RESEARCH ARTICLE

Challenges of Employee Loyalty in Corporate America

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Challenges of Employee Loyalty in Corporate America

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Abstract
This paper discusses the results of a survey on employee loyalty conducted in Oakland, California. The survey revealed a serious disconnect between the opinions of managers, including executives, and non-management employees on issues of employee loyalty, trust of management, mutual respect between management and non-management employees and other related questions. The survey showed that the majority of employees do not feel loyalty from their employer, do not believe that companies take their interests into account, and do not trust or respect their managers, while most managers positively assessed the situation. This disparity needs to be thoroughly addressed by companies in order to improve employee loyalty.

Keywords: *Employee loyalty; trust; survey; business performance; organizational behaviour; perception mismatch.*

1. Introduction

1.1. The loyalty concept

In today's business environment, corporations depend on their employees more than at any other time in the past. This is particularly true in hi-tech, biotech, finance, and other market segments where employee contribution does not directly depend on the nominal time spent at work. Employee dedication and employee care of corporate interests are part of employee loyalty. Formally defining employee loyalty in a constructive way is not an easy task. According to Powers [1], "employee loyalty (unfortunately) is whatever the employee and employer agrees that it is" (page 9). Hart and Thompson [2] make the point that although employee loyalty has been widely discussed in literature, the concept of loyalty remains loosely defined. They suggested a three-tiered, psychologically-based definition of loyalty that included "the variety of obligation types that loyalty can imply, and anticipates the potential for asymmetrical loyalty configurations between employers and employees" (page 297). Loyalty cannot be expected without reciprocity. To expect a high level of loyalty from its employees, a company is expected to show a similar, or even higher, level of loyalty to them. Most of the time, however, this is not happening in the U.S. corporate environment. Despite being dependent on employee loyalty, U.S. corporations show little or practically no loyalty to their employees. It is typical for a company to lay off employees without warning, taking them by surprise. Most employees in corporate America realize that they can be let go at any time and that management would do their best to hide layoff plans. Even the expectation of losing one's job so suddenly, and in quite an intimidating manner, may be enough to destroy employee loyalty. This is just one example of how corporate America is shooting itself in the foot. There are many other examples of corporations showing very little loyalty toward their employees.

1.2. Importance and trends of employee loyalty

Companies with loyal employees have a significant competitive advantage and a higher rate of survival compared to companies with less loyal employees: "The long term success of any company depends heavily upon the quality and loyalty of its people" [3]. Loyal employees are assets to a company, and their retention is key to its success; for one, they bring in loyal customers. Given their importance, employers need to be able to identify and retain loyal employees. The fact that an employee has been working for a company for 20 years doesn't automatically guarantee his or her loyalty. For example, an employee might have difficulty finding a better job opportunity due to a lack of marketable skills [4]. An analysis of retail stores in the U.K. showed that a loyal workplace generates significant benefits for the company. The study found that "employee loyalty in this industry is multi-faceted and can be understood in relation to commitment to the retailing industry, the retailer and the store." Yee with colleagues [5] developed a research model to analyze the influence of employee loyalty on company performance. Their results, based on service shops in Hong Kong, indicated that employee loyalty robustly affects company “profitability through service quality, customer satisfaction and customer loyalty.” Foster with colleagues [6] and Reichheld [7] indicated that companies with greater loyalty among employees, customers and shareholders generate greater profits. In his research on employee loyalty, Michlitsch concluded that companies could best implement their strategies if they developed and retained their high-performing employees, including the following key factors: “clear mission and strategy, selection and training, corporate culture, communications and information, and rewards” [8]. Cascio conducted a relative study of Sam’s Club and Costco and found out that Costco’s employee-related costs were higher than Sam’s Club, but that Sam’s Club annual employee costs were three times higher than Costco’s due to high turnover [9]. Loyalty was higher at Costco due to higher pay and benefits.

In the past, most employees would work for one company their entire life. Altman noticed that, in the past, having a job meant a commitment for life. People would get hired by one company and retire from the same company [10]. The employers were also more loyal to their employees. There was strong sense of trust between these two parties that would bond them for a long time. Levin concluded that in the past employees looked for job security in exchange for their loyalty and hard work; the same situation does not remain in the present context [11]. Now, employees look for a more independent, mobile workforce. Loyal employees help in the growth and sustainability of a company. Employee loyalty reduces a company’s financial strain, saving on investment in the recruiting process of new staff. Providing proper training to employees also brings new customers to the company.

Gaining employee loyalty is not a one-time task, but requires constant care. It comes from mutual relationship building and it is not recession proof [12]. The article “The Death of Corporate Loyalty” [13] posed a question whether companies that are cutting thousands of jobs will be able to generate loyalty and commitment among their remaining employees. In the past, long-term job tenure was much higher; however, such expectations are fading quicklywith voluminous job cuts. Managers empowered in this way are likely to flex their muscles at every opportunity. Told to act like risk-taking entrepreneurs, they will expect entrepreneurial rewards as well.

1.3. Strategies to improve employee loyalty

Companies have developed a certain understanding of how increased employee loyalty is beneficial to the company, and thus often take actions for its improvement. Malinchak [14] believes that education of all categories of employees, including executives, helps improve employee loyalty “which decreases turnover and ultimately helps carry the business through uncertain times.”Based on the analysis of Raytheon Co. talent retention efforts, Helpert concluded that rewards and recognition are critical for having loyal employees [15]. Eskildsen and Nussler [16] conducted a 52-question survey in Denmark which showed that companies could improve employee loyalty and corporate performance by introducing “a culture of personal growth and development in order to enhance the learning capability of the organization”; additionally, they found that financial rewards also positively impacted employee satisfaction and loyalty.

Many factors impact employee loyalty and one of them is workspace conditions. Rheem [17] pointed out that although economic factors are important in creating loyalty, identification with the organization’s goals often carries greater weight. Green [4] suggested that each employee has a unique character and thus one single approach is not effective for everyone. Federman [18] discussed engagement foundations and applications. By employee engagement he means pace, anxiety, schedule, technology, turnover, productivity, revenue and profitability. Employee engagement is defined as “The degree to which a person commits to an organization and the impact that commitment has on how profoundly they perform and their length of tenure” (page 242). Champy [19] pointed out that “it is important to give employees the feeling that they own the company by instituting profit sharing and option plans to improve loyalty. It allows employees to convert a taxable profit sharing bonus into company shares”. Davis-Blake *et al.* [20] examined how a blended workforce consisting of "standard" and "nonstandard" workers in the same jobs impacts employee loyalty. They found that, typically, “workforce blending decreased standard employees' loyalty, and increased their interest both in leaving their organizations and in exercising voice through unionization.” The President of Jim Harris Group stated five principles embraced by the world’s best run companies that help revitalize employee’s loyalty and commitment [21]. They are: (1) Capture the heart; (2) Open communication; (3) Create partnerships; (4) Drive learning; and (5) Emancipate action. Tatum [22] describes employee incentives to encourage employee loyalty as a combination of respect, communication, acknowledgement, rewards, and benefits.

In their book “Human Sigma: Managing the Employee-Customer Encounter,” Fleming and Asplund discussed a vital role which managers play in motivating employees and meeting their emotional requirements [23]. By recognizing and appreciating employees’ contributions, organizations energize them to accomplish their duties with a greater degree of effort and dedication. “The right recognition reinforces authentic successes by cementing the memory of what the employee did right and encoding that memory with positive emotions that make it more powerful and meaningful” [23]. Negative responses turn employees defensive and fearful. Employee engagement improves when managers address the most basic human needs, including workplace environment, psychological needs and aspirations. Sutton [24] creates a framework for managers on how to be a good boss in difficult situations, and his emphasis is on employees’ needs. According to Sutton, during difficult times a manager should provide more care, predictability, understanding and control. If employers were able to do so, they would enjoy an employee’s loyalty for years. Studies conducted by Dewhurst, Guthridge, and Mohr [25] indicated that strategies such as praise, individual attention and providing employees with opportunities to take leadership roles in projects positively influenced employee loyalty.

In their survey with 127 respondents, including employees and owner-managers in 31 small, independent bakeries, Reda and Dyer [26] came to the conclusion that an employer’s openness affected the choice in hiring loyal employees. The authors also concluded that use of formal recruitment techniques predicted positive employee perceptions, and that employees' perceptions of owners' commitment predicted their loyalty to the firm. However, it is not clear that such a conclusion can be extended to white-collar jobs, where psychological factors of employee loyalty discussed by Hart and Thompson [2] may play a more important role.

1.4. Morality and mutual loyalty, trust, and respect

Employee loyalty depends on the mutual loyalty of employee and employer. In other words, while loyalty must come from employees, it is only generated by companies that show loyalty to its employees. Darci noted that “Employers can expect their employees remain loyal-but employers must be loyal to them” [27]. In his article “How to Resolve Employee Conflict”, Maughan points out [28] that employers often look for the success and profitability of the firm, whereas employees look for a stable and productive workplace with fairness, respect and equality. Both parties need to come to a point of agreement on these differences and identify goals that motivate the other.

If a company shows respect to its employees and acknowledges their achievements and contributions to the company’s success, it definitely builds employee loyalty. As noted by Weber in his analysis of the health care system [29], respect shown to employees made them very loyal. For instance, he pointed out that in the last six years not a single doctor among the 32 who staff the emergency rooms of Pennsylvania's Lehigh Valley Hospital & Health Network left for another job. At Austin Medical Center in Minnesota, despite the fact that the nationwide nursing vacancy rate reached 16 percent, there were no job openings for registered nurses and the hospital even had a waiting list of 125 registered nurses wanting to join the hospital. In the analysis of the attitudes influencing loyalty, Ineson and Berechet [30] examined 127 hotel managers, supervisors, and operatives and found that “reasons for employee loyalty were mainly intangible, linked to workmates, bosses, and customers. Gender, age, job level, and tenure had only limited influence on loyalty” (page 129).

Schrag [31] discussed the moral significance of employee loyalty, arguing that “employees have a natural inclination to extend loyalty to the organization and that organizations consequently have an obligation to make clear to employees the degree to which the organization will recognize and reward employee loyalty” (page 41). Such mutual moral obligations are beneficial for both employer and employee. Coughlan [32] views employee loyalty as adherence to shared moral values. He suggested a distinction between the concepts of loyalty and commitment. In his analysis, commitment includes compliance, identification and internalization, while loyalty can be tied to an implicit promise voluntarily made by an individual operating in a community of interdependent others, to adhere to moral principles in pursuit of the individual and collective goal. Altman [10] noticed that management often breaks the psychological contract with employees and that unsupportive management hurts employee retention.

The results of a survey related to employee loyalty and conducted by Gallup were published in an article entitled “American workers stand by their boss” [33]. The survey found that 93% of employed Americans are loyal to their employer. Among them, 74% are very loyal, 19% are fairly loyal, 2% are not too loyal, and 2% are not at all loyal. Although loyalty of employees depends on their salary, more recent studies indicate a greater emphasis on other factors. Matzler and Renzl [34] argued that trust in management and trust in peers “strongly influences employee satisfaction and, as a consequence, employee loyalty”. A statistical analysis of the results showed a strong link between trust, employee satisfaction, and employee loyalty. Federman [35] stated that a lack of trust in senior leadership is the primary reason why employee engagement level is down. He notes that an organization should reengage its employees by providing them with direction and reason to become passionate about their jobs. He suggests actions that would reengage employees, including the opportunity for them to voice their concerns.

1.5. The loyalty chasm

Although the growth of hi-tech industries has resulted in a stronger dependence of companies on employee loyalty, the loyalty situation in corporate America is not improving. Analysis conducted in recent years shows this trend of decrease in employee loyalty. A trend is clearly seen through the analysis conducted in the recent years. By analyzing multiple authors in his article entitled “Employee Loyalty in the New Millennium,” Powers [1] concluded that employee loyalty is declining and is continuing to slide. Powers stated that traditional employee loyalty “implies long-term development and trust building. If true, then the more organic, matrix-type, spontaneous organizational arrangements forecasted for the 21st century would not allow enough time for the formation of employee loyalty.” According to Laabs [36], "whereas the promise of being together forever (like marriage) was once our employment pact, we now think of the employment relationship more like dating." What has caused such a negative trend in employee loyalty? Darci [27] suggested that “before we damn this generation of workers, consider this possibility: Maybe, just maybe, employers killed company loyalty.” He supported his point by the following analysis: “How could this happen? Why would they do it? It's suicide. Consider this: When sales slip and profits are in jeopardy, why is head count reduction the first response to quickly right the ship? When health insurance premiums inch up, why is passing the cost onto the employees the best solution? When staffing levels slip, why is getting workers to do more with less the best response?”

Thus, employee loyalty is a crucial component of company success. Its declining trend may spell potential problems for companies and affect the ability of the economy to recover from the most severe recessions in history. In order to find ways to improve the situation, we have to first identify major problems that cause the decline of employee loyalty. The goal of this research is to identify serious problems with employee loyalty in corporate America today which have to be addressed in order to improve the situation. In this phase of research, we use a survey as a methodological tool for the research to collect informal and perceptional opinion from employees of all ranks and levels. This paper is mostly focused on identifying problems. As problems are identified they will analyzed and attempted to be solved in the next phases of the research.

2. The Survey

2.1. The sample

We conducted a survey on employee loyalty in Oakland, California (the San Francisco Bay Area) by randomly distributing 250 questionnaires along with self-addressed stamped envelopes. No information was asked or tracked about the identity of the respondents or their specific place of work. We kept the survey anonymous in order to prevent any bias on the part of the surveyors or predisposition on the part of the respondents. As respondents had no obligation to answer and return the questionnaire, each acted out of their own free will. We received 151 responses (a 60% response rate); this response rate indicates a high level of respondents’ interest in the survey topic.

2.2. Respondents’ statistic

Participants for the survey were selected randomly without any predetermination. They represent a variety of industries, including hi-tech, healthcare, finance, manufacturing, retail, services, and others (Figure 1).

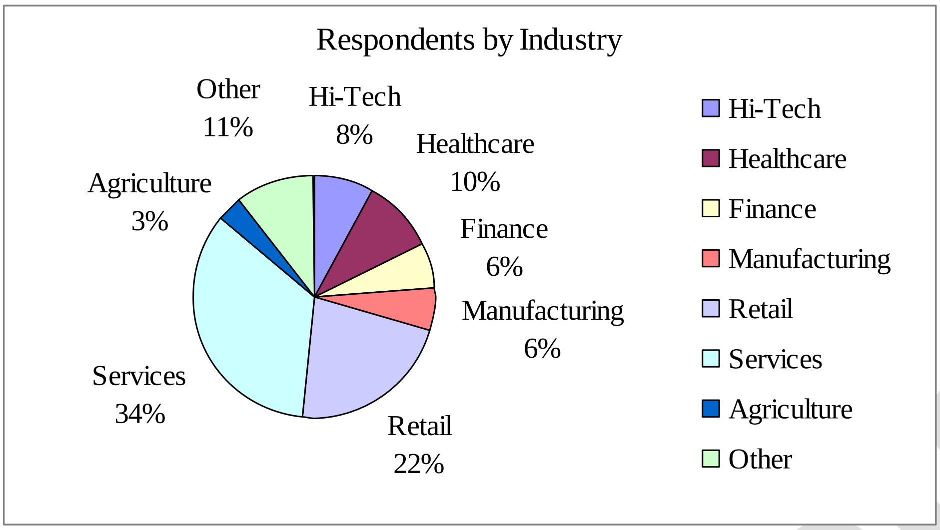

Figure 1: Distribution of respondents by industry.

Respondent distribution by company size (Figure 2) indicates that the sample represents companies of all sizes.

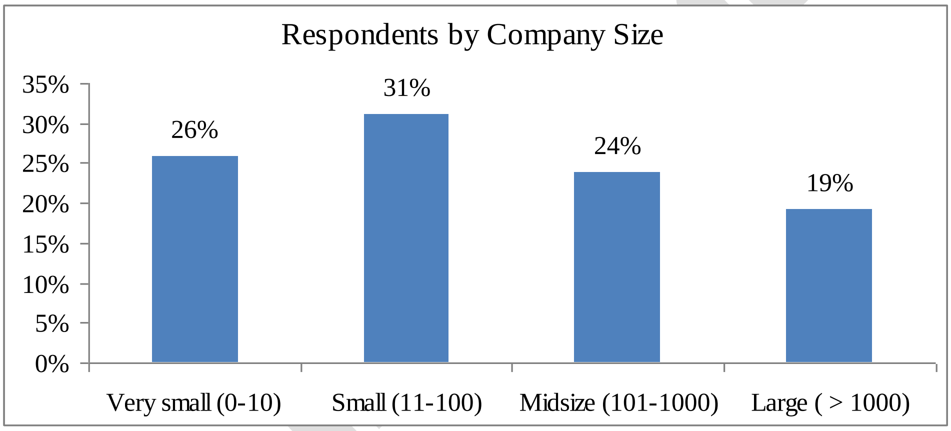

Figure 2: Distribution of respondents by company size.

Figure 3 presents the distribution of the respondents by job category including executives, senior managers, managers, regular non-management employees, part-time employees and consultants. The ratio of management and non-management employees in our sample quite accurately matches such a ratio from other independent sources [37-39].

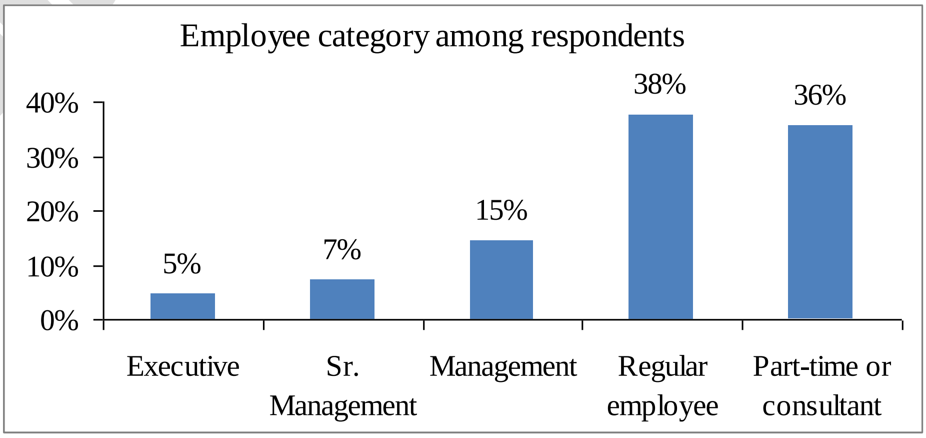

Figure 3: Distribution of respondents by job category.

In this paper we present opinions of management and non-management employees separately to learn whether these two types of employees view the company-employee relationship similarly, or whether there is a mismatch of their points of view. For this reason, opinions of all executives, senior managers, and other managers are consolidated in the category "Managers" and opinions of all other non-management employees, including regular and part-time employees and consultants, are consolidated in the category "Other Employees" as illustrated in Table 1.

Table 1: Consolidated job categories.

Combined job categories	Job categories
Managers	• Executives • Senior managers • Managers
Other employees	• Regular non-management employees • Part-time employees • Consultants • Other non-management employees

2.3. Respondents' opinions on significance of employee loyalty

As evident from the literature review above, employee loyalty is a critical parameter for company success. It is even more important for white collar industries, where employee contribution to the company is not immediately identifiable and the physical presence of an employee at his/her workplace does not necessarily imply contribution to the company. Most respondents to our survey expressed the belief that his/her employer depends on the loyalty of its employees. As seen in Figure 4, management and non-management employees have similar opinions; most of them agree that their company success depends on employee loyalty.

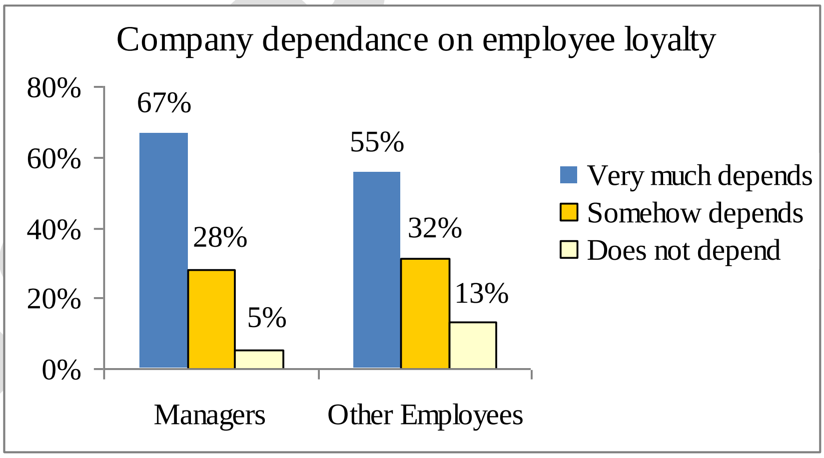

Figure 4: Respondents' opinion on company's dependence on employee loyalty by view of managers and non-management employees.

3. Mismatch between employee and company loyalties

A clear and unbiased understanding of any situation is key to making wise decisions and to proper management. However, our survey has identified a significant mismatch between views of managers and non-management employees. As seen in Figure 5, managers have an overly positive opinion about the degree of loyalty their employees have to the company, while the employees themselves more neutrally assess their own loyalty.

It is unrealistic to expect loyalty from another party without reciprocating loyalty to that person. Thus it would be fair to say that to expect loyalty from its employees a company should show loyalty to them too. Our survey has identified that managers believe that their companies show loyalty to their employees, while non-management employees feel contrary. The mismatch between management and non-management employee opinions is quite impressive: 82% of managers believe that companies are loyal to their employees while 65% of non-management employees feel quite the opposite (Figure 6).

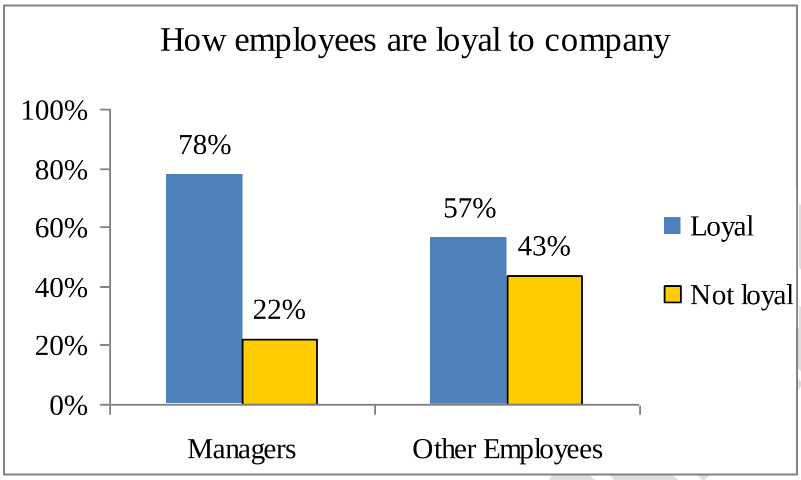

Figure 5: Respondents' opinion on how employees are loyal to their company by view of managers and non-management employees.

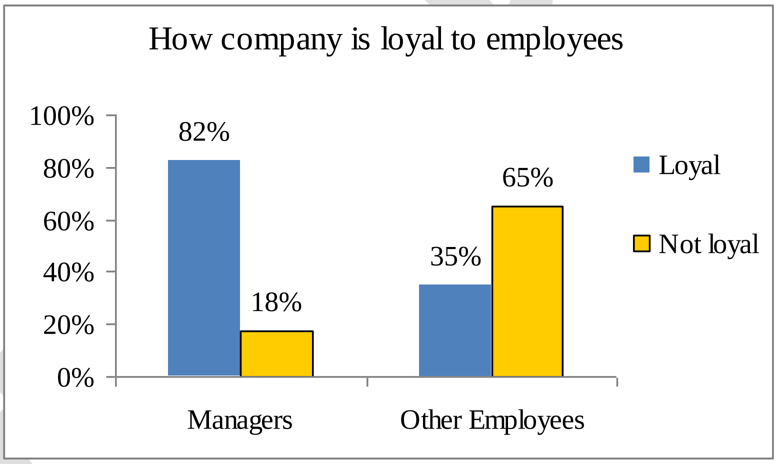

Figure 6: Respondents' opinion on how companies are loyal to their employees by view of managers and non-management employees.

It is interesting to note that managers believe that companies are more loyal to their employees than employees are to the companies, as indicated by comparison of 78% and 82% of positive answers by managers in Figure 5 and Figure 6. Contrary to that, non-management employees believe that they are more loyal to the companies than companies are to them, as indicated by comparison of 57% and 35% positive answers by non-management employees in Figure 5 and Figure 6. One important aspect by which one can identify loyalty is how much one party considers the interests of another party in its decisions and actions. In an ideally balanced and stable situation, both parties are equally concerned with the interest of the other. Our survey identified that both managers and non-management employees similarly believe that employees consider company's interests in their decisions and actions (Figure 7). Loyalty presumes considering the other party's interests when acting and making decisions. Our survey has identified that both managers and non-management employees tend to consider the company's interests in their actions and decisions (Figure 7).

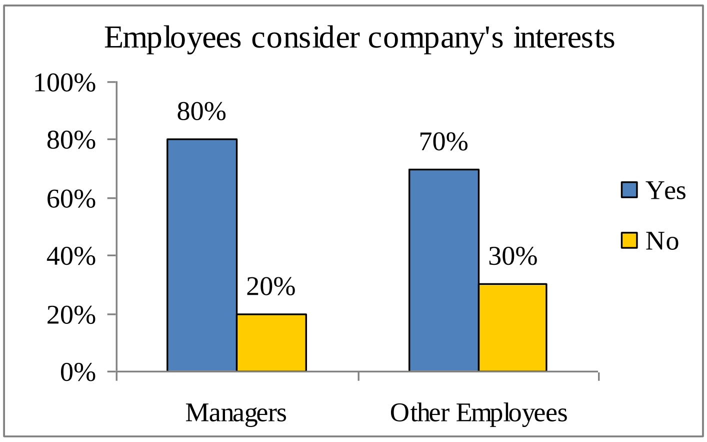

Figure 7: Opinion on how employees consider their company's interests in their decisions by view of managers and non-management employees.

On the other hand, managers and non-management employees have quite different opinions on whether their companies consider employees' interests. As is evident from Figure 8, 88% of managers believe that their companies consider employees' interests while only 50% of non-management employees feel the same way.

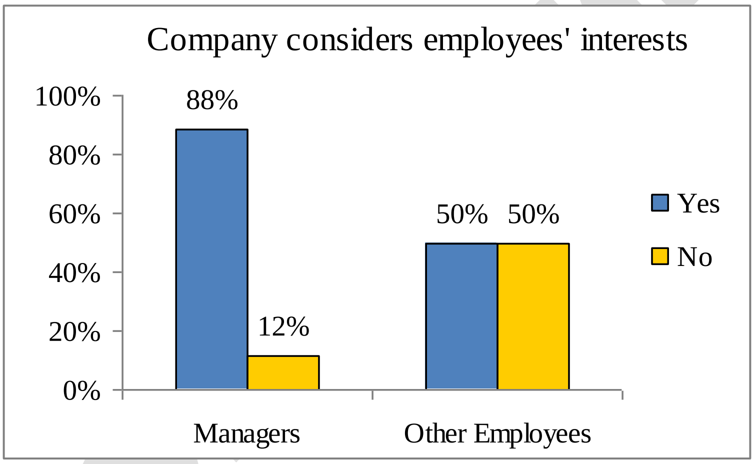

Figure 8: Opinion on how companies consider employees' interests in their decisions by view of managers and non-management employees.

4. Mismatch in trust and respect

Trust and respect are significant components of loyalty. A high level of loyalty is typically based on mutual respect and trust. Our survey has identified a dramatic mismatch between the perception of these attributes from managers and non-management employees. According to our survey, 95% of managers believe that employees trust their managers while 52% of non-management employees responded that they do not trust their managers as shown in Figure 9.

A perception mismatch also occurs in regard to mutual respect between companies' managers and their employees. Our study showed that managers and non-managing employees as groups have different perception of the same things as well as they as groups have a significant mismatch of their feelings to each other. As shown in Figure 10, the vast majority of managers, 96%, believe that companies respect their employees while most employees, 56%, do not believe that their companies respect them. A similar mismatch occurs with the question of whether employees respect their managers. As is indicated in Figure 11, the vast majority of managers, 84%, responded that they respect their managers while 53% of the non-management employees said that they do not respect their managers.

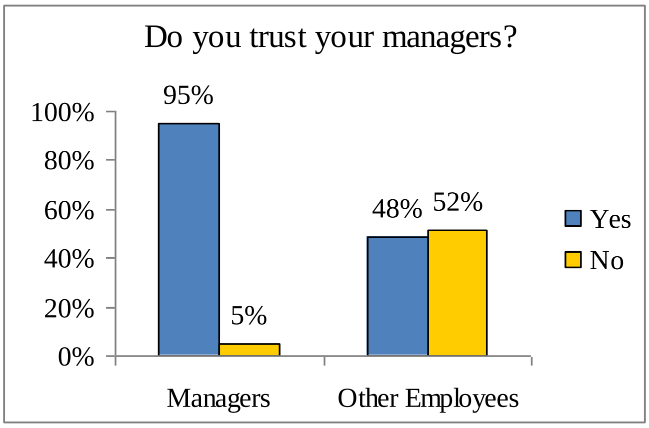

Figure 9: Opinion on trusting company's management by view of managers and non-management employees.

Figure 10: Opinion on whether companies respect their employees and their contribution by view of managers and non-management employees.

Figure 11: Respondents' opinion on whether employees of both categories, managers and other employees, respect their managers (to whom they report) by view of managers and non-management employees.

The evolution of mutual respect between company and employee is presented in Figure 12 and Figure 13. As becomes evident from these figures, the majority of managers, 58% in both figures, believe that the situation has improved since the previous year, while the majority of non-management employees see no change, 61% and 59% in Figure 12 and Figure 13 respectively.

5. Managers' unrealistic optimism

All data in Figure 5 through Figure 13 suggest that managers have a tendency to overestimate the level of loyalty from both sides compared to the perception of non-management employees. Such an overly optimistic assessment and perception by managers may lead to inadequate actions for improvement of employee loyalty and hence to company performance and stability.

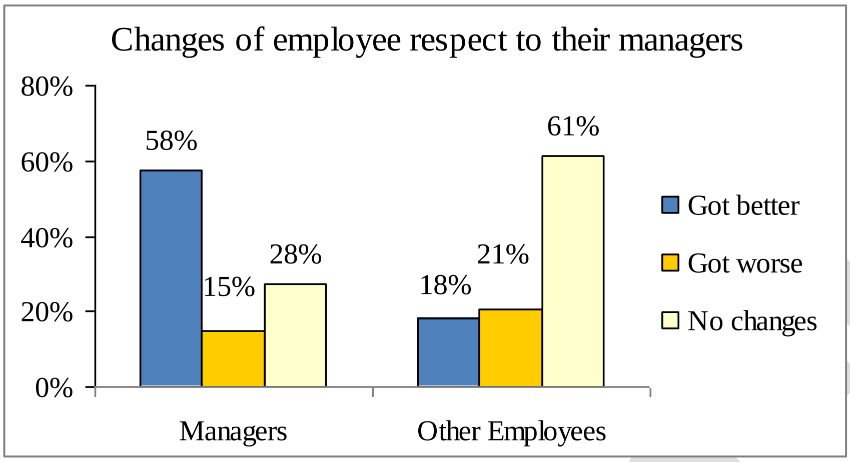

Figure 12: Respondents' opinion on whether employees' respect of their manager has changed since last year by view of managers and non-management employees.

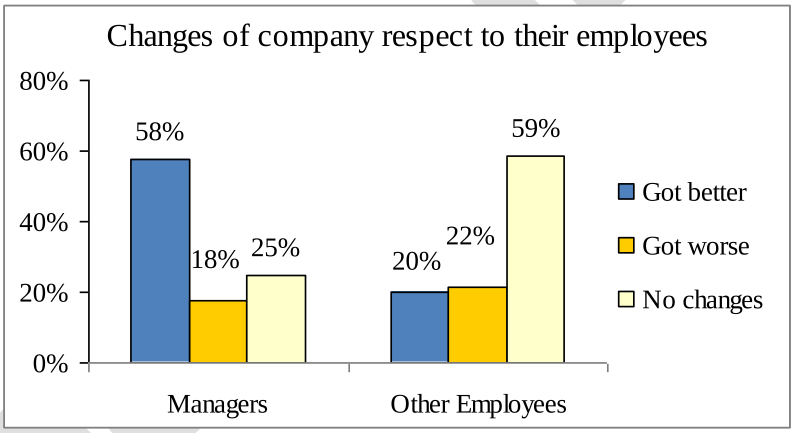

Figure 13: Respondents' opinion on whether companies' respect of their employees has changed since last year by view of managers and non-management employees.

6. Conclusion

Our anonymous and voluntary survey conducted in Oakland, California resulted in a very high rate of response (60%), indicating a high level of interest and anxiety about loyalty in corporate America. The respondents represented a variety of industries, company sizes, and categories of employees. Responses in all categories of employees, including managers and non-management employees, show the common belief that employee loyalty is important for their companies and that this is a high priority issue. However, the survey showed that employees are more loyal to their companies than companies are to their employees, and that this gap is growing.

The survey revealed a significant difference between the opinions of managers and non-management employees in the assessment of the company-employee relationship. Managers assessed the situation positively for the most part, while non-management employees provided either neutral or negative feedback. Most managers believe that companies are loyal to their employees, which they consider employees' interests in their decisions, that employees trust and respect their managers, that companies respect their employees, and that the overall company-employee relationship has improved since last year. In contrast, most non-management employees provided quite negative feedback on these questions.

Such a mismatch in opinions indicates a serious disconnect between managers and non-management employees. This disconnect creates a chasm between the actual degree of employee loyalty and a company's perception of it. To improve the situation, companies need to address this disconnect and generate real loyalty based on mutual respect and trust.

Corporate America faces serious challenges in recovery from global recession and overall reduction in American economic power. In order to be competitive in this environment, corporations need to rely on the loyalty of their employees. To develop and foster a genuine and positive relationship with employees, companies must first recognize their reliance on employee loyalty and be prepared to treat them with loyalty first. Crossing this deep employee-employer chasm would help corporate America improve its efficiency and competitive power in the global economy.

Competing Interests

The authors declare that they have no competing interests.

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