IMPACT OF EMPLOYEES SATISFACTION IN EMPLOYEE LOYALTY, RETENTION AND ORGANIZATIONAL PERFORMANCE

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Abstract - Retention of highly skilled and loyal employees enable improving the organizational performance that significantly contributes to maintaining its competitiveness in the market and competitive advantages. Therefore, one of the key aspects of employee retention is improving employee satisfaction for sustaining high organizational performances. Studying the factors influencing employee satisfaction and their impacts are essential for addressing numerous issues like organizational development, corporate policy formulation, organizational performance and organizational competitiveness. The current paper aims at researching how the employee satisfaction has an impact employee retention, loyalty as well as organizational financial and non-financial performances of the organization based on the case of a cashmere and wool garment company in Mongolia. The research results indicate that satisfied employees tend to be loyal and committed to the organization and contributed positively on the organizational non-financial performances. However, no correlation is indicated between employee retention and organizational financial performance.

Keywords - Job satisfaction, employee loyalty, employee retention, organizational performance-financial, organizational performance-non financial

I. INTRODUCTION

An employee satisfaction is crucial factor for the organizational performance as it has impact numerous employment related issues. To review and evaluate the organizational performance we often have to refer to employee loyalty and retention as they directly relates to the past and present actions of any organization.

Employee loyalty enables the organization retain highly skilled employees and considering this state exploring the factors influencing employee loyalty and retention is getting essential for any organization. Discovering the influential factors will benefit the organization developing appropriate strategy, improving performances and maintaining organizational competitive advantages. Numerous researchers have been studied employee satisfaction focusing two or three factors, but as the issue is closely related with the organizational image, culture and values, there is a need to cover more factors like employee loyalty, retention and organizational performances. The study seeks measuring how the employee loyalty and retention influence in the organizational performance and how these factors correlates with employee job satisfaction in the case of a major Wool & Cashmere production company in Mongolia.

II. LITERATURE REVIEW

2.1. Job satisfaction and employee retention

Employee satisfaction is diligently connected with the key factors contributing organizational success like employee turnover, absenteeism, commitment and productivity which requires taking care of it (Kreifer.R & Kinicki.A 2001).

Number of parameters like salary, appropriate control system, team work and precise identification of incentive needs are crucial both for the employee satisfaction and retention. Moreover, upgrading the employee skills and competencies is also important for the retention and improving the employee commitment (Smith et al., 1969). However, the gap between expected output and actual outcome of the implemented activities by the organization may cause employee dissatisfaction (Hackman and Oldham, 1980; Locke, 1976). Murray noted that the employee satisfaction has positive impact on the employee retention. Szilargyi.A.D and Wallance.M.J (1983) explains that there is close connection between job satisfaction and individual’s value, belief, interests and the satisfaction level considerably to the willingness of working. According to Osteraker (1999) employee satisfaction and retention are key to the organizational success. The researches on employee retention suggested that satisfied employees more committed to their organization and have more motivated to achieve the high performance (Denton 2000). Employee job attitude and job satisfaction are closely correlated with the productivity and satisfied employees contributes positively to achieving the organizations’ objectives. Therefore, individual’s satisfaction, self esteem and long term personal goals are also can be considered as main factors for the employee retention (McCrensky, 1964).

2.2. Job satisfaction and employee loyalty

One more key factor for employee loyalty is job satisfaction. Job satisfaction is described as the combination of psychological physiological and situational states towards the job (Hoppock, 1935) that results from performance appraisal or experiences. It is closely related to the organizational
success factors like retention, loyalty and productivity (E.A. Locke, 1976). Human resource based quality management system also affects to the job satisfaction and loyalty can be sustained through it. Some research indicated that (Jun, Cai, & Shin, 2006) job satisfaction and loyalty had correlation and number of circumstances including support of management, team work and work environment were crucial for the job satisfaction (Mai Ngoc Khuong, Bui Diem Tien, 2009).

2.3. Job satisfaction and organizational performance

Some researchers (Schneider et al., 2003; Zohir 2007) exposed the correlation between employee satisfaction and organization’s financial and market performance. Analyzing earnings per share and market performance Evans and Jack (2003) concluded that satisfied employees achieve a good performance. Higher return on assets and higher earnings per share were positively correlated with high level of job satisfaction (Schneider et al.2003). Moreover, good work environment leads to job satisfaction and their intention for long –term service (Chi & Gursoy, 2009) and satisfied and loyal employees tend to provide quality service to the customers and they in turn recognize value of the service offered to the them and tend to demonstrate loyal behavior such as repeat purchases and increased referrals (Koys, 2003). Different indicators have been applied to measure relationship between employee satisfaction and performance. Researchers like Chi and Gursoy (2009), Mohamad et al., 2009 attempted to measure employee satisfaction and organizational performance using financial indicators such as profitability, productivity, turnover, sales, return on investment and net profit.

2.4. Employee retention and organizational performance
Employee retention refers to how an organization keeps their employees from leaving the organization thus coming up with retention strategies to ensure that employees remain in the company (Armstrong, 2001). Retention of employees is important for any organization for achieving its goals and maintaining its competitive advantages. Numerous factors contribute to the employee retention like compensation, reward, recognition, promotion, work environment, training, work-life balance and leadership. Some research indicate that high employee involvement could increase employee performance and made the employees more attached to the organizational performance Guthrie et al. (2001).

2.5. Employee loyalty and organizational performance
High employee performance is vital for the success of any organization and many organizations pay significant effort achieving it but it is not always happens in the workplaces. Various factors influencing in employee loyalty including assigning appropriate task, facilities and work environment that fully engage them in the work and opportunities for personal development.

Employee loyalty can be explained as the increase of employee commitment to the organizational success and belief doing right thing working for the organization. But the existence of passive loyalty identified by Reichheld, F. and Cook, Scott D. (1996) that referred to low interest of employees remaining in the organization, but due to some limitations, like salary, welfare or transportation had to stay in the organization, once these conditions disappear, the employee could no longer demonstrate loyalty the organization. On the contrary, Kyle LaMalfa (2007) pointed out that emotional connection to organization and its’ business beyond the factors like salary, training or benefits. Emotionally connected employees have more engagement to the work and their achieved outstanding performance and they feel themselves as significant part of the organization.

To sum up above, all factors influencing to the employee satisfaction in some extent correlated to the organizational performance.

Research model: Based on the literature review the following model for the research and hypothesis of the study elaborated.

![Figure1. Research model](image)

Hypothesis:
Hypothesis elaborated for the current study
H1: Employee loyalty affects to employee loyalty.
H2: Job satisfaction affects employee loyalty.
H3: Employing satisfied and loyal employees improves organizational financial performance.
H4: Employing satisfied and loyal employees improves organizational non-financial performance.
H5: Retention of satisfied employees improves organizational financial performance.
H6: Retention of satisfied employees improve non-financial performance.

III. RESEARCH METHODOLOGY

Traditionally performance measure heavily relied only on financial information (Vaivio, 1999) and it has been criticized for its’ short sightedness and ignorance of creation of new ideas (Merchant, 1990). Therefore, non-financial measures happened to complement the traditional one linking long-term strategy (Kaplan, Norton 1996).

In this study we used parameters like corporate sales income, tax amount per year for financial performances and customer satisfaction, supplier’s satisfaction for non-financial performance the organization for review the overall organizational performances considering employee satisfaction, loyalty and retention.

The actual survey took a place between March 15-25, 2018. We distributed 300 questionnaire and received 268 completed (91.4%) questionnaires and only 245 questionnaires (89.3%) considered valid for the analysis. The questionnaire had 20 questions in 5 sections and each question weighed by Likert scaling. Moreover, representation of diverse age, sex, year of employment and affiliation of the employees were considered when we distributed the questionnaire.

As the above table shows 19.2% of the respondents were female and 80.8% of them were male employees. By age group, 54.7% of the respondents were employees who are below 30 years old and it can be concluded that the company employs mainly young female employees. Almost half of the respondents or 52.6% of them worked less than 3 year with present employer and only 14.7% of them worked for the company 4-6 years. This number displays that employee turnover is comparatively high or employee retention is weak in the organization.

Reliability test
To test the reliability, Cronbach’s alpha is used for validating the reliability of variables and the minimum cut off points showed 0.7 (Nunnally, 1978) considered it acceptable for measurements (refer to table 2).

Factor analysis is made to validate the variables and the summary is shown in table 3
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Table 3: Questionnaire reliability analysis

<table>
<thead>
<tr>
<th>Factors</th>
<th>Job satisfaction</th>
<th>Employee loyalty</th>
<th>Employee retention</th>
<th>Organizational performance - financial</th>
<th>Organizational performance - non financial</th>
<th>Cronbach's alpha</th>
<th>CR</th>
<th>AVE</th>
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</thead>
<tbody>
<tr>
<td>JS</td>
<td>JS1 .800</td>
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<td></td>
<td>.810</td>
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<td>EL</td>
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<td>.861</td>
<td>.897</td>
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<td>OPF</td>
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</tbody>
</table>

Moreover, CR (Composite Reliability) coefficient showed above of 0.7 (Hair, 2010) reliability is acceptable. Validity of questions showed above of 0.3. AVE (Average Variance Extracted) coefficient is also showed for all 0.5 (Fornell & Larcker, 1981; Hair et al, 2010) which means measurement is satisfactory.

Table 4: Dependability of the factors

<table>
<thead>
<tr>
<th></th>
<th>JS</th>
<th>EL</th>
<th>ER</th>
<th>OPF</th>
<th>OPNF</th>
</tr>
</thead>
<tbody>
<tr>
<td>JS</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>EL</td>
<td>.421**</td>
<td>.000</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>ER</td>
<td>.355**</td>
<td>.715**</td>
<td>.000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>OPF</td>
<td>.291**</td>
<td>.619**</td>
<td>.531**</td>
<td>.000</td>
<td></td>
</tr>
<tr>
<td>OPNF</td>
<td>.278**</td>
<td>.676**</td>
<td>.653**</td>
<td>.485**</td>
<td>1</td>
</tr>
</tbody>
</table>

**. Correlation is significant at the 0.01 level (2-tailed).

According to our test organizational financial performance has weak correlation with the employee satisfaction [r = .291, p < 0.01], but has correlation with employee loyalty [r = .619, p < 0.01], and employee retention [r = .531, p < 0.01]. Organizational non-financial performance has weak correlation with employee satisfaction [r = .278, p < 0.01], but has correlation with employee loyalty [r = .676, p < 0.01], and employee retention [r = .653, p < 0.01].

Structural equation modeling (SEM)

For testing the significance of structural model and variables R-Square was estimated for PLS analysis.

The correlation between independent variable and dependent variables were reviewed during the analysis. As a result of the test H, H2, H3, H4, H6 were supported as the significance meaning were positive (p <0.01), however H5 was not supported. Summary of the test shown in table 5.
Table 5: PLS-SEM results

<table>
<thead>
<tr>
<th>H</th>
<th>Path</th>
<th>Standardize Beta</th>
<th>Standard Error</th>
<th>T statistics</th>
<th>P value</th>
<th>Remarks</th>
</tr>
</thead>
<tbody>
<tr>
<td>H1</td>
<td>JS → EL</td>
<td>0.527</td>
<td>0.034</td>
<td>10.895</td>
<td>.000</td>
<td>Supported</td>
</tr>
<tr>
<td>H2</td>
<td>JS → ER</td>
<td>0.512</td>
<td>0.023</td>
<td>9.870</td>
<td>.000</td>
<td>Supported</td>
</tr>
<tr>
<td>H3</td>
<td>JS → EL → OPF</td>
<td>0.465</td>
<td>0.014</td>
<td>4.704</td>
<td>.000</td>
<td>Supported</td>
</tr>
<tr>
<td>H4</td>
<td>JS → EL → OPNF</td>
<td>0.374</td>
<td>0.025</td>
<td>4.206</td>
<td>.000</td>
<td>Supported</td>
</tr>
<tr>
<td>H5</td>
<td>JS → ER → OPF</td>
<td>0.111</td>
<td>0.030</td>
<td>1.249</td>
<td>.019</td>
<td>Not supported</td>
</tr>
<tr>
<td>H6</td>
<td>JS → ER → OPNF</td>
<td>0.307</td>
<td>0.026</td>
<td>3.880</td>
<td>.000</td>
<td>Supported</td>
</tr>
</tbody>
</table>

For the target organization, employee satisfaction and loyalty are correlated positively ($\beta = 0.527$) and have an impact ($\gamma = 0.278$; $p<0.001$). Employee satisfaction has correlation with employee retention at the organization ($\beta = 0.512$) and influential to the retention ($\gamma = 0.262$; $p<0.001$).

Employee loyalty and organizational financial performance correlated positively ($\beta = 0.465$) and proved it has an effect ($\gamma = 0.304$; $p<0.001$). Moreover, organizational non-financial performance have positive correlation ($\beta = 0.374$), and ($\gamma = 0.401$; $p<0.001$). Employee retention and organizational non-financial performance positive correlation ($\beta = 0.307$) and has no effect to the non-financial performance ($\gamma = 0.304$; $p<0.19$).

Employee satisfaction is taken as independent variable, employee loyalty, retention considered as a mediating factor and organizational financial and non-financial performances are considered as dependent variables for the study. Reliability test, correlation and regression analysis conducted to test the hypothesis elaborated in the survey.

From the studies it is observed that retention of loyal employees enables improving organizational financial and non-financial performances and job satisfaction had an influential impacts.

Based on the results of the survey, we come to the following conclusions:

1. The more employees enjoy job satisfaction they are loyal to the organization and the loyalty enables the organization improving its’ financial and non-financial performances. An increase of employee loyalty resulted in more job satisfaction which contributes to the growth of the sales income. Thus, it can be concluded that not only benefits the organization increasing income but also positively affects the organizational competitiveness. Moreover, high commitment and full utilization of their skills and expertise in their work enable to excel the organizational performances. In other words, an increase of employee loyalty, trust among work community, high employee commitment to the organization contributes significantly shaping the image of the organization.

2. With the increase of job satisfaction their intention continuing their work life with the same organization increases and when the organization retain such employees the non-financial performance of the organization improves as the human resources return on investment yield the organizational performance and significantly contributes to maintain its’ competitive advantage as well as the market position.

The study attempted to find out an increase of employee satisfaction, retention, loyalty that may have an impact on organizational financial and non-financial performances, using the methods used previously applied by different researchers conducting similar studies.

Currently, one of the challenging issues for the organization is retention of loyal employees. Best management practices, smart human resource policy, significant financial resources and sufficient time is needed to overcome the challenges. Employee retention enables the organization not only keep valuable employees but also upgrades
investor. Moreover, organizational ability to maintain and transfer employees knowledge and skills contributes notably within the non-financial performance. However, no evidence of the retention impact on financial performance of the organization.

Referring above, it can be concluded that discovering and addressing factors influencing in employee satisfaction are essential for the employee retention. In this regard the organizations should formulate and implement sound human resource strategy and policies that enable the organization strengthening employee retention.

REFERENCES


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