

CHAPTER 2

LITERATURE REVIEW

This chapter is a review of past studies and relevant literature that examined the relationship between employee recognition, employee engagement and organizational commitment on turnover intention with job satisfaction as mediator. This study offers the opportunity to further explore the relationships among other possible predictors of turnover intentions such as recognition, engagement, organizational commitment and the degree to which job satisfaction mediates their effect on turnover intention. These variables are factors relative to today's workforce that may contribute and provide additional insight to turnover intention.

2.1 Employee recognition

Employee recognition is constructive, genuine feedback based on acknowledging people as sincere, worthy of respect, having their own needs and equipped with their own personal expertise (Brun & Dugas, 2001).

Recognition in the workplace refers to acknowledging employees efforts and their accomplishments through praise, respect and providing new opportunities for learning and advancement. It is about demonstrating how much the organization values its employees and is proud of their achievements. A small gesture or a mere verbal

acknowledgement might have an incredible effect on the employee (Bourcire & Palobart, 1997)

Employees who perform successfully will be rewarded and as a result motivational factor of employees lies in their performance. Employee recognition is a judgment on a worker's contribution and of the work process as well as dedication and motivation. It involves evaluating and acknowledging the contribution and value by each employee for their expertise and experience. Motivation of employees can be enhanced through effective recognition which ultimately results in improved performance of organizations (Entwistle, 1987; Deeprase, 1994; Freedman, 1978; Baron, 1983; Robins, 2001).

Managing the performance of employees forms an important part of any organizational strategy and how they deal with their human capital management. Today, where all organization must meet their obligations, the performance of employees has a important impact on overall organizational achievement. In an environment which is not motivating, employees cannot practice their skills, abilities, innovation and full commitment to the extent an organization needs (Meyer & Kirsten, 2005).

The level of motivation of employees increases when employees get an unexpected increase in recognition, praise and pay. Reward and recognition programs ensure employees are motivated, boosts up their morale and create a linkage between performance and motivation of the employees (Flynn, 1998; La Motta, 1995).

Recognition is expressed and practiced on a daily or regular basis. It is more effective when it is personalized and specific. Employee recognition can take various forms such as spoken, written, material or symbolic (Bourcier & Palobart, 1997). In the United States, a research has proven that nine out of 10 companies offer some sort of recognition programs to their employees.

For the purpose of this study, employee recognition is defined as how the work of an employee is evaluated and how much the appreciation he receives in return from the organization.

2.2 Employee engagement

Employee engagement is an act of an employee being involved in, enthusiastic about and satisfied with his or her work (Seijts, 2006; Harter, Schmidt, & Hayes, 2002; Gubman, 2004; Harrison, 2007). However, it is important to note that different organizations may define employee engagement differently (Lockwood, 2007). Employee engagement can also be defined as the extent to which employees commit themselves with their organization which determines their length of stay (Lockwood, 2007).

Employees task behaviors and other personal presence such as physical, cognitive and emotional that connect them to work and performance can be expressed as employee engagement (Kahn, 1990). Engagement is a passion, commitment and the extra effort that motivates employees to higher levels of performance (Wellins & Concelman, 2005).

Individual's involvement, satisfaction as well as enthusiasm for work can also be considered as engagement (Harter, Schmidt, & Hayes, 2002). A positive and fulfilling work environment can also engage employees (Schaufeli & Bakker, 2004).

Involving employees in the strategic decisions that affect them by asking for their input and allowing them to participate in exchange of one another's idea and assumptions which can help increase engagement as it reflects management respect for employees and their ideas (Macey & Schneider, 2008) thus resulting in better strategic decisions by management and greater commitment from all the employees involved in the execution of the decisions (Kim & Mauborgne, 2005).

Engagement is above and beyond simple satisfaction with the organization or basic loyalty to the employer as it is about passion and commitment which results in the willingness to invest oneself and expend one's effort to help the employer succeed.

For the purpose of this study, employee engagement is defined as the extent to which employees work with enthusiasm and feel deep connection to their organizations.

2.3 Organizational commitment

Commitment is an emotionally or intellectually bound to some course of action (Webster's Ninth New Collegiate Dictionary, 1991) and has been further explained by

the Concise Oxford Dictionary of Linguistics (Matthews, 1997) as an engagement that restricts freedom of action.

Generally, commitment is a psychological state that characterizes the employee's relationship with the organization and has implications on their decision to stay in the organization (Meyer, Allen, & Smith, 1993). Commitment can be explained as engagement in consistent behavior (Becker, 1960). A person will be committed to and remain with a company because of the perceived cost associated with leaving. Commitment can be described as a variable that affects the decision to stay or leave the organization (Mowday et al., 1979).

An individual's identification and involvement in a organization can be due to a strong belief in and acceptance of the organization's goals and values, willingness to exert considerable effort on behalf of the organization and strong desire to maintain membership in the organization.

Commitment is a moral obligation to remain with the organization (Weiner, 1982). Many research conducted on commitment found that commitment is a complex and multifaceted construct and because of this complexity, there still exists an opportunity for contribution to the body of knowledge (Meyer and Allen, 1991).

The most commonly referred model of organizational commitment is developed by Allen and Meyer (1990) which consists of three dimensions:

- i) The affective component refers to the employee's emotional attachment, identification and involvement in the organization.
- ii) The continuance component refers to the cost that is related with the employees leaving the organization.
- iii) The normative component refers to employees feelings of obligation to continue employment and remain with the organization.

Affective commitment can be defined as the involvement, identification and emotional attachment that employees have with their organization and goals (Mowday et al.,1997, Meyer & Allen, 1993; O'Reily & Chatman). Affective commitment can also be characterize by three factors which is belief in and acceptance of the organization's goals and values, a willingness to focus effort on helping the organization achieve its goal's and a desire to maintain organizational membership (Porter et al., 1974). Affective commitment exists when the employee identifies with an organization and its goals in to achieve the goals (Mowday et al., 1979). Employees remain in an organization by choice and this is reflected as their commitment to the organization.

Continuance commitment is an employees' willingness to remain in an organization because of the investment that the employee has with things such as retirement, relationships with other employees or things that are special to the organization and also includes factors such as years of employment or benefits that the employee may receive

that are unique to the organization (Reichers, 1985). Employees that share continuance commitment with their employer often make it very difficult for an employee to leave the organization. (Meyer & Allen, 1997).

Normative commitment is the commitment that a person has to the organization and their feeling of obligation to their organization (Bolon, 1993). It's actually a sign of loyalty and responsibility. Normative commitment can be explained by other commitments such as marriage, family, religion and the way we are raised in society therefore when it comes to commitment to organization, they have a responsibility to the organization (Wener, 1982).

Most executives and managers agree that organizational commitment is crucial to the competitiveness of the organization. The commitment of managers and employees is essential for the survival and effectiveness of organizations because the fundamental responsibility of management is to maintain the organization in a state necessary to carry on its work. (Buchanan, 1974).

Organizational commitment is generally described as the psychological connection of an individual to her or his work (Buchanan, 1974; Porter, Steers, Mowday, & Boulian, 1974; Allen and Meyer, 1990) and is conceptualized as acceptance of organizational goals. Organizational commitment might predict turnover more effectively than job satisfaction (Porter et al., 1974).

Organizational commitment is also a process of identification with the goals of an organization's multiple constituencies which include top management, customers, unions and the public (Salancik, 1977). Commitment sustains actions toward goals in times of difficulties or when outcomes are uncertain. Companies feel that committed employees will remain with the organization even through the worst of times, will have a consistent attendance records, will meet and exceed work expectations and will protect the organization's interests without being asked to do so. Commitment is what makes employees like what they do and continue doing it even when the payoffs are not obvious (Salancik,1977).

Work is the means to satisfy the needs of people for belonging to a group and for a meaningful relationship with others. People who are committed must find value in their efforts otherwise the time that could have been spent on family or other significant Accomplishments are wasted (Drucker, 1973).

Organizational commitment can also be described as the strength of an individual's identification and involvement in a particular organization (Porter, Steers, Mowday & Boulian, 1974). Commitment can be identified through an individual's acceptance and belief in the organization's values and goals, enthusiasm in exerting effort on behalf of the organization and intent to remain with the organization in future (Porter, Steers, Mowday & Boulian, 1974). Employees with attitudinal commitment had personal values and goals that were increasingly aligned with their organizations (Mowday, Steers & Porter, 1979). These employees would be so highly committed to the organization goals

and willing to devote a significant amount of time and energy towards achieving the goals. Managers that align their values with their organizations were more likely to work longer hours and remain within the current organization.

For the purpose of this study, organizational commitment is defined as the extent of an individual's commitment to an organization.

2.4 Turnover Intention

Turnover intention is the final stage before the actual turnover takes place. Turnover intention refers to individuals' perceived likelihood that they will be staying or leaving an organization (Bigliardi, Petroni & Ivo Dormio, 2005). Intention to depart from an occupation is a much more difficult decision than to leave the job (Blau, 2000).

Turnover intention is motivated by the dissatisfaction of the individual with some aspect of the work environment or the organization itself (Bigliardi, Petroni & Ivo Dormio, 2005). An employee with high withdrawal intention to leave the organization might finally leave the job.

Although turnover has been studied extensively for many years, it is a problem still faced by many organizations today. Employee turnover can be defined as the degree of individual movement across the membership boundary of an organization where turnover initiated by an individual is voluntary turnover (Price, 1997). Turnover is understood to

be the termination of an individual's employment with a given organization (Tett & Meyer, 1993). Employee turnover is a voluntary cessation of membership of an organization by an employee of that organization that represents the exercise of choice and is the result of a decision process (Morrell, Loan-Clarke & Wilkinson, 2001).

With the growing number of recruitment challenges facing many organizations today, it is even more critical to develop new strategies for reducing turnover among staff. The most effective way in accomplishing this task is to determine why employees leave in the first place. In order to better understand why employees leave, HR managers must first examine those indicators that point to turnover intention (Faragher, 2008). Turnover intent is described as the extent to which an employee intends to discontinue service with an organization. It is a determination to leave the organization (Tett & Meyer, 1993). Researchers in the past have identified the relationships between employees' turnover intention and the labor market, physical working conditions, pay, job skill, supervision, age, sex, length of service and job satisfaction.

Recent studies confirmed previous theories that intent to leave is the predictor of turnover (Hwang & Kuo, 2006; Udechukwu, 2007). Predictors of turnover in the past research literature include job satisfaction, organizational commitment, supervisor relations, coworker relations, compensation and benefits, internal job mobility, organizational communication, organizational support and job match. The studies on turnover have been a major attraction to human resources management for decades. Many researchers believe turnover has a significant adverse effect on organizational effectiveness (Horn & Kinichi,

2001). By recognizing the determinants of turnover and accurately predicting such behaviors, HR managers can take the necessary steps in advance to prevent turnover.

Studies on turnover have shown that one of the actions for employees who are trying to get away from an undesirable work situation is to look first within the current organization (Alfred, 1967) and then to other organizations. Recent research has supported the addition of movement within as well as across organizations in turnover research (Ellen, 1984). Evidence shows that workers transfer jobs to get away from an undesirable work situation (Todor, 1980). Employees who did transfer or who requested transfer were less satisfied and had a greater intention to quit than did employees who had remained on the same job and has not requested for a transfer. The most known consequence of turnover is the effort and expense of finding replacement personnel for the job. When someone leaves an organization, someone else must be recruited by screening through some selection process before being hired.

For the purpose of this study, turnover intention is defined as the strength of intention an individual has to leave his present job and look for another job opportunity.

2.5 Job Satisfaction

The study of job satisfaction and its relationship to other variables such as turnover intent, employee recognition, employee engagement and organizational commitment have been and still remain the center of research for understanding employee attitudes and perceptions.

Job Satisfaction is defined as the point to which people like (satisfaction) or dislike (dissatisfaction) their jobs (Spector, 1997). Job satisfaction is a pleasant and emotional attachment resulting from the appraisal of employee's job or job experiences (Locke, 1976).

Job satisfaction can also be concluded as a work attitude that represents a person's appraisal of a job or specific dimensions of the job or work environment (McShane & Von Glinow, 2000). Motivating factors such as recognition, advancement opportunities and engagement have all been identified as significant determinants in an employee's overall satisfaction with his or her job (Samad, 2006).

For the purpose of this study, job satisfaction is defined as the extent an individual is content with his or her job.

2.6 Employee Recognition and Turnover Intention

Effective reward and recognition programs help create a positive work environment that promotes motivation among employees, while improving overall retention rates (Bursch, 1999). There is a valid relationship exist between rewards and recognition and an employee's intent to remain with the organization (Motley, 2007; Saunderson, 2004). The underlying assumption in this approach is that employees need some form of acknowledgment for their accomplishments (Appelbaum & Kamal, 2000).

An acknowledgement of task accomplishment by peers is a strong predictor of employee satisfaction (Appelbaum & Kamal, 2000). Lack of employee recognition as a major and recurring source of employee turnover. The lack of recognition has resulted in organizations losing key employees as well as a decrease in the level of effort among those employees who remain (Appelbaum & Kamal, 2000).

McConnell's research revealed a disturbing trend that recognition is seen as a costly, nonessential practice for many organizations. McConnell stated that many psychological and motivational needs are met when an employee's accomplishments are recognized, which in return also enhances overall performance. Organizations can avoid costly recognition systems by implementing those programs that can be administered by all levels of management to reward employee achievements that are indicative of commitment to the organization and are tied to specific accomplishments (Appelbaum & Kamal, 2000). Organizations must foster motivation by recognizing those achievements that align with organization objectives. This can be achieved by incorporating the organization's culture and values into the training and development of the employees. Once this is achieved, the opportunity for retaining employees is maximized (Appelbaum & Kamal, 2000).

Approximately 79% of workers who leave their jobs because of lack of appreciation (Rivenbark, 2007). ERP can provide an option for HR departments in most industries. ERP can also help bridge the gap between the satisfied workers and those who choose to leave an organization by focusing more on an individual's personal contributions to the

organization.

Many organizations still believe money is the best retention strategy for short term but organization are beginning to realize the importance of establishing more formal recognition programs to build employee loyalty long term (Abrams, 2004). Unlike informal recognition programs which are money incentives, formal programs help establish a process in which employees receive the rewards they deserve. Such programs may involve cash, service awards, trips or other special incentives and activities (Abrams).

For most organizations, acknowledging employees through personal recognition and rewards promotes an environment in which employees can feel appreciated for their efforts (Urquhart, 2007). Urquhart stated that an effective personalized rewards system can be created by implementing those steps that measure how close employees get to their goals. Top achievers can be recognized through standard rewards.

Many studies have successfully linked ERP to recruitment and performance which has provided the strongest correlation to employee retention (Abrams, 2004; Rivenbark, 2007; Urquhart, 2007). Employee satisfaction increased over a 5 year period from 58% to 85% in a study on the implementation of ERP in Bank of America (Fillion, 2007). These findings also revealed a 50% reduction in turnover, increased stabilization among individual branches and greater focus on customer service.

Maynard (2006) conducted a study to examine the impact of ERP in Gregory Communications, a firm largely made up of employees less than 30 years of age. Greg Matusky, president of Gregory Communications, applies a management style that allows his staff to actively participate in the day to day decisions for successful operation. By allowing them to work directly with clients, they are able to find ways to expand their knowledge and adequately contribute to the overall success of the business.

The studies above also have its limitations as the study conducted by Maynard (2006) focuses on employees under 30 years of age and the study by Fillion (2007) was conducted in a banking environment and none of the studies were conducted in Malaysia where the culture and Human Resource Practices are different from western culture.

2.7 Employee engagement and turnover intention

The concept of employee engagement is becoming familiar term in today's workplace. Because of its growing popularity, many researches are now beginning to examine the diverse nature of its definition to explain its role in employee retention. The challenge facing organizations today is not only retaining employees but fully engaging them by capturing their emotional being at each stage of their working lives (Gubman, 2003).

Disengaged employee are more likely to actively look for another job (Gubman, 2004). The Segal Group, Inc. (2006d) found an inverse relationship between employee engagement and turnover intent. The Segal Group, Inc. (2006d) also found that

disengaged employees have the highest turnover intentions (38%) compared to renegades (19%), enthusiasts (5%) and engaged employees (1%). Employees who reported higher levels of engagement also reported lower levels of turnover intentions (Ellis & Sorensen, 2007).

Studies have shown employee engagement to be positively related to intent to remain with the organization (Hackman & Oldham, 1980; Harter et al., 2002; Schaufeli & Bakker, 2004) and this engagement-turnover intention link depends on how satisfactory employees find their relationship with their supervisors to be (Harter et al., 2002; Judge, Thoresen, Bono, & Patton, 2001). The positive relationship between job satisfaction and employee retention with the organization has long been established (Koch & Steers, 1978; Mobley, 1977; Price, 1977) and it is not surprising that employee engagement would be positively related with intent to stay.

In a retail study, Gallup compared those retail stores scoring in the top 25% on employee engagement and customer loyalty against those that scored in the bottom 25%. Stores that scored in the bottom 25% showed a significantly lower performance in three key productivity measures: sales, customer complaints, and turnover (The Gallup Organization).

The studies described above also has its limitations as they were all conducted in a specific environment or organization hence the results cannot be generalized for various organizations.

2.8 Organizational commitment and turnover intention

As organizations spend thousands to hire and train new employees, understanding what makes an employee committed to an organization as well as to their chosen occupation, may help in employee retention. Mowday, Porter, and Steers (1982) discuss the relationship between commitment to work and employee retention, pointing out that it is the one variable which has been identified in the decision to stay or leave the organization. Organizational commitment might predict turnover more effectively than job satisfaction (Porter et al., 1974).

Retention of employees has historically been a objective for organizations in order to foster strong employee commitment as it is the organization's primary goal (Meyer, Allen, & Topolnytsky, 1998) Commitment is frequently cited as a key factor in the decision to stay in an organization (Mathieu & Zajac, 1990; Meyer & Allen, 1984, 1991; Meyer, Allen & Gellatly, 1990; Mitchell et al., 2001) or to choose a certain occupation or industry career (Fukami & Larsen, 1984; Lee & Olshfski, 2002).

A strong negative relationship was found between organizational commitment and turnover intention by the previous researchers (Cotton & Tuttle, 1986; Steers, 1977; Porter et al., 1974; Lazar, 2005; Samad, 2006b; Davis & Uzzi, 1993). Research conducted by Lin and Chang (2005) found no relationship between organizational commitment and turnover.

2.9 Job Satisfaction as a Mediator

People are generally motivated by challenging and interesting work and not only because of money (Herzberg, 1976). Herzberg's theory suggests that the motivation-hygiene model is a true indicator of employee satisfaction. Motivating factors that lead to job satisfaction include recognition for achievement, the work itself, responsibility and growth. The hygiene factors that lead to job dissatisfaction may include company policy, supervision, interpersonal relationships, work conditions, salary, status and security. The theory suggests that recognition and job enrichment programs can be implemented to stimulate those motivating factors that increase employee satisfaction within an organization.

Lack of recognition and rewards was one of several key drivers for turnover intent. Perceptions of work life including rewards had a direct impact on satisfaction and intentions to leave (Rosser, 2004).

When rewards and recognition programs are implemented within an organization, favorable working environment is produced which motivates employees to excel in their performance (Freedman, 1978). Employees take recognition as their feelings of value and appreciation and as a result it increase morale of employee which ultimately increases productivity of organizations. The state of satisfaction and happiness is achieved by the employees when they contribute in performing the activities and functions at work which retains motivated employees thus reducing extra costs of hiring (Csikszentmihalyi, 1990).

Examination of turnover intent among retail pharmacists reveal that job dissatisfaction was directly related to turnover intent (Shulz et al., 1987). High and moderate levels of job satisfaction are similar in their impact upon turnover intention, however, a lack of job satisfaction raises a moving intent but may not be necessary for employees to obtain high levels of job satisfaction to reduce their intentions to leave an organization (Weisberg et al., 1991).

Employees who are either neutral or dissatisfied (36% of employees) with their jobs are greater than two times as likely to leave (Bernthal et al., 2000). Low satisfaction usually precedes a voluntary change of employment followed by an increase in satisfaction and then a decrease in job satisfaction (Boswell, Boudreau & Tichy , 2005).

The relationship between the work environment, job satisfaction and turnover intent was assessed by Lambert, Hogan and Barton (2001). For the study, the work environment was comprised of role conflict, task variety, financial rewards, and relationship with co-workers and participation. Their findings reveal that job satisfaction served as a key, mediating variable between work environment and turnover intent (Lambert et al., 2001). Job satisfaction has been identified as mediating variable in other researchers (Cotton and Tuttle, 1986; Michaels and Spector, 1982)

Intrinsic job characteristics were linked more strongly with job satisfaction in richer countries with better governmental social welfare programs and those that were more individualistic (Huang & Van de Vliert, 2003). Job and organizational factors predicted

both commitment and satisfaction together which predicted turnover intentions among nursing home employees (Karsh, Booske & Sainfort, 2005).

Employees can be satisfied with their job without being engaged to their jobs. Engagement is much more than just being content with salary and the ability to leave early from their jobs which is merely job satisfaction that can reduce turnover intention but not enough to ensure productivity (Laura, 2010).

Managers must understand that engaged employees will be deeply involved and interested in their work which occurs when multiple job factors intersect and it is much more than job satisfaction alone. Organizations with engaged employees will be able to reduce turnover intention, increase productivity, customer satisfaction, increase rates of innovation and quality with less requirement for training time, experience less illness and have fewer accidents (Laura, 2010).

Employee engagement (employee's assessment of the work environment) is expected to produce an emotional response (job satisfaction) which in turn, affects turnover intent (the outcome variable). The relationship between employee engagement and job satisfaction and turnover intent is expected to be negative which means if job satisfaction increases, turnover intent decreases.

March and Simon's (1958) work either directly or indirectly influenced a number of studies regarding employee retention and turnover, as subsequent researchers attempted

to explore employee satisfaction as well as the relationship between job satisfaction and employee turnover (Porter & Steers, 1973; Price 1977). Several new models of employee retention were developed (Price, 1977; Price & Mueller, 1981; Steers & Mowday, 1981).

Researchers also integrated the concept of organizational commitment as an affective attachment to the job in addition to job satisfaction (Michaels & Spector, 1982; Porter, Steers, Mowday & Boulian, 1974; Steers, 1977). Generally, satisfied and committed employees stayed with their organizations and dissatisfied and non-committed employees left their organizations (Mitchell et al., 2001b).

In a recent study conducted in Malaysia, 300 Malaysian government doctors were used to examine the relationship between organizational commitment, job satisfaction and turnover intentions. A regression analysis was used to predict turnover intention by job satisfaction and organizational commitment (Samad, 2006). In addition, other significant predictors such as the job itself, achievement and recognition for achievement and advancement were used in the analysis. The results of the analysis supported the hypothesis that all key aspects of organizational commitment which include motivating and hygiene factors had inverse and significant influence on turnover intention among government medical doctors. These results closely aligned with those found in the Baker and Baker (1999) study which confirmed that the same independent variables had significant influence on turnover intention among psychiatrists in the United States (Samad, 2006).

Past researches do suggest that job satisfaction is a mediating factor for turnover intention (Harris & Cameron, 2005; Griffeth, et al., 2000; Mueller & Price, 2005). An employee who is less satisfied with his or her job would be more likely to quit the job. If alternative opportunities are present, the influence on an employee's intent to leave or stay may be positively affected. If alternative opportunities are perceived as high, their turnover intention is also high. When there are no alternative opportunities outside of the organization, employees are more likely to remain in their jobs.

Alternative opportunities may exist when employees feel other employers can better address their needs as employees. For example, employees in the public sector may leave if their talents and skills can be recognized and engaged elsewhere.

These are several studies that suggest the mediating effects of job satisfaction on turnover intention. However, there are none that directly assess the mediating effect of job satisfaction on the relationship between employee engagement, employee recognition, organizational commitment and turnover intent.

2.10 Theoretical Framework

The purpose of this study is explore the effect of employee recognition, employee engagement and organizational commitment as predictors of intent to stay in the organization and to assess the mediating effects of job satisfaction on employee recognition, employee engagement and organizational commitment.

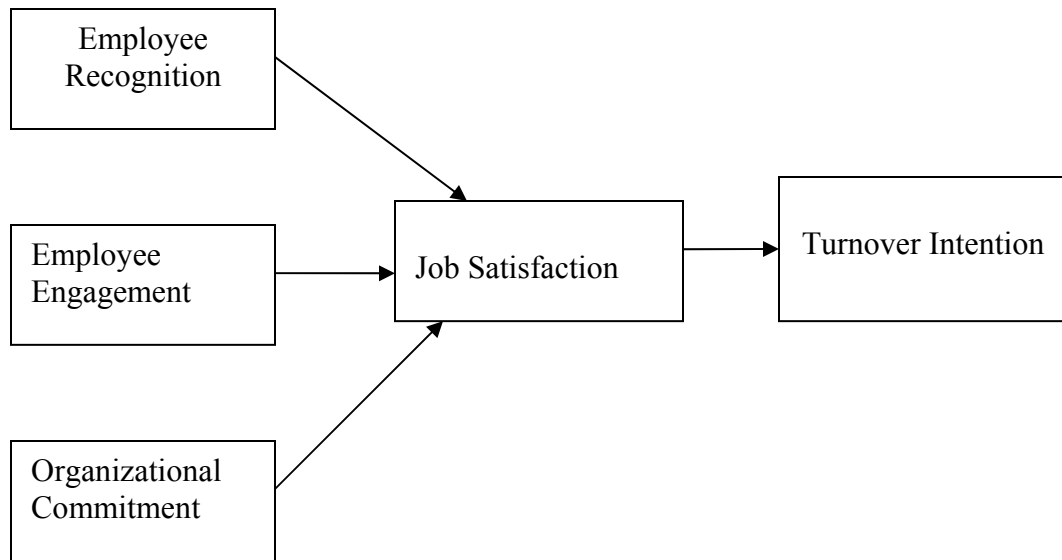


Figure 2.1: Research Study Theoretical Framework

Source: Guzman, M.J.,2007

The employee recognition, employee engagement and organizational commitment act as the independent variables in this study which predicts the dependent variable, turnover intention. Job satisfaction acts as the mediating variable in the effect of employee recognition, employee engagement and organizational commitment on turnover intention.