

THE IMPACT OF EMPLOYEE COMMITMENT AND LOYALTY ON ORGANIZATIONAL PERFORMANCE: AN EMPIRICAL STUDY FROM THE VIETNAM BANK FOR AGRICULTURE AND RURAL DEVELOPMENT

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Abstract: Sustainable human resource management is critical for banks as any other organizations. Furthermore, human resource development in an organization must be linked to its performance that remains a challenge for the bankers. Therefore, it is crucial to investigate the relationship between employee commitment, employee loyalty, and banking performance. In this study, we employed the Partial Least Squares-Structural Equation Model (PLS-SEM) approach to examine our research hypotheses on the abovementioned relationship. We particularly used the data surveyed from 315 employees coming from the Vietnam Bank for Agricultural and Rural Development, Binh Thuan branch. The findings confirm that both employee commitment and loyalty impact positive on organizational performance. Factors that drive employee commitment include career development, belongingness, employee salaries and benefits, co-worker, and work motivation. Overall, we suggest important managerial implications to the bankers, and others in banking industry in general.

Keywords: Employee commitment; Employee loyalty; Organizational performance; the Partial Least Squares-Structural Equation Modeling; Vietnam Bank for Agriculture and Rural Development

JEL classification: M100, M120, L200, C830

I. Introduction

Many studies have been done on the correlation between work satisfaction and employee commitment and between work satisfaction and the employee loyalty. The expected benefit from the employee satisfaction, commitment, and loyalty is its impact on organizational performance. However, the interrelationship among those issues is still not concerned sufficiently. Especially, this challenges researchers and managers in the context of the global integration of Vietnam and the tough competition and aggressive human resource movement in the banking industry. This research aims at (i) investigating the interrelationship among employee commitment, loyalty, and the organizational performance, and (ii) building a quantitative model of the relationship between commitment, loyalty, and organizational performance. The current study conducted a survey of 315 employees at the Vietnam Bank for Agriculture and Rural Development (VBARD), branch of Binh Thuan province, Vietnam to create a practical basis for the measurement model.

II. Literature Review

The organizational commitment and loyalty

The organizational commitment

The organizational commitment is a psychological status characterized by the employee's bonding relation with the organization, being an implication for his or her decision to continue working and to be willing to perform better for their further contribution to the organizational development (Meyer & Allen, 1994). The organizational commitment is usually reflected in multiple ways, namely normative commitment, affective commitment, and continuance commitment. It is also conceptualized as employee's judgment on an organization, and her objectives and willingness to continue working for that organization. (Hart & Willower, 2001; Robbins, 2005; Walker & Boyne, 2006). Employees engage in the organization when they develop their own careers. They are also more engaged when they are motivated and trusted by colleagues because this is a long-term benefit that motivates them to strive forward in their work. That therefore deserves their waiting in life. Furthermore, co-workers are important for employees to engage into their organization because support from colleagues is critical for them to complete their own work, and to share their experiences. Similarly, the positive effect is expected from sympathy from co-workers instead of jealousy (Jowahar, 2006). The results of a study in Pakistan by Iqbal et al. (2015) show that financial benefit (i.e., income) also determines employee commitment with an organization because it is simply vital for them and family. In the banking sector, the research results of Khaliq et al (2016) at banks in Pakistan identified five factors that influence employee organizational commitment that is in line with other researches, namely employee reward (Eisenberger, 1997),

grassroots leadership rewards (Eisenberger et al., 1986), career development opportunities (Tansky & Cohen, 2001), family and employee care (Allen, 2001), and work as safe, autonomous and empowering employees while on the job (Khaliq et al., 2016).

Based on the abovementioned literature review, the following hypotheses in this study are proposed:

H1: Employee salaries and benefits significantly increase the organizational commitment

H2: Belongingness in the organization significantly improves the organizational commitment

H3: Career development significantly enhances the organizational commitment

H4: Co-workers significantly affect the organizational commitment

H5: Work motivation significantly strengthens the organizational commitment

Loyalty of employee

Employee loyalty is an expression of engagement with the organization and devoting all their capabilities to the development of a particular organization and seen as a form of employee's long-term commitment to the organization (Elegido, 2013). Loyalty manifests as employees committed to the success of the organization (Iqbal et al., 2015). Employees who have been loyal to the organization and have been active for the organization for many years will know the policies, strategies, and missions of the organization well and they know how to take the appropriate steps, so they don't need further education and training. Conversely, the employee's constant change and their lack of loyalty to the organization will increase the costs of the organization, leading to the loss of human resources (Makizadeh et al., 2010). A loyal employee is willing to work in that organization, thinking or believing that to work in the organization is the best option for him. On this purpose, the employee tries his best for the success of the organization to ensure that it survives (Adedeji & Ugwumadu, 2018).

The relationship between Employee commitment and Loyalty to the Organization

The commitment of employees in the organization, is also the belief in the culture, ethics, strategy, and growth potential of the organization. Employees who have higher commitment in the organization have lower intention to leave the organization, and they more likely engage with the organization and are loyal to the organization (Hackett & Guinon, 1985; McCausly & Kuhnert, 1992; Kuyvenhoven & Bus, 2011; Chatna & Rajny, 2012; Iqbal et al., 2015; Assawavichairoj, 2018). Research on banking institutions in Pakistan, Uzair et al. (2017) shows that employee commitment positively affects employee loyalty to the organization. Based on this literature review, the authors propose the following hypothesis:

H6: Employee commitment significant has a significant effect on the organizational loyalty.

Employee commitment, Loyalty and Organizational performance

Organizational performance

The organizational performance includes three specific areas: (a) financial performance (profit, return on assets, return on investment, etc.); (b) product market performance (revenue, market share, etc.); and (c) shareholder and partner interests such as potential shareholder returns, employee leave of the organization and occupational accidents, customer satisfaction, and employee earnings (Harter et al., 2003; Schneider et al., 2003; Richard et al., 2009).

The relationship between Employee commitment, Loyalty and organizational performance

Performance is the degree to which the desired result is performed. Improving the organizational performance through business processes, which link and execute processes performed and interacted by employees within the organization. Therefore, organizational performance first requires employees to engage with the organization. In fact, organizational performance is particularly important to the success of any business (Drucker, 1997). Employee commitment with the organization impacts organizational performance because it is essential in organizational effectiveness, an effective way to improve is to increase employee commitment and make them feel like one, key person of the organization (Gould-Williams, 2013). Organizational performance is affected by many different factors including internal factors, and external factors. If it is assumed that external factors are constant, it is certain that organizational commitment affects organizational performance (Danica, 2016). The previous studies highlighted insights in direct relationship between employee commitment with organizational performance (Chan et al; 2000; Harter et al., 2003; Choi et al., 2010). Employee loyalty has a positive effect on improving the quality of work results and improving organizational productivity and efficiency (Yee et al., 2008; Murali et al., 2017; Gould-Williams, 2013; Jigjiddorj et al., 2019). Previous studies found that employee loyalty have a positive and significant relationship with organizational performance (Hackett & Guinon, 1985; Shaw, 1999; Walker and Boyne, 2005; Abdullah et al., 2009; Owadunni & Obalalu, 2015). In the banking industry, studies on banks in Ghana, Jordan and Pakistan (Preko & Adjetey, 2014; Alrawabdeh, 2014; Cheema & Abbas, 2017) show that employee commitment has a positive impact on banking performance. Based on the literature, the following hypotheses were proposed:

H7: Employee commitment significantly improves on organizational performance

H8: Loyalty significantly increases organizational performance

The research model

The gap in literature review above requires further study to extend theories, to provide more empirical evidence, and to suggest managerial implications relating to organizational performance in relationship with employee commitment and loyalty. The previous studies highlighted insights into the different influences of commitment on loyalty or performance. But those studies did not provide an adequate base for a comprehensive framework of the organizational performance.

Therefore, the purpose of the current study to expand findings from prior literature on the impact of commitment and loyalty on organizational performance. It also embraces other considerable predictors about factors effect on employee commitment in banking industry and developing the research model, as presented in figure 1.

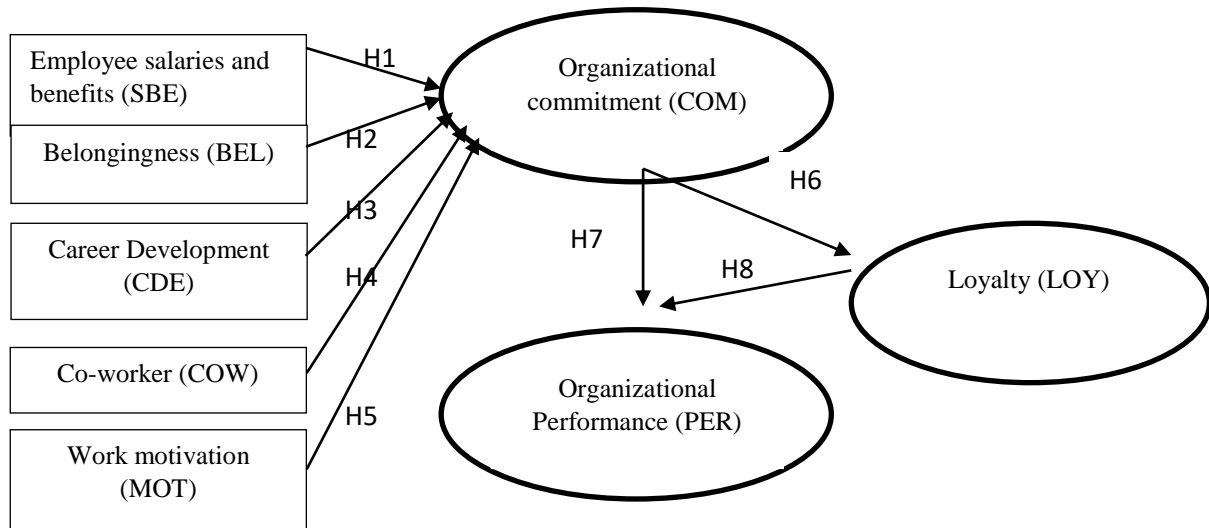


Figure 1: The research model

III. Method

Measuring employee commitment, loyalty, and organizational performance

All measured scales were adapted from previous studies with some adjustments to fit the research context in Vietnam. The initiative questionnaire was developed in the English version. We then designed the survey in the following steps to conduct the survey. First, we translated the questionnaire into Vietnamese. Second, we organized the focus groups each of that includes five males and five females who had at least five years of experience in working at VBARD. Hereafter, they proposed some adjustments to assure questionnaire to be suitable for the banking industry. Third, a pilot test was conducted with 20 respondents who are employed by VBARD to assure no errors and suitable contents. The sample was selected based on respondents' willingness to participate. Additionally, the criteria for the inclusion of respondents were that those having passed their probationary period. Finally, a total of 315 respondents from VBARD in Binh Thuan province is the study sample of this study.

A five-point Likert scale starting from “strongly disagree” to “strongly agree” was used for measuring all items. For the measurement of organizational commitment, 25 items were included in the questionnaire. The scales measuring factors were based on the instrument developed by Khaliq et al. (2016) and two new scales were developed by the current authors as a result from focus group discussions such as “Belongingness” and “Motivation”. For the measurement of employee loyalty, 3 items were included in the questionnaire. The scales measuring factors were based on the instrument developed by Adedeji and Ugwumadu (2018) and two new items were developed by the current authors such as “Willingness to introduce his unit as a good place to work” and “Willingness to introduce the unit's products and services”. For the measurement of organizational performance, 4 items were included in the questionnaire. The scales measuring factors were based on the instrument developed by Richard et al. (2009) and three new items were developed by the current authors such as “Employee income increases every year” and “I am proud of the reputation of the Vietnam Bank for Agriculture and Rural Development”. Table of detail measurement and items in Appendix.

Data collection and treatment

The questionnaire survey designed above at was conducted at VBARD – Binh Thuan branch. All respondents are identified to work in VBARD. We delivered approximately 350 samples. It took two months to complete this data collection, from April to May 2020. After implementing data validation, 315 valid observations were collected for data analysis. The response rate is 90%.

This study used the Partial Least Squares-Structural Equation Modeling (PLS-SEM) approach with support from SPSS and AMOS 20.0 to validate the research hypotheses. PLS-SEM is a suitable method for testing a complicated model with many simultaneous identifications of multiple driver (Anderson & Gerbing, 1988). PLS-SEM are conducted through 4 steps: (i) Scale quality test; (ii) Exploratory Factor Analysis; (iii) Confirmatory Factor Analysis and (iv) Structural Equation Analysis (Hair et al., 2006; Kline, 2011).

IV. Results

Descriptive characteristics of the sample

Regarding gender and age of the respondents. among the 315 employees, the gender of female staff is 65%. The majority age group is 35-45 (54%).

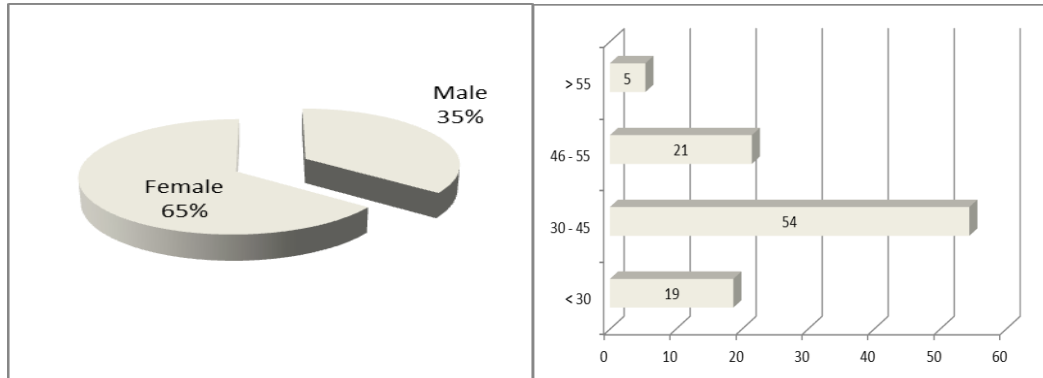


Figure 2: Gender of employees

Figure 3: Ages of employees

Source: Authors' calculations

Regarding qualification, **these** employees are mainly having university degrees (84%)

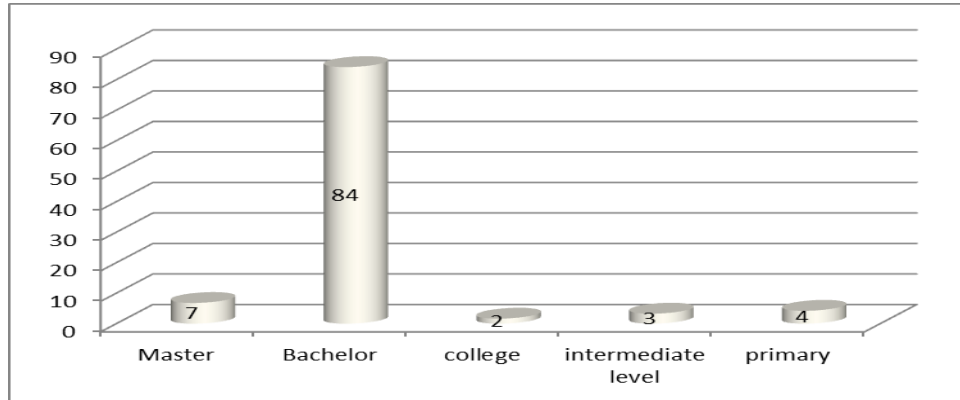


Figure 4: Qualification of employees

Source: Authors' calculations

Scale Reliability analysis

The results presented in Table 2 show that of the 36 observed variables used to measure research concepts, the SBE5, CDE5, COW5, COM4, LOY4 observed variables with item-total correlation of less than 0.3 should be eliminated, while the remaining 31 variables satisfy requirements of the analysis of scale reliability through Cronbach's coefficient > 0.6 and item-total correlation > 0.3 (Nunnally and Burnstein, 1994).

Table 2: Cronbach alpha's for scale items

Scales	Disqualified variables	Alpha coefficient	Results
SBE	SBE5	0.797	Quality
BEL	None	0.864	Good quality

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CDE	CDE5	0.839	Good quality
COW	COW5	0.834	Good quality
MOT	None	0.842	Good quality
COM	COM4	0.844	Good quality
LOY	LOY4	0.833	Good quality
PER	None	0.859	Good quality

Source: Authors' illustration

Exploratory Factor Analysis

Results presented in Tables 3 show that all variables meet requirement for values. Namely, factors affecting the customers' commitment are extracted to five factors corresponding to measured variables of five concepts with a cumulative of variance of 65.176% at an Eigenvalue of 1.823; EFA of the commitment is divided into 3 observable variables with the variance of 76.245% at an Eigenvalue of 2.287. EFA of the loyalty is divided into 3 observable variables with an average variance extracted of 75.030% at an Eigenvalue of 2.251. EFA of the organizational performance is divided into 04 observed variables with an average variance extracted % of 70.387% at an Eigenvalue of 2.815. The EFA results are clarified using the Promax rotation.

Table 3: The new measurement scale through the Exploratory factor analysis (EFA)

	Component							
	1	2	3	4	5	6	7	8
BEL5	0.840							
BEL3	0.832							
BEL2	0.811							
BEL1	0.786							
BEL4	0.748							
MOT4		0.805						
MOT2		0.793						
MOT5		0.785						
MOT3		0.784						
MOT1		0.739						
CDE3			0.846					
CDE4			0.835					
CDE1			0.794					
CDE2			0.785					
COW3				0.833				
COW2				0.827				
COW4				0.823				
COW1				0.769				
SBE4					0.821			
SBE2					0.789			
SBE3					0.776			
SBE1					0.750			
COM2						0.898		
COM3						0.861		
COM1						0.860		
LOY3							0.877	
LOY1							0.877	
LOY2							0.844	

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PER3							0.863
PER4							0.848
PER2							0.839
PER1							0.805
Kaiser-Meyer-Olkin Measure				0.847	0.718	0.719	0.821
Bartlett's Test (Sig.)				0.000	0.000	0.000	0.000
Eigenvalues				1.823	2.287	2.251	2.815
% of Variance				65.176	76.245	75.030	70.378

Note: According to Hair *et al.* (2006), $0.5 < KMO < 1$; Bartlett has the level < 0.05 ; Factor loading > 0.5 , % of variance $> 50\%$ and Eigenvalue > 1 .

Source: Authors' calculations

Confirmatory Factor Analysis

According to Smith & Mc Milan (2001), the measurement model is suitable to the actual data and ensuring the alignment with 04 indicators: (i) Cmin/df; (ii) TLI, (iii) CFI, (iv) RMSEA. The table 4 shows that the measurement model is in line with the actual data.

Table 4: The fit indices of the CFA

No	Indicator	Standard value	Model value	Results
1	Cmin/df	$\chi^2 / d.f. \leq 5$ (Bentler & Bonett, 1980)	1.358	Good
2	Tucker-Lewis Index (TLI)	TLI > 0.90 (Garver & Mentzer, 1999; Hair, 2006).	0.970	Good
3	Comparative Fit Index	CFI > 0.90 ; $0 < CFI < 1$, the closer to 1, the more fit (Bentler & Bonett, 1980; Hu & Bentler, 1995).	0.974	Good
4	Root Mean Square Error Approximation	RMSEA < 0.05 : Good fit model; RMSEA < 0.08 acceptable; the lower index, the better (Garver & Mentzer, 1999; Hu & Bentler, 1995).	0.032	Good

Source: Authors' calculations

5.5 Structural Equation analysis

Result of the Figure 4 shows that the model has Cmin/df = 1.682; TLI = 0.939; CFI = 0.944 and RMSEA = 0.043. This proves that the integrated model is in line with the actual data.

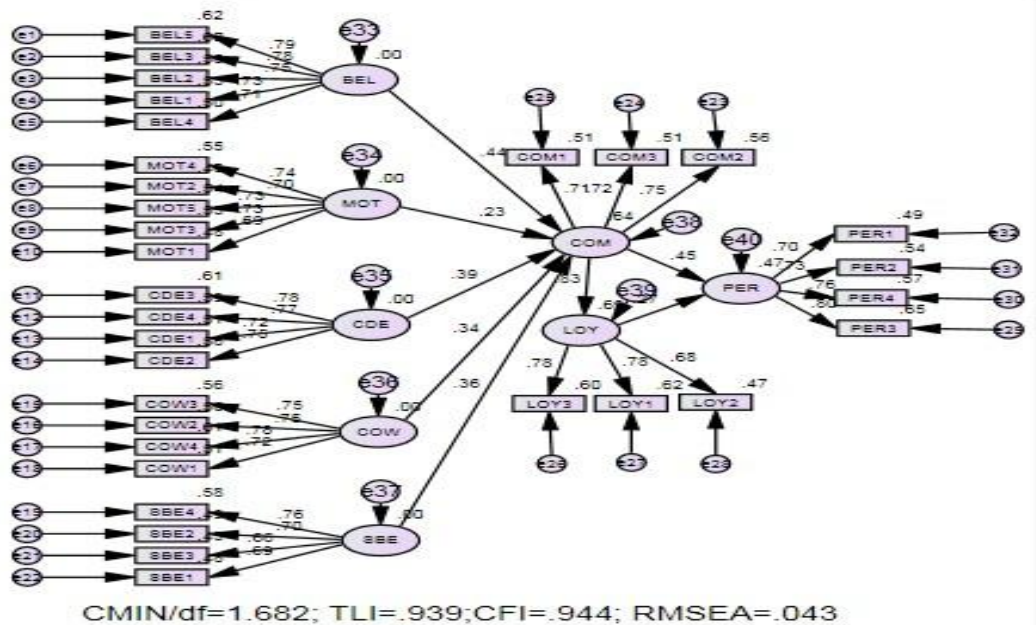


Figure 4: Result of SEM

Results in Table 5 show that: all hypotheses are accepted with the confident level of $> 95\%$.

Table 5: Hypothesis test result

Hypothesis	Impact			Estimate	S.E.	C.R.	P	Results
H2	COM	<---	BEL	0.377	0.046	8.266	***	Accepted
H5	COM	<---	MOT	0.215	0.046	4.710	***	Accepted
H3	COM	<---	CDE	0.385	0.052	7.398	***	Accepted
H4	COM	<---	COW	0.330	0.050	6.583	***	Accepted
H1	COM	<---	SBE	0.338	0.050	6.795	***	Accepted
H6	LOY	<---	COM	0.858	0.073	11.808	***	Accepted
H7	PER	<---	COM	0.474	0.137	3.454	***	Accepted
H8	PER	<---	LOY	0.280	0.132	2.123	0.034	Accepted

Note : *** (Sig. = 0.000).

Source: Authors' calculations

In Table 6, factors affecting "Mounting" are in order of influence: CDE, BEL, SBE, COW, MOT. Factors affecting "organizational performance" in the order of influence: COM, LOY. In Table 5, COM impacts positive on LOY.

Table 6: Impacting level

Impacting level on COM			Estimate	%	Position
COM	←-	BEL	0.377	22.9	2
COM	←-	MOT	0.215	13.1	5
COM	←-	CDE	0.385	23.4	1
COM	←-	COW	0.330	20.1	4
COM	←-	SBE	0.338	20.5	3
Total			1.645	100	
Impacting level on PER					
PER	←-	COM	0.474	62.9	1
PER	←-	LOY	0.280	37.1	2
Total			0.754	100	

Source: Authors' calculations

V. Discussions and Implications

The first finding confirmed the factors that influence the employee commitment including Career Development, Belongingness in Organization, Salary and Welfare, Co-worker and Work Motivation. This result is consistent with previous studies (Khaliq et al. 2016). Additionally, the current study brings two new factors into the literature, namely Belongingness and Work Motivation. Based on the results, the authors suggest the following management implications to enhance the employee commitment. First, the bank should (i) pay more attention to investment, organize training to improve staff qualifications, train suitable skills, provide financial and time support to employees to improve qualifications, concern the task's features that fit employees' characteristics. Second, the bankers need to improve working motivation of all leaders at different levels caring importance to the capacity and talent of employees, to set policies for transparent promotion, and to record specific results for employees' performance. Third, managers of the bank should strengthen co-worker relationships to be friendly, trustworthy, and reciprocal at work. Fourth, the bankers need to raise belongingness in the organization such that senior staffs should share difficulties with their junior fellows. Finally, the managers should pay more attention to improve salary and other employee benefits.

The second finding shows that employee commitment impacts positively on their loyalty. This result is in line with the finding of (Uzair et al., 2017). To enhance the employee loyalty, the bank should concern improving employee commitment.

The third finding affirms that both commitment and loyalty are positively associated with organizational performance. This result agrees with the finding of (Alrawabdeh, 2014; Cheema & Abbas, 2017). That implies

that the bank should pay attention to the commitment and loyalty of employees, and that is the key to a successful organization.

VI. Conclusions

The current study aims to extend the theoretical framework and to provide empirical evidence of employee commitment and loyalty and its impact on the organizational performance, illustrated by the case of the Vietnam Bank for Agriculture and Rural Development. The findings highlight a strong mediating role of loyalty in the interrelation between commitment and organizational performance. Hence, the paper provides some insights into the current research about the relationship between commitment, loyalty, and performance.

Beside its significant contributions, this study remains some limitations. First, the subjects were drawn from only one bank in Vietnam, which limits the external validity of this study. Future study should apply similar methods to cases of other banks and to make comparisons to enhance the power of the findings. Finally, this paper focuses on the relationship between commitment, loyalty, and performance. Future studies can examine the effect of other factors on organizational performance to better understand the overall factors determining the organizational performance in banking industry in Vietnam.

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APPENDIX

Table 1: Measurement scale and observed variables

No	MEASUREMENT SCALE /INDICATOR	CODE
I	Employee salaries and benefits	SBE
1	Income enough for paying the necessary needs of the family	SBE1
2	Income in line with work performance	SBE2

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3	Income in line with that of other banks in the locality	SBE3
4	Equally distributed income as per the State Bank in Vietnam regulations	SBE4
5	In addition to income, I also receives other social benefits	SBE5
II	Belongingness	BEL
6	The organizational challenges/difficulties are also ours	BEL1
7	I have a long term commitment to the organization	BEL2
8	I am voluntarily fully dedicated to the organization	BEL3
9	I am committed to performing well to contribute to the organizational performance	BEL4
10	I voluntarily belong with the organization	BEL5
III	Career development	CDE
11	Trainings for professional skill/knowledge improvement for the employees are always invested and held by the organization	CDE1
12	I am oriented and coached with skills suitable to my work	CDE2
13	The organization assists with time and professional skill improvement courses fee	CDE3
14	I am proud of my work	CDE4
15	I want to work for the organization for many years more	CDE5
IV	Co-worker	COW
16	Friendly coworkers	COW1
17	Trust among coworkers	COW2
18	Organizational solidarity	COW3
19	Mutual affection – mutual assistance at work	COW4
20	see colleagues as family members	COW5
V	Motivation	MOT
21	Management levels appreciate capability and talent of staff	MOT1
22	Employees are treated equally by management levels	MOT2
23	Fair and transparent promotion policy	MOT3
24	Being cared for trainings and improvement of professional knowledge	MOT4
25	need leadership that respects my performance	MOT5
VI	Commitment	COM
26	Not leaving the organization despite better job offered by another organization	COM1
27	I regard the organization as my family	COM2
28	Thanks to my stable family life, I am committed to the organizational development	COM3
29	I am proud of my long-term service for the organization	COM4
VII	Loyalty	LOY
39	I am willing to introduce the organization as a good place to work	LOY1
40	Willing to introduce products and services provided by the organization	LOY2
41	Having intention to have a long-term commitment with the organization	LOY3
VIII	Organizational Performance	PER
42	Yearly increase in the employee's income	PER1
43	The organization has more customers	PER2
44	The organizational profit increases by time	PER3
45	I am proud of the reputation of the Bank for Agriculture and Rural Development	PER4