Factors effecting Employee Loyalty through Mediating role of Employee Engagement: Evidence from PROTON Automotive Industry, Malaysia

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Abstract
The core objective of the proposed study is to find the role of employee engagement to enhance the effect of spiritual intelligence, emotional intelligence and flexible working arrangements towards employee loyalty in PROTON automotive industry Malaysia. The employees of generation Y have different characteristics and are not loyal to the organizations. Thus, there is increase in the employee turnover ratios which are costly for the organization. To address this issue, the proposed study established the cross-sectional research design and quantitative technique. Data were collected through email survey by using questionnaires. SmartPLS (structural equation modeling) was used to analyze the data. Study results found that spiritual intelligence, emotional intelligence and flexible working arrangements have positive relationship with the employee loyalty. Moreover, it is found that the employee engagement is a vital factor to enhance the employee loyalty through spiritual intelligence, emotional intelligence and flexible working arrangements. Hence, the proposed study has theoretically contributed that the employee engagement plays a mediating role. This study is most beneficial in PROTON context to enhance their employee loyalty and eventually retention through effective employee engagement strategies or practices.

Keywords: Employee loyalty, spiritual intelligence, emotional intelligence, flexible working arrangements, employee engagement.

Introduction
National Automotive Plan (2014) reported that the employees of automotive industries will get a hype from 55000 in 2013 to 700,000 in 2020. It is seen in the beginning of PROTON operations in early 1980,
that employees were given competitive salaries. But for certain scenarios, PROTON has to attain and retain the most competent employees. There is impulsive need to take actions to make employees retained and become loyal to the industry. According to Johari et al., (2012), the turnover rates of Malaysia is increasing from 10.1% to 13% from 2009 to 2010 and there was a hype of 18.84% from 2011 to 2012. Employee turnover is a massive and drastic problem a company could come across (Taylor, 2002). However, the main focus of PROTON is on engineering and manufacturing. Therefore, Proton is missing with attention on employees which is one of the most crucial; element of growth. Therefore, its losses the consistency in operations and market shares and competitiveness over time (National Automotive Plan 2, 2013).

Moreover, only 30% of the technical employees are those who had joined PROTON in 1983, while 70% employees are new recruits of generation X with entirely different characteristics. Global survey conducted by research organizations show that employees of the organizations are not trustworthy and have negative impulsions for the organization (Dernovek, 2008). Therefore, there is need for the PROTONto retain, engage and make employees loyal by giving vision and meaning of work which automatically reduce the turnover rate.

It is possible to tackle the loyalty and retention issues of employees of generation X and Generation Y by enhancing spiritual intelligence among them. Employees with more SI have more organizational commitment (loyalty). Various studies have shown that there is significantly relevant relationship of SI with the employee loyalty (Foumany & Danshdost, 2014).

While emotional intelligence (EI) is used to acknowledge and manage employee’s own emotions and other people’s emotion and guides through rational thinking. Thus, EI more likely generate better services (Freshman & Rubino, 2004). This could be assumed as cognitive, team and leadership performance of the employees. Thus, EI makes a significant relationship to employee loyalty (EL) (Carmeli, 2003).

Moreover, flexible working arrangement is also a major factor of increasing employees’ satisfaction, employee engagement (EE) as well as organizational commitment. Thus, increases the productivity of the organizations and reduce negative outcomes from employees. FWA has so many benefits and employee attraction and retention are applicable to every type of the FWA. Previous studies are available on the employees’ engagement and loyalty, employee engagement and the organizational, financial and personal success. According to Field and Buitendach
Employee engagement has positive role in happiness and organizational commitment. However, preceding research studies have missed the mediating role of the employee engagement. Therefore, theoretically it will enhance the knowledge of the employee loyalty with new perspective and model. New strategies can be built by examining the relationship of three new independent variables with employee loyalty through employee engagement. It is also important for practitioner as it will give new insight to enhance the retention and attraction not only in automotive industries but also in other manufacturing industries. Little work has been done on the loyalty perspective of PROTON automotive industry. Various studies are available on automobile industry of Malaysia.

To fulfill the above purpose, the main objective of the study is to determine the mediating role of employee engagement for the employee loyalty through the spiritual intelligence, emotional intelligence and flexible working arrangements. Sub-objectives include;

1. To study the relationship of SI with EL.
2. To study the relationship of EI with EL.
3. To study the relationship of FWE with EL.
4. To study the mediating role of the EE.

Literature Review and Hypothesis Development

Previous studies examined that SI has significant positive relation with the employee loyalty or OC. Foumany and Danshdost (2014) examined the relationship of the SI, mental health with the organizational commitment in Mashhad hospitals and depicted a positive relationship among SI and OC or employee loyalty. While Mohammadi and Boroomand (2014) examined the spiritual intelligence and cultural intelligence (CI) with the employee loyalty among secondary school teachers and shows a positive relationship of EL with CI and with SI.
However, the EE in the organization is crucial for the employee loyalty. Employee engagement generate the employee outcomes, which includes employee satisfaction, employee loyalty and employee performance. As Preko & Adjetey (2013), addressed that unless the employees are not engaged fully; they also could not become loyal to that organization. Fully engaged employees are physically inspirit, emotionally aligned, mentally determined and to be aligned to the organizational purpose. Therefore, employee engagement is mandatory factor to enhance the employee loyalty and employee performance which reduces the employee turnover. Thus, from the above demonstration of literature, the association between the spiritual intelligence and employee loyalty could be determined. However, employee loyalty achieved in case, if the employee of the organization is engaged to PROTON.

**H1: There is significant relationship of the SI with the EL.**

**H2: There is significant relationship of the SI with the EE.**

Martinez (1997, p. 72), defined the emotional intelligence as “an array of non-cognitive skills, capabilities and competencies that influence a person’s ability to cope with environmental demands and pressures”. EI and SI are both independent and has their own importance in the business’s sustainability. There are differences among EI, SI and rational intelligence (IQ). SI determines why an individual is leading and EI determines to whom an individual is leading. Previous studies demonstrate that the employees who cannot control and evaluate the emotions have less OC. Barling et al., (2000) demonstrated that the leaders who successfully control their emotions and make positive
relations with subordinates, instills the sense of trust, satisfaction and security, eventually influences the employee loyalty or OC. Jain & Duggal (2018), proposed that EI is a key facilitator in employee loyalty enhancement. Thus, from the previous studies it could be stated that EI has positive influence on the EL. However, EL can be generated when the employees are completely engaged (Preko & Adjey 2013; Tufail et al., 2017). The preceding studies have proposed a significant relationship of the EI and EE. Literature proposed that frontline managers and employee with high EI have higher level of the employee engagement. Thus, produces better workplace outcomes during organizational change. Hence, from the given literature the study proposed the following hypothesis;

H3: There is significant relationship of the EI and EL.

H4: There is significant relationship of the EI with EE.

FWA include flexible timings, telecommuting employees and compressed work week. Moreover, FWA ensures the retention and attraction of potential employees. According to Denison (1996), the FWA has impact on the organizational culture and bring positive outcomes. However, the FWA polices if attentively implemented, make employees committed, satisfied, increase productivity, high retention of employee and increase the financial outcomes. According to Timms et al., (2015), the employee-employee psychological contract can make the long-life organizational loyalty and commitment. The work life balance (WLB) can be attained by the provision of the FWA in any organizations. Some of the behavioral outcomes like retention, job stress, job satisfaction, absenteeism, turnover intention, employee engagement and employee loyalty are control by providing FWA and giving WLB (Oludayo, Falola, Obianuju & Demilade, 2018). Literature casts the positive relationship of the FWA with the positive employee attitudes and employee satisfaction. Thus, the previous literature clearly states the positive relationship of the FWA with the EL and employee engagement. Therefore, by following the literature demonstration it could be proposed that FWA is important factor for the employee engagement (make employees involved mentally, emotionally and physically) and making employee loyalty.

H5: There is significant relationship of the FWA with the EE.

H6: There is significant relationship of FWA with the EL.

In recent most competitive environment, employee performance is center of importance for the organizations. However high performance just not happen by itself, various factors are required including EE and
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EL (Preko & Adjetey 2013). Shuck & Wollard (2010) defined the employee engagement (EE), “the process of positively motivating employees cognitively, emotionally, and behaviorally towards fulfilling organizational outcomes.” Employee engagement has impacts on the organizational citizenship behavior and organizational commitment. Additionally, Preko & Adjetey (2013) addressed that unless the employees are not engaged fully; they also could not become loyal to that organization. Literature found that the mediating role of EE for the job satisfaction and OC. Therefore, the literature evident that EE is crucial for the employee loyalty.

H7: There is significant relationship of EE with the EL.

Therefore, from the above discussions and previous literature evidence on the EL, EE and the impacts of the SI, EI and FWA on the employee engagement and on the employee loyalty. By following the rules of Baron and Kenny (1986), we can state that EE can play mediating role between the antecedents and the predictors.

H8: EE mediates the relationship of SI and EL.

H9: EE mediates the relationship of EI and EL.

H10: EE mediates the relationship of FWA with the EL.

Methodology

Methodology is an important step in every research. This step is most crucial and should be accordance with research problem. The proposed research design is based on cross-sectional research and quantitative research approach. The data were collected from the employees of the PROTON automotive industry. The 5-point Likert scale was used for data collection. Email survey was conducted to collect the data. However, simple random sampling was used to distribute questionnaires among employees of the PROTON automotive industry. Comrey and Lee (1992), instructions of inferential statistics for the sample size was used. According to Comrey and Lee (1992), the sample size of respondents of 500 is very good, 300 is good, 200 is satisfactory, 100 is weak and of 50 is weaker. However, the respondent’s sample size of 1000 is substantial. Additionally, according to Krejcie and Morgan (1970), if the population is above 100,000 the sample size should not be less than 382. In the current study the employees of automobile companies are above 100,000. Thus, by following both recommendations, the current study used 1000 sample size.
Firstly, the employees of whole PROTON automotive industry were screened. The email addresses of every employee were obtained from the head office. The survey email questionnaires were sent to managers. Later the information about the questionnaires were disseminated through emails which were sent to the employees. The survey questionnaires were sent randomly to the employees of PROTON. Thus, the total of one-thousand (1000) questionnaires were distributed to the employees and only seven hundred and fifty-one (751) were returned. Twenty-nine (29) were incomplete and thus eliminated from the proposed study analysis. Therefore, in total seven hundred and twenty-two (722) responses were utilized in the analysis conduction. The response rate after data entry was 72.2%. According to the instructions of Sekaran (2003), the response rate of 30% is sufficient for analysis when the data is obtained via email. Thus, this response rate is sufficient to proceed the analysis. Moreover, analysis was conducted by using SmartPLS 3.

**Measures**
The measures of the proposed study were adapted from the previous studies. SI is measured through four items as demonstrated in Table 1. These measures are adapted from (King, 2008). The EI was measured through three items as demonstrated in Table 1. These measures were adapted from Pekaar, Bakker, van der Linden and Born (2018). Moreover, FWA was measured through 4 items as demonstrated in the Table 1. These measures were adapted from Subramaniam (2011). Furthermore, the EE is measured through four items as demonstrated in Table 1. The items of employee engagement are adapted from the Gallup (2001). Finally, EL is measured through five items, which are adapted from (Homburg & stock, 2000).

**Analysis**

*Measurement model assessment*
The measurement model of proposed study was accessed by using SmartPLS 3. In the process, factor loading, composite reliability, Alpha and average variance extracted (AVE) were examined. To find the internal consistency of items convergent validity was attained, while external consistency was accessed by examining discriminant validity. The square roots of the AVE were compared to examined discriminant validity.

It is proposed that \( \alpha > 0.9 \) is excellent, \( \alpha > 0.8 \) is good and \( \alpha > 0.7 \) is satisfactory (Basheer et al., 2019). In the proposed study the values of the Alpha area above the satisfactory level as demonstrated in Table 1. Moreover, factor loading is also in acceptable range (0.7). Therefore,
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there is no issues in the composite reliability and also of the internal item consistency. According to Hair et al., (2014), factor loading, and composite reliability should be more than 0.7. Table 1 shows that the three variables “SI, EI and EE” composite reliability is more than 0.9 which is excellent while two variables “FWA and EL” have composite validity more than 0.7 which is also satisfactory. Table 2 demonstrates the square roots of the AVE which is more than the correlation among the variables. Thus, it is depicted that there is no issue in the external consistency as the discriminant validity has been attained. According to Hair et al., (2014), average variance extracted (AVE) should be more than 0.5. In the current construct all AVE are satisfactory and is more than 0.6. Hence, the discriminant validity has been achieved in Table 2.

Table 1. Internal Consistency, Alpha, Composite reliability and AVE

<table>
<thead>
<tr>
<th>Construct</th>
<th>Items</th>
<th>Loadings</th>
<th>α</th>
<th>CR</th>
<th>AVE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Spiritual Intelligence (SI)</td>
<td>SI1</td>
<td>0.831</td>
<td>0.857</td>
<td>0.903</td>
<td>0.699</td>
</tr>
<tr>
<td></td>
<td>SI2</td>
<td>0.822</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>SI3</td>
<td>0.833</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>SI4</td>
<td>0.859</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Emotional Intelligence (EI)</td>
<td>EI1</td>
<td>0.938</td>
<td>0.925</td>
<td>0.953</td>
<td>0.870</td>
</tr>
<tr>
<td></td>
<td>EI2</td>
<td>0.949</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>EI3</td>
<td>0.911</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Flexible work Arrangements (FWA)</td>
<td>FWA1</td>
<td>0.716</td>
<td>0.751</td>
<td>0.802</td>
<td>0.508</td>
</tr>
<tr>
<td></td>
<td>FWA2</td>
<td>0.699</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>FWA3</td>
<td>0.709</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>FWA4</td>
<td>0.648</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Employee Engagement (EE)</td>
<td>EE1</td>
<td>0.800</td>
<td>0.854</td>
<td>0.902</td>
<td>0.698</td>
</tr>
<tr>
<td></td>
<td>EE2</td>
<td>0.877</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>EE3</td>
<td>0.888</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>EE4</td>
<td>0.722</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Employee Loyalty (EL)</td>
<td>EL1</td>
<td>0.640</td>
<td>0.801</td>
<td>0.845</td>
<td>0.695</td>
</tr>
<tr>
<td></td>
<td>EL2</td>
<td>0.664</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>EL3</td>
<td>0.729</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>EL4</td>
<td>0.522</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>EL5</td>
<td>0.501</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Table 2. Discriminant validity

<table>
<thead>
<tr>
<th></th>
<th>EE</th>
<th>EI</th>
<th>EL</th>
<th>FWA</th>
<th>SI</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employee Engagement</td>
<td>0.836</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Emotional Intelligence</td>
<td>0.322</td>
<td>0.933</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

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### Structural Model Assessment

#### Direct Effect

Bootstrapping is demonstrated in Figure 2 and results are shown in Table 3. As illustrated in Table 3, the direct effects among all variables are significant. Moreover, the t values of all relationships among variables are more than 1.96. The t value of the relationship between the SI and the EL is 2.955, the relationship between the EI and the EL is 5.640, the relationship between the FWA and EL is 31.681, the relationship between the EE and EL is 3.117, the relationship of SI and EE is 6.054, the relationship of EI and EE is 5.422, the relationship of the flexible work arrangement and the employee engagement is 4.660. Moreover, all the relationships among variables contain positive beta coefficients. Therefore, all direct hypothesis developed in the current study (H1, H2, H3, H4, H5, H6, H7) are accepted.

<table>
<thead>
<tr>
<th>Relationship</th>
<th>β</th>
<th>M</th>
<th>STDEV</th>
<th>T Statistics</th>
<th>P Values</th>
</tr>
</thead>
<tbody>
<tr>
<td>EE -&gt; EL</td>
<td>0.092</td>
<td>0.091</td>
<td>0.030</td>
<td>3.117</td>
<td>0.002</td>
</tr>
<tr>
<td>EI -&gt; EE</td>
<td>0.204</td>
<td>0.206</td>
<td>0.038</td>
<td>5.422</td>
<td>0.000</td>
</tr>
<tr>
<td>EI -&gt; EL</td>
<td>0.124</td>
<td>0.124</td>
<td>0.022</td>
<td>5.640</td>
<td>0.000</td>
</tr>
<tr>
<td>FWA -&gt; EE</td>
<td>0.181</td>
<td>0.186</td>
<td>0.039</td>
<td>4.660</td>
<td>0.000</td>
</tr>
<tr>
<td>FWA -&gt; EL</td>
<td>0.739</td>
<td>0.738</td>
<td>0.023</td>
<td>31.681</td>
<td>0.000</td>
</tr>
<tr>
<td>SI -&gt; EE</td>
<td>0.296</td>
<td>0.294</td>
<td>0.049</td>
<td>6.054</td>
<td>0.000</td>
</tr>
<tr>
<td>SI -&gt; EL</td>
<td>0.092</td>
<td>0.094</td>
<td>0.031</td>
<td>2.955</td>
<td>0.003</td>
</tr>
</tbody>
</table>
Indirect Effect
Given Table 4 illustrates the indirect effect (mediation) results. There is
signification mediation with t values of 2.660, 2.698 and 2.418 in every
case. Therefore, EE mediates the relationship between the SI and EL.
Moreover, EE mediates the relationship between the EI and EL. While
EEalso mediates the relationship between FWA and EL. Hence, H8, H9
and H10 is accepted.

Table 4. Indirect effect, mediation

<table>
<thead>
<tr>
<th></th>
<th>(β)</th>
<th>(M)</th>
<th>SD</th>
<th>T Value</th>
<th>P Values</th>
<th>Decision</th>
</tr>
</thead>
<tbody>
<tr>
<td>EI -&gt; EE -&gt; EL</td>
<td>0.019</td>
<td>0.019</td>
<td>0.007</td>
<td>2.660</td>
<td>0.008</td>
<td>Mediation</td>
</tr>
<tr>
<td>FWA -&gt; EE -&gt; EL</td>
<td>0.017</td>
<td>0.017</td>
<td>0.006</td>
<td>2.698</td>
<td>0.007</td>
<td>Mediation</td>
</tr>
<tr>
<td>SI -&gt; EE -&gt; EL</td>
<td>0.027</td>
<td>0.027</td>
<td>0.011</td>
<td>2.418</td>
<td>0.016</td>
<td>Mediation</td>
</tr>
</tbody>
</table>

Moreover, all the variables have small effect size ($f^2$). Furthermore, the r-
square ($R^2$) value is 76%. This depicts that the all latent variables
(spiritual intelligence, emotional intelligence, flexible work arrangements
and employee engagement) are collectively explaining the 76% variance
in employee loyalty.

Study Findings and Discussion
From the study analysis, it is found that the spiritual intelligence has
significant positive relationship with the EL or OC with the p-value of
0.003 and $\beta$-value 0.092. This finding corresponds with the previous
studies (see, for instance, Foumany & Danshdost, 2014 & Mohammadi
&Boroomand 2014). These studies also suggest that positive significant
relationship of the SI and EL or OC. However, there is indirect
correlation occurs between spiritual intelligence and employee loyalty.
As Preko and Adjetey (2013) suggests that employees cannot become
loyal unless they are fully engaged in that specific organization. In the proposed study, the EE enhances the effect of the spiritual intelligence on the employee loyalty. This study found the strong relationship of the spiritual intelligence with the employee engagement having p-value 0.000 and $\beta$-value 0.296. Moreover, it is also found that the employee engagement has positive significant relation with the employee loyalty with the p-value 0.002 and $\beta$-value 0.092. Nevertheless, EE mediated the relationship between the SI and EL with t-value 2.418 and $\beta$-value 0.027. Hence, the current study suggests that EE is important for the increasing employee loyalty through the SI. Additionally, significant positive relationship is present between EI and EL with p-value 0.000 and $\beta$-value 0.124. This finding is consistent with the previous study (see, for example, Jain & Duggal, 2018). However, EI and EE is also positively related. As determined in the current paper EI and EE are positively related with p-value 0.000 and $\beta$-value 0.204. This finding is identified by the prior studies. Moreover, EE mediates the relationship between EI and EL with t-value 2.660 and $\beta$-value 0.019. Moreover, a significant positive relationship is obtained between the FWA and EL with p-value 0.000 and $\beta$-value 0.739. This finding is consistent with the previous studies (Timms et al., 2015). Moreover, the current study also found the positive significant relationship of the EI and EE with p-value 0.000 and $\beta$-value 0.181. This is relevant to the prior study (Oludayo et al., 2018).

Conclusion
The results of the study demonstrate the strong association of the spiritual intelligence, emotional intelligence and the flexible working arrangements with the employee loyalty. High spiritual intelligence, emotional intelligence and flexible working arrangements are required to improve the employee loyalty and thus eliminating the issue of the retention and turnover in the industry. However, employee engagement accelerates the employee loyalty through the spiritual intelligence, emotional intelligence and the flexible working arrangements. Hence, employee engagement is very much important to enhance the employee retention, productivity and reduction in turnover in PROTON automotive.
industry. It is recommended to PROTON to enhance the spiritual intelligence, emotional intelligence and flexible working arrangement in the company. Researchers may enhance the employee engagement by focusing on employee engagement strategies. Further research is required to be conducted on different organizations with different factors such as cultural intelligence influence on employee loyalty, personality, extraversion and traits influence on spiritual intelligence, gender influence on emotional intelligence, leadership behavior impact on employee loyalty, flexible working arrangement influences on organizational effectiveness and job involvement impact on employee loyalty.

References
Field, L. K., & Buitendach, J. H. (2011). Happiness, work engagement and organisational commitment of support staff at a tertiary


