

# Effect of Employee Loyalty and Commitment on Organizational Performance with Considering Role of Work Stress

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## Effect of Employee Loyalty and Commitment on Organizational Performance with Considering Role of Work Stress

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**Abstract:** The objective of this study is to examine the effect of employee loyalty, employee commitment and work stress on organizational performance of Indonesian education sector. For this purpose, a questionnaire survey was used, and data were collected from school teachers. Data were analysed by using statistical software, namely; Partial Least Square (PLS). Results of the study demonstrated that loyalty is one of the important ingredients of organizational performance among educational institutions. It is found that employee loyalty is key contributor to organizational performance. Employee loyalty effect positively on employee commitment which lead to the organizational performance. Employee commitment is playing a mediating role between employee loyalty and organizational performance. In addition, work stress shows the negative effect on organizational performance. Thus, the current study has valuable insights for practitioners while making the strategies for educational institutions. Most of the previous investigations focused on various educational institutions in various development and developing countries, however, Indonesian educational sector is neglected. Particularly, the low performance of Indonesian education sector is not address by the literature. Therefore, this study is an attempt to address this literature gap by incorporating employee loyalty and employee commitment.

**Keywords:** employee loyalty, employee commitment, organizational performance, work stress

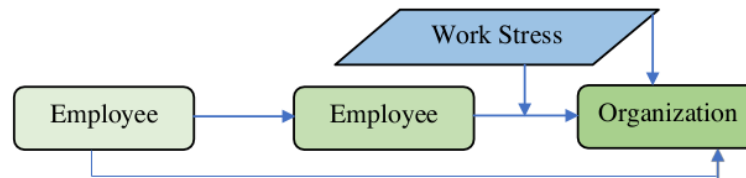
### Introduction

There has been disagreement among the prior investigations related to the various factor which influence on organizational performance among educational institutions. A large number of previous studies does not give much evidences on how precisely organizational performance can be measured and how various factor effect among the schools. Particularly, in Indonesia, the performance of schools is not considered by previous studies. Factors that effect on performance of schools are not explored by the literatures. There are various studies on Indonesian higher educational institutions (Aldianto, Anggadwita, & Umbara, 2018; Khouja, Rodriguez, Halima, & Moalla, 2018; Wahidmurni et al., 2019), however, literature

is missing on schools. Thus, this study is an attempt to explore various factors which effect on organizational performance among Indonesian schools.


Along with employee loyalty and employee commitment, there is another factor, namely; work stress which has negative role in organizational performance among educational institutions. Work stress effect physiologically on the employee of organization and increase the demotivation level. It is also provoked by the previous studies that work stress has negative effect on employee performance (Yunita & Saputra, 2019) which shows negative effect on overall organizational performance. It also has inverse relationship with organizational commitment (Christy & Priartini, 2019). Hence work stress is third factor which influence majorly on educational institutions performance. Thus, objective of this study is to examine the effect of employee loyalty, employee commitment and work stress on organizational performance of Indonesian education sector. Figure 1 shows the relationship between employee loyalty, employee commitment, work stress and organizational performance. Additionally, two sub-objectives of the study are as follows;

1. To investigate the mediating role of employee commitment between employee loyalty and organizational performance.
2. To investigate the moderating role of work stress between employee commitment and organizational performance.



**Figure 1. Theoretical framework**


This study contributed by exploring the major factor which effect on the organizational performance of educational institutions. Particularly, the organizational performance among the schools of Indonesia is ignored by the previous scholars which is filled by the current study. This study contributed by investigating that employee commitment is most important factor in these institutions which reflect the positive effect of employee loyalty on organization performance. This study also contributed by exploring the moderating role of work stress which is one of the constrain in the way of performance among the Indonesian schools.



## Literature Review

According to Neely (2005), organizational performance is "...identified or equated with effectiveness and efficiency and refers simultaneously to the action, the result of the action and to the success of the results compared to some benchmark". It therefore could be measured using the planned and actual outcome. Specifically, the financial-based performance is the main prominent in examining the organizational performance of profit-oriented and non-financial based organizational performance (Kaplan & Norton, 2001). Thus, for purposes of measuring organizational performance concept, this study proposed to use the subjective measure instead of an objective measure. Based on the balance scorecard by Norton and Kaplan (1999), this study also proposed to use a multi-dimensional measure of organizational performance. The items that have been used in this study reflect to the all four dimensions in balance scorecard that referred to financial, client, internal procedure, and learning as well as growth. The multi-dimensional of organizational performance used in the present study also undergo an intensive examination than the past investigations on organizational performance. For example, the dimension developed by Flynn, Schroeder, and Sakakibara (1994) does not include innovation and change, whilst Choi and Eboch (1998) only used plant performance and customer satisfaction in term of quality, delivery and cost. The dimensions developed by Prajogo and Sohal (2003) include quality, innovation and process, but it does not cover the financial and customer retention. Most of the dimensions that used in this study also been neglected by other previous studies that used the subjective measure.

This study articulated the composite loyalty (attitudinal and behavioural) approach in order to measure the loyalty concept in education institutions context. These two dimensions suggested a simultaneous consideration which has greater intensity of effecting the direction of subsequent loyalty studies. These dimensions are comprehensively suitable based on the nature of education institutions whereas not only focused on the outcome of repeat "purchase" behaviour amongst the internal customer (employees) (Wróblewski & Howaniec, 2018; Wróblewski & Dacko-Pikiewicz, 2018), but also the consequences of an attitudinal process in their daily works. Therefore, loyalty can be seen as a mean of maintaining or increasing an employee's patronage over the long term, thereby increasing the value of the employee to the department/organization. Employees are the greatest assets and the purpose of any organization is to create and keep their employees. In other words, a loyal employee is unlikely to leave their job, and thus preserving a loyal employee is a requirement for any quality initiative to success (Jun, Cai, & Shin, 2006). In short, the mainstream of these above-mentioned studies indicates that loyalty, directly or indirectly has integrated this important determinant in examining quality and organizational performance. Thus, this study includes loyalty as one of the variables of human oriented elements which effect on organizational performance. There is extensive body of literature is available on commitment, largely within organizational behaviour/psychology. Hagen, Oubre, White, and Nelson (2005)



11 discussed that when employees became emotionally committed to their work, they will invest more to pursue excellence and the required targets. In general, commitment is defined as “inclination to act in a given way toward a particular commitment target”, whilst Meyer, Allen, and Gellatly (1990) described commitment as “a psychological state that binds the individual to the job or organization”. Therefore, this study prefers that commitment can be best referred as a feeling of affection for a person in the department.

Prior studies on the relationship of commitment shows that commitment is significantly related to loyalty (Bendapudi & Berry, 1997). It is found by earlier studies that employee loyalty has positive effect on organizational performance (Ganic, Babic-Hodovic, & Arslanagic-Kalajdzic, 2018). It is also clear that employee loyalty shows positive role to enhance employee commitment (Yao, Qiu, & Wei, 2019). Additionally, commitment increases the organizational performance (Berberoglu, 2018). It is also provoked by the previous studies that work stress has negative effect on employee performance (Yunita & Saputra, 2019) which shows negative effect on overall organizational performance. Thus, from the above discussion, following hypotheses are proposed;

H1. Employee loyalty has positive effect on organizational performance.

H2. Employee loyalty has positive effect on employee commitment.

H3. Employee commitment has positive effect on organizational performance.

H4. Employee commitment mediates the relationship between employee loyalty and organizational performance

H5. Work stress has negative effect on organizational performance.

H6. Work stress moderates the relationship between employee commitment and organizational performance.

### Research Methodology

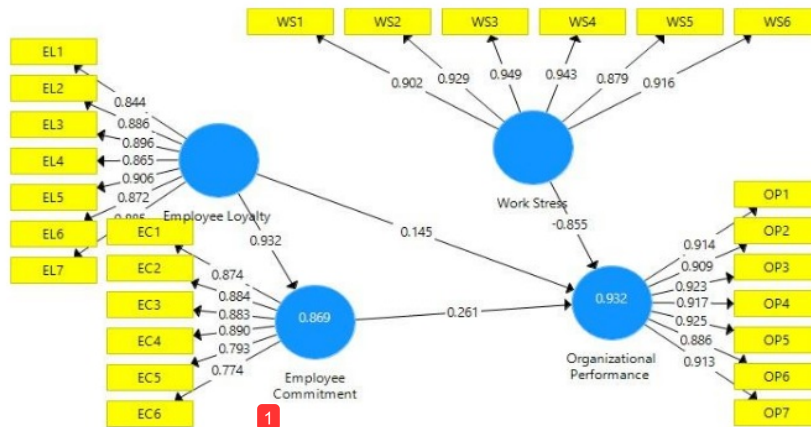
The current study is based on survey questionnaire for data collection. Total 500 questionnaires were distributed among the Indonesian schools. Data were collected from teachers of schools. The stage of data collection was started after the population size derived from the Ministry of Higher Education. Next, an application letters requesting permission to collect the data have been sent to Ministry of Higher Education, Indonesia. To gain the support, the respondents of the study were given the guarantee of anonymity. First of all, the cover letter specified that the data is only for academic purpose and the confidentiality of institutions as well as selected samples are protected. Second, in order to ensure the utmost privacy, the set of questionnaires were numbered for identification. Numbers have been used only for follow-up procedures (if applicable). Furthermore, the personal contact (coordinator) was limited to the appointed research assistants for each school. A timeframe of two weeks has been given to respondents to complete the questionnaire and follow up calls was made.

To overcome the challenges of a low response rate, a strategy has been implemented. The coordinator has been paid RM 25.00 for each questionnaire in

distribution and collection process. Furthermore, area cluster sampling was used based on various advantages such as wide area coverage and suitability in not availability of sampling frame (Altaf, Hameed, Nadeem, & Arfan, 2019; Sekaran & Bougie, 2013; Ul-Hameed, Mohammad, & Shahar, 2018).

**6**  
**Data Analysis and Findings**

This study adopted structural equation modelling (SEM) technique for data analysis. PLS was used to perform SEM. According to the previous studies, factor loadings must be above 0.7, composite reliability (CR) must be above 0.7 and average variance extracted (AVE) must be above 0.5 (Hair, Hollingsworth, Randolph, & Chong, 2017). CR is also above 0.7 and AVE is above 0.5. AVE and CR are presented in Table 1.



**Figure 2. Confirmatory Factor Analysis (CFA)**

**Table 1. Construct Reliability and Validity**

	Alpha	rho_A	CR	AVE
Employee Commitment	0.923	0.923	0.94	0.724
Employee Loyalty	0.951	0.952	0.96	0.773
Organizational Performance	0.966	0.967	0.972	0.833
Work Stress	0.963	0.964	0.971	0.846

CR above 0.7 and AVE above 0.5 confirms the convergent validity. After that discriminant validity was assessed. There are various methods to determine discriminant validity.

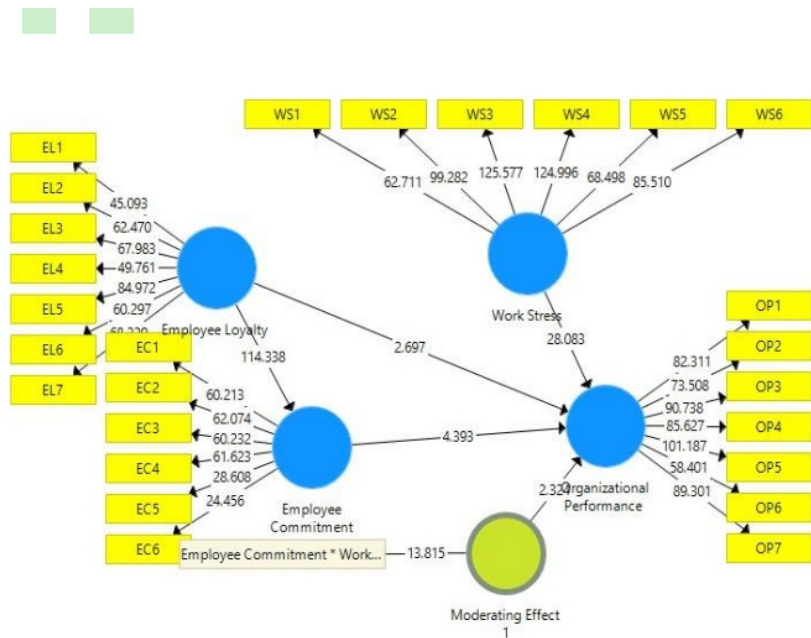
Structural model for hypotheses testing is highlighted in Figure 3. This study followed various steps of PLS-SEM from previous studies (Hameed & Naveed, 2019; Henseler, Ringle, & Sinkovics, 2009). The results of structural model are highlighted in Table 2. It is found that all the hypotheses are supported. As the t-value for all the hypotheses is above 1.96. Direct effect and moderation effect are given in Table 2. Moreover, mediation effect of employee commitment is highlighted in Table 3. All the relationship has achieved the minimum threshold level of t-value. Thus, employee loyalty has positive effect on employee commitment and organizational performance. Additionally, work stress has negative effect on organizational performance. Moderation effect of work stress is also significant which is further highlighted in Figure 4. It shows that work stress as moderating variable weakens the relationship between employee commitment and organizational performance. Finally, it is also clear that employee commitment is a mediating variable between employee loyalty and organization performance of schools. The r-square value for organizational performance is 0.932 which is substantial (Chin, 1998), shown in Figure 3.

**Table 2. Direct Effect and Moderation Effect Results**

	$\beta$	M	SD	T Values	P Values
Employee Commitment -> Organizational Performance	0.278	0.279	0.063	4.393	0.000
Employee Loyalty -> Employee Commitment	0.932	0.933	0.008	114.338	0.000
Employee Loyalty -> Organizational Performance	0.137	0.135	0.051	2.697	0.007
Moderating Effect 1 -> Organizational Performance	-0.044	-0.044	0.019	2.324	0.021
Work Stress -> Organizational Performance	-0.855	-0.853	0.03	28.083	0.000

**Table 3. In-Direct Effect**

	$\beta$	M	SD	T Values	P Values
Employee Loyalty -> Employee Commitment -> Organizational Performance	0.259	0.261	0.06	4.355	0.000




**Figure 3. Structural Model**



**Figure 4. Moderating Effects**

The results indicated that the employee commitments and loyalty has positive nexus with the firm performance of the organization. In addition, work stress as moderating variable weakened the relationship between employee commitment and organizational performance. Thus, work stress has negative affect on the nexus





among the employee commitments, loyalty and firm performance. These findings are match with the output of Ali, Rehman, Ali, Yousaf, and Zia (2010) and Irefin and Mechanic (2014) who also found positive nexus among the employee commitments and loyalty on firm performance.

### **1 Conclusion**

**3** Objective of this study was to examine the effect of employee loyalty, employee commitment and work stress on organizational performance of Indonesian education sector. Findings of the study demonstrated that loyalty is one of the important ingredients of organizational performance among educational institutions. Increase in employee loyalty increases the school's performance. However, low level of employee loyalty causes to decrease in performance. Thus, it is found that employee loyalty is key contributor to organizational performance. Along with the employee loyalty, employee commitment also has significant role to increase or decrease organizational performance at school level. **2** Employee commitment shows positive effect on organizational performance. Employee loyalty effect positively on employee commitment which lead to the organizational performance. Employee commitment is playing a mediating role between employee loyalty and organizational performance. Moreover, work stress shows the negative effect on organizational performance. Increase in work stress of employee has significant negative role to decrease organizational performance. Work stress weaken the relationship between employee commitment and organizational performance. Thus, the current study has valuable insights for practitioners while making the strategies for educational institutions. Theoretically, firstly, this study introduced employee commitment as mediating variable between employee loyalty and organizational performance. Secondly, this study introduced work stress as moderating variable between employee commitment and organizational performance.

This study recommended to the policy implementers that they should increase their focus on the stress of the workers that weaken the positive effects of employee commitments and loyalty on firm performance. This study has some limitations that are the future directions for the prospective researchers. This study take only two factors to predict firm performance and future study may include more factors in their studies.

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