Figure 4 shows the results of analyzing the structural equation model of the factors enhancing the organizational loyalty of the employees after the model improvement revealed that Chi-square probability of 0.699, relative Chi-square of 0.940, index of item objective congruence of 0.970, and root mean square error of approximation of 0.000. This could be concluded that the structural equation model of the factors enhancing the organizational loyalty of the employees after the model improvement was associated the empirical data, as suggested by Arbuckle (2016).



**Figure 4** The structural equation model of the factors enhancing the organizational loyalty of the employees after the model improvement

**Discussion**

The results of H(1) testing revealed that the leadership factor directly influenced the labor union factor with loading of 0.25 at significance level of 0.001. These findings were consistent with the H(1). The components of leadership consisted of relations between leader and members, and position power So that, the leaders could understand and accept the requests of trade union. Therefore, the leader must realize and accept what labor union required to enhance the employee relationships. This is in accordance with the study of Bruce et al. (2018) stating that the leaders have a good relationship and power on the members of labor union. The leaders should participate in the safety improvement to learn how to create trustfulness to each other.

The results of H(2) testing revealed that the leadership factor directly influenced the job satisfaction factor with loading of 0.27 at the significance level of 0.001. This is in accordance with the study of Adnan (2009) stating that the employees’ satisfaction is positively consistent with the organizational culture and leadership at a significance level of 0.001.

The results of testing H(3) revealed that the leadership directly influenced the organizational commitment with loading of 0.22 and at a significance level of 0.001. This is in accordance with the study of Zulfikri et al. (2015) stating that the organizational commitment is positively and significantly consistent with the leadership. Similarly, the study of Vichai and Thanin (2020) stated that executives or leaders who are kind and close to their employees could make the employees enhance the organizational commitment. However, the industrial businesses must have a good process of business management with morality under the principles of success.

The results of H(4) testing revealed that the labor union factor directly influenced job satisfaction factor with loading of 0.41 at a significance level of 0.001. This is in accordance with the study of Raziq and Maulabakhsh (2014) entitled of “Impact of Working Environment on Job Satisfaction” stating that the labor relation is an essential part to enhance employee job satisfaction. The results of this study showed the positive relationship among labor relation, job environment, and employee job satisfaction (Raziq & Maulabakhsh, 2014)

The results of H(5) testing revealed that the job satisfaction directly influenced the organizational commitment with loading of 0.62 at a significance level of 0.001. This is in accordance with the study of Alpander (1990) stating that nurses with high job satisfaction were more likely to have high organizational relation compared to those with low job satisfaction.

The key information that employees can develop organizational commitment and reach organizational goals and sustainable development by having decent leaders with democratic leadership style, fair and productive supervising, as well as having job satisfaction especially on job description, relationship with supervisors and subordinates, and appropriate compensation.

Leadership has great direct influence on employee’s commitment. Leadership provides the security in work and career development on employees that they will be evaluated and promoted fairly and on performance-based. Moreover, leadership directs the path of goal in employee’s perspective.

## **Conclusion**

The significance of organizational loyalty in the industrial businesses was at a high level in all factors, i.e., leadership, labor union, job satisfaction, and organizational commitment. The results of hypothesis testing revealed that the importance levels of organizational loyalty were different between small and medium enterprises and large enterprises at the statistical significance level of 0.05. The results of structural equation model analysis showed that it passed the evaluation criteria with empirical data congruence including Chi-square probability of 0.699, relative Chi-square of 0.940, index of item objective congruence of 0.970, and root mean square error of approximation of 0.000.

## **New knowledge**

Figure 5 shows the new knowledge called “*The Model of Organizational Loyalty*” created based on the results of this study. The Model of organizational loyalty consists of four major components as follow.

1. **Foundation** consists of safety, job security, and job satisfaction.
2. **Basic requirement** consists of work design, coaching, and culture and values.
3. **Four poles** consists of competency, collaboration, empowerment, and reward and recognition.
4. **Organizational loyalty** is as a top of the model.



**Figure 5** The Model of organizational loyalty

## **Recommendation**

### ***Recommendation for further development***

The organizations should create the model of leadership competency for stakeholders and provide training course for the leaders to practice their skills and capabilities as well as good understanding.

The organizations should study the suitable income to enhance the organizational loyalty of the employees. It is recommended that the organizations should review guidelines for the suitable returns and non-monetary rewards because these are able to attract the employees for organizational loyalty at a high level or evaluate the returns based on the performance base.

### ***Recommendation for further study***

The practitioner level should be studied because in the study the researcher assigned the scope of study focusing on executives of industrial businesses and labor union in the private sectors. Therefore, this study has not covered the other levels of the workers .

The comparative study on the population of executive level in the government and private sectors without labor union should be conducted.

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