Factors Affecting Employee Loyalty: A Case of Small and Medium Enterprises in Tra Vinh Province, Viet Nam*

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Abstract

The study aims to identify the factors affecting employee loyalty in the case of small and medium enterprises (SMEs) in Tra Vinh province, Viet Nam and to find out critical factors affecting the loyalty of employees in SMEs. This is implemented with the method of collecting primary data of 320 employees working at SMEs in 5 districts including: Cau Ngang, Tra Cu, Chau Thanh, Cang Long, Tieu Can) and Tra Vinh City, Viet Nam. Using the multivariate regression method, the researchers have found 6 factors affecting employee loyalty: colleagues, leaders, job characteristics, remuneration policies, organizational culture, and working environment. Particularly, learning opportunities may not be not statistically significant for employees' loyalty towards small and medium-sized enterprises in Tra Vinh province. From the above research results, the authors have proposed implicative policies such as: focusing on colleague relationships, improving leadership of business owners, attaching importance to appropriate work arrangement, having appropriate remuneration policies for laborers, building effective organizational culture and working environment to improve employee loyalty at SMEs. From the above policy implications, helping business owners realize the aspirations of workers in small and medium-sized enterprises more closely in the future, in order to sustainably develop the business system in Vietnam.

Keywords: Employee Loyalty, SMEs, Multivariate Regression, Tra Vinh Province

JEL Classification Code: I31, J08, J30, J31

1. Introduction

Employees’ loyalty to the organization can be recognized as an important topic for enterprises’ human resource management issues, especially when the managers have shifted from focusing to the materials, equipment, and inventory to "knowledge assets" of the employees, in other words, the transition from the "industrial age" to the "era of knowledge". It could be stated that companies are competing by using the skills and talents of their employees. According to Smith (2007), by attracting and "retaining" the best employees, the company can gain profits and occupy the market shares higher than the industry average. Aon Hewitt (2012) reports that employees are considered as an important component of all businesses and employees’ loyalty is an important factor that reflects the internal strengths and the sustainable development of the enterprises. By testing, the employees’ loyalty, employers can plan to improve the loyalty to enhance motivation, behaviors, and productivity of the employees.

According to the Department of Planning and Investment (2018), by the end of 2017, Tra Vinh province has a total of 1,433 small and medium-sized enterprises, accounting for 73.45% of the total number of enterprises in the entire province. In which Tra Vinh city has 359 enterprises,
accounting for 25.05% of the number of SMEs in the whole province, the accumulated charter capital of SMEs in the period of 2014-2017 is about 1,963 billion VND; Thereby, contributing to creating jobs for about 9,351 workers. Most of the enterprises are small-scale with a few numbers of employees and lack of management skills and knowledge. Therefore, this can affect the competitiveness of enterprises in the markets. Facing the risks of falling behind in competitiveness in the contexts of globalization, more than ever, the human resource needs to be cared for by enterprises in the right way and used more effectively. Regarding the attraction and retention of quality human resources in the SMEs in Tra Vinh city, Tra Vinh has been paid great attention in the current condition that big enterprises have invested more and more in the province.

2. Literature Review

Smith, Kendall and Hulin (1969) of Cornell University developed job description indicators (JDI) to evaluate employees' job satisfaction through factors such as the nature of work, salaries, promotions, colleagues and supervision of employers. Weiss et al. (1967) offered criteria for measuring job satisfaction through a Minnesota Satisfaction Questionnaire (MSQ), including questions about the ability to use personal capacity, achievements, empowerment, corporate policy, compensation, colleagues, creativity, independence, moral values, responsibility, assurance, social status, supervisors of superiors, working conditions, ... It can be seen that JID and MSQ are the indicators and these indicators are used to evaluate the job satisfaction of the employees used in the satisfaction studies.

Boeve (2007) researched job satisfaction of the lecturers of the assistant physician training department at US Medical Universities based on using Herzberg's two-factor theory and the job description index of Smith et al. (1969). Accordingly, the job satisfaction factor is divided into two groups: (1) the internal factor group is the nature of jobs and promotion opportunity and (2) the external factor group includes as follows: Salary, the support of employers and the relationship with colleagues. The purpose of this study is to test the validity of both theories. In Boeve's study, quantitative statistics such as Cronbach's Alpha coefficient, Spearman correlation coefficient, and linear regression were applied. The results of JDI's five-factor correlation analysis for job satisfaction in general showed that factors: development opportunities, job nature, and relationships with colleagues are the strongest correlation with job satisfaction while the support of superiors and salaries are weakly related to job satisfaction of lecturers. Linear regression analysis showed that in addition to four factors: the nature of work, relationships with colleagues, development opportunities and the support of superiors, the time working in the department also affects the satisfaction of lecturers.

Chew (2004) studied the impact of human resource management activities on the maintenance of the core staff of organizations in Australia. The authors pointed out that loyalty to the organization includes 9 impact factors: (1) Conformity between individuals and organizations; (2) Salary, bonus, and recognition; (3) Coaching and career development; (4) Opportunity to challenge; (5) Leadership behavior; (6) Workplace relationship; (7) Company culture and structure; (8) Working environment and (9) The media. Research results show that there are 5 factors affecting employee's intention to quit their jobs: (1) Conformity between individuals and organizations; (2) Salary, bonus and recognition; (3) Coaching and career development; (4) Workplace relationship and (5) Working environment. In particular, loyalty is an intermediary factor between this relationship, which means the loyalty of employees in an organization is also affected by the above five factors.

Kumar and Skekhar (2012) aimed to discover employees' loyalty at the Polyhedron factory in India through a survey of all employees. The results showed that 6 factors affect employees’ loyalty in the organization: (1) Salary; (2) Empowerment of employees; (3) Active participation and interaction in development; (4) Goal setting; (5) Rewards and (6) Employee perceptions of their importance in the organization. The study also measures which variables have the greatest impact, making the greatest contribution to the building of employees’ loyalty to the organization. Research also shows that employees’ empowerment and rewards are given to them who play an important role in building employees’ loyalty to the organization. Besides, the research shows a two-way relationship of loyalty, which is the relationship between employees and employers. This relationship is the most important factor in the success of an organization.

Dung and Morris (2005) studied organizational coherence and job satisfaction. Studying the inheritance of Smith et al. (1969)'s scale and adjusting the scale of LaMastro (1999) into conditions in Vietnam, in which the "homogeneous" component changes into "pride, love for the organization. Research results indicate three components of cohesion with the organization are affected by 5 aspects of job satisfaction of employees such as jobs, salary payment, colleagues, supervision and promotion. Dung and Ly (2006) assessed the impact of human resource management on the performance of employees in the enterprises in Ho Chi Minh City. Research on the succession of Singh's scale (2004) showed the close relationships between training, employee evaluation, compensation and remuneration, promotion opportunities with activity results of the enterprises. Therefore, it can be necessary for enterprises to invest in training and remuneration, promotion opportunities, creating a flexible, proactive working mechanism to attract and retain great employees.

Bui and Le (2014) conducted a study on the factors affecting the working motivation of employees directly engaged in production in Vietnam Machinery Installation Corporation (Lilama). Kovach (1995) has conducted via the model of working motivation researches, including 10
motivating factors; analyzing the results collected from observations, verifying the reliability of scales and factor analysis. After correlation analysis, multiple linear regression follows common multivariate regression, the study found 07 factors affecting employee motivation: (1) Corporate culture, (2) Work; (3) Training and development opportunities; (4) Working conditions; (5) wages and welfare regimes; (6) Relationship with colleagues; (7) Leadership relationship. In particular, wages and welfare regimes along with corporate culture are the two strongest impact factors. The results obtained from the study are an important suggestion in building appropriate strategies and plans for human resource development of Lilama.

Huynh (2015) identified the factors affecting employees' job satisfaction and suggested solutions to improve employee satisfaction at An Giang Water and Electric Joint Stock Company. Research results show that factors affecting job satisfaction are 6 factors are ranked according to the level of decreasing effect, including: (1) Training and promotion, (2) Company policy, (3) Colleague, (4) Working conditions, (5) Leadership, (6) Nature of work. Five factors impact in the same direction with the job satisfaction of employees. Particularly, the nature of work is the only factor that impacts in the opposite direction with the job satisfaction of employees.

Nguyen and Do (2015) assessed the impact of factors on perceiving the value of an employee and employee engagement with the organization. The scale in this study is based on the theoretical basis about perceived value and employee cohesion. The set specific observation variables were measured on a 5-point Likert scale. Survey results of 319 full-time employees working in auditing companies in Ho Chi Minh City show that factors affecting perceived value include as follows: (1) Training and career development, (2) Internal communications, (3) Relations in the organization, (4) Satisfaction at work, (5) Direct manager, (6) Salary, bonus and welfare, (7) Employee comments on evaluating the effectiveness of work; perception of values, then influences employee cohesion. The study also points out the differences in cohesion between the type of company, employee rank, seniority and employee's income.

### 3. Research Methodology

The research methodology was implemented via data collection by direct interviewing 320 employees at SMEs via a pre-designed questionnaire. The descriptive statistical toolkit, testing the reliability of the scale by Cronbach's Alpha test, analyzing the discoverable factor by factor rotation method (EFA), extracted rotation results from groups were utilized. Factors are eligible to conduct multivariate regression analysis to identify factors affecting employees' loyalty in SMEs in Tra Vinh city. Based on the theories and related studies, the authors conducted a linear regression model with the dependent variable named loyalty to the organization, and the independent variables are the followings:

Multivariate linear regression equations are in form:

\[
Y_i = \beta_0 + \beta_1 X_{i1} + \beta_2 X_{i2} + \ldots + \beta_p X_{ip} + \epsilon_i
\]

(1) Job characteristics, (2) Organizational culture, (3) Remuneration policy, (4) Working environment, (5) Colleagues, (6) Learning opportunities, (7) Leadership are listed in Table 1:

<table>
<thead>
<tr>
<th>Ordinal number</th>
<th>Symbols</th>
<th>Explanation</th>
<th>Sources</th>
<th>Expected marks</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Y</td>
<td>Loyalty to the organization</td>
<td>Allen (1997), Dung and Morris (2005), Meyer and Allen (1997)</td>
<td>+/-</td>
</tr>
<tr>
<td><strong>Independent variables</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1</td>
<td>X_1</td>
<td>Job characteristics</td>
<td>Singh (2004), Homans (1958), Smith et al. (1969), Dung and Morris (2005)</td>
<td>+</td>
</tr>
<tr>
<td>2</td>
<td>X_2</td>
<td>Organizational culture</td>
<td>Becker (1960), Bui and Le (2014)</td>
<td>+</td>
</tr>
<tr>
<td>5</td>
<td>X_5</td>
<td>Colleagues</td>
<td>Maslow (1943), Smith et al. (1969)</td>
<td>+</td>
</tr>
<tr>
<td>7</td>
<td>X_7</td>
<td>Leadership</td>
<td>Weiss et al. (1967); LaMastro, (1999)</td>
<td>+</td>
</tr>
</tbody>
</table>

The research model consists of 7 factors namely (1) Job characteristics, (2) Organizational culture, (3) Remuneration policy, (4) Working environment, (5) Colleagues, (6) Learning opportunities, (7) Leadership. The data is processed via SPSS software. After being coded and cleaned, the following analyzes will be performed: descriptive statistics, assessment of reliability of scales, factor analysis, variance analysis, regression analysis and verification of differences.
4. Research Results

The linear regression model results of the following:

<table>
<thead>
<tr>
<th>Models</th>
<th>Coefficients*</th>
<th>t</th>
<th>Sig.</th>
<th>Collinearity Statistics</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Non-standardized coefficients</td>
<td>standarded coefficients</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>B</td>
<td>Standard deviation</td>
<td>Beta</td>
<td></td>
</tr>
<tr>
<td>Constants</td>
<td>-.227</td>
<td>.263</td>
<td>-.865</td>
<td>.388</td>
</tr>
<tr>
<td>Job characteristics</td>
<td>.217</td>
<td>.048</td>
<td>.225</td>
<td>4.526</td>
</tr>
<tr>
<td>Organizational culture</td>
<td>.115</td>
<td>.056</td>
<td>.088</td>
<td>1.950</td>
</tr>
<tr>
<td>Remuneration policy</td>
<td>.133</td>
<td>.056</td>
<td>1.35</td>
<td>2.360</td>
</tr>
<tr>
<td>Working environment</td>
<td>.083</td>
<td>.045</td>
<td>.091</td>
<td>1.840</td>
</tr>
<tr>
<td>Colleagues</td>
<td>.297</td>
<td>.053</td>
<td>.291</td>
<td>5.418</td>
</tr>
<tr>
<td>Learning opportunities</td>
<td>.007</td>
<td>.043</td>
<td>.008</td>
<td>.165</td>
</tr>
<tr>
<td>Leadership</td>
<td>.269</td>
<td>.062</td>
<td>.271</td>
<td>4.335</td>
</tr>
</tbody>
</table>

Note: (Dependent variable: Loyalty to the organization. Level of meanings: ***, **, *: respectively 99%; 95%, 90%).

In order to test the model's suitability, the researchers used the determination coefficient R2 (R-square) to evaluate the suitability of the research model. The determination coefficient R2 was proved to be a zero function, decreasing with the number of independent variables which are included in the model, but not the more variables of the equation will be more relevant to the data. R2 tends to be an optimistic element of the model for the data in the case of an explanatory variables. Thus, in multiple linear regeressions, the adjusted R2 coefficient is often used to evaluate the suitability of the model because it does not inflate the relevance of the model. Besides, it should be checked that there is no multi-collinear phenomenon by the VIF (VIF <10) magnification coefficient. The higher the standardized Beta coefficient becomes, the greater impact of that variables on employee loyalty are (Hoang & Chu, 2008).

The results show that the Sig significance is at small level 0.00 and the determination coefficient R2 = .618 (or adjusted R2 = .605) can prove the model's suitability. Comparing the two adjusted R2 and R2 values, it can be easily seen that the adjusted R2 is smaller than R2, which evaluates the suitability of the model to be safer because it does not inflate the relevance of the research model. The result of linear regression model was built in accordance with the 60.5% data set. In other words, about 60.5% of the variation in employees' attachment to SMEs in Tra Vinh province where can be explained via factors included in the research model.

The results of the regression analysis show that independent factors can have an impact on employees' loyalty. In the 7 variables in the research model, 6 variables have a statistically significant impact on employees' loyalty. At the meaningful level of 99%, the error is 1%, Job characteristics affects Loyalty at $\beta = 0.225$; Remuneration policy affects Loyalty at $\beta = 0.1135$; Colleagues impacts Loyalty at $\beta = 0.291$ and Leadership impacts Loyalty at $\beta = 0.271$. At the significance level of 95%, error of 5%, Organizational culture affects Loyalty at $\beta = 0.098$. At the 90% significance level, the error is 10%, The working environment affects Loyalty at $\beta = 0.091$. The constant is statistically significant and has a coefficient of B = -.227. The factor of learning opportunity is not statistically significant for the employee's loyalty to SMEs in Tra Vinh province.

These factors all have a positive impact on employees' loyalty. Comparing the value (strength) of standardized $\beta$ shows that Colleague factor can be the most important one, the biggest impact on employees' loyalty ($\beta = 0.291$), followed by Leadership ($\beta = 0.271$), Job characteristics ($\beta = 0.225$), Remuneration policy ($\beta = 0.1135$), Organizational culture ($\beta = 0.098$) and Working environment ($\beta = 0.091$).

Therefore, after performing regression and testing of statistical assumptions, it can be drawn that the regression model with variables having standardized coefficients as follows:

$$Y = 0.225*X_1 + 0.098*X_2 + 0.135*X_3 + 0.091*X_4 + 0.291*X_5 + 0.271*X_6$$

(Loyalty = 0.225* + 0.098* Job characteristics Organizational culture + 0.135* Remuneration policy + 0.091* Working environment + 0.291* Colleague + 0.271*Leadership)

5. Policy Implication

Based on this result, We would like to suggest some key implications to enhance the factors affecting the loyalty of employees in SMEs in Tra Vinh province as follows:

5.1. Focusing on Building Effective Colleague Relationship

Business owners must build great relationships among the employees in the enterprise. The relationships among colleagues in the same department or with other ones in the SMEs must be really great, giving employees the desire to
work in SMEs. Creating a friendly and solid working environment should be promoted so that employees can work together better; timely handle, remove obstacles, from which employees will feel satisfied and want to engage with the SMEs in the long-term.

5.2. Enhancing the Leadership Role of Business Owners

It could be very necessary for the Board of Directors to understand difficulties at the workplace, to guide enthusiastically, highly appreciate the views and contributions of employees. They always encourage employees when the jobs can be well done or not. They also reward employees fairly and in time. It is also vital for managers to listen to more ideas about how to do the job, trust employees, and exchange ideas before making a decision on the job so that employees highly aware their roles at work. Their contributions within the enterprises, promoting work motivation, long-term loyalty to the organization, helping employees all create more contributions to the organization. When employees encounter difficulties, the Board of Directors should promptly support and assist employees so that they can overcome difficulties and finish the work as planned and effectively. The close, supportive staff always bring higher satisfaction of employees about the working environment at SMEs, through which employees will want to work at SMEs in the longer term.

5.3. Focusing on Appropriate Work Arrangements

This is also one of the factors that strongly influences loyalty of the employees in the long-term. Therefore, it cannot be obvious that SMEs need to pay attention to create a professional working environment, always ensure adequate provision of equipment and facilities to carry out the work for the employees, creating favorable conditions for the employees to work well their duties at work.

Currently, a number of work positions may not been properly arranged, SMEs should review and adjust more suitably. It could be argued that SMEs with high autonomy and deciding on the implementation of assigned tasks can help employees complete better jobs and have better improvement initiatives. They should also encourage employees to use and promote high talented skills to fulfill assigned tasks and have policies to encourage the promotion of innovative and useful solutions for SMEs. Besides, it can be also necessary to monitor employees' abilities to meet job requirements to detect those who are capable of undertaking and performing well other tasks than their main job, the enterprises should rearrange for them to try the jobs. If they are appropriate, it can be circulated on the basis of transparency and fairness. Employees have confirmed their roles, felt satisfied and increased their engagements with SMEs.

5.4. Building Remuneration Policies for Employees

It can be stated that remuneration policies can be an important factor. It could be one of the factors influencing the decision of employees whether work in a long time or not. Therefore, in order to increase the loyalty of employees, it can be effective for SMEs to develop attractive and fair remuneration policies to lure employees with transparent criteria, productivity, capacity and performance of each position in the enterprises. Enterprises need to ensure that the incomes of employees are commensurate with the jobs they are undertaking. This both ensures fairness, encourages employees to work, and promotes the connection of interests among individuals and collectives.

In order to ensure that the employees can work and engage with SMEs, the leaders of SMEs should apply the flexible promoting salary method, which can shorten the time of wage which can be worthy of the achievements they have made and donated to SMEs. In some SMEs, the salary factor is not one of the factors affecting the decision to engage at work or not. For young employees, the 2 factors of reward and welfare are more important than wages. Salary is only the minimum level of payment prescribed by the state, enterprises pay the main salary very low to reduce the social insurance premium to the state. Therefore, the benefits and rewards are placed on the line by employees. Beginning in the unit's payment policy. Therefore, SMEs can set up a policy of pay, bonus and welfare based on the dedication and efficiency of employees. This will eliminate the feeling of depression, even want to give up the job for employees with poor performance.

5.5. Developing Organizational Culture

For the development of SMEs’ culture, strong propaganda should be carried out so that employees are excited, imbued with the ideology and culture of SMEs, to better implement the policies of supporting the community - society, especially for with employees and their families when implementing this policy. Be more active in conveying the vision, mission and operational goals of enterprises to employees so that they have a more general view of the meaning of the work they are doing, and at the same time, they also care more about their individual responsibilities as well as a member of the organization and strive for the overall development of their organizations. This can be done by putting up the slogans, banners, certificates and certificates that SMEs or the department has received and displayed in places such as department offices, canteens and so on.

5.6. Focusing on the Working Environment at SMEs

The employees could pay the most attention to safety
and labor protection during the working process. Therefore, it can be vital for SMEs to pay attention to the construction of a working environment that ensures occupational safety and hygiene standards so that employees are assured of their work. It is necessary to promote the construction of a green, clean, beautiful and cool working environment to create a comfortable and effective working mentality for employees. Investing in equipping modern working machines and equipment, applying information technology to the working process to increase the productivity of employees, help employees to promote their working capacity. Creating a spirit of hard work, enthusiasm and efficiency can be all survival factors for SMEs to implement.

References


