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**The Mediating Effect of Employee Loyalty on the Relationship Between
Job Satisfaction and Organizational Performance**

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THE MEDIATING EFFECT OF EMPLOYEE LOYALTY ON THE RELATIONSHIP BETWEEN JOB SATISFACTION AND ORGANIZATIONAL PERFORMANCE

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Abstract

One of the key factors for sustaining organizational performance for any organization is maintaining loyalty and retention of skilled and experienced employees. Therefore, revealing positive and negative factors impacting employee loyalty and taking action for further improvement has been an essential aspect for organizations. The current paper aims at researching how employee satisfaction has an impact on employee loyalty as well as the organizational performance of the organization based on the case of the Mongolian banks. The sample survey involved 400 employees of three banks. The results of the survey demonstrated that employee loyalty can be maintained through increasing employee satisfaction. In the present study employee satisfaction is considered as the independent variable and as mediating factor that served employee loyalty, and organizational performance is taken as the dependent variable. Consequently, reliability tests, correlation, and regression analysis have been carried out to prove our hypothesis. The research results indicate that satisfied employees tend to be loyal and committed to the organization and contributed positively to the organizational performance.

Keywords: *Job Satisfaction; Employee Loyalty; Organizational Performance.*



A. Introduction

Globalization had been creating a more competitive world, not only in the economy but also in culture, and politics. To survive in a fiercely competitive environment, we have to have a distinct competitive advantage as the key factor (Chalim, 2018).

Job satisfaction of employees is a quite essential factor that affects organizational performance and therefore should be of major concern to businesses implying that it is necessary to know how employees can be retained through their satisfaction in the workplace (Harter, Schmidt, & Hayes, 2002; Latif, Ahmad, Qasim, Mushtaq, Ferdoos, & Naeem, 2013) employees build the performance of the organization and create competitive advantage (Wan, 2012; Khuong, M. N & Tien, B. D., 2013; Agho, A. O., Mueller, C.W & Price, J.L., 1993).

One more delicate aspect related to job satisfaction is an employee's dedication to the success of their organization or employee loyalty that is complex to identify them if they have been committed and loyal simply by asking questions or conducting an observation (Altanchimeg, Z & Sarantuya, J, 2018).

For sustaining employee satisfaction, loyalty, and commitment, an implementation of a sound human resource policy and programs assist in an organization retaining loyal employees and enable it to increase productivity. Employee loyalty as a result of increasing employee satisfaction contributes significantly to the formulation of an accurate organizational development policy, an increase of performance, and enables the organization to reach closer to achieving its goals.

Many studies have been conducted on an employee, job satisfaction, and employee commitment concerning organizational performance and explained their relationships from different perspectives.

The purpose of the present study is to explore the mediating effect of employee loyalty concerning job satisfaction and organizational performance.

B. Literature Review

The literature review of this paper has two parts at the first part the relationship between employee satisfaction and employee loyalty,



secondly, the relationship between employee loyalty and organizational performance is identified through the previous literature.

1. Job Satisfaction and Employee Loyalty

One of the key factors that affect employee loyalty is job satisfaction. Job satisfaction is described as the combination of psychological physiological and situational states towards the job (Chi, C.G. & Gursoy, D, 2009; Mafini, C., & Poee, D. R. I., 2013; Ryan, A. M., Schmit, M. J., & Johnson, R, 1996) that results from performance appraisal or experiences. Locke (1976) defined employee job satisfaction as a pleasurable or positive emotional state resulting from the appraisal of one's job or job experience.

Employee satisfaction is diligently connected with the key factors contributing to organizational success like employee loyalty, retention, and productivity which requires taking care of it (Kreitner, R., & Kinicki, A, 2001).

Pandey and Khare (2012) studied the impact of job satisfaction and organizational commitment and their impact on employee loyalty and found out that there was an impact of job satisfaction and organizational commitment on employee loyalty.

Employee loyalty is the indication that shows that employee satisfaction will be the result of job loyalty, simultaneously; it also indicates that there is a positive relationship between these two variables.

If there is low loyalty towards the job, the employee will be less satisfied and will try to switch to another job. On the other hand, if staffs have loyalty toward the institution, they will have more confidence in their job and it will create a positive impact on their satisfaction (Turkyilmaz, Akman, & Pastuszak, 2011; Walidin, 2016; Chen, Tsui, & Farh, 2002). Many scholars have studied the role of employee satisfaction on employee loyalty and concluded that employee satisfaction influences employee loyalty positively (Petty, Brewer, & Brown, 2005; Aityan & Gupta, 2011; Sarboini, 2016).

2. Employee Loyalty and Organizational Performance

The concept of employee loyalty is coined by Professor John Ladd, Brown University in 1967 and studied by researchers and scholars from



different perspectives and defined in diverse ways. Loyalty is demonstrated by an individual's attitude, behavior and psychology and nurtured through the communication between individual and organization. It can be demonstrated as employee efforts achieving the organization's goals and improved productivity, efficiency, and presenting quality service to the customers.

Gould-Williams (2003) noted that high employee loyalty and commitment results in improved organizational performance. As loyalty is an essential factor in organizational performance, the efficient way to the improvement is an increase employee satisfaction and let them feel as important as the organization (Schneider, Hanges, Smith, & Salvaggio, 2003).

Employee loyalty can be explained as the increase of employee commitment to the organizational success and belief in doing the right thing working for the organization. But the existence of passive loyalty identified by Reichheld et al (1996) referred to the 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 for the organization.

3. Research model:

Based on the desk review and the results of previous studies that supported the relationship between employee loyalty, job satisfaction, and organizational performance, we proposed the following model:

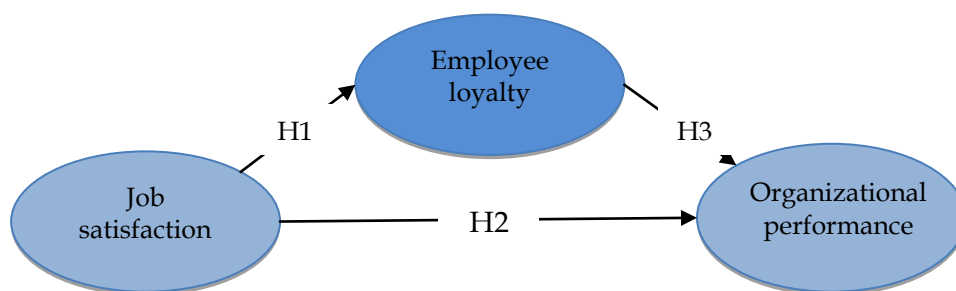


Figure 1. Research model (source: authors)

4. Model hypothesis:

The hypothesis was elaborated on the previous researches on the relationship between job satisfaction, employee loyalty, and the performance of the organization.

H1: There is a significant relationship between job satisfaction and employee loyalty.

H2: There is a significant relationship between job satisfaction and organizational performance.

H3: There is a significant relationship between employee loyalty and organizational performance

H4: Employee loyalty significantly mediates the relationship between job satisfaction and organizational performance

The variables that have been dealt with in this study are as below:

- Independent variable: job satisfaction
- Dependent variable: organizational performance
- Mediating variable: employee loyalty

C. Method

The purpose of the study is to provide exploratory research to test the mediating effect of employee loyalty in the relationship between job satisfaction and organizational performance. Since the proposed hypotheses depict the correlation between variables, the research employed the statistical approach. Based on Figure 1, the relationships among independent variables and dependent variables can be analyzed using a correlation path model.

The research adopted a survey method to collect the data concerning job satisfaction, employee loyalty, and organizational performance by distributing a well-structured questionnaire to the respondents.

The questionnaire consisted of four parts with 37 questions on job satisfaction, employee loyalty, and organizational performance. Every statement of the questionnaire was asked to the respondents with the available alternative answers, a closed-ended question, based on the 5-point Likert. Scale ranging from 1 for strongly disagree, 2 disagree, 3 neutrals, 4 for agree, and 5 for strongly agree.



A structural formulation of the correlation path model was built using the variance-based Structural Equation Modeling (SEM) which well-known as a Partial Least Square (PLS) analysis. PLS have many advantages over other SEM techniques that make it well suited to this study (Bontis & Booker, 2007).

Primary data collected by questionnaire from the employees of the bank through human resource management department supervisors. The bank was selected for the study at their request as the selected organization needed to address improvement of organizational performance concerning the different variables such as job satisfaction, employee loyalty and to find alternative solutions and performance improvement. Due to the intense competition between rivals in the sector, the beneficiary made an official request not to reveal their brand or name of the entity, but allowed to use the raw data only for education or research purposes. The sample is selected randomly and the actual survey is conducted among employees of the above company. Four hundred printed questionnaires were distributed to the bank employees through the HR department and received 379 completed only 356 questionnaires considered as valid for further analysis. To ensure the quality of the answer, sufficient time was allocated to the respondents to go through the questions.

D. Result and Discussion

1. Result

Smart PLS 3.0 software is used for data processing and numerous statistical techniques such as factor analysis, reliability test, correlation analysis, and linear regression applied to produce the results. The questionnaire included a part that collected background information on the respondents to better understand the employees' social, demographic status.

As summarized in the below table, 62.7% of the respondents were female and 37.3% of them were male employees. By age group, 55.1% 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 35.8% of them worked less than 3 years with their present employer and only 31.4% of them worked for the company for 4-6 years. This number displays that employee turnover is comparatively high or employee retention is weak in the organization.

Table 1: Background information on the Respondents

| Participants affiliation | | Age segment | | Gender | | Year of service for the company | |
|--|------|--------------|------|--------|------|---------------------------------|------|
| Department, division | % | Age | % | Gender | % | Years | % |
| Administration & HR department | 9.2 | Under 20 | 4.5 | Male | 37.3 | Up to 1 | 14.2 |
| Marketing and sales department | 25.5 | 21-30 | 50.6 | | | 1-3 years | 21.6 |
| Consumer Service Office | 12.0 | 31-40 | 24.9 | | | 4-6 years | 31.4 |
| Business Development and Innovation department | 7.8 | 44-50 | 12.6 | Female | 62.7 | 7-10 years | 8.1 |
| Others | 39.4 | 50 and above | 7.8 | | | 11-15 years | 18.2 |
| | | | | | | 16 and more years | 6.5 |

Reliability Test

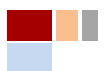
In any study, before conducting analysis there is a need to ensure reliability and validity of variables. To test the reliability, Cronbach’s alpha value is tested for validating the reliability of variables and the minimum cut-off points showed 0.7 (Nunnally, 1978) and it proved that the data is acceptable for further measurements (Table 2).

Table 2: The level of dependability of the factors

| Factors | Number of questions | Cronbach's α |
|----------------------------|---------------------|--------------|
| Job satisfaction | 4 | .816 |
| Employee loyalty | 5 | .756 |
| Organizational performance | 5 | .811 |

Source: Authors

Afterward, composite reliability (CR) is used to examine internal consistency. Hair et al (2014) suggest that the CR value should be above



0.7, as such, all constructs are qualified for the test of internal consistency (see table 3). Moreover, the validity of questions demonstrated above of 0.3. AVE (Average Variance Extracted) coefficient which is also showed for 0.5 for composites (Fornell & Bookstein, 1982; Hair, et al 2010) which means it is acceptable for measurement.

Table 3: Questionnaire reliability analysis

| Constructs | No. Items | Factor loadings | CR | AVE |
|----------------------------|-----------|-----------------|-------|-------|
| Job satisfaction | 4 | 0.712-0.849 | 0.870 | 0.573 |
| Employee loyalty | 5 | 0.704-0.784 | 0.843 | 0.577 |
| Organizational performance | 5 | 0.775-0.892 | 0.843 | 0.577 |

Source: Authors

Pearson Correlation analysis

The correlational analysis is used for statistical correlation to estimate how strong or weak relations between independents and dependent variables. Moreover, it is used for analyzing the data from more than one variable. It shows the relation between two or more variables such that examine the changes in one variable affects the other variable.

Table 4: Pearson Correlation analysis

| | | JS | EL | OF |
|----|---------------------|--------|--------|----|
| JS | Pearson Correlation | 1 | | |
| EL | Pearson Correlation | .620** | 1 | |
| | Sig. (2-tailed) | .000 | | |
| OF | Pearson Correlation | .473** | .698** | 1 |
| | Sig. (2-tailed) | .000 | .000 | |

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

*. Correlation is significant at the 0.05 level (2-tailed).

Source: Authors

According to our test job satisfaction has weak correlation with the organizational performance [r = .473, p < 0.01], but has an evident correlation with employee loyalty [r = .698, p < 0.01]. From the analysis, more satisfied employees tend to work more loyal to their organizations and they bring a significant contribution to the overall organizational performance.



Structural Equation Modeling (SEM)

For testing the significance of the structural model and variables R-Square is estimated for PLS analysis. The correlation between independent and dependent variables was reviewed during the analysis. The results of the analysis supported all six assumptions and all the regression weight values were positive and significant ($p < 0.01$). The results of the survey are shown in Table 5.

Table 5: Research result PLS-SEM

| Hypothesis | Path | Standardize Beta | Standard Error | T statistics | P value | Remarks |
|------------|-------|------------------|----------------|--------------|---------|-----------|
| H1 | JS→EL | 0.632*** | 0.054 | 12.299 | .000 | Supported |
| H2 | JS→OF | 0.563*** | 0.047 | 11.581 | .000 | Supported |
| H3 | EL→OF | 0.709*** | 0.066 | 14.897 | .000 | Supported |

***:p<0.001; **:p<0.01; *:p<0.05

Source: Authors

Having established the validity and the reliability of the measurement model, the next step was to test the hypothesized relationship by running the PLS algorithm and Bootstrapping algorithm in PLS 3.0

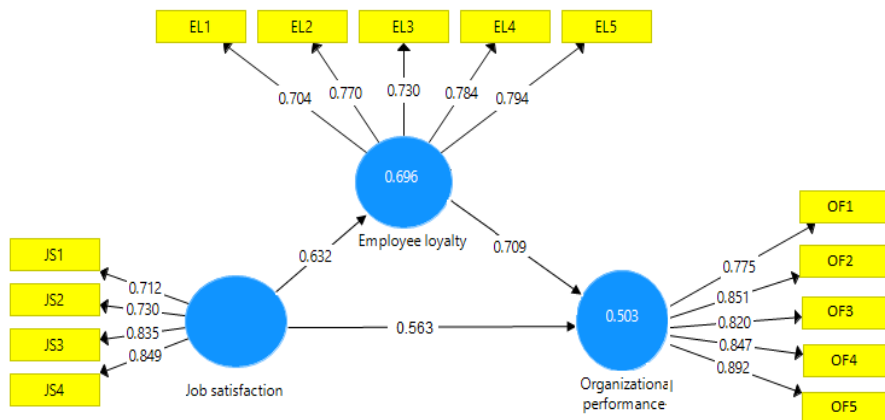


Figure 2. Items loadings and path coefficient

As indicated in Fig. 2 and Table 5, all the hypotheses H1, H2, and H3 were supported by the findings of the study. According to the survey results, employee satisfaction is positively correlated with employee loyalty ($\beta=0.632$) and has an impact ($t=12.299$; $p < 0.001$). Moreover, employee

satisfaction has a positive correlation with organizational performance ($\beta=0.563$) and a visible impact ($t=11.581$; $p < 0.001$). Employee loyalty and organizational performance correlated positively ($\beta=0.709$) and proved its effects ($t=0.14.897$; $p < 0.001$).

To test what extent Mediating effect of employee loyalty can have a mediating effect on the perceived job satisfaction bootstrap. Simply, job satisfaction can make employees more loyal to their organizations, however, job satisfaction cannot ensure increasing organizational performance.

To test to what extent the organizational performance can mediate the effect of perceived Job Satisfaction; this study employed the method integrated into Smart PLS. The results, as illustrated in Table 6 showed that employee loyalty is found to be a full mediator in this relationship carrying out 20.5% of the effect of perceived organizational performance as calculated in Variance Accounted for (VAF). This result confirmed the mediating role of employee loyalty to enhance job satisfaction due to the perceived organizational performance. Hence H4 is supported.

Table 6 The Mediating Effect of Employee loyalty

| Hypothesis | Path | Path Coefficient | | Indirect Effect | Standard Error | T statistics | P-value | Remarks |
|------------|----------|------------------|----------|-----------------|----------------|--------------|---------|-----------|
| | | c | c' | a*b | | | | |
| H4 | JS→EL→OF | 0.768*** | 0.563*** | 0.205*** | 0.119 | 16.675 | .000 | Supported |

***:p<0.001; **:p<0.01; *:p<0.05

The hypothesizes are all confirmed because all effects of associated regulator variables (Beta coefficients) are both positive and statistically significant ($p < 0.01$).

2. Discussion

In the present study employee satisfaction is considered as an independent variable and as mediating, factors served employee loyalty, and organizational performance is taken as the dependent variable. Consequently, reliability tests, correlation, and regression analysis were carried out to prove our hypothesis.



The relationship between job satisfaction and employee loyalty was found that the results of the analysis supported H1 and reinforced the researches (Turkyilmaz, Akman, & Pastuszak, 2011; Chen, Tsui, & Farh, 2002; Petty, Brewer, & Brown, 2005; Aityan & Gupta, 2011) where the studies evidenced that employee loyalty positively influenced job satisfaction. Based on the results, it can be said that sustaining employee loyalty enables an increase in organizational performance and essential for maintaining its competitive advantage and keep its market position.

The results of testing the second hypothesis (H2), it was found the results of the analysis supported the H2, namely the existence of a strong relationship between job satisfaction and organizational performance. This shows that the higher the employee satisfaction, then they become more dedicated and contributed to the organizational performance. These results reinforce the research previously conducted by (Schneider, Hanges, Smith, & Salvaggio, 2003) which explained that improved job satisfaction of employees makes the employees confident about themselves and makes them pay efforts.

The results of testing the third hypothesis (H3), it was found that the results of the analysis supported the H3 hypothesis, namely the existence of a strong relationship between employee loyalty and organizational performance. This shows that more employees are loyal to their organization, they tended to work with devotion to their organization contributing to the overall performance. These results further reinforce the research carried out by Gould -Williams (2003) described that high employee loyalty results in improved organizational performance.

The results of resting the fourth hypothesis (H4), it was found that the results of the analysis supported the H4, namely, employee loyalty significantly mediates the relationship between job satisfaction and organizational performance, the results further reinforced the previous research (Kreitner, R., & Kinicki, A, 2001). The results of the study explain that employee loyalty strongly mediates the relationship between job satisfaction and organizational performance as well as commitment.



The study conducted in the case of local banks demonstrated that there is a strong relationship between employee loyalty and job satisfaction and organizational performance. It can be concluded that the more satisfied employees, they remain loyal to their organization and willingly contribute to their organization.

Based on the results of the study we concluded the followings:

- More employees are satisfied, tend to remain loyal to their organization, and the loyal employees contribute significantly to the organization. Simply, when employee satisfaction increased by one point, then the loyalty increased by six points which means satisfied employees remain more loyal to the organization and influenced positively in overall organizational performance.
- Employees with a high organizational commitment tend to employ themselves for the benefit of the organization.

Based on the findings, it can be concluded that one of the organizational priorities is addressing the factors that increase employee satisfaction that serves as a foundation for sustaining employee loyalty and high performances.

E. Conclusion

One of the challenging issues for the present business managers is improving employee satisfaction and loyalty as well as improvement of organizational performance. However, it is not easy to achieve all of them once. The current study shows that job satisfaction is a key to employee loyalty, however, it is not feasible to sustain an improvement in organizational performance even having satisfied employees in the organization. Once employees get loyal to their organization, then improvement in organizational performance can be observed, therefore a mediating role of employee loyalty is essential.

Although the current study could achieve its' proposed objectives, it has room for improvements. We consider that there is a need for conducting similar studies as in different business representatives from different industries as it would have a practical significance for local organizations finding best solutions on the improvement of the organizational overall performance

with consideration of variables such as job satisfaction and employee loyalty that affect the organizational performance. It will be beneficial for the HR practitioners and other organizational stakeholders to better address challenges and opportunities for improving organizational performance.

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