

CHAPTER TWO

LITERATURE REVIEW

This chapter reviews the literature in five areas that are related to employee loyalty (1) employee loyalty, (2) theories of job satisfaction and motivation, (3) hierarchy of needs, (4) concept of individual differences, and (5) relevant studies.

2.1 EMPLOYEE LOYALTY

Loyalty represents faithful adherence to a sovereign, government, leader or cause. Also, it signifies a person's devotion or sentiment of attachment to a particular object. Without loyalty, strong relationships and efficiency will never be built. The devotion of loyal persons shows both thought and positive action toward a particular object (Encyclopedia Britannica, 1998).

Powers (2000) stated relevant work-related loyalties pertain to the whole organization, a supervisor, coworkers, or the job. Employee loyalty (typically synonymous with commitment) to the organization has sometimes been viewed as an attitude. Moreover, loyalty also means working safely, adhering to rules, following orders, maintaining quality of output, and taking care of company property. However, other behaviors are based on unwritten policies or norms of the organizational culture, such as staying late to complete a project, participating in extracurricular activities, contributing to company charities, offering suggestions, and remaining with the organization (Meyer & Allen, 1991).

Solomon (2004) explained that identity of individual or group and level of dedication along with commitment can be expressed through loyalty. It can also be described as the willingness of an employee to remain with an organization. Employee loyalty requires reciprocity. Thus, an employer needs to understand the needs and motivation of employees. Porter and Steers, (1982) wrote that loyalty is productivity that exceeds normal expectations.

2.2 IMPORTANCE OF LONG-TERM EMPLOYEES

According to Reichheld and Teal (1996), loyalty creates a long-term employee who is a significant resource in the organization. First, the long-term employee exempts the cost of recruiting for new employees. One experienced employee has three times greater productivity when compared with a trainee, as more experience means a more effective employee. Experienced employees are much better at finding the best customers; thus, loyal employees can create loyal customers and more productivity. Moreover, long-term employees help the organization to save training costs. New employees don't contribute to the yield of the firm while a loyal employee is an asset of an organization. Lastly, in terms of referrals, an experienced employee is a significant source of customer referrals and often creates a good flow of job applicants.

2.3 JOB SATISFACTION

Job satisfaction is one of major elements leading to quality of work. It involves the feeling of employees. Feeling good or bad reflects on the job done. Berry (1997) stated that the pay, promotion, benefits, supervisor, co-workers, work conditions, communication, safety, productivity, and the work itself are the components of building employee job satisfaction. Every employee measures the importance of each factor differently. One might consider a high salary important and the working environment less so.

Syptak, Marsland, and Ulmer (1999) described the role of turnover and absenteeism. When employees are satisfied there is less turnover. On the other hand, higher turnover signifies the dissatisfaction of employees. Also, absenteeism is a good reflection of the satisfaction level of employees. Those who have a high rate of absences tend to be less satisfied.

Employee motivation theories have been classified into content and process theories (Campbell & Pritchard, 1976). Herzberg (1968) and Maslow (1954) described work behavior as the employee's attempt to satisfy needs. Content theory indicates that employees seek to meet their needs to stop their tension. Content theory points out unfulfilled needs dictate employee behavior. Meanwhile, Lawler (1973) stated that process theory explained work behavior in terms of cognitive process.

Additionally, Steers (1997) identified that employee loyalty becomes stronger with an individual's age, years with the organization, sense of job security and participation in decision making. Employees who feel committed to an organization and who are involved with their job have highly reliable habits, plan a long tenure with the organization and muster more effort in performance.

In addition, Steers and Porter (1983) outlined six components that suggest a generalized model of work motivation as follows:

1. The employee's needs, such as the need for job security or money
2. The employee's expectations about personal outcomes that can satisfy needs.
3. The employee's self-efficacy expectations regarding the extent to which he/she can perform the required job behavior.
4. The employee's job behavior.
5. The experience of the outcomes of job behavior.
6. Feedback of experience of the result of job behavior for future motivation to engage in similar job behavior.

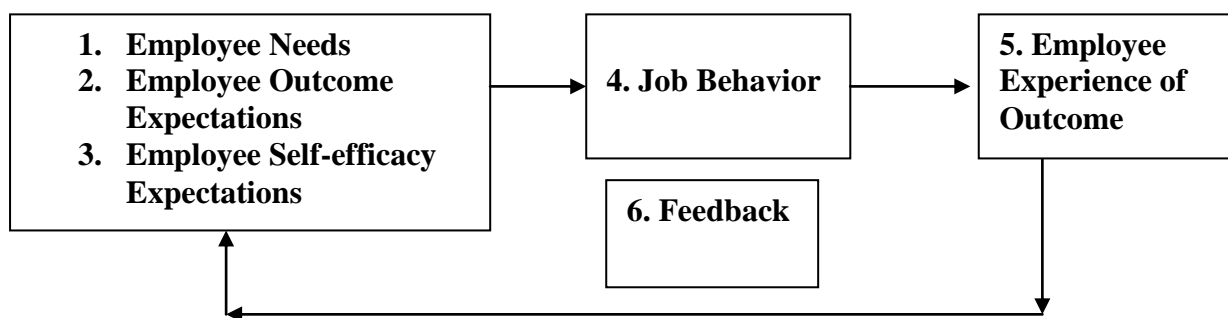


Figure 2. Steers and Porter's basic motivational cycle.

According to Figure 1, there are six steps in the job motivational cycle. First, employees have their own needs and expectations, outcome and self-efficacy. In order to fulfill the expectation, employee's behavior leads to goals. After that, employees receive the outcome of their behavior and the feedback on their behavior.

Herzberg (1959) had another theory that can explain the factors influencing employee loyalty called the Two-Factor Theory.

The Hygiene Factor describes the environment, as individuals are concerned about environment when they feel dissatisfied with their job. This can be related to company policies, working conditions, interpersonal relationships, money, and security. Hygiene is not intrinsic to the job but rather to the conditions of the job. Dissatisfaction is a result of hygiene factors. Although they do not lead to higher levels of motivation, without them there is dissatisfaction. Also, motivation is related to superior performance. This is concerned with satisfactions in terms of feelings of achievement, professional growth, and recognition that one can experience. These factors result from internal generators in employees. The Two-Factor theory can be divided into two parts as shown in Table 2 as follows:

Table 1. Motivation and Hygiene Factor

HYGIENE FACTORS	MOTIVATORS
<i>Environment</i>	<i>The Job Itself</i>
Policies and administration	Achievement
Supervision	Recognition for accomplishment
Working conditions	Challenging work
Interpersonal relations	Increased responsibility
Money, status, security	Growth and development

Combining the hygiene and motivation factors results in four scenarios:

- When High Hygiene and High Motivation occur, this leads to the ideal situation where employees are highly motivated and have few complaints begin.
- With High Hygiene and Low Motivation, employees will have few complaints but are not highly motivated.
- With Low Hygiene plus High Motivation, employees are motivated but have a lot of complaints. This is a situation where the job is exciting and challenging but salaries and work conditions are not up to par.
- With Low Hygiene and Low Motivation, the worst situation happens. Here we have unmotivated employees with lots of complaints.

2.4 HIERARCHY OF NEEDS

Once an individual's needs meet their expectations, loyalty will be generated. Traditionally, people's needs can be divided into five aspects. This idea was developed by Maslow (1943) to describe the strength of certain needs (see Figure 2).

1. Physiological needs. This is the base of the pyramid. These are the first and basic human needs related to survival; for instance, food, shelter, and clothing. These factors are often related to money in our society and it's the reason people work for money.

2. Safety and security. This comes when the first level needs are satisfied; people have a desire to remain free from danger and disease, and have economic stability.

3. Affiliation. People are social animals; they need to be accepted by others. Most of them like to have interaction with someone and be somewhere they feel like they belong to. An employee needs to work in a place where they are accepted and have good interactions with colleagues and supervisors.

4. Esteem, Prestige, and Power. Prestige seems to have an effect on how comfortably or conveniently one can expect to get along in life. People seek prestige, which concerns one's accomplishments or self-actualization. Normally, an individual wants to have a high opinion of themselves. At the same time, people also need power, which is being able to influence the behavior of others.

5. Self-actualization. The maximization of one's abilities after all other needs are met, with the individual seeking the ultimate levels of growth and personal fulfillment. Self-actualized people often perform in creative ways.

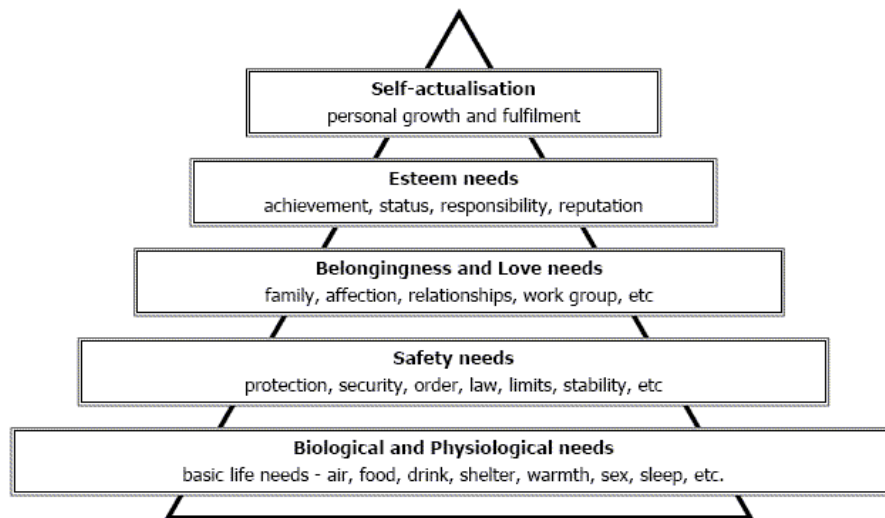


Figure 3. Maslow's hierarchy of needs

2.5 INDIVIDUAL DIFFERENCES AFFECTING LOYALTY

Robertson and Callinan (1998) explained that individual differences play an elemental role in how people generally react across situations. Alternatively, Larsson (1989) has suggested that individual differences may affect behavior when paired with situational conditions. This study included the individual variables that indicate loyalty, which are (1) personal factors, (2) job factors, (3) and organizational factors.

2.5.1 Demographic Factors

The model of loyalty behavior is associated with various demographic variables (age, gender, marital status, and education). The following is a description of how demographic data affects the degree of an employee's loyalty.

Age: According to Steers and Porter (1991), an employee's loyalty becomes stronger when they get older; they tend to stay with the organization and dedicate themselves to the organization's success.

Gender: Chance (1988) found that women are more costly to hire than men because of the higher rate of turnover. Compared to men, women are concerned not only with work but also family, while men are more focused on their careers

Marital status: Married employees have more responsibilities than single employees; for example, tuition fees for children and other family expenses.

Thus, they will be more loyal and the rate of absence is lower. (Austom, Baldwin & Macy, 1988).

Education: Rowden (2000) suggested that employees with higher educational backgrounds tend to have lower commitment. Well-educated people will have more expectations and they can find jobs easily due to their knowledge.

2.5.2 Job Factors

The challenge and clarity of a job are examples of job characteristics that make employees committed to a company. Mitchell and Larson (1987) found that a variety of jobs, creativity and the difficulty of each job are positively related to job satisfaction. Boredom can lead to a high level of dissatisfaction and may eventually result in absenteeism and turnover. Factors like job clarity and specificity have positive relationships with job satisfaction. According to Roberts and Hunt (1991), when job responsibilities are clear, job satisfaction seems to be higher than when the responsibilities are ambiguous. When people have high responsibility over the jobs they perform, their commitment tends to be greater and it becomes lower when they suffer limited opportunities for being promoted or receiving intrinsic or extrinsic rewards.

2.5.3 Organizational Factors

Another crucial element that facilitates employee loyalty is organizational factors. To retain loyal employees, an organization must consider the following components:

Corporate Culture: Based on Tanmikapong, Mahasarakul, and Veawbundidyarab (2002), strong organizational culture creates stability in an organization. Moreover, corporate culture can be a powerful tool towards creating success. A supportive work environment and flexibility tends to create greater job satisfaction and a strong desire to remain with the organization.

Company policy: Syptak, Marsland, and Ulmer (1999) found that an organization's policies can be a great source of frustration for employees if policies are unclear or unnecessary or if not everyone is required to follow them.

Supervision: It has been stated by Sasi Misra, & Rabindra N. Kanungo (1994) that supervisors or executives who use lording power over others cause employees in lower positions to experience lower self-esteem, consider

themselves to be powerless, and finally show a low level of involvement in the job and low commitment to their organization.

Compensation: Although the abovementioned factors are necessary for building employee loyalty, rewards are also needed by employees. Employee will be satisfied with the compensation being paid if it meets their expectations. According to Mitchell and Larson (1987), it can be concluded that in general, higher wages satisfy an employee; employees will be satisfied when their salary is equal to or a little higher than those who are doing the same job

Advancement: Employees will feel committed to a company if they can see the career goals provided for by the organization. Employees will contribute more to achieving the goals and they will be more loyal to the organization. According to Mitchell and Larson (1987), employees are more satisfied with situations when they see clear opportunities for career advancement.

Training: Gomez-Meija, Balkin and Cardy (2001) identified that companies and managers who offer training programs will benefit from lower turnover. Moreover, training can lead to improved job performance and create job satisfaction.

2.6 RELEVANT STUDIES

Tanmikapong, Mahasarakul, and Veawbundidyarab (2002) studied factors that affected the employee loyalty at Loxley Information Service Company Limited. The study indicated that bringing employees closer to executives was another way to create loyalty. However, job security was a weak area that employees were mostly dissatisfied with, while job characteristics, working conditions, the learning environment and empowerment were strong areas that most employees were satisfied with. In this study, there was no significant difference in the level of employee loyalty among different groups in terms of demographical data.

Getchell (1975) studied factors affecting employee loyalty. He suggested that feelings of job satisfaction and organizational commitment are related to management assigning challenging work to employees, leading to greater creativity, opportunity, and freedom, Feedback, recognition and appraisals were also important concerns. Satisfaction with career advancement was another factor that increased the level of

loyalty. Employees need opportunities to prove their abilities and they want to be recognized for their accomplishments; poor management lessens their willingness to stay at an organization.

Rossukon Luechakeaittikul (รศสุคนธ์ ฤาชาเกียรติกุล, 2550) studied operation staffs' opinions on the quality of work life affecting loyalty at HSBC (THAILAND). The study found that HSBC operation staff's opinions on the working life quality affected loyalty at HSBC categorized by individual data, with different age and working hours of the operation staff affecting loyalty at HSBC. The results of the above research leads to the conclusion that the management should set policies for developing the working life quality as this will positively affect the loyalty of operation staff and increase the efficiency of human resource management in the future.