

# The Mediating Effect of Employee Loyalty on the Relationship between Job Satisfaction and Organizational Performance

Sarantuya Jigjiddorj  
Business School

National University of Mongolia  
Ulaanbaatar, Mongolia  
sarantuyaj@num.edu.mn

Tsetsegmaa Tsogbadrakh  
Business School

National University of Mongolia  
Ulaanbaatar, Mongolia  
tsetsegmaa\_ts@num.edu.mn

Enkhbayar Choijil  
Business School

National University of Mongolia  
Ulaanbaatar, Mongolia  
enkhbayar.ch@num.edu.mn

Altanchimeg Zanabazar  
Business School

National University of Mongolia  
Ulaanbaatar, Mongolia  
altanchimegz@num.edu.mn

**Abstract**—One of the key factors for sustaining an organizational performance for any organization is maintaining loyalty and retention of skilled and experienced employees. Therefore, revealing positive and negative factors impacting the employee loyalty and taking actions for the further improvement have been an essential aspect for the organizations. The current paper aims at researching how the employee satisfaction has an impact employee loyalty as well as 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 the employee loyalty can be maintained through increasing employee satisfaction. In the present study employee satisfaction is considered as independent variable and as mediating factors served employee loyalty, and organizational performance is taken as dependent variable. Consequently, reliability test, 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 on the organizational performance.

**Keywords**—job satisfaction, employee loyalty and organizational performance

## I. INTRODUCTION

Job satisfaction of employees is quite an 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 [1]–[5]. Loyalties employees build the performance of the organization and create competitive advantage [6]–[8].

However, the employee loyalty is a delicate issue as it is impossible to identify them whether they have been committed and loyal simply asking questions or conducting an observation [9]–[12].

For sustaining employee satisfaction, loyalty and commitment implementation of a sound human resource policy and programs assist the organization retaining loyal employees and enable increasing the productivity. Employee loyalty as a results of increasing employee satisfaction

contributes significantly in formulation of an accurate organizational development policy, increase of performance and enable the organization to reach closer to achieving its goals.

## II. LITERATURE REVIEW

Literature review of this paper has two parts at the first part the relationship between the employee satisfaction and employee loyalty, secondly, the relationship between the employee loyalty and organizational performance is identified through the previous literature.

### *Job Satisfaction and Employee Loyalty*

The one of the key factor that affects employee loyalty is job satisfaction. Job satisfaction is described as the combination of psychological physiological and situational states towards to the job [13]–[18] that results from performance appraisal or experiences. Locke [19] 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 organizational success like employee loyalty, retention and productivity which requires taking care of it [20].

Pandey and Khare [21] 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 which shows that the employee satisfaction will be the result of the job loyalty, simultaneously, it also indicates that there is a positive relation between these two variables. Obviously, if there is low loyalty towards the job, employee will be less satisfied and will try to switch another job. On the other hand, if staffs have the loyalty toward the institution, they will have more confidence about their job and it will create a positive impact on their satisfaction [22]–[24].

Many scholars have studied the role of employee satisfaction on employee loyalty and conclude that employee satisfaction influence employee loyalty positively [25], [26].

*Employee Loyalty and Organizational Performance*

The concept employee loyalty is coined by Professor John Ladd, Brown University in 1967 and studied by researchers and scholars from various perspectives and defined in diverse ways. Loyalty is demonstrated by individual’s attitude, behavior and psychology and nurtured through the communication between individual and organization. It can be demonstrated as employee efforts achieving organization’s goals and improved productivity, efficiency and presenting quality service to the customers.

Gould-Williams [27] noted that high employee loyalty and commitment results in an improved organizational performance. As the loyalty is essential factor in organizational performance, the efficient way to the improvement is an increase of employee satisfaction and let them feel themselves as an important of the organization [28]–[30].

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 et al. [31] 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 for the organization.

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

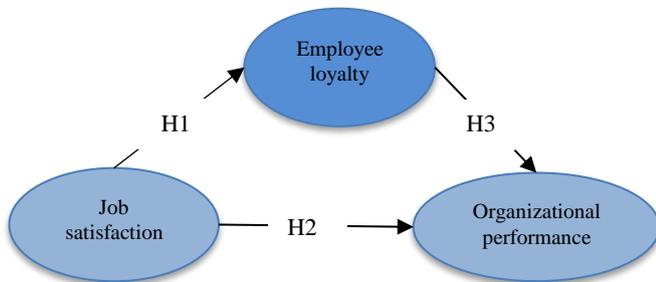


Fig. 1. Research model. (source: authors)

*Hypothesis*

The following hypothesis was elaborated on the previous research 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

III. RESEARCH METHODOLOGY

The study is conducted to determine how employee satisfaction influence to employee loyalty and the organizational performance of the Mongolian banks. Sample is selected randomly and the actual survey conducted among employees of the above company. Smart PLS 3.0 software is used for data processing and number of tests are provided for factor analysis, reliability test, correlation analysis and linear regression.

In this research, surveys are used as a means of data collection. The questionnaire used in this research consists of 4 main parts. The items in all three scales, have been measured by using a 5-point Likert type scale. Likert type scale 5 corresponds to, “Strongly Agree” (5), “Agree” (4), “Neither Agree nor Disagree” (3), “Disagree” (2), “Strongly Disagree” (1).

*Descriptive Statistics*

The actual survey took a place between from December 1 until December 15, 2018. We distributed 400 questionnaires and received 379 completed (94.8%) questionnaires and only 356 questionnaires (93.9%) considered valid for the analysis. The questionnaire had 15 questions in 4 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.

TABLE I. DEMOGRAPHIC FEATURES OF THE RESPONDENTS

Participants affiliation		Age segment		Sex		Year of service for the company	
Department, division	%	Age	%	Sex	%	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

Source: Authors

As the above table shows 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 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.

**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 [32] considered it acceptable for measurements (Table 2).

TABLE II. THE LEVEL OF DEPENDABILITY OF THE FACTORS

Factors	Number of questions	Cronbach's $\alpha$
Job satisfaction	4	.816
Employee loyalty	5	.756
Organizational performance	5	.811

Source: Authors

Initially, the analysis of validity and reliability is performed. Composite Reliability (CR) is used to examine internal consistency. Hair et al (2014) suggests that CR value should be above 0.7, as such, all constructs are qualified for the test of internal consistency as in Table 3. Moreover, validity of questions showed above of 0.3. AVE (Average Variance Extracted) coefficient is also showed for all 0.5 [33]–[35] which means measurement is satisfactory.

TABLE III. 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**

TABLE IV. PEARSON CORRELATION ANALYSIS

		JS	EL	OF
<b>JS</b>	Pearson Correlation	1		
	Sig. (2-tailed)			
<b>EL</b>	Pearson Correlation	.620**	1	
	Sig. (2-tailed)	.000		
<b>OF</b>	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 organizational financial performance has weak correlation with the employee satisfaction [r = .373, p < 0.01], but has noticeable correlation with employee loyalty [r = .698, p < 0.01], and organizational non-financial performance has weak correlation with employee satisfaction [r = .352, p < 0.01], but has noticeable correlation with employee loyalty [r = .548, 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. 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 V. 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 PLS algorithm and Bootstrapping algorithm in PLS 3.0

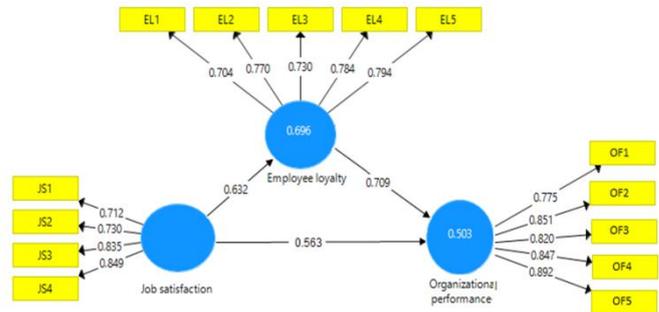


Fig. 2. Items loadings and path coefficient. (source: authors)

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 is positively correlated with organizational performance ( $\beta = 0.563$ ) and has an impact ( $t = 11.581$ ;  $p < 0.001$ ). Employee loyalty and organizational performance correlated positively ( $\beta = 0.709$ ) and proved it has an effect ( $t = 14.897$ ;  $p < 0.001$ ).

The Mediating effect of the Customer Satisfaction to test to what extent the customer satisfaction can mediate the effect of perceived product quality on the brand loyalty; this study employed the bootstrap method integrated in Smart PLS. The results, as illustrated in Table 6 showed that customer satisfaction is found to be a full mediator in this relationship carrying out 40% of the effect of perceived product quality on brand loyalty as calculated in Variance Accounted for (VAF). This result confirmed the mediating role of customer satisfaction to enhance the brand loyalty due to the perceived quality of the product. Hence H3 is supported.

TABLE VI. THE MEDIATING EFFECT OF EMPLOYEE LOYALTY

Hypothesis	Path	Path Coefficient		Indirect Effect	Standard Error	T statistics	P value	Remarks
		c	c'					
H4	JS→EL →OF	0.768**	0.563**	0.205**	0.119	16.67	.000	Supported

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

Source: Authors

*Summary of Results*

TABLE VII. RESULT TABLE FOR THE TESTED HYPOTHESES

No	Hypothesis	Findings
H1	There is a significant relationship between job satisfaction and employee loyalty.	Supported
H2	There is a significant relationship between job satisfaction and organizational performance.	Supported
H3	There is a significant relationship between employee loyalty and organizational	Supported
H4	Employee loyalty significantly mediates the relationship between job satisfaction and organizational performance.	Supported

Source: Authors

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

IV. DISCUSSION AND CONCLUSIONS

One of the challenging issues for the present business managers is improving employee satisfaction and loyalty.

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

Sustaining employee loyalty enables increase in organizational performance and essential for maintaining its competitive advantage and keep its market position. Moreover, the employee loyalty can be measured by the employee satisfaction level and more satisfied employees make an effort increasing productivity and become committed to the organization. Thus, it is proved the hypothesis that employee loyalty impacts positively in the organizational performance. The results of the study show the followings:

The more satisfied the employees, more loyal worked to their organization, and higher level of employees' loyalty enables an increase of organizational performance. Simply, when employee satisfaction increased by one point, the loyalty increased by six points and further the organizational performance increased by seven points.

More committed employees tend to employ themselves for increasing the productivity, sales income and customer satisfaction level which contributes in growing image of the organization in the market.

Based on the results of the study, it can be said that an organization should be concerned about revealing the factors

contributing to the employee satisfaction, in order to increase employee satisfaction as it leads to the commitment that positively impacts to the organizational performance.

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